BUSINESS ENVIRONMENT IN TAJIKISTAN AS SEEN BY SMALL AND MEDIUM ENTERPRISES, 2006
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GLOSSARY

ADB       Asian Development Bank
AKF       Aga Khan Foundation
CAGR      Compound Annual Growth Rate
CIS       Commonwealth of Independent States
CPI       Consumer Price Index
DRS       Districts of Republican Subordination
DRS A     Districts of Republican Subordination - Hissar Valley
DRS B     Districts of Republican Subordination - Rasht Valley
EBRD      European Bank of Reconstruction and Development
FAO       Food and Agriculture Organization of the United Nations
FDI       Foreign Direct Investments
FIAS      Foreign Investment Advisory Service - the World Bank Group
FMFB      First Microfinance Bank of Tajikistan
GBAO      Gorno Badakhshan Autonomous Oblast
GDP       Gross Domestic Product
IFC       International Finance Corporation - the World Bank Group
IMF       International Monetary Fund
IOM       International Organization of Migration
IRB       Inspections Registration Book
MFO       Microfinance Organization
MIGA      Multilateral Investment Guarantee Agency - the World Bank Group
MSDSP     Mountain Societies Development Support Programme
NBT       National Bank of Tajikistan
NDS       National Development Strategy
PWC       Price Waterhouse Coopers
PRS       Poverty Reduction Strategy
SECO      Swiss State Secretariat for Economic Affairs
SME       Small and medium enterprises
SQAM      Standardization, Quality Assurance, Accreditation and Metrology
TUCE      Tajik Universal Commodity Exchange
UNIDO     United Nations Industrial Development Organization
VAT       Value Added Tax
WB        World Bank
WTO       World Trade Organizations

Tajik Somoni to US dollar exchange rates used in the report (NBT rates):

Average exchange rate for 2002: $1=3.00 somoni
Average exchange rate for 2005: $1=3.19 somoni
The International Finance Corporation is pleased to present the results of its second SME survey in Tajikistan, conducted by the IFC Tajikistan Business Enabling Environment - SME Policy Project. The project has been implemented since 2003 with the financial support of the Swiss State Secretariat for Economic Affairs (SECO).

This survey, which builds on IFC’s previous survey conducted in 2003, provides a comprehensive tool to monitor the environment for doing business in the country by collecting the direct views of business representatives on the major regulatory procedures encountered during their activity.

This survey report is part of the broader effort by IFC and SECO to improve the overall context in which SMEs are launched and operate.

During the four years since its launch the project has benefited from close interaction with many public and private institutions operating in Tajikistan, as well as a number of international organizations. The project would like to thank the Government of Tajikistan, with whom the project signed a Memorandum of Understanding in November 2006. The project would also like to extend gratitude to the Executive Unit under the Office of the President of the Republic of Tajikistan, with which it developed a longstanding relationship, to the new State Investment Committee and, in particular, to the Department of Entrepreneurship Support, which has been a vital partner during the last several months of the project’s work. Additionally, the project would like to acknowledge the commitment of the Ministries and Agencies that became project pilots in Inspections Law implementation: the Fire Authority under the Ministry of Internal Affairs, the Sanitary and Epidemiological Service under the Ministry of Health, and the Tax Committee under the Government of the Republic of Tajikistan. Finally, the project would like to express gratitude to the Ministry of Justice, the Ministry of Economical Development and Trade, the State Statistical Committee, the House of Representatives of the Republic of Tajikistan, the Chamber of Commerce and Industry of the Republic of Tajikistan, the National Association of Small and Medium Businesses, the Association of Dehkans (Farmers), the Center for Support of Entrepreneurship of the City of Dushanbe, and the Center for Statistical Research «Zerkalo» for their active support and a fruitful collaboration.

Numerous individuals and organizations contributed generously to the preliminary review of this report, including: the World Bank Resident Mission in Tajikistan, the IFC Country Coordinator for investment activities and other IFC staff, the IMF Resident Representative, and the SECO National Program Officer.

This survey is based on and reflects entrepreneurs’ views of the business environment in Tajikistan, and as such the data presented do not necessarily reflect the views of IFC or SECO. At the same time, this report does not intend to provide an exhaustive account of all the issues faced by small businesses; rather, it offers an opportunity to examine the most critical administrative barriers hindering the development of the SME sector in Tajikistan.

Electronic versions of this Report can be downloaded at http://www.ifc.org/tajikistan/sme while printed copies can be obtained at our offices in:

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Dushanbe, April 2007
EXECUTIVE SUMMARY

CONTENT OF THE REPORT: ANALYZED PROCEDURES

This report is a follow-up to the first survey of the business environment in Tajikistan conducted by IFC in 2003.\(^1\) It collects and analyzes the views of a representative sample of 2,500 Tajik entrepreneurs on a number of administrative procedures which they encounter either in establishing or running their businesses in 2005. The survey also includes the views of entrepreneurs on access to finance, which, although not an administrative procedure per se, represents a critical step in the SME lifecycle.

In each of the covered areas, the report analyzes the legislative basis and subsequently provides an overall picture of the key issues emerging from both the survey data (coverage, length of the process, official and unofficial payments related to the procedure), and from the expert analysis of the legal framework. In order to provide the most updated overview of the issues in each of the areas, the report also provides legal and expert analysis of the post 2005 developments not covered by the survey data.

Areas covered by this report are:
- Registration;
- Licensing;
- Permits;
- Access to finance;
- Inspections;
- Taxation;
- Foreign trade and technical regulation.

A set of recommendations to overcome the identified problems in these areas is developed at the end of each chapter. A table at the end of this section summarizes the critical issues, key recommendations and their expected impact.

BUSINESS ENVIRONMENT IN 2005 VS. 2002: OVERALL IMPROVEMENT

In the years between the two surveys, the government of Tajikistan has undertaken a set of reforms whose impact on the business environment is evident from the collected data. Reforms in the areas of registration and licensing have reduced the time and cost of starting a business. Clear steps have also been undertaken in the area of access to finance, where positive changes are evident despite the still critical overall situation. In particular, thanks to the micro lending

\(^{1}\) IFC (2004b)
of MFO’s, smaller sized borrowers can now have access to external funding.

In addition to these positive results, a number of legislative acts have entered into force in 2006. Their effects were not captured by the present survey data, but the Law on Inspections and the reduction in the number of licensed activities are additional positive steps in the direction of an improved business environment. Their impact will be captured only when implementation is complete and the next survey will take into account these results.

Despite these efforts, it is important to note that the abovementioned improvements need to be further strengthened and made permanent.

On the one hand, it is essential to extend reforms into other areas. Permits are directly linked to inspections and licensing, and if not reformed, could undermine the already achieved results in these areas. Trade procedures and technical standards need to be reformed in conjunction to further simplify trade. Taxation system needs to be simplified in order to facilitate compliance and administrative control, as well as promote business growth.

On the other hand, in order to consolidate the benefits of the reforms toward improved investment climate and business environment, it is crucial to monitor the implementation of the newly introduced legal framework. Survey data show that actual practices often differ drastically from the legislative provisions, and that strong regional differences exist.

**RANKING OF REGULATORY PROCEDURES: A QUALITATIVE ASSESSMENT**

In order to identify the most pressing issues for SMEs, the survey report identifies 2 main drivers for prioritization:

- **Perceived complexity**, the percentage of SMEs\(^2\) that claim a procedure is difficult/very difficult. In using this indicator, it is important to remain aware of entrepreneurs’ adjustment to the institutional context, i.e., over time people tend to consider even a very complicated situation to be normal and adjust their behavior. However, in terms of a relative ranking, the impact of these adjustments should be evenly distributed across procedures;

- **Coverage**, the percentage of SMEs affected by the procedure. This indicator shows the relative importance of the procedure for

\(^2\) Among those going through each procedure.
the SME sector as a whole. Coverage is a correct indicator of the relevance for compulsory procedures, that is, procedures that are mandatory in order to start or conduct a business activity. Nevertheless, this indicator may be biased by a self-selection process for procedures that are not mandatory (for example external trade). As some of the procedures are very complicated, they implicitly discourage SMEs from the activity which requires them.\(^3\)

These two drivers are used to prioritize the regulatory procedures mentioned above. Complexity is taken as the most relevant barrier to business development, while coverage is secondary. In order to account for differences between types of surveyed SMEs, and their relative weight in the overall economy, a separate ranking is developed for individual entrepreneurs, small and medium companies and dehkan farmers, which represent the three typologies of businesses surveyed.

Overall, it is interesting to note that the qualitative evaluation of administrative procedures, based on SME perception, largely confirms expert analysis of the survey data. Indeed procedures which SMEs ranked as most critical were the same ones that showed the highest administrative burden from a quantitative standpoint.

**Individual entrepreneurs**

Individual entrepreneurs face a business environment characterized by two critical administrative barriers: inspections and lack of access to finance, which are both very pervasive and complex.

Secondary difficulties include import/export, which is considered extremely complicated, and partially explains the limited participation of individual entrepreneurs in foreign trade. Registration and taxation are placed next in order of priority, chiefly due to extensive coverage rather than to relative complexity.

**Small and medium companies**

Small and medium companies face the most complex business environment, with a total of 4 procedures which rate as critically difficult.

In addition to access to finance and inspections, small and medium companies face additional barriers in obtaining permits and licenses.

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\(^3\) For those cases we used as an indicator of coverage the percentage of SMEs “willing to” instead of the ones accessing the procedure.
**EXECUTIVE SUMMARY**

**Chart III. Regulatory Barriers for Dekhan Farmers**

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Inspections</th>
<th>Taxation</th>
<th>Permits</th>
<th>Registration</th>
<th>Access to Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 80%</td>
<td>Moderate</td>
<td>Critical</td>
<td>Moderate</td>
<td>Complicated</td>
<td>Critical</td>
</tr>
<tr>
<td>20%-80%</td>
<td>Moderate</td>
<td>Problematic</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Below 20%</td>
<td>Moderate</td>
<td>Problematic</td>
<td>Technical</td>
<td>Very complicated</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

Taxation and export/import, due to coverage in the first case and complexity in the second, once again pose ‘secondary’ difficulties on a relative scale.

**Dehkan farmers**

Although the agricultural sector in Tajikistan is characterized by many issues, from an administrative viewpoint, dehkan farmers face a relatively simpler business environment than individual entrepreneurs and small and medium companies.

Two areas appear as the most critical: access to finance, given an extremely limited supply of affordable agricultural lending, and registration, given lengthy land allocation procedures averaging 5 months.

Inspections and taxation rank as complex, but not critical, procedures for dehkan farmers.

**OVERARCHING OBSERVATIONS**

Three clear tendencies emerge from the survey, based on the qualitative assessment of the different administrative procedures and on the analysis presented in the following chapters.

**Starting versus running a business**

First, although starting a business in Tajikistan is not easy, the really complex effort is to run it over time. Lack of access to finance is the single procedure perceived as critical for all types of businesses, and significantly complicates business operations. Additional barriers are created through processes such as obtaining permits and licenses – typically barriers to entry, but coverage in Tajikistan is spread equally between start-ups and existing businesses. Further, survey results show that these procedures, performed by SMEs on an annual basis, are actually more difficult for existing businesses than for start-ups. An existing company is affected more significantly by lack of renewal of a license or permit than a start-up, given that it has already incurred a relevant amount of unrecoverable costs in case its activity is stopped. This raises the stakes for unofficial payments in a situation where procedures are complex, not standardized and non-transparent, while issuance time is not stipulated. Indeed the time and cost of obtaining a license or a permit is higher for existing businesses than for start-ups. For example, to obtain necessary permits, 27% of start-up and 36% of existing small and medium companies used unofficial payments.

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4 For a thorough description of agricultural issues, see FAO/EBRD (2006).
Making a company grow

Second, survey results show that the business environment gets progressively more difficult as a company grows. Survey results show that complex administrative procedures block business growth and development. Procedures including taxation, inspections, and access to finance serve as barriers to entrepreneurs wishing to expand their business, hire additional workers and pay more taxes, as their profits and revenues increase. In particular, the frequency of administrative procedures creates a “regulatory uncertainty” which naturally deters long-term investments. Typical examples of these procedures are the yearly renewals of licenses and permits.

Given a lack of incentives for growth, small and medium companies make up less than 6% of all businesses in the country. Although small and medium companies should represent the backbone of the SME sector, the annual growth rate of small and medium companies was half that of individual entrepreneurs in 2002-2005. Indeed, as a small and medium company is, on average, nearly twice as likely to invest in its operations, hires 7 times as many employees and pays 14 times more in taxes than an individual entrepreneur, the business environment should facilitate its development.

Dealing with officials

Third, survey data shows that unofficial methods for solving issues remain common for all procedures. The report distinguishes between unofficial payments and ‘other’ broader informal methods of thanking officials – such as gifts, meals, and other forms of non-cash payments. These relations undeniably distort each step of the regulatory process. Unofficial methods are used chiefly to speed up document processing time and to reduce the scope of regulation. For example, given that entrepreneurs receive an average of one inspection per month, which is high even for the CIS region, about 30% of those inspections lasted less than 30 minutes.

Interestingly, data from focus groups shows that entrepreneurs are used to the “convenience” of unofficial means for getting results, and are somewhat wary of the effect of new legislation or practices aimed at reducing the scope of corruption. This strengthens the assumption that unofficial solutions are also used as a substitute for official sanctions. Indeed, an unofficial solution for lack of a fire extinguisher, paid out once a year, is less costly for a business than purchasing the extinguisher.
Unofficial payments, as well as other forms of corruption, are present in 75% of regulatory processes, according to entrepreneurs surveyed for this report. The experiences of other countries show that corruption can only be reduced through comprehensive public sector reforms which set explicit goals and specific targets for reducing corruption.

REPORT SUMMARY

1. Overview of the SME sector

1.1 From 2003 to 2006, the Tajik economy has enjoyed consistent growth and macroeconomic stability, which allowed it to partially recover from the effects of the collapse of the Soviet Union and resulting civil war. The SME sector benefited and contributed to this growth, with an increase in the number of active companies, growth in its contribution to GDP and share in overall employment.

1.2. Nevertheless, the sector is still characterized by some structural weaknesses: while its overall growth has been significant, the backbone of the sector continues to be comprised of individual entrepreneurs, i.e., sole proprietors operating micro-businesses, and dehkan farmers, i.e., owners of small scale private farms. While these two categories of enterprises enjoyed sustained growth, small and medium companies are still limited in number and face a more difficult business environment.

1.3. Overall business confidence remains good, although a few worrisome signals should not be underestimated: while most entrepreneurs expect the current economic situation to be sustainable, the share of respondents who say they would not restart their business, if given the choice again, has grown significantly with respect to the previous survey. This number is particularly high among small and medium companies, which further emphasizes barriers to their ability to grow and be successful in the current business environment.

1.4 Investment in fixed assets is declining: only one out of four entrepreneurs made investments in 2005. This is a sign of decreasing business confidence and a result of the difficulties Tajik SMEs face in getting access to funds. Most of the investments that did take place were funded by internal/informal sources rather than by the financial sector.

2. Starting a business: registration

2.1 Registering a new business in Tajikistan has become easier, particularly for small businesses. The registration procedure was reformed in 2003 and now individual entrepreneurs can register in
less than a week, with limited costs. This result is particularly significant, given that de-facto all individual entrepreneurs are required to register on annual basis (while this should be de-jure, needed only for entrepreneurs operating under the simplified “patent-based” system).

2.2 Registration of legal entities, on the other hand, has shown no improvement with respect to the previous report: on average, the process takes over a month, is complex and time-consuming, and involves more than 5 government agencies. As a result, unofficial payments are a common solution and expenditure can be quite significant.

2.3 Registration for dehkan farmers is in essence quite similar to that of individual entrepreneurs, but with an additional pre-registration procedure: allocation of the land plot for the farm. This crucial step is extremely time-consuming and results in a total registration procedure that lasts about 5 months. As the land allocation procedure is not fully defined by legislation, it lacks uniformity and transparency, and thus also opens the door to unofficial payments as a tool to speed up the process.

3. Licensing

3.1 Following the new licensing law, obtaining a license has become easier. Fewer businesses are now required to obtain a license, while the costs have remained stable. In particular, licenses have been almost completely eliminated for dehkan farmers.

3.2 The duration of licenses remains a critical issue: although the legislation establishes a minimum duration of 3 years, de-facto the average duration of a license in Tajikistan is less than one year, increasing both the costs of running a business and rent-seeking opportunities for officials. Such short-term validity periods present a critical issue in terms of providing incentives for investment and long-term growth. Survey results show that the process of license renewal is even more complicated and more prone to corruption than initial issuance.

3.3 Small and medium companies bear the largest chunk of the licensing burden: more than half of all small and medium companies are required to obtain a license, and spend about a month doing so. As a result, they incur the highest costs and, in every fourth case, pay unofficially to complete the procedure.

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5 Small and medium companies.
6 IFC (2004b).
4. Permits

4.1 More than half of SMEs need to obtain permits prior to launching business activities. The permit system in Tajikistan is the result of two complementary forces: Soviet-era technical regulations, which provide the basis for the majority of permits, and new, market-oriented regulations that have led to somewhat chaotically added permits over the course of the past 15 years. The overall system has never gone through a proper rationalization, and as such represents a heavy and sometimes unnecessary burden for SMEs.

4.2 As to permit coverage, the opportunity cost of such a large number of permits (on average more than 3 per year per business) is questionable, in particular for businesses that have already been licensed. In addition, some permits also contradict the requirements of a market economy (i.e., permit to use energy).

4.3 At the same time, the permit issuance process is not properly regulated. The necessary paperwork, costs and the time it takes to issue a permit all show significant variance throughout different regions. In addition, unclear process requirements once again present an environment conducive to rent-seeking.

4.4 As mentioned in the case of licenses, duration is a critical issue. Survey data shows that existing businesses need to receive permits almost as frequently as do start-ups. Not only are existing businesses required to re-apply for permits, but time and processing costs are higher in cases of renewal. The most likely explanation for these differences is recourse to unofficial payments.

4.5 Small and medium companies appear to be most affected by permits: coverage, costs and time needed to comply with permit regulations are significantly higher than for other SMEs and create a burden both for start-ups and existing businesses.

5. Access to finance

5.1 Tajikistan’s financial sector is still in a development stage, both on the lending as well as on the deposit side. The number of intermediaries is significant, but the sector is highly concentrated and mainly dominated by local players.

5.2 The relationship between financial intermediaries and SMEs is still extremely limited: only one out of six businesses has a bank account, which does not necessarily imply a full-fledged banking relationship. Not only do individual entrepreneurs and dehkan farmers typically lack bank accounts, but small and medium companies often do not have bank accounts either. SMEs do not perceive banks as service providers: most interviewed entrepreneurs do not feel the need for
banking services. This partly reflects the limited trust in the financial sector, but also points to a lack of effort on the supply side to develop products and services to attract new customers.

5.3 Shallow relationships between banks and SMEs, in conjunction with the difficulty banks have attracting financing at competitive rates, implicitly limit the size of the lending market. In fact, as a result of the limited number of customers, banks do not possess the necessary information to evaluate the creditworthiness of their clients, while interest rates make bank lending extremely expensive. As a result, almost 75% of SMEs in need of external funding do not apply for loans.

5.4 Despite this, the lending process is quite efficient (lasting about 16 days) and acceptance rates of applicants are quite high (87%). This is a significant change with respect to 2002, testifying to changes in the way that banks operate, but is also partly a result of a self-selection process among the applicants themselves. The majority of potential applicants self-assess their likelihood of obtaining a loan, and if they feel they do not meet the requirements, do not apply.

5.5 Lending conditions, including rates (on average between 35-40%, given an average inflation rate of below 10%), loan duration (less than 1 year) and collateral requirements (on average 70% of the principal amount), combine to hinder the development of an efficient lending market.

5.6 Although the presence of a well developed microfinance sector partially addresses the needs of smaller sized borrowers, the overall situation is particularly critical for small and medium companies, which, in order to finance growth, require a well-functioning financial sector to support them in the medium-to-long term by providing funds at reasonable rates.

6. Inspections

6.1 Once established, a Tajik business is likely to face government representatives in the form of inspections at least once a month. In 2005, inspections remained a pervasive phenomenon: although the average number of inspections declined with respect to 2002 (from 16 to 13), nearly all SMEs continue to receive at least one inspection per month.

6.2 Only 1 in 5 inspections results in an official sanction. On the one hand this testifies to limited use of risk management principles in selecting inspection targets, highlighting inefficiency. On the other hand, this points to a high likelihood of unofficial payments to resolve inspections-related issues.
6.3 The limited effectiveness of the inspections system is also reflected in the short duration of site visits: individual entrepreneurs in particular report that about one-third of them last less than 30 minutes.

6.4 The overall impact of inspections is considerable. Direct and indirect costs of inspections can be estimated in the range of 7-8% of annual profits for individual entrepreneurs and small and medium companies. For dekhan farmers, however, the situation is better, as their total burden is just over 1% of annual profits.

6.5 The situation is likely to improve with full implementation of the new inspections law. The introduction of compliance-enhancing mechanisms and the clear definition of rights and responsibilities of entrepreneurs as well as of inspectors, should introduce transparency into the inspections process, improve compliance with regulations, and reduce the cost of doing business.

6.6 Inspection reform per se is nevertheless not sufficient to solve all of the issues. Broader public sector reform is required to revise the structure of the public sector, including a revision of officials’ salaries combined with downsizing, review of the criteria for hiring public employees, and introduction of performance management systems.

7. Taxation

7.1 SME taxation, although not particularly heavy in terms of tax rates, represents a serious obstacle for the sector’s development in terms of compliance costs, imposing on businesses due to complicated tax administration procedures.

7.2 The simplified taxation systems, foreseen by the legislation for all typologies of SMEs, present serious drawbacks, which need to be addressed:

- The patent system for individual entrepreneurs does not reduce administrative burden and eliminate unnecessary inspections;
- The simplified system for legal entities is not a drastic simplification of the reporting requirements from the standard system, and imposes a very similar taxation burden;
- The unified tax for dekhan farmers does not allow businesses to reduce their tax burden in case of negative or limited results;

7.3 Tax administration is cumbersome, requiring multiple reports and payments over the year. Taking into account the low level of tax and accounting literacy of most SMEs, the burden is particularly heavy. In addition, tax officials do not provide entrepreneurs with customer oriented support on tax issues, but rather make use of the frequent interactions with SMEs for rent seeking behavior.
7.4 Tax compliance is mostly pursued through repeated tax audits. This is inefficient from the tax administration viewpoint, as it is mostly focused on small size companies rather than “big tickets,” and corruption prone, leaving a high degree of discretion to the tax inspectors.

8. Foreign trade and technical regulation

8.1 Trade is an essential component of the Tajik economy. Due to its size and level of economic development, Tajikistan relies on import to provide the economy with essential goods. Export needs to complement imports in order to avoid macro-economic imbalances.

8.2 Complicated foreign trade procedures as well as high transportation costs represent two critical constraints for import/export activities, resulting in lower competitiveness of exports as well as in price increases for imports.

8.3 As a result, SME participation in trade, already limited, is declining further. SMEs are almost excluded from exports (down to 0.4% versus 4% of 2002). Their contribution to import is somewhat higher, although declining significantly (from 19% in 2002 to 11% in 2005).

8.4 Standardization and certification requirements represent a major barrier to trade for the Tajik economy. Goods imported into Tajikistan need to be tested against and meet separate local quality requirements, as set by TajikStandart (unless certified by CIS countries). Export products meanwhile lack internationally recognized certificates required for introduction into key markets.

8.5 Certification procedures are widespread among individual entrepreneurs as well as small and medium companies (with 20% and 36% of respondents subject to the procedures, respectively). Overall coverage is significant, especially given the sectors of the economy affected (to a large extent trade and public catering).

8.6 Cost and time of certification procedures are quite burdensome, while their duration should reflect more closely the nature of the goods involved (e.g., permanent certificates for non-perishable goods).

STRUCTURE OF THE SURVEY REPORT

The chapters analyze the following administrative procedures in detail:

Registration: the establishment of a business in legal terms. Analysis of the registration procedure includes all requirements to engage in a business activity, formally recognized by the state.
**Licensing:** certain types of businesses cannot be started directly after registration, but require a license from the government, i.e., an authorization to carry out a particular type of business activity.

**Permits:** a government authorization for a specific activity in a particular location (i.e., fire permit to use a building for trade purposes). In this permits differ from licenses, which typically cover an activity repeated over time by the bearer, without particular regard to premises (practicing medicine, selling insurance).

**Access to finance:** the relationship between SMEs and financial institutions is crucial for start-up and growth of companies, and, consequently, for the development of the private sector.

**Inspections:** when properly implemented, inspections represent a useful tool for regulating private sector compliance with standardized rules and procedures, to ensure the health and safety of company employees, the public, and the environment. Among other objectives, inspections aim to create a level playing field for competition, and ensure fair business practices. An inspections system has to balance the need for oversight with the burden placed on businesses on the one hand, and efficient use of public resources on the other.

**Taxation:** the overall tax burden is a critical issue for SMEs. In addition to tax rates, the cost of compliance with the tax regulations is equally important. The efficiency of tax administration and simplicity and transparency of tax rules are the key drivers used to limit the administrative burden and to ensure compliance.

**Foreign trade and technical regulation:** international trade is critical for a small country with limited resources like Tajikistan. This report analyzes import-export procedures together with a related issue: standards and the certification process, i.e., the process of compliance of products and services with specific quality requirements.

The end of each chapter presents recommendations for improvement, based on international practices to date. IFC, with SECO support, has been implementing a business enabling environment improvement project in Tajikistan since 2002. This project will continue to work together with the Government of Tajikistan as well as with other key stakeholders, including NGOs, international and donor organizations in order to provide assistance in elaboration and implementation of part of the recommendations found in this report.
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| Long duration of registration procedures of legal entities due to high number of bodies involved and wide scope of intervention of each body | • Introduce time limits for registration, which could apply to single bodies as well as to the overall process. This could be achieved by:  
- imposing a fixed consideration time for each step of the registration process by law, for example such as 1 working day wherever a simple approval is needed (i.e. to obtain Statistical Code), and 5 working days where a thorough analysis is needed (i.e. State Registration);  
- requiring the public bodies to substantiate delays, as well as to provide a detailed explanation for refusal of applications in order to allow the applicant to improve upon it;  
- introducing a maximum registration time, differentiated per typology of companies, in case a “one-stop-shop” principle were to be introduced.  
• Reduce the number of steps needed to register a legal entity. This could be achieved by:  
- ensuring the implementation of the current legislation foreseeing an exchange of records between registering bodies which would allow the companies to obtain a Statistical Code and a Taxpayer’s Identification Number without the need to further apply to each of the bodies;  
- considering the possibility to consolidate the different identification codes legal entities need to obtain (State Registration Number, Statistical Code and a Taxpayer’s Identification Number);  
- Introducing a full fledged “one-stop-shop” mechanism including all the State bodies involved in legal entities registration. The registering entity could fill in a single application and provide at once all the necessary documents, which would be processed internally by the involved bodies;  
- Limit the breadth of arbitrary authority of each body in the decision making process, in particular by the bodies of justice, foreseeing simplified consideration process and specifying a limited set of cases of registration refusal (e.g., incomplete documentation, unlawful activity). | • Time limits for registration introduce a responsibility principle for public bodies, which should increase efficiency by:  
- Reduced registration time;  
- Reduced unofficial payments.  
• Fewer steps are expected to reduce barrier to entry for new companies.  
• Less intervention from state bodies would reduce the time and cost of registration for legal entities. |
| Unclear cost of registration procedures | Introduce official processing costs for each step of registration by the different bodies. These costs, differentiated for each typology of business, should be officially disclosed in the public information boards by each government body. | Introducing and communicating to the public the official costs related to each stage of the registration would increase transparency of the process, decreasing unofficial solutions, and in turn reducing overall registration costs. |
| Non-transparent and time consuming procedure of land plot allocation for dehkan farmers | Introduce a transparent mechanism for land allocation for dehkan farms, which at the very least includes:  
• Uniform set of application documents;  
• Fixed terms for decision making by the different bodies involved;  
• Clear application fees. | Simplified and transparent land allocation mechanism would make registering dehkan farms easier, reducing cost and time spent. |
<p>| Annual registration for individual entrepreneurs operating under certificate | Implement a life-time registration for individual entrepreneurs operating under certificates, which would reduce a recurrent cost for doing business. As the legislation does not foresee expiration for certificates, this result could be simply achieved by monitoring that the Tax Bodies do not include an expiration date in the certificate which they issue. | By waiving a duration limit for certificates, individual entrepreneurs opting for this type of registration would immediately benefit in terms of avoiding a recurrent burden, reducing time and cost of re-registration. |</p>
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<th>Licensing Issue</th>
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<td><strong>Short duration of issued licenses as disincentive to long-term investments</strong></td>
<td>Extend the duration of licenses and introduce permanent licenses. This can be achieved by:</td>
<td>By extending the validity period of licenses, the government will further reduce the market entry barrier, which in turn would increase the number of active companies and the size of long-term investments. Additionally, it would reduce the immediate costs of doing business, as well as time spent dealing with license renewals. This time could be translated into greater profits, more taxes paid, and more investments.</td>
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<td>• Introducing by law a minimum 5-year validity period for all licenses (as in most countries);</td>
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<td>• Identifying licenses that can be issued once, i.e., permanent licenses that are revoked only if infringements are identified;</td>
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<td>• Enforce provisions of the law on duration of issued licenses to avoid the current discrepancy between legal terms and practical ones.</td>
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<td>High financial burden of licensing process, especially for smaller scale businesses.</td>
<td>Introduce the possibility, in particular for individual entrepreneurs, to obtain long term licenses while at the same time paying in yearly instalments. This would secure their rights for a longer timeframe and reduce the financial burden, particularly heavy for cash-constrained individuals.</td>
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<td>Long period of application consideration increasing the cost for businesses and unofficial solutions</td>
<td>Reduce the duration of the license issuing process by enforcing the existing 30-day limit and introducing transparency into the decision process. This can be achieved by:</td>
<td>The implemented measures would reduce the time spent by entrepreneurs dealing with the procedure, leading to higher profits and higher state tax revenues. A more transparent decision-making process is expected to reduce unofficial payments.</td>
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<td>• Introducing a “silence is consent” principle for all licensing agencies, which would automatically grant a license in case no explicit refusal decision is made within a 30 day period;</td>
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<td>• Requiring licensing bodies to substantiate their refusal or delay of the application;</td>
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<td>• Introducing a monitoring system that allows ex-post verification of the average length of the licensing process;</td>
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<td>• Introducing a simplified process (with shorter timeframe, e.g., 15 days) for renewals and repeated applications after a refusal.</td>
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<td>Unclear rationale behind some licenses</td>
<td>Evaluate the need for a further reduction in licensed activities to include only those activities which:</td>
<td>Reduced number of activities subject to licensing would reduce expenses for entrepreneurs dealing with the procedure. Additionally, further entry into relevant sectors would have a positive effect on private sector profits and tax revenues.</td>
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<td>• Require strict governmental oversight to protect the health and safety of citizens;</td>
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<td>• Deal with the allocation of scarce resources or with natural monopolies;</td>
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<td>• Do not foresee specific permit requirements.</td>
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<td>Unclear scope for license suspension allowing broader interpretation or leading to rent-seeking</td>
<td>Reduce the scope for licensing suspension. In particular by:</td>
<td>Reducing the scope for license suspension would secure entrepreneurs' rights. As a result, entry costs would be reduced, leading to more active companies being active in the economy. Additionally, unofficial payments to licensing bodies would be reduced.</td>
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<td>• Clearly defining for each licensing bodies a “closed list” of situations in which a license should be suspended;</td>
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<td>• Evaluating the option to subject license suspension to court approval.</td>
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### Permits

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| **Widespread coverage of permits** | Reduce permits coverage. This in turn can be achieved by:  
- Reviewing the number of permits currently issued in order to rationalize the existing legal basis according to the risk management principles. The necessary steps in this process are:  
  - cancellation of outdated and anti-market permits;  
  - consolidation/elimination of redundant permits, i.e., overlapping permits issued by different levels of the same agency, or by different agencies;  
  - elimination of permits covering areas already regulated by licensing;  
  - elimination of permits for areas already covered by other administrative procedures (i.e., compulsory or voluntary certification).  
- Identifying by law the agencies allowed to issue permits. | Reduced coverage of permits will decrease the entry cost for new businesses and cost of doing business for existing ones, with possible impact on the number of active companies and positive contribution to the budget. |
| **Long application review process, leading to rent-seeking opportunities** | Streamline the application process. This can be achieved by:  
- Introducing the “silence-is-consent” principle. Once an applicant for a permit submits the required paperwork, the failure of an issuing agency to respond with a decision within a given timeframe counts as an application approval;  
- Introducing an administrative principle of application review process, which limits the range of state intervention and clearly defines the required steps in case of refusal;  
- Specifying a uniform permits application procedure. | • Clear procedures would reduce the overall burden of entrepreneurs in terms of time and money;  
• Transfer of responsibility from applicant to official would force the latter to examine documents in a timely manner, reducing the overall time of consideration;  
• Clearly substantiated cases of refusal would improve the overall process and reduce entrepreneurs’ dependence on unfair decisions of officials. |
| **Cumbersome and frequent permits renewal procedure for existing businesses** | Reduce the burden of permit renewals. This can be achieved by:  
- Extending the validity period of issued permits, thus reducing the need for repetitive renewals;  
- Designing a dedicated process with limited steps in case of no changes in business activity. | Simplified and less frequent renewal procedure would reduce the cost of doing business, while at the same time streamline the work of public bodies. |
<p>| <strong>Certain activities requiring multiple permits from different agencies, resulting in delay of start of activity</strong> | Introduce the “one-stop-shop” principle of issuance of some permits (e.g., building permits), which will help to decrease the length of the process and increase the effectiveness of the procedure, both for entrepreneurs and for the state agencies. In particular, it would be advisable to adopt the one-stop-procedure for sectors requiring multiple permits. | The possibility to apply at a “one-stop-shop” would reduce the overall burden for entrepreneurs in terms of time and cost spent and have a positive impact on transparency and reduction of unofficial solutions between entrepreneurs and officials. |
| <strong>Low legal awareness among entrepreneurs and government officials</strong> | Launch an information campaign to increase the legal awareness of entrepreneurs and government officials, including seminars, publications and distribution of explanatory materials. | Introduction of standard rules and requirements will bring clarity and will regulate the procedure of obtaining permits, improve accessibility to information, decrease the opportunities for unofficial payments and increase the legal protection of entrepreneurs. |</p>
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| Banks' limited information to assess the clients' risks constraining the lending market and resulting in higher rates, high collateral requirements, or short-term lending | Provide incentive systems for banks to reduce credit rationing to SMEs, by reducing their credit risk. This in turn can be achieved:  
- From the government side by:  
  - Implementing and developing improved pledge legislation measures and collateral enforcement regimes through:  
    - introducing alternative dispute resolution mechanisms;  
    - unified verification of collateral contracts in notary offices to speed up and facilitate the lending process;  
    - introducing the possibility of using land user certificates as collateral for loans;  
  - Establishing a national credit registry which would provide banks with additional borrower information, facilitating bank verification of credit requirements and credit history of borrowers;  
- From the banking side by:  
  - Enhancing internal credit risk analysis capabilities by training credit officials and introducing advanced credit analysis methodologies (e.g., credit rating tools);  
  - Promoting alternative financing mechanisms which imply reduced credit risk such as leasing;  
- From the private sector side by:  
  - Introducing credit insurance provided by business associations (i.e. the Italian CONFIDI), that, in exchange for a fee, could ensure part (up to 50%) of the principal amount provided to a specific SME. | By reducing the credit risk faced by financial institutions, three results are expected, which would reduce credit rationing and make financial resources more easily available to SMEs:  
- Increased amount of lending available to SMEs (i.e., for the same credit risk, more lending available);  
- Reduced interest rates, as a result of higher level of guarantees;  
- Reduced collateral requirements, as a result of higher level of guarantees. |
| Limited trust of population into banking system of the country         | Put in place policies to increase the confidence of the general public in the Tajikistan financial sector. This could be achieved:  
- From the government side by:  
  - Increasing the awareness of the population of the Fund for Deposit Insurance, and strengthen its role for low/middle income households by introducing an upper limit to the coverage while increasing the threshold for full coverage;  
  - Amending the banking legislation to introduce bank secrecy disclosure only on the basis of a court decision;  
- From the commercial banking side by:  
  - Improving their internal controlling and auditing processes to eliminate unofficial payments from their branches;  
  - Increasing accountability by introducing the principles of bank corporate governance and, over time require international rating companies to provide independent evaluation of their financial stability;  
  - Promoting the creation of an Inter-banking Association to develop common standards and promote banking interests on different levels as well as promoting banking activities among the population. | Increased confidence in the financial sector will foster its development in several ways, among which, by:  
- Channeling financial resources to the financial sector, i.e., increasing the share of deposits, allowing for an increased intermediary role between individuals and the SME sector;  
- Narrowing the confidence gap between SMEs and banks, allowing them to revert more frequently to banks in case of need. |
| Lack of practical benefits for the population from using banking services | Support the development of banking services by creating a “need for banks”:  
- From the government/NBT side by:  
  - stimulating the use of “cashless” payment systems (e.g. by introducing the possibility to direct debit charge bank accounts for the payment of local utilities);  
  - conducting an awareness campaign addressed to communicate the benefits of using banks for the general public;  
  - reducing the 12% withholding tax on deposit interests to attract more deposits from individuals. This measure could be applied to deposits denominated in somoni only to provide incentives to invest in local currency;  
- From the commercial banking side by:  
  - developing and disseminating informational materials on available banking products, including deposits, credit cards, payment systems and financing (including guidelines on loan application procedures as well as samples of relevant forms and applications); | Allowing banks to develop closer relationships with SMEs, which will in turn reduce the information asymmetry which creates a limit to the lending market. This in its turn would channel excess cash into the financial system, reducing the funding constraints for banks. |
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| **Low awareness of the entrepreneurs about introduced legislative norms regulating the process of inspections, in particular the newly introduced law on inspections** | Disseminate among the wide public the provisions of the Inspections Law and in particular the detailed inspection process as envisaged by the new law. This in turn can be achieved by:  
  - Developing information campaigns via media addressed to a wide audience;  
  - Targeting specific audiences, i.e., business associations, business incubators, NGOs with specific training programs aimed at raising their knowledge and making them able to support SMEs; | Higher level of awareness of the Inspections Law and a standardized and transparent inspection process will empower entrepreneurs’ vis-à-vis inspectors by providing them with some direct tools to reduce the burden of inspections and at the same time warrant compliance. |
| **Low compliance of entrepreneurs with regulations to a great extent due to the lack of available information for entrepreneurs** | Provide entrepreneurs with clear, up-to-date and easily available regulations/ instructions. This in turn can be achieved by:  
  - Developing sector-specific checklists at each inspectorate level, which incorporate all technical regulations;  
  - Making checklists and regulations available to entrepreneurs in advance in large-scale information campaigns and before inspections, so that entrepreneurs can be better prepared;  
  - Reviewing the regulations underlying inspections to align them with international best practices as well as with the Tajikistan institutional context; | The elaboration of checklists at the agency level, based on up-to-date regulations, and their dissemination, should increase awareness and bring transparency to the inspection process. |
| **Widespread coverage due to the absence of risk management approach during planning, conducting and assessment of inspections** | Implement a risk-based system for selecting inspections targets. Risk criteria need to be defined for each inspections agency in accordance with specific risk parameters of the activities the agency controls. This in turn can be achieved by:  
  - Implementing the provisions of the Inspections Law requiring differentiation of inspected entities based on their potential risks, and in particular the high risk category requiring higher frequency inspections;  
  - Defining the risk-management principles within each category of business (individual entrepreneurs, small and medium companies, and dehkan farmers), which would allow identification of businesses with higher likelihood of infringements – i.e., selection based on past infringement records, random selection mechanisms. | The definition of risk categories should drastically reduce the coverage of inspections and change their very nature. Indeed, inspections should not represent the norm, but rather, an exception, unless specific reasons exist. A business should be inspected more frequently only if it belongs to a high risk category or if company-specific conditions exist. |
| **Poor professional organization of the inspectorates, low qualification of inspectors, insufficient remuneration** | Revise the organizational structure, the professional qualifications, the incentive systems and the salary scale of inspectorates. This in turn can be achieved by:  
  - Rationalizing the number of inspectors to be allocated to each agency and their geographical distribution, according to the number of entities to be inspected and the risk associated to the inspected entities;  
  - Submitting inspectors to regular training programs and professional tests to ensure professional skills and improve the efficiency of the inspections process;  
  - Reviewing the salaries of inspectors and introducing incentive systems linking salaries to performance. | An improved organization of the key inspectorates should complement the introduction of risk-based principles of inspections. A lower number of highly skilled, professionally trained and better rewarded inspectors should warrant improved outcomes of inspections, despite the reduction in the number of inspections and reduction in unofficial payments, as a result of an incentive system linking salaries with performances. |
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| Complex requirements for social and retail trade tax payments for individual entrepreneurs undermining the simplicity of patent system | Further simplify the taxation system for individual entrepreneurs working under patents, by introducing a comprehensive lump-sum system:  
- Consolidating into the patent costs both the retail tax and social tax payments;  
- Revising the patent payments on a regular basis by consultations with other stakeholders, for example within a framework of an annual workshop. | By consolidating all taxes to be paid by individual entrepreneurs into a patent, the benefits would be two-fold:  
- On entrepreneurs' side, would eliminate the costs of unneeded inspections and unoffical payments;  
- On the government side, it would drastically reduce the number of inspectors. In addition, lump sum patent payments would facilitate forecasting tax revenues. |
| Unclear and non-transparent tax accounting for:  
- individual entrepreneurs under certificate  
- small and medium companies | Introduce systematic and simplified tax accounting for:  
- Individual entrepreneurs working under certificate;  
- Small and medium companies taxable under simplified system.  
This could be achieved by:  
- Introducing unified tax accounting and reporting, which would allow submission of one single tax return;  
- Book-keeping for purposes of taxation based on simplified unified Book of Revenues;  
- Clearly defining the tax accounting procedures in Tax Code. | The introduced measures will increase the attractiveness of these systems, increasing the number of tax payers and consequently increase tax revenues of the state budget. |
| No clear advantages of simplified taxation system for small and medium companies | Strengthen the advantages of the simplified taxation for legal entities, by either streamlining tax administration procedures (e.g., quarterly payments and unified reporting for all taxes) or consider reducing the tax rate. Indeed, as it is now, the simplified tax is neither really simple, nor economically convenient. | Further strengthening the advantages of simplified taxation would lead to small and medium companies choosing this system. Increased share of enterprises working under simplified system would reduce the overall tax administration for tax bodies, resulting in a decrease of administrative costs. |
| Some of the taxes hindering the growth and investment opportunities of companies | Consider the possibility to eliminate taxes which represent an obstacle to business growth. A typical example of these taxes is the newly reformed road users’ tax, which is calculated based on costs, implicitly representing a disincentive for companies which invest and generate long-term growth. | Abolishing these kinds of taxes would create additional incentives for companies to invest in business development and reduce the drive towards “shadowing” of revenues and expenses. |
| Taxation of dehkan farmers not taking into account achieved productivity | Further improve the taxation regime for dehkan farmers by introducing the option to reduce the tax burden for smaller sized farms in cases of low profitability, which should be proved by the farmer and subject to a tax audit. The decision to reduce the tax burden should be made by a special commission of representatives from tax authorities, local governments, and local self-governments, in order to prevent unfair decision-making and corruption. | Introduction of this measure would reduce the tax and debt burden of the dehkan farms. Elimination of unnecessary pressure would motivate farmers to improve their performance. |
| High rate of social tax | Evaluate the opportunity to reduce social tax payments which represent a disincentive to hire employees and push labor into the shadow market. | Reduced social tax rate would reduce the labor cost and increase the level of employment by creating additional jobs. |
| Complex tax administration, especially for legal entities under standard taxation system | Streamline the tax administration. This can be achieved by:  
- Simplifying tax payments by consolidating them (providing the option to pay more frequently on voluntary basis) and wherever possible reduce the number of tax forms;  
- Simplifying the taxation forms, reducing the number of pages and redundant information;  
- Introducing risk-based principles in planning and conducting inspections, focusing the verifications on the businesses where higher returns are expected;  
- Reducing the scope for tax inspections and clearly limit the arbitrary powers of tax inspectors. | Effective tax administration system would reduce the corruption level, free government resources from unnecessary tax procedures and redirect them more efficiently. In addition it would reduce the costs for businesses due to consolidated number of necessary payments and cost and time of interaction with tax bodies. |
| Illegal payments from businesses charged by local governments (“land improvement payments”) | Abolish the practice of charging additional payments not foreseen by the legislation. This can be achieved by:  
• Providing an opportunity to report illegal payments issues to higher authorities;  
• Declaring “land improvement payments” illegal and sanctioning officials that require them. | Abolishing illegal payments would increase the profitability of entrepreneurs, resulting in increased tax revenues for the state. It would also reduce corruption, resulting in an improved business environment. |
|Limited accounting literacy | Provide tax consultation within business associations to allow access to tax consultations for member-businesses. | Access to tax and accounting consultations would facilitate tax filing and accounting of smaller scaled businesses. |
| SMEs limited awareness of tax regulations | Increase the legal awareness of entrepreneurs through state and non-governmental structures to improve entrepreneurs’ access to information on taxation. | The benefits of increasing entrepreneurs’ legal awareness would be reduction of unofficial payments and of time required to deal with tax payment and inspections procedures, positively affecting entrepreneurs’ profits and state tax revenues. |
## Executive Summary

### Foreign trade and technical regulation

<table>
<thead>
<tr>
<th>Issue</th>
<th>Recommendations</th>
<th>Expected Impact</th>
</tr>
</thead>
</table>
| Complicated procedures hindering involvement of SMEs in export operations | Simplify the export trade procedure by:  
- Eliminating 100% advance payment requirement for export;  
- Reducing the number state bodies involved in processing of documents to avoid unnecessary duplication. For instance:  
  - National Bank of Tajikistan confirms the presence of the necessary documents for export, even though the procedure has already been completed by the seller’s bank;  
  - custom procedures are repeated by directorate for customs supervision and regional customs office.  
- Eliminating mandatory requirements for certain categories of export goods at Tajik Universal Commodity Exchange (TUCE). At very least, ensure that products not on the list in government resolution should not be subject to TUCE review. | Simplified procedures would increase the number of SMEs involved in foreign operations contributing to additional income generation of national economy and increase in foreign trade turnover. |
| Complicated procedures hindering involvement of SMEs in import operations | Facilitate processing of imported goods by:  
- Creating Valuation Dispute Resolution Administrative Tribunal to handle disputes on valuation methods during import;  
- Introducing acceptance offaxed import documents (e.g., letters of credit) in accordance with international practices. | Introduced measures would increase the transparency of the import procedures and reduce the time and cost burden for businesses. |
| Complicated transportation regulations hindering the growth of foreign trade operations | Facilitate transportation of goods. This could be achieved by:  
- Improving the domestic transport and customs regulations towards more transparency and simplification;  
- Continuing dialogue with neighboring countries to simplify and to increase the transit volumes of the goods. | Improved transportation would reduce the overall expenses of trade operations. |
| Low awareness of the entrepreneurs about major trade procedures due to the lack of uniform information | Develop and disseminate by customs services a binding summary descriptions on export/import procedures, necessary documents to be submitted, costs, and timeframe for each step. | Availability of uniform requirements for foreign trade procedures reduce the overall burden for entrepreneurs in terms of time and cost spent. |
| Widespread certification of goods and services being burdensome for SMEs | Apply the risk-based approach by determining which goods and services need to be certified to exclude non-risky categories from mandatory certification as well as by abolishing the mandatory certification requirement for services. | Reduction of the coverage of certification would result in additional cost savings for entrepreneurs. |
| Outdated technical standard system with limited integration with worldwide standards | Update the standard system by:  
- Reviewing the list of standards and abolish the ones not necessary on the grounds of health and safety in a market economy;  
- Considering the possibility to adopt international standards to avoid “maintenance cost” of the system. | Possibility for entrepreneurs to market their products in the conformity with international standards. At the same time “maintenance cost” for the bodies responsible for elaboration of standards will be reduced. |
| Burdensome system of mandatory certification hindering the development of foreign trade | Reduce the need for double certification of import/export by:  
- Accepting the certificates of conformity from EU countries, U.S.A., Japan to avoid double certification of imported goods;  
- Creating internationally required laboratory facilities to certify Tajik commodities according to internationally adopted standards to facilitate their export. | On the one hand, avoidance of double certification during import would reduce the overall burden for importers. On the other hand possibility to certify Tajik commodities with internationally accepted standards would allow Tajik exporters easier access to international markets. |
| Unequal position of Tajik exporters in foreign trade | Accelerate WTO accession of Tajikistan by bringing the legislation in line with requirements and institutionalization of business participation in WTO accession process. | WTO accession would have a positive impact on the development of foreign trade in the country. |
1. SME in Tajikistan: Overview of the sector, main trends and business expectations
Economy of Tajikistan has seen stable growth in the last three years, with an expanding SME sector that has contributed to a higher GDP and overall employment rates in the country.

This development, however, conceals a multi-faceted situation. Individual entrepreneurs and dehkan farmers still represent the majority of the SME sector, both in terms of number of enterprises and employment. As the least structured typologies of businesses, their rapid growth reflects an underlying weakness of the SME sector: while the number of individual entrepreneurs and dehkan farmers increased significantly in 2005, their turnover slowed in comparison to the previous year both in nominal and real terms. In contrast, small and medium companies (i.e., legal entities) grew more slowly in number, showing the difficulties that entrepreneurs face in expanding and become more structured in the Tajik context. Nevertheless, existing companies experienced more stable growth and were able to sustain their turnover level in real terms, showing a higher resilience to the economic environment than their smaller counterparts.

Investments into fixed assets have further decreased with respect to 2002: only about one in every four SMEs invested, mostly financed by internal/family funds. Low level of investments could be in part explained by lack of funding (see chapter “Entrepreneurs and Finance”), but is also a signal of low business confidence. In fact, IFC survey of the business environment and business confidence has revealed that while entrepreneurs remain confident that the business environment in Tajikistan will improve, a growing share, seen in particular among small and medium companies, would be reluctant to restart their businesses given the existing climate.

A low legal awareness among businesses and limited use of the court system for economic disputes remain key obstacles to increased growth in the sector. Although the government has made substantial steps toward improving legislation regulating the SME sector, the effectiveness of these reforms is limited by the lack of awareness of most SMEs of these reforms. As a result, SMEs cannot make the best use of the improvements in the legislation or protect their rights adequately in case of conflicts. In addition, entrepreneurs are still reluctant to make use of courts when disputes arise due to a non-transparent and time-consuming legal process; in most cases, issues are solved unofficially. These constraints need to be addressed quickly for the policy reforms to have their full intended effect.
1.1.1 The SME Sector within the Tajik Economy

1.1.1.1 Macroeconomic Overview

The GDP of Tajikistan has seen stable growth from 2002-2005 (average annualized growth rate of 9.2% in real terms), reaching 7.2 billion somoni ($2.3 billion) at the end of this period. Control of inflation (from 14.5% in 2002 to 7.1% in 2005) and a stable exchange rate both contributed to Tajikistan’s overall macroeconomic stability,1 which in turn supported the steady growth. The main factors driving this growth were the recovery of the industrial production sector;2 development of the service sector;3 favorable prices for major exports (cotton and aluminum), and a substantial increase of remittances from migrant workers (the majority of whom go to Russia).4 Nevertheless, the growing dependency of the Tajik economy from remittances makes it vulnerable to political trends in the region.5

With population growth (2% a year on average) lagging behind the real GDP growth, GDP per capita enjoyed a substantial increase as well in this period.

However, this favorable growth rate can also be explained by the fact that the economy is still recovering from the effects of the collapse of the Soviet Union and the civil war. The GDP in 2005 was only 62.1% of the 1991 level in real terms (see Chart 1.1).

Table 1.1. Macroeconomic Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP in billion somoni</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Nominal GDP per capita in somoni</td>
<td>517</td>
<td>1,041</td>
</tr>
<tr>
<td>CPI inflation in %</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>Real GDP growth in %</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Population, million</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Trade balance, million somoni</td>
<td>-124</td>
<td>-323</td>
</tr>
<tr>
<td>Export, million somoni</td>
<td>699</td>
<td>1,108</td>
</tr>
<tr>
<td>Import, million somoni</td>
<td>823</td>
<td>1,431</td>
</tr>
<tr>
<td>Exchange rate, 1 USD to somoni, end of period</td>
<td>3.00</td>
<td>3.19</td>
</tr>
</tbody>
</table>

Source: NBT (2006)

1 More details on the macroeconomic development of Tajikistan can be found in IMF (2006).
2 Industrial production increased during 2002-2005 by 137%.
3 Such services like communications (especially mobile services), internet, and banking are growing very rapidly in Tajikistan.
4 Latest estimates indicate the number of migrants to have reached 800,000 (on estimate of IOM) and corresponding remittances to have reached $1 billion.
5 New Russian legislation imposed a quota for migrant workers, which allocated 600,000 working permits to Tajikistan (Asia-Plus, January 11, 2007).
ICF survey makes use of the following regional division:

i) Dushanbe city (the Capital).

ii) Districts of the Republican Subordination (DRS) in the middle of the country;

iii) Gorno-Badakhshan Autonomous Province (GBAO) in the East of the country;

iv) Khatlon province with two districts - Kurgan-tube and Kulyab in the South;

v) Sughd province in the North of the country.

Dushanbe - the capital of the country - is the most dynamically developing region in terms of business activities and entrepreneurship, accounting for more than 22% of the total number of SMEs active in Tajikistan.

The Districts of Republican Subordination host 22% of the population and boast a diverse economy. DRS is home to about 20% of the country’s agricultural production, but also some large industries like TadAz (Tajik Aluminum Plant), and porcelain ceramic works that make up more than 50% of the industrial output of the country. Small and medium businesses are mostly concentrated in larger cities and districts (Tursunzade, Hisar valley).

Due to its very mountainous terrain (highest altitude is 7,495m at Ismoil Somoni Peak), GBAO is difficult to access and has a very low population density (3% of the total Tajik population). It is, therefore, the least developed region of the country with an underdeveloped SME sector.

Khatlon province accounts for about 35% of the country’s population. About 576 enterprises are situated in this province, including agricultural farms, textile factories, meat-packing plants and 11 industry giants like Joint Venture “Tajikazot” (plant for nitrogenous fertilizer), and OJSC “Transformator” (production of transformers). The lion’s share of the country’s cotton is produced in Khatlon, as well as most of its non-cotton agricultural products like vegetable-growing, livestock-breeding, and poultry farming (the province contributes 39% of Tajikistan’s agricultural product).

Sughd province is one of the most developed and industrialized regions of the country contributing to 17% of industrial output of the economy. The least affected by the civil war, the province attracts a significant share of foreign direct investments (25% of all companies with foreign investments are situated in Sughd). Sughd hosts 30% of the population and has the highest population density.

The SME sector of Tajikistan is composed of three typologies of businesses: individual entrepreneurs (i.e., sole proprietors of an enterprise without any juridical status); dehkan farmers (i.e., owners of private agricultural farms); and small and medium companies (i.e., legal entities) which tend to be of a larger scale.

The relevance of SMEs in the economy increased every year in 2002-2005: the share of employment provided by the SME sector reached about 700,000 employees, or about 33% of the total

For better assessment of the region in IFC survey we divided it into two parts: a) DRS A (Hisar Valley), which is more developed and b) DRS B (Rasht Valley), which is less developed due to its mountainous terrain.

Employment figures provided by the State Statistical Committee of RT. However, the data include only the self-employment figures of individual entrepreneurs without taking into account possible hired employees.
SME IN TAJIKISTAN: OVERVIEW OF THE SECTOR, MAIN TRENDS AND BUSINESS EXPECTATIONS

These aggregate data reflect different definitions of SMEs used in different countries and do not always include individual entrepreneurs, as in the case of Tajikistan.

For Tajikistan data on private sector contribution are used.

Employment structure and revenues estimated on the basis of our survey data.

Chart 1.3. TAJIK SME\(^8\) SECTOR’S CONTRIBUTION TO GDP IS RELEVANT …

<table>
<thead>
<tr>
<th>Region</th>
<th>SME per 1000 of inhabitants</th>
<th>SME share in Employment in %</th>
<th>SME share in Revenues in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belarus</td>
<td>10</td>
<td>73</td>
<td>49</td>
</tr>
<tr>
<td>Ukraine</td>
<td>6</td>
<td>40</td>
<td>36</td>
</tr>
<tr>
<td>Latvia</td>
<td>20</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>25</td>
<td>21</td>
<td>49</td>
</tr>
<tr>
<td>UK</td>
<td>55</td>
<td>49</td>
<td>36</td>
</tr>
<tr>
<td>Estonia</td>
<td>69</td>
<td>49</td>
<td>36</td>
</tr>
<tr>
<td>Russia</td>
<td>73</td>
<td>49</td>
<td>36</td>
</tr>
<tr>
<td>Italy</td>
<td>59</td>
<td>49</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: Factiva (2006)

International comparison confirms the relevant contribution of the SME sector to the GDP, which nevertheless can be partially explained by the low overall development level of the Tajik economy (see Chart 1.3).

However, international comparison of the number of businesses per 1,000 inhabitants shows that there is still room for growth for the SME sector, with a positive contribution to the GDP as well as to the country’s employment (see Chart 1.4).

The agricultural nature of the Tajik economy is reflected in the employment structure: almost 50% of employees in the SME sector work in dehkan farms, one third are employed as individual entrepreneurs, while the remaining 15% are employed by small and medium companies (see Chart 1.5). Yet dehkan farms represent only about 20% of the SME sector revenues, with individual entrepreneurs and small and medium companies equally sharing the remaining 80%\(^10\).

Although more entrepreneurs are active in Sughd and Khatlon, Dushanbe and the Districts of Republican Subordination have a higher percentage of small and medium businesses per capita (see Chart 1.6).

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\(^8\) These aggregate data reflect different definitions of SMEs used in different countries and do not always include individual entrepreneurs, as in the case of Tajikistan.

\(^9\) For Tajikistan data on private sector contribution are used.

\(^10\) Employment structure and revenues estimated on the basis of our survey data.
1.1.3 INDIVIDUAL ENTREPRENEURS

An individual entrepreneur is an individual (sole proprietor) who is involved in a business activity without forming a legal entity and operates it at his/her own risk.

Individual entrepreneurs can register and run their business on two different legal bases:\textsuperscript{11}

- A simplified system (patent), used by the majority of entrepreneurs,\textsuperscript{12} which provides simplified taxation and accounting systems, but poses constraints in terms of types of activities, location (only outdoors), and employment structure. It also requires repeated registration renewals;
- A more structured legal form (certificate), providing additional flexibility at the expense of stricter fiscal and accounting requirements.

The number of individual entrepreneurs has grown significantly from 2002 to 2005 (average annual growth - CAGR\textsuperscript{13} of 8%), and at the beginning of 2006 accounted for about 90,000 entities (see Chart 1.7). As such, they represent the largest category of SMEs in Tajikistan both in terms of numbers as well as share of revenues. Table 1.2 illustrates “typical” Tajik individual entrepreneur.

Table 1.2. THE “TYPICAL” TAJIK INDIVIDUAL ENTREPRENEUR

<table>
<thead>
<tr>
<th></th>
<th>17,000 somoni</th>
<th>$5,340</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual turnover</td>
<td>17,000 somoni</td>
<td>$5,340</td>
</tr>
<tr>
<td>Average annual profit</td>
<td>4,000 somoni</td>
<td>$1,250</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Average monthly salary</td>
<td>122 somoni</td>
<td>$38</td>
</tr>
</tbody>
</table>

Individual entrepreneurs are mostly present in Sughd province and Dushanbe (see Chart 1.8). Since imported goods and services are usually delivered first to Khodjend (capital of Sughd province) and Dushanbe and then distributed to other regions, trade is very dynamic in these two regions. As a result, there is a high concentration of individual entrepreneurs involved in trade in Sughd and Dushanbe.

According to the survey, individual entrepreneurs achieved lower volumes of turnover in 2005 by 4.1% as compared to the previous year. The rapid increase in the number of individual entrepreneurs could push the competition among them and pose a limit for further growth of individual activities.

\textsuperscript{11} More detailed explanations of the different legal bases for patent and certificate entrepreneurs will be provided in the Chapters 2 and 7.

\textsuperscript{12} About 90% of surveyed individual entrepreneurs use patents (see Chapter 2).

\textsuperscript{13} Compound Annual Growth Rate (CAGR) - represents the average annual growth over a period (for more details see Chapter 9).
Revenues vary greatly across regions, with Dushanbe and Sughd province seeing the highest revenues: an individual entrepreneur in Dushanbe has a turnover that is 10 times larger than one in DRS (see Chart 1.9). These figures reflect the fact that Dushanbe and Sughd province are the most industrial and developed regions of the country, with higher purchasing power than the rest of Tajikistan. In particular, individual entrepreneurs are mostly involved in trade and therefore more affected by the local purchasing power.

**Chart 1.9. Stronger performance of individual entrepreneurs in Dushanbe and Sughd**

![Chart 1.9. Stronger performance of individual entrepreneurs in Dushanbe and Sughd](image)

Although Dushanbe and Sughd have higher revenues and profit in absolute terms, individual entrepreneurs in DRS and GBAO experience higher profitability. The high profitability could be due to:

- Lower competition in these regions, allowing businesses to achieve better performances;
- Reduced pressure from state agencies (especially fiscal bodies) in these regions, which results in a lower taxation burden for businesses.

In terms of economic sectors, individual entrepreneurs are involved predominantly in activities that require minimum investment and bring very fast returns and in particular in trade (see Chart 1.10). Only a small number of individual entrepreneurs are involved in a manufacturing activity, which implies a larger initial investment.

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14 For more details see Statistical Appendix.
15 Profitability – is a company’s ability to generate revenues in excess of the costs. Profitability is expressed as a percentage of revenues, while profits are expressed in money (absolute) terms.
and longer-term returns, but might also lead to a future expansion of the business activity.

Individual entrepreneurs employ, on average, 2 employees on a permanent basis, providing them with an average monthly salary of 122 somoni ($38).

### 1.1.4 DEHKAN FARMERS

A dehkan farm is an enterprise involved in the production and sale of agricultural products. Dehkan farmers operate as individual entrepreneurs according to the State Registration Certificate.

Dehkan farms are the most dynamically growing typology of business, both in terms of number of businesses and employment levels (see Chart 1.11). From 2002 to 2005, dehkan farmers saw an annual growth rate (CAGR) of about 19% in both number of entities and employment. This dynamic growth is, to a great extent, due to government reforms in the agricultural sector aimed at transforming former large-scale, state-owned farms into smaller, privately owned enterprises.

According to official statistics, the highest concentration of dehkan farmers is in the Khatlon province, with 7 dehkan farms per 1,000 inhabitants (see Chart 1.12). This can be explained by the fact that Khatlon province is the major region of agricultural production of the country (see Box 1.2).

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**Chart 1.11. Dehkan Farmers are Growing Fast Both in Terms of Number of Businesses and Employment**

<table>
<thead>
<tr>
<th># of Businesses, '000s</th>
<th>CAGR 18.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>15</td>
</tr>
<tr>
<td>2005</td>
<td>26</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th># of Employees, '000s</th>
<th>CAGR 18.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>325</td>
</tr>
<tr>
<td>2005</td>
<td>545</td>
</tr>
</tbody>
</table>

Source: State Statistical Committee of RT

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16 For more details on the registration procedures, see the Chapter 2.
17 A farm can also be organized in the form of a business partnership or a production co-operative, but these categories of business are not granted a simplified registration process and as such do not fall into the dehkan farm definition. For information on the registration of business partnerships and production co-operatives, see the section on registering legal entities in the Chapter 2.
Dehkan farms represent 21% of total SME sector businesses. Data from our survey allows us to draw a picture of the typical dehkan farmer operating in Tajikistan as shown in Table 1.3.

Table 1.3. The “Typical” Tajik Dehkan Farmer

<table>
<thead>
<tr>
<th></th>
<th>Average turnover per year</th>
<th>Average annual profit</th>
<th>Number of employees: Permanent basis</th>
<th>Number of employees: Seasonal basis</th>
<th>Average monthly salary paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average turnover per year</td>
<td>30,900 somoni</td>
<td>$9,660</td>
<td>13</td>
<td>13</td>
<td>48 somoni</td>
</tr>
<tr>
<td>Average annual profit</td>
<td>5,790 somoni</td>
<td>$1,809</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dehkan farmers were not able to increase their turnover volumes with respect to the previous year. This could be due to:
- High indebtedness of the agricultural sector (especially debts of cotton seeding farms);
- Low and unstable yield (especially of cotton);
- Low price of cotton.

On average, turnover of dehkan farmers reached 30,900 somoni ($9,660) in 2005. The highest turnover volumes were reached by the dehkan farms in Sughd and Khatlon regions, which are characterized by larger land plots. While the ones in the DRS region see the highest profitability ratio in monetary terms, their revenues lag behind more agriculturally developed regions like Khatlon and Sughd provinces (see Chart 1.13).

Due to the high labor intensity in the agricultural sector, the average dehkan farm employed 13 employees on a permanent basis. In addition to the permanent workforce, dehkan farmers employed about 13 employees on seasonal basis. Employees were remunerated with 48 somoni ($15) per month, 25% higher than the official average salary in the total agriculture sector, which amounted to 38 somoni per month in 2005.

1.1.5 SMALL AND MEDIUM COMPANIES

A small and medium company is a privately owned legal entity with employment levels between 1 and 200 employees.

Only about 7,000 small and medium companies were registered in Tajikistan at the beginning of 2006, corresponding to 5.7% of...
the entire SME sector. Furthermore, their annual growth (4%) is the least dynamic among the three typologies of private businesses (see Chart 1.14). This illustrates the low number of entrepreneurs who feel the need to give their business a more structured form by incorporating it.

Regionally, the highest concentration of small and medium companies per 1,000 inhabitants is in Dushanbe, followed by Sughd province (see Chart 1.15).

Table 1.4 illustrates a “typical” small and medium company. It can be noted that the data on employment provided in our sample (15 employees) is significantly higher than the one provided by official statistics (10 employees), which can be explained by the existence of a “black” labor market unreported by official data. On average, small and medium companies employed 15 employees on a permanent basis and 6 on seasonal terms. The average salary provided by companies amounted to 120 somoni ($37) - 40% more than the average monthly salary in the country.

Partially reflecting the situation of individual entrepreneurs, small and medium companies in Tajikistan are mainly active in tertiary sectors of the economy, i.e. general commercial activity and trade (more than 55% - see Chart 1.16). Industry represents 13% of the overall sector, construction (particularly active sector of the

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25 The tertiary sector of the economy is the service industry. This sector provides services to the general population and to businesses. Activities associated with this sector include retail and wholesale trade, transportation and distribution, entertainment, restaurants, tourism, insurance, banking, health care, etc.

26 General commercial activity include: i) intermediary services by sale of goods, securities, currency; ii) intermediary services in the field of transportation, housing and communal services; iii) advertising, marketing research and audit.
SME IN TAJIKISTAN: OVERVIEW OF THE SECTOR, MAIN TRENDS AND BUSINESS EXPECTATIONS

Economy in the recent years and agriculture account for about 20%. In order to secure stable growth for the economy, a further diversification into other sectors would be advisable.

In 2005, the turnover of small and medium companies reached 216,000 somoni ($67,500), 8% higher than the previous year and practically the same in real terms. As for individual entrepreneurs, the strongest performance of companies is seen in the Dushanbe and Sughd provinces (see Chart 1.17).

Although companies state the lowest profitability (15%), their profits (19,690 somoni - $5,216) are the highest among the three typologies of business thanks to the larger size: the turnover of small and medium companies is about 10 times larger than that of an individual entrepreneur.

1.1.6 INVESTMENTS: MOSTLY INTERNAL FUNDS

Entrepreneurs very seldom make investments into fixed assets. According to the survey, only 27% of the respondents made some investment in 2005 (see Chart 1.18). This figure has worsened in comparison to 2002, when about 40% of entrepreneurs made investments into fixed assets.

The majority of entrepreneurs still use personal savings to conduct any investment. Only a small amount of entrepreneurs use banking/MFO loans to finance their investments into fixed capital. This situation is linked to the complicated access to external funding for SMEs.

It is especially crucial for small and medium companies, since every second company (47.2%) made investment in 2005. Among those every third invested in building a new facility or production unit. But still personal savings represent their major source of funding for the investment (see Chart 1.19). Broader access to external funding could stimulate faster growth of the companies contributing additionally to the economical development of the country (for more details see Chapter 5).

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27 The category “Other regions” include – GBAO, Khatlon province and DR. Only 30% of small and medium companies are present in these regions. Due to this fact, a very small amount of companies from these regions were included in our sample.

28 Respondents could have chosen several answers.
1.1.7 ENERGY SUPPLY: INSUFFICIENT

In order to ensure efficient development of the economy, a reliable and continuous energy supply is essential. For the time being, the Tajik economy lacks a sufficient energy supply and, especially during the winter, supply is rationed throughout most of the country (see Box 1.4). The energy gap is caused on the one hand by increasing energy consumption and, on the other hand, by intensive energy usage due to low energy tariffs and energy losses (see Box 1.5).

The Tajik economy is indeed among the most energy intensive ones (see Chart 1.20), mainly due to the lack of modernization of its technical infrastructure. Without proper measures to address energy efficiency, the risk is that the energy gap will increase further (see Chart 1.21), despite the efforts undertaken by the government to increase energy supply through the construction of new hydro-power plants.

The impact of lack of reliable energy supply is extremely relevant: economic activities are often interrupted and disrupted, generating substantial losses for businesses.

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**Box 1.4. Energy Deficits are in Winter**

“Due to seasonal specifics, Tajikistan’s energy system produces less energy in the winter than in the summer. The daily energy consumption in the wintertime amounts to 60-68 million KWh — meaning that in the period of cold weather (October-March), the overall need for energy amounts to 10.8 billion KWh. As the overall energy production of hydro power plants in Tajikistan is about 6.8 billion KWh, this implies an energy deficit of 4 billion KWh. While a small portion of this deficit is covered by energy import to the northern part of the country from Uzbekistan (about 600 million KWh), insufficient volumes of available energy create the need for introducing rationing measures of energy supply effecting consumers and industries.”


**Box 1.5. Comparison of Energy Usage in Different Countries**

Two main drivers characterize energy consumption in Tajikistan: on the one hand technology is outdated and requires higher level of power, on the other hand tariffs for electricity, main energy source, are very low and cover only about 30-40% of the cost. As a result energy usage is excessive: in order to produce $1 of GDP Tajikistan needs almost 3 times more energy than Armenia (see Chart 1.20).

A gradual increase of energy tariffs is essential to maintain and upgrade the generation and transmission facilities, while steps need to be taken in order to improve energy consumption by both stakeholders and enterprises. At the same time, the government must address the social implications of a price increase in energy.

Steps for increasing energy efficiency are also important taking into account the expectation that energy consumption will grow with development of the economy. It is estimated that with the current level of energy consumption, to reach the GDP level of Kyrgyzstan, Tajikistan will need to generate about 3,500 kWh per capita which is 2.5 times higher than current consumption in Kyrgyzstan (see Chart 1.21).
1.2 LEGAL ENVIRONMENT AND SME CONFIDENCE

1.2.1 LEGAL AWARENESS

During 2002-2005, the Republic of Tajikistan adopted many new laws, regulations and normative acts, many of which regulated the activity of small and medium business. The IFC survey focused on the knowledge of the general public regarding four relevant legislative changes (see Box 1.6).

As the survey reveals, the share of entrepreneurs aware of the adoption of certain norms remains extremely low. In particular, only about half of SMEs were aware of the introduction of the new Tax Code, which impacted 100% of business. Less than 20% of businesses are aware of the remaining legislation, which by its nature is more specific and affects fewer businesses (see Chart 1.22).

The perceived influence of these norms on the activities of entrepreneurs is very different. Taxation and licensing, the most frequent procedures that entrepreneurs face in their day-to-day activities, have an overall positive perceived impact (see Chart 1.23). On the other hand, the new Custom Code as well the Law “On Collateral of Movable Property” are perceived to have less impact on businesses, possibly as a result of the low number of entrepreneurs engaging in external trade or seeking external funding from banks or microfinance organizations.

The introduction of numerous new laws and regulations, despite their attempts to improve the business environment, cannot be effective unless entrepreneurs are aware of them and can use the regulations in their daily activity.

BOX 1.6. MAJOR LEGISLATIVE ACTS RELATED TO BUSINESS ENABLING ENVIRONMENT INTRODUCED DURING 2004-2005

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Code</td>
<td>January 1, 2005</td>
<td>Regulation on conducting tax inspections; Reduction of the rates of some taxes; Creation of a unified tax for agricultural producers; Benefits for import of goods and equipment on account of nominal capital.</td>
</tr>
<tr>
<td>Custom Code</td>
<td>January 1, 2005</td>
<td>Bringing legislation in line with international custom standards; Bringing legislation in line with intergovernmental agreements among CIS countries for simplification of the customs regulation; Exclusion of the double customs levy.</td>
</tr>
<tr>
<td>Law “On Licensing of Certain Kinds of Activities”</td>
<td>May 17, 2004</td>
<td>Unified regulation of licensing procedures; Reducing the number of activities that are subject to licensing; Determination on validity of licenses; the duration of consideration of the application.</td>
</tr>
<tr>
<td>Law “On Collateral of Movable Properties”</td>
<td>March 1, 2005</td>
<td>Creation of a legislative basis for pledging movable property; Establishment of a unified state registry of the pledged movable property.</td>
</tr>
</tbody>
</table>

30 For more details, see the Chapter 8.
31 For more details, see the Chapter 5.
The survey attempted to study the awareness of entrepreneurs about regulations, legal norms and laws that regulate their activity. Among the typologies of SMEs represented, companies have a better knowledge of the legislation. Yet even the majority of these still have only cursory or poor understanding (see Chart 1.24).

However, the share of entrepreneurs who now have a fairly good knowledge of the legislation increased in 2005. This could be evidence of increasing efforts by entrepreneurs to become more aware of the legislation, as well as efforts by the government and international organizations to distribute information and promote awareness.

It needs to be noted, however, that limited knowledge of the legislation is common not only to entrepreneurs, but to government officials as well. Entrepreneurs involved in focus groups pointed out this fact quite clearly. Frequently changing legislation and limited availability of training and legal materials are the most common causes for this lack of awareness from the officials’ side.

As in 2002, mass media (41%) and friends/colleagues (40%) remain the major sources of information for entrepreneurs in responding to changes in legislation (see Chart 1.25). Only a small share of entrepreneurs (10%) use the information provided by state bodies, and even fewer seek outside sources like law firms and professional/business associations. State bodies should use mass media more actively to inform the population/business on changes happening in the regulatory environment. Mass media could also be better used as a public platform for broader discussions.
1.2.2 ROLE OF THE STATE IN THE SUPPORT OF ENTREPRENEURSHIP

The existence of a central state body that advocates the interests of entrepreneurship which supports policy changes might be significant in developing and strengthening the business environment. The role of the interest representative for the support of entrepreneurs in Tajikistan has been the State Agency for Antimonopoly Policy and Support of Entrepreneurship (see Box 1.7).

This Agency has followed the guidelines based on the objectives of the State Program for Support of Entrepreneurship for 2002-2005:
- To improve legislation related to SME development;
- To create a well-developed SME financing, lending, and insurance system;
- To develop business support infrastructure.

As this report was being prepared, the government had recently abolished the Antimonopoly Agency and assigned its role of supporting entrepreneurship to a specific department within the State Committee on Investment and Management of the State Property of RT. It is expected that the new Committee will take over the role of the previous agency supporting the development of entrepreneurship in general and the SME sector specifically by:
- Continuing the development policy of entrepreneurship;
- Promoting improvement of the investment climate in general and entrepreneurship in particular;
- Analyzing the existing regulatory problems hindering the development of the entrepreneurship and elaborating concrete measures for their elimination;
- Coordinating the dialogue among all stakeholders to strengthen the role of the private sector in economy.

1.2.3 LEGAL DISPUTES

Less than 1 in every 100 entrepreneurs have ever used courts to settle economic disputes. This low number is likely related to the limited trust of people towards courts in general. The widespread corruption in the courts is also confirmed by the survey conducted by the Strategic Research Center under the President of the Republic of Tajikistan. According to that survey, courts, along with the administration of local authorities and law-enforcement bod-

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32 In particular, the Agency was closely involved in the development and adoption of the Law "On Inspection." Furthermore, the Agency was involved in the working group that developed the new Tax and Custom Codes.
33 Decree of President "On Enhancement of the Structure of Central Bodies of Executive Authorities of the Republic of Tajikistan" No. 9, dated November 30, 2006.
ies, are considered to be the most corrupt bodies in the country.\textsuperscript{34}

The main reasons for disputes were:

- Nonfeasance of payments;
- Nonfeasance of terms of delivery;
- “Imposition” of unjustified obligations.\textsuperscript{35}

The low level of court applications can be due to several factors:

- Influential businessmen/officials can receive decisions in their favor, irrespective of the merits of their case;
- The procedures are very non-transparent, allowing for unofficial payments during the process;
- The process can become very lengthy, and therefore unacceptable for dynamic entrepreneurship;
- The process can become very costly, so entrepreneurs risk going through the entire process and losing more money in the long run.

1.2.4 EXPECTATIONS OF ENTREPRENEURS

Most entrepreneurs are optimistic that the business environment in Tajikistan will improve in the next 12 months (see Chart 1.26). These expectations could be due to:

- General economical growth and macroeconomic stability in Tajikistan;
- Expected increase of consumption among the population due to the rise in incomes and a higher demand for goods and services;
- Expectation of further reform of administrative procedures, meaning a lower regulatory burden for entrepreneurs.

The best expectations by region are seen in DRS and Kulyab (see Chart 1.27). This could be explained by the planning of some large-scale investments in these two regions, as well as specific investments in the Kulyab region in concurrence with the 2700th anniversary of the city.\textsuperscript{36}

\textsuperscript{34} For more details see Strategic Research Center (2006).
\textsuperscript{35} Though more than a half of entrepreneurs succeeded with their lawsuits, every third successful plaintiff used unofficial payments to rule the decision of the court favorably.
\textsuperscript{36} In particular huge investments in the TadAz aluminium plant (DRS) and building of a new aluminium plant in the south of the Khatlon province (Kulyab district) were planned by Russian Aluminium Consortium “RUSAL.” Additionally there are some investment projects in building/completing Hydro Power Plants in these regions.
Although the overall expectations of entrepreneurs are positive, our survey did reveal a rise in the number of entrepreneurs who remain dissatisfied with the situation (see Chart 1.28).

In particular, every fourth entrepreneur (25%) would not start his/her business again based on his/her experiences. This figure represents an increase from 2002 (15%), and may be due to growing pressure from state bodies and the “price” that entrepreneurs have to pay for achieving good performance.

The increase is particularly significant for small and medium companies and dehkan farmers. The main reasons behind this sharp decline in confidence could be:

- For small and medium companies - the increased regulatory burden (which will be further analyzed in the next chapters of the report);

- For dehkan farmers, the relative “immaturity” of the sector-most farms are newly established in their first stage of development as private businesses and lacking a well-developed infrastructure system that can support them in delivering products to the market.

In subsequent chapters we analyze the administrative procedures faced by SMEs during their business activities in more detail in order to find possible explanations to the trends observed in the SME sector.

Chart 1.28. Number of entrepreneurs who would start their business again based on their experience is decreasing

<table>
<thead>
<tr>
<th>% of Respondents</th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>Do not know</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>10</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>23</td>
<td>65</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td>88</td>
<td>63</td>
<td>86</td>
</tr>
</tbody>
</table>

“... It is true that there are a lot of positive trends and changes introduced by the government. But still, it is nerve-wracking, takes so much effort and so many sleepless nights to deal with officials that sometimes I think of quitting…”

- Owner of a small company, focus group participant
2. REGISTRATION
2. REGISTRATION

In recent years, the registration process in Tajikistan has undergone a number of reforms that impacted the SME sector in different ways. As a result, the current situation differs for each of the three typologies of business included in the SME sector.

Registration is now a simple 2-step procedure for individual entrepreneurs, which can be completed within a week with a limited amount of financial resources. This is particularly important, given that de facto individual entrepreneurs renew their registration every year.

Legal entities, on the other hand, face a more complicated and not always transparent procedure that involves multiple steps at various agencies. This necessarily extends the time needed to start up their business activities, resulting in additional costs in both official and unofficial payments as well as lost business opportunities.

Dehkan farmers register as individual entrepreneurs,1 with the additional requirement of obtaining the right to use the land as a prospective farm. This is a largely non-transparent step representing a significant barrier to entry for a potential farmer by increasing the amount of time and cost (unofficial) for farmers wishing to start up a new activity. In fact, the current situation is significantly worse than in 2002 in terms of the duration process.

The complexity and opaqueness of the registration procedure appears to be the main drivers of unofficial payments: in fact, the entrepreneurs resorting most frequently to unofficial payments are legal entities, who not only face a very complicated procedure, but also offer the most interesting rent-seeking opportunities for officials.

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1. Unless they decide to operate as legal entities, in which case they are considered companies in the field of agriculture.
2.1 REGISTRATION: THE LEGAL FRAMEWORK

Registration with the relevant state bodies is the first step that all entrepreneurs must take to legalize their status as a business. Although it is a common requirement for all SMEs, it is not a common procedure for each typology of business. Currently, there is a different registration system for individual entrepreneurs, dehkan farmers, and legal entities.

Registration is governed in Tajikistan by a set of legal acts, most of which have been recently introduced to unify the legislation of state registration of business entities:

- Registration of individual entrepreneurs is mainly regulated by the Procedure for “Issuing a Patent and an Individual Entrepreneur Certificate to Individuals, Operating without Forming a Legal Entity”;
- Registration of dehkan farms is regulated mainly by the Law “On a Dehkan Farm”;
- Registration of legal entities is regulated mainly by the Law “On the State Registration of a Legal Entity”.

Some additional aspects are also regulated by other legislative acts (see Box 2.1).

This survey covers the registration procedure in its various stages. The first step, state registration, legalizes the start of the entrepreneur’s operations with the authorized state body. To be legalized businesses then must follow post-registration procedures to file records with the relevant agencies, for the purposes of taxation, statistics, and filing. In addition, dehkan farmers must also obtain a land user’s right certificate (pre-registration) they can register with the state.

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**BOX 2.1. MAIN NORMATIVE ACTS REGULATING THE REGISTRATION PROCESS IN TAJIKISTAN**

**Codes:**
1. The Civil Code – came into force January 1, 2000;

**Laws and Decrees:**
1. Law No.46 “On the State Protection and Support to Entrepreneurship in RT,” May 10, 2002;
2. Law No.48 “On a Dehkan Farm,” May 10, 2002;
3. Law No.5 “On the State Registration of a Legal Entity,” April 22, 2003;

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2 E.g., in order to issue a seal or stamp, to open a bank account, etc.
2.2 REGISTRATION OF INDIVIDUAL ENTREPRENEURS

Registration of an individual entrepreneur is the simplest process among the various systems in Tajikistan and is regulated by the Procedure for “Issuing a Patent and an Individual Entrepreneur Certificate to Individuals, Operating without Forming a Legal Entity,” and by the Civil and Tax Codes. The process consists of two steps (see Chart 2.1).

State registration
Entrepreneur needs to obtain a patent or certificate from the tax authorities (i.e., state registration). This is done by appearing personally at the place of registration\(^3\) with necessary documents listed in Chart 2.1.

Post-registration
After state registration, the individual entrepreneurs must get registered at the Social Security Fund\(^4\) as a taxpayer of social taxes\(^5\).

As mentioned in the Chapter 1, individual entrepreneurs can register their business with the state by filing for either a patent or certificate. The registration process is the same for both documents. However, there are certain differences in rights provided to a certificate holder versus a patent holder (see Table 2.1):

- A patent holder can conduct only 49 activities set by legislation, while a certificate holder can conduct any type of activity not prohibited by the legislation\(^6\);
- An individual entrepreneur can not usually hire employees if he or she is a patent holder, but can cooperate in activities with another individual entrepreneur who also possesses a patent;
- A patent holder is only allowed to conduct business activity outside (e.g., bazaar), while a certificate holder is allowed to conduct business anywhere (i.e., indoors and outdoors).

While registration for patent holders is granted up to one year, certificate holders should be granted permanent registration. In practice, as confirmed by survey data, also certificate holders register every year.

According to the survey data, all respondents operating on the patent basis stated that they hired on average 1 employee. This

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\(^3\) Article 24 of the Civil Code of RT.
\(^4\) At the time of preparation of the report Social Security Fund was renamed into State Agency for Social Security and Pension.
\(^5\) “The Guidelines for Accepting, Accounting and Spending the Resources of the Social Security Fund of RT”, approved by the Chairman of the Fund as per the agreement with the Ministry of Finance and the Chairman of the National Bank dd. June 24, 1997.
could be explained by the fact mentioned above: these individual entrepreneurs were cooperating with other individual entrepreneurs who were patent holders, too. Another explanation for this could be that individual entrepreneurs may have counted their family members supporting them as employees, or finally they hired employees without processing the required documents (unofficial employment).

### 2.2.1 DIFFICULTY OF REGISTERING AS INDIVIDUAL ENTREPRENEUR

Survey data confirm that the new legislation has simplified the registration process: only a third of the individual entrepreneurs find the registration process either complicated or very complicated. This result is quite remarkable when taking into account

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the limited legal awareness and limited legal literacy of individual entrepreneurs (see Chart 2.2).

2.2.2 TIME SPENT ON REGISTRATION AS AN INDIVIDUAL ENTREPRENEUR

The law defines a time frame of 13 days from the application date to complete the registration process as an individual entrepreneur. In particular:

- registration with the tax bodies should be completed within 3 days;
- filing as an individual entrepreneur at the Social Security Fund should take a maximum of 10 days.

Chart 2.3 shows that the entire registration procedure for an individual entrepreneur lasts on average 5 business days (including the time to collect the documentation needed to support the application). This is a dramatic improvement with respect to 2002.

2.2.3 COST OF REGISTRATION OF INDIVIDUAL ENTREPRENEURS

The law officially defines the cost of registration for individual entrepreneurs operating under patents or certificates (see Box 2.2). For patent holders the cost can vary depending on the activity

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**BOX 2.2. THE OFFICIAL PRICE OF AN INDIVIDUAL ENTREPRENEURS REGISTRATION**

1. For entrepreneurs operating on the basis of a patent: cost is determined by the duration of a patent (from 15 days to 1 year) and a regional coefficient. For example, if an individual decides to sell newspapers, magazines, books and educational articles for 1 month in Dushanbe, the patent will cost 8.1 somoni ($2.53) per month. This amount consists of:

   i) patent cost - 8 somoni ($2.5) per month and
   ii) the regional coefficient of 1.15% of the patent cost equivalent to 0.1 somoni ($0.03).

2. For entrepreneurs operating on the basis of a certificate: registration is equal to the minimum monthly wage (MMW) or 20 somoni ($5.88) starting from 2006. The registration fee increased remarkably in comparison to 2002, where it amounted to 6% of MMW or 0.42 somoni ($0.14). The legislation does not specify whether filing a record at the Social Security Fund should be subject to payment, nor define its cost.

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8 Article 9 of the Law of RT “On the State Protection and Support to the Side of Entrepreneurship in RT.”
9 “The Guidelines for Accepting, Accounting and Spending the Resources of the Social Security Fund of RT” approved by the Chairman of the Fund as per the agreement with the Ministry of Finance and the Chairman of the National Bank dd. June 24, 1997.
10 Maximum official cost for a patent is for transportation activity (taxi), minimum cost for dry cleaning.
11 Regional coefficient varies from 0.8% to 1.15%.
and region, while the cost of certificate is linked to the minimum monthly wage (MMW). It should be noted that the two costs should not be compared, as registration cost for certificates is a pure registration cost, while patent cost also includes the income tax.

According to the data (see Chart 2.4), on average, individual entrepreneurs spent 117 somoni ($37) on the whole registration process, including all official and unofficial payments. This indicator shows a sharp decline with respect to 2002.

The cost of the registration of individual entrepreneurs varies greatly from region to region, even for the same type of activity. As Chart 2.5 shows, the cost of registration in the field of retail trade shows sharp differences between Dushanbe and the Districts of Republican Subordination. The difference in unofficial payments is the main reason behind such a gap.

2.2.4 UNOFFICIAL PAYMENTS

As the survey reveals (see Chart 2.6), unofficial payments still play a role in the registration process: 25% of respondents admitted having made unofficial payments during registration procedures. One of the most common reasons for unofficial payments mentioned by entrepreneurs is to speed up the processing of documents.

2.3 REGISTRATION OF DEHKAN FARMS

Legislation dedicates a special status to dehkan farms and provides them with the same rights of any other business entities involved in entrepreneurship (see Box 2.3).

24% of dehkan farmers in the survey sample registered their activity in 2005.

Registration of dehkan farms is regulated by the Law of RT “On a Dehkan Farm.” Dehkan farms operate as individual entrepreneur registered on a certificate basis, with an additional requirement of pre-registering their land. However, registration of dehkan farms is not completely aligned with individual entrepreneurs and post-

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6 For more details see Chapter 7.

16 1 MMW – from January 1, 2004: 7 somoni ($2.2); from January 1, 2005: 12 somoni ($3.8); from January 1, 2006: 20 somoni ($6.3).

17 Dehkan farmers can also choose to be organized in the form of a business partnership or a production co-operative, but are then classified as legal entities and lose the rights of the simplified registration process. For information on registering business partnerships and production co-operatives, see section on registering of the legal entities.
Box 2.3. Extract from the Law of RT “On a dehkan farm”

Article 5. Dehkan farm as a form of business activity
Dehkan farm is a unit of the economical system possessing equal rights along with commercial organizations and individual entrepreneurs.

Registration procedures for dehkan farmers must be performed at 3 different bodies: bodies of statistics, Social Security Fund, and local self-government (Jamoat) (see Chart 2.7).

Pre-Registration
Dehkan farms are established on a piece of land. Acquiring this land for use as a farm is referred to as the pre-registration stage, and involves 2 steps:
- The first is for the head of the rayon (city) to grant a piece of land for organizing a dehkan farm;
- The second step involves obtaining a land user’s right certificate from the Raykomzem, the state body in charge of land use.

State registration
State registration of a dehkan farm is done by application from the dehkan farm. After the registration with the tax bodies, the dehkan farm is given the State Registration Certificate.

Chart 2.7. Registration of a Dehkan Farm

**Option 1: As an Individual Entrepreneur (IE)**

<table>
<thead>
<tr>
<th>Pre-registration</th>
<th>State registration</th>
<th>Post-registration procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Head of rayon (city)</strong></td>
<td><strong>Regional land committee (Raykomzem)</strong></td>
<td><strong>OPTION 1: AS AN INDIVIDUAL ENTREPRENEUR (IE)</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Bodies of Statistics</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1. Application; 2. Confirmation of land plot allocation;</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Social Security Fund</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Jamoat</strong></td>
</tr>
</tbody>
</table>

**Option 2: As a Legal Entity (See Chart 2.13)**
Post-Registration

Post-registration consists of 3 steps:

- At the bodies of statistics: after obtaining the Registration Certificate at the tax bodies, a dehkan farm must also register at the statistics bodies at the location of the farm to get the statistical code for the general classification of enterprises and organizations (“OKPO” code);
- At the Social Security Fund: after obtaining the OKPO code, dehkan farms must apply to the Social Security Fund to be registered as a taxpayer and receive an Individual Taxpayer’s Code;
- At the Jamoat: dehkan farms must also register in the financial records of the local administration.

2.3.1 DIFFICULTY OF REGISTERING A DEHKAN FARM

As the survey shows, registration of a dehkan farm still remains problematic: 43% of dehkan farmers think that the procedure is either complicated or very complicated (see Chart 2.8). The difficulty of the registration procedure can be explained by ambiguous legislation and non-transparent and time consuming process, including the paperwork to be filled at different bodies described in Chart 2.7.

2.3.2 TIME FRAMES FOR THE REGISTRATION OF DEHKAN FARMS

The legislation does not regulate the time frames for every stage of the registration process for dehkan farmers (see Table 2.2). Time limits are set only for the Head of the Rayon to grant the land (within one month) and for registering at the Social Security Fund (within 10 days after submission of the application).

According to the survey, registration of a dehkan farm in Tajikistan takes, on average, 78 business days. This situation has worsened with respect to 2002 (see Chart 2.9).

Survey respondents cite the pre-registration process as the main cause of the long duration in registering a dehkan farm. The procedure of obtaining land can at times take several months, and is due to the difficulty in gaining approvals and preparing all nec-

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18 Article 16 of the Law of RT “On a Dehkan Farm.”
19 The Guidelines for “Accepting, Accounting and Spending the Resources of the Social Security Fund of RT,” approved by the Chairman of the Fund as per the agreement with the Ministry of Finance and the Chairman of the National Bank dd. June 24, 1997.
21 There is no official information.
22 A dehkan farm must apply for state registration at the tax bodies within 30 calendar days after receiving the land use certificate (Article 45 of the Tax Code). But there is no information on the time frame for the government bodies to complete registration after receiving the application.
23 Legislation does not specify the time frames for completion of the registration.
necessary documents. It is also caused by the absence of a legally established time frame for obtaining the Land User’s Right Certificate and the low legal awareness of farmers (for example, when preparing the required documents).

2.3.3 COST OF REGISTRATION OF A DEHKAN FARM

The survey results show that the average cost of registering a dehkan farm in 2005 is 269 somoni ($84), including official and unofficial payments (see Chart 2.10). This indicator decreased greatly as compared to 2002,24 most likely due to government reforms that reduced the examination requirement by a notary office. Previously, a farmer had to prepare and present the documents required for registration at the Ministry of Justice, as well as register the farm at a notary office.

The legislation does stipulate some costs of the procedure:
1. State registration of a dehkan farm at the tax bodies is free of charge25;
2. Issuance of the registration OKPO card costs 3 times the minimum monthly wage (60 somoni or $19)26;
3. Processing the Land Use Certificate is subject to the following payments27:
   • for dehkan farms organized on the lands of reformed agricultural institutions and companies – 37.24 somoni ($12);
   • for dehkan farms organized on other pieces of land – 75.14 somoni ($23).

Nevertheless, despite these improvements, the legislation does not define the official cost of every step of the registration process for dehkan farmers. The cost to apply for a decision from the rayon is not specified, for example.

The unclear and ambiguous legislation regarding registration costs for dehkan farms is reflected on the regional level. Costs to register a farm varied widely among the provinces of Tajikistan. According to the survey results, farmers paid most to register in the Kurgan-Tube district of Khatlon province and in Sughd province (see Chart 2.11).

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24 See “Registration” in IFC (2004b).
25 Article 26 of the Law of RT “On a Dehkan Farm.”
28 Category “Others” include Kulyab district and Districts of Republican Subordination.
2.3.4 UNOFFICIAL PAYMENTS

The number of dehkan farmers who reported making unofficial payments is remarkably low in 2005 (see Chart 2.12). About 27% of the entrepreneurs who registered their farms in 2005 turned to unofficial payments versus 57% in 2002. Although this figure represents a clear improvement with respect to the previous survey, it should be mentioned that this result can be in part due to the unclear definitions of the official cost of certain steps of registration for dehkan farmers: as a result entrepreneurs cannot always distinguish between official and unofficial payments.

2.4 REGISTRATION OF LEGAL ENTITIES

Legal entities face the most complicated registration procedure among the business types surveyed. This procedure is regulated by the Law “On the State Registration of a Legal Entity,” which was adopted in 2003.

Chart 2.13 presents the process as pictured by the Law (i.e., “de jure”) as well as it is applied in practice (i.e., “de facto”).

Two major highlights of the new Law “On the State Registration of a Legal Entity” that have significantly influenced the registration procedure should be mentioned here:

- On the positive side, the new law reduced the number of bodies involved in the registration procedure: in particular prior to the adoption of the law, examination of constitutive documents and state registration was conducted in separate bodies – bodies of justice and notary respectively, while after adoption of this law, these two procedures are conducted in bodies of justice only;

- On the negative side, the new law increased the term of the state registration, which is the first step of the overall registration process described in Chart 2.13: the time limit for state registration was increased from 5 to 10 days.

State Registration

Legal entities must obtain their State Registration Certificate at the local state justice bodies, with the exception of legal entities with foreign investments and financial institutions which must carry out their state registration in the central office for the Ministry of Justice located in Dushanbe.

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**Chart 2.12. The Practice of Unofficial Payments for Dehkan Farmers is Decreasing**

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Dehkan Farmers Who Made Unofficial Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>57</td>
</tr>
<tr>
<td>2005</td>
<td>27</td>
</tr>
</tbody>
</table>

**Box 2.4. Legal Forms of Legal Entities**

The following legal organizational forms exist in the country:

1. a business partnership (full partnership and a partnership in commendam);
2. a company (limited liability company – LLC, joint-stock company – OJSC, CJSC, additional responsibility company, affiliated and depending company);
3. agriculture and manufacturing cooperatives.

The results of the survey are based on the answers provided by: LLC, OJSC, CJSC, affiliated companies, agriculture and manufacturing cooperatives.

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29 Registration of other legal entities is carried out in justice bodies located in the centre of oblasts.
A. De-jure:

2. After that LE can apply simultaneously to Social Security Fund and Department of Internal Affairs. Social Security Fund registers LE as the payer of social taxes and issues an informational letter. Department of Internal Affairs gives a permit to obtain of a stamp and seal.
3. Next step is opening a bank account. After that LE (with exception of a business partnership or a production co-operative) can start its activity.
4. Business partnership or production co-operative after opening a bank account should be additionally registered in the Jamoat.

B. De-facto:

1. LE applies to body of justice to obtain the Certificate on State registration. Body of justice registers the LE and issues the Certificate on State registration.
2. After this LE applies itself to body of statistics to obtain the OKPO code of the general classification of enterprises and organizations. Body of statistics issues the OKPO code for LE.
3. LE applies to Social Security Fund and gets registered as a payer of social taxes. LE is given an information letter.
4. After this, LE can apply to Tax body and/or Department of Internal Affairs. Tax body issues the Individual Taxpayer’s code. Department of Internal Affairs gives a permit for obtaining of a stamp and seal.
5. Next step is opening a bank account. After that LE (with exception of a business partnership or a production co-operative) can start its activity.
6. Business partnership or production co-operative after opening a bank account should be additionally registered in the Jamoat (local self-government).

Post-Registration

Legal entities must then register at some or all of 6 state bodies indicated in Chart 2.13, depending on the legal form of the legal entity (see Box 2.4):

1. At the bodies of statistics: legal entities must obtain the OKPO code of the general classification of enterprises and organizations;
2. At the Social Security Fund: after obtaining the OKPO code, the legal entity must register with the Social Security Fund as a taxpayer;

30 For list of documents necessary to register a legal entity see Attachment 2.1.
3. At the tax bodies: registration at the tax bodies is done if the OKPO code and confirmation letter from the Social Security Fund are available. Every legal entity must get registered at the tax bodies as a taxpayer in the place of its location, at the location of the immovable property and vehicles belonging to it, and in the location of each of its separated divisions to obtain the Individual Taxpayer’s Code;

4. At the Department of Internal Affairs: registration can be done at any stage after the state registration and before registering at a bank, to obtain an official seal and stamp;

5. At the bank: the legal entity applies for opening a bank account to deposit its capital;

6. At the Jamoat (agribusiness only): agricultural goods producers organized in the form of business partnerships or production co-operatives must also register at the Jamoat, or local governing body.

2.4.1 DIFFICULTY OF REGISTRATION FOR LEGAL ENTITY

The registration process for legal entities in Tajikistan is very complicated, hindering the start-up of business activities.

In fact, although Tajik legislation currently stipulates some aspects of “one-stop-shop” registration (e.g., the bodies of statistics and tax should provide an OKPO and Individual Taxpayer’s Number respectively, based on the information provided by the bodies of justice), in practice, however, this is not done, and entrepreneurs must apply separately to the tax and statistics bodies with the relevant information (see Box 2.5 and Chart 2.13).

The complexity of the registration process for legal entities is further proved by our survey results (see Chart 2.14). Of the 22% of legal entities that established their business in 2005, almost 60% view registration as either complicated or very complicated. Interviews with entrepreneurs showed that at the very beginning of the registration process, they encountered the most difficulties. These included limited access to information on the registration

**Chart 2.14. REGISTRATION PROCESS OF LEGAL ENTITIES IS COMPLICATED**

% OF SMALL AND MEDIUM COMPANIES UNDERGOING REGISTRATION

<table>
<thead>
<tr>
<th></th>
<th>Very easy</th>
<th>Rather easy</th>
<th>Very complicated</th>
<th>Rather complicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>7</td>
<td>37</td>
<td>53</td>
<td>3</td>
</tr>
</tbody>
</table>

31 Seal used for financial documents of the entity; stamp used for correspondence.

32 Articles 9 and 15 of the Law “On the State Registration of a Legal Entity, Articles 45 and 47 of the Tax Code of RT.
The registration of small and medium companies remains a complicated administrative barrier. The absence of clear and specific concepts of cost and duration of certain procedures (e.g., registration at the Social Security Fund) makes the procedure even more difficult.

One of the possible ways to simplify the procedure could be the introduction of a “one-stop shop” principle, which will consolidate the various state agencies into one registering body. This will allow businesses to get registered faster with fewer expenses, and reduces opportunities for graft and bribery (see Attachment 2.3 in the Annex).

2.4.2 TIME FRAMES FOR REGISTRATION OF LEGAL ENTITIES: A LONG PROCESS

The legislation does not fully define the time frame to register a legal entity (see Table 2.3) and as such, the process can be extremely complex and time consuming.

According to survey data, it took the same time to register a legal entity in 2005 as in 2002: more than one month (see Chart 2.15).

Such a long time frame does not encourage development and formation of small and medium business representing a serious barrier to entry and has direct consequences on the economy.

### Table 2.3. Official time frames for registration of legal entities

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Bodies</th>
<th>Time frames, days</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Registration</td>
<td>Bodies of Justice</td>
<td>10</td>
</tr>
<tr>
<td>Post-Registration Procedures</td>
<td>Bodies of Statistics</td>
<td>not specified(^{34})</td>
</tr>
<tr>
<td></td>
<td>Tax Bodies</td>
<td>10(^{35})</td>
</tr>
<tr>
<td></td>
<td>Social Security Fund</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Bodies of Internal Affairs</td>
<td>not specified</td>
</tr>
<tr>
<td></td>
<td>Banks</td>
<td>not specified</td>
</tr>
</tbody>
</table>

\(^{33}\) A one-stop shop is any institution that unifies government officials from different departments in one location to provide information and/or services to its citizens (see Attachment 2.3).

\(^{34}\) The bodies of statistics must file information about the registration of the legal entity into the state register of enterprises and organizations, and is also obliged to give the legal entity the statistical code (OKPO) and notify the entity in writing. The legislation, however, does not envisage the time frame to complete the procedure of creating a record for a legal entity.

\(^{35}\) A legal entity must apply for registration at the tax bodies within 30 calendar days after registering at the bodies of justice (Article 45 of the Tax Code). But there is no corresponding time limit for the tax bodies to register the entity after receiving the application.
The absence of a uniform, legally established time frame explains the high regional differences in the duration of the registration procedure: the fastest time to register a legal entity was in Sughd province (20 days), while the longest one was in the Districts of the Republican Subordination A (40 days). This long duration is due to the fact that according to current legislation all legal entities from DRS get registered in Dushanbe that adds up to time and financial cost of entrepreneurs, especially from remote areas (see Box 2.6 and Chart 2.16). Additionally, the differences of duration of registration characterize the status of the business environment in the region, in particular, the relations between entrepreneurs and certain officials and bodies involved in registration.

Box 2.7. Example of declarative principle in the registration process

The declarative principle of registration introduced in Uzbekistan is a process of state registration based on the consideration of provided documents. This process does not foresee a comprehensive examination of documents for compliance with current legislation. Registering bodies only consider the sections of documents relevant to their control. Preparation of the necessary documents for state registration can be done either by founder himself or by hired consulting company, Chamber of Commerce and Industry, other persons. Founder bears full responsibility for the authenticity of provided documents and their compliance with current legislation.

Refusal of state registration can be due to:

for all legal entities:
- application to an irrelevant registering authority;
- presentation of an incomplete set of documents;
- the firm name in constituent documents or stamp design do not correspond to the name specified in the certificate confirming its uniqueness;
- the legal form of business declared in the constituent documents or the stamp design do not correspond to the legal forms provided by the legislation;
- constituent documents include types of activity prohibited by the legislation;
- the authorized capital specified in the constituent documents does not match the authorized capital size established by the legislation for that type of business entity.

Additionally for entities with foreign investments:
- the share of foreign investments does not correspond to the share size established by the legislation for entities with foreign investments;
- the list of founders does not include a foreign legal entity.

Additionally for bazaars:
- failure to pay at least 30% of the authorized capital amount specified in the constituent documents;
- the list of founders of the market does not include the local government holding at least 51 percent of the shares.

Provided documents are studied only to check their inconsistency with cases of refusal. Refusal of state registration except above mentioned cases is not allowed.

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36 Due to the small number of registered companies in GBAO, Kulyab district, Kurgan-Tube district and DRS B, these regions are grouped under “Other regions” for statistical purposes.

37 See IFC (2006b).
Furthermore the long registration period is due to thorough examination of documents by the bodies of justice during very thorough examination of provided documents. Entrepreneurs think that officials drag out the process and can even refuse the state registration on any pretext, opening opportunities for rent-seeking. It is recommended therefore to introduce the declarative principle of registration to streamline the process and reduce the authority of officials to refuse the state registration (see Box 2.7).

2.4.3 COST OF REGISTRATION FOR LEGAL ENTITIES

From March 2004, the fees for several stages of registration of a legal entity are defined by the Law and are linked to the minimum monthly wage (MMW). This means that every increase of the MMW also increases the cost of registration (see Attachment 2.4 in Annex). For the time being the following fees are set by legislation:

1. Fee for state registration by the bodies of justice amounts to 30 MMW;
2. Obtaining the statistical code (OKPO) by the bodies of statistics and issuing a registration card costs 3 times the MMW.

However, the costs for registering at other bodies are not set forth in the legislation, and as such, are open to higher unofficial payments. Accordingly, registration as a legal entity is the most expensive for entrepreneurs.

Legal entities spent 745 somoni ($233) to register in 2005, including official and unofficial payments (see Chart 2.17). This indicator is 83% higher than that in 2002, and supports the assumption that registering bodies increase the pressure on legal entities.

The registration cost also varies depending on the region. Entrepreneurs who registered their business in Dushanbe pay more. This may be due to the greater number of entrepreneurs in the country’s capital who hire legal firms to take care of their registration procedures.

2.4.4 UNOFFICIAL PAYMENTS FOR LEGAL ENTITIES: STILL AN ISSUE

The data on unofficial payments also prove that registration of legal entities is a difficult procedure with a large amount of inter-

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38 Law of RT No. 19 “On the State Due” dd. February 28, 2004. Prior to the law, the costs to register with the state were approved by the Government of the Republic of Tajikistan. For example, Decree No. 587 of the government of RT on November 29, 1993.

vention from state bodies’ side. According to the survey, almost 44% of the entrepreneurs who tried to register their businesses in 2005 had to turn to unofficial payments. Remarkable is the fact that this figure did not change in comparison to 2002 (see Chart 2.18) proving that legislative changes do not always work in practice.

In general, legal entities begin their operation after obtaining the State Registration Certificate, except for activities that require a license or a permit.

Chapter 3 and Chapter 4 provide a more detailed description of the procedures linked to the start of business activity.

2.5 ECONOMIC IMPACT ESTIMATE

According to the approach described in Box 2.8, SMEs lose between 4% and 27% of their annual profit to undergo the registration process (see Chart 2.19).

Though losses for individual entrepreneurs are relatively modest, their repetitive nature (due to the fact that individual entrepreneurs need to register every year anew) represent a significant burden for them. It is also remarkable that dehkan farmers lose a significant share of their annual profits due to the very long registration process. In money terms small and medium companies bear the highest burden.40

Chart 2.19. ECONOMIC IMPACT OF THE REGISTRATION BURDEN RANGES BETWEEN 4% AND 27% OF ANNUAL PROFITS

Chart 2.18. UNOFFICIAL PAYMENTS DURING REGISTRATION ARE COMMON FOR LEGAL ENTITIES

| % OF SMALL AND MEDIUM COMPANIES WHO MADE UNOFFICIAL PAYMENTS |
|------------------|------------------|
| 2002             | 44               |
| 2005             | 44               |

BOX 2.8. ESTIMATE OF THE OPPORTUNITY COST LOST DURING THE REGISTRATION PROCEDURE

Registration process creates direct costs for newly established businesses in the form of expenses (official and unofficial payments) they need to bear. At the same time, due to the long registration process businesses lose the opportunity to gain additional profits. These losses are calculated as additional "opportunity costs." Overall economic impact is equal to:

\[
C = E + (P_A \cdot \frac{d}{d_t}),
\]

where:

- \( C \) - economic impact in money terms;
- \( E \) - official and unofficial expenses for registration;
- \( P_A \) - annual profits, net of profit tax;
- \( d \) - business days per year;
- \( d_t \) - business days spent for registration.

40 Attachment 2.2 provides a detailed calculation for a specific sector.
RECOMMENDATIONS

1. Introduce time limits for registration, which could apply to single bodies as well as to the overall process. This could be achieved by:

   1.1 Imposing by law a fixed consideration time for each step of the registration process: within 1 working day whenever a simple approval is needed (i.e., to obtain Statistical Code), while within 5 working days where a thorough analysis is needed (i.e., State Registration);
   1.2 Requiring the public bodies to substantiate delays, as well as to provide a detailed explanations for refusal of applications in order to allow the applicant to improve upon it;
   1.3 Introducing a maximum registration time, differentiated per typology of companies, in case a “one-stop-shop” principle was to be introduced.

   Expected impact

   Time limits for registration introduce a responsibility principle for public bodies, which should increase efficiency by:
   - Reduced registration time, which in turn would result in faster entry of new companies, with positive impact on profits, employment and tax revenues;
   - Reduced costs, in particular unofficial ones, resulting in cheaper entry of new companies.

2. Introduce official processing costs for each step of registration by the different bodies. These costs should be differentiated for each typology of business and officially disclosed in the informational boards in each bodies.

   Expected impact

   Introducing and communicating to the public the official costs involved in each stage of the registration process would increase transparency of the process and in turn decrease unofficial solutions, overall reducing registration costs. This would in turn result in:
   - Reduced costs, in particular unofficial ones, resulting in cheaper entry of new companies, with positive impact on profits, employment and tax revenues;
   - Higher number of registered businesses, reducing the size of the informal sector in the economy.

3. Further streamline the registration process for individual entrepreneurs, by creating a “one-stop-shop” which would integrate Tax Bodies and Social Security. This could be obtained by providing the Tax Authority with the responsibility to collect the information needed by the Social Security Fund the start-up of an individual entrepreneur’s activity.

   Expected impact

   A further consolidation of the stages needed to register an individual entrepreneur would be particularly beneficial given the repetitiveness of the process (on a yearly basis for patent holders). This would in turn result in:
   - Higher number of registered businesses, reducing the size of the informal sector in the economy;
   - Reduced registration time, which in turn would result in faster entry of new companies, with positive impact on profits, employment and tax revenues;
   - Reduced costs, in particular unofficial ones, resulting in cheaper entry of new companies.

4. Implement a life-time registration for individual entrepreneurs operating under certificates, which would reduce a recurrent cost for doing business. As the legislation does not foresees expiration for certificates, this result could
be simply achieved by monitoring that the Tax Bodies do not include an expiration date in the certificate which they issue.

Expected impact

By waiving a duration limit for certificates, individual entrepreneurs opting out for this typology of registration would obtain an immediate benefit by avoiding a recurrent burden. This in turn would imply:

- Reduced time and cost on a yearly basis for certificate holders, with positive impact on profits, employment and tax revenues;
- Provision of an incentive to individual entrepreneurs to operate under a certificate status, beneficial for the public budget in terms of higher revenues and transparency of the accounting.

5. Reduce the number of steps needed to register a legal entity (e.g., applying the so-called “one-stop-shop” principle) and limit the discretionality of each body in the decision making process. This could be achieved by:

5.1 Ensuring the implementation of the current legislation foreseeing an exchange of records between registering bodies which would allow the companies to obtain a Statistical Code and a Taxpayer’s Identification Number without the need to further apply to each of the bodies;
5.2 Introducing a full fledged “one-stop-shop” mechanism including all the State bodies involved in legal entities registration. The registering entity could fill in a single application and provide at once all the necessary documents, which would be processed internally by the involved bodies;  
5.3 Introducing the declarative principle in the registration process by the bodies of justice, foreseeing simplified consideration process and specifying a limited set of cases for refusing registration (e.g., incomplete documentation, unlawful activity).

Expected impact

A lower number of steps is expected to reduce a barrier to entry for new companies, resulting in:

- Reduced registration time, which in turn would result in faster entry of new companies, with positive impact on profits, employment and tax revenues;
- Reduced costs, in particular unofficial ones, resulting in cheaper entry of new companies.

6. Introduce a single identification number for legal entities, to be used at the bodies of justice as well as statistical and tax bodies. The single identification number could be assigned by the first body processing the registration documents and communicated to the other ones along the process.

Expected impact

Introducing a single identification number would simplify the registration process, by reducing the need to apply to different bodies (see Recommendation 5), while at the same time it would also facilitate the identification of the companies for State purposes, including tax and social security payments administration.

7. Introduction of a transparent mechanism for land allocation for the creation of dehkan farms, which foresees, at the minimum:

- Fixed terms for decision making;
- Clear application fees.
Expected impact

Simplified land allocation mechanism would make registering dehkan farms easier, which would allow dehkan farmers to dedicate more time for tillage resulting in increased possibilities for good yield.

8. Increasing the legal awareness of entrepreneurs through the related state and non-governmental structures, and improving entrepreneurs’ access to information on the registration procedure. To increase awareness campaign entrepreneurs it is recommended to introduce a uniform set of documents required for the registration (preferably not more than one or two forms).

Expected impact

Improved access to information, especially outside the Dushanbe region, could improve registration procedures, allowing for growth in the number of local companies. This in turn would have an immediate impact on the local economy, supporting development of local entrepreneurship.
ANNEX
Attachment 2.1. List of documents for the Legal Entities Registration procedure.

1. In bodies of justice:
   • Application;
   • Statute;
   • Decision, which encompasses: creation of legal entity; confirmation of constituent documents; assignment of the head of executive organ of legal entity;
   • Documents confirming legal address and location;
   • Receipt or copy of warrant for payment of state due.

2. In bodies of statistics:
   • Certificate of state registration (copy);
   • Statute (copy).

3. In Social Security Fund:
   • Certificate of state registration (copy);
   • OKPO code (copy);
   • Statute (copy).

4. In Tax bodies:
   • Certified statute (copy);
   • Certified Certificate of state registration (copy);
   • OKPO code (copy);
   • Reference from Social Security Fund Information about number of staff, chairman and chief accountant (copy).

5. In Department of Internal Affairs:
   • Statute (copy);
   • Certificate of state registration (copy).

6. In bank:
   • Application;
   • Certified statute (copy);
   • Certificate of state registration (copy);
   • Two cards with signature samples and imprint of the seal (copy).

7. In Jamoat (only for agribusiness)
   • Certificate for the right to use the land.
REGISTRATION

Attachment 2.2. Example of the opportunity cost calculation for small and medium company

We took the example of one sector of the economy: retail trade.

1. The amount paid during the registration

An enterprise operating in retail trade on average spent 785 somoni ($245) for the entire registration process (76% of GDP per capita), including all official and unofficial payments.

2. Loss of profits

Time spent on the registration process is lost opportunity for a newly established enterprise to gain income. According to survey results, entrepreneurs operating in retail trade gained income of 20,420 somoni ($6,381) in one year. If a firm operated a complete month instead of going through the long registration process, it could earn 1,700 somoni ($531) (20,420/12*1=1,700). The total amount lost by the enterprise during the registration process is thus 2,485 somoni ($777).

3. Taxes to the country budget

VAT (the rate is 20% of the turnover)
In 2005 the sale turnover in retail trade made 290,600 somoni ($90,812) (or 24,215 somoni/$7,567 per month). Based on that figure, the state budget does not receive 4,840 somoni ($1,512) in VAT from those enterprises that spent a whole month to register their activity (24,215*0.25=4,840).

Tax for motorways use (the rate is 0.5% of the turnover of a retail enterprise)
The budget loss in this case amounts to 120 somoni ($38), the calculation is similar to the calculation for the VAT.

Profit tax (the rate is 20% of the profits)
Going by the calculation of the monthly profits, the loss of the state budget from the profit tax will amount to 340 somoni ($106) (or 20% of 1,700 somoni).

The total loss for the budget is, therefore, 5,300 somoni ($1,656), i.e.: 4,840 + 120 + 340.
This figure is 5 times as large as the GDP per capita.

4. Creating jobs

On average, a trade enterprise employs 8 people at the average salary of 115 somoni ($36). The total amount of the unpaid salary is 920 somoni ($288), accordingly.
In 2002, a “one-stop-shop” principle was introduced in the Ukrainian city of Ivano-Frankovsk to simplify the registration process. This meant that all of the 8 state bodies involved in registering a business were moved to one office (the Registration Chamber). There is an information center that addresses questions that entrepreneurs have about the registration process, as well as other government services for the private sector.

So, a person who wants to register his business comes to this office, submits all necessary documents, and after a certain time, gets his business (entity) registered. Rather than visiting each of the 8 agencies three times (for a minimum of 24 visits), the entrepreneur now only needs to come to the Registration Chamber three times (to find out what documentation is required, to submit that documentation, and to receive the registration).

Thanks to this one-stop-shop principle:
- The number of local businesses registered in Ivano-Frankovsk increased by 113%.
- The duration of the registration process decreased from 28 days to only 10 days.
- The cost of registration fell by 65%.
- There was increased transparency, due to much clearer and publicly available information, which reduced the opportunities for graft and bribery.
- An additional factor to contribute the increased transparency was the presence of local business associations in the Registration Chamber.

Chart 2.20. Scheme of how the “one-stop-shop” principle works

Legislation distinguishes the registration fees for legal entities with and without foreign investments. The amount to be paid is linked to the minimum monthly wage (MMW). This in turn has some negative impact, increasing the amount to be paid in real terms. For instance a company registering without foreign investments has to pay 15 MMW in 2005 and 2006. The MMW in 2005 was set to 12 somoni, so the registering entity would pay 180 somoni ($56). In 2006 the MMW was increased to 20 somoni, so the registering entity would pay 300 somoni ($94) a remarkable increase of 66% with respect to 2005.
3. LICENSING
3. LICENSING

Licensing procedures in Tajikistan have undergone numerous revisions in recent years, including a significant reduction in the number of activities requiring a license. The Law on Licensing “de jure” came into force in January 2005, but “de facto” only in September 2005 after the adoption of the specific regulation, which defined the various elements needed to implement the changes outlined by the law. Further amendments to the licensing law were introduced in July 2006.

While the survey is based on 2005 data and cannot capture all the effects of the reforms so far, the data does show an overall improvement in the licensing environment. However, some problematic areas were identified that might need further actions from the legislative as well as the procedural viewpoint.

The duration of licenses appears to be the most pressing issue: licenses are issued for too short a time to allow for any reasonable long-term investment. This has the most implication for medium-sized businesses, which, by their nature require more long-term investments than individual entrepreneurs. The duration of licenses has also been addressed with the new amendments to the law, but in this case the limits were further reduced rather than extended. Overall the issue needs further consideration. In addition, survey data show an average duration incompatible even with the legislation in force at the time of the survey.

The list of licensed activities might still be streamlined. A careful analysis shows that activities presenting limited or no risks to health and safety are still subject to licensing (e.g., evaluation and assessment activity). In addition, specific sectors of the economy such as tourism, which might be critical to foster the country’s economic development, are burdened by licensing requirements which are difficult to motivate according to market economy principles.

Finally, the overall situation seems to be the most complicated for legal entities, which need to obtain the most licenses, face the longest wait times and pay the highest official and unofficial payments. This shows that government officials use the licensing process as a means of rent-seeking, which is especially significant given the constant need to renew short-term licenses. This situation needs to be specifically addressed in order to facilitate the development of larger-scale enterprises that would fuel the economic growth of the country.

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1 This profit equivalent also includes “additional” opportunity costs (see more details further in the chapter).

2 e.g., the licensing bodies responsible for each type of licensed activity.
3.1 LICENSING: THE LEGAL FRAMEWORK

A license is a special permit issued by a state body authorizing a business to carry out a certain activity under specific terms and conditions. As such, when a business is subject to licensing requirements, it must obtain the specific license before starting its activities.

The basic normative-legal acts regulating the licensing procedure in the Republic of Tajikistan are the Law “On Licensing of Certain Kinds of Activities” (hereafter “the Law”) and Regulation “On Specifics of Licensing of Certain Kinds of Activities” (hereafter “the Regulation”), which covers detailed provisions outlined by the Law.

This unified legal framework represents a great improvement from 2002, when licensing was regulated by more than 43 sectoral laws and more than 40 by-laws. In particular, the new legislative basis also defines some basic procedural steps required to obtain a license, steps that were not clearly specified under the previous norms (e.g., which application documents are needed, the cost of obtaining a license).

The Law regulates the relations arising from licensing of certain activities and ensures observation of the standards and requirements to protect the interests and safety of the citizens, the community and the state. The Law contains:

- General provisions for the licensing of certain activities;
- List of the activities subject to licensing;
- Time frames for considering the application for a license;
- Validity period of a license and its extension;
- Licensing fees;
- Procedure for suspension and cancellation of a license.

The Regulation defines:

- Licensing bodies for each activity subject to licensing;
- Detailed procedure for obtaining licenses;
- Authorities of the licensing bodies;
- Procedure for overseeing the terms and conditions of a license;
- Provisions on inspections procedures, including rights and du-

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4 No. 337 approved by the Decree of the Government of RT September 1, 2005.


6 The Regulation also describes some inspection requirements (i.e., grounds to conduct an inspection, frequency and duration of inspections).
ties of a license holder during inspection; 
* Additional licensing conditions for specific activities subject to licensing.

### 3.2 Licensing Coverage: Improvements Overall

The specific economic activities requiring a license as well as the criteria to subject an activity to licensing requirements are defined by the Law (see Box 3.1). In addition, the Law distinguishes between general activities subject to licensing and special ones that require greater monitoring.

After the adoption of the Law on Licensing and its amendments in 2006, the number of activities subject to licensing has declined to 66 (versus more than 1,000 in 2002). Although the current situation represents a significant improvement, this sharp reduction was partly obtained by merging several types of activities into one, and its real impact is somehow reduced with respect to the expected one (see list of the activities subject to licensing in Attachment 3.4).

The survey data confirm a significant decline in coverage: 16.4% of respondents needed to obtain a license in 2005, compared to 27% in 2002 (see Chart 3.2). Two comments are nevertheless necessary:

- During the transitional period between the adoption of the Law (May 2004) and issuance of dedicated regulations (September 2005), entrepreneurs faced difficulties renewing old licenses.

#### Chart 3.1. Number of Activities Subject to Licensing Declined after Adoption of the Law

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1000</td>
<td>114</td>
<td>66</td>
</tr>
</tbody>
</table>

#### Box 3.2. Comparison of Two Types of Activities Requiring a License

<table>
<thead>
<tr>
<th>Specific</th>
<th>General</th>
</tr>
</thead>
<tbody>
<tr>
<td>Validity</td>
<td>Less than three years</td>
</tr>
<tr>
<td>Application free</td>
<td>10X minimum wage</td>
</tr>
<tr>
<td>License cost</td>
<td>25X minimum wage</td>
</tr>
</tbody>
</table>

The Law identifies 2 groups of activities requiring licenses, distinguished by the duration as well as issuing costs.

General activities subject to licensing (59 types): private medical activity, passengers and cargo transporting by motor vehicles, tourism related activities, etc.

Special activities subject to licensing (7 types): credit organizations, activities in the field of manufacturing and selling ethyl alcohol, works and services in the field of nuclear power, mining and geological excavations, etc.

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8 For instance, according to the amendments to the Licensing Law in 2006, geodesic and cartographical activities are incorporated into one kind of licensing activity, while before they were separate (#195, July 28, 2006). Manufacture, storage, and use of industrial explosives are incorporated into one kind of licensing activity, though prior to amendments they represented 3 separate categories of activities (#195, July 28, 2006).
9 In accordance with Article 103 of the Labor Code of RT, May 15, 1997, the minimum wage is the minimum monthly monetary payment to the employee in accordance with the working hours established by the Labor Code and the performance of established duties. The size of the minimum wage is periodically established by a Presidential Decree, and is currently 20 somoni by Decree #1716, March 20, 2006.
10 For more details see Attachment 3.3.
licenses, and licensing bodies were reluctant to issue new ones. This likely resulted in a reduction of the number of entrepreneurs who applied to obtain licenses.11

- Survey data do not take into account the provisions of the latest amendments to the licensing law in 2006, which further decreased the number of activities subject to licensing from 114 to 66.

Legal entities are the types of businesses most affected by licensing: more than half (55%) of small and medium companies had to obtain a license (see Chart 3.2). This high percentage can be explained by the fact that legislation dictates that most of the activities requiring a license can only be carried out by legal entities, not individual entrepreneurs.12 Only specific activities in the agricultural sector (i.e., production of tobacco, private veterinary service) that represent a possible risk for the health and safety of consumers are subject to licensing. The majority of dehkan farmers do not engage in these types of activities, and therefore only a small percentage of them needed to obtain a license.13

Overall, there is still room for further reduction in the number of activities subject to licensing, as some international benchmarks as well as examples from Tajikistan’s economy show (see Box 3.3 and Box 3.8).14

In fact, the percentage of businesses undergoing a licensing procedure ranks Tajikistan as average with respect to other CIS countries (see Chart 3.3). Nevertheless both Ukraine and Belarus are in the process of further reforming their licensing regulation while Uzbekistan and Georgia are more developed in this context.

Additionally, analysis of the legislation shows that the list of licensed activities still includes many activities presenting neither risk category nor other justification to be subject to licensing (e.g., activity dealing with evaluation and assessment, pawn-shops, patent attorneys). However, many of these activities impact a large number of SMEs or have a particular relevance for the country’s future development. Box 3.3 clearly describes the case for Internet cafes, which are requested a license for activity in the area of electrical communication.15

11 Licensing bodies temporarily suspended issuing licenses until the adoption of the Regulation.
12 For instance, pharmaceutical activity can be conducted only by legal entities (the Law “On Drugs and Pharmaceutical Activities” of August 6, 2001, Article 30), as well as trade of narcotics, psychotropic substances and precursors (the Law “On Narcotics, Psychotropic Substances and Precursors” of December 10, 1999, Article 10).
13 In particular, no start-up dehkan farmer obtained a license in 2005.
14 See also Attachment 3.2, describing the licensing legislation in the selected CIS countries.
15 Electrical communication refers to any transmission or reception of signs, signals, written texts, pictures, sounds or any information via wire, radio, optical or other electromagnetic systems. (Law “On Electrical Communication,” May 10, 2002).
A clear example of an unnecessary license is tourism: although tourism is considered a priority development area by the Government, in order to start up an activity in this sector it is necessary to obtain a license. This also represents a contradiction with the principles of market economy.

An additional issue needs to be mentioned. In many cases requirements for licensing overlap with those for permits, creating a double barrier regime which poses a serious obstacle to economic activities without pursuing a specific public goal. For this reason permit reform should be carried out in a complementary manner.

A first step in order to address this issue would be to consider on a sectoral basis licensing and permit requirements to identify unnecessary duplications and propose targeted interventions.

### 3.3 Licensing Procedure: A Two-Sided Situation

The procedure for issuing licenses is commonly defined for all licenses. To obtain a license from a licensing body, the applicant must present:

- A set of documents common to all licenses;
- Additional documents/requirements specifically defined for each activity as set out in the Regulation (see Box 3.4).

Chart 3.4 shows an example of the license application procedure for opening a drugstore business.

---

**Box 3.3: Should Internet Cafes Be Licensed?**

Relief International has launched a Schools Online program funded by the United States Department of State to facilitate access to the Internet at 24 schools in the Republic of Tajikistan. The project started in December 2003 and includes a long-term financial sustainability initiative that foresees transformation of computer classrooms into Internet cafés to cover associated electricity and Internet provider services costs.

However, Tajikistan’s State Communications Inspectorate ruled that when the schools will launch Internet cafés in their classrooms, they will need a license from the agency “since they will run the Internet cafés on a commercial basis and thus will have to receive a license – and pay a license fee.” Such a situation contradicts the very essence of licensing, which should not target a commercial business but rather address concerns to human health and safety or the efficient use of scarce resources.

Source: FIAS (2006)

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**Box 3.4: Example of General and Specific Documents Required to Issue a License**

#### General Documents:
1. Application form for issuing a license;
2. Copies of constitutive documents and Certificate of the applicant’s registration with the state;
3. Copy of the Certificate of the applicant’s registration with the tax bodies;
4. Document certifying payment of the license fee.

#### Specific Documents

**Transportation Activity:**
1. Copy of the driver’s license;
2. Copy of the certificate of quality of a vehicle;
3. Copy of log book of the vehicle;
4. Copy of the rental agreement of the transport carrier and warranty (if transportation is not conducted with own vehicle).

**Private Insurance Activity:**
1. Technical and economic assessment of the activity of the insurance organization;
2. Conditions and rules of insurance activity;
3. Information on insurance fees;
4. List of management staff.

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16 “...Due to geographical characteristics and existing possibilities of Tajikistan, special attention is to be paid for development of textile industry, processing of mineral materials, and development of tourism...” (extract from the annual speech of the President of RT to Majlisi Oli, April 20, 2006).
17 For instance legislation foresees both permit and license for pharmaceutical activities (Law “On Medicine and Pharmaceutical Activity” dd. August 6, 2001). Another example of overlapping is the architectural and town-planning activity requiring both permit and license for certain architectural works (Law “On Architecture and Town-planning” dd. May 15, 1997).
18 Regulation No.337 “On Specifics of Licensing of Certain Kinds of Activities.”
Although licensing procedures should be clearly defined by the legislation, almost half (45.5%) of the respondents indicated that the procedures were complicated or very complicated (see Chart 3.5). This could be explained by the relative novelty of the procedures at the time of the survey as well as by the difficulty to obtain the proper information from each licensing body (see Box 3.10 further in text).

Chart 3.4. OBTAINING A LICENSE TO SELL MEDICINES FROM THE STATE SCIENTIFIC CENTRE OF EXAMINATION OF MEDICINES UNDER THE MINISTRY OF HEALTH

Documents to be attached:
- Application for issuing the license, indicating:
  - Name and the organizational and legal form, the legal address and the location, the settlement account and the bank office;
  - Activity to be licensed and the term during which this activity will be carried out;
  - A copy of the Tax Registration Certificate;
  - Document certifying payment of the license fee for considering the application;
  - Information on the employees’ qualification;
  - Copies of the documents certifying the right to use the manufacturing premises;
  - Conclusion of the Sanitary Service and the Fire Surveillance Service;
  - Certificate of Conformity of the premises to the requirements to pharmaceutical activity;
  - A copy of the diploma and the specialist’s employment history;
  - A copy of the specialist certificate, proving that he can carry out pharmaceutical activity.

About 15 documents in total

Chart 3.5. ALMOST HALF OF SMES ASSESS LICENSING COMPLEX

% OF RESPONDENTS UNDERGOING LICENSING

<table>
<thead>
<tr>
<th>Category</th>
<th>Very easy</th>
<th>Rather easy</th>
<th>Rather complicated</th>
<th>Very complicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>11</td>
<td>44</td>
<td>37</td>
<td>8</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>5</td>
<td>49</td>
<td>37</td>
<td>10</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>7</td>
<td>39</td>
<td>47</td>
<td>7</td>
</tr>
</tbody>
</table>
3.3.1 DURATION OF LICENSING PROCESS: COMPLIANCE STILL TO BE ACHIEVED

According to the Law the licensing body must grant or deny the license and notify the applicant about its decision within 30 calendar days from the receipt of the application.\(^{20}\)

The survey data regarding the application procedure do not fully reflect compliance with the requirements imposed by the Law (e.g., the 30-day requirement). Dehkan farmers and individual entrepreneurs spent on average 9 business days to obtain a license, while small and medium companies needed on average 25 business days (see Chart 3.6).

This can be explained in a few different ways:

- Legal entities might encounter more difficulties in applying for those licenses specifically requiring a legal-entity status;
- The requirements for legal entities are often more complex than those for individual entrepreneurs (even when obtaining the same license) and the collection of the documents as well as their analysis might require more time\(^{20}\);
- Legal entities might be specifically targeted for unofficial payments. Thus by delaying the issuance of a license, officials can increase the pressure on them.

This last point can be supported by the fact that start-ups, i.e., entrepreneurs who started their activity in 2005, spent less time than existing businesses to obtain their licenses (see Chart 3.7). This result seems counterintuitive: existing businesses have already obtained at least one license and should be faster in dealing with the process thanks to the experience they developed.\(^{21}\)

However, existing companies are actually more dependent on receiving a certain license than start-ups, and as such might be more subject to deliberate delays in their application process to increase rent-seeking opportunities, which result in unofficial payments.

The difference can be better observed in some certain sectors of the economy such as retail trade, which is one of the most representative in the Tajik context (see Chart 3.8).

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\(^{21}\)For example, for transport services an individual entrepreneur needs to provide only information about his car and himself. In contrast, a legal entity trying to get a license needs to provide more detailed information on the number of drivers, existence of medical and technical personnel, availability of the technical infrastructure for support of the vehicles, etc. Therefore, it takes longer to prepare this information and also for the licensing bodies to examine it.

\(^{21}\)In fact, even taking into account the novelty of the licensing procedure introduced by the Law, it is not clear why start-ups should have an advantage in preparing and processing their documents.
In order to promote compliance with the 30-day time limit, a simple mechanism has been introduced and successfully implemented in a number of countries, called the “silence is consent” principle (see Box 3.5). According to this principle:

- Once an application has been officially filed, a maximum time limit is defined, within which the public administration can formally:
  - Reject the application, motivating the reason for the act;
  - Request further documentation/clarification;

- If the public administration does not perform any of the two actions defined above after the time limit has elapsed (i.e., is silent), the application will be considered implicitly approved and can be used as an authorization document (i.e., the public administration consent to the action).

**Box 3.5. Principle “Silence is Consent” in Some Countries**

**Italy**
The principle “silence is consent” (silenzio assenso) was introduced within the Law “On Administrative Procedures” in Italy in 1990 to simplify administrative procedures and reduce the duration and number of direct interactions with state bodies. According to this principle, if a state body does not reply negatively to the application it means that the applicant is authorized to conduct the applied action or activity. This rule currently applies to 194 different administrative procedures.

**Spain**
The principle “silence is consent” is set by the Law “On Administrative Procedures” of 1992. According to this rule, the state body has up to 6 months to respond to any request of the applicants (some licenses may require less time). If the state body does not respond, the applicant is vested with all rights to conduct the applied action or activity.

**Mexico**
The principle “silence is consent” was introduced in Mexico in 1995 by the Agreement “On Reduction of the Regulation of Entrepreneurship.” As an example of this principle in action, City committees that oversee water usage and drainage systems have to consider an application within 19 days. If this committee does not reply, the principle “silence is consent” is in place. Applicant can conduct the applied action or activity.

### 3.3.2 Cost of Licensing: Still a Relevant Burden

The cost of licensing varies by the typologies of business (see Chart 3.9):

- Individual entrepreneurs spent 289 somoni ($90) for obtaining all necessary licenses (including official and unofficial payments);
- Small and medium companies spent 717 somoni ($224) for obtaining all necessary licenses (including official and unofficial payments);
- Dehkan farmers spent 82 somoni ($26) obtaining all necessary licenses (including official and unofficial payments).

**Chart 3.8. Existing Business in Retail Trade Spent More Time for Licensing Process Than Start-Ups**

<table>
<thead>
<tr>
<th></th>
<th>Business Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing businesses</td>
<td>13</td>
</tr>
<tr>
<td>Start-ups</td>
<td>9</td>
</tr>
</tbody>
</table>

“The Law sets specific norms for issuing licenses, but the licensing bodies under any pretext drag out the license-issuing procedure...”

- Entrepreneur, focus group participant

**Chart 3.9. Average Cost of Obtaining All Licenses, by Typologies of Business**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>288</td>
<td>289</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>597</td>
<td>717</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>322</td>
<td>82</td>
</tr>
</tbody>
</table>
The costs of obtaining all the necessary licenses did not change significantly in comparison to 2002 as far as individual entrepreneurs are concerned. Costs increased for small and medium companies\(^{22}\) and declined significantly for dehkan farmers. Licensing fees for certain activities in the agricultural sector have been unified in 2005, and, as a result, the overall cost for obtaining agricultural licenses has decreased.\(^{23}\) This is indicative of the efforts of the Government to improve and reform the licensing regime.

However, legal entities have had to make higher official and unofficial payments. This confirms our conclusion that legal entities become more vulnerable before the licensing bodies in terms of getting/eliciting money.

The cost of obtaining licenses can vary dramatically for SMEs, much like the time frame required to obtain one. In fact, although the average cost of licensing is about 365 somoni ($114) almost 25% of the licenses cost more than 400 somoni (see Chart 3.10).

The costs of the licensing procedure seem to be very different even considering the same sector and typology of business (see Chart 3.11). To obtain a license to conduct retail trade transactions, 33% of individual entrepreneurs spent less than 100 somoni. At the same time, 24% of individual entrepreneurs spent more than 400 somoni for the same procedure. These figures confirm the assumptions that:

- Licensing procedures are not transparent;
- Unofficial payments still prevail in the licensing procedure.

It should be noted that licensing costs could be significant in particular for smaller sized businesses and start-up ones in particular, representing a significant barrier to entry. For this reason it would be advisable to introduce the possibility to pay on an installment basis.

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\(^{22}\) Although it did not significantly change in real terms.

\(^{23}\) For instance, the cost of the license to produce and process tobacco was 445 somoni ($150) in 2002 (Decision of the Government of RT No. 131, May 7, 1999). After the introduction of the Law, the unified fee equaled 14 times the minimum wage (in 2005 it would make 168 somoni, or $52.5). This fee applies to all general activities under which all agricultural activities are classified (see more details on specific activities in Annex), thus leading to significant decreases in obtaining licenses for products like tobacco.
3.3.3 UNOFFICIAL PAYMENTS: STILL A COMMON WAY TO RESOLVE ISSUES

Unofficial payments still play a significant role in obtaining a license. There is a strong correlation between the share of unofficial payments and the total cost of licenses, with 25% of respondents acknowledging having made unofficial payments as a solution to the problem of obtaining a license. This figure improves in comparison to 2002, where 33% of entrepreneurs made unofficial payments (see Chart 3.12).

However, unofficial payments are not the only way of solving issues. It is very common to use other methods such as presents, lunch invitations, involving friends or relatives to solve issues. As the results show, these additional unofficial ways of solving the issues are also common among small and medium businesses: 40% of entrepreneurs made use of them (see Chart 3.13).

As the survey shows, the existing (“old”) businesses use unofficial ways more frequently than start-ups when obtaining a license, as they are more vulnerable in case the license is denied (see Chart 3.14). According to the findings of the survey, none of the start-up dehkan farmers underwent the licensing procedure in 2005.

Remarkably, entrepreneurs pay different amounts for a license in different state agencies, although legislation foresees a unified state fee (see Chart 3.15). This again confirms non-transparent procedures and the existence of unofficial ways of solving the issues.

Chart 3.12. PRACTICE OF UNOFFICIAL PAYMENTS AMONG COMPANIES ARE DECREASING
% OF RESPONDENT UNDERGOING LICENSING WHO MADE UNOFFICIAL PAYMENTS

- Dehkan farmers: 17% in 2002, 25% in 2005
- Small and medium companies: 26% in 2002, 33% in 2005
- Individual entrepreneurs: 24% in 2002, 36% in 2005

Chart 3.13. UNOFFICIAL WAYS OF SOLVING ISSUES ARE COMMON AMONG SMEs
% OF RESPONDENT UNDERGOING LICENSING WHO MADE UNOFFICIAL PAYMENTS

- Unofficial payments: 25% in 2002, 15% in 2005
- Other unofficial ways: 40% in 2005
- Overall unofficial ways of solving issues: 22% in 2002, 40% in 2005

Chart 3.14. EXISTING BUSINESSES RECUR MORE FREQUENTLY TO UNOFFICIAL WAYS OF SOLVING ISSUES
% OF RESPONDENT WHO MADE UNOFFICIAL PAYMENTS

- Individual entrepreneurs: 26% in start-ups, 36% in existing businesses
- Small and medium companies: 49% in start-ups, 52% in existing businesses

Chart 3.15. AMOUNT SPENT FOR OBTAINING A LICENSE DIFFERS BY GOVERNMENTAL AGENCIES

COST OF ONE LICENSE IN SOMONI

- Ministry of Justice: 543 somoni
- Ministry of Agriculture: 484 somoni
- Ministry of Industry: 354 somoni
- State Scientific Centre of the Medicine Examination (Ministry of Health): 350 somoni
- Ministry of Economy and Trade: 308 somoni
- Ministry of Health: 282 somoni
- Ministry of Energy: 185 somoni
- Ministry of Transportation: 125 somoni
3.4 ECONOMIC IMPACT OF LICENSING

SMEs undergoing the licensing procedure spend not only money for obtaining all necessary licenses, but a significant amount of time and human resources as well. To better demonstrate this effect, we estimated the total loss of time and work in monetary terms (see Box 3.6).

As a result, the total costs for businesses consist of two elements:

- Direct costs for obtaining all necessary licenses (including official and unofficial payments);
- Indirect costs caused by loss of labor resources redirected to obtaining a license, and loss of potential profits for start-ups, which cannot begin operations without the necessary licenses.24

According to our approach, licensing costs vary between 2% and 16% of annual profits (see Chart 3.16).25

In particular, legal entity start-ups appear to bear most of the licensing costs: 3,100 somoni ($969), which equals 16% of the annual profits.

Chart 3.16. ECONOMIC IMPACT OF THE LICENSING BURDEN RANGES BETWEEN 2% AND 16% OF ANNUAL PROFITS

<table>
<thead>
<tr>
<th>Percentage of Annual Profits</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>315 somoni</td>
<td>90 somoni</td>
<td>2%</td>
</tr>
<tr>
<td>4%</td>
<td>395 somoni</td>
<td>800 somoni</td>
<td>2%</td>
</tr>
<tr>
<td>8%</td>
<td>8% of annual profits</td>
<td>10% of annual profits</td>
<td>4% of annual profits</td>
</tr>
<tr>
<td>10%</td>
<td>10% of annual profits</td>
<td>16% of annual profits</td>
<td>8% of annual profits</td>
</tr>
</tbody>
</table>

24 Lion’s share of the burden is represented by the “additional” costs in the form of lost profits.
25 Calculation is made for SMEs which underwent licensing procedure.
26 Start-up dehkan farmers did not obtain any licenses in 2005.
3.5 Duration of a License: A Strong Deterrent to Long-Term Investments

The duration of a license -- the time frame in which the licensee can carry out the licensed activity before re-applying -- is a relevant aspect of licensing.

As mentioned above, the Law provides two different approaches to determine the validity period of a license:

• The standard duration of a license is 5 years;
• For specific activities the validity period of a license is not less than 3 years.27

The legislation also provides an additional provision for individual entrepreneurs operating without hired employees. The individual entrepreneur can apply for a license valid from one to five years (see Box 3.7).28

According to the findings, the average duration of a license in practice is 10.4 months (see Chart 3.17). This clearly does not reflect the provisions of the Law on Licensing. Even before the 2006 amendments,29 licenses should have been valid for at least 5 years for general activities (see Box 3.7).

On one hand, this phenomenon could be due to the fact that the licensing bodies did not completely introduce the provisions of the new legislation into their day-to-day practices. On the other hand, it illustrates that the state bodies do not always comply with provisions of the law. A better assessment of the impact of the new legislation can be done in a follow-up survey.

The duration of licenses does not differ significantly among business typologies. Nevertheless, a direct correlation exists between the amount paid to obtain a license and the duration of it: in fact small and medium companies obtained the longest-lasting licenses, while dehkan farmers got the shortest.

By comparing licensing costs between start-ups and existing businesses, we notice that the latter faced higher payments, clearly correlated to higher unofficial payments (see Chart 3.18). This is to testify that the short-term licenses not only defer long-term investments, but also stimulate rent-seeking opportunities by gov-

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27 According to the Law “On Licensing” the specific activities include: banking activity, foreign currency exchange transactions, the activity in the field of electric communication.
28 Lawmakers used a flexible approach to offer individual entrepreneurs the choice to apply for licenses valid between 1 and 5 years. For example, if a person wants to work as a taxi-driver for just one year, he may apply for a 1-year license as an individual entrepreneur and pay a fee equivalent to 2 minimum wages only, while a 5-year license would cost 10 minimum wages.
29 Introduced in July 2006.
LICENSING

Chart 3.18. Existing small and medium companies are under more pressure to get a license

<table>
<thead>
<tr>
<th></th>
<th>Start-ups</th>
<th>Existing businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>266</td>
<td>269</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>382</td>
<td>619</td>
</tr>
</tbody>
</table>

Chart 3.19. Duration of a license differs regionally

<table>
<thead>
<tr>
<th>Location</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>16 months</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>13 months</td>
</tr>
<tr>
<td>Districts of Republican Subordination</td>
<td>11 months</td>
</tr>
<tr>
<td>Sughd province</td>
<td>10 months</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>7 months</td>
</tr>
</tbody>
</table>

In a market economy, the duration of licenses plays a significant role for investment consideration. The length of time set by the Tajik legislation does not fully meet the requirements of a market economy, as a long-term license would ensure a potential investor an adequate time for return on his investments. In this context, a more flexible approach is required. The government partially addressed this issue for individual entrepreneurs, providing entrepreneurs with the choice to determine the duration of their licenses. This approach could be expanded for all typologies of business, giving all entrepreneurs the option to apply for:

- Medium and long-term licenses;
- Permanent licenses.

The businesses could themselves determine what they prefer according to their strategies on the market, and not be deterred by the risk incurred in renewing short-term licenses. In this context, the experience of Georgia is very interesting (see Box 3.8).

An additional, complementary measure, would be to allow for payments in installments, on a yearly basis (see section 3.3.2) in order to facilitate market entry for those players with limited access to financial resources. So that they do not apply for short-term licenses simply on the basis of financial constraints.
According to the most recent amendments, the legislation defines a set of situations in which a license could be suspended or revoked (see Box 3.9).

In particular the law foresees that a license should be revoked only by court decision, unless payments for licensing fees are not made.

Nevertheless, the cases in which the license could be suspended are not precisely defined, leaving a certain degree of discretionary power to licensing bodies. Clearly defining the cases of possible suspension as well as entitling the court to suspend a license would help secure entrepreneurs’ right and facilitate business entry.

3.6 ACCESS TO INFORMATION

Obtaining information on the licensing process still remains difficult for entrepreneurs.

This is also confirmed by the survey findings (see Chart 3.20) as well as by a direct experiment conducted by the IFC team (see Box 3.10), which shows some reluctance from government bodies to share complete informations on licensing requirements.

Box 3.9. Suspension and Cancellation of License

According to the Law a license can be suspended in case of repeated or relevant violations of license requirements. The license can be suspended only in extraordinary cases, when there is a threat to consumers’ health or to the environment, and other options are not possible. The licensing body should set a time-frame (no more than 3 months) for a licensee to eliminate the violations. If the violations are not eliminated within a set term, the licensing body is obliged to appeal to court for a license cancellation.30

Legislation clearly defines the situations in which a license can be revoked:
- By a court decision, if the licensee violates the licensing requirements and if the circumstances leading to the suspension of the license have not been eliminated within the set timeframe (6 months);
- By the decision of the licensing body, if the licensee failed to pay the license fee within the set timeframe (3 days).31


<table>
<thead>
<tr>
<th>Governmental Agency</th>
<th>Very easy</th>
<th>Rather easy</th>
<th>Very complicated</th>
<th>Rather complicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Economy and Trade</td>
<td>17%</td>
<td>50%</td>
<td>4%</td>
<td>29%</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>6%</td>
<td>54%</td>
<td>17%</td>
<td>23%</td>
</tr>
<tr>
<td>Ministry of Industry</td>
<td>19%</td>
<td>40%</td>
<td>3%</td>
<td>38%</td>
</tr>
<tr>
<td>State Construction and Architecture Committee</td>
<td>4%</td>
<td>52%</td>
<td>11%</td>
<td>34%</td>
</tr>
<tr>
<td>Ministry for Social Protection</td>
<td>19%</td>
<td>34%</td>
<td>21%</td>
<td>26%</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>9%</td>
<td>44%</td>
<td>13%</td>
<td>35%</td>
</tr>
<tr>
<td>State Scientific Centre of the Medicine Examination</td>
<td>5%</td>
<td>45%</td>
<td>14%</td>
<td>36%</td>
</tr>
<tr>
<td>Ministry of Agriculture</td>
<td>7%</td>
<td>38%</td>
<td>16%</td>
<td>38%</td>
</tr>
<tr>
<td>Transport Inspection (Ministry of Transportation)</td>
<td>8%</td>
<td>23%</td>
<td>39%</td>
<td>31%</td>
</tr>
</tbody>
</table>

30 Law on Licensing, Article 6 and 14.
31 Law on Licensing, Article 14.
BOX 3.10. EXPERIMENT ON OBTAINING INFORMATION IN SOME STATE BODIES IN JULY 2006

To evaluate the accessibility of information from the state, volunteers visited different state bodies and asked for details about the licensing procedure. Below are the main findings of this experiment.

Ministry of Agriculture
Different departments of the ministry issue certain licenses such as: private veterinary activity, manufacturing of tobacco, production of ethyl spirit, etc.

The central apparatus did not provide any information. It is necessary to apply directly to the relevant department that issues the licenses. Access to information depends on how one introduces himself. The volunteer who introduced himself as an employee of an international organization (in this case, IFC) was denied any access to the information and had to apply in writing. He was also told that the application would take one month.

The volunteer who introduced himself as an entrepreneur obtained only general information (list of documents, official cost, etc.), which was outlined on an announcement board. The entrepreneur was advised to apply during a certain period (for instance, if an official plans his vacation, then before his leave). More detailed information about the procedure is hard to obtain. Other entrepreneurs informed the volunteer that there are faster ways to obtain the license – i.e., use of unofficial payments.

Ministry of Health Protection
Different departments of the ministry issue certain licenses such as: private medicine activity, technical service of medical equipment, pharmaceutical activity, etc.

The representative of the ministry refused to share any information.

Ministry of Justice
The ministry issues licenses for provision of juridical services, with the exception of representing the interests of individuals and legal entities in law-enforcement bodies and courts.

It is very easy to obtain information in this state body. In the licensing unit (Room 20), the list of documents necessary for obtaining the license is displayed. There is a reminder to check the accuracy of all documents before submitting them, and a posting of the expected wait time for a license – 1 calendar month.

The following documents are required in the ministry, although they are not required by the Law or Regulation:

- 2 years experience as a lawyer in a company;
- Reference from the Ministry of Internal Affairs on absence of convictions;
- History of employment;
- Photo (4x6 cm);
- Copy of passport.

Ministry of Economy and Trade
The ministry issues licenses for tourism activity.
It does not take longer than 10-15 minutes to obtain the list of requirements for a license in this activity. At one department, the applicant received the list of necessary documents, length of time of the application process, and a list of required documents. Many of these are not regulated by the Law or the Regulation:

- Graduation Certificate of the short-term courses on tourism business (at least 2 weeks);
- Employment history.
**RECOMMENDATIONS**

1. **Extend the duration of licenses and introduce permanent licenses.** This can be achieved by:
   1.1 Introducing by law a minimum 5-year validity period for all licenses (as in most countries);
   1.2 Identifying licenses that can be issued once, i.e., permanent licenses that are revoked only if infringements are identified;
   1.3 Enforce provisions of the law on duration of issued licenses to avoid the current discrepancy between legal terms and practical ones.

**Expected impact**

By extending the validity period of licenses, the government will further reduce the barrier to market entry that will:

- Provide an incentive for entrepreneurs to enter into the market, by ensuring that they have sufficient time to make a return on their investment without the constant risk of losing their license to operate. This will increase the number of active companies and the size of the productive investments, which are both quite limited at the moment;
- Reduce the immediate costs of doing business by reducing official and unofficial payments, as well as time spent dealing with license renewals. This time could be translated into greater profits, more taxes paid, and more investments.

These changes will lead to:

- Higher profitability of existing companies would result in more taxes paid, compensating for the reduction in licensing fees;
- More investments into the economy, which in turn will produce larger and more solid companies to increase employment and tax revenues;
- More start-up companies, especially in sectors that the Government considers to be a priority, resulting in higher employment and tax revenues.

2. **Introduce the possibility, particularly for individual entrepreneurs, to obtain long term licenses, while at the same time paying in yearly instalments.** This would secure their rights for a longer time frame and reduce their financial burden, particularly heavy for cash-constrained individuals.

**Expected impact**

The immediate benefits of introducing payments by instalment for licenses would be two-sided:

- For entrepreneurs: it would reduce the immediate burden for individuals lacking access to funding, resulting in:
  - Easier entry for start-up businesses, leading to more companies active in the economy to generate profits and state tax revenues;
  - Extended licenses, as applicants would apply more frequently for longer term ones, resulting in more secure rights and lower unofficial payments.
- For the state budget: it would secure a more stable revenue flow.

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For more details on investments by SME sector see Chapter 1.
3. Reduce the duration of the license issuing process by enforcing the existing 30-day limit and introducing transparency into the decision process. This can be achieved by:

3.1 Introducing a “silence is consent” principle for all licensing bodies at the end of the 30-day consideration period, which would automatically grant a license in case no explicit refusal decision is made (the application form in that case should represent the license document);
3.2 Requiring licensing bodies to substantiate their refusal or delay of the application;
3.3 Introducing a monitoring system that allows ex-post verification of the average length of the licensing process;
3.4 Introducing a simplified process (with shorter time, e.g., 15 days) for renewals and repeated applications after a refusal.

Expected impact

The immediate benefits of enforcing an application review time limit and bringing transparency into the decision-making process will be:

- Reduced time spent by entrepreneurs dealing with the procedure, leading to higher profits and higher state tax revenues;
- Reduced unofficial payments, as a result of the more transparent decision-making process, that in turn could create higher profits and higher tax revenues.

4. Evaluate the need for a further reduction in licensed activities to include only those activities which:

- Require strict government oversight to protect health and safety;
- Deal with the allocation of scarce resources or with natural monopolies;
- Do not foresee specific permit requirements.

In particular it would be advisable to:

- Reconsider the licensing requirements for sectors not directly falling into the above-mentioned categories (e.g., tourism, trading of jewelry, precious stones and metals, maintenance of motor vehicles and railway transports, repair and maintenance of cargo lifting devices, etc.);
- Launch a comprehensive review of licensing and permit requirements for specific sectors, to identify potential overlaps and select the most appropriate form of governmental control (either licensing or permit).

Expected impact

By further reducing the number of activities subject to licensing, the benefits will be:

- Reduced expenses for entrepreneurs dealing with the procedure, which could in turn increase their profits and generate additional tax revenues;
- Further entry into the relevant sectors (thanks to the reduced barriers to entry) with positive effects on private sector profits and tax revenues;
- Faster development of priority sectors for the government (e.g., tourism);
- Higher competition in the sectors impacted by reduced licenses that could represent a market-oriented alternative to regulation;
- Less government resources dedicated to administrative procedures, redirecting the savings for different needs.

\[33\] Detailed analysis for possible further reduction of the number of activities is provided in FIAS (2006).
5. **Reduce the scope of licensing suspension. In particular by:**
   5.1 Clearly defining for each licensing agency a “closed list” of situations requiring a license suspension;
   5.2 Evaluating the option to subject license suspension to court approval.

**Expected impact**

By reducing the scope of license suspension, entrepreneurs will gain more secure rights, leading to:
- Fewer cases of unofficial payments to licensing bodies;
- Reduced entry costs, leading to more companies active in the economy, generating profits and state tax revenues.

6. **Increase entrepreneurs’ awareness of licensing procedures through the publication and dissemination of information regarding procedures, costs and validity of licenses. This can be achieved by:**
   6.1 From the government side: by enforcing information requirements for each licensing agency. Each agency should be required to produce and distribute a set of application documents, sample of completed applications and relative regulations free of charge to each applicants. A related implementation mechanism, providing for fines in cases of non-compliance should also be put in place;
   6.2 From the private sector side: business associations and other non-governmental organizations should develop information materials to be disseminated within the country to their members and SMEs.

**Expected impact**

By increasing the legal awareness of entrepreneurs, the benefits will be:
- Reduction in the need for unofficial payments, thanks to their greater empowerment, with direct impact on profits and tax revenues;
- Reduction in the time needed to deal with the procedure, as the information will be more readily available, having a positive impact on profits and in turn on tax revenues.
The state bodies that issue licenses most frequently reflect the legislative changes related to the introduction of the licensing law. In fact, local executive authorities of oblasts, rayons and cities (Khukumats) and TajikPisheProm (Committee for Food and Processing), which were among the largest issuers of licenses in 2002, do not appear in the ranking, as Khukumats are no longer eligible to issue licenses, and the licensing authorities of TajikPisheProm were transferred to the Ministry of Agriculture.

The Ministry of Economy and Trade, in charge of licensing tourism activities, issued the most number of licenses in 2005. This ministry has also become responsible for issuing fiduciary licenses to patent attorneys, which may explain the rise as well as an overall increase in the number of tourism businesses in Tajikistan.

The growth in the number of licenses issued by the Ministry of Health is due to the increase of the number of private practices, especially in the Dushanbe area and Sughd province, which are subject to licensing by this authority.

The dedicated licensing department of the Ministry of Transportation has become responsible only for international passengers and freight transportation. Thanks to improved access to international transportation routes, international freight transportation has increased in Tajikistan. Other transportation activities subject to licensing are dealt with at the Transport inspection of this Ministry. As mentioned above, the Ministry of Agriculture took over the licensing authorities of TajikPisheProm in 2005; therefore, there is a remarkable increase in licensing activity compared with 2002.34

Chart 3.21. Licenses obtained in 2002 and 2005, by government agencies

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34 Except licensing for the sale of seeds and veterinary services, this Ministry issues licenses for the trade and production of ethyl spirit, alcoholic products and products containing spirit.
Attachment 3.2. Comparison of the licensing legislation in different countries

<table>
<thead>
<tr>
<th>The regulating legal act</th>
<th>Tajikistan</th>
<th>Belarus</th>
<th>Georgia</th>
<th>Russia</th>
<th>Ukraine</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Licensing Principle</th>
<th>Tajikistan</th>
<th>Belarus</th>
<th>Georgia</th>
<th>Russia</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities that can damage the rights, legal interests, health of the citizens, defense and safety of the state, the cultural heritage of the citizens of RT</td>
<td>Licensing is done for the sake of national safety, public order, protection of rights and liberties, morals, health of the population, environmental protection</td>
<td>Activities that can damage the rights, legal interests, health of the citizens, state defense and safety, the cultural heritage of the citizens of the Russian Federation</td>
<td>Protection of the rights, legal interests, life and health of the citizens, protection of the environment and ensuring the safety of the state</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Number of activities subject to licensing | 66 | 49 | 36 | 110 | 68 |

<table>
<thead>
<tr>
<th>Duration</th>
<th>Tajikistan</th>
<th>Belarus</th>
<th>Georgia</th>
<th>Russia</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>For general activities, 5 years</td>
<td>Not less than 3 years for special activities (Article 18)</td>
<td>5 – 10 years</td>
<td>Most licenses are permanent, but can be suspended or revoked entirely if the licensee does not eliminate the infringements within 3 months</td>
<td>Not less than 5 years</td>
<td>Not less than 3 years</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Time to issue the license</th>
<th>Tajikistan</th>
<th>Belarus</th>
<th>Georgia</th>
<th>Russia</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 30 days after receipt of the application</td>
<td>Up to 45 days</td>
<td>Up to 30 days after receipt of the application</td>
<td>Within 45 days</td>
<td>Within 10 business days after receipt of the application</td>
<td></td>
</tr>
</tbody>
</table>

Attachment 3.3. Extract from the Law of the RT “On Licensing of Certain Kinds of Activities”

Article 18. Special list of the activities that requires a license

1. According to the present Law, the following activities are subject to special licensing procedures:
   • carrying out banking transactions;
   • dealing with foreign currency;
   • manufacturing and selling of ethyl alcohol, goods containing alcohol and spirits;
   • electrical communication;
   • mining and geological excavations;
   • use of objects of flora and fauna listed in the Red Book of Tajikistan of endangered species;
   • activities in the field of nuclear power.
### Attachment 3.4. Activities subject to licensing

<table>
<thead>
<tr>
<th>Sector</th>
<th>Bodies</th>
<th>Ministry of</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Administration and protection</td>
<td>Ministry of Agriculture</td>
<td>Horticulture, production of tobacco products</td>
</tr>
<tr>
<td>Trade</td>
<td></td>
<td></td>
<td>Import and export of tobacco products</td>
</tr>
<tr>
<td>Catering</td>
<td></td>
<td></td>
<td>Processing of alcoholic products</td>
</tr>
<tr>
<td>Medical Services</td>
<td></td>
<td></td>
<td>Patent attorneys</td>
</tr>
<tr>
<td>Consulting Services</td>
<td></td>
<td></td>
<td>Educational activities</td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td></td>
<td>Licensing activities</td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td></td>
<td>Building and construction activities</td>
</tr>
<tr>
<td>Communication</td>
<td></td>
<td></td>
<td>Trade and distribution of petroleum products</td>
</tr>
<tr>
<td>Transport</td>
<td></td>
<td></td>
<td>Operations of oil and gas networks</td>
</tr>
<tr>
<td>Consumer Services</td>
<td></td>
<td></td>
<td>Regulatory activities</td>
</tr>
<tr>
<td>Tourism, Hotel Business</td>
<td></td>
<td></td>
<td>Sale of ferrous/non-ferrous scrap and waste</td>
</tr>
<tr>
<td>Consulting Services</td>
<td></td>
<td></td>
<td>Processing of precious metals and stones</td>
</tr>
<tr>
<td>Production of consumer goods</td>
<td></td>
<td></td>
<td>Import and export of tobacco products</td>
</tr>
<tr>
<td>Manufacturing of tobacco products</td>
<td></td>
<td></td>
<td>Processing of precious metals and stones</td>
</tr>
<tr>
<td>Manufacturing of alcoholic products</td>
<td></td>
<td></td>
<td>Operations of oil and gas networks</td>
</tr>
<tr>
<td>Production of electricity</td>
<td></td>
<td></td>
<td>Regulatory activities</td>
</tr>
<tr>
<td>Distribution of electricity</td>
<td></td>
<td></td>
<td>Licensing activities</td>
</tr>
<tr>
<td>Mining and processing of coal, oil, and natural gas</td>
<td></td>
<td></td>
<td>Licensing activities</td>
</tr>
<tr>
<td>Production of rocks and minerals</td>
<td></td>
<td></td>
<td>Licensing activities</td>
</tr>
<tr>
<td>Production of precious metals and stones</td>
<td></td>
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<td>Licensing activities</td>
</tr>
<tr>
<td>Extraction, processing, and distribution of oil and gas</td>
<td></td>
<td></td>
<td>Licensing activities</td>
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<tr>
<td>Hydro-meteorological activities</td>
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<td>Licensing activities</td>
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<tr>
<td>Usage of satellite and radio frequencies for TV and radio broadcasting</td>
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<td>Licensing activities</td>
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<tr>
<td>State Service on Surveillance and Regulation of Communication</td>
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<td>Licensing activities</td>
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<tr>
<td>Patent attorneys</td>
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<td></td>
<td>Educational activities</td>
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<tr>
<td>Ministry of Economic Development and Trade</td>
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<td>Licensing activities</td>
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<tr>
<td>Ministry of Education</td>
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<td>Licensing activities</td>
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<tr>
<td>Ministry of Energy and Industry</td>
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<td></td>
<td>Licensing activities</td>
</tr>
</tbody>
</table>

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Business Environment in Tajikistan as seen by Small and Medium Enterprises, 2006
<table>
<thead>
<tr>
<th>Sectors Bodies</th>
<th>Production of consumers goods</th>
<th>Processing of agriculture production</th>
<th>Agriculture</th>
<th>Construction</th>
<th>Trade</th>
<th>Catering</th>
<th>Pharmaceutical</th>
<th>Medical services</th>
<th>Transport</th>
<th>Communication</th>
<th>Consumer services</th>
<th>Tourism, hotel business</th>
<th>Consulting services</th>
<th>Finance</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
<td>Manufacturing of palaeography products protected from falsification (securities, checks, ...)</td>
<td>Trading of palaeography products protected from falsification (securities, checks, ...)</td>
<td>Pawnshops</td>
<td>Audit activities (general audit, audit of insurance and investment companies)</td>
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<tr>
<td>Ministry of Health</td>
<td>Production of disinfectants</td>
<td>Pharmaceutical activity</td>
<td>Private medical practices</td>
<td>Maintenance of medical equipment</td>
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<tr>
<td>State Supervision Centre on Pharmaceutical and Medical Activity</td>
<td></td>
<td>Breeding of narcotic plants for scientific purposes</td>
<td>Private veterinary service</td>
<td>Collecting of herbs and preparation of medicine</td>
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<tr>
<td>Ministry of Internal Affairs</td>
<td>Assembly, repair and service in field of fire safety</td>
<td>Trading of civil and military weapons</td>
<td>Trade of narcotics and psychotropic substances</td>
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<td>Ministry of Justice</td>
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<td>Ministry of Labour and Social Security</td>
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</table>

Business Environment in Tajikistan as seen by Small and Medium Enterprises, 2006
<table>
<thead>
<tr>
<th>Sector Bodies</th>
<th>Production of consumer goods</th>
<th>Process of agriculture production</th>
<th>Agriculture</th>
<th>Construction</th>
<th>Trade</th>
<th>Catering</th>
<th>Pharmaceuticals</th>
<th>Medical services</th>
<th>Transport</th>
<th>Communication</th>
<th>Consumer services</th>
<th>Tourism, hotel business</th>
<th>Consulting services</th>
<th>Finance</th>
<th>Other</th>
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</thead>
<tbody>
<tr>
<td>State Service for Supervision and Regulation in the Field of Transportation</td>
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<tr>
<td>State Committee for Investment and Managing of State Property</td>
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<tr>
<td>Head Department of the State Surveillance over the Safety Works in Industry and Mining</td>
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<tr>
<td>Agency of Construction and Architecture under the Government of RF</td>
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<tr>
<td>State Supervision Service of Environment Protection</td>
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</tbody>
</table>

**Design, construction and repair of road infrastructure**

**Transport services by road and railway**

**Maintenance of motor vehicles and railway transport**

**Operation of passengers and cargo terminals, air transportation**

**Technical services for air transport**

**Evaluation and assessment of properties**

**Manufacturing of pyrotechnical devices**

**Sale of pyrotechnical devices**

**Repair and maintenance of cargo lifting devices**

**Evaluation of industrial safety**

**Manufacturing, storage and distribution of industrial explosives**

**Design and construction of buildings**

**Geodesy and cartography (on works connected with construction)**

**Repair of power facilities and equipment**

**Harvesting and collection of medical herbs for medical purposes**

**Transportation of dangerous waste**

**Collection, storage and disposal of dangerous waste**

**Use of protected flora and fauna (endangered species)**
<table>
<thead>
<tr>
<th>Sectors</th>
<th>Bodies</th>
<th>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production of consumer goods</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Processing of agriculture production</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Consulting services</td>
<td></td>
<td>Head office for Geology, under the Government of RT</td>
</tr>
<tr>
<td>Consumer services</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Communication</td>
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</tr>
<tr>
<td>Transport</td>
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</tr>
<tr>
<td>Medical services</td>
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<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Catering</td>
<td></td>
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<tr>
<td>Pharma-products</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td>Committee on Broadcasting and Television</td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
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<tr>
<td>Agriculture</td>
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<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Manufacturing of equip</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Distribution of equip</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Transport</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Basic activities</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>Agency for Land Management, Land-Use Planning and Cadastre, Geodyssey and Cartography, and Committee on Geology, under the Government of RT</td>
</tr>
<tr>
<td>Licensing</td>
<td></td>
<td>exploring, &quot;search&quot; of the earth</td>
</tr>
<tr>
<td>Bodies</td>
<td>Production of consumer goods</td>
<td>Processing of agriculture production</td>
</tr>
<tr>
<td>-----------------------------</td>
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<td>--------------------------------------</td>
</tr>
<tr>
<td>National Bank of Tajikistan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National agency of the Space, Geodesy and Cartography</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academy of Science</td>
<td>Use of sources of ionization radiation (such as generators)</td>
<td></td>
</tr>
<tr>
<td>Committee on Youth Affairs, Sport and Tourism</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) - The license is issued by a Commission, which consists of representatives of Ministry of Health, Ministry of Internal Affairs and Agency for Control of Illegal Drug-Dealing.
4. PERMITS
4. PERMITS

Permits represent an additional administrative hurdle for establishing and running a business in Tajikistan. The permit system is a result of two complementary forces: the bulk of permits, arising from Soviet-era technical requirements, along with permits resulting from new, market-oriented regulations, which have been added somewhat chaotically over the past 15 years. The overall system has never gone through a proper rationalization and represents a heavy, and sometimes unnecessary, burden for SMEs. In addition, the system is opaque, as many regulations are not disclosed to the general public.

Permits are widespread (two out of three Tajik entrepreneurs cannot start their businesses without obtaining permits first) and permit issuance can be extremely time consuming. The absence of established legislative norms and requirements, as well as difficulties in accessing information, leave room for rent seeking opportunities and force entrepreneurs to use unofficial payments.

Taking into account official and unofficial payments and missed business opportunities, the permit system generates a substantial burden for SMEs. In particular, it represents a barrier to entry for start-up businesses, reaching up to 12% of the annual profit of a small and medium company just launching its activity.

The problems indicated above are, to a great extent, due to the absence of an integrated system regulating the purposes and functions of permits: the areas of their application, the bodies issuing them, the process cost and timeframe of issuance and cancellation.

Permit reform is not only necessary to reduce the administrative burden on entrepreneurs, but it is also a needed complement to the reforms developed so far by the Government of Tajikistan in the area of licensing and inspections. The risk is that without a proper intervention, a proliferation of permits might undermine the progress done in the other two areas.
4.1 PERMITS: THE LEGAL FRAMEWORK

According to the Tajik legislation, SMEs can start their activity from the moment of state registration, with the exception of activities requiring a license.\(^1\)

However, the survey reveals that in most cases entrepreneurs must also obtain one or more permits. Two out of three entrepreneurs starting their activity in 2005 received permits for organization and development of their business. For those businesses, obtaining a permit is a necessary prerequisite for starting their activity.

A permit is a document that gives the applicant a right to undertake a specific action. Tajik legislation does not provide a unified definition of a permit. As a result, a number of permit documents fall into the definition of permits (for the purpose of this report, a “permit” will be used to refer to any type of permissive document as defined in Box 4.1). The absence of a normative definition creates confusion, both among issuing bodies and entrepreneurs. Additionally, a permit is very often confused with a license, which is a special permit to conduct an activity on a regular basis.

The current permit system in Tajikistan has two origins:

1. The original principles and technical requirements governing permits were elaborated during Soviet times and have not been modified since, despite the changes that took place in the economy and society. In particular, some of these rules are still based on old technological principles.
2. In addition, during the past 10-15 years, the government adopted a number of norms in an effort to adapt to and regulate the development of a market economy.

The result of these two driving forces is a system characterized by overlaps and inconsistencies due to the lack of a systematic approach.

The lack of overarching principles governing the permits system has led to:

- The proliferation of permits, i.e., the introduction of a number of permits from different government bodies without a clear legal basis (see Box 4.2) that are sometimes incompatible with the requirements of a market economy;
- The absence of homogeneous rules and procedures. For example, the permits system in most cases requires that entre-

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\(^1\) Articles 24 and 51 of the Civil Code of RT.
\(^2\) E.g., laboratory analysis of market products’ compliance with sanitary norms.
preneurs renew their permits annually, regardless of whether their business has undergone substantial changes. This adds instability to the terms of entrepreneurial activity.

European countries have long been in search of the optimum balance between freedom of entrepreneurship, protection of the population, and state regulation. This has led to defining certain principles of state regulation, which could also be partially applied in Tajikistan (see Box 4.3).

**Box 4.3. Permits in the European Union**

Basics
Permits in the European Union are based on risk management. Permits are used as a tool to protect consumers’ health and safety and to protect the environment. Constitutional courts prevent abuses, overseeing the list of permits introduced by the state bodies.

Overall constitutional principles:
- Parliamentary law should define whether a specific activity requires a permit;
- A permit can only be required and issued if envisaged by the law.

Law defines key criteria:
- Objects and activities subject to permits;
- Material and procedural criteria for issuing permits;
- Responsibility of permit issuing bodies;
- Fees associated with issuing permits;
- Conditions for revocation of permits;
- Opportunities for appealing decisions and other legal measures in cases of denial or issuance delay (such as “silence is consent”).

Types of permits:
- Administrative preventive permits: i) as a condition to undertake and commence certain activity; ii) issued by a single decision of a public institution (e.g., environmental permits, construction permits);
- Registration and notification system: i) individual decides whether he/she can meet the conditions of the law; ii) activity can be commenced after registration or notification; iii) public institution is entitled to control the fulfillment of the defined conditions and criteria and can prohibit to carry out an activity (i.e., catering services, retail food shops).

**4.2 Overall Assessment: Procedures Are Most Complicated for Small and Medium Companies**

Two out of five entrepreneurs obtaining permits consider the overall procedure as complicated or very complicated. Remarkably, small and medium companies seem to face the most difficult situation (see Chart 4.1), despite their greater resources (human and material resources, higher educational level to deal with proce-
This partly confirms our hypothesis that state bodies especially target companies to force them to use unofficial ways to solve permit issues.

### 4.3 Permit Coverage and Frequency: Stable Overall

The Tajik legislation neither clearly specifies the number of bodies allowed to issue permits nor foresees the list of permits necessary to operate a business. As a result, state bodies at all levels introduced permits independently and according to specific requirements, resulting in:

- **Wide coverage of activities subject to permits;**
- **Proliferation of (typologies of) permits;**
- **Differentiated issuance procedures;**
- **Different cost of issued permits;**
- **Variable consideration periods.**

A preliminary analysis by IFC has calculated that in Tajikistan, there are more than 50 state bodies that are entitled to issue more than 250 different types of permits. The following sections will go through the different areas in detail.

#### 4.3.1 Overall Coverage and Frequency Still Extremely Widespread

The number of entrepreneurs who needed to obtain a permit is very high: 58% of entrepreneurs needed to obtain at least one permit in 2005 (see Chart 4.2). This number is even higher for start-up businesses, as 66% had to obtain at least one permit.

Unfortunately permits are needed not only to start a business, but also to continue activity. The number of existing businesses requiring a permit (in most cases the renewal of an existing one) is extremely high, particularly for small and medium companies (see Chart 4.3).

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4 In January 2007, IFC Business Enabling Environment Project with the support of the Government of Tajikistan launched a comprehensive review of the permit system with the goal of mapping the total number of permits, the issuing bodies and the issuance process.
As in the case of licensing, existing businesses are more vulnerable if their permit is not renewed, opening the door to unofficial ways to solve issues and, as a result, higher expenditure (see section 4.7.2).

Tajikistan ranks first among other CIS countries in terms of the percentage of SMEs who obtained at least one permit in the last year (see Chart 4.4). Not only Georgia, which has launched a dramatic regulatory simplification effort, but also Uzbekistan, which reformed its permits system only in the recent past, have made great progress compared to Tajikistan.

Local executive bodies (Khukumats), Sanitary and Epidemiological Service (SES), and Fire Authority cover the large majority of permits (see Chart 4.5). In fact, according to IFC analysis:

- Local executive bodies are entitled to issue more than 10 different permits;
- SES issues more than 30 permits;
- Fire Authority issues 8 permits.

Since many normative legal documents that regulate the issuance of permits are not registered at the Ministry of Justice, there are many cases in which different state bodies and different hierarchical levels within the same body demand double requirements from SMEs. In these cases, one body could take over both of these functions (an example is described in Box 4.4).

There are also cases in which permits overlap with other regulatory tools of regulation (i.e., certification, licensing\(^5\)). To obtain a conclusion from the Sanitary-Epidemiological Service (SES), the applicant also needs to provide a product conformity certificate, which certifies the quality of the product.

\(^5\) For more details on doubling with licenses see chapter “Licensing.”
4.3.2 NUMBER OF PERMITS IS LINKED TO THE SIZE OF ACTIVITY

On average, each SME is required to obtain more than 2 permits per year. The number of required permits is related to the legal form of enterprises: while individual entrepreneurs and dehkan farmers are subject to fewer permit requirements, small and medium companies, distinguished by their larger size and higher turnover, require more than double the number of permits than the remaining categories (see Chart 4.6).

The absence of unified legislation on permits has led to regional differences, characterized by the level of regulation of the local government bodies in each region. As Chart 4.7 shows, even considering the same type of business (individual entrepreneurs) and the same sector (retail trade), wide differences in the number of necessary permits appear.

Chart 4.7. INDIVIDUAL ENTREPRENEURS INVOLVED IN RETAIL TRADE IN GBAO NEED TO OBTAIN MORE PERMITS THAN THEIR COLLEAGUES IN OTHER REGIONS

Chart 4.6. SMALL AND MEDIUM COMPANIES HAD TO OBTAIN MORE PERMITS THAN ANY OTHER TYPE OF BUSINESS

AVERAGE # OF PERMITS, BY TYPE OF BUSINESSES
The decrease in the number of bodies issuing permits (Chart 4.8) is nevertheless a positive message, as it testifies to the success of consolidating the number of governmental bodies with whom SMEs have to deal with, although there is still potential for further reduction and improvement in the number of interactions between entrepreneurs and state bodies. This reduction is especially crucial for activities requiring different permits from different bodies (adding to the time and cost spent), e.g., construction activities. In such cases introduction of “one-stop-shop” principle could facilitate the overall process, where entrepreneur needs to apply to one single body which takes care of interaction with other bodies and gathering all necessary permits, resulting in reduced time and cost.

4.4 Issuing Process: Unregulated, Opaque, and Unnecessarily Time-Consuming

Due to the lack of unified regulations governing the application process, businesses spent a lot of time obtaining permits. Even in cases in which the need to obtain certain permits stems from the laws and provisions regulating the legal activity of state bodies, nevertheless these documents do not outline specific requirements: the list of documents necessary to obtain permits or approvals, permits pricing issues, duration of application review period, and validity period of permits are not clearly defined by the legislation.

In particular, lack of a clear and unified regulation can be assessed by the length of a permit application procedure. Prolonged consideration puts entrepreneurs under pressure and leads to unofficial solutions. While the overall procedure for individual entrepreneurs and dehkan farmers is not particularly time-consuming, small and medium companies spent almost 1.5 months to obtain all necessary permits, and on average 8 business days for each permit (see Chart 4.9). This could be due to the fact that officials consider companies as rent-seeking targets and prolong the issuance process intentionally.

It is also remarkable that existing small and medium companies spend more time obtaining permits than start-up companies, even though they already gained experience in dealing with administrative requirements. This could be evidence of the pressure from state bodies to force existing entities into rent-seeking opportunities, since they are more vulnerable in case of permit denial (see Chart 4.10).

As well as reflecting a likely reduction in the number of required permits.
An unclear normative basis is often the cause of this lengthy procedure lasting in some cases up to 160 business days (see Attachment 4.3 in Annex).

The lack of clear procedures is further exemplified by the regional variation in the duration of the application process: Chart 4.11 considers the example of individual entrepreneurs working in retail trade.

**Chart 4.11. Retail Traders in GBAO Spent the Most Time to Obtain Necessary Permits**

<table>
<thead>
<tr>
<th>District of Republican Subordination A</th>
<th>Business Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>4</td>
</tr>
<tr>
<td>Districts of Republican Subordination</td>
<td>5</td>
</tr>
<tr>
<td>Sughd province</td>
<td>5</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>6</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>8</td>
</tr>
<tr>
<td>Gorno-Badakhshan Autonomous Oblast</td>
<td>16</td>
</tr>
</tbody>
</table>

Business days spent to obtain one permit:
- Districts of Republican Subordination A: 2
- Kurgan-Tube district (Khatlon province): 3
- Districts of Republican Subordination: 2
- Sughd province: 3
- Dushanbe: 4
- Kulyab district (Khatlon province): 4
- Gorno-Badakhshan Autonomous Oblast: 3

### 4.5 PERMITS EXPENSES

Legislation does not provide clear rules for charging payments for issuance of permits (see Box 4.5). The absence of legislative norms regulating permit costs does not exclude the fact that payments are made in practice. In particular, not only can these payments be high (see Chart 4.12), but entrepreneurs often cannot distinguish between official and unofficial portions.

**Chart 4.12. Small and Medium Companies Paid the Most to Obtain Permits**

<table>
<thead>
<tr>
<th>Type of Payment</th>
<th>Business Days to Obtain One Permit</th>
<th>Business Days to Obtain All Permits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>33</td>
<td>71</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>87</td>
<td>365</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>33</td>
<td>44</td>
</tr>
</tbody>
</table>

**Box 4.5. Payments for Permits Are Not Foreseen by Legislation**

The Law “On Diverse Obligatory Payments Into the Budget” provides for about 20 different types of obligatory payments, but payments for obtaining a permit are not mentioned. This law as a whole regulates the obligatory payments that arise from administrative procedures. Accordingly, permits not covered by this law should be free of charge.

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Small and medium companies seem to bear the largest burden during issuance of permits, both in terms of the number of necessary permits, as well as costs. For instance, companies working in retail trade paid significantly more than individual entrepreneurs working in the same sector (see Chart 4.13).

### 4.6 ECONOMIC IMPACT OF PERMITS

Entrepreneurs spend not only financial resources, but also labor and time resources to obtain the necessary documents from state bodies:

- Due to wasted time, a business loses the opportunity to gain additional profit (for start-up businesses);
- Staff members involved in obtaining necessary documents are diverted from operational work (for existing businesses).

These losses represent an additional burden in the form of opportunity costs for businesses. Taking into account all the costs involved in the procedure, we estimate that entrepreneurs lose between 3% to 15% of their annual profits dealing with permits issues (see Chart 4.14). The burden is especially high for small and medium companies, in particular for start-ups.

### 4.7 ACCESS TO INFORMATION AND UNOFFICIAL PAYMENTS

The absence of a clear legislative basis and lack of transparency in the requirements increase the complexity of the procedure and lead to unofficial solutions.

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8 Calculation is done for SMEs that underwent this procedure, i.e. which had to obtain at least one permit. For more details on the methodology see Box 3.6 in Chapter 3.
4.7.1 DIFFICULTIES FACED WHILE OBTAINING PERMITS

Almost half of entrepreneurs going through the permits procedure faced certain difficulties during the process (see Chart 4.15). However, the number of entrepreneurs facing difficulties with the permits process has decreased with respect to 2002. In 2005, 54% of respondents who obtained permits mentioned having problems during the procedure, down from 63% in 2002.

Insufficient legal literacy of entrepreneurs considerably complicates the overall procedure. Entrepreneurs have difficulties in determining which activities require permits. In addition, due to the lack of transparency, entrepreneurs have limited access to the normative basis which regulate the permits procedure. According to the findings of the survey, it is difficult or very difficult to obtain the necessary information on procedures by different bodies (see Chart 4.16). In some cases, it is the state bodies themselves that complicate the situation, with insufficient training and limited resources to deal with entrepreneurs’ requests.

Chart 4.15. LACK OF INFORMATION IS STILL THE MAIN PROBLEM TO OBTAINING PERMITS

<table>
<thead>
<tr>
<th>Lack of Information</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18</td>
<td>23</td>
</tr>
<tr>
<td>Large number of required documents</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>Unclear requirements</td>
<td>9</td>
<td>12</td>
</tr>
</tbody>
</table>

“...When I first started the business, it was very difficult to find information regarding what I needed to do to get the permit. I also had no friends who could help me...”

- Entrepreneur, focus-group participant

Chart 4.16. ACCESS TO INFORMATION FROM STATE BODIES REMAINS VERY DIFFICULT

| State Automobile Inspection (GAI) | 56 |
| Committee for Architecture and Construction | 52 |
| State Scientific Center of the Medicine Examination (Ministry of Health) | 52 |
| State Industrial Safety Enforcement Agency | 51 |
| Energy Distribution Barki Tojik | 35 |
| Energy Surveillance | 31 |
| Khukumat | 31 |
| Fire Authority | 28 |
| Trade Inspections (MoET) | 27 |
| SES | 24 |
4.7.2 UNOFFICIAL WAYS TO SOLVE ISSUES ARE WIDESPREAD

The share of entrepreneurs who used unofficial payments in 2005 fell in comparison to 2002 (see Chart 4.17). However, the relationships between entrepreneurs and officials are transforming into closer relationships, where rather than unofficial payments, other means like presents, invitations to lunches, and other services are used to solve the issues: 47% of entrepreneurs used unofficial ways to obtain permits in 2005 (see Chart 4.18).

It is also remarkable that existing small and medium companies reported using unofficial payments more frequently than start-up companies, confirming the assumption that due to their longer term investments, they are under greater pressure of refusal (see Chart 4.19).

There is a certain regional difference in the use of unofficial payments for solving permit issues (see Chart 4.20). This difference can be due to the relationship entrepreneurs and officials built up during their interaction.

…”the main thing is - I know who to turn to and how much it will cost, therefore personally I have no problems…”

- Entrepreneur, focus-group participant
RECOMMENDATIONS

1. Reduce permits coverage. This in turn can be achieved by:

1.1 Reviewing the number of permits currently issued (see Attachment 4.1) in order to rationalize the existing legal basis according to the risk management principles. The necessary steps in this process are:
   - cancellation of outdated and anti-market permits;
   - consolidation/elimination of redundant permits, i.e. overlapping permits issued by different levels of the same agency, or by different agencies;
   - elimination of permits covering areas already regulated by licensing (see Chapter 3);
   - elimination of permits covering areas already covered by other administrative procedures (i.e., compulsory or voluntary certification).

1.2 Identifying by law the agencies allowed to issue permits.

Expected impact

Reduced coverage of permits will decrease the entry cost for new businesses and cost of doing business for existing ones, with possible impact on the number of active companies and positive contribution to the budget.

2. Streamline the application process. This can be achieved by:

2.1 Introducing the “silence-is-consent” principle. Once an applicant for a permit submits the required paperwork, the failure of an issuing agency to respond with a decision within a given timeframe counts as an application approval (see Chapter 3);

2.2 Introducing an administrative principle of application review process, which limits the range of state intervention and clearly defines the required steps in case of refusal (see Chapter 2);

2.3 Specifying a uniform permits application procedure.

Expected impact

Clear procedures would reduce the overall burden of the entrepreneurs in terms of time and money. In particular, introduced measure would reduce the number of unofficial payments;

- Transfer of responsibility from applicant to official would force the latter to examine documents in a timely manner, reducing the overall time of consideration;
- Clearly substantiated cases of refusal would improve the overall process and reduce entrepreneurs’ dependence on unfair decisions of officials.

3. Reduce the burden of permit renewals. This can be achieved by:

3.1 Extending the validity period of issued permits, thus reducing the need for repetitive renewals;

3.2 Designing a dedicated process with limited steps in case of no changes in business activity.

Expected impact

Simplified and less frequent renewal procedure would reduce the cost of doing business, while at the same time streamline the work of public bodies.
4. Introduce the “one-stop-shop”\(^9\) principle of issuance of some permits (e.g., construction), which will help to decrease the length of the process and increase the effectiveness of the procedure, both for entrepreneurs and the state bodies (see Attachment 4.4). In particular, it would be advisable to adopt a one-stop procedure for sectors requiring multiple permits.

**Expected impact**

Possibility to apply at “one-stop-shop” would reduce the overall burden for entrepreneurs in terms of time and cost spent and have a positive impact on transparency and reduction of unofficial solutions between entrepreneurs and officials.

5. Launch an information campaign to increase the legal awareness of entrepreneurs and government officials, including seminars, publications and distribution of explanatory materials.

**Expected impact**

Introduction of standard rules and requirements will bring clarity and will regulate the procedure of obtaining permits, improve accessibility to information, decrease the opportunities for unofficial payments and increase the legal protection of entrepreneurs.

\(^9\) A one-stop-shop is any institution that unites government officials from different departments in one location to provide improved information and/or services to its citizens. For an example of a “one-stop-shop” principle for registration procedure see Chapter 2.
ANNEX
Attachment 4.1. rapid regulatory reform: the “guillotine” approach

Programs for revising and eliminating old legal acts were conducted in Great Britain (Cancellation of the Act of 1944, Regulatory base reform, 2001), Mexico, Hungary and South Korea. In 2004, Moldova also applied a similar approach after passing the new Law “On Revision of Legal Base Regulating Activity of Businesses,” which was nicknamed the “Guillotine” Law.

The “guillotine” approach can be used to reduce outdated and redundant permits with a single legislation and under a limited timeframe. The advantage of this exercise is to consolidate all legislative amendments into one general decision, reducing the time and effort needed to perform large scale reforms.

The “guillotine” mechanism can be synthesized in the following steps:

a. The government identifies the general scope of documents up for revision (in the case of Tajikistan, this would apply to permits, approvals and conclusions);
b. The government provides all ministries with a specific deadline to elaborate a list of internal documents subject to revision according to point a;
c. The government sets a deadline to each ministry to assess the necessity of each document based on a checklist that verifies its legality and suitability to market requirements;
d. Every document and its justification is assessed by three separate instances: the responsible ministry itself, an independent group of government experts and the interested stakeholders (e.g., entrepreneurs, business associations, etc.);
e. As a result of the review, each document is either:
   • included into the “short-list” of accepted documents;
   • rejected or returned for modification;
f. After the set deadline, the short-list is published and any document not included in it is automatically rejected through a single legal act (e.g. a decree implementing the reform);
g. The “short-list” is included into a judicial database which represents the official register of all legal documents: provisions not included in the given register can not be applied toward business entities.

Attachment 4.2. Examples of the legal acts foreseeing obtaining of permits which did not undergo examination in the Ministry of Justice of RT

<table>
<thead>
<tr>
<th>Agency</th>
<th>Type of activity subject to permit</th>
<th>Regulating legal norm</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Import of radio-electronic equipment (REE) and high-frequency facilities (HFF) leading to radiation or high-frequency magnetic radiation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purchase, building and use of REE and HFF</td>
<td></td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>Medical use of medicine</td>
<td>Regulations on order of issuance of medicine prescriptions and medicine distribution from chemistries of RT, approved by Ministry of Health No.380, dd. December 23, 2002.</td>
</tr>
<tr>
<td></td>
<td>Destruction of a consignment of faulty medicine</td>
<td>Regulations on safe destruction of medicine which do not comply with relative standards of RT, approved by Ministry of Health No.370, dd. December 16, 2002.</td>
</tr>
<tr>
<td></td>
<td>Crossing of international borders by medicines</td>
<td></td>
</tr>
<tr>
<td>SES</td>
<td>Use of water for drinking purposes</td>
<td>Instruction on approval and issuance of the permits for special water usage, approved by Head of State Committee of Environment Protection and Forestry of RT, dd. January 20, 2005.</td>
</tr>
</tbody>
</table>

20 For more details see Putnina (2005).
Attachment 4.3. Procedure of getting permits and approvals in order to open a shop

1. Entrepreneur applies to the local government in order to obtain a permit to start the shop’s activity;
2. Sales department of the local government reviews and checks documents and then passes on for review to the head of the local government.

After getting the permit from the local government, entrepreneur applies to the following bodies in order to get the necessary permits and approvals:
3. Permit from Fire Authority;
4. Sign agreement with the administration of town electricity department;
5. Permit from Sanitary-epidemiological Service (SES) and issuance of medical books for sellers;
6. Get a certificate verifying the shop’s compliance with the present standards of TajikStandart.

Overall procedure 60 – 160 business days

Attachment 4.4. An example of “one-stop-shop” principle introduced in Italy

In 1997, Italy passed a law that established widespread introduction of the “one-stop-shop” system

The main goals of this policy were:
- Simplification of administrative procedures for existing and potential enterprises;
- Development of trade in underdeveloped regions of the country.

Results of “one-stop-shop”:
- The registration and permits process is simplified;
- Registration and permit issuance period decreased almost by 3 times;
- “One-stop shop” departments are established in more than 160 municipalities.

Effective introduction of “one-stop-shop” system requires the following:
- Establishment of the authorized body responsible for appropriate functioning of “one-stop-shop”;
- Establishment of an effective mechanism of cooperation between state bodies;
- Identification of the rights and responsibilities of cooperative bodies;
- Identification of the document revision period of by each body.
5. ENTREPRENEURS AND FINANCE
The relationship between entrepreneurs and financial institutions in Tajikistan is weak. Entrepreneurs do not perceive banks as reliable partners in addressing their needs of supporting their growth over time. This is partly a result of the low level of confidence of the general public toward the banking system as a whole, as well as of the limited capability of the local banks to address the needs of their corporate customers.

The absence of a regular relationship between banks and entrepreneurs also explains to a great extent the limited size of the lending market. In fact credit, in particular toward small and medium businesses, can only be extended when banks have developed long term relationships with these businesses, and can accurately assess the risks related to lending – in particular, credit risk. In this absence, lending is “rationed,” i.e., financial institutions tend to reduce their risk by limiting their credit exposure, in terms of number of borrowers and/or size of the loans or by applying risk mitigating factors, limiting the exposure to a very short period, require high interest rates and/or high level of collateral.

On the other hand, Tajik banks face a complex market for funding, where although interest rates on deposits are in the range of 20%, they are not able to attract funds from individuals.

As a result, only a small percentage of Tajik entrepreneurs in need of external financing apply for a bank loan. Most pursue other means of fundraising (e.g., family or friends) or do not borrow at all.

In this context the only alternative to local banks are MFOs, which nevertheless cover only a very specific section of the lending market, i.e., micro-loans targeting micro-businesses. The effect of this situation on growth is particularly evident when the companies at stake are incorporated, and their financial needs can no longer be fulfilled by informal short-term loans.
5.1 Tajikistan’s Financial Sector: An Overview

Tajikistan’s financial sector has seen dynamic growth in recent years, due to two driving forces: the consolidation of players, thanks to the enforcement of stricter minimum capital requirement,\(^1\) and the entrance into the market of new players, mainly micro-finance organizations as well as a few branches of foreign institutions (see Chart 5.1, Chart 5.2 and Attachment 5.1).

The increase of the loan to GDP ratio (from 14% in 2002 to 18% in 2005) as well as the deposit to GDP ratio (from 4% in 2002 to 8% in 2005) testifies to a rapid growth and a more central role of the financial sector in the Tajik economy, albeit from a very low base.

Nevertheless these indicators are still the lowest among the Central Asian countries and well below Eurozone\(^2\) countries and show the still limited development of the sector (see Chart 5.3).

Chart 5.3. Comparison of Some Indicators in the Banking Sector of Selected Countries in 2005

<table>
<thead>
<tr>
<th>Country</th>
<th>Loan/GDP Ratio, in %</th>
<th>Deposit/GDP Ratio, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>38</td>
<td>22</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>34</td>
<td>27</td>
</tr>
<tr>
<td>Latvia</td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td>Ukraine</td>
<td>30</td>
<td>18</td>
</tr>
<tr>
<td>Russia</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Eurozone</td>
<td>104</td>
<td>90</td>
</tr>
</tbody>
</table>

Source: Annual and monthly Central Banks reports; Business Monitor International ltd.

5.1.1 Lending: Growing at High Pace, But Still Limited

As a result, the total amount of lending from 2002-2005 increased annually by 41.4% and reached 1.3 billion somoni ($405 million) by the end of 2005 (see Chart 5.4). Taking into account the average inflation rate during this period,\(^3\) the real growth of lending totaled 31.1%.

5.1.2 Deposits: Significant Development to Be Supported by an Increase in the Trust of People in the Financial System

The volume of deposits also increased remarkably between 2002-2005 and amount to 540 million somoni ($169 million), which

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1. Since January 1, 2005, the minimum capital requirement has been $5 million.
2. Eurozone includes 12 countries which introduced in 2001 the united currency – Euro.
3. Average inflation rate between 2002 and 2005 being 10.2%.
represents an annual real growth rate of 48.5% (see Chart 5.5). The growth in volume of deposits continued in 2006 and reached 690 million somoni ($169 million) by June 2006.

However, individuals still show limited trust toward the financial sector: 70.7% of deposits come from legal entities, while only 29.3% from individuals.

In fact although banks offer quite high interest rates on deposits, the overall population still prefers to keep cash in hand.

Additional evidence of the limited trust towards the financial sector comes from the high flow of remittances from migrant workers: about 90% of these flows conveyed through financial intermediaries are withdrawn the same day they are received.

"... After I could not get my money from the account during the financial crisis in the early '90s, I've preferred to deposit my money at home: it is safer, requires no bank bureaucracy and funds are available 24 hours a day..."

Entrepreneur, focus group participant

<table>
<thead>
<tr>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>4% of GDP</td>
<td>8% of GDP</td>
</tr>
<tr>
<td>147 million somoni</td>
<td>539 million somoni</td>
</tr>
</tbody>
</table>

Source: NBT (2006)

**Chart 5.5. Deposit volume development**

In accordance with the Tax Code, the tax rate for interest earned on bank deposits amounts to 12%, which is directly deducted by the banks (withholding tax). In 2005, the state budget received less than 1 million somoni from the tax on interest (i.e., less than 0.1% of all tax revenues). A decrease in the tax rate on deposits, in particular on the ones denominated in local currency, would provide individuals and companies with an incentive to make more frequent use of bank accounts.

The access of small and medium enterprises to the financial sector remains quite limited: most of the transactions are still conducted in cash and only a small fraction of businesses develops a relationship with banks or other financial institutions.

Only 14.6% of the respondents have an account in a bank in Tajikistan. This figure also shows a sharp decline from the already low level of 2002 (18%) (see Chart 5.6).

The overall average discloses different forms of behavior. In fact, out of the three categories of respondents (individual entrepreneurs, companies and dehkan farmers), only companies

---

4 Average interest rate for deposits from 6 months to 1 year amounted to 20.2% in local currency (somoni) and 13.8% in foreign currency in 2005 - NBT (2006).

5 In 2006 remittances have been estimated between 2 and 3.3 billion somoni ($0.6-1 billion).


7 Estimates based on statistics from NBT (2006).
have frequent access to a bank account, with 81% of companies having a bank account.\(^8\)

Yet the share of companies having a bank account is still below the expected level, i.e., 100%. Incorporated companies would indeed be expected to make use of bank accounts. This situation reflects the cash nature of the economy, which limits the demand for banks, but is also due to some deficiencies on the supply side, as banks do not proactively pursue corporate customers with services fitting their needs.

The share of individual entrepreneurs and dehkan farmers who have a bank account is much lower, and declining further. In particular, dehkan farmers in the sample show the sharpest decline, from 47% in 2002 to 30%. Most likely newly established farms do not open a bank account.

Use of bank account appears to be mostly related to the size of business as well as to the sector of activity.

**BOX 5.2. DEPOSIT INSURANCE**

The Law “On Guarantee of Deposits of Individuals” determines the following repayment scheme for deposits in case of bank default: i) deposit amount below 250 somoni ($78) is reimbursed fully; ii) deposit amount up to 2,500 somoni ($781) is 90% repaid; iii) deposit amount above 2,500 somoni repaid 70%.\(^9\)

For the purpose of deposit guarantees a special Fund of Guarantees of Deposits of Individuals is created by commercial banks in Tajikistan. The Fund is managed by a Supervisory Board and an Executive Board. The Supervisory Board consists of representatives of the Executive Apparatus of the President of RT, Majlisi Namoyandagon Majlisi Oli, National Bank and commercial banks.

Commercial banks contribute to the Fund through: i) a one-off payment in the amount of 1% of the amount of deposits of individuals; and ii) quarterly payments in the amount of 0.1% of the balance deposits of individuals at the bank. All major commercial banks of Tajikistan are participants of this fund.

Additionally legislation requires to reserve 18% of the overall deposit volumes of each commercial bank in the National Bank.

---

\(^8\) This higher ratio can be explained by regulatory requirements for SMEs during the registration process. In order to complete its registration, an SME needs to show deposits up to 50% of the nominal capital (depending on the legal form of SME, the requirement is between 30% and 50%). For this purpose, many SMEs just open temporary accounts in which they deposit the cash equivalent of the required capital.

Data show a clear relationship between enterprise size and availability of bank accounts (see Chart 5.7).

**Chart 5.7. Account availability is directly correlated to business size**

<table>
<thead>
<tr>
<th>% of respondents having a bank account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 employee</td>
</tr>
<tr>
<td>4%</td>
</tr>
<tr>
<td>2 to 5 employees</td>
</tr>
<tr>
<td>13%</td>
</tr>
<tr>
<td>6 to 10 employees</td>
</tr>
<tr>
<td>40%</td>
</tr>
<tr>
<td>11 to 20 employees</td>
</tr>
<tr>
<td>62%</td>
</tr>
<tr>
<td>21 to 50 employees</td>
</tr>
<tr>
<td>65%</td>
</tr>
<tr>
<td>over 50 employees</td>
</tr>
<tr>
<td>72%</td>
</tr>
</tbody>
</table>

Among the largest SMEs, only dehkan farmers are the least likely to have a bank account. In fact, in the case of dehkan farmers, an increase in size does not necessarily reflect a more structured business activity, requiring the need of more formalized financial relationships (see Chart 5.8).  

The reasoning above is seen as the main reason for not having an account: more than 89% of the respondents do not see any need for an account nor any significant benefits from having one (see Chart 5.9).

**Chart 5.8. Availability of the bank account by business with more than 20 employees**

<table>
<thead>
<tr>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>No account</td>
</tr>
<tr>
<td>44%</td>
</tr>
<tr>
<td>Have account</td>
</tr>
<tr>
<td>56%</td>
</tr>
</tbody>
</table>

**Chart 5.9. Main reason for not having a bank account - no practical need**

<table>
<thead>
<tr>
<th>% of respondents having no bank account</th>
</tr>
</thead>
<tbody>
<tr>
<td>No need/no practical benefits</td>
</tr>
<tr>
<td>89%</td>
</tr>
<tr>
<td>Trouble with obtaining cash</td>
</tr>
<tr>
<td>0%</td>
</tr>
<tr>
<td>High fees</td>
</tr>
<tr>
<td>5%</td>
</tr>
<tr>
<td>Banking bureaucracy</td>
</tr>
<tr>
<td>4%</td>
</tr>
<tr>
<td>Avoiding of taxation</td>
</tr>
<tr>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>1%</td>
</tr>
</tbody>
</table>

On the other hand, the (limited number of) respondents that do have an account do not experience problems (61% of SMEs using a bank account reported no troubles). Among the troubles entrepreneurs were confronted with when dealing with their banks: withdrawing cash (17%), long duration of bank transactions (15%) and complicated requirements of the banks during the process of the transactions (14%) (see Chart 5.10).

Nevertheless, even among bank account holders, about one fourth (27%) think that the bank discloses information about their account without approval, further confirming the low confidence of entrepreneurs toward the financial system.

"...I don't need a bank account because most of my transactions are done in cash. If I were to use an account, it would cost me too much time with complicated procedures and gathering lots of documents..."

Entrepreneur, focus group participant

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10 For more specific information on lending in rural areas see FAO/EBRD (2006).
11 Respondents could have chosen several answers.
The legislation entails that banks disclose information regarding the accounts and the available properties of its customers on request of the head of the taxation bodies. The implementation of stricter requirements for disclosure of information, i.e., on the basis of a court decision, could reinforce the trust of the population toward banks.

**BOX 5.3. EXTRACT FROM THE LAW “ON BANKS AND BANKING”**

One of the major conditions for increasing trust toward banks is raising the confidence among the population that the information about the bank account is not easily accessed or disseminated. At the same time a legal basis for access to bank account information should be provided to prevent misuse of the financial sector. This access should be first granted on the decision of the court if there is any suspicion of illegal activities. Tajik legislation, however, grants the tax bodies additional authorities to get access to bank information based on the written request of the head of the tax body. Surely, if access was granted only on the basis of a court decision it would increase the confidence among the population in the banking system.

**Article 32. Bank secrecy**

Information making up the bank secrecy is disclosed to:

- Taxation bodies: on questions concerning payment of taxes on the basis of a letter of the head of the taxation body.

Information on the balance and flow of funds of the account of an individual, as well as information on details and value of property, stored in safes and buildings of the bank, and information making up the bank secrecy is disclosed to:

- Taxation bodies: on the questions mentioned above.

**5.2.1 LENDING: LIMITED DUE TO SELF-SELECTION PROCESS**

Obtaining external funding still remains quite complicated for entrepreneurs: more than 60% of entrepreneurs assess the process...
Most worrisome, although small and medium-sized companies should have easier access to finance because of their greater degree of sophistication, they are the ones assessing access to funding as most complicated. In fact, about three-quarters of them consider borrowing a complicated procedure, likely due to their most pressing financial, which cannot be fulfilled by informal loans or by MFOs.

Our findings on complexity of access to finance further support the results of the “Doing Business 2007” report, which ranks Tajikistan 143rd among 175 countries for the ease of obtaining a loan.14

On the other hand, the approval rate improved greatly in comparison to 2002: 81% of bank applicants and 96% of MFO applicants received a loan in 2005. In 2002, only 31% of bank applicants and 48% of MFO applicants got a loan. This improvement can be explained partly by the significant support of the international donor community to develop the banking sector in general and micro lending in particular (see Box 5.4).

The improvement in the approval rate could testify a higher flexibility to lend by financial institutions, a greater readiness from

**Box 5.4. International Community Supports the Development of Banking in Tajikistan**

EBRD’s Tajik Micro and Small Enterprise Finance Facility (TMSEF), co-financed by IFC and Swiss SECO, started its activity in 2003 and focuses on institution building in selected partner banks and the delivery of sustainable and efficient financing to Micro and Small Enterprises. First Microfinance Bank (FMFB),15 the first international financial institution operating in Tajikistan since, 2004, has also remarkably contributed to the development of the banking sector with a special focus on micro loans.

15 The shareholders of FMFB are AKF, KfW and IFC.
the SME sector to receive funding, as well as a self-selection of applicants. In fact, only the more credit-worthy companies applied to banks, while the rest either got funding from other sources or did not receive funding at all.

There are three main reasons why survey respondents did not pursue a loan (see Chart 5.12):
1. no need: availability of alternative source of funding or insufficient qualifications to apply for a bank loan;
2. inconvenient lending conditions: high interest rates, unavailability of long-term loans/insufficient loan amount, need for unofficial payments, bank bureaucracy;
3. strict requirements: high level of collateral.

Though there is remarkable improvement of the approval rates for loans, only a small share of SMEs in need of external funding was able to get it from a financial institution (see Chart 5.13).

5.2.2 INDIVIDUAL ENTREPRENEURS: INCREASING LENDING

About one third of individual entrepreneurs needed external funding. About one third of them applied to a bank or an MFO and almost all of them received a positive answer (see Chart 5.14). This situation shows a great improvement with respect to 2002, as far as bank applications and approval rates are concerned.

5.2.3 SMALL AND MEDIUM COMPANIES: IMPROVED LENDING

Companies are confirmed to be those most in need of external financing (almost half need additional funding). Nevertheless also in this case only one-third of them apply for a loan, almost in all cases from a bank, likely due to the size of loan needed (see Chart 5.15).

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16 Respondents could have chosen several answers.
Companies, with respect to individual entrepreneurs, have a higher rejection rate (only about two-thirds of them obtain a loan). Yet this situation has improved with respect to 2002.

Chart 5.15 Access to Loans by Small and Medium Companies in 2005 Improved

% of Respondents

<table>
<thead>
<tr>
<th>2002</th>
<th>Did your company need external funding?</th>
<th>Did you apply for a loan from a bank?</th>
<th>Did you get a loan?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50%</td>
<td>28%</td>
<td>35%</td>
</tr>
<tr>
<td>No</td>
<td>50%</td>
<td>72%</td>
<td>65%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2005</th>
<th>Did your company need external funding?</th>
<th>Did you apply for a loan from a bank/MFO?</th>
<th>Did you get a loan?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>54%</td>
<td>40%</td>
<td>27%</td>
</tr>
<tr>
<td>No</td>
<td>46%</td>
<td>63%</td>
<td>73%</td>
</tr>
</tbody>
</table>

5.2.4 Dehkan Farmers: Low Level of Applications

Dehkan farmers, due to the nature of their business and the size of the companies, also require external funding quite frequently. However, only a relatively small fraction of them decide to apply for a loan (see Chart 5.16).

Chart 5.16. Access to Loans by Dehkan Farmers in 2005 Improved

% of Respondents

<table>
<thead>
<tr>
<th>2002</th>
<th>Did your company need external funding?</th>
<th>Did you apply for a loan from a bank?</th>
<th>Did you get a loan?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>52%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>No</td>
<td>48%</td>
<td>83%</td>
<td>87%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2005</th>
<th>Did your company need external funding?</th>
<th>Did you apply for a loan from a bank/MFO?</th>
<th>Did you get a loan?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>61%</td>
<td>39%</td>
<td>43%</td>
</tr>
<tr>
<td>No</td>
<td>39%</td>
<td>61%</td>
<td>57%</td>
</tr>
</tbody>
</table>

Chart 5.17. Approval Rate of the Loans Applied by Dehkan Farmers

% of Respondents Applying for a Loan

<table>
<thead>
<tr>
<th>Did you get the loan from a bank?</th>
<th>Did you get the loan from MFO?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, by bank</td>
<td>Yes, by MFO</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

Approval rates have dramatically improved with respect to 2002, to a large extent thanks to the presence of MFOs. Indeed, the approval rates between loans provided to dehkan farmers by banks and MFOs show a remarkable difference (see Chart 5.17). Commercial banks generally provide dehkins with long-term loans that are larger in size, but MFOs have a much higher approval rate. This phenomenon most likely reflects self-selection on the part of the applicants: larger loans are requested from banks, while smaller loans are applied to MFOs (which lend less, but often require no collateral).
5.2.5 LOAN DURATION: STILL TO BE IMPROVED

Long-term lending is still scarce in Tajikistan. Lending is still mostly to finance short-term working capital (less than 12 months). The lack of funding available for long-term investments is especially critical for mid-size companies, as only investments could allow them to grow.

Overall, average loan maturity is 10 months for loans provided by banks and 8 months for loans provided by MFOs. Almost no loans are provided beyond the 12-month horizon (see Chart 5.18).

As for today, banks and MFOs are gradually addressing this need by developing special loan products to satisfy the different requirements of their clients – for example, the needs of the agricultural sector – but more should be done in order to satisfy the need for long-term investments.

The unavailability of long-term lending can be explained by three factors:

1. Long term lending is by its nature more risky, requires higher knowledge of the borrower and higher skills to be evaluated, all elements that are still lacking in the current Tajik context;
2. Long term lending is often associated with real estate collateral (e.g., land, buildings), which are constrained by the current Tajik legislation on use of immovable property as collateral (see Box 5.5);
3. Limited availability of long-term funding for banks: Tajik banks

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**BOX 5.5. IMMovable PROPERTY AS COLLATERAL IN TAJKISTAN**

**Item 2, Article 359 of Civil Code**

The collateral of the right to use a land plot, enterprises, buildings, constructions, apartments and other immovable property (mortgage) is regulated by the Mortgage Law. The general collateral rules indicated in this Code are applied to mortgage when other rules are not stipulated by the present Code or the Mortgage Law.

**Item 3, Article 362 of Civil Code**

Pledge of rights for a land plot and other natural resources is allowed under the terms set by the land or other law on natural resources.

The civil legislation refers the regulation of the pledge of rights for a land plot to the land legislation. But the land code does not envisage the pledge of land plots, despite of the fact that Article 362 of the Civil Code allows pledge of the rights for a land plot under the terms set by the land legislation. According to the Constitution of the Republic of Tajikistan the property rights to land belong to the state only. Therefore legal entities and individuals cannot own the land and selling the land is not allowed. Moreover, the land legislation does not envisage alienation through selling (passing) the land use rights, which prohibits mortgage of foreclosure of the land. Actually, placing a lien on land plots does not take place in real life due to the absence of the normative-legal base duly regulating the issues of land mortgage. This lack of regulations brings certain difficulties and problems to the use of the norms regulating land mortgage, and makes it difficult for dehkan farmers to pledge property due to the need for additional legal regulation of these legal relations.

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chart: Duration of loans is short

<table>
<thead>
<tr>
<th>Duration</th>
<th>Banks</th>
<th>MFOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 months</td>
<td>45%</td>
<td>61%</td>
</tr>
<tr>
<td>3-6 months</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>6-12 months</td>
<td>30%</td>
<td>16%</td>
</tr>
<tr>
<td>12-24 months</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Above 24 months</td>
<td>1%</td>
<td>-</td>
</tr>
</tbody>
</table>

...We need money for a longer period, because in the short-term, we are not able to use money effectively and it might also be risky for us in case we do not obtain the required harvest...”

Dehkan farmer, focus group participant
Entrepreneur, focus group participant

"...The banks introduced very complicated collateral procedures. First you need to verify your collateral contract at the notary office and then go to the bodies of justice to get this contract registered. This is additional costs and time for me..."

Entrepreneur, focus group participant

...on the one hand cannot place their own bonds on the (practically non-existent) domestic market, while on the other hand cannot access international markets, which would require more transparency of their account as well as ratings from internationally acknowledged rating agencies.

5.2.6 COLLATERAL: STILL A HINDERING FACTOR

One obstacle in applying for a loan by a financial institution remains the high collateral ratio. In fact, every other lender had to provide some sort of collateral.

The collateral requirements by the banks were on average 72% of the principal amount (see Chart 5.19). Considering only the loan assisted by collateral, the average collateral ratio was about 140%. One of the reasons behind high collateral requirements, could be the complexity for banks to recover the collateral in case of default due to lengthy and costly court procedures.

The lower collateral requirements for individual entrepreneurs and dehkan farmers can be explained by the nature of disbursed loans: in most cases they are micro or group-loans, not supported by collateral. In contrast, 84% of small and medium companies were required to provide collateral, which represented a serious constraint for their lending operations (see Chart 5.20).

Not only small and medium companies had to provide collateral in most cases, but the requirements were extremely high: on average more than 130% of the loan principal (about 160% if considering only those loans assisted by collateral, as shown in Chart 5.21).

It is also worth mentioning that the Tajik legislation does not allow for use of the land user’s certificates as collateral for loans, reducing the opportunity for dehkan farmers to access external sources of funding. An additional burden is the processing of collateral contracts. First, the contract is verified in the notary office, then registered at the bodies of justices. This all prolongs the overall process and adds up additional cost and time for entrepreneurs.

Insufficient collateral is among the major reasons for refusal of a bank loan (see Chart 5.22).

Due to the smaller loan amounts disbursed and the nature of their activity, loans provided by MFOs are mostly unsecured. In 2005, only 14.3% of respondents that obtained a loan from an MFO (almost all individual entrepreneurs and dehkan farmers)
provided collateral (see Chart 5.23). In those cases, the collateral represented about 92.7% of the principal amount.

Some countries successfully introduced alternative market-based mechanisms to facilitate SME access to funding by leveraging different typologies of credit insurance tools (see Box 5.6 and Box 5.7), which could be considered for the Tajik context as well.

**Chart 5.22. Insufficient Collateral is the Main Reason for Refusal of a Bank Loan**

% of respondents who applied for loan

<table>
<thead>
<tr>
<th>Reason</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient collateral</td>
<td>62%</td>
</tr>
<tr>
<td>Lack of initial project capital</td>
<td>19%</td>
</tr>
<tr>
<td>Unwillingness to make unofficial payment</td>
<td>16%</td>
</tr>
<tr>
<td>Poor business plan</td>
<td>12%</td>
</tr>
<tr>
<td>Project considered as non-profitable</td>
<td>12%</td>
</tr>
<tr>
<td>Low quality of business plan</td>
<td>10%</td>
</tr>
<tr>
<td>The bank considered the project as non-priority project</td>
<td>7%</td>
</tr>
<tr>
<td>Applicant’s refusal to accept the loan</td>
<td>6%</td>
</tr>
<tr>
<td>Activity is not suitable for funding criteria</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
</tbody>
</table>

**Chart 5.23. MFOs Required Less Collateral**

% of respondents providing collateral

<table>
<thead>
<tr>
<th>Type of Borrower</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>17%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>3%</td>
</tr>
</tbody>
</table>

**Box 5.6. Business Associations Insurance: The Italian Experience of “CONFIDI”**

SMEs in Italy face an issue of credit availability, due mostly to the limited reliability of their financial reporting. Banks often require small and medium businesses to provide a relevant amount of personal guarantees or collateral to offset their risk. In order to limit collateral requirements, business associations have developed a different form of (partial) credit insurance, called CONFIDI (i.e., “shared lending”).

**CONFIDI: Working Mechanism**

A CONFIDI is a risk-sharing mechanism that provides credit insurance for its associates, covering up to 50% of the credit risk faced by the banks lending to its participants. In exchange for this insurance, a participant pays a fee (in the range of 2-5% of the principal amount). The CONFIDI provides its insurance based on the concepts of:

- Double “risk screening”: before being accepted for the guarantee, each associate is assessed by the CONFIDI and then in turn by the lending bank
- “Risk-pooling”: a CONFIDI ensures a high number of small lenders, diversifying its risk

**CONFIDI: Some Data**

As of the end of 2004 about 1,000 CONFIDI exist in Italy, providing guarantees for €7 billion supporting loans worth about €20 billion, corresponding to about 12% of the total SME loans.

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Box 5.7. Credit Insurance – The Uzbekistan case

Credit insurance is a widely used tool to limit credit risk and foster lending from financial institutions. The goal of the credit insurance is to protect the bank in case of non-repayment from the borrower. The lender can ensure part of the loan through an insurance company, facilitating the lending process from the bank. The insurance company analyzes the project and assesses whether to take the risk and at what conditions, i.e., % of risk underwritten, as well as the price.

Application documents: all the documents submitted to the bank for the credit proposal as well as a confirmation from the bank that the project is under consideration.

Coverage and premium: the insurance covers up to 50% of the principal amount (on average 40-50%) and the required premium starts ranges usually from 5 to 6% of the insured amount.

Chart 5.24. How Collateral Requirements and Loan Maturity Affect Interest Rates

Average interest rate on banking loans amounted to 2.6% monthly or 36% annually. Taking into account inflation, the real interest rate in 2005 would be equal to 28.9%.

The survey shows that interest rates are also linked to collateral requirements as well as maturity (see Chart 5.24):

- Loans provided with zero collateral have higher interest rates than ones provided with collateral.
- Loans with higher collateral requirements have higher interest rates, but their average maturity is longer.

Loans disbursed by MFOs are characterized by slightly higher nominal interest rates, which amount on average to 2.9% monthly or 41% annually.

This could be explained by:

- lower collateral requirements: typically MFOs do not require collateral;
- higher weight of operational costs due to the smaller size of disbursed amounts;
- currency of loans: in many cases MFO loans are denominated...
in somoni and as such require higher interest rates to reflect the higher cost of borrowing.20

5.2.8 UNOFFICIAL WAYS OF SOLVING THE ISSUES: VERY COMMON

Unofficial payments are a serious issue faced by entrepreneurs accessing the banking sector. 10% of the entrepreneurs indicated using them to solve their issues positively. Altogether unofficial ways of solving issues21 represent a high burden for entrepreneurs (see Chart 5.26).

Furthermore, small and medium companies are particularly targeted by unofficial payments, with 29% of them facing the problem (see Chart 5.27). Again, this is particularly relevant as companies should rely on banks to a greater extent to finance their growth.

Unofficial solutions need to be addressed with the greatest possible emphasis by the financial sector if banks expect to increase confidence of the general public.

Unofficial payments are rarer in MFOs22, where only 2.4% of the respondents indicated that they obtained a loan after making unofficial payments (on average, 10% of the loan amount).

5.2.9 LOAN PROCESS: QUITE STREAMLINED

It took on average 15 days to obtain a bank loan, from application until disbursement. This average nevertheless discloses high variances according to the type of business (see Chart 5.28) – small and medium companies required the most time (more than a month).

Nevertheless, even taking these variances into account, the loan underwriting process can be considered quite efficient, likely reflecting the self-selection process of applicants described above.

The lending processing also varied by region. In GBAO, it took an average of 34 days to get a loan, while in DRS B, respondents spent only 6 days on average to get a loan. One of the reasons for this situation is the limited supply of financial services in GBAO, where only few branches of commercial banks are present.

Quite similarly, entrepreneurs spent 18 days to get a loan from an MFO.

20 Over the past 3 years the differential is in the range of 6% per annum.
21 Including gifts, lunches or unofficial payments.
22 In the case with MFOs respondents were asked only about unofficial payments.
Regionally the lending process was very fast in Kulyab, where applicants spent only 4 days to get a loan. The longest processing was observed in Sughd region. Entrepreneurs spent almost 40 days to get a loan on average. MFOs in Sughd region have a certain established activity and move gradually from small scale lending of individuals to bigger amounts provided to companies. With the increase of the loan amount also the processing duration grows accordingly.

**LEASING: AN ALTERNATIVE SOURCE OF FUNDING**

Leasing is a possible alternative source of funding for enterprises. In 2004 the first leasing company “Nahust leasing” was registered. Some leasing transactions were also conducted by Tojiksodirobank and one by Agroinvestbank. The total volume of those operations amounted to about 7 million somoni.

Nevertheless, the volume of leasing operations in Tajikistan did not grow significantly in 2005. Leasing operations are constrained by the lack of state incentives (e.g., tax remissions), which could redirect the financial flows toward production companies as well as limited long-term funding available from financial institutions and awareness from entrepreneurs.

Survey confirms the limited awareness of leasing among SMCs. Less than 10% of respondents know about it.

Only 5.2% of the respondents aware of leasing applied for a leasing contract, while one third of those finalized it.
RECOMMENDATIONS

1. Provide incentive systems for banks to reduce credit rationing to SMEs, by reducing their credit risk. This in turn can be achieved:

1.1 From the government side by:
   - Implementing and developing improved pledge legislation measures and collateral enforcement regimes through:
     - introducing alternative dispute resolution mechanisms;
     - unified verification of collateral contracts in notary offices to speed up and facilitate the lending process;
     - introducing the possibility of using land user certificates as collateral for loans;
   - Establishing a national credit registry which would provide banks with additional borrower information, facilitating bank verification of credit requirements and credit history of borrowers;

1.2 From the banking side by:
   - Enhancing internal credit risk analysis capabilities by training credit officials and introducing advanced credit analysis methodologies (e.g., credit rating tools);
   - Promoting alternative financing mechanisms which imply reduced credit risk such as leasing;

1.3 From the private sector side by:
   - Introducing credit insurance provided by business associations (i.e. the Italian CONFIDI), that, in exchange for a fee, could ensure part (up to 50%) of the principal amount provided to a specific SME.

Expected impact

By reducing the credit risk faced by financial institutions, three results are expected, which would reduce credit rationing and make financial resources more easily available to SMEs:

- Increased amount of lending available to SMEs (i.e., for the same credit risk, more lending available);
- Reduced interest rates, as a result of higher level of guarantees;
- Reduced collateral requirements, as a result of higher level of guarantees.

2. Put in place policies to increase the confidence of the general public in the Tajikistan financial sector. This could be achieved:

2.1 From the government side by:
   - Increasing the awareness of the population of the Fund for Deposit Insurance, and strengthen its role for low/middle income households by introducing an upper limit to the coverage while increasing the threshold for full coverage (currently 250 somoni - $78);
   - Amending the banking legislation to introduce bank secrecy disclosure only on the basis of a court decision;

2.2 From the commercial banking side by:
   - Improving their internal controlling and auditing processes to eliminate unofficial payments from their branches;
   - Increasing accountability by introducing the principles of bank corporate governance and, over time require international rating companies to provide independent evaluation of their financial stability;
   - Promoting the creation of an Inter-banking Association to develop common standards and promote banking interests on different levels as well as promoting banking activities among the population;

23 In the short term, unfortunately Tajik banks cannot benefit from a rating provided by international rating agencies as the sovereign rating of Tajikistan provides an upper bound for their evaluation.
Expected impact

Increased confidence in the financial sector will foster its development in several ways, among which, by:

- Channeling financial resources to the financial sector, i.e., increasing the share of deposits, allowing for an increased intermediary role between individuals and the SME sector;
- Narrowing the confidence gap between SMEs and banks, allowing them to revert more frequently to banks in case of need.

3. Create alternatives to lending by local banks, by:

3.1 Fostering the entry into the Tajik banking market of international financial institutions specializing in SME lending, which could easily leverage internationally developed credit and organizational skills as well as higher ability to leverage funding obtained on the international markets;
3.2 Further developing microfinance institutions by unifying the regulating legislation and simplifying the bookkeeping and reporting systems.

Expected impact

By allowing the entry of foreign players into the Tajik financial sector (allowed legally since 2005), lending opportunities will be increased through:

- More financial resources will be directly available to SMEs;
- Competition will force local players to align to best practices in terms of product availability and conditions.

4. Support the development of banking services by creating a “need for banks”:

4.1 From the government/NBT side by:
- stimulating the use of “cashless” payment systems (i.e., by introducing the possibility to direct debit charge bank accounts for the payment of local utilities);
- conducting an awareness campaign addressed to communicate the benefits of using banks for the general public;
- reducing the 12% withholding tax on deposit interests to attract more deposits from individuals. This measure could be applied to deposits denominated in somoni only to provide incentives to invest in local currency;

4.2. From the commercial banking side:
- developing and disseminating informational materials on available banking products, including deposits, credit cards, payment systems and financing (including guidelines on loan application procedures as well as samples of relevant forms and applications).

Expected impact

Allowing banks to develop closer relationships with SMEs, which will in turn reduce the information asymmetry which creates a limit to the lending market. This in its turn would channel excess cash into the financial system, reducing the funding constraints for banks.
ANNEX
Attachment 5.1. Financial sector of Tajikistan

The financial sector of Tajikistan can be grouped into two subcategories:
- First level: National Bank of Tajikistan;
- Second level:
  - commercial banks;
  - microfinance organizations, non-banking financial institutions, and loan societies.

The National Bank of Tajikistan (NBT), created in 1991, provides the banking surveillance function in addition to conducting the monetary policy to control inflation and money creation function.

Commercial banks

The banking sector underwent major changes in the last 3 years and is now composed of 9 players: 6 banks in the form of joint-stock companies, 1 joint-venture bank, 1 foreign bank and 1 state bank (“Amonatbank,” carrying out the functions of state saving-bank). Of these 9 players, 8 are private.

Chart 5.30. The structure of the financial sector of Republic of Tajikistan

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24 NBT conducts the surveillance over commercial banks, microfinance organizations, non-banking financial institutions, and loan societies.
Foreign investments started to play a role in the Tajik financial market; the First Microfinance Bank created in 2004 by international financial institutions is becoming one of the most active players in the market.

The rise of the requirement on minimum capital for commercial banks to $5 million was one of the major forces behind the consolidation of the sector as it forced some of the weakest institutions out of the market. As a result, the concentration of the sector is quite high; in fact, the 2 largest players, Orienbank and Agroinvestbank, with 43% of the branches, cover about 60% of the market while the 4 largest players (Orienbank, Agroinvestbank, Amonatbonk and Tojiksodirotdobank) reach more than 80% of it (see Chart 5.31).

For the time being, there exists no inter-banking association representing and lobbying the interests of commercial banks in Tajikistan. Such an association could additionally promote the popularization of the banking sector among the population.

**Chart 5.31. Information about functioning commercial banks of RT as of July 1, 2006**

<table>
<thead>
<tr>
<th>Commercial Bank</th>
<th>Loan Portfolio, Million Somoni</th>
<th>% of Total Loan Volume</th>
<th>Deposits, Million Somoni</th>
<th>% of Total Deposit Volume</th>
<th>Number of Branches</th>
<th>% of Total Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>OJSC “Agroinvestbank”</td>
<td>132</td>
<td>31%</td>
<td>121</td>
<td>24%</td>
<td>57</td>
<td>26%</td>
</tr>
<tr>
<td>OJSC “Orienbank”</td>
<td>115</td>
<td>27%</td>
<td>110</td>
<td>23%</td>
<td>31</td>
<td>15%</td>
</tr>
<tr>
<td>OJSC “Tojiksodirotdobank”</td>
<td>55</td>
<td>13%</td>
<td>74</td>
<td>14%</td>
<td>13</td>
<td>6%</td>
</tr>
<tr>
<td>State saving bank “Amonatbonk”</td>
<td>44</td>
<td>10%</td>
<td>64</td>
<td>13%</td>
<td>9</td>
<td>4%</td>
</tr>
<tr>
<td>CJSC “Tajprombank”</td>
<td>32</td>
<td>8%</td>
<td>9</td>
<td>2%</td>
<td>16</td>
<td>3%</td>
</tr>
<tr>
<td>OJSC “Sohibkorbank”</td>
<td>16</td>
<td>4%</td>
<td>1</td>
<td>0.1%</td>
<td>11</td>
<td>5%</td>
</tr>
<tr>
<td>OJSC “Bank Eskhata”</td>
<td>15</td>
<td>3%</td>
<td>12</td>
<td>3%</td>
<td>8</td>
<td>4%</td>
</tr>
<tr>
<td>CJSC “FMFB”</td>
<td>20</td>
<td>4%</td>
<td>19</td>
<td>4%</td>
<td>3</td>
<td>1%</td>
</tr>
</tbody>
</table>

**Non-banking financial institutions**

Non-banking financial institutions are legal entities that provide some banking services that range from lending, deposit taking, money transfer, cash transactions, emission and acceptance of credit cards, etc (see Box 5.10). The list of provided services by different types of non-banking institutions is determined by the current legislation as well as set in the issued licenses.

Non-banking financial institutions include:

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25 The information is only provided on 9 existing banks to the date of reporting. In 2005, 12 banks were operating in Tajikistan. In 2006 banks “STB-Investbank” and “Bank Olmp” were closed because of non-fulfillment of banking legislation, while “Kafolatbonk” was reorganized into a credit society.
non-banking financial organizations (NFO)\textsuperscript{26};
credit societies (CS);
Microfinance organizations (MFOs): the range of non-banking financial organizations was expanded with the adoption of the law "On Regulation of Microfinance Organizations" in July 2004, and thereby the second level of the banking system was created (loan/deposit taking organizations).

These institutions are aimed to fill in the market niches uncovered by the banks. NFIs are also seen as helpful platform for banks. If a bank can not fulfill the minimum capital requirement, it can get reorganized as a NFO/CS without being completely pulled out of the financial market. Sometimes banks can use NFIs to split up their operational departments. For instance, the bad performance of a large portion of the cotton loans was a decisive factor in the splitting up of Agroinvestbank, and the transfer of the cotton portfolio into a separate vehicle - NFO "Kredit-Invest". According to the assessments of the World Bank in Tajikistan the total debt of the cotton farms amounts to $280 million\textsuperscript{27} and a large chunk of it is provided by non-banking financial institutions.

In the last years the role of microfinance in the financial sector has become more significant. As of April 1, 2006, there are 20 micro lending funds (MLF), 1 micro lending organization (MLO), and 2 micro deposit organizations (MDO) working in the Republic of Tajikistan.\textsuperscript{28}

**BOX 5.9. AMFOT AND MFOs IN TAJIKISTAN**

Association of the microfinance organizations of Tajikistan (AMFOT) supports the strengthening and development of the microfinance market of Tajikistan. It acts as a representative of the interests of microfinance organizations in the country. AMFOT protects the rights and interests of its members through elaboration of unified strategic and tactical approaches and coordination of the MFOs’ actions.

Currently 25 MFOs are members in AMFOT. According to the legislation there are three types of MFOs:

1. **Micro lending foundation (MLF)** – is a non-commercial MFO which works on the basis of certificate issued by National Bank of Tajikistan. The MLF can provide the following services: i) loans up to $20,000 per client; ii) leasing operations; iii) loan borrowing by other organizations; iv) factoring; v) storing of the cash assets (safe). The NBT does not require the minimal capital for MLF.

2. **Micro lending organization (MLO)** – is a commercial MFO which can be created as Closed Joint-stock company (CJSC) or as a Limited liabilities company (LLC). The activity of MLO is subject to the licensing from NBT. The minimal capital requirement is $10,000. A MLO can provide the same services as a MLF does.

3. **Micro credit deposit organization (MDO)** – is also a commercial organization and its activity is also subject to the licensing from NBT. The minimal capital requirement by MDO amounts to $100,000. Additionally, MDOs can provide: i) deposits taking from legal entities and individuals; ii) administration of the client accounts; iii) cash transactions; iv) money transfer; v) emission and acceptance of credit cards; vi) pledging of security.

\textsuperscript{26} To differentiate them from banks, non-banking financial organizations cannot provide lending transaction.

\textsuperscript{27} World Bank (2006a).

\textsuperscript{28} http://www.nbt.tj/?c=44&id=44&a=242.
The loan portfolio of microfinance organizations (MFO) increased during the period from March 2005 to July 2006, from $8 million to $10 million and the total number of clients rose from 57,000 to 84,000. Despite this positive development, the demand for micro loans remains high and experts estimate an annual demand for micro loans of about $100 million.

**BOX 5.10. DEFINITION OF NON-BANKING FINANCIAL ORGANIZATION AND CREDIT SOCIETY**

A non-banking financial organization (NFO) is a legal entity which is not a bank and operates on the basis of a license from the National Bank of Tajikistan. It is entitled to provide a specific set of banking services, which is determined for each organization separately:

- Cash transactions: reception, converting, exchange, wrapping and storage of the bank notes and coins;
- Lending operations;
- Transfer operations;
- Safe operations: storage of papers, documents and valuables of the clients, including rent of the safe boxes and rooms;
- Clearing transactions, etc.

The minimal capital requirement is set by the NBT for each NFO separately. The provided operations are conducted only in national currency.

A credit society is a legal non-banking commercial entity that conducts its activity on the basis of a license from the National Bank of Tajikistan. A credit society is entitled to provide the following bank transactions:

- Cash transactions: reception, converting, exchange, wrapping and storage of the bank notes and coins;
- Lending operations only for the members of the society;
- Deposit taking operations only among the members of the society;
- Clearing transactions only among the members of the society;
- Safe operations: storage of papers, documents and valuables of the clients, including rent of the safe boxes and rooms.

The minimal capital requirement for the credit societies is set to $300,000. The provided operations are conducted only in national currency.
6. INSPECTIONS
6. INSPECTIONS

It is essential that the inspections system for businesses ensures compliance with the legislation while not creating an unnecessary burden for private enterprises.

Survey data show little change since the previous report; inspections still represent one of the most burdensome procedures for SMEs, resulting in unnecessary costs and missed business opportunities, as well as inefficient use of public resources. Despite the frequency of inspections, limited steps are taken to ensure compliance with the underlying provisions.

During the surveyed period, the Tajik government initiated a comprehensive reform of the inspections system, which resulted in the July 2006 adoption of Laws establishing a new basis for the inspections system. The new Laws provide for a system of conducting inspections and selecting businesses for inspections that should be more effective and efficient in ensuring compliance.

The Inspections Law represents a crucial step in the reform of the inspections system, but to achieve its goal, it needs to be supported by additional measures: amendments to the secondary legislation, creation of checklists to facilitate compliance, and development of inspections manuals at each inspecting agency level.

The effectiveness of reform will depend on how well the inspectors can understand and correctly apply the new methods in practice. Therefore it should be accompanied by a larger scale program aimed at raising the qualification of inspecting officials. In addition the numerous technical requirements underlying inspections are often outdated and contradictory. Their revision and update will be the necessary complement to the above reform.

Finally, the results of the reform will not be fully realized until people are completely aware of their rights and duties. For this reason, equally important will be programs aimed at raising awareness of the entrepreneurs to make them able to capture the benefits of the new legislation fully.

The next survey will be able to measure the results of the undertaken efforts.

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1 IFC (2004b).
3 This profit equivalent also includes the opportunity cost of labor and lost income (see more details further in the chapter).
6.1 INSPECTIONS: THE LEGAL FRAMEWORK

Inspections are essential components of the regulatory system, ensuring that business activities are conducted according to regulations aimed at protecting the health and safety of the citizens, their consumer rights, and the safety of the state. Nevertheless, it is essential that the state balance this control with efficient use of economic resources.

At the time of data collection, no unified regulatory framework for inspections existed in Tajikistan. As a result, each agency conducted inspections according to its own rules. This situation reflected that of 2003, when the first survey of the business environment in Tajikistan showed that inspections were a significant obstacle to the development of entrepreneurs’ activities.4

The system of inspections in the country causes many complaints, not only from entrepreneurs but also from government officials at all levels (See Box 6.1).

Realizing the importance of the development of the private sector for Tajikistan’s economy, the government took active steps to improve the system of selecting and conducting inspections:

- In 2001 the Decree of the President of the Republic of Tajikistan created the Inspections Registration Book (IRB)5 - an important and effective tool for reducing unjustified inspections;
- In 2004, the government started a reform process that culminated with the July 28, 2006 approval of two laws that radically changed the inspections system in the country: the Inspections Law and the Law on the State Control Bodies. (See Box 6.1)

“An inspection is a form of controlling activity meaning the actions (...) of the controlling bodies aimed to ensure that business entities observe and follow the terms and requirements set by the laws of RT, to discover and suppress violations of the law, to prevent them and to apply sanctions.”

Article 2 of the Inspections Law

BOX 6.1: THE ANNUAL ADDRESS OF THE PRESIDENT OF THE REPUBLIC OF TAJIKISTAN TO MADJLISI OLI IN 2004 GAVE ADDITIONAL INCENTIVE TO THE REFORMS IN THIS AREA

“The sector of entrepreneurship (...) still has not taken the proper place in the country’s economy, because its development is hindered by many bureaucratic obstacles. (...) and encounter large problems during (...) various inspections on the part of numerous bodies...”

“...specifically define the power of authority and the responsibility of each controlling body. Based on this, to ensure transparency of the entrepreneurs’ rights and the legal power of authority of the state inspecting bodies...”

From the annual address of the President of RT. Rakhmon to MadjliSI Oli, April 30, 2004

4 See IFC (2004b) page 51.
5 Decree No. 542 of the President of RT, dd. February 28, 2001 “On Introduction of the Inspections Registration Book.”
6 IFC distributed 125,000 copies of the IRB in 2006 among all entrepreneurs of Tajikistan. For more details, see page 124.
The Inspections Law and the Law On Changes and Amendments to the Tax Code.

The Law On Changes and Amendments to the Tax Code refers to inspections conducted by tax bodies, while the Inspections Law covers the remaining set of agencies7 (for more details on the coverage of the Inspections Law, see Attachment 6.1 in the Annex).

The Inspections Law introduces the following principles:
- **Risk management:** inspections are conducted and enterprises are selected based on the assessment of the risk that their economic activity poses to public safety;
- **Functional division:** inspection results decision and the fine amount are determined by different individuals than the ones conducting the inspection;
- **Transparency and compliance:** in order to be able to comply with the rules, entrepreneurs need to have a full understanding of the regulations and of their own duties and responsibilities.

The Inspections Law sets clear and specific procedures for all

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**BOX 6.2. SOME PROVISIONS OF THE INSPECTIONS LAW**

<table>
<thead>
<tr>
<th>Main objective</th>
<th>Regulating the activities connected to arranging and carrying out inspections of business entities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Frequency of inspections</strong></td>
<td>1. Not more than once in 2 years (in some cases not more than once in 6 months); 2. New SMEs are not subject to inspections for the first 3 years of their work.</td>
</tr>
<tr>
<td><strong>Duration of inspections</strong></td>
<td>1. For legal entities: Financial audits &lt; 20 calendar days / Other inspections &lt; 5 business days. 2. For individual entrepreneurs: Financial audits &lt; 10 calendar days / Other inspections &lt; 5 business days.</td>
</tr>
<tr>
<td><strong>Procedures for conducting inspections</strong></td>
<td>1. Authorization to conduct an inspection; 2. Prior notification (3 days before the audit starts); 3. Use of the checklist; 4. No simultaneous inspections from different levels of one body; 5. A written report detailing the results of the inspection.</td>
</tr>
<tr>
<td><strong>Rights and duties of entrepreneurs</strong></td>
<td>Rights: To obtain information on the inspection / To know who is authorized to inspect. Duties: To produce required materials and documents / Not to impede the inspection / To execute the decisions.</td>
</tr>
<tr>
<td><strong>Rights and duties of inspectors</strong></td>
<td>Rights: To request written explanations / To request documents. Duties: To present the authorization for the inspection / To explain the rights and duties of entrepreneurs as well as their own rights and duties.</td>
</tr>
<tr>
<td><strong>Entrepreneurs awareness</strong></td>
<td>Inspection bodies Make normative documents accessible to the public. Publish an annual report, short summary of findings related to inspections, short review based on the assessment, the plans and priorities for the next year.</td>
</tr>
</tbody>
</table>

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7 See Article 2, Item 2 of the Inspections Law.
stages of inspections, starting from the preparatory one to the follow-up phase:

• **Before an inspection:**
  - an inspecting body selects the businesses subject to an inspection based on the risk management principle (non-risky economic activities are inspected at most once in 2 years);  
  - new businesses are not inspected in the first 3 years of operations;  
  - the inspecting body must authorize an inspection officially;  
  - an advance notification of the inspection is sent to the business.

• **During an inspection:**
  - an inspection is conducted on the basis of the inspection checklist, which is specific for each type of business activity and publicly available to the business;  
  - an inspection is documented in an official inspection document;  
  - the duration of a non-financial inspection cannot exceed 5 working days.

• **After an inspection:**
  - the head of the inspecting agency reviews the inspection document and issues a decision on the inspection results;  
  - the appeal procedures are clearly described in the decision.

Thus, the new Inspections Law represents the basis for the development and improvement of the inspections system in Tajikistan. However, adoption of the law is not sufficient to change the situation radically. Many other activities need to be implemented, beginning with bringing the legislative and normative base into conformity with the Law, and launching a broad-scale information campaign.

The Chart 6.1 presents the main stages of the inspections system reform based on the Inspections Law.

The expected result of the reform is a system that increases the overall compliance with the regulations by introducing compliance promotion tools (e.g., advance notice), by raising the entrepreneurs’ awareness (e.g., through checklists) and by introducing risk-management principles that will allow inspections to focus on the activities most likely to affect public welfare. The outcome should result in reduced burden for businesses and increased ef-

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8 With exception for tax inspections: thematic inspections on taxation once in a year, complex inspections on taxation once in two years, Tax Code of RT.
9 With exception for tax inspections.
The effect of the inspections reform strategy undertaken in Tajikistan will be traced in subsequent surveys.

### 6.2 Coverage and Frequency of Inspections Remain Critical Issues for SMEs

The tendency found in 2002 survey for state bodies to inspect a large majority of enterprises still prevails in 2005. About 96% of SMEs were inspected at least once a year in 2005 (see Chart 6.2).

In addition, the number of inspections per enterprise, although declining overall, is still significant: on average, SMEs are inspected 13 times per year (see Chart 6.3). The most significant decline is seen for dehkan farmers, and can be attributed to 2 factors: the decreased frequency of tax inspections, and the elimination of most of the licensing requirements, which in turn reduced inspections by licensing authorities.10

Start-up businesses underwent more inspections than existing business on average. It is expected, however, that the number of inspections for start-ups will decline substantially with successful implementation of the new law, which provides a 3-year grace period for start-ups (see Chart 6.4).

More than 70% of inspections are carried out by three agencies: tax bodies (Tax Inspectorate and the Tax Police) conduct the most inspections, followed by the Sanitary and Epidemiological Service and Fire Authority (see Chart 6.5).

Interestingly, the Tax Police reportedly carried out more than one
BOX 6.3. INFORMATION ON INSPECTIONS IN SOME COUNTRIES BASED ON THE RESULTS OF THE SURVEYS CONDUCTED BY THE INTERNATIONAL FINANCE CORPORATION

The table below provides a comparison of inspections data from similar IFC surveys in the region. Those countries which began reform earlier have already achieved positive results, such as a decrease in coverage and number of inspections. At the same time it should be noted that the application of risk management principles leads to focusing inspections to riskier businesses, increasing the duration of inspections of those entities. Approaches to reform in other countries are analyzed in Attachment 6.2.

<table>
<thead>
<tr>
<th></th>
<th>Belarus</th>
<th>Georgia</th>
<th>Uzbekistan</th>
<th>Ukraine</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage, %</td>
<td>66</td>
<td>32</td>
<td>22</td>
<td>95</td>
<td>96</td>
</tr>
<tr>
<td>Average number of inspections per one SME</td>
<td>4.6</td>
<td>0.6</td>
<td>0.9</td>
<td>3.8</td>
<td>12.7</td>
</tr>
<tr>
<td>Average duration of one inspection, days</td>
<td>1.4</td>
<td>4.5</td>
<td>2.9</td>
<td>2.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Average duration of all inspections, days</td>
<td>6.3</td>
<td>2.7</td>
<td>2.6</td>
<td>8.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Cost of all inspections, USD</td>
<td>425</td>
<td>83</td>
<td>N/A</td>
<td>N/A</td>
<td>83</td>
</tr>
</tbody>
</table>

* countries in bold made important steps to reform inspection system


There is also the problem of multiple inspections. These can be carried out by the same body at different organizational levels (district, city and regional), as well as by different bodies conducting overlapping inspections. For instance, an audit of the payment of social tax is conducted by tax bodies as well as by the Pension Fund (which has a right to inspect, but with the coordination of tax and finance bodies). The same overlaps are seen with the State Electricity Supervision Body (Energonadzor) and Fire Department, which both have jurisdiction over the safety of electrical wires and electricity generating plants. The two bodies sometimes duplicate each others’ activities during their inspections of fire standards.

11 Article 128 “The Rights of the Tax Police Divisions.”
12 The functions of the tax police were transferred to the newly established Agency on State Financial Control and Fight against Corruption, Presidential Decree, dd. November 30, 2006, No. 9.
13 Category “Others” include: Department of Internal Affairs, State Automobile Inspection (GAI), Tajikstandard, Environment protection body, Khukumat, etc.
The average number of inspections also shows regional differences. Individual entrepreneurs in Dushanbe, for example, undergo almost double the number of inspections as their counterparts in other regions (see Chart 6.6).

Regional difference can be explained by several factors, but the main driver appears to be the ratio between inspectors and enterprises. Most of the inspecting bodies are located in the capital, Dushanbe. Therefore entrepreneurs in Dushanbe are subject to inspections at several organizational and administrative levels: rayon, city and national.

6.3 WHO IS INSPECTED? THE RATIONALE AND OUTCOMES ARE STILL UNCLEAR

The rationale for inspections is unclear (see Table 6.1).

6.3.1 INSPECTIONS ARE NOT RISK BASED

Analysis of the distribution of inspections by sectors of the economy proves that the system for planning and conducting inspections in the country is not risk based. The number of inspections (see Chart 6.7) does not show a high variance among sectors of activity; for example, consumers’ services and retail trade businesses, which do not pose high levels of risk to the population, were inspected in 2005 more often than the construction businesses.

Entrepreneurs involved in provision of services were inspected twice by Energonadzor (Electricity Supervision), while those involved in manufacturing consumer goods were inspected just once, despite a higher risk involved in working with equipment.

Non-compliance with a risk-based inspections system implies waste of public resources as well as unnecessary burden for businesses. Box 6.4 gives an example on risk-based approach.

6.3.2 MANY INSPECTIONS, FEW RESULTS

More than 80% of the interviewed entrepreneurs underwent the inspections without any consequences – i.e. only about one in five faced sanctions (see Chart 6.8). Penalty sanctions and withdrawal of products from sale were the most commonly used punitive actions by inspecting bodies.

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The average # of inspections per individual entrepreneur shows high geographical variance. Individual entrepreneurs in Dushanbe, for example, undergo almost double the number of inspections as their counterparts in other regions (see Chart 6.6).

Regional difference can be explained by several factors, but the main driver appears to be the ratio between inspectors and enterprises. Most of the inspecting bodies are located in the capital, Dushanbe. Therefore entrepreneurs in Dushanbe are subject to inspections at several organizational and administrative levels: rayon, city and national.

6.3 WHO IS INSPECTED? THE RATIONALE AND OUTCOMES ARE STILL UNCLEAR

The rationale for inspections is unclear (see Table 6.1).

6.3.1 INSPECTIONS ARE NOT RISK BASED

Analysis of the distribution of inspections by sectors of the economy proves that the system for planning and conducting inspections in the country is not risk based. The number of inspections (see Chart 6.7) does not show a high variance among sectors of activity; for example, consumers’ services and retail trade businesses, which do not pose high levels of risk to the population, were inspected in 2005 more often than the construction businesses.

Entrepreneurs involved in provision of services were inspected twice by Energonadzor (Electricity Supervision), while those involved in manufacturing consumer goods were inspected just once, despite a higher risk involved in working with equipment.

Non-compliance with a risk-based inspections system implies waste of public resources as well as unnecessary burden for businesses. Box 6.4 gives an example on risk-based approach.

6.3.2 MANY INSPECTIONS, FEW RESULTS

More than 80% of the interviewed entrepreneurs underwent the inspections without any consequences – i.e. only about one in five faced sanctions (see Chart 6.8). Penalty sanctions and withdrawal of products from sale were the most commonly used punitive actions by inspecting bodies.

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Category “Others” include: consulting services, processing of agricultural production, medical services, pharmaceutical products, tourism and hotel business, and communication.
The ratio between inspected companies and actual consequences is explained by two reasons: on the one hand it testifies to the absence of a proper selection mechanism, which would allow the agencies to place higher priority on inspecting the enterprises most likely to violate regulations. On the other hand it is directly linked to unofficial payments. In fact, a large number of entrepreneurs (almost 1 out of 3) prefer to avoid any sanctions from inspecting bodies by resorting to unofficial payments (see Chart 6.9).
However, even entrepreneurs who did receive administrative sanctions and fines made some unofficial payments, likely to reduce the size of the fine and alleviate the consequences of inspections.

Overall, the low number of infringements is a sign of the inefficiency of the inspection system. In fact, if no infringements were revealed during the last inspection (at most one year before) and the business does not belong to a high risk category, it is unclear what purpose repeated inspections will serve, apart from increasing rent-seeking opportunities.

6.3.3 INSPECTIONS ARE TOO SHORT TO BE EFFECTIVE

Very often the duration of inspections is too short to be effective. Every third inspection of individual entrepreneurs lasted less than 30 minutes. Some inspections lasted only 15 minutes, which is insufficient to assess compliance of the entrepreneur’s activity with prescribed norms (see Chart 6.10). A possible explanation for this might be an informal relationship between officials and entrepreneurs.

6.3.4 UNOFFICIAL WAYS ARE IN MOST CASES THE EASIEST SOLUTION

According to the survey, about 52% of the interviewed entrepreneurs used unofficial means to resolve inspections issues in 2005 (see Chart 6.11). This includes unofficial payments, reference to friends and relatives, and other informal options (invitation to lunches, etc.).

Although unofficial means are common across all regions of the country, they are especially widespread in the Kurgan-Tube region of Khatlon province, where almost all entrepreneurs preferred to solve problems through unofficial methods (see Chart 6.12).

Many entrepreneurs perceive unofficial solutions as a normal aspect of their business activity. This encourages transformation of the “inspector-entrepreneur” relationship into one in which they become “partners” in bypassing the official system. This relationship has developed due to various factors: the high level of administrative interference into entrepreneurship activities, the complicated and often outdated norms and requirements of inspecting bodies, the low level of awareness of entrepreneurs, as well as the low salary level of government officials, whereby the monthly wage is below the consumption norm (see Box 6.6).
6.4 INSPECTIONS: A RELEVANT BURDEN FOR SMES...

6.4.1 ...IN TERMS OF TIME

Analysis of the legislation showed that prior to the new Inspections Law most inspecting bodies did not have clear guidelines for carrying out inspections.

The duration of inspections is clearly linked to the size of businesses: while it decreased significantly in 2005 for individual entrepreneurs (almost 3 times) and dehkan farmers (more than twice), it also showed an increase for small and medium companies in comparison to 2002 (see Chart 6.13).

The reduction of time spent in inspecting individual entrepreneurs and dehkan farmers can be explained on the one hand by the reduction in the number of inspections (as it is the case for dehkan farmers), and on the other by the limited scale of the inspections (in particular for individual entrepreneurs). For example, the most frequent inspections are field audits by the tax inspectorate. These inspections are limited to verification of the entrepreneur's patent and cash receipts. As these practices have become more known among entrepreneurs, the duration of the audits has likely reduced with respect to 2002.

Inspections of small and medium companies take the most time, lasting nearly one calendar month (20 business days) and interrupting their usual activity. This is an increase from the previous survey despite the reduction in the number of inspections. The longer

Chart 6.12. UNOFFICIAL WAYS OF SOLVING ISSUES ARE COMMON IN ALL REGIONS OF THE COUNTRY

<table>
<thead>
<tr>
<th>% of respondents who used unofficial solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
</tr>
<tr>
<td>Gorno-Badakhshan Autonomous Oblast</td>
</tr>
<tr>
<td>Sughd province</td>
</tr>
<tr>
<td>Kulob district (Khatlon province)</td>
</tr>
<tr>
<td>Districts of Republican Subordination</td>
</tr>
<tr>
<td>Dushanbe</td>
</tr>
</tbody>
</table>

"I’ve known the inspectors for a long time, and we have a mutually beneficial relationship – they help me and I help them..."

- Entrepreneur, focus-group participant

Chart 6.13. TIME SPENT FOR ALL INSPECTIONS RANGES FROM THREE DAYS TO A CALENDAR MONTH

<table>
<thead>
<tr>
<th># of business days</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>19</td>
<td>6</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>20</td>
<td>7</td>
</tr>
</tbody>
</table>

Box 6.6. AVERAGE SALARIES OF INSPECTORS, CONSUMPTION NORM AND INSPECTIONS REVENUES

| The nominal average monthly wage of wage-earners in the tertiary sector was 82 somoni in 2005... |
| ...while the cost of food in the consumer basket per one household member (consumption norm) was 87 somoni in 2005.18 |

To change the existing situation, it is important to raise entrepreneurs’ legal awareness, to raise the inspectors’ technical qualifications, and most importantly to introduce incentive systems that link public officials’ salaries with their performance. In particular until salaries allow the official to afford normal living standards, unofficial payments will not be eradicated. Raising salaries per se is not a solution. Introducing risk-based inspection mechanisms should bring efficiency by reducing the number of needed inspectors, and in turn free up resources to be dedicated to increased salaries according to a performance based system.

According to our data, it can be estimated that inspections-related payments in the country (including tax inspections) range between 30-40 million somoni ($10-$12 million).20 Even if these payments were to be official, they would represent no more than 3% of total government revenues. Therefore, it is difficult to justify inspections, in particular tax inspections, based on revenue motivations.

On the other hand, if we consider the total number of inspectors active in Tajikistan (~4,000), the monthly revenue generated by each of them is about 620-830 somoni ($195-$260), which appears to be the amount necessary to integrate the official salaries.

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18 NBT (2006).
20 By multiplying average cost of all inspections 265-330 somoni ($83-$103) by the total number of SMEs in the country (121,000 entities).
Box 6.7. Extract from Inspections Law

“1. The duration of a financial audit of the activity of a legal entity must not exceed 10 calendar days.
2. Inspection ... by other inspecting bodies ... with duration, not exceeding 5 business days.”

Article 14

Chart 6.14. Inspections by State Authorities of Small and Medium Companies Are the Longest

HOURS PER 1 INSPECTION

Tax inspection 24
Tax police 9
Social protection 7
Environmental protection 5
TajikStandart 7
Komarchstroi (architecture) 9
State surveillance on labor protection 6
Office of Public Prosecutor 18

Individual entrepreneurs
Small and medium companies
Dehkan farmers

duration of inspections for small and medium companies is clearly linked to the higher complexity of these more structured business activities (as Chart 6.13 shows, the duration of one inspection for them is about three times the one for individual entrepreneurs), but also by the higher number of bodies performing inspections.

Distribution of the duration of one inspection indicates that some of the inspections have very short-term character. For instance about 60% of individual entrepreneurs had inspections no longer than 1 hour. This could be due to the fact that inspectors visit entrepreneurs just to collect a bribe (see Chart 6.15).

Chart 6.15. About 50% of Inspections Last Not More Than 1 Hour

% of respondents subject to inspections

- up to 30 minutes
- 30-60 minutes
- 1-3 hours
- 3-5 hours
- 5-10 hours
- above 10 hours

Individual entrepreneurs
Small and medium companies
Dehkan farmers

6.4.2 ...as well as direct costs

As with the duration of inspections, the expenses related to inspections (official and unofficial payments) differ greatly for each SME type. Chart 6.16 shows that in 2005, small and medium companies spent, on average, 1049 somoni ($378) on inspections. This amount is four times higher than individual entrepreneurs and 15 times higher than dehkan farmers.

Duration of inspections and costs appear to be directly correlated: it is in fact possible to identify a daily cost of an inspection, which also does not substantially differ among typology of
companies. This supports the hypothesis that unofficial payments appear to be the main drivers behind inspection costs (see Chart 6.17): inspectors are in fact receiving a similar contribution from each typology of inspection.

At the same time, the inspections-related expenses of entrepreneurs differ depending on the region.

Other regional variances can be attributed to the lack of uniform normative approaches to conducting inspections, leading to a difference in the number and duration of inspections (as illustrated in Chart 6.18).

Chart 6.17. “DAILY COST” OF INSPECTIONS

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Cost (SOM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>42</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>53</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>24</td>
</tr>
</tbody>
</table>

Chart 6.18. REGIONAL DIFFERENCES IN TERMS OF NUMBER AND DURATION OF RETAIL TRADE INSPECTIONS IN 2005, BY STATE AGENCIES

6.4.3 …LEADING TO AN OVERALL SIGNIFICANT ECONOMIC IMPACT

The above-mentioned costs can be characterized as direct ones. At the same time, we must point to indirect costs associated with the opportunities lost – that is, the loss in profit caused by suspension and limitation of business activity, as well as the human resources lost due to involvement of employees in inspections. Taking into account the direct and indirect costs involved in inspections, we can estimate the total economic impact of inspections on each typology of business:

- Individual entrepreneurs face a total cost of about 290 somoni ($91) on inspections, corresponding to 7% of their annual profits;
- Small and medium companies face a total cost of about 1,450 somoni ($453), or 7% of their annual profits;
- Dehkan farmers face a total cost of about 80 somoni ($25), which correspond to 2% of their annuals profit (see Chart 6.19).
The situation is expected to change after implementation of the Inspections Law. The expected results described in Box 6.9 are the following:

- reduction of official and unofficial payments
  - advance notification of inspections should push compliance and in turn reduce fines and unofficial payments;
  - checklists will increase transparency of the regulations, which in turn will facilitate compliance and reduce payments;
  - the introduction of an official inspection document evaluated by a different individual than the one conducting the inspection will raise objectivity of inspections and reduce unofficial payments;
  - the 3-year grace period will allow entrepreneurs to avoid burdensome expenses during business establishment and development during the first years of experience;
  - limit in the number of inspections should reduce the unofficial payments, which showed a clear link with the number of inspections.

- reduction of labor costs
  - imposing a limit on of the duration of inspections will avoid prolonged inspections;
  - checklists should facilitate inspections and in turn reduce time spent dealing with them;
  - advance notice will allow for better planning of the time of employees involved in inspections, leading to reduction of labor costs;
  - limit in the number of inspections and the 3-year grace period

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**Box 6.8. Economic Impact Estimate**

Entrepreneurs spend not only financial resources to deal with administrative procedures. They also use human resources and lose revenues in case their businesses are stopped as a result of an inspection.

Our estimates of the costs associated with inspections include all these cost categories:

- Direct administrative costs: \( n(E_O + E_U) \);
- Indirect “additional” costs consisting of:
  - Labor cost: \( w^d \);
  - Loss of profits: \( (L^s/b)^p \)

where:

- \( n \) - Number of times a business is inspected in a year;
- \( E_O \) - official cost of each inspection;
- \( E_U \) - unofficial cost of each inspection;
- \( d \) - Business days of full-time employee time dedicated to inspections;
- \( w \) - Daily employee salary;
- \( L \) - Annual profit losses for an active company stopped because of inspections, but which retains all its production factors;
- \( s \) - time, in business days, that a company’s activity is stopped due to inspections;
- \( b \) - Number of business days per year in the economy;
- \( p \) - probability that company’s activity is stopped.

```
Why don’t people speak of how much money we ‘lose’ because we suspend activities for the inspections? It is not only us, who do not make profit. It is also the budget of the country, which does not get the taxes from the transactions that we might have made...”

- Entrepreneur, focus-group participant
```
would limit the number of inspections and in turn reduce the time spent dealing with inspectors; nevertheless one should take into account that the duration of each inspection could increase due to the lower frequency.

- decrease of the opportunities to close a business
- the introduction of checklists, by bringing transparency into the inspection process and increasing compliance, should also reduce the chances of closing a business;
- the limit in the duration of inspections should in turn reduce the chances a business will be shut down as a result of an inspection;
- the inspection document and the separation of the decision-making process should reduce prejudgment in decision making and introduce objectivity of inspections results.

6.5 AMBIGUOUS AND UNCLEAR NORMS CREATE DIFFICULTIES FOR APPEALING

About 1 in every 8 entrepreneurs felt the decisions made by the inspecting bodies were illegal. Nevertheless only 20% of them decided to appeal by turning to higher bodies of authority and higher officials. This shows an extremely low confidence in the appeal process (see Chart 6.20).

The main reasons for this reluctance to appeal are fear of the negative consequences from the inspecting bodies and doubts as to the positive outcome. Some entrepreneurs also doubt the effectiveness of this mechanism in light of the required time and costs (see Chart 6.21).

It should be pointed out that before the adoption of the Inspections Law, while the responsibilities of SMEs were more or less clear, the responsibilities of inspectors at various inspecting bodies in most cases were not. In particular, most entrepreneurs did not know that they can appeal a decision when the inspector was going beyond his or her powers or what the appeal procedure was.

That is why in questionable situations, most entrepreneurs prefer to decrease the likelihood of negative outcomes by compromising with inspectors.

To give entrepreneurs a better understanding of their legal rights, the Inspections Law obliges all inspectorates to introduce an Inspections Manuals which should contain among other things a detailed description of the appeal mechanisms. Open access to

<table>
<thead>
<tr>
<th>Area of impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stopping business</td>
</tr>
<tr>
<td>Limit the # of inspections, Avoid redundant inspections</td>
</tr>
<tr>
<td>Advance notice</td>
</tr>
<tr>
<td>Duration of inspection</td>
</tr>
<tr>
<td>Checklists</td>
</tr>
<tr>
<td>Inspection document &amp; Separation of inspection and decision-making functions</td>
</tr>
<tr>
<td>No inspections in the first 3 years of operations</td>
</tr>
</tbody>
</table>

"To appeal... costs more. The state bodies will never admit the mistakes of their inspectors..."  
- Entrepreneur, focus-group participant
...Some of the technical requirements are so absurd that it is very surprising they have not been revised already. Yet these requirements are strictly enforced.”

- Entrepreneur, focus-group participant

this information will help raise the legal awareness of entrepreneurs and enable them to defend their rights, as the reforms planned in this sphere and those in progress will not have effect without the support and active participation of the private sector.

In order to make the appeal system fully functional, it is important to conduct reforms, in particular within the court system, to enable entrepreneurs to fully protect their legitimate interests.

6.6 outdated requirements and low legal awareness make compliance more difficult

The norms and rules serve as the tools to regulate the actions of SMEs. But this goal can only be achieved if the norms and rules are feasible and understood by all.

As entrepreneurs said, there are multiple rules and technical requirements that are confusing and impossible to execute. For instance, the cost of a fire-prevention warning system at an 8 square meters retail trade shop can be equal to the amount of annual turnover.

Rules and regulations are not only complicated, but also often unfeasible. In most cases they are inaccessible. Information is not shared between government bodies and entrepreneurs and in
most cases regulations are only available (in limited copies) to government officials. Clearly this makes compliance literally impossible.

As a result the majority of entrepreneurs are unaware of the detailed requirements for their business activity. Without a well-developed mechanism for informing small and medium businesses on normative-legal acts, entrepreneurs only get to know these requirements during the course of inspections. Lack of information is also one of the major obstacles that entrepreneurs face with during their business activity.

The survey shows a positive trend in raising the legal awareness among entrepreneurs. In 2005, there was a 12% increase in the number of dehkan farmers who had a better knowledge of the legislation (see Chart 6.22).

The checklists developed under the Inspections Law should solve the problem of low awareness among entrepreneurs. The checklists detail the various technical requirements and should simplify the inspection process, helping entrepreneurs understand and meet their responsibilities.

.Chart 6.22. Share of entrepreneurs knowing the legislation regulating inspections well is increasing

<table>
<thead>
<tr>
<th></th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>18%</td>
<td>36%</td>
<td>20%</td>
</tr>
<tr>
<td>2005</td>
<td>19%</td>
<td>40%</td>
<td>32%</td>
</tr>
</tbody>
</table>

“We have repeatedly asked the Ministry of Transport to show us the rules that regulate our activity, but we have not received any.”

- Entrepreneur, focus-group participant
The Inspections Registration Book (hereafter IRB) is a document in which the information on each inspection is kept, including the name of the inspector, date of inspection and inspection results.

The IRB was introduced in 2001 with the goal of reducing unofficial and unjustified inspections by inspecting bodies. It was expected that compulsory registration of each inspection in the IRB should restrain the unjustified inspections. However, this did not happen, as the number of inspections was not limited by legislation and no one cared about the numerous entries in the IRB by the same inspecting agencies.

In 2006 the IFC Tajikistan Business Enabling Environment - SME Policy Project published and distributed the IRB on a large scale throughout Tajikistan. The initiative was financed by the Swiss State Secretariat for Economic Affairs (SECO). Distribution took place after conduction of survey and its impact is to be measured in a follow-up survey.

The survey does not demonstrate dramatic changes over the past 3 years with respect to IRB availability: as of 2005 a large majority of individual entrepreneurs still do not have the IRB.

The high numbers of small and medium companies that had the IRB can be explained by the better resources (e.g., qualified staff to track changes in the legislation) and higher need for companies due to increased compliance requirements compared to dehkan farmers and individual entrepreneurs.

Low awareness of entrepreneurs is one of the major factors affecting the distribution and use of the IRB and the entrepreneurs' activities in general (see Chart 6.24).

However, the low circulation of the IRB is caused not only by the low awareness of entrepreneurs, but by the lack of control of IRB entries made by inspecting agencies. The latter would easily register inspections in the book, as there were no limitations to the number of inspections, and registration in the IRB would therefore not prevent them from another visit. If there were clear procedures for the inspecting bodies, the IRB use would be more effective and entrepreneurs themselves would seek it out and start using it.

The survey shows that the majority of inspectors make records in the Inspections Registration Book when carrying out their activities (see Chart 6.25).

The survey results demonstrate that the main reason that inspectorates
do not fill out the Inspections Registration Book is that the entrepreneur himself does not insist on recording the inspection in the IRB. Inspectors should nonetheless request the IRB from businesses before the start of the inspection, to register the inspection and fill in the appropriate columns of the Book.

Some entrepreneurs explain that they don’t want to record the inspection because they are not sure of the result of the inspection, and are afraid of the possible negative consequences (see Chart 6.26).

At the same time, entrepreneurs point to certain improvements that followed the introduction of the Inspections Registration Book. Every fifth interviewed entrepreneur mentioned some positive change from using the IRB.

BOX 6.10. FREE DISTRIBUTION OF IRBs IN 2006

In 2001 a Decree of the President of Tajikistan introduced the Inspections Registration Books for business entities in Tajikistan as fulfillment of the terms for a structural adjustment credit (SAC) provided by the World Bank to the Government of Tajikistan. Unfortunately by 2005 only a limited number of SMEs possessed and used the book (as later confirmed by our survey results - see Chart 6.23), which in any case lacked a uniform format. In order to fill in this gap the IFC Business Enabling Environment Project decided to publish 125,000 copies of IRBs. The initiative was financed by the Swiss State Secretariat for Economic Affairs (SECO).

IFC experts developed an information section of the IRB, to help entrepreneurs obtain more information on the procedures and basic principles of inspections, as well as on their own rights and duties. The information includes the list of the laws regulating entrepreneurs’ activity as well as the contact information for state bodies authorized to carry out inspections and the organizations providing support for entrepreneurs.

The distribution of the copies was undertaken through the local offices of the Ministry of State Revenues and Taxes of RT (the current Tax Committee), who took the responsibility to ensure adequate distribution reach (by December 2006 about 70% of the copies were distributed).
RECOMMENDATIONS

As we described in the chapter, the critical change needed to reform inspections in Tajikistan will be to switch from a system focused on “hunting” for infringements to one focused on preventing and eliminating the causes of future infringements.

The basis of this change is included in the provisions of the new Inspections Law, which implementation will be critical to solving most of the issues and concerns raised in this chapter. As a general recommendation, we suggest developing a thorough implementation mechanism to reach the expected outcome. As such our detailed recommendations will be focused specifically on the implementation mechanism as well as on additional suggestions not directly linked with the Inspections Law, but which will be complementary to it.

1. Disseminate among the wide public the provisions of the Inspections Law and in particular the detailed inspection process as envisaged by the new law. This in turn can be achieved by:

   1.1 Developing information campaigns via media addressed to a wide audience;
   1.2 Targeting specific audiences, i.e., business associations, business incubators, NGOs with specific training programs aimed at raising their knowledge and making them able to support SMEs.

Expected impact

Higher level of awareness of the Inspections Law and a standardized and transparent inspection process will empower entrepreneurs vis-à-vis inspectors by providing them with some direct tools to reduce the burden of inspections and at the same time warrant compliance. The expected results are:

- Reduced number of inspections by applying the frequency limit provided by the law;
- Higher level of compliance due to the application of the advance notice mechanism;
- Reduced unofficial payments as a result of the two points above.

2. Provide entrepreneurs with clear, up-to-date and easily available regulations/instructions. This in turn can be achieved by implementing the provisions of the Inspections Law:

   2.1 Developing sector-specific checklists at each inspectorate level, which incorporate all technical regulations;
   2.2 Making checklists and regulations available to entrepreneurs in advance in large-scale information campaigns and before inspections, so that entrepreneurs can be better prepared;
   2.3 Reviewing the regulations underlying inspections to align them with international best practices as well as with the institutional context of Tajikistan;
   2.4 Developing violations preventing activity to reveal the causes of violations, their analysis, development and the implementation of measures to eliminate them;

Expected impact

The elaboration of checklists at the agency level, based on up-to-date regulations, and their dissemination should on the one hand create awareness and on the other bring transparency to the inspection process, leading to:

- Higher level of compliance, as the rules will be available, clearer, easy to read and to apply, facilitating their implementation;
- Lower fines for businesses induced by higher compliance;
Reduced need for unofficial payments, as clearer rules and simple yes/no answers will empower the entrepreneurs vis-a-vis the inspectors.

3. Implement risk-based selection mechanisms of SMEs to be inspected. These criteria will be differentiated for each inspection agency according to specific risk parameters set by the regulations to be implemented. This in turn can be achieved by:

3.1 Implementing the provisions of the Inspections Law requiring differentiation of inspected entities based on their potential risks, and in particular the high risk category requiring higher frequency inspections;
3.2 Defining risk-management principles within each category, which would allow inspectors to identify businesses with higher likelihood of infringements – i.e., selection based on past infringement records and random selection mechanisms.

Expected impact

The definition of risk categories should drastically reduce the coverage of inspections and change their very nature. Indeed, inspections should not represent the norm; rather, the exception, unless specific reasons exist. A business in fact should be inspected more frequently only if it belongs to a high risk category or if company-specific conditions exist. A risk-based inspection system should result in:

- Lower direct and indirect costs for businesses, both in terms of fines as well as opportunity costs, i.e., loss of labor and missed business opportunities;
- More efficient use of public resources, as inspections will only be focused on high risk areas.

4. Revise the organizational structure, professional qualifications, incentive systems and the salary scale of inspectorates. This in turn can be achieved by:

4.1 Rationalizing the number of inspectors to be allocated to each agency and their geographical distribution, according to the number of entities to be inspected and the risk level associated with the inspected entities;
4.2 Submitting inspectors to regular training programs and professional tests to improve professional skills and the efficiency of the inspection process;
4.3 Reviewing the salaries of inspectors and introducing incentive systems linking work effectiveness with their salaries.

Expected impact

An improved organization of the key inspectorates should complement the introduction of risk-based principles of inspections. A lower number of highly skilled, professionally trained and better rewarded inspectors should warrant:

- Improved outcomes of inspections, warranting higher level of standards despite the reduction in the number of inspections;
- Reduction in unofficial payments, as a result of an incentive system linking salary with performance.
The search for ways to improve the functions of inspections is not just a characteristic of developing countries. Many countries in more advanced stages of economic development are also looking for an optimal balance that preserves the freedom of entrepreneurs’ activity while retaining state regulation (control) and ensuring consumer safety. A review of the best examples from these inspections improvements demonstrates the availability of different approaches.

ARMENIA
Development and adoption of the Law on Inspections established the minimal procedural norms and rights of SMEs (defining the list of inspecting bodies, time frames for carrying out inspections, basic rights of entrepreneurs, etc.). Development and adoption of the Law on Tax Authority (defining the mandate, rights and responsibilities of the parties). Development and adoption of the Guidelines for conducting inspections.

LATVIA
The government initiated a task force with various objectives: to develop a program emphasizing the clear rights and obligations of inspectors and entrepreneurs; to conduct a wide information campaign for entrepreneurs; to establish a Coordination Council; to run trainings for inspectors, etc.

POLAND
Development and adoption of the Law On Free Economic-Business Activity, where minimum procedural requirements and rights of entrepreneurs are established. The law regulates all aspects of state control and inspections of the activity of business entities and envisages the basic minimum of procedural requirements for carrying out inspections.

ROMANIA
Incorporation of several inspections into a single state body of control, introduction of a single inspections register, development of the Code of Conduct and guidelines for inspectors, etc.

RUSSIA
Adoption of basic norms and rights of entrepreneurs under the Law On Protection of the Rights of Legal Entities and Natural Persons in the course of Inspections (Surveillance) by the State Bodies of Control. This is a framework law to protect entrepreneurs from illegal inspections and to ensure minimal intrusion into economic activity of private sector.
7. TAXATION
7. TAXATION

The unified Tax Code, which went into effect on January 1, 2005, was a great improvement to the Tajik tax system, but tax legislation is still under development: the Tax Code has been amended 4 times in the last 2 years and most implementing instructions, regulations and manuals are still to be developed.

Although the overall tax burden of SMEs does not appear to be excessive, the tax system is nevertheless complicated, taking into account the economic “literacy” of SMEs. On the one hand, it hinders development of the sector, while on the other hand pushes business entities into the shadow economy.

The tax system foresees simplified taxation for most types of businesses, but none of those mechanisms are straightforward or transparent enough to warrant accountability of SMEs and tax authorities. The result is a complicated system, which hinders growth and development of businesses, but which is also difficult and costly to administer.

Individual entrepreneurs can opt for an efficient lump-sum taxation system (the patent), which should spare them from complicated reporting and unnecessary inspections: nevertheless, the obvious benefits of this system are eliminated by the necessity to pay retail trade tax and social tax based on realized revenues and profits, respectively. As a result, entrepreneurs face the highest number of tax audits. Retail trade tax, in particular, is also inefficient for the tax authorities, as it absorbs significant resources while generating limited revenues.

Legal entities of smaller size have the choice to opt for a simplified revenue based taxation system, but its benefits are far from clear, as the implicit tax burden is not radically different from that of the standard system, while tax administration does not present clear advantages.

Dehkan farmers are in a better situation: their lump-sum taxation system is simpler and spares them from very frequent inspections. Nevertheless, they are not offered the possibility to reduce their tax burden during unprofitable years.

Tax administration procedures are the greatest burden for businesses. On the one hand they are cumbersome, as they require frequent and complicated payments. On the other hand, tax compliance is most often pursued through tax inspections, which leave a high degree of discretion to the tax inspectors and are prone to corruption. A typical example of these procedures is the so-called “chronometry measurement,” which is supposed to

MAIN FINDINGS

• Patent taxation system is the preferred system among individual entrepreneurs: more than 90% chose it.

• Retail trade tax is an inefficient taxation tool detracting significant resources. Retail trade tax administration is the primary source of frequent tax audits: individual entrepreneurs were inspected 9 times per year. However retail trade tax makes up only 2% of the overall tax revenues of the country’s budget.

• Only about 50% of small and medium companies opt for the simplified taxation system, as the tax burden under the simplified system is not radically different from that of the standard system, and no substantial simplification is offered.

• Overall payment of taxes is burdensome for small and medium companies: companies under the simplified system make 16 payments per year and companies under the standard one make at least 25 payments.

• More than half of dehkan farmers think that the unified tax for agricultural producers had a positive impact on their activity, but 42% do not, mainly due to their inability to reduce the tax burden in cases of low productivity.

• “Land improvement payments” (i.e., unofficial “voluntary” payments, not foreseen by legislation, charged by local authorities for maintenance of nearby areas, event planning, etc.) are common: more than 50% of SMEs made these payments.

• Assessed share of entrepreneurs hiding their sales decreased from 39% in 2002 to 24% in 2005.

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• Assessed share of entrepreneurs hiding their sales decreased from 39% in 2002 to 24% in 2005.
determine the yearly income of businesses based on subjective evaluation of generated revenues during inspections, creating a clear conflict of interest and leaving ample room for unofficial payments. Additionally, tax inspections are inefficient from the standpoint of public administration, as they focus on pursuing the most vulnerable businesses, rather than the “big tickets.”

In this context, entrepreneurs’ awareness of regulations is low. This, together with the complexity and non-transparency of the taxation process, appear to be the main driver of unofficial payments.
7.1 Review of the Current Tax System in Tajikistan

It is very important that a tax system complies with the general level of economic development of a country and, as far as SME taxation is concerned, is consistent with entrepreneurs’ institutional capacity. In fact, a system with unreasonable requirements for SMEs hinders the development of businesses. Instead of promoting tax compliance, the complicated tax system partly or completely pushes entrepreneurs into the “shadow economy.”

Tax revenues in Tajikistan have increased significantly over the past six years (see Chart 7.1), with an average nominal growth of about 40% (20% in real terms).

However, after a rapid growth from 2001 to 2003, the nominal growth rate in the recent years is slowing down (see Chart 7.2).

In international comparison, tax revenues are quite low in relation to official GDP (see Chart 7.3).

While the limited fiscal pressure could be partially explained by the low level of economic development, the large contribution of indirect taxation to overall revenues (see Chart 7.5) partially reflects the limited revenue generating capability of the tax authorities. Tajikistan’s indirect tax share of the overall tax revenues is high (see Chart 7.4), even in comparison with other CIS countries.

Although official statistics do not provide specific data on SMEs’ contribution to tax revenues, it is possible to estimate it by using the revenue data of the survey and official statistics (see Attachment 7.1). Accordingly, estimated tax revenues from SMEs represent about one quarter of the overall tax revenue (23%).

The 2005 Tax Code, is the main legislative document establishing a framework for taxation in Tajikistan. It has introduced several

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1 These data do not include the tax revenues generated by the workforce employed in the sector.
3 Excluding social tax.
The recent rise in tax revenues is caused by economic growth, with a large share due to increase of VAT on imported goods (see Chart 7.6). Overall, the tax system relies mostly on indirect taxes (more than 70% of total revenues) with distributional implications of the tax burden, particularly on low income households.

Source: Tax Committee Data 2006

provisions which affected the taxation of the SME sector (see Box 7.2).

The Tajik taxation system consists of 15 national taxes and 3 local taxes (see Attachment 7.3).

National tax rates are set by the Tax Code (with the exception of the excise rates which are set by the government) and their revenues are allocated to the central budget. Rates for the local taxes are set by local authorities within the framework provided in the Tax Code, and revenues contribute to the budget of local authorities.

At the present time, tax legislation foresees two taxation regimes for each type of SME, with the exclusion of dehkan farmers, who face a unique simplified system:

1. A standard regime, characterized by detailed book-keeping and tax administration requirements, based on actual profits achieved by the activity;

2. A simplified taxation regime, characterized by reduced book-keeping and tax administration requirements, based on estimated profits.

Box 7.2. Newly introduced provisions in the 2005 Tax Code affecting SME taxation:

- Profit tax rate on legal entities reduced from 30% to 25%.
- VAT threshold increased from 96,000 to 200,000 somoni.
- Introduction of the new “minimum tax on revenues of enterprises,” to be paid monthly on the basis of resulting revenues.
- Public transport maintenance tax abolished.
- Tax rate decreased from 5% to 4% under the simplified system.
- Real estate tax now collected from all entities, not just individuals.
- Local retail tax rate reduced from up to 5% to up to 3%.

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4 Category “Others” include: State duties, Real Estate tax, Land tax, Mineral resource tax.
6 In accordance with Clause 239 TC RT, “excise (excise tax) is an indirect tax, included to the sale price of sub-excise goods.” Sub-excise products are spirits, soft and strong drinks, processed tobacco, fuel, oil and processed oil, vehicles, jewelry, gold, platinum and silver.
7 Majlis of the people’s deputies of the oblast, city and rayon.
2. A simplified regime, characterized by simplified book-keeping, tax administration and tax calculations, based either on lump-sum regimes (for individual entrepreneurs and dehkan farmers) or a revenue based one (for small and medium companies).

As a result, according to the legal form of business activity five taxation regimes can be identified (see Chart 7.7).

7.2 TAXATION OF INDIVIDUAL ENTREPRENEURS

Individual entrepreneurs have a choice between the standard personal income taxation system and a simplified, patent based one.

7.2.1 THE STANDARD TAXATION SYSTEM

Under the standard system, individual entrepreneurs are taxed according to the personal income tax system applied to their realized profits. As such they are subject to two direct taxes:

- **Personal income tax**: calculated based on the size of entrepreneurs' profits at a rate between 8% and 13%;

- **Social tax**: calculated on the basis of entrepreneurs' income at a rate of 20%. Declared monthly revenue is taken into account as a basis for taxation. However, the revenue can not be less than an average monthly salary of employees as defined by the State Statistical Committee (declared monthly salary should be no less than 83 somoni and the social tax burden is 16.6 somoni). If an individual entrepreneur hires external workers, he has to withhold their social tax, which is calculated as follows:

  - **Employer** has to contribute 25% of the employee's salary;
  - **Employee** has to contribute 1% of his own salary.

Additionally, individual entrepreneurs can also be subject to other indirect taxes depending on the type of activity and the size of turnover:

- **Retail trade tax**: up to 3% of cash sales;
- **VAT**: 20% of the net value added to turnover;
- **Road users' tax**: calculated as 2% of expenditures (until the
end of 2006 individual entrepreneurs were not subject to this tax).12

7.2.2 THE PATENT TAXATION SYSTEM

As an alternative, an individual entrepreneur with annual revenues below 200,000 somoni ($62,500) can apply for a patent, which offers simplified taxation and registration system. The cost of a patent,13 paid on a monthly or biannual basis, includes the lump-sum payment of a personal income tax - entrepreneurs are exempted from payments of personal income tax. The patent system is applicable to certain activities14 only.

Within the framework of the patent system, individual entrepreneurs are subject to:

- **Patent payments:** the monthly cost varies according to the type of activity, must be paid in advance, and ranges from 7 somoni ($2.20) (dry cleaning) to 60 somoni ($18.20) (taxi drivers);

- **Social tax:** calculated on the basis of entrepreneurs’ revenues at a rate of 20%. However, the declared monthly revenue cannot be less than 18 minimum monthly wages per calendar year (therefore monthly taxable amount is 30 somoni and the social tax burden is at least 6 somoni).15

Additionally they might be subject to retail trade tax up to 3% of cash sales.

The patent system is clearly preferred by individual entrepreneurs: in fact more than 90% of them choose it over the standard system (see Chart 7.8).

Table 7.1 compares two taxation regimes.

### Chart 7.8. The overwhelming majority of individual entrepreneurs is working under the patent system

<table>
<thead>
<tr>
<th>% of Individual Entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patent system</td>
</tr>
<tr>
<td>Standard System</td>
</tr>
</tbody>
</table>

7.2.3 TAX ACCOUNTING AND REPORTING ARE QUITE PROBLEMATIC FOR INDIVIDUAL ENTREPRENEURS

Reluctance to pay taxes and propensity to hide revenues is universal. If the tax system is also hard to comply with, the probability of tax evasion increases. To address this issue, a transparent, simplified system of accounting and reporting should be introduced.

13 For more details on the differences between the patent and certificate see Chapter 2.
14 Only 49 activities can be conducted under the patent (see Chapter 2).
In accordance with the Law of the RT “On Accounting,” revenues and expense accounting of individual entrepreneurs operating without forming a legal entity are regulated by the Tax Code, although the Code provides only general provisions.

For accounting purposes, an individual entrepreneur under the standard system must record all transactions in a Book of Revenues and Expenses (BRE), have a cash register and provide supporting documents to confirm expenses (e.g., invoices, receipts - see Box 7.3).

There are two significant problems with keeping BREs:

- Maintaining transaction records;
- Confirmation of expenses.

Not every entrepreneur is able to keep daily records in the BRE. Insufficient training, lack of time, and lack of a systematic approach

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**Box 7.3. Minimum Requirements for Primary Accounting Documents**

- name of document;
- date the document was composed;
- name (official name of a legal entity or a full name of individual) on behalf of which the document is drafted and issued;
- name (official name of a legal entity or a full name of individual) for whom the document is issued;
- taxpayer identification numbers of the party issuing the documents and of the party for whom the document is issued;
- description of transaction;
- amount of transaction (in cash and in-kind); and
- official positions of individuals responsible for execution of the transaction, their signatures and seals, if required.

Article 68, TC of RT
are obstacles to the use of the BRE as an accurate reflection of the taxable base.

Due to their high cost, the majority of entrepreneurs do not have the money to purchase and install cash registers (and frequently, the company which sells them imposes a maintenance contract, which raises the cost further and complicates the use of the machines). In addition, in a country with unstable power supply (usually from November until April), entrepreneurs who have purchased cash registers are also forced to keep handwritten BREs.

Additionally, while maintaining the BRE, entrepreneurs have problems confirming their expenses, as in some cases there is no possibility to get supporting documents (invoices, receipts, etc.).

Individual entrepreneurs working under the standard system calculate the following taxes, based on the BRE records:

- Personal income tax;
- Social tax;
- Retail trade tax.

In addition, performance of structured accounting calculations is in some cases beyond the capacity of individual entrepreneurs (See Box 7.4).

The complexity of taxation is confirmed by the survey’s findings: every third individual entrepreneur considers the calculation and payment of taxes as complicated or very complicated (see Chart 7.9).

**Box 7.4. Example of the Monthly Calculation of Personal Income Tax for Individual Entrepreneurs**

<table>
<thead>
<tr>
<th>Income</th>
<th>(100-(100*X)-MMW) * PTRa = A</th>
</tr>
</thead>
<tbody>
<tr>
<td>500 somoni</td>
<td>(400-(400*X)) * PTRb = B</td>
</tr>
<tr>
<td>A + B = C</td>
<td></td>
</tr>
</tbody>
</table>

- X – social tax rate of 1%
- MMW – minimum monthly wage (20 somoni)
- PTRa – personal income tax rate for income under 100 somoni (8%)
- PTRb – personal income tax rate for income above 100 somoni (13%)
- A – sum of the personal income tax from 100 somoni
- B – sum of the personal income tax from 400 somoni
- C – total personal income tax

---

"...Mainly, I am buying required goods at the market, where nobody will provide the receipt or some other document."

- Entrepreneur, focus-group participant

"...We have constant problems with these cash registers, as tax employees usually force us to buy them from a certain firm. Moreover, when there is a limited supply of electricity, people can not use them - no end of trouble with tax officials..."

- Entrepreneur, focus-group participant

**Chart 7.9. Every Third Individual Entrepreneur Considers Taxation Procedures Complicated**

<table>
<thead>
<tr>
<th>% of Individual Entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very easy</td>
</tr>
<tr>
<td>8%</td>
</tr>
</tbody>
</table>

Business Environment in Tajikistan as seen by Small and Medium Enterprises, 2006
The patent system is an efficient and convenient lump-sum taxation system as it sets limited requirements on entrepreneurs, both in terms of accounting requirements as well as interactions with the tax bodies. As mentioned above, entrepreneurs only need to pay the cost of the patent, which already includes payment of personal income tax, i.e. individual entrepreneur is exempted from separate personal income tax payment. The cost of payment varies according to the type of activity and ranges from 7 somoni ($2.20) to 60 somoni ($18.20).

However, individual entrepreneurs under the patent system are subject to social tax and retail trade tax (if their activity is connected with retail trade). These requirements partly undermine the advantages of a lump-sum patent based system and contradict the rationale for patents, exposing entrepreneurs to tax inspections (see 7.2.4).

### 7.2.4 RETAIL TRADE TAX: CUMBERSOME ACCOUNTING AND REPORTING RESULTS IN UNOFFICIAL PAYMENTS

Reporting of the retail trade tax (calculated based on gross revenues from retail trade) is complex, particularly for individual entrepreneurs. For entrepreneurs under the standard system there are two methods of calculation:

1. Based on the records in BRE (trade logbook);
2. Based on cash register receipts.

All records in the BRE should be confirmed by invoices and receipts.

The legislation does not require entrepreneurs under the patent system to have a cash register. Thus, it is within the authority of a tax inspector to determine and confirm the amount of revenues and profits to be charged for taxes. This in turn opens the door for rent-seeking relationships between entrepreneurs and inspectors.

Retail trade tax administration is also inefficient for the state tax authorities, as it absorbs a significant amount of resources while generating only 2% of the total tax revenues. It is estimated that collected retail trade tax represents only about 40% of what could potentially be collected (see Chart 7.10).

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7.2.5 INDIVIDUAL ENTREPRENEUR: ADDITIONAL PAYMENTS ARE BURDENSOME

Local governments illegally charge so-called “land improvement” payments, requiring individual entrepreneurs to contribute in cash or in-kind for maintenance of nearby areas. The share of individual entrepreneurs making such payments increased in 2005 with respect to 2002 (see Chart 7.11).

Noteworthy is the fact that individual entrepreneurs under the standard system paid more than those operating under patent (see Chart 7.12). This situation could be explained by the fact, that individual entrepreneurs under the standard system have higher turnover, and as such are an easier target. Hence, they avoid confrontation with authorities and are more willing to make these payments.

Chart 7.12. INDIVIDUAL ENTREPRENEURS UNDER THE STANDARD SYSTEM MADE HIGH ADDITIONAL PAYMENTS

7.2.6 TAX INSPECTIONS OF INDIVIDUAL ENTREPRENEURS ARE INEFTICIENT

Individual entrepreneurs were subject to very frequent tax inspections in 2005. The lack of a risk-based management system in planning tax inspections (see Chart 7.13), and limited qualifications and low salaries of tax officials lead to inappropriate and inefficient allocation of the inspectorats’ resources. Inspections of individual entrepreneurs can not be at the same time justified by the tax receipts (only 2% of the overall tax income of the state budget). While excessive tax inspections generate unnecessary burden for individual entrepreneurs in the form of interruption of business activities and unofficial payments.

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20 For more details on risk-based approach see chapter “Inspections.”
Correct assessment of the taxation base is one of the main reasons for conducting chronometry surveys, which try to estimate possible revenues through observations. As individual entrepreneurs trading in the bazaar generally do not use cash registers (see 7.2.4), chronometry surveys are also tools to estimate the volume of trade. However, chronometry surveys are subject to an open conflict of interests, because the inspector wants to overestimate the volume of revenues, while the entrepreneur wants to underestimate it. The wide range of authority given to inspectors opens the door for rent-seeking opportunities. Inspection decisions are often arbitrary and lacking an obvious rationale, making chronometry surveys a legal “extortion tool.” In fact, individual entrepreneurs are very often forced to resort to unofficial payments during tax inspections (see Chart 7.14).

To address this issue, it is necessary to introduce objective mechanisms to assess the tax base or to rely on lump-sum assessments.

7.3 Taxation of Small and Medium Companies

According to the standard taxation system for legal entities, small and medium companies are subject to:

- **Profit tax from legal entities**: calculated as 25% of profits;
- **Minimum tax on revenues of the enterprises**: calculated as 1% of turnover on a monthly basis to anticipate the annual profit tax and to represent the minimum amount;
- **Social tax**: calculated as 25% of employees’ salaries.

The company can additionally be subject to

- **Retail trade tax**;
- **VAT**;
- **Road users’ tax**.

For companies with an annual gross revenue below 600,000 somoni, the legislation foresees simplified revenue based taxation system (4% of gross revenues). This unified tax substitutes the corporate profit tax and the minimum tax on revenues of the enterprises and road user’s tax (see Chart 7.15).

Small and medium companies operating under the simplified system are subject to a simplified accounting and tax reporting system based on the Book of Gross Revenue Records, which is used for:22

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22 In the case that company is VAT payer, it needs also to keep special VAT log-book.
Payment of other taxes remains the same under both systems. In particular small and medium companies under both taxation systems are subject to VAT if their turnover exceeds 200,000 somoni, VAT records are kept in a separate journal.

According to the survey, in 2005 about 96% of small and medium companies achieved gross revenue of less than 600,000 somoni and as such could opt for the simplified taxation system. Nevertheless, only about half of them applied for the simplified taxation system (see Chart 7.16).

Indeed, as shown further in the chapter, the simplified system can represent a higher tax burden for SMEs, partly explaining the reasons for its unpopularity.

7.3.1 DIFFICULTIES RELATED TO TAX REPORTING AND CALCULATIONS

One of the differences between the two taxation systems of small and medium companies is the frequency and number of tax payments and reporting requirements related to these payments. Under the simplified taxation system, small and medium companies make at least 16 payments per year and submit respective reports to tax bodies. Companies under the standard system submit at least 25 payments along with the necessary reports (see Chart 7.17). However, this calculation does not include retail trade tax payments, VAT and road users’ tax.

The system is so complex that tax inspectors would need professional specialization to ensure proper compliance and cover all

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### Chart 7.16. Only 49% of Small and Medium Companies with Turnover Under 600,000 Somoni Prefer Simplified Taxation System

| % of Small and Medium Companies with Turnover Under 600,000 Somoni Per Year |
|-----------------------------|-----------------------------|
| Standard system             | Simplified system           |
| 51%                         | 49%                         |

---

### Chart 7.17. Small and Medium Companies under the Standard System Should Submit at Least 25 Tax Payments

<table>
<thead>
<tr>
<th>Types of Taxes and the Frequency of Payments and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimal tax on revenues</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>Standard system</td>
</tr>
<tr>
<td>Simplified</td>
</tr>
</tbody>
</table>

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23 With the exclusion of road users’ tax, which is applicable for companies with annual revenues above 600,000 somoni and therefore is not applicable for the simplified system.

24 Legislation gives right to become a VAT payer also for companies below the VAT threshold.
exceptions. The current lack of transparency in the system only encourages unofficial payments.

The excessive number of tax payments and reports in Tajikistan is confirmed by other studies as well. According to “Doing Business 2007,” companies under the standard system of taxation in Tajikistan made up to 55 tax payments per year and spent 200 hours dealing with tax issues (see Chart 7.18 and Chart 7.19), ranking 154 out of 175 countries in terms of having the most time consuming tax system.

For the purposes of book-keeping within the simplified system, legislation requires a book for revenues without clearly defining the unified format. This in turn leads to a situation where tax officials can find fault with every small detail during the tax payment process.

Calculations of the corporate profit tax and minimum tax on enterprise revenues are complicated. Small and medium companies have to make monthly advance payments of the minimum tax on enterprise revenues of 1% of gross revenue of the accounting month. In the case where monthly advance payments of minimum revenue tax are less than the monthly corporate profit tax instalments multiplied by 1.1 for the previous year, the difference should be paid as an advance payment for current payment of corporate profit tax. At the end of the accounting year the entrepreneurs calculate the actual amount of the minimum tax on enterprise revenues tax by calculating the difference between the corporate profit tax due and the amount of 1% of revenue paid throughout the year. If the latter is higher than the corporate profit tax amount, there is no further payment required. If it is lower, the entrepreneur has to pay the difference.

The complexity of tax calculations and payments is confirmed by the survey data. It is remarkable that every third company under the simplified taxation system considers payments and calculation of taxes to be complicated or very complicated (see Chart 7.20).

According to FIAS report, taxpayers spent an equivalent of about 20% of the taxes that they paid on record keeping, tax filing, and other tax related documents, as well as on attorney and account-

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25 The difference between the two figures is explained by the fact that “Doing Business” also includes the Value added tax, Road tax, Social tax, Corporate income tax, Property tax, Vehicle tax, Interest tax and Land tax.
27 Tax Code, Article 198.
28 The sum of monthly tax payment = 1% from gross revenue + (1/12 Profit from Last Year*1.1 - 1% from GR of the current year).
29 Fas (2006).
Taxation

It should also be mentioned that there is no developed tax consultancy market in Tajikistan, and only larger companies can afford to hire tax consultants. Business associations could play a role in filling the gap by connecting entrepreneurs (members of associations) and tax consultants; for example, tax consultation could be provided by the business association and the costs of consultations could be recovered by membership fees.

Taxpayers have a choice to file taxes:

- personally;
- by registered mail with notification;
- electronically, in cases prescribed by the state authorities.

In practice, entrepreneurs deliver tax reports personally and have two options:

1. To spend a long time in queue: the majority of taxpayers usually postpone filing taxes until the deadline, resulting in excessive overload of tax departments;
2. Preparation, pick-up and acceptance of the report is done by a tax official in return for certain remuneration.

Overall, prolonged and intensive contact between officials and entrepreneurs often results in informal relationships that result in rent seeking.

7.3.2 SMALL AND MEDIUM COMPANIES: THE SIMPLIFIED SYSTEM AND SOCIAL TAX IMPOSE A HEAVY BURDEN

The number of companies that opt for the standard system (about 50%) is not surprising considering that a comparison between the standard and simplified systems shows that the tax burden under the simplified taxation system is not radically different from that under the standard system, while no substantial simplification is offered (see Table 7.2).

To some extent, we could expect the advantage of the simplified system to be based on simpler requirements. Unfortunately, as our analysis shows, this is not the case, and the difference between the two systems does not provide an incentive to choose the simplified one.

Table 7.3 also shows that a simplified system based purely on rev-
“...Social security payments are so high and do not allow me to introduce additional incentives to keep my workers.”

- Owner of a small company, focus-group participant

Social tax is an additional burden for small and medium companies. The majority of entrepreneurs consider the social tax rate (25% of wages) too high. The high rate of this tax increases companies’ labor costs, hindering the creation of additional jobs.\(^{30}\) The high tax also results in companies’ tax evasion and black labor market. Taking into account the qualitative package of social services provided in Tajikistan, the government could consider reducing the level of social tax.

### 7.3.3 ADDITIONAL PAYMENTS ARE HIGH FOR SMALL AND MEDIUM COMPANIES

As in the case of individual entrepreneurs, small and medium companies (as well as larger companies) are subject to “land improvement” payments: almost 60% of companies reported making these payments (see Chart 7.22).
7.3.4 TAX INSPECTIONS FOR SMALL AND MEDIUM COMPANIES ARE NOT ALWAYS JUSTIFIED

Small and medium companies were inspected on average almost 3 times by tax authorities in 2005. Also in this case Tax police conducted inspections, although according to Article 128 of the Tax Code, the tax police has the right to participate in the inspection only when it is conducted by tax inspectors.

The percentage of inspections concluded with unofficial payments testifies to the inefficiency of the system (see Chart 7.23).

This situation can be improved by:
- Increasing awareness among entrepreneurs of main accounting principles;
- Simplifying tax calculation and taxation procedures;
- Entrepreneurs taking advantage of the appeals mechanism for the tax authorities' decisions.

Application of risk management principle in planning and conducting inspections according to the new amendments to the Tax Code (see Box 7.7) should bring significant results in targeting entrepreneurs violating tax regulations. In addition, pre-selection of risky businesses would allow to reduce the waste of resources of the tax inspectorate and increase its effectiveness.

The next survey will be able to measure the results of the undertaken efforts.

7.4 TAXATION OF DEHKAN FARMERS

In 2005 the new Tax Code introduced a uniform tax for agricultural producers which includes all tax payments. The uniform tax is a lump-sum tax based on the plot size and type of crop which does not depend on profitability of agricultural producers' activities. As such, it simplifies tax calculations, as well as the collection process.

Dehkhan farmers are subject to social insurance and members of a dehkan farm pay social tax like individual entrepreneurs who operate based on the patent (at least 6 somoni). However, the head of a dehkan farm pays social tax as a certificate holder (at least 17 somoni). In cases where dehkan farms hire external workers, social tax is calculated as follows:

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31 Legal entities utilizing land as the main production mean also pay this uniform tax for agricultural manufacturer's production.
- 25% on employees’ salaries is the share of the employer;
- 1% from salaries of workers.

Agricultural producers, taxed with the uniform tax, are exempt from paying other taxes, such as:

- Taxes paid under the simplified system;
- Individual income tax;
- Corporate profits tax;
- VAT;
- Land tax;
- Minimal tax on enterprise revenues;
- Road users’ tax.

If dekhan farmers use their grown product for further processing, they are taxed under the standard regime (see Box 7.6).

7.4.1 DEHKAN FARMERS: LUMP-SUM TAXATION AS A POSITIVE SYSTEM

The introduction of the unified tax for agricultural producers anticipated simpler accounting procedures and a lighter tax burden for dehkan farmers. In fact, more than 55% of surveyed dehkan farmers have noted a positive change from its introduction (see Chart 7.24). Nevertheless, a significant amount of respondents was not satisfied by the new system, noting the necessity to pay taxes independent of generated income, without the possibility to prove the “worst case scenarios.”

Lump-sum taxation is beneficial to dehkan farmers, given their low tax literacy. Nevertheless, in cases of poor productivity, dehkan farmers are not exempt from tax obligations. As taxation is independent from productivity, it would be advisable to create a mechanism under which dehkan farmers would be able to reduce their tax burden in cases of low profitability (i.e., by introducing the possibility to prove low income).

In addition, it should be noted that the unified tax for agricultural producers is applied only to their activity that relates to agricultural production: this system is problematic, as it does not stimulate development of agricultural products processing, especially in the case of limited size farms. If a dehkan farmer processes his own production, he must pay all taxes in accordance with the standard tax system, rather than the unified tax system.

7.4.2 TAX INSPECTIONS OF DEHKAN FARMS ARE LESS FREQUENT

According to the findings of the survey, dehkan farms were inspected less than twice a year, a frequency which is lower than...
any other typology of SMEs (See Chart 7.25). This evidence, combined with the sharp decline in tax evasion, proves that a transparent and simple system is beneficial not only for SMEs, but also for the government.

7.5 Tax evasion: a way to escape the system

A high tax burden and the complexity of taxation accounting and inspections force entrepreneurs to search for alternative solutions, such as tax evasion.

Respondents believe that every fourth business (24%) hides revenues from taxation (see Chart 7.26). This figure has dropped significantly from 2002, possibly due to:

- Introduction of a unified tax for agricultural producers, which simplifies tax administration and restricts tax evasion;
- Entrepreneurs being less prone to revenue non-disclosure as a

Chart 7.26. 1 out of 4 SMEs made an effort to hide revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>39%</td>
</tr>
<tr>
<td>2005</td>
<td>24%</td>
</tr>
</tbody>
</table>
result of increased tax authority control; 
• The fact that experienced businesses consider paying taxes cheaper than making unofficial payments.

Individual entrepreneurs seem to hide revenues more often than any other type of business (see Chart 7.27). On the one hand, individual entrepreneurs consider retail tax, the largest part of their tax, as burdensome, and try to underreport the sales volume. On the other hand, their low accounting literacy prevents them from proper bookkeeping.

Additionally, every fourth small and medium company is thought to conceal revenues in an effort to ease their tax burden.

It must be pointed out that, among dehkan farmers who are subject to a simple lump-sum system independent from their profitability, the share of entrepreneurs hiding revenues is much lower.

### 7.6 Taxation System Hinders Business Growth

The current taxation system is one of the barriers hindering the development of business, because the tax liability, and consequently the tax burden of SMEs, increases as the business grows (see Chart 7.28).

There is an imbalance between the growing number of SMEs and the relatively insignificant growth of their revenues (i.e., the number of individual entrepreneurs is increasing, while few of them make the switch to become larger businesses), which is due to an irrational taxation system that does not stimulate revenue growth. A typical example of a tax that hinders business growth is the road users’ tax (see Table 7.4), which is calculated based on costs, and as a result, larger scale companies with low profitability bear a higher tax burden than smaller companies with higher profitability.

As a result of the analysis performed, it is important to draw the implications of the SME taxation system on the different types of companies. Taxation is the most pervasive administrative procedure as well as the most burdensome, both in terms of direct costs (tax burden) and indirect costs (tax administration). By comparing the different implicit tax rates for each typology of businesses, a clear message emerges. The current taxation system is skewed toward mid-size businesses. It should also be noted, that while the Tajik taxation system presents highly differentiated rates, the most recent trend in taxation in most CIS countries is toward a flat tax rate, considerably lower than the one in Tajikistan (see Box 7.8).

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32 In the case of simplified systems, implicit tax burden is calculated based on survey data.
Table 7.4. Differences in the road users’ tax before and after introducing amendments into Tax Code

<table>
<thead>
<tr>
<th>Road users’ tax main provisions</th>
<th>Before amendments  (before January 1, 2007)</th>
<th>After amendments (after January 1, 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers</td>
<td>All SMEs (except patent holders)</td>
<td>All entrepreneurs with gross revenues above 600,000 somoni per year</td>
</tr>
<tr>
<td>Tax base</td>
<td>Delivery of goods (work, services)</td>
<td>Total expenses</td>
</tr>
</tbody>
</table>

According to amendments in the Tax Code, road users’ tax is charged based on the total amount of expenses of the enterprise (2% of total expenses). Thus, companies with higher expenses bear a higher burden. This situation prevents companies from investing. The previous provision with gross income excluding VAT and retail trade tax as tax base could have generated more tax revenues.

Company X | Company Y

<table>
<thead>
<tr>
<th>Revenues</th>
<th>700,000</th>
<th>2,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td>300,000</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Profit before taxes</td>
<td>400,000</td>
<td>400,000</td>
</tr>
</tbody>
</table>

Company X | Company Y

| Road users’ tax burden | 6,000 | 32,000 |

Box 7.8. The Case for Flat Taxes

In 1994, Estonia became the first country in Europe to introduce a so-called “flat tax”, replacing three tax rates on personal income, and another on corporate profits, with one uniform rate of 26%. In 2001, Russia too moved to a flat tax on personal income. Since 2001, Russia has imposed a single 13% tax rate on all personal income. In the year before the flat tax, Russians in the two higher tax brackets reported only 52% of their income to the taxman. In 2001, after falling into the new, all-encompassing 13% bracket, these same households reported 68%.

The flat tax sharpens the incentive to work. A progressive income tax deters extra effort from society’s best-paid (and therefore most productive) members. Russia’s experience, however, suggests that the principal virtue of the flat tax is its simplicity. The government’s revenues did not surge because Russians suddenly squared their shoulders and straightened their backs. Rather, Russia’s tax system became easier to administer and easier to comply with.

Table 7.5. Flat tax rates on personal income, %

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
<th>Year introduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>26</td>
<td>1994</td>
</tr>
<tr>
<td>Lithuania</td>
<td>33</td>
<td>1994</td>
</tr>
<tr>
<td>Latvia</td>
<td>25</td>
<td>1995</td>
</tr>
<tr>
<td>Russia</td>
<td>13</td>
<td>2001</td>
</tr>
<tr>
<td>Serbia</td>
<td>14</td>
<td>2003</td>
</tr>
<tr>
<td>Ukraine</td>
<td>13</td>
<td>2004</td>
</tr>
<tr>
<td>Slovakia</td>
<td>19</td>
<td>2004</td>
</tr>
<tr>
<td>Georgia</td>
<td>12</td>
<td>2005</td>
</tr>
<tr>
<td>Romania</td>
<td>16</td>
<td>2005</td>
</tr>
<tr>
<td>Macedonia</td>
<td>10</td>
<td>2006</td>
</tr>
</tbody>
</table>

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33 From The Economist print edition, dd. April 14, 2005
RECOMMENDATIONS

1. Further simplify the taxation system for individual entrepreneurs working under patents, by introducing a comprehensive lump-sum system:
   1.1 Consolidating into the patent costs both retail tax and social tax payments;
   1.2 Revising the patent payments on a regular basis by consultations with others stakeholders, e.g., within a framework of an annual workshop.

   Expected impact

   By consolidating all taxes to be paid by individual entrepreneurs into a patent, the benefits would be two-fold:
   • On the entrepreneurs’ side, the amount of payment would be clearly defined and would eliminate the costs of unneeded inspections and unofficial payments. Increased certainty would in turn increase the forecast capacities of entrepreneurs and improve their business management opportunities. Additionally, simple payment would increase the number of patent holders through increase in registration;
   • On the government side, it would drastically reduce the number of inspectors, as tax audits could be simply performed by verification of a valid patent. Fewer inspections would allow the tax authorities to redirect their resources, resulting in more value added work. Additionally, lump sum patent payments would facilitate forecasting tax revenues.

2. Introduce systematic and simplified tax accounting for:
   • Individual entrepreneurs working under certificate;
   • Small and medium companies taxable under simplified system.

   This could be achieved by:
   • Introducing unified tax accounting and reporting which would allow to submit one single tax return;
   • Book-keeping for purposes of taxation, based on simplified unified Book of Revenues;
   • Clearly defining tax accounting procedures in Tax Code.

   Expected impact

   The introduced measures will increase the attractiveness of these systems, increasing the number of tax payers and consequently the amount of tax revenues going into the state budget. In addition, this would have a positive impact on employment level in the country.

3. Strengthen the advantages of simplified taxation for legal entities, by either streamlining tax administration procedures (e.g., quarterly payment and unified reporting for all taxes) or considering a tax rate reduction. As it is now, the simplified tax is neither simple, nor economically efficient;

   Expected impact

   Further strengthening the advantages of simplified taxation for legal entities, by either streamlining tax administration procedures (e.g., quarterly payments and unified reporting for all taxes) or consider a reduction of the tax rate. Indeed, as it is now, the simplified tax is neither really simple, nor economically convenient.
4. Consider the possibility to eliminate taxes which represent an obstacle to business growth. A typical example of these taxes is the newly reformed road users’ tax, which is calculated based on costs, implicitly representing a disincentive for companies which invest and generate long-term growth.

**Expected impact**

Abolishing these kinds of taxes would create additional incentive for companies to invest in business development and reduce the drive towards “shadowing” of revenues and expenses.

5. Further improve the taxation regime for dehkan farmers by introducing the option to reduce the tax burden for smaller sized farms in cases of low profitability, which should be proved by the farmer and subject to a tax audit. The decision to reduce the tax burden should be made by a special commission of representatives from tax authorities, local governments, and local self-governments, in order to prevent unfair decision-making and corruption.

**Expected impact**

Introduction of this measure would reduce the tax and debt burden of the dehkan farms. Elimination of unnecessary pressure would motivate farmers to improve their performance.

6. Evaluate the opportunity to reduce social tax payments which represent a disincentive to hire employees and push labor into the shadow market.34

**Expected Impact**

Reduced social tax rate would reduce the labor cost and increase employment level by creating additional jobs.

7. **Streamline the tax administration. This can be achieved by:**
   7.1 Simplifying tax payments by consolidating them (i.e., providing the option to pay more frequently on voluntary basis) and wherever possible reduce the number of tax forms;
   7.2 Simplifying the taxation forms, reducing the number of pages and redundant information;
   7.3 Introducing risk management principles in planning and conducting inspections, focusing the verifications on the businesses where higher returns are expected;
   7.4 Reducing the scope for tax inspections and clearly limit the arbitrary powers of tax inspectors;

**Expected Impact**

Effective tax administration system would require:
   - Reduction of corruption;
   - Redirecting government resources from unnecessary tax procedures to more efficient use;
   - Reduced costs to businesses due to consolidated number of necessary payments, as well as cost and time of interaction with tax officials.

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34 For more details see FIAS (2006).
8. Abolish the practice of charging additional payments not foreseen by the legislation ("land improvement payments"). This can be achieved by:
   8.1 Providing an opportunity to report illegal payments issues to higher authorities;
   8.2 Declaring "land improvement payments" illegal and sanctioning officials that require them.

Expected Impact

Abolishing illegal payments would lead to:
- An increase in profitability of entrepreneurs, resulting in increased tax revenues to the state;
- Reduction of corruption, resulting in an improved business environment.

9. Provide tax consultation within business associations to allow access to tax consultations for smaller member-businesses.

Expected impact

Access to tax and accounting consultations would facilitate tax filing and accounting of smaller sized businesses.

10. Increase the legal awareness of entrepreneurs through state and non-governmental structures to improve entrepreneurs' access to information on taxation.

Expected Impact

The benefits of increasing the legal awareness of entrepreneurs would include:
- Reduction of unofficial payments;
- Reduction of time required to deal with tax payment and tax inspection procedures, positively affecting entrepreneurs' profits and state tax revenues.
ANNEXES

Attachment 7.1. Calculation of SMEs’ tax revenues

<table>
<thead>
<tr>
<th></th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan farmers</th>
<th>Source</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of taxes</td>
<td>1,161</td>
<td>17,561</td>
<td>2,026</td>
<td>Survey data</td>
<td></td>
</tr>
<tr>
<td>paid per one</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>business in 2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>somoni</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of business</td>
<td>88,589</td>
<td>6,974</td>
<td>25,877</td>
<td>State Statistical Committee</td>
<td></td>
</tr>
<tr>
<td>Estimated tax revenues from SMEs, somoni</td>
<td>102,851,829</td>
<td>122,470,414</td>
<td>52,426,802</td>
<td>Estimation</td>
<td>A*B</td>
</tr>
<tr>
<td>As % of total tax revenues</td>
<td>8.6</td>
<td>10.3</td>
<td>4.4</td>
<td>Estimation</td>
<td>C/E*100%</td>
</tr>
<tr>
<td>Total tax receipts in the country</td>
<td>1,194,000,000</td>
<td></td>
<td></td>
<td>State Statistical Committee</td>
<td></td>
</tr>
</tbody>
</table>

Attachment 7.2. Taxes paid by SMEs

<table>
<thead>
<tr>
<th>Taxes</th>
<th>Taxpayers</th>
<th>Object of taxation</th>
<th>Tax rate</th>
<th>Tax frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patent</td>
<td>Individuals</td>
<td>Fixed sum</td>
<td></td>
<td>Beginning of the month</td>
</tr>
<tr>
<td>Individual income tax/for certificate holders</td>
<td>Individuals</td>
<td>Income</td>
<td>8% - if taxable income is less than 100 somoni; 13% - if taxable income is over 100 somoni</td>
<td>End of month</td>
</tr>
<tr>
<td>Social tax</td>
<td>Legal entities</td>
<td>Amount paid to physical persons</td>
<td>25%</td>
<td>End of month</td>
</tr>
<tr>
<td>Individual entrepreneurs</td>
<td>Revenue</td>
<td>20%</td>
<td>End of month</td>
<td></td>
</tr>
<tr>
<td>Retail trade tax</td>
<td>Legal entities and individu-</td>
<td>Retail sale of goods</td>
<td>Up to 3%</td>
<td>End of month</td>
</tr>
<tr>
<td>als</td>
<td>als</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road users tax</td>
<td>Legal entities and individu-</td>
<td>Amount of expenditures</td>
<td>2%</td>
<td>End of month</td>
</tr>
<tr>
<td>als, whose revenues exceed 600,000 somoni</td>
<td>als</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unified tax for agricultural products/producers</td>
<td>Legal entities and dehkan farms</td>
<td>Land area</td>
<td>From 4 to 164 somoni per hectare</td>
<td>Anticipated on quarterly basis</td>
</tr>
<tr>
<td>Tax paid under the simplified system</td>
<td>Legal entities, whose revenues exceed 600,000 somoni</td>
<td>Gross revenue</td>
<td>4%</td>
<td>End of quarter</td>
</tr>
<tr>
<td>Minimum tax on profit of the enterprises</td>
<td>Legal entities</td>
<td>Gross revenue</td>
<td>1%</td>
<td>Advance payment every month</td>
</tr>
<tr>
<td>Profit tax from legal entities</td>
<td>Legal entities</td>
<td>Profit</td>
<td>25%</td>
<td>End of year</td>
</tr>
<tr>
<td>Value added tax</td>
<td>Legal entities and individu-</td>
<td>Taxable operations and import</td>
<td>20%</td>
<td>End of month</td>
</tr>
<tr>
<td>als, manufacturing excisable goods</td>
<td>als</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excise</td>
<td>Legal entities and individu-</td>
<td>Taxable operations with excisable goods</td>
<td></td>
<td>End of month</td>
</tr>
<tr>
<td>als, manufacturing excisable goods</td>
<td>als</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

35 This provision has come into force after adopting changes into Tax Code, dd. December 22, 2006. Before introducing amendments, the object of the taxation was gross revenue.
36 Should be paid not later than February 15, May 15, August 15, November 15.
Attachment 7.3. Current taxes of Tajikistan

National taxes:
1) individual income tax;
2) profit tax from legal entities;
3) value added tax;
4) excise;
5) social tax;
6) land tax;
7) sub-soil users tax;
8) road users tax;
9) tax paid under the simplified system;
10) unified tax for agricultural products users;
11) custom duty or other custom payments;
12) state duty;
13) sales tax (cotton-fiber and premium aluminum);
14) minimum tax on profit of the enterprises;
15) goods processing tax.

Local taxes:
1) real estate tax;
2) tax from owners of transport means
3) retail trade tax.

According to the Tax Code of Tajikistan, the taxes can be classified as follows:

1. Depending on the entity, imposed by taxation are:
   - taxes paid by the legal entities (tax on legal entities income);
   - taxes paid by the individuals (income-tax);
   - combined taxes (tax from the sale of ginned cotton and primary aluminium, tax for the real estate).

2. Depending on formation mechanism, the taxes are divided into:
   - Direct, i.e., if the final payer is the owner of the taxed property or recipient of the taxed income (income tax from the individuals, tax for the legal entities income);
   - Indirect, i.e., if the final payer is the goods consumer (excise, VAT).

3. Depending on the way tax revenues are allocated to budgets, the taxes are divided into:
   - 15 state;
   - 3 local.

Attachment 7.4. Social tax rates

Social tax rates

- Individual Entrepreneurs:
  - For themselves 20%
  - For hired personnel: 25% from total sum of employees’ salary paid by employer

- Small and medium companies:
  - For hired personnel: 25% from total sum of employees’ salary paid by employer
  - 1% from employees salary paid by employee

- Dehkan farmers:
  - For themselves 20%
  - For hired personal: 25% from total sum of employees’ salary paid by employer
  - 1% from employees salary paid by employee

37 A sum total of employees’ salaries subject to 25% tax, paid by employer.
38 Each employee’s salary subject to 1% tax, withheld and paid by employer.
8. FOREIGN TRADE AND TECHNICAL REGULATION
8. FOREIGN TRADE AND TECHNICAL REGULATION

The volume of foreign trade in Tajikistan has been increasing every year and reached 8.1 billion somoni ($2.5 billion) in 2005, equal to 116% of GDP. It was accompanied by an increased deficit in the balance of trade. While import is a necessity for a small economy lacking industrial capabilities, export should represent the necessary complement to avoid macroeconomic imbalances. The role of SMEs in foreign trade has decreased dramatically over the observed period: SMEs have almost withdrawn from export, and halved their participation in import.

Complicated and time-consuming import/export procedures are a burden for entrepreneurs, further worsening Tajikistan's already low position in world trade due to its unfavorable geographic location. Foreign trade also suffers from a lack of institutional support to develop links with the global markets, as well as from outdated standardization and certification procedures. These represent additional obstacles to foreign goods reaching the Tajik market and for Tajik goods to be sold abroad. It would be very important to address the effectiveness of these procedures in the WTO accession process of Tajikistan.

Technical regulation and certification is aimed at protecting consumers' health and guaranteeing basic safety levels, and is very closely linked to foreign trade. In particular the need to certify almost all the goods entering the country, even if subject to internationally recognized standards, adds to import costs, while the misalignment of Tajik standards with international ones makes export almost impossible for companies lacking the scale to engage in complex procedures. Nevertheless, certification and standardization also affects businesses operating in the local markets: extensive coverage, repetitive procedures and the absence of a risk-based approach to the application of technical standards make the existing regulations a very complicated and inefficient procedure.
8.1 Tajikistan Foreign Trade: The Context

In the past decade, world trade has grown more than twice as fast as world GDP. Countries which are able to create an environment conducive to direct foreign investment and are able to trade most effectively can attain the highest levels of growth and development. While both developed and developing economies have increased trade through lowered tariffs, nevertheless open trade regimes are only effective when there are complementary policies in place: removal of non-tariff barriers and implementation of facilitation and customs reform programs are equally important objectives for promoting economic development. The Republic of Tajikistan, given its natural size constraints, lack of natural resources and geographical location also must address the effectiveness and efficiency of its foreign trade operations in order to facilitate necessary imports and foster export growth. Tajikistan is trying to join the WTO, and this membership is expected to further foster the development of foreign trade.

The trade balance of the country is increasingly negative (see Table 8.1). As the Tajik economy grows, demand for goods unavailable on the local market will grow in parallel, and so will the imports. On the other hand, a certain export potential, which is needed to avoid macroeconomic imbalance, has yet to be fully exploited.

<table>
<thead>
<tr>
<th>TABLE 8.1. TRADE BALANCE DEVELOPMENT IN PERIOD 2002-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Import, million somoni</td>
</tr>
<tr>
<td>Export, million somoni</td>
</tr>
<tr>
<td>Trade balance, million somoni</td>
</tr>
</tbody>
</table>

Source: NBT (2006)

Trade balance deficit as a share of GDP has remarkably increased in 2005 (see Chart 8.1).

The export structure of Tajikistan is characterized by three major observations:

1. **Raw materials orientation** (see Chart 8.2): Tajikistan’s industrial sector is underdeveloped and as such cannot fully exploit the availability of raw materials. As a consequence, exports are mostly focused on raw materials (more than 84% of the total) and it is not value adding;

2. **Low diversification**: electricity, cotton and aluminum constitute the bulk of exports, exposing the economy to the risks of

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3 For more details see World Bank (2006b).
To better address the diversification of exports, the government of Tajikistan elaborated a strategy to develop the export potential of the fruit and vegetable processing sector. Since domestic demand for fruits and vegetables does not exceed 10-15% of the produced volume, it is necessary to market the remaining 85-90% to external markets. Development of the processing industry should then increase the export potential of the sector from $20 million to $45 million by 2010. This in turn could contribute to about 2.8% of GDP and 6% of export volumes of the country.

The strategy consists of two stages:

**Stage I** is a short-term strategy that includes measures addressing consumer requirements on quality, raw materials and necessary volumes of delivery;

**Stage II** is a mid-term strategy that addresses the measures for improving processing technologies, packaging methods and diversification of products.

SMEs could support exports diversification as well as increase the share of other exports: their potential contribution is considered beneficial also from the government viewpoint.

As a landlocked country with limited natural resources and limited size, Tajikistan is forced to import goods unavailable on the domestic market. The structure of imports clearly reflects this: food products (e.g., sugar, flour, wheat), car parts, and timber are important commodities needed by the Tajik market. In this context, import facilitation for SMEs will be essential in order to avoid:

- Product shortages on the local market;
- Artificial price increases of imported goods with negative impact on economic growth.

### 8.2 ROLE OF SMEs IN FOREIGN TRADE OPERATIONS

Participation of small and medium businesses in foreign trade should be fostered, since on the export side it might facilitate the transformation of the export structure from raw materials to processed goods, while on the import side it might reduce entry constraints into the Tajik markets of goods otherwise unavailable, or available in limited quantity/quality. For example, SMEs could actively participate in the value chain of textile production illustrated in Box 8.3.

SME sector participation in foreign trade is strongly declining (see Chart 8.4) and only larger-sized SMEs got involved in foreign trade operations in 2005 (see Chart 8.6):

- Average turnover of companies involved in export is about 700,000 somoni, which is 22 times higher than the turnover of SMEs not involved in export operations;
- Average turnover of companies involved in import is about 100,000 somoni, which is 4 times higher than that of SMEs not involved in import operations.

The share of SMEs involved in export operations declined by about six times from 2002 to 2005. While the non-participation of individual entrepreneurs and dehkan farmers can be explained with the use of larger scale intermediaries, the relevant drop in the

---

**BOX 8.2. EXPORT DEVELOPMENT STRATEGY OF FRUIT AND VEGETABLE PROCESSING SECTOR FOR 2006-2010**

To better address the diversification of exports, the government of Tajikistan elaborated a strategy to develop the export potential of the fruit and vegetable processing sector. Since domestic demand for fruits and vegetables does not exceed 10-15% of the produced volume, it is necessary to market the remaining 85-90% to external markets. Development of the processing industry should then increase the export potential of the sector from $20 million to $45 million by 2010. This in turn could contribute to about 2.8% of GDP and 6% of export volumes of the country.

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---

2 Ministry of Economy and Trade (2005).
The finishing of the ready made garments can be done in small independent sewing shops. In Bangladesh, for instance, one of the leading countries of garment production, more than 50 percent of firms in the textile industry employ less than 300 workers.

**Box 8.3. Textile Industry Value Chain**

The value chain in the textile industry can be broken down into five independent steps, culminating in production of ready made garments (see figure below). The process starts with the labor intensive harvesting of raw cotton and ends with the equally labor intensive finishing of the ready made garments (cutting, sewing). In between there are several capital intensive processing steps that include treatment of raw cotton (ginning, spinning), as well as production of fabric (weaving or knitting) and coloration (and printing) of fabric.

1. **Chart 8.3. Export Potential of SMEs Can Be Developed**
2. **Chart 8.4. Participation of SMEs in Trade Is Sharply Declining**

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1. The finishing of the ready made garments can be done in small independent sewing shops. In Bangladesh, for instance, one of the leading countries of garment production, more than 50 percent of firms in the textile industry employ less than 300 workers.
number of small and medium companies involved in export (from 8% to 4%) is a worrisome signal. It might testify to higher market concentration due to economies of scale, but it might also reflect the fact that only a limited number of selected exporters, those who developed a good knowledge of administrative procedures and relevant connections, are involved. This is further illustrated by the fact that even among SMEs actively involved in trade, procedures are considered among the most complicated (almost 80% of SMEs consider foreign trade procedures complicated or very complicated) and by the high frequency of unofficial ways used to resolve procedure-related issues (about 50% for small and medium companies, the larger and most significant sample of respondents).

Although participation of SMEs in import operations is higher than in export, it also shows a remarkable decrease (see Chart 8.4). The analysis of the current import structure shows a high potential for SMEs in some categories (see Chart 8.5), which to a certain extent explains the higher share of participating SMEs. Higher participation of SMEs in import is to a large extent demand driven. Accompanying economic growth, there is a high unfulfilled demand for imported goods in the country, which obviously cannot be satisfied by the small number of large importers.

The same considerations as in export apply to import. Higher concentration could be efficient if purely driven by economic considerations, while it might also be a signal of increased complexity of the procedures which implicitly select the number of market participants.

The following set of issues related to foreign trade operations for SMEs will be analysed in the rest of the chapter:

- High transportation costs;
- Absence of institutional support to facilitate foreign trade operations;
- Complicated regulatory procedures;
- Internationally unrecognized technical standards.

8.2.1 ACCESS TO INTERNATIONAL MARKETS: HIGH COST OF TRANSPORTATION

Transportation plays a significant role in the development of foreign trade. Transportation in Tajikistan is a very complex issue, constrained by various factors:

- Mountainous terrain and harsh weather conditions make it very difficult to transport goods within the country, especially during the winter;
- High unofficial payments extracted by police at internal checkpoints are a major contributor to transport costs;
Major transit route for Tajik trade runs through neighboring Uzbekistan and is complicated due to a strict visa régime. Furthermore, informal payments for road transport are also common practice during transit through Uzbekistan. 

Attractive transport opportunities to the south are limited by continuous instability in neighboring Afghanistan.

It should be noted, that the Government of Tajikistan is making an effort to improve the transport infrastructure. There are several projects underway, aimed at improving transportation within the country (e.g., completion of Anzob tunnel construction, which would connect the north and the south of the country for the entire year), but also to enable access to international markets (e.g., completion of the Dushanbe-Kulyab-Kalaikhumb-Khorog route, which would connect Tajikistan to Karakorum route and provide access to countries of the Asian-Pacific region).

Changes in domestic transport regulations could improve access to international markets and significantly reduce export transportation costs as well (see Box 8.4). Finally, the main transit route of Tajik export goods through Uzbekistan is dependent on collaboration between the two countries.

8.2.2 INSTITUTIONAL SUPPORT OF SME EXPORT IS NEEDED

Obtaining access to export markets is crucial for fostering SME growth and productivity, especially in light of increased globalization and market liberalization. However, SMEs face many constraints, preventing them from competing effectively in these markets: lack of necessary knowledge and financing, inability to meet foreign regulatory requirements, or inadequate quantity and quality of products for foreign buyers.

This problem is emphasized by the Tajik institutional context (i.e., no consulting on foreign trade operations) and the absence of established long-term practices and relationships with foreign counterparts.

One effective way of addressing these problems is through the development of export consortia. By participating to an export consortium, SMEs can significantly improve their export potential and reduce the costs and risks involved in entering foreign markets (see Box 8.5). So, for instance, in Italy, members of a consortium export a higher share of their turnover than non-member firms. Additionally, members of the consortium are operating in more countries than non-members (see Chart 8.7).

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For more details see World Bank (2005).

Export consortia are voluntary groupings of enterprises, usually in the same or similar business or subsector, with the objective of improving the export readiness and increasing the export volumes of the participants.
Most consortia are non-profit entities, and members retain their financial, legal, managerial, and commercial autonomy. So, despite their participation in the export consortia, member firms do not give up any control over their business to others. This is the main difference between consortia and other types of strategic alliances.

With the support of international organizations in some regions of the country, Tajikistan’s small and medium enterprises have already shown some promising developments. Remarkable in this context is the creation of business support services organizations (see Box 8.6).

### 8.2.3 Complicated Procedures Lead to Low Involvement of SMES

According to the survey, about 80% of entrepreneurs consider export and import procedures in Tajikistan as complicated or very complicated (see Chart 8.8).7

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**Box 8.5. Brazilian Textile Consortium Flor Brasil**

In 1998, Brazilian SME support institutions organized a training course in Italy for 15 enterprises from Brasilia that produced knitwear, work clothes and beachwear. All firms were producing for the domestic market, but were finding it difficult to compete with the traditional brands of Rio de Janeiro (the city that dictates fashion trends in Brazil) and, consequently, to grow.

During the training course, the participating firms learned everything related to the commercialization of their products. Because Italian SMEs had good access to information on markets, trends, consumer demands and distribution channels, they were able to commercialize their products in many countries. The 15 Brazilian firms noted that the Italian SMEs were in fact very similar to them. In addition to the similarity in size, the level of production technology was comparable. The main distinguishing features were the differences in design and the firms’ access to information. The Brazilian firms thus decided to prioritize these two aspects in their future operations.

Upon their return to Brazil, the 15 firms tried to implement what they had learned in the training course and from their Italian counterparts. They began to plan ahead, to involve their clients in the development of collections and to give more importance to their joint catalogues. The entrepreneurs became aware of the wide range of assistance provided by APEX, the Brazilian Agency for the Promotion of Exports. Since the group’s products had been well received among local clients, they considered the possibility of exporting them.

After having conducted research on the possibility of penetrating foreign markets, the firms created the consortium Flor Brasil and began their export activities. They improved the quality of their products and attempted to make their designs more uniform. Jointly, they participated in trade fairs in Italy and France, which served as a valuable learning experience. Today, Flor Brasil exports to Europe and the United States and had an estimated export turnover of $1 million for 2003.

**Source:** UNIDO (2005)

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6 Due to limited size of the sample no division into typologies of SMEs is possible.

7 None of the respondents conducting export assessed the process as very easy.

**Chart 8.8. Foreign trade procedures are complicated for most entrepreneurs**

<table>
<thead>
<tr>
<th>% of Respondents Conducting Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very easy</td>
</tr>
<tr>
<td>Rather easy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% of Respondents Conducting Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very easy</td>
</tr>
</tbody>
</table>
Indeed, in order to conduct a foreign trade operation, a business needs to go through a very complicated process of gathering multiple documents and dealing with various state agencies.

For example, a cotton exporter needs to obtain about 12 different permits from different agencies, each requiring a fee, before...
The key problems reported with import procedures are:

- Under-invoicing in double-entry bookkeeping is reportedly high, leading to Customs authorities using other valuation methods. Valuation disputes are frequent and are handled through the High Economic Court under the Administrative Violation Code’s Customs Chapter (Tajikistan has no Valuation Dispute Resolution Administrative Tribunal as of yet, and, without WTO membership, is under no obligation to establish one). 6 different valuation options remain available to Customs officials under the new Code, and there are doubts among the business community about the consistency in their application.

- TajikStandart certifications are required for import, even for import of certified products.

- Customs authorities require original letters of credit and other important documents, and do not accept faxed documents (as is internationally practiced) or e-mails.

- Customs authorities reportedly still require a Foreign Exchange Certificate of the transactional bank, despite the 2003, 2004 and 2005 reforms on current account transactions.

Source: FIAS (2006)

As a result, it is estimated that exporters spend at least 18 man-days preparing one shipment of cotton fiber, and that the total regulatory costs amount to nearly 5% of the shipment value. Expert estimates indicate that this cost is 3 times higher than a standard administrative cost, which ranges from 1% to 1.5%.

**Chart 8.9. Necessary steps for export of cotton**

<table>
<thead>
<tr>
<th>STEP</th>
<th>AGENCY</th>
<th>DOCUMENT/PERMISSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tajik Universal Commodity Exchange</td>
<td>Conclusion of TUCE</td>
</tr>
<tr>
<td>2</td>
<td>TajikStandart</td>
<td>Certificate of Conformity</td>
</tr>
<tr>
<td>3</td>
<td>Bank of Seller</td>
<td>Passport of transaction/Confirmation on 100% prepayment by the buyer</td>
</tr>
<tr>
<td>4</td>
<td>National Bank of Tajikistan</td>
<td>Confirmation of 100% prepayment/Confirmation that sales tax has been paid</td>
</tr>
<tr>
<td>5</td>
<td>Tax Department</td>
<td>Confirmation that sales tax has been paid</td>
</tr>
<tr>
<td>6</td>
<td>Directorate for Customs Supervision</td>
<td>Registration of export documentation</td>
</tr>
<tr>
<td>7</td>
<td>Tajik Rail Way</td>
<td>Permission for shipment of the goods</td>
</tr>
<tr>
<td>8</td>
<td>Chamber of Commerce</td>
<td>Certificate of Origin</td>
</tr>
<tr>
<td>9</td>
<td>Sanitary Inspection (Ministry of Agriculture)</td>
<td>Phyto-Sanitary Certificate (organic products)</td>
</tr>
<tr>
<td>10</td>
<td>Regional customs office</td>
<td>Final customs clearance of shipments</td>
</tr>
<tr>
<td>11</td>
<td>Tajik Rail Way</td>
<td>Issue railway bill plus register the set of export document which accompany the goods</td>
</tr>
<tr>
<td>12</td>
<td>Customs Services of the railway station</td>
<td>Final approval of the shipments</td>
</tr>
</tbody>
</table>

Source: Experts’ interviews

8 ADB (2004).
A number of procedures represent a key burden for SMEs, deter-
ing export activities, adding to administrative barriers and export-
ers’ costs. A few examples:

1. **Advance payment** on export goods. New exporters would cer-
   tainly have problems finding customers willing to prepay
   100% before obtaining a product.
2. There are 19 **commodities** which are **required** by legislation to
   **be traded at the Tajik Universal Commodity Exchange (TUCE)** in
   order to be eligible for export. In practice, however, this
   rule is applied to other categories of goods as well, i.e., the
   customs offices require a TUCE valuation or permit on goods
   not included in that list. However the TUCE authorization can
   only be obtained in Dushanbe.

Import procedures are also very complicated, involving several
state agencies in the overall process, which is further delayed
by excessive paperwork (see Attachment 8.1 in the Annex). The
main problems occurring during import procedures are described
in Box 8.7.

Tajikistan ranks among the lowest for foreign trade operations in
Doing Business 2007 (163 out of 175 countries), since procedures
are complicated in terms of time, cost and paperwork involved
(see Box 8.8). In order to import goods, a Tajik importer spends
44 days, $3,550 and fills out 10 documents, while a Tajik exporter
spends 72 days, $4,300 and fills out 14 documents during export
procedures.9

### 8.2.4 UNOFFICIAL SOLUTIONS DURING FOREIGN TRADE PROCEDURE ARE COMMON

The complicated foreign trade procedures in Tajikistan are very
often the reason entrepreneurs try to solve issues unofficially. In
fact, almost 50% of small and medium companies used unofficial
solutions during foreign trade operations (see Chart 8.10).

### 8.3 TECHNICAL REGULATION: STANDARDIZATION AND CERTIFICATION

The current system of standardization and certification used in
Tajikistan represents a serious constraint to foreign trade opera-
tions.

On the one hand, exported goods need to meet international
standards to be marketed abroad, while standards used in

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Tajikistan are typically not recognized in international markets, and as such require double certification, which increases time and cost spent.

On the other hand, imports that are subject to recognized standards are in most cases also subject to certification requirements, adding an additional burden to the already complex foreign trade procedures.

Technical regulation, including development, control and issuance of standards and certificates for products and services, is closely connected to foreign trade, but involves products produced and sold in the domestic market as well.

Although regulations are necessary to protect the health and safety of its citizens, regulations in Tajikistan are a serious constraint to the development of the SME sector and the economy in general.

8.3.1 STANDARDS AND CERTIFICATES IN TAJIKISTAN: THE BACKGROUND

Standardization and certification are two processes within a system aimed at ensuring both product quality and consumer safety. They should be clearly divided and each process should be considered separately.

**Standardization** is an activity to establish norms, rules and characteristics (further - requirements) to secure:
- Products and services compliance with life, health, property, and environmental protection safety regulations;
- Requirements on compliance and interchangeability of products;
- Products and services quality to comply with their intended functional use, in accordance with scientific and technological developments;
- Protection of consumers' interests and rights.\(^{10}\)

**Certification** of products is an activity to confirm the compliance of the products with established requirements.\(^{11}\)

Government regulation of standardization process is carried out by the Agency for Standardization, Metrology, Certification, and Trade Inspections under the Government of RT (hereafter, "Tajikstandart"). The standardization system also includes other government agencies as mandated by the law (see Box 8.10).

8.3.2 STANDARDS: OUTDATED

The very comprehensive system of mandatory standards dating back to the Soviet Union has been largely retained in Tajikistan. Unfortunately the current system is extremely costly to administer and maintain up-to-date, and represents a serious obstacle to foreign trade as it is not always recognized by other countries. For

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instance, due to unrecognized Tajik standards, exported cotton is certified according to Uzbek standards. Tajikistan bears remarkable profit losses due to lower prices set by Uzbek standards: Tajik cotton is mainly gathered manually and is of higher quality than the Uzbek cotton gathered by combiners. With the support of the World Bank, Tajikistan started addressing this issue in 2007. Part of the plan is to create a joint venture for grading cotton in accordance with international standards.

In addition, as a country of limited size, Tajikistan is currently unable to properly administer the complex and demanding standards system that requires well-equipped laboratories, a highly qualified staff, and effective enforcement capacity. Although the present system of standards is applicable indiscriminately to domestic and foreign producers, the concern might be raised that the present system fails the WTO requirement of being “least trade restrictive.” Against this background, it is recommended that Tajikistan replaces its vast mandatory standards system with a more compact and simple system of mandatory technical regulations for potentially dangerous products, while making other standards voluntary.

8.3.3 CERTIFICATION: EXCESSIVE FOR PRODUCERS AND TRADERS

TajikStandart is the principal government agency that issues certificates of compliance for products, processes, and services, as well as certificates authorizing the use of marks of conformity. It remains questionable whether authorities of standardization and certification process should be under the same authority, as it may lead to a conflict of interests. As the practices of developed countries show, these two functions are usually separated and delegated to different bodies: while standards are issued by specialized state bodies, certification is conducted by independent authorized institutions.

Besides TajikStandart, there is a number of other government agencies responsible for certification (see Box 8.11).

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**BOX 8.10. GOVERNMENT AGENCIES INVOLVED IN STANDARDIZATION ACTIVITIES**

In addition to TajikStandart, the following state bodies develop standards in specific areas:

1. State Committee for Construction and Architecture – for the construction industry.
2. Ministry of Environmental Protection – for the use of natural resources and environmental protection.
3. Ministry of Public Health – for the medical supplies industry, pharmaceuticals industry, etc.

**BOX 8.11. GOVERNMENT AGENCIES INVOLVED IN CERTIFICATION ACTIVITIES**

In addition to TajikStandart the following state bodies issue certificates in specific areas:

1. Ministry of Transportation – issues vehicle quality certificates;
2. Ministry of Health – issues certificates of compliance and quality certificates for medications, cosmetics, medical nutrition products, medical products and equipment, and food additives;
3. Ministry of Communications – issues certificates for the right to use communication technologies;
4. Chamber of Commerce and Industry – issues certificates of origin in the Republic of Tajikistan;
The existing system of compliance confirmation of goods and services in Tajikistan is excessive, requiring certification of a large share of products. Chart 8.11 provides an example of certification procedure.

According to the survey, 18% of SMEs were required to certify their goods in 2005 (see Chart 8.12). Although there is an improvement in the share of businesses who underwent certification, the coverage is still high, in particular for individual entrepreneurs and small and medium companies. In comparison, the European Union requires compulsory certification of just 4% of the commodity list.23

In a market economy, it is usually in the producers’ self-interest to comply with set standards, even not mandatory ones. Certification becomes a matter of marketing, and gives them an opportunity to do business with larger companies requiring minimum standard levels. Discerning consumers then have a choice between certified and non-certified products, automatically leading producers to self-certification of their products.

It is also important to make a shift from end-product certification to process certification, which would allow identification of risky components at the early stages of product development.

There also appears to be a serious gap between the strictness and a number of certification requirements on paper and the im-

23 In 2002, dehkan farmers also considered a land use certificate as a procedure of certification. However, technical regulation covers only certification of products. 24 See EU (1999).
implementation capacity of certification agencies. The limited implementation capacity of certification bodies is described in Box 8.12.

Realistically, the gap needs to be closed at both ends. Implementation capacity of the relevant services and their labs needs to be strengthened, while requirements need to be reduced and focused on areas with serious health and safety concerns. Even in these cases, the compliance with technical requirements is based less on possible control of products than on the current control of production process. Additionally, a risk-based approach, which is widely used in the European Union, could be applied in Tajikistan (see Box 8.13).

Another issue entrepreneurs face is repetitive certification of the certified imported goods. Focus groups indicated that entrepreneurs have trouble importing goods in Tajikistan even with certificates of conformity from the country of origin and are required to recertify goods with domestic certification bodies. Though de-jure Tajikistan accepts certificates of some countries (mostly CIS), in practice goods are required to be recertified through authorized domestic agencies. Certificates of conformity with a wide range of national and international standards and regulations (e.g., EU, US, and Japan) should be accepted as equivalent to a certificate of conformity with Tajik regulations.

8.3.4 CERTIFICATION PROCEDURE: COMPLICATED FOR SMES

The certification procedure remains very complicated for entrepreneurs: 37% of entrepreneurs think that the process of certification is either complicated or very complicated (see Chart 8.13). A possible reason for that could be the fact that the compulsory requirements are set in numerous legislative documents. The procedure of development and adoption of these requirements was and still remains non-transparent. Entrepreneurs are not involved

Chart 8.13. ASSESSMENT OF THE CERTIFICATION PROCEDURE

<table>
<thead>
<tr>
<th>% OF RESPONDENTS WHO OBTAINED A CERTIFICATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs 17 48 27 9</td>
</tr>
<tr>
<td>Small and medium companies 8 53 32 8</td>
</tr>
<tr>
<td>Dehkan farmers            3 38 45 14</td>
</tr>
</tbody>
</table>

Very easy    Rather easy    Rather complicated    Very complicated

in the process of elaboration and discussion of requirements. In this context, Tajikistan needs to adopt a unified law on technical regulations, especially due to the ongoing WTO accession process.

8.3.5 DIFFICULT ACCESS TO INFORMATION LEADING TO UNOFFICIAL WAYS OF SOLVING ISSUES

The certification process is made even more complicated by the fact that entrepreneurs have a difficult time obtaining information on new or existing requirements from the state agencies (see Chart 8.14).

As a result of the numerous compulsory requirements, 36% of entrepreneurs used unofficial ways to obtain a certificate. 19% of entrepreneurs resorted to unofficial payments to solve certification-related issues (see Chart 8.15).

It is also remarkable that dehkan farmers undergoing certification used unofficial solutions most often (see Chart 8.16). They applied mostly to the Ministry of Agriculture to obtain a phyto-sanitary certificate or a pedigree livestock breeding certificate. This high figure could be due to:
- Limited access to information about procedures;
- Low literacy of dehkan farmers in specifics of phyto-sanitary and livestock breeding requirements.

8.3.6 COST OF CERTIFICATION: UNEVEN DISTRIBUTION

Legislation does not stipulate a unified cost of certification; it is set individually by TajikStandart with approval from the Ministry of Finance.25 According to the survey findings, entrepreneurs spent on average 172 somoni ($54) to obtain one certificate. However, the absence of unified regulation of these costs shows a high variance of the expenses to obtain a certificate even within the same sector of the economy. Individual entrepreneurs working in retail trade in Sughd spent about twice as much to obtain a certificate from TajikStandart than retail traders in Dushanbe, confirming the use of unofficial payments involved in dealing with the state bodies (see Chart 8.17).

8.3.7 LONG DURATION OF OBTAINING CERTIFICATES: BURDENSOME FOR COMPANIES

The process of certification seems to be very protracted, especially for small and medium companies (see Chart 8.18).

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be explained by the fact that companies are involved in business activities with complicated technical requirements (i.e., construction, production of consumer goods, pharmaceuticals). On the other hand, it could indicate that state bodies deliberately drag out the process to force companies into making unofficial payments.

8.3.8 DURATION OF CERTIFICATES: UNCLEAR SITUATION

Depending on their type and purpose, certificates may be valid for a different period of time set by respective legislative acts regulating the issuance of certain certificates. However, in practice even the certificate for the same activity can vary regionally, confirming that the existing system of technical regulation does not work appropriately (see Chart 8.19).
RECOMMENDATIONS

1. Simplify the export trade procedure by:
   1.1 Eliminating advance payment requirement for export;
   1.2 Reducing the number of state bodies involved in processing of documents to avoid unnecessary duplication.
   
   For instance:
   - National Bank of Tajikistan confirms the presence of necessary documents for export, even though the procedure has already been completed by the seller’s bank;
   - custom procedures are repeated by the directorate for custom supervision and regional customs office;
   1.3 Elimination of mandatory requirements for certain categories of export goods at Tajik Universal Commodity Exchange (TUCE). At the very least, enforce that the products not listed in the government resolution not be subject to TUCE approval or conclusion.

   Expected impact:

   Simplified procedures would increase the number of SMEs involved in foreign trade operations, generating additional income for the national economy and increasing the foreign trade turnover.

2. Facilitate processing of imported goods by:
   2.1 Creating a Valuation Dispute Resolution Administrative Tribunal to handle disputes on valuation methods during import;
   2.2 Introducing acceptance of faxed import documents (e.g. letters of credit) in accordance with international practices.

   Expected impact:

   The possibility to handle disputes in a tribunal would limit the intervention of customs officials into the valuation of imported goods and reduce the possibility of unofficial solutions. Acceptance of faxed documents would allow simplification of the overall export processing and reduce the burden for entrepreneurs.

3. Facilitate transportation of goods. This can be achieved by:
   3.1 Improving the domestic transport and customs regulations towards more transparency and simplification;
   3.2 Continuing the dialogue with neighboring countries to simplify and increase the transit volumes of goods.

   Expected impact:

   Improved regulations could reduce the overall expenses of trade operations. In addition, improved transit could have mutual benefits for participating countries, resulting in increased export volumes on the one hand, and additional transit receipts on the other hand.

4. Development and dissemination by customs authorities of a binding summary of export/import procedures, the required paperwork, costs, and timeframes for each step.

   Expected impact:

   Availability of uniform requirements for foreign trade procedures would reduce the overall burden for entrepreneurs in terms of time and costs.
5. Apply the risk-based approach by determining which goods and services need to be certified in order to exclude non-risky categories from mandatory certification and by abolishing the mandatory certification requirement for services.

Expected impact:

Reduction of the coverage of certification would result in additional cost savings for entrepreneurs.

6. Update the standard system by:
   6.1 Reviewing the list of standards and abolish the ones not necessary on the grounds of health and safety in a market economy;
   6.2 Considering the possibility to adopt international standards to avoid the “maintenance cost” of the system.

Expected impact:

Possibility for entrepreneurs to market their products in compliance with international standards. At the same time the “maintenance cost” for the bodies responsible for elaboration of standards would be reduced.

7. Reduce the need for double certification of import/export by:
   7.1 Accepting the certificates of conformity from countries of EU, USA, Japan to avoid double certification of imported goods;
   7.2 Creating internationally required laboratory facilities to certify Tajik commodities according to internationally adopted standards to facilitate their export.

Expected impact:

On the one hand, avoidance of double certification during import would reduce the overall burden for importers. On the other hand the possibility to certify Tajik commodities with internationally accepted standards would allow Tajik exporters easier access to international markets.

8. Accelerate WTO accession of Tajikistan by bringing the legislation in line with requirements and institutionalization of business participation in the WTO accession process.

Expected impact:

WTO accession would have a positive impact on the development of foreign trade in the country.
<table>
<thead>
<tr>
<th>Stage</th>
<th>Agency</th>
<th>Procedure</th>
<th>Examples of documents/forms</th>
<th>Steps</th>
<th>Number of signatures</th>
<th>Duration of processing</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customs procedures</td>
<td>Custom brokers (in case one applies to them)</td>
<td>Agreement on provision of services</td>
<td>Statue, Taxpayer’s Identification Number, Contract, other documents which could be used by custom processing and fulfillment of the agreements between importer and broker</td>
<td>Signing of agreement with custom broker</td>
<td>1</td>
<td>1-4 days</td>
<td>According to agreement</td>
</tr>
<tr>
<td>2. Customs procedures (following)</td>
<td>Custom service of RT</td>
<td>Obtaining of documents package from custom bodies for imported good</td>
<td>Waybills, certificate of compliance, quality, phyto-veterinary certificate, Invoice of seller, Conclusion from SES, sale contract, Cargo Customs Declaration of exporter, arrival notice of cargo</td>
<td>For movement of goods and transport means via custom border the following documents should be submitted: 1. Documents confirming custom cost of the good 2. Consignment documents 3. Documents confirming the origin of goods 4. Documents confirming payments between transaction’s participants 5. Documents confirming payments of custom duties or payment guarantee (custom fees, VAT, excises, fees for custom processing, cargo accompaniment, seasonal fees, specific kinds of fees)</td>
<td>2 days after submission of Cargo Customs Declaration</td>
<td>2 days after submission of Cargo Customs Declaration</td>
<td>Custom processing fees depend on custom cost (Resolution of Government of RTNo. 472 dd. December 2, 2005), unofficially $200-300</td>
</tr>
</tbody>
</table>

To conduct foreign trade operations a person should be registered as a legal entity or individual entrepreneur (see more details in “Registration” chapter).

Based on the results of Mapping Seminar on Import/Export administration, July 3-4, 2006, Dushanbe, Ministry for Economic Development and Trade.
<table>
<thead>
<tr>
<th>Stage</th>
<th>Agency</th>
<th>Procedure</th>
<th>Examples of documents, forms</th>
<th>Steps</th>
<th>Number of signatures</th>
<th>Duration of processing</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Placement of the cargo in the temporary storage warehouse</td>
<td>Application</td>
<td>Submission of application</td>
<td>1</td>
<td>1-2 days</td>
<td>According to rent agreement (150 somoni ($47) per 1 wagon) (Resolution of Government of RT No. 472 dd. December 2, 2005)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sampling for conduct of examination</td>
<td>Conclusion of custom lab, Statement on sampling of the goods</td>
<td>1. Custom official makes sampling for examination to check the cases of in authentic declaration of the goods, provision of appropriate fee charge. 2. Processing of the statement on sampling of the goods. 3. Samples are sent for examination to custom lab or other respective state bodies; 4. After examination samples and documents are packed, stamped and sent to custom body</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Examination</td>
<td>Cargo Customs Declaration, invoices, agreement on delivery</td>
<td>2. Submission of the documents package; 3. Sampling of goods from temporary storage warehouse or warehouse of the enterprise; 4. Issuance of the certificate of compliance.</td>
<td></td>
<td></td>
<td>Unofficially $100 -150</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Acceptance of the certificate from CIS countries without examination</td>
<td>Protocol of research and act of examination</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stage</td>
<td>Agency</td>
<td>Procedure</td>
<td>Examples of documents/forms</td>
<td>Steps</td>
<td>Number of signatures</td>
<td>Duration of processing</td>
<td>Costs</td>
</tr>
<tr>
<td>-------</td>
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<td>-----------------------------</td>
<td>-------</td>
<td>----------------------</td>
<td>------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>4. Obtaining a sanitary-epidemiological conclusion</td>
<td>SES</td>
<td>Conduction of radiometric measurements</td>
<td>Conclusion of SES</td>
<td>1. Submission of application; 2. Visit of the storehouse where products are stored (done once); 3. Conduction of radiometric measurements; 4. Provision of the samples of the good (every time); 5. Preparation of unified conclusion for product and premises.</td>
<td>1</td>
<td>from 2 days up to 2 weeks</td>
<td></td>
</tr>
<tr>
<td>5. For products with animal origin: a) Obtaining of veterinary certificate</td>
<td>Ministry of Agriculture</td>
<td>Issuance of veterinary certificates instead of veterinary certificates of export country</td>
<td>Veterinary certificate</td>
<td>1. When crossing the border the necessary documents are checked. If needed a sampling is conducted</td>
<td>1</td>
<td>3 days</td>
<td>400-500 somoni ($125-126)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2. Based on submitted documents and conducted inspection and examination veterinary certificate is issued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>State agency of veterinary surveillance on the state border and transport</td>
<td></td>
<td>3. After that products can be released to market.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ministry of Agriculture, Central state inspection on quarantine of plants or district agency on quarantine of plants</td>
<td>Import quarantine permits</td>
<td>1. Application 2. Contract</td>
<td>1. Submission of application; 2. Submission of necessary documents; 3. Submission of the copy of phytosanitary certificate (if required); 4. Examination; 5. Issuance of import quarantine permits</td>
<td>1</td>
<td>from 2 hours to 3 days</td>
<td>Cost depends on product type</td>
</tr>
</tbody>
</table>
9. METHODOLOGY OF THE SURVEY
9. METHODOLOGY OF THE SURVEY

The survey was conducted by an independent research company in May 2006. Interviewers of the company personally conducted interviews via a questionnaire consisting of 178 questions. Interviews in the provinces (oblasts) were conducted in province centers and surrounding rural areas.

9.1 SAMPLE SELECTION

The selection of the respondents was random, based on established quotas for each region, sector of business activity, and small and medium business category. The survey sample includes 700 dehkan farmers, 1,000 individual entrepreneurs, and 800 small and medium companies located in Sughd province, Khatlon province (Kurgan-Tube and Kulyab districts), Gorno-Badakhshan Autonomous Province (GBAO), Districts of Republican Subordination, and the capital city of Dushanbe.

The respondents were owners or managers of enterprises, firms, or farms, responsible for decision-making.

In an effort to include all sectors of the economy and all regions of the country, sample selection was based on official data made available by the State Statistics Committee of the Republic of Tajikistan, as of January 1, 2006.¹

Sampling was based on the following criteria:

1. Sectors of business activity in which small and medium businesses operate;
2. Regions of Tajikistan where small and medium businesses operate; and
3. Number of businesses, by category:
   • Number of individual entrepreneurs and dehkan farmers, by region;
   • Number of small and medium companies, by region, sector of business activity, and number of employees.

The total sample includes representatives of small and medium businesses engaged in the following lines of business and located in the following regions of the Republic of Tajikistan:

<table>
<thead>
<tr>
<th>1. DEHKAN FARMERS</th>
<th>Official number of dehkan farmers</th>
<th>% of dehkan farmers</th>
<th>Number of questionnaires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dushanbe city</td>
<td>9</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>DRS</td>
<td>10,126</td>
<td>39</td>
<td>269</td>
</tr>
<tr>
<td>GBAO</td>
<td>175</td>
<td>1</td>
<td>30</td>
</tr>
<tr>
<td>Kulyab district</td>
<td>4,229</td>
<td>16</td>
<td>110</td>
</tr>
<tr>
<td>Kurgan-Tube district</td>
<td>6,119</td>
<td>24</td>
<td>155</td>
</tr>
<tr>
<td>Sughd province</td>
<td>5,219</td>
<td>20</td>
<td>136</td>
</tr>
<tr>
<td>Total</td>
<td>25,877</td>
<td>100</td>
<td>700</td>
</tr>
</tbody>
</table>

¹ For reconstruction of the sample representativeness, a weighting procedure was used in analysis.
² Firms with 50 or fewer employees are classed as small enterprises, while firms between 51-200 employees are classed as medium enterprises.
## 2. Individual Entrepreneurs

<table>
<thead>
<tr>
<th>Region</th>
<th>Official number of individual entrepreneurs</th>
<th>% of individual entrepreneurs</th>
<th>Number of questionnaires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dushanbe city</td>
<td>21,452</td>
<td>25</td>
<td>250</td>
</tr>
<tr>
<td>Districts of Republican Subordination (DRS)</td>
<td>16,066</td>
<td>19</td>
<td>187</td>
</tr>
<tr>
<td>Gorno-Badakhshan Autonomous Province (GBAO)</td>
<td>2,265</td>
<td>3</td>
<td>26</td>
</tr>
<tr>
<td>Kulyab district (Khantion province)</td>
<td>5,460</td>
<td>6</td>
<td>63</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khantion province)</td>
<td>13,247</td>
<td>15</td>
<td>155</td>
</tr>
<tr>
<td>Sughd province</td>
<td>27,365</td>
<td>32</td>
<td>319</td>
</tr>
<tr>
<td>Total</td>
<td>85,855</td>
<td>100</td>
<td>1000</td>
</tr>
</tbody>
</table>

## 3. Small and Medium Companies

<table>
<thead>
<tr>
<th>Industry</th>
<th>Enterprises with 50 or fewer employees</th>
<th>Enterprises with 51 -200 employees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official number of enterprises</td>
<td>% of total number of enterprises</td>
<td>Number of questionnaires</td>
<td>Number of questionnaires</td>
</tr>
<tr>
<td>Manufacturing (Industry)</td>
<td>795</td>
<td>12</td>
<td>94</td>
</tr>
<tr>
<td>Construction</td>
<td>890</td>
<td>13</td>
<td>104</td>
</tr>
<tr>
<td>Agriculture</td>
<td>394</td>
<td>6</td>
<td>48</td>
</tr>
<tr>
<td>Trade and public catering</td>
<td>1,240</td>
<td>18</td>
<td>147</td>
</tr>
<tr>
<td>Health</td>
<td>116</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>156</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Other</td>
<td>3,161</td>
<td>47</td>
<td>350</td>
</tr>
<tr>
<td>Total</td>
<td>6,752</td>
<td>97</td>
<td>777</td>
</tr>
</tbody>
</table>
Distribution of the small and medium companies by regions is as follows:

### Dushanbe city

<table>
<thead>
<tr>
<th>Industry</th>
<th>Enterprises with 50 or fewer employees</th>
<th>Enterprises with 51 - 200 employees</th>
<th>Total for the city</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Official number of enterprises</td>
<td>% of total number of enterprises</td>
<td>Number of questionnaires</td>
</tr>
<tr>
<td>Manufacturing (Industry)</td>
<td>195</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td>Construction</td>
<td>275</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Agriculture</td>
<td>25</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Trade and public catering</td>
<td>511</td>
<td>19</td>
<td>55</td>
</tr>
<tr>
<td>Health</td>
<td>59</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>57</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>1626</td>
<td>59</td>
<td>173</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2748</td>
<td>99</td>
<td>293</td>
</tr>
</tbody>
</table>

### Districts of Republican Subordination (DRS)

3 In an effort to better address uneven development of economy and business enabling environment in Districts of Republican Subordination due to geographical differences, we divided them into two parts: i) DRS A (Hissar valley) - representing more developed part of DRS with existence of some industry and availability of irrigated land plots; ii) DRS B (Rasht valley) - more mountainous regions with low economical development.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Enterprises with 50 or fewer employees</th>
<th>Enterprises with 51 - 200 employees</th>
<th>Total for the DRS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Official number of enterprises</td>
<td>% of total number of enterprises</td>
<td>Number of questionnaires</td>
</tr>
<tr>
<td>Manufacturing (Industry)</td>
<td>152</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Construction</td>
<td>245</td>
<td>21</td>
<td>29</td>
</tr>
<tr>
<td>Agriculture</td>
<td>94</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Trade and public catering</td>
<td>285</td>
<td>24</td>
<td>33</td>
</tr>
<tr>
<td>Health</td>
<td>17</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>15</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>376</td>
<td>32</td>
<td>42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1184</td>
<td>97</td>
<td>139</td>
</tr>
</tbody>
</table>

### Gorno-Badakhshan Autonomous Province (GBAO)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Enterprises with 50 or fewer employees</th>
<th>Enterprises with 51 - 200 employees</th>
<th>Total for the Province</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Official number of enterprises</td>
<td>% of total number of enterprises</td>
<td>Number of questionnaires</td>
</tr>
<tr>
<td>Manufacturing (Industry)</td>
<td>11</td>
<td>15</td>
<td>6</td>
</tr>
<tr>
<td>Construction</td>
<td>11</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Trade and public catering</td>
<td>29</td>
<td>41</td>
<td>11</td>
</tr>
<tr>
<td>Health</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>71</td>
<td>96</td>
<td>30</td>
</tr>
</tbody>
</table>
## METHODOLOGY OF THE SURVEY

**Kulyab District of Khatlon Province**

<table>
<thead>
<tr>
<th></th>
<th>Enterprises with 50 or fewer employees</th>
<th>Enterprises with 51 - 200 employees</th>
<th>Total for the District</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Official number of enterprises</td>
<td>% of total number enterprises</td>
<td>Number of questionnaires</td>
</tr>
<tr>
<td>Manufacturing (Industry)</td>
<td>35</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Construction</td>
<td>97</td>
<td>27</td>
<td>11</td>
</tr>
<tr>
<td>Agriculture</td>
<td>36</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Trade and public catering</td>
<td>45</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>Health</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>140</td>
<td>39</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>359</td>
<td>95</td>
<td>41</td>
</tr>
</tbody>
</table>

**Kurgan-Tube District of Khatlon Province**

<table>
<thead>
<tr>
<th></th>
<th>Enterprises with 50 or fewer employees</th>
<th>Enterprises with 51 - 200 employees</th>
<th>Total for the District</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Official number of enterprises</td>
<td>% of total number enterprises</td>
<td>Number of questionnaires</td>
</tr>
<tr>
<td>Manufacturing (Industry)</td>
<td>49</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Construction</td>
<td>70</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>60</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Trade and public catering</td>
<td>69</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Health</td>
<td>4</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>7</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>167</td>
<td>39</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>426</td>
<td>95</td>
<td>49</td>
</tr>
</tbody>
</table>

**Sughd Province**

<table>
<thead>
<tr>
<th></th>
<th>Enterprises with 50 or fewer employees</th>
<th>Enterprises with 51 - 200 employees</th>
<th>Total for the Province</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Official number of enterprises</td>
<td>% of total number enterprises</td>
<td>Number of questionnaires</td>
</tr>
<tr>
<td>Manufacturing (Industry)</td>
<td>353</td>
<td>18</td>
<td>40</td>
</tr>
<tr>
<td>Construction</td>
<td>192</td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td>Agriculture</td>
<td>173</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>Trade and public catering</td>
<td>301</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>Health</td>
<td>31</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>73</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>841</td>
<td>43</td>
<td>96</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1964</td>
<td>95</td>
<td>225</td>
</tr>
</tbody>
</table>
9.2 ADDITIONAL SURVEY ON UNOFFICIAL SOLUTIONS

To better address the changing relationships between officials and entrepreneurs, IFC together with the survey company elaborated a special questionnaire which was rolled-out in a separate survey conducted among 1,000 entrepreneurs in June 2006. This survey studied in particular the issues with unofficial solutions during select procedures. Therefore it should be distinguished between:

- Unofficial payments, i.e., use of payments during procedures not foreseen by legislation to solve issues positively;
- Unofficial solutions, i.e., a broader definition of methods to solve issues positively like presents, lunches, unofficial payments and other services.

According to these definitions unofficial payments are assumed to be an integral part of unofficial solutions.

9.3 INDEXES AND DEFINITIONS USED IN THE REPORT

CAGR (Compound Annual Growth Rate) - presents the average annual growth over a period. It is calculated as follows:

$$CAGR(t_0, t) = \left(\frac{W(t)}{W(t_0)}\right)^{\frac{1}{N}} - 1$$

where:
- $W(t)$ - Final value;
- $W(t_0)$ - Initial value;
- $N$ - Number of years.

In our survey we distinguish between start-up and existing businesses based on a year a company started its activity:

- **Start-ups** - entities which started their activity after 2005;
- **Existing businesses** - entities which started their activity prior to 2005.

---

4 Even if in some cases start-up sampling does not fully reflect the statistical significance, it is supposed to show the general trend.
A. STATISTICAL APPENDIXES
Chart A1.1. SMEs, by Typology of Business

- 73% Individual entrepreneurs
- 6% Small and medium companies
- 21% Dehkan farmers

Chart A1.3. Individual entrepreneurs, by Sectors of Activity

- Retail trade: 66%
- Catering: 11%
- Wholesale trade: 7%
- Consumer services: 6%
- Transport: 6%
- Production of consumer goods: 2%
- Communication: 0.7%
- Processing of agriculture production: 0.3%
- Medical services: 0.2%
- Construction: 0.2%
- Tourism, hotel business: 0.1%
- Other: 0.8%

Chart A1.2. SMEs: Start-ups vs. Existing Businesses

- Individuals: 13% Start-ups, 87% Existing businesses
- Small and medium companies: 9% Start-ups, 91% Existing businesses
- Dehkan farmers: 7% Start-ups, 93% Existing businesses

Chart A1.4. Small and medium companies, by Sectors of Activity

- Consumer services: 17%
- Retail trade: 16%
- Construction: 13%
- Production of consumer goods: 11%
- Catering: 7%
- Wholesale trade: 6%
- Tourism, hotel business: 4%
- Consulting services: 3%
- Agriculture: 3%
- Processing of agriculture production: 3%
- Transport: 2%
- Communication: 1%
- Medical services: 1%
- Pharmaceuticals: 0.7%
- Other: 11%

1 Start-ups and existing businesses are considered by year of starting of the activity.
Chart A1.5. Average turnover, by typology of business

<table>
<thead>
<tr>
<th>Typology of Business</th>
<th>SOMONI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>17,090</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>216,000</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>30,900</td>
</tr>
</tbody>
</table>

Chart A1.7. Distribution of turnover

<table>
<thead>
<tr>
<th>Typology of Business</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>39%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>36%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>53%</td>
</tr>
</tbody>
</table>

Chart A1.8. Average turnover, by sectors of activity

<table>
<thead>
<tr>
<th>Sector</th>
<th>SOMONI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processing of agriculture production</td>
<td>157,633</td>
</tr>
<tr>
<td>Construction</td>
<td>121,429</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>59,578</td>
</tr>
<tr>
<td>Communication</td>
<td>54,844</td>
</tr>
<tr>
<td>Production of consumer goods</td>
<td>50,208</td>
</tr>
<tr>
<td>Agriculture</td>
<td>34,135</td>
</tr>
<tr>
<td>Retail trade</td>
<td>27,033</td>
</tr>
<tr>
<td>Consumer services</td>
<td>16,250</td>
</tr>
<tr>
<td>Catering</td>
<td>11,668</td>
</tr>
<tr>
<td>Transport</td>
<td>10,253</td>
</tr>
<tr>
<td>Other</td>
<td>139,715</td>
</tr>
</tbody>
</table>
**Chart A1.9. Average Profit, by Typology of Business**

<table>
<thead>
<tr>
<th>Typology of Business</th>
<th>Average Profit (SOMONI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>4,000</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>19,690</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>5,790</td>
</tr>
</tbody>
</table>

**Chart A1.10. Small and Medium Companies’ Gained Profit, by Sectors of Activity**

<table>
<thead>
<tr>
<th>Sectors of Activity</th>
<th>Gained Profit (SOMONI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>13,442</td>
</tr>
<tr>
<td>Catering</td>
<td>9,430</td>
</tr>
<tr>
<td>Production of consumer goods</td>
<td>8,370</td>
</tr>
<tr>
<td>Consumer services</td>
<td>6,250</td>
</tr>
<tr>
<td>Communication</td>
<td>5,532</td>
</tr>
<tr>
<td>Other</td>
<td>34,950</td>
</tr>
</tbody>
</table>

**Chart A1.11. Average Profit Gained by Individual Entrepreneurs, by Sectors of Activity**

<table>
<thead>
<tr>
<th>Sectors of Activity</th>
<th>Average Profit (SOMONI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail trade</td>
<td>4,940</td>
</tr>
<tr>
<td>Catering</td>
<td>2,365</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>2,130</td>
</tr>
<tr>
<td>Consumer services</td>
<td>1,990</td>
</tr>
<tr>
<td>Other</td>
<td>2,220</td>
</tr>
</tbody>
</table>

**Chart A1.12. Average Profit Gained by Individual Entrepreneurs, by Regions**

<table>
<thead>
<tr>
<th>Regions</th>
<th>Average Profit (SOMONI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dushanbe</td>
<td>6,395</td>
</tr>
<tr>
<td>Sughd province</td>
<td>5,960</td>
</tr>
<tr>
<td>Gorno-Badakshan Autonomous Province</td>
<td>2,439</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>2,524</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>3,362</td>
</tr>
<tr>
<td>Districts of Republican Subordination A</td>
<td>1,693</td>
</tr>
<tr>
<td>Districts of Republican Subordination B</td>
<td>1,327</td>
</tr>
</tbody>
</table>

**Chart A1.13. Average Profit Gained by Dehkan Farmers, by Regions**

<table>
<thead>
<tr>
<th>Regions</th>
<th>Average Profit (SOMONI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sughd province</td>
<td>4,567</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>1,750</td>
</tr>
<tr>
<td>Gorno-Badakshan Autonomous Province</td>
<td>2,009</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>15,105</td>
</tr>
</tbody>
</table>

---

*Category “other” includes Pharmaceutics, Medical services, Tourism, Hotel business, Agriculture, Transportation, Wholesale Trade, and Consulting services.*

*Category “other” includes Pharmaceutics, Medical services, Tourism, Hotel business, Agriculture, Transportation, Construction, Production of Consumer Goods, and Consulting services.*
### Chart A1.14. Profit in Ranges

**% of respondents**

**Individual Entrepreneurs**

- Less than 200 somoni: 11%
- 200 to 1,000 somoni: 32%
- 1,000 to 5,000 somoni: 46%
- 5,000 to 10,000 somoni: 8%
- 10,000 to 20,000 somoni: 4%
- More than 20,000 somoni: 4%

**Small and Medium Companies**

- Less than 200 somoni: 5%
- 200 to 1,000 somoni: 32%
- 1,000 to 5,000 somoni: 42%
- 5,000 to 10,000 somoni: 15%
- 10,000 to 20,000 somoni: 10%
- More than 20,000 somoni: 16%

**Dehkan Farmers**

- Less than 200 somoni: 5%
- 200 to 1,000 somoni: 32%
- 1,000 to 5,000 somoni: 46%
- 5,000 to 10,000 somoni: 8%
- 10,000 to 20,000 somoni: 4%
- More than 20,000 somoni: 4%

---

### Chart A1.15. Employment in SME Sector, by Typology of Business

**Average # of employees**

- **Individual entrepreneurs**: 2
  - Permanent: 0.2
  - Seasonal: 1.8
- **Small and medium companies**: 15
  - Permanent: 6
  - Seasonal: 9
- **Dehkan farmers**: 13
  - Permanent: 13
  - Seasonal: 3

---

### Chart A1.16. Employment in SME Sector, by Sectors of Economy

**Average # of employees**

- **Processing of agriculture production**: 18
  - Permanent: 5
  - Seasonal: 13
- **Construction**: 17
  - Permanent: 17
  - Seasonal: 0
- **Agriculture**: 13
  - Permanent: 13
  - Seasonal: 0
- **Production of consumer goods**: 6
  - Permanent: 0.7
  - Seasonal: 5.3
- **Communication**: 5
  - Permanent: 5
  - Seasonal: 0
- **Consumer services**: 4
  - Permanent: 4
  - Seasonal: 0
- **Catering**: 3
  - Permanent: 3
  - Seasonal: 0
- **Wholesale trade**: 3
  - Permanent: 3
  - Seasonal: 0
- **Transport**: 2
  - Permanent: 2
  - Seasonal: 0
- **Retail trade**: 2
  - Permanent: 2
  - Seasonal: 0
- **Others**: 8
  - Permanent: 3
  - Seasonal: 5

---

1. Category “other” includes Pharmaceutics, Medical services, Tourism, Hotel business and Consulting services.
SME IN TAJIKISTAN: OVERVIEW OF THE SECTOR, MAIN TRENDS AND BUSINESS EXPECTATIONS

Chart A1.17. AVERAGE MONTHLY SALARY OF EMPLOYEES, BY SECTORS OF ACTIVITY

- Construction: 150
- Production of consumer goods: 141
- Retail trade: 130
- Transport: 112
- Communication: 104
- Catering: 100
- Consumer services: 100
- Wholesale trade: 88
- Processing of agriculture production: 64
- Agriculture: 46
- Other: 145

Chart A1.18. AVERAGE MONTHLY SALARY OF EMPLOYEES, BY TYPOLOGY OF BUSINESS

- Individual entrepreneurs: 122
- Small and medium companies: 120
- Dehkan farmers: 46

Chart A1.19. AVERAGE MONTHLY SALARY, BY REGIONS

- Individual entrepreneurs
  - Districts of Republican Subordination A: 164
  - Gorno-Badakshan Autonomous Province: 152
  - Dushanbe: 149
  - Districts of Republican Subordination B
    - Sughd province: 119
    - Kulyab district (Khatlon province): 93
    - Kurgan-Tube district (Khatlon province): 79

- Small and medium companies
  - Districts of Republican Subordination A: 109
  - Gorno-Badakshan Autonomous Province: 143
  - Dushanbe: 143
  - Districts of Republican Subordination B
    - Sughd province: 101
    - Kulyab district (Khatlon province): 85
    - Kurgan-Tube district (Khatlon province): 105

- Dehkan farmers
  - Districts of Republican Subordination A: 45
  - Gorno-Badakshan Autonomous Province: 114
  - Dushanbe: 40
  - Districts of Republican Subordination B
    - Sughd province: 35
    - Kulyab district (Khatlon province): 36

---

Category “others” includes Pharmaceuticals, Medical services, Tourism, hotel business and consulting services.
Chart A1.20. Knowledge of the Legislation Regulating Business Activity

% of Respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Have fairly good knowledge</th>
<th>Have cursory knowledge</th>
<th>Have poor knowledge</th>
<th>Have no knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>15%</td>
<td>51%</td>
<td>21%</td>
<td>12%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>34%</td>
<td>59%</td>
<td>6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>26%</td>
<td>59%</td>
<td>13%</td>
<td>3%</td>
</tr>
</tbody>
</table>


% of Respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Have fairly good knowledge</th>
<th>Have cursory knowledge</th>
<th>Have poor knowledge</th>
<th>Have no knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing businesses</td>
<td>19%</td>
<td>52%</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Start-ups</td>
<td>16%</td>
<td>62%</td>
<td>14%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Chart A1.22. Main Sources to Follow the Changes in the Current Legislation

% of Respondents

<table>
<thead>
<tr>
<th>Source</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass media</td>
<td>71%</td>
</tr>
<tr>
<td>Friends and colleagues</td>
<td>70%</td>
</tr>
<tr>
<td>State bodies</td>
<td>17%</td>
</tr>
<tr>
<td>Lawyers</td>
<td>6%</td>
</tr>
<tr>
<td>Professional association</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>IT software “Adlia”</td>
<td>0.6%</td>
</tr>
<tr>
<td>IT software “Right”</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

7 Respondents could select more than one answer.
Chart A1.23. Awareness of Introduced Legislative Norms During 2004-2005

<table>
<thead>
<tr>
<th></th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkhan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Code dd. January 1, 2005</td>
<td>41%</td>
<td>84%</td>
<td>76%</td>
</tr>
<tr>
<td>Law “On Licensing” dd. May 17, 2004</td>
<td>16%</td>
<td>51%</td>
<td>22%</td>
</tr>
<tr>
<td>Custom Code dd. January 1, 2005</td>
<td>14%</td>
<td>48%</td>
<td>19%</td>
</tr>
<tr>
<td>Law “On Collateral of Movable Property” dd. March 1, 2005</td>
<td>11%</td>
<td>38%</td>
<td>18%</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th></th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkhan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law “On Collateral of Movable Property” dd. March 1, 2005</td>
<td>48%</td>
<td>45%</td>
<td>50%</td>
</tr>
<tr>
<td>Law “On Licensing” dd. May 17, 2004</td>
<td>54%</td>
<td>39%</td>
<td>64%</td>
</tr>
<tr>
<td>Custom Code dd. January 1, 2005</td>
<td>47%</td>
<td>47%</td>
<td>50%</td>
</tr>
<tr>
<td>Tax Code dd. January 1, 2005</td>
<td>57%</td>
<td>33%</td>
<td>77%</td>
</tr>
</tbody>
</table>
Chart A1.25. Awareness about Antimonopoly Agency

<table>
<thead>
<tr>
<th>% of Respondents</th>
<th>Do you know about the Agency for Anti-Monopoly Policy and Support of the Entrepreneurship? No</th>
<th>Yes</th>
<th>No answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>39%</td>
<td>61%</td>
<td>6%</td>
<td>20%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% of Respondents</th>
<th>Have you ever applied for assistance from the Agency? Yes</th>
<th>No</th>
<th>Under consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>98%</td>
<td>61%</td>
<td>39%</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% of Respondents</th>
<th>Did you succeed by applying to the Agency? Yes</th>
<th>No</th>
<th>Under consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>87%</td>
<td>98%</td>
<td>10%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Chart A1.26. Membership in any Business/Professional Association

<table>
<thead>
<tr>
<th>% of Respondents</th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>96%</td>
<td>96%</td>
<td>74%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Chart A1.27. Associations SMEs belong to

<table>
<thead>
<tr>
<th>% of Respondents</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Association of SMB</td>
<td>2%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>Centre for support and development of entrepreneurship</td>
<td>0.7%</td>
<td>9%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Professional association</td>
<td>0.7%</td>
<td>5%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Union of exporters</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Association of DFH</td>
<td>0.2%</td>
<td>0.5%</td>
<td>44%</td>
</tr>
<tr>
<td>Association of Water users</td>
<td>0.1%</td>
<td>0.1%</td>
<td>7%</td>
</tr>
<tr>
<td>Branch association</td>
<td>0.1%</td>
<td>3%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Other</td>
<td>0.4%</td>
<td>3%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>
Chart A1.28. **Reasons provided by SMEs for not being a member in any business/professional association**

<table>
<thead>
<tr>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkani Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>I don't know about their existence</td>
<td>61%</td>
<td>34%</td>
</tr>
<tr>
<td>No practical use</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Too little time</td>
<td>16%</td>
<td>7%</td>
</tr>
<tr>
<td>Difficult to answer</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Unofficial fees</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>High membership fees</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Chart A1.29. **Frequency of reporting**

<table>
<thead>
<tr>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkani Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund for social protection of population</td>
<td>56%</td>
<td>27%</td>
</tr>
<tr>
<td>Statistical report</td>
<td>85%</td>
<td>47%</td>
</tr>
<tr>
<td>Statement on financial results</td>
<td>43%</td>
<td>20%</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>65%</td>
<td>23%</td>
</tr>
</tbody>
</table>

**INDIVIDUAL ENTREPRENEURS**

- Monthly: 56%
- Quarterly: 8%
- Every six months: 16%
- Annually: 20%
- Never: 1%

**SMALL AND MEDIUM COMPANIES**

- Monthly: 27%
- Quarterly: 64%
- Every six months: 2%
- Annually: 3%
- Never: 4%

**DEHKNI FARMERS**

- Monthly: 9%
- Quarterly: 62%
- Every six months: 4%
- Annually: 18%
- Never: 5%
Chart A1.30. Reporting to Different Agencies

% of respondents

### Individual Entrepreneurs

- **Tax Department**: 82% Yes, 18% No
- **Fund for Social Protection of Population**: 40% Yes, 60% No
- **State Statistics Committee**: 9% Yes, 91% No
- **Khukumat**: 2% Yes, 97% No
- **Commercial Bank**: 1% Yes, 99% No
- **Ministry of Agriculture**: 1% Yes, 100% No
- **Ministry of Justice**: 1% Yes, 100% No

### Small and Medium Companies

- **Tax Department**: 91% Yes, 9% No
- **Fund for Social Protection of Population**: 92% Yes, 8% No
- **State Statistics Committee**: 90% Yes, 10% No
- **Khukumat**: 10% Yes, 90% No
- **Commercial Bank**: 8% Yes, 92% No
- **Ministry of Agriculture**: 1% Yes, 99% No
- **Ministry of Justice**: 4% Yes, 96% No

### Dehkani Farmers

- **State Statistics Committee**: 96% Yes, 4% No
- **Fund for Social Protection of Population**: 92% Yes, 8% No
- **Tax Department**: 92% Yes, 8% No
- **Ministry of Agriculture**: 15% Yes, 85% No
- **Khukumat**: 15% Yes, 85% No
- **Ministry of Justice**: 1% Yes, 99% No
- **Commercial Bank**: 0.3% Yes, 99.7% No

---

Business Environment in Tajikistan as seen by Small and Medium Enterprises, 2006
**Chart A1.31. Overall Burden for Reporting in Monetary Terms Including Salary, Unofficial Payments, Overheads per One Report**

<table>
<thead>
<tr>
<th>Business Entity</th>
<th>Burden in Somoni</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>22</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>39</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>28</td>
</tr>
</tbody>
</table>

**Chart A1.32. Rent of Premises**

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Location</td>
<td>49%</td>
</tr>
<tr>
<td>Shop Location</td>
<td>9%</td>
</tr>
<tr>
<td>Trade center Location</td>
<td>4%</td>
</tr>
<tr>
<td>Part of private house</td>
<td>3%</td>
</tr>
<tr>
<td>Part of production facility</td>
<td>1%</td>
</tr>
<tr>
<td>Office in administrative building</td>
<td>1%</td>
</tr>
<tr>
<td>Apartment</td>
<td>0.8%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Chart A1.33. Average Amount Spent Per Year for Renting the Premises (including unofficial payments, public services)**

<table>
<thead>
<tr>
<th>Business Entity</th>
<th>Amount in Somoni</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>2,934</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>811</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>621</td>
</tr>
</tbody>
</table>

**Chart A1.34. Average Amount Spent Per Year for Renting the Premises by Individual Entrepreneurs (including unofficial payments, public services), by Regions**

<table>
<thead>
<tr>
<th>Region</th>
<th>Amount in Somoni</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gorno-Badakshan Autonomous Province</td>
<td>2,259</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>919</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>859</td>
</tr>
<tr>
<td>Sughd province</td>
<td>697</td>
</tr>
<tr>
<td>Districts of Republican Subordination A</td>
<td>590</td>
</tr>
<tr>
<td>Districts of Republican Subordination B</td>
<td>532</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>370</td>
</tr>
</tbody>
</table>
Chart A1.35. Distribution of the expenses for renting the premises

% of respondents

**Individual entrepreneurs**

- Up to 300 somoni: 29%
- 300 to 600 somoni: 31%
- 600 to 1,200 somoni: 24%
- More than 1,200 somoni: 15%

**Small and medium companies**

- Up to 300 somoni: 11%
- 300 to 600 somoni: 16%
- 600 to 1,200 somoni: 25%
- More than 1,200 somoni: 48%

**Dehkan farmers**

- Up to 300 somoni: 58%
- 300 to 600 somoni: 21%
- 600 to 1,200 somoni: 12%
- More than 1,200 somoni: 9%
Chart A1.36. Based on your experience, would you start your activity again

% of respondents

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>I don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>65%</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>63%</td>
<td>24%</td>
<td>13%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>66%</td>
<td>26%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Chart A1.37. Entrepreneurs’ expectations for change in business environment over the next 12 months in the region of activity

% of respondents

<table>
<thead>
<tr>
<th>Year</th>
<th>Improve</th>
<th>Worsen</th>
<th>Remain same</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>62%</td>
<td>18%</td>
<td>20%</td>
</tr>
<tr>
<td>2002</td>
<td>52%</td>
<td>37%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Chart A1.38. Entrepreneurs’ expectations for change in business environment over the next 12 months, by regions

% of respondents

<table>
<thead>
<tr>
<th>Region</th>
<th>Improve</th>
<th>Worsen</th>
<th>Remain same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dushanbe</td>
<td>54%</td>
<td>29%</td>
<td>17%</td>
</tr>
<tr>
<td>Districts of Republican Subordination B</td>
<td>92%</td>
<td>1%</td>
<td>7%</td>
</tr>
<tr>
<td>Districts of Republican Subordination A</td>
<td>73%</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>Sughd province</td>
<td>62%</td>
<td>16%</td>
<td>23%</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>51%</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>69%</td>
<td>12%</td>
<td>19%</td>
</tr>
<tr>
<td>Gorno-Badakshan Autonomous Province</td>
<td>57%</td>
<td>16%</td>
<td>28%</td>
</tr>
</tbody>
</table>
Chart A2.1. ENTREPRENEURS REGISTERED IN 2005

% of respondents

- Individual entrepreneurs: 22%
- Small and medium companies: 24%
- Dehkan farmers: 100%

Chart A2.2. DISTRIBUTION OF THE REGISTRATION DURATION

% of respondents

- Individual entrepreneurs:
  - Up to 1 day: 20%
  - 1 to 5 days: 20%
  - 5 to 10 days: 48%
  - More than 10 days: 9%
- Small and medium companies:
  - Up to 1 day: 24%
  - 1 to 5 days: 24%
  - 5 to 10 days: 10%
  - More than 10 days: 5%
- Dehkan farmers:
  - Up to 1 day: 24%
  - 1 to 5 days: 41%
  - 5 to 10 days: 24%
  - More than 10 days: 10%

Chart A2.3. AVERAGE DURATION OF THE REGISTRATION FOR INDIVIDUAL ENTREPRENEURS, BY REGIONS

Business days

- Kulyab district (Khatlon province): 7
- Dushanbe: 6
- Gorno-Badakshan Autonomous Province: 5
- Districts of Republican Subordination A: 5
- Sughd province: 5
- Kurgan-Tube district (Khatlon province): 5
- Districts of Republican Subordination B: 3

Chart A2.4. AVERAGE COST FOR REGISTRATION FOR INDIVIDUAL ENTREPRENEURS, BY REGIONS

Somoni

- Dushanbe: 181
- Gorno-Badakshan Autonomous Province: 132
- Kurgan-Tube district (Khatlon province): 114
- Kulyab district (Khatlon province): 108
- Districts of Republican Subordination A: 105
- Districts of Republican Subordination B: 93
- Sughd province: 58
Chart A2.5. Distribution of the registration cost
% of respondents

Individual entrepreneurs
- 44%
- 23%
- 24%
- 7%
- 2%
- 0.4%

Small and medium companies
- 60%
- 20%
- 23%
- 17%

Dehkan farmers
- 44%
- 9%
- 23%
- 16%
- 8%

Chart A2.6. Dehkan farmers who received a share of debts by the restructuring of state farms
% of respondents

No 27%
Yes 73%
Average amount of restructured debt 34,400 somoni

Chart A2.7. Three major problems occurred during registration
% of respondents undergoing registration

<table>
<thead>
<tr>
<th>Category</th>
<th>Lack of access to information</th>
<th>Non-transparent requirements</th>
<th>Large number of required documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>16%</td>
<td>6%</td>
<td>12%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>18%</td>
<td>14%</td>
<td>28%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>19%</td>
<td>8%</td>
<td>23%</td>
</tr>
</tbody>
</table>
Chart A3.1. Three major obstacles to obtaining a license

% of respondents undergoing licensing

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Necessity to make unofficial payment</td>
<td>7%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>High cost of licenses</td>
<td>19%</td>
<td>26%</td>
<td>13%</td>
</tr>
<tr>
<td>Necessity to obtain several licenses</td>
<td>16%</td>
<td>8%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Chart A3.2. Distribution of costs for obtaining licenses

% of respondents undergoing licensing

<table>
<thead>
<tr>
<th>Cost Range</th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 100 somoni</td>
<td>39%</td>
<td>11%</td>
<td>39%</td>
</tr>
<tr>
<td>100 to 200 somoni</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>200 to 400 somoni</td>
<td>25%</td>
<td>27%</td>
<td>25%</td>
</tr>
<tr>
<td>400 to 800 somoni</td>
<td>12%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>more than 800 somoni</td>
<td>7%</td>
<td>8%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Chart A3.3. Applicants who obtained licenses

% of respondents undergoing licensing

<table>
<thead>
<tr>
<th>Applicant</th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individually entrepreneurs</td>
<td>92%</td>
<td>95%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Chart A3.4. Average validity period of licenses, by Governmental Agency

<table>
<thead>
<tr>
<th>Governmental Agency</th>
<th>Average Validity Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Health</td>
<td>18 months</td>
</tr>
<tr>
<td>Ministry of Agriculture</td>
<td>12 months</td>
</tr>
<tr>
<td>Ministry of Economy and Trade</td>
<td>9 months</td>
</tr>
<tr>
<td>Ministry of Energy</td>
<td>9 months</td>
</tr>
<tr>
<td>Ministry of Transportation</td>
<td>9 months</td>
</tr>
<tr>
<td>State Scientific Centre of the Medicine Examination (Ministry of Health)</td>
<td>5 months</td>
</tr>
<tr>
<td>Transport Inspection</td>
<td>4 months</td>
</tr>
<tr>
<td>Others</td>
<td>3 months</td>
</tr>
</tbody>
</table>
Chart A4.1. Average Number of Permits, by Region

<table>
<thead>
<tr>
<th>Region</th>
<th># of Permits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Entrepreneurs</td>
<td></td>
</tr>
<tr>
<td>Gorno-Badakshan Autonomous Province</td>
<td>6</td>
</tr>
<tr>
<td>Districts of Republican Subordination A</td>
<td>4</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>3</td>
</tr>
<tr>
<td>Districts of Republican Subordination B</td>
<td>2</td>
</tr>
<tr>
<td>Sughd province</td>
<td>2</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>1</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>2</td>
</tr>
</tbody>
</table>

| Business Environment in Tajikistan as seen by Small and Medium Enterprises, 2006 |

Chart A4.2. Distribution of the Number of Permits

- Individual Entrepreneurs:
  - 62%: 1 permit
  - 20%: 2 to 3 permits
  - 10%: 4 to 5 permits
  - 9%: more than 5 permits

- Small and Medium Companies:
  - 32%: 1 permit
  - 20%: 2 to 3 permits
  - 20%: 4 to 5 permits
  - 27%: more than 5 permits

- Dehkan Farmers:
  - 61%: 1 permit
  - 20%: 2 to 3 permits
  - 10%: 4 to 5 permits
  - 8%: more than 5 permits

Chart A4.3. Average Number of Permits

- Start-Ups:
  - 4 permits
  - 4 permits
  - 2 permits

- Existing Businesses:
  - Individual entrepreneurs: 2 permits
  - Small and medium companies: 4 permits
  - Dehkan farmers: 1 permit
Chart A4.4. AVERAGE COST OF OBTAINING ALL PERMITS, BY REGIONS

<table>
<thead>
<tr>
<th>Region</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gorno-Badakshan Autonomous Province</td>
<td>182 SOMONI</td>
<td></td>
<td>208 SOMONI</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>118 SOMONI</td>
<td></td>
<td>21 SOMONI</td>
</tr>
<tr>
<td>Districts of Republican Subordination B</td>
<td>72 SOMONI</td>
<td></td>
<td>2 SOMONI</td>
</tr>
<tr>
<td>Districts of Republican Subordination A</td>
<td>69 SOMONI</td>
<td></td>
<td>16 SOMONI</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>64 SOMONI</td>
<td></td>
<td>28 SOMONI</td>
</tr>
<tr>
<td>Sughd province</td>
<td>56 SOMONI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>51 SOMONI</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Chart A4.5. AVERAGE COST OF OBTAINING ALL PERMITS

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>163 SOMONI</td>
<td>451 SOMONI</td>
<td>71 SOMONI</td>
</tr>
<tr>
<td></td>
<td>252 SOMONI</td>
<td>365 SOMONI</td>
<td>44 SOMONI</td>
</tr>
<tr>
<td>2005</td>
<td>74 SOMONI</td>
<td>476 SOMONI</td>
<td>58%</td>
</tr>
<tr>
<td></td>
<td>4 SOMONI</td>
<td>16%</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td>4 SOMONI</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>4 SOMONI</td>
<td>14%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Chart A4.6. DISTRIBUTION OF COSTS FOR OBTAINING ALL PERMITS

<table>
<thead>
<tr>
<th>Range</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 50 somoni</td>
<td>58%</td>
</tr>
<tr>
<td>50 to 100 somoni</td>
<td>16%</td>
</tr>
<tr>
<td>100 to 200 somoni</td>
<td>12%</td>
</tr>
<tr>
<td>more than 200 somoni</td>
<td>14%</td>
</tr>
</tbody>
</table>

Chart A4.7. TIME REQUIRED TO OBTAIN ONE PERMIT

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>7 business days</td>
<td>8 business days</td>
<td>7 business days</td>
</tr>
<tr>
<td>2005</td>
<td>4 business days</td>
<td>8 business days</td>
<td>4 business days</td>
</tr>
</tbody>
</table>

Business Environment in Tajikistan as seen by Small and Medium Enterprises, 2006
### Chart A4.8. Time Required to Obtain All Permits, by Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gorno-Badakshan Autonomous Province</td>
<td>9</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Districts of Republican Subordination A</td>
<td>8</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>7</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Sughd province</td>
<td>6</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>6</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Districts of Republican Subordination B</td>
<td>6</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

### Chart A4.9. Time Needed to Obtain All Permits

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Entrepreneurs</td>
<td>66%  21%  6%  7%</td>
</tr>
<tr>
<td>Small and Medium Companies</td>
<td>34%  30%  16%  20%</td>
</tr>
<tr>
<td>Dehkan Farmers</td>
<td>60%  31%  7%  3%</td>
</tr>
</tbody>
</table>
### Chart A4.10. Three Major Obstacles to Obtaining Permits

<table>
<thead>
<tr>
<th>Category</th>
<th>Lack of access to information</th>
<th>Non-transparent requirements</th>
<th>Large number of required documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>17%</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>19%</td>
<td>12%</td>
<td>20%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>18%</td>
<td>9%</td>
<td>16%</td>
</tr>
</tbody>
</table>

### Chart A4.11. Unofficial Payments Made While Obtaining Permits, by Governmental Agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>% of Respondents who Obtained Permits</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Scientific Centre of the Medicine Examination</td>
<td>44%</td>
</tr>
<tr>
<td>Committee for Architecture and Construction</td>
<td>38%</td>
</tr>
<tr>
<td>Road police (GAI)</td>
<td>30%</td>
</tr>
<tr>
<td>Gas supply authority</td>
<td>28%</td>
</tr>
<tr>
<td>State Industrial safety enforcement agency</td>
<td>22%</td>
</tr>
<tr>
<td>Ministry of Internal Affairs</td>
<td>22%</td>
</tr>
<tr>
<td>Energy safety authority</td>
<td>22%</td>
</tr>
<tr>
<td>Sanitary-Epidemiological Service</td>
<td>19%</td>
</tr>
<tr>
<td>Energy distribution/Barki Tojik</td>
<td>19%</td>
</tr>
<tr>
<td>Regional department of Internal affairs</td>
<td>19%</td>
</tr>
<tr>
<td>Fire safety authority</td>
<td>19%</td>
</tr>
<tr>
<td>Khukumat</td>
<td>18%</td>
</tr>
<tr>
<td>Ministry of communication</td>
<td>16%</td>
</tr>
<tr>
<td>Water supply authority</td>
<td>11%</td>
</tr>
<tr>
<td>Environmental safety authority</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
<tr>
<td>Labor and social protection authority</td>
<td>10%</td>
</tr>
<tr>
<td>Trade inspection (Ministry of Economy and Trade)</td>
<td>10%</td>
</tr>
<tr>
<td>Antimonopoly agency</td>
<td>9%</td>
</tr>
<tr>
<td>National Bank of Tajikistan</td>
<td>3%</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>1%</td>
</tr>
</tbody>
</table>
Chart A5.1. Main Reasons for Not Having a Bank Account

% of Respondents Having No Bank Account

<table>
<thead>
<tr>
<th>Reason</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No need/no practical benefits</td>
<td>96%</td>
<td>86%</td>
<td>95%</td>
</tr>
<tr>
<td>Difficulty withdrawing cash</td>
<td>6%</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>High commission fees</td>
<td>5%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Bank bureaucracy</td>
<td>4%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Avoiding taxation</td>
<td>2%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>0.2%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Chart A5.2. Problems Entrepreneurs Faced When Using their Bank Account

% of Respondents Having Bank Account

<table>
<thead>
<tr>
<th>Problem</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No problems</td>
<td>66%</td>
<td>74%</td>
<td>49%</td>
</tr>
<tr>
<td>Long duration of the payment transactions</td>
<td>19%</td>
<td>8%</td>
<td>17%</td>
</tr>
<tr>
<td>Multiple requirements</td>
<td>18%</td>
<td>8%</td>
<td>15%</td>
</tr>
<tr>
<td>Difficulty withdrawing cash</td>
<td>13%</td>
<td>11%</td>
<td>23%</td>
</tr>
<tr>
<td>High commission fees</td>
<td>6%</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>Need for unofficial payment</td>
<td>4%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Length of time to convert somonis to hard currency</td>
<td>4%</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>Usage of the information of my account by state bodies</td>
<td>2%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td>5%</td>
</tr>
</tbody>
</table>

Chart A5.3. Entrepreneurs Who Believe That Their Bank Discloses Information to State Agencies Without Approval

% of Respondents Having Bank Account

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>16%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>22%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>36%</td>
</tr>
</tbody>
</table>
Chart A5.4. AGENCIES ENTREPRENEURS BELIEVE BANK DISCLOSES INFORMATION TO

% of respondents having bank account

<table>
<thead>
<tr>
<th>Agency</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Bank of Tajikistan</td>
<td>43%</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>Tax inspection</td>
<td>28%</td>
<td>37%</td>
<td>33%</td>
</tr>
<tr>
<td>Tax police</td>
<td>6%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>Prosecutor’s office</td>
<td>4%</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Ministry of internal affairs</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Khukumat</td>
<td>14%</td>
<td>6%</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>29%</td>
<td>2%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Chart A5.5. TYPES OF INVESTMENTS SMEs MADE IN 2005

% of respondents making investments

<table>
<thead>
<tr>
<th>Investment</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major building repairs</td>
<td>18%</td>
<td>26%</td>
<td>4%</td>
</tr>
<tr>
<td>New equipment</td>
<td>6%</td>
<td>22%</td>
<td>2%</td>
</tr>
<tr>
<td>New construction</td>
<td>4%</td>
<td>10%</td>
<td>2%</td>
</tr>
<tr>
<td>Major equipment repairs</td>
<td>3%</td>
<td>12%</td>
<td>6%</td>
</tr>
<tr>
<td>Transportation</td>
<td>2%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Chart A5.6. SOURCE OF FUNDING FOR INVESTMENT

% of respondents conducting investment

<table>
<thead>
<tr>
<th>Source of Funding</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal savings</td>
<td>87%</td>
<td>83%</td>
<td>85%</td>
</tr>
<tr>
<td>Non-bank loan (friends, relatives)</td>
<td>11%</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>Banking loan</td>
<td>4%</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>Loan from MFOs</td>
<td>4%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Direct investment (local or foreign investor)</td>
<td>3%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Future companies</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.1%</td>
</tr>
<tr>
<td>State funds</td>
<td>0.6%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Chart A5.7. Access to bank loans by SMEs

% of respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>DEHKAN FARMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did your company need external funding in 2005?</td>
<td>66% no</td>
<td>56% no</td>
<td>62% no</td>
</tr>
<tr>
<td>Did you apply for a bank loan?</td>
<td>34% yes</td>
<td>44% yes</td>
<td>38% yes</td>
</tr>
<tr>
<td>Did you get a bank loan?</td>
<td>9% no</td>
<td>33% no</td>
<td>48% no</td>
</tr>
</tbody>
</table>

Chart A5.8. Access to MFO loans by SMEs

% of respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>DEHKAN FARMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did your company need external funding in 2005?</td>
<td>66% no</td>
<td>56% no</td>
<td>62% no</td>
</tr>
<tr>
<td>Did you apply for an MFO loan?</td>
<td>34% yes</td>
<td>44% yes</td>
<td>38% yes</td>
</tr>
<tr>
<td>Did you get an MFO loan?</td>
<td>13% yes</td>
<td>2% yes</td>
<td>9% yes</td>
</tr>
</tbody>
</table>

Chart A5.9. Reasons for not applying for loan

% of respondents who did not apply for bank loan

<table>
<thead>
<tr>
<th>Reason</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>DEHKAN FARMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>High fees</td>
<td>44%</td>
<td>44%</td>
<td>39%</td>
</tr>
<tr>
<td>No need (found another source of funding)</td>
<td>36%</td>
<td>38%</td>
<td>33%</td>
</tr>
<tr>
<td>Collateral requirement</td>
<td>18%</td>
<td>19%</td>
<td>37%</td>
</tr>
<tr>
<td>Banking bureaucracy</td>
<td>6%</td>
<td>12%</td>
<td>6%</td>
</tr>
<tr>
<td>Necessity for unofficial payment</td>
<td>6%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Lack of long term loans</td>
<td>5%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Long procedure of pledge</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Insufficient loan amount</td>
<td>2%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Lack of a business plan</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>2%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>
Chart A5.10. Average time required to obtain loans

<table>
<thead>
<tr>
<th></th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan</td>
<td>14</td>
<td>25</td>
<td>16</td>
</tr>
<tr>
<td>MFO loan</td>
<td>19</td>
<td>22</td>
<td>9</td>
</tr>
</tbody>
</table>

Chart A5.11. Distribution of time required to obtain loans by individual entrepreneurs

<table>
<thead>
<tr>
<th>Time Required</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-20 days</td>
<td>81%</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>20 to 40 days</td>
<td>77%</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>40 to 80 days</td>
<td>14%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>More than 80 days</td>
<td>5%</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Chart A5.12. Loan maturity, on average

<table>
<thead>
<tr>
<th></th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan</td>
<td>10</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>MFO loan</td>
<td>8</td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

Chart A5.13. Interest rates on loans, on average

<table>
<thead>
<tr>
<th>Interest Rate P.A.</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 3 months</td>
<td>44%</td>
<td>36%</td>
<td>35%</td>
</tr>
<tr>
<td>3 to 6 months</td>
<td>28%</td>
<td>39%</td>
<td>39%</td>
</tr>
<tr>
<td>6 to 12 months</td>
<td>36%</td>
<td>38%</td>
<td>35%</td>
</tr>
<tr>
<td>12 to 24 months</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Chart A5.14. Correlation of loan maturity and interest rate on bank loans provided to individual entrepreneurs

<table>
<thead>
<tr>
<th>Interest Rate P.A.</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 3 months</td>
<td>44%</td>
<td>48%</td>
<td>84%</td>
</tr>
<tr>
<td>3 to 6 months</td>
<td>28%</td>
<td>17%</td>
<td>2%</td>
</tr>
<tr>
<td>6 to 12 months</td>
<td>36%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>12 to 24 months</td>
<td>35%</td>
<td>41%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Chart A5.15. Entrepreneurs providing collateral for loans

<table>
<thead>
<tr>
<th></th>
<th>Individual entrepreneurs</th>
<th>Small and medium companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan</td>
<td>48%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>MFO loan</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>
**Chart A5.16. Collateral to Total Amount of the Loan Among Entrepreneurs Who Provided Collateral**

<table>
<thead>
<tr>
<th>% of Collateral</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>144%</td>
<td>158%</td>
<td>123%</td>
</tr>
</tbody>
</table>

- Bank loan
- MFO loan

**Chart A5.17. Distribution of the Loan Collateral Provided to Individual Entrepreneurs**

<table>
<thead>
<tr>
<th>% of Individual Entrepreneurs</th>
<th>No Collateral</th>
<th>Up to 50%</th>
<th>50 to 100%</th>
<th>100 to 150%</th>
<th>More than 150%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>53%</td>
<td>13%</td>
<td>5%</td>
<td>10%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Chart A5.18. Share of Unofficial Payments in the Total Bank Loan Amount**

<table>
<thead>
<tr>
<th>% Respondents Who Made Unofficial Payments When Obtaining Loan</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Chart A5.19. Problems with Untimely Payoff of the Loan**

<table>
<thead>
<tr>
<th>Presence of Problems with Payoff</th>
<th>Main Reasons for Untimely Payoff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Changes of the market situation (prices) 33%</td>
</tr>
<tr>
<td></td>
<td>Long procedure to convert somonis to hard currency 19%</td>
</tr>
<tr>
<td></td>
<td>State regulations (limitations, quotes, license) 4%</td>
</tr>
<tr>
<td></td>
<td>Tax and customs regulation changes 4%</td>
</tr>
<tr>
<td></td>
<td>Other 20%</td>
</tr>
</tbody>
</table>
Chart A6.1. Entrepreneurs who underwent at least one inspection, by sectors of economy

% of respondents

- Transport: 100%
- Medical services: 100%
- Pharmaceuticals: 100%
- Wholesale trade: 100%
- Construction: 100%
- Processing of agriculture production: 100%
- Retail trade: 99%
- Production of consumer goods: 98%
- Catering: 97%
- Consumer services: 96%
- Others: 93%
- Agriculture: 88%
- Communication: 86%
- Consulting services: 80%
- Tourism, hotel business: 75%

Chart A6.2. Entrepreneurs who underwent at least one inspection, by regions

% of respondents

- Gorno-Badakshan Autonomous Oblast: 100%
- Districts of Republican Subordination B: 99%
- Kulyab district (Khatlon province): 98%
- Dushanbe: 99%
- Districts of Republican Subordination A: 97%
- Sughd province: 96%
- Kurgan-Tube district (Khatlon province): 91%
- Gorno-Badakshan Autonomous Province: 100%
- Districts of Republican Subordination B: 99%
- Kulyab district (Khatlon province): 98%
- Dushanbe: 99%
- Districts of Republican Subordination A: 97%
- Sughd province: 96%
- Kurgan-Tube district (Khatlon province): 91%

Chart A6.3. Average number of inspections per business in one year, by region

# of inspections

- Dushanbe: Individual entrepreneurs 25, Small and Medium Companies 12, Dehkan Farmers 8
- Gorno-Badakshan Autonomous Oblast: Individual entrepreneurs 19, Small and Medium Companies 22, Dehkan Farmers 4
- District of Republican Subordination B: Individual entrepreneurs 18, Small and Medium Companies 17, Dehkan Farmers 7
- Kulyab district (Khatlon province): Individual entrepreneurs 15, Small and Medium Companies 14, Dehkan Farmers 3
- District of Republican Subordination A: Individual entrepreneurs 14, Small and Medium Companies 14, Dehkan Farmers 4
- Kurgan-Tube district (Khatlon province): Individual entrepreneurs 14, Small and Medium Companies 9, Dehkan Farmers 4
- Sughd province: Individual entrepreneurs 8, Small and Medium Companies 8, Dehkan Farmers 4
Chart A6.4. Distribution of the number of inspections

% of respondents who were inspected

<table>
<thead>
<tr>
<th>Category</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dekhan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 3 inspections</td>
<td>20%</td>
<td>35%</td>
<td>62%</td>
</tr>
<tr>
<td>4 to 6 inspections</td>
<td>16%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>7 to 10 inspections</td>
<td>12%</td>
<td>18%</td>
<td>14%</td>
</tr>
<tr>
<td>more than 10 inspections</td>
<td>52%</td>
<td>32%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Chart A6.5. Distribution of the duration of all inspections

% of respondents who were inspected

<table>
<thead>
<tr>
<th>Category</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dekhan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 3 days</td>
<td>83%</td>
<td>4%</td>
<td>57%</td>
</tr>
<tr>
<td>3 to 6 days</td>
<td>7%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>6 to 8 days</td>
<td>62%</td>
<td>90%</td>
<td>32%</td>
</tr>
<tr>
<td>more than 8 days</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Chart A6.6. Average time spent for all inspections, by region

Business days

<table>
<thead>
<tr>
<th>Location</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dekhan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dushanbe</td>
<td>16</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>6</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>District of Republican Subordination B</td>
<td>6</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>District of republican subordination A</td>
<td>4</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>3</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>Sughd province</td>
<td>3</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>Gomo-Badakhshan Autonomous Oblast</td>
<td>2</td>
<td>13</td>
<td>3</td>
</tr>
</tbody>
</table>
## Chart A6.7. Average Cost of Inspections (Including Unofficial Payments), by Regions

<table>
<thead>
<tr>
<th>Somoni</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dushanbe</td>
<td>456</td>
<td>1378</td>
<td>19</td>
</tr>
<tr>
<td>Districts of Republican Subordination A</td>
<td>156</td>
<td>276</td>
<td></td>
</tr>
<tr>
<td>Gorno-Badakhshan Autonomous Oblast</td>
<td>346</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>Sughd province</td>
<td>165</td>
<td>940</td>
<td>93</td>
</tr>
<tr>
<td>Kuliyab district (Khatlon province)</td>
<td>149</td>
<td>315</td>
<td></td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>205</td>
<td>1392</td>
<td></td>
</tr>
<tr>
<td>Districts of Republican Subordination B</td>
<td>103</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Chart A6.8. Distribution of Inspection Costs (Including Unofficial Payments)

% of Respondents Who Were Inspected

### Individual Entrepreneurs

- Up to 100 somoni: 69%
- 100 to 300 somoni: 12%
- 300 to 600 somoni: 8%
- More than 600 somoni: 12%

### Small and Medium Companies

- Up to 100 somoni: 64%
- 100 to 300 somoni: 17%
- 300 to 600 somoni: 9%
- More than 600 somoni: 10%

### Dehkan Farmers

- Up to 100 somoni: 87%
- 100 to 300 somoni: 8%
- 300 to 600 somoni: 3%
- More than 600 somoni: 2%

## Chart A6.9. Distribution Channels for Inspection Registration Book

% of Respondents

- Tax inspection: 73%
- Associations/NGOs: 4%
- Antimonopoly agency: 3%
- Other state bodies: 2%
- Other: 18%
Chart A6.10. Knowledge of the Legislation Regulating Inspection Procedure
% of Respondents

<table>
<thead>
<tr>
<th></th>
<th>Have sufficiently good knowledge</th>
<th>Have cursory knowledge</th>
<th>Have poor knowledge</th>
<th>Have No knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>18%</td>
<td>51%</td>
<td>22%</td>
<td>8%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>40%</td>
<td>52%</td>
<td>8%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>32%</td>
<td>47%</td>
<td>18%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Chart A6.11. Three Major Problems Occurred During Inspections
% of Respondents who were inspected

<table>
<thead>
<tr>
<th></th>
<th>Lack of access to information</th>
<th>Non-transparent requirements</th>
<th>Duplicate inspections by several bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>20%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>21%</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>20%</td>
<td>9%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Chart A6.12. Assessment of the Overall Inspection Procedure
% of Respondents who were inspected

Very easy | Rather easy | Rather complicated | Very complicated

<table>
<thead>
<tr>
<th></th>
<th>Very easy</th>
<th>Rather easy</th>
<th>Rather complicated</th>
<th>Very complicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>5%</td>
<td>51%</td>
<td>37%</td>
<td>5%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>4%</td>
<td>48%</td>
<td>44%</td>
<td>5%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>8%</td>
<td>54%</td>
<td>35%</td>
<td>3%</td>
</tr>
</tbody>
</table>
Chart A7.1. Assessment of the Tax Payment Complexity by Individual Entrepreneurs in 2005

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Complicated</th>
<th>Not Complicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales tax (on cotton fiber and primary aluminium)</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Vehicle tax</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>Minimal tax on profit of enterprise</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Real estate tax</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Customs fees</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>State duty</td>
<td>39%</td>
<td>61%</td>
</tr>
<tr>
<td>Land tax</td>
<td>36%</td>
<td>64%</td>
</tr>
<tr>
<td>Retail tax</td>
<td>34%</td>
<td>66%</td>
</tr>
<tr>
<td>Road users' tax</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Income tax for individuals</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>Social tax (Fund for Social Security of the Population)</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>Patent payment</td>
<td>23%</td>
<td>77%</td>
</tr>
<tr>
<td>Value Added Tax (VAT)</td>
<td>20%</td>
<td>80%</td>
</tr>
</tbody>
</table>
Chart A7.2. Assessment of the Tax Payment Complexity by Small and Medium Companies in 2005

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>% Complicated</th>
<th>% Not Complicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom fees</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>Retail sale tax</td>
<td>18%</td>
<td>82%</td>
</tr>
<tr>
<td>Land tax</td>
<td>18%</td>
<td>82%</td>
</tr>
<tr>
<td>Real estate tax</td>
<td>18%</td>
<td>82%</td>
</tr>
<tr>
<td>Tax for sub soil users</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Excise</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Vehicle tax</td>
<td>15%</td>
<td>85%</td>
</tr>
<tr>
<td>State duty</td>
<td>15%</td>
<td>85%</td>
</tr>
<tr>
<td>Tax paid via simplified system</td>
<td>14%</td>
<td>86%</td>
</tr>
<tr>
<td>Minimal tax on enterprise revenues</td>
<td>14%</td>
<td>86%</td>
</tr>
<tr>
<td>Value Added Tax (VAT)</td>
<td>13%</td>
<td>87%</td>
</tr>
<tr>
<td>Social tax (Fund for Social Security of the Population)</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>Income tax for individuals</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td>Corporate profit tax</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td>Road users' tax</td>
<td>9%</td>
<td>91%</td>
</tr>
<tr>
<td>Sales tax (on cotton fiber and primary aluminium)</td>
<td>4%</td>
<td>96%</td>
</tr>
</tbody>
</table>

Complicated | Not Complicated
Chart A7.3. Assessment of the complexity of the paid taxes by dehkan farmers in 2005

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales tax (on cotton fiber and primary aluminum)</td>
<td>48% / 52%</td>
</tr>
<tr>
<td>Real estate tax</td>
<td>32% / 68%</td>
</tr>
<tr>
<td>State duty</td>
<td>30% / 70%</td>
</tr>
<tr>
<td>Tax for sub soil users</td>
<td>24% / 76%</td>
</tr>
<tr>
<td>Income tax for individuals</td>
<td>23% / 77%</td>
</tr>
<tr>
<td>Retail sale tax</td>
<td>22% / 78%</td>
</tr>
<tr>
<td>Unified tax for farmers/producers of agriculture products</td>
<td>17% / 83%</td>
</tr>
<tr>
<td>Social tax (Fund for Social Security of the Population)</td>
<td>16% / 84%</td>
</tr>
<tr>
<td>Vehicle tax</td>
<td>11% / 89%</td>
</tr>
</tbody>
</table>

Chart A7.4. Average amount of the taxes paid (excluding income tax)

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>Amount (SOMONI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>1,161</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>17,561</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>2,026</td>
</tr>
</tbody>
</table>

Chart A7.5. Average amount of the taxes paid by SME, by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Amount (SOMONI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gorno-Badakhshan Autonomous Oblast</td>
<td>4,730</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>3,845</td>
</tr>
<tr>
<td>Sughd province</td>
<td>2,558</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>2,100</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>1,477</td>
</tr>
<tr>
<td>District of Republican Subordination B</td>
<td>828</td>
</tr>
<tr>
<td>District of Republican Subordination A</td>
<td>639</td>
</tr>
</tbody>
</table>
Chart A7.6. Reported share of businesses hiding sales from taxation

% of respondents

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>59%</td>
<td>28%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>60%</td>
<td>26%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>65%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Chart A7.7. Reported share of sales concealed from taxation

% of respondents

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>9%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Chart A7.8. Main reasons for hiding sales

% of respondents hiding sales

<table>
<thead>
<tr>
<th>Reason</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoiding taxation</td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>I don’t want to pay taxes, since I don’t know how Government uses them</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>Unwilling to draw the attention of authorities</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Unwilling to sell production to state</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Impossible to obtain cash legally from an account in bank</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

Chart A7.9. Payments for “Landscaping and Property Maintenance”, on average

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>60%</td>
<td>64%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>50%</td>
<td>60%</td>
</tr>
</tbody>
</table>
Chart A8.1. Reasons for not getting involved in export trade

% of respondents

<table>
<thead>
<tr>
<th>Reason</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No need - production is demanded on domestic market</td>
<td>89%</td>
<td>91%</td>
<td>85%</td>
</tr>
<tr>
<td>Absence of information about foreign market</td>
<td>4%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Complicated export procedures</td>
<td>2%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Product is not competitive on the foreign market</td>
<td>2%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Cost of procedures</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Complicated custom regulation</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Necessity of unofficial payment</td>
<td>0.9%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Companies are not enjoying equal rights</td>
<td>0.6%</td>
<td>0.6%</td>
<td>3%</td>
</tr>
<tr>
<td>100% advance payment</td>
<td>0.3%</td>
<td>0.1%</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>4</td>
<td>46</td>
</tr>
</tbody>
</table>
Chart A8.2. REASONS FOR NOT HAVING IMPORTED GOODS/SERVICES

% of respondents not involved in import

<table>
<thead>
<tr>
<th></th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No need</td>
<td>83%</td>
<td>87%</td>
<td>86%</td>
</tr>
<tr>
<td>Complicated import procedures</td>
<td>8%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Absence of information about foreign market</td>
<td>6%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Complicated custom regulation</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Cost of procedures</td>
<td>4%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Necessity of unofficial payment</td>
<td>4%</td>
<td>1%</td>
<td>5%</td>
</tr>
<tr>
<td>Restrictions on import procedures</td>
<td>0.6%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Companies are not enjoying equal rights</td>
<td>0.5%</td>
<td>3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Chart A8.3. AVERAGE TIME REQUIRED TO OBTAIN A CERTIFICATE FOR INDIVIDUAL ENTREPRENEURS, BY REGIONS

<table>
<thead>
<tr>
<th>Region</th>
<th>Business Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Districts of Republican Subordination</td>
<td>9</td>
</tr>
<tr>
<td>Sughd province</td>
<td>8</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>6</td>
</tr>
<tr>
<td>Gorno-Badakhshan Autonomous Oblast</td>
<td>6</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>5</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>4</td>
</tr>
</tbody>
</table>

Chart A8.4. AVERAGE TIME REQUIRED TO OBTAIN A CERTIFICATE, BY GOVERNMENTAL AGENCY

<table>
<thead>
<tr>
<th>Agency</th>
<th>Business Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Health</td>
<td>18</td>
</tr>
<tr>
<td>Ministry of agriculture</td>
<td>13</td>
</tr>
<tr>
<td>Tajikstandard</td>
<td>7</td>
</tr>
<tr>
<td>Chamber of Commerce and Industry</td>
<td>6</td>
</tr>
<tr>
<td>Ministry of transportation</td>
<td>3</td>
</tr>
</tbody>
</table>
**Chart A8.5. Average Time Required to Obtain a Certificate by Tajikstandart, by Regions**

<table>
<thead>
<tr>
<th>Region</th>
<th>Business Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sughd province</td>
<td>10</td>
</tr>
<tr>
<td>Districts of Republican Subordination</td>
<td>10</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>6</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>5</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>3</td>
</tr>
</tbody>
</table>

**Chart A8.6. Distribution of the Time Required to Obtain One Certificate**

<table>
<thead>
<tr>
<th>% of Respondents Who Obtained a Certificate</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 7 days</td>
<td>77%</td>
<td>56%</td>
<td>60%</td>
</tr>
<tr>
<td>7 to 14 days</td>
<td>11%</td>
<td>22%</td>
<td>8%</td>
</tr>
<tr>
<td>14 to 21 days</td>
<td>4%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>more than 21 days</td>
<td>8%</td>
<td>14%</td>
<td>28%</td>
</tr>
</tbody>
</table>

**Chart A8.7. Validity Period of One Certificate, On Average**

<table>
<thead>
<tr>
<th>Group</th>
<th>Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>11</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>16</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>18</td>
</tr>
</tbody>
</table>

**Chart A8.8. Average Validity Period of the Certificate Obtained by Individual Entrepreneurs, by Regions**

<table>
<thead>
<tr>
<th>Region</th>
<th>Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>27</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>17</td>
</tr>
<tr>
<td>Sughd province</td>
<td>10</td>
</tr>
<tr>
<td>Districts of Republican Subordination A</td>
<td>8</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>7</td>
</tr>
<tr>
<td>Gomo-Badakhshan Autonomous Oblast</td>
<td>6</td>
</tr>
</tbody>
</table>
Chart A8.9. Average validity period of the certificate, by governmental agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chamber of Commerce and Industry</td>
<td>44</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>16</td>
</tr>
<tr>
<td>Ministry of Agriculture</td>
<td>15</td>
</tr>
<tr>
<td>Tajikstandart</td>
<td>8</td>
</tr>
<tr>
<td>Ministry of Transportation</td>
<td>6</td>
</tr>
</tbody>
</table>

Chart A8.10. Distribution of the validity period of issued certificate

% of respondents who obtained a certificate

<table>
<thead>
<tr>
<th>Individual entrepreneurs</th>
<th>1 to 3 months</th>
<th>3 to 6 months</th>
<th>6 to 12 months</th>
<th>more than 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>29%</td>
<td>23%</td>
<td>37%</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Small and medium companies</th>
<th>1 to 3 months</th>
<th>3 to 6 months</th>
<th>6 to 12 months</th>
<th>more than 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16%</td>
<td>14%</td>
<td>52%</td>
<td>18%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dehkan farmers</th>
<th>1 to 3 months</th>
<th>3 to 6 months</th>
<th>6 to 12 months</th>
<th>more than 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24%</td>
<td>14%</td>
<td>21%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Chart A8.11. Average validity period of the certificate issued by Tajikstandart, by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>12</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>11</td>
</tr>
<tr>
<td>Sughd province</td>
<td>9</td>
</tr>
<tr>
<td>Districts of Republican Subordination</td>
<td>7</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>6</td>
</tr>
</tbody>
</table>

Chart A8.12. Average cost of obtaining one certificate by individual entrepreneurs, by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Somoni</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sughd province</td>
<td>245</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>187</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>146</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>127</td>
</tr>
<tr>
<td>Districts of Republican Subordination</td>
<td>126</td>
</tr>
<tr>
<td>Gorno-Badakhshan Autonomous Oblast</td>
<td>76</td>
</tr>
</tbody>
</table>
### Chart A8.13. Distribution of Cost for One Certificate

<table>
<thead>
<tr>
<th>% of Respondents Who Obtained a Certificate</th>
<th>Individual Entrepreneurs</th>
<th>Small and Medium Companies</th>
<th>Dehkan Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>36%</td>
<td>14%</td>
<td>36%</td>
</tr>
<tr>
<td></td>
<td>14%</td>
<td>11%</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>25%</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>50%</td>
<td>18%</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Regions</th>
<th>Cost (SOMONI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sughd province</td>
<td>286</td>
</tr>
<tr>
<td>Kurgan-Tube district (Khatlon province)</td>
<td>210</td>
</tr>
<tr>
<td>Districts of Republican Subordination</td>
<td>134</td>
</tr>
<tr>
<td>Dushanbe</td>
<td>122</td>
</tr>
<tr>
<td>Kulyab district (Khatlon province)</td>
<td>121</td>
</tr>
</tbody>
</table>

### Chart A8.15. Average Cost of Obtaining One Certificate, by Governmental Agency

<table>
<thead>
<tr>
<th>Agency</th>
<th>Cost (SOMONI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Health</td>
<td>265</td>
</tr>
<tr>
<td>Ministry of Agriculture</td>
<td>252</td>
</tr>
<tr>
<td>Tajikstandart</td>
<td>175</td>
</tr>
<tr>
<td>Chamber of Commerce and Industry</td>
<td>134</td>
</tr>
<tr>
<td>Ministry of Transportation</td>
<td>23</td>
</tr>
</tbody>
</table>

### Chart A8.16. Three Major Problems During Certification Process

<table>
<thead>
<tr>
<th>% of Respondents Who Obtained Certificate</th>
<th>Necessity to Obtain Several Certificates</th>
<th>High Cost of Certificates</th>
<th>Too Many Required Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual entrepreneurs</td>
<td>10%</td>
<td>23%</td>
<td>6%</td>
</tr>
<tr>
<td>Small and medium companies</td>
<td>8%</td>
<td>23%</td>
<td>8%</td>
</tr>
<tr>
<td>Dehkan farmers</td>
<td>5%</td>
<td>37%</td>
<td>25%</td>
</tr>
</tbody>
</table>
REFERENCES

International Finance Corporation (IFC), the private sector arm of the World Bank Group, promotes open and competitive markets in developing countries. IFC supports sustainable private sector companies and other partners in generating productive jobs and delivering basic services, so that people have opportunities to escape poverty and improve their lives.

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The State Secretariat for Economic Affairs (SECO) is the Swiss Confederation’s competence center for all the core issues related to the economic policy. SECO’s aim is to create the basic regulatory and economic policy conditions to enable business to flourish for the benefit of all. SECO represents Switzerland in the large multilateral trade organizations as well as in international negotiations. SECO is also involved in efforts to reduce poverty and help developing countries with transition economies build sustainable democratic society and viable market economy. Each year Switzerland spends approximately 1.9 bln. Swiss francs on development cooperation and transition assistance to countries.
Tajikistan Business Enabling Environment - SME Policy Project

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Dushanbe, Tajikistan 734 001
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Fax: (992 48) 701 14 48

www.ifc.org/tajikistan/sme