



This press-review is produced by IFC Business Enabling Environment - SME Policy Project in Tajikistan as a free compilation of articles issued in the mass media of the Republic of Tajikistan and in the international press. Any or all portions of this press-review may be reproduced without prior permission, provided that source is cited as: "International Finance Corporation (IFC) Small and Medium Enterprise Policy Project in Tajikistan"

Tajikistan Business Enabling Environment- SME Policy Project Press Review - Issue #69

Dushanbe, 21 December 2007

1. News directly connected to SME Project

- Tajik Business Needs Support and Not Obstacles.
- "We Need Cardinal Changes!"
- To be Entrepreneur in Tajikistan is Very Difficult.
- Tajikistan ranks 153 on the ease of doing business.

2. News interesting for Business Environment

- Tajikistan ranked 91st in volume of national gold reserves.
- Center for promoting cross-border trade opened in Khorog.
- Application fees for US non-immigrant visas to increase next year.
- \$1.18 billion remitted to Tajik banks in Jan-Oct 07.
- Sughd entrepreneurs make preparations for meeting with the president.
- WB to support enhancement of Tajik energy sector.

IFC PRESS REVIEW

1. News directly connected to SME Project

TAJIK BUSINESS NEEDS SUPPORT AND NOT OBSTACLES

DUSHANBE, December 20, Vecherny Dushanbe - The Report 'Doing Business in 2008' was presented in Dushanbe Asia Grand Hotel Hall.

The Report was prepared by World Bank and International Finance Corporation (IFC).

The Government of Tajikistan is taking and will continue to take steps towards creation of favorable business environment in Tajikistan", - said Mr. Negmatjon Buriev, Senior Advisor to the President of Tajikistan on Economic Policy. "In particular, for the last few years, some improvements were made in the legislation which made it easier to do business in Tajikistan. We realize that these measures might not be sufficient and therefore, the Government plans to coordinate efforts of all state authorities to remove barriers on the way of private sector development in the country", - he added.

"The country's legal and regulatory institutions and public sector administration need to be improved further in order to provide an environment truly conducive to domestic and foreign private investment and efficient public service delivery," said Edward Brown, World Bank Country Manager in Tajikistan. "It is vital for the Tajikistan government to focus on those policies, laws, regulations, and administrative procedures that pose the greatest barrier to entry or to the cost of doing business for enterprises. We look forward to helping the government minimize these barriers to ensure continued investment and private sector growth in the country," he said.

According to Andrea Dall'Olio, IFC Project Manager for the Tajikistan Business Enabling Environment Project, several factors contributed to this lower ranking. They include poor performance on some indicators such as tax administration, the faster pace of regulatory reform in other countries, and the addition of three new countries to the Doing Business 2008 report list.

“Several key issues continue to hinder progress for small and medium enterprises. For example, Tajikistan has no credit bureaus, which makes lending risky. Also, conditions for cross-border trade and the legislation that protects investors are in serious need of improvement,” said Dall’Olio.

“WE NEED CARDINAL CHANGES!”

DUSHANBE, December 19, Asia-Plus - What will Tajik businessmen talk about with the President? What prevents the development of business in the country and how to solve this problem? The representatives of leading public business-organizations of the Republic, Matluba Uljabayeva and Davlatmurod Jumaev, have shared their opinion on it with Asia Plus.

Matluba Uljabayeva,

The chief of the National Association of Small and Medium Business in RT:

- In my opinion, one of the main problems of the Tajik business lies in taking decisions without considering the opinion of the business structures. The majority of legal acts, especially subordinate ones, are developed in the form of orders and instructions without notice of entrepreneurs’ opinion. Practically it means that entrepreneurs cannot have influence on development of regulatory legal acts, i.e. they cannot give recommendations, comments, or give their own opinion based on their experience. There are many examples. One of such examples is preparation of the draft legislation “On making changes and amendments in the Tax Code of RT”, enacted by the Lower House (Majlisi Namoyandagon) on the 12th of December.

In order to change the situation there should be a number of reforms, and we need to start with the tax policy. Based on the number of taxes and tax rates (excluding income tax) we occupy the first position among such CIS countries as Russia, Kazakhstan, and Kirgizstan. Certainly, it brings down our economical competitive power within the Commonwealth framework.

With such tax rates, which do not go with any rational economical grounding we will not be able to lower poverty level, as is an entrepreneur who has the tax burden. We have the highest VAT among CIS countries. The social security tax should be calculated according to the regressive scale: the higher the salary is – the lowest is the tax – it will cause reinforcement of social protection of entrepreneur and will stimulate the employer to show all wage payments. The most unclear tax which directly influence the growth of consumer prices, - it is a retail sales tax, and practically it is resale tax. The ultimate solution is to abolish the tax. Those who are operating under the patent system are not socially protected. Their period of probation is just barred. We need to think about that.

In order to improve the tax climate of entrepreneurs, who cause the main reason for creation of GDP and who form the important part of budget revenues, we need to change the current tax system cardinally. In particular to:

- introduce a patent, the cost of which includes a fixed rate of all tax obligations, applied to this category of individual entrepreneurs.
- abolish the tax from automobile roads users, which is applied to all entrepreneurs at this moment, including those who pay taxes under a simplified system.
- call off the payment of the minimal tax on individual entrepreneurs’ incomings, as it brings to the complexity of its inner administration and the increase of payments.
- to raise a ban on VAT netting, paid when acquiring basic assets (as well as when importing them).
- the accepted scheme, according to the new amendments in the Tax Code, substantially increases the cost of basic assets for users, who are mainly the representatives of business sector, and makes the costs of renovation unprofitable, as the sum of 20% of equipment cost as minimum is recalled.

That is to say, such taxation regime of operations, directed to retooling and modernization of operating enterprises or creation of new ones, will make it more hard to improve the business sector growth, taking into account that dependence on import and negative balance annually increases in Tajikistan, and it brings to dollarization of economy and dependence of inflation in the country on foreign economy.

A special emphasis from the government’s side should be made on leasing companies. In particular, the current taxation system does not stimulate, but on the contrary, prevents the leasing development. This way, the VAT cost artificially adds value to transactions of clients of leasing companies, as lessors do not have the right to exemption from VAT. Besides, to get a loan for production development for the period of one year is almost not possible, when the average period of leasing on transactions made is from 3 to 5 years. It allows the companies to make payments to a lessor from their profits. And the temporary exemption of leasing companies from income tax will lead to attraction of investments in local business.

The clear example is Kazakhstan, where investments to the new equipment in the average make more than \$500 millions annually. It became possible because of their good tax climate.

Another main problem is that of administrative barriers, which are made by state state offices (different orders, instructions, calculations and other). These documents are often illegal, as they did not go through the juridical expertise and are not registered in the Ministry of justice of RT, which is claimed by the Law “On regulatory legal acts”. These intradepartmental documents are very often inaccessible to entrepreneurs and cause corruption.

Too much time is needed to entrepreneur to get different permits, certificates licenses, which are particularly issued in Dushanbe.

***Davlatmurod Jumayev,
The chief of Association
Of development and support
Of entrepreneurship in RT***

Around 90% of Tajik businessmen do not have favourable legal backstopping. They are not aware about the laws and how they act. And those seminars and conferences, which are held by international organizations, are made only for the selected group. For example those who work in regions, cannot know about such events. Only in Khatlon region there are around 180-200 thousand of entrepreneurs.

TO BE ENTREPRENEUR IN TAJIKISTAN IS VERY DIFFICULT

DUSHANBE, December 19, Asia-Plus - At the present, entrepreneurship suffers large difficulties. In spite of Government efforts, most of tax regulation and simplification procedures should be changed.

Certainly, there are positive changes and there is not significant but reasonable growth of SMEs number during last 4 years.

...Annual profit of individual entrepreneurs (IE) is only 4,000 somoni, and SMEs – 19,690, dekhon farmers – 5,790 (Business Environment in Tajikistan as Seen by Small and Medium Enterprises, 2006, IFC Survey Report).

Each fourth respondent surveyed under IFC Report said that would not start his business under current business environment. It is very alarming sign.

Most of respondents said that Governments put efforts to improve business environment, however they are weak and can not fight with bureaucracy. This is one of the respondents notes indicated at the report:

“...It is true that there are a lot of positive trends and changes introduced by the government. But still, it is nerve-racking, takes so much effort and so many sleepless nights to deal with officials that sometimes I think of quitting...”

...In our view, one of the serious problems hindering SME development is changeable and non-transparent legal and normative base, increasing the violation of laws and as consequence increasing of expenses to commercial activity. Also it is required radically change interrelations between inspecting bodies and entrepreneurs. It should be standard understanding that main task of the inspecting bodies not to punish entrepreneurs but to help them to do business in accordance with legislation.

... In a day or two microfinance fund ‘Imon’ plans to submit a package of recommendations to planned Forum of entrepreneurs on women entrepreneurship development.

...It is required a cooperation with public authorities, public associations, constructive and open dialogue between entrepreneurs and state.

Gulbahor Mahkamova, Executive Director, Microfinance Fund ‘Imon’

TAJIKISTAN RANKS 153 ON THE EASE OF DOING BUSINESS

DUSHANBE, December 18, Reklamnaya Gazeta - International Finance Corporation (IFC) World Bank (WB) and State Investments Committee and State Property Management Committee of RT presented the Report ‘Doing Business in 2008’. As it was informed by Dilya Zoirova, Communication Specialists, WB Office in RT the report, updated annually, ranks 178 economies on the ease of doing business based on 10 indicators of business regulation. Based on the report, this year Tajikistan ranks 153 in the overall global standing..

“In Tajikistan results show that as governments ease regulations for doing business, more entrepreneurs go into business, noted Simeon Djankov, the report’s lead author.

According to the authors of the report, only licensing procedure has become easier in Tajikistan. ‘The country has reformed one out of the 10 indicators, considered in the report: as a result of recent reforms in the sphere of licensing, it has become much easier to start a business’.

The registration process of SMCs continues requiring significant expenses (data practically have not changed in comparison with 2005,) – making up on average 745 somoni.

As per words of Andrea Dall’Olio, IFC BEE –SME Project Manager, in Tajikistan there are no credit bureaus, which makes lending a risky activity. Also, conditions for cross-border trade as well as the legislation that protects investors require significant improvements,” he added.

Mr. Negmatjon Buriev, Senior Advisor to the President of Tajikistan on Economic Policy, noted that the report results

are comparative. "The Government of Tajikistan is taking and will continue to take steps towards creation of favorable business environment in Tajikistan", - he said. "In particular, for the last few years, some improvements were made in the legislation which made it easier to do business in Tajikistan. We realize that these measures might not be sufficient and therefore, the Government plans to coordinate efforts of all state authorities to remove barriers on the way of private sector development in the country", said Buriev N..

D. Zoirova also noted that Private Sector Development Strategy in RT also was discussed at the presentation. Based on the document, investments to the private sector in Tajikistan still accounts for only about 50 percent of GDP compared to 65 percent in Kyrgyz Republic, 65 percent in Kazakhstan, and 70 percent in Armenia.

2. News interesting for Business Environment

TAJIKISTAN RANKED 91ST IN VOLUME OF NATIONAL GOLD RESERVES

DUSHANBE, December 21, Asia-Plus – Tajikistan with 1.6 tons of gold in its national reserves, which is 16.1 percent of its gold and foreign currency reserves, has been ranked 91st in the World Gold Council (WGC) report, Russian news agency Interfax said.

According to the global market research studies conducted by a WGC, as of December 1, 2007, the United States with 8,133.5 tons of gold has stood the first place globally in terms of national gold reserves, followed by Germany (3,417.5 tons of gold), France (2,622.3 tons), Italy (2,518.5 tons), Switzerland (1,116.3 tons), and Japan (765.2 tons).

Russia with 438.2 tons of gold has been ranked 11th, and Kazakhstan with 62.7 tons has been ranked 40th. Kyrgyzstan with 2.6 tons of gold has been ranked 85th.

In the meantime, Tajik central bank has refrained from giving details of Tajikistan's gold and foreign currency reserves in 2007. We just will recall that speaking to journalists in 2005, Tajik central bank chairman said that that in 2005, the gold and foreign currency reserves held by Tajikistan's central bank in 2005 remained unchanged from the previous year at \$180 million

The World Gold Council, formed in 1987, is an association of the world's leading gold producers dedicated to the promotion of gold. The World Gold Council is a non-profit association of the world's leading gold producers, established to promote the use of gold. With headquarters in Geneva, the Council is represented by a network of offices in the major centers of gold demand around the world and its promotional activities cover markets representing some three quarters of the world's annual consumption of gold. The nature of its work, much of which is in close partnership with the local gold trade and industry, varies according to the different needs and stages of development of the countries, and of the forms (jewelry, bars, coins, dentistry, etc.) in which gold is most commonly sold or held.

The Council's programs and skilled staff help to improve gold products and distribution systems, and they provide specialist gold information and economics services to large holders of gold. Its primary focus in recent years has been on facilitating the removal of structural impediments to the free flow of gold, thereby encouraging its more widespread acquisition and retention.

The Council conducts both regional and global market research studies and publishes information on developments in gold demand, or major gold-related issues.

CENTER FOR PROMOTING CROSS-BORDER TRADE OPENED IN KHOROG

DUSHANBE, December 21, Asia-Plus – Pamir Media – A consultative center has been established at the border market in Khorog, the capital of the Gorno Badakhshan Autonomous Region (GBAO or Gorno Badakhshan).

Boymamad Alibakhshev, the head of GBAO Entrepreneurs' Association, told Pamir Media [Khorog independent news agency – Asia-Plus] the center is part of "Consultative Support for Development of Cross-Border Trade between Tajikistan and Afghanistan" program.

GBAO Entrepreneurs' Association is implementing the program in cooperation with the GBAO Directorate for Investments and Management of State-owned Property and the Afghan Consulate in Khorog under support of the OSCE Center in Dushanbe.

Senior representatives from the GBAO local authorities and the Afghan General Consul in Khorog Abdulmajid Okhonzoda attended the center-opening ceremony.

The center, aimed to promote cross-border trade, will make available accurate information on customs and markets to entrepreneurs on both sides of the border. It will also offer business training opportunities focusing on small enterprises that promotes cross-border trade. A similar center for promoting cross-border trade will be opened in GBAO' Ishkashim district soon.

It is to be noted that the OSCE Center in Dushanbe has been promoting trade development between Tajikistan and Afghanistan since 2004. A number of cross-border business deals have resulted from an OSCE-supported international conference in 2005 on developing trade among countries bordering the GBAO region. The event was held in Khorog.

APPLICATION FEES FOR US NON-IMMIGRANT VISAS TO INCREASE NEXT YEAR

DUSHANBE, December 19, Asia-Plus - Effective January 1, 2008, the application fee for a U.S. nonimmigrant visa will increase from \$100 to \$131, press release issued by the US Embassy in Dushanbe said. This increase allows the Department of State to recover the costs of security and other enhancements to the non-immigrant visa application process.

Applicants who paid the prior \$100 application fee before January 1 will be processed only if they are scheduled and appear for a visa interview before January 31. Applicants who paid the prior \$100 application fee and appear for visa interviews after January 31, 2008 must pay the difference -- \$31 -- before they will be interviewed.

The Department is required by law to recover the cost of processing non-immigrant visas through the collection of the Machine-Readable Visa application fee. Because of new security-related costs, new information technology systems, and inflation, the \$100 Machine-Readable Visa fee is lower than the actual cost of processing non-immigrant visas. In fact, the \$100 fee was already lower than the cost of processing non-immigrant visas when the fee was reviewed as a part of the cost of service study in 2004. The Department of State has been absorbing the additional cost. We are now collecting 10 fingerprints from each applicant, and the cost charged by the FBI to review those fingerprints no longer allows us to do this. The application fee has increased twice since September 11, 2001, the last time in 2002.

\$1.18 BILLION REMITTED TO TAJIK BANKS IN JAN-OCT 07

DUSHANBE, December 18, Asia-Plus - \$1.18 billion have been remitted to Tajik banks over the first ten months of this year, which is 46.6 percent more than in the same period of last year, Asia-Plus has learned at the National Bank of Tajikistan.

The source at NBT said that it is 46.6 percent more than in the same period of last year, when \$751.6 million had been remitted to Tajik banks. The funds have been remitted mainly from CIS states, primarily from the Russian Federation.

SUGHD ENTREPRENEURS MAKE PREPARATIONS FOR MEETING WITH THE PRESIDENT

KHUJAND, December 18, Asia-Plus - A meeting of representatives from business circles of the Sughd province was held in Khujand on December 17.

The meeting, staged by the branch of the Tojikstandart (agency for standardization, metrology, certification and trade inspection) for Sughd, discussed problems facing local entrepreneurs and selected the most topical ones that will be brought to president's attention at a December 24 meeting in Dushanbe.

We will recall that President Emomali Rahmon is expected to hold meeting with representatives of Tajik business circles in Dushanbe on December 24.

The Khujand meeting participants also expressed satisfaction with the level of cooperation with the Tojikstandart branch for Sughd and proposed to make amendments to the country's law on standards. They, in particular, proposed to extend a term of validity of accreditation of labs from one to three years and recognize quality certificates issued by the CIS states.

WB TO SUPPORT ENHANCEMENT OF TAJIK ENERGY SECTOR

DUSHANBE, December 17, Asia-Plus - Expansion of cooperation between the World Bank and Tajikistan in enhancing the country's energy sector was focus of a meeting of Foreign Minister Hamrokhon Zarifi with visiting World Bank (WB) team leader for Central Asian energy programs Raghuvveer Sharma that was held in Dushanbe on December 15, Tajik MFA information department said.

Deputy Foreign Minister Erkin Qosimov and Sodiq Haitov, coordinator of energy programs, WB Dushanbe Office, attended the meeting.

In the course of the talks the minister pointed to the necessity of closer cooperation in implementation of energy projects expanding underlined the importance pointed and underlined the importance of the Bank support for enhancement of the energy sector.

Mr. Sharma, for his part, informed Tajik minister of plans and intentions of the World Bank on development of the energy sector in Tajikistan, which in particular, include development of hydropower for meeting Tajikistan's requirements in electricity, use of export opportunities and generation of electrical power by power plants working on coal.

Mr. Zarifi noted that Tajikistan was ready for cooperation with all interested sides and welcomed the World Bank efforts.



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

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

With best wishes,
Tajikistan SME Public Relations/Communication Department