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## TAJIKISTAN : Trade Facilitation and Logistics Development Strategy Report

### Executive Summary

## A. Country Profile



Region	Population of Region <sup>1</sup>	Land Area (km <sup>2</sup> )	Administrative Centre
Under Direct Republic Jurisdiction	1,338,000	28,400	Dushanbe (Capital)
Khatlon	2,150,000	24,600	Kurgan-Tyube
Sugd	1,870,000	26,100	Khuzhand
Gorno-Badakhshan	206,000	63,700	Khorog

1 Tajikistan is a mountainous, landlocked country that borders Afghanistan to the south, PRC to the east, Uzbekistan to the west and Kyrgyz Republic to the north. Tajikistan is divided into four main administrative regions. They are Dushanbe, Khatlon, Sugd and Gorno-Badakhshan Autonomous Region.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Real GDP Growth, %	8.3	9.6	10.8	11.0	10.3	6.7	7.0	7.5	7.1 (est)

2 The country GDP is US\$ 3.7 billion for 2007. Although the economic growth in percentage terms seems encouraging, they are driven by three main factors : (1) Surging aluminum prices, (2) Increasing remittance by Tajiks working overseas, and (3) A construction boom. However, the inflation at average of 7% per year is relatively high. The key country risk is the undiversified economy which relies heavily on aluminum, hydro-electric power and cotton exports.

## B. Analysis on Transport and Logistics

### Rail Transport

Year	Local	Export	Import	Transit	Total
2004	135.4	977.3	3,108.4	8,047.2	12,268.3
2005	146.1	870.8	3,441.1	7,656.2	12,114.2
2006	148.4	945.6	4,242.6	8,607.2	13,943.8
Average	143.3	931.2	3,597.4	8,103.5	12,775.4
Average, %	1.12%	7.29%	28.16%	63.43%	

Volume of Cargoes Handled by Rail , units in 000 tons

<sup>1</sup> Based on Census 2000.

3 Till April 2008, there are 74 warehouses, 6 customs warehouses, 3 free warehouses, 7 regional terminals for customs clearance operating in Tajikistan.

4 A few key issues that the railways in Tajikistan face are also commonly those that reduce the efficiency of the railways in the region. Firstly, the tracks are poorly maintained and are built for former Soviet Union times, thus require a large investment fund to upgrade them. Secondly, the locomotives are also old and do not have the power to support higher speed and capacity. Pilferage also deters carriers who might otherwise use the railways.

5 There are also some specific constraints. Unlike most countries where there the railways also serve as a trunk line where the bulk of traffic flows, the railways lines of Tajikistan are actually inconvenient for domestic transportation. The north and east lines are not connected, thus requiring the need to traverse another countries. The mountainous regions of the Gissar Range and the Zeravsha Range mean that the construction of any rails will be an extraordinarily expensive endeavour. To the north, Tajikistan has an enclave where the rail lines are important transit routes for goods flowing between Uzbekistan and Kyrgyz Republic. To the south, the railways are important routes for goods moving into Afghanistan, Pakistan and Iran. However, the political instability of Afghanistan reduces the popularity of this route.

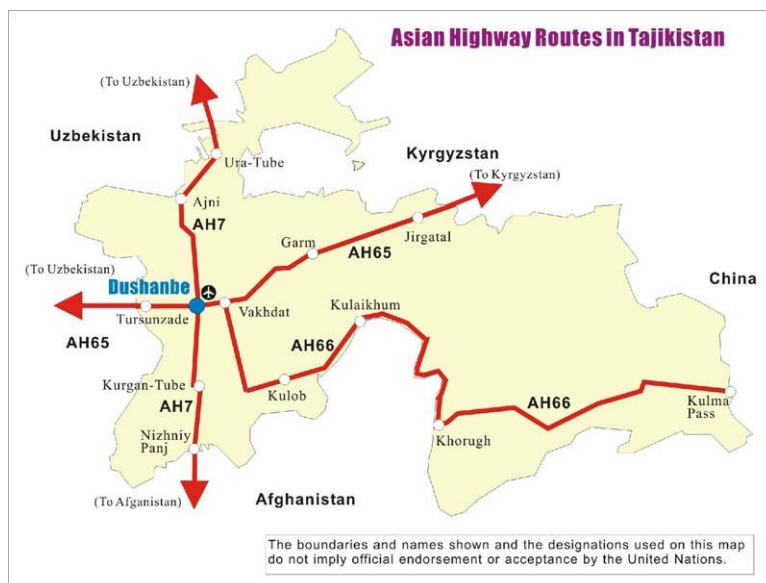
### Road Transport

S/N	Road Classification	Lengths, km	Proportion, %
1	Concrete Pavement	3,903	28%
2	Bitumen Type	6,213	45%
3	Gravel, Improved Dirt	2,621	19%
4	Dirt Tracks / Earth	1,096	8%

**Classifications of Roads, 2006**

4 Total length of roads is 30,563 km, of which 13,747 km are managed by the Ministry of Transport and Communications. 4,782 km are republican road and 8,965 km are local roads. The latter consists of local networks for mainly rural areas and are generally unfit for international transportation.

5 The topology of the road networks in Tajikistan can be said to be a 'star' that radiates from Dushanbe, the transport hub. Three Asian Highways 7,65 and 66 traverse through the country. AH 7 forms the north south backbone.



6 The A recent and significant development is the completion of a US funded bridge at Nizhniy Pyandzri. The bridge is 672 metres long by 11.5 metres wide and built to international seismic standards. It will link the border crossing town of Nizhniy Pyandzri, Tajikistan, with the town of Shir Khan in Afghanistan's northern Kunduz province. The entire project is sponsored by the US government and cost more than US\$28 million.

## C. Key Challenges

### *Impediments due to Physical Transportation*

7 There are key impediments in the **north** for traders and merchants. Firstly, rail transport is an important transit activity, but the rail locomotives are old and urgently requires maintenance and upgrades. The government has also considered electrification of the rail lines between Khujhand and Kanibadam, but the process has been stalled on the lack of funding. There are more problems for road transportation. The high attitude of Gissar Ranges makes road transport difficult and in winter times, this stretch of the road is closed. Drivers have to detour into Uzbekistan and re-enter Tajikistan in the north. There are some high construction projects in the northern area, such as the building of tunnels at Anzob by Iranians and at Shashkristan by the Chinese. More bridges, tunnels and improvements will need to be made for improving the accessibility of this trunk highway.

8 The accessibility and quality of the transport route in the **east** is inferior compared to other parts. High attitude, long distances and lack of maintenance has damaged the roads considerably. There is no rail transport in this area. Businessmen and travelers face many challenges while traversing the eastern route. For Tajik nationals who travel to PRC, there is no consulate located at Khorog or Murgab to process visa. It is time consuming and expensive to travel to Dushanbe and apply for a visa before returning to the east and travel to PRC. (Khorog is about 600 km away from Dushanbe by road). It costs US\$40 per visa entry, which has been increased from US\$10 due to a rise in visa processing fees by the Tajik government on Chinese travelers. For goods transportation, the containers bound for Dushanbe will need to be deconsolidated at Khorog and uploaded into delivery trucks because the roads from Khorog to Dushanbe is not wide enough to let container vehicles pass through. For Chinese travelers, the common problem is that passenger coaches originating from Kashgar can only drive up to Murgab. The next leg of journey is only possible using Tajikistan buses, thus creating some inconveniences.

### *Impediments due to Operating Difficulties*

- Lack of Modern Vehicles
- Lack of Modern Facilities
- Lack of Full Service Logistics Service Providers
- Financing Difficulties

9 **Lack of Modern Vehicles** - Financing difficulties, extended use and poor road conditions combine to increase the rate of wear and tear of the transport vehicles. A number of vehicles in trucking companies such as Degertaj, Bilkcom, Ganjina and Orien Auto are dated. These trucking companies bought formerly state owned trucks, which are now obsolete.

10 **Lack of Modern Facilities** – A common problem in the region is the lack of organized storage facilities and material handling equipment. The lack of storage and modern material handling equipment such as forklifts, cranes and conveyors at the airport also hamper the development of the aviation transport industry, making airports at Tashkent and Almaty more popular nodes for transit transport. Likewise, special storage centres such as warehouses offering chiller and freezer services are limited.

11 **Lack of Full Service Logistics Service Providers** – Many international companies use overseas freight forwarders. The latter is more expensive but is able to provide a more comprehensive scope of services. The local operators are more cost competitive but frequently maintain unproductive assets due to poor maintenance and re-investment limitations. For instance, inter-modal transport is an area where some local operators might not be able to offer or competent to handle. When there is claim on insurance, it is unclear who will be the party responsible. There is no law indicating the liabilities of the operators and they are expected to purchase their own insurance.

12 **Financing Difficulties** – This is a limiting factor for logistics service providers to expand their scale and scope of services. Trucking companies purchase their own trucks, which could be a second hand purchase of obsolete assets from the state, or import from overseas. The Value Added Tax (VAT) is relatively high at 25% of the trucks’ retail price, which ranges from US\$40,000 to US\$100,000. With the banking and finance industry being heavily regulated, business owners find it difficult to apply for business facilities such as overdraft, secure and unsecure loans.

13 Coupled with the above financing difficulties, it is also a fact that there are no leasing companies in Tajikistan. Thus companies who could not purchase a new asset and might otherwise lease an asset have no choice but to continue using their less productive trucks, which actually increases operating costs due to lower fuel efficiency and need for higher monthly maintenance.

### ***Impediments due to Institutional Challenges***

- Lack of an Integrated, Strategic National Development Plan
- Lack of Customs Harmonization
- Long Delays in Border Crossing
- Limited Customs Facilities
- Fees for Escorts
- Obstacles Posed by Uzbekistan
- Legal Changes to Free Trade/Special Economic Zone

14 **Lack of a National Plan** – in the interviews with the government agencies, it is understood that there is a national economic plan for the Republic of Tajikistan, but there is no similar plan for transport and logistics.

15 **Cumbersome Customs Procedures** – The time required to export a TEU requires 82 days while import takes 83 days<sup>2</sup>. (Please refer to **Appendix 1** for more information). The cumbersome customs related procedures demand traders and merchants to fill up sixteen or more documents. High cost of transporting goods is another deterrent to intraregional trade. Formal payments such as value added tax, customs duties and excise payments constitute about 40% of the total cost of goods. Informal payments are at times even higher than formal payments. All these costs in time and money encourage contraband, which is the intentional under-declaration of the actual value of goods on the invoice to lower payable duties for cross border movement. It is estimated that contraband costs Tajikistan US\$5 billion in the form of lost revenue annually.

16 **Long Delays in Border Crossing** – Long average waiting time and delays at the borders, as well as the unreliability<sup>3</sup> of such delays, is common in Central Asia. Previous reports documented time motion study at selected border points in Tajikistan. If the inspection of vehicles can be completed at an average rate of three hours per truck, the productivity gains can result in an annual financial savings of US\$30 million.

17 **Limited Customs Facilities** – A possible explanation for the long delay is two pronged. Firstly, primitive method that requires physical inspection is commonly employed. Secondly, Tajikistan requires modern inspection equipment and facilities to increase the customs productivity. In PRC, a new technology involving the use of H986 that is able to deploy gamma rays for inspection of containers is used, which speeds up border checks. Unfortunately, the use of such modern machines such as X-Ray machines, conveyor systems and detection systems are lacking. Also, border posts like Karamik lack sufficient storage facilities for storing items that require temporary quarantine.

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<sup>2</sup> The above data is obtained from a World Bank Study, “Doing Business 2008”.

<sup>3</sup> In statistics, the use of variance and standard deviation is employed to measure the range of waiting time for each border crossing. The delays can be long or short, but if the variance is large, then each border crossing can yield very different outcomes, ranging from a short delay to a long delay.

18 **Fees for Escorts** – According to the law in Tajikistan (Resolution 472) “On Approval of Rates of Customs Fees for Provided Customs Services”, a risk management based approach is used to decide whether escorts are needed. The only exemption applies only to trucks with TIR carnets, in which there is no need to pay the escort fees. Escort services are provided by two organizations, namely the customs and the State Motor Vehicle Inspectorate. The former provides escort services for high value items. The latter provides escort services for DG (Dangerous Goods), bulky and heavy products. The charges for customs escort of goods and transportation means have been established being US\$3 per 10 km

19 **Obstacles Posed by Uzbekistan** – Tajik drivers must pay US\$100 at each border along Sari-Asiya and Charjou, as well as the passage between Sari-Asiya and Cherneevka. If such payments are not made, the drivers face possibility of physical abuse and seizure of goods on grounds of customs violation.

20 **Legal Changes to Free Trade/Special Economic Zone** – Tajikistan can do more in legislation and to encourage export. Currently, Tajikistan does not impose export tariff but the customs restricts the quantitative amount on certain items every year, which is arbitrary. Exports on tobacco, alcohol and related products have quotas set by the government. Another problem is that the country offers no export credits and counter trade, such as barter.

## D. Recommendations

21 With reference to CAREC Corridor 3 and 5 (please refer to **Appendix 2**), Tajikistan can strive to build itself as a key node along this pathway. An intra-Asia route, this links the giant economy of PRC to Afghanistan and Pakistan, as well as a gateway to the Middle East. Chinese goods move from inland to Kashgar and to Kulma Pass by road. The goods then travel to Dushanbe, where it can be put onto containers and travel to Afghanistan and Pakistan, ending at Karachi to continue the next leg using vessels. The main appeal is not international transportation though, but more of regional trade and transport where the goods are meant for the markets in PRC, Pakistan and Afghanistan. This is because the absence of a complete rail solution makes this route less attractive, but it is the only viable option for say Chinese goods meant for export to Afghanistan and Pakistan. With the warm trade and economic relations between Pakistan and PRC, Tajikistan should capitalize on this and facilitate a Sino-South Asia corridor, complemented by trade exhibitions and fairs that can be held in Dushanbe.

22 Due to the current geographical location and lack of a complete inter-modal solution, Tajikistan is not ready to capitalize the current trade flows along major transport corridors. A viable direction is to be a regional link for the neighbouring countries of Afghanistan, Pakistan and PRC.

**Strategic Intent** : Promoting a new corridor linking PRC and South Asia

**Strategic Thrusts** : Strengthen the connectivity of Tajikistan, especially Dushanbe as an inter-modal centre, regional centres and the border posts through institutional reforms, operational improvements and investing in prioritized public transport infrastructure proposals.

S/N	Proposals	Length, KM	US\$, millions
1	Upgrade of Kolkhozobod – Nizhniy Pyandzn section	121	119
2	Construction of rail between Kofarnihon – Yavan	46.3	170
3	Electrification of lines / Use of Electrical Locomotives between	-	110

S/N	Proposals	Length, KM	US\$, millions
	Bekabad – Kanibadam		
4	Purchase of new diesel locomotives	15 units	60
5	Purchase of new passenger wagons and upgrade of old ones	100 new 180 old	115
6	Purchase of 180 rail wagons for cargo transport	2,000	110
7	Upgrade of general rail infrastructure, signals and systems	-	20
8	General Rehabilitation of Railways	142 km	29
		<b>Total</b>	<b>733</b>

#### **Prioritized Investment Proposals for Rail**

S/N	Proposals	Length, KM	US\$, millions
1	Rehabilitation of Roads along Dushanbe to Khujhand	311	296
2	Rehabilitation of Roads along Dushanbe to Tursunzade	64	54
3	Rehabilitation of Roads along Ajni to Pendzhekent	113	29
4	Rehabilitation of Roads along Kurgan-Tyube to Dusti	60	22
5	Rehabilitation of Roads along Farkhar to Pyandzh to Dusti	133	28
6	Rehabilitation of Roads along Khorog to Rastkala to Tukazbulok	-	5
		<b>Total</b>	<b>434</b>

#### **Prioritized Investment Proposals for Road**

S/N	Proposals
1	Construction of Warehouses in Airports
2	Procurement of Material Handling Equipment (MHE) for the storage, movement and loading/unloading of bulky items, palletized goods and no palletized products.

23 ADB can play a role in providing the technical and financial assistance to improve the physical infrastructure, where the above suggestions are the key areas that the country can consider. Besides investments and financing, improvements to operations and policies also need to be made.

#### **Institutional Reforms**

##### **24 Establish Tajikistan National Logistics Council**

To better coordinate the overall direction, a public private partnership cooperation mechanism is proposed to facilitate dialogue between the public and private organizations. This new entity provides a structured channel of communication where key decisions are agreed. It also serves as a focal point for information dissemination on important reforms, investment proposals and liaison with external organizations, such as World Bank and Asia Development Bank.

## **25      *Develop a National Transport and Logistics Master-Plan***

A recommendation is the commission of a time-cost-distance study facilitated by the UNESCAP Transport Division. This is a study pioneered by the UNESCAP for countries to study the efficiencies and identify bottlenecks along major transport corridors. Such study will give the Council a valuable set of data for their overall planning of transport and logistics systems and networks in the country, as well as determining the direction of regional cooperation.

## **26      *Dialogue with Uzbekistan***

Uzbekistan unofficial blockade of Tajikistan flow of goods, inconsistent customs practices and unfair treatment of Tajik drivers is identified here as a critical impediment, as Tajikistan's major transport corridor to the European market pass through Uzbekistan. Renewed discussion must be launched at a bilateral levels or a multilateral platform such as the TRACECA.

## **27      *Improve bilateral relations with Afghanistan, Kyrgyzstan, Kazakhstan***

While the relationship with Uzbekistan is unlikely to experience immediate thawing, Tajikistan has to search for new ways to bypass the obstacles posed by Uzbekistan. With the construction of the bridge at Nizhniy Pyandzn linking Tajikistan and Afghanistan, it is foreseeable that more trade and tourism can flourish at the southern region of the country.

## **28      *Joint Township Development with PRC at Kulma Pass***

PRC, due to its large market size and economic influence, can play a significant role in Tajikistan development. Already, many Chinese businesses are active in Tajikistan in the area of retail, wholesale and construction. A landmark project signifying the bilateral ties with both countries is a joint customs free town at the border between two countries. This border town is a joint development between two countries where the locals can go into the town for purchasing duty free goods, barter, procure hard to find items and exhibit their merchandize.

## **29      *Tri-Lateral Transport Agreement between PRC, Pakistan and Afghanistan***

Besides the individual action suggested above for Afghanistan and PRC, a multi-lateral transport agreement that includes Pakistan can encourage even greater free flow of goods and passengers. Pakistan has a good relation with PRC. Already identified earlier, a transport corridor that links Karachi to Kabul to Dushanbe to Kashgar can be developed. This will require diplomatic actions from these governments as well as investing in multi-modal transport, where containerization will become important. A possible future plan can include Iran, where the port of Bandar Abbas can be an alternative seaport for goods coming out from PRC.

## **30      *Explore Possibility of Visa Application Centre at Murgab or Khorog***

Is it possible to streamline the process by setting up a Chinese consulate in say, Khorog or Murgab so that it is faster and cost effective to travel to PRC? The Council can set a working committee team to explore this suggestion. Naturally, the state border troops division, customs and the Chinese Embassy needs to reach an agreement.

## **31      *Ratify Free Trade and Free Economic Laws***

Being a young nation, Tajikistan has yet to develop laws or policies on FEZ. This gap needs to be addressed soon because other initiatives such as the joint township and future development of FEZs will rely on the enactment of these laws. The Council can be active in driving this initiative, although other ministries such as the Ministry of Law and the Ministry of Energy and Industry should be involved.

### **32      *Adoption of Modern Risk Management at Customs***

The root cause is the customs procedure that causes long delays to customs clearance, which stresses of full check and audit of vehicles and its contents. Only transport vehicles with TIR carnets can pass through the border posts promptly. It is encouraged here that the customs adopt a modern risk management approach that stresses on sampling and use of better technology and equipment to detect anomalies.

### **Operational Improvements**

#### **33      *Explore possibility of financing / leasing***

There are two main types of lease, an operating lease and a financial lease. Operating lease is usually short term and useful for activities such as the airport needing a bigger crane to unload a huge piece of exhibit or component. Financial lease allows logistics operators to procure assets through an installment scheme, thus enhancing the working capital. It is difficult to provide leasing without the local banks (e.g. Orient Bank) participation, thus the involvement of the Council will be important as individual companies do not have the bargaining power to negotiate financing from banks

#### **34      *Expansion of Logistical Services***

A common constraint is the local logistics operators cannot provide a full range of logistics services. Thus a MNC usually prefers engaging an international service provider to do their job. An example is a door to door service to send something say, from New York to Dushanbe or vice versa. This requires the local operator to have strong international and regional connectivity, local expertise as well as the tools and technology to carry out the job. While local operators like Degertaj, Bilkom, Ganjina, Orien Auto rank high on local expertise, the companies can continuously upgrade their equipment and expertise, in which the next suggestion comes in useful.

#### **35      *Establish a National Supply Chain Training Institute***

A Supply Chain Training Institute can be created to spearhead the education in the transport and logistics sector. The name 'Supply Chain' is to give a modern connotation instead of the conventional 'Transport and Logistics' term. This Institute can be a collaboration between the Tajik Technical University and ABBAT, with the support of the Council, to offer accredited courses ranging from diploma to degree programs on supply chain.

#### **36      *Construction of Wholesale and Trade Centres***

Tajikistan is the only country in Central Asia that does not have wholesale or trade centres. These are huge facilities that allow a wide variety of merchandize to be displayed and sold, targeting business customers. Typically, it contains a number of floors, and each floor or section showcases products grouped by categories, such as furniture, consumer electronics appliances, fast moving consumer goods etc.

#### **37      *Modernization of Equipment and Facilities***

This suggestion in large part depends on the availability of financing and leasing. The use of old vehicles is actually not a planned outcome but there are no alternatives. Purchase of new vehicles is prohibitively expensive. Compounded with the problems of overloading, the conditions of the public auto roads can deteriorate rapidly.

**End of Summary**



## Appendix 1

Trading Across Borders data	Doing Business 2007	Doing Business 2008
Rank	175	176
Documents for export (number)	10	10
Time for export (days)	82	82
Cost to export (US\$ per container)	3000	3000
Documents for import (number)	11	11
Time for import (days)	83	83
Cost to import (US\$ per container)	4500	4500

**Source : *Doing Business 2008, Tajikistan (World Bank)***

Note : The above data are not necessarily representative of ADB. For more information on the methodology, please refer to the World Bank website. Although the data is an aggregate and may not reflect the individual performances of different freight agents, they do constitute a general idea of a country's efficiency in cross border trade.

Readers may also note that the data above differs from the data written in the ADB TA 6299 REG report in 2007. The available data then was 2006, as such, the information above reflects a more up to date data.

## Appendix 2

### CAREC Transport Corridors 3 and 5

