

Tajikistan Business Enabling Environment/ SME Policy Project Press Review - Issue #54

Dushanbe, 07 September 2007

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IFC PRESS REVIEW

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PRESIDENT CHARGES TO DECLARE KULOB BRICKWORKS BANKRUPT AND PUT IT ON AUCTION

KULOB, September 7, Asia-Plus - President Emomali Rahmon yesterday participated in official opening of a number of facilities in the city of Kulob.

Yesterday, the president also visited the city exhibition of economic achievements in Kulob. He, in particular, hailed activity of the local enterprise Zargari Kulob dealing with producing gold and silver wares as well as gold embroidery produce, which has a staff of 112. Rahmon charged the Ministry of Energy and Industries (MoEI) to take measures to increase the enterprise's capacity and open a shop for realizing gold embroidery wares.

At the same time, the head of state harshly criticized the Kulob brickworks. The plant, which has a capacity of producing 50 million bricks per year, now produces only up to 2 million bricks a year. Emomali Rahmon charged to declare the Kulob brickworks bankrupt and put it on the auction.

At the end of his visit to Kulob, the president held meeting with the city's activists. The meeting focused on the issues related to stock up fuel and food products for winter.

TAXES – NEXT REFORM IS COMING OR HOW WE ARE REDUCING POVERTY LEVEL

DUSHANBE, September 6, Facts and Comments

Matluba Uljabaeva,
Chairman of Board
National Association on Small and Medium Business

... Not long ago, on 1 January 2005, the current Tax Code was adopted and since then four changes and amendments are made to it! Four Laws were adopted "On changes and amendments to Tax Code", No.114 as of December 26, 2005, No. 193 as of July 28, 2006, No.219 as of December 22, 2006 and No. 239 as of March 5, 2007.

The initiators of the new (fifth) draft law 'On changes and amendments to Tax Code' – tax bodies - do not inform of this Entrepreneurs, those who directly pay these taxes.

.. We decided to inform you what these innovations are. Let's try to look into the proposals that in our opinion will make worse tax payer burden.

In Article 2, Item 11, para 1, part 11 and in Article 6, Item 14, part 1 it is proposed to cancel the word 'Enterprise'.

In fact, the point is on the minimal tax from enterprises and if the word 'Enterprises' is canceled in these Items, it means that all enterprises, including individual entrepreneur without forming legal entity should pay this tax.

Amendments will be made to the Article 45, regulating the tax inspections. It is proposed to extend the word 'targeted audit', in accordance with this the tax administration will be strengthened.

The given Article is accompanied by part 9 that expands the possibilities of tax inspectorate heads to make a decision on conducting of documentary tax audit, notwithstanding the provisions of Articles 44, 49 and 50.

In fact, it means that you already had comprehensive tax audit (if the head of tax inspectorate decides it is necessary), one more tax inspection can be conducted.

Changes that are proposed in Article 49, Part 6, Item 4) actually remove restriction for conducting of targeted audit.

It is offered to increase the number of field audits from 15 to 30. In addition, head of authorized body or its deputy can extend the duration of such audit till 30 days.

So, we will work not to increase our well-being but for audits increasing!

In Article 93, Part 6 it is proposed to apply sanctions to banks for non-compliance of withdrawal of assets from bank accounts.

This contradicts to Civil Code of Tajikistan (Art. 878 and 879) as indisputable withdrawal of assets from the organization account is possible only in accordance with the court decision.

...And if you, dear Entrepreneurs exceeded the amount of tax payable for the reporting period, you can get your money from the budget not after 30 days but during 60 days and only based on Act of Targeted Audit (Article 236, Part 1).

In Article 239, excise tax is introduced to some types of activities defined in Article 240, Part 3). It is clear the introduction of excise for such services as gambling industry, lottery conducting, but incompletely unclear the proposal to introduce excise for cellular communications, which is already costly in Tajikistan!

From Edition:

Mrs. Uljabaeva gave a serious challenge to Tax body and hope Mr. Soliev will give a deserved answer. May be, mentioned draft law does not even exist, or the interpretation is not correct. And may be tax officials have their arguments to proposed changes?...

IMF MISSION HEAD QUESTIONS DATA OF THE CIS STATISTICS COMMITTEE ON RATE OF INFLATION IN TAJIKISTAN

DUSHANBE, September 6, Asia-Plus - Carlos Pinerua, the head of the mission of the International Monetary Fund (IMF) to Tajikistan, has questioned data of the CIS Committee for Statistics on the rate of inflation in Tajikistan.

"We were surprised at these data and methodology, which is used by their specialists," Carlos Pinerua remarked at a news conference in Dushanbe on September 5.

"According to figures provided by the CIS Committee for Statistics, over the first seven months of this year, the highest inflation among the CIS states has been reported in Tajikistan, where inflation for January-July stood at 18.3 percent," said the IMF mission head, "But if you see how prices changed over 12 months, you will never arrive at conclusion that these data are true."

According to him, the inflation data provided by the CIS Committee for Statistics were also discussed at meeting of the IMF mission with Tajik officials. "We asked the Government of Tajikistan to discuss this issue with representatives from the CIS Committee for Statistics and define, where the methodological mistake has been made. We are waiting elucidations from them," Pinerua said.

According to him, inflation has to date stood at 9.4 percent in Tajikistan. "And we have no reasons to question this figure," the IMF official said.

At the same time, he noted that Tajik government's intention to curb inflation in the country at the rate of 8 percent should be backed by appropriate actions. "Curbing inflation at this rate should be in line with budgetary policy of the country, while the draft budget for the next year, which we considered during the mission's visit, may not agree with an 8 percent benchmark."

We will recall that according to figures provided by the CIS Committee for Statistics, over the first seven months of this year, the highest inflation among CIS states has been reported in Tajikistan 18.3 percent, while an average inflation in CIS for January-July 2007 stood at 9 percent. Tajikistan is followed by Azerbaijan, where inflation for the first seven months of this year stood at 15.9 percent. In Moldova and Ukraine, inflation stood at 11.4 and 11.2 percent respectively.

The IMF mission to Tajikistan led by Carlos Pinerua arrived in Tajikistan on August 30 to survey the country's achievements in the macroeconomic sphere. During their stay in Dushanbe, the mission members held talks with representatives from the country's economic team. The main purpose of the visit was for the mission to discuss with Tajik authorities macroeconomic policy for the end of 2007 and general parameters of the country's budget for 2008 with a special focus on providing more balanced policy to reduce inflation.

IMF MISSION TO TAJIKISTAN TO DISCUSS PARAMETERS OF THE COUNTRY'S BUDGET FOR 2008

DUSHANBE, September 4, Asia-Plus - A mission of the International Monetary Fund (IMF) to Tajikistan led by Carlos Pinerua has been in Tajikistan since the end of last week to survey the country's achievements in the macroeconomic sphere, information posted on the website of the National Bank of Tajikistan (NBT) said.

According to Tajik central bank, the mission members have already held talks with representatives from the country's economic team. Mr. Pinerua noted that the main purpose of the visit is for the mission is to discuss with Tajik authorities macroeconomic policy for the end of 2007 and general parameters of the country's budget for 2008 with a special focus on providing more balanced policy to reduce inflation.

The IMF mission head noted that achievement of the inflation reduction goals will require a composite macroeconomic policy, which has continued to be based on not only strong tax-budgetary position but also be supported by more reliable structure of monetary policy, the information said.

During their stay in Tajikistan, members of the IMF mission are also scheduled to hold a number of talks with senior representatives from the government, economic team, senior representatives from Tajik central bank, ministries and organizations, as well as some international organizations active in Tajikistan.

A meeting with top managers of Tajik central bank is expected to focus on developments related to payment balance in 2007, forecasts on issuing government securities, development of interbank market, latest developments in the banking sector, success made in tackling cotton debt problems, etc, the NBT website said.

TAJIKISTAN TOPS CIS STATES IN INFLATION RATE, SAYS CIS COMMITTEE FOR STATISTICS

DUSHANBE, September 4, Asia-Plus - CIS states' gross domestic products (GDPs) rose on average 9.5 percent in the year to August 1, 2007, the CIS Committee for Statistics said.

The volume of production of industrial goods in the CIS states have risen on average by nine percent over the report period.

Over the first seven months of this year, the highest macroeconomic induces have been reported in Azerbaijan, where gross domestic product rose by 34.5 percent in the year to August 1, 2007. Compared to January-July 2006, the index of the volume of production of industrial goods in Azerbaijan over the first seven months of this year has amounted 34.7 percent.

Over the same seven-month period, the highest inflation has been reported in Tajikistan 18.3 percent, while an average inflation in CIS for January-July 2007 stood at 9 percent.

Tajikistan is followed by Azerbaijan, where inflation for the first seven months of this year stood at 15.9 percent. In Moldova and Ukraine, inflation stood at 11.4 and 11.2 percent respectively.

ADB, TAJIK MINISTRY OF ECONOMY TO HELP SPECIALISTS ELABORATE SYSTEM FOR MONITORING REALIZATION PRS

DUSHANBE, September 3, Asia-Plus - A two-day seminar on issues related to elaborating a system of monitoring a progress of realization of the Poverty Reduction Strategy (PRS) in Tajikistan opened at the Ministry of Economic Development and Trade (MoEDT) in Dushanbe today.

The seminar has brought together representatives from Tajik ministries, the Asian Development Bank (ADB) Mission to Tajikistan, UNDP CO in Tajikistan, etc.

The seminar has been staged by the ADB as part of a joint project run by the ADB and MoEDT.

According to the MoEDT press service, the main objective of the seminar is to involve all interested parties in work on creation of a system of monitoring a progress of realization of the PRS in Tajikistan. The seminar aims to make specialists from Tajik ministries and organization familiar with projects being implemented within the framework of the PRS as well as experience of other countries in alleviating poverty, the press service said.

The seminar is expected to end with preparing a list of indices of the monitoring system, concerted format of reports as well as consensus on the monitoring regulations.

OVER 2,000 ENTREPRENEURS WORK WITH KHOROG MARKET INTENDED FOR 500 SHOPS

DUSHANBE, September 3, Asia-Plus - Pamir Media – More than 2,000 entrepreneurs now work with the central market in Khorog, while it is intended for only 500 shops, the market director Shohin Nazaramonov said in an interview with the Khorog news agency Pamir Media.

According to him, the number of market-people increased after the municipal authorities had banned an outdoor commerce in the city.

Local dealers say although they pay taxes and for places on the market opportunely they do not have elementary conditions of work.

The market director noted that construction of a new market could be way out of the situation. Construction of the new central market has already started and it is expected to be finished in two years.

TAJIKISTAN/RUSSIA POLITICS: THE BREAKING OF THE DAM?

FACTIVA, 31 August

Tajikistan has torn up a deal with Russian aluminium giant Rusal, worth over US\$1bn, to build a huge hydroelectric power station at Rogun. The episode underscores the difficulty for Tajikistan in reconciling the need for foreign investment with the elite's desire to keep control of valuable assets. Also, for Russia, the difficulty in maintaining its pre-eminent position in Tajikistan without damaging its rapprochement with Uzbekistan, which is situated downstream and is Central Asia's regional power.

PATENT FORM OF TAXATION: PRO ET CONTRA

DUSHANBE, August 23, Business and Politics

As is well known, research of the most effective taxation methods, reducing of administrative overheads during tax collection, paying of more attention of tax bodies to those tax payers who provide higher tax revenues to the state budget is the most important task of tax administration.

... Taxation theory as well as international financial organizations advises to simplify the taxation procedure for those business entities that provide small part of tax revenues in order to avoid using additional significant controlling resources.

... Some economists believe that Tajikistan already has conditions required for radical reduction of simplified taxation methods (while such conditions are not yet ready in more developed countries such as Russia and Kazakhstan). They consider that the existing system of accounting of entrepreneurs' incomes and expenditures allows

imposing taxes on incomes, including individual entrepreneurs' incomes. They consider that preserving patent (fixed taxation) system, does not meet to the concept of tax legislation development. They consider that population literacy level allows them to keep independent accounting and reporting, make correct calculations and pay all prescribed taxes in a timely manner.

Is this true? Do we indeed have a better system of incomes and expenditures accounting than Russia and Kazakhstan?

...Providing 1% of all tax revenues to the state budget, tax control of patent tax payers, despite their large number, does not require significant expenditures (expenditures are related only to issuance of the patent, its prolongation, and conducting of field tax audit). In relation to the patent tax payers there is no need for documentary audits (except chronometry). Initially, patent system was designed to introduce market activity to citizens. A more complicated business activity mechanism by certificate, which anticipates hiring employees, accounting of incomes and expenditures, submission of tax declaration and payment of taxes (including VAT), was considered as a transition stage from individual entrepreneurship to formation of a legal entity.

... Main negative points of the patent:

1. There is certain unfairness in the fixed taxation under the patent: persons with different incomes are paying equal tax amount, as correction of the patent cost is complicated (is adopted by GVT Resolution). In its turn, insufficient flexibility of the patent cost does not allow operatively take into account inflation rate which reduces the budget revenues;
2. Despite of simplicity of the patent system, there are administrative barriers that can be cancelled (keeping of accounting requirement for patent payers, and submission of declaration for payment of tax, annual issuance of the new patent) and etc.
3. Existing of such facts as individual entrepreneurs' evasion from receiving of the patent, conducting business with gross revenue of more than 200,000 somoni per year and foreign trade activity under patent.

Main positive points of the patent:

1. Tax control expenditures of physical persons working under the patent can be reduced (in fact, with state control of all individual entrepreneurs incomes, the patent share can be increased from 1% up to 3-5%, however, the number of tax bodies should be increased 3-5 times)
2. State registration of individual entrepreneurs and payment of taxes under the patent leads to decreasing time and resource expenses for individual business start-up.
3. Current patent system can reduce irrational control of small enterprises and allows the effectiveness of medium and large enterprises control. Fixed patent cost allows individual entrepreneurs independently define and calculate taxes.

Most of negative points can be reduced by adoption of technical solutions.

Absolute excess of cash payment versus clearing, low knowledge level of population involved in business accounting, difficulties of prescribed system of incomes and expenditures, limited capabilities (except the patent) of tax bodies for control of huge number of entrepreneurs and other factors give grounds to consider that positive sides of patent system prevail and abolishing patent system will lead most entrepreneurs to "shadow business" or make them quit business at all.

...Further improvement of the patent system is directed on introducing of all compulsory payments of individual entrepreneurs: not only income tax but also social and retail trade tax as well as simplification of administrative procedures. In the recent IFC Survey Report on business environment development in Tajikistan (May, 2007) such form of the patent was named a 'Super patent' and was recommended for the implementation.

R.Jabborov, Economist

WHIRLPOOL

Or why Dushanbe Tobacco Enterprise is Under Crisis

DUSHANBE, August 31, Millat

Dear Mr. President Emomali Rakhmon,

Last years disorders happened at Tobacco Factory in Dushanbe, continuous legal trials, violation of legal rights of joint-stock enterprises impelled us to apply to you, Your Excellency. In fact, it is about the important spheres of national economy and international glory of Tajikistan attractive for foreign investors.

Some background facts..

The Dushanbe Tobacco house used to be a state trading enterprise from 1943 till 1990. In 1990, after adoption of Law of renting, it was leased out to labour collective. In 1991 the Law on privatization and state property was adopted. According to article 6 of the Law the Committee of privatization on November 4, 1991 at the meeting with participation of 90% of collective the "reacquisition by a labour collective" form of privatization was chosen and the contract on purchase and sale was signed.

The evaluation commission during several months made estimation. As a result, the amount of state property was equal to 6 million 258 thousands Soviet Rubles. In a panel session of the Republican Committee a decision on privatization, according to the amount mentioned above, was taken. In this respect there is a protocol #12 from 28th of December, 1991. The enterprise made necessary payment and on the 4th September 1992 the State Committee on Investments and Management of State Property issued a certificate on acquisition of property rights II HMD №35018.

In 2007 the General Prosecutor's Office of RT seized the Economic Court of Dushanbe with the requirement to cancel the adopted decisions and all concurrent legal papers in general. In April 2007 the Economic Court of Dushanbe examined and granted an application of the General Prosecutor's Office. The General Prosecutor's Office opinion is that the meeting of the collective regarding the adoption of the Law on privatization of the enterprise that was held on November 4, 1991 was effectless. Another argument of the General Prosecutor's Office is that the privatization should be made based on the open competitive tender. Yet, in 1992, there was no practice of the state property objects sale based on the open competitive tender (auction, tender). At that date hundreds of enterprises and objects of State Property were privatized the same way as our enterprise. And if this argument of the General Prosecutor's Office is recognized, then all these objects are going to face the same problem. According to the decision of Economic Court the Tobacco house must be under the supervision of the Ministry of Energetic and industry, and the Committee of Investments must return the collective (238 stockholders) the amount of 126 946 somoni.

It is seen even with the naked eye, that the difference between 6 million 258 thousands soviet rubles and the sum, mentioned above, is between heaven and earth! In what part of the world one can buy a company for such a price?!

We, stockholders, for the period from 1993 thanks to our income, built a new double-stored sports complex, storage and fermentation room, totaling 1 million Somoni. It is surprising that the Economic Court did not take into the consideration this fact.

Let us pay attention to another circumstance. The Government of Tajikistan has received a credit of 6 million USD from the Republic of China for creation of Soviet enterprise of cigarette industry, which is functioning on the basis of Tobacco house of Dushanbe city. Although the allocated funds were received as permanent and floating assets, up to the present moment the joint enterprise doesn't have a bank clearing account, did not undergo the State Registration, in statistical bodies inclusive and does not have an individual number of taxpayer.

Nevertheless, the enterprise is involved in cigarette production, publishing and related types of business activities.

Inspections of financial and business activity give evidence of engagement of the director SP Mukhsiddinov M. in the activity of Tobacco house over a period of several years. He takes responsibility to sign all juridical documents of the enterprise, causing damage to both of the enterprises.

So, from the amount of the credit equipment was purchased for 3685947 USD and accessory materials for 1890000 USD. Most of the accessory materials were as if sent to Tobacco house. The audit inspection that was held in 2005 upon the application of stockholders has shown that the shortage of accessory materials at the joint stock company made 4 million somoni. In addition, the excise tax made 40%, and VAT made 20%.

According to the official statistical data, the Tobacco house produced cigarettes for the amount of 18112186 somoni (5,7 USD), almost the size of state credit granted by the Republic of China. Although these funds are neither in the company pay office, nor in the bank account. Unfortunately even in the company's stock room there are no scent of cigarette production. Conclusion: finished goods were sold without any official documents, and the received funds were defalcated by several people.

To conclude, on the 31st of 2005 Mukhsiddinov made a fictive protocol of general assigned himself as a leader of the Closed Joint-Stock company "Tobacco house of Dushanbe".

The stockholders' meeting, which took place in the 28th of February 2007 (protocol #2) declared the decision invalid.

Your Excellency, Mr. President!

The current situation disturbs us a lot. We hope that in regard with your order the Highest Economic Court will take the consideration of the case with Dushanbe Tobacco house under its surveillance, from the objectiveness and humanity point of view.

Respectfully Yours,
Stockholders of Closed Joint-Stock Company «Tobacco house of Dushanbe»,
48 signatures overall



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
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Federal Department of Economic Affairs FDEA
State Secretariat for Economic Affairs SECO

With best wishes,
Tajikistan SME Public Relations/Communication Department