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Tajikistan Business Enabling Environment- SME Policy Project Press Review - Issue #60

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IFC PRESS REVIEW

1. News directly connected to SME Project

STRONG AND EFFECTIVE CORPORATE GOVERNANCE IS GOOD FOR BUSINESS

Interview

Karl Bach, Manager, IFC Corporate Governance Project in Central Asia

Experience: Before joining the Project, he worked as a privatization/corporate governance lawyer on a USAID project in Pristina, Kosovo for nearly 4 years, where he was a major developer and implementer of Kosovo's privatization program. From 1997-2002, he worked as a corporate attorney for the British law firm Denton Wilde Sapte.

Education: Law degree from Hamline University School of Law and a Finance degree from the University of Vermont. He is a New York and Connecticut qualified lawyer and is admitted to the role of solicitors in England and Wales.
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In your opinion, why should Tajik companies improve their corporate governance practices?

In short: Strong and effective corporate governance is good for business.

If corporate governance structures and procedures are not clearly defined and followed by a company, there is greater business risk and less trust amongst all parties. Studies have shown that companies with good corporate governance have better access to capital, obtain higher sale prices for their shares, perform better operationally and are less likely

to experience fraud. This can, in turn improve Tajikistan's entire economy and create jobs, by making both local and foreign investors more likely to invest in Tajik companies and by making those companies more competitive.

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Tajik's economy is growing very rapidly and its businesses are starting to become more integrated into the regional and world economy. We are seeing Tajik companies listing on both local and foreign stock exchanges and Tajik banks having international bond issuances. In order for this development to continue, these companies will need to follow international corporate governance best practices to be attractive options for investment. This is because global investors are paying greater attention to the corporate governance practices of companies when choosing where to invest. Improved corporate governance practices will also help Tajik's overall reputation which in turn will encourage further investment throughout the economy.

What innovations in corporate governance reform will the IFC Central Asia Corporate Governance Project bring to Tajikistan?

Our Project's goal is to help improve the investment environment in Tajik by improving the corporate governance practices of joint stock companies and by increase public and investor awareness about corporate governance. Therefore, our project is designed to provide both public benefits to Tajikistan as well as private commercial benefits to individual companies and banks that we work with.

IFC's approach to corporate governance reform uses a system that has been refined through many IFC technical assistance projects. The Central Asia Corporate Governance Project will use a 4-segment approach to its activities: these include working directly with joint stock companies, educational institutions, the government and the media.

With joint stock companies, we still start with seminars on corporate governance topics and progressively work together with clients on more specific issues. Also a limited number of joint stock companies will be invited to be "pilot companies". With these pilot companies, the Project will perform detailed assessments of their corporate governance practices, propose a set of reforms and help to implement those reforms. These companies will then become high profile examples for the rest of the economy.

Throughout all of our work, we will be promoting a market-oriented approach to corporate governance. As I've already mentioned, improving corporate governance simply makes good business sense. Of course, laws that set corporate governance rules and standards are a vital part of corporate governance and companies should learn about and follow such laws. However, market-driven corporate governance reform will also be promoted, as market pressures to improve corporate governance can often be even more effective than legislative rules.

Does IFC work on corporate governance issues in other countries?

IFC addresses corporate governance issues in virtually every country that it has operations.

As you may know, the majority of IFC's activities relate to its investing in private companies in emerging markets, through both debt and equity. When deciding whether or not to invest in a company, IFC assesses the strength of that company's corporate governance practices. In all, IFC has helped to improve client companies' corporate governance practices in more than 80 countries.

IFC also has corporate governance-related technical assistance activities in many regions of the world. Some of the highest profile and largest corporate governance projects are in the CIS. IFC, through its Private Enterprise Partnership (PEP), promotes corporate governance reform and has had or is currently running projects in Russia, Ukraine, Georgia, Azerbaijan and now in Tajikistan. We are fortunate that the Central Asia Corporate Governance Project is the newest project in the CIS, as we are able to develop our project based on the successes and lessons from the other projects.

IFC also implements corporate governance technical assistance throughout the world. For example, IFC performs technical assistance-related corporate governance work in South-Eastern Europe, the Middle East and North Africa. It also has helped to establish national institutes to promote improved corporate governance in Latin America, Eastern Europe and East Asia. The Central Asia Corporate Governance Project is therefore part of a large network of IFC international experts, located both in IFC's Corporate Governance Department based in Washington DC and worldwide.

We invite you for cooperation and are ready to provide assistance on any issues related to corporate governance!

2. News interesting for Business Environment

POTENTIAL INVESTORS` THOUGHTS

In the article "Macedonians don't even dream of it" (№38 from 20.09.07) Mr. Valiev notes that "each self-respecting investor will study all possible risks and their influence on business tomorrow before investing something.

In this connection it is worth looking at what is going on from the potential investor's point of view, who would try to examine the situation in the region.

Main Thesis and Findings of the Potential Investor.

The main point of social economic situation of Tajikistan at present can be expressed in terms of the following thesis:

- There is a rapid deindustrialization in the country (the development of energetic, i.e. hydro-electric power station construction, has just begun).
- Redemption of technological and industrial potential of Tajikistan is the indispensable condition of further existence of the country as an independent and economically self-sufficient state.
- It is important to increase the number of investments

But it is not possible to achieve the above mentioned without creating new production funds, which would first of all produce compatible high technology products.

The investment in capital stock is 80-85 somoni or 23-25 USD per capita. Is it much or little? In Armenia it makes 170-175 USD, in Kirgizstan – 50-55, in Uzbekistan – 90-95, in Kazakhstan – more than 1000 USD.

The dynamics of creditor debts in Tajikistan is quite worrisome: it has increased from 1 bln 788 mln dollars in 2001 to 3 bln 183 mln in the beginning of 2005, i.e. it has increased up to 1,8 times. It seems especially suspicious that creditor indebtedness against banks rises faster than the total debt – up to 1,9-times and makes up 14,6% debts of the overall structure.

Almost every fifth person of economically active age takes up the common credit burden against banks in the sum of about 1500 dollars, and **the whole population** represented by each citizen, **including babies, bears the responsibility in the sum of 480-500 dollars**. If we consider a more objective indicator than average monthly salary – that is real money income, which make up 145-150 dollars a year per capita – the economically active population **would have to take 10 to 15 years without eating or dinking to pay the debts**.

The critical threshold of the state debt versus the profitable part of the state budget is 250%. According to the Tajik economists' data, **in 2003 this ratio made up to 400-450%**, which is more than 500 million dollars.

Here are some more statistics related to these discussions. If the GDP growth rate for the period of 2003-2006 constitutes 107% as apposed to a year before, then it means that industrial production tends to reduce: if we compare to the year 2003, in 2004 it was 115,1%, in 2005 it was 109.7%, in 2006 – 104,3%. In other words, **the locomotive of our economy is slipping**, and it is necessary to search for new sources.

Thus there is a search for opportunities to fill the state budget. The main source of its formation and refilling are taxes. In Tajikistan the main source is VAT, the share of which made up 27% of the general budget filling system in 2001. The percentage rose up to 50 % till September 2006. This system does not exist any of the other CIS countries, except for Moldova.

Increased tax burden will become a constraint for increasing production volume by local producers... Prices for imported production will increase and thus inflation rate will rise accordingly. It should be noted that consumer price index for 2000-2006 made up 187%. Small and medium enterprises, especially those with innovative production, cannot survive under such conditions at all. However, it is even worse if the economy goes "under shadow" from tax press. It is known that the percentage of shadow economy harmless for macroeconomic parameters is estimated to be 5-10% of total gross domestic product. Tajik experts estimate the level of shadow economy in the country as 70-80%. Thus the state budget is underpaid up to 800-900 mln. dollars.

What are basic conclusions to be made by potential investors?

- If the investment behavior of the society does not change to the opposite, it will be impossible to rescue the industrial potential of the country.
- Neither domestic nor foreign private capital will take the responsibility to save the industrial potential as a whole or just the basic part of it.
- Further economic growth will be even more complicated, because the main opportunities of the last years exhausted themselves, while the pace of building new capacities and innovations is not on a required speed.

M&P TOP MANAGER CHARGED WITH BRIBE GIVING AND TAX EVASION, SAYS ANTICORRUPTION AGENCY CHIEF

DUSHANBE, October 22, Asia-Plus - The Prosecutor-General's Office has instituted criminal proceedings against Marouf Oripov, director general of the company M&P, which operates a chain of supermarkets Orima in Tajikistan, on charges of giving bribe, evading tax payments and selling subquality goods, Sherkhon Salimov, Director of the Agency for State Financial Control and Combating Corruption, announced at a news conference in Dushanbe on October 19.

"Investigation has established that Oripov was trying to give bribe in an amount of \$10,000 to an officer with the State Committee for National Security (GKNB)," the anticorruption kingpin said, noting that they are currently thoroughly checking materials on the charges of evading tax payments and selling subquality goods.

Oripov is currently being held at the GKNB-run pretrial detention facility. GKNB had instituted criminal proceedings against Marouf Oripov on charge of bribe giving but later, the case was remitted to the Agency for State Financial Control and Combating Corruption. Investigation is under way.

As it had been reported earlier, the M&P top manager was detained in July this year.

ILO/UNDP PROJECTS ON COMBATING HUMAN TRAFFICKING AND MANAGING LABOR MIGRATION PRESENTED IN TAJIK CAPITAL

DUSHANBE, October 19, Asia-Plus - Two projects on combating human trafficking and managing labor migrations were presented by the International Labor Organization (ILO) and UNDP CO in Dushanbe last Wednesday.

Deputy Labor and Social Security Minister, Emin Sanginov, speaking at the presentation ceremony noted that the project entitled "Stable Partnership as Toll to Provide Efficient Management of Manpower in Russia, Caucasus and Central Asia" is designed for labor migrants and their families, national governments and trade unions. "The main objective of the project is to promote national and regional dialogue among social partners on issues related to more efficient and fair norms of management of migration flows," said the deputy minister. According to him, the project launched in January 2007 will be finished in December 2009 and the estimated budget for implementation of this project is more than \$2.4 million.

The next project formally titled "Development of Local Communities through Creation of Jobs and Improvement of Migration Management System" is being implemented in Rasht Valley, the deputy minister said. According to him, the project is aimed at combating human trafficking from Tajikistan through improvement of the employment policy. Beneficiaries of this project are potential migrants who may find themselves in irregular situation and become victims of abuse and forced labor, and one-parent families, which have to put up with long-term consequences of migration. A total cost of the project designed for two years (July 1 2007 – June 30 2009) is \$1.065 million.

In the meantime, the ILO Senior Technical Adviser Nilim Barua (phonetically spelled) noted that labor migrants make significant contribution to development of the economies of their countries and the countries of destination. According to him, remittances are tool for improving living standards of labor migrants and their families.

"According to our data, more than 600,000 Tajik seasonal workers travel abroad each year, primarily to Russia but also to neighboring Kazakhstan," Mr. Barua said.

According to him, trade unions are assigned to play a significant role in elaboration of policy on labor migrants. "It is necessary to establish relations among trade unions in different countries as well as strengthen contacts between labor migrants and trade unions," he said.

OFFICIAL PRESENTATION OF EBRD BAS PROGRAM HELD IN TAJIKISTAN CAPITAL WEDNESDAY

DUSAHNBE, October 18, Asia-Plus - An official press conference on the occasion of presentation of the European bank for Reconstruction and Development (EBRD) Business Advisory Services BAS Program in Tajikistan was held at the Kokhi Vahdat State Complex in Dushanbe on October 17.

The official representatives of BASP from London Headquarters, Regional and Country program offices and the Head of EBRD in Tajikistan addressed their speech to the representatives of small and medium enterprises (SMEs), consulting companies and international organizations. They informed participants about the program goals and activities, future plans and perspectives, the results achieved and answered the questions of mass media representatives.

Ms. Sitora Bobojonova, Project Officer, BASP Tajikistan, said the BAS Program operates within the EBRD framework more than 12 years and currently is being implemented in 18 countries of Eastern Europe, CIS and the Baltic States. Starting October 2001 the BAS Program began its operation in Central Asia and since April 2007 BASP was initiated in Tajikistan. The program is funded by Early Transition Countries (ETC) Fund.

The mission of BASP is based on two main objectives: assisting SMEs in their business development and supporting the professional development of local consulting companies.

Both of these objectives are aimed to support the process of transition to market economy in the BASP's operation countries.

To achieve its goals and objectives the BAS Program works directly with individual SME representatives, providing the assistance in getting the practical business advices from the professional consultants. At the same time, the Program improves the capacity of local consultants to meet the enterprise needs.

The assistance of BAS Program consists of three components: assistance in project initiation and implementation; monitoring and evaluation of projects; and providing a grant to cover 50% of the project cost.

EASTERN EUROPE AND SOME CIS STATES OVERTAKES EAST ASIA ON EASE OF DOING BUSINESS

DUSHANBE, October 18, Asia-Plus - This year Eastern Europe and the former Soviet Union surpassed East Asia on the ease of doing business, according to Doing Business 2008—the fifth in an annual series issued by the World Bank and IFC, press release issued by the World Bank said.

Several of the region's countries have even passed many economies of Western Europe on this score. Results from the region show that as business regulation eases, businesses are starting up at unprecedented rates.

Eastern Europe and Central Asia saw 59 reforms over the past year—52 positive and seven negative—that affected the regulatory ease of doing business. “Results show that as governments ease regulations for doing business, more entrepreneurs go into business; and this is especially evident in Eastern Europe,” said Simeon Djankov, lead author of the report. “Eastern Europe has witnessed a boom in new business entry that rivals the rapid growth in East Asia in the past.”

Globally, the report finds that higher rankings on the ease of doing business are associated with higher percentages of women among entrepreneurs and employees. “Increased regulatory reform leads to especially large benefits for women,” said Dahlia Khalifa, Doing Business spokesperson. “Women often face regulations that may be aimed at protecting them, but that instead force women into the informal sector, where they have little job security and few social benefits.”

Croatia, Hungary, FYR Macedonia, Georgia, Armenia, and Uzbekistan were ranked among top reformers in Eastern Europe and Central Asia.

According to the report, Uzbekistan established a special procedure for voluntary liquidation of private companies and cut the corporate income tax to 10 percent. It also reduced the cost of property transfers by cutting notarization fees from 10 percent of the property value to a fee based on surface area. And the country eased business start-up by clarifying registration rules and removing burdensome procedures.

Kazakhstan and Kyrgyzstan along with Albania, Azerbaijan, Bosnia and Herzegovina, Czech Republic, Estonia, Moldova, Poland, Romania, Russia, Slovenia and Turkey were ranked among other notable reforms in the region.

According to the report, Kazakhstan eased the tax burden by amending depreciation rates, and Kyrgyzstan cut the corporate income tax and abolished social security contributions. It also reduced pension contributions and cut the value added tax to 14 percent.

Doing Business 2008 ranks 178 economies on the ease of doing business based on 10 indicators of business regulation. Singapore, for the second year, tops the aggregate rankings across 178 economies.

The Doing Business project is based on the efforts of more than 5,000 local experts – business consultants, lawyers, accountants, government officials, and leading academics around the world, who provided methodological support and review.

ORIMA TOP MANAGER HELD AT GKNB-RUN PRETRIAL DETENTION FACILITY: TAJIK CHIEF PROSECUTOR

DUSHANBE, October 17, Asia-Plus - Marouf Oripov, director general of the company M&P, which operates a chain of supermarkets Orima in Tajikistan, is currently being held at the pretrial detention facility run by the State Committee for National Security (GKNB), Prosecutor-General Bobojon Bobokhonov remarked at a news conference in Dushanbe today.

According to him, GKNB had instituted criminal proceedings against Marouf Oripov on charge of bribe giving but later, the case was remitted to the Agency for State Financial Control and Combating Corruption. Investigation is under way, Tajik chief prosecutor said.

As it had been reported earlier, the M&P top manager was detained in July this year.

INSPECTIONS BY TOJIKSTANDART RECORD SOME 2,360 INSTANCES OF VIOLATION OF STANDARDIZATION REQUIREMENTS

DUSHANBE, October 17, Asia-Plus - 4,300 inspections carried out by Tojikstandart (Tajikistan's Agency for Standardization, Metrology, Certification and Trade Inspection) over the first nine months of this year have recorded some 2,360 instances of violation of standardization requirements and country's laws, the deputy Tojikstandart director, Ibodullo Qurbonov, announced at a news conference in Dushanbe on October 16.

According to him, 223 entities have been fined a total of more than 28,000 somonis for failing to satisfy the standardization requirements.

Over the report period, the agency's labs have checked some 26,000 samples of food products, of them, 1,200 or 4.5 percent have been found to not meet appropriate standards of quality,” said Qurbonov, “Thus, the labs have culled

772.3 tons of wheat flour, 11.54 tons of vegetable oil, 4,282 tons bread products, 11.9 tons of macaronis, and 21.1 tons of confectioneries.”

In all, the agency has inspected 2,205 enterprises over the report period, which is some 10 percent more than in January-September 2006.

NEARLY 619 MILLION SOMONIS' WORTH OF INDUSTRIAL GOODS PRODUCED IN SUGHD IN JAN-SEPT 07

KHUJAND, October 16, Asia-Plus - In January-September 2007, the Sughd province has produced a total of 618.9936 million somonis' worth of industrial goods, the Sughd agency for statistics said.

Compared to the same period of last year, the index of the volume of production of industrial goods in northern Tajikistan has amounted to 106 percent.

Over the report period, 160 of 228 enterprises have reached the January-September 2006 level, and 60 enterprises (26.3 percent) have decreased the production volume. There were eight enterprises, or 3.5 percent of the overall number, that were not in operation over the same nine-month period.

Of the 78 basic types of industrial products the output of 33 items (44.6 percent) has increased, and the output of 32 (43.2 percent) has decreased.

Isfara, Spitamen and Bobojonghafurov have failed to provide growth in production of industrial goods.

21.1 percent of the overall volume of industrial goods have been produced by joint ventures.

According to the Sughd agency for statistics, the main reasons for decrease in the volume of production of industrial goods in the province were decrease in production of cotton fiber, irregular electricity supplies, and shortage of floating assets.

In January-September 2007, Sughd generated 535.9 million kWh of electrical power, extracted 12.2 tons of oil, 3.9 million cubic meters of natural gas and 41,700 tons of coals, as well as produced 23,552.9 tons of cotton fiber, 58,800 tons of cocoons, 708,200 square meters of carpets, 3,954.3 tons of vegetable (cotton) oil, 14,958 tons of wheat flour, and 45.6615 conditional jars of bottled vegetables and fruits.

BRANCHES OF YOUNG ENTREPRENEURS' CLUB TO OPEN IN GBAO THIS YEAR

DUSHANBE, October 16, Asia-Plus-Pamir Media – Branches of the Club of Young Entrepreneurs of the Tajik Committee for Youth, Sports and Tourism are supposed to open in Gorno Badakhshan before the end of this year, Juma Jumayev, the head of the GBAO department for economic reforms and investments, said in an interview with the Khorog independent news agency Pamir Media.

According to him, this issue was discussed at a roundtable meeting that was held in Khorog on October 12. The branches of the young entrepreneurs' club are supposed to promote development of entrepreneurship among local young people, Jumayev said.

The roundtable meeting brought together representatives from the young entrepreneurs' club, local authorities, NGOs, tax service, and banks' branches in the region. Participants at the meeting discussed issues related to development of entrepreneurship in the region and introduced their motions on tackling problems facing development of small and medium enterprises in Gorno Badakhshan.



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Federal Department of Economic Affairs FDEA
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With best wishes,
Tajikistan SME Public Relations/Communication Department