TAJIKISTAN:

A ROADMAP FOR DEVELOPMENT

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

Tajikistan's experience in ending a brutal civil war and integrating opposition factions into government has won deserved praise. Major advances have been made in security around the country, and stability has improved significantly over the past two years. Yet the economic situation remains dire; Tajikistan is one of the twenty poorest countries in the world. Widespread poverty continues to fuel a major drug-trafficking business and provides potential breeding grounds for Islamist militant or other extremist groups. There is a serious need to use development assistance to build a viable state in this geopolitically vital part of Central Asia.

The development community should focus on priority areas and work together to ensure real impact from limited resources. Traditional areas such as improving agriculture; boosting the business environment; rescuing health and education systems; knitting the country together with new infrastructure and communications; and combating the drugs trade, should be high on the development agenda. But above all, the government and the international community need to take some realistic steps to improve governance, and in particular tackle corruption, which is undermining all initiatives to improve living standards and stability.

The West made serious commitments on state-building and development not only to Afghanistan, but also to the surrounding states, and it is critical that it fulfils them. Aid to Tajikistan has increased since the military campaign in neighbouring Afghanistan but much of it is uncoordinated, and few organisations have a long-term strategy.

The economic situation is dire. The average monthly salary is less than U.S.$7 per month, and unemployment is estimated to be over 30 per cent. At least 30 per cent of children are chronically malnourished, and infant mortality rates have increased. The education system is in disarray, threatening to undermine the high levels of literacy enjoyed during Soviet times. Roads are often impassable during the winter, separating the disparate regions and isolating the country from the outside world. Boosting the economy requires diversification away from reliance on two major export commodities: aluminium and cotton.

Diversification and more equitable land reform could quickly increase food production and gradually eliminate the dependency of almost one million people on international food aid. Shifting attention from Soviet-style industrial projects to small and medium-sized business would also begin to have a real impact on living standards. But this needs an end to government intrusion and better access to credit and advice for entrepreneurs.

Better land reform and improving the business environment are political issues which require political responses. Tajikistan's difficult political trajectory since independence has produced an often dysfunctional state sector, with inadequate governance mechanisms, high levels of corruption, limited rule of law, and insufficiently competent and experienced personnel. Tackling governance issues will be a major, long-term effort, but unless there is a guiding strategic concept, many international and government development initiatives will simply be wasted.

Human development issues, notably health and education, need urgent attention. A resurgence of once-forgotten poverty-induced epidemics such as typhoid is a dangerous sign of a health service in crisis. School attendance, particularly by girls, has dropped sharply. Tajikistan threatens to become one

of the few countries where children will lag far behind their parents in education.

Basic issues of infrastructure and communications also require serious attention. The country's geography encourages regionalism and ensures that some regions remain difficult for government agencies to govern. Renewed transport and communications infrastructure should be a central part of initiatives to boost internal trade and link Tajikistan into regional initiatives.

Finally drugs need to be approached as a development problem as much as a security issue, with a new focus on employment and alternative agricultural and business opportunities at all levels. Particular attention must be given to the border areas with Afghanistan.

The government and the international community must pool their resources and consult closely on their application if they are to achieve meaningful progress on such a broad front. The Consultative Group meeting in Dushanbe in May 2003 would be an opportune moment to strengthen this coordination and in particular to integrate good governance priorities into development programs.

There is a strong international interest that Tajikistan avoid the fate of Afghanistan. Ignoring its very real problems would likely engender the conditions in which international terrorism and organised criminality thrive. However, many in the government are open to new ideas and committed to moving the country away from its past reputation as a base for Islamist militant groups and a transit station for drugs. Given the right mixture of government policy and international assistance, a positive shift is feasible.

RECOMMENDATIONS

To the government of Tajikistan:

Food Security

1. Improve food security by pushing ahead with land reform programs, adopting measures to ensure greater access of the poor to land and more freedom for farmers to diversify crops, and encouraging agri-business initiatives and rural enterprise programs.

Small and Medium Sized Enterprises

2. Improve the business environment by introducing low, flat taxes on small business, simplifying regulations, and restricting government interference.
3. Break up state monopolies in areas such as tourism and transport and take down barriers such as visa and travel restrictions.

Good governance

4. Seek a gradual move towards more public participation in political life, beginning with:
   (a) elections at local level under the forthcoming law on local government;
   (b) more opportunity for parliament and local councils to contribute to policy consideration and review;
   (c) more freedom for journalists to report and ministers to inform the public on policy; and
   (d) improved access to information at all levels by developing an independent statistical agency, mandated to provide public information, and encouraging much more extensive government contacts with media.
5. Make government ministries and bodies more effective by defining their functions more clearly and introducing mechanisms to ensure they coordinate with each other.
6. Train local and government officials in all aspects of law making and regulation writing.
7. Accelerate real judicial reform and improvements in law enforcement.
8. Initiate civil service reform by introducing a standardised examination for new entrants and increasing salaries for those already in the civil service who pass such a test.
9. Begin a multifaceted campaign against corruption, including:
   (a) higher salaries for key officials, matched by reductions in the size of the civil service;
   (b) establishment of an independent anti-corruption commission, with international involvement and a mandate to conduct transparent investigations and prosecutions;

(c) development of an environment in which journalists can report on corruption without fear of retribution.

Education

10. Develop a national plan that aims at reversing the decline of the educational system, in particular the tendency of girls to drop out of the system prematurely, and at attracting corresponding donor support.

Health

11. Continue with plans to introduce a mixture of standardised pricing for medical services and increased support for vulnerable groups, in consultation with international donors.

12. Improve public awareness of major diseases such as tuberculosis, malaria, and HIV/AIDS and develop and implement a comprehensive policy to prevent the spread of HIV/AIDS.

To international financial institutions and bilateral donors:

13. Condition any measure to write off or restructure part of Tajikistan's foreign debt to new government initiatives with respect to corruption and improved governance at all levels.

14. Focus on boosting agricultural production outside the cotton sector through legal support for farmers; technical assistance in land reform; support for crop diversification; and assistance to farmers in building up NGOs and credit and marketing associations.

15. Support programs that help SMEs, particularly those that combine credit lines, legal advice and advocacy; support lower, more simplified tax systems, and more limited regulations, and provide training for government officials on the importance of the SME sector for the economy.

16. Work with the government to produce a national action plan for education, and commit to financing such a plan, which should include strict monitoring of funds and more community involvement in their expenditure, and higher teachers' salaries.

17. Develop with the government crop-replacement programs and other forms of income-generation to supplant the drug-trade and foster long-term economic growth in high-transit regions.

18. Review infrastructure and communications programs (EU TRACECA, UNDP Silk Road) and develop a new approach that:

    (a) emphasises agreement among the countries of the region to meet and apply common customs and border procedures;

    (b) focuses on improving those roads that are most important to state-building because their development will do most to create new opportunities for the poorest areas of the country to participate more extensively in regional trade; and

    (c) links all infrastructure funding to monitored commitments to remove unnecessary barriers to trade and movement on such routes.

To the government of Russia:

19. Protect the rights of migrants working in Russia from harassment and abuse, including by simplifying registration procedures and reducing their costs, thereby encouraging more compliance with Russian laws by employers; make it easier for migrant workers to obtain residence permits and other official documents so that they can enter and be subject to the benefits and obligations of the formal economy.

20. Recognise that tackling drugs involves more than interdiction and provide political and logistical support for income-substitution projects in high-transit areas.

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I. INTRODUCTION

Tajikistan was the poorest of the Soviet Union's socialist republics and remains the most impoverished country in the region today. First hit by the cut in subsidies from Moscow, which had funded 80 per cent of the budget before independence, and then by a bloody civil war, it has struggled to lift living standards out of extreme poverty. Most of the population struggles by on subsistence agriculture, remittances from relatives working abroad, and humanitarian aid. And a growing number benefits from drug money and other aspects of a shadow economy.

The constraints on development are innumerable: a weak basis due to severe economic contraction after independence; civil war; agricultural decay and land inequalities; corruption; patronage networks, deteriorating educational and health systems; spiralling birth-rates; failing transport and communication networks; extensive migration; and lack of good governance and accountability.

Tajikistan's geography does not help. A long border with Afghanistan to the south has left it vulnerable to drug-trafficking and potential infiltration by Islamist militant groups, while offering little opportunity for the export of goods. The border with Uzbekistan has been difficult to cross for years, and in parts remains mined by the Uzbek government. Only to the north, with Kyrgyzstan, is there a semblance of normal cross-border relations, although even here there are significant obstacles.

Inside the country, too, there are geographical and cultural barriers. The northern Sughd region is geographically cut off from the Tajik heartland by high mountains, and the rough road that links it to Dushanbe is closed for half the year. This region was also essentially left out of the 1997 peace agreement and thus has little access to political power. The remote region of Gorno Badakhshan is a two-day drive from the capital and underrepresented economically and politically. The Rasht Valley is in a similar position. Regional identities remain strong, helping patronage networks dominate politics and the economy.

It was in large part this regional animosity between rival patronage networks that lay at the heart of the 1992-1997 civil war. The battle was over resources, both political and economic, but also about the nature of a future Tajik state, with proponents of Islamist and democratic ideas side by side in the opposition. But much of the dynamic of the war in the later stages was not about policy but rather access to resources. Drug money and discord over lucrative trafficking routes also fuelled the conflict.

It was seemingly a lack of national cohesion and regional discord that allowed bands of Islamist militants based in Afghanistan to set up bases in the north of the country in 1999-2000. Although the government has reasserted control throughout the country, in some areas this is based on loose compromises with local groups rather than on state structures. There remains a difficult political balance between the need for decentralisation to promote more responsive government and the equally pressing need to ensure that the country stays together.

In some areas the civil war forced Tajikistan to start again from scratch. But in others it ensured that reforms conducted in other CIS countries were not carried out, and much remains of Soviet-era economic thinking. There is still a preference for grand projects – hydroelectric plants and dams – rather than the less glamorous day-to-day work on getting the climate right for small businesses.

There is still not much daylight between the world of business and the state: individuals and groups use their access to political decision-making to advance

their business interests. A dysfunctional state often acts against the wider interest because potential economic losers from reforms are key players in government decision-making. Understanding this is vital for international donors, who frequently feel frustrated as apparently good plans are not implemented. Appreciating the logic of those in decision-making positions, and taking steps to overcome their opposition through promoting different groups or otherwise defeating resistance is essential if paper reforms are to become reality.

Tajikistan's history and geography have made its internal policies particularly sensitive to foreign relations. Afghanistan continues to cast a pall of uncertainty over the future, representing both opportunity (increased trade possibilities) and threats (drugs, a resurgence of violence south of the border). The increased U.S. presence in Central Asia and Afghanistan is also having an impact as the government feels more secure in diversifying its foreign policy, particularly away from Russia. Nevertheless, Russia retains considerable influence, primarily through its troops and border guards present in the country, but also because Tajikistan is economically dependent, particularly its informal economy. In financial terms, international institutions are becoming much more important than Russia, which is unable or unwilling to offer funding. This competition for influence will also have an impact on development.

This report outlines the real challenges faced by Tajikistan in a new phase of its development and offers some priorities for the future. Some obstacles to development – particularly corruption and sensitive political issues – are avoided by government and international agencies alike. However, only an open discussion of the actual constraints will provide the basis for growth.

II. THE REAL ECONOMY

A. MACROECONOMICS

A good indicator of the decline of the economy is that the state budget in 2003 will be about one tenth of what it was in 1990. With government revenues in 2003 forecast at only 637 million somoni (about U.S.$212 million), and spending amounting to 655 million somoni (U.S.$218 million),[1] it is clear that the state has little room for investment in development. Low incomes and tax evasion mean that much of the revenue comes from taxes on the two main export commodities, leaving the budget peculiarly vulnerable to shifts in world prices for aluminium and cotton.[2]

Much of the budget is eaten up by debt repayments. Conservative projections for 2004 are that the external debt will surpass U.S.$1 billion with U.S.$60 million due in debt service.[3] Some 40 per cent of the state's projected fiscal revenues over the next three years is allocated to servicing the country's debt.[4]

Despite its revenue problems, the government has taken a much stronger line on macroeconomic stability over the past two years. In the 1990s printing money was the most popular policy for covering successive deficits, and inflation soared as a result, reaching 60 per cent in 2000.[5] Since then inflation has plummeted, reaching a relatively low 15 per cent in 2002. Though this was still too high for the IMF,[6] in general macroeconomic policies

[1] "Tajik Parliamentarians Approve 2003 Draft Budget in First Reading", *Asia Plus Information Blitz #1137*, 28 November 2002.
[2] "Tajikistan Sums up 11 Months' Economic Results", *Asia Plus Information Blitz #1158*, 30 December 2002.
[3] "Figure 1.4: External Public and Publicly Guaranteed Debt and Debt Service Due, 1992 – 2004", Ministry of Finance and World Bank/IMF staff projections in "Tajikistan: Towards Accelerated Economic Growth: A Country Economic Memorandum", World Bank Report N°22013-TJ, 5 January 2001, p. 9.
[4] "Memorandum of the President of the International Development Association to the Executive Directors on a Country Assistance Strategy for the Republic of Tajikistan", World Bank, 3 February 2003, p. 2.
[5] Government of Tajikistan, "Poverty Reduction Strategy Paper"(PRSP), p. 15.
[6] "IMF Experts Point to Increase in GDP but Concerned Over Increase in Rate of Inflation in Tajikistan", *Asia Plus Information Blitz #1186*, 8 February 2003.

have achieved a relatively stable currency and better control over spending, and have earned praise from the IMF, the World Bank and other international financial institutions (IFIs).

However, improved macroeconomic performance and economic growth of about 9 per cent in 2002 have had a limited impact on real living standards because most of the economy is outside the formal system analysed by statistics. Getting away from an elite-dominated export commodity economy to one that spreads wealth around the country and gradually formalises much of the shadow economy is vital for long-term development.

B. AGRICULTURE

The obvious place to start seeking growth that lifts the living standards of the wider population is in agriculture, which remains the key economic sector. Boosting productivity must be a central aim of development plans, both for food production in order to meet domestic consumption and as a way of generating overall economic growth in light industry and food-processing. Increasing production is difficult – only 7 per cent of the country's mountainous territory can be used for growing crops, and much of the best land is taken by cotton.

1. Food security

Tajikistan grows only about 40 per cent of its cereal needs. The rest must be imported, and there is a regular shortfall of over one million tons.[7] This was exacerbated by drought in 2000 and 2001, and over one million people received emergency food assistance in 2002.[8] However, food aid at its present level is neither sustainable nor conducive to poverty reduction. It creates dependency among recipients and ensures that the government is not under sufficient pressure to increase food production, since it relies on the international community to step in. Shifting aid from food to long-term development is a key issue for the international community, but one that is very controversial and needs to be thought through carefully.[9]

There are essentially two ways to increase food production: cutting back on cotton production and diversifying crops; or improving production on existing land through restructuring, more access to credits, and better irrigation. In theory, the government would be better off to grow food rather than cotton, and substitute the U.S.$43 million that the UN requested for food aid in 2003[10] for cotton export revenues. Realistically, this will not happen. Key government elites and local leaders benefit from cotton production, and donors who are happy to give food aid will not provide budgetary support of the kind that would be required during a transition period.

There is in any case much that can be done to boost productivity in other ways. The disruption caused by the civil war and the slow pace of reforms has meant that restructuring of Soviet-era farms has been nearly non-existent until recently. Only between 40 and 50 per cent of the land has been restructured,[11] and this has not involved actual privatisation. Instead, state-controlled land has been given to so-called *dehqan* associations or to individuals on 99-year leases.[12] Most *dehqan* associations differ little from the previous system: they usually comprise the farmers and chairmen of the previously state-owned farms, under a new name but with the old structure and hierarchy intact. Now emphasis is more on development of joint stock companies so that the authorities can keep some control, especially in cotton-producing areas. But 20 per cent of the arable land will remain in state ownership even after reforms are completed, which according to the government program, should be by 2005.

Land distribution programs have been deeply flawed. The heads of collective farms, local government

[7] ICG interview, Ardag Meghdessian, Country Director, World Food Programme, Dushanbe, 6 March 2003.
[8] United Nations, "Consolidated Inter-Agency Appeal 2003: Tajikistan", November 2002, p. 3.

[9] The issue is widely debated among donors: one diplomat noted that "…it is mostly well-fed people in towns that are against food aid". It is important that any assistance is complemented by productive endeavours that really provide sustenance for families, and cover the vulnerable in the short and long term.
[10] United Nations, "Consolidated Inter-Agency Appeal 2003 – Tajikistan", op. cit., p. 2.
[11] ICG interview, Henri Loire, former Senior Resident Representative, International Monetary Fund, Dushanbe, 12 September 2002.
[12] This leased land can be inherited in this form, and the rights can be bought and sold.

officials and even some civil war field commanders grabbed the land for themselves, leaving meagre plots for the remaining families:

> A sovkhoz consisting of 180 families in the Jirgatal district [Gharm valley region] was distributed among only 30 households. The remainder of households in this rural area are now essentially landless and must strip rain-fed land in the mountains for sustenance, leading to erosion.…In one district, a former commander forced the head of the *hukumat* [local government] to register 30 hectares of land in his name.[13]

This kind of abuse happened throughout the country, although there were variations. It was particularly common in cotton-growing districts, where the potential profits for local elites were much greater. In other areas, such as Gorno Badakhshan, distributions were fairer. For those who remained landless, there was little possibility of appeal. As a result, many were left out of the process.

Although further land reform – including eventually true privatisation – may entail significant problems, it is the only way to really enhance productivity in the countryside. Restructuring of lucrative cotton farms will pose a significant challenge, but will eventually produce a more efficient and productive sector. However, all further land reform should address existing inequalities and be combined with greater public awareness – a major problem has been the lack of legal knowledge among farmers, allowing the state farm chairmen and officials to easily deceive them during the land reform process.

Getting hold of land is only the beginning of a farmer's problems. State and collective farms in the Soviet era were mechanised, with government provision of equipment and other inputs. Since independence, most of this equipment has been stolen, fallen apart or been seized by more powerful farmers. As a result, those lucky enough to receive plots have had to resort to manual labour to manage their crops, ensuring that productivity is low, and often resulting in little more than subsistence farming.

The lack of private ownership of land seriously limits the availability of credit. "Even after incorporation, many farms and associations have difficulties obtaining credit and loans to purchase new machinery as the land usage right cannot be put up as collateral."[14] Single, female-led households suffered the greatest because they had little property in their name to offer as collateral. Initial bank loans were at too high rates of interest and over too short terms to be viable. There have been some pilot project credit schemes for farms and associations but they are not extensive enough.

The other major obstacle to increased productivity is irrigation. Systems have largely collapsed due to lack of maintenance and poor management. Water pumps are missing or broken, and canals are inefficient at best and leaking or destroyed at worst. Most irrigated land is used for cotton, leaving rain-fed land for food production. Since the government has little financial incentive to improve irrigation in food-growing areas, efforts tend to focus on keeping cotton production high.

2. Cotton

Cotton dominates agriculture, and is simultaneously a blessing and a curse for the countryside. It provides much needed hard currency for the government but it limits the land available for cultivation and discourages restructuring of the industry. In theory, of course, it would be good to diversify the agriculture sector, but the reality, a local government official explained, is not so simple:

> International organisations advise us to diversify our crops, but cotton is the main source of income – it would be useless to change since we don't have the technology, and there are no markets for other products. Cotton is our main export.[15]

Arguably, it is better to put the choice of crops – and the subsequent income – into the hands of farmers than the government. The cotton business has been liberalised, much more so than in Uzbekistan, but individual farmers gain little from this liberalisation. Influential local elites benefit most from cotton production, along with the government, which imposes a high export tax.

[13] ICG interview, Gharm, September 2002.

[14] ICG interview, Nargis Bozorova, Legal Advisor, International Financial Corporation (IFC-PEP), Dushanbe, 3 December 2002.

[15] ICG interview, Yovon, 13 February 2003.

Much of the liberalisation is on paper only: the government continues to set targets for cotton production. These informal quotas are then used by local authorities to pressure farmers and associations to plant cotton. Raw cotton is sold on the world market for about U.S.$1 per kilo, while the official rate for raw cotton paid to farmers ranged from just 0.12 somoni (U.S.$0.04) to 0.14 somoni (U.S.$0.045) per kilo depending upon quality.[16] In reality, the average cotton farmer received an even smaller portion as payments were usually in arrears, so reduced by inflation, and often illegal fees were extracted by middlemen.

At such prices, it may seem strange that anyone would plant cotton. In fact, most have little choice. In theory, *dehqan* farmers and associations can determine their crops. In fact, unofficial and official pressure means that many farms are required to plant as much as 75 per cent of their land with cotton. They are supposed to get government subsidies for equipment and other inputs but much of this money disappears before it reaches the farmer.[17]

The conditions of workers are dismal. Conservative estimates indicate that around 400,000 people are employed on cotton farms.[18] Most cotton pickers are essentially indentured labourers. The actual number is much higher when one includes forced labour from university students, school pupils, factory workers and others from state-run enterprises. Thousands of school children and university students are made to pick cotton, with autumn classes cancelled so they can go into the fields. Managers of cotton farms provide some sustenance for the workers, but sometimes this is little more than bread and water.

Most cotton growing is controlled by the state because it still has large shares in many of the joint stock companies that run the farms. Cotton can also be sold or exported privately, and this had led to investment by several international cotton companies.[19] Most of them initially offered farmers "futures" schemes that ensured regulated prices for several years. This should have protected producers against fluctuations in the world price, but in practice poor negotiating skills and lack of knowledge of world markets seem to have left farmers with a bad deal.

"International companies used Tajikistan's inexperience [in futures] to make profits at our expense",[20] complained one local official. Some contracts stipulated that the growers had to purchase their inputs from the investor, but at prices that were not fixed and were then raised above market rates. When the accounts were reconciled, the cotton farmers found themselves indebted to the investors. By September 2001, Tajik farmers were U.S.$135 million in debt to international investors.[21]

Some of the fault for this debt lies with middlemen and government officials who negotiated for farmers. But international companies should also share responsibility for resolving the debt issue. They have been reluctant to take on much of the debt, which was guaranteed by the government, but these companies have a long-term interest to help, perhaps on the basis of a wider restructuring program. In any event, it is certainly time for them to pay more attention to the conditions of cotton production and cease ignoring the exploitation that is rife throughout the industry.

C. INDUSTRY AND RESOURCES

Tajikistan had only limited industrial development in the Soviet era, and what factories there were have largely collapsed; those that remained were working at an average of less than 20 per cent capacity in

[16] "Tajikistan to Raise Payment for Yielded Raw Cotton", *Asia Plus Press Review*, 11 November 2002. Figures for cotton export earnings were from Ministry of Industry, ICG interview, Rustam Rakhmatov, Deputy Minister of Industry, Dushanbe, 26 February 2003.

[17] The Procurator's office in Sughd Province complained in the press that only small amounts of the state budget allocated to the cotton industry are making it to their targets. Of 7,123,000 somoni that had been allocated for the salaries of employees, cotton pickers only received 291,000 somoni. Mukhamadiev, I. 'Kuda dengi dayutsya?' [Where is all the money going?], *Varorud*, 16 October 2002 The misuse of cotton subsidies is also common in other areas of the country. In some cases, the money is simply pocketed. In many other cases, the financial resources are squandered due a lack of understanding of market economics and accountability.

[18] Information made available to ICG by an international agency.

[19] Major Swiss companies are heavily involved in the cotton industry in Tajikistan: in 2001, according to the State Statistics Committee, 38 per cent of cotton exports went to Switzerland, with most of the remainder processed through Russian companies, many of them through offshore companies based in Latvia.

[20] ICG interview, cotton-producing area, 2003.

[21] "Republic of Tajikistan: Selected Issues and Statistics," IMF January 2003, p. 50.

2000.[22] Privatisation of light industry and enterprises occurred mostly by 1997 and at significantly reduced prices. But few heavy industrial enterprises have been privatised.

Among the handful of industrial enterprises that continue to operate is the huge aluminium factory at Tursunzoda: TADAZ. It remains a state enterprise[23] and represents a lucrative source of export revenue for the government. Production has been increased in recent years, although capacity constraints probably prevent any significant further increase in the near future. Reported production during the first six months of 2002 totalled over 200,000 tons; real production was probably even higher as some is allegedly smuggled out of the country or sold on the black market.

The factory is an important source of work for the town, and the employees are relatively well-paid. However, it is not clear that the factory is sustainable in the long-run. Most of the raw aluminium is imported from Ukraine and manufactured profitably because of heavily subsidised energy inputs.[24] Plans for privatisation have not materialised. Given its importance for the government budget, the sale of the plant under the present weak legislative environment would almost inevitably deal a blow to government revenue.

Another sector of industry for which the government continually seeks international investment is electro-energy. Tajikistan has significant potential hydroelectric resources, and the government has plans to build dams and reservoirs at the Rogun and Sangtuda reservoirs, for example, and then export electricity to Afghanistan, Pakistan and Uzbekistan. Currently, Tajikistan is dependent upon the latter to meet much of its energy needs.

These projects look good on paper, but few are likely to come to fruition. Meeting domestic demand for energy is not profitable, and exports are likely to be limited for the foreseeable future, due to infrastructure problems and the uncertainty of the target markets. Serious doubts about the likely social costs and environmental damage, as well as political repercussions from strained relations with Uzbekistan, are likely to limit investor interest.[25] A better solution might be to develop smaller hydroelectric power plants around the country, which would require smaller amounts of assistance, be easier to construct and have fewer environmental repercussions.

Other sectors are deeply depressed, particularly light industry such as food-processing, which is a potentially productive sphere for investment. Light manufacturing has also been slow to take off due to an oppressive business climate and constraints from a lack of capital, equipment, management expertise and limited internal and external markets. Industrial sectors in which Tajikistan would have a comparative advantage over its neighbours are few. However, with some ingenuity and government support to create a better investment and business climate, industries such as textiles, processed foods and aromatic oils could be developed quickly with minimal capital investments. With a bit more capital investment and consumer-friendly policies, and provided that internal security continues to improve, Tajikistan could also offer a tourist industry geared towards adventure and independent travellers.

D. BUSINESS DEVELOPMENT

Rather than reviving the Soviet-era industrial giants, the most promising way to boost employment and economic prosperity is through the development of small and medium-sized enterprises (SMEs). At present they are only a small fraction of economic activity: the government estimates that 1 per cent of the workforce is engaged in this sector.[26]

Most SMEs are involved in importing consumer goods from Russia, China, the United Arab Emirates and Iran. Some service-based businesses and communications-technology firms have also sprouted up, with particular growth in services in the capital over the past year. Local production is less common, constrained by a lack of capital, the limited

[22] Ibid., p. iv.
[23] It remains a state enterprise and is directly under the presidential administration rather than the Ministry of Industry. However, there are clearly some "private" interests involved in the factory, and some government officials allegedly gain personal wealth from the factory's production.
[24] The TADAZ aluminium factory consumes heavily subsidised electricity, reducing input costs.

[25] See ICG Asia Report N°34, *Central Asia: Water and Conflict*, 30 May 2002.
[26] The real figures may be higher, because of the informal nature of large parts of the SME sector, but it is clearly still low. See Economist Intelligence Unit, "Country Report", March 2003, p. 23.

market, and the greater attention from government interference that fixed production is likely to bring.

Although the number of SMEs may now be rising again, figures suggest that they actually declined in the last few years of the 1990s.[27] Lack of capital is one reasons why this sector has not taken off but more important are the bureaucratic obstacles in the way of the would-be entrepreneur.

Setting up a business is not easy. There is an extensive registration process for new businesses, and regulations are often complex and contradictory. By following one law or set of regulations, an entrepreneur can violate another set, thereby leaving him (or her) open to abuse by many ministries or agencies, which use their power to leverage or extort money from the business by threatening punitive actions. High taxes, mostly unnecessary quality control of imported products, and numerous inspections are also major disincentives. There is little legal recourse against persistent harassment, and most prefer to "reach an agreement" with local governments or tax bodies rather than attempt to fight through an inefficient court system.

As a result of this high level of taxation and harassment, most financial transactions – as much as 90 per cent – take place in the shadow economy.[28] Small business owners have developed a double system of accounting to evade interference: the "official" accounts with smaller profits and lower salaries, and the "real" accounts, which track actual expenditures and income. These practices significantly contribute to a shadow economy, but full transparency in accounts is impossible in such a punitive tax environment and amid pervasive state interference.

The pressure tends to build when a business is doing well. A shopkeeper explained:

> When we opened our shop in a Dushanbe suburb, we experienced fewer illegal inspections. But now that we own a second shop in the centre of the city, it has become much worse because we're more visible. We're subjected to all kinds of inspections, the majority of which are illegal.[29]

The State Anti-Monopoly Commission established a complaints hotline for small businesses, but it seems to have little impact. "We posted the newspaper announcement about the hotline on the front door of our store as a show of protest to the illegal inspections, but still nothing helps. The hotline doesn't do anything to protect us",[30] said one small shop owner. The only real way to cut down on these inspections is to roll back red tape and regulations and make the tax system simple and transparent.

Lack of credit is also a serious obstacle to would- be small businesspeople. Micro-credit programs do little to help since the amount of credit they provide is too small. Most are targeted at poverty alleviation rather than development and miss an important segment of the population. Small loan programs do not have enough breadth to reach these people, and the interest rates are often too high and for too short a timeframe.

Developing credit lines is made more difficult by the lack of a sound banking system. There have been some improvements but most people continue to avoid banks for savings, having seen their money disappear in the past as banks defaulted, or become difficult to access when banks claimed insufficient funds. Heavy regulation of foreign currency accounts – preferred as a hedge against inflation – and the lack of confidentiality of bank accounts, all make keeping cash under the mattress a safer bet for most people.

There have been some reforms in legislation and regulation. An important step forward was the introduction of international bank transfer services in 2001. But still the banking system suffers from a weak regulatory environment, a high default rate, a lack of technical expertise and a lack of capital. Inflation and defaults have kept interests rates high.[31] There is a need for in-country training programs for

[27] Pauleen Jones Luong, "Political Obstacles to Economic Reform in Uzbekistan, Kyrgyzsan and Tajikistan: Strategies to Move Ahead", p. 34, Paper given at Lucerne CIS-7 conference, 20-22 January 2003. Available at www.CIS7.org.
[28] ICG interview, IFI official, Dushanbe, March 2003.
[29] ICG interview, shopkeeper, Dushanbe, November 2002.
[30] ICG interview, Dushanbe, November 2002.
[31] IMF estimates suggest that 60-80 per cent of assets in the banking system consist of non-performing loans. The Agroinvest Bank provided much credit to the agricultural sector, with support by Credit Suisse First Boston Bank, but the return rate of just 55 per cent for 1998 had interest rates up to around 60 to 70 per cent. Now they have fallen to about 30 per cent. World Bank, "Tajikistan: Towards Accelerated Economic Growth", op. cit., p. 49.

banking professionals, coupled with schemes to retain staff who would otherwise seek employment abroad.

Those who do succeed in business tend to have good government connections, usually through relatives and friends, and easy access to capital, either through businesses abroad or close connections with banks. Civil servants are prohibited by law from engaging in business, but this rule is easily circumvented by registering the business with trusted friends or relatives.[32]

Tackling this corrupt business environment is difficult, but must be done if SMEs are to contribute to economic growth. Studies suggest that corruption acts as a regressive tax, damaging small businesses more than large ones, and blocking businesses in the early stages of development.[33] Arguably, existing Western investment patterns tend to exacerbate the problem. "By supporting existing enterprises, we're almost supporting corruption since many of the more profitable businesses started without clean money",[34] claims an international official. Several businesses and restaurants are also fronts used to launder drugs money. There have been attempts to legalise business interests of state officials; however, they have met with little success.[35]

High levels of bureaucracy and the lack of competition permitted under the present system are particularly evident in tourism, a potentially lucrative sector. It plays a significant role in the Poverty Reduction Strategy Paper (PRSP), which the government has prepared with the World Bank, and President Rakhmonov has issued several decrees dictating that all sectors should be involved in the tourism industry.[36] The reality is rather more disappointing, with problems in obtaining visas only the first step. There are few international carriers to Dushanbe, and flights tend to be expensive. The airport needs a serious overhaul, and procedures are slow and often unclear.

Sorting this out is not difficult, and requires little expenditure, but the tourism industry is still dominated by a state enterprise, Sayoh, which simultaneously advocates more tourist-friendly policies, while enjoying an unfair competitive advantage. The real problem again is unnecessary regulations which foster unfair competition. A small elite benefits, but widening access to the market would mean more income for all.

E. POVERTY AND EMPLOYMENT: SURVIVING IN THE TAJIK ECONOMY

In real terms, this largely dysfunctional economy means poverty for more than 80 per cent of Tajiks. Many people survive on an average salary of less than U.S.$7 a month[37] – that is, if they are paid at all. The monthly minimum wage is less than U.S.$2.[38]

Registered unemployment stands at less than three per cent but real unemployment is likely to be much closer to 40 per cent.[39] There are constantly 10,000 to 12,000 job vacancies on offer in Dushanbe, but the wages are hardly enough to cover the bus to and from work.[40] In fact, assessing employment figures or average real incomes is very difficult because of the huge scale of the black economy.

Many people have official employment in a state enterprise or institution and receive minimal salaries, often in arrears. To make ends meet they earn their real income from other sources, none of which is reported, of course. Many unemployed people do not bother to register as unemployed because benefits

[32] ICG interview, civil servant and business "owner", Dushanbe, February 2003.
[33] See Jean-Jacques Dethier, "Corruption in the CIS-7 Countries", pp. 22-24. Paper given at Lucerne CIS-7 conference, 20-22 January 2003. Available at www.CIS7.org.
[34] ICG interview, Dushanbe, November 2002.
[35] The president issued a series of decrees to legalise "black money" and encourage people to freely deposit funds in banks for a period of three months from 1 April 2003.
[36] PRSP, op. cit.

[37] World Bank Second Poverty Alleviation Project 2002, Dushanbe, http://www4.worldbank.org/sprojects/Project.asp?pid=P008860
[38] The government announced that the minimum wage would increase by 20 per cent in April 2003. "Minimum Wages, Pensions and Student Allowances to Increase by 20 per cent from next April", *Asia Plus Information Blitz # 1115*, 5 November 2002.
[39] ICG interview, Alisher Yarbobaev, First Deputy Minister, Ministry of Labour and Social Protection, 20 February 2003. According to Ministry of Labour data, the labour force consists of about 1.85 million people; 45,000 receive unemployment benefits. The estimated unemployment figure is from "Tajikistan: Human Development Report 2001 – 2002: Information and Communications Technology for Development (NHDR)", UNDP, Dushanbe, March 2003, p. 10, citing World Bank estimates.
[40] ICG interview, Ministry of Labour and Social Protection, February 2003. The official salary for a qualified doctor is about 6 somoni, less than U.S.$2 per month.

are so low, and they cannot travel to the regional employment centres for registration. Others are employed seasonally, or work mainly on subsistence plots.

While real income may be slightly higher than that reflected in official data, the majority of the population do not earn enough money to support themselves, particularly in provincial towns and rural areas. Many households are dependent upon humanitarian aid, small credit schemes from international organisations, or remittances from relatives working abroad.

There are broad differences in reported income among the geographical regions. Dushanbe and the northern areas of Sughd province (around Khujand) are relatively better off. The mountainous Gorno Badakhshan region and the Rasht Valley are well below the national income average. They have little industry and significant land shortages. The southern Kulob area is marginally wealthier than the remainder of Khatlon Province, but it also suffered most in the civil war. There is a high percentage of single-female households in the South, due to deaths in the war and male labour migration.

Many rural families are dependent upon the meagre crops they raise on their tiny land plots and humanitarian assistance for survival but after two years of drought, even this was not sufficient. The World Food Programme estimated that nearly one million people faced starvation in 2001 – one in seven Tajiks.[41] The situation has improved somewhat because domestic production has risen since the end of the drought, but many people remain dependent upon food assistance. The long-term effect of Tajikistan's underproduction is that 47 per cent of the populace is undernourished.[42] The UN estimates that 30 per cent of children are chronically malnourished, with many more just above the cut-off point. Infant mortality is also high: 89 per 1,000, and 126 per 1,000 among under-fives.[43] Even a minor environmental disaster could again send many into acute starvation.

It is not only in the provinces that people face a daily struggle for survival. Mirzo arrived in Dushanbe over twenty years ago from a village in what is now Khatlon Province. Today, he and his wife are a "middle class" family living in a flat on the outskirts of Dushanbe with their four children:

> Before Eid al fitr [Muslim holy day of feasting signalling the end of Ramadan] this year, we had no power for four days – and we have had no gas for even longer. The children sleep in their boots at night. I earn a few somoni per week at my job but at the end of the week there are only a couple of somoni left because the rest goes to transport so that I can get to work. How can I support my family on a couple of somoni per week? Even during the war, things in Dushanbe were better.[44]

While his life is certainly difficult, he noted that many in Dushanbe, as well as in the other regions of Tajikistan, live much worse.

The situation in much of the country is indeed worse. Unemployment is rampant, there is little small business, and most areas, other than the provincial towns of Kulob and Dangara, have clean potable water and electricity only a couple of hours a day.[45] Much of Gorno Badakhshan has been reliant upon humanitarian aid and, more recently, development assistance, but it has been concentrated mostly near the Afghan border. People living in the higher elevations to the north have scavenged the land into a near desert to find plant fuel for heating and cooking.

Kick-starting the economy is the best way to pull the mass of the population out of poverty, and that means a focus on agriculture and SMEs above all to achieve the quickest direct impact on living standards. A wide range of obstacles are in the way, many linked to governance issues and state interference in the economy. Overcoming them needs to be at the top of any poverty reduction agenda. The key bottlenecks are those present in many parts of the developing world: governance; health and education; infrastructure; openings for regional trade.

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[41] Turko Dikaev, "Tajik Children Facing Starvation,", *Institute for War and Peace Reporting*, N°150, 1 October 2002. The World Food Programme was criticised for this appeal because it was supposedly exaggerated in order to attract more funding.

[42] "Human Development Report 2002: Deepening Democracy in a Fragmented World", UNDP, p. 172.

[43] United Nations, "Consolidated Inter-Agency Appeal 2003: Tajikistan", op. cit., p. 5.

[44] ICG interview, Dushanbe, December 2002.

[45] Dangara is the birthplace of President Rakhmonov.

III. CONSTRAINTS ON DEVELOPMENT

A. GOOD GOVERNANCE

It is now a development truism that "good governance is perhaps the single most important factor in eradicating poverty and promoting [sustainable] development".[46] Since the mid-1990s when good governance, and in particular corruption, began to appear on development agendas, the principle has achieved widespread acceptance in the theoretical work of the UN, bilateral development agencies, and IFIs.

The idea is simple. By allowing more public participation in policy-making, government officials have to respond to constituents and adapt policies for the good of the nation at large; by improving rule of law and judicial systems there are more effective checks on government corruption and more defence for private business. Effective democratic institutions provide mechanisms to channel antagonisms or dissent and help provide equitable access to resources. Greater openness and accountability make corruption and rent-seeking behaviour more difficult.

The problem with good governance is that theoretical approaches are not always translated into practical policy on the ground. Partly this is because its definitions are so broad that they are difficult to translate into simple policy terms. But it is also a failure among development agencies to accept that good governance is a serious political issue, not primarily a question of more efficient reorganisation of government or a functional analysis of ministries. Good governance means that powerful people lose access to resources, and there should be little doubt that it will frequently be resisted by elites.

The UN outlines six principles that are fundamental to good governance:

(i) effective functioning of legislatures and legislative processes;

(ii) electoral systems that allow all citizens, including vulnerable and disadvantaged groups, to participate in and influence government policy and practice;

(iii) access to justice and human rights through reform of the justice sector and promotion of rule of law;

(iv) access to information to promote open decision-making;

(v) decentralisation and strengthened local governments to improve access to social services, especially among vulnerable and disadvantaged groups; and

(vi) responsive, accessible and accountable public administration.[47]

In all these areas Tajikistan faces an uphill struggle. Indeed, in international indicators, it comes last in all measurements of governance among seven similarly situated CIS countries, except in "voice and accountability", where it is ahead of Uzbekistan.[48]

Some progress has been made, and work is ongoing – administrative, criminal and civil codes and codes of procedures are all under review. The election law has been reformed (although there are concerns that it does not comply with Tajikistan's international commitments). Legislation concerning the judiciary is also under review. Government is being gradually decentralised.

However, these reforms are virtually disconnected from economic reforms. The recently-adopted Poverty Reduction Strategy Paper (PRSP) hardly links economic reforms with institutional capacity building. Nor does much of the international community make the link. UN agencies are gradually moving away from a focus on emergency relief, but despite recognition of the need for institution building, there are still only limited programs addressing institutional issues, human rights, or governance reform.

1. Public participation in policy consideration and review

The political system is heavily dominated by the executive. The parliament contributes very little to consideration or review of policy or even to budget formulation but rather fulfils largely the role of a rubber stamp for the president's policies. Elections

[46] UNDP Thematic Trust Fund: Democratic Governance, http://www.undp.org/governance/docs/TTF-Democratic-Governance.pdf, p. 1.

[47] Ibid.

[48] The seven CIS countries under consideration are Armenia, Azerbaijan, Georgia, Moldova, Kyrgyzstan, Tajikistan and Uzbekistan. Jean-Jacques Dethier, "Corruption in the CIS-7 Countries", op. cit., p. 8.

have consistently not met Tajikistan's international commitments and have exhibited many serious violations such as unfair government campaigns, restrictions on opposition candidates, and rigging.[49]

Increasing opportunity for the public and its elected institutions to contribute more genuinely to policy, whether in decision-making or review, will have a positive impact on good governance and accountability, while reducing the effects of patronage. However, institutions and mechanisms for public participation are weak. The parliament rarely holds public hearings, and there is very little discussion in the mass media. Key issues such as government spending are not open for serious debate. Parliament needs to play an important role as a check on the executive, particularly in scrutiny of government expenditure.

To ensure that it can, parliament needs freedom of action and opposition deputies. A tendency in the presidential administration to limit or hinder the activities of the opposition may seem attractive in the short term as a means to consolidate political power and underpin political stability. But in the medium term it will merely fuel extra-constitutional opposition and weaken support for government policies.

Critics assert that President Rakhmonov is using the international anti-terrorism coalition's presence in Tajikistan and elsewhere in Central Asia to consolidate his power and marginalise the government's formal coalition partner, the Islamic Renaissance Party (IRP). He has tried to discredit the IRP by hinting at links to terrorist or extremist organisations. The IRP denies any links and openly states its opposition to terrorism in the press.

Rakhmonov has also moved to make a number of changes to the constitution. The most troublesome proposal is that which would remove the limit of the presidency to one seven-year term. This would theoretically allow Rakhmonov to stand for two further terms in office when elections are due in 2006. Allowing presidents to have two terms is not controversial in itself, but for Rakhmonov, it would likely be a first step to legitimise an effective "presidency-for-life", as in some other Central Asian countries.

Due to international and domestic pressure, another major reform proposal that would have constrained the role of religious parties will likely be rescinded. However, there has been very little fruitful public discussion[50] of the proposed constitutional changes – particularly the one regarding the president's term in office. The government has set a late June 2003 date for a referendum and has recommended a single-issue ballot regarding all-or-nothing support for the constitutional amendments. The use of referenda in Central Asia has come to be associated not with participatory democracy but with attempts by leaders to paste a thin veneer of legitimacy over authoritarian rule.

2. Access to justice and human rights

Both for economic development and for improved human rights, there is an urgent need for more work on rule-of-law, both in judicial reform and in the security forces.[51] In most democracies, the courts monitor execution of the laws; in Tajikistan, the courts largely function as an extension of the executive. In both the political and economic spheres, citizens do not have access to justice or protection from the government through the courts. There has been some improvement in legislation, but as one politician notes:

> Even if the laws are good, it doesn't matter if they're not implemented. Implementation of even 30 – 40 per cent of the laws would be a great success. More people need to get used to the written word so that laws don't simply lie on the shelf.[52]

As a general rule, neither entrepreneurs nor government officials know their rights or the law.

[49] See ICG Asia Report N°30, *Tajikistan: An Uncertain Peace*, 24 December 2001. For further information on election results, see the "OSCE Final Report on Parliamentary Elections", February 2000.

[50] The United Nations Transitional Office for Peace-building (UNTOP) – together with the Association of Political Scientists of Tajikistan – conducts periodic "political discussion clubs" around the country. These meetings have provided a useful forum for political parties to develop and bring their platforms to their constituents. However, discussions have skirted most issues related to the referendum with the exception of lively debates on health and education-related amendments.

[51] See ICG Asia Report No 42, *Central Asia: The Politics of Police Reform*, 10 December 2002.

[52] ICG interview, Jumaboi Niyozov, Deputy Head of the Democratic Party of Tajikistan, Khujand, 21 November 2002.

The tax code provides certain rights of complaint, but most people and inspectors do not know the procedures. Rule-of-law issues must be strengthened on two fronts in the economic sphere: officials must know the procedures and the law, and individuals must know their rights and how to utilise enforcement mechanisms.

Waiting only for top-down plans to change the judiciary is probably not worthwhile. The most likely improvements will come from private sector pressure, as in Russia and elsewhere. Businessmen may profit for some time from a lawless environment, but eventually most would prefer to conduct their affairs on the basis of legal contracts and resolve disputes through courts rather than informal means.

Not only is the weak rule-of-law environment a hindrance to economic development, but it also reflects a situation of pervasive systematic human rights violations. The use of torture by security forces and police is widespread, mostly during the first few hours or days of detention in order to obtain a confession. Detainees are frequently denied access to a lawyer during the initial detention period as well. According to Human Rights Watch, in 2001 "torture by police and security forces remained endemic".[53] The transfer of the penitentiary system from the Ministry of Interior (MVD) to the Ministry of Justice will only address a minor part of the problem since most abuse occurs in pre-trial detention centres which remain under the MVD.

Tajikistan's use of the death penalty, often in secret and without due process of law, has also caused significant international criticism. In a 2002 Amnesty International concluded that the application of the death penalty is "relentlessly cruel and arbitrary".[54] Its report also detailed the brutality used against suspects and potential witnesses by police. There are many disturbing cases, and human rights groups have noted a lack of interest among officials in investigating claims of brutality and torture by the security organs. Justice sector reform needs to address not only the judiciary but also the security forces themselves.[55]

This atmosphere of limited control over police and the feeling among many that they are not neutral, leads to a lack of trust in the authorities in general among many in the wider population. The moral seems to be clear: the main factor in survival is closeness to the authorities rather than compliance with the law. This is very strongly felt by the business community. Those with government ties flaunt them, while those without worry about the sustainability of their enterprise or position.

3. Access to information

Information and transparency are fundamental to good governance, but there is not much of either in Tajikistan. The government still views many statistics as secrets, although often this merely hides an inability to collect them efficiently, as well as a fear of acknowledging the real situation. The state budget, for example, is not transparent, and there is little public scrutiny beyond small announcements in the press revealing that it was passed. There is no information – and therefore no public debate – about priorities and funding levels for ministries and programs.

The official data and statistical surveys that do exist are also limited in utility. Many techniques used by the State Statistical Agency (SSA) are outdated. The duality of much of life in Tajikistan also presents barriers to effective data collection because the numbers simply do not correspond with reality. The SSA is also generally under-funded to conduct extensive surveys and relies primarily on reports issued by various state agencies. Local organs frequently inflate their figures in order to deflect criticisms for perceived failures. Moreover, some estimates are repeated so often that they eventually become "fact", although not based on good data collection.

Many international organisations seek to fill this gap and conduct their own surveys and studies. The results and findings are only indirectly shared with government agencies and policy makers, usually in the form of refined objectives for project implementation. The basic findings and conclusions are rarely circulated outside the organisation. In

[53] *Human Rights Watch*, "World Report 2002, Tajikistan", at www.hrw.org.
[54] *Amnesty International*, "Tajikistan: Deadly Secrets. The Death penalty in law and practice", October 2002.

[55] See ICG Report, *The Politics of Police Reform*, 10 December 2002.

some cases, this may be due to lack of motivation on the part of the government, which wishes to cover up certain findings; though it is also because these organisations guard their findings owing to competition with other agencies.

Even where there is information, there are only limited media outlets to disseminate it. The capital has quite a large number of newspapers but most people cannot afford to purchase them regularly (even for prices as low as 20 diram or U.S.$0.06). Circulation is relatively small in relation to inhabitants. Many are not issued more than once a week. Most regional newspapers are only circulated monthly. Television and radio are also limited because many people do not own receivers (nor is there always enough power to use them, especially during the winter months when black outs are frequent). Television and radio are dominated by state channels, although positively, a new private radio station started in 2002.[56]

Even where there are news outlets, journalists and editors remain subject to intimidation, harassment and worse. The situation improved somewhat in 2002, but they are still subject to political pressure, and the fear of political violence remains in the background.[57] It will take some time before a freer media develops, but without it, there will not be improved public debate of policy issues.

Without access to information, public participation in decision-making processes remains limited. This, in turn, undermines nation-building and diminishes the responsibility citizens feel for state policies. The lack of information also fosters an environment in which corruption and graft flourish. Without significant public opinion pressure, most officials feel little incentive to clean up their acts.

4. Decentralisation and strengthened local governments

A good governance strategy also needs to take account of regional differences. Regional identities are important and complex in Tajikistan's politics. The civil war was in large part a regional dispute over power and financial resources. The peace accords reflect the emphasis on regional politics, having reserved 30 per cent of government posts for the United Tajik Opposition (UTO), a conglomeration of Islamist and semi-democratic forces, whose main support has been in the Rasht Valley.

President Rakhmonov has also sought to appease domestic interests (and the international community) by ensuring that wider interests are at least somewhat represented in his administration. Two of his four presidential advisors are from opposition parties.[58] Both appointments were moves to co-opt opposition voices. But the government and administration continue to be dominated by officials from the Kulob region, the home of the president. Khujandis are also represented, although many analysts believe they lost out in the peace agreements, and are under-represented in relation to their pre-war position.[59]

Identity is very localised, making state-building or nation-building exceedingly difficult. Regional affiliation remains strong even after internal migration. Migrants to Dushanbe often reside in communities inhabited by their village compatriots and seek to marry their children to others from their village. Mixed marriages – between people of one

[56] A lively media community in and around the regional centre of Khujand in the north is an exception. Several commercial radio and televisions stations, as well as newspapers, have been competitive for many years. President Rakhmonov overturned previous decisions and decreed the licensing of three private radio stations in Dushanbe in September 2002. One began operation immediately. Television has not benefited from this change in policy.

[57] In February 2002, explosives were found near the building housing a major news agency (as well as several NGOs), and a journalist in Khujand was beaten. The figures for 2002 remain significantly lower than those for 2001. Nine TV journalists from Khujand were arrested after investigating forcible military conscription of draft evaders in October 2002. Six were released several days later but three were conscripted into service. After lobbying by local and international media advocacy groups, the three were given posts as press officers.

[58] Kurbon Vosiev, former head of the Socialist Party, was named presidential advisor on social movements and politics. Rakhmatillo Zoirov, head of the Social Democratic Party of Tajikistan (SDPT), was appointed presidential advisor on legal issues. The SDPT was originally registered in 1998 (under the name of Justice and Development); however, the Ministry of Justice soon revoked its registration citing irregularities in the membership list. The party was re-registered in December 2002.

[59] "Abdullajanov and the 'Third Force'", Shahram Akbarzadeh in *The Politics of Compromise: The Tajikistan Peace Process*, Kamoludin Abdullaev and Catherine Barnes, eds., ACCORD, March 2001.

region but different villages – are uncommon, inter-regional marriages even rarer.[60]

Regional representation is only part of the issue. First, regional leaders are not always representative of their constituents.[61] Secondly, the political currents run much deeper than regional identity. Patronage networks – consisting of clan attachments, regional affiliations and loyalty/dependency networks – are more encompassing and often an important "behind the scenes mechanism" driving much of Tajikistan's politics.

Patronage networks to win or preserve political favour are pervasive and play a much larger role than regionalism. People in government or key economic/business positions use their status to direct financial resources and investments to their constituency (this may be a region or a group of people) so as to ensure loyalty. This is facilitated by a lack of transparency. In the other direction, kickbacks from salaries or other gifts are often given to patrons.

The laws on self-government in villages and towns and on public administration pay homage to public participation but do not provide mechanisms for its realisation. A working group in Dushanbe is reviewing a draft law on local government, although there is little public participation or coordination, within the framework of the poverty reduction strategy. The draft law foresees local governance at the *hukumat* (rayon), *jamoat* (district), and city levels, but it does not provide for the elections of the chairpersons of *hukumats,* regions or cities (only for the heads of the jamoats).

The draft law is expected to be passed by mid-2003. It will not be effective, however, unless it involves greater representation for the local self-government organs; allows locally-based incentives for industries and SMEs; and provides mechanisms for its implementation and increases transparency and accountability.

5. Responsive, accessible and accountable public administration

Corruption is pervasive at all levels: from the lowly civil servant demanding bribes to supplement his small salary to top ministers benefiting from kickbacks and the graft throughout their agencies. Patronage systems supported by graft limit the general public's access to decision-making. Employment is frequently through patronage and loyalty networks rather than qualifications.

People have to buy their jobs and positions in many sectors, and appointees are nominated as a form of reward. Ministerial positions allegedly cost up to U.S.$100,000. "Tajikistan is experiencing a 'wild capitalism.' Many people believe that if they get a good [state] job, they can make money; that advancement is not based on merit", admits a top official.[62]

Corruption and graft must be addressed on many levels. Raising salaries is not the only answer but salaries can – and should – be raised by cutting down the number of public servants, although this must be done carefully to avoid it turning into a political purge. Officials receive very small salaries, making corruption almost inevitable. As one civil servant said:

> How can I survive on my small salary? I need to support my family and circumstances force me to do this [own a business]. Just look at all the civil servants with mobile phones and cars; how can they afford it on their official salaries? They have to take bribes or run a business.[63]

Breaking the cycle of corruption is not easy, but the present system gives too much impunity to officials. Of the thirteen judges tried for corruption during 2002, only two were convicted.[64] Border guards, customs officials, law enforcement officers, and more recently a former deputy mayor of Dushanbe have also been convicted on charges of embezzlement or abuse of power. With the exception of the former deputy mayor, who was

[60] ICG informal conversations, Dushanbe, 11 February 2003.
[61] "Discussing regional representation within the [executive] government is difficult. A person from a particular area may or may not represent the people living there". ICG interview, international expert, Dushanbe, 5 December 2002.
[62] ICG interview, senior government official, Dushanbe, February 2002,
[63] ICG interview with a civil servant and business "owner", Dushanbe, February 2003.
[64] ICG interview, senior government official, Dushanbe, February 2002.

imprisoned for sixteen years, most receive relatively light sentences.

President Rakhmonov fired two ministers and several deputy ministers in January 2003 on corruption-related grounds. One, the former minister for health, is rumoured to be facing criminal charges, although none have yet been officially brought. Too often, though, these punitive actions actually target political opponents. Since everyone is involved in corruption in some way or other, everyone is vulnerable. Occasional punitive actions do nothing to promote systemic change: they merely ensure that bribe-takers make sure they are on the right side of those with political power.

In addition to greater transparency, the civil service and wider public administration also need significant reforms. There are over 20,000 civil servants in Tajikistan.[65] Many civil and public servants are appointed by the Department of Civil Service, which forecasts the personnel needs of state organs, develops salary scales and operates an institute for professional development for civil servants. But most appointments and promotions still occur on the basis of the old patronage system. There is no single national standard for entrance into various sectors of civil service such as an exam. A gradual standardisation of entry procedures, an effort to build up the civil service as a prestigious profession in its own right, rather than because of rent-seeking opportunities, and the introduction over time of elections for many positions, could dent the systemic corruption.

B. HUMAN DEVELOPMENT

Getting the government into better shape is important but will only work if it reflects the aspirations of a new generation. And the social impact of this generation will in large part depend on improvements in two sectors, health and education, and more serious attention to the issue of labour migration.

Economic development requires a healthy, well-educated and capable work force. The civil war disrupted education, killed many young men and forced others into exile. Many Tajik intellectuals left the country generating a gap of qualified specialists in sectors such as banking, medicine and information technology. Many other Tajiks have since left for economic reasons, and labour migration, while a vital source of national income, also deprives the economy of specialists and much of its work force.

1. Demographic Trends

Around 70 per cent of the population is under the age of 30.[66] When combined with high unemployment, falling access to education and educational standards, deteriorating health and a lack of political participation, such a large and youthful populace could prove volatile.

Tajikistan has one of the highest population growth rates in the region after Turkmenistan.[67] The population – presently 6.3 million – is conservatively projected to increase to over seven million by 2015[68] – far more than the country can support given its current circumstances. President Rakhmonov has campaigned for smaller families, but there is insufficient access to birth control, and social pressures remain strong to have large families, especially in rural regions.[69]

Population growth is slowing, however, but not for the usual reasons of improving economic conditions, better access to education for women or enlightened family planning. The economic hardship faced by most households and women's poor health are mainly responsible for the slowdown.[70] The effects of the civil war, internal post-war economic migration[71] and large scale seasonal migration to Russia and elsewhere also contribute to a lower birth rate in many villages.

The decline in the birth rate may not be as rapid as the data indicates, however. Many babies are not

[65] Ibid.

[66] "Tajikistan: Human Development Report 1999", United Nations Development Program, Dushanbe, 1999, p. 14.

[67] World Health Organisation: "Selected Indicators for Tajikistan 2000", http://www3.who.int/whosis/country/indicators.cfm?country=TJK&language=english. UNDP evaluates the fertility rate to be 3.7. UN Human Development Report, op. cit., p. 10.

[68] UN Human Development Report, op. cit., p. 164.

[69] ICG interviews with women's organisations, Kulob, 22 October 2002. President Rakhmonov himself has a very large family with numerous children.

[70] Access to contraception has not been a factor in slowing the birth rate. Many women simply do not have access to birth control. Humanitarian assistance programs in the Kulob region, for example, were ended several years ago. Instead, women must rely on abortion as a birth control method.

[71] Dushanbe registers about 600,000 inhabitants, while the real population is likely to be at least one million.

registered at birth. High formal and informal hospital costs and a registration fee – initially approximately U.S.$3, although now reduced to U.S.$1 – contributed to many home births going unregistered. Due to the high expenses for healthcare and the condition of hospitals, increasingly, women are opting to have their babies at home with assistance from mid-wives. Without a birth certificate, children have no access to healthcare and schooling, guaranteeing them a dire future based on subsistence farming, humanitarian assistance or criminality.

2. Education

This rising young generation desperately needs decent education to succeed. During the Soviet period, there was a relatively high level of education and a nearly universal literacy rate. But in the last decade the system has come close to collapse, with school enrolment shrinking from close to 100 per cent in 1990 to just 61 per cent in 2001.[72] In one area as many as 45 per cent of children did not go to school regularly.[73] Experts suggest that illiteracy has seen a large, albeit unrecorded, surge.[74] Despite the need, only 2 per cent of GDP goes on education.[75] While many developing countries are making progress in widening education and improving literacy, Tajikistan is going in reverse.

Many enrolment statistics are probably understatements. School directors mask the absentee rate because they must demonstrate attendance as an indicator of performance. Fewer children today attend school due to impoverishment, the poor quality of education and lack of opportunities for advancement. Children in rural areas often help with farming chores and occasionally work in the fields or sell products along the roadside or in the bazaars. Girls in particular are frequently not progressing beyond the initial classes. While education is officially free, many schools collect a fee of three somoni per child per month (about U.S.$1) to supplement their funds.[76] In addition to the informal school fee, students must purchase their textbooks and give teachers small gifts and cash to ensure high marks. As a result, schooling can become prohibitively expensive for many families.

Not only pupils but also teachers are leaving in droves. Low salaries and a lack of status are just two reasons. School teachers in provincial towns earn an average of 15 – 20 somoni (U.S.$5 – $6.5) each month.[77] Teachers in Panjakent went on strike in November 2002 because they had not received salaries for several months. As a result, vacancies are high. Only 30 of 450 in Dushanbe in 2002 were filled.[78] Absenteeism among teachers is also high. In Yovon district, for example, the rate was 25 per cent.[79] But provision of school lunches for students and take home supplies for teachers significantly increased attendance rates to over 95 per cent.[80]

In order to compensate for the lack of teachers, many schools have double shifts. People without higher education are also hired to fill posts: of 347 teachers in Baljuvon district of Kulob region, only 141 have a higher degree.[81] Because schools are dependent upon local budgets, and salaries are often paid in arrears by the national level, they are unable to address the exodus of teachers. Relatively small packages with financial incentives such as relief from social taxes or extra support for pensions might offset some of the flight of instructors. A government official suggested:

> Teachers need incentives to work in rural areas [and to remain in their positions]. Providing social support to new teachers to work in difficult areas for, say, three years would help address the lack of teachers.[82]

Moreover, the Professional Development Institute for Teachers needs to be strengthened both in Dushanbe and in the regions in order to equip teachers with new skills to meet today's educational demands.

[72] UN Human Development Report, op. cit., p. 10.
[73] ICG interview, CARE, Dushanbe, February 2002.
[74] ICG interview, Yukie Mokuo, Head of Office, UNICEF, Dushanbe, 12 December 2002.
[75] "Selected Issues and Statistics", IMF, January 2003. p. 79.
[76] ICG interviews, Gharm, 20-23 September 2002 and Dushanbe, December 2002.
[77] ICG interview, school director, Yovon district, 13 February 2003.
[78] "Schools in Tajik Capital Ready for another School Year", *Asia Plus Information Blitz #1072*, 27 August 2002.
[79] "Impacts of School Feeding in Tajikistan", CARE Tajikistan, Supporting Partnership for Education in Tajikistan Project, 21 January 2003, Attachment #4.
[80] Ibid.
[81] "Schools in Baljuvon District Experience a Shortage of Teachers", *Asia Plus*, Info Blitz, #213, 7 November 2002.
[82] ICG interview, Jamila Hisomudinova, Deputy Minister of Education for Personnel Questions, Dushanbe, 18 February 2003.

The schools are also lacking in resources. Local governments are responsible for most of their financial resources but without a strong tax base, this is insufficient. As noted, central government funding is low and often late. Many schools are without electricity and heat during the school day, and buildings are in extreme disrepair. Textbooks and other resources are also scarce.

The university system suffers from many of the same problems, and most students find that the programs are irrelevant to today's needs. Most faculties continue to teach Soviet-style subjects, which have little value for the contemporary workforce. Students of economics emerge with little knowledge of market economies, for example. Business and management courses are also weak. Reforms in both content and structure are needed. Educational standards require revision if students – and future employees – are to be competitive with their CIS counterparts. The board overseeing accreditation and attestation should be independent in order to increase the fairness and legitimacy of its standards.

With high levels of unemployment, education is anyhow not always perceived to be a means of advancement. High levels of corruption in the education system have debased standards, and professional advancement is more often the result of connections to patronage networks. Many graduates find there are few professional positions and face limited prospects: either migration or work outside their field of expertise.

3. Health

The healthcare system is in dismal condition and heavily dependent upon international assistance. Government spending has decreased dramatically over the past decade, and only 5 per cent of GDP was spent on health in 1998.[83] Including reported private spending, the amount spent per capita was the equivalent of U.S.$13.[84] Médecins sans Frontières, Pharmaciens sans Frontières, Mercy Corps and the Federation of the Red Cross and Red Crescent, among others, supply medication, equipment and other forms of support to heath care service providers. The Ministry of Health had been reluctant to embrace large-scale reforms, but having appointed a new minister, the government is now trying to push through drastic changes towards a fee-based system as part of the constitutional reform process.[85]

The average healthcare worker's salary had fallen to under U.S.$5 per month in 1998, contributing to a large-scale exodus.[86] Those who remain are not always the best qualified. One resident complains: "If I get appendicitis, I would be afraid to visit a doctor. Many are under-qualified because the medical institute is not able to train them properly".[87]

Healthcare is free of charge but it has been de facto privatised because the dismally low investment and salaries have created an informal payment system. Patients must not only supplement the doctor's income and pay for his or her services, they must also purchase all drugs, some equipment, provide meals and nursing care. Since all services must be paid for, primary healthcare is out of the question for most families. Even curative healthcare is out of reach for many people.

The emphasis on cure rather than prevention was characteristic of the traditional Soviet healthcare system. Moreover, the system emphasises specialists rather than general practitioners for primary healthcare. Reform has been slow due to vested interests within the ministry of health. Because of the emphasis on narrow specialisation, urban residents must go to several doctors for basic treatment. Rural residents usually have access only to a medical clinic with a nurse and are referred to distant hospitals for most treatment. In both cases, basic and specialised treatments become prohibitively expensive because of the inefficiency of the system and the de facto payment practice.

The result of this collapsing system has been a resurgence of diseases once eradicated in Tajikistan. Typhoid, malaria, tuberculosis, syphilis, malnutrition and water-borne diseases are just a few of those now proliferating. These and other illnesses such as diarrhoea both unduly strain the dilapidated healthcare infrastructure and reduce the productivity of the population.

[83] UN Human Development Report, op. cit., p. 168.
[84] Ibid. p. 168.

[85] One of the more important reform proposals facing the health sector during the upcoming referendum will be to change to a fee-based healthcare system.
[86] UN Human Development Report, op. cit., p. 48. Between independence and 1997, over 3000 healthcare workers left the profession, and only three-fourths have been replaced.
[87] ICG interview, Dushanbe, 26 February 2003.

Already by 1998, there were 42 tuberculosis cases per 100,000 people.[88] The poor state of prison conditions lead to many cases of the illness, which has also spread among the general population. Typhoid is also on the rise, largely linked to the lack of access to clean drinking water. Only 51 per cent of the population has access to clean water: Dushanbe experiences regular outbreaks of typhoid because the tap water is not purified, and many residents are forced to use ditches as their water source.[89] In rural areas, many households consume irrigation water – often contaminated with sewage. Standing water in ditches and canals also provides breeding places for malaria. As pest control measures have dwindled, malaria has skyrocketed to a rate of over 300 per population of 100,000.[90]

The government's attempts to tackle these outbreaks have been generally woeful. During an outbreak of typhoid in the capital in mid-2002, the former minister of health called for humanitarian organisations to help contain the illness but refused to provide them information about the severity.[91] The health ministry could not air public service announcements because state-owned television demanded payment.[92]

A new challenge comes from HIV/AIDS. There are less than 100 registered AIDS cases but in reality the problem is probably much worse; unofficial estimates are over 2,000.[93] Between 750 and 1,000 HIV positive cases were registered in 2000 and 2001, pointing to a rapid upward trend.[94] Insufficient testing and fear of social repercussions have meant that many people at risk are simply not tested.[95] Injecting drug users are the most at-risk, and as drug abuse is increasing rapidly, it is expected that the incidence of HIV will grow in tandem, but sexual transmission of HIV is also escalating.

The many labour migrants to Russia have also proved a major source of sexually transmitted diseases.[96] No retroviral drugs are available in Tajikistan, nor would patients be able to afford them. If an AIDS crisis is to be averted, much support needs to be given to preventive programs, harm reduction projects, improved and confidential testing and development of a comprehensive prevention policy.

Urgent attention is needed for Tajikistan's health infrastructure in order to reverse the system's failure and ensure that the collapse is not irreparable. The lack of reforms and the level of corruption in the ministry of health have been impediments to large-scale improvements. New leadership in the ministry and the government's commitment to a semi-privatised service should lead to reforms in the next few years, but vulnerable groups will continue to be largely dependent on international goodwill and help.

4. Labour migration

The poor economy, weak infrastructure and institutions and lack of opportunity for advancement and financial well-being for most of the population are generating another crisis in the form of mass emigration in search of employment.

The International Organisation for Migration estimates that over 800,000 citizens have left for Russia, Kazakhstan and elsewhere for work.[97] Others

[88] UN Human Development Report, op. cit., p. 173.
[89] See PRSP, op. cit., p. 5, for clean water statistics. See *Institute for War and Peace Reporting*, "Typhoid Hits Tajik Capital", RCA N°140, 23 August 2002, for more information regarding the typhoid outbreak.
[90] UN Human Development Report, op. cit., p. 173.
[91] ICG interview, international organisation, Dushanbe, 2003.
[92] Information made available to ICG by an international agency.
[93] "Health Security in Central Asia: Drug Use, HIV and AIDS", sponsored by the Open Society Institute and the Ministry of Foreign Affairs of the Netherlands, Zuhra Halimova, Executive Director, Tajik Branch of the Open Society Institute – Soros Foundation, Dushanbe, cited in "Tajikistan: AIDS Timebomb Ticking", Institute for War and Peace Reporting, RCA N°156, 29 October 2002.
[94] HIV figures provided by Mercy Corps Tajikistan from various sources including the Asian Development Bank, the World Bank and conversations with medical personnel in Gharm and Khorugh.

[95] Blood testing in general is not widespread due to a lack of procedures and equipment. As a result, other diseases such as hepatitis are also spreading through transfusions. "My girlfriend fell ill and had to have an operation. Afterwards she had hepatitis because of the blood transfusion. Now she is in Moscow seeking better treatment". ICG interview, Dushanbe, February 2003.
[96] HIV/AIDS rates have soared in Russia. According to Mercy Corps Tajikistan, the Ministry of Health has reported that sexually transmitted diseases such as gonorrhoea and syphilis have reached epidemic proportions in areas of Tajikistan where there are large numbers of returning migrants [primarily from Russia].
[97] ICG interview, Igor Bosc, Dushanbe 14 November 2002. Data on migration are conflicting. Most observers state that anywhere from 500,000 to 1.5 million Tajiks have gone abroad to find work.

estimate that as many as 1.5 million Tajiks (out of just over 6 million) have emigrated, either temporarily or permanently. One Russian diplomat notes that: "Even if only 500,000 to 800,000 Tajik migrants come to Russia to work, that is already a large part of the country's labour force".[98] Remittances from labour migrants constitute a substantial part of Tajikistan's shadow economy and are increasingly essential to its formal economy. The level of remittances from Russia essentially constitutes a fresh form of subsidies, albeit in a new and unregulated form.

The main destination remains Russia, where even unskilled labour can earn a worker U.S.$200, more than ten times what a professional in Tajikistan might earn. Some 60 to 70 per cent of migrants work on building sites, where monthly wages average around U.S.$250 but can reach U.S.$300-400.[99] How much money is really returned to Tajikistan is disputed but it is probably the main source of income for many families. Bank transfers of remittances are increasing exponentially. In January 2002, over U.S.$2 million was sent to Tajikistan from Russia; by the end of the year, bank transfers of remittances totalled U.S.$89 million.[100] Since bank transfers only really started that year and are still not used by most workers, the real figure is several times higher. An international official calculated a total of as much as U.S.$600 million, or nearly three times the state budget.[101]

These remittances are untaxed but have prompted officials in the ministry of labour and the tax inspectorate to begin discussions on regulating the inflow as a lucrative source of revenue. Taxation of remittances would likely cause fewer people to use the banking system and return to the shadow economy, so for now it would be unproductive. Other ideas, such as tax breaks for investing remittances in business – particularly when combined with other investment incentives or matching credits – would start to channel money into the formal economy and contribute to long-term economic growth.

Such large-scale migration has, of course, a tremendous impact on political stability, economic growth and long-term development prospects. Possible large-scale reduction in labour migration could be destabilising. The migrants include unknown numbers of ex-combatants, as well as many young men who would be idle upon return. Mukhiddin Kabiri, deputy head of the Islamic Renaissance Party, stated that:

> "labour migration of Tajik citizens to the Russian Federation is one factor of stability.… [The return of such large numbers of migrants] would be a catastrophe for the economic and social life of Tajikistan. It is difficult to imagine what would happen…with the return of such a large number of young people, doomed to unemployment in their motherland."[102]

Public opinion is strong that any substantial return of migrants would be seriously damaging for social and political stability.[103]

After the hostage-taking by Chechens in a Moscow theatre in October 2002, the Russian government deported about 4,200 illegal immigrants. Although fewer than 10 per cent were Tajiks,[104] the crackdown was met with alarm in Tajikistan. The expulsions served more as a public relations assurance for Russia, however, than the beginning of a serious policy shift. Those without proper documents or registration provide even cheaper labour because they are paid under the table and have very few legal rights.

One major change has been the introduction by Russia of an official migration card. The documents are supposed to regulate the flow of labour migrants, but the likely result will be to further disenfranchise migrants and leave them without recourse to any protection whatsoever. The flow of Tajik emigrants will not be quelled by such a card; instead migrants will seek to circumvent the procedures and travel to Russia anyway, pushing many more into the black labour market. Even before the cards were officially in use, counterfeits were on sale in Khujand.

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[98] ICG interview, Konstantin Doronkin, First Secretary, Embassy of the Russian Federation to Tajikistan, Dushanbe, 21 February 2003; Ministry of Labour data indicates that the total workforce is about three million. ICG interview, February 2003, Dushanbe.

[99] ICG interview, Bogsho Lashkarbekov, chairperson of the regional public organisation, "Nur", Moscow, January 2003.

[100] ICG interview, Igor Bosc, Head of Office, International Organisation for Migration, Dushanbe, 26 February 2003.

[101] ICG correspondence, November 2002.

[102] Lidia Isamova, "Tajiki Labour Migrants in Moscow Fear Pogroms", *Tajikistan Courier*, 8 November 2002, p. 2.

[103] ICG interviews, Dushanbe, November-December 2002.

[104] Igor Barabanov, Head of the Department of External Labour Migration of the Russian Federation Ministry of Internal Affairs, claimed that only 170 Tajiks were deported. ICG interview, Moscow, 10 January 2003.

The living and working conditions of economic migrants are frequently appalling. Many Tajik citizens in Russia lack appropriate documentation such as work and residence permits and are easy targets for exploitation. They often live in squalid, cramped quarters including crowded dormitories, or disused railway cars.[105] Many complain of harassment by law enforcement agencies and other power structures, as well as general discrimination. Employers are obliged to pay 4600 roubles (approximately U.S.$145) in fees for each migrant worker plus guarantee a return ticket but many charge the fees to the migrants.[106] Employers also sometimes withhold salaries.[107] Labour migrants do not report these violations as they are virtually unprotected legally and often face official harassment and discrimination.[108]

Tajiks are also often the victims of violence, either because they have been drawn into criminal activity, or because they have complained against harassment or abuse. One of their representatives claimed: "In 2002 36 Pamiris alone were killed. There have already been four murders this year [2003] and a pogrom in the village of Tsaryno".[109] Those who can accumulate money and return to Tajikistan face harassment along the entire trip, especially from Kazakh and Uzbek border patrols, customs agents and law enforcement agencies. Often they faced bribes, hijackings, theft, assault and even rape in transit.

Tajikistan and Russia have signed an agreement on labour migration, which requires ratification by the Russian Duma before it enters into force. It is supposed to be a bilateral implementation mechanism for a CIS-wide plan that provides legal protection for Tajiks. However, the agreement itself seems to lack any real substance such as implementation mechanisms.

While the immediate effect of labour migration may have been a certain stability for Tajikistan, the long-term consequences are more ambiguous. Talented workers are lost; it is often the best educated and most active who leave. Remittances are not always channelled into long-term income generation, but instead used for immediate consumption needs. Incentive programs such as tax breaks and grants and low-interest credit co-funding projects would both channel them into the formal economy and address the need to emphasise investment in SMEs and light manufacturing, rather than mostly micro-credit and large-scale investment projects.

The migration problems encountered by Tajikistan are not unique. Similar issues are faced by many developing countries, and there is increased international experience at achieving a balance between the important income-generating effects of migration and the loss of human capital. Schemes to protect migrant workers and make their remittances productive for long-term development are worth considering, as are international programs to attract talented Tajiks in areas of particular need, such as health, back to the country.

Because Russia is the main destination of most Tajik migrants, special measures need to be taken to ensure their legal status, rights and ability to work there. The migrant card will only increase the obstacles faced by labour migrants. Efforts need to be taken to simplify the registration procedures and to reduce their costs, which would encourage greater observation and compliance by employers. Efforts also need to be taken to improve the ability of migrants to receive residence registration and other official documents. This would not only protect their rights, but also bring them into the formal economy, thereby benefiting all.

C. DRUGS

The limited opportunities for legal business has stimulated the growth of a huge black economy, centred above all on drug-trafficking. Nobody really knows how big this business is, but international agencies claim that as much as 30 per cent of the population may in some way be associated with it.[110]

There are allegations of some domestic drug cultivation – although not yet officially recognised – but most of the trade is in heroin and opium from Afghanistan, which produces 75 per cent of the

[105] ICG interviews, Tajik migrants, Moscow, January 2003.
[106] ICG Interview, Abdumajid Surkhakov, Representative of the Ministry of Labour and Social Protection of the Republic of Tajikistan on Questions of Labour Migration in the Russian Federation, Moscow, 9 January 2003.
[107] ICG interview, Moscow, 8 January 2003.
[108] ICG interview, Muzoffar Zaripov, Project Coordinator, "Migration and Rights," Moscow, 4 January 2003.
[109] ICG interview, Bogsho Lashkarbekov, Chairperson of the regional public organisation, "Nur", Moscow, January 2003.

[110] ICG interviews, international experts, Dushanbe, February 2003.

world's heroin.[111] Since the collapse of the Taliban regime, most reports concur that both production and export are on the rise, particularly through CIS states. The Drug Control Agency under the Presidential Administration reported that about 5,500 kilograms of narcotics were seized in Tajikistan in 2002.[112] The amount actually penetrating the border is estimated to be at least ten to fifteen times higher than what is seized.

Areas along the Afghan border are particularly saturated by the drug trade. After the Aga Khan linked humanitarian assistance for Gorno Badakhshan to a decrease in narco-business, there was significant improvement.[113] President Rakhmonov visited the village of Shurobod in Khatlon Province near the Afghan border in August 2002 and threatened to deport entire villages if even one person was caught smuggling drugs. Such threats have done little to undermine the industry, however. The drug business provides much more lucrative income than cotton or potatoes and employs more people than any employment scheme in the area.

The drugs trade has three major negative impacts on economic development.

First, it undermines the political will for economic reform and corrupts government institutions. The drug industry hinders any attempts to improve governance or tackle corruption since it depends on state weakness to operate freely. According to one senior official, almost 60 organised crime groups are involved in narco-trafficking activities.[114] High-level connections in the security services or in government can ensure that major drug barons have not only immunity, but also gain influence on policy-making. As a result, there is a lack of interest in reforms and improving the independence and impartiality of the courts.

Secondly, it draws many ordinary people into crime and distracts attention from legal enterprises and agriculture. Most drug seizures and narcotics-related arrests are of the small time traffickers and occasionally a mid-sized dealer. Unemployment, difficult material conditions and the desire to make money are the main reasons that many turn to drug trafficking.[115] Often the couriers are women, who simply want to put bread on their table and see no other way. While the business brings undetermined millions of dollars into the economy every year, most stays with a few crime bosses. Dependency upon lucrative trafficking creates disincentives to find other long-term sources of income for many until the reality of an arrest sets in too late.

Thirdly, it has a knock-on effect on health, as local consumption increases rapidly. In 2001, there were over 6000 officially registered drug addicts.[116] Real numbers are likely to be at least ten times higher, according to conservative estimates. In a survey, 42.5 per cent of male users and 39.1 per cent of female users said that their overriding reason for turning to drugs was that they had nothing to do; 14.9 per cent of male users and 11 per cent of female users, respectively, said they did it as a "way out".[117] The hidden costs in terms of reduced productivity and strains on the healthcare system will be an increasing burden on the economy.

The drug trade impedes economic growth because this illegal income is rarely transformed into productive capital investments which are necessary

[111] Nancy Lubin, Alex Klaits, Igor Barsegian, "Narcotics Interdiction in Afghanistan and Central Asia: Challenges for International Assistance", Open Society Institute, 2002, p. 4. See also ICG Asia Report N°25, *Central Asia: Drugs and Conflict*, 26 November 2001.

[112] ICG interview, Khurshnard Rakhmatullaev, deputy head of the department for public information, Drug Control Agency under the President of the Republic of Tajikistan, Dushanbe, 17 February 2003. The DCA keeps consolidated data for seizures of narcotics by several agencies, including the Russian Federation Border Guards, the Ministry of Security, the Ministry of Internal Affairs, and the Tajik Border Committee.

[113] This may also be linked to changes in the production and transport system within Afghanistan, where drugs were being moved through southern routes in greater amounts, and to increased activities of the agencies involved in the fight against drugs. However, the personal influence of the Aga Khan and the area's dependency upon humanitarian assistance played a very significant role.

[114] ICG interview, Dushanbe, 2003.

[115] In a survey conducted in 2000 by the Open Society Institute in Tajikistan, 98 per cent of the respondents answered that the desire to make more money was either a primary reason or one of the reasons why people trafficked drugs; 96.8 per cent answered that unemployment was the greatest cause or among the most important factors; and 93.4 per cent responded that difficult material circumstances were among the leading causes for one to turn to drug trafficking. Table 12, "Women and Drugs," Open Society Institute of Tajikistan, Dushanbe, 2000, p. 12.

[116] ICG interview, addiction expert, Dushanbe, 19 September 2002.

[117] "Overriding Reasons Causing a Person to Turn to Drugs", Table 3, "Women and Drugs", op. cit., p. 12.

for long-term and sustained economic expansion. Drug revenues are not reinvested into factories or industry. Nor, of course, are the proceeds from the business taxed. The informal "taxes" in the form of bribes and payoffs again only enrich certain individuals rather than contribute to the general good. Many proceeds from narco-business leave the country: only the luxury villas of the rich and the occasional restaurant or casino remain.

D. INFRASTRUCTURE

Tajikistan's regionalism is aggravated by decrepit transport and telecommunications systems, which impede trade and do little to underpin a viable state. High mountains leave much of the country inaccessible from Dushanbe for six months of the year. The relatively industrialised Sughd region, the primary link with the outside world, is unreachable during winter via the road from the capital, which is even difficult to pass in summer.[118] Getting to other regional centres is also hard, particularly remote Gorno-Badakhshan. The government has improved the road but it is still a long and tough drive.

Not only are roads bad or impassable in winter; until recently a mass of checkpoints were a serious impediment to internal trade. Until mid-2002 those operated by the Russian border guards, the Tajik border committee, customs, militia, traffic police and occasionally by irregular forces were strewn along the road system. At each checkpoint, drivers and passengers needed to show their documents, were subjected to searches and often had to pay bribes or "informal" fees for alleged infringements in order to continue their journey. Recently, many such checkpoints have been removed, and travellers report much less harassment. Security has also improved, although the government tends to be secretive about any concerns that do arise. The Afghan border areas, parts of Gorno Badakhshan, and the Rasht Valley remain areas of potential security concern.

If the transport sector is decrepit and neglected, the telecommunications sector is even more dysfunctional. According to the EBRD, only four out of every 100 people have a telephone.[119] There are only 36 telephone mainlines per 1000 people, down from 45 in 1990. For comparison, Russia has 200, while Pakistan has just 22 but has improved from just eight in 1990.[120]

The telephone structure is antiquated, with little modernisation since Soviet times, and phoning even inside the capital can be frustrating. Getting through to remoter areas is even more unlikely. A Chinese firm is digitalising the phone lines in Dushanbe but major investment is unlikely soon, with non-payment of bills and low tariff structures a disincentive.

Internet access and cellular phone usage has increased greatly over the past couple of years. Cell phones remain prohibitively expensive for all but a few consumers. But since 2000 the market and competition have expanded with at least four companies in operation. The service is limited outside of Dushanbe so most international organisations with projects or sub-offices in the regions rely on radio or satellite communication. Businesses and governmental bodies rely primarily on antiquated telephone service or direct, face-to-face meetings to communicate.

At an average of U.S.$250 per month for 24-hour dial-up service, Tajikistan's internet service is one of the most expensive in the world. Four internet companies have started up, three in the last two years. Internet cafes have also sprung up[121] even though a single provider has a virtual monopoly. The internet is too expensive for many Tajiks but as prices come down, it will be important for connecting to the outside world, and also to other regions within the country.

Efficient, relatively affordable telecommunications are needed to enable Tajiks to communicate within the country for both business and private requirements even before they can enter the global community. Until the country is able to connect with the outside world, however, private foreign trade will

[118] The government has endeavoured to build a tunnel on the road to Khujand in order to circumvent the 3,400 metre Anzob pass. Construction has been going on for over fifteen years and is not yet nearing completion. By 1 January 2003, over U.S.$1.3 million had been spent on the tunnel and less than 3,000 metres had been constructed. President "Rakhmonov Presides over Meeting of Anzob Tunnel", *Asia Plus Information Blitz #1192*, 18 February 2003.

[119] EBRD figures, at www.ebrd.org.

[120] UN Human Development Report, op. cit., p. 188.

[121] Many are stores that have one computer and a phone line to supplement their other business. But others are small internet cafes with three or four computers. An hour of use costs anywhere from 4 – 6 somoni (U.S.$1.3 to $2).

remain limited, there will be significantly reduced possibilities for exchange of information and experience, and the information revolution will continue to bypass the country.

E. REGIONAL RELATIONS AND TRADE

Tajikistan's difficult geographic location is compounded by the trade policies of its neighbours. There are relatively friendly relations with Kyrgyzstan to the north, although there are frequent low-level incidents along the undemarcated border, and the markets are competitive rather than complimentary. In the east, there is no easy access to China, which remains closed for much large-scale trade. To the west, Uzbekistan, which has slightly less competitive markets and offers the most obvious routes for transit goods, should be a major trading partner. However, it takes a hard-line approach to its borders that impedes trade and cooperation.

Russia is still an important partner, although trade has decreased significantly from 46 per cent in 1991 to 16 per cent in 2001.[122] Siberian markets can more than absorb Tajikistan's agricultural exports. However, there are still major obstacles to expansion. Rail cargo is constrained since most connections are through Uzbekistan due to Soviet planning; air cargo is prohibitively expensive, and road freight is problematical due to poor roads and substantial harassment from law enforcement officials in neighbouring states.

Tajikistan is a member of numerous alliances, none of which provide it with any significant advantage in regional trade. The Customs Union, the Free Trade Zone and the Eurasian Economic Community under the auspices of the Commonwealth of Independent States (CIS) have helped only marginally in opening up trade routes. Other Central Asian regional groupings have remained largely on paper. The latest, the Central Asian Cooperation Organisation, is still seeking a role. Tajikistan is also a member of the Shanghai Cooperation Organisation, which it co-founded with Kazakhstan, Kyrgyzstan, Tajikistan, Russia and China in 1996. Uzbekistan joined in June 2001. Its initial aims were to facilitate regional trade and cooperation by resolving border disputes, but it has quickly developed into a security-focused geopolitical vehicle for China and Russia that has done little to promote free trade or regional economic cooperation.

In Tajikistan and among its Central Asian neighbours, many vested interests – political and economic – profit from this lack of cooperation. The top and bottom tiers of border guards, customs agents, and traffic police and nearly all law enforcement, trade and agricultural barons, are just a few of those who benefit from the status quo. Drugs pass through borders with much less difficulty than fruit and vegetables, and the result is that it is the wider population that suffers mostly from closed borders and a lack of cross-border trade.

Much has been made of the potential of routes south to Afghanistan, and eventually these could offer trade alternatives. Northern Afghanistan could serve as a channel for small merchants trading in fruits and vegetables and other wares. The government, with assistance from the Aga Khan Foundation, the U.S. and others, is building a series of bridges across the Panjob and Amu Darya rivers, which divide Tajikistan and Afghanistan. Amid much fanfare, the first was opened near Khorugh in November 2002. But significant trade on these routes will have to await more stability in Afghanistan and a bigger market there for goods from the north.

Lack of cooperation from Uzbekistan is the largest impediment to increasing Tajikistan's international trade. The Uzbek government has taken a very hard line towards regional cooperation and has pursued obstructive border and customs policies.[123] Strong controls that include minefields and serious difficulties for ordinary Tajiks to cross borders without paying bribes have been implemented largely as a reaction to perceived security concerns. The impact on Tajikistan, however, has been highly negative. Trade with third countries also is hurt because most of Tajikistan's export routes run through Uzbekistan.

[122] "Exports of the Republic of Tajikistan According to Country", Foreign Economic Activities, State Committee for Statistics, Dushanbe 2002, p. 21.

[123] See ICG Asia Report, N°33, *Central Asia: Border Disputes and Conflict Potential*, 4 April 2002.

IV. WAYS FORWARD

Bringing Tajikistan's population to even its pre-war level of development is challenging at best. The government, international agencies, IFIs, and non-governmental organisations all have their ideas about the strategy needed to establish Tajikistan as a viable nation-state with strong economic growth. But there is little real coherence in these plans. "There's not really a common strategy for Tajikistan. If you ask ten different government agencies and international organisations what the strategy should be, they will all give you different answers".[124]

This incoherence has been increasing. While some aid agencies have been active since independence, many more have moved in since September 2001. By some accounts, development assistance may have doubled in 2002 over the previous year due to international attention following the terrorist attacks in the United States.[125] But a diplomat said: "So many [intergovernmental organisations and donors] are rushing into Tajikistan to do something, and not all of them have their plans very well thought out".[126]

Nobody is quite sure just how much foreign aid and development assistance has been coming into Tajikistan each year, but overseas development assistance (ODA) is estimated to have reached over U.S.$230 million in 2002.[127] This is still much less money than donors pledged as the civil war was ending. President Rakhmonov complained to UN Secretary General Kofi Annan that only a "tiny fraction" of the U.S. $1 billion promised when the peace accords were signed in 1997 had reached Tajikistan by the end of 2002.[128] Emin Sanginov, head of the Presidential Aid Coordination Unit, has asserted that donor countries promised U.S.$455 million [primarily in bi-lateral assistance] at a donors conference in October 2001. As of May 2002, only U.S.$233 million had been received.[129]

Very little aid is in government to government assistance – most is channelled through NGOs or international agencies. This is partly related to the assertion of many donors that there is a limit to how much aid can be usefully absorbed by the present governmental structures. Given the lack of capable implementing agencies in some areas and a shortage of qualified specialists in some government agencies, there is a need to emphasise institutional change and capacity-building ahead of major financial flows. But there is also a donor tendency to await institutional change before putting in cash. The long-term nature of institutional change severely restricts investment in vital areas such as transport infrastructure. Realistic assessments are needed of how much institutional change can be achieved in the short term. Then commitments to difficult investments should be used to promote that change.

All aid needs to fit within an overall strategy to which the government is genuinely committed. The nearest thing to such a strategy is the Poverty Reduction Strategy Paper (PRSP), completed by the government in June 2002 in cooperation with the World Bank.[130] It has four elements: sustainable growth, improved governance, better basic social services, and targeted support for the poor. The PRSP has been hailed by many international organisations as a milestone in the elaboration of a common development strategy. It is also an important prerequisite for the IMF to allow non-concessionary lending to Tajikistan.

Cynics suggest the PRSP was only developed to enable IFI credits to flow, but it does provide a useful outline of a future strategy. However, it was developed without much public discussion, and it needs to be simplified and taken out to the population. It also needs much more emphasis on good governance. Although governance is addressed, there is little specific programming to tackle the most serious issues, including corruption.

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[124] ICG interview, international organisation, Dushanbe, September 2002.

[125] ICG interview, international organization, Dushanbe, 19 February 2003.

[126] ICG interview, diplomat, Dushanbe, December 2002.

[127] ICG interview, Emin Sanginov, Director of the Aid Coordination Unit under the Executive Administration of the President of the Republic of Tajikistan, Dushanbe, 3 December 2002.

[128] "Tajik President Complains that Pledges Not Met", *Asia Plus, Press Review*, 28 October 2002.

[129] "Tajikistan: Interview with Head of Government's Aid Coordination Unit", IRIN, 2 December 2002.

[130] The strategy encompasses nine sectors. These are: macroeconomic management and growth; public administration; social protection; education; healthcare; agriculture; privatisation, labour and private sector development; infrastructure and telecommunications; and environmental protection and tourism.

It also should focus attention on sustainability by building up institutions that can really work towards long-term development. Those agencies involved in its implementation also need more effective coordination. A first step might be to increase cooperation between the State Aid Coordination Unit and the Poverty Reduction Monitoring Unit, as well as between them and provincial governments.

The tempo of change is also important. The government and IFIs stress that change must be cautious; although some of its targets may be unrealistic, this attitude is partially reflected in the PRSP. High targets in a short timeframe will end in failure. But overly slow change will also be unsuccessful as the public becomes increasingly marginalised and frustrated with the development process. Finding the proper balance is essential; goals must be challenging, but realistic.

The PRSP is a useful start toward a common strategy, but without international willingness to address serious political issues, its long-term goals are unlikely to be achieved. ICG believes that among all the development priorities, governance issues are at the heart of positive change.

A. DEVELOPMENT PRIORITIES

1. Food and agriculture

The government needs to quickly implement measures to diversify its agricultural sector, which would both increase productivity and help meet domestic food needs. There are three priority areas:

First, ensuring fair and equitable implementation of land reform and restructuring is vital to give the poor access to fertile land. With restructuring scheduled to be completed by 2005, there is still plenty of scope for improving the distribution process. It is important to provide all interested parties access to information: the farmers themselves, representatives of the *hukumats* and heads of former state-run farms all need more knowledge of the process. A program like the Legal Assistance to Rural Communities (LARC), which provides free legal advice to farmers in Kyrgyzstan,[131] would be a useful tool for creating greater awareness and transparency.

Secondly, crops need to be diversified to increase food production and meet domestic needs. This means lessening informal government pressure on farmers to grow cotton against their best interests. Again, legal advice, support for farmers' associations, or innovative projects that allow farmers to act together as private marketers of their own crops, might provide new stimulus for production.

Thirdly, in the short-term, farmers also need access to credit and low-interest loans through credit associations and other mechanisms Single, female-led households should be a special target. Organisations such as Mercy Corps, Care International, the Aga Khan Development Network and Save the Children, among others, all have micro-credit programs in place. But the reach is insufficient: only 8 per cent of Tajikistan's farmers have participated.[132] The loans, in general, remain quite small as the recipients find that they can only expand so much before their entity becomes too unwieldy for cooperation.[133] Larger credit opportunities should be linked to better training in financial issues for farmers, and assistance in advocacy, marketing and business initiatives.

Fourthly, food security should be at the top of the agenda. Much international assistance continues to be food aid, and it is still needed by many families, particularly single-parent households. International organisations are working to wean the population off its dependence, through a variety of means, from food-for-work schemes to micro-credit projects. The UN is among those shifting emphasis: "Most of the UN's work has focused on humanitarian needs; however, the focus is now moving towards development, while continuing some humanitarian work".[134]

[131] Set up by the Swiss Cooperation Office, LARC also receives co-funding from USAID in northern Kyrgyzstan.

[132] PRSP, op. cit., p. 25.

[133] Micro-credit programs offer a small amount of credit (typically no more than U.S.$200) to a defined but small group of people – usually single female-led households and occasionally ex-combatants – at low or no interest. Upon successful repayment of the loan, the group may expand in number and become eligible for a larger loan. Loan repayment is very high, with most organisations claiming over 95 per cent success.

[134] ICG interview, Mia Seppo, Deputy Resident Representative, United Nations Development Programme, Dushanbe, 7 March 2003. Other agencies are also undergoing similar reorientations. The Aga Khan Network in Khorugh has drastically cut its humanitarian aid in favour of

But the key to this shift from aid to development is providing land to the poor, and helping to rebuild irrigation schemes for poorer land. Where it is still necessary, food aid should enhance and not distort the market, with as much possible purchased in local markets, or in neighbouring countries.

Both the World Bank[135] and the Asian Development Bank (ADB) are involved in agriculture.[136] The ADB facilitated a roundtable on the *dehqan* system and agriculture in October 2002 which brought together ministers, farmers, the heads of farm associations, and cotton dealers. While stopping short of formulating a plan of action to address the debt of cotton farmers, the roundtable was an important first step towards open discussion of the issue. A more structured consultation program should be developed, with companies engaged in the cotton industry also assisting in restructuring debts owed by cotton farmers, other organisations providing better financial training, and improved fiscal accountability for farm managers.

development assistance. Many other programs consist of a combination of humanitarian and development objectives.

[135] The World Bank is one of the biggest donors, having invested U.S.$151 million in 11 projects. It currently has thirteen active projects in Tajikistan, including privatisation projects, education reform, healthcare, and hydroelectricity among others. But its projects have been dogged by corruption and inefficiency. In November 2001 President Rakhmonov dismissed two officials implicated in corruption associated with World Bank projects. Of particular concern was a World Bank project tackling the Sarez Lake issue, from which considerable sums are believed to have disappeared. The World Bank suspended tranches for the project loan. The Republican Centre for Fighting Consequences of Disasters was forced to pay back to the World Bank $600,000. World Bank education projects also seem to have been subject to corruption. ICG interviews, Dushanbe, January 2002. There has apparently been a far-reaching review of the Bank's activities in Tajikistan, and a more coherent country strategy has been developed, with the emphasis on more community development.

[136] The Asian Development Bank (ADB) upgraded its status to a resident mission in December 2002 due to intensified activities in Central Asia. Its focus has been primarily on agriculture, energy and transport in order to facilitate the country's transition to a market economy; assist in post-conflict rehabilitation and reconstruction; and support natural disaster rehabilitation. "Country Strategy and Program Update (2003 – 2005): Tajikistan", Asian Development Bank, August 2002, p. 3.

2. Business environment

There is a limit to how much agriculture can contribute to economic growth on its own. Beyond crop production, there needs to be focus on building up agri-business and other light industry, as well as other forms of SMEs. The same measures that would promote this sector would also have an impact on the wider business environment, including the investment climate.

The private sector should be the main target for credit and loans. Other investment incentives such as matching funds programs would provide useful support. In order for the private sector to grow, limits must be enforced on the number of inspections, and the registration and regulatory compliance procedures must be simplified. The government should push for a flat tax rate on business profits rather than the present cumbersome system of payroll, turnover sales and other taxes. The IMF, which tends to oppose low tax regimes because it fears lower government revenues, should accept that the move of businesses from the shadow economy into the formal sector is likely to boost those revenues.

Moves to cut government interference in the private sector are bound to be resisted by agencies that profit from harassment and extortion. The primary focus for cutting this is to limit the number of regulations that SMEs have to comply with. The ADB has funded a Law Reform Commission to review the consistency of laws and propose appropriate amendments where required. This kind of commission could be used to work systematically through regulations from the point of view of the private sector to assess whether they promote or impede business.

Secondly, credit schemes provided by international organisations need to be expanded into the present gap between microcredits and major investment programs. But credit lines should also be used to improve governance, to provide training, and to support business associations. They could include mechanisms to protect those companies receiving credits from unnecessary government interference. IFIs or others providing SME credit lines should negotiate with the government to set up an independent agency lobbying on behalf of SMEs, with international participation.

Such an agency would effectively compete with the existing system of illegal "protection", providing a hotline, legal advice and the ability for small

businesses to obtain lobbying services at high government levels to protect themselves from low-level bureaucrats. An agency of this type might be set up along the lines of the UN's Drug Agency, whereby the UN funds employees and retains considerable control over operations. It would need the active involvement of entrepreneurs to make it work, but eventually it could become sustainable.

Reforms in the private sector need to be complemented with reforms in the banking and financial sectors. Good monitoring and understanding of the potential for corruption and patronage are necessary to ensure equity in the distribution of credits through local banks. There also need to be new rules on confidentiality for bank accounts to ensure that the present high level of informal financial transactions can be incorporated into the formal sector.

Most importantly, people have to lose their fear of the authorities in starting a business. The assumption that only those with connections, or protection from government interference, can make money in business has to be countered. Real changes in the regulatory sphere are the best way but they should be matched by public commitments on all levels that starting a business is not just good for an individual, but for the country as a whole, and that defence of entrepreneurs will be at the top of the government's agenda.

3. Good governance

Increasing agricultural production, achieving more equitable land reform, and improving the environment for business are all essentially political questions. They reach to the heart of how the state performs and what type of governance the people can expect.

Participatory democracy, along with access to information, needs to be improved. In order to perform its proper function as an institution that sheds light on and reviews, not merely rubber-stamps, policies developed and implemented by the executive, parliament needs to have much more of a role in discussing options, plans and performance. Budgetary expenditures need to be properly examined by parliament and also discussed in the media. Given the limited resources available to the government, spending priorities need to be more clearly spelled out and monitored by parliament and public. Technical assistance could help parliament build expertise on financial and budgetary issues, and more public hearings would both build competence and develop additional perspectives on various policy issues.

Decentralising government is difficult because of fears that increased autonomy would undermine central authority. This fear needs to be addressed and mechanisms for maintaining an effective central government included in any element of decentralisation. On the other hand, local government is responsible for delivering many goods and services, and its effectiveness would be enhanced by improving its accountability to its constituents.

The forthcoming law on local governance should increase coordination between local governments and the national government, while seeking to minimise overlap. Furthermore, local governments must be involved with the Aid Coordination Unit and the implementation of the poverty alleviation strategy. While the emphasis on community involvement in the projects of international agency programs is welcome, there needs to be much more imaginative and creative ways to involve local government in those programs and to improve institutions at the local level. There is an inter-agency working group on local government; however, its process is very top down, with little involvement of civic organisations or even of the representatives of local governments themselves.

Little is being done by the UN or other international agencies to support true judiciary reforms in order to increase the independence of the courts. There is a similar lack of attention to law enforcement agencies.There has also been little international support for initiatives to strengthen transparency and accountability in public administration. Few of the major development agencies wish to address corruption. International officials describe the issue as "too sensitive". But without initiatives on corruption, most of the present development initiatives will be wasted. Specific corruption proposals should be brought into the PRSP, backed by public expressions of leadership support. These proposals should move in the direction of systemic change rather than simply target individuals.

Tajikistan adopted a fairly comprehensive law on corruption in 1999 but there is no real mechanism for implementing it. The government, in conjunction with international donors, needs to come up with a serious and realistic plan to start cutting out the most

egregious forms of corruption that block development initiatives. President Rakhmonov has made some progress in dismissing some of the most notorious officials but this does little to change the actual system of corruption.

Corruption needs to be tackled in four areas.

First, *cutting opportunities and motives for rent-seeking*. This means trawling through regulations and getting rid of many areas where government officials have the ability to extract profit from their position. In many cases, this may involve cutting unnecessary regulations such as those that provide so much scope for government interference in private business. It may also mean increasing salaries for key staff to make corruption at least unnecessary to maintain a normal level of living. Integrating ministerial officials into international projects, with commensurate financial benefits, could also help to win support and cut the temptation to misdirect funds. Development of a national action plan on anti-corruption measures, including legislation, which would be in line with OECD standards, would also provide a useful framework for combating corrupt practices.

Secondly, *improving information gathering and provision and monitoring and accountability mechanisms*. The government needs to do a better job of providing information and allow much greater freedom for the media. International agencies should consider an independent fiscal agency that would audit or monitor implementation of donor/IFI projects, including in its purview ministries and local government. Embedding international advisers in particular revenue-generating ministries could also provide some element of deterrence from the most obvious forms of graft, and the development and implementation of more transparent accounting procedures would likewise assist in spotting the more obvious forms of misappropriation of funds.

A stronger willingness by international donors and agencies to address this problem, where necessary in public, would also provide a much-needed deterrent to the most obvious forms of corruption Greater media openness and greater public participation in political life could also raise the potential costs for corrupt officials.

Thirdly, *decreasing the level of discretionary authority of state agents*. Government officials have too much power to decide issues, ranging from land allocation through employment in the civil service to education results, on the basis of patronage or bribery. It is possible to reduce this discretion by developing national recruitment procedures and standards for civil service jobs; national testing of university students by independent commissions; or technical commissions that would allocate land according to strict guidelines rather than local power structures.

Each area will require a different approach and a specific form. Merely putting the title independent in front of a commission will be meaningless: the key is understanding how to balance interests in such organs and protect them from being involved in the patronage and corruption they are supposed to prevent.

Fourthly, *taking steps to end the impunity of those involved in corruption*. This means improving the effectiveness of the justice sector, including police, procuracy and courts. Taking punitive measures against petty corruption, however, should not be seen as the main aim, unless provisions are in place to ensure that doctors, for example, have a reasonable salary. The justice sector must be free to tackle grand corruption, but to do so requires long-term commitment to build up its independence and avoid it being used as a tool against political opponents.

There is plenty of international experience in dealing with corruption but it remains a serious taboo in development discussions in Tajikistan. While there is a correct shift towards more government involvement in development and a greater emphasis on institution-building and good governance, there needs to be a greater willingness among the international community to face up to the corruption issue and take concrete measures, including political measures, to deal with it.

4. Education

A renewed focus on education should be part of any long-term plan. There are already a number of agencies involved. Among IFIs, the World Bank has the lead role, but its expensive projects have largely been too mired in corruption to be effective.[137] Several other international organisations run school

[137] Many of the schools targeted under a program for rehabilitation have reportedly not seen much in the way of renovations. In its new strategy, the World Bank is emphasising increased community involvement in education.

rehabilitation projects, particularly in areas that suffered the brunt of the civil war. The process of choosing schools for rehabilitation is uncoordinated; each organisation involved has different selection criteria. Information-sharing and coordination under the auspices of an independent body would ensure that gaps in projects were closed and reduce duplication, while assisting the Ministry of Education to plan better.

While U.S.$63 million went for food aid under the 2002 UN Inter-agency Consolidated Appeal no contributions were made for a modest U.S.$555,000 UNICEF project on improving access to education. A further request for support in 2003 to provide textbooks, clothes for students, and basic infrastructure such as desks is aimed at the 300 most vulnerable schools in Khatlon Province and the Rasht Valley. Some calls for support remain unmet because donors prefer the immediate impact of food aid to the long-term commitment and fewer short-term results of education and health projects.[138]

The government also needs to weigh in more strongly on education. By setting a quota of female candidates for isolated districts to send to university in Dushanbe, President Rakhmonov has given a positive signal to encourage girls to stay in school and continue on to higher education. Unfortunately, implementation has been sometimes unsuccessful as the heads of local government are responsible for the selections from their districts to meet the quota. Many choose their relatives or friends' daughters or solicit bribes from families, which are as much as U.S.$100 for the most prestigious slots, such as in the law faculty.[139] The low stipend – 2.5 somoni per month – does not begin to meet the needs of students studying in Dushanbe. An international official notes as well that "the quota system reinforces a disadvantageous system of channelling female students into less prestigious areas of study".[140]

There needs to be more than symbolic gestures. A full-scale education rehabilitation plan, put together by the government and international agencies, could win matching donor support if realistic about priorities. It would at least have the benefit of coordinating existing efforts and channelling aid to where it is most needed.

5. Health

The health system should be reoriented towards prevention rather than cure. This would not only provide better healthcare, but also increase efficiency by reducing costs and overlap. Financing is fundamental to any functioning healthcare system. The government is moving towards a more transparent and equitable fee-based system, requiring a constitutional amendment that is expected to be approved in June 2003. There are two caveats: there needs to be sufficient compensation for personnel to avoid corruption continuing on top of standardised fees; and there must be special access and protection for the very poor, based on reliable assessments of need.

A major effort is required to combat diseases such as malaria, TB and HIV/AIDS that are spreading fast. Efforts should focus on public awareness and harm reduction in order to prevent circumstances in which a large-scale outbreak can occur. Measures also need to be taken to provide cleaner water and sanitation in order to reduce the occurrence of poverty-related illnesses.

6. Infrastructure and Trade

Telecommunications and roads should be the focus of infrastructure rehabilitation programs. The reluctance of IFIs to invest significantly in transport and other infrastructure initiatives is understandable, given the corruption and capacity problems in these areas and the difficulties of ensuring long-term maintenance and commercial viability of such projects. But new and restored infrastructure is vital for the country. Major commitments could be offered in exchange for government demonstration of reforms in procurement policies, privatisation of some state agencies, and more local involvement in transport infrastructure.

Investment in these sectors would support trade and commerce while also physically tying the country together – an important state-building exercise. It could also be linked to potential regional trade projects. Economic prosperity can only really come through export and trade, given the size of the country's internal market, and Tajikistan's

[138] ICG interviews, Dushanbe.
[139] ICG interviews, September 2002.
[140] ICG interview, Simone Troller, Gender Officer, OSCE Centre in Dushanbe, March 2003. The OSCE has been implementing a project in the Rasht Valley designed to encourage female students to take advantage of the opportunity and to make the selection system more transparent.

relatively liberal trade regime should be rewarded by investments that would serve its needs in regional infrastructure.

International organisations such as the UN and the Asian Development Bank, as well as the European Union's TACIS program, have been working within the region to rebuild trade and transport links. A UNDP "Silk Route" project regularly brings delegations from the five Central Asian countries, China, Russia and others together to elaborate policies designed to harmonise customs and to facilitate regional cooperation, trade and transport. TACIS also provides assistance in the transport sector through the Europe-Caucasus-Central Asia Transport Corridor (TRACECA), which has similar objectives, aiming to facilitate East-West trade and communications through development of infrastructure (roads, rail lines, telecommunications) and standardisation of tax procedures.

So far all these grandiose schemes have failed to make much headway against the resistance of Uzbekistan and Turkmenistan. Their attitudes to regional trade have made it almost impossible to agree on cross-border procedures, common customs regulations or any other aspect of cooperation. The international community needs to look at trade and infrastructure in a broader way, including Afghanistan, Pakistan and Iran in its vision, as well as China and Russia.

TRACECA should be relaunched without the political restrictions that kept Iran and Russia out of the agreement. For Tajikistan it would be more appropriate to improve links north to Kazakhstan and Russia and south to Afghanistan and Pakistan. If Uzbekistan is not willing to agree to common customs rules, the international community should consider potential routes through Tajikistan and southern Kyrgyzstan, up to Bishkek, Almaty, and onwards to Russia.

This would have the added benefit of improving communications within Tajikistan, with better links to Khujand, and bolstering the fragile Batken region of Kyrgyzstan with new communications and economic possibilities. Southwards, more crossings and roads to Qonduz and Northern Afghanistan would allow Tajiks to take advantage of possible trade with Pakistan. It might not suit U.S. geopolitical thinkers to promote a new highway from Moscow to Kabul, but it would at last give Tajikistan a chance to regain its place on the region's trade routes.

None of this is very technically challenging, despite the terrain, but it would require major financial investment and political commitment. Major infrastructure projects are less fashionable in development circles than community development or micro-credits, but it is the poor who suffer most from bad roads and predatory border guards.

Development of the telecommunications sector (and information technologies) has been recognised as a useful tool for poverty alleviation by the UN and others.[141] Development of the mobile phone industry would be a useful for Tajikistan's telecommunications infrastructure. Covering the country with satellites and antennae may well be more cost effective than installing land lines. Rural community groups could use micro-credit schemes to provide mobile phone services in their areas – once the infrastructure was in place – in projects similar to those financed by the Grameen Bank's Village Phone project in Bangladesh.[142]

7. Drugs

Tackling the drugs trade is critical for development and for political stability. It requires, however, a more complex approach than merely interdiction.

Law enforcement and border protection bodies do have an important role to play, but other areas also need to be addressed. Public awareness and knowledge about the dangers of drug trafficking must be increased: many people in isolated rural areas are simply not aware of the hazards of the narco-business. They are unable to evaluate the costs vs. benefits of quick income. In addition, income-substitution programs need to be implemented in border and transit areas, especially in the southern Khatlon Province. Micro-credit and income-generation schemes also provide useful incentives to replace trafficking activities with legal sources of income. Finally, measures against corruption in state and law enforcement bodies have a double advantage: they improve performance against drugs-traffickers and remove from state structures those who protect the trade or are directly involved.

[141] UN Human Development Report, op. cit.
[142] www.grameen-info.org/grameen/gtelecom/index.html.

B. CHANNELLING AID

There has been much debate among donors on how to channel aid: through government institutions, NGOs or by alternative structures developed in community mobilisation projects. An initial focus on using NGOs has led to concerns about the lack of institutional development and the sustainability of projects. USAID is one of those that has begun to shift from NGO-driven development to capacity-building in government institutions.

Many agencies are also focusing on the establishment of community groups or voluntary organisations, which then determine their priorities for rehabilitation projects and are responsible for their implementation. The community organisations are supposed to be a microcosm of the composition of the village or area, although special efforts need to be taken to ensure the representation of disenfranchised and vulnerable groups. The level of local government participation in such community initiatives varies from organisation to organisation, with UNDP favouring higher participation and the Aga Khan projects preferring less involvement, for example.

Much assistance from humanitarian NGOs is given at the local level and frequently without the direct involvement of local governments.[143] Many institutions have simply been too weak to absorb the input from large assistance organisations, and fears of government corruption prompted many agencies to bypass government where possible. However, as Tajikistan moves into a development environment, government should become increasingly involved in the delivery of services to the public. Not involving local governments directly over a sustained period can only weaken capacity development and institutional building in the communities receiving the assistance.

Without partnerships between international organisations and local government, the exchange of information and transfer of know-how that is necessary for long-term sustainability does not take place. At a higher level, circumventing the authorities relieves local government of its responsibilities towards the population and reduces pressure on it to respond to needs. It is often easier for international agencies to work directly with the population or through amenable NGOs, but it is also critical to think about how these are going to survive once project funds end or international involvement decreases.

Aid must also be channelled into communities in ways that do not exacerbate existing tensions. Sudden influxes of monetary assistance can actually aggravate the sources of tension rather than mitigate them. Because access to credit or other financial inputs is a desired commodity, local networks can use it to gain influence. Criteria for the establishment of local initiative groups should also incorporate this factor in order to ensure that access to resources is equitable.

It is mainly up to the government to respond to the concerns of international agencies over corruption and ineffectiveness. President Rakhmonov has attempted to take some steps to counter these ills. There are clearly political constraints on the president, given the complex nature of the political system and the extent to which the post-civil war settlement involved compromises over access to resources, but a stronger policy with regard to government corruption in internationally-funded programs at least seems politically possible. However, IFIs also have to re-examine their own monitoring and compliance procedures and develop a better understanding of the interests involved in the political system.

Despite the problems, there is an understanding among most in the development community that improved cooperation with government structures is important, not only to permit development work to proceed, but also as part of development itself.

[143] While most organisations first obtain the consent of the head of the *hukumat*, and some officials may participate in the decision-making processes, the end result is still that the international NGO is building the bridge or rehabilitating the school, for example, rather than the local government providing for the needs of the community.

V. CONCLUSION

Equitable economic growth in Tajikistan rests primarily on two key factors: increasing productivity in agriculture and freeing up and supporting the private sector to allow SMEs and light manufacturing to develop. Underpinning these sectors are reforms aimed at restructuring the economy and restructuring and rehabilitating the country's infrastructure, as well as strengthening rule of law and tackling corruption through good governance practices. Rehabilitation of the social sector – particularly healthcare and education – is essential to ensure a healthy population that can contribute to long-term growth.

Constraints on this process include Tajikistan's large shadow economy, corruption, migration and drugs trafficking. Reforms and international assistance should address all these obstacles and also seek to enhance both public and private ownership of the development process.

Support to the educational sector – for both reforms and rehabilitation of infrastructure – should be a funding priority of the international community as should healthcare reform and access of vulnerable populations to a new system of paid healthcare.

Drug trafficking and labour migration will decrease in part when there are increased economic opportunities and an accountable and responsible state infrastructure. Thus, capacity- and institution-building components should be factored into all programs in order to increase accountability, transparency and responsibility, as well as to provide mechanisms for citizens to have access to – and participate in – the decision-making processes that affect their lives and well-being.

The international community should also devote greater resources and more political will to improvements in governance, including political inclusion; rule of law and human rights; access to information; more responsive and efficient local government; and more efficient and less corrupt public services.

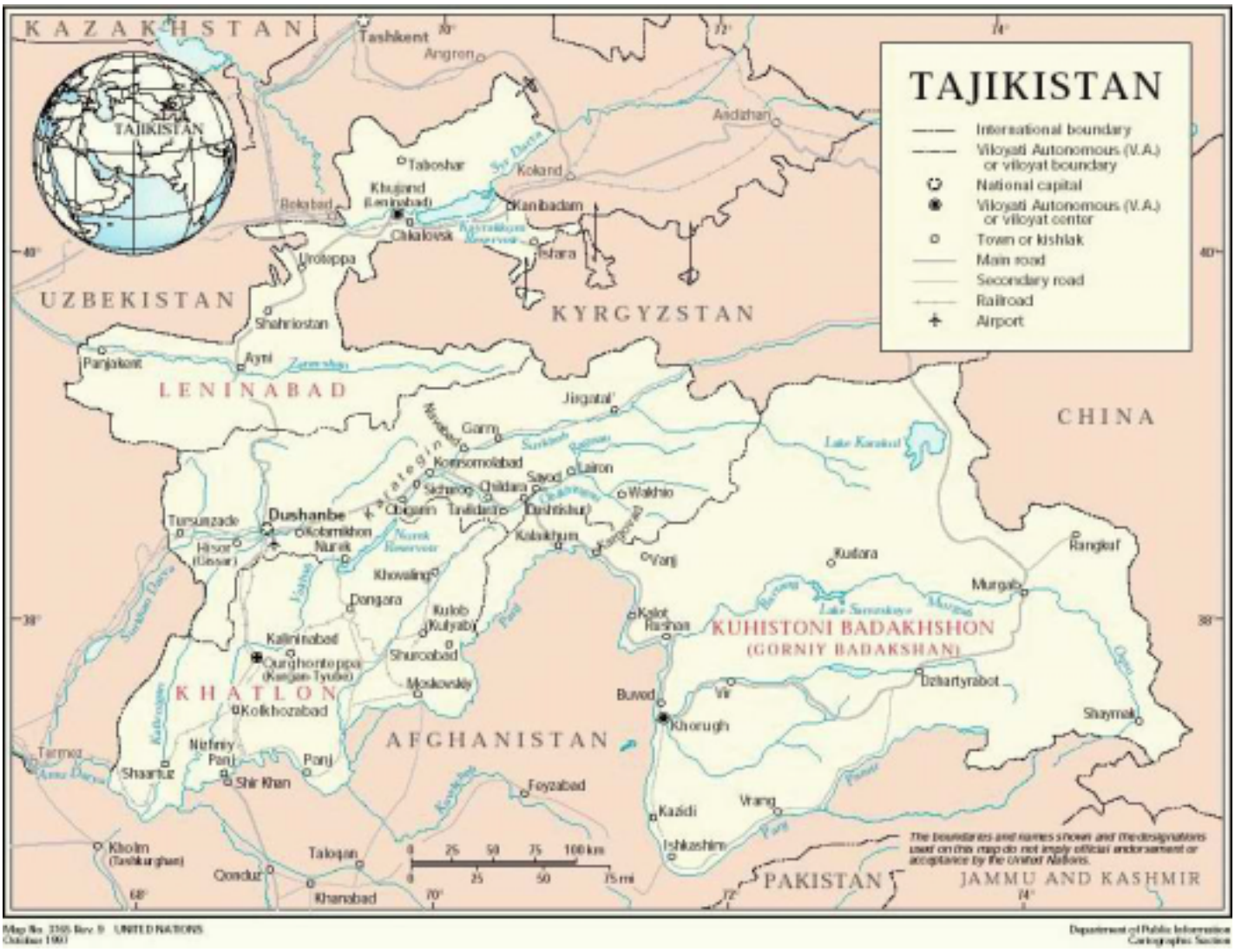
Cynical voices in the development community suggest that things will only get worse in Tajikistan, that the government's commitment to change is not sufficient to absorb outside aid, and that high levels of corruption simply cannot be tackled. But there are plenty of people within the administration who do appreciate the need for different approaches, and many of the problems are at least partly the responsibility of an international community that has played down issues of corruption or political malpractice, preferring to maintain their agency's profile and avoid bad publicity. An opportune moment to reverse some of these trends would be the May 2003 World Bank Consultative Group meeting in Dushanbe.

There needs to be a more open dialogue, not least among the international agencies that often are slow to criticise the government in public and fail to understand the political context in which they work. Change in the end depends on the government pushing through much needed reforms but the international community has a bigger role to play, not just as donor and service provider, but also in encouraging political change that will enable development to become sustainable and underpin the growth of a stable economy and state.

Osh/Brussels, 24 April 2003

APPENDIX A

MAP OF TAJIKISTAN



APPENDIX B

GLOSSARY OF ACRONYMS

ADB	Asian Development Bank
CIS	Commonwealth of Independent States
DCA	Drug Control Agency
EBRD	European Bank for Reconstruction and Development
GDP	Gross Domestic Product
IFI	International Financial Institution
IMF	International Monetary Fund
IRP	Islamic Renaissance Party
LARC	Legal Assistance to Rural Communities
MVD	Interior Ministry (*Ministertsvo vnutrenykh del*)
NGO	Non-Governmental Organisation
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
OSCE	Organisation for Security and Cooperation in Europe
PRSP	Poverty Reduction Strategy Paper
SDPT	Social Democratic Party of Tajikistan
SME	Small and Medium Enterprise
SSA	State Statistical Agency
TACIS	Technical Assistance for the Commonwealth of Independent States
TB	Tuberculosis
TRACECA	Europe – Caucasus - Central Asia Transport Corridor
UN	United Nations
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
UTO	United Tajik Opposition

APPENDIX C

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 90 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, *www.crisisweb.org*. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

ICG's international headquarters are in Brussels, with advocacy offices in Washington DC, New York and Paris and a media liaison office in London. The organisation currently operates eleven field offices (in Amman, Belgrade, Bogota, Islamabad, Jakarta, Nairobi, Osh, Pristina, Sarajevo, Sierra Leone and Skopje) with analysts working in over 30 crisis-affected countries and territories across four continents.

In *Africa*, those countries include Burundi, Rwanda, the Democratic Republic of Congo, Sierra Leone-Liberia-Guinea, Somalia, Sudan and Zimbabwe; in *Asia*, Indonesia, Myanmar, Kyrgyzstan, Tajikistan, Uzbekistan, Pakistan, Afghanistan and Kashmir; in *Europe*, Albania, Bosnia, Kosovo, Macedonia, Montenegro and Serbia; in the *Middle East*, the whole region from North Africa to Iran; and in *Latin America*, Colombia.

ICG raises funds from governments, charitable foundations, companies and individual donors. The following governments currently provide funding: Australia, Austria, Canada, Denmark, Finland, France, Germany, Ireland, Japan, Luxembourg, The Netherlands, Norway, Sweden, Switzerland, the Republic of China (Taiwan), Turkey, the United Kingdom and the United States.

Foundation and private sector donors include The Atlantic Philanthropies, Carnegie Corporation of New York, Ford Foundation, Bill & Melinda Gates Foundation, William & Flora Hewlett Foundation, The Henry Luce Foundation, Inc., John D. & Catherine T. MacArthur Foundation, The John Merck Fund, Charles Stewart Mott Foundation, Open Society Institute, Ploughshares Fund, The Ruben & Elisabeth Rausing Trust, the Sasakawa Peace Foundation, the Sarlo Foundation of the Jewish Community Endowment Fund and the United States Institute of Peace.

April 2003

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* The Algeria project was transferred from the Africa Program in January 2002.

APPENDIX E

ICG BOARD MEMBERS