

# REPORT

**SECRETARIAT OF THE BUSINESS  
DEVELOPMENT AND INVESTMENTS  
COUNCIL UNDER THE GOVERNMENT  
OF THE KYRGYZ REPUBLIC  
2020 ANNUAL REPORT**

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## Introduction

This report describes the operations of the Business Development and Investments Council of the Kyrgyz Republic (hereinafter – Investment Council) in the year 2020, which has been the most unfavourable period for the economy of Kyrgyzstan over the past twenty-nine years. Based on the results of 2020, the economy shrank by 8.6%, showing the highest rate of reduction in the region. In addition to the consequences of COVID-19 pandemic that caused serious restrictions on the economic activities for entrepreneurs (including almost total lockdown in April-May), closed borders and reduction in foreign trade as well as cessation of tourist flows, the economy was heavily affected by the public unrest that happened in autumn and resulted in premature change of power and political instability.



All these events made a significant impact on the investment climate of Kyrgyzstan. Based on the first three quarters of 2020, the foreign direct investments (FDI) inflow reduced by 30% in comparison with the same period of 2019, while the outflow grew by 40%. Consequently, for the first time over the past years, Kyrgyzstan

had a negative balance on FDIs amounting to more than 300 million US dollars. The new government made several attempts to stop the investors fleeing with the proposed ambitious programme of reforms and assurances of security, but this trend has been persisting.

The most affected branches of economy in 2020 were the tourism sector, hotel industry, public catering, trade, transport and construction. The only economic sector reporting growth was the agriculture. The significant reduction in investments of 2020 will have a long-term effect on the country's economy in future years.

In these circumstances, despite the change of three governments within one year, the Investment Council of the Kyrgyz Republic, managed to maintain its working capacity. In total, the year 2020 witnessed 4 meetings of the Council, of which 2

were conducted in the form of a teleconference bridge due to the quarantine restrictions. This constitutes a big achievement showing the resilience and relevance of this platform for the public-private dialogue.

The Investment Council's Secretariat adapted its agenda and format of work to the current conditions to reflect comprehensively the issues and initiatives of the country's business community. Thus, in spring-summer 2020, the main questions raised in the Investments Council platform referred to the problems of the business community trying to adapt to the restrictions caused by the quarantine inside the country and globally, as well as the matters of governmental support to the businesses due to the impossibility of normal operations. Among the issues raised and addressed at the Investment Council, one can mention the postponed payments of interests on credits, extended deadlines for the submission of tax reports and returns, provision of concessional loans to the most affected entrepreneurs. In addition to organizing the high-level dialogue, the Investment Council's Secretariat was actively involved in addressing the operational issues to ensure the business functioning in the restricted conditions, including the issuance of passes to those entrepreneurs whose activities were allowed, provision of food commodities and fulfillment of sanitary requirements. Under the support from the Ministry of Economy of the Kyrgyz Republic, the Investment Council's Secretariat distributed more than 2 thousand passes for business associations. Also, on a regular basis, the Secretariat organized video conferences to collect the entrepreneurs' most burning problems and relevant information on-line. Many of the entrepreneurs' proposals were included by the government into the packages of measures for the economy adaptation to the consequences of COVID-19, including short- and medium-term action plans.

In autumn 2020, the main activities of the Investment Council were aimed at ensuring the security of business due to the unrest after the parliamentary elections and the temporary vacuum of power, as well as the stabilization of situation in the country. Thus, at the Investment Council platform, the business community raised such issues as physical protection of investors, prevention of hostile takeovers, need for limitations on inspections from fiscal and law-enforcement bodies.

In addition to responding to the requests of business community and organizing the public-private dialogue, the Secretariat continued work on structural reforms aimed at improving the investment climate. As an example, one can refer to the work with Jogorku Kenesh on the development and adoption of the Economic Freedom

Act in April 2020 that targets significant simplification of entrepreneurship, deregulation of economy and easing of tax administration. In order to implement the Economic Freedom Act, the expert group established under the Secretariat developed 7 draft laws that were given to the Members of the Parliament and included into the Parliament's work agenda.

In November 2020, under the government's initiative, there was established the Council on Economic Reforms with the main objective of making major structural reforms in the area of economic development. The Secretary of the Investments Council was included into the composition of the newly formed Council. The Secretariat experts have been actively contributing to the efforts of the working groups, including on the matters of adoption of the new version of the Tax Code, streamlined licensing and authorization activities, control and supervision area, relations between law-enforcement (supervisory), judicial bodies and business community, removal of excessive administrative barriers in the area of construction and regional development.

The results of the work of the Investment Council's Secretariat in 2020 are detailed in the subsequent sections. In general, the Secretariat managed to adapt to the new non-standard conditions of work and maintained the positions of the Investments Council as the main platform for the public-private dialogue in Kyrgyzstan, enjoying the confidence of the business community.

**Mandate**

The Business Development and Investments Council is established under the Prime Minister of the Kyrgyz Republic by the Government Decree as a consultative-deliberative body responsible for developing and preparing recommendations and suggestions to the Government of the Kyrgyz Republic and other state agencies.

The working languages of the Investment Council are Russian and Kyrgyz. Simultaneous translation into English is provided.

## **Development of economic policy aimed at improving the country's investment climate through a broad consultation process**

### **Work plan of the Investment Council 2020**

The work plan of the Council for 2020 was approved at the first meeting of the Council on 13 February 2020 and relied on the proposals from business associations, public agencies and international organizations. Also, there were carried out broad consultations with the advisors to the Prime Minister, Head of Economy and Investments Unit under the KR Government Office, Director of the Investments Promotion and Protection Agency. The Council's work plan included measures to improve the investment climate in general, as well as certain improvements in the sectorial profile. On the whole, the Council's work plan for 2020 included 18 proposals from 12 business associations, public agencies and international partners.

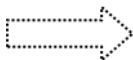
Due to the events that happened globally around COVID-19 and political events of October that took place in the Kyrgyz Republic, the Council Secretariat had to update the agendas of the Council's next meetings several times, since it was necessary to adapt the requests from the business community to the current situation of the moment when a meeting would be taking place. In this connection, not all matters of the Council's work plan for 2020 were considered at the meetings – some of them were postponed to the next year or removed from the agenda as no longer relevant after consultations with the business community.

### **Meetings of the Investment Council**

Despite the change of three governments within the year, the Investments Council managed to maintain its working capacity. In total, 2020 saw 4 meetings of the Council, of which 2 took place as a teleconference bridge due to quarantine restrictions. This constitutes a big achievement, showing the resilience and relevance of such platform for the public-private dialogue.

#### **Meetings of the Investment Council:**

- February 13, 2020
- June 3, 2020
- August 27, 2020
- October 23, 2020



**Main issues:**

- tax inspections
- export-import
- development of mining sector
- development of agro processing sector
- development of beekeepers sector
- anti-crises measures of the Government of the KR
- proposals from the business-community for the Kyrgyz Government's anti-crisis plans
- urgent measures on economic stabilization
- proposals of business-community on development of economic industries

The following issues as per the Council's work plan for 2020 were considered at the Council's meetings:

***On the development of agricultural sector***

This matter was initiated by the Agribusiness Association of the KR. According to them, small sizes of farms in Kyrgyzstan cause low productivity of labour and poorer quality of produce. High prices for services to re-legalize the land, prohibition to collateralize cropland, short timeframe of land lease, difficult procedures of obtaining licenses for using ground water negatively affect the agriculture.

The presence of a big number of infringing and unrecorded goods from the EEU countries causes unfair competition for domestic agriculture and undermines public revenues.

Based on the meeting results, there were given recommendations to relevant public agencies to take measures for further assistance in development and ensured support to the agricultural sector. In particular, it was proposed to:

- lift the prohibition to collateralize croplands and increase their lease timeframe;
- simplify permit procedures for the electrification of irrigation water-supply systems;
- cancel the license and payment of royalty for the usage of ground water for crop production and animal husbandry;



- consider proposals about introducing symmetric conditions for imports from the EEU member-countries.

The work on these recommendations has been in progress.

### ***On the measures to improve access to electricity for business entities***

This matter was raised by the Energy Sector Association of the KR. The greatest concern for the business community is the lack of power capacities, which constitutes one of the main barriers for the mobilization of investments to Kyrgyzstan and development of the industrial sector. Based on the Association's proposal, investors could be connected to electrical grids of private distribution companies. However, it is quite problematic to get an approval for connection to their grids today.

The public energy companies have been chronically lacking funds for development and maintenance of the power grids, and in such situation private companies could invest into the construction of new high-voltage substations and networks for connecting the population and industrial facilities.

Having considered this matter, the Council recommended to the relevant public agencies to consider proposals from the business community on simplified access to power supply, in particular:

- increase electricity generation at CHP or import it from the EEU member-countries;
- develop a strategic document to identify the ways of energy sector development over a short- and long-term period (creating a whole-sale market of electricity, introducing differentiated tariffs and measures of uninterrupted supply of electricity to the economy);
- develop uniform rules for utility connections based on clear and transparent tariffs.

The work on these recommendations has been in progress.

### **Agenda of the IC meetings in connection with response to Covid-19 situation**

### ***On the business-community's proposals to develop a comprehensive programme of post-crises recovery and further economic development in the Kyrgyz Republic***



Due to the emergency situation of 2020 related to the coronavirus pandemic and economic crisis, the Council Secretariat worked proactively to maintain the dialogue in the circumstances concerned. Under the initiative of the Council Secretariat, since 20 March, there took place the Round Table Discussion in the Ministry of Economy of the KR to collect proposals from the business community for their further submission to the KR Government. Thus, since spring 2020, there arrived more than 130 proposals to be included into the anti-crisis plans of the Government. The proposals arrived from 25 business associations and were processed to remove the reduplicating and addressed issues, and then sent to the government bodies. However, certain matters that had not made part of the Government's anti-crisis plans were not responded in a timely manner.

Based on the results of 2 sessions of the Council in June and August 2020 and close work with the Ministry of Economy and Government Office, in 2020, the KR Government approved 3 anti-crisis plans.



The Council Secretariat analyzed all proposals from business associations starting from 20 March 2020; some of them were included into the first 2 anti-crisis plans of the Government. Those were the matters of restructuring interests on credits,

postponement of taxes payment, introduction of the green corridor mechanism for transit cargo, extension of the deadline for the unified tax return submission, exemption from rental payments for the public and municipal property, formation of the anti-crisis lending facility, resumed trade between China and Kyrgyzstan, softened requirements to banks, concessional microlending on a collateral-free basis, ensured temporary employment for the unemployed, issuance of force majeure certificates, uninterrupted activities of budget-forming enterprises.

The third anti-crisis plan of the Government took into account certain proposals of business associations handed over to the Government through the Council. In particular, there were included activities to exempt public property from rental payments, restructure loans, provide concessional loans, issue guarantees, extend the moratorium on the inspections of business entities to cover law-enforcement bodies, introduce financial mechanisms to support exporters, form a financial mechanism for supporting economic sectors during the crisis and other proposals.

In general, those packages of anti-crisis measures included more than 20 proposals from the business community.

As regards the regions, grass-roots proposals were satisfied to a greater degree: about 50% of the proposals coming from the ground and communicated by the RICs were included into anti-crisis plans and addressed in a timely manner. Those were such matters as concessional lending to SMEs, financing of regional projects, restrictions on entrepreneurs moving due to the state of emergency. Among those regional issues that were not included into the anti-crisis plans, there were matters of the increased smuggling from neighboring countries, lack of the border trade, issues of hoteliers from Issyk-Kul oblast, etc.

Despite the introduced quarantine measures, the work of the Council's Secretariat continued in a distant mode with the follow up on the implementation of the decisions made during the meetings.

***Trends in the activities of the Business Ombudsman institute during the first six month of its work***



The position of Business Ombudsman was established by the Government Resolution No 647 dated 31 December 2018. On 28 February 2020, there opened the office of Business Ombudsman, and its Secretariat started accepting complains from entrepreneurs on the actions or failure to act of the public agencies, local self-government authorities and public sector enterprises. However, the coronavirus pandemic and subsequently introduced state of emergency and emergency situation in the Kyrgyz Republic negatively affected the opportunities to inform the entrepreneurs about the Business Ombudsman. Nevertheless, at the moment of the Council meeting, there were registered 38 complaints, of which 22 were accepted for further consideration. In case of 3 complaints, the arguments of entrepreneurs about the violation of their rights, freedoms and legal interests were supported with the issuance of relevant acts of response of the Business Ombudsman with their further sending to public authorities.

Some 46 % of all complaints referred to the disputes within tax relations; 23 % of the complaints were submitted in response to the actions of the law-enforcement bodies, such as the General Prosecutor's Office, State Committee of National

Security of the Kyrgyz Republic and State Service on Combatting Economic Crime under the Government of the Kyrgyz Republic.

During the consideration of complaints, there was identified the following range of systemic problems that were voiced by the representatives of Business Ombudsman institute during the Council meeting on 27 August 2020:

- gaps and conflicts of laws in the KR legislation;
- public authorities of the KR interpreting laws without any legislatively fixed grounds for such interpretation;
- inconsistency in decision-making by public authorities;
- pressure on entrepreneurs and investors from law-enforcement bodies.

Based on the meeting results, there were given recommendations to address the above-stated problems and the issues of the ministries and agencies' compliance with the requirements established by the KR Government Resolution 'On the Authorized Person to Protect the Rights of Business Entities (Business Ombudsman)' No 647 dated 31 December 2018.

***On initiating the amendments to the criminal and criminal procedure law of the KR for the protection of entrepreneur's rights***

On 1 January 2019, there became effective new modifications to the Criminal Code and Code of Criminal Procedure of the KR. However, their practical implementation revealed a number of problematic aspects that caused an increase in the number of unjustified inspections, investigative actions and additional charge of taxes in relation to entrepreneurs.

In 2019, the number of criminal cases (pre-trial proceedings) against entrepreneurs grew from 425 in 2018 to 1248 in 2019, i.e. three times. At the same time, 84% of the pre-trial proceedings were instigated on tax relations. In the opinion of business community, this caused an increase in the unjustified additional charges of taxes.

According to the Supreme Court of the KR, in 2018, out of 116 cases on challenging the decisions of tax authorities in the courts of the Kyrgyz Republic, only 26 saw judgements for the benefit of the tax-payer (22.4%). In 2019, only 27 out of 135 cases (20%) reported the same outcome.

As a result, the expert group of business community developed a draft law to address those problematic issues, together with the norms aimed at: ensuring an opportunity for professional investigation; reducing the unjustified burden on investigative authorities on tax relations; preventing criminal presecution on civil transactions and economic disputes that have no mandatory signs of a criminal case; avoiding criminal procedure law to be used for unfair competition between economic entities.

Consequently, at the Council meeting, there was adopted a recommendation to review the draft law aimed at the decriminalization of economic crimes and conduct necessary procedures on its initiation and submission for consideration to the Government.

***On expanding the temporary prohibition (moratorium) of tax and law-enforcement bodies inspecting business entities***

The Government has adopted a number of anti-crisis measures, including the extension of the moratorium to inspect business entities towards the end of 2021. However, this moratorium applies only to inspections made by the public authorities as indicated in the Resolution of the KR Jogorku Kenesh ‘On the Approved List of Authorized Agencies Entitled to Inspect Business Entities’ No 1057-VI dated 10 November 2016.

The moratorium does not apply to tax audits. Moreover, tax authorities can ensure tax control in the form of a raiding tax control and establishment of a tax post. In addition, moratorium does not apply to the inspections by law-enforcement bodies.

As a result, the moratorium fails to bring such an expected outcome as the reduced burden on entrepreneurs.

Consequently, at the Council meeting, a decision was made to introduce a temporary ban (moratorium) on the inspections of entrepreneurs by law-enforcement bodies and tax service.

***On the measures to mitigate the impact of the crisis caused by the spread of corona viral infection COVID-19***

In order to support entrepreneurs, there were envisaged the following exemptions:

1. extended timeframe for the submission of tax reports (unified tax return by 1 April 2021, tax statements by 1 October 2020) (from March through June 2020, tax sanctions and penalties will not be applied);
2. provided opportunity to postpone or pay by installments on the arrears in insurance contributions and taxes (including the restructuring of the value-added tax on imports, excise tax on imports).
3. introduced limitations on the off-site tax audits till 1 January 2021.



However, there are facts of forceful registration of entrepreneurs by tax authorities as VAT tax-payers and unclarity on the matters of tax payments. Also, there is a need to introduce virtual cash registers at an affordable price for small and medium-sized businesses.

As a result, the Council meeting adopted the recommendation to study the cases of forceful registration of certain entrepreneurs as VAT tax-payers by tax authorities and other matters related to the payment of taxes, and also to expedite the introduction of virtual cash registers at an affordable price for small and medium-sized businesses.

***On the proposals of Regional Investment Councils to mitigate the problems of small and medium-sized businesses caused by the epidemiological situation in the country***

The KR Government announced the launch of concessional lending within the II anti-crisis programme for business support. There were provided KGS 4.2 billion from the planned KGS 14 billion. However, for the most part the loans have been provided to those entrepreneurs who had already worked with banks in regions, and not to the most affected ones. Commercial banks do that to ensure timely repayment of loans.

Also, entrepreneurs incur big losses due to the USD and KGS exchange rate fluctuation. Regional entrepreneurs request to refinance their loans through the issuance of a new loan. Moreover, there are bankrupt entrepreneurs with unpaid loans. The Government needs to analyze the situation and take measures to recover the bankrupt business entities.



The majority of affected entrepreneurs are not able to provide collateral for a loan. There is a need to mobilize additional resources to increase the capitalization of the Guarantee Fund.

Large regional export-oriented enterprises request the soonest refund of VAT from the export of products over the previous years. These financial resources could help them to address the consequences of the crisis.

The KR Government has timely introduced a ban on the export of agricultural products (onion, garlic) that were necessary for the population during the situation with COVID-19. At present, there is an excess of the above-mentioned agricultural products due to the new harvest. The market price of the agricultural produce can fall below the production cost.

As a result, the Council meeting has given a recommendation to the relevant public agencies to consider:

- issuing concessional loans to the most affected entrepreneurs and advising borrowers on financial literacy; possible recovery of VAT on exports for the previous years for export-oriented enterprises;
- expanding the list of exporter companies entitled for a simplified procedure to recover VAT amounts on agricultural exports.

***On ensured employment for migrants and young specialists in the conditions of COVID-19 restrictions***

According to the media, Kyrgyzstan has received back more than 50 thousand migrants, and is expecting up to 200 thousand additional people. They will need jobs; however, this new employment may fail to match the specializations they have had abroad. Moreover, young specialists having graduated from universities in 2020 will look for a job in their degree fields. These two groups of potential employees need to be assisted in the rapid adaptation in the work place through the system of mentoring.

The EEU member-states and other countries have adopted regulatory acts on the system of mentoring in industries, which helps the business community to reduce the period of new employees adaptation and allows saving funds on their training.

Normative consolidation of rights and duties of the parties will allow protecting both interests of enterprises (which incur expenses on the specialist training) and of

employees (since within the shortest timeframe they can go through the adaptation in an enterprise and also improve their qualification at its expense).

As a result, the Council meeting adopted a recommendation for the Ministry of Economy of the KR to consider the issues of employment for migrants and young specialists (mentoring) in the real sector of economy and submit a relevant regulatory act to the Government.

### **Meeting of the Investment Council in connection with political situation after 4 October, 2020**

The Council Secretariat held an extended meeting of the Investments Council on 23 October 2020 with the participation of the new Government under the chairmanship of the acting President, Prime Minister of the KR Mr S.N. Japarov. The meeting was attended by almost all members of the Council from business associations and all members of the KR Government. There were considered urgent measures to protect rights and property of entrepreneurs after the public unrest of 5-9 October 2020.



Those days the situation in the country went beyond the legal terrain: there became more frequent hostile takeovers, cases of seized and damaged property of enterprises and agricultural lands, threat to the life of the public. Now it is safe to say that the main result of the extraordinary meeting of the

Investments Council was the subsequent carrying out of the extended meeting of the business community and the new government.

The government's assurance of the protection of entrepreneurs' rights and property reduced the public tension and brought the situation back to the legal boundaries. Moreover, there were taken specific measures to guarantee the entrepreneurs' rights, all the ministries, agencies and local self-government authorities being involved. There started actively working law-enforcement bodies to prevent illegal actions in relation to entrepreneurs, punish those who had committed crimes.



Moreover, the meeting considered a number of urgent measures to support entrepreneurs, namely:

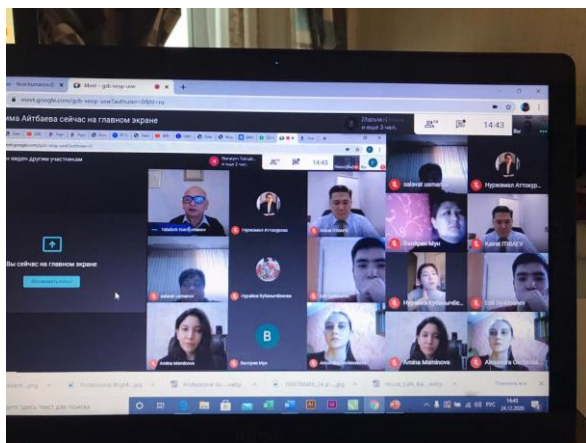
- measures to stabilize the economy, protect rights and property of entrepreneurs;
- proposals of business community to stabilize and support economic branches;
- measures to ensure safety and guarantees to protect business and large enterprises.

Based on the Council's meeting results, it was recommended to relevant public agencies to accept proposals of the business community about the urgent measures to be taken by the KR Government to protect the rights and property of entrepreneurs and stabilize the economic situation.

The main result of the taken measures was the stabilization of the general situation and prevention of illegal actions. Based on the facts of legality infringement in relation to investors, the law-enforcement bodies started pre-trial proceedings.

## Work plan for 2021

On 29 October 2020, the Council Secretariat had an on-line meeting with business associations to discuss the Council's work plan for 2021. The meeting was attended by the representatives of business associations, such as IBC, Association



of Suppliers, Chamber of Industry and Commerce of the KR, Union of Constructors, Association of Small HPPs, Association of Silk Way Tourism, JIA Association, Association of Communication Operators of the KR, Association of the KR Insurers, etc. In addition, the request to send proposals for the Council's work plan of 2021 was sent to all members of the Council by e-mail

and in the internet communities. Business associations submitted about 12 items for the Council's agenda of 2021. The Council's work plan included such matters as 'improved regulatory framework of the tourism sector of the KR'; 'reforms of the judicial system to consider tax disputes (tax tribunal)'; 'industrial safety and efficiency of drilling and blasting operations of mining companies'; 'the problems

of practical implementation of urban development documents and operations of the Urban Development Council of Bishkek city'; 'the problematic issues of communication operators', etc. The Council's work plan was sent for consultations to the Council members from public bodies to be approved at the nearest meeting in 2021. There additionally arrived proposals and were included questions from the Chamber of Industry and Commerce on the development of small and medium-sized businesses (based on the survey of entrepreneurs carried out jointly with the Secretariat of the Council for Business Development and Investments) and from the Association of Customs Brokers on the monopolization of the customs services market, and some other.

### **Activities in the framework of Council on Economic Reforms**

On 4 November 2020, after October public unrest and formation of the new Government in the KR, there was established the Council on Economic Reforms under the KR Government chaired by the First Vice Prime Minister of the KR (hereinafter, CER). The CER objectives were identified as the development of systemic, comprehensive policy measures to support entrepreneurship and competitiveness of the economy.



The Council composition included the heads of ministries and agencies, while the business community was represented by 3 persons, as well as the Head of the Secretariat of the Business Development and Investments Council under the KR Government, and the Deputy of Business Ombudsman of the KR.

Under the CER, there was established the Analytical Group and 7 Working Groups (on tax reforms, licensing and authorization system, law-enforcement and judicial system, local self-government and land reform, electric-power supply industry and construction). The composition of 4 Working Groups included experts of the Secretariat, whose main objective was to ensure the feedback loop with business associations while developing proposals for the CER.

By contrast with the Business Development and Investments Council, the CER develops conceptual medium- and long-term measures on structural reforms in the economy. Since its establishment, the CER has had 4 meetings that presented concepts of development within each line. The Secretariat representatives in the CER and its Working Groups took an active part to ensure the feedback loop with the business associations and develop proposals. At the moment, the CER work's result is the approved concepts of reforms. The next stage will be the preparation of regulatory documents to implement concepts of the medium- and long-term perspective.

### **Interaction with the Parliament of the Kyrgyz Republic**

In the first half of 2020, the Secretariat of Investments Council had to deal with urgent measures due to the crisis situation caused by the coronavirus pandemic. In order to address those issues, the Secretariat assisted the Government, first of all, ensuring the feedback loop with business associations during the preparation of packages of anti-crisis measures. On the other hand, there became clearer the need in rather drastic measures and structural reforms.



In order to prepare medium-term measures, including the development of draft laws on structural reforms, there was a need to work with the Members of the Parliament. The Secretariat carried out negotiations and made a cooperation agreement with the Vice-Speaker of the Parliament and the initiative group of MPs. The Head of the Council Secretariat had more than 6 on-line meetings with the MPs, which resulted in the 'Act for New Economic Freedom and Development' approved by the KR Parliament in April 2020. That document was aimed at short- and long-term measures to be taken for the mitigation of the crisis caused by the quarantine and implementation of structural reforms (in the post-quarantine period). Within the 'Act for New Economic Freedom and Development', the expert group under the leadership of the Head of the Council Secretariat Mr T. Koichumanov prepared 7 draft laws aimed at improving the investment climate and business environment in the country. The draft laws were presented on 5 June 2020 at the KR Jogorku Kenesh

meeting by the experts and Head of the Council Secretariat (Annex 1 ‘Information on Regulatory Acts’). The draft laws went through a discussion in the Parliament, but, unfortunately, due to the parliamentary elections and subsequent political events, their approval was suspended. At present, the work to further promote the draft laws on structural reforms has been in progress at various levels, being carried out both by the KR Government (through the Council on Economic Reforms) and the KR Jogorku Kenesh.

## Interaction at the regional level

### *Working on business eco-system project under the further development of the regional PPD in the regions.*

According to the work plan within the framework of building an effective PPD at the regional level (based on building the regional business ecosystems) the following tasks were planned for the first quarter of the 2020 year:

1. To send information to RIC: to conduct a selection / competition of business ecosystems in the regions.
2. To conduct the expert analysis of RIC proposal.
3. Selection of pilot business ecosystems among received proposals.

The Secretariat of the Council prepared a letter and sent it to the Plenipotentiaries of the Government of the Kyrgyz Republic in the regions which contained information on the new format of RIC work in order to strengthen regional PPD, on the feasibility of introducing a cluster approach in the development of regions and on the identification and evaluation of regional leading cluster projects.

During first quarter of the 2020 year, the Secretariat received replies to its letter from all Plenipotentiaries of the Government of the Kyrgyz Republic. It should be noted that not all representative offices were able to demonstrate a complete understanding of the essence of cluster development and regional specialization. Taking into account this fact, the Secretariat of the Council decided to finalize the submitted proposals of the regions with the help of a group of experts formed in March of the reporting year.

List of investment cluster projects received from the regions:

- 1) Batken region - project "Agro-industrial cluster for the production and processing of Batken apricot".
- 2) Issyk-Kul region - the project "Ski cluster in the village of Suttuu-Bulak, Jeti-Oguz region."

3) Chui region, Sokuluk district - BES for the development of the dairy sector

4) Naryn region, At-Bashinsky - BES for the development of potato and livestock

Within the framework of this task, in particular for the purposes of selection and evaluation of projects, proposals from the regions, the Secretariat of the Council has formed a permanent group of experts. The group is composed of experienced, qualified and competent experts. The Secretariat of the Business Development and Investment Council organized the first meeting of experts on March 16, 2020. The agenda of the meeting included the following issues:

1. Goals and objectives of the expert group for the selection of projects of business ecosystems (BES);
2. The essence of the cluster, its understanding in society;
3. Discussion of a set of issues related to the implementation of the cluster approach in the development of the regional economy, identification of cluster initiatives and increasing the competitiveness of regional enterprises;
4. Discussion of the cluster selection methodology;
5. Role and actions of the Council in identifying and promoting the leading regional clusters within the framework of PPD, etc.

As a result of the meeting, further steps in the framework of the work were determined and recommendations were provided. The initiative of the Council for the selection of specific, leading regional clusters, business projects, as well as their support at the RIC sites was supported by all participants of the meeting. The experts stressed their readiness to work on identifying and evaluating regional cluster initiatives.

The work on the selection of BES was continued, in particular, have considered the proposals received from the regions, the Secretariat of the Council decided to select two pilot projects, to provide full assistance in their promotion within the framework of PPV, with the participation of experts to introduce cluster approaches to projects as much as possible.

The Secretariat of the Council by its letter dated 09.03. informed the Governments of the Kyrgyz Republic about his activities on the selection of business ecosystems in the regions, which are based on the cluster approach and asked to assist in attracting donor organizations to provide technical assistance to the expert group. In turn, the Government of the Kyrgyz Republic sent a corresponding order to individual ministries and departments to work out this issue.

### ***Working with BES stakeholders***



Taking into account the fact that educational and research institutions as part of the BES play a large role in providing the cluster entities with the necessary labor resources, the Council Secretariat holds meetings with the heads of educational institutions. In particular, in March, a meeting was held with the head of the Agency for Primary Professional Education under the Ministry of Education and Science of the Kyrgyz Republic. During the meeting, the sides discussed issues of staffing enterprises involved in priority sectors of the economy in accordance with market requirements. In this direction, it was recommended to the Agency to intensify the work of the National Council for the Development of Professional Skills, created by the decree of the Government of the Kyrgyz Republic No. 193.

### ***The situation with entrepreneurship under restrictions***

The Investment Council has tracked the regional economic situation through Regional Investment Councils (RICs) during April, 2020. The secretaries of RIC's have monitored the situation, reported to Secretariat and are still continuing to reveal problems and address them to local authorities. The following conclusions were made based on information from RIC's:

The outbreak had hit the Kyrgyz economy very hard. The private sector especially the SMEs which make almost 40% of GDP suffered heavily from restrictions. They were not able to generate any incomes during the emergency state. The situation with loans from commercial banks became the major concern for all entrepreneurs. The movement restrictions for transportation of essential goods impacted negatively supplying companies. The permitting system did not function effectively. The peasants complained about absence of access to agricultural markets traditionally situated in emergency state zones. Some peasants pointed out the absence of demand for their products because of low economic activities. The restrictions heavily hit tourism, retail, services, light industry and production sector in the regions. The prices for goods and raw material have risen and it is obvious that the inflation rate will be higher than expected. According to World Bank, twelve-month inflation rose to 5.9 percent in March 2020 from 3.1 percent in December 2019. This inflation rise in the long run will result in decrease of demand for goods and reduce of production capacities.

Besides, the companies had to place workers on unpaid vacations. According to Jalalabad RIC about 90% of company workers subject to lockdown restrictions were placed on unpaid vacations. Some companies reduced their staffs. There is no unemployment rate statistics for the moment but RICs predict the sharp increase of unemployment in the regions.

During the last survey the retail sector emphasized the absence of operating assets. The SMEs especially involved in the textile sector were not able to trade seasonal products. As a result, funds invested in seasonal goods have become irrevocable, whereas goods non-seller (illiquid). This is a serious situation. They have informed RICs that even though if the Government lifts restrictions, the situation in this sector will remain difficult for a long time.

In addition, before pandemic outbreak some entrepreneurs have sent goods under consignment to other countries mainly to CIS countries. Due to the fact that the same emergency measures have been undertaken by CIS governments, Kyrgyz entrepreneurs are not able to return their money for supplied goods at this stage. On top of all, yearly worker remittances, nearly estimated at 2 bln USD fell down. All these factors have negatively affected SME's depriving them of operating assets.

In this situation the private sector had to ask Government to provide preferential loans and subsidies through financial institutions, grant deferrals and benefits for the payment of taxes, social deductions, rent payments for state property, utility bills, take measures to restructure loans for the duration of the quarantine measures, accelerate the opening of borders with China for transportation of goods by automobile due to raw-materials shortages.

The large scale business sector urged Government to launch tax breaks, support of production sector, remove bureaucratic barriers related to licensing and permission system, stop legal initiatives deteriorating business climate.

***Survey conducted by the regional expert by the assistance of the Regional Investment Council representatives in the regions.***

In the course of monitoring the implementation of the anti-crisis package, the Council selected several of the most relevant measures for the regions from the Package and conducted a survey among entrepreneurs of all regions, as well as interviewed some representatives of the Union of Entrepreneurs of Kyrgyzstan, JIA and the tourism sector. In addition, the secretaries of the Council presented their views on the overall economic situation in the country. The Survey has been sent to the Prime Minister office as a feedback to the measures taken by the Government. Here the regional investment councils fulfilled the key role of PPD to provide feedback to the Government decisions.

***Situational analysis***



Almost all respondents noted that the introduction of state of emergency and emergency situations greatly worsened the situation of entrepreneurs. The hard lockdown resulted in lost revenue, contracts and investments. Especially the situation with the repayment of loans and interest is most worried about the entrepreneurs of the regions. Since it is time to pay off the restructured bank loans with accrued interest. The principal amounts of the loans were restructured and the interest charges were not terminated. There is no choice, all entrepreneurs have suffered. The secretary of the Naryn oblast council noted that the Government should subsidize or write off interest rates on loans received from financial institutions. Otherwise, the Government will soon witness the bankruptcy of some SMEs.

Business activity in all regions is the lowest in the last 10-15 years. Unemployment is growing every day. According to the Talas Regional Investment Council, at the moment, every fourth economically active citizen of the region is looking for work or at least some part-time job. Due to the worsening epidemiological situation, many companies go into voluntary self-isolation. Paying wages and retaining employees in manufacturing plants becomes impossible. Aggregate demand for non-food products (excluding pharmaceuticals) and services fell to a minimum. Working capital is sorely lacking.

And in these conditions, the tax service in the regions is taking the most severe repressive measures against entrepreneurs. For example, the Jalalabad Council informed that for the slightest untimely submission of tax reports (1.2) days, the tax service began to apply fines in full, not taking into account the current epidemiological situation. Obviously, in this regard, the Government needs to re-extend the deadlines for submitting reports by at least 2-3 months. The Investment Council of the Osh region noted the difficulties with the submission of electronic invoices. According to their information, the website of the tax service is constantly failing and accountants have to sit for hours at the computer to submit reports.

### **Analytical support to a process of public-private dialogue**

In 2020, the Secretariat experts were involved in various analytical works that included the participation in research conferences, various working groups to develop recommendations, prepare analytical materials for business associations, public agencies and other organizations. In particular, the Secretariat experts were involved in the following analytical surveys:

- 1) Analytical article ‘Issues Related to the Application of the General System of Preferences GSP+ by Developing Countries’ for the international research journal ‘Reform’ to describe the application of the general system of preferences GSI+ by developing countries. The experts gave recommendations to Kyrgyzstan based on the international experience, in particular that of Georgia, Armenia and Pakistan. The article was published in June 2020.
- 2) ‘Analysis of COVID-19 Crisis Effects: Small, Medium and Micro Enterprises, Informal Sector, Foreign and Domestic Trade of the Kyrgyz Republic’ targeting the survey to examine the impact of COVID-19 crisis on small and medium-sized businesses, trade (domestic and foreign) and informal sector of the KR economy with due regard for such categories as employment, the number, lines and scale of operations, their export component and composition of the involved work force, etc., and also with due regard for the poor (or full absence of) protection of resources of micro and small businesses.
- 3) ‘Assessment of Social and Economic Impact and Vulnerability Due to Covid-19 in the Kyrgyz Republic’ with the objective to support a comprehensive and multi-sectorial response to COVID-19 and removal of its social and economic consequences in the interaction with the research team of UNDP-ADB.
- 4) Business reorganization assessment request for EBRD. Research data insolvency in Kyrgyz Republic such as insolvency law/s (or any other law providing for the reorganization or restructuring of businesses), insolvency specific data, company register, insolvency practitioners and authorities responsible for insolvency proceedings. Assistance in the distribution the questionnaire of EBRD Insolvency Assessment to financial organizations, banks, law firms.

## **Other activities of the Investment Council’s Secretariat**

### ***Co-organization and participation in forums, conferences and round tables***

- 1) On 2-3 June 2020 online conference “Supporting EBRD’s in economic recovery from the Covid-19 pandemic: putting Investment Councils at the center of the response” were organized. Expert of the Secretariat A. Akeneev informed in the second section about the current economic situation in the country.
- 2) On 12 August 2020 online seminar (webinar) "The Digital Agenda of the EAEU" were organized by the Secretariat of Investment Council together with the EEC Initiative Management Office. The participants of the seminar were introduced to the EAEU plan for the digital transformation of economies, goods and services markets, the possibilities of managing integration processes through digital integration, the development of digital infrastructure and digital security. The seminar (webinar) was attended by 23 business associations.
- 3) The Secretariat of Investment Council and the Kurak Business Association initiated the signing of a Public Agreement between business associations and political parties running in the elections to the Jogorku Kenesh of the Kyrgyz Republic. The Public Agreement Forum was held on 17 September 2020. The Public Agreement includes 9 points aimed at improving Kyrgyzstan's economy, increasing the standard of living and quality of life of the population, developing business, and improving infrastructure. The Public Agreement was signed by 11 political parties and 50 business associations of the Kyrgyz Republic.
- 4) On 18 November 2020 the Secretariat of Investment Council and the Judicial and Legal Reform Group under the Government of the Kyrgyz Republic (UNDP and the US Embassy) organized an online seminar with representatives of the business community to discuss the results of a study on economic crime and protection of business from the illegal influence of law enforcement. At the seminar the experts informed the participants about the results of criminological and criminal law analysis of crimes in the sphere of economic activity, about the impact of the level of shadow economy and decriminalization of criminal offences. T. Koichumanov moderated the meeting. The meeting was attended by 25 business associations.
- 5) The Secretariat of Investment Council together with the International Business Council initiated the signing of the Joint Declaration between the business community of the Kyrgyz Republic and candidates for the President

of the Kyrgyz Republic. A forum for signing the Joint Declaration between the business community of the Kyrgyz Republic and candidates for the President of the Kyrgyz Republic was held on 24 December, 2020. The Joint Declaration includes 9 points aimed at the urgent need to stabilize the economy, support the work of enterprises and entrepreneurs, revive economic activity and improve the living standards of the population. The Joint Declaration was signed by 12 presidential candidates, including the President-elect of the Kyrgyz Republic and 30 business associations of the Kyrgyz Republic.

## **Interaction with international organization**

### ***Determination of members of the Investment Council from International Institutions***

According to the Council's Provision, international donor organizations select Council members from international institutions at a donor council for every two or three meetings of the Council. Members of the Council from donor organizations are currently representatives of the Asian Development Bank and the Embassy of the Federal Republic of Germany in the Kyrgyz Republic. In order to raise awareness and more proactive involvement of international development partners into IC's activities Secretariat invites the representatives of donors' community to the regular meetings of the Investment Council with the role of observers. In 2020 the representatives of OSCE, USAID, DFID, UNIDO, IFC, GIZ, JIA took part at the meetings of the Council in addition to the members of the Investment Council from international institutions.

The Secretariat of the Council together with other projects on improving the investment climate and business environment continues the work of the Working Group on donor's coordinating group in order to improve an investment climate and the business environment.

## Communication and publicity

### *Web-site and page in social media*

The IC Website ([www.investmentcouncil.kg](http://www.investmentcouncil.kg)) has been managed by the Secretariat since - its launch in February 2007 and was updated twice. The web-site was launched with financial support of OSCE and USAID. The website provides essential information about the Investment Council such as IC meetings (agenda, minutes of meeting, PPT presentations, technical notes etc.), press releases after every IC Meeting, IC & Secretariat's activities such as important meetings with stakeholders and focus group meetings, publications in the media, etc. in English, Russian and Kyrgyz languages.



The IC also created the Facebook page (Investment Council) to update the followers on different activities of the Investment Council. The page has 1540 followers and actively reposted, which allow widening the number of readers.

### *Media appearance*

All meetings of the Investment Council are open for mass media and widely covered in mass media. Secretariat of the IC actively cooperates with the Press-secretary of the Office of the Government to prepare the analytical articles, news and TV-programmes with involvement of the experts of the Secretariat. List of the published articles with links in Annex 2.

### *Press conference on annual results*

On 22 December 2020 a final press conference of the business community with the participation of the Investment Council, the International Business Council and the Institute of Business Ombudsman was conducted at the press-centre of Kyrgyz National News Agency "Kabar". An expert from the Secretariat informed the media about the results of the work of the Investment Council in 2020.



## Evaluation results of activities

### Assessment of Outputs to date

#### ***Output 1: The Secretariat approves an annual work-plan to support policy dialogue on priority issues***

##### ***Target Value: 1***

##### ***Achieved: The 2021 work plan was discussed on October 29, 2020 at the online meeting of IC***

The Work Plan of the Investment Council for 2021 was developed at the online meeting of the Investment Council dated October, 2020. In general, the Council's work plan for 2021 included 12 proposals from 13 business associations and international donor partners.

The 2021 work plan focused on:

- On issues of supplying national jewellery manufacturers with raw materials and implementation of the Jewellery Industry Development Concept 2021-2023;
- On the improvement of the regulatory framework for the tourism industry in the Kyrgyz Republic;
- On judicial reform of tax disputes (tax tribunal);
- Issues of industrial safety and the efficiency of drilling and blasting operations of mining companies;
- On the problems of practical implementation of urban planning documentation and the activities of the Urban Planning Council of Bishkek;
- On problematic issues for telecommunications operators;
- Simplification of the land law requirements in the tourism sector;
- On the establishment of a regional transit corridor for international freight transport;
- On improving FEZ legislation;
- On certain issues of improvement of labour legislation with regard to balancing the interests of employees and employers (disability benefits and the limitation in labour disputes);
- On the systemic issues of improving the business environment and investment climate raised by the Business Ombudsman Institute;
- On the further development of the insurance sector;

#### ***Output 2: IC Secretariat's studies on priority domestic and foreign investment issues are presented***



***Target value: 2******Achieved: In 2020 Secretariat participated at developing of 4 studies***

The project budget provides for the allocation of 20,000 euros annually for studies. However, since 2016, these funds have never been used including 2020. Despite this, experts participate or support at developing studies initiated by the government agencies or other donor organizations in 2020.

- 1) Analytical article ‘Issues Related to the Application of the General System of Preferences GSP+ by Developing Countries’ for the international research journal ‘Reform’ to describe the application of the general system of preferences GSI+ by developing countries. The experts gave recommendations to Kyrgyzstan based on the international experience, in particular that of Georgia, Armenia and Pakistan. The article was published in June 2020.
- 2) ‘Analysis of COVID-19 Crisis Effects: Small, Medium and Micro Enterprises, Informal Sector, Foreign and Domestic Trade of the Kyrgyz Republic’ targeting the survey to examine the impact of COVID-19 crisis on small and medium-sized businesses, trade (domestic and foreign) and informal sector of the KR economy with due regard for such categories as employment, the number, lines and scale of operations, their export component and composition of the involved work force, etc., and also with due regard for the poor (or full absence of) protection of resources of micro and small businesses.
- 3) ‘Assessment of Social and Economic Impact and Vulnerability Due to Covid-19 in the Kyrgyz Republic’ with the objective to support a comprehensive and multi-sectorial response to COVID-19 and removal of its social and economic consequences in the interaction with the research team of UNDP-ADB.
- 4) Business reorganization assessment request for EBRD. Research data insolvency in Kyrgyz Republic such as insolvency law/s (or any other law providing for the reorganization or restructuring of businesses), insolvency specific data, company register, insolvency practitioners and authorities responsible for insolvency proceedings. Assistance in the distribution the

questionnaire of EBRD Insolvency Assessment to financial organizations, banks, law firms.

***Output 3: Number of IC meetings at the regional level***

***Target value: 4***

***Achieved: 4 of IC meetings at the regional level conducted***

During the reporting period, the Regional Coordinator of the Secretariat of the Council together with the regional representatives (the Secretaries) of the Regional Investment Councils (RIC) and with the Office of the Plenipotentiary Representatives of the Government in the areas conducted 4 RIC Council meetings in 4 oblasts of the Kyrgyz Republic.

During this IC meetings regional business proposed their own view to the situation related to the pandemic and proposed the solutions, such as:

Investment councils of Jalalabad and Batken regions complained about the weak work of state bodies at the local level in conditions when, on the contrary, state bodies must demonstrate high efficiency. According to Chotbayev Avazkhan, a local entrepreneur from Batken oblast, relatively high levels of corruption have increased over the past 3-4 months, and public services in the oblast have become more bureaucratic.

The Regional Investment Council of Jalalabad Oblast complained about the deterioration of the situation with obtaining state permits, in particular in the construction sector. In their opinion, the introduced “single windows” do not work at all.

The Regional Investment Council of the Chui region noted the non-transparent work of the Material Reserves Fund under the GKR. According to them, the Fund has not yet announced the purchase prices for wheat and farmers cannot decide what to do with the harvested crop. Chui farmers noted that the Fund never directly buys reserves from farmers, although this is their direct responsibility, but does it through intermediaries. Thus, the system is considered corrupt and opaque. In this regard, the Chui Investment Council asked the Council to analyze the relevant laws regarding material reserves, to bring up and consider this problem at the government level.

The Regional Investment Councils of the Talas and Chui regions informed that state and municipal buildings began to demand rent from July 2020. Taking into account the crisis situation in the country, representatives of SMEs are asking to extend the exemption from the lease of state property for a new term.

In fact, all investment councils noted that the concessional lending to business entities, which the Government announced, had not been introduced, and no one could name at least one company that received a concessional loan. The representative of the investment council of the Naryn region named the company At-Bashi-Milk plant which was approved by the preferential loan for financing a dairy farm project from RKFR, but it turned out that this project was submitted for consideration last year.

Even in lockdown period regional PPD expert was in touch with RICs and coordinated their work to conducted inquiries and surveys among regional entrepreneurs and to deliver it to the Prime Minister office on time. Besides, some secretaries of RIC have become members of Regional emergency response offices and took direct part in solving problems of entrepreneurs. In addition, RICs on the permanent base address complaints and recommendations of business sector to local authorities.

***Output 4: Number of meetings between the Parliament representatives and the business associations***

***Target value: 4***

***Achieved: 7 meetings between the Parliament representatives and the business associations conducted***

- 1) To prepare medium-term measures, which consisted in the preparation of draft laws on structural reforms, it was necessary to work with parliament members, with whom the Secretariat negotiated and concluded an agreement with the Vice-Speaker of Parliament and an initiative group of MPs on joint cooperation. The head of the Secretariat of the Council held more than 6 online meetings with parliament members, as a result of which the Economic Freedom Act was adopted by the Parliament of the Kyrgyz Republic in April 2020.
- 2) On June 5, 2020, the Head of the Secretariat of the Investment Council, together with the expert group and the business community, took part in the parliamentary hearings, where they presented 7 draft laws aimed at improving the investment climate and business environment.

## ***Contribution to intended Outcome to date***

### ***Outcome Indicators***

#### ***Outcome Indicator 1: Number of relevant laws and regulations presented by the Secretariat for adoption/amendment***

##### **A. 7 normative legal acts adopted by the initiatives of the Business Development and Investment Council under the Government of the Kyrgyz Republic in 2020**

1. Resolution of the Jogorku Kenesh of the Kyrgyz Republic "On the appeal (act) of the deputies of the Jogorku Kenesh of the Kyrgyz Republic" To new economic freedom and development "dated April 30, 2020 No. 3705-VI
2. Resolution of the Government of the Kyrgyz Republic "On Approval of the Strategy for Development of the Construction Industry of the Kyrgyz Republic for 2020-2030" dated January 17, 2020 No. 14;
3. Resolution of the Government of the Kyrgyz Republic "On approval of the Procedure and conditions for the return of the amount of value added tax on imports paid when importing raw materials for the production of feed for poultry and fish, and the List of commodity items of raw materials used for the production of feed for poultry and fish, according to which the amount value added tax on imports is subject to refund from the budget "dated July 9, 2020 No. 374;
4. Resolution of the Government of the Kyrgyz Republic "On the introduction of a ban on inspections of business entities conducted by law enforcement agencies" dated December 11, 2020 No. 602
5. Resolution of the Government of the Kyrgyz Republic "On approval of the Action Plan of the Government of the Kyrgyz Republic for 2020 to restore economic activity and support the activities of business entities" dated May 6, 2020 No. 162-r;
6. Resolution of the Government of the Kyrgyz Republic "On Approval of the Short-Term Action Plan of the Government of the Kyrgyz Republic to Stabilize the Economy" dated November 5, 2020 No. 358-r;
7. Order of the Prime Minister of the Kyrgyz Republic "On approval of the Plan of priority measures of the Government of the Kyrgyz Republic for 2020 to

reduce the negative impact on economic and social stability in connection with the spread of the COVID-19 virus" dated March 30, 2020 No. 186

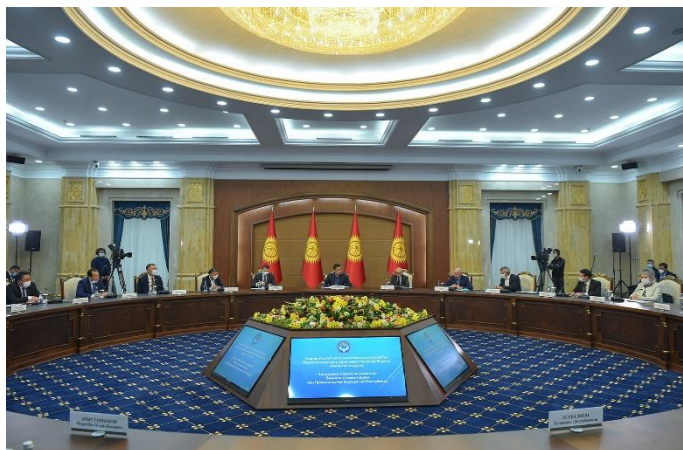
## **B. 9 Normative legal acts that were developed by the initiative of the Investment Council and sent for consideration by state bodies in 2020**

1. The following draft laws have been submitted to the Jogorku Kenesh of the Kyrgyz Republic for initiation by a group of deputies:
  - "On amendments to the Tax Code (transition to a simplified taxation system based on a "single" tax, reduction of inspections);
  - "On amendments to some legislative acts of the Kyrgyz Republic in the field of social tax" (introduction of social tax and its distribution);
  - "On amendments to the Law of the Kyrgyz Republic" On the Procedure for Conducting Inspections of Entrepreneurship Entities "(introduction of the Information System of Inspections and transfer of inspections to a digital platform);
  - "On amendments to some legislative acts of the Kyrgyz Republic in the field of investments" (strengthening the role of investment agreements);
  - "On the Tax Tribunal" and "On Amendments to the Tax Code of the Kyrgyz Republic" (introduction of an independent institute for pre-trial consideration of tax disputes);
  - "On amendments to some legislative acts in the field of state regulation of entrepreneurial activity" (optimization of licensing activities);
  - "On self-regulatory organizations" (Introduction of the SRO institute and the transfer of a number of licenses and permits for self-regulation).
2. Draft Law of the Kyrgyz Republic "On amendments to some legislative acts of the Kyrgyz Republic in the field of criminal and criminal procedural legal relations" (decriminalization of economic crimes).
3. Draft Resolution of the Government of the Kyrgyz Republic "On Approval of the Model Regulations on Mentoring at an Enterprise (Organization)" (in order to provide employment for migrants and young professionals in the context of quarantine measures on COVID-19);

## Conclusion

At present, Kyrgyzstan is going through the process of redistribution of roles between various branches of power with the strengthened authority of the president and the shift from parliamentary to presidential form of government. The upcoming parliamentary elections of 2021, as well as the adoption of the new Constitution will contribute to the persisting instability and prevent recovery of investment activities. The speed of economic recovery in many respects will depend on how quickly the government will manage to reinstate the investors' trust. At the same time, a very important ingredient will be the full and efficient involvement of entrepreneurs in the decision-making processes.

In general, 2020 has shown the need to rethink the previous approaches to the establishment of conditions and mobilization of investors. According to the forecasts, investment activities at the global level will not recover earlier than 2022. The continued outbreaks of COVID-19 will cause limitations on economic activities, preserving uncertainty, and that will affect the investors' decisions. There will continue the active transformation of the international production sector with the growing role of services, digitalization and sustainable investments. Those countries that want to be competitive pursuing the global investment flows need to change their strategies of investments mobilization. In such conditions, the requirements to the quality of public-private dialogue become stronger with the growing need in a rather broad approach and its analytical component.





## Annex 1.

### **Information on draft laws on structural reforms in the Kyrgyz Republic**

Draft laws were prepared by a group of experts under support of the Secretariat of Business Development and Investment Council for under the Government of the Kyrgyz Republic (May 24, 2020)

#### **1. Reducing the number of taxes and tax inspections for businesses**

The proposed draft laws correspond to objective 7.3. "Building a competitive and fair tax system" of the National Development Strategy of the Kyrgyz Republic for 2018-2040, approved by the Decree of the President of the Kyrgyz Republic dated October 31, 2018 N 221), according to which: "From 2020, the tax burden will not exceed 20 percent, including social contributions. The total number of taxes will be reduced to 2 - turnover tax and income tax ”.

Proposed draft Law of the Kyrgyz Republic "On Amendments to the Tax Code of the Kyrgyz Republic" will allow each taxpayer, regardless of the size of the business, the volume of proceeds, or exceeding the registration threshold for VAT, to pay the Single tax instead of three taxes: income tax, VAT on taxable supplies and tax from sales (tfs). The tax base is revenue. The tax period is a quarter for small businesses and one month for everyone else. In general, the rates are in line with the current Single Tax rates. As a result, the number of payments and reports is reduced, the calculation of taxes and, consequently, the number of possible questions during tax audits is greatly simplified. Large businesses will have the opportunity to abandon the application of VAT on supplies and VAT invoices, as well as income tax with its problems in calculating deductible costs. The duty to pay VAT on imports remains.

For those who wish to pay income tax and VAT on supplies, the existing mechanism remains.

It is expected that the application of the Single Tax will increase the transparency of the tax system, reduce the time of taxpayers and the timing of tax audits, as well as the number of tax issues.

#### **2. Reduction of tax inspections.**

The draft Law of the Kyrgyz Republic "On Amendments to the Tax Code of the Kyrgyz Republic" makes possible not to conduct scheduled field inspections for taxpayers that meet the established criteria (application of 1-C accounting, participation in the tax monitoring program, proper level of tax burden and timely submission of tax reporting), and also conduct on-site scheduled inspections remotely for those taxpayers who have the opportunity to become a member of the Tax Service's electronic exchange system.

The result of the proposed amendments will be a reduction in direct contacts between taxpayers and tax officials by strengthening the analytical work of the Tax Service, as well as a reduction in government spending on tax administration.

#### **4. Introduction of social tax.**



The draft law proposes to introduce a social tax instead of insurance contributions for state social insurance. In general, 2 rates are proposed: for the employer and the employee. The general rate is reduced from 27.25% to 20%. The taxation base, terms of payment and reporting, benefits are brought in line with income tax. The distribution of the social tax to the Pension Fund, the Health Insurance Fund, the Workers' Health Fund, the State Accumulative Pension Fund is carried out on the basis of a separate law. Administration is carried out in the manner prescribed for taxes.

As a result, the business will reduce the number of payments from 4 to 2, it becomes possible to unify the calculation of income and social tax, and, in the future, to combine reporting on income and social tax into one report. In general, these measures are expected to reduce the level of the shadow economy in the labor market in the Kyrgyz Republic.

## **5. Reducing the regulatory burden on entrepreneurs**

The draft Law of the Kyrgyz Republic "On Amendments to Certain Legislative Acts of the Kyrgyz Republic" has been prepared in order to further optimize and liberalize the licensing system and public relations regulated by the current legislation in the licensing and licensing sphere.

Currently, there are 99 licensed activities in the country. The proposed draft Law excludes 33 types of activities. Thus, it is planned to reduce to 66 types of licenses and permits, of which 36 licenses, and 30 permits.

In particular, activities that imply the assessment of qualifications and professional skills are removed from licensing.

The Draft Law provides for the legislative consolidation of an exhaustive list of licenses with an indication of the specialization for the work and services performed and an exhaustive list of permits with an indication of the specialization for actions and operations.

## **6. Transfer of government regulations to self-regulatory organizations.**

The draft law "On self-regulatory organizations" pursues the same goal as the draft law to reduce the regulatory burden on business, namely, to reduce the existing number of licenses and permits and transfer some of them to self-regulatory organizations.

Self-regulation is understood as an independent and proactive activity that is carried out by business entities and the content of which is the development and establishment of standards and rules for these activities, as well as monitoring compliance with the requirements of these standards and rules.

The draft Law provides for mandatory requirements for an SRO, the existence of standards and rules of activity that are mandatory for all members of an SRO, ensuring the SRO additional property liability of each of its members to the consumers of the goods (work, services) produced and other persons.

The draft Law provides that self-regulatory organizations have the right to exercise control over the activities of their members. At the same time, the provisions of the draft Law establish the

possibility of state control and supervision over the activities of self-regulatory organizations, which is carried out through inspections and preventive control and supervision.

## **7. Transfer of inspections to the digital platform**

The draft law of the Kyrgyz Republic "On Amendments to the Law of the Kyrgyz Republic" On the Procedure for Conducting Inspections of Business Entities "is aimed at optimizing and improving the procedure and procedures for conducting inspections by authorized bodies in order to reduce the administrative burden on business.

The ineffectiveness of the inspection procedure leads to a workload of employees of regulatory bodies and business entities due to often unnecessary and duplicative procedures. Entrepreneurs also raise corruption risks, complex procedures and bureaucratic obstacles as key problems in the field of state regulation of entrepreneurial activity.

It is proposed to make a number of changes to the current Law of the Kyrgyz Republic "On the procedure for conducting inspections of business entities" dated May 25, 2007 No. 72, in particular, to introduce the concept of digital verification - a form of verification on a contactless basis using information and communication technologies.

The digital format is proposed to be introduced for all types of checks. At the same time, taking into account the specifics of inspections and areas of entrepreneurial activity, the Government of the Kyrgyz Republic should analyze and determine the List of inspections, which will be carried out in the form of digital verification. It is also necessary to define the checks, which should remain in the form of a documentary or field check. At the same time, first of all, it is necessary to ensure that the digital format and online verification mode completely replace the documentary form of checks.

According to experts, the implementation of the draft law on transferring inspections to a digital platform will lead to savings in budgetary expenditures of the state of about 17 million soms per year, and an increase in revenues by reducing business costs of about 300-400 million soms per year.

## **7. Strengthening the rights and guarantees of strategic investors**

Providing investors with individual preferences and a regulatory regime for their activities is a generally accepted international practice. Thus, an increase in guarantees for investors against changes and deterioration of legislation is achieved, a simplified investment procedure and stability of work are ensured. In all Central Asian countries, which are the main competitors of Kyrgyzstan for global investments, the legislation provides for the conclusion of investment contracts and agreements that give investors certain benefits and preferences in case of significant investments in priority sectors.

The draft law proposes amending the Investment Law introducing the concept of a strategic investor, describing clear criteria for a strategic investor and strengthening the role of the Agency for the Promotion and Protection of Investments in the implementation of investment agreements. Amendments are being made to the Tax Code, the Land Code, the Civil Code, the Law on Inspections, the Law on Licensing and Permitting Sphere, the Law on External

Migration and the Law on External Labor Migration ”, giving strategic investors a special procedure for the implementation of investment projects.

According to the proposed amendments, investment agreements can only be concluded with transnational companies with a generally recognized international business reputation, unique knowledge and experience in the successful implementation of projects in a similar area, which have passed the listing procedure on one of the largest stock exchanges in the world. Conclusion of investment agreements in the field of subsoil use is not allowed.

#### **8. Draft Law on Tax Tribunal**

In general, a fairly competitive tax regime has been established in Kyrgyzstan. The main taxation problem in Kyrgyzstan is complex tax administration. The main complaint of investors is the ambiguous interpretation of various provisions of the Tax Code, which leads to the fact that STS employees are able to charge additional taxes to companies, despite the rule that any doubts should be interpreted in favor of the taxpayer. Taking into account the fact that on tax disputes in courts most decisions are made in favor of the State Tax Service, this creates conditions of uncertainty for business and significantly worsens the investment climate in Kyrgyzstan.

The purpose of this draft law is to reform the pre-trial tax dispute resolution system in the Kyrgyz Republic based on international best practice. The law proposes to define in the Tax Code the concept of a tax tribunal and the basic principles of its work. In order to ensure the independence of the Tax Tribunal, it is planned to place it at the International Arbitration Court and to finance it independently of the budget. The members of the tax tribunal will be qualified specialists in the field of tax law.

## Annex 2.

### List of the articles, published in mass media

1. On March 14, 2020, Azamat Akeneev, an expert of the Council Secretariat, took part in the Discussion on “Pandemic and global financial crisis - how Kyrgyzstan can protect against external shocks”. Centre for Political and Legal Studies.  
[http://center.kg/video/115?fbclid=IwAR19yE-bHxzEQM13S1-\\_sl1FQok-S7VVP8UtASm-KHnb5rUYbHsCfJQ5SBA](http://center.kg/video/115?fbclid=IwAR19yE-bHxzEQM13S1-_sl1FQok-S7VVP8UtASm-KHnb5rUYbHsCfJQ5SBA)
2. Interview by A.Akeneev IC expert on the problems of Kyrgyz business in the EEU.  
[www.tazabek.kg/news:1592762?f=cp](http://www.tazabek.kg/news:1592762?f=cp)
3. Interview by A.Akeneev IC expert on the problems of Kyrgyz business  
[https://24.kg/ekonomika/143413\\_azamat\\_akeneev\\_opravilnyih\\_posylah\\_prezidenta\\_ipo\\_chemu\\_biznes\\_nelzya\\_koshmarit/?fbclid=IwAR3EdZdIc2g-Taec6MKirqqhN4FoDvq3phMxnO6H3z8O1h9W876dP42cIeM](https://24.kg/ekonomika/143413_azamat_akeneev_opravilnyih_posylah_prezidenta_ipo_chemu_biznes_nelzya_koshmarit/?fbclid=IwAR3EdZdIc2g-Taec6MKirqqhN4FoDvq3phMxnO6H3z8O1h9W876dP42cIeM)
4. The first ever stabilisation agreement in the history of the Kyrgyz Republic was signed between the Kyrgyz government and Chaarat Gold Holdings Lmted and Chaarat Zaav CJSC.  
[https://24.kg/biznes\\_info/141705\\_investitsionnyiy\\_klimat\\_vkr\\_podpisano\\_pervoe\\_soglas\\_henie\\_orejime\\_stabilizatsii/](https://24.kg/biznes_info/141705_investitsionnyiy_klimat_vkr_podpisano_pervoe_soglas_henie_orejime_stabilizatsii/)
5. Article on COVID-19 and sustaining the economy and business in Kyrgyzstan.  
[https://24.kg/ekonomika/148893\\_borba\\_skoronavirusom\\_kak\\_neubit\\_biznes\\_iekonomiku\\_vkyrgyzystane/](https://24.kg/ekonomika/148893_borba_skoronavirusom_kak_neubit_biznes_iekonomiku_vkyrgyzystane/)
6. Deputies passed the 'Towards New Economic Freedom and Development' act.  
[https://kaktus.media/doc/412113\\_kak\\_vyyti\\_iz\\_krizisa\\_depytaty\\_priniali\\_akt\\_k\\_novoy\\_ekonomicheskoy\\_svobode\\_i\\_razvitiu.html](https://kaktus.media/doc/412113_kak_vyyti_iz_krizisa_depytaty_priniali_akt_k_novoy_ekonomicheskoy_svobode_i_razvitiu.html)
7. Interview by A.Akeneev IC expert on what the Tax Tribunal is and how to challenge unreasonably high taxes.  
<http://www.investmentcouncil.kg/index.php/press-tsentr/novosti/item/783-nalogovyy-tribunal-kak-osporit-neobosnovanno-zavysshennye-nalogi>
8. Interview by A.Akeneev IC expert  
[www.tazabek.kg/news:1630273?f=cp](http://www.tazabek.kg/news:1630273?f=cp)
9. Articles in the media about the Meeting of the 46th Business Development and Investments Council under the Government of the Kyrgyz Republic in teleconference format.  
<https://www.gov.kg/ru/post/s/premer-ministr-kubatbek-boronov-provel-zasedanie-soveta-po-razvitiyu-biznesa-i-investitsiy>  
[http://www.tazabek.kg/news:1642192?fbclid=IwAR3\\_pIeWN\\_4jhtVYQo6-Gj-H8QVpMn7m2SrLrVoGzeUqiXQq\\_ViBciEmiMk](http://www.tazabek.kg/news:1642192?fbclid=IwAR3_pIeWN_4jhtVYQo6-Gj-H8QVpMn7m2SrLrVoGzeUqiXQq_ViBciEmiMk)  
[https://24.kg/ekonomika/163437\\_kubatbek\\_boronov\\_rabota\\_malogo\\_biznesa\\_vosstanovl\\_ena\\_na80protsentov/?fbclid=IwAR3zZjT22XpMvrFFaTtvDqvJwSwkfS14Vkg6ZY63nsc](https://24.kg/ekonomika/163437_kubatbek_boronov_rabota_malogo_biznesa_vosstanovl_ena_na80protsentov/?fbclid=IwAR3zZjT22XpMvrFFaTtvDqvJwSwkfS14Vkg6ZY63nsc)

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[https://www.tazabek.kg/news:1642171?from=mportal&place=last&fbclid=IwAR1H8Rle23-m-vYq9ehJn37r2BSD4qc6HX4-4d-YIBXEC4jbR\\_NIJ9fIJNw](https://www.tazabek.kg/news:1642171?from=mportal&place=last&fbclid=IwAR1H8Rle23-m-vYq9ehJn37r2BSD4qc6HX4-4d-YIBXEC4jbR_NIJ9fIJNw)

<http://kabar.kg/news/prem-er-ministr-provel-zasedanie-soveta-po-razvitiu-biznesa-i-investitsii-1/>

<https://economist.kg/2020/08/27/biznes-prosit-rasshirit-spisok-gosorganov-s-vremennym-zapretom-na-proverki/>

[https://24.kg/ekonomika/163567\\_idei\\_realnyie\\_ineochen\\_kak\\_biznes\\_ipremier\\_problemy\\_i\\_obsujdali/](https://24.kg/ekonomika/163567_idei_realnyie_ineochen_kak_biznes_ipremier_problemy_i_obsujdali/)

Articles in the media and TV about the Forum of Business Associations with Political Parties for signing the Public Agreement

<https://economist.kg/2020/09/14/biznes-sostavil-dlya-politicheskikh-partij-obshchestvennyj-dogovor/>

[https://24.kg/ekonomika/165501\\_biznesu\\_nujen\\_novyy\\_nalogovyy\\_kodeks\\_syasnyimi\\_iponyatnyimi\\_pravilami/](https://24.kg/ekonomika/165501_biznesu_nujen_novyy_nalogovyy_kodeks_syasnyimi_iponyatnyimi_pravilami/)

<https://www.akchabar.kg/ru/news/11-partij-kr-soglasilis-isklyuchit-nalogovye-narusheniya-iz-ugolovnogo-kodeksa/>

[https://kaktus.media/doc/421073\\_urist\\_gyl\\_nara\\_kalikova\\_obratilas\\_k\\_partiiam\\_kotorye\\_idyt\\_na\\_vybory.html](https://kaktus.media/doc/421073_urist_gyl_nara_kalikova_obratilas_k_partiiam_kotorye_idyt_na_vybory.html)

[https://kaktus.media/doc/420630\\_obshestvennyj\\_dogovor\\_biznes\\_prizval\\_ychastvyushi\\_e\\_v\\_vyborah\\_partii\\_zaniatsia\\_ekonomikoy.html](https://kaktus.media/doc/420630_obshestvennyj_dogovor_biznes_prizval_ychastvyushi_e_v_vyborah_partii_zaniatsia_ekonomikoy.html)

[https://24.kg/ekonomika/165497\\_biznes\\_prizyivaet\\_buduschih\\_deputatov\\_sozdat\\_usloviya\\_dlya\\_chastnogo\\_sektora/](https://24.kg/ekonomika/165497_biznes_prizyivaet_buduschih_deputatov_sozdat_usloviya_dlya_chastnogo_sektora/)

<http://www.ktrk.kg/ru/news/s/46309>

10. Articles in the media about the Meeting of the 47th Business Development and Investments Council under the Government of the Kyrgyz Republic in teleconference format.

<https://www.youtube.com/watch?v=UeALXIyT4nk&feature=youtu.be>

[https://24.kg/ekonomika/170552\\_nil\\_makkeyn\\_imidj\\_formiruetsya\\_godami\\_arazrushit\\_e\\_go\\_ochen\\_legko/](https://24.kg/ekonomika/170552_nil_makkeyn_imidj_formiruetsya_godami_arazrushit_e_go_ochen_legko/)

<https://kloop.kg/blog/2020/10/29/biznes-ombudsmen-dlya-stabilizatsii-ekonomiki-nuzhno-vosstanovit-verhovenstvo-zakona/>

<http://www.tazabek.kg/news:1656270>

<https://knews.kg/2020/10/23/chestno-govorya-u-nas-ne-ochen-horoshee-polozhenie-ochem-govoril-sadyr-zhaparov-vo-vremya-zasedaniya-soveta-po-razvitiyu-biznesa-i-investitsiyam/>

<https://vesti.kg/zxc/item/77909-mezhdunarodnyj-delovoj-sovet-predlozhit-osnovnye-napravleniya-podderzhki-biznesa.html>

<https://ru.sputnik.kg/society/20201023/1050178335/mestnye-zhiteli-dejstviya-prichiny.html>

<https://www.akchabar.kg/ru/news/finpol-poobeshal-zashitit-i-podderzhat-dobrosovestnyh-biznesmenov/>

[https://24.kg/ekonomika/170563\\_elvira\\_borombaeva\\_popyitki\\_reyderskih\\_zahvatov\\_biz](https://24.kg/ekonomika/170563_elvira_borombaeva_popyitki_reyderskih_zahvatov_biz)

- nesa\_prodoljayutsya/  
<https://vesti.kg/zxc/item/77707-gornodobyvayushchie-kompanii-do-sikh-por-ne-poluchili-prakticheski-nikakoj-realnoj-pomoshchi-ot-gosorganov-kr.html>  
[https://24.kg/ekonomika/170555\\_artem\\_novikov\\_nalogovaya\\_doljna\\_zanimatsya\\_obslyujivaniem\\_predprinimateley/](https://24.kg/ekonomika/170555_artem_novikov_nalogovaya_doljna_zanimatsya_obslyujivaniem_predprinimateley/)  
[https://kaktus.media/doc/423835\\_novikov:\\_pravitelstvo\\_obiazyetsia\\_obespechit\\_garantiu\\_zashity\\_i\\_bezopasnost\\_dlia\\_biznesa.html](https://kaktus.media/doc/423835_novikov:_pravitelstvo_obiazyetsia_obespechit_garantiu_zashity_i_bezopasnost_dlia_biznesa.html)  
[https://kaktus.media/doc/424356\\_pravitelstvy\\_predlozili\\_idti\\_na\\_poklon\\_k\\_kitau\\_chtoby\\_reshit\\_problemy\\_na\\_torygarte.html](https://kaktus.media/doc/424356_pravitelstvy_predlozili_idti_na_poklon_k_kitau_chtoby_reshit_problemy_na_torygarte.html)  
<http://www.tazabek.kg/news:1656252>  
<http://www.tazabek.kg/news:1656235>  
[https://24.kg/vlast/170538\\_sadyir\\_japarov\\_polojenie\\_vekonomike\\_neizluchshih/?fbclid=IwAR0DPw4b\\_53vBEtZNghke0tXGOWwkKiSXEuZ2r-\\_Dvw79ZwXh\\_wAM8m\\_hA0](https://24.kg/vlast/170538_sadyir_japarov_polojenie_vekonomike_neizluchshih/?fbclid=IwAR0DPw4b_53vBEtZNghke0tXGOWwkKiSXEuZ2r-_Dvw79ZwXh_wAM8m_hA0)  
[https://24.kg/vlast/170539\\_novyie\\_porucheniya\\_sadyira\\_japarova\\_ubrat\\_byurokratiyu\\_iz\\_menit\\_nalogovyy\\_kodeks/?fbclid=IwAR2O7w-YV8-5aGmm95LE-xhp42lpyeHY8Wj6DQII08kdiptIyJpIw5DfjjM](https://24.kg/vlast/170539_novyie_porucheniya_sadyira_japarova_ubrat_byurokratiyu_iz_menit_nalogovyy_kodeks/?fbclid=IwAR2O7w-YV8-5aGmm95LE-xhp42lpyeHY8Wj6DQII08kdiptIyJpIw5DfjjM)  
[https://www.tazabek.kg/news:1656202?from=mportal&place=nowread&fbclid=IwAR0os\\_JGeJlLu6r-8g8rDenMrgALhmXFZ\\_-afy1ZnzLLDiM3TpDtSJuumw](https://www.tazabek.kg/news:1656202?from=mportal&place=nowread&fbclid=IwAR0os_JGeJlLu6r-8g8rDenMrgALhmXFZ_-afy1ZnzLLDiM3TpDtSJuumw)
11. Articles in the media and TV about the Forum of Business Associations with the Candidates for President of the Kyrgyz Republic to sign the Public Agreement.  
<https://knews.kg/2020/10/06/biznes-assotsiatsii-kyrgyzstana-obratilis-k-lideram-politpartij/>  
<https://economist.kg/2020/10/06/biznes-prizval-vernutsya-v-pravovoe-pole-i-ne-dopuskat-rejderskih-zahvatov-i-maroderstva-zayavlenie-associacij/>  
[https://www.vb.kg/doc/392730\\_biznes\\_associacii\\_kr\\_obratilis\\_k\\_narody\\_i\\_lideram\\_partiy.html](https://www.vb.kg/doc/392730_biznes_associacii_kr_obratilis_k_narody_i_lideram_partiy.html)  
[https://kaktus.media/doc/423379\\_biznes\\_ne\\_mojet\\_polychit\\_vniatnyh\\_otvetov\\_ob\\_ogranichitelnyh\\_merah.html](https://kaktus.media/doc/423379_biznes_ne_mojet_polychit_vniatnyh_otvetov_ob_ogranichitelnyh_merah.html)  
<https://regnum.ru/news/3082845.html>  
<https://www.interfax.ru/world/730517>  
<https://vesti.kg/zxc/item/76287-predprinimateli-prizyvayut-silovikov-obespechit-okhranu-chastnoj-sobstvennosti.html>
12. On October 19, 2020, Azamat Akeneev, an expert of the Council Secretariat, took part in the talk show “Vecher Trudnogo dnya”.  
<http://tv1.kg/ru/show/view/id/1378/>
13. А.Сейтбеков принял участие в Итоговой пресс-конференции бизнес-сообщества.  
[http://www.abc.kg/ru/news/abc/5445\\_biznessoobschestvo\\_provedet\\_itogovuyu\\_presskonferenciyu\\_v\\_knia\\_quotkabarquot](http://www.abc.kg/ru/news/abc/5445_biznessoobschestvo_provedet_itogovuyu_presskonferenciyu_v_knia_quotkabarquot)  
[http://www.abc.kg/ru/news/abc/5446\\_biznes\\_podvodit\\_itogi\\_2020go\\_ozhidaet\\_stabilnosti\\_i\\_kachestvennyh\\_reform\\_](http://www.abc.kg/ru/news/abc/5446_biznes_podvodit_itogi_2020go_ozhidaet_stabilnosti_i_kachestvennyh_reform_)