



BASIC THEMES OF THIS RELEASE:

- **Business news**
- **Information on the new survey by the World Bank - «Link-up to energy supply system»**
- **Information on private sector development problems in GBAO**
- **Thought-provoking information: «12 criteria to assess investment consistency».**

BUSINESS NEWS

October 15 - November 15, 2009

There is a raising awareness campaign ongoing in the country on new procedures of state registration for legal entities and individual entrepreneurs. Workshops-trainings took place in Sugd province, regional centers and main cities of the republic under the auspices of Tax Committee and NASME with the support of USAID project on improving business-environment (BEI) and «One-stop shop» Project by European Commission.

Under the general and positive Tax Committee' performance assessment on carrying out the procedures for state registration, the participants of the workshop specified a number of problems in business registration, which included the following:

- The problem with dehkan farms state registration. The new law on dehkan farms introduces new terms for separating dehkan farms types, which are not provided for by the Civil Code. In this respect, dehkan farms can not get their registration as legal entities, because many of shareholders (founders of dehkan farms) are labor migrants working outside of the country;
- Unchanged requirement from banks' side for providing statutory documents, certified by notary office when opening an account, though the current legislation does not provide for such a procedure anymore;
- Unchanged requirement from registering agencies' side for providing a statement on absence of tax payable.

Note from the Secretariat:

To date there are 60 functioning centers, under the Tax Committee, in the republic on registration of entrepreneurs based on «One-stop shop» system. Based on the European Commission's Project data, over 2000 entrepreneurs have been registered through this «One-stop shop» system.



October 16, 2009

- a meeting of Donor Coordinating Council took place at the office of the Secretariat. The primary topic of the meeting was the preparation work for the 4-th meeting of the Consultative Council on improvement of investment climate under the President of Republic of Tajikistan. Representatives from the donor community discussed the agenda of the coming session and identified the strategy for expressing agreed donors' opinion on the matters of participating at Council's meetings. The participants of the meeting decided, that the representatives from USAID, European Commission and GTZ will give their remarks and express their opinion on the Program «Improving business environment – 200 days of reforms» implementation.

October 16, 2009

- There was a regular meeting held at SCISPM of RT on monitoring of the Program «Improving business environment – 200 days of reforms». During the meeting the items of the Program were reviewed, in particular Items 1,2,3,4,5,7,8,9 and 19. More detailed information on implementation of these and other items of the Program was earlier provided in the September' release of the Bulletin and Monitoring list of the Secretariat.

The representatives of SCI of RT spoke about the non-compliance with timelines for the implementation of this Program, because there has not been yet the communication system set up between the ministries and agencies, which in turn led to the problems with approval of project documents and receiving respective conclusions on them. There has also been a concern expressed on the matter that many working groups do not understand the wording of the Program's items. Therefore, there was a suggestion made to study all of the items once again, and particularly those that involve assessments to be carried out.

At the end of the meeting, the conclusions were drawn and it was suggested, that the persons had to be appointed under each working group, to be responsible for documents' editing. The participants of the meeting emphasized the need for the continual information exchange between working groups and for active participation of the private sector in this process.

October 19, 2009

- There was a meeting of members of the Consultative Council at the office of the Secretariat representing business-structures, where main topic for discussion was the agenda for the 4-th meeting of the Consultative Council. The meeting was attended by the Chairman of NASME – Ms. Uljabaeva, Chairman of CCBAPUT – N. Zabiroy, Chairman of ABT – I. Lalbekov and Chairman of the Association of entrepreneurs and manufacturers of Tajikistan – Mr. Z. Saidov.

The participants of the meeting made the decision that at the 4-th meeting of the Consultative Council, Mr. N. Zabiroy will summarize and provide the opinion of the business community on the matter of implementation of the Program «Improving business



environment -200 days of reforms». Besides, the members of the Council representing business structures are also planning to provide their comments on some items of the Program. In this regard, the Head of the Secretariat suggested to participants to follow the interactive format of the Council's meetings.

Special attention of the participants was drawn to the question raised by Mr. Saidov on supporting local producers, based on item 6 of the Program. According to the entrepreneurs, to date there has not been yet developed a comprehensive approach by the Government, which would facilitate stable operations and innovative possibilities for local producers despite the fact that the issue of providing support to local producers was raised many times at the meetings, attended by the authorities and business enterprises. Single and uncoordinated measures undertaken by the Government for supporting local producers do not always motivate them.

For example: The Government reduced VAT for wheat import, which supposedly was to give a stimulus for the growth of this product's import into the country. But along with this, VAT for processing industry (processing of cereals) has not been cancelled. Eventually, this measure led to a situation when the entrepreneurs profited more by importing flour rather than have products processed at milling factories. The major consequence of this measure was that factories stopped operating and therefore were not able to provide jobs for people.

Another such example is the problem with a list of equipment exempted from VAT. This list includes tractors, but the spare parts are not included. As a result - the entrepreneurs are not interested in importing spare parts for tractors and opening repair centers as it is not profitable for them.

October 22-23, 2009

- There was a 2-days workshop held in Khorog, where business structures together with representatives of involved regional state agencies discussed the problems of private sector development in GBAO and the role of intermediary organizations in improving business environment in the region. The participants of the forum considered it necessary combining and coordinating the interests of businesses under the activities of the Association of business intermediary organizations. Besides, it was suggested to establish a new advisory body and to renew the Councils' activities on development of entrepreneurship under the Chairman of the province. Apart from the discussion on the main subject, the participants of the meeting became familiar with new registration procedures for entrepreneurial activities.

October 29, 2009

- There was a business forum of entrepreneurs held in Kurgan-Tube, of Khatlon oblast and Kharkov oblast. The forum was held during the visit by Ukrainian delegation, comprised of representatives of Ukraine Chamber of Commerce and Industry, entrepreneurs of agricultural machinery industry and other sectors, headed by the Governor of Kharkov



province. The entrepreneurs exchanged opinions on the matters of creating close cooperation between business structures of the two provinces.

The mechanism of cooperation called «supplies in exchange for tractors and agricultural technologies» was proposed and agreed at the forum. The entrepreneurs reviewed the possibility of opening in Khatlon province the factory on assembling tractors and service centers for the functioning farms. Special attention of entrepreneurs in Khatlon province was drawn to the matter of procuring tractors by way of leasing. Ukrainian side plans to open «Ukrainian trading house» in Khatlon region and also has expressed the interest in providing help to Khatlon province on cattle breeding rehabilitation.

October 30, 2009

- The representatives of business associations, at the regular meeting of Coordinating Council of business associations and public unions of Tajikistan (CCBAPUT), discussed the implementation process of the government Program «Improving business environment -200 days of reforms», and the role of business associations in development of proposals and recommendations on this Program. The participants of the meeting emphasized, that the members of CCBAPUT, despite the given chance to participate in the work of the working groups, did not demonstrate appropriate enthusiasm in their work.

Another part of the meeting was dedicated to discussion of the proposal by German society on technical cooperation (GTZ) on establishing the Center to support business associations. We remind that GTZ is implementing the second phase of the Project on «Supporting small and medium businesses in Tajikistan», under which the establishment of such Center is envisaged.

The participants of the meeting reviewed some organizational issues as well, and in particular the following: the Chairman of CCBAPUT presented the initiative on electing and introducing one person authorized by CCBAPUT to work with the Government of RT, Parliament and judiciary of the country. The participants of the meeting positively responded to this initiative and at the same time suggested holding discussions with the Government before selection process of the candidates will start, with the purpose of identifying the participation mechanism for CCBAPUT representatives to be involved into activities of relevant institutions.

During the meeting, the new members of CCBAPUT were introduced, among which were the following: the Association of restaurants and hotels, association of photo artists, association of entrepreneurs and investors of Tajikistan an Turkey «TATSIAD», association of entrepreneurs of Tajikistan, Public Union «Federation of women groups in Karasu settlement» from Vahdat, and also the Club of young entrepreneurs. Total number of CCBAPUT members to date is 34 public associations.



Comments by the Secretariat:

The Secretariat supports the initiative of CCBAPUT on establishing a closer interaction between state agencies and business community, and reminds that the current legislation of the republic provides for the rights of public associations to participate in public discussions – article 24 of the Law of RT «On public unions».

More over, the article 23 of the Law of RT «On the Government of Republic of Tajikistan» determines the rights of other persons, which the representatives of public sector of the country can be attributed to, to attend the meetings of the Government of Republic of Tajikistan according to the order set by the Government. But the order itself has not been developed. Therefore, the Secretariat suggests to CCBAPUT to develop the mechanism for execution of the mentioned rights and to submit appropriate project documents for consideration by the Government of RT.

The Secretariat informs that the survey on the discussed issue had been carried out by the International public organization «Right and prosperity». For more detailed information, please refer to the following link: www.ipo-rp.org.

INFORMATION ON THE NEW SURVEY BY WORLD BANK
«CONNECTING TO ENERGY SUPPLY SYSTEM»

The World Bank team conducted a new survey under «Doing Business» Report. All of the procedures, which are to be followed by an enterprise to link-up newly constructed building to energy supply system, including expansion of the existing infrastructure, as well as required time and cost inputs, are covered in this survey.

The survey traces the interaction of the entrepreneurs with providers of communal services in 140 countries. The energy supply companies located in major business centers of each country were suggested to describe the procedures of link-up to energy supply system, and also to provide information on time and costs required for following these procedures.

According to the results of the survey, in 10 countries with the least number of procedures the process of connecting to energy supply system in average takes only 56 days. And in 10 countries with the highest number of procedures this process takes 215 days in average.

For comparison:

Country	Number of procedures	Time input	Cost (% of revenue per capita)
Germany	3	17	5,1
Japan	3	105	0
Guinea- Bissau	8	437	4,125.8

BULLETIN №10
SECRETARIAT OF THE CONSULTATIVE COUNCIL ON IMPROVEMENT OF INVESTMENT CLIMATE
UNDER THE PRESIDENT OF REPUBLIC OF TAJIKISTAN



Kyrgyzstan	6	325	2,478.4
Ukraine	9	306	262,0

An entrepreneur in Republic of Tajikistan has to go through 8 procedures in order to receive permits for connecting to energy supply system, at that the whole process takes 211 days, and the cost of the procedures accounts for 1 456,8% of the revenue per capita.

**The list of procedures included in «Doing Business» Report
on the Republic of Tajikistan for 2008**

No	Procedure	Time input	Cost
1.	Submission of the application to OJSHC «Barki Tojik» for receiving guaranteed technical conditions	22 calendar days	2800 Som.
2.	External inspection by the State Agency on energy control	10 calendar days	Free of charge
3.	Approval of electricity works plan by various organizations	10 calendar days	Free of charge
4.	Completion of external works by contractor	141 calendar days	\$8000
5.	Goststandart Inspection (carried out simultaneously with the other procedure)	4 calendar days	Free of charge
6.	Inspection by OSHC« Barki Tojik»	3 calendar days	Free of charge
7.	Inspection by State Agency on energy control under the Ministry of Energy and industry of the Republic of Tajikistan	3 calendar days	Free of charge
8.	Concluding contract with OJHC « Barki Tojik» on energy supply	22 calendar days	\$20

Comments by the Secretariat:

It is worth mentioning that within the framework of the reforms initiated by the Consultative Council in the area of construction activities, the Government of Republic of Tajikistan has approved new «Order to follow administrative procedures related to implementation of construction activities» dated May 6, 2009, on the basis of which the procedures for receiving permission to connect to energy supply system were simplified.

According to the new procedures, the entrepreneurs have to contact local agencies on architecture and town planning for obtaining technical terms and architecture-planning



terms required for the design works, and within 5 days they are obligated to send copies of the application and attached documents for linkup to the engineering networks (electro-, water-, thermal-, and gas supply) to all utilities, including OJHC «Barki Tojik».

The utilities, in their turn, have to consider and pass technical conditions to agencies on architecture and town planning within 10 days time. Technical terms are to be provided free of charge. These changes will be included in the next «Doing Business» Report.

INFORMATION ON THE CONSTRAINTS IN THE PRIVATE SECTOR DEVELOPMENT IN GBAO

The Secretariat presents for your consideration the comments by representatives of business structures of GBAO on the issues of private sector development in the province, provided by its' most active partners.

According to the information provided by «Milal-Inter» Association, the private sector in GBAO, same as in the country as a whole, started to be shaped in early nineties, when the first private shops were opened as well as public service centers. But compared to other regions of the country, private sector in GBAO was being formed with quite poor economic infrastructure. But, the Association assumes that entrepreneurship in GBAO actually started its development from year 2000 when on-going (all year-round) motor communication was established between GBAO and other regions of the country.

The volume of commodity turnover greatly increased, several major cross border markets were opened, a number of enterprises started producing meat, milk and bakery products as well as producing mineral water and processing precious metals and stones in an increased way.

However, along with its positive developments, the region is still struggling with many economic issues which slow down business development. According to PU «Surb», the private sector in GBAO is still at the initial stage of its shaping. The reasons for such prevailing situation are not only existing legislative and administrative constraints for doing business but inactivity of the population itself.

In particular, the population faces the great challenge of accumulating the initial capital and the need to bear substantial costs due to doing business.

The credit analysis conducted under the Mountain Societies Development Support Programme (MSDSP) shows that out of the total volume of all provided loans, about 2-3% were given to business development. The majority of loans are targeted to resolve social problems, including the loans the population used for procuring food items for their direct consumption.



Climate conditions, poor road infrastructure, substantial distances between the communities, limited options for market outlets and non-creditworthiness of the population increases the risks for trading activities, which are the most popular type of entrepreneurship. The price of transported commodities automatically goes up by several times.

Due to high mountains and unfavorable weather-climatic conditions and because of labor intensity of agricultural works – the agro business also remains to be low profitable activity.

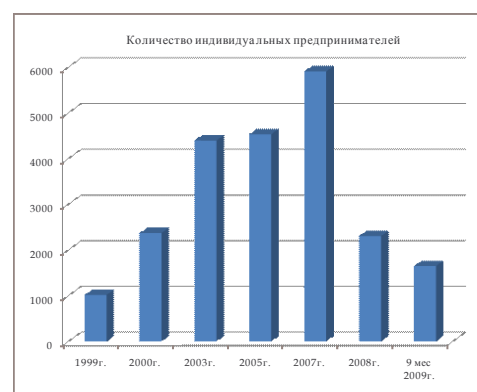
Cattle breeding as the most promising source of livelihood in the mountains also have its own constraints, because 60% of GBAO territory consists of high altitude desert, where the yield capacity of pastures is by 45% lower than in other regions of the country.

It turned out that extremely weak physical infrastructure in GBAO strongly holds back the development of businesses in production sector, because there is no industrial production in the region with the exception of few enterprises.

Besides, in addition to all of the above-mentioned problems, the situation for entrepreneurs is aggravated by tax and custom policies, which do not facilitate business development in uplands, but on the contrary, slow down its development. In particular, current legislation does not provide for differentiation of benefits needed for development of upland regions, widely applied in global practices.

According to entrepreneurs, tax rates and custom fees are elaborated by fiscal bodies exclusively, which base them on their own institutional interests (formation of revenue part of the budget), and not the interests of economic development.

According to PU «Surb» data, there is a tendency for decrease in numbers of entrepreneurs in the region. Business structures of the province attribute the lack of real banking services, which do not provide adequate soft loans, to the number of primary suppressive factors in terms of private sector development in GBAO. These services should correspond to the real conditions of mountain areas and be accessible for the majority of population. Besides, the entrepreneurs oppose high bank rates and limited terms for the re-payments.



Based on regional statistical data

PU «Surb» outlines the absence of objective analysis of economic status and development prospects in GBAO among key constraints to the private sector development. Besides, there is a weak coordination, in terms of the private sector development, among state agencies,



public organizations and business structures in the province. The Consultative Council, established in 2007 under the Chairman of the region for the purpose of business development, is not operational.

Recommendations by PU «Surb»:

The Union suggests reviewing the issue of the improvement of regional-territorial division, which provides for favorable system of taxation, lending and other privileges for high mountain regions of the republic.

It is also suggested to establish the system of information supply to entrepreneurs, which would create free access of the private sector to the legislative basis of the country.

European experience

The history of the human civilization proves that economic activities in mountain areas differ from the valley conditions. As a rule, these conditions are characterized by greater hardships and limitations for mountain population, which manifests in serious lagging of economic and social development of mountain territories compared to the regions located in flat lands.

European Union realized the importance of mountain areas long time ago, as they are performing important economic, socio- cultural and ecological functions. Under the national mountain policy, in many countries of Europe (such as Italy, France, Switzerland and others) special «mountain» laws were adopted and are functioning, providing for the special socio-economic status of the mountain regions, reducing disproportions between mountain and lowland regions.

Besides, special agencies were established in a number of European countries, which regulate development of mountain regions. In France, it is a National Council on development, establishment and protection of mountain regions under the Council of Ministers, headed by the Prime Minister. The Council is comprised of parliamentarians, ministry's representatives and mountain communities. In Russia, there is the Ministry of Regional Development.

International practice also suggests establishment of various special funds for development and supporting of mountain territories.

Summary from: "State and law", №12 - 1997

12 CRITERIA TO ASSESS INVESTMENT CONSISTENCY

The operational practice of international investment community demonstrates that foreign investors follow certain rules when making decisions on investing to this of that economy. US Chamber of Commerce, based on the study of transnational companies, developed the list of basic criteria the foreign investors apply when making investment decisions.

This list includes the following criteria:

1. **Internal market.** A foreign investor is interested to know the size and potential of the internal market of the country he is going to invest his capital into, and buying capacity



of customers in particular. It is important to understand that an investor will not invest into the market with little chances for real profit gain.

2. **Free access to market.** The more freedom is there on the market, the more attractive it becomes for investing.
3. **Labor resources:** Beside the fact that investor is willing to provide the capital and technologies, another important aspect of his business' success he considers to be the quality of local labor force and the access to local raw materials.
4. **Protection from currency devaluation.**
5. **Transfer of dividends, interests, allocations and payment for technical assistance** – in case if foreign investor can not have the money transferred from the country, then why would he invest?
6. **Protection of property rights**
7. **Export capacity** –Possibility of carrying out deliveries from companies' branch to the neighboring markets or maximization of the overall efficiency of company's operations by way of trading between different branches in other countries for the purpose of equalization of product line
8. **Favorable tax regime and tax benefits**
9. **Low political risk** - For long term investments, an investor has to be confident in credibility of the government of the receiving country and its ability to ensure compliance with local legislative standards and rules.
10. **Forecasted macro economic management.**
11. **Reliable infrastructure support** –investment will not bring stable revenues without reliable transport services, energy supply system, insurance and reporting services, appropriate financial system or other basic factors.
12. **Costs related to regulatory agencies.**

Message for the partners:

The Secretariat invites all its partners to cooperation and suggests sending interesting information and articles for publication in the coming Bulletin releases.