

Government of the Republic of Tajikistan

DECREE

Dated 29 December 2012 № 755

“On the Concept of State Policy for Attraction and Protection of Investment of the Republic of Tajikistan”

In accordance with clause 6 of the Law of the Republic of Tajikistan “On the state forecasts, strategies and programs of socio-economic development of the Republic of Tajikistan” and in order to create favorable investment climate the Government of the Republic of Tajikistan hereby decrees:

1. To ratify the Concept of State Policy for Attraction and Protection of Investment of the Republic of Tajikistan (attached hereto);
2. To ensure fulfillment of the Concept of State Policy for Attraction and Protection of Investment of the Republic of Tajikistan by all ministries and divisions and local authorities;
3. State Committee on Investments and State Property Management of the Republic of Tajikistan to annually submit progress reports on implementation of the Concept of State Policy for Attraction and Protection of Investment of the Republic of Tajikistan to the Government of the Republic of Tajikistan.

Chairperson of the
Government of the Republic
of Tajikistan

Emomali
Rahmon

Concept of the State Policy for Attraction and Protection of Investment of the Republic of Tajikistan

1. General provision

1. The State policy for investment attraction and protection of the Republic of Tajikistan (the state investment policy) aims to gain social and economic development of the country and to achieve generally beneficial effect in investment sphere. It involves direct participation of the government in socially important investment activities implemented by private sector.

The state investment policy is to establish favorable investment climate and to overcome legislative and institutional restraints to investment growth into production, strengthen social orientation, liberate initiatives of economy's private sector, and counteract the destabilization threats to country's economy caused by global financial crisis due to extreme physical deterioration of business sector.

2. Basic principles of the state policy for investment attraction and protection of the Republic of Tajikistan are as follows:

- to ensure balanced and sustainable development of country's economy;
- to establish and legislatively strengthen clear “rules of the game” within investment sphere, taking into account the country's strategic interests and development priorities, that reflect a clear and consistent policy of the state oriented at the long-term investment attraction and keeping investors' confidence;
- to ensure availability and accessibility of information in investment sphere;
- to provide equal access to investment resources (equal access of investors, both foreign and national, to information, investment programs, project biddings in order to get involved into the investment programs and participate in investment biddings);
- to align basic principles of investment policy in all branches of government on national and regional levels, as well as among business structures;
- to get declarations complied with real actions; to avoid market policy changes; to ensure clarity of concrete action plan of authorities on different levels enabling improvement of country's investment climate.

3. Priorities of the state investment policy shall be focused on the following aspects:

- sector priorities: encouragement and promotion of various activities of importance for country's economy, including export of competitive products and import of new technologies, attraction of investments to priority sectors, list of which shall be regularly revised;
- company related priorities: with stimulating investments from big companies equal attention shall be paid to attraction of investments for small and medium sized foreign companies which to a greater degree need legislation basis of investment attraction to be improved and security of investment related activities warranted at all levels;
- priorities of regional development: in addition to favorable conditions established for investment activities in some of the free economic zones it is necessary to use initiatives and

resource potential of the area considering development of infrastructure and administrative institutions necessary for targeted attraction of emerging investors;

– regional and country priorities: activation investment attraction to the country's economics requires diversification of investment resources flow to the country both from economically developed countries and from countries with dynamically developing markets taking into account the needs and developmental trends of entire Central Asia region.

2. Terms

4. Basic terms and definitions used in the Concept:

Investment climate is a set of country-specific factors that determine company's capabilities to expand their activities through productive investments. The government should make a considerable impact on establishment of an attractive investment climate in terms of security of property rights, legal regulation and effective business taxation, favorable conditions for financial and labor markets, market infrastructure and such issues as fight against corruption and crime and political stability;

Investment potential is a set of specific behaviors and conditions promoting investment attraction. Country's investment potential includes resources and raw materials, intelligence and labor, consumers and households, production, innovations, institutional, economical, geographical, demographical and financial potentials;

Investment legislation is a set of legal and regulatory frameworks controlling investment affairs with regard to direct implementation of investment activities and to managing these activities;

State investment policy measures are activities that are aimed to develop and implement investment policy, determine investment structure and scale, directions of their utilization and income sources in economics spheres and sectors;

Investment priorities are those determined by government against special sector (sphere) criteria, directions and projects of strategic importance for country's development and/or those with priority investment attraction needs for their further development;

Investment promotion is the government's arrangements aimed at investments attraction and promotion;

Investment infrastructure is the most important economy sector that provides for and directly supports investment management process;

Country's investment image is a complex reflection of various aspects of investment climate at investors' conception;

Investment attractiveness is availability of certain conditions affecting investors' preferences in selection of investment medium;

Investment risk is a reflection of investments appropriateness in given territory and probability of loss of investments or the income.

3. Need for adoption of the Concept of the State Policy of the Republic of Tajikistan for Investment Attraction and Protection

5. Development of private sector and investment attraction is the national long-term priority as per the National Development Strategy of the Republic of Tajikistan. For the last few years on the initiative of the President and the Government of the Republic of Tajikistan number of major

reforms in business management were carried out aimed at elimination of administrative barriers and intervention of government bodies to economical activity of business entities among which is the reform of licensing system, regulation of checkups and introduction of “single window” principles for registration of juridical entities and individual entrepreneurs. Acceptance of a number of new laws and corrections and amendments to current legal frameworks regulating investment and business environment made it possible to substantially improve country performance indicators in the annual World Bank Report “Doing Business”. In 2010 and in 2011 Tajikistan was in the top ten countries-reformist of the report.

The message of the President of the Republic of Tajikistan Emomali Rahmon to the national Parliament dated 20 April 2012 once again highlighted the importance of greater investment attraction to various economy spheres under the emerging global challenges and threats affecting country’s economy spheres. To implement practical measures the following was recommended: “To speed up the economy diversification and improve country’s investment climate, to secure rights, warranties and benefits of foreign investors, and to introduce a tool of unified investment policy the State Committee on Investments and State Property Management of the Republic of Tajikistan jointly with the ministries and divisions shall prepare and by the end of the year submit for revision of the Government the Concept of the State Policy for investment attraction and protection”.

Tajikistan is capable of securing sustainable economical development. For that effective structural reforms shall be continued including strengthening of financial sector, completion of privatization of major state-owned companies, upgrade of basic economy sectors and physical infrastructure.

In the course of implementation of above opportunities Tajikistan faces serious challenges such as gaps in regulatory and administrative systems managing business activities. These gaps are the principle obstacles to speed up the process of attraction of foreign direct investments (further FDI) and to develop country’s priority economy sectors. Economy shall become more attractive to foreign investors through implementation of necessary measures aimed at reduction of government’s participation in business, decrease of corruption and strengthening of the court system.

Another country’s long-term development priority is a need for diversified economic development to reduce deep dependence on export of aluminum and cotton. Favorable conditions for FDIs shall be a determining factor for development and implementation of sector and regional development programs and international partnerships between the national and foreign business structures including small-scale and medium-scale business.

The government faces the challenge of attracting foreign capital to the country without depriving its incentives and by directing it to achievement of social goals through economic regulation.

Thus, the Concept of the State Policy for Attraction and Protection of investments (further the Concept) is a solution to the time challenge, a transition tool to new stage of the country’s economic development through determination of further ways of private sector development and improvement of investment environment in order to implement the provisions of the National Development Strategy and strategies for improving the welfare of the population of Tajikistan for 2013-2015.

6. The Concept shall serve as:
 - A policy decision-making tool for government bodies;

- A basis for development of further documents regulating implementation of the state policy for investment attraction and protection;
- An information source for potential investors about measures planned to improve investment climate of the Republic of Tajikistan;
- Information for development partners for their understanding and support of investment priorities of the national policy;
- Benchmark for private sector to forecast their investment activities;
- Information for population and society about government's role in investment environment and its investment policy.

7. During the development of the concept the following was considered:

- The Government of the Republic of Tajikistan applies continuous efforts to attract and protect investors and is conscious of investment attraction being one of the key factors to accelerate development and achieve key country goals;
- Efforts put on investment climate reforms, elimination of administrative barriers and formation of positive investment image of Tajikistan acknowledged worldwide require constant reforms through scientific approaches and best world practices under constant attention of the government;
- Having considerable nature resources, being in the top ten world countries with hydro power potential, with unique opportunities for development of some economic spheres, Tajikistan due to objective reasons is unable to fully use these opportunities through mere internal efforts and funds;
- Tajikistan investment policy shall secure country's advantage over competitor countries not only in the region but also on the world arena. It shall be supported with constant monitoring, take into account external influence and timely adjust the taken measures;
- Improvement of country's investment climate and image according to world practice requires certain time and cannot be achieved at once. Therefore, coordinated efforts of all stakeholders – government, society and business structures represented by both national and international investors – are required.

4. Goal of the Concept development

8. Basic goal of the Concept development is to ensure sustainable and balanced development of the national economy, improve its competitiveness and create legal, socio-economical, financial and organizational conditions for efficient investment activities in the Republic of Tajikistan. Main Concept targets are conditioned by addressing strategic objectives of private sector development and investments attraction outlined in the Tajikistan National Development Strategy as one of the national long-term development priorities.

9. To achieve above mentioned goals within the state investment policy a package of emergency measures shall be implemented to create a favorable investment climate in the country, support initiatives of economy market sector, cardinaly raise government's role in securing attractive legislative and institutional conditions for economic activities of private investors conforming to modern market conditions.

10. Goals of the Concept development:

- To determine basic tasks and directions of the state policy for investment attraction and protection;
- To align the state policy for investment attraction and protection with the world trends in investment sphere;

- To specify basic implementation tools of the investment policy;
- To specify role of authorized government bodies in investment attraction sphere;
- To specify monitoring tools and evaluation criteria for implementation of the state investment policy.

5. The objectives of the Concept

11. Based on the goals the key objectives of the Concept are as follows:

- To create a favorable investment climate;
- To raise efficiency of the state regulatory policy in investment sphere;
- To mobilize investment resources and ensure their effective management;
- To increase diversification level and competitiveness of country's economy;
- To ensure the growth of export potential;
- To introduce new technologies and modern business management procedures;
- To upgrade production, update material and technical resources and create new work places.

6. World trends in investment sphere

12. Investment environment rapidly changes on the world level over the past few years. Despite the continuous influence of the global crisis and sharpening deep problems in some developed countries the FDI worldwide continues to grow although fall of the growth rate is present. There are essential changes in the structure of investment sector. Investment flows to the mining industry, finances, food and chemistry sectors increase again, while flow of direct investments to automobile industry decreases.

There are certain shifts in geographical aspect. There is a rapid growth of FDI flows in the range of countries with transition economies including CIS, South-East Europe and Georgia.

Even though development of investment policies is more intensified at the regional level, number of bilateral investment agreements tends to fall.

In international investment policy the more and more attention is paid to sustainable development. Mobilization of investments and their contribution to sustainable development is a priority for all countries. "New generation" investment policy is being developed: now the governments of the countries face broader and more complex range of development tasks that shall be resolved together with the establishment or maintenance of the common favorable investment climate.

Within the "new generation" investment policy the essence of investment attraction and benefits deriving from them is in inclusive growth and sustainable development.

This leads to certain targets within the investment policy at national and international levels. At the national level such targets include integration of investment policy to the development strategy, inclusion of sustainable development goals to the investment policy and ensuring its topicality and effectiveness.

There is an international target of strengthening and developing institution of International Investment Agreements (IIA) providing for balanced rights and obligations of governments and investors with simultaneous solution to cumbersomeness of the IIA system.

7. Current situation within the sphere of investment activities in the Republic of Tajikistan

13. Since gaining independence the Government of the Tajikistan was able to achieve a lot in revival and development of the country's economy.

A fundamental legislative and legal regulatory basis supporting market mechanisms of economic management was accepted.

Since 2002 to date there is a number of reforms carried out at the legislative level aimed to create favorable investment sphere in the Tajikistan most priority economy spheres.

Key achievement was acceptance of the new law of the Republic of Tajikistan “On investments” that substituted by its legal regulation the law of the Republic of Tajikistan “On foreign investments”.

A distinctive peculiarity of the law “On investments” is that it investor under this law stands for not only foreign investors but also for the domestic ones thus stimulating development of national investments.

Additionally, to stimulate investment flows and create more favorable investment environment the laws of the Republic of Tajikistan “On privatization of the state property of the Republic of Tajikistan”, “On agreements on division of products”, “On concessions”, “On free economic zones”, “On credit cases”, “On the state private partnership” were accepted at the national level. Besides, considering realities of the time a very important law “On investment agreements” is planned to be to improve country’s investment climate.

After declaring the goal to create a favorable investment climate in the country, reforms were carried out to simplify the state procedures for registration of legal entities and individual entrepreneurs, licensing system, customs procedures, building permits, etc. Over the past few years the Government of the Republic of Tajikistan took a number of significant measures to strengthen the legal framework of investment activity, eliminate administrative barriers to simplify business and investment activities, which greatly influenced the performance of business activities.

Introduction of the “Single Window” for business registration, reduction of the number of required licenses and permits of all kinds, reduction of the number of inspection services and audits regulation, improvement of the bankruptcy procedures, and protection of minority shareholders are among the reforms to improve the business environment, which was highly assessed at the international level. In the World Bank “Doing Business” annual report for 2010 and 2011 Tajikistan was in the top ten of the best countries-reformists.

Activities in the area of improvement of the investment climate is supported by the Consultative Council on improvement of investment climate under the President of Tajikistan consisting of representatives of both the Government and the private sector.

Legislation of the country provides for guarantee system for investors and investment activities, uniform conditions are created for both national and foreign investors, freedom of transfer of profits and other forms of investment incomes is guaranteed, and many more. The legislation also makes provisions for a tax and customs preferences. Special benefits are provided to investors working in the priority economy sectors, such as construction of power stations and enterprises involved in the full cycle of cotton fiber processing.

At the international legal level the documents ratified by the Republic of Tajikistan that make provisions for investment promotion are an agreement signed with 25 world countries to avoid double taxation and an agreement signed with 18 world countries on investment promotion and mutual protection.

A significant factor in the further improvement of the investment climate and increase in business activity in the country was entry of the Republic of Tajikistan in 2012 to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards dated 10 June 1958.

The Republic of Tajikistan is a member of such international organizations as United Nations (UN), Organization of the Islamic Conference (OIC), Economic Cooperation Organization (ECO), European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), World Bank (WB), International Finance Corporation (IFC), Asian development Bank (ADB), Islamic Development Bank (IDB), International development Association (IDA), Multilateral Investment Guarantee Agency (MIGA), United Nations Industrial Development Organization (UNIDO), International Fund for Agricultural Development (IFAD), United Nations Economic Commission for Europe (ECE) and interstate organizations such as the Eurasian Economic Community (EurAsEC), Shanghai cooperation Organization (SCO).

Over the past 10 years (2002-2011) within the implementation of the state investment projects with financial support from donors and international financial institutions more than 200 project agreements worth 2,13 bln. USD were signed and implemented, of which share of loan agreements made 1,614 bln. USD, grants – 371.5 mln. USD, government contribution – 119.12 mln. USD and other inflows – 28.7 mln. USD. The crisis years 2008-2010 account for 1.038 bln. USD or 48.7% of the total amount disbursed under implementation of the state investment projects (Table 1).

Table 1. Investments under the implementation of the state investment projects 2002-2011

| Years | Volume of financial implementation, mln. USD | | | | |
|-------------|--|---------|-------------------------|--------|----------|
| | Loans | Grants | Government contribution | Other | Total |
| 2002 | 54,253 | 10,183 | 0,701 | 0,447 | 65,584 |
| 2003 | 42,543 | 9,039 | 3,442 | 0,400 | 55,424 |
| 2004 | 97,594 | 16,364 | 10,507 | 1,077 | 125,542 |
| 2005 | 75,934 | 8,594 | 10,394 | 1,557 | 96,480 |
| 2006 | 76,599 | 15,688 | 15,536 | 7,766 | 115,590 |
| 2007 | 282,499 | 27,190 | 18,933 | 6,339 | 334,960 |
| 2008 | 354,904 | 45,501 | 13,611 | 4,900 | 418,917 |
| 2009 | 252,817 | 93,372 | 12,653 | 2,054 | 360,896 |
| 2010 | 179,630 | 55,091 | 20,584 | 3,040 | 258,344 |
| 2011 | 197,524 | 90,460 | 12,757 | 1,116 | 301,858 |
| Grand total | 1614,297 | 371,483 | 119,119 | 28,696 | 2133,595 |

Source: SCISPM Aid Information Management System (www.amcu.gki.tj)

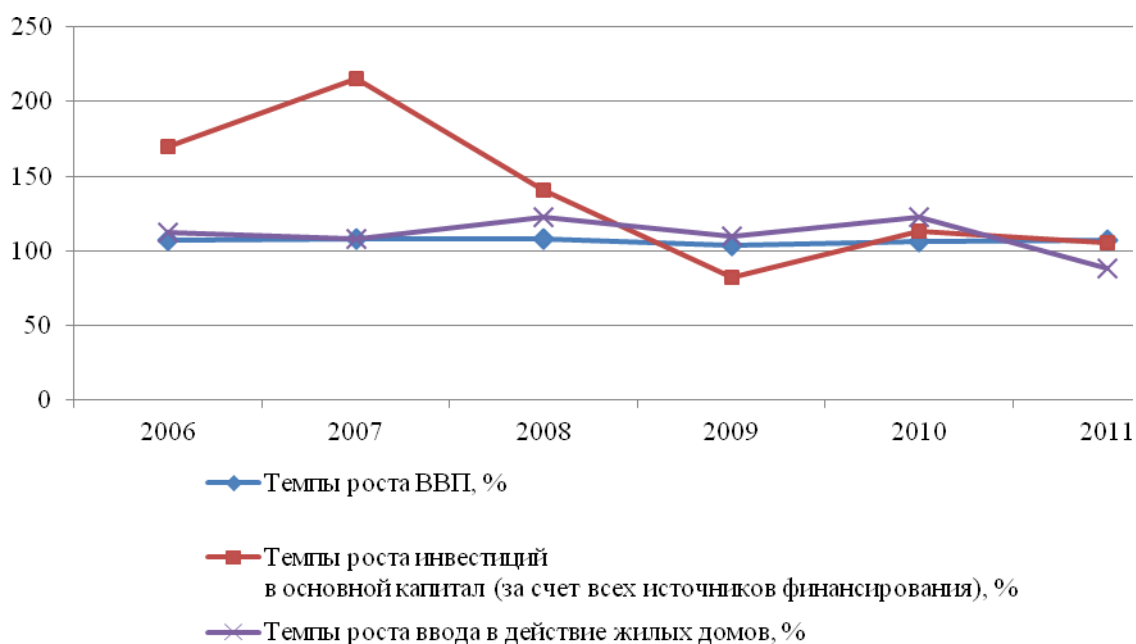
Growth rate of investments in stock capital of the economy of the Republic of Tajikistan in the period 2006-2011 tends to fall due to the global financial crisis. At the same time the negative impact of the crisis on investment growth was more significant than that on the dynamics of change in GDP. Thus, if the GDP growth rate for the period 2006-2011 was approximately at the same level within 6,5-7,9% (except for 2009, where it made up 3.4%), the growth rate of investments in capital stock decreased from 69.6% in 2006 to 5% in 2011. In 2009, GDP growth rate exceeded the rate of investment growth for 18.9%, and in 2011 for 2.4%.

Table 2. Growth rate for GDP, investments in capital stock, volume of civil works and commission of dwelling houses in 2006-2011, % to the preceding year

| Indicator name | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|-------|-------|-------|-------|-------|-------|
| GDP growth rate % | 107 | 107,8 | 107,9 | 103,4 | 106,5 | 107,4 |
| Growth rate of investments in capital stock (from all funding sources), % | 169,6 | 216,2 | 160,8 | 84,5 | 111,5 | 105,0 |
| Growth rate of commission of dwelling houses, % | 112,0 | 108,0 | 122,8 | 109,6 | 123,1 | 88,2 |

Source: CIS Intergovernmental statistics committee (<http://www.cisstat.com/>)

Fig. 1



Analysis shows that specific weight of investments in GDP in the period under review is almost at the same level, while in 2011 there is a decrease to 7,3% which is for 2,9 less than in 2010 (table 3).

Table 3. Basic socio-economic indicators of investment activities

(in established prices in effect, thousands TJS)

| Years | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---------|---------|---------|---------|---------|
| Deployment of basic funds | 765701 | 970087 | 2696108 | 2119240 | 2371535 |
| Investments in capital stock | 2828663 | 4341444 | 3899376 | 4669365 | 4988319 |
| Including: | | | | | |
| - Production entities | 2002281 | 3173660 | 2481478 | 2797983 | 2664916 |
| Specific weight in total investment share, % | 70,8% | 73,1% | 63,6% | 59,9% | 53,4% |
| - Non-production entities | 826382 | 1167784 | 1417898 | 1871382 | 2323403 |
| Specific weight in total investment share, % | 29,2% | 26,9% | 36,4% | 40,1% | 46,6% |
| Share of investments to GDP, % | 8,1 | 10,3 | 10,2 | 10,2 | 7,3 |
| Commission of dwelling houses, total area in thousands meters | 621 | 763 | 836 | 1029 | 908 |

Source: Agency of Statistics under the President of the Republic of Tajikistan. Construction in the Republic of Tajikistan

During the reporting period there was a change in the ratio between the volume of investments made into production and non-production entities. The share of investments in production entities for the period 2007-2011 decreased from 70.8% to 53.4%, while the share of investments in non-production entities increased from 29.2% to 46.6%. This is primarily due to increase in investments into such non-production entities as: construction of schools, hospitals, outpatient clinics, etc.

The analysis shows that in the period 2007-2011 level of investment countrywide generally tends to grow mainly through the government sources, stock companies, private business, as well as participation of population in the investment financing. It should be noted that in the period under review volume of foreign investments decreased and their share in total investment fell from 72.8% to 21.9% (Table 4).

Table 4. Structure of investments in capital stock by funding sources 2007-2011

(in established prices in effect, thousands TJS)

| Years | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
|------------------------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| Countrywide | 2828663 | 100,0% | 4341444 | 100,0% | 3899376 | 100,0% | 4669365 | 100,0% | 4988319 | 100,0% |
| Public | 547530 | 19,4% | 1014998 | 23,4% | 1219324 | 31,3% | 1677370 | 35,9% | 2490034 | 49,9% |
| Dehkan farms | 5234 | 0,2% | 7756 | 0,2% | 2745 | 0,1% | 1647 | 0,0% | 4017 | 0,1% |
| Shareholders | 28725 | 1,0% | 39686 | 0,9% | 67488 | 1,7% | 213551 | 4,6% | 264303 | 5,3% |
| Population | 105351 | 3,7% | 211258 | 4,9% | 280724 | 7,2% | 356241 | 7,6% | 452384 | 9,1% |
| Companies with limited liabilities | 27678 | 1,0% | 72644 | 1,7% | 128675 | 3,3% | 355778 | 7,6% | 197596 | 4,0% |
| Private enterprises | 44248 | 1,6% | 62019 | 1,4% | 67323 | 1,7% | 176894 | 3,8% | 196246 | 3,9% |
| Tojikmatlubot | 5039 | 0,2% | 8067 | 0,2% | 10584 | 0,3% | 20985 | 0,4% | 23251 | 0,5% |
| Joint ventures | 6376 | 0,2% | 41302 | 1,0% | 37509 | 1,0% | 83185 | 1,8% | 269548 | 5,4% |
| Foreign investments | 2058482 | 72,8% | 2883714 | 66,4% | 2085004 | 53,5% | 1783713 | 38,2% | 1090942 | 21,9% |

Source: Agency of statistics under the President of the Republic of Tajikistan. Construction in the Republic of Tajikistan

One of the main peculiarities of the Tajik economy is the significant role of public funds in investment funding sources into the stock capital. From 2007 to 2011 investments in capital stock for the amount of 6.949,3 mln. TJS were covered by public funds which amounted to 33.5% of total investments in the capital stock on the whole in the economy, including funds from the national budget 5.796,1 mln. TJS or 28% and organizations and enterprises owned funds – 1.153,2 mln. TJS or 5.5% (Table 5). At the same time, share of public investments in 2011 increased 4.5 times as compared to 2007 and reached 2.490 mln. TJS which is 50% of the total investments in capital stock out of which 42% are taken from republican budget and 8% are enterprises and organizations owned funds.

Table 5. Public investments in the capital stock

(in established prices in effect, thousands TJS)

| Years | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------------------------------|------|------|------|------|------|
| Investments to capital stock | | | | | |

| | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Total | 2828663 | 4341444 | 3899376 | 4669365 | 4988319 |
| Public investments including: | 547530 | 1014998 | 1219323 | 1677370 | 2490034 |
| - enterprises and organizations owned funds | 127538 | 217569 | 150762 | 266672 | 390614 |
| - budgetary funds | 419992 | 797429 | 1068561 | 1410698 | 2099420 |

Source: Agency of statistics under the President of the Republic of Tajikistan. Construction in the Republic of Tajikistan

Increased volume and share of the state budget in the investment funding sources into the capital stock became one of the conditions to mitigate the negative impact of the global financial crisis during the 2008 - 2010.

Share of investments in the capital stock in 2011 amounted to 4,988,319 thous. USD, which is for 318,954 thous. USD more than in 2010. In 2011 about 94% of all investments were directed to the industry (66.9%) and transportation sectors (26.7%). While the greatest investment increase fall on the following sectors of the “real economy”: energy (65.2%), mining of precious and non-ferrous metals (15.4%) and light industry (15.1%). It should be noted that while the investment share in the last two sectors compared to the previous year increased for 5% and 6.8% accordingly, the share of the energy sector decreased for 13.4% (Table 6).

Table 6. Investments in the capital stock by economy sectors

| Years | 2010 | | 2011 | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | <i>Thous. TJS</i> | <i>Total in %</i> | <i>Thous. TJS</i> | <i>Total in %</i> |
| Grand total | 4669365 | 100 | 4988319 | 100 |
| Total by production sectors | 2797983 | 60,0 | 2664916 | 53,4 |
| Industry | 1923337 | 68,7 | 1781934 | 66,9 |
| Including: | | | | |
| Energy | 1511543 | 78,6 | 1161303 | 65,2 |
| Oil production | - | - | 4470 | 0,3 |
| Gas | 2148 | 0,1 | - | - |
| Precious and non-ferrous metals | 199668 | 10,4 | 274602 | 15,4 |
| Chemical and petrochemical industry | 3650 | 0,2 | 699 | - |
| Light industry | 159758 | 8,3 | 269284 | 15,1 |
| Food | 17333 | 0,9 | 60245 | 3,3 |
| Construction | 29238 | 1,5 | 11332 | 0,4 |
| Agriculture | 58373 | 2,1 | 24588 | 0,9 |
| Transportation | 646356 | 23,1 | 710955 | 26,7 |
| Trade | 63790 | 2,3 | 35093 | 1,3 |
| Other production sectors | 106127 | 3,8 | 101014 | 3,8 |

Source: Agency of statistics under the President of the Republic of Tajikistan. Construction in the Republic of Tajikistan

Technological structure of capital investments for the period 2007-2011 did not change significantly. At the same time during this period the share of civil works (construction) increased from 79% to 83%, while the share of machinery, tools and equipment decreased from 14.8% to 11% (Table 7).

Table 7. *Technological structure of investments in capital stock**(in established prices in effect, thousands TJS)*

| <i>Years</i> | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
|---|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
| Investments to capital stock | | | | | | | | | | |
| Total | 2828663 | 100% | 4341444 | 100% | 3899376 | 100% | 4669365 | 100% | 4988319 | 100% |
| <i>Civil and erection works</i> | 2235094 | 79,0% | 3562924 | 82,1% | 3278659 | 84,1% | 4127136 | 88,4% | 4154779 | 83,3% |
| <i>Machinery, tools and equipment</i> | 419527 | 14,8% | 594135 | 13,7% | 244258 | 6,3% | 315123 | 6,7% | 549009 | 11,0% |
| <i>Other capital works and expenses</i> | 174042 | 6,2% | 184385 | 4,2% | 376459 | 9,7% | 227106 | 4,9% | 284531 | 5,7% |

Source: Agency of statistics under the President of the Republic of Tajikistan. Construction in the Republic of Tajikistan

As for reproductive structure of investments in the capital stock by production facilities, it should be noted that in 2007-2011 investment in the technical re-equipment and reconstruction of existing enterprises (their share increased from 4% to 28%) and to maintenance of existing facilities increased. Volume of investments in new construction decreased and its share fell from 92% to 56% (Table 8).

Table 8. *Reproductive structure of investments in the capital stock by production facilities**(in established prices in effect, thousands TJS)*

| <i>Years</i> | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
|--|---------------|------------|---------------|------------|---------------|------------|-------------|------------|---------------|------------|
| Grand total | Mln. TJS | % | Mln. TJS | % | Mln. TJS | % | Mln. TJS | % | Mln. TJS | % |
| | 2002,3 | 100 | 3173,7 | 100 | 2481,5 | 100 | 2798 | 100 | 2664,9 | 100 |
| <i>Technical re-equipment and reconstruction of existing enterprises</i> | 87,1 | 4,3 | 161,9 | 5,1 | 493,4 | 19,9 | 677,8 | 24,2 | 749,9 | 28,1 |
| <i>Expansion of existing enterprises</i> | 8,6 | 0,4 | 34,9 | 1,1 | 11,6 | 0,5 | 18,1 | 0,6 | 257,6 | 9,7 |
| <i>Construction</i> | 1874,4 | 93,6 | 2922,5 | 92,1 | 1433,6 | 57,8 | 1086,7 | 38,8 | 1493,8 | 56,1 |
| <i>Construction of separate facilities not covered by above</i> | 30,9 | 1,5 | 54,4 | 1,7 | 17,7 | 0,7 | 91,5 | 3,3 | 163,6 | 6,1 |
| <i>Maintenance of existing facilities</i> | 1,3 | 0,1 | | | 525,2 | 21,2 | 869,1 | 31,1 | 42,3 | 1,6 |

Source: Agency of statistics under the President of the Republic of Tajikistan. Construction in the Republic of Tajikistan

In the period from 2008 to 2011 only amount of production and processing equipment and products to improve them (upgrade) imported to the Republic of Tajikistan made more than 1.73 bln. USD, and for the first 9 months of 2012 amounted to more than 280 mln. USD (Table 9).

Table 9. Import of production and processing equipment

| No | Year | Amount (in USD) | Number (kg) |
|--------------------|----------------------|----------------------|--------------------|
| 1 | 2008 | 471 456 896 | 76 570 559 |
| 2 | 2009 | 274 265 336 | 56179202 |
| 3 | 2010 | 292 436 444 | 53 400 109 |
| 4 | 2011 | 410 668 603 | 62 749 269 |
| 5 | For 9 months of 2012 | 280 974 523 | 52 537 040 |
| Grand total | | 1 729 801 802 | 301 436 179 |

Source: Customs services under the Government of the Republic of Tajikistan

In the period from 2007 to 2011 and first half of 2012 the economy of the Republic of Tajikistan received more than 9,439 mln. USD of foreign investments including direct investments for more than 1,428 mln. USD or 15.1% and other investments for more than 7,936 mln. USD or 84.65%. The global financial crisis had a significantly negative effect on the rate in 2009, when the foreign investment in the amount of 677,3 mln. USD minimal for this period was made, which accounted for only 33% of the investment volume in 2007 and 37% in 2008. In 2010 the foreign investment flow into the country tended to grow to 149% as compared to the previous year, and in 2011 the country's economy received more than 2,268 mln. USD of foreign investments, which is 2 times higher than in 2010 and higher than the pre-crisis indicator in 2007.

In the aggregate structure of foreign investments directed to the economy of the Republic of Tajikistan in 2011 the largest share made other investments (96.6%) which increased in 2011 as compared to 2010 for 200%. In the first half of 2012 this trend continued and the share of other investments in the total structure of foreign investments amounted to almost 88.7%.

The inflow of portfolio investments for the period 2007 to 2011 was at a very low level and its share in the total structure of foreign investments attracted during this period was only 0.25% (Table 10).

Table 10. Structure of foreign investments in the economy of the Republic of Tajikistan in 2007-2012

(In thousands USD, % to preceding year)

| Year | Total | Direct | Portfolio | Others | Total | Total | Direct | Portfolio |
|--------------------------------|--------------------|--------------------|-----------------|--------------------|-------|-------|--------|-----------|
| 2007 | 2 060 707,5 | 388 436,1 | 199,9 | 1 672 071,5 | - | - | - | - |
| 2008 | 1 810 899,8 | 716 708,6 | 17 014,4 | 1 077 176,8 | 87,7 | 211,7 | 8549,7 | 64,4 |
| 2009 | 677 332,4 | 76 882,2 | 184,2 | 600 266,0 | 37,4 | 10,7 | 1,8 | 55,7 |
| 2010 | 1 119 865,2 | 51 027,7 | 6 511,2 | 1 062 326,3 | 165,5 | 66,3 | 3534,8 | 176,9 |
| 2011 | 2 268 397,3 | 76 284,6 | 52,0 | 2 192 060,7 | 200,2 | 149,4 | 0,79 | 200,6 |
| 2012 | 1 502 017,4 | 169 436,2 | - | 1 332 581,2 | 66,2 | 222,1 | - | 60,8 |
| Total % to total amount | 9 439 219,6 | 1 478 775,4 | 23 961,7 | 7 936 482,5 | | | | |
| | 100% | 15,66% | 0,25% | 84,65% | | | | |

Source: SCISPM RT based on data from the NBT.

During 2005 – 2011 there have been very significant changes in the structure of foreign investment in the economy of the Republic of Tajikistan by economic activities. If in 2006-2008 the largest share of investment would come into the sector “Energy”, in 2011 61.2% of FDI would go to the sector “Transport and communications”. At the same time volume of investments in sector “Transport and communications” in 2011 increased for 4.5 times as compared to 2010 and almost twice in the sector “Mining industry”. Increased concentration of investment resources in the transport sector in 2011 was accompanied by reduced scale of investment activities in construction and in sector related to financial intermediation (Table 11).

Table 11. Sector structure of foreign investments in the economy of the Republic of Tajikistan
(% of annual FDI scopes)

| Type of economic activity | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------------------|------|------|------|------|------|------|------|
| Production industry | 24 | 2,5 | - | - | 1,41 | - | - |
| Mining | 38 | 5,4 | 5,1 | - | 3,2 | 9,3 | 16,7 |
| Energy | - | 59,2 | 42,6 | 75,7 | - | - | - |
| Transportation and communications | 7 | 12,9 | 12,1 | 4,7 | 46,2 | 13,7 | 61,2 |
| Construction | 8 | - | 27,6 | 10,5 | 7,9 | 19,1 | 10,2 |
| Social services | 2 | 8,5 | - | - | - | - | - |
| Financial intermediation | 9 | - | 10,5 | 6,2 | 41,3 | 40,9 | 11,8 |
| Retail and wholesale | 12 | - | - | - | - | - | - |
| Other sectors | | 11,6 | 2,1 | 2,9 | - | 17 | - |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: National Bank of Tajikistan. Balance of payments

In the geographical structure of foreign investments in the economy of the Republic of Tajikistan the leading position is occupied by the Russian Federation, the United Kingdom, Cyprus, USA and others. By results of 2011 the largest amount, 1,022 mln. USD or 46.1% of total foreign investments in the economy during this period was received from Russia, 341.2 mln. USD (15.4%) from UK, 209.48 mln. USD (9.4%) from Cyprus and 129.61 mln. USD or 5.8% came from USA (Table 12). However attraction of foreign capital to the economy of the Republic of Tajikistan still did not lead to the formation of a powerful investment sector. For this stage of development of the investment activities our country is characterized by such specific features as low level of portfolio and direct investment, extremely low competitiveness of domestic companies over foreign partners, weak national technological base, etc.

Table 12. Geographical structure of foreign investments in the economy of the Republic of Tajikistan 2004-2011 (mln. USD)

| Country names | Годы | | | | | | | | | | | | | | | | |
|--------------------------|--------------|-------------|------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|-------------|------------|-----------------|
| | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | | Grand total |
| | Mln. USD | % | Mln. USD | % | Mln. USD | % | Mln. USD | % | Mln. USD | % | Mln. USD | % | Mln. USD | % | Mln. USD | % | |
| Total | 260,7 | 100 | 263 | 100 | 385,2 | 100 | 388,4 | 100 | 716,7 | 100 | 76,88 | 100 | 51,03 | 100 | 76,3 | 100 | 2 218,21 |
| Including: | | | | | | | | | | | | | | | | | |
| CIS countries | 0,4 | 0,15 | 2,8 | 1,06 | 234,3 | 60,8 | 171,2 | 44,1 | 603,1 | 84,1 | 45,21 | 58,8 | 9,3 | 18,2 | 43,5 | 57 | 1 109,81 |
| Azerbaijan | - | - | - | - | - | - | - | - | - | - | - | - | 0,66 | 1,3 | - | - | 0,66 |
| Kazakhstan | - | - | - | - | 2,4 | 0,62 | 10,9 | 2,81 | 36,2 | 5,05 | 26 | 33,8 | 2,34 | 4,6 | 0,46 | 0,6 | 75,96 |
| Kyrgyzstan | - | - | - | - | - | - | - | - | - | - | 0,72 | 0,94 | - | - | 0,03 | 0 | 0,75 |
| Russia | 0,3 | 0,12 | 2,8 | 1,06 | 231,7 | 60,2 | 160,2 | 41,2 | 566,8 | 79,1 | 18,5 | 24,0 | 6,3 | 12,3 | 35,4 | 46,4 | 1022 |
| Other countries | 0,1 | 0,04 | 0,04 | 0,02 | 0,1 | 0,03 | 0,1 | 0,03 | 0,1 | 0,01 | - | - | - | - | - | - | 0,44 |
| Foreign countries | 260,3 | 99,8 | 260 | 99 | 150,9 | 39,2 | 217,2 | 55,9 | 113,6 | 15,9 | 31,68 | 41,2 | 41,74 | 81,8 | 32,8 | 43 | 1 066,5 |
| United Kingdom | 6,8 | 2,6 | 28,6 | 10,9 | 25,9 | 6,72 | 10,8 | 2,78 | 7,1 | 0,99 | 0,9 | 1,2 | 3,07 | 6 | 7,6 | 9,9 | 341,2 |
| Germany | 0,04 | 0,02 | 1,5 | 0,57 | 1,7 | 0,44 | 0,1 | 0,03 | - | - | - | - | 9,01 | 17,7 | - | - | 12,4 |
| Iran | 0,4 | 0,15 | 4,7 | 1,79 | 2,5 | 0,65 | 10,3 | 2,65 | 3,5 | 0,49 | 1,58 | 2,1 | 4,13 | 8,1 | 10,7 | 14 | 37,81 |
| India | - | - | 2,7 | 1,03 | 1,2 | 0,31 | 0,2 | 0,05 | 0,7 | 0,1 | 2,05 | 2,7 | 3,84 | 7,5 | 0,41 | 0,5 | 11,1 |
| Canada | 3,4 | 1,3 | 0,9 | 0,34 | - | - | 1,4 | 0,36 | 0,8 | 0,11 | | | - | - | - | - | 6,5 |
| Cyprus | 4,1 | 1,6 | 1 | 0,38 | 36,1 | 9,37 | 88,7 | 22,8 | 70,2 | 9,79 | 2,15 | 2,8 | 4,63 | 9,1 | 2,6 | 3,4 | 209,48 |
| China | 2,1 | 0,81 | 2,5 | 0,95 | 34,9 | 9,06 | 6,4 | 1,65 | 24,7 | 3,45 | 0,3 | 0,4 | - | - | - | - | 70,9 |
| Netherlands | - | - | - | - | - | - | - | - | - | - | 18,1 | 23,5 | 0,62 | 1,2 | 3,7 | 4,8 | 22,42 |
| Turkey | 0,9 | 0,35 | 1,6 | 0,61 | 3,3 | 0,86 | 0,2 | 0,05 | 0,2 | 0,03 | - | - | 8,68 | 17 | - | - | 14,88 |
| Singapore | - | - | - | - | - | - | - | - | - | - | 0,05 | 0,06 | 0,14 | 0,3 | - | - | 0,19 |
| USA | 2 | 0,8 | 5,4 | 2,05 | 37,3 | 9,68 | 71,7 | 18,5 | 5,1 | 0,71 | 3,05 | 4 | 1,06 | 2,1 | 4 | 5,3 | 129,61 |
| France | - | - | - | - | - | - | - | - | - | - | 2,6 | 3,4 | 0,36 | 0,7 | - | - | 2,96 |
| Virgin islands | - | - | - | - | - | - | - | - | - | - | 0,05 | 0,07 | 0,2 | 0,4 | - | - | 0,32 |
| Switzerland | 2 | 0,8 | 2,1 | 0,8 | 0,2 | 0,05 | 15,5 | 3,99 | 1 | 0,14 | 0,82 | 1,1 | 5,9 | 11,6 | 4,2 | 5,6 | 31,72 |
| Other countries | 0,2 | 0,09 | 0,7 | 0,27 | 7,8 | 2,02 | 11,9 | 3,1 | 0,3 | 0,04 | - | - | 0,1 | 0,2 | - | - | 21 |

Source: National Bank of Tajikistan. Balance of payments.

8. Key challenges of the investment activities in the Republic of Tajikistan

14. Despite the success gained over the past years within the improvement of investment activities in the Republic of Tajikistan, an analysis and survey carried out among entrepreneurs and investors allowed determining the following country specific challenges in the investment sphere:

- Comparatively small domestic market and weak economic and commercial partnership with foreign countries;
- Weak development of physical infrastructure (roads, power transmission lines, water supply systems and others) in a number of region's countries;
- Seasonal energy shortage;
- Imperfection of the national legislation in investment sphere and procedures securing property right, proper observance of laws and contractual relationships between economic entities, legal nihilism;
- Weak competitive conditions for investment attraction (tax, customs and visa treatments);
- Comparative remoteness from the world major consumer markets and basic trade and transport routs;
- Underdevelopment of investment infrastructure (banking, information and analytics, consultancy and others);
- High level of bureaucracy in public management;
- Shortage of adequate number of qualified modern management and workman staff, high level of external migration.

9. Investment potential and risks

15. In the long run investment potential of the Republic of Tajikistan may be rated as high due to significant natural resources, including precious and rare metals, huge hydropower potential, exported high-quality cotton, processed food-staff and great potential for tourism development.

16. At the same time the significant risks threatening the development of the country, which can be expressed as follows cannot be underestimated:

- Exhaustion of the raw material base and further decline in world cotton prices with a simultaneous increase in the cost of its production leading to a loss of the country's investment attractiveness;
- Loss of the country's existing industrial and production capacity because of the high wear of fixed assets and low level of investment in capital stock;
- Acquisition of a negative investment image of the country due to lack of clear and consistent state policy for investment attraction and their management;
- Direct state budget losses due to inefficient use of resources aimed at investment attraction;
- Availability of destabilization factor in the Central Asian region and a threat of economic isolation given the unpredictability of development of foreign-policy situation in the region.

10. Key measures to achieve Concept goals and implementation procedures

§1. Improvement of legal regulatory basis and elimination of administrative barriers in investment activities

17. The principal legal regulatory act in the investment sphere is the law of the Republic of Tajikistan "On investments" no. 260 adopted on 12 May 2007. The law combined rules

regulating investment relations and established the common legal order for foreign and domestic investments giving equal guarantees to investors implementing their activities in the Republic of Tajikistan.

The law "On investments" regulates virtually all aspects of the investment activities in the Republic of Tajikistan; provides adequate guarantees and possible benefits, however, the experience of neighboring countries and the comparative legal analysis of their investment laws, as well as investors' opinions and wishes proved that the law "On investments" needs to be revised and then amended and supplemented.

18. First of all, the concept of investment legislation shall be explained in order to clearly identify what exact regulations are subject to inclusion in this type of legislation.

19. It is necessary to totally harmonize the legislation of the Republic of Tajikistan, adjust the legal regulatory acts in terms of unity of terms, measures envisaged, balance of freedom and responsibility from both investors and the government. The declared principles within the law "On investments" should also be reflected in other legal regulatory acts to translate them from declarative nature to practical implementation.

20. At the legislative level basic investment procedures such as investment agreement, public-private partnerships, investment projects, programs, etc., shall be reflected.

21. In order to promote investments it is necessary to revise the criteria through which tax and customs benefits are granted and to regulate in details the order of their exemption. Development of such state-provided guarantees as government grants is required. This in turn requires the establishment of adequate legal and regulatory framework.

22. Under the legislation of the Republic of Tajikistan it is necessary to foresee the procedures for lodging complaints from investors in connection with non-compliance to guarantees provided by the law "On investments", as well as feedback mechanism for authorized bodies to satisfy the complaints.

23. It is also necessary to create a favorable mode of ownership in the Republic of Tajikistan through the adoption of certain special legal regulatory acts that will regulate such issues as nationalization, requisitions, etc. As part of this issue it is also advisable to consider the issue of private land ownership, as well as the mechanism of the existing possibility to mortgage the land use rights. In addition, implementation of the measures to promote and protect real rights (both property and non-property), recognition of international conventions and other tools for investors protection, are required.

24. There should be further planned and systematic efforts to eliminate administrative barriers, simplify procedures, especially in the area of licensing and permitting, and to improve control and supervision sphere to ease the burden on business and reduce government interference in the private sector activities, to introduce the new tax system and the competitive benefits promoting investors attraction.

25. The government shall become an equal civil partner, a shareholder of the civil relations with the investor which necessitates establishment of the appropriate legal and regulatory framework and the investment counterbalance and constraints frame that threaten the development of national capacity.

§ 2. Reorganization of the investment activities institutional basis and management system

26. To raise the investment management effectiveness, improve the investment climate and to increase the flow of investments in the economy of the Republic of Tajikistan it is necessary to create a unified integrated system of the state investment processes management that shall cover relevant structures working with foreign investments and coordinating cooperation with

international organizations, and to carry out appraisal of the key projects and their competitive selection.

27. It is advisable to further improve the functions of the State Committee on Investments and State Property Management of the Republic of Tajikistan as an authorized government body in the investment sphere, including broader authorities to monitor and register investment projects, for which all government agencies involved in the investment process shall regularly submit all available relevant information. At the same time, there should be an open access to the registry which should be officially published on the website of the State Committee on Investments and State Property Management of the Republic of Tajikistan.

28. To solve the problems of an institutional nature (large number of government agencies investors have to deal with, high degree of interference of the “permitting” institutions, duplication of administrative functions of government bodies) during the implementation of the Concept alternative mechanisms of Investment Agreement shall be considered, with which the government shall take all the necessary approvals and administrative procedures, and/or the introduction of a “single window” focusing functions/services of all necessary government agencies involved in the issuance of all necessary permits upon itself for the speedy service of applicant investors.

29. It is necessary to consider a chance of establishing the post of Investment Ombudsman who shall be a consultative and advisory body under the Government of the Republic of Tajikistan to develop proposals to improve the coordination and control of the activities carried out by the state bodies on investment attraction, support current activities of investors, protect their rights and interests, and create favorable conditions for investment activities in the Republic of Tajikistan.

§3. Development of infrastructure of the investment activities

30. Dynamics of investment flows is positively influenced by the developed infrastructure, including energy, communications, telecommunication systems, transportation and hotel industry. In this regard, along with the efforts to implement one of the strategic objectives of the country – to break the transport deadlock – a prerequisite for successful investment policy implementation shall be to address the problems of power supply, communications and services.

A developed investment infrastructure is an important component of the mechanism of foreign investments attraction to the regions of the country. For its full establishment and continuous improvement a set of measures shall be developed and implemented on development of specialized investment infrastructure – commercial banks, investment funds, non-governmental pension funds, commercial insurance companies, consortiums of non-government investors, mortgage banks and non-financial institutions – the marketing and consulting agencies, staffing and recruiting services, additional and special education and business-training.

31. Further measures for the development of free economic zone (FEZ) and the corresponding infrastructure shall be in the focus of constant attention by the Government of the Republic of Tajikistan and the authorized state bodies on investments. Some positive international experience shall be introduced to the development of FEZ in the Republic of Tajikistan, which will resolve the layer of existing CIS collective problems that hinders FEZ to fully implement its advantages. These problems may include:

- Inefficient regulation and management,
- Unconsidered peculiarities of specific areas;
- Bureaucracy and high level of coordination between the FEZ management and their authorized management bodies;
- Low allocation of budget funds for institutional formation and development of necessary infrastructure; poor efficiency of budget expenses;
- Instable tax legislation for FEZ residents.

32. Both negative and positive experience of the world society shall be considered and lessons learned that will let Tajikistan to build its own model drawing on the world's best practices.

In order to improve the attractiveness and potential of the FEZ existing in the Republic of Tajikistan it is reasonable considering the mechanism of their transfer to the specialized companies which is widely practiced throughout the world, or to attract significant budget and donor funds to strengthen the management capacity of their administrations.

Based on the world practice the factor of speedy economic growth is establishment of the special economic zones through increased international commodity turnover, mobilization of investments, and intensification of the economic integration process. Along with this, reasonable measures to create an industrial investment zones and areas with access to utilities without the provision of benefits and preferences are required.

§4. Information and analytical support of investment activities

33. Access to information, transparency and clarity of legislation are the major factors shaping the country's investment image. Declaration of the above principle in the law "On investments" is certainly a positive thing, but in practice this principle is not respected. Access to information for potential investors is difficult which does not contribute to a positive decision-making on the allocation of capital in the Republic of Tajikistan.

34. There should be unconditional fulfillment of legislation requirements to official publication of all legal regulatory acts, including those taken at the ministries and department level of the Republic of Tajikistan.

35. To overcome the information and analytical gap it is necessary to:

- Pay special attention to information support to attract foreign investors as the weakest link in the existing mechanism of the process regulation. Information and foreign investors assistance centers shall inform investors about the various projects and implementation conditions, conditions of accommodation and activities in the FEZ, tax system, legal and administrative procedures, state guarantees, and ways to address the disputes and problems.
- Take measures to improve access to information and provide complete information about investment projects in various parts of the country, as well as to fully utilize guarantees and privileges granted by the Government of the Republic of Tajikistan to investors. A whole set of measures to enhance the legal awareness of entrepreneurs and government officials in the region is required through awareness raising on the economic reforms and the legal regulatory acts adopted in the investment sphere.
- Encourage and promote establishment of the specialized non-government actors focused on research, consultancy, audits and other services to businesses sector.
- Consider possibility of regular release of information and analytical materials on the state of economy sectors, sector reviews, statistics compilations with indicators of economic development, price reviews, etc. The design of investment programs shall include special sections covering awareness raising activities for all potential investors through all available means (use of resources of embassies and trade missions, organization of business forums, including internet forums, exhibitions and fairs of investment projects, etc.).
- Build capacity of the government bodies of the Republic of Tajikistan working and daily facing investors to get only relevant information on the situation in the Republic of Tajikistan and have the opportunity to professionally communicate with investors. Actualization of the information published by the government bodies on the web sites and other sources shall be unconditional obligation of the government bodies which if failed to be provided shall become an administrative responsibility of the first head.

§5. Promotion of investment activities

36. Building a strong investment policy promoting and enabling the flow of investments to the country shall be implemented through the system arrangements of the economic policy at the macro level, as well as through selective measures through individual approach, measures of service support to specific economy sectors, concrete areas, groups of enterprises and projects.

System arrangements of the economic policy shall be focused on creating an attractive investment macro environment and a legislative basis, measures to ensure competitive conditions for attracting foreign direct investment, as well as measures to increase the productivity and competitiveness of domestic manufacturers.

Selective measures shall be based on individual (addressed) approach in dealing with foreign investors combined with the package of financial and service support of export-oriented sectors, companies and projects, and shall be aimed at creating a positive country's investment image on the international capital markets.

37. In the context of the Republic of Tajikistan the most specific incentives for foreign investors shall be the following:

- Fiscal incentives: tax holidays, profit tax allowances, benefits in respect of funds used for investment and reinvestment, accelerated depreciation charges, income tax allowances for foreign employees of enterprises with foreign involvement, benefits in foreign trade operations, allowances for import of new technologies and others;

- Financial incentives: payment of government subsidies to cover part of the startup costs, loan arrangements or loan guarantees, preferential conditions for national insurance, government participation in share capital, motivation of accumulation, creation of investment funds.

- Development and implementation of targeted investment programs aimed at the development of depressed areas and priority spheres of the country's economy. Economic support to implementation of targeted investment programs shall be done mainly through the financial investment attraction mechanism and development of investment risks evaluation and management system. Legal justification of these programs involves a set of measures to continue the legislation reforms, increasing availability and transparency of information.

- Visa cancellation or simplified procedure for visa issuance to investors (administrators and top managers, as well as high qualified high-tech companies) to carry out negotiations, familiarization with production and business transactions. Basis for entry into the Republic of Tajikistan without a visa in this case shall be an invitation from the authorized government authority on investments, permit for income export, and granting citizenship to investors who have invested in the economy of the Republic of Tajikistan beyond the threshold determined by the Government.

§6. Improvement of investment image and indicators of the Republic of Tajikistan in international ratings

38. Situation of the Republic of Tajikistan in the group of countries in the United Nations Conference on Trade and Development (UNCTAD) with a fairly high potential and low investment proves that country's investment image is to be improved.

It is necessary to consider the main options for organization of the image problem-solving through self-organization and under activities of a government body (ministry, agency, and committee) and to provide a set of measures to improve the country's investment image as a section in the investment attraction program.

39. Practical mechanism to improve the investment image of the Republic of Tajikistan shall include the following steps:

- To assign an authorized government body under direct supervision and control of which the target program of improvement of investment image shall be implemented,
- To establish a permanent working group consisting of independent experts,

- To establish a temporary research (expert) group consisting of experts,
- To define a list of international ratings critical for the assessment of the investment climate in the Republic of Tajikistan,
- To approve a list of international ratings, study methodology, define opportunities and ways to improve specific indicators in the ratings,
- To develop an action plan to improve performance, determine responsible parties and verify the progress,
- During and after the work mass media campaign to promote achievement of concrete results and improve country's investment climate are to be carried out.

40. Promotion of the investment image of the Republic of Tajikistan in the world information field is possible through the following tools:

- Broadcasting of PSAs on investment opportunities of the Republic of Tajikistan on the world television and radio channels (BBC, CNN, etc.);
- Placing of billboards in airports and other public places;
- Single constantly updated multilingual information portal for investors;
- Production and dissemination of information/analytical and presentational printing materials;
- Systematic work with foreign mass media to promote country's positive investment image, which includes regular newsletters in leading international media, feature articles and publications, rental of presentation videos;
- Conduction and active positioning of the public economic and investment activities – business forums, road shows, workshops, conferences and exhibitions in the international business community;
- Active participation in international public investment and economic activities;
- Broad coverage of the national specialized investment attraction company – Tajikinvest – both inside and beyond the country.
- Establishment of a support system for migrant workers and creation of a positive image of the Republic of Tajikistan as a supplier of skilled labor to the global economics.

41. Work with media shall be organized in all substantial directions – politics, economy, tourism, culture, etc. with provision of the comprehensive information impact on all target audiences. To coordinate this one responsible agency or inter-agency commission including representatives of the private sector shall be assigned that shall actively promote their image abroad.

§7. Development of trade and economic relations with foreign countries.

42. An important aspect of the state investment policy is to comply with the foreign policy that aims to promote development of a comprehensive support to regional and international trade and economic relations, maintain cooperation of the national economy with the global economy, ensure participation in the implementation of important regional and international economic, transport, communications and energy projects, and provide protection of the economic interests and access to new markets of the national business players.

43. In order to solve these problems and speed up economic reforms it is reasonable to continue mutually beneficial cooperation with the competent international financial institutions, including the World Bank, International Monetary Fund, Asian Development Bank, European Bank for Reconstruction and Development and the Islamic Development Bank.

44. Further development of trade and economic and investment relations with the countries-participants of the Shanghai Cooperation Organization and the Customs Union shall also become one of the main directions of the state foreign economic policy.

45. The most important factors promoting country's economic development and its integration into the global economy shall be entry of the Republic of Tajikistan to the World Trade Organization (WTO). WTO membership shall enable greater predictability of the economy in the future and the same standards to all members of an organization to produce competitive products and provide access to the internal market for quality products from world manufacturers shall be in place.

46. The Republic of Tajikistan as an independent state keeps economic relations with the United States, Asia and Europe, and is also an advocate of closer relations with all regional economic organizations. One of the equally important organizations is the Organization of the Islamic Conference, within which the Republic of Tajikistan has the opportunity to develop closer economic relations with majority of countries in the Islamic world.

§ 8. Development of labor market and staffing

47. 67,5% of population of the Republic of Tajikistan consist of people under 29 years old. Consequently, Tajikistan youth shall become a major force in determining the economic future and national stability.

Necessary economic growth requires Government to develop and implement new policies and programs of the labor market and employment development, which is reflected in the adoption of the State Strategy for Labor Market Development of the Republic of Tajikistan until 2020 and the National strategy for migration of Tajik citizens abroad for the period 2010-2015.

High level of internal migration (commutation) is typical for Tajikistan. Commutation as employment direction to some extent addresses the issue of the overflow of workers from the “employed” rural areas, where manpower is not provided with jobs, to cities and regions. External labor migration of Tajikistan citizens to the neighboring countries “for earnings” is mostly prevalent in the transition period and very significantly rises. Currently no tendency to fall is observed. According to the Labor force survey 2009, the proportion of migrant workers makes 21.9% of working population.

As estimated, to maintain the level of employment and annually involve labor force to achieve employment growth, it is necessary to at least create such economic conditions, as to provide an annual employment growth of at least 7% through creation of 150 thousand effective work places. To date, an average annual employment growth rate is only 1.0%. Objectively, the country's economy is not yet able to ensure necessary increase in the number of work places. Therefore, at the present stage overseas employment remains an important part of the employment policy of the Republic of Tajikistan.

In 2011 total remittances reached to 40% of GDP. This factor is still the key to maintain economic and social stability in the Republic of Tajikistan supporting domestic demand and private consumption.

In modern conditions, availability of adequately qualified human resources is an important component of the investment attractiveness of the country.

The state strategy of the Republic of Tajikistan on labor market development until 2020 and the National Strategy of the Republic of Tajikistan on labor migration overseas for the period 2010-2015 determine the main direction for labor market development and employment.

48. At the same time, in terms of the investment policy, improved investment potential and the level of investment attractiveness, the key areas of state policy in this area shall be:

- Comprehensive staff capacity building;
- Improved staffing capacity;
- Established system of the labor market needs analysis within the country with consideration of economy investment activities.

11. Monitoring and evaluation of effectiveness of the Concept implementation

49. Mechanisms of monitoring and evaluation of the Concept implementation are closely related to implementation of the investment policy.

The following procedures are applied for monitoring and evaluation of effectiveness of the planned activities:

- Annual monitoring of investment climate through interrogation of domestic and foreign investors from various industrial sectors (“barometer” of investment climate). Practice of many world countries confirms the positive effect of the exercise provided that it is implemented on scientific and sociological basis (program and survey methods developed, respondents are thoroughly selected to avoid biased results, deep analysis of the obtained results based on which corrective measures and further improvement of investment climate shall be planned). The survey in this case shall be organized by the authorized government authority on investments but performed by independent specialized company (probably foreign) that shall increase effectiveness of results because affiliation and administrative pressure may be avoided, and most importantly – it shall further shape positive image of the country and the authorized government authority on investment in particular.

- Monitoring of investment conditions in competitor countries to take rapid response measure, where necessary. A constant comparative analysis of the conditions to enable competitiveness and “compensations” of weaknesses with advantages in other aspects is required.

- Analysis of quantitative indicators of the investment climate in the country –volume of attracted FDI, number of investors involved, amount of goods and services produced in the FEZ, number of implemented investment projects, etc.

- Analysis of the country’s situation of the country in the international ratings. Preliminary the following ratings are recommended: GCI WEF, DB WB, Index of Economic Freedom, Corruption Perceptions Index, Inward FDI Attraction Index UNCTAD, the AT– Kearney Foreign Direct Investment Confidence Index, Brand Finance National Brands. Currently, Tajikistan is not represented in the last 2 ratings, and certain efforts are required to have the situation in the country reflected there. This can be done similarly to some countries (for instance, Kazakhstan) declaring hit in certain positions in the development ratings.

- The Unified State Registry of Foreign Investments in the Republic of Tajikistan, in order to have an accurate understanding about the number of real active foreign investors, amount of foreign investments, sectors in which investors are involved and to be aware of the dynamics of these indicators.

50. In addition to development of the Investments attraction program and investment policy reform, it is necessary to develop a program and regulations for monitoring of the effectiveness of investment programs, which include all of the above measures expressed as specific actions.

12. Indicators of effectiveness of the State Policy for Investment Attraction and Protection

51. Effectiveness indicators and rates are determined specifically for every directions of the state policy for investment attraction and protection contained in the present Concept.

a) **Attraction and protection of investments** (structural changes in economy, guarantees to investors from the Government of the Republic of Tajikistan, tax, customs and other benefits, simplified visa issuance system for investors, external debt management framework). Indicators:

- Share of privatized sector in the economy
- Share of GDP produced in the privatized sector
- Share of workforce involved in privatized sector
- Domestic and foreign investments in key economy sector

– Attraction of target investors (for instance from the list of investors included to the Global-2000)

- Ratio of direct foreign investments (FDI) to GDP
- Ratio of external debt to GDP
- Agreements with foreign countries on investment promotion and mutual protection
- Development and ratification of visa regime (“investor visa”)

b) **Improvement of legal regulatory basis** (law “On investments”, licensing and permitting system). Indicators:

– Development and ratification of the laws of the Republic of Tajikistan on amendments and supplements to the number of legislative acts related to investment promotion and improvement of licensing and permitting system;

– Development and ratification of the new laws of the Republic of Tajikistan regulating key investment institutions;

– Period of time and steps (stages, actions) required to pass through all administrative procedures;

c) **Reorganization of the institutional basis of investment management** (restructuring functions of the State Committee on Investments and State Property Management of the Republic of Tajikistan, formation of the “Single Window” system, introduction of position of Ombudsman on investments.

Indicators:

– Degree of satisfaction of domestic and foreign investors with cooperation on investments with government bodies

– Number of requests to “Single Window” including repeated ones and for solution of the same issue

– Number of documents returned to applicants due to refusals

– Number of appeals to Ombudsman including positive resolution of the issues

d) **Development of investment activities infrastructure** (first of all – FEZ and such crucial components as financial and non-financial support, information and analytical support).

Indicators:

– Number of FEZ

– Number of FEZ stakeholders

– Volume of products and services provided by FEZ stakeholders

– Volume of tax income from FEZ stakeholders

– Number of BSP companies (suppliers of business services – information, consultancy, analytics etc.)

– Scope of BSP provided services

– Establishment and actualization of the investment web-portal with a data base on investment projects in the Republic of Tajikistan and all information required for investors.

e) **Improvement of country’s investment image** and Tajikistan position in the world ratings.

Indicators:

– Number of promotional materials about Tajikistan investment opportunities;

– Number of activities promoting Tajikistan investment opportunities;

– Achievement of the certain indicators of the World competitiveness index by indicators “Impact of rules regulating direct foreign investments on business” and “Direct foreign investments and technologies”;

– Improvement of positions in the rating “Doing Business” against indicator “Investors protection”;

– Improvement of positions in the ratings Index of Economic Freedom, Corruption Perceptions Index, Inward FDI Attraction Index UNCTAD;

- Established cooperation with organizers and inclusion of Tajikistan to evaluation A.T. Kearney Foreign Direct Investment Confidence Index and Brand Finance National Brands.

13. Conclusion

52. The Concept of the State Policy of the Republic of Tajikistan for Investment Attraction and Protection is fully harmonized with the National Development Strategy and the Poverty Reduction Strategy of the Republic of Tajikistan and is oriented to implementation of targets set by the President of the Republic of Tajikistan in his message to the country's Parliament on 20 April 2012. Implemented basic provisions of the Concept shall promote establishment of the unified policy for investment attraction and promotion to gain increased investment flow in the country's economy and increase of budget incomes based on the quality improvement of conditions for investment activities in the Republic of Tajikistan.