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Tajikistan Business Enabling Environment Project Press Review - Issue #10 (80) from March 14, 2008

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IFC PRESS REVIEW

1. News directly connected to BEE Project

TAX SYSTEM: Are Urgent Reforms Needed?

DUSHANBE, March 12, Asia Plus

... Mrs. Matluba Uljabaeva, the Head of SME Association in Tajikistan told about the tax system problems and the ways to solve them during the interview for 'AP'.

...As per number of taxes and tax rates (except for income tax rate) Tajikistan is at the 1-st place among CIS countries as Russia, Kazakhstan, Kyrgyzstan. So, in WB Doing Business Report, Tajikistan ranks at 153rd place among 178 countries for ease of doing business and at 155th place - for ease of paying of taxes.

..One of the main problems hindering business development, as experts consider, is a heavy tax burden for small and medium enterprises. It features by high tax rates and tax administration that hinder economic growth.

.. Tax system in Tajikistan has no proper link to actual conditions of economy functioning. It accumulates from the principles of two tax systems— European and American....The main lack of Tajik tax system – it is oriented to elimination of budget deficit by enterprises income withdrawal.

...At present our Association with the technical assistance of Business Enabling USAID Project implementing by Pragma Corporation in Tajikistan conducts financial and economical analysis of the Tax Code. Taking into consideration that Tax Code is the key to economic regulator of all social and economic processes in the society, the following tasks should be performed. Firstly, necessary scientific, economic and social researches of the tax burden should be conducted and based on them the fiscal policy of the country can be simplified providing the business freedom and establishing partner relations between the state and entrepreneur...Secondly, to analyze the application of certain research methods and taxation models related to calculation of progressive and regressive taxation in

regard to the Tajik tax system and evaluate received outcomes. Thirdly, justify the regressive scale at the macro and microeconomic levels in details regarding social tax. In other words, the salary is higher, the social tax is lower.

...Developed financial and economic analysis of the existing Tax Code will be submitted to the Tax Committee. In addition, the prepared analysis will be discussed in March in special working group consisting of key specialists of the Tax Committee, which involves ministries, scientists, lawyers and economists. ... In April, we are planning to open discussions of drafted analysis through arrangement of three round-tables in Khatlon Region, Sogd Region and Dushanbe.

2. News interesting for Business Environment

TRIAL OF M&P HEAD STARTS IN DUSHANBE

DUSHANBE, March 14, Asia-Plus - The trial of Marouf Oripov, the director general of the Dushanbe company M&P, which owns a chain of supermarkets Orima in Dushanbe and Kulob, began in Tajikistan's Supreme Court on March 13.

Justice Shavkat Abdulkahirov is taking in the trial. Proceedings started with the reading of the indictment, which charges Oripov with giving bribe, tax evasion and forgery.

We will recall that at first, the State Committee for National Security (GKNB) instituted criminal proceedings against Oripov last summer on charge of giving bribe, but later, the case was transferred to the Agency for State Financial Control and Combating Corruption. Oripov was detained in July 2007 when he was trying to give \$10,000 in bribe to the GKNB investigator. Inspections carried out by the GKNB economic squad last July revealed that more than 1,500 tons of confectionery and other products beyond their shelf life were stored in the M&P warehouses in Dushanbe.

UZBEK GAS SUPPLIES TO TAJIK CAPITAL SUSPENDED

DUSHANBE, March 14, Asia-Plus - Uzbekistan suspended exports of natural gas to Tajikistan yesterday.

Bobokhon Sharofiddinov, the deputy head of Tajikistan's natural-gas distributor, Tojkgaz, told Asia-Plus today the suspension was due to technical problems. A wormhole was detected on a gas pipeline in the territory of Uzbekistan, according to him. "The gas supplies will resume within the next two days, the Tojkgaz official said.

We will recall that Tajikistan reached an agreement with Uzbekistan on the price for natural-gas imports for 2008 last December. The agreement sets the price gas for Tajik gas imports at \$145 per 1,000 cubic meters. The sides also reached an agreement on the volume of natural gas to be imported from Uzbekistan in 2008. This year, Tajikistan is planning to import 650 million cubic meters of natural gas from Uzbekistan. According to some source, the agreement requires Tajikistan to pay in full for the gas imports from Uzbekistan in advance, following past problems with mounting arrears.

In the meantime, public debts to Tojkgaz for gas consumption have to date amounted to 32 million somonis (equivalent to nearly \$9.3 million) and Barqi Tojik power holding's gas debts have amounted to \$7 million, while Tojkgaz's debt to Uzbekistan for gas imports have amounted to \$6 million.

TSB BRANCH IN KULOB PROVIDES LOANS FOR DEVELOPMENT OF PRIVATE BUSINESS

KULOB, March 14, Asia-Plus - The branch of Tojiksodirotbank (TSB) in Kulob yesterday provided the first this year loan for development of private business.

The head of the TSB branch in Kulob Abdukarim Nematov said that the loan of 160,000 somonis had been provided the Kulob confectionery workshop for development of its capacity. Over the first two months of this year, all 27 enterprises located the city and the district of Kulob have stood idle because of sever electricity shortages that resulted in decrease in the number of loan applications to bank, the branch head said.

"In January-February 2007, we have provided 1.5 million somonis in loans to local business structures," Nematov said. He also noted that 1.739 million somonis have to date been provided to farming units in the districts of Kulob and Vose for cultivation of 1,404 hectares of farmland. "In all, we have to date received from farmers loan applications for a total amount of 4 million somonis," Nematov said. TSB was established in December 1990 as the Tajik branch of the Vnesh Econom Bank of the former Soviet Union, and it initially specialized in trade and import-export banking. Later this branch was reorganized into a Joint-Stock Commercial Bank "Tajikvnesheconombank". In June 1999, the bank was renamed and registered as Tojiksodirotbank or TSB.

Headquartered in Dushanbe, TSB now has 11 branches in the main cities of Tajikistan and covering all regions of the country. Its clients include the biggest Tajik trading companies, other enterprises, entrepreneurs, and some of the embassies and diplomatic organizations based in Dushanbe.

AS HALF A MILLION FACE HUNGER, AID TO TAJIKISTAN UNDERFUNDED: UN

DUSHANBE, March 13, Asia-Plus - UN website - More than half a million Tajiks could soon face food shortages as a severe winter turns to flooding and an appeal for \$25 million remains only one-quarter funded, a United Nations spokesperson said on March 11.

According to the UN Office for the Coordination of Humanitarian Affairs (OCHA), long-awaited warmer temperatures have replaced snow with intense rains and avalanches, mudflows and floods threaten much of the country.

At the same time, the eastern areas and mountains continue to experience the harshest temperatures seen in decades, which are expected to continue at least until the end of March. Herders and farmers have sustained losses of around \$250 million, according to an assessment made by the UN Food and Agriculture Organization (FAO), in cooperation with the national agricultural ministry.

During April and May, a number of UN agencies are planning to conduct an in-depth assessment of livelihoods and food security in the country while setting up a structure that could be expanded to deal with possible future emergencies.

SUGH D FARMERS RECEIVE BANK LOANS TOTALING 2.6 MILLION TJS

KHUJAND, March 13, Asia-Plus - As of March 12, 67 farming units in the Sughd province have received bank loans totaling 2.6 million somonis (TJS), Bobojon Domulloyev, the head of the Sughd agriculture directorate, said in an interview with Asia-Plus. In all, the Sughd farming units are supposed to have received 20.2 million somonis in loans from six Tajik financial institutions this year.

According to Domulloyev, farmers have complained about delays in providing loans. "The main factors impeding provision of loans include distrust in certificates provided by heads of farming units, farmers' debts, loan-deposit amount, and the fact the farming units do not have bank accounts," the Sughd agriculture directorate head said, noting that delays in providing loans has negatively impacted the sown campaign in the province.

He added that three banks, including Agroinvestbank, Orientbank Amonatbank (Tajikistan's savings bank), and three microfinance lenders such as Madadgor, Omad and Sughdagroserv have provided loans to farming units in northern Tajikistan. The funds go to supporting cultivation of more than 12,200 hectares of farmland, including 6,700 hectares of areas sown with cotton, in the province.

I AM WORRIED ABOUT THE SITUATION IN M&P COMPANY

DUSHANBE, March 12, Facts&Comments - I really don't understand why Maruf has been arrested. For me it is very strange that undercover men are so much concerned with issues of taxation at the companies with foreign investments and that they control the validity period of such products as cheese, candies, ravioli. In Europe there are specialized agencies that work with such issues.

As a result, I had to write a letter to the president of Tajikistan, Emomali Rahmon, but I still did not receive his response. I have 30% of stocks of M&P Company, but none of the official bodies of Tajikistan has informed me about the situation in M&P. Right now I am thinking to direct the information selected by my lawyer to EU.

I also intend to attract European specialist who will be able to analyze the situation when it is planned to cancel supplemental benefits of the foreign investor in Tajikistan.

I am sure that if the cancellation is guaranteed, the investment climate in Tajikistan will only get worse.

"WE HOPE THE COURT WILL BE OBJECTIVE!"

Mr. Orifov's fault is still not proved, too much is unknown and there are no answers on principle questions: What is Mr. Orifov's fault? Why did not he pay taxes?

There are other important circumstances, which should be taken into the consideration, such as that the conditions for an entrepreneurial activity in Tajikistan, according to the estimation of the organization of economic development and cooperation, are one of the worst out of the countries of Central Asia. The court judgment will tell us if there is independent due process of law in Tajikistan and if the rights of foreign investors are guaranteed according to the constitution of RT.

We hope that the court will judge accordingly and we will have answers to all questions, and the business sphere will receive a signal that will promote investments in the entrepreneurial activity and develop the economy of the country.

BROOKINGS INSTITUTION RANKS TAJIKISTAN 42ND IN TERMS OF INDEX OF STATE WEAKNESS

DUSHANBE, March 12, Asia-Plus - In accordance with ratings prepared by the Brookings Institution, Tajikistan has been ranked 42nd among 141 countries in terms of the index of state weakness.

The Brookings Institution's Index of State Weakness ranks 141 developing countries on the basis of four critical state abilities: economic growth, political institutions, security and social welfare. According to their score, the countries are divided into groups from "failed states," "critically weak states," "weak states" to "states to watch." The report illustrates several trends such as extreme insecurity in failed states and the link between extreme poverty and weak states.

Among the top ten failed states are Somali, Afghanistan, Congo, Iraq, Burundi, Sudan, Central African Republic, Zimbabwe, Liberia and Cot d'Ivuar

Among the CIS states, the worst indices are of Turkmenistan and Uzbekistan that are ranked 35th and 36th respectively.

The Russian Federation is ranked 65th, Kyrgyzstan 73rd, Azerbaijan 80th, Belarus 81st, Moldova 88th, Kazakhstan 89th, Georgia 90th, Armenia 105th, and Ukraine 107th.

The Brookings Institution is a nonprofit public policy organization based in Washington, DC. One of Washington's oldest think tanks, Brookings conducts research and education in the social sciences, particularly in economics, metropolitan, government, global development and foreign policy. Their stated mission is to "provide innovative and practical recommendations that advance three broad goals: strengthen American democracy; foster the economic and social welfare, security and opportunity of all Americans and; secure a more open, safe, prosperous and cooperative international system." Brookings states that its scholars "represent diverse points of view" and describes itself as non-partisan.

ELECTRICITY RATIONING LIFTED IN KHUJAND

KHUJAND, March 12, Asia-Plus - On Tuesday March 11, electricity rationing was lifted in Khujand, the capital of the Sughd province, while daily electricity supplies to other cities and districts of the province increased to 18 hours, Asia-Plus has learned at the Sughd branch of Barqi Tojik power holding.

On March 10, the Sughd province received some 6 million kWh of electrical power, the source at the Barqi Tojik branch for Sughd said.

In the meantime, according to the Sughd industry directorate, some 15 percent of the over number of enterprises (226) located in northern Tajikistan have not yet repaid their electricity debts.

ELECTRICITY RATIONING STILL EFFECTIVE IN HISSOR VALLEY'S DISTRICTS

DUSHANBE, March 11, Asia-Plus - Electricity rationing is still effective in Hissor and Shahrinav districts as well as rural areas of Tursunzoda.

Local residents say they currently receive electricity supplies for seven hours daily – three hours in the morning (from 6:00 a.m. to 9:00 a.m.) and four hours in the evening (from 6:00 p.m. to 10:00 p.m.). Few local enterprises, primarily in the private sector (bread-baking workshops, canteens and so forth), now work on firewood and coal.

In the meantime, Barqi Tojik (Tajik electric systems) power holding says the electricity rationing introduced this year in all regions of the country, including Dushanbe, seeking to curb the country's rising electricity consumption will be lifted gradually, after April 1 depending on weather conditions.

We will recall that in Dushanbe, electricity rationing was lifted on March 1.



Schweizerische Eidgenossenschaft
Confédération suisse
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Confederaziun svizra

Federal Department of Economic Affairs FDEA
State Secretariat for Economic Affairs SECO

With best wishes,
Tajikistan BEE Public Relations/Communication Department