



Country Note: Tajikistan

OECD Centre for Private Sector Development

**Sixth Conference on Financial Sector Development in the Central Asian Countries,
Azerbaijan and Mongolia**

29-30 April 2004, Istanbul

Country note: Republic of Tajikistan

The Republic of Tajikistan became an independent state in 1991 following the collapse of the Soviet Union. The country subsequently experienced a period of civil war and internal strife. Basic stability was restored only in 1997 after the Agreement on Peaceful Settlement was signed between the government of Tajikistan and the United Tajik Opposition, and a coalition government was formed. The processes of reconciliation and peacekeeping have since been developing satisfactorily. The government is actively strengthening democracy and is working to establish a functioning market economy.

After independence, the economy of Tajikistan was faced with various problems, typical of countries in transition to a market economy: low level of incomes and savings; weak market institutions; an incomplete tax system; and ineffectual economic structures. With the collapse of the Soviet Union, Tajikistan lost its traditional export markets and import sources, and budget transfers from Moscow. The republic's level of economic development deteriorated sharply: over the period 1991-1996, production volumes fell to 33.1% of their 1991 level; in 1997 GDP was down by more than 60% on 1991; and the standard of living fell sharply.

Signs of economic recovery appeared only in 1997 and 1998, when official statistics put GDP growth at 1.7% and 5.3% respectively. This modest rise was a consequence of the end of the war and the restoration of basic economic stability. However, the Russian financial crisis in the last quarter of 1998 negatively impacted the economy of Tajikistan. In 1999 GDP rose by only 3.7%. In the following years, growth was more significant (8.3% in 2000, 10.2% in 2001 and 9.1% in 2002), although it only concerns a narrow section of economic activity.

In a short period of time, the country has made progress on macroeconomic stabilisation, reducing the budget deficit, inflation, and stabilising the exchange rate.

In 1999 the Tax Code of the Republic of Tajikistan was enacted. Amendments to the code are planned with a view to improving the tax and customs system and will be submitted to the government in late 2003. In 2000 we switched to a new budget classification, in line with international standards.

In 2001 the law "on the Treasury" was passed and the transition to a treasury system of budget execution finalised. In the same year the first Government Budget of the Republic of Tajikistan was adopted for the medium-term period to 2003.

The next important stage in financial reform was the adoption in 2002 of the law "on government finances of the Republic of Tajikistan" and a medium-term expenditure framework, on the basis of which the government budget was drafted and approved in 2003.

Tajikistan has embarked on an active process of institutional reform, and market infrastructure is developing. The necessary legal basis for the development of a market economy has been established and the system of economic management is being reformed. Much has been done to liberalise foreign trade and open the economy. Consistent steps are being taken to join the World Trade Organisation.

Tajikistan is working closely with the International Monetary Fund, the World Bank and other competent financial institutions to familiarise itself with international standards, rules and procedures in the economic sphere.

The results achieved thus far are still far from satisfactory in terms of providing an acceptable standard of living for the population, 80% of which lives below the poverty line. The government of Tajikistan has made poverty reduction the priority of its social policy. A Poverty Reduction Strategy Paper was drafted on the basis of broad community participation involving all constituents of the population, and approved by parliament.

Since the introduction of the Economic Reform Programme in Tajikistan, the trend has been towards macroeconomic stabilisation and economic growth.

Steady GDP growth has been achieved in all sectors of the national economy, the exchange rate has been stabilised, and tax and budget performance criteria have been observed.

As a result of the government's constant work on foreign debt, much has been achieved to reschedule Tajikistan's debt to creditor countries on more favourable terms. Foreign debt and debt-service payments are made on time and in full.

The structure of the economy has changed little over the past decade. The biggest sector is agriculture. Cotton is one of the most important segments of the national economy in terms of employment and export earnings. In 2002 the cotton harvest reached 515,000 tonnes, a 13.7% increase on 2001.

Industrial production is concentrated in four main sectors: electricity generation; metals, in particular aluminium; textiles and clothing; and agri-food. The biggest industrial enterprise in Tajikistan is the TadAZ aluminium smelter in Tursunzade. With a capacity of 517,000 tonnes, the plant produced 309,000 tonnes of aluminium in 2002. The plant accounts for up to half of Tajikistan's export revenue and consumes around 40% of the electricity generated in the country.

Republic of Tajikistan

	1998	1999	2000	2001	2002
Population ('000s)	6001.3	6126.7	6250	6375	6441
GDP at prices in the corresponding years (TJS million)	1025.2	1345	1806.7	2512.1	3344.5
Real GDP growth as a %	5.3	3.7	8.3	10.2	9.1
Per capita GDP (USD)	145.4	149.4	159.6	165.5	189.3
Inflation	2.7	30.1	60.6	12.5	14.5
Wages (annual increase as a %)	84.9	26.6	34.1	55.2	29.1
Government budget revenue (TJS million)	180.4	249.8	251.7	367	538.9
Government budget expenditure (TJS million)	178.7	236.4	257.1	366.5	518.9
Deficit (TJS million)	1.7	13.4	-5.4	0.5	20
Total foreign trade (USD million)	1307.6	1351.8	1459.3	1333.9	1453.9
Exports (USD million)	596.6	688.7	784.3	651.5	736
Imports (USD million)	711	663.1	675	687.5	717.9
Official exchange rate per USD	0.78	1.24	1.83	2.4	2.76

In the first nine months of 2003 real GDP increased by 7.9% on the same period in the previous year. Performance criteria were observed in the tax and budget spheres. Through tight control of expenditure, revenue exceeded targets,

which made it possible to adopt an additional budget and meet all foreign debt obligations in 2003. Inflation was 8.6% in the first nine months of the same year.

Structural reform under the IMF-supported programme continues to focus on the banking sector, energy and agriculture.

Regarding the **banking sector**, special attention will be devoted in 2004 to the completion of restructuring or the closure of Agroinvestbank, and the closure or merger with other banks of banks that do not meet economic standards.

In the **energy sector** effort will focus on further reducing quasi-budget transactions and improving payment discipline by consumers and producers of energy. This will require the installation of gas meters; an increase in collection rates; a strict policy of cutting off the gas of consumers who repeatedly fail to pay on time; and an external audit of Tajikgas.

In the **agricultural sector**, efforts will be concentrated on expanding and completing the farm privatisation process. In support of this goal, the registration process for land share certificates will be simplified. Cooperation will also be broadened between the State Land Reform Committee and non-governmental organisations to ensure transparency and equity in the farm privatisation process.

Brief overview of the formation and development of a securities market in the Republic of Tajikistan

Since gaining independence in 1991, the Republic of Tajikistan has experienced unprecedented economic difficulties. To name but a few: deregulation of a financial sector ill-equipped for the new realities of the market economy; a large fiscal deficit resulting from the end of centralised budget transfers; and runaway inflation. In the light of this situation, it became urgent to set up a subdivision of the Ministry of Finance that could effectively steer economic reform. The Securities and Foreign Investment Office was formed within the Ministry of Finance.

The office's role as the supervisory and regulatory body for the securities market is to ensure government regulation and to create a favourable investment climate with a view to attracting all forms of foreign investment and to creating a financial market as a key component of the country's future market-oriented financial system.

After the transformation of state-owned enterprises into joint-stock companies and their privatisation, the main task for the developing securities market is the redistribution of investment resources to the productive sector and raising the capitalisation of the newly-formed capital market in the Republic of Tajikistan.

The development of a securities market, as an integral part of the new structure of the economy, means creating an effective mechanism for the attraction of foreign investment and the accumulation and rational redistribution of capital between economic sectors and their managing bodies in the Republic of Tajikistan.

The main laws that form the legal basis for the securities market in the Republic of Tajikistan are: the law "on securities and stock markets" adopted on 10 March 1992, the law "on joint-stock companies" of 23 December 1991, the law "on the privatisation of state-owned property", the law "on foreign investment in the Republic of Tajikistan"; Ministry of Finance regulations ("on professional participants in the securities market", "on the issue of securities", "on the central depository", "on broker-dealer activity on the securities market", etc.); and the National Programme for the Development of the Securities Market of 19 June 2000.

Work is under way in the following areas:

- Further development of the regulatory and legal basis for the securities market;
- Drafting plans to transform the Central Stock Exchange into the new Tajik Stock Exchange, in which the Ministry of Finance will have a stake and corresponding founder-member status. This decision should significantly advance the start of trading in listed shares of joint-stock companies, initially by

potential domestic investors, and later attract foreign capital into the ownership structure of Tajik companies;

- Attraction of foreign investors primarily onto the government bond market (government treasury bills) and fully using the potential of the National Bank of Tajikistan to distribute government bonds through commercial banks.
- Raising the return on government bonds. Putting a stop to the practice of constantly cancelling obligations on earlier debt, which has significantly undermined the population's confidence in bonds;
- Drafting the programme to strengthen the national currency through securities and foreign investment, as a non-inflationary way to raise capital.
- Drafting the legal basis for the taxation of income from securities and securities transactions, and the introduction of tax breaks to attract investors;
- Compiling a list of the existing laws and regulations on the securities market and drafting new ones;
- Initiating tangible measures to organise a secondary market in corporate securities;
- Drafting the technical and economic basis for joint-stock companies under investment projects;
- Seeking resources and learning from the experience of developed countries (internships, courses);
- Seeking foreign assistance (technical, grants, etc.).

We are currently working on the following issues:

- Defining the role and function of the government in the securities market,
- Creating favourable conditions for professional and investment activity,
- Raising the effectiveness of market infrastructure.

The development of all aspects of the securities market is crucial to the future success of the infrastructure of the national financial market. It will enhance the accessibility and liquidity of market instruments; corporate restructuring in the productive sector through the issuance and listing of corporate securities (company shares); and the inflow of urgently needed working capital to revive national

industry. An objective and transparent valuation mechanism on the capital market is needed to attract foreign portfolio investors.

The Ministry of Finance of the Republic of Tajikistan has accomplished a great deal for the development of the corporate securities market. More than 1,115 Tajik enterprises have been transformed into joint-stock companies. The shares of more than 891 of these companies have been auctioned on the National Property Exchange.

The unified government register of joint-stock companies of the Ministry of Finance contains 1,128 joint-stock companies, of which 626 wholly owned by the state.

At the same time, in accordance with the current legislation of the Ministry of Finance, share issues were registered for a total amount of TJS 7.3 billion.

In connection with the introduction of the new currency, the somoni, by the Ministry of Finance to protect the value of savings, to attract the resources of individuals and companies into the budget and financial sector, and to reduce the budget deficit, new government premium bonds with a maturity of 10 years were issued for a total amount of TJS 3 million.

The total premium amounts to 311,600 somoni.

The further development of the government securities market will enable the effective restructuring of the system of corporate governance and boost industrial growth.

The securities market will enhance and accelerate the restructuring of the banking sector, allowing banks to move into a services-based niche and out of purely accounting functions.

The development of the market in government securities is an important focus of our work, because it is a key way to reduce the fiscal deficit and generate domestic savings.

The issue of government Treasury bills (GTBs) has met with obvious success. Now demand for GTBs exceeds supply. When the Ministry of Finance first issued GTBs in 1998, demand was low. In 2000, 12 issues of GTBs with a

maturity of only 28 days and a yield of 85% raised TJS 464,600. In 2001, 18 auctions of GTBs with a maturity of 91 days and a yield of 40% raised TJS 1,577,800. In the current year, under the government budget plan of TJS 2,100,000, eight issues of GTBs generated a total of TJS 1,800,000. The maturity was 182 days and the yield 27%, which is close to the National Bank's refinancing rate. The Ministry of Finance, the issuer of this new instrument of non-inflationary financing, plans to raise the volume of GTBs by increasing the frequency of issues, lengthening the maturity and lowering the yield.

In accordance with the Joint Agreement of the Ministry of Finance and the National Bank of Tajikistan, the Ministry of Finance has developed a long-term Treasury bond certificate with a pre-determined annual yield for a total sum of TJS 3 million.

Government Treasury bonds are issued with the aim of borrowing resources from investors to reduce the national government budget deficit.

On 19 June 2000 the government of Tajikistan confirmed the "Programme for the Development of the Securities Market in the Republic of Tajikistan" drafted by the Ministry of Finance, in accordance with which we also prepared the provisions adopted by the last government "on the central depository" and "on broker-dealer activity in the Republic of Tajikistan". The legal and regulatory basis for the organisation and operation of the securities market is thus being prepared.

A key factor in the formation of a securities market is the participation of foreign investors. To attract foreign investors requires unified, internationally accepted, stable and transparent rules on our markets.

Apart from auctions and tenders organised by government bodies, the implementation of the abovementioned programme, which sets out the strategy for the formation of the market and its infrastructure, is important for the organisation of the market in government and corporate securities. The secondary market cannot function without such institutions as a stock exchange, depository, broker-dealer offices, independent registrars, investment and insurance companies and funds. The establishment of these structures and their regulatory basis requires an

appropriate regulatory body, which is the newly formed office at the Ministry of Finance.

To maintain and increase the pace of economic growth in Tajikistan, there is an immediate need for a high level of productive investment and infrastructure building. An effectively functioning securities market is an important precondition for the mobilisation of domestic savings and the attraction of foreign capital with the goal of economic growth.

The Republic of Tajikistan is currently working on harmonisation and coordination of securities market activity within the Commonwealth of Independent States, the Eurasian Economic Community and the Central Asian Economic Community. We are working actively in this area and very much hope to benefit from the technical support of international financial institutions for the organisation of work to accelerate the creation of a securities market in the Republic of Tajikistan.

III. Privatisation of state-owned enterprises is the first step in market reform. Privatisation is designed to enhance the effectiveness of companies' activity and financial stabilisation, boost employment and provide the consumer market with quality domestically-produced goods. Over the period from 1991 to 1 January 2003, more than 7,100 state-owned enterprises were privatised, which was 88.4% of the enterprises slated for privatisation.

Privatisation of state-owned enterprises

	1998	1999	2000	2001	2002
State-owned enterprises	3,849	5,387	6,037	6,450	7,080
of which:					
small enterprises	3,717	5,171	5,739	6,084	6,551
medium and large enterprises	132	216	294	366	529

Decree No.295 of the Government of the Republic of Tajikistan of 4 July 2002 confirmed the **Strategic Plan for the Privatisation of State-Owned Enterprises in 2002–2004**. The main aim of the plan is the creation of an effective market system through the acceleration and broadening of the privatisation process, the development of competition, and the formation of a capital market and the requisite infrastructure.

The pace and timing of privatisation is affected by the current socio-economic situation, the level of development of the country's productive assets, and the purchasing power and economic situation of the population.

The privatisation of small enterprises is now practically complete. These enterprises are concentrated in trade, public catering and consumer services. The shareholders are almost all medium and large enterprises. Work is under way on the sale of their shares and the segmentation of large enterprises. Unit enterprises have been set up in the main sectors of the economy.

One of the main obstacles on the road to privatisation is that many enterprises are unviable and therefore unattractive to investors. It is essential to identify viable enterprises for their subsequent privatisation, by conducting special research and analysis of the physical and financial situation of companies. It is very important to create a favourable climate for the emergence of credit institutions, which can make loans to companies at the stage of privatisation and for their post-privatisation development. The participation of foreign investors in privatisation would be expedient, in view of their know-how and experience in corporate management. Domestic investors' lack of experience is holding back the emergence of fully functioning securities market in Tajikistan.

The Strategic Plan for the Privatisation of State-Owned Enterprises is essential to attain the following objectives:

- enhancing the privatisation process and extending it to all spheres of the economy by removing administrative and legal obstacles;
- improving the use of privatisable state-owned enterprises;
- protecting the interests of the state in key economic sectors;

- significantly increasing the level of government revenue from the privatisation of enterprises at auctions and tenders;
- creating favourable conditions to attract domestic and foreign investment to the privatisation process.