



USAID | **TAJIKISTAN**
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OCTOBER– DECEMBER 2009

Quarterly Report



ECONOMIC REFORMS TO ENHANCE COMPETITIVENESS

CONTRACT NUMBER EEM-I-00-07-00005

This report was produced for the United States Agency for International Development (USAID). It was prepared by the Economic Reforms to Enhance Competitiveness project, implemented by Deloitte Consulting LLC. Views expressed in this publication do not necessarily reflect the views of USAID or the United States Government.

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Significant issues affecting implementation:

- As the implementation of functional organizational structure reduces the scope for collusion and corruption, there is an implementation risk that this structure will not be accepted by select tax officials, who are paid very low salary. Further, the status quo employs a “target system”, where the focus of the whole tax administration is to meet the given target of a month/year. This focus on collecting the targeted amount of collections continues to be an obstacle to the implementation of leading international practices in tax administration, including the implementation of functional reorganization.
- The introduction of the New Law on Banking Activities, signed on May 18, 2009 requires a comprehensive review of the entire prudential framework governing banking activities. This requirement creates an opportunity for the Project and other Donors to streamline the prudential regulations of the country and to bring the legal base in line with best international practices. Project advisor began to assist the Banking Supervision Staff in bringing the prudential norms in line with the new Law. This is a significant step in strengthening authority of the Banking Supervision and Licensing Department and enhancing compliance with 25 Basel Core Principles for Effective Bank Supervision.

Significant meetings with counterparts & donors:

- Ms Svetlana Golovatskaya, USAID/CAR
- Ms Erin Cole, USAID/CAR
- World Bank Tax Project Team
- Mr. A. Soliev, First Deputy Chairman of the Tax Committee
- Chiefs of Hissor and Varzob Pilot Tax Inspectorates
- Mr. Daler Asrorov, USAID/CAR
- Mr. R. Jabborov, Deputy Chairman of the Tax Committee

A. Budget Development & Execution

- Assistance is completed

B. Revenue Estimation

- No activities during the reporting period

C. IGF

- No activities during the reporting period.

D. Tax Administration

1. Highlights & accomplished tasks/activities against the work plan

- EREC Project created a filing system for the legal entities at Hissor Pilot Tax Inspectorate.
- EREC Project prepared a “Tajikistan Tax System: At A Glance” brochure.
- EREC Project prepared an informative brochure on VAT.
- EREC Project prepared materials for seminars on taxes for taxpayers.
- EREC Project organized two seminars for the newly registered legal entities and individual entrepreneurs at Hissor tax inspectorate.
- EREC Project continued monitoring the functional reorganization implementation process at Varzob and Hissor Pilot Tax Inspectorates.
- EREC Project assisted the Tax Committee in organizing overseas training courses for the tax officials.
- EREC Project Advisors participated in the opening of the Tax Payer Service facility in the Tax Inspectorate in Hissor. The facility was set up with support of the EREC Project. Ms Erin McKee, Deputy Regional Mission Director and Mr. Jeffrey Lehrer, Country Director also participated in the opening ceremony, together with Mr. Soliyev, Deputy Chairman of the Tax Committee. A press release was placed in the local newspaper by the Tax Committee acknowledging the USAID and project’s assistance to the Tax Committee.
- EREC Project participated in a Round Table Discussion organized by the World Bank on implementation of Strategy for the Development of the Financial Industry and strengthening of the Regulatory Framework, following up recommendations of the FSAP Mission carried out jointly by the World Bank and the IMF in 2007.
- EREC Project met with representatives of the ADB Mission in order to assist in establishing conditionalities in the financial areas before the next tranche of budget support is released to the government of Tajikistan.

2. Future activities & events

- EREC Project will continue monitoring the functional reorganization implementation process at Varzob and Hissor pilot tax inspectorates.
- EREC Project will work on Corporate Income Tax informative brochure.
- EREC Project will organize seminars on taxes for taxpayers

E. Internal Audit – Tax Committee

1. Highlights & accomplished tasks/activities against the work plan

- EREC Project prepared training materials for the training course to be organized for the staff of the Internal Audit Department of the Tax Committee.

2. Future activities & events

- EREC Project will conduct training for the staff of the Internal Audit Department of the Tax Committee.

F. Assistance to the National Bank of Tajikistan (NBT)

1. Highlights & accomplished tasks/activities against the work plan

- EREC Project advisor continued implementing FinA in micro finance deposit taking institutions. At the end of October 2009, 10 micro finance institutions implemented FinA and became compliant with the requirements of the IFRS.
- EREC Project continued to implement FinA Off-site Surveillance System at the microfinance supervision unit of the Banking Supervision and Licensing Department (BSLD). EREC Project conducted a two week course in CAEL risk-based analytical approach to analysis of the financial condition of microfinance deposit taking institutions. The course was attended by the manager of the unit and three members of the staff. Project advisor also conducted the review of the quality of new regulatory reports and provided guidance to the staff for improvement of collection and validation processes.
- EREC Project advisor provided additional training for micro finance department staff regarding Uniform Bank Performance Report and its use as an analytical tool for risk based supervision.
- EREC Project advisor assisted Banking Supervision and Licensing Department management in the final review of the Accounting Manual translation. The impending introduction of the Manual will further enhance banks' compliance with the IFRS and increase transparency of banks' financial reports.
- EREC Project advisor supported the 3rd Quarter 2009 analysis of individual banks and banking system. Findings were presented to the Chairman of the NBT and to the IMF. The current analysis is used by the NBT for developing the strategy for strengthening the banking system liquidity.
- EREC Project advisor assisted the BSLD in the formulation of supervisory strategy for a major bank that is currently experiencing problems with credit quality and increased operational risk. The chairman of the NBT met with management of the bank and requested that bank prepares restructuring plan based on this strategy.
- EREC Project prepared programming instructions for additional schedule for Uniform Bank Performance Report (UBPR). A need for such an addition was identified during the CAEL training for the microfinance institutions, and they will be primary users of this information allowing them to further disaggregate information on the performance of micro credits.
- EREC Project assisted the BSLD's staff in review and development of the new regulations necessitated by introduction of the new Laws on Banking Activities and the

NBT in the spring of 2009. The new prudential regulations incorporate lessons learned during the course of the recent financial crisis and aim at improving safety and soundness of banking sector. As the new laws provide more regulatory and supervisory powers to the NBT, the new regulations are structured to support enhanced supervisory framework promoting capitalization increase, enhanced credit quality reviews, effective internal and external audits and improved corporate governance in the industry.

- EREC Project participated in a Conference on International Experience for Agricultural Sector Financing. Creation of an agricultural Apex bank was discussed during the conference together with other enhancements to financial intermediation in rural areas.
- EREC Project participated in a meeting of the Banking Supervision and Licensing Department's Director with the representatives of the EBRD to discuss strengthening corporate governance, internal controls and accounting processes in the banks where the EBRD has taken equity position.
- EREC Project attended a presentation by the IFC to the government of Tajikistan of the results of the Tajikistan Business Enabling Environment Report 2009.

2. Future activities & events

- EREC Project will continue implementing FinA in microfinance institutions and assist the BSLD in implementation of risk based supervisory approach.
- EREC Project will continue implementation of the FinA Off-site Surveillance System at the microfinance unit and also support the BSLD in resolving staffing issues for that unit. As deposit taking microfinance institutions increased to 31 in 2009, the current unit staffed by 4 supervisors, is unable to handle all aspects of supervisory and regulatory work. EREC Project will continue to support and train new personnel of the unit.

G. Assistance to commercial banks

1. Highlights & accomplished tasks/activities against the work plan

- EREC Project met with representatives of a large bank to discuss accounting and operational issues. An introduction of the new Accounting Manual was also discussed.

2. Future activities & events

- EREC Project will continue supporting bank management in improving systems, accounting and risk management.