

## **Tajikistan - 2013 Investment Climate Statement**

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 have been 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 is expected to become a full-fledged member of the WTO by March 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**

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.

All types of investments (which may also include FDI, loans, and credits) from China, Russia, and Iran increased from \$41 million in the first nine months of 2011 to \$187 million in the first nine months of 2012. The United Kingdom, Pakistan, and India were other active investors in 2012 with a combined \$38.1 million in FDI (Source: Agency on Statistics under the President of the Republic of Tajikistan). All types of investments from all other countries totaled \$217 million during the same period, based on figures from the Agency on Statistics under the President of the Republic of Tajikistan. The National Bank of Tajikistan estimates all types of investments in Tajikistan for the third quarter of 2012 as \$515.7 million, or 10% of GDP.

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.

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 “correct” 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” (<http://www.doingbusiness.org/data/exploreeconomies/tajikistan/>) rankings in recent years, moving from 152 in 2011 to 147 in 2012 and to 141 in 2013 (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. Last year a few other targeted reforms were enacted, including the aforementioned New York Convention and a law improving 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 improvement in protecting investors and registering property. In 2012, the government and the international community continued work on a “Single Window” to simplify export and import operations

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, and 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 small and medium enterprises, but the largest concerns remain in state hands. Although there are no limits on foreign participation, in many circumstances non-transparent decisions are made that favor investors with connections to the existing power structure. Some of the largest enterprises, in 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 incentives, including a waiver on taxation on initial investment and 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 very easily find evidence of violations for which they then demand bribes to ignore. A moratorium on business inspections was reinstated on October 1, 2011, for a three-year period with the stated hope of increasing foreign investment into the manufacturing sector of economy.

Although the Tajik economy has grown rapidly since 2000, many economic indicators remain below the benchmarks of 1991, when Tajikistan became independent. Tajikistan's GDP grew by an estimated 7.5% in 2012 to 36.2 billion somoni, or \$7.5 billion (Source: Ministry of Economic Development and Trade). 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 impose geographic restrictions on business operations, but topography (93% of the country is mountainous), poor infrastructure, and a lack of reliable electricity pose 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 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. Weather also impacts commerce since overland travel to parts of the country (e.g., the Gorno-Badakhshan Autonomous Oblast) is difficult if not impossible in the winter and spring. Electricity production is well short of demand, especially in the winter. 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.

Tajikistan's rankings on a few selected indices are as follows:

<i>Index</i>	<i>Score (max)</i>	<i>Ranking (out of)</i>	<i>Year</i>
Transparency International Corruption Perceptions Index	22 (100)	157 (176)	2012
Heritage Foundation Index of Economic Freedom	53.4 (100)	129 (179)	2012
World Bank Doing Business Ranking	n/a	141 (185)	2013

Tajikistan's rankings on selected Millennium Challenge Corporation (MCC) Indices for fiscal year 2011 are as follows:

<i>MCC Index</i>	<i>Score</i>	<i>Percentile</i>
Government Effectiveness	-0.06	42%
Rule of Law	-0.29	35%
Control of Corruption	-0.28	24%
Fiscal Policy	-3.5	51%
Trade Policy	78.2	88%
Regulatory Quality	-0.21	38%
Business Start-Up	0.936	69%
Land Rights and Access	0.56	45%
Natural Resource Management	24.3	31%
Access to Credit	0.0	0%
Inflation	12.4	32%

## **2. Conversion and Transfer Policies**

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, it is often 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 (16 commercial banks, including five branches of foreign banks, and state-owned Amonat Bank) meet this requirement. Thirteen out of 16 banks in Tajikistan have a foreign stake in their authorized capital.

## **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 other privately owned property under dubious circumstances. Though the 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 risk this kind of activity on an ad hoc basis.

#### **4. Dispute Settlement**

In official pronouncements, the Tajik government values the rule of law; in practice it has not demonstrated a clear understanding of its importance to investors. The international community, including the United States, has encouraged Tajikistan to improve its legal system with mixed results. Commercial court disputes are usually resolved in less than one year and a number of well-written laws have been passed, 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.

Tajikistan has well-written commercial and bankruptcy laws. There are no differences between foreign and domestic investors according to Tajikistan's bankruptcy law. 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.

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.

#### **5. Performance Requirements and Incentives**

Current legislation provides the same 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. The government has also established four Free Economic Zones (see Section 17 below) that provide reduced taxes and customs fees.

#### **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 find Tajikistan frustrating. 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.

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 right is restricted to 50 years while Tajik individuals and entities have the first-tier land use right of indefinite term. Foreigners' second-tier land use rights are similar to those of Tajik individuals and entities that 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 and recent amendments to the land code were introduced to address this issue, 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. 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 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.

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 WIPO Convention, but has not signed seven out of 24 of the WIPO treaties, including the Patent Law Treaty.

## **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, leaving businesses and investors in the dark about rules. Each ministry has its own set of normative acts that are not published and may contradict law 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 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**

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 authorized capital of all commercial banks in Tajikistan as of September 2012 was 1.8 billion somoni (approximately \$386 million). Banking sector assets total 10 billion somoni (approximately \$2 billion). As of December 2012, there were 16 banks, one non-banking financial organization, and 124 microfinance organizations in Tajikistan, as well as the National Bank of Tajikistan. Nine banks are joint stock companies, one is state-owned, 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.

The majority of Tajikistan's cash and capital is from remittances from Tajiks working abroad. The ratio of remittances to GDP, estimated at 47% in 2012, is the highest in the world. During this period, more than a million Tajiks worked abroad, primarily in Russia, and sent home more than \$3.3 billion through the banking system and informal channels. 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 beginning at about 25%. 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 as such. All large-scale economic activity is tightly controlled by state authorities who sometimes ignore or apply laws selectively to achieve a desired result.

In 2010, the government sold shares in the Roghun hydroelectric project directly to the population. Since 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 rather than forward for the country's financial system.

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

## **10. Competition from State-Owned Enterprises**

Although the government of Tajikistan has sold 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.

## **11. Corporate Social Responsibility**

There is little awareness of corporate social responsibility in the western sense in Tajikistan. Many, if not most, corporations contributed to the Roghun 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 since 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 keen to maintain peace, a factor sometimes adduced to explain 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. The events in Khorugh between government security forces and criminal groups resulted in the deaths, according to government sources, of approximately 12 government forces and 30 criminal group members. According to government, opposition figures, and civil society member accounts, between four and six civilians were also killed in the fighting.

Late summer 2010 saw several disturbances, including a major prison-break, the country's first-ever suicide car bombing, and militant activity in the former opposition areas of the Rasht Valley. By November 2011, all escapees had been recaptured and Rasht remained relatively peaceful. Tajikistan sometimes serves as a transit country for terrorist groups, and narcotics trafficking from Afghanistan is significant. These phenomena have little impact on most residents with respect to safety and security.

## **13. Corruption**

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.

#### **14. Bilateral Investment Agreements**

Tajikistan has treaties on avoiding double taxation with the United States, Russia, Belarus, Ukraine, Azerbaijan, Turkey, and some other countries. 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 many years ago. 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, and stood at 4.76 somoni to the dollar as of December 2012.

The airline Somon Air concluded a deal with the U.S. Export-Import Bank for guarantees to help purchase two new Boeing 737 aircraft in November 2011. The U.S. Export-Import 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 Western standards of customer service and management. International 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.

The official unemployment rate in Tajikistan is 2.6% (as of August 2012), but the actual rate is much higher. Approximately one million labor migrants work abroad, almost all of them in Russia. Indeed, 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 economic stability in Tajikistan, paying for a high percentage of its growing appetite for imports, particularly foreign vehicles, construction materials, food, and consumer goods.

The average monthly salary in Tajikistan is around 513 somoni, or \$107, and inflation outstrips wage growth. Approximately 38% of the population lives below the poverty line, according to the Ministry of Economic Development and Trade. Due to Tajikistan's high birth rate, 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 technically the majority of workers are 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.

## **17. Foreign Trade Zones/Free Trade Zones**

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. Throughout much of 2012, for example, 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 January 2013 has not been repaired. There are also 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 spring and fall. Trade with and through Afghanistan has expanded markedly in recent years but remains low.

The government has established four Free Economic Zones (FEZs) that offer greatly reduced taxes and customs fees to both foreign and domestic businesses locating in the zones. The legislation for the FEZs is still being developed, 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, with 20 officially registered companies. Most of them are local, but there are companies from Turkey, China, Russia, Belarus, and Poland. Investments as of January 2013 totaled \$10 million. The other three FEZs remain in the early stages of development, and are located in President Rahmon's home district of Dangara in the south of Tajikistan, and along the Afghan border in Nizhniy Panj and Ishkoshim.

## **18. Foreign Direct Investment Statistics**

Foreign Direct Investment statistics vary by source. There are two primary agencies monitoring foreign investments in Tajikistan: the National Bank of Tajikistan (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.

According to the State Statistical Agency, total FDI in 2011 was \$167 million. In the first nine months of 2012, FDI totaled \$149.2 million, \$58.5 million of which came from former Soviet states (mostly Russia, with investments of \$50.9 million). Azerbaijan initially invested \$58.3 million but soon withdrew \$50.8 of this sum, according to the Statistics Agency under the President of Tajikistan. Between 1997 and 2012, total FDI amounted to \$1.77 billion. According to NBT, in the second quarter of 2012 the FDI to GDP ratio equaled 5.0%, up from 0.2% in 2011.

According to Tajikistan's official state statistics, the largest foreign direct investors during the first nine months of 2012 were:

Russia: \$50.9 million  
Iran: \$26 million  
Great Britain: \$23.9 million  
Pakistan: \$10.5 million  
Switzerland: \$8.8 million  
Kazakhstan: \$7.5 million  
China: \$7.4 million  
UAE: \$3.7

India: \$3.6 million

Foreign direct investment by sector during the first nine months of 2012 was as follows:

Energy: \$21.9 million

Communications: \$49.8

Geological Research in Mining: \$11.8 million

Precious metals: \$1.1 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.