IN-DEPTH REVIEW
of the Investment Climate
and Market Structure
in the Energy Sector

TAJIKISTAN

Energy Charter Secretariat
2010
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PREFACE

The investment climate and market structure (ICMS) reports are based on the Energy Charter Process whereby the member states agreed to inform the other member states about their energy market structure and the relevant legislation. Undertaken on a peer review basis the ICMS reports and follow up reviews help implementation of the Charter process and serve the purpose of dialogue and cooperation among the member states. This ICMS report on Tajikistan aims to inform all relevant parties in the Charter process about the current situation regarding the energy market structure and the climate for foreign investments. The report was prepared by the Secretariat with help of the Tajik authorities and in this respect is a product of close cooperation. It covers the basics of market structure in energy sector and entails analysis of legislative framework as well as its implementation currently observed in Tajikistan. Following the presentation of the report in the Investment Group meeting in November 2009 and the discussions thereof, the Investment Group prepared policy conclusions (presented below) to the Government of Tajikistan, which have been endorsed by the Energy Charter Conference on December 9, 2009, in Rome.
POLICY CONCLUSIONS ADOPTED BY THE ENERGY CHARTER CONFERENCE

The Charter Conference,1

Having regard to the Report from the Investment Group with respect to the In-depth Review on Investment Climate and Market Structure of the Republic of Tajikistan

NOTED

a) That the Republic of Tajikistan has undergone a major transformation in the last eighteen years since independence. Tajikistan is a reform oriented country moving towards establishing open market economy principles and the institutional framework for democracy.

b) That the Government has taken many steps towards a better investment climate in general with emphasis on opening the energy sector to foreign investors. Despite these major positive developments, substantial challenges remain including implementation and practice of market reform in the gas and electricity sectors.

c) That the Republic of Tajikistan is endowed with substantial hydroelectric resources and coal reserves which could be developed to meet the internal energy demand and allow exports of electricity to neighbouring countries.

d) In particular:

– Appreciated the intent and the efforts of the Government to manage the passage of the country through a long and difficult transition period, struggling to establish a stable and fully functioning democratic regime based on market principles, and noted that there are recent encouraging developments towards achieving better governance and stability in the country, which would further increase investor confidence, but pointed at the obvious need for expediting the process of implementing the reform programmes and encouraged the Government to take more decisive actions;

– Welcomed the steps taken by the Government to promote private sector development through streamlining business registration, licensing, reducing inspection requirements and strengthen the legal and institutional framework to promote competition and transparency of the privatisation process, but noted that laws are yet often poorly implemented in the judicial system and that investors cite difficulties relating to the effectiveness of the legal system as the major constraint;

– Appreciated that, to alleviate obstacles in attracting FDI into the country, the Government has established an investment-promotion intermediary, the State Committee on Investment and State Property Management as a one-stop shop to assist foreign investors in investing in the country, and the Consultative Council on Improving Investment Climate under the President of Republic of Tajikistan, as a platform for major stakeholders to exchange views and discuss policy implementation and related measures in improving the investment climate of the country;

1 The Conclusions were adopted by the Energy Charter Conference during its regular session in December 2009.
Welcomed the efforts to gradually strengthen the use and the scope of market-based approaches in the energy sector, thus boosting investor confidence, but noted that the reform process remains incomplete, with poor corporate management of the utility companies and prices of electricity and district heating suppressed, thus hampering the gradual transformation of these sectors into profitable entities which could generate savings and attract investments;

Invited the Government of Tajikistan to positively consider ratification of the Trade Amendment to the Energy Charter Treaty in order to promote the Energy Charter process by bringing consistency between the WTO and the ECT;

Took note of the potential role of Tajikistan as one of the mainstays in bridging electricity supply and demand in the region and the wider area, and in this respect acknowledged the role of the country as a supply partner to other countries, by referring to the hydroelectricity generation projects already in service and the ones that are currently being developed, noting the importance of greater transparency in energy sector projects;

Acknowledged that the Tajik Republic is still developing solutions to the difficult task of striking a balance between liberalisation, competition and supply security in the energy sector, and is looking at an acceptable supply-demand balance of energy, including by intensifying regional cooperation, and invited the Tajik Republic to consider more actively the benefits of national, regional and international competitive energy markets, as drivers for new investments while trying not to undermine supply security;

Invited the Government to complete the process of separating government functions by separating responsibilities for policy making and regulation enforcement through the establishment of an independent Regulatory Authority;

Noted that demand-side measures regarding energy savings and efficiency should be strongly addressed in energy policy, and welcomed the recent efforts of the Government in this context;

Invited the Government to consider development of economically viable alternatives to electricity for space heating within the context of energy saving and efficiency improvements.
I. MAIN FINDINGS OF THE SECRETARIAT

Investment Climate

Since its independence in 1991 Tajikistan has emerged as a reform oriented country, aiming at establishing open market economy principles and institutional framework for democracy. The Government of Tajikistan adopted a transition programme from a planned to a market economy which envisages: formation of new economic and social policy, legal support for economic reforms and economic development as a whole, creation of highly effective production, transformation of ownership structure from state-owned to private sector, development of entrepreneurship and formation of a competitive environment.

Tajikistan is facing a highly challenging task of reducing poverty and ensuring sustainable economic growth, taking into account existing constraints in the development of the private sector, slow progress in structural reforms, a fragile macroeconomic situation, difficult investment climate, and Tajikistan’s limited sovereign borrowing capacity because of its high level of foreign debt.

In the last years foreign and domestic investments in the energy sector have been playing a more significant role in GDP expansion. Annual total investment into the economy from all sources reached 23% of GDP in 2008 with 50% of all investment accounted for the energy sector.

Nevertheless, growth of foreign direct investments have been limited by some major problems related to excessive bureaucracy, weaknesses in the judicial system, high and inconsistently collected taxes, weaknesses in corporate governance, corruption and poor regulatory environment. Potential investments have also been discouraged by the small market size, high inflation, political and macroeconomic uncertainties.

The Government of the Republic of Tajikistan is fully aware of the problems and has engaged in a complex reform agenda which aimed at improving state administration, macroeconomic policy, investment climate and regional cooperation. In 2007-2009, the Government worked on the following key areas: 1) implementation of institutional reforms; 2) reduction in overall investment and business risks; 3) lowering barriers for investors and entrepreneurs to enter the market; 4) reducing costs associated with entrepreneurial and investment activities; 5) state support for business and investment.

An important task of improving business climate and enhance foreign direct investment into the country was given to the State Committee on Investment and State Property Management of the Republic of Tajikistan. Within the government the Committee is the central executing body which implements the state policy, develops normative and legal framework in investment sphere, public property management, management and implementation of the process of privatisation of the state property and implements different programmes of support for entrepreneurship. Other important bodies contributing to improving the investment climate are the Donor Coordination Council (development agencies) and Investors’ Council, aimed at establishing a platform for direct dialogue between the decision-makers (President, Prime Minister and key Ministers), local and foreign business communities and donors. It is

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2 These findings were submitted by the Energy Charter Secretariat to the regular session of the Investment Group in November 2009.
anticipated that establishment of the Investors’ Council will directly improve the investment climate by setting concrete targets for each line ministry, introducing necessary regulatory changes, and most importantly, ensuring their implementation.

Tajikistan’s legal framework and investment policy has been improved through the years and some basic rules and principles of the legislation have been established to meet the needs for development of the country’s energy sector. Nonetheless, both the policy and legislation are far from perfect and there are number of problems to be resolved in the near future in order to attract foreign direct investments into the country. In order to improve the business climate Tajikistan has undertaken five reforms from June 2008 up to May 2009 which included facilitated registration of business enterprises, construction permits, and improved allocation of credits, investor protection and bankruptcy procedures. In order to further respond to the challenges the Government endorsed a “200 days reform” programme aimed at improving the business climate in the country. On July 1, 2009, the Government introduced a new law and simplified system for business registration through the so called “one-stop shop” facility. The number of procedures for business registration has been reduced from 13 down to 3. Time for business registration is also reduced from 40-50 days to 5 days and number of required documents is reduced from 7 to 3. The new system is a clear improvement of the business climate.

In accordance with the new “Law on Investment” adopted in 2007, foreign investors are provided with many rights, among which are equal treatment of foreign and domestic investors, free currency transaction, legal protection, and guarantees of the rights in case of nationalisation. The Law states that in case of possible modification and additions to the investment legislation of the Republic of Tajikistan, investors – during five years from the date of the official publication of such changes or additions – have the right to choose the most favourable conditions for them. Nevertheless, the Law also includes certain exceptions in matters that are related to national security, public health, environment and others.

In the transition process of restructuring the economy the most important progress has been made in small-scale privatisation. Price, trade and foreign exchange liberalisation were implemented during the early years of the transition, but remaining barriers such as limited transferability of land user rights and pervasive state controls over the cotton sector have prevented the country from reaching the levels of advanced industrial economies. Less progress has been made in implementation of the more difficult reform areas such as large-scale privatisation, governance and enterprise restructuring, competition policy, banking reform, non-bank financial sector reform and infrastructure reforms.\(^4\)

### Energy Market Structure

The basis of the primary energy balance of Tajikistan is formed by domestic hydropower and imported gas and petroleum. Imports constitute about 59% of primary energy supply. The Government is working towards achieving energy security through development of its internal energy sources. To offset seasonal drops in the production of hydroelectricity more generation capacities are required. The Government has managed to attract foreign investments from Russia, Iran and China into construction of hydro power stations and transmission lines. The future development of Tajikistan’s hydro power reserves and coal resources will help to promote long-term economic growth by allowing the country to

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generate enough electricity to both fully satisfy year-round domestic demand and to export surplus electricity to energy-hungry markets in South Asia.

The energy sector of Tajikistan has a strong potential for development taking into account that: (i) significant infrastructure is already in place, and with incremental investment it can meet domestic demand; (ii) the country’s resource base potential exceeds domestic needs and provides an opportunity for diversification of exports; and (iii) the country is located next to markets with strong demand and interested to buy power from Tajikistan.

Tajikistan developed a strategy based on a two-track approach\(^5\) for the domestic and export markets. The first track focuses on the domestic market, and comprises a set of policy and investment measures aimed to bring the sector to reasonable operating conditions and improve its financial viability. The policy measures include the implementation of (i) a medium-term tariff policy; (ii) a social protection policy for energy services to improve the effectiveness of the scheme and ensure a more targeted approach to support the poor; and (iii) an institutional reform policy for the energy sector to improve transparency and efficiency of operations, enable electricity trade, and pave the way for private sector participation in the sector. The investment measures include implementation of programmes for (i) increased energy efficiency; (ii) demand-side management including a heat supply strategy; and (iii) increasing energy supply to meet winter demand with focus on rehabilitation of existing assets. The second track focuses on increasing electricity exports by (i) using existing seasonal surpluses in the summer, and (ii) attracting private sector investors to join in developing new hydroelectric and thermal power capacities for electricity exports to neighbouring and regional countries.

At the policy and regulatory level, the Fuel and Energy Department in the Office of the President has the oversight of the energy sector and has considerable influence over functioning of the energy entities. The Ministry of Energy and Industry of Tajikistan is responsible for coordinating the Government’s energy policy. The Committee for Anti Monopoly under the Ministry of Economic Development and Trade of Tajikistan regulates the prices of electricity, natural gas and district heating. Major investments into the electricity sector are handled by a Project Implementation Unit which is under the control of the President’s office.

The Republic has no independent energy regulator, and its legal and regulatory structure is imperfect, and in particular suffers from disconnect between legislation and practice.\(^6\) A number of international institutions and bilateral donors provide assistance to the Government in improving the legal and regulatory frameworks.

Subsidised energy, low efficiency of the use of energy carriers, high import dependency (particularly in gas and oil), difficulties in dealing with “losses” in the gas and power systems, non-transparent accounting and delayed payment collections for deliveries of gas and electricity, extensive use of subsidised electricity for space heating are some of the major problems faced in the country.


The Government has not advanced in liberalising the energy market except for the coal industry where small scale privatisations took place. The country faces many challenges in many areas of its energy policy. Tajikistan’s state-owned companies are in poor financial situation but still have a substantial dominance over the market. There are no clear plans for restructuring of the companies in the near future. According to an assessment\(^7\) by the Asian Development Bank (ADB), the state utility “Barki Tojik” is in need of major restructuring. Its organisational structure does not reflect modern utility practice, while the company itself is in poor financial condition following years of below-the-cost tariffs, high losses and poor collection rates. The company needs to be reorganised to reflect the commercial nature of its business.

\(^7\) Asian Development Bank, Report and Recommendation of the President to the Board of Directors, Project Number: 42189, October 2008.
II. INTRODUCTION

II.1. Basic Facts about Republic of Tajikistan

Tajikistan is situated in the southeast of Central Asia between 36°40’ and 41°05’ of the northern latitude and 67°31’ and 75°14’ of the eastern longitude. The territory of Tajikistan occupies 143.1 thousand km². The country is landlocked. It extends 700 km from west to east and 350 km from north to south. Characterised by a complex border line, it is located at approximately the same latitude as Greece, southern Italy or Spain.

Figure 1: Map of Tajikistan

Tajikistan is a mountainous country, with an elevation varying from 330 to 7,495 m. above the sea level. Approximately half of the country’s territory is located above 3,000 m. Mountains are covering about 93% of its area. One third of the country is occupied by foot hills and prairies. Lowland areas are situated in river valleys. Tajikistan is situated in an active seismic zone characterised by frequent earthquakes.

The climate in Tajikistan is continental, with considerable seasonal and daily variations of temperature and air humidity. The average annual number of sunshine hours varies from 2,097 to 3,166 hours. The average annual amount of the solar radiation varies from 151.1 to 176.1 kcal/cm² and reaches 182.9 to 223.9 kcal/cm² on a clear day.

The average annual air temperature in the foothills and valleys varies from +6° to +17°C and is close to 0°C in the high mountains of the Pamirs. The absolute minimum was registered in the Bulunkul in the Eastern Pamirs (-63°C) and the absolute maximum of +48°C in the Shaartuz, southern Khatlon Region. In southern valleys, the average temperature of the hottest month July is +31°C. The rugged relief with large amplitudes of high mountains accounts for the diversity of the climates and temperatures.

The average annual amount of precipitation in Tajikistan is 760 mm; however, the distribution of precipitation is highly uneven. In the hot deserts of Southern Tajikistan and cold high-mountain deserts of the Eastern Pamirs, precipitation varies from 7 to 160 mm/year and in some areas of the southern slope of the Gissar Range the amount of precipitation can be as high as 2,000 mm.

Glacier melting comprises up to 25% of all water resources, constituting a considerable part of the summer flow and reaching up to 50% in dry years. In total, the average annual flow formed in Tajikistan equals 64km³, including 62.9km³ in the Amu-Darya River Basin and 1.1km³ in the Syr-Darya River Basin. The rivers of Tajikistan form 55.4% of the average annual flow on the Aral Sea Basin. The largest rivers in Tajikistan are Vakhsh, Pianj, Kafirnigan, Zeravshan and Syr-Darya rivers.

The country is rich in natural resources, most importantly water and hydropower potential, and some minerals: high quality coal, gold, silver, precious stones and uranium.

### Table 1: Basic Facts

| Area | 143,100 km², of which 400 km² is water |
| Geographical position | Borders Afghanistan (1206 km), China (414 km), Kyrgyzstan (870 km), Uzbekistan (1,161 km) |
| Executive branches | Chief of state: President Emomali Rahmon (November 1994); Head of Government: Prime Minister Oqil Oqilov (since January 1999); Cabinet: Council of Ministers appointed by the President, approved by the Supreme Assembly Elections: President elected by popular vote for a seven-year term; election last held 2006 |
| Independence | 9 September 1991 (from the Soviet Union) |
| Population Capital | 7,163,506 (July 2005 est.) |
| Nationalities | Tajik 79.9%, Uzbek 15.3%, Russian 1.1%, Kyrgyz 1.1%, other 2.6% (2000 census) |
| Official language | Tajik (official), Russian widely used in government and business |
| Main cities | Dushanbe, Khujand, Qurghonteppa, Kyliab, Khorog |
| Climate | Mid-latitude continental, hot summers, mild winters; semiarid to polar in Pamir Mountains |
| Main natural resources | Hydro-resources, gold, uranium, coal, mercury, tin, lead, zinc |
| GDP | $4.1 billion (2008) |
| Exchange rates (as of 06 January 2010) | 1 EUR = 6.32 Som |
| | 1 USD = 4.37 Som |
| Time zone | GMT + 5 hours |


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Figure 2: Administrative Divisions of Tajikistan

Source: State Statistical Committee of Tajikistan

Table 2: Administrative Divisions of Tajikistan

<table>
<thead>
<tr>
<th>Division</th>
<th>Major cities</th>
<th>Area (km²)</th>
<th>Pop (2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sughd</td>
<td>Khujand</td>
<td>25,400</td>
<td>2,132,100</td>
</tr>
<tr>
<td>2. Region of Republican Subordination</td>
<td>Dushanbe</td>
<td>28,600</td>
<td>1,606,900</td>
</tr>
<tr>
<td>3. Khatlon</td>
<td>Qurghonteppa</td>
<td>24,800</td>
<td>2,579,300</td>
</tr>
<tr>
<td>4. Gorno-Badakhshan</td>
<td>Khorugh</td>
<td>64,200</td>
<td>218,000</td>
</tr>
</tbody>
</table>

Source: State Statistical Committee of Tajikistan

II.2. Legislature, Executive and Judicial Branches

The Republic of Tajikistan is a sovereign, democratic, legal, unitary and multinational state. It independently implements external and internal policy and acknowledges the priority of generally accepted norms of international law. The Republic of Tajikistan is a fully legitimate subject of the world community. According to the Constitution, the state governance of the Republic of Tajikistan has the presidential form.

The public authority in the Republic is based on the principle of its division into legislative, executive and judicial authorities. Each of these authorities acts within its power independently.

Legislative Authority

The highest representative and legislative body of the Republic of Tajikistan is Majlisi Oli (the Parliament of the Republic of Tajikistan). Majlisi Oli consists of two Majlis, Majlisi Milli and Majlisi Namoyandagon which are elected for five years. Organisation and activities of Majlisi Oli are defined by constitutional law.

Majlisi Namoyandagon is elected on the basis of universal, equal and direct right of suffrage in secret ballot. Majlisi Namoyandagon is acting on the constant and professional basis. The three fourth part of Majlisi Milli is selected marginally through secret ballot at joint meetings by deputies of local Majlis.

President of the Republic of Tajikistan

The President of the Republic of Tajikistan is the head of the state and the government which is the executive authority. The President is the guarantee of the Constitution and laws, rights and liberties of human beings and citizens, national independence, uniformity and territorial
integrity, succession and lifetime of the state, agreed functioning and interaction of public bodies, observance of international treaties of Tajikistan. The President is selected in secret ballot by citizens of Tajikistan on the basis of general, equal and direct right of suffrage for 7 years. The President of the country is the Commander-in-chief of all military forces of the Republic of Tajikistan.

Executive Authority

The Government of the Republic of Tajikistan (GoT) is the body of executive public power and implements its activities collectively while also heading the system of bodies of public administration to ensure their functioning and coordinated interaction. The Chairman of the GoT is the President of the Republic of Tajikistan. The GoT is comprised of the Prime Minister, its deputies, ministers and chairmen of state committees.

The executive power at the local level is implemented by the representative of the President – Chairman of division, city or district. Local authorities consist of representative and executive bodies. The body of local representative authority in division, cities and regions is the Majlis of national deputies which is elected for 5 years. This body approves local budget, defines strategies of socio-economic development of the region, local taxes and payments as well as measures of management and possession of communal property and others.

Juridical Authority

The juridical authority is vested in the Constitution Court, Supreme Court, Supreme Economic Court, Military Court as well as the courts of Gorno-Badakshan Oblast (GBAO) as well as oblast, city and regions. The juridical authority is independent. It protects rights and liberties of human beings, interests of the state, organisations, agencies as well as legality and fairness. The organisation and order of activities of the courts are defined in the Constitution.

The term of judges is limited to 10 years; all other court members are also elected for 10 years. The Chairman, Deputy Chairmen and members of the Constitution Court, Supreme Court and Supreme Economic Court are selected by Majlisi Oli as advised by the President. All other court members are appointed by the President as advised by the Ministry of Justice. According to the Constitution, interfering with the work of judges is forbidden. Judges are independent in their activities and are reported only to the Constitution and Law.

II.3. Economy

Concerned about the current vulnerability of Tajikistan’s economy to changes in external conditions, the Government has outlined a comprehensive programme of structural and institutional reform aimed at sustaining growth and reducing poverty. This programme was incorporated into the second Poverty Reduction Strategy Paper (PRSP) and has focus on: public sector management reform; development of private sector and attracting investments and development of human potential.

Recognising these constraints on private sector development, particularly on the development of small and medium enterprises, the need to address these issues as part of its poverty reduction strategy, the Government has indicated its intention to develop a comprehensive strategy for private sector development. To sustain economic growth over the medium and long-term, Tajikistan will clearly need to attract investment and further diversify its economy. Realising this potential will require significant improvements in investment climate, not only
in terms of continued modernisation of its legal and regulatory framework but also as regards with institutional capacity to implement the reforms which they were intended to realise.

At present, the national economy depends heavily on exports of cotton, aluminium and on remittances of migrants mostly working in Russia (remittances were estimated at USD 2.3 billion (46% of GDP) in 2008)). The economy grew by a respectable 8% in 2008 despite reduced agricultural (cotton) and industrial output resulting from drought and power cuts. Soaring prices for food and energy items and strong domestic demand pushed inflation up to 20% in 2007; since mid-2008, emerging crisis and reduced remittances brought down inflation by up to 7.8%. The fiscal deficit, including the externally financed public investment programme, remained at the same level as in 2008 (5.5% of GDP), and the stock of public debt declined to 26.7% of GDP.

Remittances have become the most important source of financing the huge trade deficit, increasing incomes, and declining poverty rate. This is illustrated in the graph below. With 67.5% of its population under the age of 29, Tajikistan’s youth will be a main force in determining the country’s economic future and stability.

Figure 3: Remittances and Trade Deficit, 2003-2008 (USD bln, unless otherwise indicated)

Source: Tajik authorities and IMF staff estimates

The World Bank estimated that foreign direct investment is likely to decline, affecting plans for large infrastructure projects. For its part, the Government took some steps towards Balance of Payment adjustment, by allowing depreciation of the Somoni by almost 30% in 2009 and revising fiscal parameters.

Tajikistan’s agriculture output is dominated by the cotton sector which has been experiencing financial and production difficulties over the last years. The large debt of the cotton sector at an estimated USD 450 million was written-off by the Government in 2009. Nevertheless, limited access to finance, low cotton prices, absence of competition in input and output marketing and slow land reforms have led to a decline in the sector.

The global financial crisis had a limited impact on Tajikistan’s financial sector because direct linkages with global financial system are limited. However, remittances are projected to stagnate, and demand to wane for major export commodities, cotton and aluminium. The International Monetary Fund (IMF) estimated that real GDP growth to slow to 2% in 2009. Moreover, the ongoing electricity rationing, if exacerbated by another severe winter, could

10 For details, see IMF Country Report No. 09/174 on Tajikistan, June 2009.
stifle industrial production and agriculture. On the positive side can be stated that the completion of a new hydropower plant (Sangtuda I) in 2009 and small hydro power stations would raise total electricity generation capacity of the country by more than 10%, and thus better support the people and the economy.

Table 3: Main Economic Indicators of the Republic of Tajikistan for 2001-2007

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (million somoni)</td>
<td>2563,8</td>
<td>3375,3</td>
<td>4761,4</td>
<td>6167,2</td>
<td>7206,6</td>
<td>9272,2</td>
<td>12779,7</td>
</tr>
<tr>
<td>Rate of GDP growth (percentage)</td>
<td>9,6</td>
<td>10,8</td>
<td>11,0</td>
<td>10,3</td>
<td>6,7</td>
<td>7,0</td>
<td>7,8</td>
</tr>
<tr>
<td>Inflation (percentage, at year end)</td>
<td>12,5</td>
<td>14,5</td>
<td>13,7</td>
<td>5,7</td>
<td>7,1</td>
<td>12,5</td>
<td>19,7</td>
</tr>
</tbody>
</table>

GDP Structure (percentage to the total amount of GDP)

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production of commodities</td>
<td>60,0</td>
<td>57,4</td>
<td>57,3</td>
<td>50,7</td>
<td>48,9</td>
<td>45,3</td>
<td>43,8</td>
</tr>
<tr>
<td>Tertiary industry</td>
<td>31,0</td>
<td>32,7</td>
<td>32,0</td>
<td>38,3</td>
<td>39,6</td>
<td>43,6</td>
<td>44,1</td>
</tr>
<tr>
<td>Net taxes</td>
<td>9,09</td>
<td>9,9</td>
<td>11,0</td>
<td>10,7</td>
<td>11,5</td>
<td>11,1</td>
<td>12,0</td>
</tr>
</tbody>
</table>

Indicators of state budget with respect to GDP (percentage)

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>15,2</td>
<td>16,9</td>
<td>17,3</td>
<td>17,9</td>
<td>18,1</td>
<td>17,9</td>
<td>28,92</td>
</tr>
<tr>
<td>Disbursements</td>
<td>15,1</td>
<td>16,2</td>
<td>16,2</td>
<td>17,7</td>
<td>19,6</td>
<td>17,4</td>
<td>27,3</td>
</tr>
<tr>
<td>Deficit, Surplus</td>
<td>0,1</td>
<td>0,7</td>
<td>1,1</td>
<td>0,2</td>
<td>-1,5</td>
<td>+0,4</td>
<td>+1,6</td>
</tr>
</tbody>
</table>

External trade turnover (million USD)

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>652</td>
<td>737</td>
<td>797</td>
<td>915</td>
<td>1399</td>
<td>1399</td>
<td>1468,1</td>
</tr>
<tr>
<td>Import</td>
<td>687</td>
<td>720</td>
<td>881</td>
<td>1375</td>
<td>1723</td>
<td>1723</td>
<td>2455,5</td>
</tr>
<tr>
<td>Balance</td>
<td>-35</td>
<td>+17</td>
<td>-84</td>
<td>-460</td>
<td>-324</td>
<td>-324</td>
<td>-987,4</td>
</tr>
</tbody>
</table>

Source: State Committee on Investments and State Property Management of Tajikistan

II.4. Foreign Aid

Like many countries with a transition economy, Tajikistan does not have adequate internal financial resources to modernise its economy, and thus requires support from the world community. Taking note of a considerable progress Tajikistan has achieved during the recent years in political stabilisation and market transformation, the world community has gradually been increasing its assistance and support to the country’s economy.

The loan resources provided are mainly directed at implementation of joint investment projects. Twenty-seven joint investment projects of international financial institutions have been implemented in the Republic for the period 1997 to 2006 within the framework of 32 loan agreements reaching to a total of 390.3 million USD.

As of January 1, 2007 the total portfolio of joint investment projects under implementation included 53 projects. Twenty-eight of them are loan projects and 10 are grant projects of a total of 1361.44 million USD, including 1226.73 million USD in externally attracted funds (90.11%), 98.89 million USD is contribution of the Government (7.26%) and 35.82 million
USD – other resources (2.63%). Loans make up 1077.60 million USD or 87.8% of the total external resources attracted. As for the grants, they make up 149.13 million USD that is 12.2%.

Table 4: Investment Projects Portfolio of IFIs and Donors (Jan. 2007)

<table>
<thead>
<tr>
<th>№</th>
<th>IFIs and Bilateral donors</th>
<th>Million USD</th>
<th>Including: Loan</th>
<th>Grant</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>World Bank</td>
<td>192.18</td>
<td>119.15</td>
<td>73.03</td>
<td>15.7</td>
</tr>
<tr>
<td>2</td>
<td>Asian Development Bank</td>
<td>201.44</td>
<td>198.52</td>
<td>2.92</td>
<td>16.4</td>
</tr>
<tr>
<td>3</td>
<td>Islamic Development Bank</td>
<td>72.68</td>
<td>72.68</td>
<td>-</td>
<td>5.9</td>
</tr>
<tr>
<td>4</td>
<td>Kuwait Fund for Arab Economic Development (KFAED)</td>
<td>29.25</td>
<td>29.25</td>
<td>-</td>
<td>2.4</td>
</tr>
<tr>
<td>5</td>
<td>OPEC Fund</td>
<td>19.35</td>
<td>19.35</td>
<td>-</td>
<td>1.6</td>
</tr>
<tr>
<td>6</td>
<td>Saudi Fund for Development (SFD)</td>
<td>13.90</td>
<td>13.90</td>
<td>-</td>
<td>1.1</td>
</tr>
<tr>
<td>7</td>
<td>Export-Import Bank of the People’s Republic of China</td>
<td>603.55</td>
<td>603.55</td>
<td>-</td>
<td>49.2</td>
</tr>
<tr>
<td>8</td>
<td>Government of Iran</td>
<td>31.20</td>
<td>21.20</td>
<td>10.00</td>
<td>2.5</td>
</tr>
<tr>
<td>9</td>
<td>Government of Switzerland</td>
<td>23.28</td>
<td>-</td>
<td>23.28</td>
<td>1.9</td>
</tr>
<tr>
<td>10</td>
<td>Japan Grant (PHRD)</td>
<td>7.64</td>
<td>-</td>
<td>7.64</td>
<td>0.6</td>
</tr>
<tr>
<td>11</td>
<td>KfW Development Bank (KfW Entwicklungsbank)</td>
<td>10.29</td>
<td>-</td>
<td>10.29</td>
<td>0.8</td>
</tr>
<tr>
<td>12</td>
<td>USAID-AGARHAN-FOKUS</td>
<td>1.10</td>
<td>-</td>
<td>1.10</td>
<td>0.1</td>
</tr>
<tr>
<td>13</td>
<td>DFID (Great Britain)</td>
<td>2.46</td>
<td>-</td>
<td>2.46</td>
<td>0.2</td>
</tr>
<tr>
<td>14</td>
<td>SIDA (Sweden)</td>
<td>9.20</td>
<td>-</td>
<td>9.20</td>
<td>0.8</td>
</tr>
<tr>
<td>15</td>
<td>Catholic Fund</td>
<td>9.20</td>
<td>-</td>
<td>9.20</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td><strong>Total:</strong></td>
<td>1,226.73</td>
<td>1,077.6</td>
<td>149.13</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: State Committee on Investments and State Property Management of the Republic of Tajikistan

II.5. Foreign Direct Investment

Tajikistan has substantial natural resources, including precious and rare metals; huge hydro energy potential, exports of high quality cotton, processed food products and much potential for development of eco-tourism. The priority investments in the economy are: hydro-power engineering; the extraction and processing of precious metals; stones and ores; telecommunication and infrastructure development; cotton processing; and finally, agriculture production.

Tajikistan is also facing a highly challenging task of reducing poverty and ensuring sustainable economic growth, taking into account existing constraints in the development of private sector, slow progress in structural reforms, a fragile macroeconomic situation, difficult investment climate, limited sovereign borrowing capacity because of high level of foreign debt.

Tajikistan has the potential to ensure sustainable economic growth. However, the country has a long way to go to give impetus to and implement effectively the necessary structural reforms, including strengthening of the financial sector, privatisation of large scale state companies, modernisation of its major sectors and physical infrastructure.

In turning these opportunities into reality, Tajikistan is facing serious constraints in the form of weaknesses in the regulatory system and administrative regime governing the business.
These weaknesses are the major obstacles to accelerating foreign direct investments (FDI) and developing the country’s priority sectors. In this regard, the economy has to become more attractive to international investors by way of implementing necessary measures to reduce state interference in businesses, reducing corruption, and strengthening the judicial system.

The GoT’s policy strongly favours FDI, realising that it plays a vital role in the development of the country’s economy. Another priority for economic development in the medium term is the need to ensure the economy’s diversification to reduce heavy dependence on exports of aluminium and cotton. Creation of favourable conditions for FDI, therefore, becomes a crucial issue in the development strategy for forging international partnerships between domestic and foreign enterprises/partners, including small and medium enterprises. FDI inflows will also facilitate the development of private sector companies which is one of the country’s priorities.

According to data from the State Statistical Committee, total FDI in the first nine months of 2008 was $462 million. Of this, $282.9 million came mostly from Russia with investments of $240.8 million and another $179 million came from other countries. In 2007, total FDI was $388.4 million. Between 1997 and 2008, total FDI amounted to $1,421 billion.

Level of investments to GDP is around 23% with priorities in the energy sector which accounted for around 50% of overall investments.

In the first nine months of 2008, the FDI to GDP ratio equalled 9%, down from 10% in 2007.

According to Tajikistan’s official state statistics, the largest foreign direct investors for the first nine months in 2008 were:
- Russia – $240.8 million;
- Cyprus – $70.2 million;
- United States – $17.8 million;
- Great Britain – $3.7 million;
- Switzerland – $2.6 million;
- Kazakhstan – $31.5 million;
- China – $60.0 million; and
- UAE – $1.9 million.

Foreign direct investment by sector over the same period was as follows:
- Energy: $219 million;
- Communications: $49.4 million;
- Banking: $59.6 million;
- Gold mining: $22.4 million;
- Health: $1.1 million;
- Oil and Gas: $4.4 million; and
- Agriculture: $0.3 million.

In June 2009, the Tajik government signed four new deals with China aimed at considerably boosting Beijing’s investment in the cash-strapped country. Under the new deals signed amidst the global economic recession, Chinese companies will invest more than a billion dollars over the next two years to build power stations, power transmission grids and roads in
Tajikistan. The investment package includes US$650 million for the construction of a hydroelectric power station on the Khingob River in eastern Tajikistan, and US$400 million for the construction of a coal-fired power plant in Dushanbe.

The State Committee on Investment and State Property Management of the Republic of Tajikistan is the central executing body, and within its authorities implements state policy and normative and legal regulation in investment sphere, public property management, management and implementation of the process of denationalisation, privatisation of the state property in the Republic of Tajikistan representing the interests of the state as an owner, and conducting activities on implementation of the programmes of support for entrepreneurship.

Promotion and publicising of country’s investment opportunities is carried out primarily through the provision of necessary information and undertaking of relevant image building activities on the sidelines of the Consultative Group and other international donors meetings. The Committee works with IFIs and bilateral donors to address concerns regarding the difficult business environment and lack of effective investor services.

II.6. Business Environment for Investments

The World Bank Doing Business report provides a comparison of global economies on the ease of doing business and private sector reforms. It ranks 183 economies based on 10 indicators of business regulation.

Although Tajikistan has improved its ranking compared to the previous year, the country continues to rank low on most of these indicators. It ranks 152 out of 183 countries. It shall be noted that due to the extensive modernisation of the legal framework the ranking for protecting foreign investors has improved considerably from 151 to 73.

<table>
<thead>
<tr>
<th>Ease of doing business</th>
<th>Doing Business 2010 rank</th>
<th>Doing Business 2009 rank</th>
<th>Change in rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing business</td>
<td>152</td>
<td>164</td>
<td>+12</td>
</tr>
<tr>
<td>Starting a business</td>
<td>143</td>
<td>169</td>
<td>+26</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>177</td>
<td>180</td>
<td>+3</td>
</tr>
<tr>
<td>Employing workers</td>
<td>143</td>
<td>142</td>
<td>-1</td>
</tr>
<tr>
<td>Registering property</td>
<td>78</td>
<td>47</td>
<td>-31</td>
</tr>
<tr>
<td>Getting credit</td>
<td>167</td>
<td>165</td>
<td>-2</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>73</td>
<td>151</td>
<td>+78</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>162</td>
<td>161</td>
<td>-1</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>179</td>
<td>179</td>
<td>0</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>39</td>
<td>41</td>
<td>+2</td>
</tr>
<tr>
<td>Closing a business</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
</tbody>
</table>

Note: Doing Business 2009 rankings have been recalculated to reflect changes to the methodology and the addition of two new countries.

Efforts of the Government to improve business climate in the country are supported by International Finance Corporation (IFC), USAID and other donors. Under financial support from the Swiss Government the IFC implements a project in partnership with the GoT to help reform the business inspection practices and permit procedures. The project focuses on legal reform, reform of inspectorates’ procedures, providing information and training for government agencies, raise entrepreneurs’ awareness about their rights and responsibilities. The project helped the Government to develop a tax amendment to simplify tax administration for individual entrepreneurs, which was passed in May 2008. Other activities included assistance in drafting the Inspections Law and relevant amendments to the Tax Code.

II.7. Trade Liberalisation and WTO Accession

The economic reforms have progressed well since 1995 after the adoption of the resolutions on Foreign Trade Liberalisation in the Republic of Tajikistan on 27 June 1995 and on Liberalisation of Currency and Export Operation on 24 February 1996. Administrative constraints and protective trade measures have been gradually removed. Since 1 February 1996 the quota and licensing system in the country have been eliminated. Later, in February 1997, the obligatory examination of import-export contracts was also abolished. At present Tajikistan’s foreign trade policy is oriented towards developing export potential of the country.

The Government applied a progressive approach to trade liberalisation. Initially, liberalisation covered practically all export categories, except a few items, including cotton and aluminium. During the second stage, 1996-1997, the Government gradually liberalised trade in the two main export items: cotton, aluminium; and established necessary financial institutions, such as the Cotton-Exchange, and the Tajik Universal Commodity and Raw Material Exchange. All these measures allowed an increase of the export potential of the country and stimulated foreign trade. As a result, since 1996 Tajikistan has maintained a positive trade balance, to some extent, and this has led to the normalisation of currency transactions and balance of payments stabilisation.

There are no export and import non-tariff barriers in Tajikistan. Exceptions are exports and imports which have an impact on state security of the country, such as defence, health care, cultural artefacts, antiques and so on. The Government also controls the export and import of electricity and natural gas.

Since independence Tajikistan has created trade-economic links with more than 80 countries all over the world. These trade-economic relations are developed on the basis of bilateral agreements and treaties on trade-economic cooperation, which routinely include a clause on most-favoured nation (MFN) treatment. At the same time, Tajikistan pays attention to the development of relations within the framework of regional trading arrangements and custom unions. Today Tajikistan is a member of the Commonwealth Independent States, Central-Asian Economic Community and others. Membership in such arrangements and organisations provide opportunities to the country to benefit from privileges granted by all member countries.

It is well known that the WTO is the legal and institutional foundation of the multilateral trading system. Under the WTO Agreements, countries cannot normally discriminate among their trading partners. This point is very important for the young and sovereign nation of Tajikistan, which is on its way to establish a democratic and secular state, and market-oriented economy. However, the accession process is a long and laborious process. It requires adoption of a lot of legislative acts, so as to conform the national legal framework to the rules and regulations of WTO.
In May 2001, Tajikistan applied for membership in the WTO and the Working Party on the accession of Tajikistan was established by the General Council on 18 July 2001. This Working Group maintains close contacts with UNITAR and SECO (Swiss State Secretariat for Economic Affairs) for issues related to WTO accession. Bilateral market access negotiations are underway on the basis of revised offers in goods and services.

As mentioned before, the GoT has already established a rather developed legal framework which would meet the world standards. The trade regime in the country is currently sufficiently liberalised. Tariff and non-tariff barriers have been reduced to a minimum.

II.8. Significance of the Energy Sector

The energy sector is critical to maintain current economic activity and to meet the basic needs of the population. It is also an important driver of future economic growth and prosperity. The Government views developing the energy sector as a high priority and confirms its significant development potential for growth and poverty reduction. The Government recognises that in order to attract the level of investment needed it has to move forward with important policy reforms and prioritise its investments. The medium-term energy sector development strategy has identified reduction of losses, in particular commercial losses, and steps to improve the financial viability of the energy sector, including through better cost control and by ensuring that electricity tariffs, which are currently below cost recovery levels as the top-most priorities within the sector. In addition, investments in the energy sector need to be complemented with efforts to improve the institutional efficiency in the sector through reforming corporate governance and implementing modern management systems.

Apart from the Russian Federation, Tajikistan has the highest potential hydro generation of any of the former Soviet Union republics. Its economically feasible potential is estimated to be 263.5 TWh/year, of which only about 6% has been harnessed so far.

Tajikistan has an installed generation capacity of around 4,600 megawatts (MW) of which 95% is hydroelectric power-based. The predominance of hydroelectric energy creates a problem as hydropower production exceeds demand in summer and is reduced in winter when glacial melt is the least and demand is at its peak. As a result, Tajikistan imports electricity and fossil fuels in winter to meet its energy needs, and has excess electricity production during summer.

The electricity sector currently accounts for about 5% of GDP. The electricity sector not only is essential for heating residential areas during winter time but is also the most important input for the country’s two dominant export commodities; aluminium and cotton. Production of hydropower electricity in Tajikistan has a potential to mutually benefit other countries in the region. Through generation of hydropower Tajikistan releases water for irrigation sectors of downstream countries (Uzbekistan, Kazakhstan and Turkmenistan) during summer time which is also the season of peak demand for electricity in southern countries (Afghanistan and Pakistan).

Existing known reserves of oil, gas and condensate is less than 1% of total resources that could be assessed in 1,033 millions tons of reference fuel. High investments required to use technological innovations, to penetrate through difficult mining-and-geological conditions and deposit at depth of more than 5-7 km, are needed for increasing the level of oil and gas extraction. At present, probable reserves of coal are assessed in 4-5 billions tons. Practically,

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stocks of coal fuel are in all districts of the Republic, but most of the deposits are located in regions with difficult access.

In 2008, Tajikistan faced an abnormally cold winter, with temperatures at times reaching minus 25-30 degrees Celsius, aggravating the country’s already difficult energy and economic situation. The unusually cold weather conditions lasted during January and February, resulting in heavy snowfalls and frozen rivers that led to major disruptions in the water and electricity supplies and left mountain villages of Tajikistan in complete isolation and blackout. Tajikistan is a net importer of electricity and therefore highly depends on other countries for electricity imports during winter months. Due to large shortages of electricity in the region secure and adequate imports are not always possible. As a result most of the regions experience electricity blackouts during winters. Construction of new hydro power generation facilities is required to achieve self sufficiency in energy production.

II.9. General Energy Policy

Institutional Set-up in the Energy Sector

Tajikistan has not yet created an independent energy regulator. Instead, different ministries perform functions of a regulator but this set-up is not in line with the best practices observed at international fora. At the policy and regulatory level, the Fuel and Energy Department in the Office of the President has the oversight of the energy sector and has considerable influence over the functioning of the energy utilities. Major investments into the sector are handled by a Project Implementation Unit for a Power Rehabilitation Project that is under the control of the President office. Supervision functions on rational and effective use of energy resources is performed by Tajikenergonadzor Agency. Among other functions the agency monitors quality of electricity supply, technical conditions of generation capacities, energy audit at all enterprises and industries.

The Ministry of Energy and Industry, Tajik Geological Survey, and Ministry for Nature Protection are the major governmental institutions dealing with energy production and use. These institutions manage mineral resources; determine terms and technological parameters of mining; issue mining lease documents and supervise deposit conservation; monitor all terms of natural resource management. The Ministry for Nature Protection regulates sustainable management of energy resources and monitor observance of nature use regulations (emissions, pollution, waste formation, etc).

The Ministry for Energy and Industry is responsible for the implementation of national policy, including licensing, implementation of safety and service standards, and coordination of international activities. The authority of the Ministry also includes some policy-related responsibilities, like analysing energy supply and demand and assessing investment needs and potential investors. The Ministry is charged with monitoring the activities carried out by power utilities. Other responsibilities include: managing all power sector data; determining methods for tariff calculations; determining efficiency and conservation standards.

Tajikistan’s electricity sector is managed by the Joint-Stock Holding Company Barki Tojik (BT) – a vertically integrated utility owned by the Government. The state company is a 100% state-owned electricity energy utility that controls electricity generation, transmission, and distribution within the Republic except for the Gorno-Badakhshan Autonomous Oblast (GBAO). The BT is also engaged in substantial electricity trade relationships with
neighbouring states. The company also owns the Tajik State and Scientific Research Institute “Hydroenergoproject” which is a general design organisation for hydro power projects.

In GBAO, a private company “Pamir Energy (PE)” was established supported by the Aga Khan Foundation for Economic Development (AKFED) and the International Finance Corporation (IFC). PE took over the GBAO electric network from state electricity company Barki Tojik on December 1, 2002, on a 25-year Concession Agreement. This is the first public-private partnership project implemented in Central Asia in the energy sector.

In the natural gas sector, State Unitary Enterprise TajiktransGas (TG) is responsible for import, transmission and distribution of gas in the country. The TG comprises of 17 Regional Gas-Distribution Enterprises (RGE). The enterprise owns and operates the gas supply network.

In the heat sector, three institutions, BT, the Dushanbe District Heating System Enterprise (DHSE) owned by the municipality, and the State Unitary Enterprise of Housing and Communal Services (HCS) are responsible.

In the nuclear sector there is the Nuclear and Radiation Safety Agency (NRSA) at the Academy of Sciences of the Republic of Tajikistan, established on 22 December 2002, which is the state regulatory authority on ensuring radiation safety and radionuclide monitoring. Aside from regulatory functions, the NRSA’s mission also includes accounting, control, and search of radioactive sources, regulation of the use of radioactive sources for peaceful purposes, radiation monitoring, investigations and research in the field of nuclear and hydrogen power engineering, and cooperation with international organisations and foundations.

Energy Strategy and Policy Measures

The Government approved a strategic plan to improve the overall situation in the electricity sector, as part of a general plan to rationalise the availability and utilisation of energy in Tajikistan. The development of fuel and energy complex is aimed at commissioning of new hydropower facilities, conducting geological exploration works, and new oil and gas field developments, also perfection of coal extraction and processing technology, development of renewable energy sources. The Government is taking a two-track approach to the development of the energy sector:

1. The first track focuses on the domestic energy sector, taking a sector-wide approach by covering the electricity, gas and heating sectors. The main goal of this approach is the recovery of the domestic energy sector, for which purpose the GoT is intending to take a series of policy and investment measures.

2. The second track of the development strategy is oriented towards export markets. This strategy envisages the sector’s significant potential to contribute to the country’s economic growth through electricity exports. At present, there are electricity surpluses in the summer which are already being exported to Afghanistan, Kazakhstan, Uzbekistan and Russia. It is intended to intensify these exports and secure more long term contracts for existing surpluses.

A further number of policy measures are also being considered by the GoT to support the implementation of its strategy for the energy sector:

- Revised energy pricing policy: In the power sector, despite tariff increases in the past few years, the current tariffs are quite low compared to the financial viability level of $0.025/kWh in constant terms. The government started gradual increasing of the tariffs
from January 2007 to bring them to cost recovery levels by the end of 2010. The Government takes measures for large consumers, including aluminium smelter TADAZ to pay their debts for electric power consumed and to make advance payments for electricity in the future.

- Loss reduction and improved revenue collection programme: A loss reduction programme sponsored by the WB and SECO is under implementation for the electricity and gas sectors which will initially focus on reducing commercial losses and improving collections. Metering devices will be replaced and modern billing systems will be introduced in the capital. Financial Management Improvement Programme will gradually introduce international accounting standards at electricity and gas utility companies.

- Energy efficiency programme: In 2009, under the President’s order there has been a nation-wide switch to the use of energy-saving lamps.

- Increasing energy supply: Options to increase the energy supply, particularly during the winter months, are being investigated. These include rehabilitation and modernisation of Nurek Hydro Power Plant (HPP), Kairakum HPP, Golovnaya HPP and cascade of Varzob HPPs, which will allow an increase of the installed generating capacity by 550-550 MW. Construction of Sangtuda 1 HPP has been completed in 2009. There is ongoing construction of Sangtuda 2 HPP and Roghun HPP.

The Government is simultaneously focusing on increasing electricity exports for the future, by securing long-term contracts for existing seasonal surpluses, and attracting private sector investors to develop new hydroelectric and thermal capacities for export. The Government has the policy of favouring establishment in the country of Independent Power Producers (IPP) such as Sangtuda 1 HPP financed by Russia and Sangtuda 2 HPP financed by Iran. Among major bilateral donors and investors can be noted Russia, Iran, China, Switzerland and India which have invested into the transmissions systems, rehabilitation of energy infrastructure and metering. Tajikistan has enjoyed strong support from International Financial Institutions (IFIs), namely Asian Development Bank (ADB), World Bank (WB), European Bank for Development and Rehabilitation (EBRD) and Islamic Development Bank (IDB). During the 2007 Development Forum the Government and Donors agreed that there needs to be greater selectivity and sequencing in implementing the potential projects identified to exploit the energy potential, including a thorough analysis of financial viability.

**Primary Energy Production and Consumption**

Tajikistan’s primary energy supply is coming from several prime energy sources with hydro energy holding the majority share of just over one third, while oil products and gas follow in that order. Due to small quantity of local natural gas production and increasing costs of imported natural gas its share as a prime energy resource has also significantly reduced over the last twenty years. The share of coal in the prime energy mix was drastically reduced during 1990-1994.

In overall figures about 38.6% of the total primary energy supply is domestic production and 61.4% is imported. In terms of local production, Tajikistan possesses comparatively small resources of fossil fuels. There are 18 oil and gas deposits, Kanibadam, Airitan, Niyazbek, Kichikbel, etc., and 40 coal deposits, Nazarailok, Shurab, Fan-Yagnob, etc., are explored and registered in the Republic. The coal deposits are sufficient in Tajikistan and make over 4 billion tones. Until the 1990s, from 400 to 800 thousand tones of coal were annually mined in the Republic, while in recent time 20-40 thousand tones, which is less than 5-10% of country’s needs.
The oil and gas industry of the Republic is insufficiently developed. The accessible oil- and gas-bearing levels have been almost entirely exhausted by the present time. Production of oil makes 18-20 thousand tones annually and production of natural gas, 40 million cubic meters. Prospected oil resources need a complex deep boring (5-7 km). The largest gas resources (85%) are accumulated in the south of the Republic. According to expert estimates, oil resources are exploited just for 9.5%, those of gas – 3.5%.
Hydropower is the base for the energy sector of the country. The total capacity of operating power plants is around 5,000 MW, 95% of which are hydropower plants. Tajikistan’s peak energy production was recorded in the early 1990s, when it reached 17 billion kWh/year and has been maintained since then.

Per capita domestic energy consumption, at about 0.5 ton of oil equivalent, is very high given the country’s level of economic development. This is because of the low end-use efficiency and high heating requirements during winter. With the rise in prices of imported natural gas and fuel, households have switched to electricity for heating and cooking, reflecting the fact that electricity is the only form of reliable energy available in the country. Another fact is the Government’s below-the-cost pricing policies which have encouraged such a shift to electricity away from other forms of energy.

The industry sector of the country has still the highest share of final energy consumption in Tajikistan, mainly due to intensive electricity consumption in aluminium production and gasoline consumption by the transport sector.

**Social Protection, Tariffs and Subsidies**

The Government provides budgetary support to poor households to help them cover their utility bills. Money is allocated to poor consumers through a rayon (district) committee. If a consumer meets the criteria, it receives cash equivalent to a maximum value of 150 kWh. This can be paid in cash or directly to the electricity utility company “Barki Tojik”. If the consumer gets the money but does not pay the bill within 6 months, the subsidy is cut-off. Furthermore, if a household is in arrears for over 6 months, the money is transferred directly to the owed utility. The annual cost of this programme is 27 million Somoni (or about $9 million).

As energy tariffs are increasing the GoT has to ensure that: the poorer/vulnerable segments of the population receive energy services deemed necessary for their livelihood in an affordable manner; the social protection measures and mechanisms adopted would minimise the economic distortions in the sector, and ensure that the energy service providers’ costs incurred on account of the Government’s policies are met in a timely and adequate manner; since it is the Government’s responsibility to ensure the financing of the costs of social protection, and to ensure that the quantum of protection is affordable by the Government budget.
III. LEGISLATIVE FRAMEWORK FOR FOREIGN INVESTMENT
IN THE ENERGY SECTOR

III.1. Main Elements of Legislation Relevant to Foreign Investment

III.1.1. Institutional Issues

According to the Constitution (1994) of the Republic of Tajikistan (Article 10), the Constitution possesses supreme legal power, and its norms have direct application. Laws and other legal acts that are contrary to the Constitution do not have legal force. The government and all its organs, officials, citizens, and citizens’ associations are obligated to comply with and execute the Constitution and laws of the Republic. International legal acts recognised by Tajikistan are a constituent part of the legal system of the Republic. In the case of a discrepancy between the laws of the Republic and recognised international legal acts, the norms of the international legal acts are applied. Laws and international legal acts recognised by Tajikistan enter into force after their official publication.

This important provision of legal stability is also reflected in article 4 of the Law on International Treaties of the Republic of Tajikistan which was adopted on 11 December 1999.

III.1.2. Forms of Establishment

Any type of legal entity created, reorganised or liquidated on the territory of the Republic of Tajikistan independent from its activity, organisation, legal form and list of founders (participants) is subjected to state registration. Branches and representative offices of a legal entity independent from the type of property are subjected to recording registration in the order determined by the present Law.

According to the Law “On state registration of legal entity” (April 2003), recording of registration of representative offices and branches of a legal entity is maintained by a registering body. The following documents are to be submitted for registration of representative offices and branches of legal entities:

- application of a legal entity on registration of its representative offices and branches;
- assured by state notary copies of constituent documents of a legal entity which establishes representative office or a branch;
- decision of an authorised agency of a legal entity on:
  - the creation of an official representative office or a branch office;
  - approving of a Provision;
  - appointment of a Head of a Representative office or a branch office;
  - charter of a representative office or a branch of a legal entity;
  - letter of attorney issued to the Director of the Representative Office and branch of the legal entity; and
  - a document conforming location of the branch and representative office of the legal entity.

Data on Representative Offices and branches of the legal entities is included in single state register of legal entities. Extract from a register is issued due to results of recording of registration of the representative offices and branches. Approval of the documents indicated in part one of the present Article and the recording of registration of the representative offices
and branches of the legal entities are implemented in the order and within the term provided by Article 9 of the present Law.

According to Article 15 of the Law, state statistics body based on data submitted by the registering body should include enterprises and organisations of the Republic of Tajikistan into state register as well as data on state registration of the legal entities with awarded identification code of the common classification of enterprises and organisations, classification codes and issue an informational letter awarding the code of common classification of enterprises and organisations.

The business registration has been simplified by the new Law on Business Registration that was signed in May 2009. The Law established the One-Stop Shop for business registration at the Tax Committee and requires all existing businesses to re-register within one year at no charge. The law on state registration of legal entities and individual entrepreneurs is designed to implement streamlined, simplified processes for business entrepreneurship registration, improve transparency, and remove various barriers to create favourable conditions for business development. The new law is estimated to reduce the number of government bodies involved in registration from 4 to 1 through implementation of streamlined, “one-stop-shop” principles, reduce the time required for registration from 49 to 5 days, and decrease the number of documents required from 10 to 6. The new law also removes the requirement for companies to set aside charter capital funds before registration – a significant burden on small businesses – and instead permits such funds to be made available within one year of registration.

### III.1.3. Real Estate

Land in the Republic of Tajikistan is an exclusive ownership of the state. According to the article 11 of the Land Code land tenure of unlimited duration shall be presented to joint venture and associations with foreign investments. And according to article 25 of the Code, plots of land are assigned as time holdings for foreign citizens, persons without citizenship and foreign juridical persons.

According to article 85 of the Code, the state assigns plot of lands for main pipelines (oil and gas) to pipeline enterprises, institutions and organisations to install required infrastructure.

There are no legal limitations on foreign ownership or control of the real estate property.

The law on pledge of movable assets entered into force in March 2005 (except for Chapter 2, which entered into force in 2006) and, most recently, in April 2008, a new mortgage law was enacted, facilitating mortgage lending. A new law on state registration of immovable properties was also enacted in March 2008 and forms part of an overall attempt to reform and supplement legislation regarding immovable property, their registration and security interests relating to the same.

### III.1.4 Taxation

Taxation in Tajikistan is based on the rules and regulations under the Tax Code (TC) of the RT enacted on January 1, 2007 with latest amendments introduced in 2009. Currently the tax system of the Republic is structured in two dimensions: by the type of taxation – direct and indirect taxes and by distribution of tax revenues between the budgets – republican and local tax revenues.

According to article 140 of the Tax Code of Tajikistan, income tax was reduced in 2005 from 20% down to 8 or 13%, depending on the amount of taxable income. The personal income tax rate is applied to both residents of Tajikistan and non-residents. Recent amendments to the
Tax Code (TC) signed on May 19, 2009 reduced VAT to 18%. However, some import goods, such as raw materials, energy and equipment, could be exempted from VAT, subject to the quotas and listings by the Government of Tajikistan. The corporate profit tax applies to resident and non-resident enterprises that are engaged in economic activity and earn profits within Tajikistan. Currently the profit tax rate is 15%.

In overall the TC envisages paying of 20 taxes, 16 of which are republican and 4 are local taxes. Enterprises with foreign investments can either have a share of foreign participation or 100% of foreign capital. However all these enterprises should be registered in tax authorities of the Republic of Tajikistan as taxpayers in line with the rules and procedures of registration under the TC. Consequently, enterprises have to pay all taxes envisaged by the tax legislation of the Republic. For the purpose of taxation it is necessary to distinguish enterprises with participatory interest of foreign investment and foreign legal entities. If investment is carried out through participatory interest in capital of a resident’s enterprise, then these investments go under the regime of the unlimited tax liability. If separate subdivisions of foreign legal entities are created, then they bear limited tax liability in relation to their activities in Tajikistan. Taxation of profits of the foreign legal entity is carried out based on the TC but considering the application of international treaties on avoiding double taxation.

The object of taxation is the gross revenue received from the source in the RT and decreased by the sum of expenditures (deduction) carried out during the tax reporting period and related to receiving such a profit. Taxable income is reduced for expenses related to payment of the established taxes with account of limitations envisaged by the TC, expenses for labor payment, provision of workers with material and social benefits imposed to profits tax, expenses related to payment for the purchased raw, materials, energy except for substantial expenses. Doubtful debts, scientific research expenditures, project developments, development-based engineering works, depreciation charges on the fixed assets and others are subject to deduction (with account of certain limitations under the TC). The deduction is carried out by the taxpayer having properly prepared documents confirming expenses related to getting the gross revenue. Profit tax of the non-resident is collected from the source of the profit payment in the RT.

In 2007 the Government introduced special tax regimes in the TC in order to attract investors to the priority sphere of economy – generation of hydro electric power. The TC provides that for the period of construction of the Hydro Power Stations (HPS) on the territory of Tajikistan, the Client and the General Contractor of the construction are exempted from the following taxes that are directly related to construction: (1) value added tax; (2) tax paid by the highways users; (3) profits tax of juridical persons; (4) enterprise minimal income tax; (5) land tax; (6) tax paid by owners of transport means; (7) immovable property tax; (8) social tax from persons directly employed in construction and being not the citizens of the Republic of Tajikistan; (9) national duty for registration of the issue prospectus of the non-state securities, implemented in view of construction of the HPS.

Suppliers and subcontractors of HPS construction are also exempt from the following taxes: the VAT, the tax paid by the users of highway directly subjected to imputation with regard to construction of the HPS and from social tax with regard of persons directly employed in construction of the HPS and not citizens of the Republic of Tajikistan for the period of construction.

According to the TC, royalties shall be a charge paid by a user of mineral resources separately for each type (for all types) of minerals extracted on the territory of the Republic. Payers of royalties shall be users of mineral resources engaged in the extraction of minerals, including the extraction of minerals resulting from industrial processing.
Among all type of minerals, royalties are in particular applicable to petroleum, natural gas, gas condensate, coal and oil shale. Royalty rates for hydrocarbons shall be established on a sliding (gradual) scale as percentage, determined in accordance with the extraction volume in physical units of measure and/or the value of the extraction volume, based on one of the following two methods:

- based on the volume of cumulative extraction and/or the value of cumulative extraction of hydrocarbons for the entire period of operation specified in the contract;
- based on the volume of cumulative extraction and/or the value of cumulative extraction for each individual year of operation under the contract.

The Government established a system of tax, customs and other incentives for development of the national hydro power sector (see Annex 2 table 2 for details).

III.1.5. Investment Protection

Guarantees and Rights

According to the Civil Code (Article 1) and the Law on Investment there is no legal discrimination against foreign companies and entities. Practically all of Tajikistan’s international agreements have a provision for most favoured nation status.

A new version of Tajikistan’s Law “On Investments” (the “Law”) which was adopted in May 12, 2007 had replaced the Law “On foreign investments in the Republic of Tajikistan” dated March 10, 1992. The Law regulates relations related to investment activities, investment protection, state support for investments through provision of fair, equal regime and guarantee of protection of rights of investors on the territory of the Republic.

According to the Law, foreign investments can be made by:

- Owning a share in existing companies, either jointly 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;
- Concluding agreements with legal entities and citizens of Tajikistan providing for other forms of foreign investment activity.

Article 4 of the Law stipulates that the state guarantees equal rights for foreign and domestic investors, not admitting discrimination with regard of investors based on their citizenship, nationality, language, sex attribute, race, religion, place of conducting economic activities as well as the country of origin of investor or investments. Major provisions in the current Law allow: guarantees of investment protection and rights of investor; defines state support for investor and investments; describes requirements for investors; outlines settling investment disputes.

Article 5 of the Law stipulates that, in case of amendments in the investment legislation, investors have during five years from the date of official publication of such amendments the right to select conditions which are more favourable for them. The investor has the right to get compensation for
the damage caused through issuing acts by state bodies which do not correspond to legislative acts of the country and as well as through implementation of non-legal acts by officials. The state shall guarantee stability of contracts concluded between investors and authorised state bodies except for cases when the amendments are made as agreed by parties.

Article 7 of the Law provides guarantee of the right of travelling for foreign investors, guarantees of the right of using revenues through opening bank accounts, transfer abroad their incomes and salary in foreign currency. In case of suspension of investment activities not through the investor’s fault, the latter has the right to be compensated for his investments and income generated, in form of money or goods at real cost at the day of the suspension of the investment activities. Article 8 allows free currency exchange and transactions with exception to certain restriction related to preventing money laundering.

Tajikistan has a liberal exchange system; in general, there are no restrictions on converting or transferring funds associated with an investment into freely usable currency. Foreign exchange is widely available, and somoni (local currency) is freely convertible at banks and exchange offices.

Article 11 of the Law provides guarantees for investors’ right at nationalisation and requisition that is possible in the event of natural calamities, accidents, epidemics and other cases of emergency. The size of compensation for the nationalised or requisitioned investment property shall be defined based on market cost of the property. Compensation shall be realisable, carried out according to timelines coordinated by the parties and paid in freely convertible currency.

Other articles of the Law allow subrogation of investors’ rights to other persons through guarantee of insurance contracts; guarantee on taking property and information; confirm rights of investors on the objects of intellectual property; rights on use of natural resources; and guarantee for investors who reinvest their proceeds.

As for the dispute settlement Article 22 provides that investment disputes shall be settled in accordance with conditions envisaged by the agreements between the parties. Further option is given to take disputes to Courts of Tajikistan and also to the international arbitration which are defined as agreed by parties in accordance with legislation acts of Tajikistan and international legal acts.

For more details on state guarantees on investment see Annex 8, Table 1.

Privileges and Preferences

Under the investment legislation, investment preferences could be provided in the form of corporate profit tax holidays for FDI:

- FDI of up to $500,000 – exemptions for two years;
- $500,000-2,000,000 – for three years;
- $2,000,000-5,000,000 – for four years;
- $5,000,000 or more – for five years.

Intellectual Property Rights

In Tajikistan, the Government agency dealing with the application of intellectual property rights is the National Centre for Patents and Information.
Patents, trademarks and copyrights are governed by the following legislative framework:

- Law of the Republic of Tajikistan on Inventions;
- Law of the Republic of Tajikistan on Industrial Designs;
- Law of the Republic of Tajikistan on Trade and Service Marks;
- Law of the Republic of Tajikistan on Copyright and Related Rights.

Tajikistan has joined the following international treaties:

- World Intellectual Property Organisation treaties;
- Berne Convention for the Protection of Literary and Artistic Works, since March 2000;
- Convention Establishing the World Intellectual Property Organisation, since December 1991;
- Locarno Agreement Establishing an International Classification for Industrial Designs, since December 1991;
- Madrid Agreement Concerning the International Registration of Marks, since December 1991;
- Nairobi Treaty on the Protection of the Olympic Symbol, since December 1991;
- Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, since December 1991;
- Paris Convention for the Protection of Industrial Property, since December 1991;
- Patent Cooperation Treaty, since December 1991;
- Rome Convention, since May 2008;
- Strasbourg Agreement Concerning the International Patent Classification, since December 1991; and

The National Centre for Patents and Information is the Government agency that deals with patents, established under Resolution No. 243 of 28 May 1993. The Centre holds the authority to protect industrial property in the territory of Tajikistan in line with national legislation and the international conventions and treaties of which Tajikistan is a member.

*Investment-related Legal Acts*

Over the last five years the GoT has undertaken an extensive reform of its legal framework which is presented below as a summary of the most recent changes:

- On 5 January 2008, the country adopted the long-awaited Arbitration Law, which fills in the gaps in the regulation of arbitration in the Republic and provides for a regime for enforcement and execution of domestic arbitration decisions;
- Amendments to the Law on Limited Liability Companies, signed by the President on October 6, 2008, allowed reducing the minimum capital requirement from 8,000 somoni to 500 somoni;
- The Law on Credit History was signed on March 25, 2009 allows for creation of a private commercial credit bureau licensed by the National bank;
• Amendment to the Law on Joint Stock Companies, signed on May 19, 2009, strengthened minority shareholders’ rights, provided requirements for greater disclosure in related-party transactions and increased liability of company directors for prejudicial or harmful transactions;
• Amendments to the Law on Insolvency were signed on May 2009 allowed to reduce the maximum time period for an insolvency court case.

At present following legal reforms are in progress:
• Permit reform aimed at reducing unnecessary administrative burdens;
• Establishing a single window for export and import procedures to easy trade;
• Establishing a credit bureau to facilitate access to finance; and
• Tax reform to improve service.

III.1.6. Environment

The State Committee on Environmental Protection was established in 1989, which was later transformed into the Ministry for Nature Protection of the Republic of Tajikistan (in 1994). Thus, a specialised authorised environmental institution was organised and is now operating in the country.

For fulfilment of obligations to the UNFCCC (articles 4 and 12 UNFCCC) Tajikistan’s National Action Plan includes the following measures on reduction of GHG emissions and enhancing of natural sinks of carbon:
• Enhancement of energy efficiency in relevant sectors of the national economy;
• Application of effective technologies and use of energy sources in the national economy that promotes high rates of economical growth and reduce or limit greenhouse gas emissions;
• Protection and enhancement of natural sinks and reservoirs of greenhouse gases;
• Promotion of sustainable forest management practices and reforestation;
• Promotion of sustainable forms of agriculture in the light of climate change considerations;
• Research on, promotion, development and increased use of, new and renewable energies, advanced, innovative, and environmentally sound technologies.

The following laws are adopted in Tajikistan to protect the environment and to provide sustainable nature resource management:
• Law on Nature Protection (1994);
• Law on Animal World Conservation and Use (1994);
• Law on Mineral Resources (1994);
• Law on Air Protection (1996);
• Law on Protected Areas (1996);
• Law on Energy (2000);
• Law on Energy Saving (2002);
• Law on Production and Consumption Waste (2002);
• Law on Hydrometeorological Activities (2002);
• Law on Ecological Expertise (2003);
• Land Code (1996);
• Forest Code (1996);
• Administrative Code (1996); and

The above laws and legal acts determine both the standards of allowable impacts on the environment and the procedures of punishments for the excessive harmful pollution and waste formation. Law on Nature Protection imposes a system of penalties for damages caused to nature.

Considering the urgency of the global environmental problems and their close relation to local conditions and environment, the Republic joined and ratified a number of important international agreements, including:

• Vienna Convention for the Protection of the Ozone Layer (1996);
• Montreal Protocol on Substances that Deplete the Ozone layer and the London Amendment (1997);
• UN Framework Convention on Climate Change (1998);
• Ramsar Convention on Wetlands (2000);
• Aarhus Convention on Access to Information, Public Participation in Decision-Making Processes, and Justice in Environmental Matters (2001);
• Stockholm Convention on Persistent Organic Pollutants (2002); and
• Kyoto protocol (2009).

III.2 List of Investment-related Laws / Regulations in the Energy Sector

The Constitution of the Republic of Tajikistan declares that “the earth, its resources, water, the atmosphere, flora, fauna, and other natural resources are the exclusive property of the state, and the government guarantees their effective utilisation in the interests of the people.” Accordingly, Tajikistan owns all the petroleum resources under the land mass under its jurisdiction. All exploration and production activities in the energy sector require approvals and licences from the national authorities.

Law on Concessions (May 1997)

This law establishes main principles of doing concession economic activity within the Republic and identifies legal, economic, and other relationships related to this activity.

According to the law, concession is an agreement allowing a foreign investor the take on for temporary operation on specific terms state-owned enterprises (associations), land with the right to extract mineral wealth, to build sites, and to use water resources, water and air space, flora and fauna, and other natural resources not prohibited by legislation of the Republic of Tajikistan. According to article 13 of the Law, a concession agreement may be concluded for a period not exceeding 50 years, depending on technical-economic characteristics of concession objects. Exceptional are deposits of mineral resources demanding major
investment. Duration of the concession agreement for mineral resources may last as long as it is necessary to fully exploit the deposit but not longer than 99 years. When the concession agreement expires, the concessionaire, who has conscientiously fulfilled the agreement conditions, has a principal right to prolong a short and medium-term agreement.

According to article 10, procedures for granting concessions are implemented through tenders. In exceptional cases, in accordance with discretion of the Government, granting concessions is performed through direct negotiations between concession bodies and potential investors.

Law on Energy

The adoption of the Law on Energy was the first action under sector reform and was finalised on 29 November 2000. This Law sets out the legal regulation of the energy sector on the basis of market, institutional and information mechanisms, in the interests of ensuring the sector’s reliability and development, as well as the interests of consumers. The Law stipulates that the main goals of the national policy in the energy sector are, “the creation of conditions, necessary for the gradual transition of the energy sector to market relations, attraction of domestic and foreign investments, provision of energy enterprises with economic independence and their development on the basis of market competition”. It lists the competencies of the Government and the Ministry of Energy in regulating the sector, and stipulates the main principles of such regulation.

The regulatory authority is mentioned in the Law on Natural Monopolies of 13 December 1997. This Law states that the regulation of the natural monopolies through price regulation, by setting tariffs, or defining their upper limits, is carried out by a special national body authorised by the Government.

Law of the Republic of Tajikistan “On Licensing of Separate Types of Activity”

The Law (May 2004) determines the types of activity subject to licensing, determines legal basis for issue of a license with the right to implement separate types of activity and is directed on maintenance of standards and qualifying requirements necessary for the implementation of types of activity, provides protection of interests and safety of people, society and state.

The following basic terms are applied in the present Law:

- License – special permission for the implementation of a specific type of activity under the obligatory maintenance of licensing requirements and conditions which is issued by a licensing body to a legal entity or individual entrepreneur;
- Licensing type of activity – is an activity the implementation of which on the territory of Republic of Tajikistan requires license according to the present Law;
- Licensing – arrangements related to license issue, re drawing of documents conforming the availability of license, interrupting and renewal of license, cancellation of license and control of licensing bodies over the maintenance of corresponding licensing requirements and conditions by licensee when implementing licensed types of activity;
- Licensing requirements and conditions – total of requirements and conditions implementation of which is obligatory, which are determined by the Provision on peculiarities of licensing of separate types of activity;
- Licensing bodies – bodies of executive power implementing licensing according to the present Law; Licensee – is a legal entity or individual entrepreneur with a license to implement a specific type of activity;
• Competitor of a license – is a legal entity or an individual entrepreneur who applies to a licensing body with an application on providing a license for the implementation of a specific type of activity;

• License register – total of data on license issue, re-drawing of documents confirming the availability, suspension, renewal and cancellation of a license.

In accordance with the Energy Law, licensing of power generation, transmission and distribution facilities is carried out by the Ministry of Energy. The licensing procedure is set out in the Regulations on Licensing of Services in the Energy Sector, approved by Government Resolution No. 591 of 30 December 2001.

At present, each type of activity in the energy sector requires a separate licence, and only in exceptional cases may the Ministry of Energy, at its own discretion, issue a general licence. For each licence, the applicant is obliged to present a separate set of documents, in accordance with a specific list of necessary information, along with any other information as may be required by the Ministry.

The regulations state that the period of validity of a licence may vary depending on the type of services, again leaving it to the discretion of the Ministry to decide. Further, the licence fee is not set by the regulations, but is defined on a case-by-case basis by the Ministry of Energy in consultation with the Ministry of Finance.

In December 2008, Parliament of Tajikistan introduced an amendment to the Law on Natural Resources which allows exploration and processing of uranium by foreign companies.

Below is a list of major national laws and acts that facilitate development of the energy sector of Tajikistan:

• Order # 1350 “About redemption of tax payment for small hydro power plants and objects of no conventional power sources” (1992);

• Law “About nature protection”(1994);

• Resolution on State Energy Oversight in the Republic of Tajikistan (1996);

• Decree on monopolies (1998);

• “Law on Energy” (2000);

• Regulation and Concept Document Concept On Development of Oil and Energy Sectors of Tajikistan for 2003-2015 (2002);

• “Concept of Development of Fuel and Energy Complex of RT for period of 2003-2015” (2002);

• Law “About energy savings” (2002);

• Law “Energy Efficiency” (2003);

• Resolution on Strategic Plan for Privatisation, of Medium and Large Enterprises and the Restructuring of Natural Monopolies and Especially Large Enterprises for 2003-2007 (2003);

• Law on Licensing of Certain Types of Activities (2004);

• Law on State Enterprise (2004);

• Tax Code Establishing a special tax regime for construction of power stations (2004);
• Law Amendments to the Law on Energy (2005);
• Law and Regulation on Peculiarities of Licensing of Certain Types of Activities (2005);
• Law on the Competition and Restriction of Monopolistic Activity on Commodity Markets (2006);
• Law on Natural Monopolies (2007);
• Complex Programme “On Wide Use of Alternative Energy Sources” (2007); and
• Law on Alternative Energy Sources (2010).

III.3. Summary of Participation in International Organisations and/or Conventions, Treaties and Agreements

Tajikistan is a member of the many international and regional organisations. The selected list of these organisations is presented below:

• United Nations;
• Central Asian Regional Economic Cooperation;
• Eurasian Economic Community;
• CIS Energy Council;
• Shanghai Cooperation Organisation;
• World Trade Organisation (observer);
• Asian Development Bank;
• World Bank;
• International Bank for Reconstruction and Development;
• Multilateral Investment Guaranty Agency;
• Multilateral Investment Guarantee Agency;
• International Atomic Agency; and
• International Development Association.

Within the context of bilateral and multilateral relations the Government of Tajikistan signed agreements on promotion and mutual protection of investments with 23 countries (see annex 6 for a complete list).


Tajikistan has concluded bilateral agreements on avoidance of double taxation and prevention of delinquency in payment of taxes on profits and revenues with 12 countries, the list complete list of which is provided in the annex 7.

In 1993 Tajikistan became a member of the International Association on Investment Guarantees. Tajikistan is not a party to the International Centre for the Settlement of Investment Disputes (Washington Convention) and to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.
In-depth Review of the Investment Climate and Market Structure in the Energy Sector of Tajikistan

IV. ENERGY MARKET STRUCTURE AND PRIVATISATION

IV.1. Electricity Sector

IV.1.1. Production and Consumption

The electricity sector is managed by the state-owned joint stock company, Barki Tojik. About 95% of the power supply is based on large hydro power plants (HPP), which produce less energy during winter than summer. Combined with a higher energy demand, this fact leads to power shortages during winter. As a result though practically all settlements are equipped with the system of electricity transmission, during winter time (from October till April/May) electricity is supplied for only 2-6 hours per day (1-3 hours in the morning and 1-3 hours in the evening). In summers the electricity supply is fully available to all customers.

The problem is aggravated by the fact that a significant portion of Tajikistan’s power sector infrastructure is in poor condition as a result of under-investment which has contributed to increased commercial and technical losses of nearly 17% of the generating capacity. Total volumes of production and losses are presented in the table below:

Table 6: Electricity Production and Losses of Electricity in Tajikistan

<table>
<thead>
<tr>
<th>Generation</th>
<th>Unit</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydro Generation</td>
<td>GWh</td>
<td>16,839</td>
<td>16,528</td>
<td>16,960.6</td>
</tr>
<tr>
<td>Thermal Generation</td>
<td>GWh</td>
<td>119</td>
<td>228</td>
<td>379.7</td>
</tr>
<tr>
<td>Total Generation</td>
<td>GWh</td>
<td>16,958</td>
<td>16,756</td>
<td>17340.3</td>
</tr>
<tr>
<td>Total Stations Own Use</td>
<td>GWh</td>
<td>45</td>
<td>56</td>
<td>68.5</td>
</tr>
<tr>
<td>Total Stations Output</td>
<td>GWh</td>
<td>16,913.4</td>
<td>16,700.3</td>
<td>17,271.8</td>
</tr>
<tr>
<td>Total Export</td>
<td>GWh</td>
<td>798.2</td>
<td>948.5</td>
<td>696.3</td>
</tr>
<tr>
<td>Total Import</td>
<td>GWh</td>
<td>1,042</td>
<td>1,556.8</td>
<td>1,057.1</td>
</tr>
<tr>
<td>Manufacture Needs</td>
<td>GWh</td>
<td>-</td>
<td>-</td>
<td>18.7</td>
</tr>
<tr>
<td>Total Delivered to Domestic Market</td>
<td>GWh</td>
<td>17,157.4</td>
<td>17,308.6</td>
<td>17,340.8</td>
</tr>
<tr>
<td>Total Technical and Unbilled Losses</td>
<td>GWh</td>
<td>3,048</td>
<td>2,769</td>
<td>2,940.1</td>
</tr>
<tr>
<td>%</td>
<td>18%</td>
<td>16.0%</td>
<td>17.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Barki Tojik

Electricity production in 2007 was recorded at 17,340 GWh with overall losses reaching 17%. Consumption levels by the different consumer groups reflected in the graph below:

Figure 6: Electricity Consumption by Consumer Categories, 2007

Source: Barki Tojik
IV.1.2. Electricity Tariffs

In the tariff determination, the revenue requirement to cover general establishment and administrative expenses, repair and maintenance, depreciation, and costs are determined by Barki Tajik’s planning department and are submitted to the Anti-Monopoly Committee under the Ministry of Economic Development and Trade for approval.

The Ministry of Economic Development and Trade and electricity company Barki Tajik have agreed on an approach to tariff rationalisation and increase. Several years ago tariff categories have been reduced to five customer groups and favourable tariffs for low-usage customers and special summer and winter tariffs for TALCO were eliminated. Over the last several years the Government has been increasing national tariffs with latest increase by 20% has taken place on January 1, 2010. Nevertheless, further tariff rationalisation and increases are required in order to eliminate cross subsidies and reach cost recovery levels. In the table below presented tariff structure for different consumers:

**Table 7: Electricity Tariffs as of January 1, 2010**

<table>
<thead>
<tr>
<th>№</th>
<th>User categories</th>
<th>Diram per kWh</th>
<th>*US cent per KWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Industrial and non industrial users</td>
<td>21.3</td>
<td>5.0 US cent</td>
</tr>
<tr>
<td>2</td>
<td>Tajik Aluminium company (Talco)</td>
<td>8.2</td>
<td>2.0 US cent</td>
</tr>
<tr>
<td>3</td>
<td>Pumped irrigation and electricity transport</td>
<td>5.7</td>
<td>1.3 US cent</td>
</tr>
<tr>
<td>4</td>
<td>State organisations and communal services</td>
<td>8.5</td>
<td>2.0 US cent</td>
</tr>
<tr>
<td>5</td>
<td>Residential customers (VAT included)</td>
<td>9.0</td>
<td>2.1 US cent</td>
</tr>
</tbody>
</table>

*Exchange rate used 1 US cent = 4.3 diram as of January 2010

Source: Ministry of Economic Development and Trade of Tajikistan

IV.1.3. Generation Facilities and Networks

An overall installed capacity is around 5,000 MW. The annual average power generation of the hydropower plants is 15-17,000 GWh. The Nurek hydropower plant of 3,000 MW installed capacity is the biggest in Central Asia. It has the seasonal-storage reservoir of 10.5 billion m³, and it regulates the Vaksh flow for the irrigation needs in the Amu Darya basin countries. The Nurek hydro structure operates in the irrigation regime in the beginning and in the middle of the growing season (June-July). The Kairakum HPP, on the Syr Darya River, also operates in the irrigation mode, meeting the interests of the downstream countries. Table 8 below shows all major hydropower stations of Tajikistan.

Over the last several years the Government has managed to attract foreign investments into the electricity sector from Russia, Iran and China. The investments were channelled into the construction of two important hydro-electric plants Sangtuda I HPP (Russia), Sangtuda II HPP (Iran) and the construction of south-north transmission lines (China).

In 2009, Sangtuda I Hydropower Project was completed. The station is located downstream of the existing Nurek hydropower cascade on the Vaksh river. The construction of this project has commenced during the Soviet era and was suspended in 1992 due to lack of funds. The construction resumed after signing of an inter-state agreement with Russia. The installed capacity on this scheme is 670 MW and annual electricity generation is around 2,700 GWh. About 60% of the generation would be in the summer months (April to September) while the
remainder would be during winter. The total cost of the project was around some USD $670 million. 75% of shares of the project belong to the Government of Russia, with the remaining 25% owned by the Tajik Government.

**Table 8: Hydroelectric Generating Plants**

<table>
<thead>
<tr>
<th>Generator</th>
<th>Location (River)</th>
<th>Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nurek</td>
<td>Vakhsh</td>
<td>3,015.0</td>
</tr>
<tr>
<td>Sangtuda 1</td>
<td>Vakhsh</td>
<td>670.0</td>
</tr>
<tr>
<td>Baipaza</td>
<td>Vakhsh</td>
<td>600.0</td>
</tr>
<tr>
<td>Golovnaya</td>
<td>Vakhsh</td>
<td>210.0</td>
</tr>
<tr>
<td>Kairakkum</td>
<td>Syrdarya</td>
<td>126.0</td>
</tr>
<tr>
<td>Perepadnaya</td>
<td>Vakhsh</td>
<td>24.0</td>
</tr>
<tr>
<td>Centralnay</td>
<td>Vakhsh</td>
<td>15.0</td>
</tr>
<tr>
<td>Varzob 2</td>
<td>Varzob</td>
<td>14.4</td>
</tr>
<tr>
<td>Pamir I</td>
<td>Gunt</td>
<td>14.0</td>
</tr>
<tr>
<td>Khorog</td>
<td>Gunt</td>
<td>10.0</td>
</tr>
<tr>
<td>Varzob 1</td>
<td>Varzob</td>
<td>7.5</td>
</tr>
<tr>
<td>Varzob 3</td>
<td>Varzob</td>
<td>3.5</td>
</tr>
</tbody>
</table>

*Source: Barki Tajik*

**Table 9: Thermal Power Generating Plants**

<table>
<thead>
<tr>
<th>Generator</th>
<th>Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dushanbe</td>
<td>230</td>
</tr>
<tr>
<td>Yavan</td>
<td>180</td>
</tr>
</tbody>
</table>

*Source: Barki Tajik*

In 2009, the Ministry of Energy and Industry of Tajikistan reported that around 55% of construction works have been completed at Sangtuda 2 power station (220 MW) which is funded by the Government of Iran. The project has been financed by Government of Iran with US$180 million loan and US$40 million is the contribution from Government of Tajikistan. Annual production of electricity would be around 1 bln kWh. The station is undertaken on Build, Operate and Transfer contract. All profits during 12.5 years of the station operation would belong to the Government of Iran to recover the respective share of investment. After this period the station would be transferred to the ownership of Government of Tajikistan.

The Government continues construction of highly important Roghun hydro power station. This project is located upstream of the existing Nurek hydropower cascade on the Vaksh river. The project was planned to be constructed in two phases with an ultimate installed capacity of 3,600 MW. The construction of the project commenced during the Soviet era when all the construction machinery was assembled, construction site was established, and diversion tunnels and most of the excavation needed for the project was completed at a cost of $800 million (as estimated by Tajik authorities). Since 1992 up to 2006 no further progress had been made for lack of funds. The incremental costs required to complete this project are about $2.1 billion. In 2006, the Government
has resumed the construction out of national budget. In January 2010, the Ministry of Finance of Tajikistan has issued shares of Roghun power station which can be purchased by legal entities and citizens of the Republic of Tajikistan. It is anticipated to raise required funds for completion of the project phase I which involves construction of the dam to two-thirds of its final height, repairing two existing tunnels; building a third new tunnel; creating the regulating reservoir and installing two generation units. The electricity output of this Phase I would be about 4,300 GWh, and it would also enable the generation of an additional 400 GWh at Nurek. The funds needed to complete this Phase I are estimated at $785 million. Phase II involving completion of the dam to its full height of 335 meters and installation of additional power capacities of 2,800 MW is expected to cost $1.67 billion. After completion of Phase II, the whole Rogun scheme would generate roughly 13,000 GWh and the additional generation at Nurek would increase to 1,300 GWh. The full project costs of the project are estimated by Tajik authorities at about $2.9 billion.

In 2009, the Government of Tajikistan and China concluded investment package that includes US$650 million for the construction of Nurabad I hydroelectric power station (350 MW) on the Khingob River in eastern Tajikistan, and US$400 million for the construction of a coal-fired power plant in Dushanbe. These power stations will be constructed by China Theban Electric Apparatus Stock Co LTD (CTEAS).

For a detailed list of major energy sector investment projects see the Annex 5.

Tajikistan’s power grid consists of three separate systems: the northern, the southern, and the Gorno-Badakshan systems. The country’s northern and southern networks were not directly interconnected until December 2009. The recently completed project financed by China involved construction of 500 kV transmission line between south and north of the country.

The overall length of the electric transmission lines is 4,268 km, including 226 km of 500 kV HV lines, 1,203 km of 220 kV lines and 2,839 km 110 kV lines.

There are two 500 kV lines running from the Nurek Power Station to the 500/220 kV Regar Substation, and a connection from there to the 500 kV system in Uzbekistan. In December 2009, the Government of Uzbekistan announced its withdrawal from parallel operation to the Central Asia Power System (CAPS). Since then, the Tajik electricity system operates in an autonomous regime. Tajikistan is also connected to Afghanistan via a 110 kV transmission line operated at 35 kV. This line is used for limited electricity exports to Afghanistan. A map that shows transmission lines of Tajikistan is provided in the Annex 3.

There is an ongoing project CASA 1000 to boost the export of electricity from Tajikistan and Kyrgyzstan to South Asia, especially Afghanistan and Pakistan. The respective countries signed an agreement to implement a US$500 million electricity connection between Central Asia and South Asia. In the first stage, the project would transfer around 1,300 MW from Tajikistan and Kyrgyzstan to Pakistan and Afghanistan. Through a signed Memorandum of Understanding all four countries confirmed the feasibility and scope of the project which comprises:

- Construction of a 750 km High Voltage Direct Current (HVDC) transmission system between Tajikistan and Pakistan via Afghanistan;
- a DC-AC converter station in Kabul;
- AC transmission link between Kyrgyzstan and Tajikistan to supply South Asia with Kyrgyz electricity via Tajikistan; and
- Establishment of overall institutional framework for regional electricity trade.
In this regard, the parties agreed to establish an Intergovernmental Council (IGC) which will provide the policy oversight, the Secretariat established under the IGC is located in Kabul and bears responsibility for further project development. International financial organisations such as the Asian Development Bank, Islamic Development Bank and the World Bank have been approached by Central Asia – South Asia Regional Electricity Market (CASAREM) countries to consider financing this project.

IV.2. Natural Gas Sector

IV.2.1. Production and Consumption

Natural gas is the second most important energy carrier in Tajikistan. The gas sector operated by state-owned vertically integrated “TajiktransGas” company which has 1,030 km of gas transmission pipelines, 30,000 km of distribution network, 23 high pressure and 172 medium pressure distribution stations to handle the gas supply. The gas supply system is divided into two parts. In the south, gas is received from Uzbekistan from the western side through the Kelif – Dushanbe pipeline. In the north, the transmission line is part of the gas transmission system from the west to the east of Uzbekistan.

The domestic production of natural gas provides less than 5% of the total annual supply of about 500 to 550 million cubic meters (MCM) to the country. The rest (95%) of the supply is through imports from Uzbekistan.

Exploration and production of natural gas is handled by state company Tajneftegas. It is a production enterprise that produces gas at two fields located in South Tajikistan – the Khoja-Sartez gas field in vicinity of Kulyab town and the Beshtentyak gas field. These two fields are connected by the trunk gas pipeline Beshtentyak – Kulyab and Khoja-Sartez – Kulyab. At present the two gas pipeline systems of the South work separately but the company is transforming oil-pipeline Kalininabad – Beshtentyak into trunk gas pipeline, which will connect the gas field Beshtentyak with the Southern trunk gas-pipeline system. Besides, a new trunk gas pipeline Khoja-Sartez – Sarinabad is being designed, which in future will connect the Southern trunk gas pipeline system with the Khodja-Sartez gas field.

In 1990, gas production rates neared 90 thousand ktoe. Lack of investment in exploration and production has resulted in gas production rates decreasing over 4 times between 1990 and 2005.

**Figure 7: Natural Gas Production in Tajikistan in 1990-2005 (ktoe)**

![Natural Gas Production in Tajikistan in 1990-2005 (ktoe)](source: International Energy Agency)
There are approximately 278,500 consumer connections for gas supply. About 30% of the total households in Tajikistan have access to natural gas supply network. About 56% of the total household consumers are in the southern part of the country and the remaining 44% were in the northern part. The largest concentration of households with gas supply (107,472, or 39% of total) is in Dushanbe. The share of households in the total consumption is about 51%. The share of the other consumers such as industries excluding TADAZ, budget organisations, agricultural and commercial consumers is about 49%.

<table>
<thead>
<tr>
<th>Table 10: Gas Supply and Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator</td>
</tr>
<tr>
<td>Gas Balance</td>
</tr>
<tr>
<td>Gas Import</td>
</tr>
<tr>
<td>Losses</td>
</tr>
<tr>
<td>Trunk Pipelines Total Losses</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>Distribution Technical Losses</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>Distribution Commercial Losses</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>Total Losses</td>
</tr>
<tr>
<td>%</td>
</tr>
</tbody>
</table>

Source: TajiktransGas

As indicated in Table 10 above overall technical and commercial losses are reaching 17%, which is considered to be very high by international standards. With support from the World Bank and the Government of Switzerland, the Tajiktransgas Company is implementing Loss Reduction Programme for the Gas sector. This project has allowed installing bulk and individual gas meters to almost all customers. Further activities of the project would include introduction of international accounting standards and installation of modern billing systems.

IV.2.2. Gas Tariffs

The tariff structure is based on imported price of natural gas from Uzbekistan. According to a supply agreement Uzbekistan supplies natural gas to the border of Tajikistan at a price of 231 USD per 1000m³ in 2010. TajiktransGas utility company is responsible for distribution and delivery of natural gas to the end users. TajiktransGas sets national tariffs which are approved by the Antimonopoly Committee under the Ministry of Economic Development and Trade.

<table>
<thead>
<tr>
<th>Table 11: National Gas Tariffs as of January 1, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>№</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
</tbody>
</table>

Exchange rate used 1 USD = 4.37 somoni as of January 2010
Source: Ministry of Economic Development and Trade of Tajikistan

12 Compared to this access to electricity is available to 100% of the households in the country.
IV.2.3. Gas and Oil Exploration

In Tajikistan, first exploration of oil and gas started in 1964 year. In 1990 the rate of production for oil reached 145 thousand tons. Lack of investment in exploration and production have resulted that the oil production rate decreased by more than 6 times from 1990 to 2005. This is illustrated in Figure 8 below.

![Figure 8: Crude, NGL Feedstock Production in 1990-2005 (ktoe)](image)

*Source: International Energy Agency*

In order to boost local production, the Government invited international petroleum companies to participate in exploration and development of the gas and oil resources of Tajikistan.

On 15 May 2003, GoT and Open Stock Company Gazprom Russia concluded an agreement of a strategic partnership in the gas sector. Aim of the agreement is to launch a seismic research, exploration, development and operation of gas reserves (Rengan and Sargazon) located in Tajikistan. In addition, the agreement includes construction, reconstruction and operation of gas networks and other related infrastructure of the gas sector of Tajikistan, establishment of distribution network of gas stations, training and increasing qualification of Tajik specialists at a training base of OAO Gazprom with further employment at objects of oil and gas complex of the Republic of Tajikistan. The company received licenses for following perspective oil-and-gas bearing areas:

- East Supetau (prospective stocks of oil – 5 million tons, gas – 14.9 billion m³);
- Rengan (prospective stocks of gas – 35 billion m³);
- Sargazon (expected resources of free gas – 30 billion m³);
- East Olimtai (prospective stocks of oil – 5.2 million tons, gas – 1.2 billion m³); and
- Square Yangazyk (on tentative estimations of 25 billion m³ of free gas).

Another significant development in the energy sector of the country was marked by signing the first Production Sharing Contract (PSC) between Government of Tajikistan and Tethys Petroleum Limited in 2008. The final area awarded to Tethys’ subsidiary Kulob Petroleum Limited (“KPL”) under the PSC is approximately 34,785 km² (8.6 million acres). The area under the PSC (The “PSC Area”) is in the south-western part of Tajikistan and surrounds and includes the original Kulob Area, a large highly prospective region which has existing oil and gas discoveries but which has seen limited exploration to date. The PSC Area includes the Khatlon Region and the
area around the capital city, Dushanbe and includes more than 50 different prospective structures which have already been identified in the area by Tajik Geology.

Tethys Petroleum Limited announced\textsuperscript{13} that the PSC Area has considerable potential for oil and gas condensate. The area includes almost the entire Tajik portion of the Afghan-Tajik basin, an extension of the prolific Amu Darya basin which contains giant and supergiant gas and gas condensate fields in nearby Turkmenistan and Uzbekistan.

A proven hydrocarbon system exists in the PSC Area but only limited exploration has taken place in the past. Several reservoir horizons are present and both sweet light oil and gas condensate has been produced. Salt tectonics dominate the southern part of the area where numerous salt domes provide the potential for substantial hydrocarbon traps. Figures produced by the US Geological Survey in 2006 estimate the mean un-risked resources for the Afghan portion of the Afghan-Tajik basin (which lies to the south of the PSC Area), to be some 1.5 billion barrels of oil, 8.1 trillion cubic feet (230 billion cubic meters) of gas and 370 million barrels of Natural Gas Liquids.

The PSC Area includes several oil and gas condensate discoveries and KPL carries out both appraisal and rehabilitation of these deposits as well as exploration for new targets. The rehabilitation activities are aimed at establishing early cash flow whilst exploring for high potential deeper prospects. Under the PSC, KPL will recover 100\% of its costs from up to 70\% of total production (the maximum allowed under the newly approved production sharing legislation of Tajikistan) and the remaining production (termed “Profit Oil and Gas”) will be shared 70\% by KPL and 30\% by the Government whose share includes all taxes, levies and duties. The terms are fixed over the life of the PSC which is twenty-five years. Amendments to certain legislation to allow introduction of PSC have been passed in both houses of the Tajik Parliament.

**IV.3. Coal Sector**

The country currently produces approximately 40 000t coal every year, which is insufficient for the country’s annual need of 2 Mt. The coal production rates have come down by ten times from the level of 467,000 tons in 1990 to 40,000 tons in 2005. This is illustrated in the Figure 9 below.

![Figure 9: Coal and Coal Products Production in 1990-2005 (ktoe)](source)

\textsuperscript{13} Press statement issued on 13 June 2008.
The country possesses several large coal fields containing high grade coking coal as well as lignite. Development of these coal fields only occurred during the Soviet Era and production as since ceased due to lack of investment and of a market.

Tajikistan’s potential coal reserves are estimated at 3.6 billion tons of which 714 million tons are considered proven reserves. Most of the coal is of a very high industrial quality with calorific values in the range of 8,000 to 9,100 kcal/kg. There are also brown coal deposits with calorific values in the range of 6,500 to 7,000 kcal/kg. The deposits also include very high quality anthracite. In Tajikistan at the present day are surveyed and partly studied more than 36 deposits and coal fields. Below is a breakdown between different coal deposits that have having industrial importance:

- brown coal – 144,5 mln. t;
- coking coal – 904,9 mln. t;
- mineral carbon – 2292,7 mln. t;
- anthracite – 254,8 mln. t;

Total: 3597 mln. t.

The coal industry is in a poor condition, mostly due to the complete degradation of mining equipment and transport, lack of financing and working capital, and an ineffective system for managing the industry. However, it is believed that with marginal investments in safety-related matters and equipment rehabilitation the production could easily go up to the level of 400,000 tons per year. On a heating value basis, coal is much less expensive than electricity or gas for space heating and cooking purposes. There is a great deal of unmet heat demand in rural areas which rely on bio-mass or the scarce electricity. In the context of the need for reducing demand for electricity for space heating and cooking, the Government has invited foreign investors to participate in reviving of the coal industry.

The state company TajikAngisht owning the coal mines had been abolished in January 2003 and the department of Coal in the Ministry of Energy and Industry had been given the responsibility to corporatise the coal mines and have them privatised. Currently there are 14 small scale commercial enterprises engaged into coal production in the country.

The key aspects of the state’s role in promoting the coal industry are:
- To focus on the development of the associated road and rail transport systems and provide fiscal incentives to the coal distribution and retail trade;
- To ensure that coal business is conducted on an environmentally-friendly basis;
- To implement pilot projects to promote the use of energy efficient coal-fired stoves for space heating and cooking;
- Promote the use of coal for the district heating systems of small towns and clusters of apartment blocks.

Within the intermediate term coal development programme (2005-2010) priorities are:

- Industrial development of a deposit of coking coal and construction of chemical recovery enterprises on the basis of the Fon-Yagnob deposit; and
- Industrial development of a deposit of anthracitic coal of Nazarailok and brown coal of Ziddi deposit.
To offset seasonal variations in domestic production of hydro-power, the Government has decided to construct a coal-fired power plant near Fon Yaghnob coal mine. The project seeks to generate enough electricity to both fully satisfy year-round domestic demand and to export surplus electricity to energy deficient markets in South Asia. The Government of USA agreed to fund a feasibility study that shall examine the level, quality, and mine-mouth costs of the coal reserves at Fon Yaghnob and determine whether or not they are sufficient to support a coal-fired power plant.

Table 12 shows the estimated volume of financial resources that is required from 2007 and up to 2015 to revive the coal industry in the country, according to the Tajik Ministry of Energy and Industry.

Table 12: Investment Requirements for Key Coal Mines (in USD mln)

<table>
<thead>
<tr>
<th>Names of enterprises</th>
<th>Budget financing</th>
<th>External financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section construction “East” deposit Fon-Aygnob</td>
<td>19,0</td>
<td>-</td>
</tr>
<tr>
<td>Plant construction by production of coke</td>
<td>-</td>
<td>4,44</td>
</tr>
<tr>
<td>Section construction and mine “Ziddi”</td>
<td>-</td>
<td>19,05</td>
</tr>
<tr>
<td>Section construction and mine “Nazar-Aylok”</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Ministry of Energy and Industry of Tajikistan

It is estimated that the necessary financing is: budgetary funds – USD 63,39 million and external investment – USD 147,79 million.

IV.4. Nuclear Sector

Tajikistan has considerable resources of uranium ores. Starting in 1945, and until the 1990s, uranium ore from deposits in Tajikistan was milled into yellowcake at a uranium production facility in Chkalovsk, known as Leninabad Mining and Chemical Combine (Leninabad Mill). The facility was most recently operated by Vostochnyy Rare Metal Industrial Association, and is usually referred to as Vostokredmet for short. Since 1990 there been no exploration of uranium ores in Tajikistan. In December 2008, the Parliament of Tajikistan introduced amendments to the national legislation to allow exploration and processing of uranium by foreign companies.

While Tajikistan has no operational nuclear reactors, there are radiation sources on Tajikistani territory that were used for industrial applications in the Soviet era. Moreover, due to the country’s extensive role in the Soviet uranium production complex, Tajikistan has 10 waste sites with uranium tailings. According to estimates, these sites have millions of tons of process residue tailings, which present a great health hazard to the population and the environment. The Government is working with international institutions to address this problem.

IV.5. Renewable Energy Sector

In 2007, within the “Complex programme on wide use of alternative energy,” the Government assigned the Academy of Science to establish a special Centre and design office for research
and development for technological solutions for the generation of alternative energies. The overall programme has several time-phased components:

- **Phase 1**: Timeframe 2007-2009; State financing is US$ 87,000
  
  Research in the area of compiling cadastre for alternative energy sources; review of effectiveness taking into account geo-climatic conditions, development of new devices, materials and technologies for energy generation. It is also envisaged to establish a data bank of alternative energy sources; international cooperation on alternative energy.

- **Phase 2**: Timeframe 2010-2012; State financing is US$ 290,000
  
  Continue research; production of samples of high efficiency devices for energy generation; establishment of an industrial base for production lines; focus on capacity building of human and technical potential.

- **Phase 3**: Timeframe 2013-2015; State financing is US$ 1,450,000
  
  Continue research; industrial production of high efficiency devices for alternative energy generation.

The programme is financed from state budget by 25.4%. The rest of the financing shall be attracted from international partners and private sector. The programme is supervised by the Academy of Science. Main programme coordinator is the Physical-technical Institute named after Y. Umarov under the Academy of Science of Tajikistan. A map for renewable energy sources of Tajikistan is provided in the Annex 4.

**IV.5.1. Small Hydro**

The largest energy source for Tajikistan is clearly hydroelectric power. The low cost for development of hydroelectric power in Tajikistan makes other energy sources less competitive. The large HPPs are under construction (presented in chapter IV.1.4) on the big rivers would be used for supply of electricity to large industrial centres, cities and settlements. However, extending transmission facilities and transferring electricity from large HPPs to small settlements scattered in mountain territories is not be economically profitable. For such settlements, located near to the small rivers and streamlets, it is expedient to use also micro HPP with a capacity from 10 up to 100 kW and small HPP with a capacity from 100 up to 1000 kW. In combination with other alternative energy sources, such micro and small HPPs can become more efficient sources of power supply. A map for hydro power potential of Tajikistan is provided in the Annex 2.

Local specialists conducted an extensive research that covered 530 big and small rivers of Tajikistan, with total length of 14,316 km. The rivers in length of 10-25 km are attributed to categories of small rivers. It is estimated that development of only 10% from the energy potential of the small rivers in middle mountainous and high-mountainous zones will allow power supply up to 70% of the settlements and agricultural entities. Only in Rasht zone there is an opportunity for construction of more than 100 small HPPs.

The Government and donors have been funding construction of small hydro stations. The Asian Development Bank (ADB) funded a programme for the construction of small hydro stations in Tajikistan. Since the beginning of 2007, two plants have been commissioned in the Rasht Valley:

- Dushokhzamin plant in the Nurobod district; and
- Kalandak plant in the Rasht district.
The construction of another two plants is ongoing.

The IDB funded the construction of eight small power plants in rural areas of Tajikistan. The loan of US$ 9.3 million provided by the IDB will support the construction of another five small hydropower stations in the rural area of Tajikistan:

- 2750 kW Marzich station (Ayni district in Sughd);
- 667 kW Sangikor station in the Rasht district (northeast of Tajikistan);
- 600 kW Fathobod station in Tojikobod (northeast of Tajikistan);
- 850 kW Pitavkul station in Jirgatol (northeast of Tajikistan); and
- 100 kW Shahboloi station in Nourobod (eastern Tajikistan).

The United Nations Development Programme (UNDP) and German Agro Action have also funded the construction of several small hydropower stations in Tajikistan. The Government allocated US$ 2.4 million to utility company “Barqi Tojik” for construction of following small hydropower plants:

- 360 kW Khorma station in Baljuvon (Khatlon);
- 500 kW Toj station in Shahrinav (central Tajikistan);
- 700 kW Shirkent station in Tursunzoda (central Tajikistan).

A number of bilateral donors (Switzerland, Germany and Japan) supported the construction of mini hydropower plants in Tajikistan.

The Ministry of Energy and Industry reported that 43 new small hydro power stations with capacity from 4 up to 400 KWt have been put into operation since beginning in 2009. Total overall number of small hydro power has reached 190 units with overall installed capacity of 14 MWt. Out of them, 96 stations working all year-round and remaining 94 stations function during the autumn and winter seasons. Construction of another 23 small stations is continued and will be completed in 2010.

**IV.5.2. Solar and Wind**

There is no industrial solar energy capacity in Tajikistan but the climatic conditions of Tajikistan are very favourable for using solar energy. Utilisation of available solar energy in Tajikistan could satisfy as much as 10-20% of national energy demand. The estimated solar potential is about 25 billion kWh/year in Tajikistan. The majority of the potential is not exploited; however, Tajikistan does utilise some of their solar resource for water heating purposes (Kabutov, 2007).

Total solar radiation at a clear sky reaches 7,500-8,000 MJ/m². Intensity of direct solar radiation changes from 1.30 up to 1.7 cal/ cm²/minute. These parameters are much higher in mountain territories, especially on East Pamir where the population has limited opportunity to utilise hydro power resources. The least duration of solar light is marked in the mountain areas described by significant overcast weather over the year and the closed relief (Dehavaz – 2097 hours, glacier Fedchenko – 2116 hours). The greatest duration of solar light (more than 3000 hours per year) is observed in the south of the country (Pianj – 3029 hours) and on the East Pamir (lake Karakul – 3166 hours). These territories are the most suitable for use of solar energy.

The following maps display Tajikistan’s insolation values throughout the country. The majority of the country has significant solar radiation.
There is no industrial wind energy capacity in Tajikistan; however, supplementing the dominant hydropower with wind energy carriers is justifiable in certain regions. The strongest winds blow in highland regions, such as Fedchenko and Anzob, and where the landscape of the country favours convergence of air flows, such as in Khujand or Fayzabad. The annual average wind speed in these regions is around 5-6 m/s. Lower average wind speeds of 3-4 m/s are found in the open lowlands and wide valleys. In other lowlands the mean annual wind speed may not exceed 1-2 m/s, which would not be useful for wind energy generation.

The most promising areas are the Pamirs northward the Sarez Lake in the Gorno-Badakshan, Turkmenistan ridge in the Zeravshan river headwater and the region from the Vakhsh ridge to the boundary with Afghanistan. A map displaying the wind velocities throughout the country can be seen in Figure 12 below.
IV.5.3. Biomass

Tajikistan possesses the potential to use agricultural wastes as an energy source. It is estimated that Tajikistan has the potential to produce around 2 billion kWh/year of electricity from biomass sources (Kabutov, 2007). The most promising option of biomass utilisation is biogas generation by means of anaerobic fermentation of manure. A few experimental biogas generators currently operate in Tajikistan. In addition, there is the potential opportunity to produce energy by a thermo-chemical method of biomass conversion using cotton residues.

Tajikistan has good range of solid bio-mass sources such as wood, sawdust, grass cuttings, domestic refuse, charcoal, agricultural waste, dried manure and cotton sticks. The last two are most important raw biomass in a suitable form. It can be burn directly in a stove or furnace to provide heat. A major source of solid bio-fuel is cotton sticks remaining after harvesting a cotton fibre. In 2008 Tajik farmers have planted 253,000 hectares of cotton. Each hectare of planted cotton has around 100,000 cotton plants which are used for heating of rural houses during winter time. There are few enterprises in Sughd region of Tajikistan that take biomass in an inconvenient form (such as sawdust, coal chips, grass, agricultural wastes) and pelletise the biomass with a pellet mill. The resulting fuel pellets are easier to burn in a pellet stove.

In agricultural areas of Tajikistan it is possible to use bio mass (wood, kizyak, brushwood, others) for thermal energy. It is estimated that application of bio mass has a paramount value in housekeeping for ¾ of the population of the Republic. In the countryside, where there is no access to natural gas the biogas technology is very promising. According to experts, wide introduction of biogas technology using the waste products of animal industries, or agricultural and household waste products, can provide an annual reduction of emissions of methane of 5-8 thousand tons/year. Table 13 below displays the biomass resource production and production density in Tajikistan.

---

### Table 13: Tajikistan Biomass Resource

<table>
<thead>
<tr>
<th>Biomass resource type</th>
<th>Total production (avg. 2006-2007, km²)</th>
<th>Production density (avg. 2006-2007, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total land area covered by</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arable Land</td>
<td>7,300</td>
<td>5</td>
</tr>
<tr>
<td>Permanent Crops</td>
<td>1,000</td>
<td>1</td>
</tr>
<tr>
<td>Permanent Meadows and Pastures</td>
<td>37,690</td>
<td>26</td>
</tr>
<tr>
<td>Forest Area</td>
<td>4,100</td>
<td>3</td>
</tr>
<tr>
<td>Other Land</td>
<td>89,870</td>
<td>63</td>
</tr>
<tr>
<td>Inland Water</td>
<td>2,590</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total primary crops (rank among COO)</strong></td>
<td><strong>3,294,553 (10)</strong></td>
<td><strong>2,302 (7)</strong></td>
</tr>
<tr>
<td>Wheat</td>
<td>618,500</td>
<td>432</td>
</tr>
<tr>
<td>Potatoes</td>
<td>616,800</td>
<td>431</td>
</tr>
<tr>
<td>Seed cotton</td>
<td>429,973</td>
<td>300</td>
</tr>
<tr>
<td>Watermelons</td>
<td>236,100</td>
<td>165</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>231,000</td>
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<tr>
<td>Onions, dry</td>
<td>208,000</td>
<td>145</td>
</tr>
<tr>
<td>Vegetables fresh nes</td>
<td>150,500</td>
<td>105</td>
</tr>
<tr>
<td>Maize</td>
<td>148,250</td>
<td>104</td>
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<tr>
<td>Carrots and turnips</td>
<td>129,100</td>
<td>90</td>
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<tr>
<td>Grapes</td>
<td>111,850</td>
<td>78</td>
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<tr>
<td><strong>Animal units, number</strong></td>
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<tr>
<td>Cattle</td>
<td>139,494</td>
<td>975</td>
</tr>
<tr>
<td>Poultry</td>
<td>247,550</td>
<td>1730</td>
</tr>
<tr>
<td>Pigs</td>
<td>600</td>
<td>0.42</td>
</tr>
<tr>
<td>Equivalent animal units</td>
<td>141,936</td>
<td>992</td>
</tr>
<tr>
<td><strong>Annual roundwood production</strong></td>
<td><strong>9000</strong></td>
<td><strong>63</strong></td>
</tr>
<tr>
<td>Fuel</td>
<td>9000</td>
<td>63</td>
</tr>
<tr>
<td>Industrial</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Wood-based panels</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Paper and paperboard</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recovered paper</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

*Source: Food and Agriculture Organisation of the United Nations*
IV.6. District Heating Sector

Provision of heat for the households and public and private buildings in winter in Tajikistan is a necessity because the average January temperature on the plains ranges from +3°C to -1°C, and minimum temperatures could be as low as -10°C to -15°C. In the high mountain areas the winter temperature is notably lower. The cold period lasts for about 165 days between October and March in Gorno-Badakshan Region and for about 135 days between November and mid-March in other parts of the country.

The existing heat generation and supply infrastructure in Tajikistan was developed during the Soviet times. Capital of Tajikistan, Dushanbe, has one co-generation thermo power plant and several large district heating systems. Several secondary cities have city district heating with hot water supplied from heat-only-boiler (HOB) plants. The heat is supplied to customers only during winter months from November through March. The system worked more or less satisfactorily until the beginning of the 1990s, since Tajikistan received sufficient amounts of natural gas, fuel oil, and electricity from neighbouring Soviet Republics. In addition, coal was produced within Tajikistan and was supplied to the domestic market.

Currently quality of service of the centralised heating systems is in poor condition. The two main heat generators, Dushanbe and Yavan CHP, are in highly dilapidated condition. Only recently the Government provided financing for rehabilitation of Dushanbe CHP and aluminium company “Talko” has provided funds for rehabilitation of Yavan CHP. Besides the CHPs there are 181 heat boilers in the country but majority are out of operation.

As a result of the drastic declines in the levels of service in centralised heating systems, and encouraged by the universal access and low prices, electricity has become the main source of space heating, complemented by gas and coal where available.

The provision of heat services to the population of Tajikistan is the biggest strategic challenge that the Government faces in the energy sector. Estimates suggest that up to 50% of the population’s energy consumption is for heat purposes. Another challenge is that the electricity system does not have the capacity or the network strength to cope with the additional demand in the winter time, thus leading to frequent failures in the system.

The systems have poor efficiency and various other operational problems include high levels of leakages, due to external and internal corrosion of pipes as well as insufficient pipe insulation, and the use of old technology. In systems with high water losses, make-up water has to be added. Where water treatment is not adequate, poor quality of make-up water corrodes the pipes from the inside. Heat losses are also typically high due to inadequate insulation. In DH systems, pipelines have been installed under and above ground.

The dominant mode of network operation in Tajikistan has been constant flow regime. Basically, constant flow means that heat supply and heat demand are being adjusted by manually varying the flow temperature, typically in the range of 70-130°C, based on the ambient outdoor temperature. Hot water, usually both for space heating and domestic hot water, is transported through pipeline networks to substations from where heat is distributed to consumers. The substations may be located within the individual buildings or, larger ones, serve a group of buildings through secondary networks, which typically involve four 4 pipes – two for space heating and two for domestic hot water. Those secondary networks usually experience high losses, and the technical lifetimes of those networks are short. The water circulating in the DH network is introduced
directly to the consumer installations, i.e., building pipes and radiators. In these systems the hot tap water is supplied directly from the DH pipes to the customers.

No heat or hot water metering exists in residential, commercial and public sector buildings in Tajikistan. Therefore, consumers are not able to regulate the heat supply. The lack of regulation and metering resulted in too low or too high room temperatures and further losses of heat from the opening of windows to cool the sometimes overheated rooms. Typically, heating pipes supplying radiators within buildings are vertically arranged one or two-pipe systems. In the more common one-pipe systems, the hot water flowing through one radiator continues through several more before returning to the source. Radiators do not have control valves. The piping layout and the lack of control make consumption-based billing or individual cut-off of non-paying consumers very difficult. Deficiencies found most frequently are leaky windows and doors, uneven heat supply within buildings, and missing or insufficient basement and roof insulation. Joints between panels consist of rubber moulding and cement mortar have deteriorated and permit air and rain to leak through.

Many customers have started simple retrofit strategies through replacing windows, insulation, and heating equipment renovation.

The Government has recognised the above problems and intends to implement a heat strategy whose aim is to shift the space-heating load on the electricity system away towards energy forms more appropriate for this purpose, such as gas, coal, and biomass. This would be a further measure to manage the demand on the electricity system.


Restructuring

According to “Concept of Development of Fuel and Energy Complex of RT for period of 2003-2015” it is envisaged to undertake de-monopolisation and restructuring of enterprises in the energy sector.

Aims of restructuring in energy sector stated as following:
- to liberate the State from maintaining not effective enterprises (unprofitable enterprises and objects of unfinished construction);
- creation of conditions for the process of corporisation and privatisation in spheres of fuel and energy complex;
- optimal regulation of denationalisation with retaining main technological relations between enterprises of fuel and energy complex;
- involvement in process of restructuring the wide participation of stakeholders, observation of publicity, rights equality of employees and insurance of their social security.

The process of restructuring in energy sphere stipulates the execution of several consistently interrelated arrangements in two stages during 2003-2015, in accordance with legislation of the Republic of Tajikistan.

It is envisaged that during first stage:
- to transfer the existing objects of public and social destination to the balance of local executive body;
- to reform organisations and enterprises of energy sphere into joint stock companies with further privatisation;
- to stipulate the privatisation of auxiliary (constructive, transport, repair) processes.

The first stage has been almost completed. During the second stage, it is planned to launch privatisation with wide attraction of foreign capital in the economy of Republic but no clear timeframe for privatisation is indicated.

With assistance from the ADB, the Government is working on a package of policy and institutional reforms for the sector, comprising: development of a legal and regulatory framework; restructuring the electricity industry to improve transparency, efficiency and enable private sector participation; increasing the level of electricity tariffs toward full cost recovery; encouraging private sector participation.

In 2004, the GoT set up a state commission to draw up a plan for restructuring of state electricity company Barki Tojik (BT). The commission’s report was submitted for review to the Government on 14 July 2005. The report envisaged a cautious approach to restructuring, with unbundling taking place in a number of stages within a conservative timeframe. The commission report recommended the following restructuring process to be followed:

- Introduce new laws and regulations to cater for the new structures of BT;
- Privatise hydropower stations with capacity up to 10 Mw;
- Establish new Business Units in BT for Generation/Transmission and three Distribution Companies and develop their commercial capabilities;
- Form a new entity “Independent System Operator” to provide transparent access for new generating companies to the national grid;
- Refurbish existing power infrastructure and construct new power stations and transmission lines;
- Develop regulatory role and tariff progression.

Since the issue of the report, the Government has primary focused on refurbishment of the infrastructure, construction of new hydro power stations and launched new exploration activities in the gas sector through introduction of a new model of Product Sharing Agreement. Other recommended actions on restructuring of the electricity sector and privatisation have not been undertaken.

Privatisation


Foreign investors have the right to buy state property submitted for sale through auction or tender with no need for any prior permits. Foreign investors have the right to contribute to the statutory capital of the enterprise being privatised. The Law “On property in the Republic of Tajikistan” #385 December 14, 1996 (Articles 35-38) allows foreign states, 15 Commission report (July 2005): Individual Restructuring Plan of OJSHC “Barki Tajik” for period 2005-2015, Dushanbe.
organisations and citizens to possess in Tajikistan enterprises, constructions or other property for executing their economic activities.

Privatisation in Tajikistan is implemented through two directions: minor privatisation – privatisation of trade and services, small enterprises of industry and construction; large-scale ones – privatisation of large enterprises, envisaging transfer of state property into the private or joint-stock (corporate) ones. According to data provided by the Ministry of Economy of Tajikistan there are 8,366 of 9,121 enterprises including 7,602 small, 764 medium and large ones, are privatised.

The privatisation of small enterprises is now practically complete. These enterprises are concentrated in trade, public catering and consumer services. Less progress has been reached with privatisation of large enterprises. One of the main obstacles on the progress of privatisation is that many enterprises are unviable and therefore unattractive to investors. But the participation of foreign investors in privatisation is expedient, in view of their know-how and experience in corporate management.

While the privatisation programme has been implemented for small and medium enterprises there has been no privatisation of large industrial enterprises particular in the energy sector.
ANNEX 1: GENERAL REFERENCES AND INFORMATION SOURCES

- Business Environment in Tajikistan as seen by small and medium enterprises. IFC, 2006
- Central Asia Regional Electricity Export Potential Study. World Bank. 2004
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- Website of Statistical Committee of Tajikistan www.stat.tj;
- Website of Ministry of Energy of Tajikistan www.minenergo.tj;
- Website of Environment and Security (ENVSEC) Initiative www.envsec.org;
- Website of National Bank of Tajikistan www.nbt.tj
- Website of the Nuclear Threat Initiative www.nti.org
- Website of EBRD Renewable Energy Initiative www.ebrdrenewables.com
Annex 2: **HYDRO POWER POTENTIAL MAP**

*Source: ADB*
ANNEX 3: ELECTRICITY TRANSMISSION NETWORK

* Existing transmission lines (blue) and transmission lines under construction/planned (red) in Tajikistan and Central Asia region
Source: Ministry of Energy and Industry of Tajikistan

ANNEX 4: POTENTIAL RENEWABLE ENERGY SOURCES OF TAJIKISTAN

Source: K. Kabutov
## ANNEX 5: MAJOR ELECTRICITY SECTOR PROJECTS IN TAJIKISTAN

<table>
<thead>
<tr>
<th>Funding Agency</th>
<th>Project Title</th>
<th>Amount (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Projects under implementation</strong></td>
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<tr>
<td>Asian Development Bank</td>
<td>Power rehabilitation Project I phase</td>
<td>34</td>
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<tr>
<td></td>
<td>Power Rehabilitation Project II phase</td>
<td>50</td>
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<td></td>
<td>Small Hydro power plants</td>
<td>11.6</td>
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<tr>
<td></td>
<td>Emergency Baipaza</td>
<td>5.3</td>
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<tr>
<td>Islamic Development Bank</td>
<td>Rehabilitation of two substations</td>
<td>13</td>
</tr>
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<td></td>
<td>Construction of small HPS</td>
<td>9.3</td>
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<tr>
<td>Kuwait Fund for Arabic Economic Development</td>
<td>Rehabilitation of Dushanbe City Distribution network</td>
<td>13.0</td>
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<td>World Bank</td>
<td>Pamir Private Power Project</td>
<td>10.0</td>
</tr>
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<td></td>
<td>Energy Loss Reduction Project</td>
<td>18.0</td>
</tr>
<tr>
<td>Government of Switzerland</td>
<td>Power Rehabilitation Project</td>
<td>8.1</td>
</tr>
<tr>
<td></td>
<td>Pamir Private Power Project</td>
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</tr>
<tr>
<td></td>
<td>Energy Loss Reduction Project</td>
<td>8.0</td>
</tr>
<tr>
<td>International Financial Corporation (IFC) and Aga Khan Foundation (AKFED)</td>
<td>Pamir Private Power</td>
<td>26.0</td>
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<tr>
<td>Government of Russia</td>
<td>Completion of the Sangtuda 1 hydropower plant</td>
<td>570</td>
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<td>Government of Iran</td>
<td>Construction of Sangtuda 2 hydropower plant</td>
<td>180</td>
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<tr>
<td>Government of China</td>
<td>“South-North” and “Lolazo” transmission Lines</td>
<td>340</td>
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<td></td>
<td>Nurabad I HPS</td>
<td>650</td>
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<tr>
<td></td>
<td>Co-generation coal plant</td>
<td>400</td>
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<tr>
<td>Government of India</td>
<td>Rehabilitation of Varzob-1 HPP</td>
<td>13</td>
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<tr>
<td>Government of Tajikistan via “Barki Tojik” company</td>
<td>Small Hydro power plants</td>
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<td>UNDP</td>
<td>Small Hydro power plants</td>
<td>0.4</td>
</tr>
<tr>
<td>Government of Tajikistan</td>
<td>Rogun power plant (3,600 mWt)</td>
<td>2,200</td>
</tr>
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*Source: Ministry of Energy and Industry of Tajikistan*
## ANNEX 6: BILATERAL INVESTMENT TREATIES CONCLUDED, 1 JUNE 2008

<table>
<thead>
<tr>
<th>Reporter</th>
<th>Partner</th>
<th>Date of signing</th>
<th>Date of entry into force</th>
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</thead>
<tbody>
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<td>Tajikistan</td>
<td>Armenia</td>
<td>2-Apr-02</td>
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<tr>
<td></td>
<td>Austria</td>
<td>8-Feb-90</td>
<td>1-Sep-91</td>
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<td></td>
<td>Belarus</td>
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<td>25-Aug-99</td>
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<tr>
<td></td>
<td>China</td>
<td>9-Mar-93</td>
<td>20-Jan-94</td>
</tr>
<tr>
<td></td>
<td>Czech Republic</td>
<td>11-Feb-94</td>
<td>5-Dec-95</td>
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<tr>
<td></td>
<td>France</td>
<td>1-Jan-02</td>
<td>24-Aug-04</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>27-Mar-03</td>
<td>25-May-06</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>13-Dec-95</td>
<td>14-Nov-03</td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>28-Oct-03</td>
<td>----</td>
</tr>
<tr>
<td></td>
<td>Iran, Islamic Republic</td>
<td>18-Jul-95</td>
<td>3-Nov-04</td>
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<tr>
<td></td>
<td>Korea, Republic</td>
<td>14-Jul-95</td>
<td>13-Aug-95</td>
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<td></td>
<td>Kuwait</td>
<td>18-Apr-95</td>
<td>12-Jun-98</td>
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<td>Kyrgyzstan</td>
<td>19-Jan-00</td>
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<tr>
<td></td>
<td>Moldova, Republic</td>
<td>5-Nov-02</td>
<td>20-Oct-03</td>
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<td>Netherlands</td>
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<td>Pakistan</td>
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<td>Qatar</td>
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<td></td>
<td>Thailand</td>
<td>9-Aug-05</td>
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</tr>
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<td>Turkey</td>
<td>6-May-96</td>
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<td>United Arab Emirates</td>
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<td></td>
<td>VietNam</td>
<td>19-Jan-99</td>
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*Source: UNCTAD*

## ANNEX 7: TOTAL NUMBER OF DOUBLE TAXATION AGREEMENTS CONCLUDED BY 1 JUNE 2008

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<td>Azerbaijan</td>
<td>Income</td>
<td>13-Aug-07</td>
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<td>Germany</td>
<td>Income and Capital</td>
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<td></td>
<td>Indonesia</td>
<td>Income</td>
<td>28-Oct-03</td>
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<td>Moldova, Republic</td>
<td>Income and Capital</td>
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<td></td>
<td>Pakistan</td>
<td>Income</td>
<td>13-May-04</td>
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<td>Poland</td>
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<td></td>
<td>Spain</td>
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<td></td>
<td>Turkey</td>
<td>Unspecified</td>
<td>6-May-96</td>
</tr>
<tr>
<td></td>
<td>Ukraine</td>
<td>Income and Capital</td>
<td>7-Sep-02</td>
</tr>
<tr>
<td></td>
<td>United Arab Emirates</td>
<td>Unspecified</td>
<td>17-Dec-95</td>
</tr>
</tbody>
</table>

*Source: UNCTAD*
### ANNEX 8: LEGISLATIVE GUARANTEES TO ENTERPRISES RECEIVING FOREIGN INVESTMENT

Table 1. Legal Guarantees

<table>
<thead>
<tr>
<th>№</th>
<th>Guarantees and benefits</th>
<th>Content of the guarantees and benefits</th>
<th>Legislative documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Guarantee of the investor’s equality of rights</td>
<td>State guarantees equality of rights between foreign and local investors by not permitting any kind of discrimination in relation to investors on the basis of their citizenship, nationality, gender, race, religion, place of economic activity and also investor’s country of origin.</td>
<td>Law of Republic of Tajikistan (RT) “On Investments” (article 4)</td>
</tr>
</tbody>
</table>
| 2  | Guarantee of legal protection of the investor and investment activity | In case of introduction of changes and additions into the investment legislation of the Republic of Tajikistan investors during five years from the date of official publication of these changes or additions have the right to choose the more favourable conditions for them. This regime is not extended in relation to the changes and additions made to the Constitution of the Republic of Tajikistan and into the legislation of the Republic of Tajikistan related to issues of national safety, health protection, environmental protection, morality and ethics.

Investor has the right for indemnification that was caused as the result of acts issued by the state authorities and not in accordance with the legislative acts of the Republic of Tajikistan and also as the result of the illegal actions (inactivity) of the officials of these authorities in accordance with the legislation of the Republic of Tajikistan.

The Republic of Tajikistan guarantees the stability of agreements’ conditions (5 years) concluded between investors and authorised state authorities except for cases when changes and additions into the agreements were made by parties’ will. | Law of RT “On Investments” (article 5) |
| 3  | Guarantee of the foreign investors’ right to move    | Foreign investors, their representatives and foreign employees that are in the Republic of Tajikistan for investment activity have the right to move on all territory of the Republic of Tajikistan except for territories where conditions and order for stay are determined by the legislation of the Republic of Tajikistan. | Law of RT “On Investments” (article 6) |
| 4  | Guarantee of the right to use incomes                | With the aim to keep and use incomes and other means open banking accounts in the banks on the territory of the Republic of Tajikistan in the national and (or) foreign currency in accordance with the legislation of the Republic of Tajikistan.

At their discretion to use profit received from their activity after payment of taxes and other compulsory payments. | Law of RT “On Investments” (article 7) |
<table>
<thead>
<tr>
<th>No.</th>
<th>Guarantees of investments’ indemnification and received incomes</th>
<th>In case of investment activity’s stop not due to investor’s fault, the investor has the right for indemnification of investments due and their received incomes in cash of in-kind form at the real cost at the moment of investment activity’s stop.</th>
<th>Law of RT “On Investments” (article 7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.</td>
<td>Guarantee of incomes transfer to abroad</td>
<td>Investors and foreign employees are guaranteed the right for transfer of their incomes and salary in the foreign currency received on legal causes as the result of investment and production activity.</td>
<td>Law of RT “On Investments” (article 7)</td>
</tr>
<tr>
<td>7.</td>
<td>Currency transactions</td>
<td>Investors in relation of all payments related to investment activity in the Republic of Tajikistan have the right for free conversion of the national currency of the Republic of Tajikistan into other free exchanged currency and also purchase of the foreign currency to pay the operations outside the Republic of Tajikistan. Constraints of money transfers in foreign currency in the Republic of Tajikistan and from the Republic of Tajikistan for investors can be introduced only on the basis of the law with the aim to prevent operations on legalisation of incomes received illegally.</td>
<td>Law of RT “On Investments” (article 8)</td>
</tr>
<tr>
<td>8.</td>
<td>Publicity of state authorities’ activity in relation to investors</td>
<td>Official announcements of the state authorities of the Republic of Tajikistan and legislative acts reflecting interests of investors are published in order determined by the legislation of the Republic of Tajikistan. Investors are provided with the free access to the information about registration of the legal entities and their charters, registration of the agreements on the real estate and also issue of the licenses except for information that contains commercial or any other secret information protected by the law.</td>
<td>Law of RT “On Investments” (article 9)</td>
</tr>
<tr>
<td>9.</td>
<td>Inadmissibility of intervention from state authorities into the investment activity</td>
<td>State authorities don’t have the right to intervene into the investment activity except for the cases that are envisaged by the legislation of the Republic of Tajikistan.</td>
<td>Law of RT “On Investments” (article 10)</td>
</tr>
</tbody>
</table>
| 10. | Guarantee of investor’s rights for nationalisation and requisition | In case of natural disasters, emergencies, infectious diseases, epidemics, epizooties and under other emergency situations, property for the interest of the society can be withdraw by order and under conditions established by the legislation with the payment of the property’s cost (requisition).

Estimation of the cost refundable to the owner of the requisited property can be contested in the court. Person whose property is requisited has the right to request the return to him the remained property after termination of conditions due to which was the requisition made and in cases of refusal he can appeal to court.

Conversion of the property belonging to citizens and legal entities into the state property by its nationalisation is only allowed on the bases of legislation on property nationalisation adopted in accordance with the Constitution of the Republic of Tajikistan and with the refund to the person whose property is nationalised, cost of these properties and other losses caused by nationalisation.

Compensation size of cost of nationalised or requisited investment property is determined on the basis of the market value of the property. The refund should be actually possible, executed in time agreed with the parties and paid in freely exchangeable currency.

Compensation size of the cost of nationalised or requisited property can be contested by investor in the courts of the Republic of Tajikistan and also in arbitration court, international court and international arbitration court if it is envisaged by the agreement of parties or international agreements. |
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<tbody>
<tr>
<td>11.</td>
<td>Transfer of investor’s rights to other person on the guarantee of insurance agreements</td>
<td>If the foreign state, its authorised state authority or insurance agency makes payments for benefit of investor on guarantee of the insurance agreements provided to him in relation to investments implemented on the territory of the Republic of Tajikistan and to this foreign state, authorised by it state authority or insurance agency are transferred the rights of investor to mentioned investments then in the Republic of Tajikistan this transfer is admitted only in the case of when investor makes investments in the Republic of Tajikistan and (or) executing by him definite agreement commitments in full volume.</td>
</tr>
<tr>
<td>12.</td>
<td>Guarantee of the investor’s rights for export of the property and information</td>
<td>Investor that initially imported to the territory of the Republic of Tajikistan property, information in documentary form or form of records on electronic means as investments has the right for free (without quotes, licensing or any other measures of non-tariff regulation of the foreign trade activity) export of the indicated equipment outside of the Republic of Tajikistan after termination of the investment activity in accordance with the customs legislation of the Republic of Tajikistan.</td>
</tr>
</tbody>
</table>

Law of RT “On Investments” (article 11)

Law of RT “On Investments” (article 12)

Law of RT “On Investments” (article 14)
13. Investor’s rights for objects of intellectual property | All investor’s rights in relation to the objects of intellectual property are defeated in the order established by the legislation of the Republic of Tajikistan. | Law of RT «On Investments» (article 15).

14. Investor’s rights for use of the natural resources | Acquisition by investor the rights for use of the land, other natural resources are done in accordance with the legislation of the Republic of Tajikistan. When rights of ownership transfer to constructions and buildings, with these objects the rights to use these land also transfer to investors in the order and conditions envisaged by the legislation of the Republic of Tajikistan. Right to rent land can be acquired by the investor in the established order in accordance with the Land Code of the Republic of Tajikistan. | Law of RT “On Investments” (article 16).

15. Guarantees for investor implementing reinvesting | Investor at own discretion can reinvest the profit remained after payment of taxes on the territory of the Republic of Tajikistan. When implementing reinvesting the investor fully enjoys the legal protection, guarantees and benefits established by the current Law. | Law of RT “On Investments” (article 17).

16. Guarantee for property of products and incomes from concession activity | Products and incomes received by the concessionaire as the result of the concession activity are his/her property in volume determined by the concession agreement. | Law “On concessions” (article 4 paragraph 2).

17. Guarantees for profit from concession activity | Profit remained at concessionaire after payment of taxes and other payments remains at his/her full disposal. | Law of RT “On concession” (article 19).

18. Guarantees of concession agreement’s duration | Concession agreement is concluded for the period not less than 50 years depending from technical characteristics of object transferred to concession. The exception is mineral deposits that need big capital investments and that are characterised by long payback of costs. Duration of the concession agreement in this case can be determined by period necessary for full processing of the deposit but not more than 99 years. At the expiration of the period of the concession agreement concessionaire bona fide implemented the conditions of the agreement use the privilege rights on prolongation of short-term and medium-term agreement. | Law of RT “On concessions” (article 13).

*Source: Law of RT “On Investments” and “On concessions”*
Table 2. Benefits and Incentives

<table>
<thead>
<tr>
<th>№</th>
<th>Guarantees and benefits</th>
<th>Enterprises</th>
<th>Content of guarantees and benefits</th>
<th>Legislative documents</th>
</tr>
</thead>
</table>
| 1  | Exemption from customs duty and value added tax | All enterprises | Import of production technological equipment and its components (forming unified set that is without these components the work of the production technological equipment is impossible), to form or replenish the chartered capital of the enterprise or technical re-equipment of the current production with condition that this property is used exactly for production of goods and rendering services in accordance with the constituent documents and do not belong to category of excise goods and also personal property imported to the Republic of Tajikistan by foreign employees of enterprises with foreign investments for personal use. | Customs Code of the Republic of Tajikistan (Article 345, paragraph 4)  
Tax Code of the Republic of Tajikistan (Article 211, paragraph 4, part 4) |
| 2  | Exemption from value added tax and customs duty | All enterprises | Import of goods for implementation of the targeted projects approved by the Government of the Republic of Tajikistan at the expense (within the limits) of grants and (or) credit (loans) provided to legal entities and individuals, foreign states, governments of the foreign states or international organisations. | Tax Code of the Republic of Tajikistan (Article 211 clause 4 subparagraph 6)  
Customs Code of the Republic of Tajikistan (Article 345, paragraph 6) |
| 3  | Exemption from value added tax and customs duty | All enterprises | Supply of goods, execution of works and rendering of services as a humanitarian aid.                                                                                                                                                  | Tax Code of the Republic of Tajikistan (Article 211 paragraph 2 subparagraph 7).  
Customs Code of the Republic of Tajikistan (Article 345 paragraph 3) |
| 4  | Operations taxable at zero rate                | All enterprises | Export of goods except for raw cotton, ginned cotton and raw aluminium are taxable by VAT at zero rate.                                                                                                                                  | Tax Code of the Republic of Tajikistan (Article 214 paragraph 1) |
|   | Exemption from income tax | All enterprises | New enterprises created for production of goods, at the year of their state registration and starting from the year following the year of the initial registration if their founders deposit investments into the chartered fund of these enterprises taking into account the minimal investments established by the legislation for the period of:
- 2 years if the investments are equivalent to 500 thousand USD;
- 3 years if the investments are equivalent more than 500 thousand to 2 million USD;
- 4 years if the investments are equivalent to more than 2 million to 5 million USD;
- 5 years if the investments exceed 5 million USD. | Tax Code of the Republic of Tajikistan (Article 145 paragraph 6) |
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<tbody>
<tr>
<td>6.</td>
<td>Exemption from value added tax from the road users, profit tax from the legal entities, minimal income tax from enterprises, land tax, vehicle users’ tax, real estate tax, social tax from those people that are working at the construction of hydro-power stations and that are not the citizens of the Republic of Tajikistan</td>
<td>Building owners and general contractor of the construction</td>
<td>For the period of the hydro-power station’s construction at the territory of the Republic of Tajikistan.</td>
<td>Tax Code of the Republic of Tajikistan (Article 343 paragraph 1)</td>
</tr>
<tr>
<td>7.</td>
<td>Exemption from value added tax and customs duties</td>
<td>All enterprises</td>
<td>Import of goods for the construction of the hydro-power stations that are highly important objects of the Republic of Tajikistan.</td>
<td>Tax Code of the Republic of Tajikistan (Article 343 paragraph 2)</td>
</tr>
<tr>
<td>8.</td>
<td>Exemption from value added tax and road users’ tax, social tax</td>
<td>Suppliers and subcontractors of the construction, personal that are working at the construction of the hydro-power station</td>
<td>Individuals and legal entities who are working at the construction of the hydro-power stations, persons that are not the citizens of the Republic of Tajikistan.</td>
<td>Tax Code of the Republic of Tajikistan (Article 343 paragraph 3)</td>
</tr>
<tr>
<td></td>
<td>Exemption from customs duty and value added tax</td>
<td>All enterprises</td>
<td>Import of goods necessary for personal use of the newly created enterprises that have full cycle of cotton processing into the finished product (from cotton yarn to cotton ready-made garments).</td>
<td>Tax Code of the Republic of Tajikistan (Article 344 paragraph 1)</td>
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<td>9</td>
<td>Exemption from value added tax</td>
<td>All enterprises</td>
<td>Export of goods produced by newly created enterprises that have full cycle of cotton processing into the finished product (from cotton yarn to cotton ready-made garments).</td>
<td>Tax Code of the Republic of Tajikistan (Article 344 paragraph 2)</td>
</tr>
<tr>
<td>10</td>
<td>Exemption from income tax of legal entities, minimal income tax, real estate tax and land tax</td>
<td>All enterprises</td>
<td>Anew created enterprises that have full cycle of cotton processing into the finished product (from cotton yarn to cotton ready-made garments) are exempted from the mentioned taxes.</td>
<td>Tax Code of the Republic of Tajikistan (Article 344 paragraph 3)</td>
</tr>
</tbody>
</table>

*Source: Tax Code of the Republic of Tajikistan*