

FAO-IAMO. Expert Round Table “Best practices in export promotion: experiences in Latin America, Europe and Central Asia”

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Ministry of Economic Development and
Trade of the Republic of Tajikistan

Republic of Tajikistan

Country's official name: Republic of Tajikistan

- Capital: Dushanbe
- Area: 142,550 km²
- Official Language: Tajiki
- Business Language(s): Russian & English
- Total Population: 8,295,840
- Natural Increase: 2.2%
- Urban Population: 26.7%
- Density: 59 Inhabitants/km²
- Medium Age: 20.0 Years
- Life Expectancy in Years : Men: 66.0 And Women: 70.4
- Labour Force 2,209,000 (Source: CIA - The world factbook, 2013)
- Rate of Activity : 65.9% (Source: UN - United Nations, 2011)
- Ethnic Origins: Tajik 79.9%, Uzbek 15.3%, Russian 1.1%, Kyrgyz 1.1%, other 2.6%
- Religion: Sunni Muslim 85%, Shi'a Muslim 5%, Others 10%.
- Literacy Rate: 99.5%



Agriculture sector OF TAJIKISTAN

Tajikistan is mainly agricultural country. The total area of arable lands of the country is more than 4.3 million hectares. About 82% of arable lands (over 660 thousand hectares) are irrigated. Agriculture gave more than 65% of the gross output of all agricultural production in Tajikistan. The main item of Tajik export is cotton. In the best years in Tajikistan were produced up to 1 million tons of crude cotton. Tajik cotton is highly valued in the world. It has a great breaking strength and staple length.



In 2013, employment in agriculture accounted for 48% of total employment and 27% of GDP. However, the sector has experienced difficulties dating back 20 to the transition from a planned to a market economy. The country's civil war (1992-1997) severely damaged the agribusiness infrastructure, leading to a dramatic decrease in agricultural production, reaching an all-time low in 1999

As in other countries in Central Asia, the economic transition involved land and farm ownership reforms, which led to a significant transformation of the farm structure, increasing the fragmentation of production. In the 2000s, the sector revived and in recent years it has generated more than one-fifth of Tajikistan's GDP growth (World Bank, 2014a).



Cotton

- The cotton industry is the most important agribusiness sector, covering around 180 000 ha out of 800 000 ha of arable land, and constituting 60% of total agricultural production (Asia Plus, 2014). Tajikistan is the largest producer of fine-thread cotton in the CIS (SCISPM, 2013). Cotton is by far the most valuable agribusiness export commodity, dominating the sector and generating USD 112 million in exports in 2013. This represents approximately 15% of total export revenue.

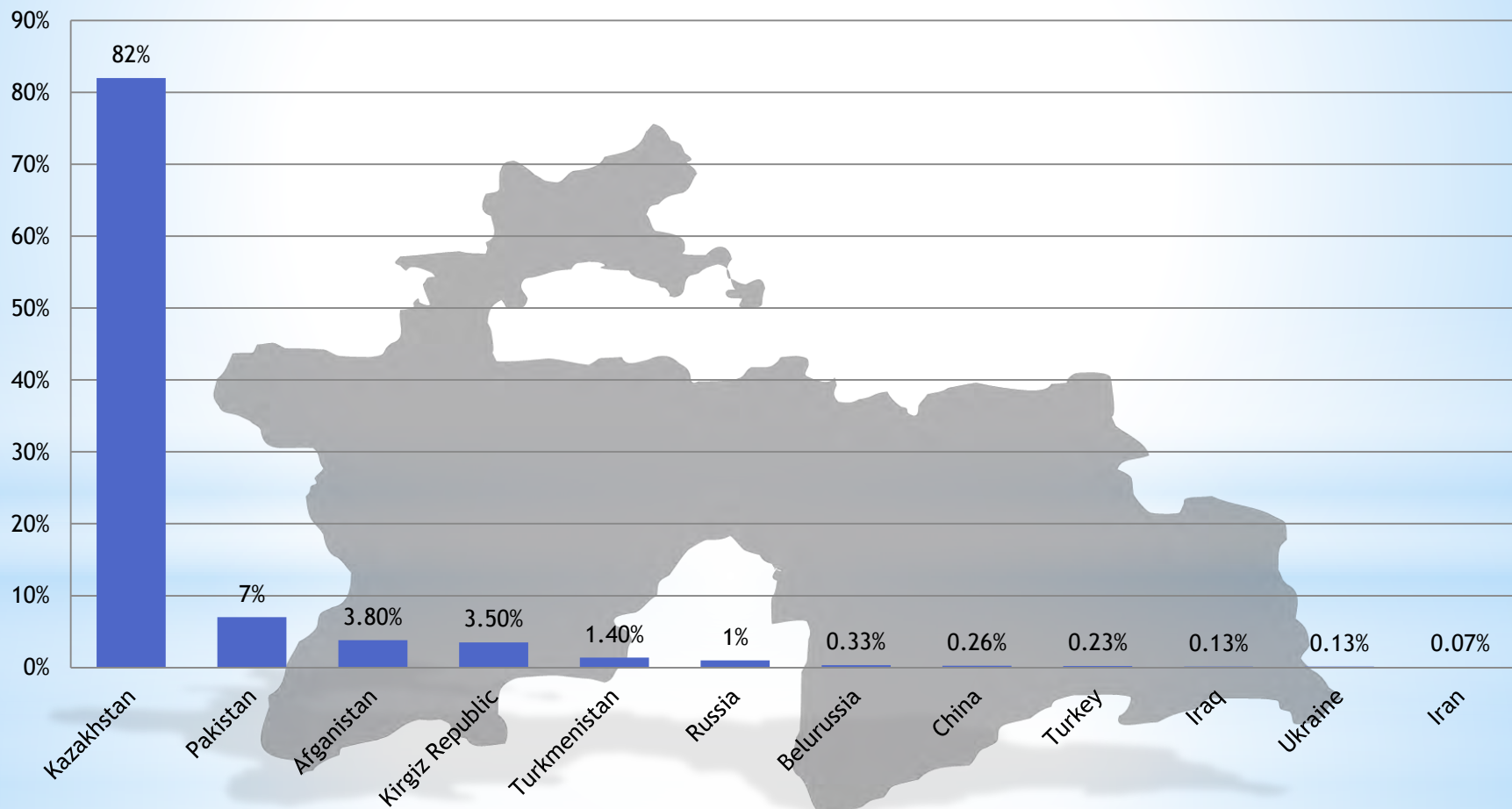


Due to the absence of a large-scale textile industry, most of the cotton is exported unprocessed, making the economy very vulnerable to external shocks, such as changes in world commodity prices.

For instance, while there was a double digit increase in cotton exports in 2014, the value of cotton exports of cotton fell in 2015, largely because of the fall in global prices for cotton.



Export of fruits, vegetables and potted goods (2015)



Fruit and vegetables

Excluding cotton, around 95% of the remaining agricultural exports are fruit and vegetables. Dried fruits and onions represent about 80% of food exports. The reason is that dried grapes, apples, onions and apricots can be stored and transported more easily than fresh products. Dried fruit exports amounted to almost USD 40 million in 2013, which puts Tajikistan 11th in the world, with 2% of all global dried fruit exports. Informal trade in agricultural produce is widespread, as traders seek to avoid formal trade costs and restrictions.



Regional demand for fruit and vegetables is increasing, especially for processed products. Increased interest in organic, Fairtrade and natural products may also play out well for Tajik producers. Tajikistan already has established close trade relations with CIS markets and is located close to other growing markets. Tajikistan is close to populous China and India, it is linked to resource-rich Russia and Central Asia, and is not far from fast developing East Asia. Growth in these economies will likely result in increased consumption of goods, including processed (e.g. preserved) fruit and vegetables. Certain product categories already show promising trends. For example, the consumption of juice in Russia has increased since 2000 from 5 to 20 litres per capita per year. Tajikistan is the largest producer of fine-thread cotton in the CIS.



Tajikistan could also geographically diversify its export markets. Today, 96% of Tajikistan's food exports go to Russia, either directly or as re-exports from Kazakhstan but other markets also show potential. For example, neighbouring Afghanistan has more than 8.5 million ethnic Tajiks, who form the second largest ethnic group in Afghanistan. Increased political stability in Afghanistan and its neighbour Pakistan could lead not only to increased demand for Tajikistan's produce but also to safer access to sea ports, which would further enhance exports. Iran also appears to be underexploited as an export destination, as major cultural and economic ties exist between the two countries. While Iran is the second largest investor in Tajikistan after China, Tajikistan's exports to Iran remain limited for now and constrained by payment restrictions and complex value-added tax (VAT) treatment, for example on cotton yarn



The advantages of agriculture in Tajikistan

The agricultural sector in Tajikistan has several competitive advantages. Tajikistan produces good quality raw produce (e.g. raw cotton, fruits and vegetables) and has relatively low labour and electricity costs. The country's climatic diversity, fertile soil and favorable water conditions enable the production of a variety of fruit and vegetables known for their special flavour and vitamin. Long growing periods with long and **numerous** sunny days result in fruit with high sugar content, especially in some parts of the country (e.g. Sughd in the north or Khatlon in the west). Besides cotton and fruit (cherries, apricots, apples, peaches and lemons), the country also produces onions and nuts such as pistachios and almonds.



Tajikistan: 159th WTO member



Recent World Trade Organization accession provides a window of opportunity to increase exports

Tajikistan joined the World Trade Organization in 2013. Its accession may present a window of opportunity to accelerate the internationalization of its domestic businesses, by providing improved access to large consumer markets abroad, by catalyzing economic reform efforts, and by reducing existing trade barriers in Tajikistan.

WTO accession creates opportunities for Tajikistan, especially if it is supplemented by continuing efforts to reduce trade barriers and to improve business climate in the country. For example, the World Bank (2014a) estimates that the WTO accession will have the potential to gradually increase foreign direct investment (FDI) from 1.2% of Tajikistan's GDP in 2013 to 2.4% of GDP by 2018, especially in the energy, infrastructure, mining and agricultural sectors. These investment opportunities could attract new technology, which will in turn enhance productivity and lead to higher exports. In addition to WTO accession, the Eurasian Economic Union is also expected to affect Tajikistan's trade.



Problem of agriculture sector in Tajikistan

Processing, storage and related industries are less developed. Processors in certain regions (e.g. in the north of Tajikistan) need to import packaging from the neighbouring Kyrgyzstan, as local packaging is either not available or not appropriate. Limited infrastructure and storage facilities also cause most agricultural production to be sold fresh or dried, rather than stored and processed. While there is some food processing (e.g. canning, fruit drying, and milk and meat processing), only about 20% of production is processed (SCISPM, 2013). An OECD survey found that the lack of a processing industry is an important or very important barrier for 68% of agribusiness firms. Processors are typically small and do not achieve economies of scale. Most processing companies are small seasonal operators, which do not operate in the winter. Also the links between the processors and farmers are weak. Many farmers prefer to sell their production directly to the local markets rather than to processors, who are not always able to pay the market price.





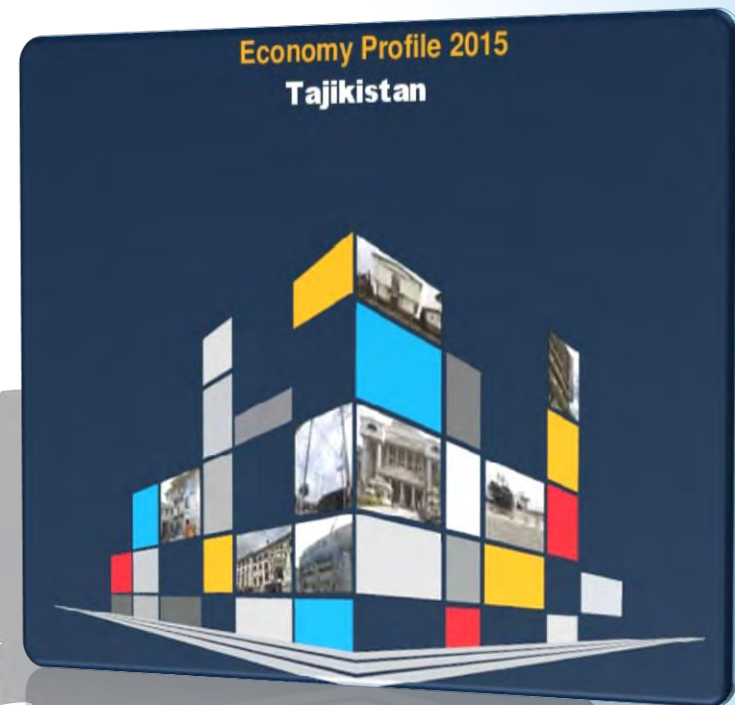
Finally, the irrigation system is slowly deteriorating, with only limited investment in new infrastructure. For example, while 720 000 hectares of arable land is irrigated (90% of Tajikistan's arable land), only 500 000 hectares are in use due to the deterioration of the irrigation infrastructure, waterlogging and salinisation.



Tajikistan's exports face growing international competition. Other countries in the region are not just promising markets for Tajikistan's agribusiness products, but also competitors. For example, Turkey, Uzbekistan and India increasingly supply cotton yarn to Tajikistan's markets such as Russia. Increasing local production often also replaces import in some countries. Russia was able to attract FDI to develop a strong food-processing industry with high-quality technology over the last two decades. As a result, 98% of juice in Russia is now produced locally, compared to 5% in 1990. In the meantime, exports of preserved fruit from Tajikistan to Russia decreased by 3.5 times from 2000 to 2010. One of the key reasons why this happens is that some products from Tajikistan lack price competitiveness, due to the challenges described in this report.



1. Export-specific issues: export promotion, customs and certification
2. Challenges in the agribusiness value chain: fragmentation and skills
3. Issues with agribusiness policy making, implementation, monitoring and evaluation
4. The general business climate: taxation and access to finance.



Tajikistan's agribusiness exports are constrained by issues in four broad areas. They are:



1. Export-related issues: export promotion, customs and certification

Tajikistan's agribusiness exports are constrained by limited export promotion and marketing. Local businesses have difficulties accessing information on export possibilities and export promotion efforts are not perceived as supporting this effort efficiently. For almost 45% of surveyed firms, difficulty in accessing information on export possibilities is an important or very important barrier. Tajikistan's enterprises are also rarely involved in international exhibitions in foreign markets. and the large Tajik diaspora remains largely unexploited for export promotion purposes.

Enhancing exports requires meeting stringent quality requirements. This is important for all food products, and especially for products that could be sold as 26 organic if properly certified. However, most agribusiness products are currently exported from Tajikistan without international certificates of compliance. International quality standards and technical regulations pose significant challenges especially to smallholder farmers and agro-processors. For instance, Tajikistan lacks laboratories for grading products and the cost of certification remains high.



2. Agribusiness-related issues: fragmentation and skills

Productivity enhancements are key for Tajikistan's agribusiness sector as only 5.6% of its land is arable. Several issues in Tajikistan's agribusiness sector limit its productivity. The sector is fragmented, which limits economies of scale, and it suffers from large skills gaps due to emigration and a weak educational system. Weak links between farmers and processing companies and low quality of graduates were quoted as an important or very important constraint by 56% and 60% of agribusiness companies respectively.

The transformation and privatisation of the collective farm structure fragmented the Tajikistan's agribusiness sector into small-scale farms, leading to irregular supplies of varying quality, constraining economies of scale.

While the official literacy rate in Tajikistan is above 99% (UNICEF, 2014), the economic transition and the civil war in the 1990s have led to limited investment in education. Like other former Soviet republics, Tajikistan has faced challenges modernising its education system, and currently has difficulty in providing the skills demanded by the agribusiness sector. This is true of both existing workers and of new graduates. Existing workers lack certain skills. For example, owners of processing enterprises are typically familiar with the technical side of production but they appear to have limited business knowledge, including product promotion, marketing and financial planning. Also, more than 1 million Tajiks work abroad, many of whom are skilled workers such as agronomists, creating a significant brain drain.



3. Institutional issues: policy implementation, monitoring and evaluation

While a range of policies aim to strengthen the agribusiness value chain and enhance exports, the impact of these policies is limited. Limited implementation and lack of monitoring are key weaknesses. Tajikistan has adopted laws creating large structural changes in the agribusiness sector. The agrarian reform started in 1992 and was further accelerated in 2009, following the government resolution, *Additional Measures to Support the Agriculture Sector of the Republic of Tajikistan*. This resolution called for a comprehensive reform package engaging several ministries and agencies, with a focus on land, water, agricultural governance, financing and social protection in rural areas (Agrarian Reform Secretariat, 2014). Since then, a number of legislative reforms were made, including on freedom to farm and equitable access to land.

Issues with governance prove especially constraining at the local level, and are often magnified by a limited capacity to monitor and evaluate agribusiness policies. Problems arise from the lack of understanding of the impact of different policy measures, and also from the difficulty in identifying the impact on a regional basis. Monitoring and evaluation practices may also be constrained by regular changes in leadership of agencies responsible for agribusiness and exports, as well as limited national and regional statistics on agriculture or exports, especially at the micro level.



4. Business climate issues: taxation and access to finance

The cost of doing business remains high in Tajikistan, which constrains private investment in the agribusiness sector and limits exports. Outdated technologies and worsening infrastructure of the agribusiness sector hinders its participation in global value chains. The agricultural processing industry suffers particularly from a lack of storage facilities, which also limits the diversification of Tajikistan's agriculture away from cotton.

In 2013, Tajikistan adopted a new tax code, with mixed effects. The reform aimed at improving tax administration, reducing tax rates, and improving public financial management. The code reduced the number of types of taxes from 21 to 10, exempted certain imported technology from VAT and customs duties, and provided tax holidays to agribusiness processing companies for up to five years. The code also reduced the profit tax rate and abolished the retail sales tax. It also contains special exemptions for cotton processing companies.



The benefits of higher exports and private investment, both domestic and international, are widely recognised. Private investment and exports expand an economy's productive capacity and drive job creation and income growth. Such benefits can act as a powerful force for development and poverty eradication. Many countries have succeeded in achieving high rates of private investment and exports as part of their development strategy, also using targeted investment and export promotion tools.



INVESTMENT AND EXPORT PROMOTION POLICIES IN TAJIKISTAN



Investment/export promotion strategy

Investment and export promotion strategies help the government to attract private investment and expand the volume of a country's exports through targeted public policy measures. The *OECD Assessment* shows limitations of a strategy focused on investment attraction and exports promotion in Tajikistan. Investment attraction is stipulated in the *Concept of State Policy for Attraction and Protection of Investments* (MoJoT, 2012) and there are mid-term programmes of state investments focused on attracting foreign financing for approved large investment projects. The main sectors that the government promotes are energy, transport, industry and agriculture (fruit and vegetables, cotton, and wine growing). Industrial sub- 91 sectors include light industry, (e.g. cotton cleaning, textiles and sewing); non-ferrous metals (production of aluminium and its products); the processing industry (e.g. meat and dairy production, fruit and vegetable processing); and the extraction industry. The development of these sectors is directed by such government programmes as the *State Programme on Strengthening of Export Potential of Fruit and Vegetable Sector in 2010-2012*, the *Programme of Development of Light Industry* (2005), and the *Programme of Development of Deep Processing of Cotton Fibre* (2007) and others (e.g. the *State Programme of Development of Horticulture and Viticulture, Growing of Saplings of Fruit and Evergreen Trees in Tajikistan in 2005-2010*, and the *Resolutions of the Government on Approval of the Programme of Development of Cotton-Growing Industry in Tajikistan in 2010-2014*.



Investment attraction and export promotion agencies are a well-known tool to co-ordinate and harmonise investment and export activities in the country, providing leadership to all national programmes. In Tajikistan, most activities in this field are fragmented, implemented by different players, each offering different qualities, often with an overlap in scope. They include Tajinvest, the Chamber of Commerce and Industry, international organisations and technical projects present in the country. Tajinvest, a government-funded state agency under the State Committee for Investments and State Property, has been mandated to carry out investment attraction and export promotion. The agency is focused on attracting direct investments, both local and foreign, and on assisting domestic and foreign companies in investment activities. Even though Tajinvest has a formal mandate for export promotion it is providing little support in this field due to a lack of the necessary technical expertise and budget.



Investment/export promotion agency

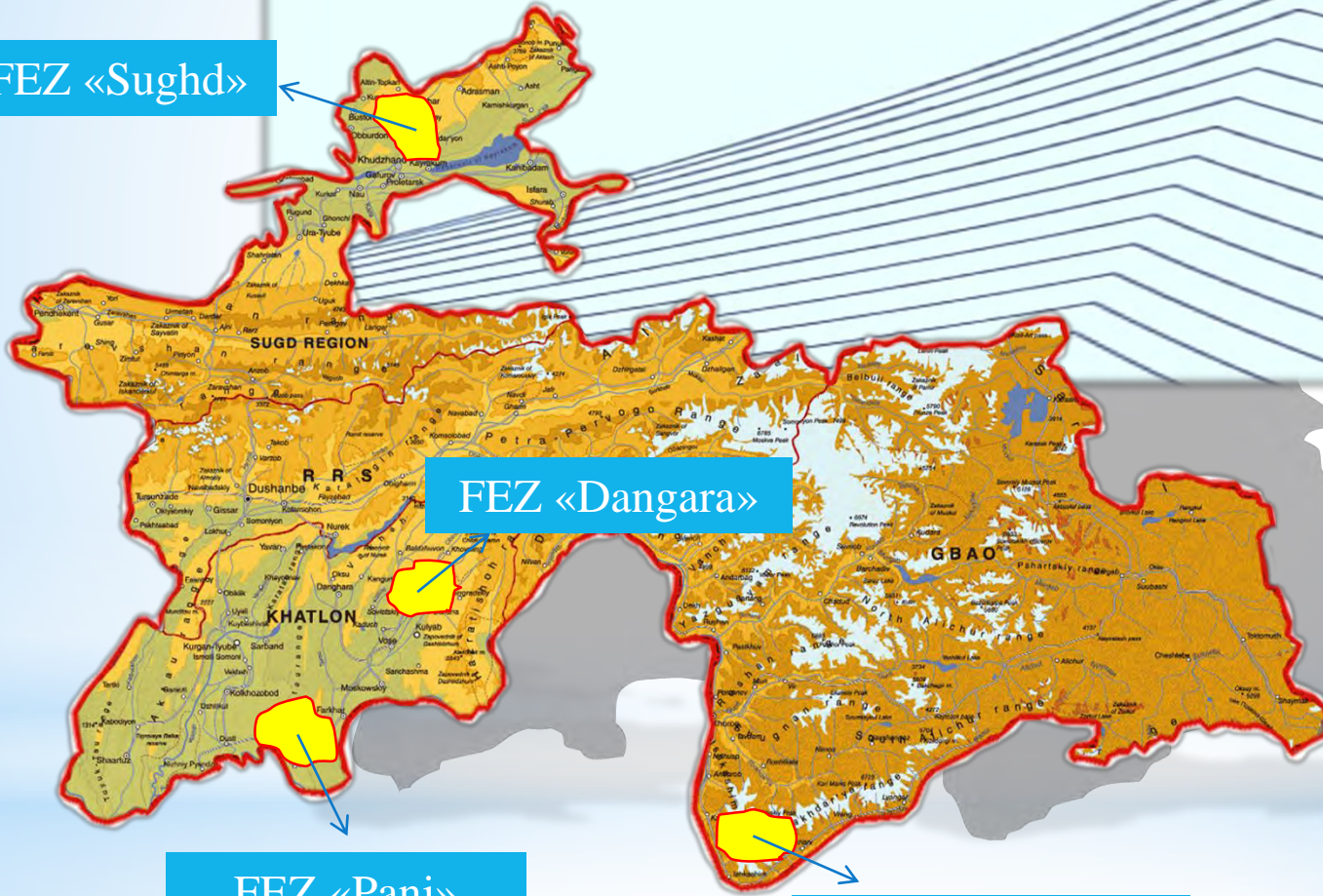


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Free economic zones of Tajikistan



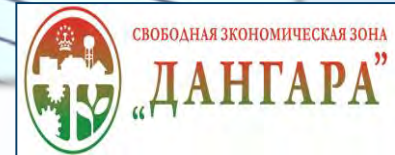
FEZ «Sughd»



FEZ «Dangara»

FEZ «Panj»

FEZ «Ishkoshim»



A free economic zone (FEZ) is a part of a country's territory with strictly determined borders and special legal treatment that is focused on providing more favourable conditions than usual for conducting business and other economic activities. If well managed, free economic zones can increase investment and exports, and lead to job creation. Tajikistan adopted a law on Free Economic Zones (new edition of March 25, 2011) and regulations for individual FEZs. There are 4 FEZs functioning in the country - Panch, Sughd, Dangara and Ishkoshim, each lasting a period of 50 years. 105 The zones are managed by their respective administrations, co-ordinated and supervised by the Ministry of Economic Development and Trade. Sughd FEZ, which has production and innovation status, is the most successful of all four zones. It is located in the industrial zone of the city of Khudjand in Sughd oblast (north Tajikistan). The Sughd FEZ has developed social, transport and communication infrastructure, which significantly lowers the costs of doing business for investors. Other FEZs are located in remote areas, and require significant investments for the development of infrastructure (from the state budget and investors). The selection of enterprises to the FEZ is done using simplified administrative procedures, based on a number of criteria. The main criteria for selection of investment projects for FEZs are: 1) the investment should not be less than USD 500 000; and 2) the availability of a FEZ membership certificate, which is needed to receive privileges (e.g. a reduction in the review time of visa application documents) and special tax regimes.



Possible areas for action are:

- Intensify the co-operation between the FEZ administrations and the government, local territorial authorities and partners to seek additional funding, technical assistance, expert support in the general planning of FEZ development, construction of modern infrastructure, and training in the management of free economic zones and their functioning, as well as the creation of one-stop shops to provide subjects with consulting support. 106
- Analyse the situation together with donors and the investors community, and prepare a plan of further development.
- Appoint a governing body responsible for the development of FEZs and the implementation of the strategy and plan. This specialised FEZ governing body should consider and revise a list of issues affecting the operations of the FEZs including: funding, technical expertise, infrastructure, human resources and information support centres for investors.
- Develop a system of monitoring and evaluation of FEZ effectiveness.
- Consider outsourcing the management of the FEZs to a private foreign or local company with relevant expertise and experience.
- Encourage greater integration between the FEZs and the regional economy. Allow domestic companies selling to free zone companies to obtain similar treatment and benefits to free zone companies. Provide equal treatment of domestic and foreign investors in the free zones.
- Provide a greater role for the private sector in the development of free zones and relax minimum export requirements in line with the WTO framework.
- Make sure that there is no lowering of labour and environmental standards in the FEZs. Encouraging greater specialisation of economic activities in the zones by providing, where appropriate, more focused support and facilitation services to emerging networks and clusters of firms.



Suggestions and recommendations

Action 1: Improve export promotion institutions and activities

To support exporters, the government should enhance its existing export promotion structures. According to the OECD survey, 65% of companies think that it is important or very important to set up an export promotion agency. There is therefore a need to build the export promotion capacity either at Tajinvest, or at another agency. Export promotion activities at Tajinvest can be strengthened by training its staff and better co-ordinating its activities with other state bodies, local administrations, business associations and international donors. However, in order to improve its performance, deeper reform is also necessary. Its legal status should be examined, as well as its budget. The pricing of its services should also be reconsidered, for instance by providing a limited range of free services.

The Chamber of Commerce should also play an enhanced role and increase its co-ordination with the government. For example, the government could support the Chamber of Commerce in building relationships (e.g. in the form of memorandums of co-operation) between the chamber and national and regional chambers of commerce in Russia (e.g. in Yekaterinburg, Chelyabinsk and Perm) and in Kazakhstan, which are the priority export destinations for Tajikistan's fruit and vegetables. More innovative activities could be imagined, such as designating an Agribusiness Exporter of the Year or Exported Product of the Year.



- **Nostalgia food products in CIS markets.** Tajik products, such as natural honey and dried fruits, have historically had a good reputation, which could be better leveraged (especially in the Siberian regions or regions around the Kazakh-Russian border). Moreover, the large Tajik migrant community could create demand for nostalgia products from their homeland.
- **Organic products.** One of the target niches for fruit and vegetable exports could be premium organic products. The growing middle class in the region seems to have an appetite for such products. These consumers will be found in Tajikistan's traditional export markets (Russian Ural and Siberia), but also increasingly in neighbouring central Asian countries. Drafting a comprehensive study analysing the potential of niche markets in Central Asia and the Middle East could be a starting point. Tajikistan could also consider the creation of an organic brand (e.g. *Tajik is Bio*).
- **Exotic products.** While traditional produce, such as tomatoes or cucumbers, face increasing competition on Tajikistan's traditional markets, more exotic produce, such as lemons or water melons, or new sorts of fruits, appear to have market potential. This is also related to changing consumption patterns and the increasing demand for non-traditional food. Tajikistan's climate means it can specialise in these fruits and vegetables, including processed products.



Action 2: Improve skills in the agribusiness sector

The government needs to tackle the shortage of skilled workers in the agribusiness sector. This includes reforming initial education through an improved vocational education and training (VET) system and continuing education through the expansion of extension services. Focus should be put on the quality of agricultural VET and agricultural universities. They need to enhance their outdated curricula and to further train teachers. Graduates should have access to up-to-date technical knowledge, and be taught key financial, administrative and marketing concepts.

In order to complement academic training, the government could also design a structured framework for modern internships/apprenticeships in the agribusiness sector. Organising internships was cited as an important or very important policy to support the sector by almost 69% of agribusiness companies - along with improving the quality of education in general, cited by 82%.



Action 3: Establish a framework for implementation and involve local stakeholders to improve policy effectiveness

To improve the business climate in Tajikistan, 71% of agribusiness firms recommended improving laws and regulation. In order to improve the implementation of agribusiness strategies, the government should focus on creating an effective framework for implementation. Using the implementation framework, the government should be able to demonstrate the achievement of the agribusiness strategy's goals, how intervention actions fit with the overall strategy, its value for money, the outcomes achieved, and the impact over time. The government should also do more to involve key partners and stakeholders, especially at the local level. Discussions should not only be with the established state, but also with other stakeholder groups such as businesses, non-governmental organisations and local leaders.



Action 4: Increase the number of financing options for agribusiness companies and exporters

The government should focus on creating schemes to improve working capital financing of the agribusiness sector, as well as schemes to improve export financing.

First, the government should address the lack of working capital in the agribusiness sector. Specifically, the government should promote the use of moveable assets such as stored production as collateral, which would improve the access to finance to firms without fixed assets. This is an important or very important issue for more than 67% of agribusiness firms. For example, the government could consider the development of a warehouse receipt financing scheme, which would allow Tajik farmers to access financing for their working capital without selling their agricultural production for a low price at the beginning of the season. Setting up such a scheme would also necessitate refurbishing some of the country's storage infrastructure, lack of which is perceived as an important constraint for 63% of agribusiness firms in Tajikistan.



Action 5: Financial support for export promotion

In addition to advisory services, some countries offer a broad range of financial support to exporters. This might especially be important in countries with less developed financial markets where access to export credit is constrained. Options for government intervention include direct export subsidies, interest rate subsidies (both of which can be against the WTO rules), export guarantees and export insurance. Until now there has been no complex programme of financial support for export activities in Tajikistan. Most export development programmes adopted by the government are financed within a framework of approved investment projects by international donors and partner countries. The government provides privileged credits to exporters through the Entrepreneurship Support Fund, established in 2013. The credits provided are limited in both number and size, due to the small size of the fund (TJS 30 million, or USD 6 million). The fund is supposed to be supported with money from international organisations, the issuing of securities and the mobilisation of migrant remittances etc.



Besides external financing and state budget resources, export activities are also financed by local commercial banks. There are 17 banks and 142 microfinance organisations in Tajikistan as well as 14 leasing companies and more than 10 insurance companies. Only four domestic banks provide large credits and other financing for exporters (such as guarantee operations, trade financing and post financing). Other banks, microfinance organisations and leasing companies provide credit and other support to SMEs. In general, the current level of development of Tajikistan's financial systems does not meet the needs of exporters - interest rates are high, terms are short, and collateral requirements make up to 130% of the of the loan or credit extension. All of this greatly limits access to finance by exporters.



Possible areas for action are:

- To improve export financing, consider creating an export guarantee fund. Creating such a fund can support both the supply of credit to local exporters as well as address a number of risks in international trade. To comply with WTO regulations, the government should follow the regulations set out in the OECD *Arrangement on Officially Supported Export Credits* (2015) that define the conditions for export finance support. The existing Fund of Entrepreneurship Support could be the basis of such an export guarantee fund.
- Develop and promote effective financial instruments for export companies. Develop a modern system of export concessional lending and export insurance, and microcredit extension for the development of the private sector.
- Mobilise migrant remittances into the banking system. For example, develop technical solutions to connect money transfer organisations to the local financial sector. Also, step up efforts to increase migrants' and their families' financial literacy.



**Thanks for your
attention**



**Ministry of Economic Development and
Trade of the Republic of Tajikistan**