



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 salzmana@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 AgroInvestBank), 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 (Tojikkaz), 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.

TABLE 2: Key Macroeconomic data, U.S. FDI in Tajikistan/economy

	National Bank of Tajikistan		World Bank	
Economic Data	Year	Amount	Year	Amount
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	2013	8,500	2012	7,633
Foreign Direct Investment	State Statistics Agency of Tajikistan		BEA	

U.S. FDI in partner country (Millions U.S. Dollars, stock positions)	Q1 – Q3 2013	0.0072	2012	Not shown (less than 0.5 million)
Host country's FDI in the United States (Millions U.S. Dollars, stock positions)	Q1-Q3 2013	1.9 as FDI and 42 as other investments	2012	Data unavailable
Total inbound stock of FDI as % host GDP	Q1-Q3 2013	0.00008%	2012	Data unavailable

19. Contact Point at Post for Public Inquiries

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