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## Rethinking development finance in Tajikistan: Towards more sustainable and inclusive fiscal pathways

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# Rethinking development finance in Tajikistan

Towards more sustainable and inclusive  
fiscal pathways

Jovid Ikromi\*

May 2025

**Abstract:** This paper rethinks development finance in Tajikistan through the lens of fiscal sociology, arguing that sustained reliance on foreign aid and external borrowing may weaken state-society trust and erode institutional legitimacy. Anchored in the political economy of development finance, the paper explores how alternative financing strategies, such as tax reform, diaspora bonds, thematic bonds, and blended finance, interact with domestic institutions, investor confidence, and citizen perceptions of fiscal fairness. While external flows have financed essential infrastructure and social programmes, they have also limited incentives for domestic resource mobilization and weakened public accountability. Issues of debt sustainability increasingly constrain long-term planning, while climate finance is emerging as both a challenge and an opportunity for diversifying development funding. Drawing on policy analysis and secondary data, the paper shows that financial instruments succeed not only through technical design but through their ability to reinforce the fiscal social contract. Tajikistan's case illustrates that without improvements in governance, transparency, and citizen engagement, even well-structured innovations in development finance may fail to gain traction. The findings offer practical insights for low-income countries seeking to reduce aid dependency while building more credible and inclusive systems of public finance.

**Key words:** Tajikistan, development finance, debt sustainability, domestic resource mobilization, climate finance

**JEL classification:** F34, F35, H63, O19

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# 1 Introduction

Tajikistan's economy remains heavily dependent on external financing, both foreign aid and external debt, which has been a double-edged sword. These inflows have been crucial to fund development and recovery, yet they also create significant vulnerabilities. Recent declines in public debt have provided some breathing space, but underlying fragilities persist given looming Eurobond repayments and a debt profile dominated by external creditors (notably China). Meanwhile, sustained reliance on foreign aid continues to expose Tajikistan's fiscal planning to the volatility of shifting donor priorities and geopolitical realignments. This dependence constrains long-term budgetary autonomy and weakens the predictability of development financing. To strengthen fiscal sovereignty and enhance resilience, Tajikistan must rethink its financing architecture and reduce its structural exposure to external flows.

This paper asks a simple but underexplored question: what does it take for low-income, aid-dependent countries such as Tajikistan to transition from external dependency to sovereign, inclusive finance systems? Despite extensive donor involvement, little attention has been paid to how financing structures affect institutional legitimacy and the fiscal social contract in low-income, aid-dependent contexts.

Adopting a fiscal sociology lens, the paper investigates how governance, trust, and public accountability shape the outcomes of different financing approaches. It explores several promising but underutilized avenues: boosting domestic resource mobilization (DRM) through tax and expenditure reform; channelling remittance flows into productive use via diaspora finance; issuing thematic bonds to align development finance with climate and Sustainable Development Goal (SDG) priorities; and using blended finance mechanisms to catalyse private investment. The central aim is to examine whether a more diversified, accountable, and sovereign financing strategy is possible and what institutional changes would be required to make it viable in Tajikistan's context.

Importantly, these financing reforms are closely tied to Tajikistan's commitments under the SDGs and climate agendas. Tajikistan's latest SDG progress assessments show a mixed picture: there have been significant gains in reducing poverty and improving access to clean water and energy (Goals 1, 6, and 7), but SDGs that are unlikely to be achieved by 2030 include zero hunger, gender equality, decent work, infrastructure, sustainable cities, life on land, and strong institutions (UNSDG 2022). The country remains the poorest in Central Asia, and one in four people is vulnerable to multidimensional poverty (UNSDG 2022). At the same time, climate change (Goal 13) poses escalating risks: glacial melt, floods, and droughts threaten agricultural productivity and livelihoods (UNSDG 2022). Tajikistan's Nationally Determined Contribution under the Paris Agreement will require an estimated 7% of gross domestic product (GDP) per year in financing to implement planned climate actions. This underscores the urgency of mobilizing new resources and aligning them with SDG and climate priorities. In short, rethinking development finance is not only a fiscal imperative but a development necessity to meet national goals by 2030.

Ultimately, development finance is not just about resource flows but about rebuilding fiscal legitimacy and trust in weak states. By integrating financial strategy with governance considerations, it seeks to chart a more sustainable and inclusive fiscal pathway for the country, in line with its development vision and global commitments.

## **2 Theoretical framing: fiscal sociology and the political economy of development finance**

Fiscal sociology provides the guiding lens for this paper, linking financial policies with the social and institutional fabric of the state. Rather than treating public finance as a technical process, the paper adopts a fiscal sociology perspective that sees taxation and borrowing as political acts that shape and reflect the state-society bargain. It posits that revenue collection is not just a technical exercise but fundamentally shapes state-building, governance quality, and the social contract between citizens and the state. One strand of this literature argues that taxation can foster state-building by creating a bargaining relationship between government and citizens and by driving the development of capable institutions for revenue collection. Put simply, when people pay taxes, they are empowered to demand accountability for how funds are used, which pressures governments to be more transparent and effective (Prichard 2022). Conversely, if a state relies heavily on external rents such as foreign aid or resource windfalls (instead of domestic taxes), it may weaken this accountability loop. In the absence of a taxpayer-government ‘bargain’, leaders have less incentive to be responsive or efficient, a dynamic described by some as an aid-related erosion of the fiscal social contract (Prichard 2022).

Applying this perspective to Tajikistan sheds light on the country’s development finance challenges. In the post-independence context, institutional weaknesses and governance deficits have long hindered the emergence of robust state-citizen trust. Decades of reliance on external aid and concessional lending may have inadvertently delayed the development of domestic fiscal capacity and civic engagement. When a significant portion of the national budget is underwritten by donors or creditors, the government’s incentive to broaden the tax base or strengthen accountability to domestic taxpayers diminishes. From a fiscal sociology perspective, enhancing DRM is not solely a matter of increasing revenue; it is also a pathway to rebuilding state legitimacy and deepening the reciprocal expectations between citizens and the state.

Taxpayer compliance tends to improve when citizens see their contributions translating into tangible public benefits and when rules are enforced fairly (IMF 2011). This perspective also highlights the political economy of development finance, how corruption or elite capture can undermine tax systems, and how public perceptions of inequality and government honesty influence willingness to invest in government bonds or diaspora initiatives. In the sections that follow, this lens is applied to each financing strategy. Yet such policy instruments—whether tax reforms, diaspora bonds, or climate-aligned funds—can only yield sustained impact if anchored in stronger institutions, more transparent governance, and renewed trust between the state and society. Issues such as domestic tax compliance and diaspora investment appetite are fundamentally linked to credibility, transparency, and social contract. A fiscal sociology approach ensures that our rethinking of development finance keeps sight of these deeper social foundations as we evaluate each option.

Experiences from other countries reinforce these theoretical insights. In several post-Soviet states, tax compliance trajectories have closely mirrored broader patterns of governance quality. Poland and the Baltic states, for instance, succeeded in building relatively effective tax systems by the early 2000s, while Ukraine and others lagged behind, a divergence that scholars often attribute to differences in institutional trust and state capacity (Berenson 2018). Georgia offers a particularly illustrative case: following sweeping tax administration reforms in the mid-2000s, including digitization and anti-corruption measures, the tax base expanded significantly, and the tax-to-GDP ratio doubled

to approximately 25% by 2008 (IMF 2009). This enabled Georgia to reduce its dependency on external aid and borrowing by strengthening its domestic revenue foundation.

In contrast, many low-income countries in the Global South reveal the fragility of the fiscal social contract. Nigeria, despite its oil wealth, has long exhibited low levels of non-oil taxation as a share of GDP, a pattern rooted in deep public distrust and a political elite accustomed to relying on external rents rather than domestic revenue, exemplifying the ‘resource curse’ (Moore 2015; OECD 2020). Conversely, countries such as Rwanda and Ghana have shown that improvements in tax morale are possible when governments invest visibly in public services and enforce anti-corruption reforms (CMI 2021). In these contexts, citizens begin to perceive taxes as contributions to public good rather than arbitrary extractions. These contrasting cases underscore a broader principle: where states build trust through accountability and service delivery, they unlock stronger revenue systems and greater financing sovereignty; where they fail to do so, fiscal fragility and external dependency persist (Brautigam 2008; Prichard et al. 2018).

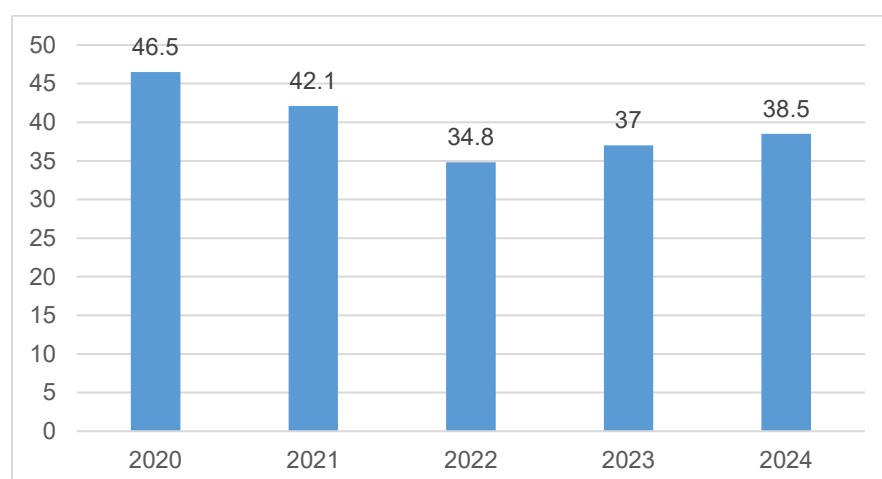
Finally, a core lesson from fiscal sociology is that political context matters. The ability to implement fiscal reforms depends on power structures and incentives. Tajikistan, like many aid-dependent states, faces not just technical hurdles but also political economy constraints. As later sections will discuss, entrenched interests and patronage networks can resist change that threatens their privileges, whether it be a new tax enforcement effort or greater transparency in public finance. Any strategy to diversify development finance must therefore contend with the realities of who controls the state and how responsive they are to public demands. This paper returns to these constraints in the analysis and conclusion, recognizing that fiscal innovation without political will is unlikely to succeed.

## **3 Tajikistan’s debt and aid challenges in context**

### **3.1 Debt sustainability concerns**

Tajikistan’s public debt dynamics illustrate both recent progress and remaining fragility. Public debt declined from about 46.5% of GDP in 2020 to roughly 34.8% in 2022 (World Bank 2023b), thanks to robust GDP growth and a strengthening of the national currency (somon) during that period. Figure 1 reveals that while official development assistance (ODA) to Tajikistan has fluctuated over time, the share of concessional versus non-concessional flows has shifted, with implications for long-term debt sustainability and fiscal autonomy.

**Figure 1: Tajikistan's public debt declined notably between 2020 and 2022 but remains vulnerable to external shocks**



Source: author's illustration based on data from IMF (2024).

This reduction in the debt-to-GDP ratio is a welcome development that has eased immediate debt pressures. However, the improvement may prove temporary without prudent fiscal management. The country's debt includes a mix of multilateral concessional loans (from institutions such as the World Bank's International Development Association (IDA) and the Asian Development Bank (ADB)), bilateral loans (increasingly from China), and a US\$500 million Eurobond issued in 2017 to finance the Rogun hydropower project. The Eurobond marked Tajikistan's first foray into international capital markets and carries a bullet repayment due in 2027, which will sharply increase debt service obligations in that year.

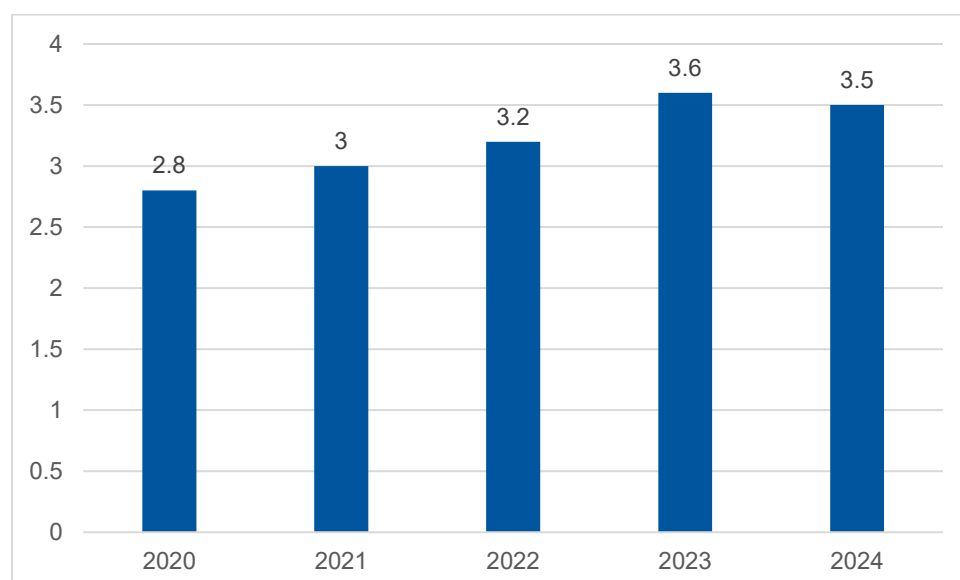
Indeed, according to World Bank assessments, the impending Eurobond repayment in 2025–27 contributes to Tajikistan's status as a high-risk country for debt distress (World Bank 2023b). The government has begun allocating funds to a sinking fund in preparation for this lump-sum repayment. While overall debt levels are moderate by low-income country standards, the composition of the debt raises significant risks. About 90% of public debt is external and mostly foreign-currency denominated (World Bank 2023b), exposing the budget to exchange rate volatility. The largest single creditor is China, which holds roughly one third of Tajikistan's external public debt (IMF and IDA 2024). Chinese infrastructure loans, often tied to Belt and Road projects, come on less concessional terms than multilateral loans and have accumulated rapidly. For example, out of about US\$3.3 billion in external public debt as of 2022, approximately US\$2 billion (60%) was owed to China's Export-Import Bank and other Chinese lenders (Dzamukashvili 2022). This concentration heightens concerns about debt-servicing crowding out other spending, as well as potential political leverage arising from a dominant creditor.

Tajikistan's own authorities acknowledge the limited fiscal space and the need for disciplined borrowing. The Ministry of Finance's medium-term debt strategy commits to a zero non-concessional borrowing policy and prioritizes grants and soft loans for any new financing (World Bank 2022b). Still, even concessional debt adds to the burden. During the COVID-19 shock in 2020, Tajikistan's public debt jumped as the government borrowed externally to finance stimulus measures and support households (World Bank 2023b). Although rapid post-pandemic growth helped bring the debt ratio back down, the underlying vulnerabilities remain. Any external shock, such as an export disruption, sharp currency depreciation, or the materialization of contingent liabilities (e.g., state-owned

enterprise debts), could push debt back onto an unsustainable path. High debt-servicing costs already constrain development spending, as funds must be diverted to interest and repayments.

A major ongoing fiscal pressure is the Rogun hydropower project, the largest infrastructure project in Tajikistan's history. In 2023, the government allocated around 7% of GDP to public capital expenditure, and more than half of that (over 3.5% of GDP) was devoted to Rogun alone (Figure 2). This implies that over 50% of the development budget was absorbed by this single project. The International Monetary Fund (IMF 2023) has warned that this concentration 'crowds out' other critical investments in health, education, and local infrastructure, and it recommends a more gradual investment pace to avoid excessive fiscal stress. While Rogun is strategically important for energy security and long-term growth, its dominant claim on resources underscores the trade-offs in an aid- and debt-dependent fiscal model.

**Figure 2: Investment in the Rogun project has consumed a large portion of Tajikistan's public investment budget, raising concerns about fiscal space for other priorities**

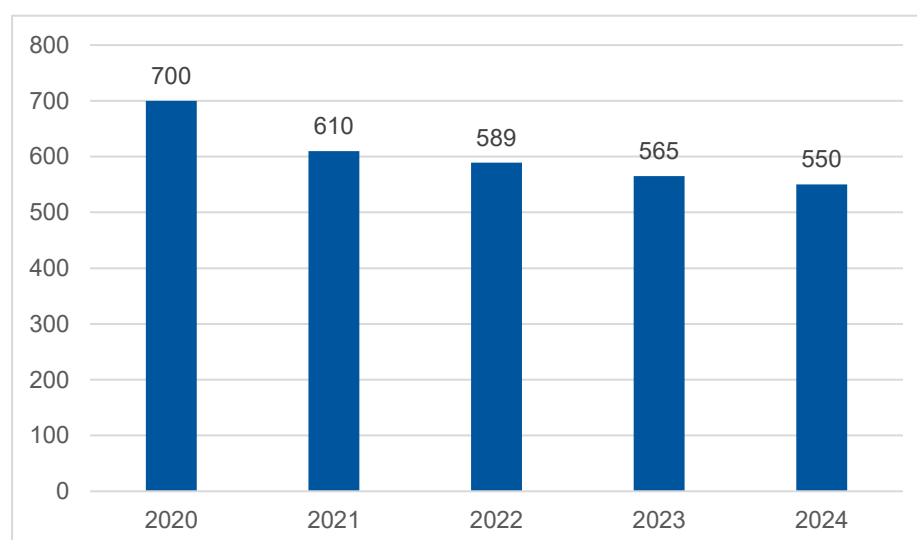


Source: author's illustration based on data from World Bank (2024a).

## 3.2 Aid dependency and fiscal imbalances

Debt sustainability is not Tajikistan's only pressing fiscal challenge. The country has also grown heavily reliant on foreign aid, introducing a distinct set of vulnerabilities and trade-offs. Following the end of civil conflict in the 1990s, Tajikistan emerged as one of the poorest countries in Central Asia, drawing significant donor support for reconstruction and basic service delivery. This external assistance played a critical role in stabilizing the country and rebuilding key institutions. Even today, ODA remains a substantial supplement to the national budget. As illustrated in Figure 3, Tajikistan received approximately US\$550 million in net ODA disbursements in 2024 (World Bank 2022c), with preliminary estimates indicating a slightly lower figure of around US\$550 million in 2024 (World Bank 2024b). While this figure may seem modest in absolute terms, it accounts for around 4% of gross national income, and in certain years aid has financed a disproportionately large share of public investment.

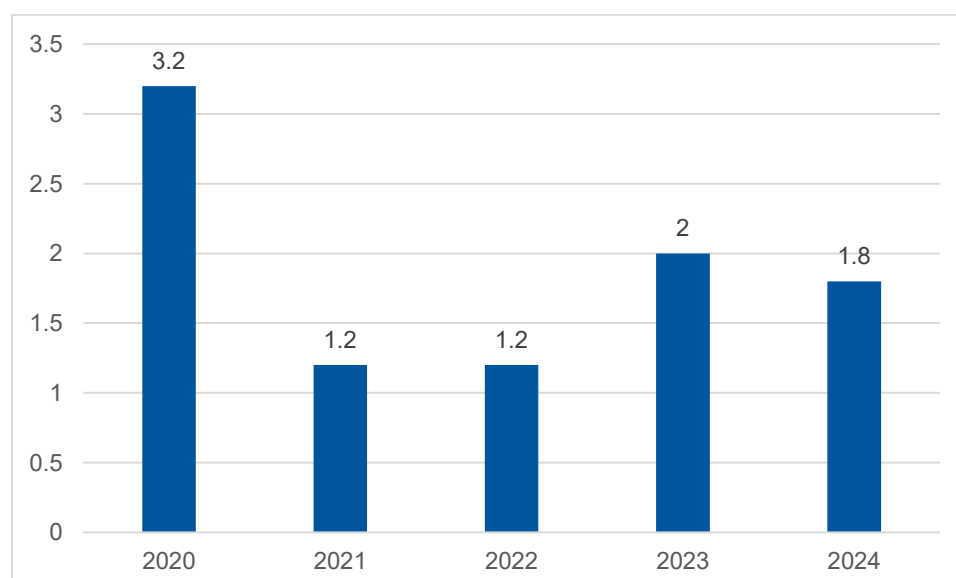
**Figure 3: Tajikistan's reliance on foreign aid remains significant, highlighting fiscal vulnerability to donor priorities**



Source: author's illustration based on data from IMF (2024).

During the pandemic and its aftermath, development partner grants were instrumental in cushioning Tajikistan's fiscal deficits. Increased grant inflows in 2021–22, alongside higher non-tax revenues (such as profit transfers from the central bank and state enterprises), helped narrow the government's overall fiscal deficit from over 3% of GDP in 2020 to around 1.2% by 2022 (World Bank 2023b). By 2024, the deficit was about 1.8% of GDP, indicating a slight widening as some one-off revenues subsided. Figure 4 underlines how dependent the recent fiscal improvements were on external support and non-recurring income sources. In other words, Tajikistan's fiscal health in those years was propped up by donors and atypical revenue injections, rather than a structurally balanced budget.

**Figure 4: Tajikistan's narrowing fiscal deficit demonstrates reliance on donor inflows and non-tax revenues during the post-pandemic recovery**



Source: author's illustration based on data from IMF (2024).

Heavy reliance on aid also carries significant downsides. Aid flows are often unpredictable and vulnerable to shifts in donor priorities. For instance, Tajikistan's aid receipts peaked at over US\$700 million in 2020 as international donors mobilized funds to address the COVID-19 crisis, but declined in the following years (World Bank 2022c). A sudden reduction or reallocation of aid, whether due to geopolitical changes, global crises, or strategic donor reprioritization, can leave critical development programmes underfunded. In recent years, some traditional donors have scaled back governance-related assistance, citing growing concerns over political stagnation and weak institutional reforms (Bertelsmann Stiftung 2024). At the same time, an increasing share of development finance now comes from non-traditional sources, including Chinese-funded infrastructure projects that often blend concessional loans with small grant components. While diversification in donor partnerships may reduce reliance on any single source, it also introduces new uncertainties related to financing terms, conditionalities, and strategic alignment with national development priorities.

Another consequence of prolonged aid dependency is the potential erosion of incentives for DRM. When line ministries and agencies become accustomed to donor-funded projects plugging fiscal gaps, the impetus to pursue politically sensitive tax reforms or improve local revenue systems may weaken. Moreover, aid can introduce fragmentation into planning and undermine policy coherence. Government institutions may begin to prioritize donor-driven initiatives over nationally defined strategies, resulting in parallel systems of accountability. Why risk the political costs of tax hikes when foreign aid can cover the shortfall (Moss and Subramanian 2005)? Over time, sustained aid inflows can crowd out efforts to build a credible, autonomous, and accountable public finance system, precisely the type of distortion that fiscal sociology warns against.

Recognizing these challenges, Tajikistan's National Development Strategy for 2016–30 explicitly calls for a gradual reduction in aid dependency through domestic economic expansion and improved revenue mobilization (Government of Tajikistan 2016). Nevertheless, in the short to medium term, many of the country's development objectives, ranging from poverty reduction to infrastructure investment, face financing gaps that domestic resources alone cannot fill. Tajikistan's public investment levels remain among the highest in the world relative to GDP, largely driven by strategic capital-intensive projects such as hydropower dams and transport corridors (World Bank 2023b). These initiatives have been made possible primarily through external borrowing and donor contributions. As concessional finance from multilateral institutions such as the ADB and World Bank begins to plateau, due in part to Tajikistan's gradual transition away from lowest-income classification, the country faces a stark choice: either assume more expensive debt or curtail critical development spending (ADB 2022). While foreign aid has served as a vital lifeline for decades, it cannot serve as a stable or sustainable foundation for long-term development. Overreliance on external assistance leaves Tajikistan exposed to geopolitical fluctuations and donor fatigue, thereby reinforcing a cycle of financial dependency. Breaking this cycle will require significant efforts to strengthen domestic capacities for both revenue generation and innovative financing, a theme explored in the following section.

## **4 Alternative financing mechanisms for development**

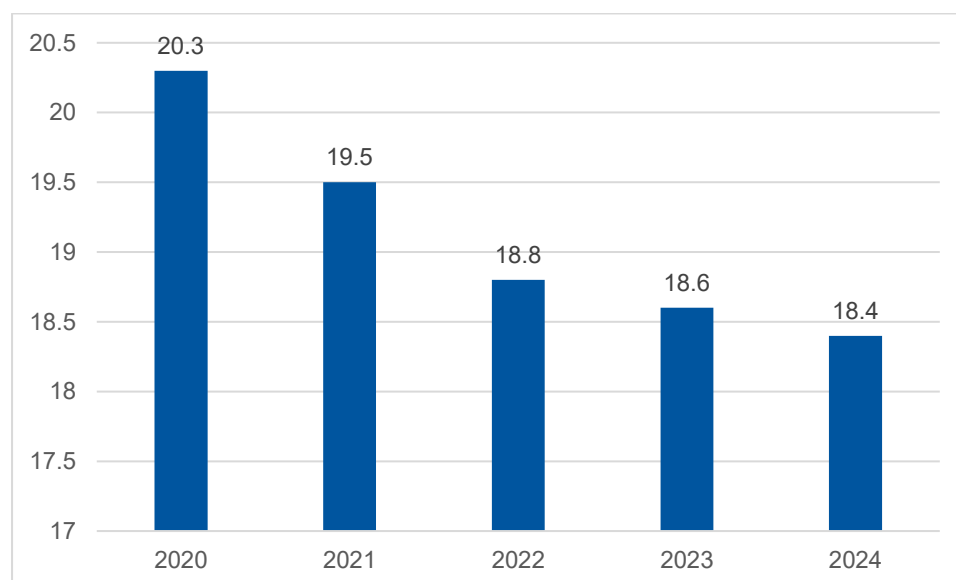
To move beyond chronic debt exposure and sustained aid dependence, Tajikistan must diversify its development finance toolkit. This section explores several alternative mechanisms with the potential to unlock new resources: strengthening DRM, leveraging remittances and diaspora capital, issuing

climate and SDG-linked bonds, and expanding blended finance approaches. Each of these instruments is examined through the lens of Tajikistan’s institutional and economic context, with comparative insights drawn from international experiences and a realistic appraisal of implementation barriers. The overarching objective is to shift away from an overreliance on public borrowing and donor transfers by activating underutilized domestic savings, attracting private investment, and deploying innovative financial instruments that align with long-term development goals.

## 4.1 DRM: beyond the numbers

The foundation of any country’s development finance is its ability to generate resources domestically, chiefly through taxation and prudent financial management. For Tajikistan, improving DRM is a critical pillar of reducing dependency. Tajikistan’s tax revenues as a share of GDP have historically been relatively high compared with peers—around 20% of GDP in the late 2010s—thanks in part to a centralized tax administration and significant taxes on goods and trade (World Bank 2023b). However, a recent overhaul of the tax system has introduced both challenges and opportunities. A new tax code implemented in 2022 aimed to simplify the tax structure, reduce rates, and encourage business activity. While these reforms should foster private-sector growth in the long run, they initially led to a drop in tax collection. Tax revenues fell by an estimated 1.5 percentage points of GDP (relative to pre-pandemic levels) after the new code took effect, dropping to about 18.4% of GDP in 2024 (IMF 2024), as illustrated by Figure 5.

**Figure 5: Tax reforms led to an initial decline in Tajikistan’s revenue collection, signalling trade-offs in policy implementation**



Source: author’s illustration based on IMF (2024).

This dip underscores a short-term trade-off between easing the tax burden and mobilizing revenue. To strengthen DRM over time, Tajikistan will need to focus on widening the tax base and improving compliance, rather than simply raising tax rates (IMF 2022). There is significant room to enhance tax administration efficiency, for example, through digitization of tax filing, better auditing to reduce evasion, and bringing more of the informal economy into the tax net (OECD 2023). Combating tax avoidance and corruption is also paramount. Currently, businesses face uneven enforcement of tax

rules, which can incentivize evasion or informal arrangements (ADB 2023). The new tax code, if paired with strong implementation, could help by clarifying rules and making compliance easier, thereby encouraging more firms to enter the formal system and pay taxes. Excessive bureaucratic hurdles have historically hindered the business climate and thus tax compliance. Burdensome inspections and arbitrary tax assessments bred resentment and informality (World Bank 2022b). Ongoing reforms to streamline business regulations, such as simplifying business registration and licensing, should complement tax policy changes by reducing the scope for petty corruption and harassment (IMF 2022b).

Ultimately, fostering a culture of tax compliance in Tajikistan will require a careful balance of incentives and enforcement. On one hand, the government can build trust and cooperation by improving taxpayer services, simplifying compliance procedures, and offering transitional measures such as amnesties or incentives for informal firms to register and formalize. On the other hand, credible enforcement, particularly targeting large-scale evasion and systemic corruption, is essential to signal fairness and deter free-riding. Yet such reforms demand political resolve. Some of the most impactful DRM measures, such as eliminating discretionary tax exemptions or pursuing high-profile tax evaders, may threaten entrenched interests that benefit from the current system. In such cases, high-level commitment, strategic communication, and public transparency become crucial tools for overcoming resistance.

Georgia's experience remains instructive in this regard. Between 2004 and 2011, the government paired tax code simplification with an aggressive anti-corruption campaign in revenue administration, resulting in average revenue gains of 2.5% of GDP annually (IMF 2012). Importantly, these gains were not only technical but also political: the reforms were backed by strong executive authority and a well-communicated vision of the public benefits, which helped defuse opposition from vested interests. In Tajikistan, where executive authority is highly centralized, reform implementation can occur swiftly, if leadership chooses to prioritize it. However, the risk remains that deeply embedded patronage networks and elite capture could subvert enforcement. As such, strengthening DRM is not only a question of tax policy design but fundamentally a governance challenge.

Underneath all these efforts is the need to bolster trust between citizens and the state. Tax morale, the willingness of people to pay taxes voluntarily, increases when taxpayers perceive that the system is fair and that public money is well spent. As the IMF (2022: 15) notes, 'greater transparency can ensure that each somoni of domestic revenue delivers more development impact'. Demonstrating to citizens that their tax contributions lead to visible improvements (better roads, hospitals, schools) can create a virtuous cycle of compliance. Conversely, if businesses and individuals suspect their taxes are wasted or embezzled, voluntary compliance will remain low, necessitating costly enforcement. Therefore, measures to improve budget transparency, strengthen auditing of public expenditures, and fight corruption are integral to DRM success. In Tajikistan, publishing easy-to-understand reports on how tax revenues are used, engaging civil society in budget-monitoring, and openly prosecuting cases of graft could go a long way in enhancing credibility. These governance reforms, though politically sensitive, are investments in the 'fiscal social contract' that underpins sustainable development finance.

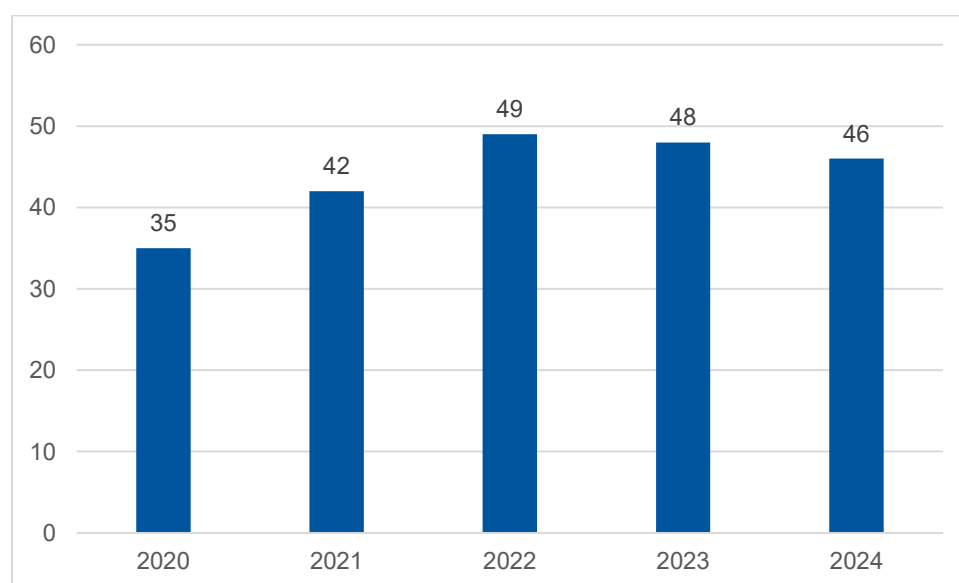
Strengthening DRM remains a central component of Tajikistan's path towards more sustainable and sovereign development financing. While recent tax reforms have faced implementation hurdles and revenue dips, they also reveal where institutional and administrative upgrades are most urgently needed. A more targeted approach, grounded in local fiscal realities and learning from regional peers, offers the best prospect for expanding the revenue base without undermining public trust. For

Tajikistan, the question is no longer whether to reduce reliance on external funds, but how to do so while reinforcing credibility and long-term state capacity.

## 4.2 Leveraging remittances and diaspora investment

One of Tajikistan's most striking economic features is the enormous inflow of remittances from citizens working abroad. Remittances have become the country's largest source of foreign exchange and serve as an informal safety net for many households. Tajikistan consistently ranks among the world's top remittance-dependent nations (Bertelsmann Stiftung 2024). In 2022, remittance receipts surged to about US\$5.2 billion, and even with some normalization, 2024 inflows are estimated at around US\$3.4 billion (World Bank 2023b). To put this in perspective, remittances in 2024 equated to roughly 46% of Tajikistan's GDP (Figure 6), the highest share of any country globally (World Bank 2023a). This reliance exceeds even other high-remittance economies such as Tonga or neighbouring Kyrgyzstan. Migrant labour (primarily in Russia, but also in other countries) has become a cornerstone of Tajikistan's economy and social structure.

**Figure 6: Remittances represent nearly half of Tajikistan's GDP, underscoring potential for leveraging these inflows for productive investment**



Source: author's illustration based on data from World Bank (2023a).

The challenge is that the bulk of these remittances currently goes into consumption rather than investment. They are predominantly used by families to meet basic household needs, food, clothing, housing, and small durable goods, with relatively little channelled into business ventures or public development projects. This means a vast stream of private capital is not being harnessed for broader economic development. There is thus untapped potential to leverage remittances for investment, essentially converting a share of this private income flow into capital for national development. One promising mechanism to achieve this is through diaspora bonds or similar instruments targeted at expatriate Tajik citizens and people of Tajik origin abroad.

Diaspora bonds, when backed by strong governance and attractive returns, have helped countries such as India and Israel raise billions directly from overseas citizens (Schneidman et al. 2022).

Others, such as Nigeria and Bangladesh, faced limited uptake due to low yields, credibility gaps, and weak investor confidence (Financial Express 2024). In short, a credible narrative alone is not enough. Diaspora bonds must also meet the financial expectations and risk assessments of migrant investors. These contrasting outcomes offer lessons for Tajikistan, where the structure of the diaspora presents both opportunities and constraints.

In Tajikistan, whose diaspora is largely composed of low- to middle-income migrant workers concentrated in Russia, the potential for large-scale diaspora bond issuance is structurally limited. Still, a well-targeted, modestly sized 'RemitLand bond' could serve as a complementary financing tool, especially if it is designed with diaspora realities in mind. For example, offering Islamic-compliant options and flexible entry points, and directing proceeds to tangible projects such as hospitals or rural electrification, could generate appeal. These examples point to one lesson: without safeguards and competitive terms, diaspora bonds will fail. This trust deficit remains a critical barrier: surveys and anecdotal evidence suggest that Tajik migrant investors are wary of opaque financial governance and have limited access to user-friendly platforms. Without strong guarantees, independent monitoring, and credible project pipelines, even the most emotionally resonant bond campaign is unlikely to mobilize significant capital.

To further bolster credibility, the government could collaborate with reputable international financial institutions. Involving entities such as the World Bank or ADB as guarantors or technical partners would assure potential investors that professional safeguards are in place. These lessons are not merely theoretical. Ethiopia's attempts to issue diaspora bonds in 2008 and 2011 to finance the Grand Ethiopian Renaissance Dam fell short of expectations due to both real and perceived risks, particularly concerns around corruption and opaque fund management (Famoroti 2018). Similarly, Moldova's 2014 banking crisis, which wiped out over US\$1 billion, eroded trust in state institutions and significantly weakened diaspora engagement (Bertelsmann Stiftung 2024). For Tajikistan, this means that any diaspora initiative must meet clear financial and trust thresholds.

It is also important to recognize Tajikistan's limited experience with sovereign bond issuance. Apart from the single Eurobond in 2017, the country has little track record in international capital markets. Technical assistance or partnerships with experienced underwriters would probably be needed to structure and market a diaspora bond effectively. The issuance process involves regulatory compliance, marketing to diaspora communities, and perhaps listing the bond for trading, all areas where outside expertise could help.

Beyond formal financial instruments, sustained engagement with the broader diaspora community is critical for long-term development impact. Countries such as Armenia, which established a dedicated Ministry of Diaspora, or Bangladesh and Pakistan, which have mobilized diaspora philanthropy for development projects, illustrate diverse approaches to institutionalizing diaspora relations. In these models, the diaspora is not seen solely as a source of capital but as a strategic development partner. Tajikistan can adopt a similarly expansive view. Diaspora engagement should extend to knowledge exchange, entrepreneurship, and network-building. For instance, Tajik professionals living abroad could be encouraged to mentor start-ups, contribute to digital innovation, or invest in targeted sectors, provided the domestic business environment is sufficiently enabling.

Moldova's PARE 1+1 initiative offers an instructive example of how to operationalize this vision. The programme provides matching grants for small enterprises launched by migrants or their relatives, effectively doubling the developmental impact of remittance-financed investment. Since its inception in 2010, PARE 1+1 has supported hundreds of businesses, using a matching grant model to amplify

the developmental impact of remittances (IOM 2015). Such models suggest that even in contexts where diaspora savings are modest, well-designed mechanisms can amplify their developmental impact.

For Tajikistan, a similar co-investment scheme could be piloted, targeting migrants interested in supporting family-based microenterprises or community infrastructure projects. Compared with bond purchases, such programmes may resonate more with lower-income migrants who prioritize direct impact and familial ties over long-term financial instruments. Critically, the success of such initiatives hinges not just on financial design but on building trust, reducing administrative hurdles, and ensuring that funds are channelled transparently and effectively.

Importantly, leveraging remittances for investment does not mean taxing those remittances or telling families how to use their money. Rather, it means creating attractive *voluntary* opportunities for migrants and their families to invest a portion of their earnings in national development. The watchwords should be trust and convenience. Experts note that remittances are one of the few external financial flows likely to keep growing in the coming decade, and thus ‘they must be leveraged for private capital mobilization to support development finance, especially via diaspora bonds’ (World Bank 2023a). Tajikistan has a clear opportunity in this regard.

Tajikistan does not need to capture a large share to make a difference. If even 10% of annual remittance inflows could be captured for investment, that would amount to several hundred million US dollars per year, on the order of or exceeding current ODA flows, all while empowering Tajiks themselves to drive their country’s progress. The government can facilitate this by providing secure investment channels and perhaps co-financing incentives (such as matching contributions for certain projects, akin to Moldova’s approach). But ultimately, it relies on the diaspora’s continued goodwill and confidence in Tajikistan’s future. That goodwill, in turn, will grow as the state demonstrates sound management and a genuine commitment to reform.

Remittances already play a central role in Tajikistan’s economy, but they remain largely disconnected from formal development finance. Rather than relying on vague appeals to patriotism, policy makers could focus on offering safe, transparent channels for investment, such as co-financing schemes for small businesses or infrastructure tied to migrant communities. These approaches not only raise capital but also signal to the diaspora that their contributions are valued and well used. In that sense, diaspora finance becomes not just a funding source, but a test of the government’s ability to build trust beyond its borders.

### **4.3 Innovative thematic bonds: green and SDG financing**

Building on remittance-based initiatives, Tajikistan must also look beyond diaspora finance to mobilize new forms of capital at scale. While household-level investment channels offer important entry points, large infrastructure and climate-related goals will require broader instruments that can tap into international capital markets. Thematic bonds, such as green, climate, or SDG-linked bonds, offer one such opportunity. These instruments allow governments to raise funds for projects with measurable social or environmental impact, channelling capital into areas such as renewable energy, resilient agriculture, and poverty reduction. For Tajikistan, which faces rising climate risks and large SDG financing gaps, thematic bonds offer not just new funding, but a way to align finance with national priorities and global sustainability agendas.

Momentum is already taking shape. In early 2024, Eskhata Bank issued Tajikistan's first green bond, an approximately US\$5 million pilot supported by the International Finance Corporation (IFC), which provided a partial credit guarantee and technical assistance (IFC 2024). While modest in scale, this issuance broke new ground: it demonstrated that local institutions could mobilize climate finance, and it validated blended finance as a viable on-ramp to sustainable capital markets.

The government is also moving to institutionalize green finance. With support from the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), Tajikistan is drafting a national framework for thematic bonds and has begun training public officials on issuance mechanics (ESCAP 2024). This aligns with the country's Nationally Determined Contribution under the Paris Agreement, which estimates adaptation and mitigation costs at nearly 7% of GDP annually. Given this funding scale, access to global capital will be essential, and thematic bonds offer one of the few instruments that can attract both concessional and private finance.

If designed and communicated well, a sovereign green or SDG bond could support high-impact projects: expanding hydropower generation, installing solar microgrids in remote areas, upgrading irrigation to withstand climate shocks, or restoring mountain ecosystems at risk of degradation. Global precedent supports this path. Fiji's 2017 sovereign green bond, the first by a developing country, raised roughly US\$50 million for climate resilience (World Bank 2017). Indonesia's green sukuk in 2018 showed how Islamic finance can be tailored to environmental aims, successfully raising US\$1.25 billion (Hardiana 2021). Mexico went further in 2020 by issuing a €750 million SDG bond tied to concrete development indicators (Hardiana 2021).

These examples underscore critical success factors: a transparent project pipeline, third-party certification, and regular reporting. For Tajikistan, adhering to standards such as the Green Bond Principles or Climate Bonds Initiative criteria will be key. Without rigorous disclosure and independent monitoring, investor confidence will remain elusive. But if credibility is established, international environmental-, social-, and governance-oriented investors, particularly those with green mandates, could enter the market. Many institutional investors are actively seeking sustainable investment opportunities, and a well-structured Tajik bond, especially with credit enhancements from multilateral banks, could meet that demand.

Given Tajikistan's relatively low credit rating and limited issuance history, the first offerings may require guarantees or concessional co-financing. Structures where development banks take the first-loss tranche, or where a portion of proceeds is guaranteed, can make bonds more appealing to risk-averse investors. This approach has proven effective in other emerging markets, helping overcome the 'first-mover' hurdle.

A more cautious but strategic starting point would be to launch a thematic bond in local currency. A somoni-denominated 'mountain resilience bond', for instance, could raise funds for climate adaptation in Tajikistan's highland areas, home to vulnerable communities and fragile ecosystems. The investor base could include local banks, pension funds, and the diaspora, especially if backed by donor guarantees. Even a small issuance would build institutional experience, test market appetite, and send a strong signal of intent. Over time, this could lay the groundwork for larger international placements in hard currency.

Technical assistance remains crucial. Recent ESCAP-led support in drafting green finance guidelines illustrates how external partnerships can strengthen domestic capacity (ESCAP 2024). But beyond

technical know-how, the government must build a credible track record: a handful of successful issuances with clean reporting and real impact will do more to open markets than any strategy document.

It is important to be clear-eyed: thematic bonds do not lower the cost of capital automatically. Investors still expect market-based returns. But these instruments can extend maturities, broaden the investor base, and embed discipline in public spending. When governments tie borrowing to outcomes, such as school construction or emissions reductions, they are also committing to greater transparency. Mexico's SDG bond required the government to report on specific metrics, such as the number of scholarships disbursed (Hardiana 2021). For Tajikistan, a similar structure could improve how public funds are allocated and monitored.

Finally, thematic bonds should be integrated into broader debt and development strategies. They are not a silver bullet, but when targeted at high-impact, fiscally sound projects, such as those that reduce import dependence or unlock growth, they can be part of a prudent borrowing plan. Tajikistan's SDG roadmap and National Development Strategy already identify priority sectors; thematic bonds offer a structured way to channel capital into them with accountability.

Rather than framing this as a financial innovation for its own sake, Tajikistan can position thematic bonds as a pragmatic tool: a way to finance critical projects, build investor confidence, and raise the bar for public financial management.

## **4.4 Blended finance: promise and pitfalls**

As Tajikistan strives to meet its ambitious development goals, it faces a sobering reality: domestic revenues and traditional donor support alone will not suffice to close the persistent financing gaps. Public debt is rising, fiscal space is tightening, and global aid flows are becoming more competitive. Against this backdrop, blended finance emerges not as a silver bullet, but as a potent and increasingly necessary tool, one that can amplify every somoni spent and crowd in the private capital so essential for long-term transformation. But to truly harness its potential, Tajikistan must approach blended finance not as a buzzword, but as a disciplined strategy embedded in national development planning.

This approach is particularly relevant given the country's limited track record in mobilizing foreign direct investment and the pressing need to scale up investment in critical sectors. Blended finance refers to the strategic use of concessional or public funds to de-risk development projects and attract private capital. Put simply, it uses catalytic capital, such as donor grants or state funds, to tilt the risk-return calculus in favour of commercial investors.

For Tajikistan, where high perceived risks have long deterred private investors, blended finance can be a game changer. It has already shown promise. For instance, the IFC supported Eskhata Bank's issuance of a green bond, underpinned by an IDA guarantee. That single intervention allowed a domestic financial institution to tap into climate finance markets, a model that could be replicated across sectors (IFC 2024).

More broadly, blended finance structures vary widely: from guarantees and interest rate subsidies to viability gap funding for public-private partnerships (PPPs) and donor-seeded impact funds. The goal

is constant: mobilize several dollars of private investment for each dollar of public spending. Tajikistan has seen such arrangements in infrastructure projects where multilateral loans were blended with grants and private co-financing. Yet these examples remain ad hoc and small in scale. There is a need to shift from isolated cases to a deliberate ecosystem.

The most fertile ground for this is infrastructure and energy. While attention often centres on the Rogun dam, Tajikistan holds rich potential in medium-sized hydro and solar projects. However, the capital intensity and policy uncertainty around these ventures have stifled private participation. Instruments such as subordinated equity, partial risk guarantees, and concessional co-investment could help tip the scales. For example, if a public institution absorbs the first 20% of losses in a new hydro project, suddenly the investment becomes viable for independent power producers and commercial lenders. This model has worked in Pakistan and across Africa's independent solar power producer markets.

Blended finance is equally compelling for boosting small and medium-sized enterprises and agribusinesses, sectors central to inclusive growth but often starved of financing. Tajikistan could establish layered capital funds with donor-backed junior tranches, absorbing early losses to make senior investments more appealing to risk-averse financiers. This is not theory. The ADB has already rolled out similar structures across South Asia. Additionally, tapping global climate and impact funds could bring in concessional capital to finance ventures that would otherwise be commercially unviable.

Viability gap funding within PPP frameworks offers another clear use case. Given Tajikistan's low household incomes and limited fiscal space, private infrastructure delivery through traditional PPPs is often infeasible. But a blended approach, where the public sector covers part of the capital cost, can change the economics. For instance, a toll road might only attract investors if the government contributes 50% of the construction cost as an upfront grant. This model is widely used in India and now in Bangladesh. For Tajikistan, such designs can be tailored to its income levels, geography, and institutional realities.

Still, no financial tool works in a vacuum. Blended finance will fail without strong project preparation, bankable structuring, and credible governance. Clear risk-sharing arrangements and contract enforcement are indispensable. Without them, even generous subsidies may fall flat. Strengthening Tajikistan's PPP framework, bolstering institutional capacity, and ensuring legal predictability are prerequisites.

Fortunately, there are encouraging signs. The IFC has worked with the Tajik government on structuring PPPs in sectors such as hydropower and transport. There is room to scale this collaboration through technical assistance and project preparation facilities. Institutions such as the Green Climate Fund or the Global Infrastructure Facility could provide both concessional capital and expert support to bring these projects to market.

One regional success story worth noting is CASA-1000, which connects surplus hydropower from Kyrgyzstan and Tajikistan to electricity markets in Afghanistan and Pakistan. While not a PPP per se, the project exemplifies blended finance: funding came from the World Bank, Islamic Development Bank, European Investment Bank, US Agency for International Development, and others. Without this diversified mix of loans, grants, and private participation, a project of this scale would have been hard to realize in a high-risk environment.

Tajikistan is not alone in embracing this approach. Across Asia and the Pacific, blended finance is helping countries stretch limited resources to meet the SDGs. Estimates suggest that, globally, each dollar of concessional capital can mobilize three to four dollars of private investment (PwC 2024). Even in fragile states, a 1:1 ratio can double the investment pot, significant for countries such as Tajikistan facing chronic underinvestment.

Locally, sectors such as renewable energy, tourism, digital connectivity, and agroprocessing are ripe for blended models. A tourism resort might attract investors if development partners were to fund basic infrastructure such as roads and electricity. Donors such as the European Union, Japan, or the US could co-finance such deals, promoting sustainable, private-sector-led growth.

However, caution is warranted. Internationally, poorly structured PPPs have left governments with heavy fiscal burdens. Take Lesotho's Queen Mamohato Memorial Hospital: hailed as a success at first, it later strained public budgets with ballooning payments (Böll Foundation 2022). Jakarta's water PPP similarly led to losses when underperformance forced the city to absorb costs meant for the private operator.

These cases echo a common theme: where oversight is weak, contracts are vague, or risks poorly allocated, blended finance backfires. Tajikistan cannot afford such missteps. It must develop robust appraisal systems, cap contingent liabilities, and ensure that accountability mechanisms are built into every deal. Transparency—publishing contracts, conducting value-for-money assessments, enabling legal recourse—is not optional; it is foundational.

Encouragingly, Tajikistan appears to be moving in the right direction. Collaboration with the IFC and an emerging awareness within government circles of the complexity and responsibility that blended finance entails are positive steps. But more is needed: a dedicated blended finance unit, systematic project pipelines, and standardized contract templates could accelerate uptake.

Ultimately, blended finance is no substitute for reform; it is a complement. Only with a stable macroeconomic environment, rule-based regulation, and investor trust will private capital truly flow. Done right, blended finance can unlock projects too ambitious for the state and too risky for the market alone. Done carelessly, it risks burdening future generations.

For Tajikistan, the path forwards is clear: structure with precision, govern with integrity, and blend with purpose.

## **5 Conclusion**

Tajikistan's experience offers a window into the broader dilemma facing many low-income, aid-dependent countries: how to finance development sustainably while strengthening domestic institutions and restoring the fiscal social contract. This paper has argued, through the lens of fiscal sociology, that development finance is not simply a technocratic puzzle of balancing aid, debt, and taxation. It is deeply embedded in political dynamics, institutional legitimacy, and the level of trust between the state and its citizens.

The analysis of alternative instruments, ranging from DRM and diaspora bonds to thematic bonds and blended finance, demonstrates that even well-designed tools will fail if implemented in a weak institutional environment. The effectiveness of any financing strategy depends less on its technical structure than on who manages it, how transparently it is implemented, and whether citizens and investors believe the system is credible. In Tajikistan, where trust in public institutions is limited, this challenge is especially acute.

Progress on governance reform must be grounded in a realistic understanding of Tajikistan's political and institutional context. The country's highly centralized system can accelerate implementation when leadership is aligned, but that same centralization also risks inertia when reforms threaten entrenched interests. Pushing for greater transparency in budgeting or tackling inefficiencies in state-owned enterprises, for instance, may provoke resistance from within established networks.

Rather than relying on top-down mandates alone, reform efforts should build broader coalitions. Reform-minded officials, civil society, the private sector, and international development partners must find shared ground to push for institutional improvements. Tajikistan's diaspora, too, can play a catalytic role, bringing not just capital but also expectations for better governance, if they are engaged through credible, participatory platforms.

This paper contributes to the development finance literature by emphasizing an often-overlooked dimension: the role of public trust in determining the success or failure of financial innovations. Tajikistan's experience reveals a policy blind spot. Too often, financing strategies are treated as technical fixes, divorced from the institutional and political realities that shape whether they succeed. By integrating fiscal innovation with political economy analysis, this paper seeks to close that gap.

The policy implications are clear. A diaspora bond without transparency will struggle to gain traction. A green bond without credible monitoring will fail to inspire confidence. A PPP without proper safeguards risks repeating costly mistakes seen elsewhere. Sustainable finance, in the end, depends more on institutional credibility than on the volume of capital available.

Future research should examine these institutional preconditions more systematically. One promising area is comparative analysis of diaspora financing across countries with varying levels of trust and governance, such as Moldova, Ethiopia, and Armenia. Another is a closer look at how political incentives shape the uptake of climate or SDG bonds. The central question is not just which tools are viable, but under what conditions they actually deliver.

Tajikistan's path to more resilient and autonomous development finance cannot rest on new financial instruments alone. It must also rebuild institutional trust and re-establish the fiscal contract. Practically, this means that taxpayers contribute because they believe their money is used well; migrants invest because they trust the system; and private investors commit because they see clear rules and credible partners. These outcomes will take time, but they are more likely if reforms are sustained and politically supported.

Some progress is already visible. Debt ratios are falling. The country has piloted its first green bond. Initial steps have been taken to reform tax policy and explore blended finance. These signals are modest but meaningful. Tajikistan now stands at a critical juncture: either deepen these early efforts into a more coherent and institutionalized framework or allow them to remain fragmented and fragile.

If properly sustained, these steps could begin to transform development finance from a source of dependency into a foundation for fiscal resilience.

What is ultimately at stake is more than financial stability. It is the restoration of a meaningful relationship between the state and its citizens. Without that foundation, no financing strategy can succeed in the long run. With it, Tajikistan has a chance to build a more inclusive, sovereign, and accountable development model, one rooted not just in capital, but in credibility.

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