

TAJIKISTAN TRADE DIAGNOSTIC STUDY

Transportation and Trade Facilitation

Final Draft



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Acronyms

ABBAT	International Association of Road Hauliers of Tajikistan
ADB	Asian development Bank
CAR	Central Asian Region
CEE	Central and Eastern European countries
CIF	Cost, Insurance and Freight, a delivery clause
CIS	Commonwealth of Independent States
CM	Contract manufacturing
CPI	Corruption Perception Index of Transparency International
EBRD	European Bank for Reconstruction and Development
ECMT (CEMT)	European Conference of Ministers of Transport (CEMT in French)
EURO 0,1,2,3,4	here: a class of a truck's technical and environmental standard
EU	European Union
FCL	Full Container Load
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
FOB	Free on Board, a delivery clause
GDP	Gross Domestic Product
IRU	International Road Transport Union
LCL	Less than Container Load
MoT	Ministry of Transport
OSJD	Organisation for Railway Cooperation of CIS railways
PRC	People's Republic of China
PSO	Public Service Obligation
SITC	Standard International Trade Classification
SME	Small and medium sized enterprises
SEE	Southeastern European economies
TTFSE	Transport and Trade Facilitation in South East Europe
Ton	referring to metric tons
Ton-km	ton-kilometer, a measure of transport work
USD	U.S. Dollar
VOC	Vehicle Operating Costs

ACKNOWLEDGEMENTS

This report is based on a number of transport sector reports, foreign trade data and case studies and interviews of a large number of Tajik firms as well as several industry and trade associations and government entities in Dushanbe and Khujand. The firms were both importers and exporters from a number of industries (manufacturers, freight forwarders, transport firms, retail operators, agricultural firms and commercial banks).

The interviews were mainly conducted on a mission to Tajikistan during March 28 and April 8, 2004. In addition, a number of interviews and background reports were conducted earlier by Mr. Alex Kitain, Consultant, and by Mr. Aziz Khaidarov from the Dushanbe office.

A substantial amount of information regarding the sector was received through a Exporter/Importer survey supervised by Mr. Kitain, and performed by a NGO Shark. The Survey highlighted contemporary trading problems in detail and their contribution to this study is highly appreciated.

Mr. Kitain also gathered the core of local data on railways and road transport. Through his energetic efforts and personal contacts we were able to manage the meetings with a tight schedule. He was also instrumental in conducting the survey and in compiling a large number of data on Tajik transport sector and trade issues.

The help of the staff at the World Bank Dushanbe office was invaluable in organising the a number of practicalities during the visit and in gathering data for the survey.

The views and advice of Task Manager, Mr. Jakob von Weizsacker, as well as other team members were highly appreciated and helped in focusing on the key issues of the case study. Valuable material was provided by Mr. Bernard Touboul on customs issues.

This section is part of the work of a large team that had a chance to exchange views while on mission in Tajikistan, which proved very valuable in understanding the overall problems of trade in this country.

Executive summary

Key observations:

- At over 27 % of GDP, Tajikistan has one of the highest logistics costs in the World.
- On top of this, at least 2 to 3 % of GDP is paid for unnecessary trade documentation.
- Reducing border crossing time to 3 hours, reducing unnecessary trade documentation and increasing competition in transport would save at least USD 60 million p.a.
- Large traders face low transport costs and few problems in border crossings.
- SME's face punitive trade documentation and very high logistics costs in trade.
- No scheduled and consolidated road or air freight, despite strong latent demand.
- Air transport is imperative; Tajik Air to be restructured or replaced by 2005.
- Restructuring of Tajik Railways and monetizing its revenues is much overdue.
- CIS rail tariff dispute needs to be solved by 2005.
- Tajik road carriers have been eliminated from the international market; Turkish, Iranian, Kazakh and Uzbek road carriers dominate and offer much better service.
- Visa issuance problems with Uzbekistan require a political solution.
- Customs modernization is imperative to boost trade, and thus create jobs.
- Transport infrastructure is poor, but road or rail investment does not solve TTF problems in the short term.

1. **Cost and quality of transport services matter for trade competitiveness.** Even if tariff and non-tariff barriers to trade were removed, cross-country evidence suggests that the penalty of high shipping costs will continue to hold down growth rates and income of countries with poor international transport links. Furthermore, inefficient internal transport systems and poor transport infrastructure sharpen economic inequalities within countries, with hinterland regions being disconnected from international commerce. This paper addresses those two questions for Tajikistan, a country which has the lowest GDP of all CIS countries.

2. **The geographic location of Tajikistan is about as difficult as it gets.** Due to internal conflicts in the 1990s and years of disrepair, its infrastructure is deteriorating. Its transport markets are small, fragmented and poorly developed, and the north and south parts do not have land connection in the winter. Practically all trade transits Uzbekistan, with which Tajikistan has very strained relations. In international transport, Tajikistan has much higher transport costs and longer transit times to major markets than its main competitors (Figure 1). As a result, its trade has one of the highest logistics costs in the world.

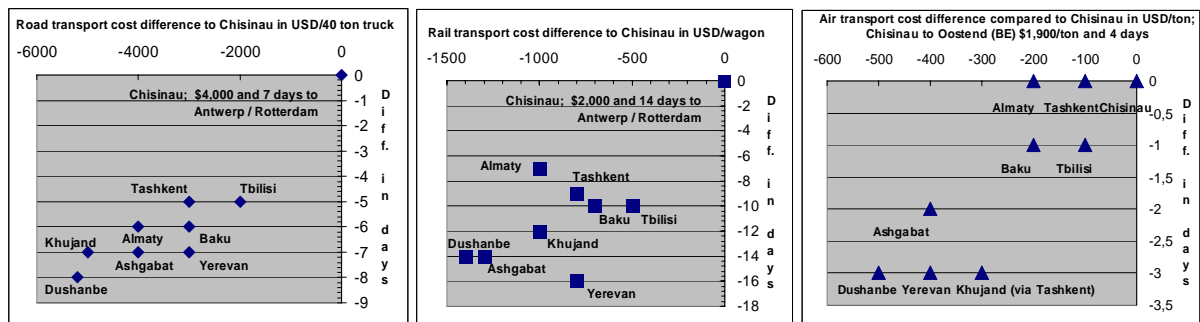


Figure 1. Differential of transport cost and transit time compared to Chisinau, Moldova – itself having expensive and slow transport connections - for full 40' containers by road or rail to Antwerp/Rotterdam, or 1 ton by air freight to Oostend, Belgium. Spring 2004, in USD (including unofficial payments; data in attachment).

3. **Tajik trade is burdened with one of the highest logistics costs in the world.** Tajikistan has one of the lowest unit costs in labor-intensive production of CIS countries, but its total logistics

costs are approximately 27.2 per cent of official GDP, or USD 318 million. Decisive Government action in trade and transport facilitation could bring this cost down to at least USD 260 million or 22.2 per cent of GDP, or roughly to the level of logistics costs in its neighbors.

4. **Getting border crossing time to the 3 hour target would save USD 30 million.** Border delays typically add 2 to 3 days to total transit time. Documentary practices also require too much working time in SME's, while large exporters have relatively streamlined processes. Tajik firms could save up to USD 30 million a year if trade documentation and administration are brought to the target level of 3 hours set by the Government. A predictable trade environment would also lower firms' inventory carrying costs, even when unofficial payments remain unchanged.

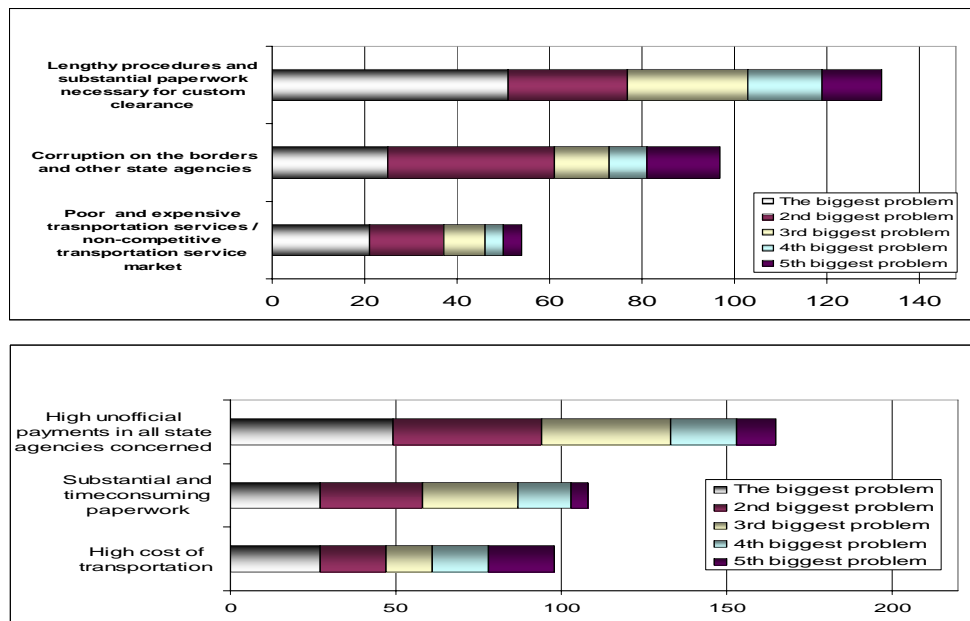


Figure 2: The biggest detriments to exports (upper graph) and imports (lower graph) identified by Tajik exporters in the 2004 Survey. Exports, N=148; Imports, N =221.

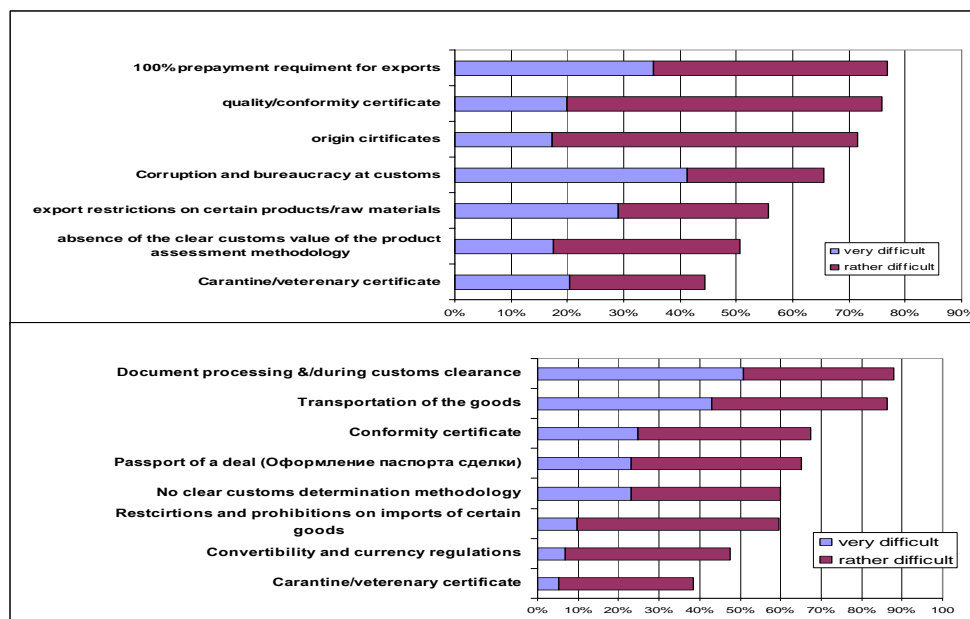


Figure 3: The level of difficulty of export (upper graph) and import (lower graph) procedures, % of respondents in the 2004 Survey. Exports: N=148, Imports: N=221.

5. **At least USD 20 to 30 million paid in unnecessary trade documentation.** Almost $\frac{3}{4}$ of trade-related procedures required by the Tajik authorities, notably those of Tajikstandard and Quarantine services are either totally redundant when compared to international practice, or they are regularly applied even when they are not actually needed. (Table 0.) These redundant phases, and related fees paid for documents and often non-performed services is estimated to reach at least 1.0 %, but likely close to 2.0 % of the value of imports, equal to USD 7 to 14 million. In exports, these are likely to reach at least 2.0 %, but likely over 3 % of the value of exports, equal to USD 11 to 17 million. Combined, these trade unnecessarily with approximately USD 20 to 30 million, which comes on top of the already high logistics costs. (See also Attachment 12).

Table 0. The number of phases that Tajik traders have to complete in typical export or import procedures, and (1.) the no. of redundant, (2.) usually unnecessary yet required phases, and (3.) actually required phases. Based on Touboul 2004.

	<u>Export</u>	<u>Import</u>
1. The no. of totally redundant phases	20	11
2. The no. of usually unnecessary yet required phases	7	43
3. The no. of actually required phases	11	20
4. Total no. of phases in a typical trade procedure	38	74

6. **Rail transport benefits from short waiting times at borders and harmonized tariffs in CIS,** but the total transport time to main markets is long. Difficulties arranging transport and problems with border crossings and Customs were ranked among the highest barriers in trade in the Exporter/Importer Survey conducted in 2004 for this study.

7. **Trade volumes have increased since 1999.** Merchandise trade (excluding trade in electricity and natural gas) is expected to reach USD 1.73 billion in 2003, out of which 55.4 % is import. In tons, exports are estimated to amount to 0.5 million tons and imports to 1.8 million tons in 2003.

8. **With low-valued trade, high transport costs often prohibit trade expansion.** The average unit value of exports is around USD 1,600 ton, which is still a very low value by international standards, indicating a very low value added content. Unit value of import is around USD 500/ton, which is typical for low-valued raw materials, as alumina is the dominating import commodity. (Table 1.) Tajikistan's high transport cost in trade pose a severe burden to especially SME's.

Table 1. Tajikistan's merchandise trade by value and volume, and the estimated unit value (USD/ton) in 1994-2003. (Detailed data in Attachment 1)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Exports, excl. electricity, USD million	489	625	595	591	483	512	691	573	665	773
Imports, excl. electricity and natural gas, USD million	468	480	640	614	599	499	624	676	816	962
Export, thousand tons	353	463	355	349	333	372	410	400	439	480
Imports, thousand tons	988	1 090	921	883	1 172	1 237	1 327	1 528	1 684	1800
Average export value USD/ton	1383	1349	1675	1693	1451	1376	1682	1433	1514	1610
Average import value USD/ton	474	440	695	695	511	403	470	442	485	534

Sources: State Statistical Agency; IMF Country Reports No. 03/5 and 04/17, January 2003 and 2004, Consultant's calculations

*) 2003 based on IMF projections for 2003

9. **Tajik export is dominated by aluminium and cotton.** These low-valued commodities face intense competition from other low-cost countries. Aluminium and cotton trade relies solely on rail transport. Due to affordable energy, aluminium production is possible but the raw material, alumina, is imported. While agriculture offers most jobs, the country lacks a solid road infrastructure, well functioning road transport and adequate storage facilities. As a result, many

farmers are unable to commercialize their production due to poor road access between domestic market places, storage facilities and the settlements. Agricultural exports are also affected by the absence of a modern wholesale distribution system.

10. **Transport and communications contributed 3.5 % to GDP in 1997-2002.** According to official statistics, this was equivalent to 123.4 million somoni (approximately USD 44.6 million) in 2002. There were 586 firms providing transport and communications services in 2002. The average annual turnover per firm appears to be 0.2 million somoni (approximately USD 76,000).

11. **Tajikistan has turned from a net exporter of transport services to a substantial importer.** Virtually no Tajik road transport firms are used in export, and the share of total rail freight receipts attributed to Tajik Railways is very low, except in transit traffic. Transport services export at USD 45.6 million accounted for 66 % of all services exports, while imported services were valued at USD 81.5 million, or 78 % of all services imports in 2002.

12. **Rail and air generate income from abroad, but none in road transport.** An estimated USD 25 million of credit and USD 40 million in debits of services trade is for rail transport. Tajik Air is estimated to bring USD 10 million in credits, almost exclusively from non-Tajik passengers. An estimated USD 20 million is paid to other countries for air transport services. Tajik road carriers have virtually no receipts from abroad. An estimated USD 30 million worth of road transport services were imported in 2002. The remaining debits and credits are generated by storage, freight forwarding and other transport activities, including pipeline transport.

13. **The existing road and rail infrastructure is scarce and it has been poorly maintained.** No infrastructure has been added to address the needs for changing trade patterns, while reform of the transport sector management and financing has been slow. While certain sections of the road and rail network are being rehabilitated with finance from the IFIs and international donors, these works will alleviate problems only locally. To improve all national roads from the current “poor” status to “good” would require funding of at least USD 500 million, but possibly over USD 1,000 million in the next few years. This is clearly beyond the means of the Government, and unrealistic in terms of IFI’s and donors, even if construction capacity would be available.

14. **Tajik Railways’ turnover in 2003 was USD 54 million.** USD 33 million of the turnover comes from transit traffic and USD 9 million from passenger services. The official profit figure for 2003 is 11.1 million somoni, or approximately USD 3.9 million. The aggregate profit between 2000 and 2003 was approximately USD 16 million using official exchange rates. Payments for transit traffic are now received as gas deliveries from Uzbekistan, but at an unfavorable rate. If monetized, this would have increased profits by an estimated USD 2 million in 2003 alone.

15. **Harmonized CIS rail tariffs benefit full wagonloads.** Large Tajik exporters and importers using full wagonloads can reach their destinations or sourcing points at relatively affordable cost. However, an unilateral transit tariff increase of 20 % was announced by Tajik railways in 2002, followed by similar increases by Uzbek and Turkmen railways. This has caused tension in the tariff agreement, which are yet to be solved.

16. **Complicated transit routing by rail.** Only up to 120 km of international rail transport is on Tajik territory. The distance to Moscow, for example, is 4,100 km and the fastest route transits Uzbekistan, Turkmenistan, Uzbekistan again, and Kazakhstan before it enters Russian territory.

17. **Railways rolling stock is antiquated.** Engines are old and run on diesel which hampers operations. Wagons are often of poor quality and thefts during transit do occur. Tajik cargo wagon are not used in international traffic, and passenger wagons are in limited traffic to e.g. Russia. In 2004, 150 new or refurbished passenger wagons will enter traffic. Despite imminent need, no major efforts to restructure the national railways have taken place.

18. **Rail freight equals 4 % of cotton textile and up to 15 % of aluminium export price.** Out of export price, rail freight accounts for 7 per cent of cotton fibre, 4 per cent of cotton textile and 10 to 15 per cent of aluminium to their main destinations. For cotton, transport is mainly in containers and the main destinations include Switzerland, Belgium, Turkey and Russia. For aluminium, the Netherlands and Russia are typical destinations.

19. **Rail freight equals up to 30 % of oil products and up to 15 % of fertilizers import price.** The freight cost of full wagonloads is set by the CIS rail transit tariff. In imports to Dushanbe from Uzbekistan, Kazakhstan and Turkmenistan, the freight cost for oil products and fertilizers is 8-15 % of goods value. If imports take place from Fergana valley to Khujand, the freight may be as low as 2 % of goods value, while the percentage in imports from Moscow easily exceed 25 %. The cost of importing low-valued raw materials or fuels to Tajikistan beyond Central Asian countries is usually prohibitively expensive. (See also Map 1. at the end of this Report)

20. **Little of Tajik's export has been carried by road, but this is slowly changing.** Suspected drug trafficking is often cited as the main reason why trucks coming from Tajikistan are routinely inspected thoroughly in Uzbek and other transit border stations. Also high unofficial payments in the Tajik-Uzbek border and en route in, for example, Kazakhstan severely affect road transport. Tajik trucking firms engaged in international transport are small and few in number. Some of these may have their equipment in Kazakh, Kyrgyz or even Russian registry, but Tajik carriers' traffic between third countries is likely to be almost non-existent. In spring 2004, individual Tajik drivers had started operations to Moscow, Iran, Chinese border, Pakistan and even Afghanistan. The going rate for one 20-ton truck to Moscow (one way) is USD 8,000, including unofficial payments.

21. **Trade worth of USD 50 million is forgone by unutilized transport capacity.** Trucks carrying Tajik imports regularly return empty to avoid the time-consuming and costly border crossing on their way back. In 2004, approximately USD 5 million worth of container and road transport capacity returns without backhaul cargo, $\frac{3}{4}$ of which in outbound traffic, because of the very complicated export procedures, border crossing problems and underperforming transport markets. While this is a loss in its own right, it also means that trade worth at least USD 50 million is forgone. This also raises the cost of imported goods by several thousand USD for every truckload as Tajik importers have to cover the cost of empty running.

22. **The Tajik trucking industry comprises three types of operators:** (i) domestic operators with very old equipment, (ii) operators with old Tajik-registered equipment in short distance international trades, and (iii) operators with old non-Tajik equipment in CIS and non-EU trades. The use of bilateral permits in international traffic is limited as transit permits can be obtained with extra payments. There are no operators in European trades as equipment complying to higher EURO standards does not exist. Overcapacity is persistent and despite very low operational costs, profitability is poor. Because of ample supply and low operational costs, most domestic cargo transport is carried by road. By 2003, ADB estimates that about 40 % of road transport service is provided by Government-owned entities, but the share of private firms is constantly increasing.

23. **Road transport costs to Europe is almost double as expensive as it should.** High unofficial costs, badly performing transport markets, complicated border crossing procedures and a low demand mean that road-based transport to Europe is often prohibitively expensive. Similarly excessive costs occur in road transport to Russia and China too. Distance-based freight to Europe is approximately the same from Khujand, Almaty and Tashkent to Frankfurt, Germany. In reality, the total cost is USD 1,000 to over USD 2,000 higher for each truck leaving Tajikistan.

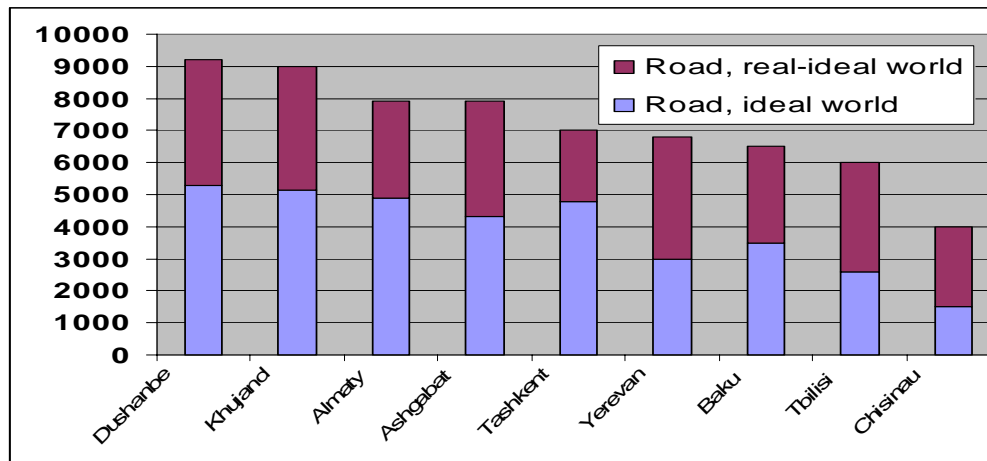


Figure 4: Road transport freight in USD of a 40 ton CIS-truck from the named cities to Frankfurt/Main, Germany, one way returning empty; total transport cost currently paid (incl. unofficial payments) compared to the cost in a competitive market (ideal world).

24. **The very modest fleet renewal is financed through equity.** This is because of high cost of loans or leasing. As the current fleet rapidly approaches its technical end of life, there is an imminent need for fleet renewal. With very limited funds generated in the transport sector this will lead to a substantial decrease of road transport capacity in the next three to five years.

25. **Issuance of visas to Uzbekistan require a political solution.** Uzbekistan is the only CIS country that requires visas from Tajik citizens, including professional drivers, despite an agreement in 2000 on visa-free travel. The issue can not be solved within industry associations, but needs to be solved politically by the Government as part of efforts to restore trade relations between the two countries.

26. **Freight forwarding is mostly privatized, but services are still limited and costly.** Freight forwarding, warehousing and other logistics-related services have mostly been privatized. Compared to international standards the supply of these services is poor, and the quality of the services is often low. Only a small number of operators have extensive international experience. Except for express couriers, none of the major international logistics firms have established operations in the country. They regard Tajikistan – long with other Central Asian countries - as logistically very unfriendly, where arranging for transport is deemed very problematic.

27. **Transport insurance and customs or bonded warehouses barely available.** The absence of reliable transport insurance firms and related legislation in Tajikistan is a clear impediment to transport. Because of very small scale of operations and only gradually emerging customs legislation, bonded warehouses are not used in trade.

28. **SME's pay up to 4 times higher freights due to absent consolidated freight services.** While shippers using full trucks or wagonloads have comparatively good access to international transport, the virtually absent scheduled consolidated services by road and air, and to lesser extent by rail, is a major barrier for Tajik SME's to reach foreign markets: they pay up to four times higher unit freights than big shippers (Figure 5). The reasons for this include the following: (i) punitive trade documentation, (ii) pervasive cargo inspection practices both in Tajikistan and CIS countries, especially in Uzbekistan; (iii) lack of willingness to take commercial risks starting up such road-based services by the nascent freight forwarding firms, (iv) all but absent business mindedness of Tajik Air and Tajik Railways to meet market demand with suitable services.

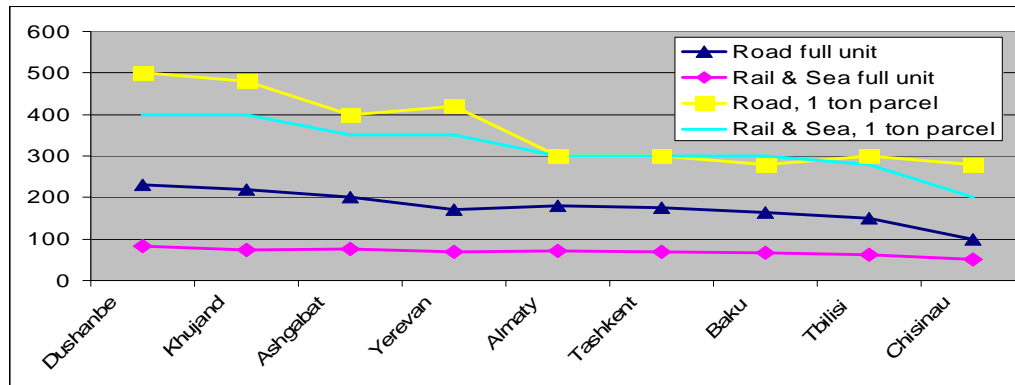


Figure 5: Transport cost to Antwerp/Rotterdam (USD/ton) for cargo in full units by road or rail; and cargo sent as 1 ton parcels as groupage cargo from selected cities in Spring 2004 (See Attachment 2 and 3; the situation is similar also in trade with Russia).

29. **Early signs of emerging consolidated services are seen.** In April 2004, some early signs to configure scheduled groupage services to main destinations in Russia, other CIS countries, Turkey, Iran and even Pakistan and India were detected. The very weak financial position and lack of partners selling cargo space on backhaul routes leaves only one or two freight forwarding firms that could offer such operations, but early signs of their interest were detected.

30. **Functioning air transport services are crucial for Tajikistan.** Air services in Tajikistan are limited to passenger traffic, which totaled 0.4 million passengers in 2003. Tajikistan has practically no international tourism. Air travel demand comes essentially from seasonal workers, personal trips and from business travelers. Air cargo volumes are minimal due to limited capacity, but links to larger air cargo airports include Moscow, Dubai and Istanbul. Government interventions have undermined the air transport subsector and barred private sector involvement.

31. **Outlook of restructuring Tajik Air looks bleak.** Given the very high cost and long transport time of overland transport to and from Tajikistan, developing air transport of both passengers but in particular cargo is crucial in linking the country with wider markets. Our estimate of Tajik Air's turnover in 2003 is USD 30 million. With current equipment, staff and practices, Tajik Air is about to dwindle to oblivion in 2005, and the outlook of restructuring Tajik Air to an efficient airline look bleak. The Government has few options, one of which is to create a totally new airline which replaces Tajik Air. This requires substantial private sector or donor finance, but as market demand both for cargo and passengers is evident, the operation using modern equipment and processes could quickly become profitable.

32. **Creating a new airline with private or donor finance is a tempting option.** The suggestions include the following: (i) Tajik Air needs to make quick decisions to turn their next-to-obsolete aircraft into profitable cargo carriers; (ii) plans to lease modern aircraft for Tajik Air need to be based on sound financial planning, which is very challenging; (iii) the management practice and business operations of Tajik Air need to be thoroughly reorganized, including the modernization of the booking and ticketing service; (iv) if points (i) to (iii) are not possible, an option remains to create a totally new airline with start-up capital from a donor or the private sector; and (v) the Government needs to open up the air traffic market also for foreign operators.

1. High transport costs are a barrier to growth and trade

33. Transport costs can affect economic growth in several ways. First, higher transport costs reduce rents earned from the exports of primary products, lowering an economy's savings available for investments. They push up import prices of capital goods, directly reducing real investments.

34. Second, other things being equal, countries with higher transport costs are likely to devote a smaller share of their output to trade. Those countries are also less likely to attract export-oriented foreign direct investment (FDI). Since trade and FDI are key channels of international knowledge diffusion, higher transport costs may lead an economy to be farther removed from the world technology frontier and slow its rate of productivity growth.

35. Third, transport costs determine a country's selection of trading partners. If export markets largely consist of poor, slow-growing markets and there are significant costs (including transportation) of switching to richer and faster growing markets, countries may be constrained in their growth potential. This dilemma is especially severe for small landlocked countries away from major economic centers. For Tajikistan, the potential of shifting towards the richer and large EU market epitomizes these switching costs. It could attempt to attract FDI thanks to its very low-cost production base by (i) removing its mainly administrative non-tariff trade barriers, (ii) improving substantially its transport sector governance in line with the dialogue with IFIs, (iii) and improving the service level of road, rail and air transport.

36. Controlling for a large number of socioeconomic, geographic, and institutional factors, Radelet and Sachs (1998) found that developing countries with lower shipping costs experienced more rapid growth of manufacturing exports relative to GDP in the period from 1965 to 1990. In addition, when exploring the relationship between shipping costs and overall economic growth across economies, the study concludes that a doubling of the cost of transportation is associated with slower annual growth of slightly more than one-half of a percentage point.

37. Cost and quality of transport services matter for trade competitiveness. Even if tariff and non-tariff barriers to trade were removed, cross-country evidence suggests that the penalty of high shipping costs will continue to hold down growth rates and income of countries with poor international transport links. Furthermore, inefficient internal transport systems sharpen economic inequalities within countries, with hinterland regions being disconnected from international commerce. Two questions that immediately arise in this context are why some countries pay more for transport services than others, and what governments can do to improve the transport competitiveness of trading firms. This paper addresses those two questions for Tajikistan.

38. Total logistics costs in Tajikistan, estimated at USD 318 million, or 27.2 per cent of official GDP, are among the highest in the world. The corresponding figure for EU Accession countries is between 10 to 16 per cent of GDP, and for Moldova it is 22 per cent. Tajikistan's high logistics costs impede its participation in international trade far more than customs tariffs, which are close to or at zero for most of its export and import items.

39. The pressure on factor prices and productivity is even higher for industries with a high share of imported inputs. In these cases, small differences in transport costs can easily determine whether or not export ventures are at all profitable. In labor-intensive manufacturing industries such as textiles, high transport costs translate into lower wages, directly affecting the standard of living of workers and their dependents. The Tajik textile and apparel industry is the case in point, with imported input materials currently making 10 to 20 per cent of export value.

Box 1. Logistics considerations in Apparel and textile industry in Tajikistan in 2004

Export of Tajik textiles and apparel is only gradually picking up. Most of Tajik cotton is exported as fiber or textile, and the vertical integration of more value adding export-oriented production is emerging only very slowly. Tajikistan's main competitive advantage is in very low labor costs, together with low cost of domestic input materials.

However, the importance of "time to customers" grows as product value increases. Increasing value-added production also requires more imported input materials, such as buttons, zippers, higher-quality yarns, and other accessories. Thus, the industry relies heavily on dependable and affordable transport.

Today, almost all Tajik export of textiles is carried by rail, involving a transport time of several weeks to European or to Russian markets. High-valued items are not very sensitive to freight costs. Instead, transit time and on-time deliveries, and the related inventory carrying costs and sales planning considerations become important variables. For this reason, the predictability of customs clearance and border crossing time becomes very important.

The recent increases of import duties on accessories from 5 % to 15 % severely undermine the export competitiveness of manufacturers, as the accessories usually account for 20 to 30 % of the export price of the products.

Transport costs reflect geography, income levels and infrastructure.

40. Transport costs depend on a mixture of geographic and economic circumstances. Adverse geographic locations and low-income levels—the latter being associated with poor infrastructure and low traffic volumes—pose an inherent challenge for many countries' trade and development prospects—at least in the short to medium term.

41. Transport and telecommunications infrastructure investment may be 8-10 per cent of GDP in rapidly developing countries in transition. In Tajikistan, this share is less than 2 per cent and counted from a very low absolute value of GDP. Most of this investment is in telecommunications, and not in the transport sector.

42. Tajikistan's road and rail infrastructure is in a poor shape, and its topography, geographical location and climate also pose a major challenge for roads or railways. The backlog of transport infrastructure finance is substantial: in 1995-2002, less than 0.6 per cent of GDP was spent on road construction, repair and maintenance¹. In 2003, 0.7% of GDP was spent on roads. As the Government is under heavy budgetary constraints, the backlog is rapidly worsening still.

43. ADB has proposed a Loan and TA grant for the Dushanbe-Kyrgyz border road rehabilitation project. Phase I, rehabilitating 140 km of the Dushanbe-Nurubod section and 77 km of rural roads serving poor villages, is expected to be completed by 2007. The estimated cost is USD 23.6 million, of which ADB will provide a loan of USD 15 million, OPEC Fund will cover USD 6 million and the Government the remaining USD 2.6 million.

44. If Tajikistan's road funds were to reach at least 1 % of GDP, or USD 12 million p.a., it would enable road rehabilitation of the main arteries, and gradually also some of the secondary roads. The savings in Vehicle Operating Costs (VOC) for road users come through less costly maintenance and shorter travel times. Indirect effects of better roads on increased mobility and poverty reduction are likely to be higher still, but these are difficult to assess.

¹ In Estonia, Latvia and Romania, road funding is at 1.0 per cent of GDP, and in Lithuania, the funding of roads was 1.4 per cent of GDP in 1995-2002, counted from a middle income GDP. In Moldova, a low-income country, the corresponding share in 1995-2002 was 0.3 per cent of GDP.

45. Under the heavy budget constraints, it is difficult to increase road sector allocations. A part of the ADB Loan compliance was to increase the annual budget allocations for road maintenance and rehabilitation by 10 % through 2004, and by 15 % per year during 2005-2007; excluding planned works on Anzob Tunnel.

46. Further investment in rail infrastructure is also needed, as most of the rail network is in poor condition, and only 67 km is with double tracks. In 2003, 10 km of new rails were built. Some of the tentative projects include upgrading 75 km of the 100 km Dushanbe-Kurgan Tyube-Khatlon connection. Other future plans include the link towards Afghanistan from Kolkhozobad to Nizhniy Piang. One missing link of 35 km of rail is between Dushanbe and Vaksh; this would open a rail link via Vaksh to Kurgan Tyube.

Policy reform can lower these costs and open new opportunities

47. In most countries, policy can make better use of existing transport resources and significantly improve the efficiency of services. At the domestic level, institutional reforms of transport agencies, targeted infrastructure investments, regional cooperation on transportation, and trade facilitation initiatives play an important role in improving the transport competitiveness of exporters. Liberalizing services policy can produce substantial cost reductions and widen the availability and choice of services. Anticompetitive practices by transport providers also call for efficiency-oriented competition policies.

48. Tajik road carriers are mostly private sector firms competing intensively, but mostly with sub-standard equipment. However, in rail and air transport services, which are run by state-owned enterprises, competition is practically non-existent. Air transport volumes are small while few substituting services can be found in either road transport or in routes involving airports in other countries. The few existing freight forwarding firms are mostly private, but due to the limited choices on offer in the transport market, competition is limited even in this activity. FDI in the Tajik transport sector is almost non-existent.

49. In rail transport, which performs most of the domestic and practically all foreign trade transport work measured in ton-kilometers, the lack of competitive practices has wide consequences. With no restructuring of national railways, shippers complain loudly about its high freights and low service level. Thus, the effect of limited competition – bar domestic road transport - in Tajik transport markets is a major problem.

50. Tajik transport costs should be lowered by bringing trade documentation and administration to the level of most other CIS countries. Reducing the waiting times at borders to 3 hours would enable rail and road transport operators to increase their capacity utilization reduce transport costs by at least USD 15 million every year. The indirect effect on inventory carrying costs would also bring one-time saving of more than USD 10 million.

51. Short border crossing times, efficient customs practices and reliable transport are essential for firms that rely on inbound and outbound deliveries and efficient inventory management. Such firms avoid countries with high operational, economic and political uncertainty. Tajikistan² has witnessed this, as its very low labor costs have attracted virtually no FDI in industries where this is an asset, including electronics and textile (apparel) contract manufacturing. (Box 2)

² Tajikistan has a very high country risk rating, with particularly high ratings for political and economic structure risks, as well as that of economic policy and liquidity risks.

Box 2. Tajikistan as a base for electronics assembly?

Electronics contract manufacturing (CM) is not an established industry in Tajikistan., unlike e.g. in Romania, Estonia, Vietnam and China which have witnessed a rapid growth in electronics FDI. Attracting FDI in electronics is not easy, as witnessed by Moldova, despite its closeness to EU and low labor costs. Some of the main impediments that countries face in attracting this type of activity are addressed below.

About 70 % of electronics CM is in China, with a large concentration of component manufacturers in that region. The products range from home electronics and telecommunications equipments to industrial equipment. Unit labor costs are low in China, but they are even lower in e.g. Brazil, Moldova and Tajikistan.

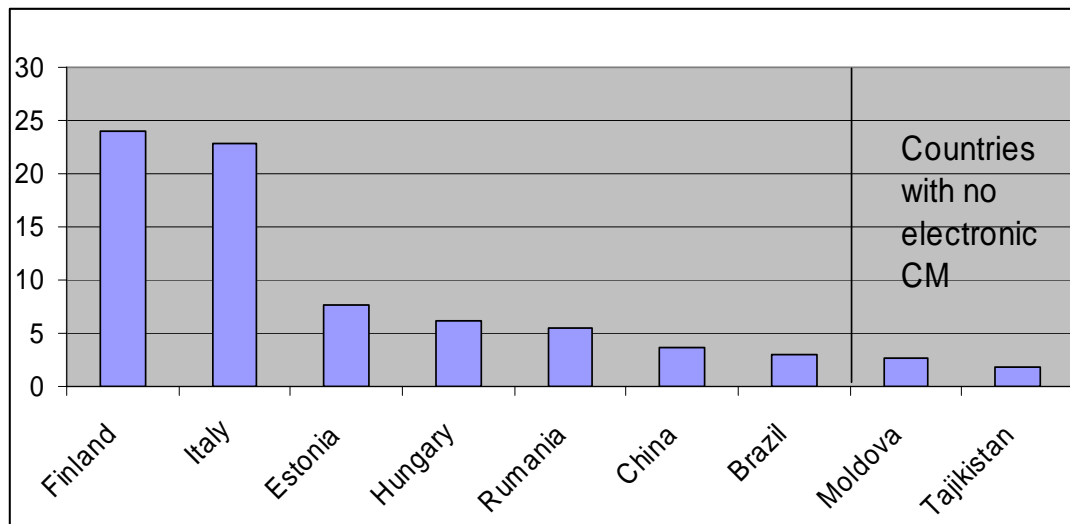


Figure: Average labor cost per working hour in electronic contract manufacturing, winter 2004, USD/ hour. Source: Contract manufacturers estimates.

In apparel industry, contract manufacturers often get their input materials from their principals, execute the manual work and send the finished apparel back as shuttle traffic between the principal’s warehouse e.g. in Italy or Belgium. The materials are sourced by the principal from Europe, India, Pakistan and China.

In electronics, however, most components are sourced from East Asia. Reliable deliveries are essential, because of rapid changes in demand. A typical supply chain from components to finished products involves several parties, which further amplify the changes, and escalate the inventory problem. Furthermore, most components and finished products have substantial price erosion, i.e. their market value decreases quickly.

In electronics CM, the value of direct material (i.e. components or sub-assemblies) is 60 to 70 per cent of the value of the finished product. The cost of production lines and testing equipment are often 20 to 30 percent of the total cost. Costs are directly related to capacity utilization, which seldom exceeds 90 per cent. The share of labor costs in electronics CM is typically 5 to 10 per cent of total costs. It means that cheap labor in itself is not sufficient to attract this type of production. Labor productivity is a key issue; however, Tajik labor productivity is difficult to assess.

In 2003, global electronics industry was facing low demand, and firms were struggling to keep their capacity utilization on a bearable level. In 2004, the demand has picked up and the industry is again looking for new sites and regions to combine access to market with low costs and high productivity. Tajikistan could provide very low labour costs and semi-skilled workers for some of the most labor intensive assembly jobs. There are, however, very severe trade and customs impediments affecting timely sourcing and on export affecting reliable distribution. The currently very low quality and scarce supply of transport and logistics services, poor transport infrastructure and a high country risk rating make it very difficult to promote Tajikistan as a location for FDI. Government action to bring down border crossing time and trade formalities, and to allow competition on air transport services, could change the situation.

2. CUSTOMS CONTEXT IN TAJIKISTAN³

52. A long-term business strategy for the customs administration has recently been drafted, which supports the national budget and economic policy, only in the customs and tax administrations reforms plans recommended by the IMF, following the creation of the Ministry of State Revenue and Duties.

53. However, poor internal communication within Government agencies, and their vested interests make that customs legislation and internal rules are not correctly and uniformly applied throughout the country. The situation causes duplication of information, misunderstanding between services and non-coherent strategy customs policy.

54. In December 2002 a WTO memorandum was approved by parliament and submitted to WTO in February 2003, and a new customs code and tax code are being introduced in compliance with international practices. In 2002, Tajikistan moved from an undifferentiated 5% duty tariff rate to one with duties varying from 0%, 2.5 %, 5%, 10% to 15%. An export sales tax is still evied on export of cotton and aluminium. The flat VAT rate is 20% on the value of the goods. In 2002, Customs duties and taxes represented 42% of the budget, or 6.7 % of the GDP.⁴

55. Customs tariffs are mainly Ad Valorem based. Some specific duties are applied on alcohols, food products and tobaccos. Excise duty rates are communicated by instruction to the different customs regional offices and then to border posts. However, the practice of using minimum value tables for import cargo has officially been abolished, but it is still part of recommended information transmitted to the regions and clearance offices.

56. The latest edited list of preferential agreed countries of origin for which all imports are granted at a 0% duty rate is mainly concerning the developing countries and least developing countries of the world. However, no particular attention paid on the determination of the country of origin, nor any skills enhanced on the provisions of the General Preference System agreement. The chamber of commerce and Trade issue the Tajik certificates of origin.

57. Private persons' cargo up to 1,000 USD and 50 kilograms imported for personnel reasons and not commercial purpose are exempted of Duties and Taxes.

58. One of the key challenges is to automate and computerize international trade procedures processing, enabling data exchange between customs and other cross border agencies, between customs of the neighbor countries, between customs and the banking system of Tajikistan, or also between the Ministry of Justice and the Tax administration.

59. Customs and trade procedures modernization should take place in a more general framework, as recommended by the IMF. This is also a prerequisite of a loan program of USD 50 million from the World Bank. Integration in the EURASIA customs union and the improvement of the transit system in the region are two major orientations required.

³ Based on Tajik Customs study by Bernard Touboul (2004); a description of key trade-related authorities and their operation is given in Attachment 12.

⁴ The state budget represents some 16 % of Tajik GDP.

Customs Cargo control and clearance procedure

Import clearance procedure

60. In rail transport the cargo is registered at the border - usually by hand – after which the cargo is taken to the regional clearance terminal in sealed wagons. The railway station reports the volume of cargo transported across the borders to the Customs on a monthly basis.

61. In road transport, the cargo is briefly checked at the border, registered by hand and then escorted to the regional clearance department or terminal. The escort fee is approximately USD 3 per 10 kilometers, as set in a governmental resolution at three times the level of the Tajik minimum salary.

62. The escort is payable on receipt delivered by the customs service. The escort is usually organized for several trucks for each trip. The responsibility of the cargo convoy is then transferred to the customs service of the clearance terminal point. Then a first check takes place to verify the data mentioned on the escort receipt. Nevertheless, there is no reliable enough reconciliation or systematic audit process between the border post cargo registration and the terminal cargo clearance declaration. The humanitarian cargo is free of escort fees but is nevertheless escorted to the final terminal point.

63. Goods are then placed in a temporary warehouse, which belongs to a private licensed operator like the transporter Association ABBAT. The regional customs departments are in charge of issuing the licenses for using the warehouses as a temporary one. The license costs 3,000 USD for a 3 year period.

64. Before the customs clearance process the importer has to present samples to Tajikstandard to obtain a compulsory quality certificate confirming the adequacy of the imported goods with the Tajik technical norms and standards. It usually takes between one and two days to obtain the certificate.

65. The same procedure should take place as regards the sanitary or quarantine certificates, the telecom and industry quality and standard certificate. Then all required certificates and documents are gathered and joined to the customs declaration. The documents may be required to be translated in Russian by the customs service.

66. Compulsory documents to be presented jointly with the declaration are: (i) Commercial invoice; (ii) Import license for certain products⁵; (iii) Copy of the commercial contract; (iv) Certificates of origin, quality, quarantine, radioactivity; and (v) Exemption waivers.

67. The steps of customs control and clearance process are (1) Control of documents; (2) Cargo control and laboratory analysis if required; (3) Payment of duties and taxes at the bank or cashier; (4) Confirmation and verification of payment to the bank; and (5) Release of the goods.

68. One copy of the declaration is dedicated to the importer, one copy to the customs terminal, one copy to the customs statistics department. Usually, one inspector from the clearance post carries out the documentary and physical control. Another inspector of the regional payment department carries out the calculation of duties and taxes and the payment

⁵ Trade restriction exists on e.g. weapons, medical and drug products, tobacco, alcohols, etc. There are no quotas or restrictive measures on other kinds of products.

collection. The customs declaration is filled in by the declarant till the break down of the duties and taxes to be paid. The computation and calculation is left to the responsibility of the customs inspector of the payment regional department.

69. The Post-customs control is organized especially for the goods placed under the customs regimes of: (i) Temporary admission; (ii) Temporary import/ export; (iii) Re exportation after technical admission; (iv) Free zone (the regime exists but the corresponding facilities do not); (v) Inward/outward processing; and (vi) Transit.

70. The customs border posts as well as the regional clearance terminals do not have any bonded customs warehouses in the republic of Tajikistan. The level of equipment for checking goods, vehicles and passengers is very poor and even inexistent. Drug dogs used at the customs locations usually belong to other drug trafficking agencies such as the Drug Control Agency.

Transit

71. At the border entry post the cargo is registered with the details of truck, volume and quantity of the goods, seals numbers, etc ... on basis of (i) The neighbor country export declaration, (ii) The commercial invoice when no export declaration is available, or (iii) A Tajik transit declaration.

72. At exit customs post of the Tajik territory the cargo is also checked and registered as previously. The main focus remains the integrity of the seals on the trucks. Today there is no reconciliation between the entry and exit cargo registration A transit customs declaration is required systematically when the goods are unloaded and reloaded from one mode of transport to another one (railway to road truck or truck to railway). This is mainly the case for the goods coming from Kyrgyzstan to transit through Tajikistan. At the Uzbek border the transit by road is rare. In most cases, transit is carried out by railway. The railway bill is then simply stamped by customs. No customs declaration is then required.

73. At the Afghan border usually the cargo is coming by railway till the major regional railway station and then cargo is reloaded to trucks to cross the border by road only. At the point of reloading of goods in presence of the customs authorities, a transit customs declaration must be established. The major difficulty remains the fact that the registration of cargo at the border point of entry and the exit point are never discharged nor reconciled. The point of exit is informed by radio of the next arrival of the said cargo at the border point in the next few days. However, no coherent management of the transit operations in Tajikistan exists.

Export clearance procedure

74. First the exporters have to fulfill the legislation to be allowed to carry out foreign Trade activities. The Tajik operators should be registered at the Ministry of economy to receive the license enabling such kind of activity. The foreign enterprises have to be registered at the Ministry of foreign affairs.

75. The export operations are first registered at the regional clearance terminal. The declaration is joined with the required documentation such as: (i) Copy of the contract; (ii) Foreign Trade activity license; (iii) Export license on specific goods; (iv) Tax ID certificate; (v) Quality certificate from TajikStandard; (vi) Certificate from the stock exchange office

(BIJA) for valuation purpose; and finally (vii) Technical Passport and Bank statement proving that goods exported has been paid or will be paid within 180 days from date of export⁶.

76. The declaration is then checked and stamped and the goods released for export. The cargo goes to the border post without any escort service. At the border point, the cargo is there checked and registered before crossing the border.

77. The clearance regional terminal informs the border post of expected time of arrival of the cargo at the border point by radio. There is neither discharge nor reconciliation between the terminal where the customs declaration and the border post registration. There is today no concern of the potential fraud on VAT on exported products in the republic of Tajikistan. A training effort on this particular point is strongly required.

Customs currency control

78. A national currency resolution establishes that bank currency payment must be carried out within 180 days from the date of the commercial contract signature for export operations. The control of the transfer of currency from abroad to Tajikistan or from Tajikistan to foreign countries is under the responsibility of the customs administration and the National bank through the network of the commercial Tajik Banks.

79. On import operations, the currency control is done on basis of the customs declarations and the commercial contracts. On export operations, the currency control is done on basis of the “Technical Passport” of the commercial transaction. It is a document composed of 3 copies devoted to the Trader, the bank and the last one to customs. It gathers all information about the commercial transaction including the identification of the consigner and consignee of the goods and the financial and banking details of the operation.

80. All the technical passports are centralized firstly at the regional customs departments and then at the central customs department of the Ministry of State Revenue and Duties. The Technical passport is discharged with the customs declaration and the bank statement of account of the Trader to make sure that the currencies have effectively been paid within the time period of 180 days.

81. For strategic products like aluminium, cotton, fertilizers, stones, the 100% prepayment is required to authorize the commercial operation and the export customs clearance.

82. The purpose of the currency control is mainly devoted to check the capital movement of currencies in the Republic of Tajikistan. There is no concern of research of tax evasion or money laundering possibilities. The customs administration is not empowered to bind the Trader to respect the rules of the currency control law. It is said that Customs and the banks establish a close and regular exchange of information by telephone means to coordinate their common action. The currency control sub department is nevertheless said to work closely with the customs value staff people to identify any case of over invoicing on export and under invoicing implying cash payment from abroad.

83. As shown in **Attachment 12**, more than 60 steps to process an import operation and some 40 steps on exports are required. This is not an exhaustive list of a standard procedure of import or export nevertheless the objective is here to show how heavy the process may be complex and not transparent.

⁶ For aluminium, cotton, precious stones, metals and fertilizers 100 % of prepayment is required.

Identification of major bottlenecks and recommendations

Key barriers related to Customs and trade activities are as follows:

84. **Poor governance and difficult institutions capacity building.** With Good governance and transparency of public administration largely absent, private sector investment remains very low in Tajikistan despite relatively liberal trade and investment policy.

85. **Lack of efficient banking system banking finance sector.** Banks in Tajikistan offer credits at high interest rates and require very high collateral. The process of obtaining bank credit is difficult. While local businessmen consider finance and cash movement as a priority problem, the main anxiety of foreign businesses is the underdeveloped legal environment and inefficiency of the law-enforcement mechanism.

86. **Lack of legal and judicial transparency.** Legal and judicial transparency is of utmost importance in terms of predictable international business operations. The absence of unification, centralisation and dissemination of the legal base in the context of border crossing and customs procedures is a major problem. Here, joint efforts of the Government, especially that of MoJ and the Customs are needed.

87. **Inefficient transit system and unbalanced modes of transport market shares.** The non-automated processing is a particular obstacle for supporting the transit processing discharge and management. The transit procedure lacks control equipment and provides unreliable statistics, information recording, bookkeeping, analysis and management. While similar problems affect transit traffic in the entire region, an automated and secured transit system based on a reliable and automated customs declaration system and a supporting banking system should replace the escort procedure. Also the tariff policy should become transparent and equally applied to the traders. A revision of the “codes” payment system is recommended and the dissemination of the information is required to avoid the multiple stop and recomposition of trains involving many delays and costs.

88. **Absence of effective Trade Promoting and Supporting Organizations.** Rent seeking behavior of the cross border agencies is often based on lack of adequate or clear information which entrepreneurs need to be aware of when organizing international transport. Strengthening of professional organisations such as Transporters associations, customs brokers and clearing agents associations, formation of PRO groups, and an initiation of public-private dialogue should considerably improve transparency between border crossing authorities and traders. Good understanding and communication between customs and the private sector is essential to smooth the customs activity on both sides. Joined Consultative Councils gathering representatives of all border-crossing actors to deal with the regional daily routine problems and the central policy and strategy customs and international trade orientations.

89. **Lack of simplification and rationalization of customs procedures.** Harmonization of tariffs, cross-border procedures and customs documentation are essential to reduce costs and facilitate trade. While access to China is becoming easier and tariffs are not harmonized among the Central Asian Republics, the risk of smuggling Chinese goods from the low tariff countries to high tariff countries will cause serious trade and political constraints. Tajikistan

with lower tariffs and other duties and more liberal procedures than Uzbekistan, offers a platform for re-export to Uzbekistan. As long as differences in tariffs and excise duties are greater than transportation and smuggling costs, such trade difficulties and consequences will exist.

90. A first effort should be done on the recognition of international standards and documentation in order to avoid the heavy duplication of procedures and documentation between countries. It may concern Tajikstandard and the MASQ environment (USAID works out on the recent reform of MASQ institutions and procedures in Central Asia), but also the other certification issuing institutions. This also concerns Tajik Customs, which requires a duplication of customs declaration while goods transit from and to the regional neighbors. The Customs also requires a number of unnecessary certification and inspection processes. Simplification efforts also concern transport institutions like the Ministry of Transport and ABBAT in order to define transparent tasks and functions and their responsibility in tariff policies.

91. The promotion of the Single Window concept would be highly recommended to promotion the harmonization of the border crossing procedures within the Republic of Tajikistan and then in further step harmonization with neighbor countries procedures and legal framework.

3. Transport infrastructure in rapid need of repair

The infrastructure is in poor shape, with no quick fix in sight—

92. The existing transport infrastructure has been poorly maintained and no infrastructure has been added to address the needs for changing trade patterns, while reform of the transport sector management and financing has been slow. The poor quality of the transport infrastructure severely affects mobility of goods and people. It is also a significant impediment to expanded trade by imposing additional costs on exporters and importers.

93. The road subsector is the most important component of domestic transport in Tajikistan. The combined length of Tajikistan's road network is about 26,000 km, consisting of 4,700 km of national roads and 21,300 km of local roads. The scope of the network is considered adequate to accommodate existing traffic levels and support economic growth and sustainable development in the medium term. In the wintertime, however, the Anzob pass is closed for several months, preventing land transport between the Khujand region in the north and the rest of the country.

94. The Ministry of Transport (MoT) has jurisdiction over 13,700 km, including all of the national roads and 42% of the local roads (9,000 km). The remaining 12,300 km of local roads not under MoT jurisdiction are mostly rural and farm roads. The major part of the network was constructed before 1970, and inadequate maintenance and damage from civil conflict and recent natural disasters have left it in a state of severe deterioration. Of the national roads, 42% are asphalt, 50% are other pavement, and 8% are gravel.

95. Internationally, every \$1 spent on road improvement is estimated to save \$3 to \$5 in road user costs every year. This may, however, not apply to Tajikistan, where poor roads cost users unnecessarily at least USD 10 million a year in increased vehicle operation cost (VOC) and time spent, but the cost to improve the situation are likely to be much higher than that. The very old vehicle fleet in Tajikistan makes it difficult to assess the VOC, as the vehicle component has such a high value in the standard calculations.⁷

96. Road maintenance and construction are now funded from the general state budget as the Road Fund was terminated in January 2000. The annual requirement for maintenance of the 4,700 km of national roads is an estimated USD 16 million. In the national budget for 2003, USD 8.5 million, or approximately 3% of total planned Government expenditures, was allocated to the road subsector. In 2003, approximately USD 1.7 million was allocated for road maintenance, USD 3.4 million for new construction, and USD 3.4 million for rehabilitation.

97. Many of the asphalt roads are in a seriously deteriorated condition, and in many places the asphalt has been worn away by years of traffic and lack of maintenance. Of the total roads in Tajikistan, 20% are estimated to be in fair condition, 48% in poor condition, and 32% in very poor condition. Practically none of the roads is estimated to be in good or very good condition.

⁷ In road projects in developing countries, Vehicle Operating Cost (VOC) savings usually bring the major economic benefit (60 to 80%), followed by travel time savings (10 to 20%), accident cost savings (5 to 10 %), and other savings, such as local road component (2 to 5 %).

—while poor level of infrastructure impede the economy.

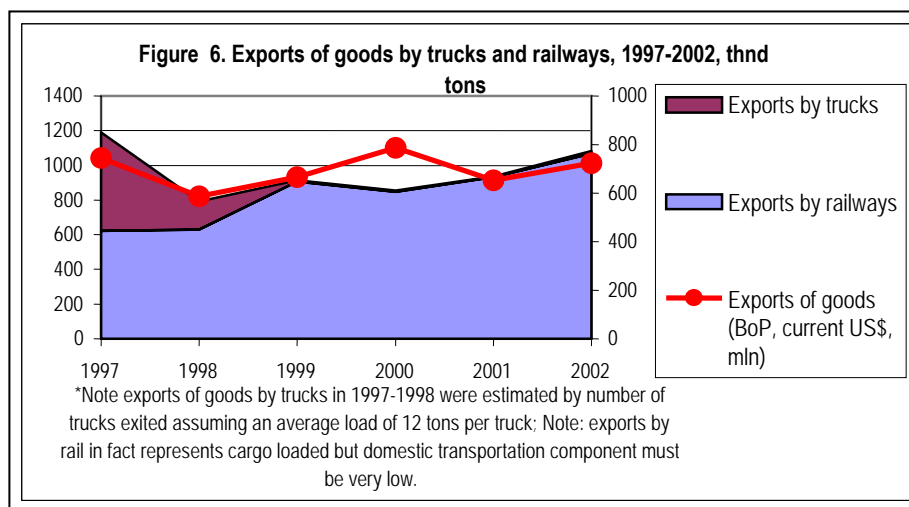
98. The results indicate that the poor quality of Tajik road and rail infrastructure and the management of these are experienced as a major impediment by Exporters and Importers, and by transport firms.

99. Telecommunications infrastructure and services are gradually developing. The cost of mobile telephony and data transfer is, however, evaluated on average as a moderate hinder in more developed CIS countries, and these issues pose very little problems in EU or EU Accession countries. Mobile telephony is widely used in business in Tajikistan too, and the cost of domestic mobile telephony is relatively affordable, but international calls are extremely expensive.

100. The railway is the principal means of transport by volume. The railway tracks are not electrified; only 67 km of line is double-tracked. Rail tracks are of wide (Russian) gauge. Major destinations for rail transport are Russian and CIS markets, but they also include container transport to ports of Tallinn and Riga, which are used for consecutive transport to European and Latin American markets.

4. Underdeveloped transport markets

101. Since the independence, the reduced economic activity in Tajikistan has significantly reduced the demand for transport. The volume of transport work in 2000 by rail is about 1/10, and in road transport about 1/15 of the 1990 level. As a result, overcapacity is a major problem. Other transition countries – also the larger Central Asian countries - have witnessed a similar development, but their recovery has been promising in rail, and especially strong in road transport (Figure 6).



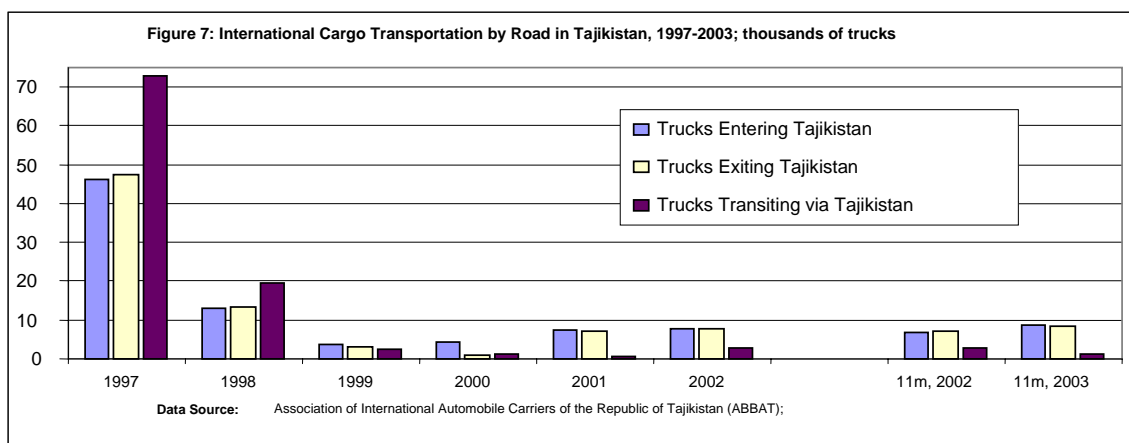
Road Transport Industry is fragmented; freight transport mainly private and deregulated

102. Major changes have occurred in the road transport industry since independence, especially in the commercialization, and in some cases privatization, of the industry. As of March 2002, 5,226 vehicles were operated by joint stock companies and other organizations within MoT. Of these, 3,627 vehicles or 69% were operated by four joint stock companies (Badakshonnakliyot, Khatlontrans, Khudjandnaklyot, and Kulyabtrans). The remaining vehicles were operated by other MoT departments, Tajik Air, and Tajik Rail.

103. In 2004, over 60 % of trucking and most long-distance bus services are operated by private companies. Tariffs for road freight have been completely deregulated; road haulage organizations enter into agreements with customers at negotiated rates. Tariffs for passenger transport are still regulated. MoT and the Ministry of Economy jointly establish tariffs for passenger transport for buses, minibuses, and taxis for urban and long-distance services. While these official tariffs should be charged by all operators, many bus and minibus operators charge market fares, according to what they think people will pay, and do not follow the official tariff.

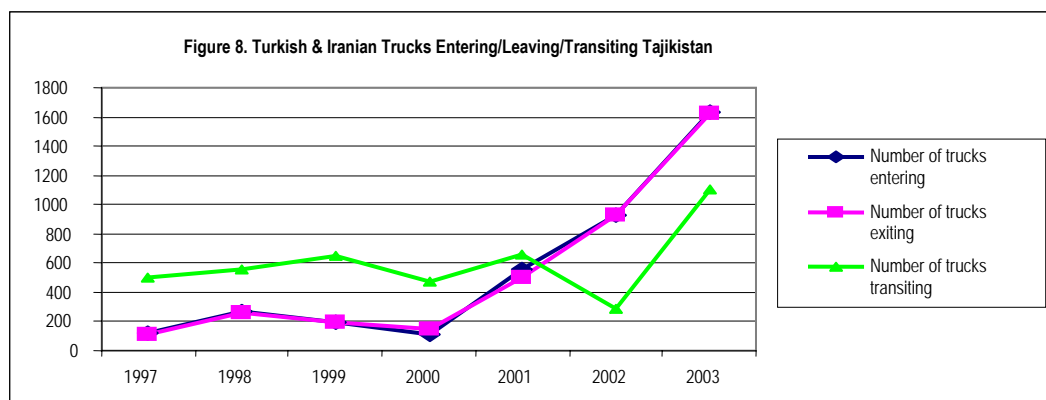
Tajik road transport firms have very low operational costs—

104. The Tajik trucking industry comprises three types of operators: (i) domestic operators with very old equipment, (ii) operators with old Tajik-registered equipment in short distance international trades, and (iii) operators with old non-Tajik equipment in CIS and non-EU trades. The use of bilateral permits in international traffic is limited as transit permits can be obtained with extra payments. There are no operators in European trades as equipment complying to higher EURO standards does not exist. Due to substantially higher transport volumes prior to 1998, overcapacity is persistent and despite very low operational costs, profitability is poor. (Figure 7.)



105. The very modest fleet renewal is currently financed through equity because of high cost of loans or leasing. As the current fleet rapidly approaches its technical end of life, there is an imminent need for fleet renewal. With very limited funds generated in the transport sector this will lead to a substantial decrease of road transport capacity in the next five-seven years.

106. The institutional or legal barriers for road transport operators to enter the domestic market are very low. Entering the market for international haulage is difficult due to the incumbents' strong positions. Operators from Turkey, Iran, Uzbekistan, Kazakhstan and other CIS countries have a strong position in the market serving also Tajikistan, especially since 2002 (See Figure 8).



107. The impact of wage levels is substantial to trucking firms' cost competitiveness. In international transport, the cost and expenses of the driver from an EU country is 30-35 per

cent, and for a driver from Eastern Europe 14 -16 per cent of operating costs of a 40 ton rig. A Moldovan driver costs around 10 per cent and a Tajik driver less than 10 per cent of operating costs. The high cost of fuel in Tajikistan hampers especially domestic transport.

—home market is constrained by own account transport and low demand.

108. The more developed the logistics market, the lower the percentage of own account transport. For example, in EU countries typically 10 to 15 %, in Latvia 25 % and in Moldova over 40 % of the transport is carried for own account. A high share reflects the low quality of services available in the market, and the low initial investment in own equipment and transport staff.

109. In badly performing transport markets, as is the case in Tajikistan, own trucks and drivers give much more flexibility in operations than bought services. It also compensates the need for transport insurance when using commercial carriers. In Tajikistan, transport insurance is reportedly very costly and unreliable, and therefore it is hardly ever used in domestic transport. When insurance coverage is used in international transport, it is organized from abroad.

110. In domestic transport or distribution it is even more common to have own transport equipment, since the availability of domestic distribution services is very low, and the reliability is also low. Demand for domestic distribution is low, because there are no country-wide retail operations –due to the very low purchasing power and consumption that are served by shuttle traders, and the very difficult topography and transport conditions.

Tajik Rail is profitable but it needs substantial restructuring—

111. Tajikistan has three railway lines that connect the country through Uzbekistan to the rest of the FSU countries (see Cover); (i) the southern line terminates at Yavan and mostly carries cotton for export; (ii) the central line terminates at Dushanbe and carries mainly aluminum/bauxite; and (iii) the northern line that connects Khujand to the Fergana valley, carries fruit, vegetables and cotton.

112. Traffic on the northern line is reported to be in the region of 800 wagons per day, mostly carrying transit goods to/from eastern and western parts of Uzbekistan. Only 10% of the volume of goods carried by the northern line was reported to be to/from Tajikistan. The northern line is also heavily used during winter as a by-pass to the snow blocked roads that connect Dushanbe to Khujand. The Government has identified a number of what it considers to be high priority transport infrastructure investment projects, including the electrification of the rail line between Kanibadam – Khujand (approximately 80km) and the railway connection between the Dushanbe and Yavan (approximately 53 km).

113. The national railways comprises a total of 34 enterprises. Services include; track and wagon maintenance, a research institute, telecommunications, social services for employees (schools and health services), and maintenance units for some remote rural roads that connect local stations to the national road network. It is clear that significant restructuring of the Tajik railways is required in order to focus on core railway activities, and to increase the productivity of the railway services. 61 percent of revenues come from transit traffic, while passenger traffic generates only 14 percent of the turnover. Based on this data, the average freight revenue was USD 0.032 per ton-kilometer in 2003. (Table 2 and Figure 9)

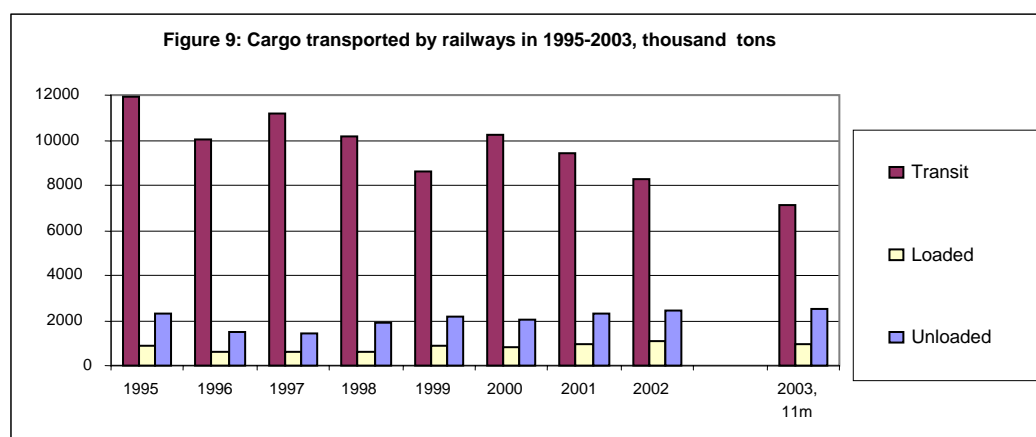
Table 2. Financial data of Tajik Railways in million somoni (2003 also in USD). Source: Tajik railways.

Million somoni	2000	2001	2002	2003	<i>2003 million USD</i>	<i>2003 in %</i>
Turnover			123	154	54.0	
Transit revenue			(est.) 84	94	33.0	61 %
Passenger revenue			9	21	7.4	14 %
Import, export and other activities			(est.) 30	39	13.7	25 %
Profit	20.7	-2.5	7.5	11	3.9	7 %

114. In 2004, the national railways had a stock of 1,760 cargo wagons, of which under 300 are in serviceable condition. It also has some 700 containers, which are mostly small units for 3 or 5 tons. Some 100 containers are 20' units carrying 20 tons, and they are occupied in international traffic. All containers date back from the Soviet era.

115. Passenger wagons are mostly obsolete, but 30 wagons were purchased in 2002, and 120 will enter traffic in 2004. Another 32 passenger wagons are being refurbished in Russia, 10 of which are intended for the Khujand-Saratov line starting tentatively in May 2004. The remaining 22 wagons are intended for Dushanbe-Novosibirsk and Dushanbe-Moscow traffic later in 2004 or 2005.

116. The main destinations for freight transported by rail are Russia, Baltic States, Europe and Iran. Total freight volume increased from around 34 million tons in 2001 and it is expected to be more than 39 million tons in 2003.



117. Domestic freights are subsidized, whereas Tajik Railways is extensively utilizing its monopoly status in export shipments. Transit traffic is profitable, but Tajik Railways has little influence on total costs, because much of the total transport takes place outside the country. Tajik export commodities that are suitable for rail transport have few alternative means of transport. (Box 3).

118. Passenger rail transport has a marginal role domestically, and services make a loss due to low level of utilization, evasion of ticket revenue and low cost of official fares; in 2003, the average revenue per passenger was merely USD 1. Operations tend to be cross-subsidized by freight revenue. Cross-subsidization is, however, is not a sustainable way of running these services. Other types of subsidy are called for if current passenger services are to be maintained without cross subsidies. An alternative is to apply some sort of Public Service

Obligation (PSO) for the railways. In many other countries, PSO's are typically funded through the state budget.

Box 3. Railway tariff policy in the CIS countries

All CIS+Estonia railway administrations gather once a year to discuss and to adopt the common tariff policy. A more or less common approach to a general railway tariff policy is developed at the meetings. Each country is free to introduce variation to a general railway policy by the introduction of (upward or downward) adjustment coefficients that are applied to the general tariff or some of its subcomponents. Once the tariff policy is adopted, further national increasing coefficients can be introduced only twice a year, while the number of reducing coefficients is unlimited.

The resulting tariffs depend on the distance (the longer the distance that cargo travels within a particular country, the lower the tariff per 1 km), the type of a good (the price tend to increase the higher the value of a good/cargo), weight of the load, the type of the container/wagon and the space that the good is going to take in a wagon. The transit tariffs are generally higher than tariffs for internal transportation of cargo, and thus are often the source for subsidizing internal cargo and passenger transportation.

On the positive side, the policy allows the goods with low price-to-weight or price-to-volume types of cargo (for example agricultural goods) to be transported at somewhat lower rates and allows countries to manipulate tariffs (especially downwards) to maximize gains and/or traffic at will. On the negative side, the transportation is increasingly less competitive the higher the number of transit countries. At their annual meetings CIS+Estonia Railway authorities tend to negotiate as high tariffs as possible since they can reduce them any time but are able to increase them only twice a year. The latter leads to multiple reducing coefficients being introduced and abolished leaving the tariff rates highly non-transparent and often leads to mislead expectations on the part of customers and forwarders.

Source: Alex Kitain, Consultant to the World Bank

—but still detached from customer needs.

119. The passenger service offered by Tajik Railways is poor due to ill-maintained rolling stock, antiquated ticketing system allowing neither reservations nor transparent fares, and very long transport times. Tajik freight wagons are use almost exclusively in domestic traffic, albeit traffic between the north and the south transits Uzbekistan. Travel time between Khujand and Dushanbe is 35 hours for passengers and up to a week for cargo.

120. Currently, there are no direct passenger train services to Moscow. Anecdotal evidence in April 2004 suggests that a train ticket between Dushanbe and Moscow costs approximately USD 150, but unofficial payments at borders and to train staff add another USD 100, making the 2-day trip worth USD 250. By contrast, air fare for the four-hour flight for a Tajik citizen costs USD 200, with little unofficial payments. It is no wonder that air transport is the preferred option. Against this background the intended re-opening of the rail service to Moscow

121. Major cotton and aluminium exporters as well as petroleum product importers using full wagonloads enjoy relatively affordable freights thanks to the CIS tariff system. For the biggest customers, the access to wagons is generally not a problem. However, no viable less-than-wagonload service is offered. Exporters cite that, for example, a 5 ton commodity shipment to Russia can take up to 5 months to reach its destination.

Air transport has a small volume and capacity, but sizeable growth potential—

122. Air transport is important for developing countries for a number of reasons: i) It is the entry point in least developed low Income Countries because it is the Transport service that requires a very low start up investment and that immediately provides quality and safety; ii) air transport is key to integration into the global economy, but also regional and local economic and social integration absolutely requires safe and secure air transport; iii) in the post September 11 era, a country that does not provide safe and secure air transport is out.

123. The aviation industry in CIS countries has had to deal with the legacy of the collapsed Soviet air transport system even more than in other modes of transport. In Tajikistan, air transport of both passengers and cargo is concentrated in the Dushanbe airport. Domestic flights connect the capital with Khujand and Khorog, respectively.

124. Official statistics recorded 0.4 million passengers in 2002, up from 0.2 million in 1997-2000. 884 million passenger kilometers were performed, but only 2,400 tons of cargo was handled in 2002. Destinations include Moscow, Munich, Istanbul and Dubai. (Table 3.)

125. Airports are run by the state-owned monopoly carrier Tajik Air⁸, which also takes care of air navigation services. This creates severe conflicts of interest in air traffic safety and commercial operations, especially since the regulatory capacity of the MoT is very limited. Tajik Air was under the supervision of the MoT in 2000-2003, but became a separate SoE in January 2004. Despite the separation, little progress has been made to restructure the airline.

126. Airports in Dushanbe and Khujand have international flights. The airport of Kulyab could also handle large aircraft, but it has no international flights. The runway of Dushanbe airport was modernized in late 1990s by French military engineers as relief work. While the passenger terminals in Dushanbe and Khujand airports are relatively spacious, their layout is impractical to handle simultaneous flights. The airports are currently operating at less than 30 per cent of actual capacity. The capacity could be increased relatively easily by modernizing the terminal layout and equipment.

Table 3. Air transport volumes of Dushanbe airport in 2002 and 2003 (excluding international flights from Khujand). Source: Tajik Air

Route to	2002				2003			
	Passengers	Cargo tons	Flights (two ways)	Average Pax / Flight (one way)	Passengers	Cargo tons	Flights (two ways)	Average Pax / Flight (one way)
All routes	252,608	1,798	1,783	71	276,930	2,763	2,153	64
Moscow	129,882	635	557	117	124,329	818	471	132
Khujand	30,692	101	487	32	51,651	160	787	33
Novosibirsk	23,162	87	100	116	21,916	76	133	82
Yekaterinburg	21,690	61	101	107	19,840	62	105	94
Almaty	13,616	62	173	39	12,986	73	197	33
All other destinations	33,566	853	365	..	46,208	1,574	460	..

⁸ Tajik Air, or State Air Company “Tojikiston”, also operates a regional carriers in Sogd (Khujand) and Kurgan-Tyube regions. Khujand Air enterprise has two cargo aircraft that are used for domestic traffic during winter when the Anzob pass is closed.

127. Some domestic routes from Dushanbe, such as those to Garm, Djirgital, Kulyab, Asht and Isfara have very low passenger volumes, and these operations are likely to make a loss. If these destinations, and especially the ones in the Rasht valley, need to be served by air, more air cargo should be carried on these routes, as road transport to Rasht valley is reportedly subject to very high unofficial payments by road police.

— while most air cargo takes off and lands outside Tajikistan.

128. Scheduled air cargo is mainly so-called belly air freight, which relies on the holds of scheduled passenger flights. Only a few air freight forwarders exist. They also use Moscow, Dubai and Istanbul as a transit airport.

129. Express freight operators (DHL, UPS and TNT) with local representatives in Dushanbe and Khujand tend to rely on air freight, but they have no regular flights of their own.

130. Cargo handling is the monopoly of the airports. Overall, the quality of cargo handling service was deemed poor by the freight forwarders interviewed by the Consultant. They also cited the cargo release is often postponed with a day or two to include extra charges.

Box 4. Converting end-of-life aircraft to cargo traffic, and making profit with them.

Tajik Air's operational fleet in spring 2004 comprises nine TU 154's, four TU-134's, nine Yak-40's, and eight AN-24, AN-26 or AN-28 aircraft and five Mi-8 helicopters. Another 24 aircraft are in storage. The fleet has an average age of over 20 years. None of them are able to fly to European Union airports because of EU noise regulations. According to estimates up to 80 % of Tajik Air's aircraft will also meet their technical end of life as passenger carriers in year 2005.

The only way to extend the commercial life of the fleet is to convert the available TU-154's and TU-134's to pure cargo aircraft. With relatively small conversions costing USD 0.1 to 0.4 million per aircraft, these could serve an additional three to five years on non-EU routes.

A TU-154 can have a payload of about 15 tons to Moscow or Istanbul, and about 18 tons to Dubai. A TU-134 can carry approximately 8 tons to the former and about 10 tons to Dubai. So, a single TU-154 could easily carry 8,000 tons of cargo per year on the Dushanbe-Moscow route, provided capacity is utilized in both directions. With efficient route planning, the production cost is less than USD 0.8 per kilo to Moscow or Istanbul, and less than USD 0.6 per kilo to Dubai.

A going rate to charter a TU-154 from Dushanbe to Moscow is USD 16,000, or USD 1 per kilo. Air freight to Moscow for parcel shipments is currently at USD 2 per kilo. With 100% utilization, the operator could generate annual sales of USD 16 million, while the production costs would be less than USD 8 million. This would put the break-even point at 50% of capacity utilization, which is a very low value. Based on interviews there is substantial potential for cargo routes to Moscow, Dubai and Istanbul.

While Tajik Air may not be ready to serve this demand itself, it should consider chartering entire aircraft to commercial freight forwarders that would take care of the operation and also carry the commercial risk. Suitable operators with necessary representation in the main destinations already exist in Tajikistan. Source: Consultant's calculations

—but Government action may hamper further development.

131. Government action has prevented new start-up ventures – such as one from Turkish Airlines - from operation. Tajik Air uses old Soviet-era aircraft on international and domestic routes, which need to be replaced with either leased or second-hand western equipment. There have been talks to lease or finance two second hand Boeing aircraft for the airline. In an earlier stage, EBRD was having talks to be a potential financier, but it is no longer involved in the project.

132. Given the very high cost and long transport time of overland transport to and from Tajikistan, developing air transport of both passengers but in particular cargo is the only way to link the country with wider markets. With current equipment, staff and practices, Tajik Air is about to dwindle to oblivion in 2005, and the outlook of restructuring Tajik Air to an efficient airline look bleak. This leaves little options, and a tempting solution would be to create a totally new airline which replaces Tajik Air. This requires substantial private sector or donor finance, but as market demand both for cargo and passengers is evident, the operation using modern equipment and processes could quickly become profitable.

133. The suggestions include the following: (i) Tajik Air needs to make quick decisions to turn their next-to-obsolete aircraft into profitable cargo carriers; (ii) plans to lease modern aircraft for Tajik Air need to be based on sound financial planning, which is very challenging; (iii) the management practice and business operations of Tajik Air need to be thoroughly reorganized, including the modernization of the booking and ticketing service; (iv) if points (i) to (iii) seem impossible to realize, a tempting option would be to create a totally new airline with start-up capital from a donor or the private sector; and (v) the Government needs to open up the air traffic market also for foreign operators.

The logistics services are still very underdeveloped —

134. Freight forwarding, warehousing and other logistics-related services have been mainly privatized. Compared to international standards the range of services offered is very narrow and the quality of these (such as reliability, on time deliveries and timely information) is very low. The supply is limited to basic transport services, and there are no providers offering extensive logistics services. The results in the Exporter/Importer survey in 2004 clearly verify that the Tajik logistics market is at a very early stage of development.

135. None of the major European freight forwarding firms has established own operations in the country, citing the very small size of the market, high set-up costs, and that reliable and cost-efficient logistics solutions are difficult to arrange due to unpredictable public administration procedures and often corrupt practices.

—and customer's quality requirements can not yet be met—

136. The operational environment in road and rail transport could be summarized as follows. The cost level for domestic road transport is low partly because of low operating costs and wages, and persistent oversupply of old equipment not suited for suited international traffic. This also means that rock-bottom freights do not allow carriers to accumulate capital to renew the equipment.

137. Items that suit rail transport benefit from the CIS tariff agreement, which offers Tajik shippers relatively favourable freights - despite the fact shippers are unhappy about the freight level and unpredictable service. International transport of unitized transport, on the other hand, is among the most expensive in the world.

138. Air transport capacity is very limited, and service quality is low, yet air transport is the only form of transport that could bring Tajikistan closer to world markets, when timely and fast transport is required.

—while foreign forwarders rate the country as logistically unfriendly.

139. A survey was conducted in 2003 among international freight forwarders in order to illustrate how “easy” or “difficult” individual countries are perceived to be from a logistical point of view (Ojala et al. 2004). The concept of “Logistics friendliness” was adopted following its introduction by Murphy and Daley (1999). Logistical friendliness (unfriendliness) refers to the ease (difficulty) of arranging international freight operations to/from a particular country.

140. Since corruption greatly impedes economic growth there is also a correlation between logistical friendliness and the GDP per capita. This is a strong indication that the less perceived corruption there is in a country, the easier it is to trade and arrange the logistical practicalities with that country. This is no surprise as such, but the relatively strong correlation between the logistical friendliness and GNI/capita (0.821); and CPI (0.716 respectively) is noteworthy.

141. Central Asian countries⁹ have a high level of perceived corruption, and they have complicated customs regulations and practices, which add to the cost of transport and make them unpredictable. Transport markets are not very developed, and transport costs tend to be high. These are the main reasons to see them as logistically unfriendly countries (Figure 10).

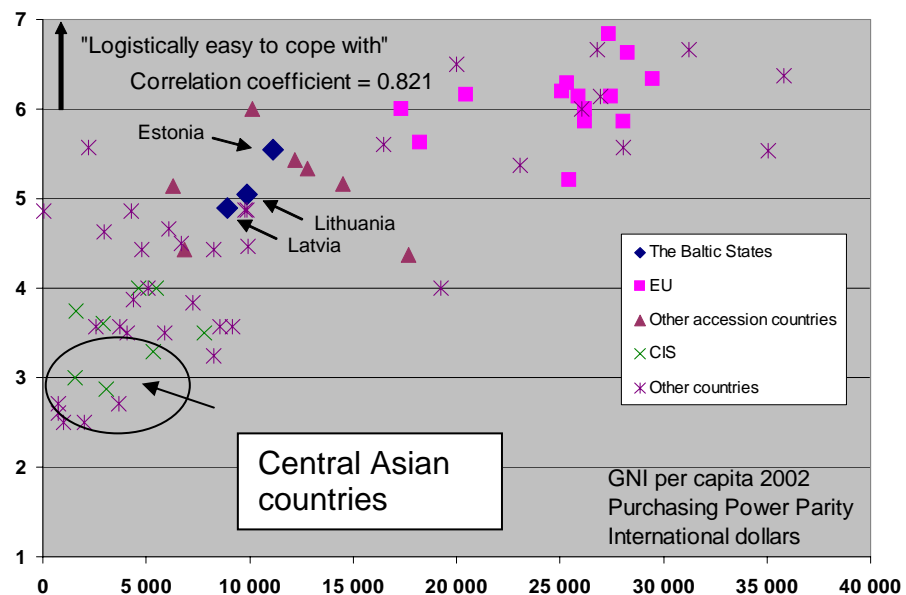


Figure 10. The ranking of countries in the Logistics Friendliness Survey 2003 against their Gross National Income (GNI) in 2003. Source: Ojala et al. 2004

⁹ Uzbekistan and Kazakhstan were included in the 2003 Logistics Friendliness Survey.

The severely land-locked Tajikistan is a long way from maritime hubs—

142. Tajikistan is virtually a double land-locked country as the straight-line distance from Dushanbe to Karachi and Bandras Abbas, the nearest seaports, is over 1,600 km and 1,800 km, respectively. The ports of Poti in Georgia and Tallinn in Estonia are the main destinations for rail transport of Tajik aluminium, the main export commodity both by value and weight. The Port of Riga in Latvia is an important destination for Tajik cotton.

143. Tajikistan has no maritime industry or shipping companies, but a small number of freight forwarding act as agents for some liner shipping companies. They can offer connections to major container shipping lines in the world at fairly high cost.

144. Container traffic is currently almost negligible, but the currently the feasible ports with developed liner shipping connections include the Russian port of Novorossiysk in the Black Sea, and to a lesser extent the ports of Poti and Odessa (Ukraine). Intercontinental container traffic could also pass through ports of Hamburg, Rotterdam or Antwerp, but this is a very costly arrangement.

—but freight forwarders link the country to liner shipping at a considerable cost.

145. Anecdotal indications in spring 2004 suggest that container freight to Tajikistan is among the highest in the world, exceeding USD 9,000 per a standard 40' ISO container from US East Coast to Dushanbe. (Table 4.)

Table 4. Indicative container freights in USD per 40' container in 2003/2004, including freight, handling in ports and terminal and estimated unofficial costs.

	<i>US East Coast to</i>		<i>East Asia to</i>	
	<i>USD per 40' container</i>	<i>Transport time (days)</i>	<i>USD per 40' container</i>	<i>Transport time (days)</i>
<i>Chisinau (Moldova)</i>	4,500	18-25	3,500 ¹⁰⁾	22-27
<i>Tbilisi (Georgia)</i>	7,000	20-25	5,000	25-30
<i>Baku (Armenia)</i>	7,500	23-28	6,000	27-33
<i>Ashgabat (Turkmenistan)</i>	8,500	25-35	7,000	30-40
<i>Dushanbe (Tajikistan)</i>	9,000	30-40	7,000	35-45

146. Apart from competition between shipping lines, freight level in liner shipping of containers is determined by (i) economies of scale of the vessels used in transocean routes, (ii) frequency of services, (iii) volume of operations of the major ports, (iv) balance of traffic, and by (v) overland transport costs. Geographical distance between the port of origin and destination is a poor proxy for transport costs. At the same time, the amount of world trade that is unitized – typically in ISO containers – is growing rapidly as they suit a wide range of manufactured items.

147. The awkward inland transport connections to and from Tajikistan, complicated transit arrangements – despite tariff agreement of the CIS countries - and ill-suited transport equipment for containers are likely persist in the foreseeable future.

¹⁰ Freight via Rotterdam and by truck to Moldova is USD 5,000. This takes 32 to 35 days. Some shippers favor this routing because of more frequent sailings and avoidance of transit over Ukraine and Transnistria.

148. The freight differential alone between, say, Georgia and Tajikistan is USD 5,000 to 6,500 per container. This means that for an identical product – all other things being equal– a Tajik export price per ton has to be roughly USD 160 to 220 lower than the Georgian price, or USD 250 to 300 lower than the Moldovan price.

149. The Tajik exporter also has to bear the higher costs for any imported input material. In addition, he needs to discount the 1 to 2 weeks longer delivery time into his sales price, equal to a rebate of 1-2 per cent of sales.

- while the Trans-Asian Railway North-South Corridor could prove feasible.

150. The feasibility of rail container transport as a possible alternative to shipping between Northern Europe and the Persian Gulf with shipping connections to South and South-East Asia was assessed by ESCAP (2001), which conducted a study to identify:

(i) *all feasible rail and land-cum-sea routes connecting Northern Europe with the Persian Gulf through the Caucasus region, Central Asia and/or the Caspian Sea;*

(ii) *The characteristics of these routes in terms of their lengths and the transit times they can offer, with due attention to average operating speeds as well as typical dwell times at border stations and transshipment points; and*

(iii) *the presence of operational restrictions might impede the smooth flow of goods along the routes.*

151. Time comparison by sea or by either rail, or sea-cum-rail for movements between Northern Europe and the Persian Gulf with onward connections to South and South-East Asia is given in Table 5.

152. Table 5. Estimated transit times in the three route options of the Trans-Asian Railway North-South Corridor; in days. Source: ESCAP 2001

Helsinki to:	Sea (1)	Rail (2)	Land-cum-sea (3)
Tehran	33	12	33
Lahore	42	18	24
New Delhi	32	20	27
Bangkok	32	Not applicable	35

(1) With direct sea movements from Helsinki to Bandar Abbas, Karachi, Mumbai or Port Kelang.

(2) Considering the only currently operational route through Central Asia.

(3) All-rail to Bandar Abbas along currently operational route through Central Asia followed by sea transport from Bandar Abbas to Karachi, Mumbai or Port Kelang and rail journey from these ports to final destination.

153. The above estimates indicate a transit time advantage for rail over shipping, reflecting the actual differences in distances. However, the figures are calculated on a series of optimistic assumptions. For example, as regards shipping, the 2-day dwell time in ports used in the calculation may be shorter than is actually the case. As regards rail, the times indicated consider unimpeded movements between countries, especially between the Islamic Republic of Iran and Pakistan, and between Pakistan and India. Meanwhile, landcum-sea transit times suffer from the absence of regular, direct services from Bandar Abbas to ports in South and South-East Asia.

154. While there is no doubt that the rail and land-cum-sea options are likely to offer attractive transit times in future, much will have to be done to capitalize on this advantage in the fields of tariffs, services and facilitation.

Prospects for Multi-modal transport services are dim.

155. Multi-modal transport means that unitized transport takes place under one transport document in by one main operator – called the Multimodal Transport Operator (MTO) – using more than one transport mode (such as trailers on a train or a roll-on/roll-off liner ship).

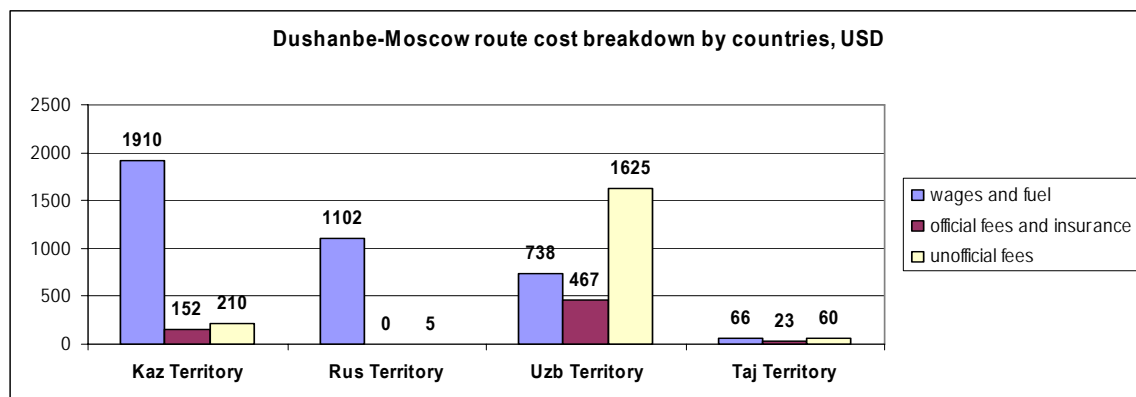
156. This type of transport does not exist in Tajikistan nor is there any specific legislation or framework for multi-modal transport. Rules and regulations follow those of the individual modes, where, for example, liability regimes are different. A handful of freight forwarders can arrange intermodal transocean transports, where each transport leg is conducted under a separate transport document

157. In principle, transporting road-based trailers or even trucks by rail over long distances in the CIS rail network, could combine low freights, easier loading and unloading, and a higher level of flexibility for shippers. A competitive freight scheme would also generate more traffic for CIS railways, but it would require additional investment in refitting the equipment and terminals.

158. There is a substantial untapped market potential for multi-modal transport in CIS countries, but this potential can only be addressed by the railways of the large CIS countries.

Unofficial fees and drug trafficking concerns prevent trucks from export

159. In general, road haulage firms encounter severe problems with border crossing and unofficial payments especially in Uzbekistan and to a lesser extent in other CIS countries. Based on interviews in February-March 2004, unofficial fees on a roundtrip from Dushanbe to Moscow amount to approximately USD 1,900 but only some USD 400-600 to Iran.



160. According to interviews in Spring 2004, unofficial payments in the tune of USD 100 to 400 per wagon or shipment seem to be standard routine in getting booking codes (i.e. wagons and train slots for them) in railways. Unofficial payments in railway stations and marshalling yards may include, for example, USD 50 for cleaning a wagon, even when no cleaning actually takes place. Stations also often apply so-called “Additional fees”, which are not founded in any formal tariff. The interviewees were often reluctant to quantify the impact of unofficial payments in money terms.

161. Anecdotal evidence in spring 2004 suggests that unofficial payments for Tajik Customs officials range between USD 10 to 100 per transport unit or clearance, USD 20 to 50 for phyto-sanitary inspection and in the USD 10-50 range for the border guards. According to this survey, total unofficial payments on Tajik road border crossings were on average USD 50

to 200 per truckload. However, the practice varies a lot and they differ by the nationality of the truck or driver, and vary from one border crossing point to another.

As a result, transport services are provided by non-Tajik firms

162. Tajikistan turned from a net exporter of transport services to a substantial importer in 2002. Virtually no Tajik road transport firms are used in export, and the share of total rail freight receipts attributed to Tajik Railways is very low. Transport services export at USD 45.6 million was 66 % of all services exports, while imported services were valued at USD 81.5 million, or 78 % of all services imports in 2002. (Table 6)

163. An estimated USD 30 million of credit and USD 50 million in debits of services trade is attributed to rail transport. Air transport is estimated to bring USD 15 million in credits, almost exclusively from non-Tajik passengers, and pay USD 10 million in debits. Tajik road carriers have virtually no receipts from abroad. An estimated USD 20 million worth of road transport services were imported in 2002.

Table 6. Transport is the most important component in Tajik trade in services, USD million.
Source: Tajik Ministry of Finance

	1998	1999	2000	2001	2002
Services Balance	20,0	9,1	5,6	-7,4	-35,9
Total Credit	59,6	52,3	62,6	62,2	69,0
Total Debit	-39,7	-43,3	-57,0	-69,6	-104,9
Transport Balance	24,9	13,7	14,6	-0,7	-35,9
Transport Credit	54,5	47,7	54,0	44,1	45,6
Transport Debit	-29,6	-34,0	-39,4	-44,8	-81,5
All other Balance	0,0	0,0	0,0	0,0	0,0
All other Credits	5,1	4,6	8,6	18,1	23,4
All other Debits	-10,0	-9,2	-17,6	-24,8	-23,4

164. The international competitiveness of Tajik transport firms with own transport equipment, and that of the handful of small and cash-strapped freight forwarding firms is poor. Hence, it is unlikely that Tajikistan can build up a strong internationally-oriented logistics industry of its own. Most Tajik exporters and importer regard that non-Tajik transport and logistics firms offer superior service range and service quality standards at affordable prices. Small Tajik Non-Vehicle Operating Common Carriers (NVOCC's) are unlikely to get preferential rates from international carriers, thus limiting their market to those Tajik traders that currently have no other option but to use the few existing firms.

165. The capital needed to renew the vehicle stock with modern, albeit second-hand equipment is very difficult to generate in the very competitive market for international road transport. Leasing of transport equipment, widely used elsewhere, has only very recently become possible. The newly issued Leasing Act will facilitate fleet renewal, especially after the VAT exemption and import taxation issues of leased vehicles are resolved through separate Tax amendments.

5. Transit and transport issues

166. The distances involved in most cases of landlocked developing countries are excessive. Kazakhstan has the longest distance from the sea (3,750 km to the most distant regions), followed by Chad, Niger, Zambia and Zimbabwe with distances from the nearest sea coast in excess of 2,000 km. Khujand lies 1,800 km from the nearest seaport (Karachi), but the actual transport distance there is over 3,000 km. Transit time for goods of landlocked developing countries is extremely long because of their long distance, difficult terrain, road and railway conditions and inefficiency of transit transport.

167. There is a clear correlation between distance and transport costs. High transport costs erode the competitive edge of landlocked developing countries and trade volume. The trade reducing effect is strongest for transport intensive activities that are dependent on exports or imported intermediate goods for production. Most landlocked developing countries, if not all, are commodity exporters. Sachs and Radelet (1998) argued that 5 percent increase in a country's CIF/FOB ratio reduces the long-term growth of the share of non-primary manufactured exports in GDP by around 0.2 per cent p. a.

168. Transit issues for developing landlocked countries have been addressed in a number of conferences organized e.g. by UNECE and The World Bank, but the progress internationally has been rather slow¹¹. In Central Asia, the recognition of the GATT V article on free transit for landlocked countries has not been followed, and especially the strained relations with Uzbekistan have been detrimental for Tajikistan.

Transit of goods by rail

169. Transit of freight through all Central Asian Republics by rail is a relatively straightforward process for full wagonloads, as the booking of wagons and the freight setting is governed by a joint system within the CIS rail system, including that of Estonia.

170. The bookings are typically handled by the national railways, but due to conditions of carriage set in trade contracts, large Tajik export and import shipments tend to be booked by railways or rail freight forwarders outside Tajikistan. One reason for this is that Tajik rail wagon are not used in international transports, so the equipment is often that of Russian, Kazakh or Uzbek railways.

171. The usage of rail transport for consolidated cargoes is very problematic as this type of service is not readily offered by CIS railways, and it is practically non-existent for less-than-wagonload cargoes to and from Tajikistan.

Transit of passengers by rail

172. Transit of passengers through all Central Asian Republics by rail is a relatively straightforward process for full wagonloads, as the booking of wagons and the freight setting is governed by a joint system within the CIS rail system, including that of Estonia.

173. The bookings are typically handled by the national railways, but due to conditions of carriage set in trade contracts, large Tajik export and import shipments tend to be booked by

¹¹ UNECE (2003) see e.g. at: <http://www.unece.org/press/execsec/2003/bs030828.htm>

railways or rail freight forwarders outside Tajikistan. One reason for this is that Tajik rail wagon are not used in international transports, so the equipment is often that of Russian, Kazakh or Uzbek railways.

174. The usage of rail transport for consolidated cargoes is very problematic as this type of service is not readily offered by CIS railways, and it is practically non-existent for less-than-wagonload cargoes to and from Tajikistan.

Transit of goods by road

175. Transit of freight through all Central Asian Republics involves clearance of goods at inland terminals. This requires a Customs regime that covers the movement of goods both to the inland clearance terminals, and across the country to the exit/entry border, under a system that will guarantee: (i) that duties will be paid, and (ii) the goods will not be released to the domestic market until such payment has been made. An appropriate transit regime requires that: (i) all entering trucks must be of a type that allow sealing; (ii) a security for customs duties and taxes in the form of guarantee from an authorized bank must be deposited, or payment of due amounts must be made to the Customs authorities; and (iii) vehicles can be subjected to a Customs escort.

176. The TIR scheme is the only long distance transit system in principle available in the region. If TIR conditions are met, they would eliminate the need for deposits and escorts. However, TIR is employed primarily for movements to/from Turkey, Iran and Europe. It is not used for transit to/from China as it is not a contracting member of the TIR Convention.

177. Although all five of the Central Asian Republics are contracting parties to the TIR convention, they are at different stages of implementation¹². In 2003, Tajikistan had not issued a single TIR Carnet, while Uzbekistan had issued 900, Kyrgyzstan 2,700, and Kazakhstan 17,400; all these are very modest amounts compared to the largest user: Turkey issued 419,000 TIR Carnets in 2003. Afghanistan is also a contracting party to TIR Convention (1975), but actual TIR operations can not be established to that country.

Drivers' visa problems severely affect road transport operations

178. Tajik drivers need a visa to enter Uzbekistan, and obtaining or renewing one can be time problematic. Tajik citizens do not generally need visas to other CIS countries. For example, a separate authorization and visa is required to transit Ukraine. Visas to as Turkey are easy to acquire at the border, but visas to, for example, Iran can be difficult to obtain.

179. Visas for Uzbekistan are issued in 7-10 days, but if a visa application is refused, the waiting time is easily 2-3 months, or in certain cases more than six months. An Uzbek visa for a month costs USD 10, requiring a Tajik foreign passport costing officially USD 40, but the unofficial cost is USD 40-50. Visas are personal for the drivers, and they can be issued for up to one year at a time, but shorter visas (such as for three months) are also commonplace. Visas cost USD 20 to USD 400 depending on the country and type of visa. (Box 5)

180. As there is no direct road traffic with EU countries and none is realistically in sight, the EU visa regime for professional drivers is not a relevant issue. Obtaining and renewing a visa for a particular EU country for CIS professional drivers normally requires a personal visit to the closest embassy of that country and the process takes several weeks, in some cases several months.

¹² Asian Development Bank, (2003)

Box 5. Bilateral agreement on visa regime for passenger transit between Uzbekistan and Tajikistan

The agreement signed in 2000 suggests that passengers from Tajikistan transiting the territory of Uzbekistan by rail or a bus have the right to do so without a visa if the transit time does not exceed 3 days period in case they have a ticket that proves they are to leave Uzbekistan within 3 days time. The same is reciprocally true for the Uzbek citizens transiting Tajikistan. The air born passengers can also do without Uzbek/Tajik visa in case they do not leave the territory of the airport that is designated for transit passengers. Also, according to the agreement, citizens of the countries residing in the bordering regions are free to cross into the bordering areas of the neighboring country without a visa for a period of 5 days. Finally, people that live in the middle part of Tajikistan* can have 3 day, visa free transit to the north of Tajikistan (Sughd region) during the October-May period**.

The agreement was signed on October 3. Yet on October 6 of the year 2000, Uzbekistan sent a note informing Tajikistan about the temporary halt to the visa free passenger transportation by automobile transport. The note was referring to the clause in the bilateral agreement whereby both sides are empowered to halt the treaty or any of its clauses in case of the danger to the national security of any of the countries.

* Pendzhikent, Ajni and Mastchohs regions; ** The regions mentioned are connected to the north of the country by the Shakhristan pass which is poorly passable during that period. These regions are also poorly connected to the southern part of Tajikistan but the agreement signed does not provide for liking those via Uzbek territory. The treaty also neglects the rights of the people residing in Soghd to travel without a visa to the middle or southern Tajikistan.

6. Trade potential to neighboring non-CIS countries

Trade potential with China by road in the medium to long term

181. In 2003, about 50% of Tajik imports from the People's Republic of China (PRC) consist of fabric, chemicals, cotton and tea. Cotton comprises 70% of Tajik exports to the PRC.

182. Foreign vehicles cannot enter Chinese territory, which means that the cargo needs to be reloaded to a Chinese truck or rail wagon before it crosses the border. Chinese rail gauge also differs from the one used in CIS countries. Standard cargo wagons are unpractical in trade with China as they require costly and time-consuming cargo handling. Containers are therefore preferred.

183. Containerised trade with Urumqi region using rail connection through Uzbekistan and Kazakhstan is already utilized by some freight forwarding firms especially from Khujand and Soghd region. The volume is still relatively modest, at approximately 30 to 40 containers a month. Import items comprise mainly consumer goods. According to industry sources, demand for this route is increasing rapidly, but the lack of containers hampers further expansion.

184. In the medium term, the economic implications of an upgraded road link from Dushanbe to PRC are significant in terms of potential trade volumes with the PRC through ground linkage with improved road conditions. In particular, the PRC is expected to provide a large market for Tajikistan's agricultural output and to become a large source of consumer goods for Tajikistan.

185. The Dushanbe-Kyrgyz border road rehabilitation Project is expected to establish a basic foundation toward facilitating cross-border traffic between Tajikistan and the PRC. ADB estimates that the rehabilitation of the entire road section between Dushanbe-Kyrgyz border-PRC will be complete not earlier than 2012. The projected Tajikistan-PRC traffic is forecast to build up over a period of 3 years beginning in 2009. This PRC traffic is expected to grow at the same rate as the other traffic on the project road after 2012.

186. In 2003, the need to transship goods at borders is a costly and time-consuming operation for all. Goods transported into the PRC must use Chinese vehicles. The assumption of free vehicle movement across international borders without the need for transshipment has been incorporated into estimating internationally generated traffic forecast.

Trade potential with Afghanistan depends on political stability

187. Because of the politically and economically unstable situation in Afghanistan, trade and transport connections can be re-established only in the medium to long term. Apart from trade potential with Afghanistan itself, the possibility of using a safe passage through that country would open up a shortcut from Tajikistan to Pakistan and India. Road transport is the only viable means for Tajik trade with Afghanistan. Air transport can be used for exceptional items only, or in connection with relief or emergency cargoes.

188. The road-based distance from Dushanbe to Kabul is approximately 1,200 km. Based on average road transport costs in the region, a roundtrip could be made at USD 1,200, or at approximately USD 0,025 per ton kilometer, excluding unofficial payments.

Trade potential with Iran depends on political stability and roads

189. Lack of political and economical stability and poor relations between the two countries, trade and transport connections with Iran are almost non-existent. Trade potential of Tajik agricultural and textile products with Iran is, however, substantial. Apart from air, road transport is the only viable means for Tajik trade with Iran.

190. The straight-line distance from Dushanbe to, for example, Mashhad is 900 km, and 1,600 km to Tehran. The actual road-based distance is approximately 1.5 times longer. In a perfect world, and based on average road transport costs in the region, a roundtrip to Mashhad could be made at USD 1,200, and to Tehran at USD 3,000, excluding unofficial payments. In reality, the going rate for a full truckload is USD 3,000 to Mashhad and USD 5,000 to Tehran, including unofficial payments.

191. If the truck carries 20 tons of cargo in one direction and returns empty - which is a realistic assumption - this would related to about USD 150 per ton to Mashhad, and USD 250 per ton to Tehran. For a load of cotton textiles, for example, that equals 4 to 10 per cent of cargo value, respectively. (Box 6.)

Box 6. Road transport links with Iran and Turkey

Interviews with Tajik and Uzbek truckers suggest that the transportation by Iranian/Turkish truckers is the cheapest due to the fact that they would provide transportation services to Iran/Turkey at as low rate of \$1500-2000 per truck, (or mere \$60-100 per ton) in order to be able to cover at least some of the expenses on their way back. In Uzbekistan, Turkish/Iranian transportation companies are eager to take loads to the third countries and still charge the least. This seems especially lucrative taking into consideration that both Iran and Turkey are strategically located, having such seaports as Istanbul, Bandar-Abbas and others. The latter opens up the access to the wide range of markets. Yet in 2003, Turkish and Iranian carriers entered Tajikistan with an average load of 11 tons per truck** and were leaving Tajikistan with average 2 tons per truck. As reported by ABBAT, most of the truckers prefer to avoid picking cargo in Tajikistan to avoid problems associated with the bureaucratic procedures during the transit via Uzbekistan.

* See Report N RAS/99/062 from August 2002.

** Note, however, that Iranian and Turkish trucks are of high capacity and usually carry 20-35 tons per truck depending on the type of cargo. The latter suggests the underreporting of imports by customs.

Reaching India and Pakistan through Afghanistan?

192. Export of cotton textile to India occurs already, albeit the volumes are small. High-cube 40' containers that can load approximately 40 tons are carried by road. The indicative freight for shipments to Bandar Abbas is USD 6,000, which is equal to roughly USD 150/ton. Cost for the final part of the delivery are added to this cost.

193. The straight-line distance from Dushanbe to, for example, Islamabad is only 700 km, less than 1,500 km to Delhi, and less than 1,700 km to the well-connected port of Karachi. The actual road-based distance is approximately 1.5 to 2 times longer. In a perfect world, and based on average road transport costs in the region, a roundtrip to Islamabad could be made at

USD 1,400, and to Karachi at around USD 2,500, excluding unofficial payments. In reality, the slowly emerging operations command freights over USD 5,000 to Islamabad and USD 8000 to Karachi.

194. A truck carrying 20 tons of cargo in one direction - which is realistic given the current state of affairs - is equal to USD 250 per ton to Islamabad, and USD 400 per ton to Delhi and Karachi. For a load of cotton textiles, valued on average at USD 3,500 per ton, that would correspond 7 to 12 per cent of cargo value, respectively. That is still relatively low cost for transport.

7. Transport and logistics costs in Tajikistan's trade

195. The efficiency of transport services greatly determines the ability of firms to compete in foreign markets. For a small, land-locked economy such as Tajikistan far off from its main markets, higher costs of transportation feed into import and export prices, as world prices of traded goods are largely given. To remain competitive, exporting firms that face higher shipping costs must pay lower wages to workers, accept lower returns on capital, or be more productive.

196. The cost structures of firms are equally affected by the quality of transport services. If services are unreliable and infrequent, or if a country lacks logistics providers who efficiently handle small shipments, firms are likely to maintain higher inventory holdings at every stage of the production chain. Unfortunately, all these apply to Tajikistan. Other reasons why firms want to hold high inventories are, for example, the need to limit the risk for sudden changes in customs regulations, exchange rates or product prices. These also apply to Tajikistan.

Tajikistan trade relies on a narrow range of low-valued items—

197. Aluminium, cotton and electricity are Tajikistan's main export items. Netherlands is the single most important target for Tajik aluminium, but it is likely that the commodity is traded further through that country. Export of aluminium to Russia has almost ceased since 2001, but Turkey and other countries have largely taken its place. (Figure 11).

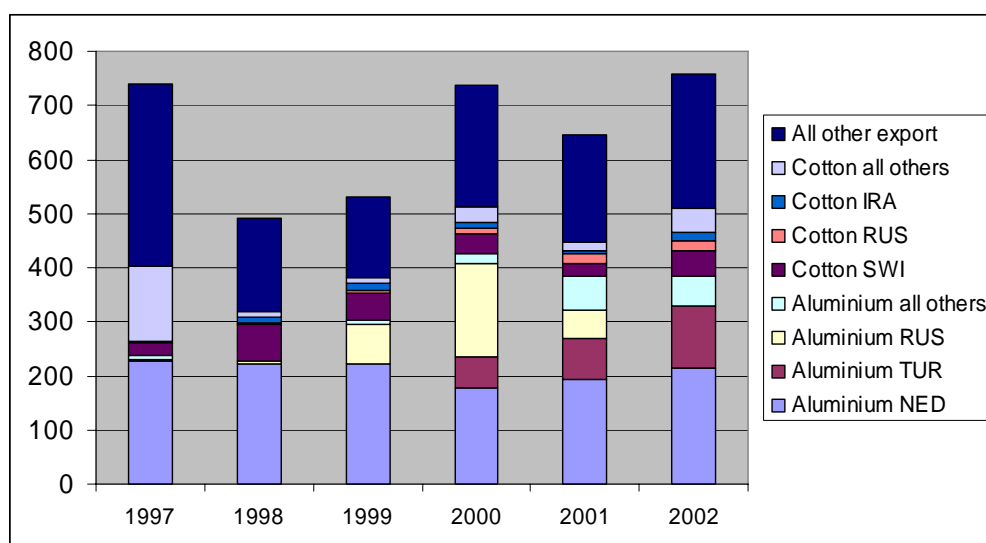


Figure 11. Tajik export according to official statistics, organized by the single most important aluminium and cotton destination countries, USD million.

—which are mainly cost rather than time sensitive—

198. Transport cost is usually not the most important logistics consideration for perishable items, goods with high unit value, or for intermediate goods used in industrial processes. Transport reliability rather than cost is increasingly more important for buyers. With increasing cargo value, also transport speed is an important issue especially when distances grow. In this context, delays in border crossing become important. While total border

crossing waiting time is usually around 5 to 15 per cent of total transport time in import and export of Romania, Bulgaria, Bosnia & Herzegovina, and between 20 to 40 % in Albania¹³, it tends to be between 30 to 50 % in Tajikistan in comparable cases when trading with nearby countries. However, the majority of Tajik trade is long-distance, but the cumulative waiting times at transit border crossings easily comprise 20 to 30 per cent of the total transport time.

199. Just-in-time producers require reliable deliveries of input materials, be they apple juice concentrate or components. Electronic and mechanical assembly relies on accurate inbound shipments of components, careful inventory management practices and dependable deliveries of finished goods. Garments and apparel are highly time-sensitive products. Most packaged food is distributed by retail chains using efficient customer response requiring reliable deliveries too. High transport and handling costs are a key impediment to trade for most raw materials and commodities such as chemicals, fertilizers, grain and petroleum products.

200. With some very low-cost input materials, such as fresh fruit for fruit juice processing, even very low transport costs can be prohibitive, yet competition keeps the margins of end-products low and delivery windows tight, as these products are commodities traded at world markets, where there are many producers. (See Attachment 7.)

Transport costs in trade are very high—

201. According to the estimate in Table 7., the total transport cost for Tajik imports and exports was around USD 119 million in 2002, or 9.6 per cent of trade volume. This comprises freight costs only. The comparable figure for EU Accession countries is between 4 to 5 per cent, and for 7 per cent for Moldova .

202. Idle time spent while crossing the Tajikistan border is a considerable burden that raises the total transport costs of trade. Reducing border crossing time to 3 hours per truck – the official target set by Tajik Customs, and, by comparison the average time in southeastern Europe according to TTFSE data in 2002 - could reduce the total freight cost by approximately USD 20 million per year. This value is arrived at using the data on trucks that crossed Tajikistan's borders in 2002 and the estimated average waiting times in the survey on Tajik Exporters and Importers in 2004.

—but total logistics costs are higher still.

203. Apart from pure transport costs (freight), logistics costs comprise a large group of direct and indirect costs. Logistics management is a trade-off between a number of purchasing, production, distribution and marketing considerations. Integration of logistics activities between suppliers and buyers, and shortening the response time from customer orders to deliveries along the chain is often called Supply Chain Management.

204. In EU countries, measurable logistics costs in manufacturing are usually less than 10 percent of sales. Freight is usually only 1/3 of these. For high-valued merchandise, such as electronic equipment, with purchased direct materials typically between 50 and 75 percent of sales value, freight costs may be one per cent of sales or less, whereas other logistics costs are more significant. For low-valued commodities transported over long distances, freight alone can make 50 percent or more of the sales price.

¹³ See TTFSE website at: www.ttfse.org

205. High transport costs in imports for input materials, and substantial other trade obstacles make it difficult to increase the value added of exports. For example, the Value Added of Tajik textile export has remained low, while the share of imported input materials is typically 10 per cent or less.

Table 7. Estimated freight revenue in Tajikistan foreign trade and value of trade in 2002. Based on Consultants calculations and data from ABBAT, Tajik Rail, Tajik Air, UN Comtrade, Tajik BoP data.

<i>USD million</i>	<i>Import</i>	<i>Export</i>	<i>Total</i>
<i>Road freights</i>	5	1	6
<i>Rail freight, Tajik Rails' part</i>	7	5	12
<i>Estimated Tajik Air</i>	2	2	4
<i>Domestic distribution of trade</i>	10	7	17
<i>Total Tajik carriers</i>	24	15	39
<i>Estimated foreign road carriers</i>	20	10	30
<i>Estimated CIS rail carriers</i>	30	20	50
<i>Foreign airlines</i>	0.0	0.0	0
<i>Total foreign carriers</i>	50	30	80
<i>Transport costs total (2002)</i>	74	45	119
<i>Value of trade in (2002)</i>	705	537	1,242
<i>Transport cost of trade in %</i>	10.5%	8.4%	9.6%

206. Administrative logistics costs by shippers, that is by exporters or importers, are caused by telecommunications, IT and administrative processes preparing trade documents. They are mostly indirect costs, which may be counted in various ways. Based on anecdotal evidence and Exporter/Importer survey in 2004, administrative logistics costs of Tajik firms – such as working time of paperwork needed to organize for trade and transport - correspond to 2 per cent in imports and around 4 per cent in exports. This is slightly higher than in other CAR countries, and Moldova, for example. In EU countries, this figure is on average less than one per cent, albeit counted from trade with higher value and volume.

207. Inventory handling costs in low-valued commodities is usually at 3 to 5 per cent of goods value, and for manufactured or packaged items it is usually 2 to 3 per cent. These values used for Tajikistan are slightly higher than in more developed countries.

Overhead or alternative costs	Inventory carrying costs Value of time Operational IT costs	Cost of lost sales Customer service level costs Obsolescence costs IT maintenance
Function-related	Transport cost (freight) Cargo handling Warehouse/storage Fairway fees Documentation Telecom costs	Packaging IT costs (personnel) Cost of capital in logistics equipment Administration
	Direct Logistics Costs	Indirect Logistics Costs

Figure 12. A typology of total direct and indirect logistics costs

208. Inventory carrying costs in traded items depend on the level of inventory and the inventory turn-around cycle. Both are affected by the interest rate. In Tajikistan, the real lending rate is around 20 per cent in 2004. Data on inventory levels or inventory turn-around times are not available for this study. Other studies suggest (see e.g. Gausch and Kogan 2001) that in developing countries these are two to five times higher than in US. Based on this, a conservative estimate is that inventory is at least two month's worth of trade or work-in-process. This would mean that the tied-up capital is around USD 120 million in imports and USD 90 million in exports. Using the 20 per cent real lending rate of 2004, this would relate to USD 24 million in imports and 18 million in exports.

Table 8. Estimated total logistics costs in Tajikistan foreign trade compared to the estimated value of trade in 2002 in USD million. Based on Consultants calculations.

USD million	Import	Export	Total
<i>Value of trade in 2002</i>	705	537	1,242
<i>Transport costs total (2002)</i>	74	45	119
<i>Transport cost of trade in %</i>	10.5%	8.4%	9.6%
Other logistics costs			
<i>Administration and documents by shippers (3 % of import and 5 % of export trade value)</i>	21	27	48
<i>Inventory handling costs (4 % of import and 3 % of export trade value)</i>	28	16	44
<i>Inventory carrying costs, based on 20 % interest rate</i>	24	18	42
<i>Unofficial payments, 2 to 3 % of trade value based on anecdotal evidence</i>	14	16	30
<i>Other logistics costs total</i>	87	77	164
<i>Other logistics costs of trade %</i>	12.3%	14.3%	13.2%
Freight and other logistics costs total	161	122	283
Total logistics costs of trade %	22.8%	22.7%	22.8%
<i>Total logistics cost of trade, % of GDP (official value for 2002, USD 1.17 billion)</i>	13.8%	10.4%	24.2%
<i>Total domestic logistics cost, 3 % of GDP (official value for 2002, USD 1.17 billion)</i>			35
<i>Tajikistan's total logistics costs</i>			318
Tajikistan's total logistics costs, % of GDP			27.2%

209. Finally, unofficial payments in trade need to be counted in. Evidence on unofficial payments related to transport and trade varies a great deal. These can be around 5 to 20 per cent of freights, which would put the absolute figure at approximately USD 30 million per annum. Logistics costs of Tajikistan trade, estimated at USD 283 million, or 22.8 per cent of trade in 2002, constitute a substantial barrier to trade.

As a result, Tajikistan has the one of highest logistics costs in the world.

210. In 2002, the transport sector accounted for 3.5 per cent of Tajikistan's GDP. Domestic, non-trade related logistics costs account for 4 to 6 per cent of GDP in developed countries, but they can be substantially higher in developing countries. Own account transport is widely used due to low-performing transport markets, small transport volumes and the overall poor condition of the transport infrastructure. Thus, the value of domestic goods transport is not readily available in statistics. A conservative estimate of domestic logistics costs in Tajikistan is USD 35 million in 2002, or approximately 3.5 per cent of GDP.

211. With costs for domestic logistics, the total logistics cost in Tajikistan amounts to USD 318 million, or 27.2 per cent of GDP in 2003, which is one of the highest figures in the world. Total logistics costs in EU and EU accession countries are in the range of 10 to 16 per cent, and in Mexico, Brazil and China between 15 to 17 per cent of GDP. In CAR countries, the estimated is at 20 and 25 per cent.

The Government has the greatest potential to lower logistics costs—

212. Logistics costs can not be brought down to zero, but over USD 60 million could be saved through decisive government policies, more competitive transport markets and more efficient logistics. If the Government could bring trade documentation and administration to the level of EU accession countries, logistics costs of firms would reduce by USD 30 million. A predictable trade environment would lower inventory carrying costs by over USD 10 million, even when unofficial payments or inventory handling costs remain unchanged.

213. Bringing the average border crossing time to 3 hours, i.e. to Tajik Customs official target, Tajik traders would save at least USD 10 million in waiting time costs alone. More efficient operations and increased competition in road and air transport could lower the total transport costs by at least 20 per cent, equivalent to USD 22 million.

—and to improve trade environment, bringing Tajik firms to World markets.

214. These actions would bring the total logistics costs of trade down to 17.7 per cent of trade value, and the country's total logistics costs (including domestic logistics) would go down by at least USD 60 million, or to 22 per cent of GDP. This would dramatically improve the competitiveness of Tajik firms, and enable them to create jobs and wealth through the very low cost labor especially in cotton-related and other agricultural production. It could also make Tajikistan a more tempting location for foreign firms to establish assembly units, which are now practically absent. Bringing trade and border crossing practices to targeted levels, improving the efficiency of the transport sector, and reducing the severe backlog of infrastructure investment, Tajikistan, the least developed of all CIS countries, could assume its proper place in the World market and thereby substantially reduce the endemic poverty in the country.

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Attachment 1. Tajikistan's Foreign Trade by Commodity Group by value and weight, 1994-2002

Sources: State Statistical Agency; IMF Country Report No. 03/5, January 2003, Consultant's calculations

	Exports, FOB, Million USD								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	517,6	748,1	770,0	745,6	585,7	687,2	871,6	651,7	724,9
Electricity	29,0	123,0	175,0	155,0	103,0	175,0	181,0	79,0	60,0
Live animals	0,4	0,1	0,1	0,0	0,3	0,1	0,0	0,1	0,0
Products from plants	0,8	0,1	0,0	23,8	25,3	15,8	19,2	18,1	15,3
Fats and oils of animal and vegetal origin	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Food products, drinks, and tobacco	10,3	4,1	104,6	12,7	9,5	11,7	11,6	8,8	7,5
Chemicals	2,9	0,2	2,7	1,8	11,2	9,0	9,5	5,4	2,3
Plastics and derivatives	0,0	0,1	0,3	0,0	0,1	0,1	0,1	0,1	0,0
Leather, hides and derivatives	0,1	0,2	0,4	0,7	0,5	0,4	0,8	0,4	0,8
Wood and wood products	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Paper, products from paper	0,0	0,1	0,1	11,0	0,3	0,1	0,1	0,2	0,9
Textiles	171,4	218,5	184,2	210,4	148,1	129,6	130,2	104,3	161,9
<i>Cotton fibre</i>			157	167	112	93	92	72	90
Shoes, hats, umbrellas	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	0,0
Products from stone, cement, asbestos	0,9	0,1	0,2	0,2	0,5	0,1	0,0	0,0	1,7
Natural pearls and precious metals	0,1	0,1	0,0	31,9	27,9	24,6	24,4	22,6	20,8
Ferrous and other non-precious metals	272,9	394,7	295,4	259,8	240,2	312,8	436,6	399,9	401,3
<i>Aluminium</i>			263	252	234	284	424	398	395
Machinery	7,6	2,1	2,6	4,9	3,7	2,5	15,2	2,5	2,7
Transport equipment	2,8	2,6	1,4	10,9	10,1	4,4	42,0	7,7	49,2
Optical equipment, musical instruments, watches, etc.	0,0	0,0	0,0	0,0	0,1	0,4	0,1	0,0	0,2
Other manufactured goods	18,3	2,1	0,3	0,2	0,2	0,3	0,2	0,2	0,3
Objects of arts, antiques	..	..	0,0	..	0,0	..	0,0	0,0	0,0
Other non-classified goods	..	..	2,7	22,3	4,7	0,2	0,5	2,2	0,0

	Exports, FOB, thousand tons (est.)								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	353,3	463,5	355,2	348,9	332,7	372,3	410,5	399,6	439,2
Electricity	..	..	..	..	..	..	..	..	..
Live animals	0,4	0,1	0,1	0,0	0,3	0,1	0,0	0,1	0,0
Products from plants	0,8	0,1	0,0	23,8	25,3	15,8	19,2	18,1	15,3
Fats and oils of animal and vegetal origin	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Food products, drinks, and tobacco	5,2	2,1	52,3	6,4	4,8	5,8	5,8	4,4	3,8
Chemicals	1,4	0,1	1,4	0,9	5,6	4,5	4,8	2,7	1,2
Plastics and derivatives	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Leather, hides and derivatives	0,0	0,1	0,1	0,2	0,1	0,1	0,2	0,1	0,2
Wood and wood products	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Paper, products from paper	0,0	0,0	0,0	2,8	0,1	0,0	0,0	0,1	0,2
Textiles	85,7	109,3	92,1	122,5	100,0	104,2	88,6	83,1	118,0
<i>Cotton fibre</i>	110	140	104	108	88	92	79	75	100
Shoes, hats, umbrellas	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	0,0
Products from stone, cement, asbestos	4,4	0,5	1,0	1,0	2,5	0,6	0,0	0,0	8,5
Natural pearls and precious metals	0,0	0,0	0,0	1,6	1,4	1,2	1,2	1,1	1,0
Ferrous and other non-precious metals	250,0	350,0	207,2	186,9	190,1	238,4	280,3	288,0	283,2
<i>Aluminium</i>			191	183	187	224	274	287	280
Machinery	1,1	0,3	0,4	0,7	0,5	0,4	2,2	0,4	0,4
Transport equipment	0,4	0,4	0,2	1,6	1,4	0,6	6,0	1,1	7,0
Optical equipment, musical instruments, watches, etc.	0,0	0,0	0,0	0,0	0,0	0,1	0,0	0,0	0,0
Other manufactured goods	2,6	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Objects of arts, antiques	..	..	0,0	..	0,0	..	0,0	0,0	0,0
Other non-classified goods	..	..	..	7	1	0,2	0,5	0,2	0

	Imports, CIF, Million USD								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	571,4	714,6	811,0	834,0	756,2	714,0	862,8	800,5	932,2
Electricity	19,0	164,0	133,0	180,0	117,0	179,0	203,0	98,0	90,0
Natural gas	84,0	71,0	38,0	40,0	40,0	36,0	36,0	27,0	26,0
Mineral products	225,0	277,0	177,0	179,0	190,0	190,7	267,0	248,0	300,0
<i>Oil/koil products</i>	79,0	82,0	62,0	61,0	76,0	51,7	55,0	50,0	50,0
<i>Alumina</i>	146,0	195,0	115,0	118,0	114,0	139,0	212,0	198,0	250,0
Grains, cereals and other plant products	82,4	49,0	58,0	28,0	46,0	48,0	50,0	71,0	60,0
<i>Other products from plants</i>	42,4	9,0	5,0	4,0	5,0	4,0	5,0	8,0	10,0
<i>Grain and flour</i>	40,0	40,0	53,0	24,0	41,0	44,0	45,0	63,0	50,0
Chemicals	15,0	8,2	21,6	41,4	49,6	77,8	170,0	200,0	219,6
Plastics and derivatives	1,9	4,2	3,6	8,0	8,8	5,5	5,6	9,6	9,6
Fats and oils of animal and vegetal origin	7,2	1,4	2,9	9,9	6,4	4,2	6,5	7,4	4,8
Food products, drinks, and tobacco	7,8	5,7	89,1	39,6	28,2	16,3	14,9	10,6	21,1
Live animals	1,9	..	0,0	1,4	1,1	0,6	1,1	0,9	1,0
Leather, hides and derivatives	0,1	0,0	0,4	0,4	0,1	0,0	0,1	0,1	0,1
Wood and wood products	1,4	7,1	3,9	2,7	5,8	8,0	6,1	7,9	10,8
Paper, products from paper	1,2	2,1	2,4	2,3	27,5	3,1	3,0	9,1	19,2
Textiles	8,8	5,7	4,5	7,0	10,1	7,8	6,9	9,7	7,7
Shoes, hats, umbrellas	1,1	0,6	1,8	2,8	2,3	2,7	2,2	2,8	2,8
Products from stone, cement, asbestos	0,9	1,0	0,9	3,2	7,1	5,0	5,3	6,5	9,5
Natural pearls and precious metals	..	0,0	..	0,1	0,0	0,5	0,0	0,0	0,3
Ferrous and other non-precious metals	10,3	12,8	19,1	13,5	20,9	17,4	10,3	12,7	12,9
Machinery	66,8	87,4	77,9	60,8	52,5	44,8	39,3	37,0	43,5
Transport equipment	0,7	4,6	13,4	25,6	38,0	26,3	26,3	32,8	83,8
Optical equipment, musical instruments, watches, etc.	0,0	..	0,0	1,4	4,3	0,8	1,8	3,2	3,1
Other manufactured goods	35,9	12,8	3,7	0,9	3,0	4,3	4,9	4,7	6,3
Objects of arts, antiques	..	..	0,0	..	0,0	0,1	0,0	0,0	0,0
Other goods	..	..	159,8	186,0	97,5	35,0	2,5	1,5	0,1

	Imports, CIF, thousand tons (est.)								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	988	1090	921	883	1172	1237	1327	1528	1684
Electricity	..	..	..	..	..	..	..	..	..
Natural gas	..	..	..	..	..	..	..	..	..
Mineral products	745	888	618	632	739	752	732	771	891
<i>Oil/koil products</i>	380	400	311	312	382	305	202	276	290
<i>Alumina</i>	365	488	307	320	357	447	530	495	601
Grains, cereals and other plant products	192	169	233	129	321	364	381	507	510
<i>Other products from plants</i>	42	9	5	4	5	4	5	8	10
<i>Grains</i>	100	100	158	83	251	278	321	276	300
<i>Wheat flour</i>	50	60	70	42	65	82	55	223	200
Chemicals	15	8	22	41	50	78	170	200	220
Plastics and derivatives	1	1	1	3	3	2	2	3	3
Fats and oils of animal and vegetal origin	10	2	4	14	9	6	9	11	7
Food products, drinks, and tobacco	2	1	22	10	7	4	4	3	5
Live animals	2	0	0	1	1	1	1	1	1
Leather, hides and derivatives	0	0	0	0	0	0	0	0	0
Wood and wood products	0	2	1	1	2	3	2	3	4
Paper, products from paper	0	0	0	0	6	1	1	2	4
Textiles	1	1	1	1	1	1	1	1	1
Shoes, hats, umbrellas	0	0	0	0	0	0	0	0	0
Products from stone, cement, asbestos	2	2	2	6	14	10	11	13	19
Natural pearls and precious metals	0	0	0	0	0	0	0	0	0
Ferrous and other non-precious metals	5	6	10	7	10	9	5	6	6
Machinery	4	6	5	4	4	3	3	2	3
Transport equipment	0	0	1	3	4	3	3	3	8
Optical equipment, musical instruments, watches, etc.	0	0	0	0	0	0	0	0	0
Other manufactured goods	7	3	1	0	1	1	1	1	1
Objects of arts, antiques	..	..	0	..	0	0	0	0	0
Other non-classified goods	..	..	..	30	1	1	2	1	0,1

Attachment 2. Indicative transport costs for export to Antwerp/Rotterdam in Spring 2004.

Table A. Indicative transport cost and transit time for large exporters for a 40' container by road or rail to Antwerp/Rotterdam, or 1 ton by air freight to Oostend, BE (Bruges Intl airport). Spring 2004, in USD (including unofficial payments)

	Freight in USD by			Typical transit time in days by		
	Road	Rail & Sea	Air**)	Road	Rail	Air
Dushanbe (TAJ)	9,200	3,400	2,400	15	28	7
Khujand (TAJ)	9,000	3,000	2,200	14	26	7
Tashkent (UZB)	7,000	2,800	2,000	12	23	4
Almaty (KAZ)	8,000	3,000	2,100	13	21	4
Ashgabat (TKM)	8,000	3,300	2,300	14	28	6
Baku (AZB)	7,000	2,700	2,100	13	24	5
Tbilisi (GEO)	6,000	2,500	2,000	12	24	5
Yerevan (ARM)	7,000	2,800	2,300	14	30	7
Chisinau (MOL)	4,000	2,000	1,900	7	14	4

*) For Central Asian countries, rail transport to a Baltic port, and from there by container feeder ship to Antwerp; for South Caucasus countries, by ship to Odessa in Ukraine, and from there on by rail; for Moldova, rail all the way.

***) Part of air freight can be transported by road, e.g. from Khujand to Tashkent.

Table B. Indicative transport costs for large exporters using full 40' containers, and for small exporters relying on consolidated parcel shipments of 1 ton by road or rail to Antwerp/Rotterdam, or 1 ton by air freight to Oostend (Bruges Intl airport in Belgium). Spring 2004, in USD (including unofficial payments).

	Freight USD/ton for a large exporter using full units			Freight USD/ton for a small exporter using parcels of 1 ton		
	Road *)	Rail & Sea	Air***)	Road *)	Rail & Sea**)	Air***)
Dushanbe (TAJ)	230	83	1,300	500	400	2,500
Khujand (TAJ)	220	75	1,300	480	400	2,200
Tashkent (UZB)	175	70	1,250	300	300	2,000
Almaty (KAZ)	180	72	1,150	300	300	2,000
Ashgabat (TKM)	200	77	1,200	400	350	2,300
Baku (AZB)	163	68	1,070	280	300	2,000
Tbilisi (GEO)	150	63	1,070	300	280	2,000
Yerevan (ARM)	170	70	1,040	420	350	2,400
Chisinau (MOL)	100	50	1,000	280	200	2,400

*) A 40-ton truck with CIS registry and driver fully loaded (typically the payload is less than 40 tons).

***) Central Asian countries: rail transport to a Baltic port, and from there by feeder ship to Antwerp; South Caucasus countries: by ship to Odessa in Ukraine, after which by rail; Moldova: rail all the way.

****) Russian TU-154 cargo aircraft with a payload of 15 tons; these aircraft can fly to only a very limited number of EU airports till Spring 2005. Replacing these will increase air freight by a factor of 1.5 or more.

Attachment 3. Issues in road freight transport to Russia, compiled by Alex Kitain

Cost incurred during the transit via Uzbekistan remains the most significant problem for the development of international automobile cargo transportation in Tajikistan. The transportation of around 25 tons of cargo (by 40 ton truck), from Dushanbe to Moscow, costs around \$6,400 or around \$255 per ton. The high cost makes the mode of transportation highly uncompetitive compared to rail transportation that would cost from USD 3500-4500 for 40-50 tons of cargo, or some USD 90 per ton¹⁴.

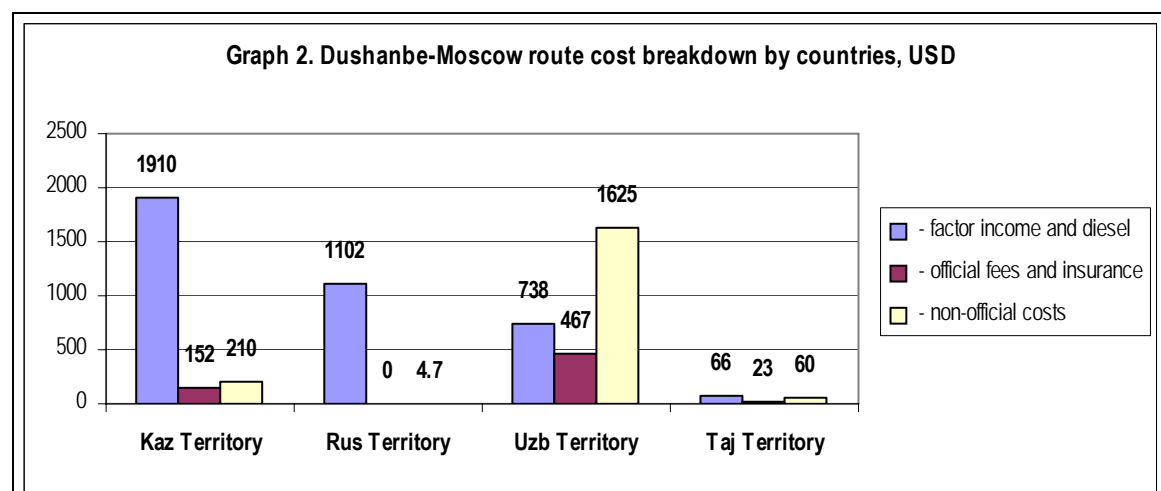
Detailed analysis of the costs incurred by truckers along the Dushanbe-Moscow route suggests that, while Uzbek territory stands for only 20% of the distance it accounts for as much as 45% of total costs and about 45% of total transportation time (see table 1 below).

Table 1. Transportation transaction costs for Dushanbe-Moscow route¹⁵

Dushanbe-Moscow route	Kaz Territory	Rus Territory	Uzb Territory	Taj Territory	Total
Distance, km	1910	1102	738	66	3816
- % of total:	50%	29%	19%	2%	100%
Total costs, \$	2272	1107	2840	189	6408
- factor income and diesel costs	1910	1102	738	66	3816
- official fees and insurance*	152	0	467	23	642
- non-official costs	210	4.7	1625	60	1900
Cost as % of total:	35%	17%	44%	3%	100%
Transportation time, hours**	44	19	55.5	1.5	120
- transportation time as % of total	37%	16%	46%	1%	100%
Average speed, km / h	43	59	13	44	160

* Note that the “official fees and insurance” include payment for licenses, road exploitation (entrance & transit) fees, escort fees, third party insurance, ecological payments. ** Note that “transportation time” includes time waiting at the associated border posts, actual driving time and delays at the internal police posts.

Official fees paid at the border and (including those for escort) and non-official remuneration of border service personnel as well as of traffic police added up to 40% of the total cost over Dushanbe-Moscow route and Uzbek territory accounts for 80% of the latter (see graph 2).



¹⁴ The price of transportation of 40 tons of fruits or vegetables from Dushanbe to Moscow costs \$3,520 (or \$88 per ton) and the transportation of 50 tons of manufactured consumer goods (in the same type of box-wagon) costs \$4,494 (or \$89 per ton).

¹⁵ The table is based on interviews with Tajik, Kazakh and Kyrgyz drivers as well as analysis of the real legislation. Note that the costs showed in the table demonstrate the costs reported by Tajik drivers. It should be noted that the costs faced/reported by Kazakh and Kyrgyz drivers are somewhat lower.

Official costs in Uzbekistan are high due to the fact that they charge not only entrance fee (which is \$130 for CIS trucks) but also third party insurance (\$75), ecology payment (\$10) and escort (200 EURO16). Note that Kazakhstan, for example, requires insurance only for trucks that stay at their territory over 1 month. In addition, there is no obligatory escort for Tajik trucks in Kazakhstan and the ecology payment (\$15) has been abolished in 2002. On the other hand non-official payments often required by the traffic police and customs officials allegedly/reportedly under the threat of drug dealing accusations or the treats of delays. The reports suggest that Kazakh customs demand payments to ignore the overloading (overweight) of a truck.

Uzbekistan charges 23% higher for entrance of Tajik trucks and from 50 to 950% higher for transit of Tajik trucks and the Tajik embassy in Uzbekistan is not aware of it. It should be noted that charges that Tajikistan applies to Uzbek trucks (\$53-305) entering/transiting via Tajikistan are significantly lower than those applied by Uzbekistan to Tajik trucks (\$215-557) (See table 2 below). Note that Tajik embassy in Uzbekistan does not have a clear grip on the issue¹⁷. Most of the official transit costs are account for by transit escort fee of EURO 200 (or \$252). There is a substantial scope for the official fees reduction and simplification. For example, Kazakhstan applies a unified fee of \$163 to all trucks that entitles to entering, transiting and re-entering the country during 1-month period. Kazakhstan has also abolished ecology, insurance¹⁸ and other payments. Escort payment in Kazakhstan is \$100 in case the good is subject to escorting.

International transportation legislation in both countries is very non-transparent and is the source for misinterpretation and corruption. Uzbek border posts are furnished with special boards where relevant legislation is demonstrated. Yet the legislation that is demonstrated there is often incomplete and at outdated that gives way for misinterpretation and corruption. On the other hand, Tajik border posts do not publish any legislative acts¹⁹ at all, neither Tajik nor Uzbek ones.

As a result of the high transaction costs, only 0.5% of Tajik truckers are engaged in international cargo transportation. The Tajik truck park is represented by 42,000 trucks whereby most of them have EURO-0 standard trucks (old “Kamaz” and “Maz”/ “Super Maz” type trucks) that are not allowed into Western-European countries²⁰, but are still allowed at the CIS territory. Tajik truck transportation market is very competitive as there are no longer any large transportation companies that would dominate the market. Individual entrepreneurs (IEs) own or rent most of the trucks²¹ to provide the services. Only 210 trucks or 0.5%, however, are licensed for international transportation services.

Truckers prefer taking loads to Tajikistan and going back empty. According to the data provided by ABBAT, an average load of a truck taking cargo into Tajikistan is 7 tons per truck (in 2003)²². On the other hand, the average load of a truck exiting Tajikistan is 2 tons per truck as most of the trucks (including Kazakh, Kyrgyz, Turkish and Iranian (See box 1 below) prefer going back empty, even if it is economically unwise as they will have to pay all the same official payments in Uzbekistan (apart from an escort fee). Yet this allows them to minimize bribes and bureaucratic hassle associated with anti-drug trafficking campaign. In addition, this is explained by the fact that the high transport costs, first of all, discourage exports of agricultural goods (fruits and vegetables) that usually “suffer” from the lowest price-to-weight and price-to-volume ratios and could be spoiled during the prolonged transportation.

¹⁶ See State Customs Committee Resolution from September 3, 2003.

¹⁷ Tajik embassy representatives suggested that the mutual treatment of Uzbek and Tajik trucks is absolutely identical and is based on reciprocity principle.

¹⁸ Only those trucks that are planning to state in access of 1 month period at the territory of Kazakhstan are subjected to obligatory insurance.

¹⁹ Tajik border post at

²⁰ Tajikistan has only 10 trucks of EURO-1 standard. Note that EURO-0 is an outdated standard in terms of pollution, noise and safety. The trucks are no longer allowed in Western-European countries. EURO-1 is a newer standard and is still allowed into Western-Europe. Yet there are even newer standard trucks now, namely EURO-2 and EURO-3.

²¹ This form of entrepreneurship is relatively more developed as it allows to avoid some heavy and complicated taxation system that is applied to juridical persons in Tajikistan. The IEs are subject to a simplified taxation system whereby they acquire patent that costs some mere \$12 monthly.

²² Note that various trucks can bear from 20-35 tons of cargo and thus the figure of 7 tons seems unrealistically low and could be due to smuggling and underreporting by customs officials. In addition, calculations should be re-verified with ABBAT representatives and customs in Tajikistan.

Table 2. Mutual treatment of Uzbek and Tajik trucks

	Treatment of Uzbek trucks in Tajikistan		Treatment of Tajik trucks in Uzbekistan	
	Fee	Applicability/comments	Fee	Applicability/comments
Entrance fee	\$130	With the exception of empty trucks ²³ .	\$130	All trucks ²⁴
Ecology tax	\$8	Sanitation fee	\$10	As reported by truckers
Insurance	\$0	Insurance payment of \$12 was recently abolished	\$75	All Tajik trucks ²⁵
Transit fee	\$45	Transit fee is \$90. But in contrast to Uzb. Legislation, it is for two way trip and thus was divided by 2 to make it comparable. All trucks (trucks pay either entrance or transit fee) ²⁶	\$90	All trucks with non-CIS destination (payment for transit and entrance fee is reportedly treated as additive). The payment is for 1 way trip and should be paid again on the way back ²⁷ .
Transit escort Fee	\$252	The fee is 200 EURO and applied to Uzbek trucks with excise goods only ²⁸ .	\$252	All trucks pay an equivalent of 200 EURO. All Tajik trucks are subjected to escort ²⁹ . Escorting can start from the moment when a column of at least 10 trucks is formed or 12 hours after the truck customs clearance.
Escort to customs warehouse	\$35	As reported by the Association of Tajik Truck Carriers (ABBAT).	\$0	
Overstay Penalty	\$50 a day	All foreign trucks should leave the country within 8 days or face the penalty.	\$50 a day	All foreign trucks should leave within 8 days. In practice trucks are given 3 for transit and face even higher penalties of reportedly \$80-110. ³⁰
Total entrance	\$173		\$215	
Total transit	\$53-305	Transit to all countries. \$53 – in case if the good is not subject to excise duties.	\$467-557	\$557 - in case of transit to non-CIS
Memo item: Customs declaration processing fee ³¹	0.15%	The fee is applied to the customs value of the load for both transited and imported goods.	0.2%	0.2% add valorem tax is applied to the customs value of imported goods. For transit goods the fee is 10 EURO for the first page and 5 EUROS for every additional page of a customs declaration ³² .

²³ See Resolution by the Government of Tajikistan N 498, from December 8, 1998.

²⁴ See COM Resolution N11 from January 8, 2002.

²⁵ See COM Resolution N59 from February 18, 2000.

²⁶ See Resolution by the Government of Tajikistan N 121, from March 26, 1997.

²⁷ See COM Resolution N11 from January 8, 2002.

²⁸ See Resolution by the Government of Tajikistan N 498, from December 8, 1998. Rate at \$1.26 per 1 EURO.

²⁹ See Regulation by State Customs Committee and Ministry of Internal Affairs of Uzb., from September 4, 2003.

³⁰ COM Resolution N11 from January 8, 2002 suggests that trucks have 8 days to for transit and should face \$50 for overstay. Yet COM Resolution N11 from January 11, 1995 requires the Ministry of Internal Affairs to facilitate transit trucks leaving the country within 3 days. In practice \$80-110 penalties were reported by truckers for overstay in excess of 3 days.

³¹ Note that the add valorem customs processing fee contradicts WTO rules

³² See COM resolution N 204 from April 30, 1999.

Attachment 4. Transport Sector Policy Reform Plan in Tajikistan (Source: ADB 2003)

Initiative	Status Prior to Policy Dialogue with ADB	Actions for Transport Sector	Implementation Date
1. Poverty Impact	Rural roads directly serving poor communities are in a serious state of neglect and deterioration	(i) 140 km of rural roads serving poor communities will be improved under Loan 1819-TAJ(SF) (ii) 77 km of rural roads serving poor communities will be improved under the proposed Project	(i) implementation under way (ii) agreed to under proposed project
2. Increase road maintenance financing	Levels of financing for road maintenance are grossly inadequate	(i) increase annual budget allocations for road maintenance and rehabilitation by 10% per year through 2004; increase annual budget allocations and expenditures by 15% per year during 2005–2007 (ii) budget for road maintenance should comprise specified percentages of total budget for road maintenance and construction: 50–70% during 2001–2004; 80% (excluding	(i) compliance ongoing for Loan 1819-TAJ; agreed to under proposed project (ii) not complied with for Loan 1819-TAJ; agreed to under proposed project
		(iii) Anzob Tunnel) during 2005–2007 Separate budget item to be established for maintenance of proposed project road	(iii) agreed to under proposed project
3. Commercialization of transport services	Provision of transport services dominated by state-owned enterprises	Commercialization of state-owned road transport enterprises and privatization of 25% of them by completion of Loan 1819-TAJ(SF)	Gov't program on privatization of state enterprises approved in 2002; 100% of road transport enterprises have been corporatized and 40% privatized as of 2003
4. Create an enabling framework for delivery of market-based transport services	No framework for delivery of market-based services existed; the system inherited from the FSU was still in operation	(i) Transport Law amendments were enacted (ii) The charter for Tajik Rail was approved. The charter for Tajik Air was submitted for approval (iii) Resolution On the Procedure for Issuing Certificate of Quality for Road Equipment and The Law on Automobile Roads and Road Activity were adopted	1998 2000 2002
5. Improve management efficiency of transport sector by restructuring key institutions	The sector comprised several state-owned enterprises reporting to different ministers	(i) A time-bound action plan to restructure the transport sectors was prepared (ii) The transport subsectors (roads, railways, and civil aviation) were unified under MOT. Established departments or divisions for roads, railways, and civil aviation within MOT	1998 1999
6. Separate regulatory and operational functions of the transport sector	There was no separation of regulatory and operational functions within the sector. State-owned entities carried out both functions	Issued Government decrees to privatize key businesses and divest noncore activities	1998
7. Improve corporate governance	Corporate governance was weak. State-owned enterprises had little autonomy and insufficient management and reporting mechanisms	(i) Prepared time-bound action plans to corporatize Tajik Rail (ii) Prepared time-bound action plans, acceptable to ADB, to separate, corporatize, then commercialize Tajik Air and Tajik Airports (iii) Define roles and responsibilities of shareholders and board of Tajik Rail, and develop corporate plan (iv) Prepare annual reports for Tajik Rail, in accordance with international accounting standards	1999 Waived Extended to 2005 Waived
8. Implement market-pricing and user-pays principles to improve cost recovery	Absence of market-pricing and user-pays principles	Reviewed the road financing and cost recovery mechanisms to ensure full cost recovery and the application of user-pays principles	1999
9. Promote competition	Lack of clarity of legal rights of foreign investors impeded competition	Foreign investment law approved	1999
10. Establish systems for public participation in and for addressing adjustment costs of the reform process	Need to facilitate public participation to mitigate adverse social impacts of program of market reforms in transport and energy sectors	(i) Develop working group to facilitate public participation (ii) Prepare action plans to address social costs of reform	1998 2002

ADB = Asian Development Bank; FSU = former Soviet Union; MOT = Ministry of Transport.
Source: Asian Development Bank estimates.

Attachment 5. ADB's Transport Sector Policy Dialogue in Tajikistan (Source: ADB 2003)

ADB's policy dialogue for the transport sector has covered all subsectors and numerous issues. The ongoing ADB Loan 1819-TAJ includes a number of covenants that were originally part of Loan 1651-TAJ. While the Government has complied with a number of these covenants, particularly those related to implementation of the Transport Law, it has not complied with four covenants, relating primarily to corporatization of the railway and aviation subsectors.

The Government, in a letter to ADB of 6 October 2003, formally requested an extension of the dates of compliance for two outstanding covenants and waivers of two other outstanding covenants. The Government's achievements regarding each of these covenants, actions being undertaken in coordination with other development partners, and actions the Government has requested from ADB are described as follows. ADB has approved the Government's requests concerning the covenants.

- a. **Develop time-bound action plans, acceptable to ADB for corporatization and further commercialization of Tajik Airlines and Tajik Airports.** The Government issued Decree 666 in June 2002 regarding corporatization and commercialization of civil aviation (and Tajik Rail). The Government also has an ongoing project and policy dialogue in the civil aviation subsector with the European Bank for Reconstruction and Development. Based on the progress made to date in reforming the aviation subsector and the ongoing program with European Bank for Reconstruction and Development, the Government has requested that ADB waive this covenant.
- b. **Define the roles and responsibilities of the shareholders and Board of Directors of the corporatized Tajik Rail.** The Government plans to begin implementing this covenant in 2004 (in accordance with Decree 82 of March 2002). The Government has requested extension of the compliance date for this loan covenant from May 2003 to 31 December 2005.
- c. **Develop corporate plan for Tajik Rail.** The Government plans to begin implementing this covenant in 2004 (also in accordance with Decree 82 of March 2002). The Government has requested extension of the compliance date for this loan covenant from June 2003 to 31 December 2005.
- d. **Prepare annual reports, available to the public and audited by independent auditors in accordance with international accounting standards (IAS), for Tajik Rail.** The Government issued Decree 428 in November 2002 regarding implementation of IAS and also has an ongoing project with United States Agency for International Development (USAID) to help implement IAS (including a pilot project with Tajik Rail). The Government has therefore requested that ADB waive this covenant.

In addition, the Government has requested modification of another covenant from Loan 1819-TAJ, regarding road maintenance financing as a proportion of road subsector expenditures to make it consistent with the related covenant in the proposed Project.

Attachment 6. The organization of Transport Sector in Tajikistan (Source: ADB 2003)

Prior to 1998, the Transport Department under the Office of the President acted as the central point of coordination for the transport sector. Development planning for the subsectors was the responsibility of separate government organizations. The Ministry of Transport and Roads served as the national agency for road infrastructure management, managed road transport enterprises, allocated budgets, assigned work, and managed personnel.

Tajik Railway Company served as the agency for railways, and Tajikistan State Air Company for civil aviation and airports. Each organization was responsible for preparing development plans and investment programs for its own subsector. During implementation of the development plans, the Office of the President provided coordination for review and revision of the investment programs and for allocation of investment funds among the subsectors.

As a result of policy dialogue with and technical assistance from ADB, the administration of the transport sector was reorganized and Ministry of Transport (MoT) was formally created in 2000. It became a budget-spending entity in 2001. Prior to this, the Ministry was a self-financed entity, that was funded by the allowances of its subordinate units. However, the annual state budget in 2004 for the entire MoT with 120 staff is mere 245,000 somoni, (USD 86,000), or USD 716 per staff member per year. MoT, which now includes Tajik Rail (Tajikistan Railway) is responsible for planning and coordinating all modes of transport within the country. Tajik Air (Tajikistan Airlines) as a SoE, became independent of MoT in January 2004.

The Government is committed to develop a transport sector that meets the needs of a market-based economy. The reorganized MoT reflects a policy of promoting competition, increasing the private sector's role, and enabling customers to make informed decisions. In the future most state-owned enterprises will play a minor role and will be expected to operate as independent commercial enterprises.

Separate deputy ministers are responsible for rail transport and air transport. These are regulatory and oversight responsibilities only and the line functions remain with Tajik Rail and Tajik Air, respectively. MoT's Roads Department is responsible for administration, maintenance, and construction of roads in Tajikistan, and has a number of associated entities. For example, Tajikgiprotransstroy (the Design Institute, a joint stock company), is responsible for surveys, testing of materials, design of maintenance, and new construction in the subsector.

MoT is responsible for the planning and coordination of the maintenance of Tajikistan's road network. MoT maintains roads and bridges, through five maintenance divisions that are responsible for the maintenance activities in their regions. These maintenance divisions include Badahshonroh, Dushanbe Road Management (DRM), Khatlonroh, Khudjandroh, and Tajikdorstroy.

These five divisions are responsible for the maintenance of approximately 14,000 km of road, and employed 3,291 people in 2001. These road maintenance divisions are state entities, attached to MoT. None of the road maintenance units (RMUs) has been privatized. While it is the stated intention of MoT to eventually privatize this function, no progress has been made to date.

The road maintenance divisions prepare annual maintenance plans and budgets based on systems established during the Soviet era. This information is then presented to MoT, which in turn allocates funding to the various divisions. DRM is responsible for maintenance in the Region of Republican Subordination (RRS) and, in particular for the ADB project road from Dushanbe to Nurobod, formerly Darband.

The RRS is made up of 15 RMUs, which are located throughout the RRS. These RMUs are responsible for the road network within their jurisdiction with actual maintenance being carried out by staff who are responsible for maintenance of specific sections of road. DRM has 760 people who are engaged in annual maintenance activities within the project area with an annual budget of 517,000 somoni. However, the plant, equipment, and materials available to the workforce are not sufficient for carrying out effective maintenance activities.

Attachment 7. Logistics issues in beverage and food processing in Moldova and Georgia (Source: Molnar and Ojala 2003, and Ojala 2003)

Transport considerations in beverage and food processing industry in Moldova

Wine, beverage and food processing industry is the major export sector in Moldova, with expected export of USD 270 million in 2002. Export of processed fruits and vegetables, such as juice concentrates, purées and juices, add another USD 50 million. Branded products with manufacturers' own labels are exported mainly to Russia, other CIS countries and the Baltic States. Juice concentrates are typically sold to large German and Austrian fruit juice producers. Manufacturers use only a part – some as little as 20 % - of their production capacity. The major reason for this is the poor availability of Moldovan fruits and vegetables.

Large producers often use their own trucks for export of packaged products. The low frequency of shipments alone does not justify own transport equipment, which is also motivated by the poor cost/service ratio of Moldovan carriers. Juice concentrate is usually exported to the main purchasers in EU in tank containers provided by the buyers, who also arrange the transport. Due to relatively low value of the goods, transport costs to EU and CIS markets typically account for 15-20 per cent and to overseas markets over 25 per cent of cargo value. Moldovan carriers with old trucks are often used when importing input or packaging material from Rumania, because the cost of operators with modern vehicles is deemed too high and service level poor. In many cases, domestic supplies of fruit, vegetable, flour or sugar are either in short supply, or they are of inferior quality compared to imported goods. Domestic distribution of packaged food or soft drinks is mostly done by wholesalers, so manufacturers do not usually have distribution fleet of their own.

Apple juice concentrate export highlights many of the logistics and business hurdles experienced by Moldovan firms. European fruit juice processing is dominated by a handful of firms turning over USD 1 billion and sourcing juice concentrates from all over the world. They package the products for main clients, often as retail chains' own brands. They operate on a Just-in-time principle processing several billion liters of different types of juice. Delivery schedules to retailers are very tight, and the packaging lines handle tens of fruit juice varieties. This requires careful production planning and strict quality control. Since the processing firms keep practically no inventory, they rely heavily on dependable inbound and outbound shipments. In order to stay in the business, Moldovan fruit juice exporters need to conform to narrow time-windows in their deliveries. On the other hand, narrow margin of end-products often makes import of fresh fruit impossible. For example, a very low freight of USD 400 for a 16 ton truck of apples from Romania was cited as too much by one apple juice concentrate producer. Complicated export customs procedures leading to uncertain deliveries can easily ruin the business relationship, even if the price is competitive.

Example of logistics barriers for apple juice concentrate export from Georgia

Agricultural production in Georgia has recovered significantly from its decline following independence, and it can produce high quality apple juice that can be sold to the European market. European fruit juice processing is dominated by specialized firms that package the products for main retail chains or distributors. A growing share of juice is sold as retail chains' own brands. The largest producers operate on a Just-in-time principle processing several billion liters of juice annually. Delivery schedules to retailers are very tight, and the packaging lines handle tens of varieties, which requires careful production planning. The concentrate has to conform to quality standards, which is routinely checked. The processing firms keep no inventory but rely on dependable transport of incoming goods and in their distribution.

Apple juice concentrate is self-preserving when sugar content is over 65 per cent. It is usually transported in drums of 100 to 200 liters that are stuffed to ordinary ISO containers, with 13 to 14 tons in each TEU. Tank containers are not used because of risk of contamination. As the sugar content of the end-product is 10 per cent or less, one TEU of concentrate is equivalent to 100,000 liters of juice with a consumer price of US\$ 50,000 including taxes in the EU. The Ex Works commercial value of the concentrate is estimated at US\$ 5,000. According to data gathered in 2002, the total cost of transporting one TEU from Georgia to a European port is at least US\$ 3,000, one third or more of it coming from unofficial fees. Total transport cost is more than half of the Ex Works value of the goods. Consequently, the CIF cost of the goods in Northern Europe is around US\$ 8,000 per TEU.

Apple juice is a commodity, the price of which is determined in the world market. China is the largest export-oriented producer with its annual production of over 20 billion liters of good quality apple juice. Total transport cost of one TEU from China to Europe is around US\$1,500 with highly dependable schedules. The Chinese may sell the product at a higher price than US\$ 5,000, and still remain competitive. Thanks to economies of scale and low production costs, their profit margin may be substantial. For Georgian producers to compete against the Chinese, they would need to sell at US\$ 3,500 Ex Works, giving a thin profit margin. This may not even cover production costs, and trade may be diverted. Also the transport arrangement is less dependable than that from China. Without unofficial payments, the Georgian producers could compete with their concentrate at US\$ 4,500 to 5,000 per one TEU (Ex Works).

Attachment 8: Trade in the Region

After several years of economic decline with the disruption of trade flows and the breakdown of the CMEA payments system, recovery is now underway in all of the Central Asian republics, as evidenced by the increase in exports and imports in US dollar terms (see Tables A & B). However, in real terms, the overall growth in imports and exports was more modest for some countries, and indeed has declined in some, notably Uzbekistan. In addition, there has been a fundamental reorientation in the trading patterns of all the countries, with the share of trade with CIS countries falling from 80% in the 1980s to 25% in 2002³³.

The trade volume of Tajikistan, however, has been uneven and the level of trade does not show clear signs of improving. This is partly because up to ¾ of exports is aluminium and cotton, and alumina is a substantial import item.

Table A: Central Asian Republics: Total Exports 1994-2002 (Million US\$)

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Kazakhstan	3,227	5,256	5,926	6,497	5,511	5,598	9,138	8,647	9,930
Kyrgyz Rep.	339	483	506	609	509	454	502	476	480
Tajikistan	492	749	772	803	597	689	784	652	537
Turkmenistán	1,163	1,881	1,693	751	594	1,187	2,505	1,132	1,219
Uzbekistán	1,991	2,718	2,620	2,896	2,310	1,963	2,135	2,028	1,900
CIS Countries	83,880	110,228	117,491	120,192	102,406	101,827	142,815	121,310	139,716

Source: Adapted from Elborgh-Woytek (2003).

Table B: Central Asian Republics: Total Imports 1994-2002 (Million US\$)

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Kazakhstan	3,285	3,807	4,207	4,302	4,373	3,686	5,052	6,363	6,809
Kyrgyz Rep.	316	392	795	709	841	610	554	464	593
Tajikistan	547	810	668	750	711	663	675	688	705
Turkmenistán	904	1,364	1,313	1,228	1,007	1,478	1,788	1,558	1,432
Uzbekistán	2,455	3,030	4,854	4,538	2,931	2,481	2,078	2,303	2,370
CIS Countries	62,337	83,979	84,488	93,458	80,241	61,047	70,138	77,306	89,640

Source: Adapted from Elborgh-Woytek (2003).

Note: The trade figures for Tajikistan differ markedly from the ones shown in Attachment 1, which is mainly based on IMF Country Reports from January 2003 and 2004.

³³ From TTFCA (2004), Draft ; based on Elborgh-Woytek (2003)

Attachment 9: Selected transport indicators

Table A. The number of international passengers in Tajikistan by modes 2000-2002 (thousands).

Source: MoT

Passengers (‘000s)	2000	2001	2002
leaving by:	300	265	320
- Air	100	100	125
- Bus	33	18	13
- Rail	167	147	182
entering by:	205	208	237
- Air	100	100	125
- Bus	30	26	19
- Rail	75	82	93
transiting by:	533	177	150
- Air			
- Bus	19	42	43
- Rail	514	135	108

Table B. Rail, road and motor vehicle densities in selected countries.

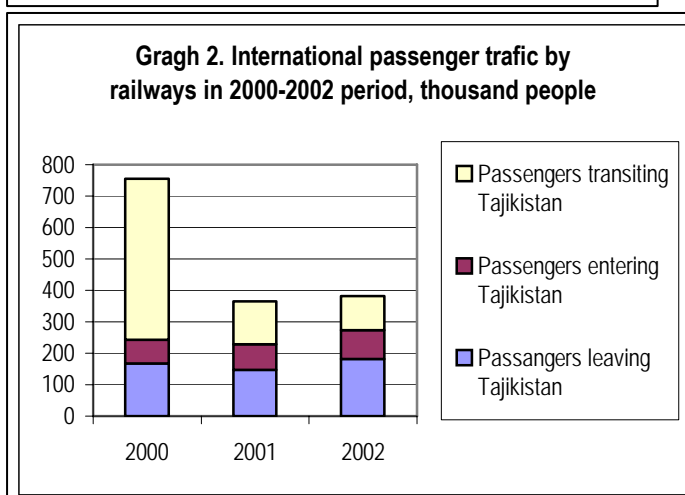
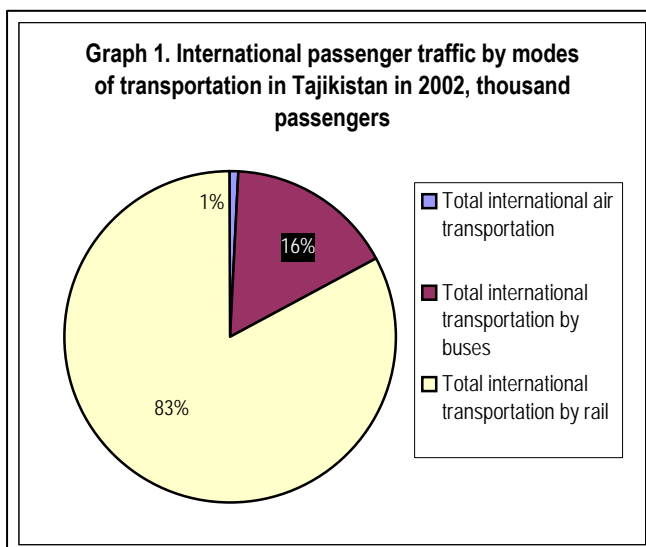
	<i>Rail density</i> <i>km per 100 km²</i>	<i>Road density</i> <i>km per 100 km²</i>	<i>Paved road density</i> <i>km per million population</i>	<i>Motor vehicle density</i> <i>Vehicles per 1000 people</i>
<i>Year</i>	<i>2002/2003</i>	<i>2002/2003</i>	<i>2002</i>	<i>1997</i>
<i>Estonia</i>	2.3	91.8	5 291	350
<i>Latvia</i>	3.7	88.3	8 994	214
<i>Lithuania</i>	3.1	104.4	14 348	265
<i>Bulgaria</i>	3.9	30.6	3 854	239
<i>Russia</i>	0.5	3.3	5 087	153
<i>Romania</i>	4.8	30.7	3 421	135
<i>Belarus</i>	2.7	24.2	5 012	109
<i>Moldova</i>	3.4	31.5	2 412	49
<i>Kazakhstan</i>	0.5	3.0	4 612	
<i>Kyrgyzstan</i>	0.2	9.3	3 439	
<i>Tajikistan</i>	0.4	9.8	767	
<i>Turkmenistan</i>	0.5	4.9	4 149	
<i>Uzbekistan</i>	0.8	18.2	2 740	

*) Data for Tajikistan in 2002, roads under the MOT jurisdiction only (13,700 km)

Attachment 10: International Passenger Transportation

Railways is the most important and the cheapest mean of international passenger transportation in Tajikistan (see graph 1). This is much due to the substantial decline in bus transport from 1.5 million people³⁴ in 1997 to mere 75,000 in 2002. Passenger transport by rail has also halved from 0.76 million people in 2000 to 0.38 million in 2002. The decrease is mostly due to the decline in the number of passengers transiting Tajikistan (see graph 2).

Currently only railway passengers can have a visa free transit via Uzbekistan and there are no international shuttle buses in Tajikistan. The bilateral agreement between Uzbekistan and Tajikistan signed in 2000 envisages unhindered (visa free) transit of the citizens of the two neighboring countries by railways and regular busses. In practice, there are no regular shuttle buses transiting Uzbekistan: soon after the signing of the agreement Uzbekistan informed Tajikistan about a unilateral, “temporary” halt to visa free transit by road transport. As a result, Uzbekistan issues transit visa to all passengers that transit Uzbekistan by any means other than railways³⁵. In return, Tajikistan instituted the same measures. 3 years later, the “temporary” order is still in place, there are no regular Tajik shuttle busses transiting Uzbekistan.



Only the passengers in the southern part of Tajikistan have the access to the international railway passenger services. Currently there are 4 railway passenger routes that are executed by the Tajik railways. Two of the regular lines, Dushanbe-Kanibadam³⁶ and Kurgan-Tube - Kannibadam³⁷, connect the northern and the southern parts of Tajikistan. The remaining 2 routes serve to connect the south of the country, namely such cities as Kulyab and Dushanbe to the Russian Federation (Astrakhan) with the frequency of 2 and 3 times a week, respectively. The structure of the railway passenger communication seems to have been instituted by the Tajik government out of political considerations in order to better integrate the Soghd region with the rest of the country³⁸. Currently, it is being considered to introduce Khujand – Saratov and Dushanbe – Moscow lines with upgraded or new rolling stock.

³⁴ Including those leaving, entering and transiting Tajikistan. Note that in 1997 each of the categories accounted for about 0.5 million people a year and all of the categories declined to a very low level of 13-43 thousand people.

³⁵ The measure has been introduced to prevent illegal migration to Tajikistan.

³⁶ 3 times a week.

³⁷ Once a week.

³⁸ Tajik railway authorities are currently considering introducing Khujand – Saratov (Russia) route.

Attachment 11. Institutions related to foreign Trade activities

This attachment outlines briefly the functions of the following agencies or organizations³⁹:

- Ministry of Transport (MoT)
- Railway Administration
- Railway Transport Brokers
- ABBAT – The Road transporters association
- Ministry of Economy and Trade (MoET)– Foreign Trade department
- Tajikstandard
- Customs Legal department
- Central Customs Laboratory
- The Anti Monopoly Committee
- Tax administration. VAT Registration and Legislation
- Board Guard Committee
- Ministry of Agriculture Quarantine Department
- Ministry of Health : Sanitary and Epidemiological Service
- Ministry of Health: Quality Certification for Drugs and Pharmaceutical Products
- The Ministry of Justice (MoJ)
- Ministry of Telecommunication
- Banking system

Ministry of Transport (MoT)

The Ministry of Transport is the official organ in charge for checking the transport documents, develop transport services at the borders or inland terminals such as drivers accommodations, handling services, etc. MoT also receives the road tax collected by the customs services on the whole territory.

A specific attention is drawn on the development of bilateral border crossing settlements. The Ministry of Transport has elaborated the concept of reorganization and design of 11 border sites but still waiting for financial support from international donors or others.

In terms of regional transport, relations with the neighbor countries are good except with the Republic of Uzbekistan. The visa regime is already quite an obstacle and the land mines pose a serious concern for trade and the population. Nevertheless, the Ministry of Transport has launched a proposed draft agreement on international road and air transport relations to the Ministry of Transport of Uzbekistan and expects positive feedback in a next future.

Today cargo transport to the destination of Uzbekistan is forbidden from the Uzbek side. Only Transit operations are possible under strict and controlled conditions (seals, escort fees of 200 Euros, etc...). Tajikistan is practically landlocked with the almost entirely closed Chinese border, the very problematic Uzbek border and the still war-ridden conditions on the Afghan border.

In terms of cargo insurance, the lack of practice, of legal basis and the absence of such private companies in Tajikistan implies that the insurance responsibility is defined by the commercial contract between the owner of the goods and the transporter. Usually the driver takes the responsibility. The system of escort payable on a distance basis is considered as an insurance mechanism in order to cover the risk of theft or loss of cargo during the transit of goods. Indeed, the escort service is registered at the departure customs terminal point as well as at the arrival point. Nevertheless, the discharge and the management between the escort movement themselves and with customs declaration hardly occur and is never audited.

The Ministry of Transport participates in the Interagency coordination border crossing Committee chaired by the Border Guard Committee dealing with the security and border management issues.

³⁹ Based on the Consultant report on Tajik Customs by Bernard Toubol (2004)

Railway Administration

Railways tariffs are approved twice a year by an international agreement of CIS railway administrations, but the agreement covers only freight prices but not other related services. In Tajikistan, the Railway Administration is very powerful and politically influential and is managed by a relative of the President.

Trains stop at every railway station, where the payment of codes is checked on the basis of telex messages, sent from the central administration to all itinerary stations, confirming these payments.

Transport insurance is typically not required for rail cargo, since the railway administration ensures compensation of the value of goods in case of total or partial loss. In case of damages, proof must be provided to define the responsibility.

Railway Transport Brokers

The Railway administration licences all railway transport brokers. The railway broker must establish agreements with each railway administration directly or via other corresponding brokers in the different concerned countries. The broker has to set up deposit accounts with each railway administration in each country.

The Brokers solicit “codes”, i.e. slots for cargoes and wagons, to shippers. International cargo train stop at each station for checking if the “code” payment is confirmed by a said telex message.

The railway transport brokers buy codes in a long-term agreement basis and pay monthly the codes used in the said month as far as the bank guarantee or the deposit has been set up and still covers the payment of the codes.

Without payment of the codes no goods can be released nor delivered by the railway administration.

ABBAT – The Road transporters association

In terms of organisation, the Ministry of Transport has delegated the function of registration of the transport companies to ABBAT (monopolist private association of transporters) as well as the implementation and management of the TIR convention procedure in the Republic of Tajikistan.

Also, ABBAT has been made responsible for the control of the technical specifications and standards of the means of transport. ABBAT issues the international licenses for transport activity while the Ministry of Transport issues the licenses for domestic transport activity. ABBAT is in charge also to check and management the presence of foreign trucks on the Tajik territory. Till a 5 day journey in Tajikistan there is no charge. After this period, it is required for the transporter to pay a specific transit tax or to extend the international transport validity against compensation collected by ABBAT.

Foreign transporters may transport goods on the Tajik Territory if they are beneficiary of an international transport license delivered by the MoT according to the concerned country. Nevertheless, the economic situation of Tajikistan place the country in a non competitive position in terms of licenses use. For instance, Kazakhstan received 500 international licenses for the territory of Tajikistan in exchange of the same number of Kazakh licenses to Tajik transporters for the Kazakh territory. Nevertheless, the export opportunities do not allow Tajikistan to use those 500 Kazakh licenses.

Ministry of Economy and Trade (MoET)– Foreign Trade department

All traders must get a licence from the MoET, but as part of compliance to WTO rules, this compulsory registration is to be abolished, as approved by the government on February 12, 2004 and ratified by the parliament. The signature and ratification by the President is expected. In early 2004, 749 business entities were registered as traders at the MoET. Also, a project to create a Free Economic Zone following the example of Viet Nam is under consideration.

The lack of communication between administrations and Traders has urged to initiate a communication center within the MoET. The equipment has been acquired by a financial grant of USD 0.6 million by the Indian government. Technical and financial assistance has also been provided by SECO and USAID. Today the main obstacle to deal with remains:

- The double or multiple VAT imposition within the CIS countries,
- The regional transit within the Central Asian Republics shows up the duplication of documentation, heavy process of money deposit to cover the duties and taxes on goods in transit, level of road and communication infrastructure, interconnectivity between road and railway infrastructures, transparency and access to legal information, lack of mutual recognition of international documentation and standards.
- The weakness of the banking system to support Trade development. A scheme State financial support for exporters has been launched to offer preferential investment credit conditions. The export promotion would take place through a National Fund supported by the National Bank of Tajikistan. 0,2% of the GDP should be allocated to support this fund and orientate the investment towards programmes for public service modernization, infrastructure and computerization development.
- Harmonization of the border crossing agencies. Today an interagency coordinating commission has been created from a Presidential order to gather all related border crossing bodies to deal with the border crossing security issues and border management improvement.

Tajikstandard

5 basic laws issued by the government and by the President of the Republic of Tajikistan regulate the Tajikstandard activity. Tajikstandard is responsible for all the MASQ activities (Metrology, Accreditation, Quality assurance and Standardisation) as well as for the State control for compliance with the Tajik standards.

Tajikstandard is under the responsibility and organizational structure of the Ministry of Economy and Trade. Tajikstandard is administratively dependent on the Ministry but is financially autonomous since Tajikstandard is responsible for its own financing management. The agency is financed on basis of the fees collected from the Traders for inspection and certification.

The first purpose of Tajikstandard is to improve and maintain the market access through standards and conformity assessment. Nevertheless the compulsory standards to be respected on imported, consumed and exported goods form a part of the technical regulation and would appear not to have legitimate objectives. This is a relic from the Soviet era when the State was the only consumer.

Tajikstandard participates in regional standard activity such as the Eurasian Interstate Council for Standardisation, Metrology and Certification and the Interregional Organisation of Standardisation (IAS) signed by the Prime Ministers and Presidents of the Central Asian Republics. This should enable a mutual respect of standard and tariff agreement. A simple documentary checking is carried out and sometimes analyses are required just to confirm the said standard certification from the neighbor country. Tajikistan does not participate in the international Standardisation Organisation (ISO) and does not recognize officially the ISO certification as compliant enough with the Tajik standards. Therefore, the European standards are also considered as lower than the Tajik ones and they are not recognized.

It is not usual by international best practices that the national standards body is involved in organizing the implementation of the mandatory standards as is the case with Tajikstandard. The certification agency grants also accreditation arrangements but on an unclear and complex way without satisfying the usual requirements to secure the risk of conflict of interest.

Tajikstandard has accredited 116 laboratories in the Republic of Tajikistan of which 70 have an agreements of independence meaning that they do not required the presence of the Tajikstandard staff to validate certification. Also, some entities are accredited by Tajikstandard to carry out inspections and certification such as the State National Scientific Center of expertise of Drugs and Pharmaceutical products, and the State testing certification of precious Metals Agency.

Traders have to choose the certification organ they want as well as the accredited laboratory they want. Certification is required and carried out for every shipment and the analysis is valid for each shipment too.

The tariffs of Tajikstandard services are not openly published and made accessible to the public. Nevertheless it was possible to establish that Traders have to pay 0,1% of the value of the cargo for Tajikstandard services on imports and 0,6% on exports. The breakdown of the Tajikstandard fees include: obtaining the application form, sampling, checking, analyzing, findings analysis report issuance, certificate issuance. Fees are payable in advance, prior to the services being done.

Analysis findings are said to be recorded in a computer data basis from where EDI would be possible if required

Tajikstandard employs today 200 inspectors in Dushanbe of which 70 are employed as analysts. A procedure manual exists for the sampling methodology as well as for the transportation of samples and their return to the Traders or their destruction according to the case.

The operational procedure may be described as follows.

- Goods arrive at the railway border station or at the clearance terminal and Traders receive the arrival consignment note to be presented to customs.
- Customs assigns the Trader to go to Tajikstandard according to the type of goods.
- Traders go to Tajikstandard, request for an application form to be filled in to request for the Tajikstandard services. The required documents to be joined to the application form are. the certificate of conformity from the exporting country, the certificate of origin, the certificate of quality, the invoice, the customs declaration, the import permit from the quarantine department, the commercial contract, the test protocols from any other accredited laboratory, the export permit on export, the stock exchange commodity certificate for cotton export.
- Traders have then to pay for the services requested according to the value of the goods concerned, and costs tariffs are indicated in a 100 page document approved by the Ministry of Trade and Economy and the Ministry of Finance.
- Traders ask for an inspector to come to the wagon or truck to check and take samples.
- Samples are taken from the cargo truck or wagon in presence of customs, police, and railway management staff. The sampling operation gives rise to a protocol act.
- Goods are then transported to the chosen accredited laboratory and a findings analysis report is drafted. It may take 7 to 10 days officially to carry out the analysis.
- On basis of this report Tajikstandard issue a certificate of quality and compliance.
- Traders go back to the customs declarant to join the certificate to the customs declaration.

By traders, Tajikstandard is resented as a trade barrier in all business sectors. For instance the regional oil producers companies have an agreement including the harmonization of the standards of quality. Nevertheless the inspection of quality and certification is still duplicated with the exporting neighbor country certificates. To get a Tajikstandard inspector may take 2 or 3 days during which the Traders are liable to pay demurrages and other logistics charges based on the value of the goods. The business community is increasingly demanding that standard certification should be provided by an independent organization.

Customs Legal department

The legal department of the Ministry of State Revenue and Duties is in charge of the legal customs and tax affairs. The tax police department has his own legal affairs unit. The department is composed of (i) A judicial affairs sub department, and (ii) A legal expertise sub department. The legal department activity does not show any sub functionality in terms of customs affairs and tax affairs activity.

In other terms, the staff must be expert in the customs as well as the tax codes and legislations. As regarding the secondary level legislation, the instructions and implementing resolutions and decrees are developed and ratified by the Ministry of State Revenue and Duties on basis of proposals from the following bodies: (i) The central customs department, (ii) The legal department after expertise and revision of the proposed texts, and (iii) Other ministries.

The EURASIA customs union Member States meet on regular basis to develop collective and harmonized standards of the normative and legislative documentation. The legal department was not invited to be part of the customs code revision working group. The deputy head of the department provide comments and proposals of amendments to the customs code revision working group.

Also, the legal department has started to establish a centralized data basis gathering and updating the second level legislation documentation related to the customs and tax implementation provisions. The department carries out the establishment of this data base. A technical assistance from international donor would be appreciated to help in building up, editing, translating and disseminating this data basis, implying to update and upgrade the former instructions.

The main activity of the legal department remains the legal expertise of legislative documentation since any document with a legal impact cannot be issued and signed by the Minister without the legal department point of view and expertise.

Few claims from the private sector Traders are submitted to the legal department for appealing the customs decisions on the determination of the customs value and the computation of the duties and taxes to be paid. Also, in theory the legal department should be involved in all litigation cases submitted to the prosecutor, in order to validate the legal procedural aspect and not to be rejected by the prosecutor's office for legal non-compliance. In reality, the legal department is not always solicited.

In terms of requirements it has been mainly expressed the need of the revision of the legislation in terms of customs code and secondary level implementation provisions with a special focus on the legal framework of the litigation and appeal procedure.

Main problems for the Traders also remain the lack of information, the non transparency and the barriers to public access to the current customs legislation and the regulating acts or resolutions regarding the duties and rights of the private sector entrepreneur. An external communication policy should be developed to increase the transparency of the customs legal framework, the duties and rights of customs as well as Traders. It may be under the form of a web site dissemination, regular customs activity publication, conferences, and training schemes.

Another barrier of Trade facilitation and customs efficiency from the Traders' point of view remains the duplication of controls by the different enforcement bodies. The checking of freight and commercial cargo should be on the only competence and legal framework of the customs administration while today other bodies carries out the same type of control. Businessmen do not address customs abusive attitude to the courts because of a number of reasons, such as (i) their illiteracy, (ii) fear of retaliation and (iii) fear of aggravation of the penalty. Thus, a clear and transparent appeal procedure is highly required.

Central Customs Laboratory

The central customs laboratory has been set up in 1977. The legal basis for the management, organisation and running of the laboratory is based on the article 9 of the customs code and the resolution n° 189 of the 18.06.1999 issued by the Ministry of State Revenue and Duties. This resolution defines the job description and responsibility of each staff personnel, the functions and work organization. A new resolution is now drafted before the final approval in order to be in line with the recently created Ministry of State Revenue and Duties.

The analyses are free of charge for the Traders and in fact supported by the 0.15% customs fees collected on any kind of customs declaration processed. The running and development of the central customs laboratory is financed by this customs budget

The laboratory does not carry out any expertise and analysis for private purpose. In 2004, 11 persons works at the central customs laboratory of which 8 are employed as customs officers and technical experts, specialized in different types of products such as: (i) Foodstuffs, (ii) Industrial products, (iii) Precious stones and metals, and (iv) Oil products. However, there is no expertise in textiles, electronics or chemicals products like fertilizers.

The central customs laboratory aims at analyzing the products on the exclusive request of customs to determine the correct customs classification of the products. The laboratory does not deal with the products origin questions being in theory, under the responsibility of the chamber of commerce, which is due to issue the certificate of origin. The laboratory does not either deal with the determination of the value of products. In 2003, the central customs laboratory carried out some 1,100 analyses.

The analyses are launched on basis of a request from a customs service of the Tajik territory. Indeed, at the border or at the level of a clearance terminal, the inspectors who have any doubt on the quality of products declared by the operators may contact and request by radio the assistance and expertise of the customs laboratory staff.

The customs laboratory expert goes to the point of control by its own means for a first visual checking and analysis. If required then the expert decides to take some samples of products to be analyzed at the laboratory. A model of sampling report exists. A model of expertise and analysis findings report is used and then supplied to the customs requestor as well as the Traders with the recommendation on the customs classification of the products.

The customs classification provided by the laboratory is not binding to the Traders who can ask for a counter analysis to be carried out by the Tajikstandard laboratory.

Because of the lack in transportation and logistics means, the experts go only in the area of Regard and Dushanbe. In the other regions the customs service may call for the assistance of Tajikstandard local laboratory for only technical analysis that means without any specialist's recommendation on the customs classification of the products. In fact Tajikstandard has accredited the customs laboratory, meaning that the analysis procedures and methodology are agreed and supervised by Tajikstandard. Databases are elaborated on a hand made basis but without any real means for retrieving analysis findings on a criteria query.

The analyses reports are archived in the premises of the laboratory for one year and then transferred to the archive place of the Ministry of State Revenue and Duties. Samples are destroyed within a month after the analysis and give rise to a destruction protocol.

The head of the central customs laboratory was formerly deputy minister of the nature protection Ministry and then participated in various seminars and conferences on the meteorology and nature ecological protection topics in several countries out of the central Asia region. The central customs laboratory is regularly consulted for recommendations on the legislation updating as far as there are concerned. Close collaboration exists with the other departments of the customs department of the MSRD structure. Drug products are not analyzed by the central customs laboratory but by the Ministry of justice laboratory and the Drug Control Agency laboratory.

The Anti Monopoly Committee

Existing legislation stipulates that the price lists of Monopolist agencies (including Tajikstandard, Ministry of Agriculture and others issuing Quality, Quarantine, Origin and other certificates) should be approved by the Ministry of Economy and Trade (MoET), and the Ministry of Finance (MoF). Surprisingly, these attest that their tariffs lists are approved by the Anti Monopoly Committee, which has been separated from the MoET. Today the Anti-Monopoly committee is trying to get involved into the process, while the MoET is allegedly trying to prevent that from happening.

The monopolist agencies are allowed to set prices on the cost and markup basis, while the size of the markup is determined by the agencies themselves. For example, TajikStandard transfers 40% of its revenue to MoF, whereas the certification department at the Ministry of Health, and the Quarantine service of the Ministry of Agriculture pay corporate tax to MoF and run the activity on the net revenue. The revenues are paid by traders to obtain compulsory laboratory analyses and certificates.

The law on "Normative Legal Acts" states that all normative documents that are obligatory for legal entities should be registered with the Ministry of Justice. Yet none of documents approved by the Anti Monopoly Committee are registered nor available with the Ministry of Justice (MoJ).

Tax administration. VAT Registration and Legislation

The Tajik VAT mechanism has been set up following IMF recommendations. The application process is difficult and non-transparent both at the customs and tax bodies. Everyone selling more than 20,000 Somoni worth of goods a year must be registered for VAT purposes and must require a 10-digit tax identification number (TIN). VAT is not applied on exports, except for aluminium and cotton, which are subject to an export sales tax of 2% and 5%, respectively.

The Tax Department of the Ministry of State Revenue and Duties centralizes the regional local registrations operations in a single source. The TIN allocation is a single and unique procedure meaning that the registration process is based on a single application for all the regional and central tax administration services in Tajikistan.

Today, the TIN registration number is allocated by hand in a registration book. With the technical assistance of USAID/BearingPoint, the computerization of this registration data base in a single point is under construction after some difficulties since 1999.

The Tax Code specifies that the VAT on imports has to be collected by the customs body of the Republic of Tajikistan. Nevertheless, the TIN registration data basis is not effectively communicated to the customs department or the customs regional clearance offices. The Traders communicate their VAT registration number called TIN (Tax Identification Number) stipulated on the Tax administration attestation joined to the customs declaration.

The physical persons who occasionally carry out some commercial foreign Trade operations, are required also to be registered as well as by the tax administration of their residence base area for a patent purpose and not a VAT purpose. Nevertheless, a specific resolution stressed on the fact that without any evidence of effective tax registration number customs commercial cargo declaration cannot be surrendered by any legal or physical persons. From 1 January 2004 it is compulsory to present the TIN in order to be able to open a commercial bank account. This concerns mainly shuttle traders.

Today 22,000 entities are registered at the National Statistics Agency for commercial activity. 11,000 of these are registered for VAT but only 5,000 are really active. 749 entities registered for VAT are also registered for foreign Trade activity.

The tax reform plans to make it possible to get the TIN within 10 days through the One Stop Shop process including the Ministry of Justice, the National Statistics Agency and the Tax Administration. The process should be effective from April 2004. Before this reform the Traders had to gather and present the required documents (Charter of the Company, certified by a Notary, Certificate of Address issued by the District Administration through a very bureaucratic process, the Passport and CV of the company Managers and the Registration Application Form, duly completed).

Then the documents approved by the Ministry of Justice are to be submitted to the National Statistics Agency in order to obtain a Statistical Registration Number. Then again all documentation including the Registration Certificate of the Ministry of Justice and the National Statistics Agency have to be submitted to the Tax Body to receive the TIN.

Traders have also to be registered at the Social Protection Fund before going back to the Ministry of Justice for the final registration step. In theory the process should not take more than 10 days.

After the implementation of this legal tax reform the process should be much more straightforward, the Ministry of Justice should transmit forms and documentation to the National Statistic Agency which in turn should transmit to the Tax Body.

Concerning the VAT refund, the process is not well applied nor really put into practice. Today, any claim for VAT refund would be purely offset by other taxes. This situation is still possible since the decision of the Ministry of Finance is not binding to the Treasury Administration. A reliable VAT

refund process should be based on commercial documentation. Today the quality of commercial invoices is very poor, and the accounting system is not developed in most of the businesses.

Board Guard Committee

An interagency coordinating committee for Border Crossing Security issues has been created in 2003 and it comprises members nominated by the Government from: (i) Ministry of State Revenue and Duties, (ii) Border Guard Committee, (iii) Ministry of Transport, (iv) Ministry of Interior, (v) Ministry of Trade and Economy, and (vi) The International Airport in Dushanbe.

The Interagency coordinating Committee is born from an initiative from the IOM (International Organisation of Migrations) whose objective is the Improvement of Border management. The purpose is to create a framework of coordination and interaction between the ministries concerned and to define solutions for security issues in a mutual and common approach. Ideally the principle of One Stop Shop at the border points would deal with all Border crossing issues in the future. Specific attention has been placed on training with the assistance of IOM which has set up a training center for foreign language teaching, for checking methodology, and for computer use with a donation of 20 computers.

Ministry of Agriculture Quarantine Department

The Ministry of Agriculture does not deal with Import/Export operations but only with the agricultural production of the Republic of Tajikistan. The quarantine department of the Ministry of Agriculture is in charge of managing independently its activities and its financing process. The legal framework for the quarantine inspection and certification is based on:

- The Law on Quarantine of Plants No. 25 of 12 May 2001 signed by the President of Republic of Tajikistan.
- The Resolution NO 38 of 4 February 2002 from the Government used as provision for Implementation of the previous law.

Before those legal normative acts of 2001-2002 and from the collapse of the Soviet Union with the independence of the Republic, the Quarantine activities were not covered by any legal provisions.

The Quarantine inspection and certification concerns the Import, transit and export of plant origin products. The purpose is to prevent any introduction and development of related diseases. The procedure includes the following steps. Before arrival of goods the Traders must inform the Quarantine department and complete an application form to obtain the Import permit for plant origin products. When goods arrive at the clearance terminal customs assign Traders to go through the quarantine inspection service then the Importer must provide the phytosanitary certificate from the exporting country. Samples are taken at the clearance point according to the approved sampling methodology. The goods are analysed on the spot or if required in the laboratory of analysis of the quarantine department. An assigned inspector is in charge of analysis in the laboratory of Dushanbe or of the Sogd region.

Traders must pay for the Import permit and should apply for a national Tajik phytosanitary certificate for which fees are charged. Then Traders go back to the clearance terminal to process the clearance of the goods. The quarantine department is self-financed according to a government resolution. Salaries of analysts and inspectors as well as equipment investment are financed on the basis of the collected fees. The Ministry of Finance no longer supports the financial maintenance and development of the service Tajikstandard accredits the laboratory. Tariffs are established without any scientific cost basis methodology. The permits as well as the certificates are issued and valid for each shipment. On exports the quarantine service is free for goods dedicated to research humanitarian purposes and diplomats. The exemption concern a list of 33 types of products. For the other products tariff fees are 5.83 Somoni for the export permit (USD1.5 and 0.7 Somoni per ton exported for the Compliance Certificate (USD 0.24).

Ministry of Health : Sanitary and Epidemiological Service

Today the Sanitary and Epidemiological Service does not perform any laboratory analysis or test on imports because of internal organisational issues. The Sanitary and Epidemiological Service tries to rehabilitate the laboratory and certification function within its service since Tajikstandard today carries out the analysis and certification. This organization does not have the required expertise for such epidemiological certification, which has also caused deathly accidents. The Tajikstandard activity in that field is based on the Law of 1994, which enables Tajikstandard to deliver sanitary and epidemiological compliance certification. The legal framework of the Sanitary and Epidemiological Service activity is based on the Law on Epidemiological security of the Republic of Tajikistan of December 2003 and the Law on the Food Security of 2002. The Government approval of the proposed resolution on sanitary and epidemiological testing was due in March 2004.

Today, Sanitary and Epidemiological Service inspectors located at the border deal only with domestic sanitary and epidemiological issues. Any approval of sanitary and epidemiological compliance for imported goods is merely stamped by those services without the effective possibility of testing, analyzing and delivering certificates.

Ministry of Health: Quality Certification for Drugs and Pharmaceutical Products

The purpose of the service is the control of Trade of Drugs and Pharmaceutical Products in Tajikistan. In that field most imports are carried out by humanitarian organisations in exemption of duties and taxes and any national certificate of quality and compliance. In 2002, USD39 million worth of products were imported. Recently a new Resolution has been established that Imports of drugs and pharmaceutical products should be free of customs duties and taxes.

The National Scientific Centre of Expertise of Drugs and Pharmaceutical products delivers a license for import, export, and distribution of those products in Tajikistan. It costs USD 300 for a wholesaler or USD 250 for a retailer per year to obtain such a license.

When the goods arrive at the clearance terminal, customs assign the Traders to apply for an inspection from the Ministry of Health (MoH) according to the type of products Imported. Then Traders must go to MoH in Dushanbe to apply for an inspection and analysis service, and to pay for this service. Samples are taken from the truck or wagon in the presence of the State Inspection Depot Committee composed of Customs, Railway, Police, Traders and Brokers representatives.

Payment is due per shipment and is based on the volume of the goods imported. On average the service may charge USD 40 to issue and deliver the analysis findings report and then the Import permit. As well, the Trader has to pay USD 6 in order to obtain the Certificate of quality and Compliance. The analysis may take 10 days while the demurrage charges start after 3days of storage at the railway station.

Losses of drugs and pharmaceutical products frequently disappear from customs warehouses and the risk of counterfeited products is increasing. Another serious difficulty is that customs may clear the goods without inspection from the MoH.

Analysts and staff of the MoH are not necessarily aware of the WTO principles on Trade Barriers. On export all Trade operations of medicinal plants and snake poisons require an export permit, which can only be delivered by the National Scientific Centre of Expertise of Drugs and Pharmaceutical Products. The permit is valid per shipment and costs on average USD40. MoH delivers a certificate of Quality and Compliance per shipment for USD 4 to 6 on average.

Main export destinations are Uzbekistan, Russia and India. Medicinal plants are exported for around USD10,000 a year. Only 3 analysis laboratories are available in Dushanbe, in the Soghd region and Kurgan-Tyube. The level of equipment as well as the methodology and experience are far from efficient and modern. The inspection and certification department is self-financed. Salaries and

equipment investment are based only on the fees collected from Traders, in other words the department should pay for maintenance and development of the laboratories and for salary of 50 people. The service pays corporate tax on the earnings to the Ministry of Finance.

The tariffs are elaborated without any scientifically established methodology. Nevertheless, the tariff agreed by the Anti Monopoly State Agency. A resolution from the Government as established that the tariff fees applied by monopolist agencies must be previously approved by this Anti Monopoly Agency.

MoH recognizes the international quality standards and even processes to the certification of the industrial process, but requires a duplication of certificates from the exporting country and their own services. The activity is based on a legal frameworks composed of the Laws of Medicaments and Activities the Law on Public Health Protection of the Population, the Law 245 of June 2001 on Licensing the drug and Pharmaceutical Activities and eventually the Government Resolution 282 of 29 August 2003 on setting up the National and Scientific Centre of Expertise of Drug and Pharmaceutical Products.

The Ministry of Justice (MoJ)

All legal businesses must be registered at the MoJ. Also any legal act with a national scope, issued by any Ministry or governmental agency, must be registered at the MoJ. However, the MoJ does not have an established and comprehensive mechanism to publish legislative acts neither for internal purpose nor for public access. There is no comprehensive legislative database that would keep the track of all the legislative acts adopted by the government and their amendments. This undermines legal transparency since it is difficult to know if a given legislation has been changed or cancelled. At the MoJ a project with the IFC PEP on creating such a legislative database is currently being considered.

Ministry of Telecommunication

There is a State Inspection Department of the Ministry of Telecommunication using laboratory analysis accredited by Tajikstandard. The process to obtain and Import Permit and then certificate of Quality and Compliance may be described as follows: Goods arrive at the Border Clearance Terminal. Then Traders have to go to Customs to be assigned to provide a certificate of quality and compliance from the Ministry of Telecommunication. Traders go to Tajikstandard to request for an inspection and analysis of the Imported goods then Traders go jointly with the Tajikstandard inspectors to the Ministry of Telecommunication State Inspection Department. Traders have to fill in an application form to process the analysis. They go with a Ministry of Telecommunication's inspector to the clearance terminal to take samples. They come back to the laboratory of analysis of the Ministry of Telecommunication in which only electrical and electronic compatibility testing can be carried out.

The laboratory has been established for only one and a half years, there is a mutual recognition of the certification standards of quality and compliance between CIS countries. The legal basis for certification of Telecommunication products mainly rests upon the law on the consumption goods certification and standardisation. The list of products to be submitted for analysis and certification comprises TV sets, radio and transmitter equipment, telephone, cellular phones and radio and Telecommunication receivers. The list is not clearly defined and is not integrated with the customs tariff.

The State inspection Department processes only 30 applications for analysis and certification per year corresponding to 300 findings reports since 10 samples are taken from each inspected shipment.

The methodology of sampling is not clearly defined. It is never established, for instance, which type of articles may be selected. The records are not yet saved in a data basis. Products of the same model may be analysed and tested several times since the inspection depends on the shipment and not on the reference model.

In order to obtain the analysis findings report Traders have to pay 300 Somoni (USD100) for cellular phones and 900 Somoni (USD 300) for any other telephone equipment. Furthermore the Traders have to pay Tajikstandard for the issuance of the certificate of Quality and compliance.

Banking system

The banking system is often said to be one of the major Trade barriers for many reasons.

- Qualification of bank staff is not sufficient to understand and deal with the business concerns.
- Bankruptcies in commercial banks occur frequently.
- Savings rate is low, and salaries are paid in cash.
- Credit conditions are very complex. There are no instructions explaining the process to apply for credit.*
- The credit interest rates are very high, varying from one bank to another, from 22% to 35% per annum.
- Money transfer charges are very high.
- There is no deferred payment of duties and taxes, implying that Traders have to get a credit to clear the imported goods before any sales.

95% of the commercial banking comprises credit and micro credit activities⁴⁰. The credit access is based on Real Estate collateral guarantee. The biggest part of Import/Export international transactions today concern the activity of Russian Partners' located in Moscow. There are no transfer restrictions on international financial capital or currency movement. The Agency of Currency Control is in charge of monitoring the flow of currency in the Republic of Tajikistan.

The procedure is linked to the Technical Passport, a commercial transaction mainly required in export. The process of Technical Passport for Imports has been abolished recently leaving imports free from any currency control. Authorized means of payments for international transactions are Swift Transfer and the Letter of Credit. Since the Customs Union of Eurasian countries provision, banking process should be in line with the Eurasian common banking approach. Today difficulties occur only with the Republic of Uzbekistan where it is impossible to find a corresponding bank. The usual practice involves in fact a third party to establish a link with a Uzbek bank. The credit access market is free in Tajikistan and is regulated by the Government and the National Bank of Tajikistan.

The Government may authorize Traders to import goods as temporary admission until the purchase agreement is finished. Then goods are submitted for payment of duties and taxes. There is no restrictive allocation of currency in order to cover an import operation since the credit access may be in Somoni or other hard currency.

The decision to grant a credit may take up to 7 days and includes:

- The submission of the Request Form
- The review of the application form and the other required documentation, such as the CV, the Business Plan, the Collateral Proposal, the assessment of the Real Estate by the State Property Committee of the Ministry of Justice.
- The Notary Service

Tajikistan has seen an increase of Joint Venture Banking operations with Russian, Chinese, Israeli, and European Capital. There are no restrictions on Benefit Transfers.

⁴⁰ *The development of micro credit concern amounts to USD 5,000 and administrative costs are USD 250. EBRD supports micro credit for amounts reaching USD 10,000 up to USD 100,000 at a rate of 2.5% per month.*

Attachment 12. Tajik trade procedures in typical import and export cases; red no. = redundant, yellow = usually redundant, but regularly requested, green = necessary procedures (Source: based on Touboul 2004)

Import Procedures		Exporting Procedure	
Order launching	Pre importing procedures	Tajikstandard	
1	Information to ministry	1	Request for information and application
2	Documentation translation	2	Payment for information and service
3	Notary services	3	Request for analysis and certification
4	Request for permit and license to Ministries	4	Payment to Tajikstandard
5	Permit and license issuance from ministries		Quarantine
6	Request for exporting country certification	5	Letter of information
7	Request for foreign hard currency credit	6	Application form
8	Request for micro credit	7	Payment for information and ordered service
9	Request for railway transport service booking and purchasing	8	Request for analysis and certification
10	Purchasing rail freight transport "code"	9	Payment to the Quarantine Department
11	Insurance – not compulsory	10	Sampling
12	PSI – not compulsory	11	Request for analysis in Quarantine laboratory
13	Bank payment by transfer or letter of credit	12	Analysis
14	Shipping/ transportation	13	Findings report issuance
15	Transport contract	14	Payment for laboratory services
16	Transport payment	15	Request for certificate
17	Guarantee/security/deposit	16	Issuance of certificate
18	Sealing		Chamber of commerce
19	Escort/convoy booking	17	Application for a certif. of Origin with specifications and commercial documents
20	Escort payment	18	Request for analysis
21	Facility preparation	19	Laboratory analysis
22	Railway administration	20	Findings report
23	Railway station receive goods	21	Certificate of origin issuance
24	Check transport "codes" payment telex and Seals	22	Payment
25	Request for handling		Ministries
26	Request for storage warehousing	23	Export activity licensing
27	Importer receive documents	24	Export permits and license
	Customs		Customs
27	Customs stamp railway bill and assign prerequisite certification inspection	25	Application for Export authorization on required documents : type of goods, the reason of export, contract, quality and compliance certificate, certificate of origin, export license;
	Tajikstandard	26	Export authorization
28	Request for information and application form	27	Control of Stock exchange value
29	Payment for information and ordered service	28	Application for a customs regime
30	Request for analysis and certification	29	Attribution of customs regime
31	Payment to Tajikstandard		Commercial bank
32	Arrange date of cargo opening and sampling	30	Technical passport Currency control 100% prepayment
33	Railway/customs/ Ministry of Interior/trader for cargo opening		Customs declarant/broker
34	Break sealing and draft protocol	31	Set up customs declaration joined with: Certificates; Invoices; Contract; Certificate of origin; Licenses, Technical passport
35	Sampling	32	Payment of duties, fees, and export sales taxes
36	Sealing back	33	Confirmation of payment

37	Request for analysis in accredited laboratory	request form		Commercial bank	
38	Analysis		34	Technical passport control	Statement
39	Findings report issuance	Protocol		Customs	
40	Payment for laboratory services	payment receipt	35	Inspection of goods	protocol
41	Request for certificate	request form	36	Sealing	Mention on declaration
42	Issuance of certificate	Certificate	37	Escort up to the border if requested	Registration
	Quarantine		38	Payment for escort	Receipt
43	Letter of information				
44	Application form	request form			
45	Payment for information and ordered service				
46	Request for analysis and certification	request form			
47	Payment to the Quarantine Department			<i>No. of Phases in Tajik export procedures</i>	38
48	Arrange date of cargo opening and sampling				
49	Railway/customs/Ministry of Interior/trader for cargo opening			<i>The no. of redundant phases in export procedures</i>	20
50	break sealing and draft protocol	Protocol			
51	Sampling	Protocol		<i>The no. of mostly unnecessary yet required phases</i>	7
52	Sealing back				
53	Request for analysis in Quarantine laboratory	request form		<i>The no. of required phases</i>	11
54	Analysis				
55	Findings report issuance	Protocol			
56	Payment for laboratory services	payment receipt			
57	Request for certificate	request form			
58	Issuance of certificate	Certificate			
	Customs broker/declarant	request and information form			
59	Set up customs decl. up to calculation of duties and Taxes				
60	Customs declarant payment	declarant invoice			
	Customs				
	Customs post				
61	Customs declaration with: Invoice ; Certificates ; Transport document ; Certificate of origin; VAT registration certificate; ID of owner of the goods; company registration; Contract; and certified translation	Customs declaration			
62	Customs chief assign an inspector				
63	Customs documentary checking by inspector	stamp customs declaration			
64	Customs post control of goods by inspector	findings protocol/stamp customs declaration			
	Customs regional office cashier department inspector				
65	Calculation of duties and taxes				
66	Declaration completion				
67	Payment of duties and taxes	payment receipt to bank or cashier			
68	Confirmation of payment	stamp customs declaration			
	Customs Post				
69	Payment confirmation checking by inspector	stamp customs declaration		<i>No. of Phases in Tajik Import procedures</i>	74
	Railway station				
70	Fees and demurrage on transport, warehousing and handlings:	payment receipt		<i>The no. of redundant phases in import procedures</i>	11
	Customs Post				
71	Release of goods	Mention stamped on declaration		<i>The no. of mostly unnecessary yet required phases</i>	43
72	Escort on request	Registration			
73	Payment for escort	Receipt		<i>The no. of required phases</i>	20

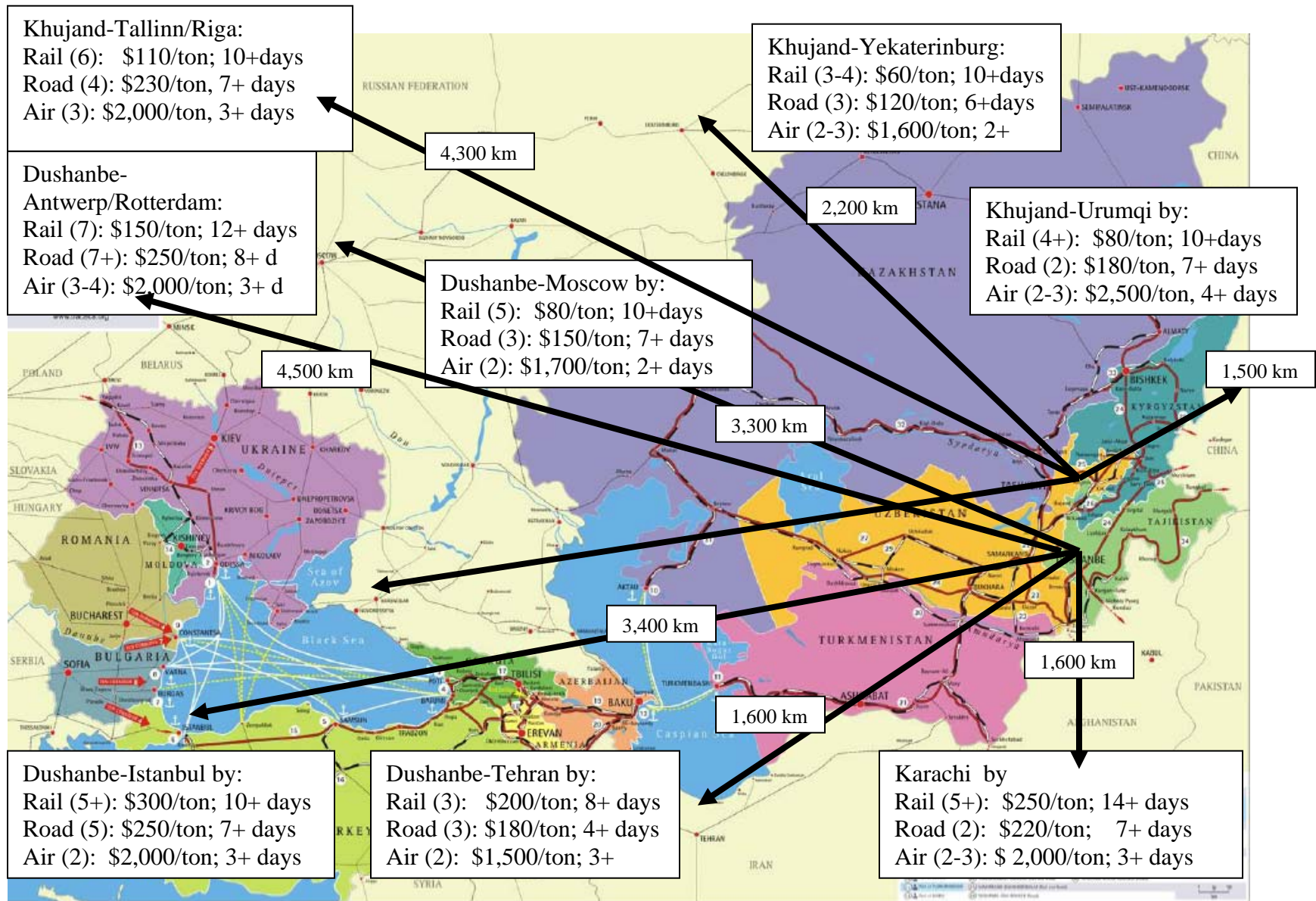
ANNEX A - PROSPECTIVE INTERVENTION MATRIX FOR TAJIK TTF

The Prospective Intervention Matrix – Addressing the physical and institutional impediments in Tajikistan							
				Tentative Financing Needs (US\$ 000);			
Proposed Components and Activities	Horizon	Responsible Bodies	Indicators	External	Domestic	Total	Complementary Initiatives
Continue the policy and regulatory reform in the transport sector - Resolving the Rail Tariff conflict - Study to identify options for appropriate reform in the rail sector to optimize the contribution of the private sector and assess the feasibility of further international ‘block train’ services	Short term	Railways, MOT, MOF	Multilateral negotiations				Collaboration within ORC (CIS Rail organization)
	Short term	MoT, MoF, Railways	Final Report	50	50	100	Collaboration within ORC (CIS Rail organization)
Initiate restructuring of the national railways and airline - Railway restructuring to introduce commercial operations and transparent pricing - Restructuring of Tajik Air, and identifying options for the contribution of the private sector and assess the feasibility of international air freight services. - Introducing modern booking systems for passengers - Establishing air freight operations and services to main destinations	Short term	Railways, MOT, MOF	Commercial performance indicators	400+	300+	700+	If rolling stock renewal is included, the total cost increases substantially
	Short term	MoT, MoF, Tajik Air, donors	Commercial performance indicators	300+	500+	800+	Aircraft renewal is badly needed; if this is included, the total cost increases substantially
	Short term	Airline, MOT		300+	400+	700+	
	Short term	Airline. MOT		300+	300+	600+	

<p>Initiate groupage services by road</p> <p>- Introduce commercial operations for consolidated shipments to major destinations</p> <p>- Implement the already adopted TIR Convention</p>	<p>Short term</p> <p>Short term</p>	<p>Forwarders, MOT,</p> <p>Customs. ABBAT, carriers</p>	<p>Commercial performance</p>		<p>200+</p>	<p>200+</p>	<p>IRU guidelines and assistance in Central Asia</p>
<p>Develop and establish an institutional solution to facilitate transit through the region</p> <p>-Detailed definition of institutional solution and necessary legal amendments;</p> <p>-Measure transit service quality definition based on users' feedback, including equipment;</p> <p>-Definition of an integrated computer system for transit and border management; and</p> <p>-Establish the institutional solution, with necessary hardware and software and streamline transit processes.</p>	<p>Short term</p> <p>Short term</p> <p>Short term</p> <p>Medium term</p>	<p>MoT's and MoTrade and border agencies in all Central Asian Countries</p>	<p>Negotiations</p> <p>Proposal</p> <p>System definition</p> <p>Implementation of new transit solution</p>	<p>50</p> <p>tbd</p>	<p>10</p>	<p>60</p> <p>tbd</p>	<p>TRACECA Study on Harmonization of Border Procedures; Multilateral efforts in Central Asia, WCO and WTO guidelines; UN ASYCUDA systems implementation</p>
<p>Define a Customs Reform Strategy</p> <p>-Improve <u>human resource management</u> in border agencies in line with this plan (salary, career opportunities...);</p> <p>-study to define and improve inter-agency responsibilities at the border;</p> <p>-Introduce performance monitoring study on a regular basis to identify and address weak links in the chain; and</p> <p>-Join in establishing a PRO-Committee with private sector participation.</p>	<p>Medium term</p> <p>Short term</p> <p>Short term</p> <p>Short term</p>	<p>Customs</p>	<p>Improving user perception</p>	<p>--</p> <p>75</p> <p>50</p>	<p>--</p> <p>25</p> <p>-</p>	<p>--</p> <p>100</p> <p>50</p>	<p>ADB supported Customs reform program in Tajikistan; IFC and SECO initiative on Customs, WB TTF work</p>
<p>-Review the procedures applicable to suitcase trade; consider the</p>	<p>Short term</p>	<p>Customs</p>	<p>New procedures</p>	<p>50</p>		<p>50</p>	<p>TRACECA Study on</p>

registration of traders, the strengthening of enforcement capacity (to discourage obvious by-passing of duty payments), limitation to the frequency of personal exemption, and penalties							Harmonization of Border Procedures Asian Development Bank
-Detailed definition of institutional and legal solution to introduce mobile post audit inspection teams, -provision of equipment to ensure their proper functioning, -definition of institutional procedure for post release controls.	Short term Medium term Short term	Customs MoF		50 Tbd 50	- -	50 50	
Review present legal and procedural framework related to trade and introduce: (i) effective right to select Customs regime; (ii) single payment mechanism; (iii) advance declaration processing; (iv) introduce post release verification mechanisms; (v) selective examination of goods; (vi) aligned border agency working hours with traffic flows; (vii) simplified procedures for export authorization; (viii) entitlement to clear goods anywhere on the territory based on business needs; (ix) simplified procedures for consolidated shipment; (x) direct trader input for all users; (xi) allow multimodal transport under the transit shipment regime; and (xii) harmonized control mechanisms with neighboring countries. -Select period of the year when changes in the legal and regulatory framework will be introduced and provide supporting training. -Conduct regular independent audits on the application of laws and procedures.	Medium term		Implementation of procedures by the end of 2005 Training for staff and users Audits	500 50	200 20 50	700 70 50	IFC and SECO initiative on Customs; ADB Technical assistance to Customs; TRACECA Study on Harmonization of Border Procedures; USAID supported Customs reform program
Improve the integration of border agency computerization processes	2004-2005	Customs	Training and technical assistance	tbd	tbd		USAID support; SECO and ADB initiatives and TA; UN ASYCUDA implementation

<p>Improving the context for trade and transport in the region</p> <p>-Detailed definition of options, institutional solution and necessary legal amendments to facilitate the forwarding industry in the region;</p> <p>-Measure transit service quality based on users' feedback, including equipment;</p> <p>-Identify gaps and appropriate interventions to improve the training of stakeholders in the region;</p> <p>-Establish sustainable learning initiatives to improve the knowledge and skills of the sector</p>	<p>Short term</p> <p>Short term</p> <p>Short term</p> <p>Medium term</p>	<p>MoTrade and border agencies</p> <p>MOTC, Customs, FIATA, IRU, GFP</p>	<p>Final Report</p> <p>Final Report</p> <p>Final Report</p> <p>First graduates</p>	<p>50</p> <p>40</p> <p>40</p> <p>-</p>	<p>50</p> <p>10</p> <p>10</p> <p>-</p>	<p>100</p> <p>50</p> <p>50</p> <p>-</p>	<p>TRACECA Study on Harmonization of Border Procedures; to be coordinated across Central Asian countries;</p> <p>WB GFP program</p>
<p>Improve the voice of the private sector in the region</p> <p>- Develop the organizational capacity of the Chamber of Commerce, and link it to the work of ICC.</p> <p>-Define structure, composition and institutional home for a PRO-Committee</p> <p>-Develop together with the respective PRO Committees a domestic Transport Facilitation program.</p>	<p>During 2004-2005</p> <p>By end of 2005</p>	<p>MOT, MOTrade, Customs, rail, border agencies, Freight Forwarders' association.</p>	<p>Sustained meetings for PRO Committees</p>	<p>100</p>	<p>50</p>	<p>150</p>	<p>TRACECA Study on Harmonization of Border Procedures</p> <p>USAID Export Promotion Schemes</p>



Map 1. Indicative freights, transport times, no. of border crossing points (in parenthesis) and straight-line distances in km from Tajikistan in April 2004. Rail transport: full 40' containers carrying 40 tons; Road freight: 40 ton units (in practice, road units carry less than 40 tons of cargo). Air freight for 1 ton in a freight aircraft. Source: Map from TRACECA, Consultant's data