

August 2005

Business and Tax Advisory Services

Tajikistan Market Review



Business Environment

Investment Promotion

SME Promotion & HR Development

Trade Promotion

Japan International Cooperation Agency

LIST OF CONTENTS

INTRODUCTION.....	4
MAIN OBSTACLES.....	6
Bureaucracy / Excessive Tax and Statistical Reporting.....	7
Lengthy and Costly Registration Procedure.....	7
Licensing of Operations and Certification.....	9
Lack of Statistical and Business Information.....	9
Land Use and Development.....	10
Inspections and Corruptive Practices.....	10
Investment, Tax Concessions Special Economic Zones & Foreign Trade	11
Limited Access to Financial Recourses for SMEs.....	14
WTO Accession.....	14
Taxation.....	16
Currency.....	16
Privatization.....	17
MAIN LEGISLATIVE FOUNDATIONS FOR SME PROMOTION.....	18
The Law of Tajikistan “On government protection & support of entrepreneurship in Tajikistan”.....	18
Conception of Entrepreneurship Development in Tajikistan till 2015.....	19
AGENCIES FOR SME PROMOTION.....	21
<u>Governmental Agency</u>	
Agency on Anti-Monopoly and Support of Entrepreneurship is in charge of SME support.....	21
Center for Support and Development of Entrepreneurship under Dushanbe City Administration.....	21
<u>Non-Governmental Organizations</u>	
Chamber of Commerce & Industry of Tajikistan.....	22
National Association of Small and Medium Business.....	22

ATTACHMENT 1: SUMMARY TABLE.....	23
ATTACHMENT 2: INTERVIEW MEMOS.....	49

1. Aga Khan Fund for Economic Development
2. Minister of State Revenues and Levies of the Republic of Tajikistan
3. Agency on Standardization, Metrology and Trade Inspection under the Ministry of Economy and Trade of Tajikistan
4. Ministry of Economy and Trade of the republic of Tajikistan
5. *National Association of SME*
6. European Bank for Reconstruction and Development
7. Ministry of Finance of Tajikistan
8. International Finance Corporation
9. Asian Development Bank
10. USAID Enterprise Development Project
11. Center for Support and Development of Entrepreneurship under Administration of Dushanbe City
12. Chamber of Commerce & Trade of Tajikistan
13. USAID Trade Facilitation and Investment Project in Tajikistan
14. Trade Promotion Programme in Tajikistan, International Trade Centre, UNCTAD/WTO
15. Agency on Antimonopoly Policy and Support of Entrepreneurship
16. Private Company "Sharbatho"
17. LLC "Stroyinvest", Chairman of Association of Constructors
18. Joint Stock Commercial Bank "Agroinvestbank"
19. JSC Industrial Financial Corporation "Olimi Karimzod-L"
20. Private Company "Doro"
21. "Fonus" Ltd. Company
22. Tourism Company "Vostok Trading Tour"
23. Club of Young Entrepreneurs of Tajikistan

ABBREVIATIONS

ATTACHMENT 3.

Changes in Trade Regime of Tajikistan

Characteristic of changes in the New Tax Code of Tajikistan, 2005

ATTACHMENT 4.

Information data

Tajikistan dehkan farms basic indicators

Number of patent (license)-based individual entrepreneurs

Basic indicators of corporate entities engaged in entrepreneurship and possessing enterprises entity status

Basic features of enterprises and organizations in Tajikistan as of January 1, 2004

Number of operating judicial entities by Property and industry sector in 2003

Number of operating judicial entities by property and regional structure in 2003

Table 1. Development of Business in Tajikistan

Table 2. External Trade of Tajikistan since Independence

Box 1: Business Environment in Tajikistan

Table 3. Volume of FDI in Tajikistan (in million US Dollars)

Table 4. Changes in the Structure of Tajikistan GDP since the years of Independence

Introduction

It is widely accepted that Small & Medium Enterprises (SME) account for large share of total employment and contribute significantly to the development of national economy. With the transition towards market relation their role is substantially increasing. Taking into account this circumstance, the Government of Tajikistan has given substantial attention to issues related with entrepreneurship. The establishment of a special government agency for entrepreneurial support as well as adoption of the State Program for Support of Entrepreneurship for 2002-2005¹ can be characterized as an important step forward this area. However, there are a lot of administrative procedures in Tajikistan like other transition economies, left as a legacy from the Soviet period, which do not match the requirements of a market economy.

In this report an attempt will be taken to respond to these issues, through analyze of business environment in Tajikistan, including the main procedures used to regulate entrepreneurship. Conclusions and general recommendations presented in the report can be used in order to further develop government policy directed on support of entrepreneurship in Tajikistan.

We are far from the idea that within this report all of the issues facing the small business sector in Tajikistan at the moment can be covered. The report can serve as a realistic representation of the current conditions in which SMS in Tajikistan survive.

Main objectives of the report are:

- to highlight barriers facing small and medium business in Tajikistan;
- to identify main directions which should be addressed by the Government of Tajikistan in order to create favorable business conditions.

In the report issues concerning business registration, obtaining permits, licensing procedures, obtaining standards and certifying products, taxation and inspections, access to external financial recourses and regulation of foreign trade operations will be considered.

Support and promotion of SME is a most important foundation of economic reforms and is a priority direction of Government policies. Government budget allocates funds for creation and promotion of investment and market structures in 9% from incomes flowed

¹ Resolution of the Government of the Republic of Tajikistan "On Strengthening of Government Measures for Small Business Support in the Republic of Tajikistan" No. 384, dated October 1, 2002; Resolution of the Government of the Republic of Tajikistan "On the State Agency for Anti-Monopoly Policy & Support of Entrepreneurship under the Government of the Republic of Tajikistan", No.11, dated January 11, 2001

to budget in result of privatization of state-owned property (Statement of Ministry of economy and Trade in ministry's handbook).

This report has been prepared with assistance of the following team members:

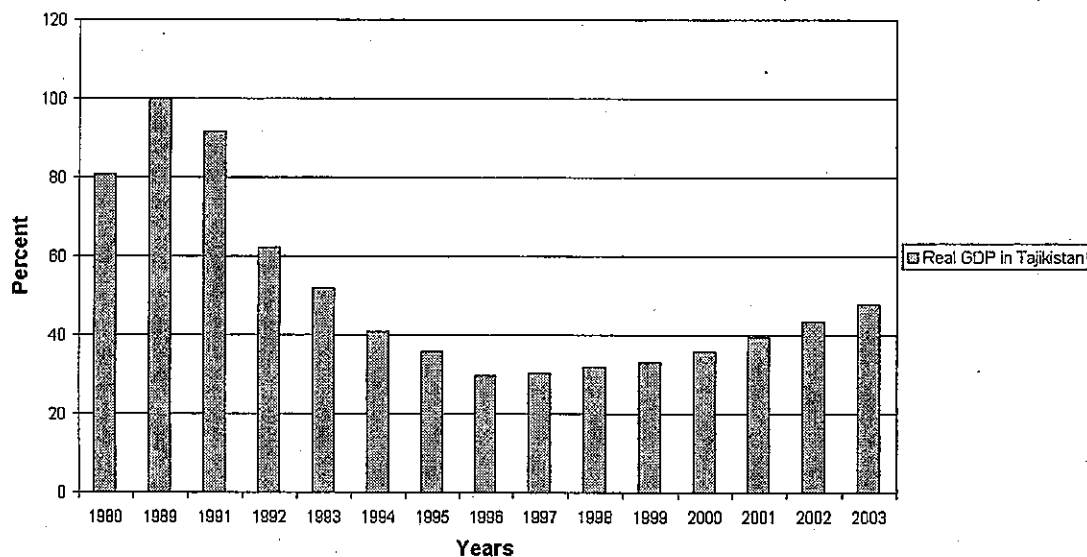
Dr Saidmuradov L.	Advance Study Centre, Director
Dr Soliev A.	Advance Study Centre, Senior Researcher
Mr Karimov Hasan	Assistant
Mr Boboev Muhammadi	Assistant

Main Obstacles

The Republic of Tajikistan gained its independence and sovereignty in 1991 after the collapse of the former Soviet Union. As a result of the interregional struggle for power, the country was brought into the edge of catastrophe and the civil war inflamed. The social instability of the post-war period, closing of enterprises and other institutions negatively affected national economy. Therefore, an enormous amount of work should be done to catch up with other countries of the world.

After the civil war (on 27 June 1997 the General Agreement on the Establishment of Peace and National Accord in Tajikistan was signed) a revival of Tajikistan's economy began. The fluctuation of real GDP in Tajikistan after the years of independence can be noticed in the figure below.

Figure 1: Fluctuation of real GDP in Tajikistan, 1989-2003 (Indices, 1989 = 100)



Source: UNECE Common Database, derived from Interstate Statistical Committee of the CIS statistics.

In order to achieve sustainable economic growth and reduce widespread poverty it is extremely important for Tajikistan to encourage the development of SME. However, there are several key problems that are common for local business environment. These issues will be briefly described below.

This report was prepared with a focus on business environment, investment promotion, trade facilitation and especially the growth of SME. It can be said that active development of SMEs in Tajikistan began after 1997. At the moment, according to official statistics total number of operating judicial entities up to 2000 employees exceeds 23,000. The distribution of SMEs in Tajikistan is mainly concentrated in Regions under Republican Subordination (7814), Khatlon Oblast (6555), Sougd Oblast (5355), Dushanbe (3705) and Badakhshon Autonomous Oblast (793). Small and Medium Enterprises in Tajikistan particularly specialize in agrarian sector (12375), Market infrastructure and real estate

(1874), trade and food (1309), construction (1301), Industry (1285), etc. According to estimations about 45-50 % of Tajikistan State Budget is coming from SME tax contribution, and this number has an increasing tendency.

Bureaucracy / Excessive Tax and Statistical Reporting

Bureaucracy / excessive tax and statistical reporting are some of the difficulties that SME encounter in their everyday activity. This phenomenon reveals in setting artificial barriers for enterprises, existence of various governmental institutions and agencies that have to be passed by enterprise in order to follow regulations. As a result of the interview of private companies and SME, it was found that Government is only interested in collection of taxes, but not in SME promotion. According to Revised Tax Code, new taxes on property and minimum corporate income tax have been introduced for newly privatized enterprises. No incentives for investments in service sector are foreseen by Revised Tax Code instead tax holidays provided in case of investments in industry sector. Social fees are very high (25% +1%). Introduction of different amendments to legislation in the middle of financial year was another impediment for businesses.

The current regulatory framework in Tajikistan is constantly changing. Of course, this can be explained by perfection of legislative norms and bridging the gap between the law and time. However, entrepreneurs due to frequency of such amendments as well as low legal knowledge get confused in numerous updates and often prefer to act beyond official boundaries in order to get things done. Another problem with regulatory framework is the weak enforcement of acting bankruptcy law, and lack of external management system. There is no confidence to judicial system as an independent branch of power, during settlement of business disputes.

Government agencies do not take into account opinions of SME representatives. Replication of administration functions is observed among different ministries and agencies. Another burden for SME is different kinds of reports (quarterly, semi-annually, annual), for example, tax department, statistics, Social Protection Fund, Pension Fund etc.

Lengthy and Costly Registration Procedure

Law of State Registration of Judicial Entity regulates relations arising from state registration of judicial entity under creation, reorganization and termination of judicial entity. State registration is carrying out to verify fact of creation, reorganization and termination of judicial entity, compliance of legislation of Tajikistan on constitutive documents, conducting single state registry of judicial entity.

Ministry of Justice of Tajikistan and its oblast departments are in charge of registration of judicial entity in Tajikistan. Ministry of Justice of Tajikistan and its oblast departments conduct legal inspection of constitutive documents of judicial entities, joint ventures, financial organizations despite of organization structure, legal structure, issues certificates on state registration, conduct record of representatives and branches of judicial entity.

For state registration following documents need to be applied:

- constitutive documents of judicial entities (confirmed chart, constitutive contract, if any).
- Protocol of general meeting of founders with decisions of creation, confirmation of constitutive documents and appointment of executive director of judicial entities;
- Extract from single registrar on state registration, if founder is other judicial entity;
- Information on individual, if founders are individuals;
- Document confirming address of judicial entity and location;
- Document confirming formation of constitutive fund;
- Receipt or copies of payments order on payment of state duty;
- application

State registration has to be finished no more than 10 days starting from the day of submission of mentioned documents. After reviewing of documents and positive legal conclusion registration office issues to founders or his representative certificate on state registration of judicial entity or decline application if any violations are.

Registration office charges state duty in accordance with the Law of Tajikistan "On state duty":

- commercial organizations thirty-fold minimum wage (360 Tajik somoni);
- commercial organizations with foreign investment – hundred-fold of minimum wage (1200 Tajik somoni);
- non commercial organization twenty-fold of minimum wage (240 Tajik somoni);
- for record and registration of representatives and branches of company five-fold of minimum wage (60 Tajik somoni);
- for issuing certificate on changes and amendments in constitutive documents – 50% of registration sum;
- For issuing certificate on termination – 10% of registration sum;
- Certification blanc costs 24 Tajik Somoni according to Ministry of Justice decision.

Additional costs (approximate amount)

- receiving codes on statistics classificatory 36 Tajik Somoni;
- receiving individual identification tax number 20-25 Tajik Somoni;
- registration in Pension Fund 20 Tajik Somoni;
- bank account 100 to 300 Tajik Somoni;
- multiplying chart and verification in Notary offices (1 Tajik Somoni 1 page) in three copies 36 to 50 Tajik Somoni;
- verification of signatures of director and chief accountant (2 Tajik Somoni 1 signature) 8 Tajik Somoni;
- issuing stamp 28 to 150 Tajik Somoni;
- in total, costs of registration of company will amount to 800-1000 Tajik Somoni. Some companies offer services on registration of a company (from start to end of registration) and charge 1000-1500 Tajik Somoni.

Licensing of Operations and Certification

The need for licensing of operations arises from provision of legal framework for entrepreneurship. However in Tajikistan, licensing is a lengthy part of registration process, which is itself expensive. Most of SME activities are subject to licensing (construction, telecommunication, tourism, hotel business, public feeding, alcohol production and sales, education, health care, etc.). As a result of limited access to information related with licensing process, entrepreneurs often do not know the exact amount of fee to be paid. Large number of documents is required during licensing of operations. Short period of issued licenses (6-12 months) is another challenge for entrepreneurs. Although the new law has been adopted, there are no regulations manuals.

Product certification in Tajikistan has very complicated system. Six government agencies involved in the Standardization activities. A key difficulty for SME in this process is the length of the application processing period. Other problems related with high cost of certification, large number of required documents, lack of information, the need to obtain several certificates and frequent changes in certification procedure. Also should be pointed out the fact that existing standards are outdated and cannot match the safety requirements of the world ones.

Despite every effort is being undertaken to improve business environment, there are still many impediments related to licensing process which SMS face in Tajikistan.

Lack of Statistical and Business Information

At the moment there are very few places in Tajikistan where a person with entrepreneurs initiatives could get reliable and comprehensive information concerning how to start a new business, what documents are needed, how to borrow from banking institution in order to launch ones business. Such kind of information has high market demand. Business clinics have not been established in Tajikistan, to which people could address their questions.

Also should be mentioned that statistical information on SME to a certain extent varies from one agency to another institution. This circumstance makes it difficult for foreign donors and development institutions to undertake tangible measures to improve the business environment in Tajikistan.

Some of the impeding factors that entrepreneurs face when carrying on trade business in the country are: high cost for obtaining insurance for exported products, complicated procedure of transit through neighboring countries, lengthy customs clearance procedures, corruption as well as pressure from Taxation Authorities, etc. Needless to say that most of SME still don't know about their rights as well as information regarding customs regulation, procedures on export-import transaction.

In a survey conducted by International Trade Centre, UNCTAD/WTO it became clear that high customs tariffs and transportation costs, unsatisfying market demand, lack trade contracts, lengthy export procedures, problems related with payments are among the main

barriers toward export of Tajikistan. Independent research centers for SME in Tajikistan are doing their activity weakly. There is no separate government statistics with respect to small, medium and big companies, because the legislation has no distinctions. Interview with representatives of SME revealed that Enterprises are uncertain where to invest effectively their financial resources and need consultant services. Also they have unsatisfying information about foreign markets. As a result, many enterprises conduct their activity not as legal entities but individual ones. (See: Attachment)

Land Use and Development

According to Constitution of Tajikistan, land is the exclusive property of the Government, and acquisition of land into private ownership is not allowed. There should be the receipt of approvals for any design and construction documents as well as site commissioning. Insufficient irrigation cleaning measures, administrative barriers in the process of obtaining land sites for agricultural purposes, lack of information or in some cases misinformation on the Land Certification steps, challenge land use and development by businesses and farmers. Interviews prove that lack of opportunity for private property ownership on land reduces incentives for investments and unavailability of land for collateral purposes. However, interviews with cotton companies showed that they are not interested if the land were in private property.

In order to ensure food security of Tajikistan, the Decree of President of Tajikistan on allocation of 75000 hectares of land to farmers was extremely important.

Inspections and Corruptive Practices

These problems are very acute in Tajikistan at its current stage of development. In order to tackle problems related with inspections the Law 'On Government Financial Oversight in the Republic of Tajikistan', has been adopted with the purpose of unifying financial inspections. Also Decree of the President of the Republic of Tajikistan 'On Introduction of the Inspection Registration Book for Business Entities, was issued on March 28, 2001. The purpose of the above mentioned measures is to make inspection process simple for enterprises.

Corruption has the following forms in Tajikistan: bribery, embezzlement, fraud and extortion. According to the Transparency International Index in 2003 (www.transparency.org/pressreleases_archive/2003/2003.10.07.cpi.en.html) Tajikistan is ranked in the top 10 by its corruption level.

As a result of widely spread corruption, the economy of Tajikistan suffers from the lack of foreign investors, for the creation of new factories and working places and transfer of technology. Private business and entrepreneurship cannot develop. It must be said that corruption is mainly a factor of poverty and vice versa. There are 17 inspecting agencies in Tajikistan:

1. Tax inspections(Tax Police and inspection);
2. Customs authorities;
3. Khukumats (city and regional administrations);

-
4. Agency for standardization, metrology , certification and trade inspections;
 5. Fire safety authorities;
 6. Anti-monopoly authorities;
 7. Environmental safety authorities;
 8. Health ministry;
 9. Sanitary and epidemiological service;
 10. Government Committee on Financial Control;
 11. State Committee for construction and architecture;
 12. Ministry of Finance;
 13. Ministry of Interior / Road police;
 14. Office of public prosecutor;
 15. Occupational Safety Enforcement Agencies;
 16. State Industrial Enforcement Agency;
 17. State Research Centre for Expert Review of Medications.

Struggle against corruption in the society is taken into priority by the Government of Tajikistan. The Law on corruption has been adopted recently.

Investment, Tax Concession, Special Economic Zones and Foreign Trade

These are provided in appropriate laws and normative acts. Every two years the government of Tajikistan adopts Public Investment Programme with a purpose of attraction of foreign investments and priority determination on state important projects; creation of favorable investment climate; protection and insurance of foreign investments, prevention of misappropriation of property.

According to the revised Tax code Joint ventures are provided with the following advantage depending upon the amount of foreign invested funds: up to \$500 000 - exemption from corporate income tax for 2 years; from \$500000 to \$2 millions - 3 years; from \$2 millions to \$5 millions - 4 years; over \$5 millions - 5 years respectively (article 145 of the Tax Code of RT).

Import of modern technology for productive purposes - not subject to VAT. All the indicated measures undoubtedly should encourage investment activity, however recently it has been decided that special commission comprising of four ministries is authorized whether to give or not exemptions from VAT during import of equipment. (Ministry of State Revenues and Levies, Justice Ministry, Ministry of economy and Trade as well as Finance Ministry).

In order to facilitate development of external trade several cross-border trade zones have been organized in Tajikistan (Pamir region, Sougd Oblast, Pyanj region). At the moment there is no Export-Import Transaction Passport requirement in Tajikistan as such.

At the moment, Export Development Programme of Tajikistan for 2006-2010 is under development, which is oriented to overcome existing barriers in this field. The programme consists of the following issues:

Main Factors which Impede Development of Export

-
- export development, despite stable and quite high rates of its growth, is not according to the real capacities of the national economy;
 - lack of normal, technical and economic conditions for production of competitive products;
 - critical situation in export of international services;
 - problems as well as impeding factors on a regional and cross-border trade with neighboring countries a) administrative, border barriers; b) low level of infrastructure on cross-border, customs and other services in the neighboring countries; c) lack of interaction among state agencies, that are responsible for external trade, crossing of borders by people and commodities; d) total absence of regional database concerning commodity flows, unsatisfying information exchange on export-import transactions; e) discrepancy of inspection practice from the international norms and rules of trade, determined in the New Kiot Convention regarding coordination and simplification of customs procedures; f) insufficient level of organisation of cross-border trade among countries, which cause smuggling of commodities and services.

Objectives of the Programme

In order to prevent these negative consequences, it has been determined in this programme as one of the most important objectives for the near perspective **to conduct radical reforms in the field of foreign economic activity on the whole, and for development of export in particular – First:** gradual abolishment of impeding factors and settlement of above mentioned problems of export development. **Second:** adoption of measures and settlement of issues related with threatening of export-oriented sectors and development of import-substituting productions, their nomination as a priority directions of economic reforms.

Goals of the Programme

Strategic goal of the programme is perfection of the structure of domestic export, understood as a process of effectiveness increase and scales of export activity based on expansion of products range and improvement of exporting products' quality, perfection of product and geographic structure of export, application of progressive forms of international trade and economic cooperation.

Final goal of the Programme is achievement till 2010 year, actual results in solution of the following goals:

- ✓ Refusal of relatively raw materials direction of export and transition to production with final results through creation of conditions and organizations of processing of main types of raw-materials and products (aluminium, cotton, leather and leathery products, precious and semi-precious stones, jobbing stones, fruit and vegetable products);
- ✓ Increase of competitive products in main sectors of industry, which match the requirements of world market through organization of processing low and high level raw materials;
- ✓ Creation of free economic zones in two-three regions of the republic, with further organization of production of final goods, totally oriented on export.

Evaluation of Tajikistan Export Potential

- Unique energetic recourses;
- Water recourses;

- Bio-climatic potential;
- Reach mineral resources;
- Sectors of industry and agricultural complex, as well as light industry;
- International services

Priority directions of export development and probability of their implementation for perspective

(2005-2006 years)

- Quality improvement of exporting raw materials and semi-products;
- Establishment and introduction of standards for Tajik cotton;
- Widespread introduction of scanning codes for exporting products;
- Preparation of base and organisation of electronic commerce introduction in Tajikistan.

(2006-2007 years)

- Increase of cotton, aluminum, and fruit & vegetable products, leathery products as well as tobacco raw materials, cocoons processing

(2007-2010 rr.)

- In-depth processing of raw materials;
- Creation of free economic zones

Measures on State Support and Encouragement of Export

- Removal of state intervention in export and foreign economic activity by enterprises;
- Creation of National Commission under the Government of Tajikistan on Assistance of Export;
- Creation of Republic Association of Investors and Investors under the Ministry of Economy & Trade of Tajikistan;
- Creation of Export Development Fund;
- Creation of Tajik Export-Import Insurance Society;
- Introduction of VAT reimbursement system;
- Determination of a new way for calculation and payment of corporate income tax for exporters of products with high level of processing;
- Introduction of a simplified system and mechanism of tax incentives for exporters;
- Elaboration of measures for reduction of indirect tax on export of international including tourism services;
- Introduction of tax holidays practise for enterprises, which provide annual export growth at the rate of more than 10 percent

Main Outputs of Programme's Implementation

Increase of harvest yield of main export-oriented agricultural crops and products of their processing (cotton, fruits, vegetables, cherries and grapes;

- Increasing influence of aluminium sector in the growth and structural transformation of export;
- Increase of electricity export.

Final Result of the Programme – achievement of positive foreign trade balance. Prevalence of export over import. Positive trade balance is \$72,3 millions in 2010.

Limited Access to Financial Resources for SMEs

Tajikistan has two level banking system (National Bank of Tajikistan and number of commercial banks). According to acting banking regulation it is allowed for enterprises to open several accounts in different banks. At the moment, there are 11 commercial banks, one branch of foreign commercial bank, five credit unions, seven non-bank financial institutions. By April 1, 2005 number of branches and divisions of commercial banks, credit unions and non-bank financial institutions was 63 and 126 consecutively.

The financial sector in Tajikistan remains too small to function as an engine of growth. A survey conducted by IFC² highlights that for a large number of small- and medium-size enterprises (SME) lack of access to financing is the most significant problem for conducting business in Tajikistan. The survey found that 82 percent of the respondents do not use bank accounts in their business activities. According to the same report, only 3 percent of SME in need of financing obtained bank loans, while 5 percent received financing from sectoral associations and 13 percent from nongovernmental organizations. Past macroeconomic imbalances and high inflation largely explain the low level of financial intermediation in Tajikistan. Recent success at macroeconomic stabilization is a prerequisite for the deepening of the financial market.

It is very significant to ensure greater access to credit resources for enterprises, because in order to develop well they extremely need additional financial resources. Restoration of population's confidence to banking system is also of importance, since through this money velocity will increase within national economy. The banking institutions should ensure expansion of commercial bank services, and to provide commercial secret for customers.

Existing system of crediting has high interest rates (up to 42%) with short period of loan maturity. Interviews with private companies showed that in order to launch their business activity, most of them used their or family owned assets.

WTO Accession

There are potential benefits from accession to WTO for development of economy of Tajikistan, which can be formulated as:

- Tajikistan will obtain wider access to external markets. An opportunity for export of cotton, silk clothes, ready sewing products, fruits and vegetables and their processed products, precious stones, marble, jewellers, and non-ferrous metals will be broadened;
- Tajikistan will be able to gain access to innovations, including modern technologies. Also accession into WTO will allow the country to benefit from the computer

² See International Finance Corporation (2004), *2003 Business Environment in Tajikistan as seen by Small and Medium Businesses*.

-
- technologies, newest means of communication, software products, aviation recourses, etc;
 - Connection in the process of ready product movement from industrially developed countries to developing countries;
 - More flexible utilization of international production networks opportunities, which can be seen as a creation of new enterprises, most of which belong to Trans-National Companies;
 - More dynamic adaptation of Tajikistan's economy to technological innovations and structural changes in the world economy and rules of competition;
 - Increasing competition will encourage increase of effective utilisation and optimisation of productive recourses allocation;
 - Import expansion on the base of weakening or removal of import tariffs can strengthen productive and commercial discipline in domestic enterprises;
 - Creation of more favourable trade environment through removal of tariff and non-tariff barriers, trade liberalization, abolishment of administrative intervention in the activity of commercial entities, reduction of tax burden.

Bearing in mind all the positive sides of joining WTO, the Government of Tajikistan applied for membership in this influential world trade institution in 2001. Later on, in February 2003, Tajikistan officially submitted Memorandum on trade regime. The first meeting of the Working group on Tajikistan entrance in the WTO held on March 18, 2004. Several meetings of the working party on accession have taken place in 2004-2005 in which key issues included:

- the level of tariff protection for the industrial goods (2-15%) (Evolution of Tajikistan Trade regime is presented in Attachment);
- maintenance of the maximum level of subsidies in agriculture;
- and the protection of intellectual property.

Having implemented a WTO-compatible new tax & customs code, the Government of Tajikistan also plans to bring relevant laws into line with WTO requirements.

At the same time, it is necessary to bring balance Tajikistan tax harmonization commitment to its sub-regional country customs partners against WTO requirements of reduced tariffs. It is important to be recognized as a developing economy for acquisition of adaptation period. Protection from the pressures of neighboring countries (Uzbekistan) is expected with joining in the WTO (problem with transit of goods and services).

Undoubtedly, accession to WTO would allow better access to foreign markets. However, there is a threat for domestic producers, because of their low competitiveness, inappropriate standards of their products they cannot survive. Lack of comprehensive information about WTO, difficulties related with transition to international standards of products and accountancy, threat of the fact that for small & open economy of Tajikistan, application of tariff measures for protection of domestic market cannot be sufficient.

In the area of Tajikistan's WTO accession International Trade Centre, UNCTAD/WTO as well as USAID have appropriate programmes.

Taxation

In Tajikistan at the moment two-tier tax system is functioning, which consists of 17 taxes. The main reason for making amendments into the Tax code was stipulated by the fact that many entrepreneurs and taxpayers were not interested to pay taxes. As a result the share of shadow economy was significant in the country. Most of the taxpayers claim that the new legislation is difficult to understand. This fact may lead to errors for entrepreneurs when dealing tax-related issues. (Distinctions between previous and revised Tax codes can be seen in Attachment)

While conducting taxation policy the Government of Tajikistan is striving to create a favorable taxation conditions, enhances incentives for growth of private businesses, reduce stimulus for tax avoidance, yield higher revenues and strengthen tax collection, attract foreign investors and encourage purchase of modern equipment-incentives for re-investment.

However, there are some obstacles for taxpayers. For example, due to complexity of regulations many SME prefer to avoid from taxation hiding their actual revenue or giving unofficial payments to tax officers. Another way of escaping from taxation is transformation from SME to individual entrepreneurship without registration of legal entity. Although comments to the previous version of the Tax code was prepared, at the moment it can be noticed that the lack of written clarification of various tax procedures from tax authorities can negatively affect taxation procedure.

Currency

A number of laws and normative acts have been adopted which regulate currency issues in Tajikistan³. Authorized agencies for exchange control are National bank of Tajikistan, Ministry of State Revenues and Levies of Tajikistan, Ministry of finance of Tajikistan.

Tajikistan has managed floating exchange rate regime and interbank exchange market is under operation. There is no difference between official and unofficial market exchange rate. \$1 = 3,17 SM (16 August, 2005). It should be mentioned that the new national currency, Somoni, was introduced in October 2000 and replaced Tajik ruble at the rate 1 Somoni=1,000 Tajik Rubles.

³ The Law of the RT "On Currency Regulation and Control", dated November 4, 1995. No 112, revised on December 9, 2004, №64. Decision of National Bank of Tajikistan, dated September 16, 1997, No 51 "On Order of Selling Goods and Service in the Territory of Tajikistan on Foreign Currency". Decision of National Bank of Tajikistan, dated September 16, 1997, No 51 "On Ways Opening and Service non-residents accounts in Tajik currency at the authorized banking institutions of the RT". Regulation of NBT "On Inflow and Outflow of foreign currency and securities in foreign currency", dated January 11, 2000, No 1. Decision of National Bank of Tajikistan, dated September 16, 1997, No 51 "On Conducting Currency transactions/Operations, related with Mobility of Capital" Decision of National Bank of Tajikistan, dated October 1998, No 28 "On Conducting Currency Control for motivation of payments made in foreign currency in the RT for purchase of imported goods"

Enterprises in Tajikistan they face the following difficulties while dealing with currency operations: high cost of opening currency account in banks, lengthy period of conversion of the national currency into foreign currency, restriction for transferring of currency to abroad (amount up to \$2000 dollars can easily be transferred), high charges for currency conversion. There are also strong effects of the exchange rate to business environment expectation in Tajikistan. As for commercial banks they offer higher interest rates on loans in foreign currency in comparison with Somoni. Absence of long-term loans in foreign currency can be considered as another impediments SME intention to borrow currency from banking institutions.

Privatization

At present time (as of August 2005) of 9,121 state owned enterprises which are subjected to privatization 8,366 are already privatized. Among enterprises 7,602 are small enterprises, 764 medium and large enterprises. According to Committee of State Property (CSP) since January 2005 329 enterprises have been privatized in the amount of 19 millions Tajik somoni (about \$6,3 millions) compare to annual plan in the amount of 10 millions Tajik somoni. Related to leasing of state property officials from CSP stated that 771 leasing contracts have been signed in more than 2 millions Tajik Somoni and in past 6 months since January 2005 government budget received 789 thousands Tajik Somoni.

MAIN LEGISLATIVE FOUNDATIONS FOR SME PROMOTION

The Law of Tajikistan “On government protection and support of entrepreneurship in Tajikistan”

Objective of the law is the implementation of the citizen rights provided by Constitution of Tajikistan for realization of their potential and property to carry out business activity.

Law determines entrepreneurship as an activity in two forms: individual entrepreneurship and entrepreneurship of judicial entity aimed at acquiring constant profit from providing services, works, production and application of property.

Law determines following directions of entrepreneurship:

- creation of additional employment in industry, construction, agriculture and other sectors particularly the services sector;
- Processing of agriculture products;
- Compliance of current regulations on ecology and standards
- Increasing competitiveness
- Application of modern tools of marketing, management and introduction of new technologies

Law prohibits government intervention in business activity (example, administrate or determine prices). If inspection caused stop of production inspectors will be responsible in accordance with current legislation of Tajikistan. Inspection should be recorded in Inspection Registry Journal of entrepreneur.

Law protects entrepreneurs' rights through:

- simplified registration
- creation of favorable tax, customs and investment conditions;
- restriction of inspection;
- promotion of creation of funds to support entrepreneurs;
- providing opportunity for all kinds of entrepreneurship.

Protection of entrepreneurs is carried out by authorized government agency of Tajikistan Government. Law determines annual funds from budget to support entrepreneurship in Tajikistan and government develops entrepreneurship promotion programs. Government can be engaged in insuring and information assistance of entrepreneurship, promote expansion of international business relations of entrepreneurs and protect from illegal inspections.

Conception of Entrepreneurship Development in Tajikistan till 2015.

This conception consists of 6 articles and conclusion.

1. Necessity of conceptual solution of entrepreneurship issues:

- level of entrepreneurship is not adequate in present;
- high level of informal payments related to inspections, administrative barriers;
- absence of simplified taxation;
- underdeveloped of legal and economic incentives;
- low wages;
- weak realization of export potential;
- low competitiveness of domestic products;
- disproportion of economy's industries;
- unstable of budget and non-budget financing program of entrepreneurship support;
- high interest rates and needs in improvement of banking system;
- underdeveloped infrastructure.

2. Goals and objectives of the Concept

Concept aims to create in state level legal, socio-economic, financial and organizational conditions necessary to establish private sector in economy, developed entrepreneurship infrastructure that provides effective entrepreneurship in domestic market, and also determination of basic macroeconomic and other instruments of state and public support of entrepreneurship in the base of private and corporate property.

Objectives:

- legal support of entrepreneurship;
- financial support of entrepreneurship;
- creation of infrastructure for entrepreneurship in priority industries;
- R&D and human resources support of entrepreneurship;
- Simplified registration, taxation and reporting for entrepreneurs;
- Development of preparation, retraining and increasing of qualifications of entrepreneurs;
- Creation of database and R&D support of entrepreneurs

3. Support of entrepreneurship

- a. financial support of entrepreneurship is carrying out by providing resources (budget and non budget) through government entrepreneurship promotion agencies, beneficial loans by banks.
- b. Development of construction and industries through creation of mini-plants for processing agricultural products, creation of construction companies, production of constructing materials, garments, shoes and jewellery.

-
- c. Agricultural development through expansion of processing and storage of agricultural products, technical and infrastructure support and orientation of the farmers to market demands.
 - d. In R&D sphere it is necessary to creation of R&D enterprises, creation of business centres and research centres.

4. Creation of support infrastructure for entrepreneurship promotion and information system to support SME and increasing their efficiency.

- creation of state agency for conducting policy on entrepreneurship
- creation of special funds to support entrepreneurship
- providing incentives for NGO to support entrepreneurship
- creation of business incubators, centres for supporting entrepreneurship, consulting centres and Techno parks.

5. Interaction with mass media in advocating entrepreneurship activity (Internet, database, open competition).

6. International cooperation in entrepreneurship sphere.

To harmonize legislation of CIS countries, creation of joint consulting and information database and expansion of international business of enterprises.

Basic principles of the Concept should be taken as a foundation under developing Strategy for Promotion of Entrepreneurship in Tajikistan (Concept is under development and to be adopted in September 2005).

Agencies for SME promotion.

Governmental Agency

Agency on Anti-Monopoly and Support of Entrepreneurship is in charge of SME support.

The main objectives of the agency are:

- conducting government policy on promotion of entrepreneurship policy, including SME;
- facilitation of creation and strengthening of entrepreneurship sector in Tajikistan;
- government regulation, inter industry and interregional coordination in the sphere of promotion and support of entrepreneurship;
- promotion of investment activity of SME at the expense of non budgetary funds and attracting borrowed funds;
- formation of infrastructure for SME promotion;
- development of proposals on improving taxation of SME;
- organization of conducting government programs on SME promotion;
- development of policies on support of SME by modern equipment and technology in order to develop network of techno parks and leasing enterprises, centers of SME promotion;
- facilitation of intensive SME support programs by local authorities.

It is anticipated that from September 2005 functions of the Agency activity on promotion of SME will be transferred to the Ministry of economy and trade of Tajikistan.

Center for Support and Development of Entrepreneurship under Dushanbe City Administration.

Center for Support and Development of Entrepreneurship under Dushanbe City Administration was established in 2001 to support and promote entrepreneurship in Dushanbe.

Center provides legal consultations to its members and all entrepreneurs that need in this kind of service. It also provides advocacy services for businesses in court. Center supports and promotes SME benefits in public agencies and lobbies their interests.

It is expected to establish such centers in each districts of Dushanbe city in 2006.

Non-Governmental Organizations

Chamber of Commerce & Industry of Tajikistan

In May 1998 the Parliament of Tajikistan adopted the Law “On a Chamber of Commerce & Industry of Republic of Tajikistan”, which defined the legal status of CCI as well as its field of activity. CCI is non-state, noncommercial organization, conducting its activity.

The main perspective directions of the Camber of Commerce and Industry’s activity are:

- active involvement in drafting key legislative and other regulatory norms regarding socio-economic development of Tajikistan;
- protection of interests of Tajikistan CCI member-enterprises;
- provision of extended range of the services offered by the CCI for business;
- assistance and support of SME business development;
- establishment of business contracts with foreign partners;
- overcoming of administrative barriers to small business development.

National Association of Small and Medium Business

Among the objectives of the Association the most important are:

- lobbying entrepreneurs’ interests;
- organization of business trainings;
- search of partners for entrepreneurs.

Summary Table

#	(a) Major Policies / Laws / Programs / Actions adopted recently (or currently being adopted)	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining/current problems from businesses' perspectives	(d) Donors' activities / programs to support (a) or to solve (c)
Business Environment				
Trade Liberalization / Facilitation Customs	<p>1. The Law of RT "On Foreign Economic Activity" (revised in 2004.)</p> <p>2. Decree of the President of the RT "On Liberalization of Foreign Exchange and Export Operations" & "On Measures to Ensure Complete repatriation of Hard Currency Earnings to the republic of Tajikistan", No 424, dated February 24, 1996;</p> <p>3. Decree of the President of the RT "On Liberalization of Foreign Exchange and Export Operations" & "On Measures to Ensure Complete repatriation of Hard Currency Earnings to the republic of Tajikistan", No 424, dated February 24, 1996;</p> <p>4. Decree of the government of the Republic of Tajikistan "On Measures to Improve the Promotion of Domestic Goods on Foreign Markets".</p>	<p>Objectives to be achieved:</p> <p>to achieve diversification of export;</p> <p>to shift export from raw materials towards final products;</p> <p>to allow all the enterprises and companies freely export and import products and services;</p> <p>to increase the volume of Tajikistan export;</p> <p>to overcome the red tape which impedes SME's ambitions for export;</p> <p>to earn foreign exchange for the country;</p> <p>Comments:</p> <p>external sector activities were largely liberalized;</p> <p>export duties eliminated;</p> <p>import duties substantially lowered and applied only to selected products;</p> <p>foreign exchange surrender requirements were eliminated;</p> <p>export and import licensing requirements were removed;</p>	<p>Low competitiveness of domestic products and shortage of highly qualified specialists in the field of international business</p> <p>At the moment, there are some explicit trade restrictions, e.g. for:</p> <ul style="list-style-type: none"> • alcohol; • tobacco; • and other goods restricted for health, security, moral, and cultural reasons. • High cost of obtaining insurance for exported products <p>weak protection of SME's interests by Government Institutions; The cost associated with registering as an exporter can be characterized as another impeding factor which potential exporting SMEs face.</p>	

<p>“Export Strategy of Tajikistan for 2006-2010 years” (under consideration)</p> <p>Background for Preparation of the Programme</p> <p>Export Development Programme of Tajikistan for 2006-2010 has been elaborated as a result of the message from the President of Tajikistan Mr E.Rahmonov to the Parliament of Tajikistan dated April 16, 2005, with the purpose of tasks and actions realization, which were determined in the Resolution of the Government of Tajikistan, dated April 29, 2005, No. 154 «On Plan for Implementation of Actions in order to Follow Instructions, Indicated in the Message of the President of Tajikistan addressed to Parliament of Tajikistan, dated April 1, 2005» and Order of the Ministry of Economy & Trade of the Republic of Tajikistan, dated May 30, 2005 «Regarding Export Development Programme of Tajikistan for 2006-2010».</p>	<p>Objectives of the Programme</p> <p>In order to prevent these consequences, it has been determined in this programme as one of the most important objectives for the near perspective to conduct radical reforms in the field of foreign economic activity on the whole, and for development of export in particular – First: gradual abolishment of impeding factors and settlement of above mentioned problems of export development. Second: adoption of measures and settlement of issues related with threatening of export-oriented sectors and development of import-substituting productions, their nomination as a priority directions of economic reforms.</p> <p>Goals the Programme</p> <p>Strategic goal of the programme is perfection of the structure of domestic export, understood as a process of effectiveness increase and scales of export activity based on expansion of products range and improvement of exporting products’ quality, perfection of product and geographic structure of export, application of progressive forms of international trade and economic cooperation.</p> <p>Measures on State Support and Encouragement of Export</p> <ul style="list-style-type: none"> - Removal of state intervention in export and foreign economic activity by enterprises; - Creation of National Commission under the Government of Tajikistan on Assistance of Export; - Creation of Republic Association of Investors and Investors under the Ministry of Economy & Trade of Tajikistan; 	<p>Main Factors which Impede Factors of Export Development</p> <ul style="list-style-type: none"> - export development, despite stable and quite high rates of its growth, is not according to the real capacities of the national economy; - lack of normal, technical and economic conditions for production of competitive products; - critical situation in export of international services; - problems as well as impeding factors on a regional and cross-border trade with neighboring countries a) administrative, border barriers; b) low level of infrastructure on cross-border, customs and other services in the neighboring countries; c) lack of interaction among state agencies, that are responsible for external trade, crossing of borders by people and commodities; d) total absence of regional database concerning commodity flows, unsatisfying information exchange on export-import transactions; e) discrepancy of inspection practice from the international norms and rules of trade, determined in the New Kiot Convention regarding coordination and simplification of customs procedures; f) insufficient level of organisation of cross-border trade among countries, which cause smuggling of commodities and services. <p>Final goal of the Programme is achievement till 2010 year, actual results in solution of the following goals:</p> <ul style="list-style-type: none"> - Refusal of relatively raw materials direction of export and transition to production with final results through creation of conditions and organizations of processing of main types of raw-materials and products (aluminium, cotton, leather and leathery products, precious and semi-precious stones, jobbing stones, fruit and vegetable products); - Increase of competitive products in main sectors of industry, which match the requirements of world market through organization of processing low and high level raw materials; - Creation of free economic zones in two-three regions 	<p>International Trade Centre (ITC), which is a technical agency of the UNCTAD/WTO has projects related with elaboration of SME’s export strategy, providing advisory service for exporting enterprises, conducting seminars/workshops and roundtable discussions with them, Individual assistance to selected export-motivated enterprises of the fruit and vegetable processing sector as well as training on export-oriented issues to a wider group of Tajik enterprises, encouragement of public and private sectors dialogue via creation of favorable business environment;</p>
---	---	---	--

		<ul style="list-style-type: none"> - Creation of Export Development Fund; - Creation of Tajik Export-Import Insurance Society; - Introduction of VAT reimbursement system; - Determination of a new way for calculation and payment of corporate income tax for exporters of products with high level of processing; - Introduction of a simplified system and mechanism of tax incentives for exporters; - Elaboration of measures for reduction of indirect tax on export of international including tourism services; - Introduction of tax holidays practise for enterprises, which provide annual export growth at the rate of more than 10 percent 	of the republic, with further organization of production of final goods, totally oriented on export.	
--	--	---	--	--

	<p>"Customs Code of the republic of Tajikistan", dated November 25, 2004. No 573;</p> <p>The Law of the RT "On Customs Tariffs", dated October 25, 2003;</p>	<p>Unification of custom tariffs and harmonization of trade policies with members of regional integration groups; to import modern technique and progressive technology;</p> <p>to overcome the red tape which impedes SME's ambitions for export;</p> <p>Cancellation of VAT and customs duties for:</p> <ul style="list-style-type: none"> • Production/technological equipment and parts thereof if imported to Tajikistan for capital investment or technological modernization; 	<p>Problems:</p> <ul style="list-style-type: none"> • Complicated procedure of transit through neighboring countries • Lengthy customs clearance procedures • Corruption among customs authorities • Red tape • Ad-hoc determination of the customs value of goods <p>Complicated customs clearance. Most of SME still don't know about their rights as well as information regarding customs regulation procedure, procedures on export-import transaction.</p> <p>Pressure from Taxation authorities; insufficient knowledge regarding the rules, custom of international business;</p>	<p>USAID Trade Facilitation and Investment Project assisted in developing of a new Customs Code of Tajikistan;</p> <p>EBRD Loan to Agroinvestbank under Regional Trade Facilitation Program;</p> <p>EBRD Loan to Eskhata bank under Regional Trade Facilitation Program;</p> <p>EBRD Loan to Tajprombank under Regional Trade Facilitation Program;</p> <p>EBRD Loan to Tojiksodirobank under Regional Trade Facilitation Program.</p>
	<p>Resolution No 437, dated June 8, 2001 of the Government of the RT "On Government Regulation of Foreign Trade Activities", No 822, dated September 3, 1999;</p>	<p>Objectives:</p> <ul style="list-style-type: none"> Abolishment of Export-Import Transaction Passport; Abolishment of Certificate for Foreign Economic Activity of Enterprises; 		
	<p>Regulation of NBT "On Inflow & Outflow of cash foreign currency and securities in foreign currency", dated January 11, 2000, No 1;</p>	<p>maintaining of the stability of the exchange rate of national currency;</p> <p>barrier to capital flight;</p> <p>return of exchange earnings.</p>	<p>Inter-bank currency market is under operation;</p> <p>Lengthy period for currency conversion;</p>	

	<p>The Law of the Republic of Tajikistan "On Free economic Zones in Tajikistan", dated April 29, 2004, №522.</p>	<p>Organization of Cross border trade zones (Pamir region, Sogd Oblast, Pyanj region); Promotion of regional cooperation through participation in the following regional economic organizations:</p> <ul style="list-style-type: none"> • The Euro-Asian Economic Community • The Shanghai Cooperation Organization • The Central Asian Cooperation Organization • The Economic Cooperation Organization <p>decision regarding joining of Tajikistan in the WTO is expected in 2006;</p>	<p>In order to facilitate trade the following actions have been taken:</p> <ul style="list-style-type: none"> • Goods intended for use in projects approved by the Government of RT and implemented with financial support of IFIs & UN agencies; 	
WTO Accession	<p>At the moment, the Republic of Tajikistan has the status of observer in WTO. In its preparation for accession to WTO, the Government is developing a domestic and external trade regime. In 2001 the Government of Tajikistan applied for membership in the WTO, in February 2003 Tajikistan officially submitted Memorandum on trade regime. The first meeting of the Working group on Tajikistan entrance in the WTO held on March 18, 2004. Several meetings of the working party on accession have taken place in 2004-2005 in which key issues included:</p>	<p>It is necessary to bring balance Tajikistan tax harmonization commitment to its sub-regional country customs partners against WTO requirements of reduced tariffs. Accession of Tajikistan into the WTO will allow to get a guarantee for the Most Favored Nations, to get access to international Trade Information. It is important to be recognized as a developing economy for acquisition of adaptation period. Protection from the pressures of neighboring countries (Uzbekistan) is expected with joining in the WTO (problem with transit of goods and services)</p>	<p>Undoubtedly, accession to WTO would allow better access to foreign markets. However, there is a threat for domestic producers, because of their low competitiveness, inappropriate standards of their products they cannot survive. Lack of comprehensive information about the WTO, difficulties related with transition to international standards of products and accountancy, Threat of the fact that for small & open economy of Tajikistan, application of tariff measures for protection of domestic market cannot be sufficient.</p>	<p>International Trade Centre, which is a technical agency of the UNCTAD/WTO has projects related with elaboration of SME's export strategy, providing advisory service for exporting enterprises, conducting seminars/workshops and roundtable discussions with them USAID Trade Facilitation and Investment Project provides technical assistance to Tajikistan towards accession to WTO through: 1. Assistance in</p>

	<ul style="list-style-type: none"> • the level of tariff protection for the industrial goods (2-15%) • maintenance of the maximum level of subsidies in agriculture • and the protection of intellectual property <p>Having implemented a WTO-compatible new tax & customs code, The Government of Tajikistan also plans to bring relevant laws into line with WTO requirements</p>			<p>compilation of necessary documents related to accession;</p> <p>2. Assistance in negotiation process;</p> <p>3. Creation of information center on WTO under Ministry of Economy and Trade of Tajikistan.</p>
Taxation	<p>Tax Code of the Republic of Tajikistan was adopted in 1998 which in comparison with the previous one comprised less number of taxes.</p> <p>Also a commentary to the Tax Code was prepared. After several years it became clear that Tajikistan's Tax Code needs to be revised</p> <p>In order to encourage production and increase the welfare of population. To improve tax administration and reduce tax burden Tajikistan revised its Tax Code on 25, November, 2004. As a result the number of taxes was cut from 18 to 15.</p> <p>Introduction of unified tax for dekhkan farmers, in experimental divisions through Resolution of the Government of RT "On</p>	<ul style="list-style-type: none"> • to create a favorable taxation conditions (see attachment of Tax Code Changes) • to enhance incentives for growth of private businesses (through reduction of income tax and application of simplified tax system); • to reduce stimulus for tax avoidance and to decrease budget losses • to yield higher revenues and strengthen tax collection procedures while protecting taxpayer rights • to attract foreign investors • to encourage purchase of modern equipment -incentives for re-investment 	<p>There is lack of information among enterprises and business community about the amendments made to the Tax Code as well as taxation procedure. Another problem is complexity of regulations. As a result SME prefer to avoid from taxation hiding their actual revenue or giving unofficial payments tax officers.</p> <p>Tendency of transformation from SME to individual entrepreneurship without registration of legal entity.</p> <ul style="list-style-type: none"> • Unclear taxation rules and regulations which are written in difficult comprehension manner • Frequency of amendments to the Tax legislation • Lack of written clarification of various tax procedures from tax authorities 	<p>ADB Tax Administration and Modernization and Infrastructure Development Project</p> <ul style="list-style-type: none"> - Reform of the Tax Code and reorganize the administration structure along the functional line; - Reengineering the business process to reduce administrative costs and compliance costs for taxpayers; - Reorientation of relationship with taxpayers and improvement of staff morale; - Development of integrated tax information system. • Developing a detailed master plan and phased

	<p>Determining the Administrative Territories of the Republic of Tajikistan in which the Single Tax for Dekhkan Farmers shall be Temporary Introduced", dated August 3, 2002. No 319.</p> <p>according to the revised Tax code the following amendments have been made: the rate of tax on corporate profit was reduced from 30 % to 25 %. A registration threshold for VAT purposes was increased to \$16,000 per year. As for the simplified tax rate is determined 12 % (previous rate was 5%). New minimum corporate income tax was introduced (1% of gross income)</p>			<p>implementation to prepare for Tax Administration Modernization and Infrastructure Development Project;</p> <ul style="list-style-type: none"> • Training support for the implementation of the master plan, the revised Tax Code and functional reorganization in partnership with the USAID.
Currency	<p>The Law of the RT "On Currency Regulation and Control", dated November 4, 1995. No 112, revised on December 9, 2004, №64.</p> <p>Decision of National Bank of Tajikistan, dated September 16, 1997, No 51 "On Order of Selling Goods and Service in the Territory of Tajikistan on Foreign Currency"</p> <p>Decision of National Bank of Tajikistan, dated September 16, 1997, No 51 "On Ways Opening and Service non-residents accounts in Tajik currency at the authorized banking institutions of the</p>	<p>To support sustainable currency rate of national currency Somoni.</p> <p>To ensure full repatriation of the exchange from exports.</p> <p>To provide sustainability of correspondent accounts of commercial banks.</p> <p>To control currency transactions in Tajikistan</p> <p>To provide currency for foreign economic activity</p> <p>To attract foreign investors and tourists</p> <p>To increase exchange reserves of the National bank of Tajikistan.</p> <p>To ensure stable operation of electronic payments of commercial banks.</p> <p>Control of capital outflow.</p> <p>To maintain equilibrium state of BoP. To ensure liberal exchange market.</p>	<p>High cost of to open currency account in banks;</p> <p>Lengthy period of conversion of the national currency into foreign currency; Necessity of completion of Tax declaration for transferring of currency to abroad; High charges for currency conversion; Shortage of foreign currency in domestic market; Strong effects of the exchange rate to business environment expectation; high interest rates on loans in foreign currency, absence of long-term loans in foreign currency.</p> <p>No difference between official and unofficial market exchange rate. \$1 = 3,17 SM (06 August, 2005).</p>	IMF Stand-By Credits

	<p>RT” Regulation of NBT “On Inflow and Outflow of foreign currency and securities in foreign currency”, dated January 11, 2000, No 1 Decision of National Bank of Tajikistan, dated September 16, 1997, No 51 “On Conducting Currency transactions/Operations, related with Mobility of Capital” Decision of National Bank of Tajikistan, dated October 1998, No 28 “On Conducting Currency Control for motivation of payments made in foreign currency in the RT for purchase of imported goods” Regulation of NBT “On money transfer in foreign currencies from the RT and to the RT without opening of current currency account”, dated October 19, 1999, No 19. Authorized agencies for exchange control are National bank of Tajikistan, Ministry of State Revenues and Levies of Tajikistan, Ministry of finance of Tajikistan.</p>	Tajikistan has managed floating exchange rate regime and interbank exchange market is under operation.		
--	--	--	--	--

<p>Banking / Finance</p>	<p>The Law of the RT "On National Bank of Tajikistan", dated December 14, 1996 No 383; The Law of the RT "On Banks and Banking Activity", dated May 23, 1998, No 648; Law of the republic of Tajikistan "On guarantees to deposits of individuals" dated June 25, 2003 Two level banking system has been created; Opening of several accounts in different banks is allowed according to legislation. There are 11 commercial banks, one branch of foreign commercial bank, five credit union, seven non-bank financial institutions. By April 1, 2005 number of branches and divisions of commercial banks, credit unions and non-bank financial institutions was 63 and 126 consecutively.</p>	<p>To provide sustainable development of monetary policy of Tajikistan; To ensure greater access to credit resources for enterprises; To ensure the confidence of population to banking system; To Increase competition among banks; To Ensure expansion of commercial bank services; To provide guarantee of populations deposits; To support development of private business; To ensure the stability of domestic currency; To provide commercial secret; To encourage development of electronic payments system. To ensure harmonization for banking system of Tajikistan to international banking standards.</p>	<p>Bank bureaucracy Difficulties with cash withdrawal from local currency account Shortage of cash at the bank High commission fees Lengthy duration of converting currency into foreign currency High interest rates Short period of credit maturity Collateral requirements Informal payments Low level of service</p>	<p>EBRD Trade and Facilitation Program (TFP): trade-related guarantee limit opened to 4 Tajik banks is about \$9.5 million. EBRD Tajik Micro and Small Finance Facility (TMSEF – October 2003). TMSEF lent \$11.8 million for 4,556 businesses.</p>
---------------------------------	--	--	--	---

Price Liberalization	<p>Significant progress has been made in the area of price liberalization; By mid-1996, with the important decision to free the prices of grain and bread, the process of price liberalization had been largely completed. Limited price controls have remained in force only with respect to utility prices, including electricity, rents, communal services and public transport.</p> <p>The Law of the RT "On Competition and Restriction of Monopolies in Market", dated November 29, 2000. No 11; Law of Tajikistan "On Competition and Restriction of Monopolies in Merchandise Market" dated November 10, 2004.</p> <p>Resolution of the Government of RT, dated February 20, 1998, No 59 "On measures increasing Government Support for Small Business in the RT"</p> <p>Resolution of the Government of RT, dated January 11, 2001, No 11 "On the State Agency for Anti-Monopoly Policy and Support of Entrepreneurships under the Government of the RT"</p>	<p>to allow price formulation under the law of demand and supply; Promotion of free competition among enterprises</p>	<p>there is difference in tariffs on electricity, natural gas and water supply between households and enterprises</p>	
Anti-Monopoly	<p>To undertake measures aimed at de-monopolizing the production and distribution of goods and services</p> <p>To exercise control over the observance of legislation during the establishment, reorganization or liquidation of business entities</p> <p>To support entrepreneurship development</p> <p>To improve taxation in favor of SME</p> <p>To encourage local authorities to support small, in particular within the framework of regional and inter-regional programmes</p> <p>To improve legislation related to SME development</p> <p>Organization of meetings with entrepreneurs in order to familiarize them with recent changes in the country's legal environment</p>	<p>Low level of awareness regarding existence of appropriate state Agency (out of 2000 respondents only 34% know about Anti-Monopoly Agency);</p> <p>Ineffective activity of the above mentioned Agency;</p> <p>Cartel agreements among businesses.</p> <p>Any agreements among businesses which violate fair competition are prohibited (companies with more than 35% of market share).</p>		<p>OSI AF Economic and Business development program:</p> <ul style="list-style-type: none"> - publication of handbook of legislative norms regulating anti-monopoly activity.

	Resolution of the Government of RT, dated February 14, 2001, No 75 "On Issues Related to the State Agency for Anti-Monopoly Policy and Support of Entrepreneurship under the Government of the RT"	Basic objectives of the Laws: monitoring, restriction and prevention of monopolies and unfair competition, promotion of market relations based on competition and entrepreneurship, conducting measures on de-monopolization of production and trade.		
Legal System	<p>Legal system of Tajikistan is based on its Constitution, adopted on November 6, 1994, with amendments made on November, 1999.</p> <p>Adoption of the Civil Code (part I), June 30, 1999, (part II) December 11, 1999.</p> <p>Constitutional Law of the Republic of Tajikistan "On Local Authorities", No 1092, dated December 1, 1994;</p> <p>Customs Code, dated November 24, 2004, Tax Code, dated November 25, 2004.</p> <p>The Law of the republic of Tajikistan "On Normative Legal Acts", No 54, dated December 8, 2003. Decree of the President of the Republic of Tajikistan "On State Support of Small Business in the Republic of Tajikistan", No 459, dated April 18, 1996.</p> <p>The Law of the Republic of Tajikistan "On Securities & Stock Exchange", revised on May 22, No 638. "Different forms of entrepreneurship are acknowledged by the law.</p>	<p>Creation of legal frames for entrepreneurship, to ensure law compliance; to bridge the gap between the time and law, to guarantee justful solution of business disputes, to attract foreign investors; creation of competitive environment; encouragement of export; to provide employment for rural and urban population.</p> <p>according to civil code of Tajikistan there are following types of judicial entities: limited liability company, company with additional liability, Joint Stock company, Open Joint Stock company, Closed Joint Stock company and unitary enterprise.</p>	<p>lack of confidence to the judicial system as an independent branch of power, during solution of business disputes concerning unbiasedness of verdict. Low level of legal knowledge among enterprises. Weak enforcement of acting Bankruptcy Law, and lack of external management system. Huge employment of population in illegal sector, for which there is no confident information regarding its scale, tendencies and problems.</p>	<p>Department For International Development of the United Kingdom, Economic & Business Development Programme of OSI Assistance Foundation, OSCE, Pragma, ARD/Checchi of USAID were involved in analyze of commercial legislation, creation of third party arbitration courts in Tajikistan, establishment of Law clinics, draft of Laws, as well as preparation of external managers, provision of personal computers for judicial system, etc.</p>

Registration, Permit, License, Inspection	<p>The law of the RT "On State Registration of Legal Entities", dated April 22, 2003. No 5</p>	<p>To provide legal framework for entrepreneurship To ensure that the enterprises are doing their business according to "the rules of the game" To reduce the number of government agencies involved in the registration process To introduce a unified procedure for issuing permits via "One Window" registration procedure To reduce the number of activities that are subject to licensing Ministry of Justice of Tajikistan and its oblast departments are in charge of registration of judicial entity in Tajikistan. For state registration following documents need to be applied:</p> <ul style="list-style-type: none"> - constitutive documents of judicial entities (confirmed chart, constitutive contract, if any). - Protocol of general meeting of founders with decisions of creation, confirmation of constitutive documents and appointment of executive director of judicial entities; - Extract from single registrar on state registration, if founder is other judicial entity; - Information on individual, if founders are individuals; - Document confirming address of judicial entity and location; - Document confirming formation of constitutive fund; - Receipt or copies of payments order on payment of state duty; - application 	<p>Lengthy duration of legislation process Expensive registration process (up to \$300) Shortcomings in legislations regulating the registration process Complicated registration system Artificial bureaucratic barriers Limited access to information related with registration process Large number of documents required for registration Inappropriate penalties which do not always correspond with the seriousness of the violations committed. Unofficial payments. Short period of issued licenses (6-12 months) Limited access to reliable and comprehensive information</p>	<p>USAID Trade Facilitation and Investment Project: Registration i) Assistance in simplification of registration of companies; ii) Joint Working Party with Ministry of Justice of Tajikistan on development of legal frameworks simplifying registration process for companies. Licensing i) Under project assistance has been developed Law on "Licensing of activities" dated May 17, 2004. ii) Assistance in developing of draft of decree of the Tajikistan Government "Regulations of licensing of some types of activities".</p>
--	--	---	--	---

	<p>Resolution No 216 of the Government of the RT "On the Procedure for Individual Entrepreneurs Who do not Form Legal Entities to Acquire such Certificates", dated May 10, 2000. The Law of the RT dated December 2, 2002 "On Government Financial Oversight in the RT",</p> <p>Decree No 542 of the President of the Republic of Tajikistan "On Introduction of the Inspection Registration Book for Business Entities", dated March 28, 2001. The law determines rationale, terms of inspections, procedure for filling out the inspections registration book, rights & obligations of inspectors and the inspected, as well as the responsibility of inspecting agencies</p> <p>The Law of the Republic of Tajikistan "On Bankruptcy".</p> <p>The Law of the Republic of Tajikistan "On Securities & Stock Exchange", revised on May 22, No 638.</p>	<p>rule is effective under inspection of fire services, sanitary and epidemiology, veterinary inspection, energy control, environment protection, compliance with trade procedure, and other inspections. Registration Book on Inspection is required for all entrepreneurs and all inspectors are required to sign the Book. Thus, creation of legal framework is existed to prevent illegal inspection.</p>		
--	--	---	--	--

<p>Standardization, Metrology, Certification</p>	<p>The Law of the RT "On Certification of Products and Services", dated December 13, 1996. No 313</p> <p>Resolution of the Government of the RT, dated March 16, 1999. No 97 "The Procedure for Certification of Food Products and Other Goods Imported and Exported from the RT"</p> <p>The law of the RT "On Standardization", dated December 14, 1996. No 333</p> <p>Resolution of the Government of the RT, dated November 4, 2002, No 428 "On International Accounting Standards"</p> <p>The Law of the Republic of Tajikistan "On Securities & Stock Exchange", revised on May 22, No 638</p> <p>The Law "On Ecological Expertise", No. 20, 22 April 2003</p> <p>The Law "On Health Protection of Population", No. 419, 15 May 1997, with additions and amendments No. 485, 12 February 2004</p> <p>The Law "On Hydro meteorological Activity", No. 86, 2 December 2002</p>	<p>compliance of services and goods with the norms, rules and characteristics determined; to increase the quality of domestic products and services in order to make them competitive worldwide;</p> <p>to guaranty the accuracy of products weighting and unit measures in local markets;</p> <p>All regulating legislations in this field match the WTO requirements</p> <p>to ensure the safety and health of consumers;</p>	<p>Existing standards are outdated and cannot match the safety requirements of the world ones</p> <p>Large number of required documents for standardization</p> <p>Long processing period</p> <p>High cost of standardization (\$150 and more)</p> <p>Unofficial payments</p> <p>Absence of uniform approach to standardization when the laboratory testing equipment is unavailable.</p> <p>Shortage of qualified specialist in the field of standardization dissemination of information on standards to SMSs</p>	<p>USAID Trade Facilitation and Investment Project:</p> <p>i) Signed memorandum of understanding between the Project and Agency for Standardization, Metrology, Certification and Trade Inspection. Trade Facilitation and Investment Project assisted in accession of Tajikistan to NCSL International.</p> <p>ii) In 2003 Central Asia Cooperation on metrology, accreditation, and standardization was established. Tajikistan is a member of this agreement.</p> <p>ITC, UNCTAD/WTO conducted several workshops on Hazard Access Critical Control Point requirements during production of SECO-granting of accurate equipment for Phyto sanitation control.</p>
---	---	---	---	---

	<p>The Law "On Industrial Safety of Hazardous Industrial Objects", No. 14, 28 February 2004</p> <p>Land Code, No. 23, 13 December 1996, with additions and amendments No. 498, 12 December 1997, No. 746, 14 May 1999, No. 15, 12 May 2001, and No. 23, 29 February 2004</p> <p>The Law "On Nature Protection", No. 905, 27 December 1993, with additions and amendments No. 223, 1 February 1996, No. 30, 10 May 2002, and No. 75, 2 December 2002</p> <p>The Law "On Protection of Consumers' Rights", No. 439, 15 May 1997.</p> <p>The Law "On Veterinary Medicine", No. 73, 8 December 2003.</p>	<p>to prevent environmental damage;</p> <p>protection of consumer rights and interests;</p>	<p>poor quality transportation facilities, roads, railways, air traffic. High fees, unstable and irregular supply of electricity throughout Tajikistan, aged facilities, low level of public investments in infrastructure, unsatisfying provision of communication service in rural and mountainous areas.</p>	<p>EBRD loan for Khujand Airport Emergency Runway Rehabilitation</p> <p>EBRD Technical Assistance Grant for Tajik Telecom Diagnostic & Feasibility Study</p>
<p>Infrastructure (IT, Communication, Electricity, Transport, etc)</p>	<p>The Law of the Republic of Tajikistan "On Transport".</p> <p>The Law of the Republic of Tajikistan "On Communication".</p> <p>Resolution of the Government of Tajikistan "On Tariffs for Electricity"</p>	<p>to provide favorable infrastructure for business promotion</p> <p>to support telecommunication development in remote areas, construction of bridges, communication routs,</p> <p>to ensure energy independence of Tajikistan</p>		

Anti-Corruption	<p>The Law of the RT, dated July 26, 2005 "On Struggle Against Corruption", Anti-corruption Department has been established within Office of the General Public Prosecutor. Decree No 542 of the President of the Republic of Tajikistan "On Introduction of the Inspection Registration Book for Business Entities", dated March 28, 2001. A particular attention has been given to the struggle against this negative phenomenon in Tajikistan in several Speeches of the President of Tajikistan.</p>	<p>to overcome/reduce the level corruption in society; to create an image of Tajikistan as a favorable region for business; to reduce poverty; to take measures directed on transparency of governmental institutions and private business; to ensure law compliance; to increase confidence to government service; to remove bureaucracy and artificial barriers which SMS face everyday</p>	<p>ineffective struggle against corruption; low salary of government employees, low income level; lack of opportunity for earning money legally; red tape; spread of corruption cases in inspecting bodies</p>	<p>United Nations Development Programme has launched recently Anti-Corruption Project in Tajikistan</p>
Land Ownership and Lease	<p>Land Code of the RT, dated December 13, 1996. Presidential Decrees No. 342 and 874 on assignment of 50,000 and 25,000 (respectively) hectares of land to private household plots has positively influenced on their welfare;</p> <p>Government Resolution No. 422 "On Local Land Committees" (September 13, 1996); Presidential Decree No. 1021 "On Ensuring the Right to Land Use" [Decree 1021] (June 22, 1998)</p>	<p>to ensure utilization of both arable and dry land in Tajikistan; to develop Dekkhan Farmers activity in Tajikistan; to increase the level of harvest yield in Tajikistan, to promote land exploring in Tajikistan with further extraction of useful minerals; to prevent environmental damage to the soil;</p> <p>to improve land regulatory system.</p>	<p>High rates of tax imposed on land; Land is exclusive property of the State, which is not preferable for foreign investors; insufficient irrigation cleaning measures; administrative barriers which impede the process of obtaining land sites for agricultural purposes; lack of information or in some cases misinformation on the Land Certification steps make the process long and burdensome for businesses and farmers.</p>	<p>ARD/CHECCI Legal Infrastructure for Market Economy: - developing land tenure relations; - developing land market. UNFAO Land Reform Monitoring Project: - coordination of land reform; - review of legislation</p>

Investment Promotion				
Labor Environment	<p>Labor Code of the RT, dated May 15, 1997. No 417.</p> <p>Proportion of Tajik workers should be at least 70% in joint ventures. Minimal wage is determined by Laws of Tajikistan (Decree of the President of the republic of Tajikistan "On Increasing the Minimum Monthly Wage Amounts & Current Base Salaries of Budget-Financed organizations & On Measures Aimed at increased Social Protection for the Most Vulnerable Strata of the Population" No 717, dated November 25, 2001)</p>	<p>To increase minimum wages; to improve the population welfare; to protect rights and interests of workers; to ensure social insurance, pensions, holidays, perfection of legislations in respect of protection of workers rights, increase the qualification of employees</p>	<p>Low level of salary; low motivation and productivity of workers, insufficient compliance with the Labour Code, tiny pensions for unemployed people</p>	<p>ILO Project on Human Traffic and Forced Labor</p> <ul style="list-style-type: none"> - migration problems; - public awareness campaign for migrants
Investment-related Laws	<p>The Law of the Republic of Tajikistan "On Foreign Investments" revised on December 02, 2002, No 65.</p> <p>"Regulation on the Procedure for Participants of Foreign Economic Activity of the RT", dated July 11, 1994. No 316</p> <p>The Law of the RT "On Customs Tariffs", dated November 4, 1995</p> <p>The Law of the RT "On Government Regulation of Foreign Trade Activities", No 822, dated September 3, 1999.</p> <p>Decree of the President of the RT "On Liberalization of</p>	<p>creation of favorable investment climate; protection and insurance of foreign investments; prevention of misappropriation of property.</p>	<p>unfavorable investment conditions, low level of regulations implementation, corruption, PR of Tajikistan Investment Perspectives, difference in registration fees of joint ventures vs. local enterprises, publication of investment related laws, lengthy registration period, high interest rate of the banking institutions, weak effect of the law on natural resources</p>	<p>Tacis Project</p> <p>"Implementation of Trade and Cooperation Agreement" - trade and investment climate:</p> <ul style="list-style-type: none"> - Assistance in drafting of the law on economic entities and entrepreneurship and the draft law on non-commercial agencies; - developing information guide for foreign investors; - training and policy advice on economic and administrative issues; - Law approximation with particular focus on

	<p>Foreign Exchange and Export Operations" & "On Measures to Ensure Complete repatriation of Hard Currency Earnings to the republic of Tajikistan ", No 424, dated February 24, 1996</p> <p>Law of the RT "On Introduction of Amendments to the Law on Customs Tariffs", dated December 2, 2002, No 67</p> <p>Revised Tax Code, dated November 25, 2004.</p> <p>Several Programmes on State Investments, technical Assistance & Grants are being implemented every two years (recent data, 2005-2007 - \$444,3 millions)</p>	<p>to plan State Investment Programmes with a purpose of attraction of foreign investments and priority determination on state important projects</p>	<p>high tax burden; frequent inspections by the Tax authorities; case of undervaluation of revenues by Joint companies, transfer prices, import of morally attrited technology on high prices</p>	<p>economic, investment and external trade issues; USAID Pragma Trade Facilitation and Investment Project: - Analysis of Foreign Investment Law and assistance in drafting a new law; - Identification and reduction of bureaucratic constraints to trade, investment and business development</p>
Taxation in favor of FDI	<p>Revised Tax & Customs Codes, dated November 25, 2004.</p>	<p>Joint ventures are provided with the following advantage depending upon the amount of foreign invested funds: up to \$500 000 - exemption from corporate income tax for 2 years; from \$500000 to \$2 millions - 3 years; from \$2 millions to \$5 millions - 4 years; over \$5 millions - 5 years respectively (article 145 of the Tax Code of RT. Import of modern technology for productive purposes - not subject to VAT (article 211 of Tax Code Tajikistan)</p> <p>Goals: to attract foreign investors through creation of a favorable investment climate, to encourage creation of joint ventures in Tajikistan, to promote inflow of foreign private capital.</p>		

Database	State Agency on Statistics (see web-site www.stat.tj) National Trade development Center www.ntdc.com	State Agency on Statistics has database on enterprises. National Trade Development Center has information on SME	
Statistics	Publication of annual statistics on Foreign Economic Activity of Tajikistan. By 2003 total amount of attracted foreign investments was \$482.03 millions, including FDI \$ 254,16 millions. Total number of acting JV - 151. In 2003, 10 % of Tajikistan export volume came from JV activity.	Creation of comprehensive and reliable information regarding movement of foreign capital, JV's activity, country and sector composition of foreign investments.	Incomplete and outdated statistical data as well as list of JV, their field of activity, Stock Fund.
SME Promotion			
SME Promotion Policy / Law	The Law of the Republic of Tajikistan "On State Support & Protection of Entrepreneurship in Tajikistan" dated May 10, 2002. No 46 Decree of the Government of Tajikistan "On Conception of Entrepreneurship Promotion in Tajikistan till 2015" dated December 3, 2004. No 469. Resolution of City Board No 38, dated December 12, 2002 "On Programme of Support and Promotion of Entrepreneurship in Dushanbe in 2003-2005".	Protection of rights & legal interests of entrepreneurs; Improvement of legal environment for Entrepreneurship Promotion; encouragement of economic activity of entrepreneurship; human resources development for entrepreneurship; simplification of registration procedure; implementation of financial support of entrepreneurships simplification of entrepreneurship accountancy; benefits for entrepreneurs under loan granting; establishment of business development centers in four districts in Dushanbe.	weak law implementation Conception has no funding provision insufficient financing of the programme although 50% of city budget revenues come from taxes derived from SME

		Resolution of the Mayor of Dushanbe "On Additional Measures of Support and Promotion of Entrepreneurship in Dushanbe", & "Plan of Events of support and Promotion of Entrepreneurship", dated June 2005			
Ministry in charge of SME Promotion	Resolution of the Government of Tajikistan dated February 14, 2001, № 75. Agency on Anti-Monopoly and Support of Entrepreneurship is in charge of support of SME.			it is expected that in September 2005 functions of the agency on entrepreneurship promotion will be transferred to the Ministry of economy and trade	
SME Promotion Agency	Resolution of the Government of Tajikistan dated February 14, 2001, № 75. Agency on Anti-Monopoly and Support of Entrepreneurship is in charge of support of SME.	conducting government policy on promotion of entrepreneurship policy, including SME, facilitation of creation and strengthening of entrepreneurship sector of Tajikistan's economy, government regulation, interindustry and interregional coordination in the sphere of promotion and support of entrepreneurship; promotion of investment activity of SME at the expense of non budgetary funds and attracting borrowed funds; formation of infrastructure for SME promotion; development of proposals on improving taxation of SME; organization of conducting government programs on SME promotion; development of policies on support of SME by modern equipment and technology in order to develop network of techno parks and leasing enterprises, centers of SME promotion; facilitation of intensive SME support programs by local authorities.	Agency focuses mainly on anti monopoly activities and but not SME support policy; only 5% of the staff are engaged in SME promotion; anti monopoly and SME support activities in sense are conflicting policies; It is anticipated that since September 2005 functions of the Agency activity on promotion of SME will transfer to Ministry of economy and trade of Tajikistan.		

SME loans	<p>The Law of the Republic of Tajikistan "On State Support & Protection of Entrepreneurship in Tajikistan" dated May 10, 2002. No 46 decree of the Government of Tajikistan "On Conception of Entrepreneurship Promotion in Tajikistan till 2015" dated December 3, 2004. No 469.</p>	<p>benefits for entrepreneurs under loan granting; creation of loans system which is favorable for SME.</p>	<p>High interest rates; Short period of credit maturity; Collateral requirements; Informal payments to bank in order to take loans.</p>	
Microcredit	<p>The Law of the RT "On Micro financing Organizations", dated May 17, 2004. No 38. Microfinance organizations due to low interest rates, collateral requirements and probability of obtaining loans become more attractive to SME in comparison with banking institutions. At the moment, an average interest rate per annum on loans issued in foreign currency is 15%, and 25% if credit was borrowed in national currency (Somoni)</p> <p>There are four micro-loan funds are under operation in Tajikistan. They are: "Humo", "Hakik", "Imon", "Borshud". Seven banks are under termination.</p>	<p>to encourage entrepreneurs with insufficient business experience or working capital to apply for financial service; to support innovative entrepreneur initiatives and ideas; to assist in the formation of nascent business; to import new technology for existing enterprises; to reduce unemployment in the rural areas, to increase the welfare of population and on the whole to contribute in the economic development of Tajikistan</p>	<p>small loan size; institutional dependency on donor support; limited availability of lending capital; fungibility of given credits; insufficient knowledge regarding microcredit among SMEs, short loan maturity.</p>	<p>Microfinance services as a poverty alleviation instrument are provided by several international organization, such as: Aga Khan Foundation, the Agency for Technical Cooperation and technical Assistance (ACTED), CARE International, within Economic Development Programme of UNDP, European Bank for Reconstruction & Development, International Finance Corporation, etc. Some associations and NGO's also provide assistance to emerging enterprises. German Technical Cooperation provides following services in the area of micro credit: - grant funds and</p>

					credit lines for small micro finance institutions (MFI) in rural areas - training of MFI staff - business advisory services to MFIs and the "Association of Micro Finance Organizations". - legal expertise
Guarantee					all credits should be collateralized at the expense of own assets
Equity Investment					at the moment there is no legal framework for such kind of activities
Leasing	The Law of the RT "On Financial Leasing", dated April 22, 2003. No 9.		to provide the legal base for financial leasing; to make available investments funds for most of the SME; to encourage development of business; to provide enterprises with necessary funds for purchase of expensive and complicated modern equipment; PR of leasing operations carried out by the banking institutions	offered leasing capital is insufficient for purchase of huge technological capacities; unfamiliarity of the majority enterprises concerning the advantages and mechanisms of this kind of material credit; Lack of specialized leasing company with immense financial resources; uncertainty in effectiveness of getting equipment through leasing (physiological factor)	Central Asian Leasing Development Programme within the framework of IFC-organization of training courses, dissemination of information regarding leasing in Mass Media, development of legislative base of leasing
Venture Capital					creation of venture funds attraction of private capital for innovation activity, risk reductions
Database	see previous section on database		see previous section on database		government statistical information regarding SME need to be improved
Marketing Support	Decision of the Mayor of Dushanbe city "On Additional Measures of SME support and Development" dated June, 2005 - creation of enterprise		Monitoring, elaboration of suggestions on business plans development with further implementation, creation of database		lack of a specializing institution dealing with marketing support for SME;

	research centres on the base of higher schools of Dushanbe city (expected on August, 2005)				
R & D Support	See: Marketing Support, as well as Creation of the National Patent & Information Centre	Legal protection of copyrights and industrial property rights. Encouragement of innovative ideas and dynamic activities. Research on potential directions of business development, market conjuncture, consumer preferences, impeding factors for business development in Tajikistan	Low level of R & D activity within enterprise despite the fact of existing taxation incentives, lack of financial resources, insufficient purchasing power of SME		
Incubators	incubators without frameworks have been established in agricultural areas of Sougd Oblast	in Dushanbe a programme has been adopted one of which purposes is creation of business incubators		OSI Economic and Business Development Programme – elaborated the agenda and schedule for perspective creation of business incubators	
Associations	All associations are conducting their activity on the base of two laws: "On public associations" and "On Chamber of Commerce and Industry" The following association have been created: Association of Small and Medium Business, Association of accountants and auditors, Association of enterprises and cooperatives, Association of Business Women, National Association of Small and Medium Business, Association of Exporters and Importers of Agro-industrial Complex,	Assistance in the development of SME, Promotion of products, services, etc., elaboration of programs with further implementation, organization of business courses, provision of business and legal consulting services, lobby of SME's interests, search of extra funding sources.	weak governmental and donors financial support		

	Association Managers and Marketologist of Tajikistan, Association of Productive and Creative enterprises.			
Taxation in favor of SME	<p>Decree of Tajik Parliament "On Amendments made to the Tax Code of the RT", dated 25, November, 2004. No 572,</p> <p>The law of the RT "On Simplified Taxation Scheme" (the Law applies to SME with number of employee up to 15 people) the following scheme is mentioned: 1. Taxable income is calculated as the difference between gross revenue and operational costs, excluding labour costs; 2. Payers include companies with a turnover of less than three VAT thresholds (i.e. SM 144, 000); 3. Rate of the tax set at 12 percent; 4. Will not pay corporate tax and minimal income tax.</p> <p>Introduction of the minimum corporate tax. Abolishment of corporate property tax.</p>	<p>Development of SME's activity through provision of benefits, prevention of tax avoidance, increase of revenues part of the State Budget, expansion of aggregate demand in the Market as a result of adoption of appropriate legislation.</p> <p>Simplification of accountancy procedure for small and medium enterprises. Eliminate incentives for undervaluing the corporate income tax base. Subsequent concentration of tax efforts and resources on the larger taxpayers.</p>	high tax burden, unawareness about benefits determined for enterprises, lack of Tax crediting	

Business Service Providers	See section on Incubators			there is a high demand for business consulting services in Tajikistan. Unfortunately, at the moment this demand cannot be met.	
SME Human Resource Development					
Business Courses by SME Support Organizations / BSP	Decree of the Government of Tajikistan "On Conception of Entrepreneurship Promotion in Tajikistan till 2015" dated December 3, 2004. No 469.	human resources development for entrepreneurship scientific and methodological provision of SME development of trainings and re-training of specialists		insufficient financing of various programmes	
Business Courses by Universities	The Law "On education" dated 2004	on the base of economic faculties within Dushanbe centers for re-training of entrepreneurs		insufficient financial resources Universities don't have MBA training programmes	
Vocational/ Training Schools	Decree of the President "On Introduction of International Accountancy Standards"	organization of training according to international Certified Accountant Programme		lack of courses in other directions of business	
Trade Promotion					
Trade Promotion Agency	Creation of National Trade Development Centre	Formation of information-educational resources in export promotion area for businesses and individuals of RT; Secure access to technologies of export promotion including to information technology; providing accurate and reliable information related to development trends of world export and agents of foreign economic activities; Creation the atmosphere of single information community in Foreign		prevalence of import over export; loss of economic contacts among enterprises, lack of reliable and sustainable raw materials supply chain for exporting enterprises, low level of trade crediting; complicated procedure of export; trade restrictions in a neighboring countries, inappropriate standards of manufactured products; high transportation costs; far distance from the main world trade routes; physical and moral attrition of the used technology; insufficient utilization of the economy of scale; information vacuum;	SECO (Switzerland State Secretariat for Economic Affairs), International Trade Centre, UNCTAD/WTO - lunch of National Trade Development of Centre, elaboration of sectoral export strategies, technical assistance,

			Economic Activity, market research,		participation of Tajik Enterprises in International Fairs & Exhibitions, preparation of export strategy for enterprises, information directory of Tajik Enterprises, Establishment of contacts with trade representations, .
Credit / Guarantee	See section on SME loans			there is no system of export crediting lack of private property on land impedes development of using land as collateral while borrowing from the banking institutions	The Aga Khan Fund for Economic Development (AKFED) Enterprise Support Facility provides training to entrepreneurs and funds small-scale businesses in the area of services, trade and agriculture and amount of financing is maximum \$5000.