

Tajikistan

RISK & COMPLIANCE REPORT

DATE: January 2019

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

Investment Restrictions:

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

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

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

Contents

Section 1 - Background 4

Section 2 - Anti – Money Laundering / Terrorist Financing 5

FATF status 5

Compliance with FATF Recommendations 5

Conclusions from latest Mutual Evaluation Progress Report (2011):..... **Error! Bookmark not defined.**

US Department of State Money Laundering assessment (INCSR) 7

Reports 10

International Sanctions 14

Bribery & Corruption 15

Section 3 - Economy 17

Banking 18

Section 4 - Investment Climate 20

Section 5 - Government 39

Section 6 - Tax 40

Methodology and Sources 41

Section 1 - Background

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



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

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

Latest FATF Statement - 24 October 2014

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

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Tajikistan was undertaken in 2018. According to that Evaluation, Tajikistan was deemed Compliant for 7 and Largely Compliant for 20 of the FATF 40 Recommendations. It was deemed Highly Effective for 0 and Substantially Effective for 3 of the Effectiveness & Technical Compliance ratings.

Key Findings

The country has conducted a National Risk Assessment, identifying the key ML/TF risks facing Tajikistan.

The Tajik competent authorities have demonstrated a limited understanding of ML risks and a good understanding of TF risks. At the same time, there are areas requiring more attention, in particular the analysis of abuse of legal persons and NPOs.

In order to effectively mitigate and manage ML/TF risks, Tajikistan has adopted a National Concept AML/CFT/PF on 2018 – 2025 (National concept) and Strategies that list AML/CFT/PF efforts, to be undertaken in response to the National Risk Assessment (NRA) findings, among the competent authorities' tasks and priorities.

The quality of interagency cooperation and coordination in Tajikistan is good. Tajikistan has put in place the necessary mechanisms and legal framework for AML/CFT/PF cooperation and information sharing.

The country's law enforcement agencies regularly use the Financial Monitoring Department's (FMD) spontaneous disseminations and financial intelligence both to detect criminal

offences and investigate them, with the latter being predominantly used to investigate predicate offences.

Facts of ML are detected and investigated in practice. For the law enforcement agencies combating ML is not one of their priorities, serving instead as an additional element of a criminal conduct in the investigation of predicate offences.

As part of the investigation process, law enforcement agencies search for and freeze the property of the accused, as well as the property that became the subject of the criminal offence, both for the purpose of providing compensation for the material damage caused by the crime and possible confiscation. There are difficulties in collecting and analysing the outcomes of such efforts.

The State Committee for National Security (SCNS), the prosecution authorities and the Interior Ministry are involved in TF detection and investigation. TF risks are defined and understood by representatives of these authorities. There are examples of criminal investigations into, and prosecutions for, TF.

Tajikistan has a legal framework in place for the application of targeted financial sanctions (TFS) against individuals and organizations designated by the UNSC for TF. At the same time, there are shortcomings in TFS implementation, as well as in the establishment and maintenance of domestic and international lists.

Tajikistan has taken certain steps to bring its legal framework in line with the R.7 requirements. Despite this, some significant shortcomings warranting urgent action remain. 11. Tajikistan plans to implement the risk-based approach to AML/CFT supervision over FIs based on the findings of its NRA and the approved National Concept. However, not all financial and DNFBP sector supervisors are involved in these efforts.

There are signs and characteristics of effective international cooperation mechanisms in place in Tajikistan. Under the existing law, the Tajik government agencies can provide the widest possible range of MLA and secure extraditions.

Risks and General Situation

Among the main predicate offences responsible for generating substantial criminal proceeds in Tajikistan are bribery, corruption, tax crimes and drug trafficking. Criminal proceeds from these crimes are laundered through the purchase of movable and immovable property. A significant threat is also posed by the popularity of cash transactions and the size of the shadow economy.

With regard to TF, the high level of the TF threat in Tajikistan is due to the large number of terrorist offences and increased terrorist activity in the region, with the former being financed with the help of small amounts of legal funds or criminal proceeds. The Tajik authorities do not do enough to prevent the abuse of NPOs for TF purposes.

The country's financial sector is dominated by credit institutions, whose total assets are estimated at over USD 2.4 billion.

Overall Level of Effectiveness & Technical Compliance

In the previous Mutual Evaluation Report of the Republic of Tajikistan of 2007, assessors noted the lack of an AML/CFT legal framework, including an AML/CFT law. To address this deficiency, as well as in order to implement the FATF Recommendations, Tajikistan adopted in 2011 an AML/CFT Law, which has since been amended to bring it in line with the FATF Recommendations 2012, including on proliferation financing. Tajikistan has conducted an assessment of ML/TF risks and adopted a National Strategy designed to mitigate and manage the identified risks.

Tajikistan has put in place a robust AML/CFT legal framework. Still, some technical shortcomings related to TFS, PEPs, new technologies and remittances remain.

With regard to the effectiveness of the AML/CFT regime, the Tajik law enforcement agencies regularly use the FMD's spontaneous disseminations and financial intelligence both to detect criminal offences and investigate them. At the same time, law enforcement agencies failed to demonstrate sufficient effectiveness in investigating ML offences and confiscating criminal assets. The country's competent authorities understand TF risks and are fairly successful in their efforts to identify and investigate TF offences.

US Department of State Money Laundering assessment (INCSR)

Tajikistan is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Most money laundered in Tajikistan is assumed to derive from the large amounts of opiates and other drugs transiting the country from Afghanistan to Russia and Eastern Europe. Falling drug seizure rates in Tajikistan and across the region may be an indication of a decrease in the amount of drugs passing through the country; however, 2017's bumper crop may reverse that recent trend.

Money launderers may be bypassing the banks and physically transporting cash across borders (bulk cash smuggling). This avoids currency reporting requirements and transfers the funds to other nations, beyond the reach of the government of Tajikistan. Anecdotal information suggests that, in contrast to public perception, most money laundering cases initiated in Tajikistan have corruption as the predicate offense and not drug trafficking.

VULNERABILITES AND EXPECTED TYPOLOGIES

Due to its proximity to Afghanistan and estimates of the quantities flowing along the drug trafficking corridor known as the Northern Route, illicit drugs are thought to be the major source of funds to be laundered; however, funds extorted as bribes in the public and private sectors may also be major sources of illicit money.

There are four established economic free zones (FEZ) in Tajikistan, all of which are based on manufacturing. Sughd and Panj FEZs were each established in 2008, and Dangara and Ishkashim FEZs in 2010. The tax and customs benefits for the zones are planned to last for 25 years, although extensions are possible for up to 49 years. The zones in Sughd and Dangara are the most developed, with the former attracting investment from Poland, Russia, Cyprus, and Turkey, while Dangara also has Chinese-funded manufacturing.

Use of alternative remittance systems and bearer shares create the potential for abuse, but evidence of their abuse as money laundering vehicles is limited.

KEY AML LAWS AND REGULATIONS

Tajikistan has dedicated AML legislation in addition to KYC regulations and suspicious activity reporting requirements. There are plans to tighten the KYC regulations.

The U.S. DEA maintains an MOU with the Tajik Drug Control Agency regarding information sharing in connection with narcotics investigations. Due to government-directed lending and the large number of nonperforming loans, no Western banks cooperate with Tajikistan. One major Tajik bank lists 80 percent of its loans as non-performing.

Tajikistan is a member of the EAG, a FATF-style regional body.

AML DEFICIENCIES

Tajikistan's FIU, the Financial Monitoring Department of the National Bank of the Republic of Tajikistan, is staffed by many new employees with relatively little experience. It is clear that training, technological resources, and equipment are needed.

An AML/CFT national risk assessment (NRA) summary report was released in September 2017 and was the culmination of a risk assessment conducted from April 2015 to September 2017. According to the conclusion of the report, the NRA will be the basis for a more detailed AML/CFT risk assessment that will be conducted in 'the next few years.'

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Tajikistan has an AML inter-ministerial coordinating body that includes most departments in the government, including the National Bank, the Ministry of Internal Affairs, the State Committee on National Security, the Prosecutor General's Office, and the Anti-Corruption Agency; however, there appears to be little exchange of information among agencies.

The absence of current money laundering investigation or prosecution statistics makes it difficult to accurately gauge the degree to which the formal banking sector is being used to launder assets and the effectiveness of Tajikistan's AML regime.

Tajikistan's challenges confronting money laundering may not arise from lack of viable institutions or comprehensive legislation, but instead from the pervasive culture of corruption, which serves as both a source of illicit funds and a mechanism to prevent investigations. While training and other resources for investigators are needed, Tajikistan also requires a comprehensive strategy to reduce corruption in the country.

EU White list of Equivalent Jurisdictions

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

World Governance indicators

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

Failed States Index

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

Offshore Financial Centre

Tajikistan is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2017 (introduction):

Introduction

Tajikistan is located on one of the highest volume illicit drug trafficking routes in the world, between Afghanistan's opiate production to its south and the illicit drug markets of the Russian Federation and Eastern Europe to the north. The UN Office on Drugs and Crime (UNODC) estimated in 2010 that 75-80 metric tons (MT) of Afghan heroin and 35-40 MT of opium transit Tajikistan to international markets. Assuming these estimates are accurate, Tajikistan interdicts only a very small fraction of the drugs transiting the country. Although laws are in place to prosecute traffickers, few major traffickers were prosecuted in 2016.

In April 2016, Tajikistan announced a five-year initiative (2016-2020) to focus on drug prevention and promoting healthy lifestyles. Targeting young people, the initiative aims to develop new educational programs for drug abuse prevention and calls for the introduction of international standards deterring use. Tajikistan's Ministry of Health reported that during the first six months of 2016, there were 7,185 registered persons with substance use disorders, of which 184 were women. While that number has remained relatively stable over the past several years, it is likely an undercount; a clearer indication of the scale of the problem can be obtained from a 2014 study conducted by the United Nations Development Program and the National AIDS Commission which estimated 23,100 intravenous drug users in Tajikistan.

Conclusion

Determining the cause of the decline in seizures of opiates and cannabis products in Tajikistan and the region will require further evaluation. Effective border management may play a part, as could the unstable security situation in Northern Afghanistan or alternate trafficking routes. The increase in seizures of MDMA and other synthetic drugs warrants additional efforts, particularly to reduce demand for these drugs and prevent the development of a domestic market. President Emomali Rahmon commendably focused on the importance of demand reduction in his public statements and as part of his 2016-2020 policy initiative, but sufficient resources must be allocated to implement these goals.

US State Dept Trafficking in Persons Report 2016 (introduction):

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

Tajikistan is a source and, to a lesser extent, destination country for men, women, and children subjected to forced labor, and a source country for women and children subjected to sex trafficking. Extensive economic migration exposes Tajik men, women, and children to exploitation. Tajik men and women are subjected to forced labor in agriculture and construction in Russia, United Arab Emirates (UAE), and, to a lesser extent, in neighboring

Central Asian countries. Women and children from Tajikistan are subjected to sex trafficking primarily in UAE and Russia, and also in Saudi Arabia, Kazakhstan, and Afghanistan, as well as within Tajikistan.

Women are increasingly vulnerable to trafficking after they are informally divorced from their absent migrant husbands and need to provide for their families. Some women who traveled to Syria or Iraq with promises of marriage were instead sold into sexual slavery. Tajik women and girls are transported to Afghanistan for the purpose of forced marriage, which can lead to sex trafficking and debt bondage. Tajik children are subjected to sex trafficking and forced labor, including forced begging, in Tajikistan and Afghanistan. Tajik children and adults may be subjected to agricultural forced labor in Tajikistan—mainly during the fall cotton harvest. Afghan and Bangladeshi citizens are vulnerable to forced labor in Tajikistan. The Government of Tajikistan does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government made increased law enforcement efforts, initiating prosecution of 24 suspected traffickers and convicting 10. The government made slow progress in the implementation of its 2014 law, Counteracting Trafficking in Persons and Providing Support to Victims of Trafficking in Persons, which created a legal framework for designating a person a “victim of trafficking” and established programs to protect and provide services to such victims. The government offered training for government officials on identifying, investigating, and prosecuting trafficking crimes, but continued to lack procedures to identify trafficking victims proactively among vulnerable populations and remained unable to provide adequate victim protection services. In particular, budget limitations and high turnover of officials with the necessary specialized knowledge to assist trafficking victims constrained such efforts. Nonetheless, the government increased its anti-trafficking law enforcement efforts, investigating and prosecuting an increased number of cases in 2015.

US State Dept Terrorism Report 2016

Overview: The Government of Tajikistan remained focused on countering violent extremism, monitoring the possible return of Tajik foreign terrorist fighters, and addressing the potential threat to the country posed by instability in northern Afghanistan. According to open-source reporting, approximately 1,000 Tajik citizens have joined ISIS and other terrorist groups in Iraq and Syria. With growing concern that terrorist groups in Afghanistan may be able to cross porous border areas into Tajikistan – particularly with the drawdown of U.S. troops – the government has attempted to increase its military and law enforcement capacity to conduct tactical operations. As part of this effort, the government has sought assistance from the United States, as well as other partners. Tajik government efforts to strengthen its responses to terrorism and radicalization in Tajikistan led to the adoption in 2016 of a comprehensive strategy to counter violent extremism.

In November, four men pled guilty to charges that they intended to blow up police and security buildings and hoist an ISIS flag. The men were sentenced to prison terms ranging from 12 to 15 years.

Legislation, Law Enforcement, and Border Security: The Tajik government prosecutes terrorists under the Laws on Combating Terrorism, Anti-Money Laundering, Currency Regulation, Notary, and the Criminal Code of the Republic of Tajikistan. In 2016, Tajikistan introduced

amendments to the penal code criminalizing public support of terrorism and “extremist” activities. Under the amendments, citizens who publicly urge terrorist acts or who publicly justify terrorist activities face jail terms of between five and 10 years. The punishment increases to 10 to 15 years in jail for those who make such public statements of incitement or support through mass media.

A slumping economy and long-standing corruption reduced Tajikistan's resources to interdict possible terrorists. Tajikistan has established a coordinating headquarters for law-enforcement bodies countering terrorism and “extremism,” but interagency cooperation and information sharing capabilities remained limited.

Tajikistan continued to make progress in improving border security with bilateral and multilateral assistance, although effectively policing the Tajikistan-Afghanistan border remained a difficult task requiring more resources and capabilities than were available to the Tajik government. As a result, there were periodic reports of illegal border crossings, usually by drug smugglers. The UN Office of Drugs and Crime, in conjunction with the U.S. Drug Enforcement Agency (DEA) and the Department of State, provided interdiction-related training to Tajikistan (and Afghanistan, Kazakhstan, The Kyrgyz Republic, and Uzbekistan) in support of the Border Liaison Office program. A number of U.S. Central Command programs continue to provide material support, training, and infrastructure development assistance to Tajik security forces focused on border security, counter-narcotics, and counterterrorism. The State Department's Export Control and Related Border Security Program provided both training and material support related to border control, contraband interdiction, and counter-proliferation capability to Tajikistan.

The Government of Tajikistan made a number of terrorism-related arrests during the course of the year. According to the prosecutor-general, 31 citizens were detained while attempting to leave the country to join ISIS, and criminal proceedings were opened against 166 Tajiks alleged to have fought with the group. The government claimed that most Tajiks who have joined ISIS were radicalized abroad, usually in Russia. Human rights organizations alleged that the government in some instances used terrorism charges as a pretext to target independent voices, including dissidents living abroad.

Tajik law enforcement officers continued to participate in the Department of State's Antiterrorism Assistance program, receiving capacity-building training in counterterrorism-focused skill sets.

Countering the Financing of Terrorism: Tajikistan is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force (FATF)-style regional body. Tajikistan's financial intelligence unit, the Financial Monitoring Department (FMD), is a member of the Egmont Group of Financial Intelligence Units. Between 2013 and 2016, the number of entities reporting to the FMD increased significantly. Still, the FMD's capacity to conduct prompt and thorough analyses of reported transactions is limited due to difficulties in accessing relevant government authorities' databases, which would allow for a comprehensive analysis.

Terrorist financing is criminalized by Tajikistan's Law on Anti-Money Laundering and Anti-Terrorist financing, but there has not been a significant number of prosecutions or convictions of terrorist financing cases reported by Tajikistan in recent years. Tajikistan has made

improvements in implementation of UN Security Council resolution 1373 and the UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions regime, as financial institutions are legally mandated to freeze funds of individuals and entities on UN sanctions lists, as well as domestic designations lists without delay.

In 2016, Tajikistan provided information to the EAG on steps it took to develop national anti-money laundering and countering the financing of terrorism (AML/CFT) legislation and to conduct a national risk assessment, as part of the country's efforts to improve its AML/CFT framework in line with FATF standards.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	21
World Governance Indicator – Control of Corruption	13

Corruption is a serious obstacle for companies operating or planning to invest in Tajikistan. It permeates almost all sectors of the economy. Networks of patronage and clientelism also impede a competitive business environment, and bribery and gifts are widespread practices and an established way of doing business. The government has established the necessary legal anti-corruption framework to curb corruption, criminalizing passive and active bribery, extortion, money laundering and other offenses. Nonetheless, enforcement of the law is poor and selective, and government officials engage in corruption without fear of repercussion, provided they do not fall out of favor with the ruling elite. **Information provided by GAN Integrity.**

US State Department

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

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

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

consequences for corruption only when their scheme competes with those of more powerful officials.

Corruption and Government Transparency - Report by Global Security

As in previous years, Tajikistan ranked very low on the 2012 Transparency International Corruption Perceptions Index. It scored 22 out of 100 on the index, placing it 157 on a list of 176 countries. Anemic anti-corruption efforts from the Tajik government have proven ineffective – indeed, some anti-corruption units are ironically known to be particularly corrupt. Extremely low official salaries do not help since they force many officials to look for alternative means to make ends meet. Buying a government position is common, and people frequently bribe superiors for promotions. Cultural expectations play a role as well: people are expected to share their good fortune with superiors and extended family, and nepotism or other favors for clan members, extended family, or superiors are commonplace.

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

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Section 3 - Economy

Tajikistan is a poor, mountainous country with an economy dominated by minerals extraction, metals processing, agriculture, and reliance on remittances from citizens working abroad. The 1992-97 civil war severely damaged an already weak economic infrastructure and caused a sharp decline in industrial and agricultural production, and today, Tajikistan has one of the lowest per capita GDPs among the 15 former Soviet republics. Less than 7% of the land area is arable and cotton is the most important crop. Tajikistan imports approximately 60% of its food. Mineral resources include silver, gold, uranium, antimony, and tungsten. Industry consists mainly of small obsolete factories in food processing and light industry, substantial hydropower facilities, and a large aluminium plant - currently operating well below its capacity.

Because of a lack of employment opportunities in Tajikistan, more than one million Tajik citizens work abroad - roughly 90% in Russia - supporting families back home through remittances that have been equivalent to nearly 50% of GDP. Some experts estimate the value of narcotics transiting Tajikistan is equivalent to 30-50% of GDP.

Since the end of the devastating, five-year civil war, the country has pursued half-hearted reforms and privatizations, but the poor business climate remains a hurdle to attracting investment. Tajikistan has sought to develop its substantial hydroelectricity potential through partnership with Russian and Iranian investors, and is pursuing completion of the Roghun dam - which, if built according to plan, would be the tallest dam in the world. However, the project will take at least 8 to 11 years to construct and faces financing shortfalls and opposition from downstream Uzbekistan.

Recent slowdowns in the Russian and Chinese economies, low commodity prices, and currency fluctuations are hampering economic growth in Tajikistan. By some estimates, the dollar value of remittances from Russia to Tajikistan dropped by more than 65% in 2015. The government faces challenges financing the public debt, which is equivalent to 35% of GDP, and the National Bank of Tajikistan has aggressively spent down reserves to bolster the weakening somoni, leaving little space for fiscal or monetary measures to counter any additional economic shocks.

Agriculture - products:

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

Industries:

aluminium, cement, vegetable oil

Exports - commodities:

aluminium, electricity, cotton, fruits, vegetable oil, textiles

Exports - partners:

Turkey 19.7%, Kazakhstan 17.6%, Switzerland 13.7%, Iran 8.7%, Afghanistan 7.5%, Russia 5.1%, China 4.9%, Italy 4.8% (2015)

Imports - commodities:

petroleum products, aluminium oxide, machinery and equipment, foodstuffs

Imports - partners:

China 42.3%, Russia 17.9%, Kazakhstan 13.1%, Iran 4.7% (2015)

Banking

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

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

Arrangement Under the Extended Credit Facility (Published June 2011)

Executive Summary

Background:

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

Policy Challenges:

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

Key Recommendations:

- Maintain a prudent monetary stance to avoid adding pressure to core inflation. Over the medium term, develop a cash transfer system to protect the poor during price shocks.
- Address vulnerabilities in the financial sector, with a view to reducing the overhang of nonperforming loans, creating confidence in the banking system, and enabling higher levels of financial intermediation.
- Shift to a post-crisis view of fiscal policy. Gradually reduce the fiscal deficit to allow for a rebuilding of fiscal buffers. Reform the tax policy regime to help build revenues, make space for priority social and infrastructure spending, and create a more conducive environment for private sector growth.
- Continue work on agricultural reform, with a particular emphasis on creating a sustainable mechanism for agricultural finance.

- Make further progress in development of domestic financial markets, starting with the domestic Treasury-bill (T-bill) market.

Executive Summary

Tajikistan is a fragile and landlocked country located in Central Asia. Tajikistan presents limited opportunities for investors who are willing to put significant research and effort into market development, and who have experience with the area. The Government of Tajikistan has expressed interest in attracting more U.S. investment, but is still working to implement reforms that will allow it to become a more competitive investment destination.

In 2015, Russia's economic crisis affected Tajikistan's economy severely. According to the Ministry of Labor, Migration, and Employment of Tajikistan, remittances in 2015 were equivalent to 34-35 percent of GDP – a drop from 2014 when remittances were roughly equivalent to 50 percent of Tajikistan's GDP. Remittances are typically transferred to Tajikistan in Russian rubles; these money transfers lost between 42 and 66 percent of their value in dollar terms as the ruble devalued faster than the Tajik somoni. The result was at least a 30 percent drop in Tajik real incomes, as well as a depreciation of the somoni.

Each year up to one million Tajiks work abroad, primarily in Russia. In 2015, the number of Tajik migrants working in Russia decreased not only because of fewer work opportunities there, but also due to entry bans introduced by Russian migration authorities. According to the latest available information, 300,000 Tajiks are on this work “blacklist.” In 2015, migrant workers sent home roughly \$2.2 billion through the banking system as well as other informal channels, a \$1.7 billion decrease compared to 2014. Tajik authorities and international experts forecast that a continued ruble devaluation and slowing Russian economy, along with new restrictions placed on migrant employment in Russia, will likely continue to decrease Tajikistan's remittance inflow in 2016. Reduced opportunities for migrant labor could result in markedly higher unemployment in Tajikistan.

Since small and medium-sized businesses already have limited access to finance in the local banking system, the depreciation of the ruble and somoni made dollar-based debt even more unattractive. The rate of non-performing loans in commercial banks soared to around 45 percent as of March 2016.

Tajikistan's business environment also lacks predictability in terms of its regulatory regime. In spite of having over 200 different strategies and sectoral development programs, the Tajik authorities do not have capacity for either forecasting, or planning that responds to real circumstances in the country. In addition, the Tajik government does not manage risk appropriately; there is no concept of the “possibility to fail.”

Tajikistan became the 159th member of the World Trade Organization (WTO) March 2, 2013. At that time, Tajikistan adopted a new national Tax Code; however, even with this reform the tax system still remains complex. Due to the economic crisis, taxation of large companies (more than 100 employees) has become more aggressive and an “artistic” interpretation of the Tajik tax code became the norm. Businesses tell the embassy they feel like that are treated as “guilty” until proven innocent by the tax committee.

Tajikistan joined the 1961 Hague convention “On Abolishing the Requirement of Legalization for Foreign Public Documents” October 31, 2015 (<http://mfa.tj/ru/novosti-i-sobytiya/nachalo->

[prostavleniya-apostilya-v-tadzhikistane.html](#)). This accession should make it easier for investors to gain legal recognition of foreign contracts within Tajikistan.

Tajikistan has large-scale potential for hydroelectric power generation, and is poised to expand seasonal electricity exports to South Asian markets along the CASA-1000 power transmission line and planned future lines. Uzbekistan has raised concerns as a downstream country over the planned hydroelectric projects in Tajikistan by questioning their economic value; what Uzbekistan predominantly fears is loss of water flow to its predominantly agricultural land. New hydroelectric dam construction projects in Tajikistan represent a commercial opportunity for U.S. equipment manufacturers and construction firms. The Tajik government has also expressed an interest in developing its solar industry.

Outside of the major cities, Tajikistan currently faces electricity rationing between October 1 through March 31, due to its heavy reliance on seasonal hydropower. The implementation of proposed infrastructure projects or energy trade agreements to resolve the winter energy deficit could end seasonal rationing and spur significant economic development.

After demurring for years, the Government of Tajikistan is still considering joining the Russian-led Eurasian Economic Union. Should they apply for membership and be accepted, it could result in higher trade tariffs and greater difficulty for U.S. firms to invest in Tajikistan.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	136 of 174	http://www.transparency.org/cpi2015/
World Bank's Doing Business Report "Ease of Doing Business"	2015	136 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	114 of 141	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country (\$M USD, stock positions)	2015	10.7	Host government
World Bank GNI per capita	2014	\$1080	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of \$4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here:

<http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015>.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Tajikistan courts mainly state-led investment and external loans from countries such as China, Russia, and Iran, although in the current economic climate Tajikistan appears to be more open to investment from Western Europe, East Asia, and the U.S. There are no laws that discriminate against foreign investors by prohibiting, limiting, or conditioning foreign investment in any economic sectors.

Other Investment Policy Reviews

The United Nations Conference on Trade and Development (UNCTAD) presented a draft Investment Policy Review of Tajikistan on November of 2015 to stakeholders from the government, local and international private sector, and civil society and development partners. However, the final version of the report is not available to the public.

Tajikistan has not yet conducted a WTO Trade Policy Review. The WTO has not scheduled a review for Tajikistan in 2016.

Laws/Regulations on Foreign Direct Investment

Article 4 of Tajikistan's Investment Law guarantees equal rights for both local and foreign investors. Most of Tajikistan's current international agreements guarantee the most-favored-nation status. Per domestic law, foreigners can invest by jointly owning shares in existing companies with either other Tajik companies or Tajik citizens, by creating fully foreign-owned companies which operate according to Tajik law, or by concluding agreements with legal entities or citizens of Tajikistan that provide for other forms of foreign investment activity. Foreign firms may acquire assets, including shares and other securities, as well as land and mineral usage rights. Foreign firms may also exercise all property rights to which they are entitled, either independently or shared with other Tajik companies and citizens of Tajikistan.

Tajik law recognizes the sanctity of contracts, but judicial enforcement is poor. The judicial system lacks transparency.

www.mmk.tj is a repository of Tajikistan's laws, regulations and policies.

www.doingbusiness.org/data/exploreeconomies/tajikistan is the World Bank site that summarizes the steps required to complete various business functions in Tajikistan and calculates the average time required for each step.

tpp.tj/put2011/about_establish_company_eng.html is the website of the Tajik Chamber of Commerce and Industry; it lists steps required to establish a business in Tajikistan.

amcu.gki.tj/eng/ is the official site of the State Committee on Investments and State Property Management of the Republic of Tajikistan.

Business Registration

Although Tajikistan has simplified business registration, the process still requires resources and time. The Tax Committee is the primary responsible agency for business registration (www.andoz.tj). In addition to obtaining the state registration, a company must also register with the Social Protection Agency; Statistics Agency; Ministry of Labor, Migration, and Employment; Sanitary-Epidemiological Service; as well as the local authorities, municipal services, and few other agencies). Registering a business according to the regulations should take less than five working days; in reality it may take up to 10 days or more. There is no regime to allow simplified business creation without a notary.

The State Committee on State Property Management and Attraction of Investments is the key agency which collects information and project proposals from investors. However, numerous other agencies are involved in the investment coordination process, making it cumbersome.

Tajik legislation and regulation consider enterprises to be micro if they have less than 10 employees, small if they have less than 50 employees and less than 500,000 somoni in annual operations, and medium if they have less than 100 employees. The international donor community, in coordination with the government, funds a number of projects which stimulate development of MSMEs in Tajikistan. Foreign-owned MSMEs can also apply for these programs.

Industrial Strategy

There is no sector-specific government program designed to attract investment. The State Committee on Investments and State Property Management's website (amcu.gki.tj/eng/) lists government-promoted investment opportunities.

Limits on Foreign Control and Right to Private Ownership and Establishment

There are no limits on foreign ownership or control of firms, but local domestic law considers all land to belong exclusively to the state. There are no sector-specific restrictions that discriminate against market access.

Privatization Program

The Tajik government conducted privatization on an ad-hoc basis in the 1990s, and then again in the early 2000s. The government plans to split national electrical utility Barqi Tojik into three public/private partnerships, responsible for generation, transmission, and distribution, by the end of 2016. Foreign investors are able to participate in Tajikistan's privatization programs. There is a public bidding process, but privatization has historically been non-transparent. Privatized properties have been subject to re-nationalization, often on the grounds that the original privatization process was conducted illegally.

Screening of FDI

Potential large-scale investors must submit their proposals for screening by all concerned government agencies. This process can be lengthy. The State Committee on Investments and State Property Management circulates the investor's proposed statement of foreign investments among the relevant government offices and ministries with instructions to review and express their formal opinion. If a ministry objects to the proposed investment activity, it

forwards an official note to the State Committee. This procedure applies to investment projects involving privatization of state property.

Screening proposals often involve background checks on the company, person(s) representing the company, and identification of a financial source to comply with anti-money laundering regulations. U.S. businesses have not identified screening mechanisms as a barrier to investment.

The purpose of the registration screening is to ensure that the proposed investment does not violate Tajik laws. If an investment fails review, the Tajik government may reject the registration application as incomplete. Applicants may appeal a rejection by filing suit in Tajikistan's court system.

Competition Law

The State Agency for Anti-Monopoly Policy and Enterprise Support is responsible for providing support for entrepreneurship and regulating prices for products of monopolistic enterprises, as well as preventing and eliminating monopolistic activity, abuse of dominant market position, and unfair competition.

2. Conversion and Transfer Policies

Foreign Exchange

Tajikistan traditionally does not restrict conversion or transfer of monies if these sums are deemed to be reasonable. Until 2015, a "reasonable" amount for private transactions was up to \$10,000 per transaction. Because of the current economic and financial crisis, the National Bank is determining "reasonableness" of a transfer on a case-by-case basis. Tajikistan places no legal limits on commercial or non-commercial money transfers, and investors may freely convert funds associated with any form of investment into any world currency. However, in 2015 the National Bank of Tajikistan exercised more strict control of foreign currency operations and outflows due to the economic and financial crisis. According to National Bank regulations, anyone seeking to exchange an amount exceeding 14,000 somoni (approximately \$1,500) must register the exchange, and present a passport and an explanation of the reason for the exchange (business trip abroad for example). Tajikistan's already underdeveloped commercial banking infrastructure has limited capital, presenting obstacles for investors to find local sources of financing. Businesses often find it difficult to conduct large currency transactions due to the limited amount of foreign currency available in the domestic financial market. Investors are free to import currency, but once it is deposited in a Tajik bank account it may be difficult to withdraw. In December 2015, the National Bank reorganized foreign currency operations and shut down all private foreign exchange offices in Tajikistan. Since that time, only commercial bank exchange offices have been allowed to conduct exchange of foreign currency, which requires registration of a foreign passport and certain personal information.

The government's policy has been to support a stable exchange rate, and the National Bank maintained the exchange rate at 4.75 somoni per U.S. dollar from mid-2011 until early 2014. In 2015, defending this exchange rate depleted Tajikistan's foreign reserves resulting in a steady depreciation of Tajikistan's currency against the U.S. dollar. By January 2015 the exchange

rate of the somoni to the U.S. dollar reached eight to one, and has only slightly dropped as of March 2016 to 7.8 somoni per dollar.

Remittance Policies

There have been no recent changes or plans to change investment remittance policies, although the National Bank mandated the payment of remittances to be made in somoni, (as opposed to in rubles or Kazakh tenge) in early 2016. There are no official time or quantity limitations on the inflow or outflow of funds for remittances of profits or revenue, though investors should be aware that Tajikistan's tax code classifies all inflows as revenue and taxes them accordingly.

According to the Financial Action Task Force, Tajikistan does not engage in currency manipulation tactics. The Financial Action Task Force monitors Tajikistan, but does not consider it a country of concern.

3. Expropriation and Compensation

The Government of Tajikistan can legally expropriate property under the terms of Tajikistan's Law on Investments, Law on Privatization, Civil Code, and Criminal Code. The laws authorize expropriation if the Tajik government identifies procedural violations in privatizations of state-owned assets or determines a property has been used in anti-government or criminal activities, as defined in the Criminal Code. Under the Law on Joint Stock Companies, the government may request that a court cancel the private purchase of shares in state-owned enterprises (SOEs) if it determines that there was a violation to the procedure within the original sale

Tajikistan has a history of expropriating land based on the grounds that the properties involved were illegally privatized following Tajikistan's independence. Following an investigation by government anti-corruption, anti-monopoly, and other law enforcement agencies, the State Committee for Investments and Property Management can issue a finding that the asset was illegally privatized, and request that the Tajik court system order its return to government control. Local domestic law requires owners to be reimbursed for expropriated property, but the amount of the compensation is usually well below the property's fair market value.

In several cases, Tajik officials have used government regulatory agencies to pressure businesses and individuals into ceding properties and business assets. Due process was not provided in these cases.

The Tajik government has not shown any pattern of discrimination against U.S. persons by way of illegal expropriation. There are no "high-risk" sectors prone to expropriation actions.

4. Dispute Settlement

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

Tajikistan has a civil legal system with a substantial body of legal codes either inherited from the Soviet Union or developed after independence. Tajikistan's court system hears cases on the enforcement of property ownership and contract enforcement. Commercial disputes are usually resolved in less than one year.

Tajikistan has a written body of commercial and contractual law which generally conforms to international standards, though implementation and consistent interpretation are often lacking.

Tajikistan has specialized economic courts to hear commercial disputes, but no separate judicial system to process intellectual property rights claims. Tajikistan's judiciary lacks independence.

In 2012, Tajikistan became a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention). Nevertheless, the local courts refused to enforce a 2013 ruling by a Swiss tribunal against the state-owned Tajik Aluminum Company (TALCO). Currently, the plaintiff in the tax judgment is pursuing TALCO assets offshore.

Bankruptcy

Under the 2003 Law on Bankruptcy, both creditors and debtors may file for an insolvent firm's liquidation. The debtor may reject overly burdensome contracts, and may choose whether or not to continue contracts supplying essential goods or services, or avoid preferential or undervalued transactions. The law does not provide for the possibility of the debtor obtaining credit after the commencement of insolvency proceedings. Creditors have the right to demand the debtor return creditors' property if that property was assigned to the debtor less than four months prior to the institution of bankruptcy proceedings. Tajik law does not criminalize bankruptcy.

Investment Disputes

Disputes involving foreign investors have been primarily centered on the implementation of investment incentives. In the last ten years, three foreign investors have reported they were unable to utilize the promised value-added tax exemption on imported items. Tajik procedures require businesses seeking exemption to submit a list of goods to be imported in January, and the exemption expires at the end of December that year. In practice, the Tajik government often does not approve such exemptions before October of each year, causing firms to incur substantial costs due to the delay. Firms that have paid the VAT and filed for reimbursement have been told that the Tajik government lacks a legal mechanism to refund the money.

The government has also been involved in disputes with the governments of Iran and Russia over revenue sharing arrangements at the jointly-owned Sangtuda-1 and Sangtuda-2 hydroelectric power plants.

International Arbitration

Tajikistan has signed bilateral agreements with several countries on arbitration and investment disputes, but local domestic courts do not always properly enforce or recognize awards.

ICSID Convention and New York Convention

Domestic legislation provides for enforcement of arbitral awards under the 1958 New York Convention. Tajikistan is not a member state of the International Centre for the Settlement of

Investment Disputes (ICSID) Convention

(<https://icsid.worldbank.org/apps/ICSIDWEB/about/Pages/Database-of-Member-States.aspx?tab=PtoT&rdo=BOTH>), and although Tajikistan's investments treaties have reference to ICSID

(<https://icsid.worldbank.org/apps/ICSIDWEB/resources/Pages/BITDetails.aspx?state=ST39>), implementation remains inconsistent.

Duration of Dispute Resolution – Local Courts

Tajikistan's Third Party Arbitration Courts (TPAC) settle disputes between parties outside of the formal legal system. Decisions from TPAC bodies are recognized by Tajik courts. In practice, however, these courts are primarily used to resolve disputes over agricultural plot demarcations as part of the land reform process, and do not serve as venues to resolve non-agricultural commercial disputes.

It takes an average of 430 days to obtain a resolution on a commercial dispute/contract enforcement proceeding in Tajikistan: 40 for filing and service, 120 for trial and judgment, and 270 for enforcement of the decision. No data is available on the average duration of investment dispute resolution.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

The Tajik government does not maintain any measures that are inconsistent with Trade Related Investment Measures (TRIMS) requirements. The government encourages investors to purchase locally, but recognizes the limited supply of domestic products. The government has adopted an action plan which foresees full implementation of its WTO obligations by 2017.

Investment Incentives

Tax benefits and customs preferences include tax exemptions for certain categories of imported equipment, cotton processors, and hydropower construction, and, depending on the size of the investment, income tax holidays of up to five years for production facilities. Investors receive tax benefits in accordance with the Tax Code and Customs Code of the Republic of Tajikistan.

Current legislation provides equal tax and customs incentives to local and foreign investors. In practice, companies with close connections to the government often receive preferential treatment. Operating from a Soviet-era legal code that views anything beneath the land's surface as a potential state secret, the government has been reluctant to offer mining concessions to foreign companies. An effort to revise the legislation is underway, and the government has made some effort to attract foreign mining projects, but generally only on the condition that the State is given a controlling interest or receives a substantial advance payment. The government has also established four Free Economic Zones that provide reduced taxes and customs fees to clients located therein.

Research and Development

U.S. and other foreign firms are not legally restricted from participating in government-financed or subsidized research and development programs, but limited government resources make such opportunities few and far between.

Performance Requirements

Joint stock companies with foreign investors receive significant tax incentives that are not offered to private companies with domestic investors. The government does not formally impose performance requirements as a condition for establishing, maintaining, or expanding investment.

According to the Tajik Law on Audits, for local companies at least 70 percent of the workforce must be local employees. If the CEO of the company is foreign, then the percentage of local staff should be at least 75 percent. This requirement is sometimes waived.

In June 2015, the Minister of Labor, Migration and Employment announced that for large-scale projects to be implemented in Tajikistan which are signed between the Government of Tajikistan and either a company registered in another country or a government of another country, at least 80 percent of the workforce must be locally hired, although depending on the qualifications of the local labor force this requirement can be as much as 90 percent.

It is possible to obtain visas and residence/work permits, but applicants are required to provide documentary support, and most permits are limited to a maximum of one year in duration.

As a government-imposed condition on permission to invest, relevant ministries must review and approve all investment proposals.

Data Storage

The government does not impose forced localization or require investors to use domestic content in goods or technology.

Tajikistan abandoned its plan to require IT providers to turn over source code and provide access for surveillance purposes in 2009, due both to lobbying from telecom providers and appreciation of the high cost of creating and maintaining such a monitoring system. Tajikistan is currently building a single gateway for all internet and voice data which may become an impediment to offshore storage of data.

6. Protection of Property Rights

Real Property

A cadaster system to record, protect, and facilitate acquisition and disposition of property exists, but needs improvement. Even when secured interests in property do exist, enforcement remains an issue. Investors should be aware that establishing title may be a more involved process than in Western countries, because ownership is often unclear.

The government passed mortgage legislation in March 2008 which allows parties to use immovable property as collateral. The government also adopted revised Land Code amendments in August 2012.

According to local domestic law, all land belongs exclusively to the state; individuals or entities may be granted first- or second-tier land use rights. The government restricts foreigners' first-tier land use rights to 50 years, while Tajik individuals and entities have indefinite first-tier land use rights. Foreigners may request second-tier land use rights from the government similar to the first-tier rights of Tajik individuals and entities (50 years). Tajik first-tier land use rights holders may also grant foreigners lease agreements for up to 20 years. Ownership of rural land use rights can be particularly opaque, since many nominally privatized former collective farms continue to operate as a single entity. Many of the new owners do not know where their land is and do not exercise their property rights.

A USAID project helping improve land registration for farming has seen positive results in the last year and could be replicated in other sectors. Issuance of land use rights certificates to individuals as part of the government's farm restructuring process has been moving forward and is about 90 percent complete. These certificates show where each person's land use rights are within a dekhon farm. Donor efforts have improved the rural population's knowledge of their own land use rights and have provided support to defend them. Nevertheless, there continue to be disputes over land use rights, particularly when the leader of a collective farm resists other farmers' requests to leave and start their own family or individual dekhon farm.

Intellectual Property Rights

Tajikistan is party to several international conventions that protect intellectual property rights (IPR), including the World Intellectual Property Organization (WIPO) Convention. The WIPO Tajikistan webpage contains the most updated information on Tajikistan's progress in this area: <http://www.wipo.int/wipolex/en/profile.jsp?code=TJ>. Currently eight of the 26 WIPO treaties remain unsigned, including the Patent Law treaty and Trademark Law Treaty. Tajikistan budgets limited resources for enforcement, and splits regulatory authority between the Ministry of Economic Development and Trade, the Ministry of Interior, and the Ministry of Agriculture. Most software and other media products sold in Tajikistan are unlicensed copies, and many brand name consumer goods are counterfeit.

No new IPR related laws or regulations were enacted in 2015, though the Tajik government did formulate an action plan for the implementation of World Trade Organization (WTO) obligations, which includes IPR enforcement provisions as part of the Trade Related Aspects of Intellectual Property Rights (TRIPS) requirements.

Article 156 of the Criminal Code allows for seizures of counterfeit goods. The Tajik Ministry of Interior has declined to report statistics on criminal cases opened for consumer fraud from 2013 onward. Information on successful prosecutions is likewise unavailable.

Tajikistan remains on the watch list of the USTR's Special 301 report as of March 2016. As part of its WTO membership, Tajikistan pledged to improve IPR enforcement; at the end of 2015, the government established a Working Group under the Ministry of Economic Development and Trade to work on legal regulation that would ban the use of unlicensed software by

state entities. The Tajik government is currently developing an implementation work plan and attempting to attract technical assistance.

In early 2016, the Tajik government adopted a 2014-2020 National Strategy for the Development of Intellectual Property, however funding from outside donors will be necessary to implement the strategy. Pirated software and audio-visual media remain widely available in Tajikistan.

As part of its WTO accession process, Tajikistan amended Article 441 of its Customs Code to provide ex officio authority to its customs officers to seize and destroy counterfeit goods. The "Department on Disclosing and Seizing of Counterfeit Products within the Customs Service of Tajikistan" has the responsibility to detect IPR-related violations. According to the department's own data, there were no seizures of counterfeit products by the Customs Service in 2015. Currently, the Customs Service has only three IPR products registered in its customs registry.

Tajikistan's Law on Quality and Safety of Products requires IPR violators to pay all expenses for storage, transportation, and destruction of counterfeit goods.

To register a patent or trademark with the National Center for Patents and Information (NCPI), applicants must submit an application with all relevant information on the IP, and pay a fee. The NCPI (www.ncpi.tj) will search its records for conflicts and, if none are found, register the IP within 30 days from the time the application is received. In general, the registration of a trademark might take four to seven months, while obtaining a patent for an invention could take up to two years.

Tajikistan's weak implementation of its intellectual property rights laws makes it difficult for investors to enforce their rights. IPR enforcement has the potential to improve if the Tajik government effectively implements its action plan to comply with WTO TRIPS requirements. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

U.S. Embassy

Economic Section

Dushanbe-ICS@state.gov

American Chamber of Commerce in Tajikistan

+992 (93) 577 23 23 +992 (93) 577 29 29

Director@amcham.tj

Info@amcham.tj

Public list of local lawyers: <http://photos.state.gov/libraries/tajikistan/231771/PDFs/list-of-lawyers-in-dushanbe-2014.pdf>.

7. Transparency of the Regulatory System

Tajikistan's regulatory system lacks transparency. Executive documents – presidential decrees, laws, government orders, instructions, ministerial memos, and regulations – are often

inaccessible to the public. Each ministry has its own set of unpublished regulations that may contradict laws or the regulations of other ministries.

Proposed laws and regulations are not usually published in draft form for public comment. Although the Tajik government solicited public comment on the 2013 Tax Code, it did not modify the draft law based on the input received.

TajikStandard, the government agency responsible for certifying goods and services, calibrating and accrediting testing laboratories, and supervising compliance with state standards, lacks experts and appropriate equipment. TajikStandard does not publish its fees for licenses and certificates, or its regulatory requirements.

Tajikistan is working towards adopting international accounting standards, but these are not yet implemented.

8. Efficient Capital Markets and Portfolio Investment

Foreign portfolio investment is not a priority of the Tajik government. Tajikistan lacks a securities market. According to government statistics, portfolio investment in Tajikistan in 2015 totaled \$44,000. The Tajik government does not regard this sector as a significant part of the national economy.

Tajikistan does not have an effective regulatory system to encourage and facilitate portfolio investment. There is little liquidity in Tajikistan's markets. Tajikistan has not established policies to facilitate the free flow of financial resources into product and factor markets, as these do not exist in Tajikistan.

Tajikistan does not place any restrictions on payments and transfers for current international transactions, per IMF Article VIII. It regards transfers from all international sources as revenue, however, and assesses taxes accordingly.

The private sector has access to several different credit instruments. Foreign investors could get credit on the local market, but those currently operating in Tajikistan do not rely on local credit sources due to high interest rates on loans. Local financial institutions offer only a limited range of credit instruments.

Money and Banking System, Hostile Takeovers

Tajikistan's banking system faces numerous challenges: insufficient capital, limited services, consumer mistrust, and high interest rates (averaging 24.7 percent for local currency loans and 17 percent for foreign currency loans). Analysts estimate between 29-50 percent of Tajikistan's overall credit portfolio is non-performing. Loans to small and medium enterprises are healthier, with a 15 percent non-performance rate.

As of December 2015, estimated banking sector assets totaled \$2.95 billion (at the average exchange rate for 2015, 6.10 somoni per dollar), held by 17 banks, one non-banking financial organization, and 120 microfinance organizations. By the end of 2015, 16 microfinance organizations were shut down due to the economic and financial crisis, leaving 104 microfinance organizations. The National Bank of Tajikistan (www.nbt.tj) serves as the central bank.

In 2015, the Tajik somoni lost 31.6 percent of its value against the dollar – from 5.46 to one on December 31, 2014 to 6.9902 to one on December 31, 2015.

In 2015, the National Bank of Tajikistan carried out a series of currency interventions totaling nearly \$68 million in the cash market, and \$384.4 million in the inter-bank currency market.

In April 2015, Tajikistan's National Bank ordered the immediate closure of private currency exchange offices, citing the need to assure the “stability” of Tajikistan's currency market, the somoni exchange rate, and “the protection of the interests of clients of credit organizations.” More than half of Tajikistan's exchange offices – 818 out of a total of 1,581 – were shuttered, leaving 763 operating. In December 2015, those that remained were shut down as well, leaving commercial bank offices as the only legal place to exchange currency in the country.

In January 2016, the Chairman of the National Bank of Tajikistan proposed criminalizing “illegal” foreign currency transactions, making them punishable by up to nine years in jail.

On February 19, 2016 the National Bank of Tajikistan raised its refinancing rate by one percent from the eight percent set December 22, 2014. An official source at the central bank announced this was done to “ensure effectiveness of the monetary policy.”

As of February 2, 2016, remittances sent to local banks in rubles were disbursed in somoni. The Tajik central bank reportedly issued this order for the purpose of supporting the somoni. According to bank statistics, Russian rubles comprise up to 90 percent of all remittances to Tajikistan.

To establish a bank account, foreigners need to submit a letter of application, a copy of their passport, and their Tajik government-issued taxpayer identification number.

Without a securities market, Tajikistan does not have hostile takeovers in the traditional sense. Politically connected individuals, however, may seek to acquire ownership of a desired business or business assets through political pressure and court rulings.

9. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) are active in travel, automotive/ground transportation, energy/mining, metal manufacturing/products, food processing/ packaging; agricultural, construction, building and heavy equipment; services; finance; and information and communication. The government divested itself of smaller SOEs in successive waves of privatization, but retained ownership of the largest Soviet-era enterprises and any sector deemed to be a natural monopoly.

The State Committee for Investments and State-Owned Property Management maintains a database of all SOEs in Tajikistan, but does not make this information publicly available.

Major SOEs include:

- Travel: “Tajik Air,” “Dushanbe Airport,” “Kulob Airport,” “Qurghonteppa Airport,” “Khujand Airport,” and “Tajik Air Navigation;”
- Automotive & Ground Transportation: “Tajik Railways;”

- Energy & Mining: "Barqi Tojik," "TajikTransGas," "Oil, Gas, and Coal," and "VostokRedMet;"
- Metal Manufacturing & Products: "Tajik Aluminum Company (TALCO)," and "AluminSohtMon (TALCO subsidiary);"
- Agricultural, Construction, Building & Heavy Equipment: "Tajik Cement;" Food Processing & Packaging: "Konservniy Combinat Isfara;"
- Services: "Dushanbe Water and Sewer," "Vodokanal Khujand," and "ZhKX (water utility);"
- Finance: "AmonatBonk (savings bank)," "TajikSarmoyaguzor (insurance)," "TajikSugurta (insurance);"
- Information and Communication: "Tajik Telecom," "Tajik Post," and "TeleRadioCom"

The government defines SOEs as either being 100 percent owned by the government, or private companies in which the government holds at least a 51 percent participation.

Tajik SOEs lack research and development budgets.

In sectors that are open to both the private sector and foreign competition, SOEs receive a larger percentage of government contracts/business than their private sector competitors. As a general rule, private companies cannot compete successfully with SOEs unless they have good government connections.

SOEs purchase goods and services from, and supply them to, private sector and foreign firms through the Tajik government's tender process. Tajikistan has undertaken a commitment, as part of its WTO accession protocol, to initiate accession to the Government Procurement Agreement (GPA). At present, however, Tajik SOEs are not covered under the GPA.

Per government policy, private enterprises cannot compete with SOEs under the same terms and conditions with respect to market share (since the government continually increases the role and number of SOEs in any market), products/services, and incentives. Private enterprises do not have the same access to financing as SOEs. Most lending from state-owned banks is politically directed.

Local domestic law makes SOEs subject to the same tax burden and tax rebate policies as their private sector competitors, but the Tajik government regularly writes off SOE tax debts via administrative orders or decrees. SOEs are afforded material advantages, including preferential access to land and raw materials that are not granted to private enterprises.

SOEs have budget constraints under Tajik law. The Ministry of Finance, Agency for State Financial Control and Fight with Corruption, and Accounting Chamber are responsible for enforcement.

OECD Guidelines on Corporate Governance of SOEs

The government appoints directors and boards to SOEs, but their actions are not governed or reviewed by any internal control procedures. Tajik SOEs do not adhere to the OECD Guidelines on Corporate Governance for SOEs. Third party market analysts regard SOEs as

closely connected to the Tajik government. When SOEs are involved in investment disputes, it is highly likely that the domestic courts will find in the SOE's favor. Court processes are generally non-transparent and discriminatory.

Sovereign Wealth Funds

Tajikistan does not have a sovereign wealth fund. Tajikistan lacks a securities market, so it is not possible for the Tajik government to make portfolio investments domestically.

10. Responsible Business Conduct

There is little awareness of corporate social responsibility in the international sense in Tajikistan. Some corporations do engage in voluntary community assistance on an ad hoc basis, and others have financed public infrastructure projects (schools, hospitals, stadiums, power plants) at government request. International investors generally adhere to their parent corporation's social responsibility standards.

The Tajik government enforces consumer protection and environmental protection laws through its Law on Consumer Protection and the Committee on Environmental Protection. Citizens may file lawsuits against violators of consumer rights or environmental laws through the court system. Tajikistan's state Labor Union is charged with safeguarding labor and employment rights under Tajikistan's laws. In practice, enforcement is minimally effective.

Independent media is more critical of violations of labor, environment and consumer protection laws than the state media. Tajikistan's civil society is under stress and typically does not monitor compliance with labor, environment, or consumer protection laws.

The Tajik government lacks corporate governance, accounting, or executive compensation standards to protect shareholders. The Tajik government does not encourage public disclosure of these issues.

OECD Guidelines for Multinational Enterprises

The Tajik government has not formally encouraged foreign and local enterprises to follow generally accepted corporate social responsibility principles by adhering to OECD Guidelines for Multinational Enterprises or the United Nations Guiding Principles on Business and Human Rights.

11. Political Violence

Tajikistan has a history of politically motivated violence, having suffered through a civil war that lasted from 1992 to 1997, when all factions signed a peace agreement that involved power-sharing provisions. Since the end of the war, political violence had been rare and isolated until a minor uprising in September 2015.

In the parliamentary elections March 1, 2015, President Rahmon's People's Democratic Party of Tajikistan (PDPT) received the majority of the votes. Parliament is the supreme legislative body of Tajikistan, and the PDPT has dominated it since the party was established in 1994. After the March elections the only true opposition party – the Islamic Revival Party of Tajikistan (IRPT) – lost its two seats in the lower chamber of Parliament. Under pressure from

the Tajik government, IRPT Chairman Muhiddin Kabiri went into exile immediately after the elections.

Also in March 2015, the leader of the banned anti-government organization Group 24, Umarali Quvvatov, was killed by unknown parties while in exile in Istanbul.

Deputy Minister of Defense Aduhalim Nazarzoda attempted to organize a coup in Dushanbe September 4, 2015. General Nazarzoda was part of the 30 percent opposition quota which was agreed between the government and United Tajik Opposition forces in 1997 after signing the peace accord that ended Tajikistan's civil war. After a gun battle in the streets of Dushanbe that raged into the surrounding mountains, General Nazarzoda and his supporters were killed or arrested.

The country's Supreme Court declared the IRPT a terrorist group September 29, 2015 based on charges brought against them by the Prosecutor General's office. The Supreme Court's ruling officially banned the party from any activities in the country, forced the closure of the IRPT's official newspaper, Najot, and prohibited the distribution of any video, audio, or printed materials related to the party's activities. In September and October, law enforcement officers arrested 23 high-ranking members of the IRPT and as many as 55 of their family members. In an official statement, the Office of the Prosecutor General accused them of involvement in "criminal groups" responsible for organizing attacks on September 4 that killed nine law enforcement officers.

12. Corruption

Tajikistan has enacted anti-corruption legislation, but enforcement is highly selective, and generally ineffective in combating corruption of public officials.

In February, 2016 Tajik Parliament approved new amendments to the Criminal Code, which replaced prosecution of crimes related to giving and receiving bribes with fines. Henceforth, individuals convicted of crimes related to bribery, may be released in return for payment of fines. According to new amendments they have to pay roughly \$25 (200 somoni) for each day of prison term. Tajik officials fighting with corruption believe that this government action is humane. Few private companies in Tajikistan use internal controls, ethics, or compliance programs to detect and prevent bribery of government officials.

Tajikistan's anti-corruption laws officially extend to family members of officials and political parties.

The Tajik government does not require private companies to establish internal codes of conduct that prohibit bribery of public officials. Prosecutions for corruption, including bribery (via a new law on bribery), are primarily politically motivated.

Tajikistan does not specifically provide protection to NGOs involved in investigating corruption. There is a general lack of coordinated public and civil society activism on the issue of corruption.

U.S. firms have identified corruption as an obstacle to FDI, and have reported instances of corruption in government procurement, award of licenses and concessions, dispute settlements, regulations, customs, and taxation.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Tajikistan became a signatory to the UN Anticorruption Convention September 25, 2006. Tajikistan is not party to the OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

Rustami Emomali Agency Head

The Agency for State Financial Control and Fight with Corruption

78 Rudaki Avenue, Dushanbe

992 37 221-48-10; 992 27 234-3052 info@anticorruption.tj; agenti@anticorruption.tj

(The agency requests that contact be made via a form on their website -

www.anticorruption.tj)

United Nations Development Program

39 Aini Street, Dushanbe

+992 44 600-56-00

registry.tj@undp.org

13. Bilateral Investment Agreements

Tajikistan has signed bilateral investment treaties (BITs) with Austria, Azerbaijan, Belarus, China, the Czech Republic, France, Germany, India, the Islamic Republic of Iran, the Republic of Korea, Kuwait, Lithuania, the Republic of Moldova, Mongolia, the Netherlands, Slovakia, Spain, Switzerland, and Turkey. These BITs are in force. It has signed BITs which are not yet in force with Algeria, Armenia, the Belgium-Luxembourg Economic Union, Indonesia, Kazakhstan, Kyrgyzstan, Pakistan, Qatar, the Russian Federation, the Syrian Arab Republic, Thailand, Turkmenistan, Ukraine, the United Arab Emirates, and Vietnam. The link to the most up-to-date BIT information is: <http://investmentpolicyhub.unctad.org/IIA/CountryBits/206>.

Tajikistan's other investment agreements include: the Eurasian Investment Agreement with Belarus, Kazakhstan, Kyrgyzstan, and the Russian Federation (came into force December 2, 2015); the Economic Cooperation Organization Investment Agreement (not yet in force); the European Community-Tajikistan Partnership Agreement with the European Union; the Commonwealth of Independent States Investor Rights Convention with Armenia, Belarus, Kazakhstan, Kyrgyzstan, and the Republic of Moldova; the Energy Charter Treaty; and the Organization of the Islamic Conference Investment Agreement.

Tajikistan currently has bilateral agreements to avoid double taxation with Russia, Belarus, Ukraine, Azerbaijan, Turkey, United Kingdom, Belgium, Bahrain, Kuwait, South Korea, Thailand, Austria, Finland, Luxembourg, and China.

Tajikistan became a signatory to the Trade and Investment Framework Agreement between the United States, Uzbekistan, Turkmenistan, Kyrgyzstan, Kazakhstan, and Tajikistan in 2004, but Tajikistan and the U.S. have not signed either a Free Trade Agreement containing an investment chapter, or a bilateral investment treaty.

Bilateral Taxation Treaties

Tajikistan is one of the former Soviet Republics which are not covered by the CIS Trade Agreement with the Commonwealth of Independent States (CIS), formerly known as the Union of Soviet Socialist Republics (USSR). In 1992, Tajikistan pledged to uphold treaty obligations inherited from the USSR, including the 1973 Income Tax Treaty which entered into force in 1976.

Tajikistan adopted a new national tax code January 1, 2013, but Tajikistan's tax system remains internally inconsistent and administratively burdensome. Investors should be aware that they will be required to pay social security taxes on non-Tajik employee's salaries, and that any financial transfers from parent companies to branches within Tajikistan will be taxed as revenue. Investors who qualify for value-added tax (VAT) exemption on imported materials should be aware that applications for exemption may be submitted January 1 and any exemption granted will expire December 31 of that year, but in practice, exemptions are often not granted until October, leaving a very narrow window to take advantage of the exemption. The exemption is granted retroactively, but the Tajik government has said the Tax Code has no legal mechanism to authorize refunds of VAT paid prior to the exemption being granted.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

The Government of Tajikistan has established four Free Economic Zones (FEZs) that offer greatly reduced taxes and customs fees to both foreign and domestic businesses located in the zones. The legislation for the FEZs has been modified several times since the start of the process, but current law requires a minimum investment of \$500,000 for manufacturing companies, \$50,000 for trading companies, and \$10,000 for consulting and service companies, before being eligible for the preferential tax treatment.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2015	N/A	2014	9,242	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2015	\$10.75	N/A	N/A	

Host country's FDI in the United States (\$M USD, stock positions)	2015	\$1.9	N/A	N/A	Tajikistan is not listed in international or U.S. gov't data sources.
Total inbound stock of FDI as % host GDP	N/A	N/A	N/A	N/A	N/A

*National Bank of Tajikistan and State Statistics Agency of Tajikistan

Table 3: Sources and Destination of FDI

Tajikistan is not included in the IMF's Coordinated Direct Investment Survey. The data in the table below is from the State Statistics Agency of Tajikistan. China is a major source of inward FDI, with the ultimate source being Tajikistan. Available data indicates that Tajikistan has no significant outward direct investment.

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	470.8	100%	Total Outward	0	100%
China	272.6	57.9%			
Great Britain (British Virgin Islands)	68.1	14.5%			
France	36.77	7.81%			
Russia	34.9	7.41%			
Turkey	19.37	4.11%			

"0" reflects amounts rounded to +/- USD 500,000.

Source: State Statistics Agency of Tajikistan

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets					
Top Five Partners (Millions, US Dollars)					
Total		Equity Securities		Total Debt Securities	
All Countries	44.4	100%	N/A	N/A	

Netherlands	35.2	79.3%	N/A	N/A	
Kyrgyz Republic	9.2	20.7%	N/A	N/A	

* State Statistics Agency of Tajikistan

Section 5 - Government

Chiefs of State and Cabinet Members:

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

Legal system:

Civil law system

International organization participation:

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

Section 6 - Tax

Exchange control

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

Treaty and non-treaty withholding tax rates

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

Methodology and Sources

Section 1 - General Background Report and Map

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

Section 2 - Anti – Money Laundering / Terrorist Financing

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

Section 3 - Economy

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

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

Section 4 - Foreign Investment

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

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

Section 5 - Government

Names of Government Ministers and general information on political matters.

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

Section 6 - Tax

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

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

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