

Tajikistan

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Tajikistan	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Compliance with FATF 40 + 9 Recommendations Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	Weakness in Government Legislation to combat Money Laundering
<p>Major Investment Areas:</p> <p>Agriculture - products: cotton, grain, fruits, grapes, vegetables; cattle, sheep, goats</p> <p>Industries: aluminum, cement, vegetable oil</p> <p>Exports - commodities: aluminum, electricity, cotton, fruits, vegetable oil, textiles</p> <p>Exports - partners: Turkey 30.5%, China 9.6%, Iran 7.7%, Afghanistan 6.5%, Kazakhstan 4.9%, Russia 4.3% (2012)</p> <p>Imports - commodities: petroleum products, aluminum oxide, machinery and equipment, foodstuffs</p> <p>Imports - partners: China 42.3%, Russia 16.2%, Kazakhstan 10.1%, Turkey 5.7%, Iran 4.2% (2012)</p>	

Investment Restrictions:

President Rahmon has made many public and private statements calling for increased foreign investment, particularly in energy and transport infrastructure. With continued improvements in the investment climate, opportunities exist in energy, telecommunications, construction, food processing, textiles, consumer goods, healthcare, natural resource extraction (mining, oil, gas), and tourism.

Pursuant to Article 4 of Tajikistan's Investment Law, the government guarantees the equality of rights of foreign and local investors. Practically all of Tajikistan's international agreements have a provision for most-favored-nation status. As a matter of laws, foreign investments can be made by:

- Owning a share in existing companies, jointly either with other Tajik companies or Tajik citizens;
- Creating fully foreign-owned companies under the laws of Tajikistan;
- Acquiring assets, including shares and other securities;
- Acquiring the right for use of land and other mineral resources, as well as exercising other property rights either independently or shared with other Tajik companies and citizens of Tajikistan; or
- Concluding agreements with legal entities and citizens of Tajikistan providing for other forms of foreign investment activity.

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Section 1 - Background

The Tajik people came under Russian rule in the 1860s and 1870s, but Russia's hold on Central Asia weakened following the Revolution of 1917. Bolshevik control of the area was fiercely contested and not fully reestablished until 1925. Much of present-day Sughd province was transferred from the Uzbek SSR to the newly formed Tajik SSR in 1929. Ethnic Uzbeks form a substantial minority in Tajikistan. Tajikistan became independent in 1991 following the breakup of the Soviet Union, and experienced a civil war between regional factions from 1992-97. Tajikistan endured several domestic security incidents in 2010-12, including a mass prison-break from a Dushanbe detention facility, the country's first suicide car bombing in Khujand, and armed conflict between government forces and local strongmen in the Rasht Valley and government forces and criminal groups in Gorno-Badakhshan Autonomous Oblast. The country remains the poorest in the former Soviet sphere. Attention by the international community since the beginning of the NATO intervention in Afghanistan has brought increased economic and security assistance, which could create jobs and strengthen stability in the long term. Tajikistan joined NATO's Partnership for Peace in 2002, and became a member of the World Trade Organization in March 2013.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Tajikistan is no longer on the FATF List of Countries that have been identified as having strategic AML deficiencies

Latest FATF Statement - 24 October 2014

The FATF welcomes Tajikistan's significant progress in improving its AML/CFT regime and notes that Tajikistan has established the legal and regulatory framework to meet its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in June 2011. Tajikistan is therefore no longer subject to the FATF's monitoring process under its on-going global AML/CFT compliance process. Tajikistan will work with EAG as it continues to address the full range of AML/CFT issues identified in its mutual evaluation report.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Tajikistan was undertaken by the Financial Action Task Force (FATF) in 2009. According to that Evaluation, Tajikistan was deemed Compliant for 0 and Largely Compliant for 2 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

Conclusions from latest Mutual Evaluation Progress Report (2011):

By adopting the AML/CFT Law and approving the respective regulations the Republic of Tajikistan has eliminated a number of deficiencies detected in the course of mutual evaluation. Nevertheless, despite the definite progress it is still difficult to assess the effectiveness of the undertaken actions.

Tajikistan was submitted for consideration of the ICRG at the recent FATF Plenary meeting (February, 2011). In this regard all next follow-up reports will take into account results of ICRG discussions related to Tajikistan.

US Department of State Money Laundering assessment (INCSR)

Tajikistan was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Criminal proceeds laundered in Tajikistan derive from both foreign and domestic criminal activities and are assumed to be primarily related to the large amounts of opium and heroin trafficked through the country from Afghanistan to Russia. It is widely suspected that money laundering activities are largely controlled by high-level drug trafficking networks, with some smaller actors involved. The absence of any significant money laundering investigations or prosecutions, with subsequent confiscation of criminally derived assets, makes it impossible to accurately gauge the degree to which the formal banking sector is being used to launder such assets.

While there is a market for smuggled goods, there is little evidence that most items are financed with narcotics money, with the exception of imported cars, other luxury goods, and possibly real estate. Proceeds from a high level of corruption are also laundered. Use of alternative remittance systems, free trade zones, and bearer shares create the potential for abuse, but evidence of their abuse as money laundering vehicles is limited.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: criminally: NO civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO
KYC covered entities: Banks, money remitters, foreign exchange dealers, microfinance institutions, insurance companies, and securities dealers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 499: January 1 - November 30, 2015
Number of CTRs received and time frame: Not available
STR covered entities: Banks, securities traders, money remitters, foreign exchange dealers, notaries, and microfinance institutions

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2015
Convictions: 0 in 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES
With other governments/jurisdictions: YES

Tajikistan is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Tajikistan has the legal framework and institutional structures to tackle money laundering; it remains to be seen if there is the will to fully and consistently implement its statutes. Resource constraints, corruption, lack of training for law enforcement and border security officials, and general capacity issues continue to restrict AML/CFT enforcement.

With donor assistance, the Republic of Tajikistan is conducting a national risk assessment. The completion date is targeted for 2016. Amendments to existing legislation are being proposed which will augment existing laws to combat terrorist financing and monitor the securities market and banking sector.

In 2015, the number of suspicious transaction reports (STR) filed with the Department of Financial Monitoring, the financial intelligence unit, dramatically increased from previous years' totals. No explanation was provided for the large increase in STRs between 2014 (54) and 2015 (499).

Tajikistan has a seizure statute; however, it remains unclear how systematic its approach is to asset identification, seizure, and forfeiture. There is no publicly available information with regard to the length of time necessary to freeze assets or any estimates of the amount of assets frozen or seized. On November 2, 2015, statute No. 646 of the Government of the Republic of Tajikistan was enacted and includes a provision related to the freezing and unfreezing of finances (or other property) of people or organizations included on the list of those involved with terrorism.

The jurisdiction for investigating money laundering and related financial crimes in Tajikistan is divided among the Ministry of Internal Affairs, State Committee of National Security, Prosecutor General's Office, and the Anti-Corruption Agency. The level and quality of cooperation and coordination among these agencies should be improved through training, information sharing, and the establishment of multi-agency task forces. The government should fully implement its new statute to allow for the timely freezing and seizure of assets. Tajikistan should criminalize tipping off.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Tajikistan does not conform with regard to the following government legislation: -

System for Identifying/Forfeiting Assets - The jurisdiction has enacted laws authorizing the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

Ability to freeze assets without delay - The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations)

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

EU White list of Equivalent Jurisdictions

Tajikistan is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Tajikistan is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2016 (introduction):

Tajikistan is located on one of the highest volume illicit drug trafficking routes in the world, between Afghanistan's opium harvests on its southern border and the illicit drug markets of the Russian Federation and Eastern Europe to the north. The UN Office on Drugs and Crime (UNODC) estimated in 2011 that 75-80 metric tons (MT) of Afghan heroin and 35-40 MT of opium flowed through Tajikistan on its way north, but the country seizes only a small fraction of those amounts. The Tajik government's high level of commitment to drug control did not result in an equivalent increase in drug seizures in 2015, possibly due to smugglers changing techniques or routes. As in past years, there were few major traffickers arrested and imprisoned. Nevertheless, Tajikistan was able to seize higher volumes of opiates than any other country in Central Asia.

The number of people with substance use disorders in the country has remained relatively stable, as the Ministry of Health registered 7,226 in 2015. However, the Red Cross and UNODC have estimated the actual numbers of addicted users is much higher.

Conclusion

While total illicit drug seizures may have declined in 2015 from 2014, it is promising that heroin seizures were up, especially since over 80 percent of the country's registered people with substance use disorders are heroin abusers. Until such time as Afghanistan's opium production wanes, Tajikistan's law enforcement agencies should prioritize cases involving that drug.

The 2015 arrests of two senior DCA officers for corruption is troubling, especially given that the United States provides resources for salary supplements to avoid such temptations. The Government of Tajikistan should take additional steps to curb corruption to improve the overall effectiveness of drug law enforcement.

US State Dept Trafficking in Persons Report 2014 (introduction):

Tajikistan is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Tajikistan is a source and, to a lesser extent, destination country for men, women, and children subjected to forced labor, and a source country for women and children subjected to sex trafficking. Extensive economic migration exposes Tajik men, women, and children to exploitation. Tajik men and women are subjected to forced labor in agriculture and construction in Russia, the United Arab Emirates (UAE), and, to a lesser extent, Afghanistan and Central Asia. Women and children from Tajikistan are subjected to forced prostitution primarily in the UAE and Russia, and also in Saudi Arabia, Kazakhstan, Afghanistan, and within Tajikistan. These women sometimes transit through Russia, Kyrgyzstan, or Azerbaijan en route

to their destination. Reports indicate an increase in kidnappings and transport of Tajik women and girls to Afghanistan for the purpose of forced marriage, which can lead to forced prostitution and debt bondage. Women are increasingly vulnerable to trafficking within the country and abroad after they are informally divorced from their absent migrant husbands and then need to provide for their families. Women engaged in prostitution in Tajikistan are vulnerable to exploitation by traffickers. There are reports from previous years of Tajik children subjected to sex trafficking and forced labor, including forced begging, within Tajikistan and in Afghanistan. Some Tajik children and some adults were potentially subjected to agricultural forced labor in Tajikistan—mainly during the fall 2013 cotton harvest—but this exploitation occurred to a lesser degree than in 2012. Afghan and Bangladeshi citizens are vulnerable to forced labor in Tajikistan.

The Government of Tajikistan does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government continued to make progress in further reducing the use of forced labor in the annual cotton harvest. However, it continued to lack procedures to proactively identify trafficking victims among vulnerable populations and refer them to existing protective services. The lack of adequate victim protection remained a serious problem in the country; budget limitations and high turnover in public jobs requiring specialized knowledge constrained such efforts.

US State Dept Terrorism Report 2015

Overview: According to the Government of Tajikistan, 700 Tajiks had left the country to fight with the Islamic State of Iraq and the Levant (ISIL) by the end of 2015. In addition, the government remained concerned that instability in neighboring Afghanistan would push violent extremist groups across the border into Tajikistan. In response, the Government of Tajikistan worked to strengthen its efforts to fight terrorism and radicalization, although its focus was almost entirely on law enforcement measures, with little attention given to countering violent extremism. Tajikistan sought to increase military and law enforcement capacity to conduct tactical operations through bilateral and multilateral assistance programs, including programs funded by the United States. The United States, Russia, Japan, and the EU also provided funding for border security programs.

Three major events in 2015 have further heightened the government's focus on the threat of terrorism within the country:

- In April, Gulmurod Halimov, the commander of the elite police unit OMON (Special Purpose Mobility Unit), defected to join the Islamic State of Iraq and the Levant (ISIL).
- On September 4, a small group of militants led by former Deputy Minister of Defense Abduhalim Nazarzoda committed a series of attacks in and around Dushanbe that left nine police, including Special Forces officers, and 17 attackers dead. While the exact motivation for the attacks remains unclear, the government has charged those involved with terrorism.
- Finally, the Taliban's seizure of the city of Kunduz in northern Afghanistan in late September increased concern in Tajikistan of a possible spillover of fighters and refugees.

Legislation, Law Enforcement, and Border Security: The Tajik government prosecuted terrorists under the Laws on Combating Terrorism, Anti-Money Laundering, Currency Regulation, and Notary, and the Criminal Code of the Republic of Tajikistan. Resource constraints, corruption, lack of training for law enforcement and border security officials, and general capacity issues continued to plague the Tajik government's ability to interdict possible terrorists. Tajik law enforcement bodies lacked sufficient interagency cooperation and information-sharing capabilities. Corruption in the judicial system and misuse of counterterrorism statutes to suppress political opposition generally hampered the effectiveness of the government's counterterrorism efforts.

Tajikistan continued to make progress in improving border security with bilateral and multilateral assistance, although effectively policing the Tajikistan-Afghanistan border remained a difficult task requiring more resources and capabilities than were available to the Tajik government. Within the region, the illicit trafficking of opiates transiting the Commonwealth of Independent States destined for the Russian Federation and Eastern Europe was the predominant funding mechanism for Afghan-based terrorist activity. Drug trafficking in the region is inextricably tied to terrorism, and drug proceeds enable this activity. Afghan Drug Trafficking Organizations and Organized Criminal Groups tied to violent extremist organizations frequently solicit the exchange of weapons, arms, or vehicles for drugs in lieu of currency-based remuneration.

The UN Office of Drugs and Crime, in conjunction with DEA and the Department of State, provided interdiction related training to Tajikistan (and Afghanistan, Uzbekistan, Kazakhstan, and Kyrgyzstan) in support of the Border Liaison Office program. The U.S. Central Command Counter Narcotics Program continued to provide facilities, outposts, and material support (including ground-sensor interdiction technology) to the Tajik Border Guards under the State Committee for National Security. In 2015, the Department of State's Export Control and Border Security program routinely provided both training and material support to Tajikistan to improve border control, contraband interdiction, and counter-proliferation capabilities.

The International Organization for Migration and the OSCE, with U.S. funding, worked to improve travel document security in 2015. The OSCE also provided funding to link Tajikistan's existing passport data scanners at airports and land ports of entry to the INTERPOL database. In some instances, the Tajik government used INTERPOL Red Notices to seek the arrest of political opponents residing abroad. Tajikistan continued to participate in the Department of State's Antiterrorism Assistance program, and Tajik security forces received training related to border security practices and counterterrorism investigations.

On July 23, the Ministry of Internal Affairs reported that the Tajik government had prevented a series of terrorist attacks in the country planned by Tajik supporters of ISIL. According to their report, the attacks were planned to coincide with Ramadan celebrations in Tajikistan. Media reports stated that extremists were planning to attack more than 10 police stations in Dushanbe, Kulob, Fayzobod, and Gharm.

On December 5, the Khatlon regional court sentenced eight residents of the Shahrituz district of Khatlon to prison terms ranging from seven to 27 years after they displayed in public a black flag similar to that of ISIL's. The defendants had been in contact with fighters from Syria via the internet and the government alleges that they were planning terrorist attacks in Tajikistan.

Countering the Financing of Terrorism: Tajikistan is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force (FATF)-style regional body. At its November plenary meeting, the EAG discussed financial items relating to ISIL, and urged member states to intensify their efforts to combat the financing of ISIL, as well as undertake rapid implementation of the relevant UN Security Council Resolutions related to terrorism financing.

Tajikistan's financial intelligence unit, the Financial Monitoring Department, is a member of the Egmont Group. In November, Tajikistan also participated in the Joint EAG/Anti-Terrorist Center of the Commonwealth of Independent States Seminar on strengthening cooperation between financial intelligence units and law enforcement agencies in investigations related to combating the financing of terrorism.

Also in November, the National Bank of Tajikistan implemented a new order allowing clients to deposit foreign currencies in any amount without disclosing the money's source. While the Bank believed the measure will help to attract investment and prevent the black market exchange of currency, there is concern this decision will negatively affect law enforcement's ability to identify, target, and prosecute money laundering violations.

Countering Violent Extremism: In 2015, the Tajik government worked to create a national strategy to counter violent extremism, but this strategy was not finalized by the end of 2015. In addition, some previous government measures designed to reduce the threat of violent extremism had a negative impact on religious and political freedoms. Authorities detained and, in some cases, reportedly tortured members of religious groups based on broad allegations of "religious extremism."

On May 9, the Ministry of Internal Affairs promised amnesty to Tajik militants returning to Tajikistan from Syria and Iraq. The announcement marked the first time the government declared an amnesty for returning foreign terrorist fighters. Authorities were keen to use this amnesty as a way to counter radical messaging. On May 7, Farrukh Sharifov, a former Tajik violent extremist recently returned from Syria and spoke to a large crowd in Khujand in a widely publicized event organized by the Ministry of Internal Affairs. Sharifov condemned ISIL and described horrors he witnessed, including beheadings and sex slavery.

International and Regional Cooperation: Tajikistan is a member of the OSCE, where it focuses on border security issues, and is also a member of the Collective Security Treaty Organization (CSTO) and the Shanghai Cooperation Organization (SCO). On April 21, the special force platoon and the rapid reaction unit of the Ministry of Defense of Tajikistan participated in a five-day joint military exercise for special force units of the SCO in Kyrgyzstan. On May 20, Tajikistan participated in a CSTO-organized exercise in which member countries practiced their response to the incursion of 700 Taliban fighters into Tajikistan. On June 5, Tajik and Chinese special operations conducted joint counterterrorism drills at a mountain training center outside Dushanbe.

International Sanctions

None applicable

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	25
World Governance Indicator – Control of Corruption	14

US State Department

As in previous years, Tajikistan ranked very low on the 2013 Transparency International Corruption Perceptions Index. It scored 22 out of 100 on the index, placing it at 154 on a list of 177 countries. Anemic anti-corruption efforts from the Tajik government have proven ineffective – indeed, some anti-corruption units are ironically known to be particularly corrupt, and have been utilized in politically motivated actions against opposition figures. Low official salaries force many officials to look for alternative means to cover their expenses. Buying a government position is common, and people frequently bribe superiors for promotions. Cultural expectations play a role as well: people are expected to share their good fortune with superiors and extended family, and nepotistic practices on behalf of clan members, extended family, and superiors are commonplace.

As noted throughout this report, endemic corruption stifles business development by local and international investors. Officials at most agencies expect payoffs from anyone opening or running a business. Although a signatory to the OECD Convention on Combating Bribery and the United Nations Convention against Corruption, corrupt practices are deeply embedded in every aspect of commerce, and calculating the actual cost is difficult. The Agency to Fight Corruption and Economic Crimes, which reports directly to the Presidential Administration, has yet to achieve anything significant. Indeed it appears unwilling to take on major corruption cases, which are often linked to high-ranking government officials.

Bribery is endemic. Many businesses view paying off predatory regulators and other officials as a necessary cost of doing business. Non-politically motivated prosecutions for corruption, including bribery, are rare. Ironically, since bribery is so widespread, it proves to be a reliable charge officials can use to silence potential critics or business rivals. Officials tend to face consequences for corruption only when their scheme competes with those of more powerful officials.

Corruption and Government Transparency - Report by Global Security

As in previous years, Tajikistan ranked very low on the 2012 Transparency International Corruption Perceptions Index. It scored 22 out of 100 on the index, placing it 157 on a list of 176 countries. Anemic anti-corruption efforts from the Tajik government have proven ineffective – indeed, some anti-corruption units are ironically known to be particularly

corrupt. Extremely low official salaries do not help since they force many officials to look for alternative means to make ends meet. Buying a government position is common, and people frequently bribe superiors for promotions. Cultural expectations play a role as well: people are expected to share their good fortune with superiors and extended family, and nepotism or other favors for clan members, extended family, or superiors are commonplace.

As noted throughout this report, endemic corruption stifles business by local and international investors. Officials at any number of agencies expect payoffs for opening and running a business. Although a signatory to the OECD Convention on Combating Bribery and the United Nations Convention against Corruption, corrupt practices are deeply embedded in every aspect of commerce, and calculating the actual cost is difficult. The Agency to Fight Corruption and Economic Crimes, which reports directly to the Presidential Administration, has yet to achieve anything significant. Indeed it appears unwilling to take on major corruption cases, which are often linked to high-ranking government officials.

Bribery is endemic. Many businesses view paying off predatory regulators and other officials as a necessary cost of doing business. Legitimate prosecutions for corruption, including bribery, are rare to nonexistent. Ironically, since bribery is so widespread, it proves to be a reliable charge officials can use to silence a potential critic or business rival. Officials tend to face consequences for corruption only when their activity competes with that of more powerful officials.

Section 3 - Economy

Tajikistan has one of the lowest per capita GDPs among the 15 former Soviet republics. The 1992-1997 civil war severely damaged an already weak economic infrastructure and caused a sharp decline in industrial and agricultural production. Because of a lack of employment opportunities in Tajikistan, more than one million Tajik citizens work abroad - roughly 90% in Russia - supporting families in Tajikistan through remittances. Less than 7% of the land area is arable and cotton is the most important crop. Until 2008, cotton production was closely monitored and controlled by the government. In the wake of the National Bank of Tajikistan's admission in December 2007 that it had directed the AgrolInvestBank to improperly lend money to politically connected investors in the cotton sector, the IMF canceled its stand-by assistance program in Tajikistan. As part of the Tajik government's subsequent reforms, over a half billion dollars in farmer debt has been forgiven. In 2008 Tajikistan passed new law authorizing farmers to decide for themselves what crops to grow, and this has resulted in a gradual decrease in cotton output. Tajikistan imports approximately 60% of its food, most of which comes by rail. Uzbekistan closed one of the rail lines into Tajikistan in late 2011, hampering the transit of goods to and from the southern part of the country. As a result, food and fuel prices increased to the highest levels since 2002. Mineral resources include silver, gold, uranium, and tungsten. Industry consists mainly of small obsolete factories in food processing and light industry, substantial hydropower facilities, and a large aluminum plant - currently operating below 25% of capacity. Electricity output expanded with the completion of the Sangtuda-1 hydropower dam - finished in 2009 with Russian investment. The smaller Sangtuda-2 hydropower dam, built with Iranian investment, began operating in 2012 at a limited capacity. The Tajik government is tens of millions of dollars in arrears for both Sangtuda dams, and Sangtuda-2 has been closed for "maintenance" since January 2014. The government is pinning its drive for energy independence on completion of the Roghun dam, which is scheduled for mid-2014. In 2010, the government began a coerced sale of shares in the Roghun enterprise to its population, ultimately raising over \$180 million before stopping under intense criticism from international donors, but the dam is likely to cost billions of dollars. The World Bank funded two feasibility studies (technical-economic, and social-environmental) for the dam. If built according to plan, Roghun will be the tallest dam in the world, will operate year around, and will significantly expand Tajikistan's electricity output. In 2013, the Tajik government finalized an agreement to import one million tons of fuel and oil products from Russia each year, at reduced prices. Tajikistan's economic situation remains fragile due to uneven implementation of structural reforms, corruption, weak governance, seasonal power shortages, and its large external debt burden.

Agriculture - products:

cotton, grain, fruits, grapes, vegetables; cattle, sheep, goats

Industries:

aluminum, cement, vegetable oil

Exports - commodities:

aluminum, electricity, cotton, fruits, vegetable oil, textiles

Exports - partners:

Turkey 30.5%, China 9.6%, Iran 7.7%, Afghanistan 6.5%, Kazakhstan 4.9%, Russia 4.3% (2012)

Imports - commodities:

petroleum products, aluminum oxide, machinery and equipment, foodstuffs

Imports - partners:

China 42.3%, Russia 16.2%, Kazakhstan 10.1%, Turkey 5.7%, Iran 4.2% (2012)

Banking

The Tajik financial system is small and dominated by banks. There are 10 domestically chartered banks and one branch of a foreign (Iranian) bank, with total assets of approximately \$813 million. Banks represent more than 80 per cent of total financial sector assets.

Extract from 2011 IMF Report on Fourth Review Under the Three Year

Arrangement Under the Extended Credit Facility (Published June 2011)

Executive Summary

Background:

Tajikistan is emerging from the global crisis, with real GDP growth rising to 6.5 percent in 2010, up from 3.9 percent in 2009. A strong policy response, supported by a devaluation of the somoni, helped to facilitate adjustment, but a quick return to pre-crisis growth rates appears unlikely. The external balances improved markedly in 2010, but due to temporary factors. Inflation is now sharply on the rise, reaching nearly 10 percent by end-2010, and rising further thus far in 2011. Program performance is generally good but the continuous criterion on non-accumulation of new external payment arrears was not met. Staff proposes a waiver for nonobservance of this performance criterion.

Policy Challenges:

Tajikistan's principal economic challenge remains creating and sustaining levels of economic growth necessary to reduce poverty and unemployment, while also working within domestic and external resource constraints.

Key Recommendations:

- Maintain a prudent monetary stance to avoid adding pressure to core inflation. Over the medium term, develop a cash transfer system to protect the poor during price shocks.
- Address vulnerabilities in the financial sector, with a view to reducing the overhang of nonperforming loans, creating confidence in the banking system, and enabling higher levels of financial intermediation.

- Shift to a post-crisis view of fiscal policy. Gradually reduce the fiscal deficit to allow for a rebuilding of fiscal buffers. Reform the tax policy regime to help build revenues, make space for priority social and infrastructure spending, and create a more conducive environment for private sector growth.
- Continue work on agricultural reform, with a particular emphasis on creating a sustainable mechanism for agricultural finance.
- Make further progress in development of domestic financial markets, starting with the domestic Treasury-bill (T-bill) market.

Executive Summary

Tajikistan presents selected opportunities for investors who are willing to put significant research and effort into market development and who have local experience or contacts to help navigate the maze of bureaucracy and corruption. The poorest of the former Soviet republics, Tajikistan lags economically behind its neighbors. The Tajik government relies largely on foreign state-led investment and loans from China, Russia, and Iran, as well as assistance from international financial institutions, for major infrastructure projects. The government has expressed interest in more foreign investment, but has a poor record implementing the reforms necessary to attract investors from abroad. Some improvements were made in 2012, including the ratification of the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (aka the "New York Convention") and the conclusion of negotiations to join the World Trade Organization (WTO). Tajikistan became the 159th member of the WTO on March 2, 2013. A new national tax code also became law on January 1, 2013, but it remains more confusing and administratively burdensome than experts had hoped. Until Tajikistan successfully tackles such basic problems as corruption, weak rule of law, and unreliable electricity supplies, it will not attract significant growth in foreign direct investment (FDI).

1. Openness to, and Restrictions Upon, Foreign Investment

Attitude Toward FDI

The Government of Tajikistan mostly courts state-led investment and external loans from the country's perceived geopolitical friends rather than making conditions favorable for private investors from abroad. Through non-transparent practices and barriers to competition, the government burdens the private sector with unnecessary costs and creates substantial uncertainty and risk. Accordingly, the principal investors in recent years have been governments with geopolitical interests in the region, especially China, Russia, and Iran.

Laws/Regulations of FDI

Pursuant to Article 4 of Tajikistan's Investment Law, the government guarantees the equality of rights of foreign and local investors. Practically all of Tajikistan's international agreements have a provision for most-favored-nation status. Per Tajik law, foreign investments can be made by:

- Owning a share in existing companies, jointly with either other Tajik companies or Tajik citizens;
- Creating fully foreign-owned companies which operate according to Tajik law;
- Acquiring assets, including shares and other securities;
- Acquiring the rights for use of land and other mineral resources, as well as exercising other property rights either independently or shared with other Tajik companies and citizens of Tajikistan; or

- Concluding agreements with legal entities and citizens of Tajikistan that provide for other forms of foreign investment activity.

In principle, the judicial system recognizes sanctity of contracts; in practice, contract enforcement is poor, due in part to inadequate legal awareness. In addition to questions of competence, the judicial system suffers from a lack of independence, and government officials have in several notable cases leaned on judges to produce favorable outcomes in business disputes. Although Tajikistan is party to a number of arbitration agreements and conventions, it does not have its own internationally recognized arbitration system. The courts do not always respect or uphold international arbitration rulings. In May 2012, Tajikistan acceded to New York Convention of 1958 on Recognition and Enforcement of Foreign Arbitral Awards, which should bring improvements in this area for foreign investors.

Tajikistan has made a number of changes that have improved its World Bank "Doing Business" rankings in recent years (<http://www.doingbusiness.org/data/exploreeconomies/tajikistan/>), moving from 152 in 2011 to 143 in 2014 (out of 185 countries). The most significant reform was the implementation of a "single-window" business registration system, which applies to both foreign and domestic applicants and reduces red tape associated with opening a business. Applicants now pay a fixed fee at the Tax Committee and are supposed to receive permission to begin operating within five working days. The Tajik government enacted targeted reforms in 2012, including the aforementioned accession to the New York Convention and adoption of a law guaranteeing the rights of minority shareholders. Given Tajikistan's paucity of corporations, with or without minority shareholders, the shareholders' rights law has limited scope in practice. The 2013 Doing Business report also highlighted improvements in protecting investors and the process for registering property.

Tajikistan's State Committee on Investments and State Property, created in 2006 to assist investors, has done little to fulfill its mission. There are no established criteria for screening investment proposals, requiring potential investors go through a lengthy review process by all (potentially) concerned government agencies rather than working with a single investment promotion agency. The government has privatized most Soviet-legacy small and medium enterprises, but the largest concerns remain in state hands. Although there are no limits on foreign participation, in many circumstances the government makes non-transparent decisions that favor investors with connections to the existing power structure. Some of the largest enterprises, which dominate Tajikistan's transportation, infrastructure, and electricity distribution and maintenance sectors, will remain government-owned for the foreseeable future.

There is no legally sanctioned discrimination against foreign investors at the time of an initial investment or after the investment is made. Current investment laws and the tax code provide for investment incentives, including a taxation waiver on initial investment and value-added tax (VAT)-free importation of some **industrial equipment**. Companies may have a difficult time realizing these benefits due to poor implementation of tax regulations and/or corrupt tax authorities. The onus of proving that an investment qualifies for the benefits is on the investor, and Tajik authorities are often skeptical. The government also attempts to increase revenue by taxing profitable companies more aggressively. For example, the government introduced a 3% tax on cell phone providers in 2011 and for Internet service

providers in 2012. Not surprisingly, the **communications** sector is one of the few bright spots in the Tajik economy. The fact that the tax burden is placed on companies that have a greater degree of compliance with regulations results in distorted competition. To avoid predatory behavior by the ruling elite, some foreign investors find it easier – some say necessary – to establish joint ventures with well-connected local officials.

According to some sources, even well-meaning companies inevitably violate some tax legislation, since internal contradictions and draconian rules often make it impossible to abide by all existing requirements. This plays into the hands of corrupt regulators, who can demand bribes to ignore evidence of violations. The government reinstated a moratorium on business inspections from October 1, 2011 to September 30, 2014, with the stated goal of increasing foreign investment into the manufacturing sector of economy.

Investment Trends

All types of investments (including FDI, loans, and credits) from Tajikistan's trading partners totaled \$486 million in the first nine months of 2013. FDI in Tajikistan reached \$209 million in the third quarter of 2013. China, Russia, Qatar, Great Britain, Turkey, and Iran were the leading foreign investor countries in Tajikistan in 2013 with FDI stock of \$184 million. China's FDI stock in Tajikistan as of the third quarter of 2013 totaled \$93 million, Russia's \$44 million, Qatar's \$18 million, Great Britain's \$17.6 million (this may reflect investment in off-shore operations of Tajik companies registered in the British Virgin Islands), Turkey's \$7 million, and Iran's \$4 million. All types of investments from other investor countries, including the United States, totaled \$25 million during the same period, according to the Tajik Statistics Agency. The National Bank of Tajikistan estimated FDI inflow in the second quarter of 2013 at \$82.6 million or 3.7% of Tajikistan's Gross Domestic Product (GDP). The Ministry of Economic Development and Trade expects that in 2014, 2015, and 2016 the FDI stocks will be maintained around \$400 million a year.

President Rahmon has made many public and private statements calling for increased foreign investment, particularly in **energy** and transport infrastructure. With continued improvements in the investment climate, opportunities exist in **energy, telecommunications, construction, food processing, textiles, consumer goods**, healthcare, natural resource extraction (mining, oil, gas), and tourism.

Although the Tajik economy has grown rapidly since 2000, Tajikistan still has less industrial diversity, lower literacy rates, a weaker national health infrastructure, higher unemployment, and lower levels of investment in infrastructure than when it was a Soviet republic in 1990. According to the National Bank of Tajikistan, the country's GDP grew 7.4% in 2013 to 40.5 billion (\$8.5 billion). TJS The informal economy is substantial; according to some estimates, it may be as large as \$2 billion. Tajikistan's banking sector is relatively undeveloped, and businesses tend to raise capital through other means, including selling assets and borrowing from other companies or individuals.

The government does not place geographic restrictions on business operations, but rugged topography (93% of the country is mountainous), poor infrastructure, and a lack of reliable electricity impose their own restrictions. Many roads in Dushanbe and Khujand are in poor condition, and roads outside of major towns are often unpaved and poorly maintained. A few major routes, such as those between Dushanbe and Khujand, Dushanbe and Gharm,

and Dushanbe and the Afghan border have been or are being renovated with foreign financing. The opening of the Chinese-built Shakhriston tunnel, along the route between Dushanbe and Khujand in October 2012 shortened the trip between Tajikistan’s two main commercial centers by about one hour, while two tunnels built between Dushanbe and Kulob in 2012 and 2013 provided similar benefits. Weather also impacts commerce since overland travel to mountainous parts of the country, such as the Gorno-Badakhshan Autonomous Oblast, is difficult, if not impossible, in the winter and spring. Electricity production is well short of demand during cold-weather months. For three to six months of the year, most parts of the country outside of Dushanbe receive only a few hours of power each day. Overland import/export requires patience and ingenuity, as customs agents at borders and internal checkpoints frequently seek bribes to allow passage.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(154 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation’s Economic Freedom index	2013	(139 of 177)	http://www.heritage.org/index/ranking
World Bank’s Doing Business Report “Ease of Doing Business”	2013	(143 of 189)	http://doingbusiness.org/rankings

TABLE 1B - Scorecards: The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or \$4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC’s indicators and a guide to reading the scorecards, are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>.

2. Conversion and Transfer Policies

Foreign Exchange

Tajikistan does not restrict conversion or transfer of “reasonable sums” of money. There are no legal limits on the kinds of transfers – i.e., whether commercial or otherwise. However, an underdeveloped banking infrastructure, with strict government controls and limited capital, presents obstacles for investors in finding local sources of financing. Although legal, businesses often find it difficult in practice to conduct large currency transactions due to the limited amount of foreign currency available in the domestic financial market. Investors are free to import currency.

The minimum charter capital for the newly established banks is 50 million somoni (about \$10.6 million) and the minimum regulatory capital for the existing commercial banks is 30 million somoni (about \$6.3 million). All banking institutions meet this requirement. Thirteen of the 16 banks in Tajikistan have a foreign stake in their authorized capital. Tajikistan's banking sector includes five foreign bank branches and the state-owned Amonat Bank.

3. Expropriation and Compensation

The Law on Investments details the types of actions that can be taken with regard to expropriation of property. There have been no known cases where foreign commercial entities have had their property seized, but there have been several recent cases of potential or actual state expropriation of Tajik-owned private property under politically motivated circumstances. Though Tajik Law states that investors are to be reimbursed for expropriated property, actual compensation may be minimal. Predatory behavior by officials has bordered on a "creeping expropriation" in which business assets are taken without effective due process. Businesses in all sectors are unpredictably threatened by such activities.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

In official pronouncements, the Tajik government espouses its commitment to the rule of law; in practice, it has not demonstrated a clear understanding of the concept's importance to investors. The international community, including the United States, has encouraged Tajikistan to improve its legal system, with mixed results. Tajik courts usually resolve commercial disputes in less than one year, and the Tajik government has passed a number of well-written laws, but implementation and consistent interpretation lag behind. Few people, especially small business owners, are aware of their rights and responsibilities. Tajikistan's weak judiciary is ill-equipped to defend the interests of investors. As a general rule, disputes are solved by appealing to government officials who are as highly placed as possible. The victor is frequently the party whose contact is more powerful.

Bankruptcy

Tajikistan has well-written commercial and bankruptcy laws. Tajikistan's bankruptcy law does not differentiate between foreign and domestic investors. The country's contract law is modeled on European legislation. These laws are regulated under the country's Civil Code, but they are not always enforced in the courts.

International Arbitration

ICSID Convention and New York Convention

In 2012, Tajikistan became a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. In 1993, Tajikistan became a member of the International Association on Investment Guarantees as well as the International Center for the Settlement of Investment Disputes (Washington Convention). However, Tajikistan does not have a bilateral investment agreement with the United States, and domestic courts still accept judgments of foreign courts on a case-by-case basis. The U.S. asserts that Tajikistan's

1992 commitment to honor treaties inherited from the Soviet Union means the 1973 Convention on Matters of Taxation remains in force, but the Tajik government has expressed interest in negotiating a new bilateral agreement.

5. Performance Requirements and Investment Incentives

Investment Incentives

Current legislation provides equal tax and customs incentives to local and foreign investors. In practice, companies with close connections to the government get preferential treatment. The government does not formally impose performance requirements as a condition for establishing, maintaining, or expanding investment. Although there is no requirement to "buy locally," it is encouraged. Operating from a Soviet-era legal code (and mentality) that views anything beneath the land's surface as a potential state secret, the government has been reluctant to offer mining concessions to foreign companies. An effort to revise the legislation is underway, and the government has made some effort to attract foreign mining projects, but generally only on the condition that the State is given a controlling interest or receives a substantial advance payment. The government has also established four Free Economic Zones (see Section 17 below) that provide reduced taxes and customs fees to clients located therein.

6. Right to Private Ownership and Establishment

The government wants to encourage business development, but faces major obstacles, including its own poor management, cronyism, and corrupt practices. In principle, private entities may establish and own businesses and engage in almost all forms of remunerative activity. Foreign entities may establish, acquire, and dispose of interests in business enterprises. In practice, the old Soviet mentality still prevails. Government inspectors often operate on the principle that activities are not permitted unless they are expressly allowed (or unless the inspector is remunerated for adopting a more flexible interpretation), and since laws are often not readily accessible to public nor uniformly applied and interpreted, businesspeople often report frustration with Tajikistan's business climate. In some cases, the existence of informal networks of clan-based, interrelated suppliers force would-be investors to "buy in" to the system, hindering competition and sometimes constraining new investors from fully participating.

7. Protection of Property Rights

Undeveloped legal avenues for dispute resolution create a weak environment for property rights protection in Tajikistan.

Real Property

According to Tajik law all land belongs exclusively to the state; individuals or entities may be granted first- or second-tier land use rights. Foreigners' first-tier land use rights are restricted to 50 years while Tajik individuals and entities have indefinite first-tier land use rights. Foreigners' second-tier land use rights are similar to those of Tajik individuals and entities, and are granted by holders of first-tier land use rights under the lease agreements for a term of not more than 20 years.

There are no legal limitations on foreign ownership or control of other property, except for owning residences, but the procedure of using land-use rights as collateral is not well defined. Efforts have been made to address this issue through amendments to the land code, but unfortunately the practical value of such modifications has not yet been realized. The government adopted mortgage legislation in March 2008 which allows parties to use immovable property as collateral. Further progress was made when Tajikistan's new Land Code was signed into law by the President in August 2012, but effective implementation will be difficult for the capacity-constrained government.

When secured interests in property do exist, enforcement remains an issue. Investors should be aware that establishing title may be a more involved process than in western countries since ownership is often unclear. The Tajik government has a track record of re-nationalizing former state-owned properties in cases where it claims the original privatization had been carried out illegally. Ownership of rural land can be particularly opaque, since many nominally "privatized" former collective farms continue to operate as a single entity. Many of the new "owners" do not in fact know where their land is and do not exercise property rights as such. A cadastre system to record, protect, and facilitate acquisition and disposition of property exists, but needs improvement. The legal system is not adept at quickly and efficiently settling disputes.

Intellectual Property Rights

Tajikistan is party to a number of conventions honoring intellectual property rights, but enforcement of such rights remains a low priority for the country. Tajikistan is a signatory to the World Intellectual Property Organization (WIPO) Convention, but has left seven of the 24 WIPO treaties unsigned, including the Patent Law Treaty. None of the American companies operating in Tajikistan have complained of intellectual property rights violations. However, Tajikistan is listed as a "Watchlist" country by the Office of the U.S. Trade Representative's 2014 Special 301 Report because the Tajik government does not effectively protect intellectual property rights. Tajikistan needs to implement fully amendments of its Customs Code to provide ex officio authority to its customs and criminal enforcement officials, as previously discussed in connection with Tajikistan's WTO accession. The United States continues to recommend that Tajikistan increase prosecutions of criminal IPR infringement, and address optical disc piracy as well as reports of government use of unlicensed software.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Eric Salzman salzmanea@state.gov

Local lawyers list: http://dushanbe.usembassy.gov/legal_information.html

8. Transparency of the Regulatory System

Cronyism, nepotism, and corruption create a business environment that favors those with connections to government officials. Tajikistan's regulatory system lacks transparency and poses a serious impediment to business operations. Regulators and officials often apply laws arbitrarily and are unable or unwilling to make decisions without a supervisor's permission, leading to lengthy delays. Executive documents -- i.e., presidential decrees, laws, government orders, instructions, ministerial memos, and regulations -- are often inaccessible

to the public, leaving businesses and investors in the dark about rules. Each ministry has its own set of unpublished normative acts that may contradict laws or the normative acts of other ministries.

Tajikistan introduced a new national tax code as of January 1, 2013. The new tax code officially contains 10 different types of taxes (reduced from 18) but some of the abolished taxes are now embedded in those that remain.

An inspections law signed in 2006 and promoted extensively by the International Finance Corporation (IFC) has reduced the practice of government agencies shaking down enterprises for bribes, but reports of such incidents are still widespread. President Rahmon reinstated a three-year moratorium on business inspections on October 1, 2011, with the hope of improving this situation. Tajikistan is working towards adopting international accounting standards, but these are not yet implemented.

Tajikstandart, the government agency responsible for certifying goods and **services**, calibrating and accrediting testing laboratories, and supervising compliance with state standards, lacks experts and appropriate equipment. It nevertheless has the mandate to inspect and approve even the most technologically complicated imports. Tajikstandart does not publish its fees for licenses and certificates or its regulatory requirements. As a result, businesses are vulnerable to individual inspectors' whims. So far no concrete steps have been taken to create proposed "one-stop shops" for certifying businesses in various categories.

The government has made a number of efforts to promote business reforms, but such efforts generally have been more rhetorical than substantive. As long as government inspectors treat their positions as a license for rent-seeking – and as long as the government tolerates it – Tajikistan will remain a difficult place for investors.

9. Efficient Capital Markets and Portfolio Investment

Money and Banking System

Tajikistan's nascent banking sector faces numerous challenges: insufficient capital, limited banking **services**, mistrust, and fallout from earlier banking system crises. The national currency, the somoni, was introduced in October 2000.

The total value of announced authorized capital of all commercial banks in Tajikistan was 2.1 billion somoni (approximately \$420 million) as of December 2013. Banking sector assets totaled 12.6 billion somoni (approximately \$2.5 billion). As of December 2013, there were 16 banks, one non-banking financial organization, and 120 microfinance organizations in Tajikistan, as well as the National Bank of Tajikistan. Nine banks are joint stock companies, two are state-owned (Amonat Bank and AgrolInvestBank), and five are branches of foreign banks: Tejorat (Iran); KazCommerceBank (Kazakhstan); First Micro Finance Bank of Tajikistan (owned jointly by the Aga Khan Fund for Economic Development and the IFC); Access Bank Tajikistan (a development bank owned jointly by the IFC, the European Bank for Reconstruction and Development, and the German Development Bank KfW); and Kont Investment Bank (currently operating under U.S. sanctions due to ties to Iranian-Turkish oil smuggler Babak Zanjani)

Tajik law requires newly established banks to maintain minimum charter capital of 50 million somoni (about \$10.6 million) and requires existing commercial banks to maintain 30 million somoni (about \$6.3 million) in regulatory capital. All banking institutions meet this requirement. Thirteen out of 16 banks in Tajikistan have a foreign stake in their authorized capital.

The majority of Tajikistan's foreign currency and capital comes from remittances sent by Tajiks working abroad. The ratio of remittances to GDP, estimated at 50% in 2013, is the highest in the world. During this period, more than a million Tajiks worked abroad, primarily in Russia, and sent home more than \$4.2 billion through the banking system and informal channels, an increase of roughly \$600 million over the \$3.6 billion sent in 2012. Although an increasing share of remittances flows through the banking system, banks have limited success in convincing consumers to deposit funds into savings accounts that could be used for investment.

The private sector has access to several different credit instruments, but interest rates in Tajikistan are very high. Commercial banks offer loans with annual interest rates averaging 27% for loans denominated in Tajik somoni and 23% for foreign currency-denominated loans. For the most part, the few foreign companies operating in Tajikistan do not rely on local sources of credit. There is no securities market, and enabling legislation is in its infancy. The government issues treasury bills to cover budget deficits, using local banks to cover the loans.

According to experts, the banking sector's legal framework is adequate, but laws and regulations are not always enforced or correctly implemented. On occasion, banks have been directed to lend to particular entities, sometimes at below-market rates. Partly as a result of direct and related lending, the banking sector is experiencing some liquidity difficulties, and 20% of the credit portfolio is classified as non-performing. Lending to small and medium enterprises is much healthier with a non-performance rate of 12%. Though liquidity remains adequate for smaller transactions, the market may be too shallow for large changes in position. Some work is being done to strengthen creditor and shareholder rights, but there is a long way to go.

Without a securities market, there are no hostile takeovers in the traditional sense, though the practice of raiding enables politically connected individuals to acquire ownership through political pressure and court rulings. All large-scale economic activity is tightly controlled by state authorities who selectively ignore or apply laws to achieve their desired results.

In 2010, the government sold shares in the Roghun hydroelectric project directly to the population. By most accounts, Tajiks were forced or intimidated into buying the shares and little information about shareholder rights or maintenance of funds has been released. This represented a step backward for the country's financial system.

More information about the National Bank of Tajikistan (NBT) is available on its website: <http://www.nbt.tj>.

10. Competition from State-Owned Enterprises

Although the government of Tajikistan has privatized many formerly state-owned small and medium enterprises, several large enterprises remain under state control. These include the national electrical grid operator (Barqi Tojik), the natural gas operator (Tojikgaz), and the Tajik Aluminum Company (TALCO), Tajikistan's largest enterprise. As a general rule, private

companies cannot hope to compete with state-owned enterprises (SOEs) unless they have good connections in the government. This has less to do with any explicit policy favoring SOEs than with the fact that Tajikistan's ruling elite often profit directly from the SOEs.

SOEs are not run transparently. Their budgets, assets, and liabilities are rarely disclosed to the public. Some efforts are underway to make SOEs more transparent, but little tangible progress has yet been seen. In recent years, however, TALCO and Barqi Tojik have reported substantial losses.

11. Corporate Social Responsibility

There is little awareness of corporate social responsibility in the international sense in Tajikistan. Many Tajik corporations contributed to the abortive Roghun financing campaign (see above, under Efficient Capital Markets), but many of these contributions were coerced. Some corporations do engage in voluntary community assistance on an ad hoc basis.

12. Political Violence

Political violence in Tajikistan is generally rare and isolated. The security situation has stabilized significantly since the Civil War ended in 1997. All factions signed a peace agreement, and the government incorporated members of the opposition into a multi-party system – although President Rahmon has steadily removed opposition figures from government to consolidate his power. The Tajik government has worked to minimize the impact of political discord on foreign investors. With the civil war a recent memory, the people of Tajikistan are eager to maintain peace. This contributes to the population's acceptance of the government's egregious corruption.

In July and August 2012, security operations took place in Khorugh, Gorno-Badakhshon Autonomous Oblast (GBAO) after the murder of the head of the regional branch of the State Committee on National Security. These operations resulted in the deaths of an unconfirmed number of government security agents and criminal group members.

13. Corruption

As in previous years, Tajikistan ranked very low on the 2013 Transparency International Corruption Perceptions Index. It scored 22 out of 100 on the index, placing it at 154 on a list of 177 countries. Anemic anti-corruption efforts from the Tajik government have proven ineffective – indeed, some anti-corruption units are ironically known to be particularly corrupt, and have been utilized in politically motivated actions against opposition figures. Low official salaries force many officials to look for alternative means to cover their expenses. Buying a government position is common, and people frequently bribe superiors for promotions. Cultural expectations play a role as well: people are expected to share their good fortune with superiors and extended family, and nepotistic practices on behalf of clan members, extended family, and superiors are commonplace.

As noted throughout this report, endemic corruption stifles business development by local and international investors. Officials at most agencies expect payoffs from anyone opening or running a business. Although a signatory to the OECD Convention on Combating Bribery and the United Nations Convention against Corruption, corrupt practices are deeply embedded in every aspect of commerce, and calculating the actual cost is difficult. The

Agency to Fight Corruption and Economic Crimes, which reports directly to the Presidential Administration, has yet to achieve anything significant. Indeed it appears unwilling to take on major corruption cases, which are often linked to high-ranking government officials.

Bribery is endemic. Many businesses view paying off predatory regulators and other officials as a necessary cost of doing business. Non-politically motivated prosecutions for corruption, including bribery, are rare. Ironically, since bribery is so widespread, it proves to be a reliable charge officials can use to silence potential critics or business rivals. Officials tend to face consequences for corruption only when their scheme competes with those of more powerful officials.

14. Bilateral Investment Agreements

Bilateral Taxation Treaties

Tajikistan has treaties on avoiding double taxation with Russia, Belarus, Ukraine, Azerbaijan, Turkey, and some other countries. Tajikistan's double taxation treaty with the United States was inherited from the Soviet Union, and the Tajik government believes the treaty must be re-negotiated as a bilateral agreement. Tajikistan signed the Trade Investment Framework Agreement between the five Central Asian states and the United States in 2004. Tajikistan is a member of the EURASEC trade organization, which provides loose regulation of trade among Russia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan. Tajikistan is also a member of the Shanghai Cooperation Organization.

15. OPIC and Other Investment Insurance Programs

Tajikistan is open to insurance and financing programs of the Overseas Private Investments Corporation (OPIC). Thus far, however, OPIC's involvement in investments in Tajikistan has been limited to a beverage bottling project in 2000. Nevertheless, Tajikistan's relative macroeconomic stability and a growing economy may provide for opportunities for OPIC insurance and financing. Tajikistan's currency has devalued approximately 32% since the beginning of 2009 as a result of the global economic crisis, and stood at 4.77 somoni to the dollar as of December 2013.

Somon Air concluded a deal with the U.S. Export-Import Bank (ExIm Bank) for lease guarantees to acquire two new Boeing 737 aircraft in November 2011, using two of the airline's other planes as collateral. ExIm Bank actively monitors the status of the lease, and works with Somon Air to ensure it remains in compliance with the terms of the agreement. ExIm Bank is not otherwise active in Tajikistan.

16. Labor

Due to its crumbling and corrupt **education** system, Tajikistan's labor force is becoming less skilled and is ill-equipped to provide international standards of customer service and management. Foreign businesses and NGOs lament the small pool of qualified staff for their organizations. Corruption in secondary schools and universities means degrees do not accurately reflect the level of professional training or competency. Although **education** is compulsory, many students must work to support their families. Since there few well-paid jobs available, many Tajiks with advanced skills emigrate to find better opportunities.

As of December 2013, the official unemployment rate in Tajikistan was reported as 2.5%, but the actual rate is estimated to be much higher. Approximately one million Tajik labor migrants work abroad, almost all of them in Russia. There are areas of Tajikistan with few working-age males. According to some studies, the average level of **education** of labor migrants is higher than that of those who remain in Tajikistan, even though the vast majority of migrants work as unskilled laborers. Remittances have a profound effect on Tajikistan's economic stability, fueling a growing appetite for imports, particularly vehicles, **construction** materials, food, and **consumer goods**.

The average monthly salary in Tajikistan is 748.63 somoni (\$155). Approximately 35% of the population lives below the poverty line, according to the Ministry of Economic Development and Trade. Due to Tajikistan's high birth rate (28.1 per thousand), half the population is less than 25 years old, creating a worrisome demographic bulge given limited domestic employment opportunities.

Nepotism and corruption play a large role in the labor market. Many of the higher prestige or more lucrative jobs require a "buy-in" and continuing payments to supervisors, leading the job holder to look for ways to pay back that sum by seeking bribes or other corrupt activity.

The labor market favors employers. Although the majority of workers are technically unionized, most are not aware of their rights and few unions have the will or know-how to effectively advocate for workers' rights. Unions are tightly controlled by the government.

Tajikistan is a party to 44 international labor conventions, including the Worst Forms of Child Labor Convention, dedicated to eliminating child labor and protecting children and young people. In 2010 and 2011, the government made important strides in preventing child labor in the cotton harvest, including the issuance of a presidential order banning the long-standing practice of sending classes of schoolchildren into the fields at harvest time.

17. Foreign Trade Zones/Free Ports

Tajikistan is a landlocked country whose neighbors demonstrate varying capacity for and interest in trade. All of Tajikistan's rail links and most of its major roads pass through Uzbekistan, whose relations have soured considerably with Tajikistan making transit of goods through Uzbek territory difficult. Traders report that Uzbekistan allows only ten trucks per day to cross the border between Tajikistan and Uzbekistan by road. Throughout much of 2012 Uzbekistan prevented or delayed a considerable amount of rail traffic into Tajikistan. In November 2011, the main rail road route that connects southern Tajikistan with southern Uzbekistan was disrupted due to an explosion and, as of December 2013, has not been repaired. Uzbekistan is reportedly building new internal rail lines that would enable it to bypass Tajikistan entirely. There are no commercial flights between Uzbekistan and Tajikistan. To overcome this dependence on Uzbekistan, Tajikistan has sought to open alternative transit routes to the north via Kyrgyzstan and Kazakhstan; the south, via Afghanistan and Pakistan; and the east, via China. The Asian Development Bank and the Governments of China and Iran have funded several projects to improve Tajikistan's road infrastructure, but these new routes remain difficult. The Kulma border crossing with China lies at an altitude of 4,600 meters, across a very rough road which is open only in good weather. Trade with and through Afghanistan has expanded markedly in recent years, but remains low.

The Government of Tajikistan established four Free Economic Zones (FEZs) that offer greatly reduced taxes and customs fees to both foreign and domestic businesses located in the zones. The legislation for the FEZs has been modified several times since the start of the process, but current law requires a minimum investment of \$500,000 for manufacturing companies, \$50,000 for trading companies, and \$10,000 for consulting and service companies, before being eligible for the preferential tax treatment. The most developed FEZ is in Khujand, <http://fezsughd.tj/ru/>, with 22 officially registered companies. Eleven companies are owned by Tajik citizens and nine are joint ventures with Poland, Russia, Cyprus, Turkey and China. Investments in FEZs as of December 2013 totaled \$11 million. FEZ produced \$8.5 million worth goods and **services** in 2013. The other three FEZs, located in President Rahmon's home district of Dangara, in the south of Tajikistan, and along the Afghan border in Nizhniy Panj and Ishkoshim, are in the early stages of development.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Foreign Direct Investment statistics vary by source. There are two primary agencies monitoring foreign investments in Tajikistan: the NBT and the State Statistical Agency under the President of Tajikistan. The NBT is more conservative in its methodology but does not break out its data by sector or country.

In the third quarter of 2013, Tajikistan's FDI inflows totaled \$209 million, \$48 million of which came from former Soviet states (mostly Russia with investments of \$44 million). Kazakhstan recorded a net outflow of \$2.4 million in its Tajik investments in 2013. Between 1997 and the third quarter of 2013 total FDI inflows amounted to \$2.2 billion. According to National Bank of Tajikistan, in the second quarter of 2013 the FDI to GDP ratio equaled 1.2%, down from 5% in 2012. According to Tajikistan's official statistics, the largest foreign direct investors during the third quarter of 2013 were: China \$93 million; Russia: \$44 million; Qatar \$18 million; Great Britain (BVI) \$17.6 million; Turkey: \$7 million; Germany: \$2 million, India: \$1.5 million. Foreign direct investment inflows by sector during the third quarter of 2013 were divided among these sectors: production of **construction** materials: \$85.3 million; **communications**: \$40 million; **construction**: \$24million; **textiles**: \$3 million

Note: Some of the FDI statistics above may include investment in Tajik-held companies registered offshore. Tajik government leaders or their family members control most large-scale enterprises in Tajikistan, and sometimes register them offshore to circumvent local tax laws. For example, a portion of Great Britain's FDI may have been directed toward Tajik companies registered in the British Virgin Islands, but Tajikistan's State Statistical Agency does not disclose this level of detail to the public. These figures also do not include state-led investment projects.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Civil law system

International organization participation:

ADB, CICA, CIS, CSTO, EAEC, EAPC, EBRD, ECO, FAO, G-77, GCTU, IAEA, IBRD, ICAO, ICC (NGOs), ICRM, IDA, IDB, IFAD, IFC, IFRCs, ILO, IMF, Interpol, IOC, IOM, IPU, ISO (correspondent), ITSO, ITU, MIGA, NAM (observer), OIC, OPCW, OSCE, PFP, SCO, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

For further information - <http://www.nbt.tj/en/>

Treaty and non-treaty withholding tax rates

For further information - <http://www.nbt.tj/en/>

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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