

Tajikistan Business Enabling Environment / SME Policy Project Press Review - Issue #48

Dushanbe, 27 July 2007

1. News directly connected to SME Project

- TV PSAs on Law on Inspections presented in Dushanbe Thursday.
YOU CAN SEE OUR TV PUBLIC SERVICE ANNOUNCEMENTS (PSAs) on SHABAQAI AVAL CHANNEL at 7.30 a.m., 8.25, 9.00 and 9.55 p.m. or OUR WEBSITE:
<http://www.ifc.org/ifcext/tajikistansme.nsf/Content/Awareness>
- On Tax Committee Proposals on improvement of Individual Entrepreneurs Tax Administration.

2. News interesting for Business Environment

- Joining NY convention would promote attraction of foreign investors, says state-owned property committee head.
- Export increased in two times.
- Tajikistan rated 142nd globally in terms of GDP in 2006.
- World bank endorses Tajikistan's country partnership strategy progress report.
- OryonBank offers establishing Tajik banks' association.
- Tajikistan's foreign debt reaches 28.24 percent of GDP.
- Country's budget revenue indices for January-June overfulfilled by 21.3 percent.
- Inflation rate for January-June stands at 3.5 percent, says Tajik central bank head. Tajik media organization ask the government for improving legislation on licensing for media.

IFC PRESS REVIEW

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1. News directly connected to SME Project

DUSHANBE, July 27, Asia-Plus - A presentation of four TV public service announcements (PSA) on Tajikistan's law "On Inspection of Activity of Economic Entities in Tajikistan" was held in Dushanbe on Thursday, July 26.

Demonstration of the TV PSAs was held under support of the International Finance Corporation (IFC) as part of the project for development of small and medium-sized enterprises in Tajikistan.

Speaking at the TV PSAs-presenting ceremony, the project manager, Mr. Andrea Dall'Olio, said: "Working out legal foundation is not enough for law's taking effect, and the key instrument of action is legal awareness of the population."

Four TV public service announcements titled “Law is Your Support”, “Before Inspection”, “During Inspection” and “Application of Inspection” have been shot under support of the Swiss Secretariat for Economic Affairs (SECO), Tajikistan’s State Committee for Investments and Management of State-owned Property and State Committee for TV and Radio-broadcasting. They will be broadcast on Tajik national TV channel Shabakai Avval four times per day.

“These TV PSAs inform entrepreneurs about new law on inspections, which protects their rights,” Rudoba Bahrddinova, chairwoman of the department for legal protection of entrepreneurs of the State Committee for Investments and Management of State-Owned Property, said, noting that the law regulates the scope and frequency of inspections, states clear rights and obligations of inspectors, and provides for preliminary notification of entrepreneurs of inspections three days before it begins.

The main objective of this public service announcement is to raise public awareness of the country’s law on inspections that was adopted on July 28, 2006.

It is to be noted that small and medium enterprises (SMEs) in Tajikistan suffer from repeated, and not always properly regulated, inspections. Not only is the structure and organization of inspections sometimes inadequate, but entrepreneurs have very low knowledge of their rights and obligations.

DUSHANBE, July 26, Business and Politics - This May, Tax Committee shared its proposals on ‘Procedures of patent and certificates issuance to individuals involved in individual entrepreneurship’.

At present, patent and certificate issuance procedure is defined by Government Decree of Tajikistan No.140, adopted on 31 March 2004. The Decree has many disadvantages. The Decree envisages that patent includes only income tax and I proposed that the payment should also include social tax.

...Now, after two years, the Tax Committee made a conclusion that the Decree No.140 needs to be amended and the payment for the patent should include income and social tax and retail tax.

...According to official statistics, annual inflation level does not exceed 12% per year. This means that for the past three years inflation reached 40%.

The proposed rates for patent payment exceed the basic rates, taking inflation into account, for an average of 42-71 percent. Even if we consider the zonal coefficients, the proposed income tax rates are 1.5 times higher than the current ones.

Thus our Government either provides us with incorrect information that inflation for past years did not exceed 12% per year, or the Tax Committee takes an opportunity to raise income tax burden for individual entrepreneurs.

It should be noted, that new rates are very high (2-5 times higher) particularly for common patent types – trade and transport.

... Point 5 of the Draft Government Resolution, tens of thousands dehkan farmers should declare incomes for social tax calculation. As dehkan farmers are not doing this now, it means increasing the number of necessary declaration, but not its cancellation.

..In fact, the ‘Procedures’ significantly complicate tax accounting (so, number of documents for registration is increasing up to 8) and do not improve the accounting. In addition, complication of the tax accounting procedure creates an environment favoring corruption.

...The Tax Committee for the first time raised the issue of social taxation of individual entrepreneurs – dekhkan farmer in the Draft Resolution of ‘Procedures’. So far there were no instructions, and there were no social fees paid by dehkan farmers. As a result - at least half million of old farmers have no right for labor pension.

... Registration and withdrawal of registration procedure for is as difficult as registration procedure for a legal entity and requires collecting more information. And it is not clear which document can define the activity place. And at the same time, it is fixed that the patent (certificate) is valid for only one calendar year. This is unfair and burdensome – enterprises are registered one time and forever. Patent should have validity for the same period of time.

At the same time, there is no requirement on registration of the entrepreneur as a social tax payer (SIN), which makes accumulation of individual fees to Social Protection Fund practically impossible. The rate for certificate form (letterhead) is not defined, and this allows Tax Committee to increase rate without any control.

To calculate retail trade tax, the Tax Committee refers to the cost efficiency of the individual entrepreneur activity rated as 5-25%. How has this been counted? When? By whom? As a specialist of economy I know that this kind of information can be obtained through a large-scale survey, covering at least 2-3% of individual entrepreneurs, which would last at least half a year. So there is basis to believe that the retail trade tax calculation of the entrepreneur, proposed by Tax Committee is not supported by any economical calculations and statistic data.

Lack of justification can be observed also in other proposals of the Tax Committee. So, such definition as chronometry survey is used many times in the documents, and in the 'Procedures' chronometry is defined as an income level calculation (i.e. earnings). However, for income tax calculation and FSP fee payment it is required to know a field cost level, including cost of purchase, delivery, processing, storage and sale of products. But chronometry of production cost is not mentioned anywhere.

...Calculation of field cost at the places of products trade is not possible, as main part of the expenditures is made at another place – place of purchase. This creates preconditions for abuse by tax officials.

...Income rate aimed for the personal consumption (i.e. wage) of the individual entrepreneur is significantly overestimated in the Resolution.

In fact, on the base of personal income tax we estimate the size of the patent holder salary. Their estimated salary is quite high.

..Adoption of the given Resolution will lead to mass rejection of individual entrepreneurs from entrepreneurship, rapid decrease of entrepreneurship activity, and decrease of revenue to state budget.

V.P.Lyadsky, PhD, Chariman of Enterprises and Cooperative Societies

The original is attached.

2. News interesting for Business Environment

DUSHANBE, July 26, Asia-Plus - Sharif Rahimzoda, Chairman of the State Committee for Investment and Management of State-owned Property, told journalists in Dushanbe on July 25 that to attract foreign investors Tajikistan ought to join the New York Convention, which is one of the most important and successful commercial law treaties and lays down conditions for the recognition and enforcement of foreign arbitration Awards in the territories of its member states.

"We have prepared all necessary documents to join the convention," said Rahimzoda, "This means that we are ready to implement its terms and meet international requirements of court proceedings, which is of significant importance for foreign investors."

Rahimzoda also noted that his committee will create a hotline in the near future. The hotline will promote resolving legal problems facing foreign investors in the country, according to him.

He added that the state-owned committee also intends to set up a body for simplifying a procedure of launching enterprises. "Surveys by sociologists have shown that establishment of an enterprise by physical entity in Tajikistan takes from 30 to 70 days," said Rahimzoda, "This body will allow investors getting permission for working in Tajikistan in very short possible time."

The New York Convention of 1958 is one of the most important and successful United Nations sponsored

commercial law treaties. The Convention lays down conditions for the recognition and enforcement of foreign arbitration Awards in the territories of its member states. The New York Convention is a treaty that promotes the mutual recognition and enforcement of foreign, rather than domestic, arbitral awards. That so many states have acceded to the Convention clearly demonstrates that international businesses from around the world support arbitration and wish their governments to do likewise.

Arbitration agreements are popular in a wide range of international contracts in large part because such agreements protect foreign parties from national courts that may be partial to the interests of their co-nationals, heavily politicized, lacking in relevant industry expertise, slow or even expensive. An additional attraction of arbitration lies in the fact that, unlike court proceedings, arbitration hearings are held in private and their existence and outcome are confidential to the parties.

DUSHANBE, July 26, Vecherny Dushanbe - 30,000 dehqan farms are created during the first half of the year. This information was given at the press-conference held on 19 July in the Ministry of Agriculture and Environment Protection

Total volume of agricultural products made up 947,5 mln.somoni for the first half of the year, which is 6.5 % higher in comparison to last year.

..During six months 43,214 tons of vegetables, 905 tons of potato, 2,465 tons of beans and 35,728 tons of dry fruits were exported. That is two times more than the same period last year.

The original is attached.

DUSHANBE, July 26, Asia-Plus-Ferghana.ru - The World Bank has prepared report rating world's leading economies in terms of the volume of gross domestic product (GDP) in 2006.

According to Ferghana.ru, the WB report has rated Central Asia's countries in the following order: Kazakhstan with \$77.237 billion was rated 55th; Uzbekistan (\$17.811 billion) was rated 89th; Turkmenistan (\$10.496 billion) was rated 104th; Tajikistan (\$2.811 billion) rated 142nd and Kyrgyzstan with \$2.695 billion was rated 143d.

DUSHANBE, July 26, Asia-Plus - The World Bank Board of Executive Directors on July 19 endorsed the Progress Report on the World Bank Group's Country Partnership Strategy for Tajikistan covering the period 2006-2009. The Board also approved a USD10 million Second Programmatic Development Policy Grant, which will help improve the environment for private sector development as well as the overall functioning of the public sector in the country.

Press release issued by the World Bank said that the Country Partnership Strategy (CPS) maps out the collaboration between the World Bank Group and the Republic of Tajikistan over a four-year period. Today's progress report comes at roughly mid-term of the implementation period and presents results achieved in all three CPS areas: a) improving business opportunities in rural and urban areas; b) enhancing and preserving the quality of human capital; and c) exploiting the country's hydropower potential.

The Second Programmatic Development Policy Grant (PDPG2) continues to support the Government's reform program as outlined in its Poverty Reduction Strategy (PRSP). More specifically, the grant will help the authorities improve the environment for private sector development in the cotton, energy and aviation sectors, and provide service delivery improvements in the health and education sectors. PDPG2 is the second in a series of three grants through which the World Bank is assisting the Government with improving governance, transparency and good economic management in the public and private sectors. A third PDPG grant is currently under preparation, and all three grants are closely aligned with investments and technical assistance programs of the World Bank and other development partners in related areas. The grants are provided by the World Bank Group's International Development Association (IDA), and are an important addition to Tajikistan's efforts to

sustain strong growth, improve governance, and reduce poverty.

The proposed reforms in health and education are expected to result in improved access and quality of services to the poor in the short term, while reforms in public administration should yield benefits through improved public sector management in the medium term. Meanwhile, sustaining long-term economic growth in Tajikistan will require accelerating export growth and diversification of the domestic economy by stimulating investment, improving productivity and strengthening competitiveness.

According to the World Bank's press release, over the past two years, Tajikistan has made progress in achieving macroeconomic stability, implementing important policy reforms, and combating poverty. The economy, which has been growing nine percent on average in 2001 – 2005, depends heavily on cotton and aluminum exports, the major part of which is destined for countries from the Commonwealth of Independent States (CIS) and Europe. Remittances are another significant contributor of economic growth, conservatively estimated at 35 percent of GDP in 2006. While poverty has been declining steadily over the past few years, it remains a serious concern.

DUSHANBE, July 26 Asia-Plus - Open joint-stock company OryonBank, Tajikistan's largest commercial bank, has offered establishing an Association of banks of Tajikistan.

According to OryonBank's press service, the main objective of the association would be protecting rights of its members and providing assistance with projecting and submitting inquiries and proposals concerning legal documents.

The bank press service said that such organization would promote further development of banking system in Tajikistan and could take part in projecting national program for development of banking system and monetary policy.

OryonBank has worked out a draft charter of the association and asked other banks to advance their opinion on this subject, the press service said.

The majority of banks operating in Tajikistan have already expressed their consents to set up such an association and submitted lists of their representatives and proposals.

At present nine banks operate in Tajikistan: AgroInvestBank, OryonBank, SohibkorBank, Bank Eshkhat, AmonatBank (Tajik savings bank), TojikSodirotBank (TSB), Tajikistan Development Bank (TDB), TajPromBank and The First Microfinance Bank (FMFB-T). Additionally, a branch of Iran's Tejarat Bank also functions in the country.

DUSHANBE, July 25, Asia-Plus - Tajikistan's foreign debt has grown by \$20.48 million since the beginning of the year and estimated, as of July 1, at \$886.83 million, or 28.24 percent of gross domestic product (GDP), Finance Minister Safarali Najmuddinov announced at a news conference in Dushanbe on July 25.

The minister attributed the debt increase to assimilation of loans received from international financial institutions.

Over the report period, totaling 187.5 million somonis have been invested in joint investment projects, according to the minister. The total included 103.8 million somonis in loans, 36.9 million somonis in grants and 46.6 million somonis contribution of the Tajik government.

"Of this amount, 24.5 million somonis have gone to enhancing the education sector, 6 million somonis have been spent on the health sector, 2.3 million somonis on social security of the population, 39.2 million somonis on transport, 46 million on the agrarian sector, and 7.5 million somonis on housing-communal economy," Najmuddinov said.

Asked about financial resources of completing the construction of the Roghun hydroelectric power station (HPS), the minister said that funds will be attracted both from the budget, domestic companies, large energy-consumers

and other countries that expressed wish to participate in the implementation of the Roghun hydroelectricity project.

"The World Bank acts as coordinator," said Najmuddinov, "Experts have already been determined and technical assistance has been provided."

DUSHANBE, July 25, Asia-Plus - Finance Minister Safarali Najmuddinov told a news conference in Dushanbe today that tax-budgetary policy and ongoing economic reforms had allowed overfulfilling expenditure part of the country's budget for January-June this year.

According to him, in the past six months, the national budget has received 1.3 billion somonis, which is 27.1 percent of gross domestic product (GDP) and 21.3 percent or 227.6 million somonis more than it was originally planned.

"The republican budget has been overfulfilled by 24.6 percent and local budgets by 16 percent," the minister said.

On the expenditure part of the budget, Najmuddinov said that 90.3 percent (1.070 billion somonis) of it had been fulfilled over the report period, which is 293 million somonis more than in the same period of last year.

DUSHANBE, July 25, Asia-Plus - Tajikistan's gross domestic product (GDP) rose 7.3 percent in the year to July 1, 2007, reaching 4.788 billion somonis, Murodali Alimardonov, Chairman of the National Bank of Tajikistan (NBT), remarked at a news conference in Dushanbe on July 24.

According to him, over the first six months of this year, the GDP growth has amounted to 1.264 billion somonis, with a 9 percent increase in the industrial sector and a 6.5 percent in the agrarian sector.

Tajik central bank head noted that inflation rate for the first six months of 2007 had stood at 3.5 percent, which is 3.1 percent lower than in the same period of last year.

Since the beginning of the year, prices of products of the food industry have increased on average 2.6 percent, while non-foodstuffs have risen in cost by 1.9 percent, and paid services rendered to the population have risen in cost by 10.8 percent.

"The inflation dynamic has resulted from increase in prices of imported goods and decrease of prices of goods exported from Tajikistan, as well as intensification of regional trade," Alimardonov said.

Speaking to journalists, the NBT chairman noted that over the report period, the average weighted USD rate has risen 0.4 percent, reaching 3.4394 somonis, while in January-June 2006, it was 3.4265

According to Alimardonov, the deficit of Tajikistan's foreign trade turnover rose 64.1 percent in the year to July 1, 2007, reaching \$76.6 million or 12.9 percent of GDP. Exports of goods in the past six months have risen 17.8 percent and imports of goods into the country have risen 28.3 percent, Tajik central bank head said.

On the banking system of Tajikistan, Alimardonov said that at present nine banks, eight credit organizations and 68 non-banking financial structures operate in the country. Additionally, a branch of Iran's Tejarat Bank also function in Tajikistan.

Dwelling on deposits, the NBT head said that they had amounted to 1.3545 billion somonis by the beginning of June and increased by 22.2 percent since the beginning of the year. "Banks pay a special attention to the issue of providing small loans, especially to remote mountain areas," said Alimardonov, "In the past six months, "Banks and other credit organizations have provided small loans for a total amount of 437.5 million somonis, which is 202.1 million somonis or 90 percent more than in the same period of 2006."

He also pointed to the necessity of introduction of mortgage crediting in Tajikistan. For this, it is necessary to

adopt a mortgage legislation loan, Alimardonov said.

DUSHANBE, July 23, Asia-Plus - Licensing for electronic media was the focus of discussions at an international two conference, staged by the OSCE Center, that ended in Dushanbe Friday, July 20.

More than 60 participants, including international and national media experts, State officials, journalists and representatives from media NGOs reviewed the licensing requirements and procedures for electronic media.

The OSCE Center organized the conference together with the Internews Network, the Tajik Union of Journalists, the National Association of Independent Media of Tajikistan (Nansmit), Tajik Branch of the Open Society Institute/Assistance Foundation (OSI/AF) and other media NGOs.

The conference promoted the development of a pluralistic and competitive TV and radio system in Tajikistan. It was held for the first time in Tajikistan on an international level with the participation of Russian, Kazakh and Kyrgyz experts.

"Freedom of the media is one of the main criteria for the democratic development of any country. This criteria is especially important for young developing democracies like Tajikistan," Ambassador Vladimir Pryakhin, Head of the OSCE Center, said.

State Adviser Karomatullo Olimov added: "The Government of Tajikistan is working to improve the operation of electronic media in Tajikistan. It is also working to make television and radio more available and attractive to the population."

In the meantime, Oleg Katsiyev, the regional director of the Internews Network in Central Asia, noted that Licensing Commission of the Committee for TV and Radio-broadcasting should be independent and the procedure of its activity should be improved.

According to him, to develop electronic media in Tajikistan it is necessary to tackle the problem of licensing. "This will facilitate development of media business that will lead to creation of new jobs for citizens," Katsiyev said, noting that artificial obstacles in the way of granting broadcasting licenses restricts economic opportunities of Tajikistan.

Barakatullo Abdulfayzov, representative from the Licensing Commission, telling the conference admitted that applicants are experiencing certain difficulties during a process of getting broadcasting licenses. "But these difficulties are connected with the legislation, which provides for meeting 21 requirements in order to get broadcasting license, while many applicants are not always ready for this procedure," Abdulfayzov said. "They are not properly aware of legal issues," said Abdulfayzov, "Over the past two years we have received 25 applications, but licenses have been granted only to four companies."

The conference resulted in adoption of an appeal to the Tajik government and parliament with solicitation to improve the legislation on licensing for media.



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