

Investors Still Hesitant About Tajikistan

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Analysts say the country must simplify legislation and introduce transparency to entice new investors. Foreign companies remain reluctant to invest in Tajikistan due to the complicated legislation and widespread corruption, experts say.

At the end of October, the Tajik head of the Ministry of Foreign Affairs Hamrohon Zarifi held a meeting with European ambassadors accredited to the country and called for their countries to invest in Tajikistan.

In particular, the authorities are seeking financial backing for work to complete the giant Rogun hydroelectric power station, construction of which was suspended this summer after disagreements between Tajikistan and the Russian company constructing the plant.

However, this was not an attractive prospect to the European diplomats, who argued that little progress had been made in creating a favourable climate for foreign investors.

Tajikistan is one of the poorest states in the region and lacks energy resources other than the water that powers electricity.

The Rogun plant is seen as being of vital importance to the country's future, and the authorities are keen to finish the project. Construction began three decades ago, but ground to a halt after the collapse of the Soviet Union in 1991.

In 2004, Tajik President Imomali Rahmon gave Russian aluminum company RUSAL rights to complete the work, the idea being that copious amounts of electricity would allow the firm to invest in aluminium production, a notoriously power-hungry industry. However, the deal fell apart earlier this year over differences on technical issues such as the height of the dam, and in September, Rahmon signed a final document annulling the contract.

To complete the project, Dushanbe wants to create a consortium involving several foreign investors. But analysts say it may be hard to find takers.

The Ministry for Economic Development says foreign direct investment is rising, with 196 million US dollars last year and 167 million dollars in January-October 2007.

But 105 million dollars of this year's sum came from just one source - Russian money earmarked for another hydroelectric project at Sangtuda - illustrating the painful lack of diversity in the country's investors. Most investment currently comes from Tajikistan's strategic ally Russia, culturally similar Iran, and eastern neighbour China.

British ambassador Graeme Loten, speaking as the local chair of the European Union, said Tajikistan needed to simplify its legislation and make investment conditions more transparent if it was to attract a wider range of investors.

“Tangled legislation must be simplified, information on investments must be more transparent and, most importantly, corruption must be fought at all levels,” he said.

Loten told IWPR that British investors who have to work on joint ventures have complained to him of frequently-changing rules and the modification of official agreements. He cited the case of one British company forced to pull out the country after changes were made to its agreement with the Tajik government.

Dilshod Alimov, a lawyer with the Pragma Corporation, a Washington-based consultancy, told IWPR that registering in Tajikistan is a long and complicated business. Investors must go through a number of formal procedures and deal with a range of agencies including the justice and interior ministries.

“An entrepreneur has to go through all of these agencies himself and the registration process may take from two to six months,” said Alimov.

According to Alimov, the process could be simplified if the government introduced a one-stop shop where investors could deal with all the different agencies at the one time. Tajikistan is moving towards such a system, but the lawyer said it was hard to say when it would happen.

Alimov agreed that investing in Tajikistan is a risky prospect, with the country coming second-bottom on last year’s World Bank list of countries ranked by levels of investor protection.

One significant omission, he said, was that Tajikistan was not a signatory to the convention governing international courts of arbitration, so when foreign companies find themselves in dispute with local partners, they have to work through the local court system.

“Several investors have lost court cases in Tajikistan,” said Alimov.

The converse is also true, Alimov added. The many legal loopholes can allow investors to come in and “conduct business in a manner that would never be allowed in their countries”.

Another analyst, who wished to remain anonymous, said that investors faced great difficulties from Tajik bureaucracy and high levels of corruption. In particular, he highlighted problems with registration – even though the official fee is low, the agencies involved can demand extra payments to deal with certain technicalities.

Gafur Rasulov, a departmental head at the Ministry for Economic Development and Trade, accepted that despite some improvements, business conditions were nowhere near meeting modern international standards.

In some cases, he said, contracts were changed at a later date because those involved in drawing them up on the Tajik side did not fully understand the implications at the time.

“If the financial analysts concerned had understood all the necessary components and the risks at the time, it wouldn’t have been necessary to change the terms ten years down the line,” he said.

Analyst Khojimahmad Umarov argues that the main barriers to foreign investment are corruption and red tape. In addition, Tajikistan is not helped by its landlocked isolation and its poor transport infrastructure.

Umarov said one answer was to provide more tax incentives than neighbouring Central Asian states. “There’s a need to offer conditions that are better than in neighbouring countries, for instance on taxation. In practice, we have significantly higher taxes than Russia and Kazakstan,” he said,

Saifullo Safarov, deputy director of the president’s Centre for Strategic Research, is more optimistic, arguing that the government is working on making Tajikistan more attractive by improving legislation and other areas.

“Previously, there were no good hotels, poor communications, and a poor banking system. Now everything has got significantly better. There are high-class hotels being constructed, communications are better than in many other countries, and the banks are getting stronger and more stable,” he said.

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