

9. National Investment Fund

July 27, 2005

National Investment Fund representatives:

Mrs. Zeinulla Kakimzhanov, Chairman

Mr. Timur Zhakselekov, Board Member

Summary

The Investment Fund of Kazakhstan (the Fund) is a national development institution. The Fund was established in July 2003 and is a wholly state owned joint-stock company. The Fund's capital equals 28.9 billion tenge (more than USD 220 million). The Kazakhstan government plans to further increase the capitalization of the Fund.

The Fund believes that successful project implementation requires a strategic partner (an investor or a group of investors) with a sufficient level of project organization, marketing and technological background to run the project and to control more than 50% of shares. As manufacturing processes in many industries such as glass, chemical and petrochemical, require the application of know-how and technological management the Fund is undoubtedly interested in a foreign strategic investor with sufficient experience and capabilities. Investment in shareholder capital by the Fund and other shareholders at different stages of project implementation can be supplemented with other financing sources including bond issues, bank loans, syndicated loans, lease agreements and export financing agency loans. As a private equity player, the Fund shares the risks and rewards of projects through participation in shareholder capital. The Fund helps strategic partners mitigate local risks and coordinates interaction with government agencies, and other private market players in the region. Once a project passes realization stage and reaches a stable sales and production level, the Fund exits the project via selling its stake to strategic partners, co-shareholders or portfolio investors.

The Fund analyzes the following areas when preparing a project:

- † Asset profitability;
- † Existing management;
- † Project financial ratios.

Geographically, the Fund is able to work in and out of Kazakhstan. The Fund has already financed 14 projects for a total sum of \$70 million. This year the Fund defined priority projects for the production of float glass, ceramic tiles, steel straight-seam pipes, sorted rolled metal, cement, porous concrete products, new railroads, and to modernize a pickle plant. Demand exceeds supply, as the fund has many applications totaling \$4 billion. The Fund expects to launch 2-3 projects in Russia; one of which has already started.

Problems faced by the Fund:

- † Many companies do not reveal their real financial documents;
- † Companies prefer banks rather than the fund because they do not want sell their shares;
- † Imperfections in legislation. Previously, companies were able to develop well as legislation tended not to change very often. However, nowadays the government seems to correct legislation quite often in order to make "life for companies easier".

10. World Bank

July 28, 2005

World Bank representative:

Mr. Pedro L. Rodriguez, Senior Economist, Department of Poverty Reduction and Economic Management

Summary

In order to improve the business environment in Kazakhstan, the Government is currently working on the licensing law. One of the disadvantages of doing business in Kazakhstan are the "many different kinds of bureaucracy" faced. In Kazakhstan the World Bank is unable to act to its full ability due to the lack of even "basic statistical information on SMEs".

In Kyrgyzstan the World Bank is able to achieve much more. It has a number of vehicles to simplify business procedures. The World Bank has implemented a business development project in Kyrgyzstan for the economic clusters, out of this initiative there appeared a Center of Excellence project, which targeted big enterprises and presented a kind of link between organizations and universities.

In Kazakhstan the World Bank provides:

- 1) **Indirect credit lines for rural areas;**
- 2) **Research grant projects for SME;**
- 3) **Cooperation with customs** (similar to World Bank activities started in Russia in 2003. However it is believed that the customs situation in Kazakhstan is more serious than in Russia. Few complaints are ever made in Kazakhstan regarding customs' practices, as the corruption is "too widespread and organized" to allow for complaints to be heard. Several customs posts in Kazakhstan are completely autonomous even from the national customs authorities);
- 4) **Support to the Center for Marketing and Research** that works on seven business clusters for the Kazakhstan Government, with one of the core clusters being oil and gas. The World Bank supports this institution promoting SMEs that are able to become suppliers in this industry. However as of today "it is hard to imagine SMEs in ECU in RK".

The World Bank strategy for SME promotion in Kazakhstan is still being developed. Kazakhstan however is not very highly populated and 20 companies with comparatively few employees (KazMunayGas, KazTemirZholy, Ispat Karmet) account for the major bulk of the country's GDP. World Bank customers often ask for analyses of large conglomerates with many entities, which is difficult due to the large amount of work involved.

The World Bank has created a summary on legislation regarding investment constraints and SME promotion. However, there is very little information available on the market in terms of real business

constraints. The reason that a systematic survey on constraints may not be conducted is that even the very basic SME data in the Republic of Kazakhstan is of very poor quality. Even the most reliable database of the tax authorities has little valuable data, as the procedure for taxing SMEs has been simplified and the details available for them are not very revealing.

It is generally believed that the Kazakhstan fiscal authorities are predominantly interested in fines, rather than the systematic collection of tax.

The Bank works with the Kazakhstan associations supporting SMEs, but these associations do not coordinate their actions on a regular basis.

Problems:

- † Small number of SMEs due to the low population density;
- † Policy making timeframes are too short;
- † Frequent rotation of authorities in charge of SME development;
- † Organized corruption;
- † Low diversification of production;
- † Small numbers working in SMEs;
- † No real interest of the national authorities in SMEs.

Solutions:

- † Increased salaries;
- † Change in protocols;
- † Development of the supplier chain;
- † Promotion of fair competition.

Foreign companies working in Kazakhstan should take care of their property and land rights in the very beginning of their operations.

11. Alkor

July 28, 2005

"ALKOR" Ltd. Representatives:

Mr. Alexander Nestertsev, Director

Mrs. Svetlana Rubtsova, Finance Director

Summary

"ALKOR" Ltd. was created in 1996 at a former military production factory.

The primary objective of the enterprise today is to try to gain entry onto international markets, as it has serious problems in selling its products to its customers in Kazakhstan oil & gas sector. Most of such customers are represented by national companies. For example in 2003, 10% of Alkor's income came from state procurement contracts. In 2004 this number increased to 50% and is presently roughly 80%. However, Alkor is currently experiencing major problems with this system and has decided to attempt entry onto the global market.

ALKOR is the only company in Kazakhstan that has a branch abroad, ALKOR International, which is located in the Dubai free economic zone. It exports services and is planning to participate in the restoration of production in Iraq. Raw materials are supplied from companies that meet the required production standards, primarily from Russian and Ukrainian suppliers.

Problems:

- † **Unfair competition.** As ALKOR's customers are mostly joint ventures, Western management prefers to purchase equipment from foreign suppliers, with the main reason being the obstacles of "withdrawing money" from Kazakhstan. Foreign suppliers' products are more expensive, yet quality does not always match price.
- † **No innovative technology.** To all intents and purposes Kazakhstan imports outdated equipment and as a result its enterprises are less effective than their international counterparts.
- † **Corruption.** It is generally believed that a prerequisite for winning any contract is the payment of a bribe.
- † **Legislation base.** Tax, custom and currency laws are not well defined for export operations, particularly if a company wants to set up a representative office in a different country and start exporting its goods and services abroad. ("We are unable to invest in a representative office without bringing something back immediately. There are no banking mechanisms currently in force to support legal investment in foreign entities").

12. Business Advisory Services Program

July 28, 2005

Business Advisory Services Program representatives:

Mr. Zhanibek Suleimenov, National Director for Kazakhstan

Mr. Sergei Lyssenko, Project Officer

Summary

The Business Advisory Service Program (BASP), which is funded by Japan, was established in Kazakhstan in 2001 to facilitate the growth of small and medium enterprises through the provision of practical business advice. The BAS Program aims to assist locally-owned, private small and medium enterprises in Kazakhstan, to achieve their development and growth objectives. The ultimate goal is to strengthen the local SME market. To achieve this goal the BAS covers half of the consulting costs. Entrepreneurs can ask or apply for a BAS grant. The program achieves this by helping SMEs hire business consultants for advisory projects that enable the enterprises to enter new markets, improve internal operations and products, reduce operating costs, gain access to financing and plan future business operations. The BAS can help to organize the project. Small management teams in Tashkent and Almaty develop and initiate an average of 9 new projects per month.

To participate in a BAS program, enterprises should meet the following criteria:

- † Have between 10- 500 employees;
- † Be a local company, predominantly privately-owned;
- † Have been in business for at least 2 years, not a start-up;
- † Be financially viable, meaning all financial “secrets” should be disclosed, have stable growth and a business plan.

Mr. Suleimenov clarified that they do not work with companies engaged in property development or in the manufacture of strong alcoholic beverages. About 10% of BAS projects are conducted by international consultants. BAS assists chiefly in ISO Certification Projects. BAS assists its clients in selecting consultants, monitors project execution and assists in the appraisal of project results. It subsidizes up to 50% of the cost of a consulting project (excluding VAT) up to a maximum of \$10,000.

Typical BAS projects include:

- † Market research;
- † Choice and assessment of equipment;
- † Implementation of quality standards;
- † Improvement of MIS;

- † Improvement of accounting and control systems;
- † Enterprise reorganization and restructuring;
- † Branding projects;
- † ISO Certification, which is very popular among local companies.

The BAS does not fund audit, legal or taxation projects. The BAS Program supports SMEs by helping them to hire qualified business advisors.

The average cost for each project is about \$5,000 – 8,000. For example, ISO Certification costs \$10,000-11,000.

10 Step BAS Program:

- 1) **Initial meeting with a potential SME client:** BAS consultants are introduced to the enterprise, and the enterprise manager learns details of the Program.
- 2) **A potential client completes and submits an application:** the SME describes its business problem in a simple, 2-page application form.
- 3) **Enterprise visit:** BAS staff familiarize themselves first-hand with a potential client's operations.
- 4) **Discussion with client of project tasks and potential consultants:** following an internal approval procedure (max. 1 week), BAS staff provide guidance to the client on essential project elements.
- 5) **Client enterprise selects consultant:** the client chooses from a list of certified consulting firms (over 80% of consultants used are local).
- 6) **Drafting and signing of tripartite agreement:** BAS staff facilitates the drafting and signing of terms of reference, budget and standard agreement that are signed by the client, the consultant and the BAS Operations Leader. The BAS Program covers 50% of the project cost.
- 7) **Consultant works with client on project implementation:** immediately after signing the agreement, work begins on project tasks; BAS staff monitors progress. The client pays 50% of the project cost over the course of the project.
- 8) **Interim reports and presentations:** BAS staff attends key presentations and provides comments on the findings, conclusions and recommendations presented by the consultant.
- 9) **Following satisfactory project completion,** the BAS Program disburses its subsidies to cover 50% of the project cost. The BAS Program pays only when all tasks have been completed by the consultant satisfactorily.
- 10) **Completion report: one year after project completion,** BAS staff visit the client enterprise to assess the project results and the impact on the enterprise's business as a whole. BAS managers attend a final presentation, ask questions about qualitative and quantitative data.

The percentage of unsuccessful projects is very low. In case if BAS cannot support its client, we give them list of consulting companies. BAS has 3 offices in Kazakhstan (in the cities of Kostanay, Ust-Kamenogorsk, and Shymkent). There also will be office in Aktobe. Each office has one project officer. BAS helps to implement the project which can advance the company. Nowadays, "consulting" market is growing, and BAS helps companies with selecting consulting firms, etc.

Constraints that SMEs face during consultations:

- † One of the constraints is that local companies do not have a "transparent operational structure";
- † Decision making is usually the job of one individual, i.e. the owner; employees do not act until the boss makes a decision;
- † Another constraint is financial. Many companies do not budget for consulting services, because they do not believe in the economic value of such projects.
- † Distance. For example, a firm hires a consultant in Almaty. Then the Consultant has to travel 24 hours by train in order to meet with the consultant, and incurs substantial overhead costs.

13. ATF Bank

July 28, 2005

ATF Bank SME Department representatives:

Mrs. Shynar Dilmagambetova, Deputy Director

Mrs. Aliya Shynybayeva, Head of Methodology and Education Division

Summary

ATF Bank was established in 1995, while the Bank's SME Department was created 1.5 years ago as a means to finance SMEs. The Bank has successfully implemented the EBRD SME program, which means that employees working in ATF's SME department have been trained according to the EBRD program. The Bank selected a "universal" strategy to capture all market segments. ATF Bank is the 4th largest commercial bank with respect to asset volume of \$1.963 billion and shareholder equity of up to \$206.8 million. The bank's loan portfolio equals roughly \$1 billion.

Loan portfolio structure by segment:

- † Corporate Financing – 73%;
- † SME – 14%;
- † Retail customers – 12.5%.

The Bank began dividing its portfolio into these segments 2-3 years ago. The Bank defines a SME using the following criteria:

- † Company operates in the production of goods and services;
- † Maximum turnover - \$15million;
- † Maximum asset size - \$5million;
- † Maximum number of employees – 500.

Any company whose criteria exceed the above is upgraded to the corporate financing segment. The maximum that the bank can loan to a SME is \$1million. Only large companies, such as corporations in the corporate financing segment, can borrow a higher amount.

The SME Department has two divisions:

- 1) **Regional Coordination Division.** Controls work in the regions, travels remotely, meets with clients, hires employees and coordinates regional office work, etc.
- 2) **Methodological and Education Division.** Creates new procedures and new products. As of today 143 employees work in the SME department.

Loan Portfolio segments:

- † Express loans – up to \$5,000 (20%);
- † Micro credits – up to \$10,000 (5%);
- † Small credits – up to \$50,000 (25%);
- † Medium – up to \$200,000 (37%);
- † Large – up to \$500,000 (9%);
- † Mega – up to \$1,000,000 (4%).

The average loan amount is about \$17,000. Clients only default on 1% of this amount. In the early 1990s loan portfolio quality was very bad. However, over time the banking system and state of the economy increased, resulting in a much higher quality of loan portfolio.

Loan portfolio structure by time:

- † Up to 1 year – 24%
- † 1-3 years – 41%
- † 3-5 years – 15%
- † more than 5 years – 20%.

The proportion of loans in tenge is 33%, in dollars – 67%. Dollar loans are preferred by clients as the interest rate is lower and the loan period longer than for tenge loans. The minimum interest rate is 16% in USD, 20% in tenge. However, the loan rate for corporations may be reduced to 12%.

Loan portfolio structure per economy sector:

- † Trade;
- † Production of goods and services. The Bank is considering entering the agriculture sector but still considers it to be high risk.

The SME Department has to offer new product types to satisfy client needs as competitors create new products to gain market share. The SME department provides loans using the simplified procedure, which means that a client describes his business, and then a bank expert then appraises the collateral on site. Interest rates are higher than usual as the bank issues the loan quickly. The SME department provides other products such as franchising (not widely popular), overdraft (a % of turnover), factoring, guarantees and letters of credit. Clients requesting micro and express credit do not officially need to disclose the purpose of the loan.

14. Engineering and Technology Transfer Center

July 29, 2005

Engineering and Technology Transfer Center representative:

Mr. Bauyrzhan Abdrasilov, Director

Summary

The JSC "Engineering and Technology Transfer Center" was created in 2003 under the Ministry of Industry and Trade, with 100% of shares belonging to the Government. The aim of the center is to transfer technology, assist the commercialization of technical goods, and provide engineering services as well as research and development.

In accordance with this goal, the company has the following core activities:

- 1) **Provision of engineering services**, mainly for scientists, which includes the development of business plans, technical appraisals, the preparation of documentation to receive Government financing. The Center does not offer market research nor does it finance projects, which is the prerogative of the National Innovation Fund, National Investment Fund and Center for Marketing and Research.
- 2) **Development of a chain of regional and national technoparks** National parks are aimed at improving specific production clusters, while regional parks exist for the same function, but target regions (examples: Karaganda – metallurgy, Almaty- construction, IT park, Uralsk- oil etc.). The parks are organized on the basis of equity participation in a JSC, decisions are made by a board of directors. The Center's current main project is the construction of an **IT Park** in Almaty. The part territory will include an **education center** (training of IT specialists, innovation managers, language courses, and internship), a **technology database** (technology, innovations, scientists, investors). Upon completion the park will be controlled by the Ministry of Industry and Trade, Engineering and Technology Transfer Center and Information and Communication Agency.
- 3) **Preparation of innovation managers**. The Center helps scientists prepare business plans, organizes short-term courses and internships in foreign universities, invites innovation management specialists (it has standing contracts with Israel, France, Germany and Russia).

The Government provides money for the center's authorized capital. In the first year authorized capital was 100 million tenge and is now 4.2 billion tenge. The majority of expenses are covered by the government, while remaining expenses are covered through the renting out of technology park premises and the provision of engineering services. The cost depends on the project, while payments are made after the project has been realized. At present there are 40-50 projects in each park.

There are four main departments in the center:

- † Infrastructure department;
- † Financial projects department;
- † Technical expertise department;
- † Innovation management department.

The center employs 50-60 persons, with no more than 8 people in each department.

Government support

The Government supports the development of IT companies. In 2003 the Government adopted an Industrial Innovation Development Strategy until 2015, according to which a specialeconomic zone was created to provide tax, customs and currency concessions. The Program for the anti-monopolization of telecommunications, the Program for the Creation of Electronic Government will involve all of Kazakhstan's IT companies and will ultimately support their development.

In accordance with the Resolution of the Government of the Republic of Kazakhstan dated July 19, 2005 the Engineering and Technology Transfer Center will join forces with the National Innovation Fund. The center is currently waiting for an Order of the State Property Committee and a meeting to be held on August 4 where unification details will be discussed.

Opportunities for cooperation with JICA

The center needs assistance in:

- † Training employees;
- † Creating databases (including IT education opportunities);
- † Developing infrastructure;
- † Providing technology expertise;
- † Partially financing projects.

15. Forum of Entrepreneurs of Kazakhstan

July 29, 2005

Forum of Kazakhstan Entrepreneurs representative:

Mr. Raimbek Batalov, Chairman

Summary

The Forum of Kazakhstan Entrepreneurs is the largest, oldest and most independent organization in Kazakhstan protecting entrepreneurial activities. It is run on a national level and its purpose is to unite all regional associations and represent their interests with the Government of the Republic of Kazakhstan. It also coordinates work on tax and customs issues. Another aim of the Forum is to ensure that the activities of associations are more coordinated and efficient. Currently there are 70 active regional and local associations working with the Forum. The head office is in Astana, with representative offices in all regions. The Forum participates in all expert councils at akimat (municipal government), ministry, regional organization and SME commission level. Almost 30 people receive income directly from the Forum, while the each representative office employs between 7-8 people.

The Forum is working on decreasing bureaucracy, which is the largest problem preventing SME development.

These bureaucracy problems are due to three levels of legislation:

- † Laws that need change (Administrative Code, Tax and Customs Code).
- † Normative documents of the Government and Ministries.
- † Normative documents at the regional executive level.

The Law on Private Entrepreneurial Activities is currently being drawn up, and is a very important tool in the consideration of several principal questions, such as:

- 1) **Association membership conditions for businesses, the financing of these associations and national associations lobbying for SME interests.** The main objective of the Forum is to develop the framework for associations, so that they are able to provide professional services.
- 2) **Accreditation of associations in official organizations.** The Government insists on having accreditation criteria, such as work experience, work results, the number of enterprises in a particular association, to prevent the appearance of new small associations.
- 3) **Creation of expert councils of entrepreneurs in official organizations for all regions.** They should be created by akimats and ministries as part of the supervisory bodies (financial police, tax inspections, public prosecution offices) in all 16 regions, approved by the Minister and recommended by public associations. According to the Law on Private Entrepreneurial Activities all official organizations should consult with the Expert Council on any new laws

and documents relating to entrepreneurial activities. The main objective of the Council is to evaluate the performance of officials, systemize the creation of laws and involve SMEs in this process. The Council is made up of national organizations representing large companies, national organizations representing SMEs and associations representing different production sectors, so that when a new law is approved, the Government will take into account both the interests of large companies and SMEs. Company interests will be lobbied through Expert Councils, which will contribute to the reduction of certain bureaucratic activities, such as licensing. The Ministry of Economy, vice-president and the President of Kazakhstan support the Forum in its attempts to change the Law on Licensing. The centers are financed through members or grants.

- 4) **Inspections.** The Forum proposes to cut down the number of inspections SMEs are subject to:
 - ? General (once a year, with a site visit);
 - ? Internal (remote).
- 5) **Decrease in certification and licensing bureaucracy.**
- 6) **Decrease in undeclared business.** Certain laws and documents force businesses to work outside of the law resulting in high levels of corruption. Businesses require motivation to begin working inside the law. A so called "grey business" also exists in Kazakhstan, which is a situation where customs payments are decreased or products not shown at all for customs clearance purposes. Customs payments need to be systematized in order to improve this situation

Future directions of the Forum :

- 1) Cooperation with the Government in expanding programs for the development of the regions and clusters.
- 2) Cooperation with entrepreneurs in solving government and private business related problems.
- 3) Create and increase the number of Centers of Business Support in all regions of Kazakhstan with the help of the Small Entrepreneurial Activity Development Fund. The Centers will provide accounting, legal and micro-loan services to SMEs. The Centers differ from business incubators in that they do not lease offices. Almaty currently has between 10 and 13 centers and 1 incubator, while other cities have between 3 and 5 centers on average.

Possible directions of cooperation with JICA:

- 1) Japanese experience in creating the infrastructure for entrepreneurial support;
- 2) Financing support (organization of training, conferences, technical assistance);
- 3) Experience exchange in the organization of SME financing.

16. Union of Chambers of Commerce and Industry

July 29, 2005

Union of Chambers of Commerce and Industry of the Republic of Kazakhstan representative:

Mr. Kairat Sadvakassov, Advisor to the President

Summary

The Chambers of Commerce and Industry (CCI) have traditionally targeted the integration of trade, production and service enterprises and associations. The predecessors of the chambers were guilds of medieval tradesmen and handicraftsmen. The common objective of chambers throughout the world is to protect business interests and provide assistance to companies. The Charter of the CCI was adopted in 1985 and stipulated the expansion of services in foreign commerce, including the attestation of certificates of origin, examination of goods, the organization of exhibitions abroad, the development of information services, assistance with patents etc. In 1995 the CCI of Kazakhstan was re-registered in accordance with the Law of the Republic of Kazakhstan "On Public Associations". A fundamental change in organizational structure took place in 1999 when the branches of the CCI were re-organized into regional chambers of commerce and industry in the form of public associations.

Local chambers (14 regional and 4 municipal chambers) have founded the Union of the CCI of Kazakhstan to be the coordinating agency and union of non-profit organizations. As a result, the effective system of chambers in Kazakhstan has been created in order to work in new economic conditions. Following the adoption of the Law of the Republic of Kazakhstan "On the Chambers of Commerce and Industry" dated May 3, 2005, the CCIs are recognized as independent non-profit and non-governmental organizations.

The Chamber of Commerce and Industry provides a number of expert and inspection services, advice on foreign-economic activity, customs broker services, origin inspection, customs value services.

The following is the list of services provided for businesses:

- † Inspection of the quantity, quality and batching of imported and exported goods, materials and equipment;
- † Inspection of the origin of goods;
- † Confirmation of the fair market value of imported and exported goods for customs and taxation purposes;
- † Classification of goods according to international foreign-economic activity codes;
- † Preloading inspections;
- † Independent evaluation of the quality of damaged and out-of-date assets;
- † Origin certification (domestic producers);
- † Maintenance of a register of reliable enterprises;
- † Confirmation of invoices, foreign trade documents;

- † Appraisal activity (real estate, equipment, means of transport, damage caused, etc.).
- † Development and assistance in trade mark registration;
- † Translation services;
- † Visa support;
- † Assistance in the organization of exhibitions, fairs, business-forums and conferences, diplomatic missions, seminars;
- † Information services on business partners, search for goods and services among Kazakhstan and foreign enterprises;
- † Participation at virtual exhibitions, publication of the information bulletin, "Kazpal";
- † Market research;
- † Product certification;
- † Interaction with local and national agencies;
- † Consulting services on business organization, consideration of arbitration disputes.

The following CCI business functions and possibilities are currently being planned:

- † Creation of support centers for small-scale and medium-scale business as well as legal support centers in all regions of the country;
- † Creation of an information system for entrepreneurial support, a remote consulting system through support centers;
- † Adoption of a Carnet ATA system for the temporary import of exhibition goods, professional equipment and other purposes as well as other international simplified commercial procedures;
- † Improvements to consumer control and protection systems with respect to the import of low-quality products and merchandise;
- † Introduction of management quality systems at enterprises, state organs and national companies;
- † Creation of particular CCI enterprises and structures to realize inspection fairs and information activity according to international standards.

The legal status of arbitration courts in Kazakhstan is regulated by the Laws "On Arbitration Courts", "On International Commercial Arbitration" from December 2004, as well as "On the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan Regarding Arbitration Courts and Tribunals".

There is little doubt that the above laws will enable economic disputes to be resolved, namely through arbitration.

The advantages of Arbitration Courts over Courts of Common Jurisdiction are:

- † Speed and economy of the process;
- † Objectivity when settling disputes;
- † Flexible system of arbitration fee payment;
- † Choice in the location and time for the resolution of a dispute;
- † Confidentiality of an arbitration investigation and other advantages.

The country's participation in various international conventions and agreements that regulate arbitration issues promotes the execution of arbitration decisions. These conventions include: the 1958 New York Convention "On the acknowledgement and execution of foreign arbitration decisions", the 1961 European Convention on external trade arbitration; and other interstate CIS agreements.

There are currently 15 courts of arbitration, including the acting international court of arbitration of the Chamber of Commerce and Industry of the Republic of Kazakhstan (hereafter referred to as the International Court of Arbitration).

The International Court of Arbitration carries out its activities according to its Regulations, the Rules on the arbitration expenses and other related court documents.

The International Court of Arbitration treats disputes according to domestic rules, international law, as well as according to the law of another country if a non-resident is a participant in a dispute.

Arbitration fees in US dollars are as follows:

Price of the claim	Arbitration fee
To 10,000	3%, but not less than 250
From 10,000 to 50,000	400 +2.5% of the sum, exceeding 10,000
From 50,000 to 100,000	1,000 +2.3% of the sum, exceeding 30,000
From 100,000 to 300,000	3,500 +2% of the sum, exceeding 100,000
From 300,000 to 500,000	9,000 +1.8% of the sum, exceeding 300,000
From 500,000 to 1,000,000	15,000 +1.5% of the sum, exceeding 500,000
From 1,000,000 to 5,000,000	30,000 +1% of the sum, exceeding 1,000,000
From 5,000,000 to 10,000,000	90,000 +0.75% of the sum, exceeding 5,000,000
From 10,000,000 and more	105,000 +0.3% of the sum, exceeding 10,000,000

The Law "On Chambers of Commerce and Industry" states that only regional Chambers of Commerce and Industry may be members of the Chamber of Commerce and Industry of the Republic of Kazakhstan.

Members of the Chamber of Commerce and Industry of the Republic of Kazakhstan have the right to participate in general meetings, to elect and to be elected to the Chamber's managing boards, to receive assistance in matters related to the Chamber's activities.

Individual businessmen, legal entities, as well as associations (unions) may be members of regional Chambers of Commerce and Industry; and may also be partners of the Chamber of Commerce and Industry of the Republic of Kazakhstan.

Existing barriers for SME development:

- † **Bureaucratic system is too complex**, individuals are forced to apply for a large number of licenses to conduct business in different parts of the country (over 1,000);
- † **High tax rates** hinder business development. SMEs have to pay half of their profit in tax.
- † **Control**. About 50 controlling committees exist on the national level, plus a number of local inspectorates. Every week at least one committee visits a SME for any number of inspections.
- † **Legislative system is very difficult to understand**. Legislation is changing constantly, while businessmen only hear about updates after a certain time.
- † **Complex loan taking procedures**. Many documents need to be collected in order to qualify for a loan. Interest rates are unreasonably high.

The CCI works hard to help the development of business in Kazakhstan. It has analyzed the country's business environment and published business constraint reports that are currently in public circulation.

The CCI is planning to open a website where all entrepreneurs will be able to read about changes to legislation, ask questions, learn how to start a business and the procedures involved etc. The CCI representative clarified the reason why website was created, stating that the CCI currently uses its resources relatively ineffectively to write brochures, print them and distribute them throughout the country. The website will reduce these costs, while SMEs will easily be able to read legislation updates almost anywhere

17. Small Entrepreneurial Activity Development Fund

July 29, 2005

Small Entrepreneurial Activity Development Fund representatives:

Mr. Beket Kopbossynov, Managing Director

Mrs. Zauze Bitimbayeva, Chief Expert, Investments and External Loans Department

Summary

The Small Entrepreneurial Activity Development Fund, which was created in 1997 as a Joint Stock Company with 100% of shares belonging to the Government, is a financial organization supporting SMEs through the provision of loans. The Fund's authorized capital equals 18 billion tenge. It has 14 branches in all regions of the country plus one representation in Astana. The head office in Almaty employs 150 people, while the branches employ between 5 and 7 people.

To begin with the agency transferred loans provided by the Asian Bank for Reconstruction and Development and the European Bank for Reconstruction and Development to SMEs at low interest rates through second level banks.

SMEs in Kazakhstan should have no more than 50 employees and no more than 40,000 USD of assets. In 1997 the banking system and technology in Kazakhstan was considered to still be very weak, which is why banks gave loans only to big companies and projects. The EBRD program provided a credit line of 77.5 million dollars, of which 2.5 million dollars were used for training, as SME micro-loans, and worked in almost all regions of Kazakhstan.

The results of the EBRD program were:

- † Banks learned how to work with micro-loans;
- † Weak banks disappeared (in 1994 there were 250 banks in Kazakhstan, now there are 34, of which 12 work with the EBRD program).

The program has now been finished, however banks still use the universal templates it formerly provided.

Since 2002 the Fund has had the opportunity to provide loans to SMEs directly through several micro-loan programs, where loans are offered at between 7%-12% interest per year, with maturity of no more than 5 years and a grace period of 1-2 years. In comparison banks offer 20%-28% interest and maturity of 1-3 years. Most loans are provided by second level banks, while the Fund has only 3%-4% of shares, which is why it is unable to influence bank loan conditions.

The Fund has one program for the development of small towns that offers a 7% interest rate and 1.5 billion tenge of capital. A second program provides loans to production companies at 10% interest and a third program to trade companies at 12% interest.

In recent years the Government has borrowed on the experience of enterprises development from other countries. In accordance with an Industrial Innovation and Development Strategy, the Government has adopted SME support program.

This SME support program has three objectives:

1. **Credit guarantee;**
2. **Project financing;**
3. **Development of micro-loan organizations**

The government provided 30 million tenge for 2005-2007 (10 million per year) in order to implement the program. On January 1, 2005 the Government gave 1,500 billion tenge to be allocated to all organizations, of which 288 billion went to SMEs.

Cooperation with JICA

The Fund is interested in assisting projects to develop the production business, technology and in bank interest rate reduction programs. The main clusters for JICA cooperation are textile, tourism and agricultural product processing.

18. Enterprise Development Project

July 29, 2005

Enterprise Development Project representatives:

Mr. Ronald Ashkin, Chief of Party

Mr. Edward Nemeroff, Senior Advisor, ISO

Summary

The Enterprise Development Project (EDP) is a USAID project, implemented by The Pragma Corporation. In order to assist in USAID's goal of creating pluralism and stability among the people and institutions of Central Asia, the EDP project is concerned with expanding opportunities for the participation, livelihood and quality of life for the citizens of the five Central Asian republics: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. This they do by enhancing the competitiveness and managerial capabilities of small and medium-sized enterprises (SME's).

Enterprise Development Centers are operating in twelve locations throughout Central Asia. The EDP works with hundreds of partner organizations to maximize the scope of client services, and employs over two hundred staff.

With their vast experience of serving hundreds of SME clients, the EDP is able to offer practical solutions across a range of business functions. The EDP understands business needs and has the expertise to generate results.

Every client should fit the following basic criteria:

- † Be at least 75% privately owned;
- † Be at least 63% locally owned by citizens of Central Asia;
- † Employ between 5 and 500 staff;
- † Not be involved in the production of alcoholic products;
- † Have gone through the Strategic Action Planning process together with an EDP Relationship Manager. This process includes developing a company vision, setting goals and objectives; identifying issues and problems, developing strategies to overcome issues and problems, and creating an action plan. Results are constantly monitored and controlled throughout the consulting process. The EDP has 12 offices in Central Asia, while 2 additional offices will be opened in the coming months.

The EDP also provides trade advisory services to all companies registered in Central Asia, and likewise works in association development, the creation and support of business associations in Central Asia. The aim is to provide entrepreneurs with the tools to improve and promote their interests at all levels.

The Association Development Program's activities focus on association development consulting and grant support. The program provides continuous one-on-one technical assistance to partner business associations. The association development relationship manager conducts an in depth assessment of the association and formulates a strategic action plan that focuses on resolving issues hindering financial sustainability. The implementation of a strategic action plan is monitored by an analysis of key monitoring ratios and indices, assistance in the development of associations.

Accounting reform is another area in which the EDP is active. Through an accounting reform program the EDP supports the adoption and implementation of market economy enterprise accounting. This will foster enterprise efficiency, economic growth and regional economic integration. The project addresses this goal with three complementary initiatives: full adoption of both International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) and International Standards on Audit (ISA), training, testing and the certification of professional accountants, and support for independent professional accounting and auditing organizations.

The Quality Management Center within the EDP assists enterprises in implementing quality management systems making them more competitive and profitable. The QMC provides quality training and consulting services that meet and exceed the expectations of its client organizations as they strive for compliance to international standards. The Quality Management Center operates according to a quality management system that complies with ISO 9001:2000 requirements. Co-financing of the Center comes from the United States Agency for International Development (USAID) and partly from multinational companies.

These companies originally paid QMC to help their local suppliers receive international certification. Initially oil companies did not require ISO Certification. Oil companies offered their vendors to pay for educating their people and passing them through QMC certification. In 2001 local companies were under pressure to obtain ISO Certification, while only the State Standard Committee was authorized to perform ISO Certification. Now 317 Kazakhstan companies have ISO Certification and 5 international companies work in Kazakhstan. The EDP has worked with 30 oil company vendors.

The largest business environment problem in Kazakhstan is believed to be corruption. The overall business mentality in Kazakhstan still carries "soviet baggage", and corruption is only increasing, resulting in business people preferring to pay a bribe rather than taking the official path.

In addition SMEs do not have effective access to loans.

In order to start a business, a series of permits and licenses have to be obtained, while numerous inspection committees pay frequent visits to SMEs. These visits have a tendency to slow down SME development rather than ensure compliance with legislation.

19. Trade Facilitation and Investment Project, Reduction of Investment Constraints

August 8, 2005

TFI, Pragma Corporation representative:

Mr. Sergey V. Pizikov, National Director of Regional RIC Programs

Summary

One of the TFI projects is the Reduction of Investment Constraints (RIC), within which the TFI works with national governments, selects oblast and city administrations and private sector business groups and associations to analyze and reduce regulatory and bureaucratic constraints of trade, investment and business development.

The main investment constraint here is believed to be the legislative system, which allows for multiple loopholes. Naturally, this barrier can be reduced by amending existing laws or legislative acts, and TFI has a team at the national level working with legislative acts, analyzing the current system, and identifying problems to be resolved. Sergey Pizikov however works at a regional level and conducts market research by interviewing local entrepreneurs. The largest issues are:

- † **Problems with real estate and construction of new buildings.**
- † **Certification problems**, especially food certification. The certification process and its cost are the same for all types of enterprises, independent of their size. Each production quantity should be certified.
- † **Licensing problems.** The current law has been amended meaning companies are no longer forced to travel to Astara for a license, which they can get from the regional authorities. However, a license is only valid in the region where it was issued. For example, if a construction company wants to construct something in another region it should obtain a license for that region.
- † **Multiple Inspections.**

In terms of available SME statistics, Mr. Pizikov mentioned 3 databases, which, unfortunately, do not concur with each other:

- † **Ministry of Justice database**, where registered enterprises are listed (legal bodies except private entrepreneurs).
- † **State Statistical Agency database**, which is quite unreliable, due to the fact that one enterprise may be shown twice
- † **Tax Committee database** shows the most accurate SME figures. However, even this database can show the same unique taxpayer identification number (RNN) for several enterprises at the same time.

The best way to acquire reliable information on SMEs in Kazakhstan is to combine the data from all three databases.

Mr. Pizikov mentioned problems with the receipt of loans:

- † High interest rates;
- † Strict real estate appraisal conditions;
- † The LTV (loan to value) ratio is 40-50% of the real estate's market value;
- † Banks in general do not give loans to start-ups.

Mr. Pizikov thinks that in terms of taxation, the national government has done a satisfactory job in decreasing tax rates and in offering tax concessions to enterprises. However, excessive formalities are still seriously impeding SME development.

20. Trade Facilitation and Investment Project, Chair of Party

August 8, 2005

TFI, Pragma Corporation representative:

Mr. Kelly Seibold, Chair of Party

Summary

The Trade Facilitation and Investment Project is funded by USAID and implemented by the Pragma Corporation. The aim of the project is to improve the trade and investment environment for small and medium enterprises. To accomplish this goal project activities focus on the reduction of investment constraints, trade facilitation, accession to and active participation in the WTO and adopting international practices in the fields of metrology, accreditation, standardization and quality.

Largest constraints:

- 1) **Permit regime, business registration, license procurement;**
- 2) **Land related problems:** land use, building, land development, exploitation, urban issues ;
- 3) **Inspections;**
- 4) **Tax issues.** The TFI does not get involved in this problem. It is not a simple issue.

The TFI works with associations at global, national, regional and akimat levels and is helping to strengthen their support. The TFI has partnership agreements with associations, and is financed by USAID. The TFI project is to be closed as initially the project had been planned for 5 years, but Mr. Seibold believes that in some aspects it may be extended, e.g. a program on "E-governance". The focus initially will be on E-procurement.

One of the most important directions of TFI Project activities is the provision of technical assistance to the Kazakhstan government in their application for accession to the WTO. Accession to the WTO will integrate the countries of Central Asia into the international trading system, open new markets to their products and services and permit them to effectively promote their economic trade interests on the global market. Kazakhstan hopes to become a member of the WTO by the middle of 2006.

21. Trade Facilitation and Investment Project, E-Governance

August 8, 2005

TFI, Pragma Corporation representative:

Mr. Andrew Beklemishev, TFI Consultant

Summary

Andrew Beklemishev is responsible for ICT matters, despite the TFI not carrying out many ICT projects. He is also one of the authors of the "E-governance concept", and is currently working on the E-governance project, in particular on the implementation of E-procurement. The state procurement system is currently quite unclear, and by setting up an electronic bidding system for standard items (paper, gas, etc.) through an Internet site, the Kazakhstan Government hopes to reduce costs through competition and decrease the overall level of corruption.

The Kazakhstan Government (and its companies) spends about \$3 billion per annum on state procurements, and is a major player on the local market. The Idea of E-procurement was proposed in 2002. Basically, E-Procurement involves automated purchasing systems using internet-based software applications. For example, a common Web browser user can log into an E-Procurement system to view vendor offerings and catalogues, and place orders.

E-Procurement is a step above the open marketplaces or shopping malls commonly found on the Internet. An E-Procurement network typically uses sophisticated technology that provides a secure marketplace, sales platform and transaction tracking system available only to selected buyers and suppliers.

E-procurement can decrease costs and save up to 70% of budget funds allocated for acquired goods. This system has already been created. The plan is that it will only be used with respect to certain standard goods, but pre-qualification procedures for all other tenders will also be performed on-line. It is planned that all information on those entrepreneurs who have been long-listed for tenders will be checked on-line, which will significantly reduce the time and effort otherwise needed to collect the necessary paperwork. All entrepreneurs will pass tender pre-qualification on-line, after which all companies admitted will have an equal chance of participating in state tenders.

22. Trade Facilitation and Investment Project, International Trade and Customs

TFI, Pragma Corporation representatives:

Mr. Douglas J. Cruinckshank, TFI Regional Director

Mrs. Zhannat Rakhimzhanova, International Trade and Customs Advisor, TFI

Summary

The Trade Facilitation and Customs Component of the TFI Project focuses on making it easier for businesses to deliver their products to a local market, and includes a trade and customs development element.

Trade Facilitation and Investment Project:

- † Provides expert assistance to governments and business associations working towards modernization of the country's legal and regulatory frameworks by ensuring that new customs legislation is developed in accordance with international standards and best practices
- † Identifies alternative ways to facilitate trade and transit and to remove barriers to the cross border movement of goods and conveyances in the region
- † Provides assistance to the development of trade services to importers and exporters such as customs brokers and freight forwarders.

Recent activities of this mission in Kazakhstan include:

- † Technical advice and support in the development and adoption of a new Customs Code in the Republic of Kazakhstan
- † Development and publication of an International Trade Guide and Integrated Tariff System for Kazakhstan, and electronic publication of the Guide
- † Assistance and support for the creation of Customs Consultative Councils, which serve to facilitate dialogue between customs officials, traders and other stakeholders, as well as resolve trade-related issues.

Experts believe the Custom Committee of the Republic of Kazakhstan started to seriously improve its operations between 2 and 3 years ago. Their first priority was to improve its Human Resource Management System. Employee performance was evaluated thoroughly and promotion was based on individual performance. People dismissed for corruption were not allowed to return 3 months later to higher positions. The second priority was to increase salaries. Custom Officials are unable to support themselves and families on their official income, which sometimes was the equivalent of less than 10 dollars per month. The TFI also supported the creation of Consultative Councils in Kazakhstan. There are 27 Councils in Kazakhstan today, located at each entry point into the country, including sea ports and international airports. Certain regional Councils are very successful, with the Aktobe Council

considered to be the country's leader. The most effective Council in Central Asia is believed to be in Bishkek.

The main tasks of trade and customs promotion as of today are believed to be as follows:

- † Simplification of customs control on the border
- † Reduction of barriers to border crossings
- † Development of a tiered transit system facilitation mechanism, conference organization

The latest conference on the topic organized by the TFI featured 16 Central Asian countries, Turkey and all CIS countries.

- † Cost market analysis for transit routes

The Ministry of Trade of the Republic of Kazakhstan has only vague information on the cost structure of trade operations, and the TFI is assisting in the plotting of transit routes and the calculation of real costs as incurred by traders, including illicit payments. Much useful and practical information has been discovered along the way, for example the maximum weight of a truck in Kazakhstan is 40 tones, of which 28 tones accounts for the cargo. However by means of making an unofficial payment of 25,000 USD the maximum weight may be increased, which proves to be profitable for both shippers and the authorities, yet damaging for the country's roads and reputation.

- † Intellectual property promotion
- † Customs brokerage promotion
- † Joint border control projects
- † Other initiatives

One of the main problems that entrepreneurs face when trading in the country is the lack of reliable information on external trade policy and customs procedures. Very often information either comes from unreliable sources or is seriously outdated, due to frequent changes made to legal documents that regulate foreign trade relations. Inaccessibility of information for traders puts them at a disadvantage against government officials, which results in corruptive practices.

For this reason, the Kazakhstan Customs Control Agency, together with the USAID funded Trade Facilitation and Investment Project, the "Center for Small Business" Association of the Western Kazakhstan oblast, with the technical assistance of the private company "InCom" and with the financial support of the OSCE and EurAsia Foundation Almaty offices, have made an attempt to develop a document that describes simply and understandably the procedure for conducting business in the Republic of Kazakhstan, and offers tools useful for those involved in business. The Trade guide provides explanations on key trade and customs related issues such as import/export operations, customs valuations, countries of origin, customs clearance and customs control etc. Information in the guide is presented in very simple and comprehensive language, which positively distinguishes it from the legal language used in various decrees and instructions. Special attention has been paid to constantly updating these guides and openly providing them to the public at no cost.

Another significant problem is that when crossing the border shippers have to undergo the same control procedures with the authorities of the country they are exiting as with the one they are entering. In Kazakhstan five control authorities need to stamp transit checklists accompanying cargo. The sanitary inspection at customs posts usually does not have the laboratory facilities to check cargo, yet it has to certify that sanitary provisions for a specific load have been met. Sometimes shippers are required to store cargo in temporary customs warehouses that have very high daily rental costs, thus potentially increasing the border transit duration period significantly and creating a favorable environment for corruptive practices.

Since October 2002 the TFI, together with the Customs Control Committee, has been very actively involved in studying the experience of customs operations at the Polish-German and American-Canadian borders, which have installed a reliable practice of both countries checking transit goods either together in one team, or at entry points only, or even splitting the work between the two customs teams, with one doing the paper checks and the other conducting only physical examinations. This type of system was planned at the Kazakhstan-Kyrgyzstan border. However, due to the recent political events in Kyrgyzstan, the Kazakhstan customs authorities have so far decided against lowering control procedures at this border. A similar pilot initiative at the Russian border however is gaining pace and should be promoted further.

The current situation has significantly improved, and customs posts predominantly seem to be operating on the one day rule, which means that shippers are able to cross the border in under 24 hours. TFI representatives believe that one of the key reasons for the serious improvements is the political good will of the Government and the proactive approach of the Customs Control Committee. Certain problems still exist in the areas of information exchange (all five customs authorities have independent databases and are reluctant to integrate) and the authorities' constant quest to develop ideal business processes and information databases in as short a period of time as possible (the TFI believes in the need to implement developed solutions and correct them through trial and error).

TFI representatives have expressed considerable interest in meeting the second JICA delegation in Astana and developing guidelines for joint cooperation in the area of customs and trade promotion, particularly in the areas of WTO integration, customs auditing methodology, and risk assessment. TFI experts have accumulated significant experience in this field and intend to dissolve the Kazakhstan mission in less than one year. The TFI is ready to share its knowledge and research papers with JICA, which is only entering this market. TFI experts have experience in working with JICA on previous projects here in Kazakhstan and would like to continue this cooperation.

Mrs. Rakhimzhanova (zhanna@pragma.kz) is permanently based in Astana and would be happy to meet the JICA team and answer any additional questions.

Attachment 3: Selected Information Sources

?	Name	URL / Details
Internet resources		
1	Almaty Association of Entrepreneurs(rus)	www.aackz.com
2	Central Asian Trade Guide	www.ca-trade.com/kz.htm
3	SME Development in Kazakhstan	www.iimp.kz
4	Government programs for small and medium-businesses development	www.government.kz
5	International Donors	www.un.kz
6	ITECA	www.iteca.kz
7	Kazakhstan Association of Business Incubators and Innovation Centers to create the Information-Marketing Center	www.kabic.kz
8	KazExpo	www.kazexpo/vistavki.htm
9	Law of the Republic of Kazakhstan on Microlending Organizations	www.microfinancegateway.org/resource_centers
10	SME Department of Almaty City Hall	www.dmb.escort.kz/index.shtml
11	Kazakhstan economy on statistical indices (rus)	www.stat.kz
12	Statistics on loans given to SME by second level banks	www.nationalbank.kz
13	TFI Annual report for the contract year June 1, 2004 – May 31, 2005	www.usaid.org
14	Types of loans offered by NurBank	www.nurbank.kz
15	USAID	www.smetradecenter.net/info/kz/
16	World Trade Organization	www.wto.kz

?	Name	URL / Details
Publications		
1	Central Asia at the Crossroads of Foreign Trade- Opportunities and Challenges	International Trade Centre, UNCTAD/WTO publication (July 2003)
2	CIS Capital Market Financial Overview	Ernst & Young publication (2005)
3	Digest of SME Statistics	USAID publication (2005)
4	Diversification of the Kazakhstan Economy through Cluster Development In the Non-Extraction Economic Sectors	Report of J.E. Austin Associates, Inc., in association with the Economic Competitiveness Group
5	Doing Business In Kazakhstan: A Country Commercial Guide for U.S. Companies	U.S. & Foreign Commercial Service and U.S. Department of State (2004)
6	Financial Loan Support for Small Entrepreneurial Activities. Methodical recommendations for entrepreneurs (rus)	Ministry of Industry and Trade of Republic of Kazakhstan. SME Support Committee publication(2004)
7	Increase in the Innovation Activity of Entrepreneurs through Development Institutions. Methodical recommendations for entrepreneurs (rus)	Ministry of Industry and Trade of Republic of Kazakhstan. SME Support Committee publication(2004)
8	Kazakhstan Business and Investment Guide	Ernst & Young publication (February 2005)
9	Kazakhstan Market is Waiting for You	Union of Chambers of Commerce and Industry of the Republic of Kazakhstan publications (2002)
10	Kazakhstan Oil and Gas Tax Guide	Ernst & Young publication (2005 edition)
11	Kazakhstan Tax Calendar	Ernst & Young publication
12	Kazakhstan Tax Code	
13	Partnership Program News	USAID Publication(2005)
14	Republic of Kazakhstan. Getting Competitive, Staying Competitive: The Challenge of Managing Kazakhstan's Oil Boom	The World Bank publication (March 2005)
15	SME Development in Central Asia	SME Development in Central Asia (Kazakhstan, Kyrgyzstan, Uzbekistan): constraints, cultural aspects and role of international assistance by Wojciech Hubner
16	Tax and Customs Regulation of Small Entrepreneurial Activities. Methodical recommendations for entrepreneurs (rus)	Ministry of Industry and Trade of Republic of Kazakhstan. SME Support Committee publication(2004)
17	Towards a More Sustainable and Competitive Kazakhstan	World Bank publication (August 2004)
18	Trade Facilitation and Investment Project	Trade Facilitation and Investment Project Annual Report/eleventh quarterly report, for the period June 1, 2003 – May 31, 2004
19	USAID/CAR SME Value Creation	Pragma Corporation presentation (April 2005)
20	Venture Financing of Small Entrepreneurial Activities Methodical recommendations for entrepreneurs (rus)	Ministry of Industry and Trade of Republic of Kazakhstan. SME Support Committee publication(2004)

Attachment 4: Glossary of Terminology and Abbreviations

Terminology	Abbreviation	Definition
Almaty Association of Entrepreneurs	AAE	Not applicable
Asian Bank of Reconstruction and Development	ABRD	Not applicable
Akimat	Akimat	Regional Government
Almaty Business Incubator	AMBI	Not applicable
Almaty Trade and Finance Bank	ATF Bank	Not applicable
Almaty Technology Park	ATP	Not applicable
American Chamber of Commerce	AmCham	Not applicable
Business Advisory Service Program	BASP	Program established in Kazakhstan in 2001 to facilitate the growth of small and medium enterprises through the provision of practical business advice funded by Japan.
Centralized Accounting Department	CAD	Department of the Almaty Business Incubator that helps entrepreneurs to solve problems with the tax and statistical committees, etc. CAD provides 3 types of reporting: tax, ecology, statistical committees.
Chambers of Commerce and Industry	CCI	Not applicable
Center for International Private Enterprise	CIPE	Not applicable
Centralized Legal Group	CLG	CLG is a service department inside the Almaty Business Incubator. CLG opens, closes companies, and protects the rights of entrepreneurs.
The U.S. Civilian Research and Development Foundation	CRDF	The CRDF is a nonprofit organization that promotes international scientific and technical collaboration.

Terminology	Abbreviation	Definition
European Bank for Reconstruction and Development	EBRD	Not applicable
Enterprise Development Project	EDP	Project aiming to create a favorable environment for the growth of SMEs by reducing barriers to trade and investment
Development Credit in the Bureau for Economic Growth, Agriculture, and Trade	EGAT/DC	The USAID Office of Development Credit in the Bureau for Economic Growth, Agriculture, and Trade (EGAT/DC) is responsible for managing USAID's credit programs.
Electronic Government	E-Government	Not applicable
Foreign Direct Investments	FDI	Not applicable
Foreign Investors' Council	FIC	Not applicable
Fund to Support Entrepreneurial Activities and Innovation	FSEI	Not applicable
International Academy of Business	IAB	Not applicable
Information and Communications Technology	ICT	Not applicable
Information-Marketing center	IMC	The Information-Marketing center works as a part of KABIIC to influence management processes, to improve the quality of production and the competitiveness of its clients' products on the market, and thereby increasing their profitability and overall effectiveness
International Taxation and Investment Council	ITIC	Not applicable
Kazakhstan Association of Business Incubators and Innovation Centers	KABIIC	Not applicable
Investment Fund of Kazakhstan	KazInvest	Not applicable
Kazakhstan Custom Broker's Association	KCBA	Not applicable
Kazakhstan Deposit Insurance Fund	KDIF	Not applicable
Kazakhstan Electricity Grid Operating Company	KEGOC	Not applicable

Terminology	Abbreviation	Definition
Kazakhstan Institute of Management Economics and Strategic Research	KIMEP	Not applicable
Management Information Systems	MIS	Not applicable
Metrology, Accreditation, Standardization and Quality	MAS-Q	Component of TFI that focuses on improving trade facilitation and market access by creating awareness of international MASQ provisions and promoting the benefits of international standards and the mutual recognition of certification and accreditation results.
Master of Business Administration	MBA	Not applicable
National Bank of the Republic of Kazakhstan	NBRK	Not applicable
National Innovation Fund	NIF	Development fund in Kazakhstan
Quality Management Center	QMC	Quality Management Center within the EDP, which assists enterprises in the implementation of quality management systems making them more competitive and profitable. The QMC provides quality training and consulting services.
Small and Medium Enterprise	SME	Not applicable
Republic of Kazakhstan	RK	Not applicable
Trade Facilitation and Investment Project	TFI	Project aimed at assisting SMEs to enhance their competitiveness, leading to higher productivity and profitability
University of International Business	UIB	Not applicable
World Trade Organization	WTO	Not applicable

Attachment 5: Major Activities of Amcham, Eurobak, ITIC and IFC

1. The American Chamber of Commerce in Kazakhstan (Amcham) represents nearly 160 member companies including US, multi-national, and local businesses in 30 industry sectors. The Chamber provides an opportunity for its members and national government officials to find ways for cooperation and dialogue, promotes an open forum for the exchange of information, ideas, and experience for doing business in Kazakhstan, and serves as a valuable source of information on useful business contacts and information to investors in Kazakhstan.

Purpose. The purpose of the Chamber is to assist American businesses and American business people in their business activities in Kazakhstan and to advance the common interests of American businesses and business people active in Kazakhstan with regard to the improvement of the general business climate in Kazakhstan and its transition to a market-based economy, which embodies high business standards, the rule of law and market integrity (the "Purpose").

Activities. The Chamber does not engage in activities that are ordinarily carried out to make profit. Subject to the foregoing, the Chamber carries out its activities (the "Activities"), without limitation, to:

- † develop and maintain relationships with the U.S. Chamber of Commerce and other Chambers of Commerce and commercial organizations throughout the world;
- † collect, create, and disseminate information that will assist the Chamber to accomplish its Purpose;
- † represent, express, and disseminate the collective opinions of the Members on issues related to doing business in Kazakhstan;
- † organize and host seminars and other functions that will assist the Chamber to accomplish its Purpose;
- † meet with American and Kazakhstan government officials and business people regarding issues related to doing business in Kazakhstan;
- † engage in other activities, without limitation, that are reasonably expected to assist the Chamber to accomplish its Purpose and that are consistent with the requirements and constraints of Section 501(c)(6) of the Internal Revenue Code of the United States of America (the "Code").

2. EUROBAK (The European Business Association of Kazakhstan) is a non-commercial organization representing the European business community in Kazakhstan. It was formed upon the joint initiative of EU companies working and investing in Kazakhstan, and a Delegation of the European Union Commission. It plays a key role in promoting and nurturing mutual understanding between Kazakhstan and the countries of the European Union in both the business and social spheres. At present, EUROBAK members includes leading European companies and institutions doing business in, and based in, Kazakhstan.

EUROBAK was established in 1999 for various specific purposes:

- † To represent the views of European business in Kazakhstan, through a strong collective voice;
- † To foster EU-Kazakhstan business relations and provide support, information and networking to European companies based in Kazakhstan, or to those, who are considering doing business or investing in the country.

EUROBAK also aims:

- † To improve the level of communication and contact between our hosts, both in Government and business, and the European business community,
- † To endorse European business and commerce,
- † To serve and support the needs of our members and
- † To promote the image of the European Union, as one of the key economic partners for Kazakhstan, within the framework of the EU Kazakhstan Partnership and Co-operation Agreement.

EUROBAK serves as an information centre for commercial missions visiting Kazakhstan and for those EU companies that wish to have up to date material on doing business in the country.

EUROBAK has seven **working groups**: the Agrochemical Business Committee, Energy, Tax, Transportation, Human Capital, Public Private Partnership (Infrastructure), Image Enhancement, and Investment/Regulatory Working Groups, which are in an excellent position to deliver collective messages to the Kazakhstan authorities. The Association works closely with the Government on various issues of concern to the foreign community, through nominating representatives to Working Groups of the Majilis of the Parliament, Consultative Councils and similar structures. EUROBAK is an excellent tool for its members to raise and address general business and investment related issues, as well as, a venue providing great networking opportunities.

3. The Foreign Investors' Council (FIC) Chaired by the President of the Republic of Kazakhstan was established by the Order of the Head of State No. 3985 dated June 30, 1998, to provide direct dialogue with investors, working in Kazakhstan, and to efficiently address the key issues related to investment activities.

The Council is a consultative-advisory body and is chaired by the President of the Republic of Kazakhstan, who supervises its activities, including Agenda approval and chairmanship at the Council's sessions.

The FIC comprises five joint working groups - on taxation, legislation, operations of foreign investors, investment image enhancement of the Republic of Kazakhstan, and oil and gas sector issues of the Republic of Kazakhstan.

The major objectives of the Foreign Investors Council Chaired by the President of the Republic of Kazakhstan are as follows:

- † To submit proposals to the President of the Republic of Kazakhstan for his consideration to improve laws regulating investment activity issues, proposals on issues related to the implementation of investment programs and projects in the Republic of Kazakhstan of great international significance.
- † To draft recommendations for the improvement of the investment climate, and also for the strategy to attract foreign investments in the economy of the Republic of Kazakhstan.
- † To develop proposals on the integration of the country's economy into global economic processes.

A wide range of issues are discussed at Council Sessions, including the following:

- † Enhancement of the investment image of the Republic of Kazakhstan;
- † Judicial reform of the Republic of Kazakhstan;
- † Enhancement of the taxation and tax administration system;
- † Promotion of the transparency of the legislation drafting process;
- † Licensing of the engagement of foreign labor;
- † Prevention of conflicts and extrajudicial resolutions of investment disputes;
- † Coordination of tariff policy with neighboring countries and transport tariffs;
- † Simplification of procedures on the departure and arrival of the managing boards of foreign companies;
- † Combating bureaucracy and corruption;
- † Insurance of investments from political and regulatory risks.

4. International Tax and Investment Center (ITIC) is an independent non-profit research and education foundation with offices in Russia, Azerbaijan, Kazakhstan, Ukraine, the United Kingdom and the United States. Organized in 1993, the ITIC serves as a clearinghouse for tax and investment policy information, and as a training institute for key policy makers in the former Soviet Union and other transition economies. Some have compared the ITIC to a "private-sector version of the IMF or OECD".

The ITIC has established a three-part strategy for successfully cooperating with CIS officials on the changes they need to make in their investment climates in general, and particularly with respect to taxation. This strategy has seen the organization through seven increasingly successful years of: 1. Long-term relationships with government and parliamentary officials in host countries. 2. A reliable schedule of high-quality educational programs, especially tax round-tables and workshops that bring western experts face to face with officials, who are able to use their advice and know-how. 3. In all educational programs and communications, a consistent, principled message: the need for tax and economic reforms that will achieve prosperity and financial stability.

ITIC manages a series of programs in transition countries, the United States, and Europe to facilitate dialogue and information sharing between private sector specialists and government policy makers.

- † Policy Forums held on a monthly basis in Russia and Kazakhstan provide government and Parliament officials and company representatives with the opportunity of working together to identify and solve specific tax and regulatory problems facing investors.
- † Tax Policy Bulletins provide edited transcripts, in English and Russian, of each Policy Forum.
- † Working Groups and Committees provide useful vehicles to private and public sector officials in transition countries for focusing attention on critical tax and investment issues, such as value added, income, and excise taxes, petroleum taxes, - financial -services taxes, and expatriate taxes.
- † Training workshops and seminars for policy makers and parliamentarians have exposed hundreds of Russian and Central Asian parliamentarians and finance and tax officials to western taxation and business practices

Attachment 6: Donors' Credit Schemes

1. World Bank

Grants

The World Bank Group offers a limited number of grants to facilitate development projects. The grants are designed to encourage innovation, co-operation between organizations and to increase the participation in projects of local stakeholders.

The grants are either funded directly or managed through partnerships. Listed below is the range of mechanisms through which the Bank distributes grants.

► Development Marketplace

Early stage seed funding is provided to entrepreneurs with poverty fighting ideas to promote their development projects. Entrepreneurs are linked with partners that have the resources to help them implement their proposals. Since 1998, more than \$16 million has been awarded to 330 groundbreaking projects identified through global competitions and Country Innovation Days.

► Development Grant Facility (DGF)

The DGF establishes grant making as a integral part of the Bank's development strategy. It sets out the overall strategy of using grants to encourage innovation, produce partnerships and broaden the scope of the Bank's services. Find a list of programs that have received funding, guidelines and eligibility criteria and information about how external partners can participate.

► Grant Resources for Civil Society Organizations

Obtain information on a wide-range of Bank-supported grant resources that are available to qualified organizations. Find details of eligibility requirements and how to make an application.

► Global Environment Facility (GEF)

An international mechanism for providing new and additional grants to achieve global environmental benefits in climate change, biodiversity, international waters and ozone-layer depletion.

► InfoDev

A global program managed by the Bank to promote innovative applications of information and communication technologies to improve the living standards of low-income communities in developing countries. The program pools intellectual, technical, and financial resources of public and private institutions from across the globe to assist promising projects and initiatives.

► Japan Policy and Human Resource Development Fund (PHRD)

The Fund's objectives are to reduce poverty in developing countries by funding social development activities like improvements to education, health, nutrition, water, sanitation and social protection.

Grants can also be awarded to enhance the participation of civil society, promote the role of and increase innovative use of information technology.

► **Japan Social Development Fund (JSDF)**

The Japan Social Development Fund (JSDF) is a grant facility established by the Japanese Government and the World Bank in June 2000. The \$95 million fund assists countries the World Bank works with to effectively tackle the poverty and social consequences that resulted from the 1997 - 1999 global economic and financial crises.

► **Multilateral Fund for the Implementation of the Montreal Protocol**

The fund was established to help developing countries meet the costs of eliminating the production and consumption of ozone-depleting chemicals, as agreed in the Montreal Protocol.

► **Small Grants Program**

These are limited grants usually managed through the Bank's country offices. They help organizations distribute information about development in forums outside the Bank's own operations.

► **Official Cofinancing**

Cofinancing is where Bank funds or guarantees are associated with funds provided by third parties for a particular project or program. Find a full explanation of its advantages which include establishing closer coordination between official donors on country programs.

► **Trust Funds**

There are 850 active trust funds that disburse over \$1 billion a year for development-related activities. Donors entrust the funds to meet specific objectives such as preserving biodiversity, relieving debt in heavily indebted poor countries, supporting vaccination and immunization programs to reduce the incidence of communicable diseases like malaria and creating initiatives to cut the emission of greenhouse gasses.

Financing

As part of its work to promote economic growth, the World Bank Group and its agencies provide loans and grants to a diverse range of organizations in developing countries from governments to small businesses. This page details the Bank's lending operations and contains information on how to obtain loans and gain access to its extensive range of financial services.

Financing for businesses

► **Applying for Private Sector Finance from the International Finance Corporation**

The IFC offers financial products to the private-sector in developing countries. It helps private companies in the developing world mobilize financing in international financial markets and can provide technical advice. [Click here](#) for information and tips on submitting proposals, as well as contact information for industry, sector and regional departments. To be eligible for IFC financing, a project must be located in a developing country which is an IFC member, technically, environmentally and socially sound, benefit the local economy and have good prospects of being profitable

► Creating Financing Syndicates and Partnerships

Working through intermediaries, the IFC extends long-term financing to private-sector companies -- particularly small and medium enterprises -- which usually carry high transactional costs. Examples include credit and equity lines to banks for lending to local companies, private equity placements and investments in emerging market and venture capital funds which help channel capital to companies that large investors usually do not notice.

► Small and Medium Enterprise Department

The Small and Medium Enterprise Department works to promote small business growth in developing countries. It focuses on building better businesses environments. It seek to make the regulatory, tax and trading environments more business-friendly, improve the skills of small and medium enterprises through technical assistance and capacity building, and increase access to capital and information technology.

► Consultative Group to Assist the Poorest (CGAP)

This organization is a consortium of 28 public and private development agencies which work together to expand the access of poor people in developing countries to financial services. CGAP helps microfinance institutions and provides services such as advice, training, research and development, consensus building on standards, and information dissemination.

Financing for governments

► Lending Instruments

The Bank offers two types of lending instruments to its client governments:

- † **Investment loans** provide long-term financing for a range of activities aimed at creating the physical and social infrastructure necessary for poverty alleviation and sustainable development.
- † **Adjustment loans** provide quick disbursing assistance to countries with external financing needs to support structural changes.

The site provides information on both types of lending instruments, including eligibility, design features, disbursement of funds and examples of different forms of investment and adjustment loans. Other Bank financial products include guarantees and risk management and grants.

2. Asian Development Bank

Country Performance and Assistance Levels

A. Lending Level Proposed

25. The Government is willing to continue borrowing with a view to benefiting from knowledge transfer. Government borrowing is thus likely to remain highly selective. Strong development impact and/or innovative approach, in particular, the kind that will help mobilize central Government funds for local investment needs, will be key to realizing the willingness to borrow. The lending level will remain low, and will likely decrease over the medium term, if the current Government plan of reducing the budget deficit progressively to 0.5% in 2007 stays on course. The average loan size of \$50 million, as envisioned in the CSP, will remain the target. Given these uncertainties, target lending level of \$50 million a year and approval of one loan per year on average are considered reasonable for planning purposes.

B. Nonlending Program

26. The nonlending program will continue to be the main instrument for ADB operations in Kazakhstan. ADB will maintain the current annual level of \$1.9 million for the TA program. The Government will increase TA cost-sharing to maximize the development impact. TA cost sharing will (i) remain as 30% Government and 70% ADB for ADB processing of TAs in 2004-2005, (ii) be 40% Government and 60% ADB in 2006, and (iii) be 50% each for the Government and ADB in 2007. The TA program for 2005-2007 includes 13 TAs totaling \$4.8 million (Appendix 1, Table A1.11). They include project preparatory and advisory TAs, as well as economic, thematic, and sector work.

C. Summary of Changes to Lending and Nonlending Program

27. Changes from the CSP are mainly adjustments of schedule to meet developments since the CSP was finalized.¹¹ Nonlending programs have been adjusted to the revised lending programs. Proposed loans for Regional Rural Development, Second Rural Area Water Supply and Sanitation, and Second Water Resources Management and Land Improvement projects, and associated TAs, are among such cases. Newly added projects include (i) Storm-Water Management (loan), for 2006, with project preparatory TA in 2005; (ii) financial sector governance TAs (three: one each over 2004-2006); and (iii) railroad capacity strengthening advisory TA, planned for 2005. In view of the pending Government decisions on financing plans, the proposed Aktau-Atyrau Road Rehabilitation and Borovoe-Petropavlovsk Road Rehabilitation projects (both are loans) are on standby for 2004 and 2005, respectively

ADB is in a unique position to support private sector projects with clear development impact in the financial sector or infrastructure sector. Our role is to mobilize funding from local and foreign sources, not to compete with these sources or substitute for them.

In providing assistance to catalyze investments, ADB uses

- † equity investments
- † loans
- † guarantees
- † complementary financing scheme

We are also keen to catalyze complex capital market solutions and other innovative approaches to financing challenges, including the emerging structured finance and securitization market.

When you seek assistance from ADB for a private sector project, you will not only benefit from financial assistance but also from the expertise and guidance provided by our experienced Private Sector Finance team.

3. CIDA

How to get funding for your development project

The private sector: Joint ventures and other business partnerships

CIDA's Industrial Cooperation Program provides support and advice to Canadian businesses planning sustainable business activities in developing countries. It reduces the risks to Canadian firms by sharing the costs unique to doing business in developing countries, and costs associated with providing training, the participation of women, and a clean environment. The following support is available:

- † **Investment** (i.e. joint venture, licencing agreement): CIDA can share costs at the viability study stage and contribute to the cost of the developmental components of the project at the implementation stage.
- † **Professional services:** For organizations being considered for the provision of services by a host country client, CIDA can share in the feasibility costs and/or contribute to the costs of complementary activities such as training, environmental, social, and gender equality management plans to increase the project's benefits for the host country.
- † **Public/private infrastructure:** For organizations considering participating in basic, private infrastructure projects, as an applicant, you must be an equity investor, and only new projects with significant rehabilitative or expansionary components will be considered. CIDA can share in the costs of developing the project from the preliminary feasibility study to the financial close, or contribute to reducing the costs of complementary training, and social/gender and environmental management plans.

Telephone: 1-800-230-6349 or (819) 953-5444, operations assistant

Fax: (819) 953-5024

ATS: (819) 963-5023

E-mail: pci_inc@acdi-cida.gc.ca

The not-for-profit sector: Co-financing of development activities with developing-country counterparts

- † **NGOs and volunteer-sending organizations:** Funding for projects and programs is allocated on the basis of CIDA's programming priorities as well as the initiative's ability to build capacity, leverage other partners and funds, demonstrate sound project governance, generate development knowledge, and benefit Canada, particularly in the area of public awareness. Between 20 and 50 percent of costs are covered.

Telephone: (819) 994-0032, director of the NGO project facility

Fax: (819) 953-6357

Information/application forms

- † **Educational institutions:** Supports human resources training to build up the capacity of educational and training institutions in developing countries.

Telephone: (819) 997-6847, director

Fax: (819) 997-0513

Information/application forms

- † **Membership and specialized organizations:** Supports the development projects of cooperatives, credit unions, labour unions, professional associations, and so on, within the framework of CIDA's priorities.

Telephone: (819) 997-2018, senior program officer

Fax: (819) 994-0032

Information/application forms

- † **Environmental and sustainable development groups:** Promotes an exchange of knowledge and expertise between Canadian environmental non-governmental organizations and similar organizations in developing countries.

Telephone: (819) 953-6600 or (819) 953-9455, development officers

Fax: (819) 997-0513

Other sources of funding

Unsolicited proposals for a project in any country eligible for Canadian assistance must demonstrate the following characteristics to be considered for support:

- † Development must prevail.
- † Proposal must conform with the development priorities established by CIDA for the country or region.
- † No profit can be associated with the contribution agreement.
- † There is a general limit of \$5 million per contribution.
- † Cost sharing and leveraging will be taken into account in the approval process.

Telephone: (819) 997-5456 or 1-800-230-6349

Fax: (819) 994-1208

E-mail: info@acdi-cida.gc.ca

To submit a proposal, please consult The Guide to CIDA's Bilateral Responsive Mechanism

(Unsolicited Proposals)

4. USAID

USAID Credit Management System

The USAID Office of Development Credit in the Bureau for Economic Growth, Agriculture, and Trade (EGAT/DC) is responsible for managing USAID's credit programs. The use of credit provides the Agency with a powerful tool to achieve its development goals. Credit activities enable the choice of the most appropriate financial instruments: loans, loan guarantees, grants, or a combination of these three, thus enhancing the Agency's efficiency and effectiveness.

These credit programs are managed by USAID in part through an Internet-based software environment – USAID Credit Management System (CMS).

Attachment 7. Business Service Providers

Below is a list of the largest consulting firms operating in Kazakhstan under the BAS program.

1. Business services and accounting

Name:	Asia Business Group, TOO
Expertise:	Computer Information Systems; Strategic Development Planning; ? wide range of consulting services, including financial, accounting, MIS, HR, and strategic planning.
Phone(s):	7(3272) 50-4545, 50-3474, 50-3573
Fax:	7(3272) 50-3573
Email:	www.abg.kz
Contact 1:	AbaySadykov , Consultant, Direct Email: ASadykov@abg.kz
Contact 2:	SvetlanaOlkhovaya , Business project manager, Direct Email: Solkhovaya@albc.kz
Contact 3:	LarisaRyazanova , President, Direct Email: lryazanova@abg.kz
Name:	Bureau Veritas, KZ Branch
Expertise:	Quality Management System & Certification
Phone(s):	(3272) 503-072
Fax:	(3272) 503-072
Email:	bureauveritas.kz@nursat.kz
Contact 1:	GalymzhanMukhamediev , Deputy of General Director, Direct phone: (3272) 50-30-72, Direct Email: galym.mukh@tr.bureauveritas.com, sakhgal@nursat.kz

Name: Centras Securities, AO
Expertise: Feasibility Studies; Other; Business planning, financial consulting
Phone(s): 7(3272) 59-8877
Fax: 7(3272) 59-8887
Email: mail@centrascapital.com
Contact 1: DmitryiZherebyatev , Deputy of Genaral Director, Direct Email: dzherebyatev@centrascapital.com

Name: Deloitte & Touche, TOO
Expertise: Computer Information Systems; Strategic Development Planning; Business Process Reengineering.
Phone(s): 7(3272) 581-340
Fax: 7(3272) 581-341
Contact 1: DavidWood , Director of Consulting

Name: KPMG Janat, LLC
Expertise: Computer Information Systems; Other
Phone(s): (3272) 50-8855
Fax: (3272) 50-8877
Email: company@kpmg.kz
Contact 1: PavelGeniyevskiy , Consultant, Direct Email: Pgeniyevskiy@kpmg.kz

Name: Renaissance
Expertise: Other; Quality Management System & Certification; Corporate training
Phone(s): (7-3272) 74-08-35, 75-53-40
Fax: (7-3272) 74-02-82, 75-53-40
Email: r@renessans.kz
Contact 1: SvetlanaKrutskikh , Director, Direct Email: renessans@astel.kz
Contact 2: NatalyaTerlendi , Development Manager of ISO Department, Direct phone: (7-3272) 74-08-35, 74-02-82; 75-53-40, Direct Email: natasha@renessans.kz

Name: SAP Kazakhstan
Expertise: Computer Information Systems
Phone(s): (3272) 508-400, 508-403
Fax: (3272) 508-401
Email: angela.schilina@sap.com
Contact 1: AngelaKhvan/Shilina, Direct phone: (3272) 508-400,508-403

Name: Scala, CA and Kazakhstan
Expertise: Computer Information Systems
Phone(s): 7(3272) 58-1773
Fax: 7(3272) 58-1155
Email: erlan.durmagambetov@scala.almaty.kz
Contact 1: ErlanDurmagambetov , President
Contact 2: AlexanderLee , Sales Representative, Direct Email: lee@scala.almaty.kz

Name: The Rice Group, Central Asia LLP
Expertise: Feasibility Studies
Phone(s): 7(3272) 58-4055
Fax: 7(3272) 58-3711
Contact 1: SauleBazilzhanova , Director, Direct Email: saule@thericegroup.kz
Contact 2: LarisaDakhova, Direct phone: 7(3272) 58-3707, Direct Email: larisa@thericegroup.kz
Contact3 JackPascal , Senior Consultant, Direct phone: 7(3272) 58-3707

2. Marketing Research services

Name: Asia-Direct
Expertise: Market Analysis & Planning; Other; Advertising, PR.
Phone(s): 7(3272) 32-34-12
Fax: 7(3272) 58-23-21
Email: asiadir@nursat.kz
Contact 1: TatyanaSoldatenko , Director
Contact 2: OlgaUtkina , Marketing manager

Name: BISAM (former Bilesim International Kazakhstan)
Expertise: Market Analysis & Planning
Phone(s): 7(3272) 54-7751, 54-7580
Fax: 7(3272)
54-
7580
Email: bisam@bisam.kz, bisam@asdc.kz
Contact 1: LeonidGurevich , Director
Contact 2: TatyanaSmorodina , Deputy Director, Direct phone: (7-3272) 54-77-51, 54-75-80

Name: BRIF Business Analytica
Expertise: Market Analysis & Planning
Phone(s): 7(3272) 50-1291
Fax: 7(3272) 50-1297
Email: aromanov@brif.kz
Contact 1: AlexandreRomanov , Executive Director

Name: BRIF Central Asia Agency, TOO
Expertise: Market Analysis & Planning
Phone(s): 7(3272) 50-1291
Fax: 7(3272) 50-1297
Email: brif@online.ru
Contact 1: Saltanat?? , Qualitative Research, Direct phone: 7(3272) 50-12-91
Contact 2: LolaAskarova , Marketing Manager in charge, Direct phone: 7(3272) 50-12-91
Contact 3: AlexandreRuzanov , President, Direct phone: 7(3272) 50-12-91
Contact 4: TatyanaStartseva , Research Director, Direct Email: Tstartseva@brif.kz

Name: BRIF Market Intelligence
Expertise: Market Analysis & Planning
Phone(s): (3272) 501-291, 505-022, 73-29-25, 507-860
Fax: (3272) 501-297
Email:

Name: ComCon-2 Eurasia
Expertise: Market Analysis & Planning
Phone(s): 7(3272) 50-6640/50
Fax: 7(3272) 50-6650
Email: info@comcon-2.kz
Contact 1: Sergei Vanner , ?????????? ?????????? ?????????? ?? ??????????,
Direct phone: 7(3272) 50-6640, Direct Email: S-Vanner@comcon-2.kz

Name: Gallup Media Asia
Expertise: Market Analysis & Planning
Phone(s): 7(3272) 55-8669, 55-8637

Name: IGM
Expertise: Market Analysis & Planning; Strategic Development Planning; Investment
and strategic consulting
Phone(s): 7(3272) 50-3895, 50-3896
Fax: 7(3272) 50-3896
Email: info@igm.kz
Contact 1: Maxim Gandrabura , General Director, Direct Email: maxim@igm.kz
Contact 2: Almaz Kurmangozhyn , Project Officer

Name: Styx Leo Burnett
Expertise: Other; Market Analysis & Planning
Phone(s): 7(3272) 58-4276
Fax: 7(3272) 501-186
Email:
Contact 1: George (Georgiy) Kelberg , Managing Director, Direct Email:
g_kelberg@leoburnett.kz

Name: Tarantula Kazakhstan
Expertise: Other; Market Analysis & Planning
Phone(s): 7(3272) 50-8490
Fax: 7(3272) 50-8491
Email: info@tarantula.nu
Contact 1: SvetlanaTee , Account Manager, Direct Email: svetlana.t@tarantula.nu

Name: TWIGA
Expertise: Other
Phone(s): (3272) 581-807
Fax: (3272) 581-808
Email: kichshenko.y@twiga.kz
Contact 1: YuriKichshenko , Director
Contact 2: AlyonaNikolaeva , Account Manager, Direct phone: (3272) 720-147, 720-810, Direct Email: nikolaeva.a@twiga.kz

Attachment 8. SME Statistics per Region

Agriculture					
	1999	2000	2001	2002	2003
Number of peasant (private) farms by region of the Republic of Kazakhstan					
Republic of Kazakhstan	68153	76373	95460	111434	121722
Akmolinskaya	2111	2296	2222	2614	2780
Aktubinskaya	981	1629	2188	2854	3273
Almatinskaya	18170	19724	24026	2917	1 31920
Atyrauskaya	818	849	827	913	910
Vostochno-Kazakhstanskaya	6736	5911	7896	10052	12218
Zhambylskaya	4351	5007	6223	7891	8009
Zapadno-Kazakhstanskaya	2991	2750	2628	2667	2734
Karagandinskaya	3497	3448	4461	4777	4711
Kostanaiskaya	3383	3311	3058	3751	4134
Kyzylordinskaya	705	711	585	574	728
Mangistauskaya	224	245	271	302	345
Pavlodarskaya	1909	1871	1677	2096	2389
Severo-Kazakhstanskaya	3622	3794	3458	4467	4570
Yuzhno-Kazakhstanskaya	18641	24797	35918	39285	42987
Astana city		1	4	4	5
Almaty city	14	29	18	16	9
Number of employees at small enterprises					
Agriculture, hunting and forestry		71731	64854	77346	75267
Industrial structure of small enterprises surveyed					
Agriculture, hunting and forestry		6,3	6,2	6,1	5,9

Volume of produce (goods, services) at small enterprises					
Agriculture, hunting and forestry		27237,1	28702,0	36070,8	44710,1
Average monthly earnings of employees at small enterprises (tenge)					
Agriculture, hunting and forestry		4489	5504	6816	8030

Structure of expenses for the production and sale of produce (goods, services) of small enterprises surveyed (as a % of total expenses)				
	2000	2001	2002	2003
Total expenses	100	100	100	100
material expenses	66.3	67.1	59.1	58.5
expenses on labor remuneration	12.2	10.9	13.4	13.9
depreciation of fixed assets and intangible assets	4.8	3.1	4.3	5.7

Attachment 9: Statistics on Investment⁵

	12/31/ 1997	12/31/ 1998	12/31/ 1999	12/31/ 2000	12/31/ 2001	12/31/ 2002	12/31/ 2003	3/31/ 2004	6/30/ 2004	9/30/ 2004	12/31/ 2004	3/31/ 2005
International Investment Position, net	32	-1,205	-1,070	-11,114	-13,075	-15,735	-14,788	-14,483	-15,236	-15,603	-15,554	-16,052
Assets	2,631	2,391	2,599	4,613	6,117	9,322	14,254	15,924	17,391	18,806	23,206	24,983
Direct investment abroad	3	3	3	16	-10	417	300	316	346	279	-972	-949
Equity capital and reinvested earnings	3	3	3	15	28	469	476	483	502	529	558	574
Claims on affiliated enterprises	3	3	3	15	28	469	476	483	502	529	558	574
Liabilities to affiliated enterprises	0	0	0	0	0	0	0	0	0	0	0	0
Other capital	0	0	0	0	-38	-52	-175	-167	-156	-250	-1,530	-1,523
Claims on affiliated enterprises	0	0	0	0	15	1	2	9	25	23	172	191
Liabilities to affiliated enterprises	0	0	0	0	52	52	177	176	181	273	1,702	1,715
Portfolio investment	2	6	1	70	1,431	2,396	4,564	4,572	4,519	4,653	5,903	6,237
Equity securities	0	0	0	3	15	309	642	910	881	864	1,075	1,234
Monetary authorities	0	0	0	0	0	288	544	787	789	776	1,010	1,171
General government	0	0	0	0	0	0	0	0	0	0	0	0
Banks	0	0	0	0	0	0	0	0	0	0	0	0
Other sectors	0	0	0	3	15	21	98	123	92	88	65	63
Debt securities	2	6	1	66	1,416	2,087	3,922	3,662	3,638	3,789	4,828	5,002
Bonds and notes	0	1	1	66	459	1,532	2,863	3,131	3,129	3,066	3,406	4,224

⁵ INTERNATIONAL INVESTMENT POSITION OF KAZAKHSTAN, Assets and Liabilities, at period end, mln \$

	12/31/ 1997	12/31/ 1998	12/31/ 1999	12/31/ 2000	12/31/ 2001	12/31/ 2002	12/31/ 2003	3/31/ 2004	6/30/ 2004	9/30/ 2004	12/31/ 2004	3/31/ 2005
Monetary authorities	0	0	0	0	283	1,048	2,012	2,305	2,233	2,256	2,560	2,995
General government	0	0	0	0	0	0	0	0	0	0	0	0
Banks	0	0	1	41	111	265	677	521	700	627	785	1,115
Other sectors	0	0	0	25	65	219	174	304	196	183	60	114
Money-market instruments	2	3	0	0	957	555	1,059	532	509	723	1,422	778
Monetary authorities	0	0	0	0	957	555	1,051	528	505	719	1,419	775
General government	0	0	0	0	0	0	0	0	0	0	0	0
Banks	2	3	0	0	0	0	2	4	4	4	3	3
Other sectors	0	0	0	0	0	0	6	0	0	0	0	0
Financial derivatives	0	2	0	0	0	0	0	2	3	48	48	150
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	20
General government	0	0	0	0	0	0	0	0	0	0	0	0
Banks	0	0	0	0	0	0	0	0	0	0	0	0
Other sectors	0	0	0	0	0	0	0	0	0	0	0	0
Other investment	335	418	592	2,432	2,188	3,367	4,428	5,346	5,888	6,998	8,946	10,273
Trade credits	0	0	0	829	784	1,152	1,879	2,366	2,598	2,971	2,986	3,790
General government	0	0	0	0	0	0	0	0	0	0	0	0
Long-term	0	0	0	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	0	0	0	0	0	0	0	0	0
Other sectors	0	0	0	829	784	1,152	1,879	2,366	2,598	2,971	2,986	3,790
Long-term	0	0	0	129	97	122	155	148	159	143	179	284
Short-term	0	0	0	700	687	1,030	1,723	2,218	2,439	2,828	2,807	3,506
Loans	147	168	150	71	75	170	551	858	1,110	1,548	1,973	2,040
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0
Long-term	0	0	0	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	0	0	0	0	0	0	0	0	0
General government	47	47	47	46	40	40	40	40	40	40	40	40
Long-term	47	47	47	46	40	40	40	40	40	40	40	40
Short-term	0	0	0	0	0	0	0	0	0	0	0	0

	12/31/ 1997	12/31/ 1998	12/31/ 1999	12/31/ 2000	12/31/ 2001	12/31/ 2002	12/31/ 2003	3/31/ 2004	6/30/ 2004	9/30/ 2004	12/31/ 2004	3/31/ 2005
Banks	100	12	103	24	35	121	478	711	956	1,401	1,867	1,962
Long-term	6	7	6	11	11	32	286	400	683	1,076	1,509	1,579
Short-term	94	114	97	13	24	90	192	311	273	325	357	383
Other sectors	0	0	0	0	1	8	33	108	114	107	66	38
Long-term	0	0	0	0	1	3	19	51	54	57	48	19
Short-term	0	0	0	0	0	6	14	57	60	50	18	19
Currency and deposits	179	236	433	953	944	1,625	1,848	1,939	1,893	2,202	3,620	4,071
Monetary authorities	0	0	0	1	0	15	183	167	96	178	193	258
General government	0	0	0	321	321	0	0	0	0	0	0	0
Banks	179	236	433	330	374	885	798	777	650	695	1,063	1,590
Other sectors	0	0	0	301	249	726	867	995	1,147	1,329	2,364	2,223
Other assets	9	14	9	580	384	421	150	183	286	277	367	372
Monetary authorities	0	0	0	0	0	39	0	0	113	0	0	0
Long-term	0	0	0	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	0	0	39	0	0	113	0	0	0
General government	0	0	0	485	275	275	0	0	0	0	0	0
Long-term	0	0	0	485	275	275	0	0	0	0	0	0
Short-term	0	0	0	0	0	0	0	0	0	0	0	0
Banks	9	14	9	6	14	42	64	87	70	75	130	101
Long-term	0	0	0	0	0	0	0	0	0	0	0	0
Short-term	9	14	9	6	14	42	64	87	70	75	130	101
Other sectors	0	0	0	89	95	64	87	95	103	201	236	271
Long-term	0	0	0	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	89	95	64	87	95	103	201	236	271
Reserve assets	2,291	1,964	2,003	2,096	2,508	3,141	4,962	5,688	6,635	6,828	9,280	9,272
Monetary gold	524	504	523	502	511	586	726	744	701	746	804	794
Special drawing rights	443	386	226	0	0	1	1	1	1	1	1	1
Reserve position in the Fund	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange	1,324	1,074	1,254	1,594	1,990	2,544	4,229	4,865	5,920	6,076	8,469	8,474

	12/31/ 1997	12/31/ 1998	12/31/ 1999	12/31/ 2000	12/31/ 2001	12/31/ 2002	12/31/ 2003	3/31/ 2004	6/30/ 2004	9/30/ 2004	12/31/ 2004	3/31/ 2005
Currency and deposits	329	243	153	414	307	65	770	1,233	1,268	2,046	1,301	1,299
With monetary authorities	195	116	7	12	44	6	7	554	501	1,021	8	139
With banks	134	128	146	403	264	59	763	679	767	1,024	1,293	1,160
Securities	995	831	1,101	1,180	1,683	2,480	3,459	3,630	4,652	4,027	7,167	7,174
Equities	0	0	0	0	0	0	0	0	0	0	0	0
Bonds and notes	0	0	484	1,059	1,387	1,944	2,704	2,839	3,032	3,750	4,015	4,529
Money-market instruments	995	831	617	121	296	536	754	791	1,620	278	3,152	2,645
Financial derivatives, net				0	0	0	0	2	1	3	0	0
Other claims	0	0	0	0	7	10	6	78	13	5	7	3
Liabilities	2,599	3,596	3,669	15,727	19,192	23,056	29,042	30,407	32,626	34,409	38,760	41,035
Direct investment in reporting economy	50	123	116	10,078	12,917	15,464	17,586	18,584	19,708	20,636	22,399	23,719
Equity capital and reinvested earnings	50	123	116	3,098	4,124	4,861	6,085	6,359	7,132	7,650	7,671	8,556
Claims on direct investors	0	0	0	0	0	0	0	11	25	35	19	5
Liabilities to direct investors	50	123	116	3,098	4,124	4,861	6,085	6,370	7,157	7,685	7,690	8,560
Other capital	0	0	0	6,980	8,793	10,603	11,501	12,225	12,577	12,986	14,728	15,164
Claims on direct investors	0	0	0	107	34	54	320	269	297	292	221	230
Liabilities to direct investors	0	0	0	7,087	8,827	10,657	11,821	12,494	12,874	13,278	14,949	15,394
Portfolio investment	624	663	618	696	725	338	572	808	964	1,005	1,299	1,439
Equity securities	54	50	39	102	147	142	222	241	258	237	281	281
Bonds	54	50	39	35	65	86	137	140	160	146	189	189
Other sectors	0	0	0	69	82	56	84	101	98	91	91	92
Debt securities	570	613	579	594	578	196	351	567	706	768	1,019	1,158
Bonds and notes	550	603	579	594	578	196	351	564	704	766	1,018	1,154
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0
General government	550	503	537	548	445	40	129	298	327	335	113	114
Banks	0	100	42	31	0	57	120	150	236	280	754	891

	12/31/ 1997	12/31/ 1998	12/31/ 1999	12/31/ 2000	12/31/ 2001	12/31/ 2002	12/31/ 2003	3/31/ 2004	6/30/ 2004	9/30/ 2004	12/31/ 2004	3/31/ 2005
Other sectors	0	0	0	15	133	99	102	116	141	151	151	148
Money market instruments	20	10	1	0	0	0	0	3	2	2	2	5
Monetary authorities	4	0	0	0	0	0	0	0	0	0	0	0
General government	16	6	1	0	0	0	0	0	0	0	0	0
Banks	0	4	0	0	0	0	0	0	0	0	0	0
Other sectors	0	0	0	0	0	0	0	0	0	0	0	0
Financial derivatives	0	0	0	0	0	25	41	2	14	26	39	10
Monetary authorities	0	0	0	0	0	25	41	0	13	20	33	0
General government	0	0	0	0	0	0	0	0	0	0	0	0
Banks	0	0	0	0	0	0	0	0	0	0	0	0
Other sectors	0	0	0	0	0	0	0	0	0	4	5	6
Other investment	1,925	2,809	2,935	4,953	5,551	7,229	10,842	11,013	11,940	12,743	15,023	15,866
Trade credits	0	0	0	1,434	1,459	1,812	2,176	2,184	2,396	2,461	2,840	2,648
General government	0	0	0	0	0	0	0	0	0	0	0	0
Long-term	0	0	0	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	0	0	0	0	0	0	0	0	0
Other sectors	0	0	0	1,434	1,459	1,812	2,176	2,184	2,396	2,461	2,840	2,648
Long-term	0	0	0	964	918	1,040	1,146	1,195	1,315	1,396	1,587	1,396
Short-term	0	0	0	471	541	772	1,029	989	1,080	1,064	1,253	1,252
Loans	1,848	2,736	2,829	3,159	3,634	4,818	7,841	8,109	8,947	9,369	11,237	12,196
Monetary authorities	545	654	465	0	0	0	0	0	0	0	0	0
Use of Fund credit and loans from the Fund	514	651	463	0	0	0	0	0	0	0	0	0
Other long-term	32	3	3	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	0	0	0	0	0	0	0	0	0
General government	1,175	1,899	2,231	2,272	2,247	2,294	2,423	2,407	2,375	2,382	2,383	2,234
Long-term	1,175	1,899	2,231	2,272	2,247	2,294	2,423	2,407	2,375	2,382	2,383	2,234
Short-term	0	0	0	0	0	0	0	0	0	0	0	0
Banks	127	173	133	222	543	1,322	3,399	3,646	4,399	4,808	6,104	6,843

	12/31/ 1997	12/31/ 1998	12/31/ 1999	12/31/ 2000	12/31/ 2001	12/31/ 2002	12/31/ 2003	3/31/ 2004	6/30/ 2004	9/30/ 2004	12/31/ 2004	3/31/ 2005
Long-term	44	91	102	124	233	649	2,039	2,394	2,923	3,309	4,243	4,811
Short-term	83	82	31	98	310	673	1,360	1,252	1,477	1,499	1,862	2,031
Other sectors	0	0	0	665	843	1,202	2,018	2,057	2,172	2,179	2,750	3,119
Long-term	0	0	0	626	807	1,061	1,810	1,795	1,927	1,983	2,423	2,801
Short-term	0	0	0	39	36	141	209	262	245	196	326	319
Currency and deposits	67	82	104	165	310	466	577	607	516	742	694	811
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0
General government	0	0	0	0	0	0	0	0	0	0	0	0
Banks	67	82	104	165	310	465	577	607	516	742	693	811
Other sectors	0	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	10	2	2	195	148	134	248	113	81	171	253	211
Monetary authorities	10	0	0	2	2	2	88	37	4	4	20	89
Long-term	0	0	0	2	2	2	2	2	2	2	2	2
Short-term	10	0	0	0	0	0	86	35	2	2	18	87
General government	0	0	0	5	2	0	0	0	0	0	0	0
Long-term	0	0	0	5	2	0	0	0	0	0	0	0
Short-term	0	0	0	0	0	0	0	0	0	0	0	0
Banks	0	2	2	4	6	4	18	20	25	111	175	58
Long-term	0	0	0	0	0	0	0	0	0	0	0	0
Short-term	0	2	2	4	6	4	18	20	25	111	175	58
Other sectors	0	0	0	183	138	128	143	56	52	55	58	64
Long-term	0	0	0	0	0	0	0	0	0	0	0	0
Short-term	0	0	0	183	138	128	143	56	52	55	58	64

Attachment 10: Statistics on ISO Certificates

ISO 9000 certifications worldwide (growth from 2001 to end of 2003) :					
Dec. 2001		Dec. 2002		Dec. 2003	
Total	of which 9001: 2000	Total	of which 9001: 2000	Total	of which 9001: 2000
41	21	83	16	225	174
ISO 14001 certifications worldwide (growth from 1998 to end of 2003) :					
1998	1999	2000	2001	2002	2003
0	0	0	1	1	4
http://www.iso.org/iso/en/iso9000-14000/pdf/survey2003.pdf					

Project Formulation Study on Business Promotion Program in the Kyrgyz Republic
Aisulu Chubarova, Legal Consultant

Introduction

The objective of this research is to analyze current situation and problems to be solved in legal and regulatory framework for improvements of business environment, investment promotion, SME promotion, SME human resource development, and trade promotion, as well as IFI/donors' activities in relation to those issues in the Kyrgyz Republic. The methodology of the research included primarily desk-based research on legal and regulatory framework of doing business in the Kyrgyz Republic¹. The legal research was complemented by carrying out interviews with businesses during the period from July 27 – 29, 2005, as well as meetings attended together with JICA mission during its stay in Bishkek City during July 30 – August 9, 2005. Analysis of statistical data, where available, was carried out, as well as of results of various business-related surveys undertaken during the period of 2002-2005.

Background Information

The most important policy documents in the area of economic development of the country are the Comprehensive Development Framework² (CDF), National Poverty Reduction Strategy³ (NRSP) and the Investment Matrix⁴. Kyrgyzstan has also signed economic policy understandings with the International Monetary Fund (IMF) and the World Bank (WB) and with most other development partners. The national goals identified in CDF in economic area are development of market economy based on the principles of private entrepreneurship, creation of market institutes and a system of efficient macroeconomic governance, formation of efficient financial system, and active development of priority industries⁵. Development of small and medium-size business is an integral part and a priority of the sustainable economic growth and development of the Strategy for National Revival defined in the CDF⁶.

¹ The Kyrgyz economy is mainly dependant on agriculture: 70% of the 5.0 mln population live in rural areas. Agriculture accounts to 35% of GDP and employees about 50% of the workforce. Other important sectors are mining and energy production. The rest industrial companies produce far below capacity, and 20% of companies do not produce at all.

² National Strategy. Kyrgyz Republic: New Perspectives. Comprehensive Development Framework of the Kyrgyz Republic up to 2010. [hereinafter CDF].

³ National Strategy for Poverty Reduction for 2003-2005 approved by Resolution of the Government of the KR of May 8, 2003, # 269 (as amended by Resolution of the Government of the KR of February 3, 2005, # 53)

⁴ CDF and NRSP, albeit not indicated in the Summary Table, do penetrate all the points of the Table.

⁵ The national priorities set out in CDF are state administration reform; poverty reduction; development of rural areas, small towns and remote areas; ensuring security, external debt management, attraction of private foreign direct investments, strengthening of the financial system, and foreign trade development.

⁶ The CDF defines the following principles of favorable business climate of the state policy in the area of private business: improvement of legislative framework; minimal and well-justified market regulation of business activity; formation of partnership relations between the private sector and the state; maximum legalization of business; measures aimed at reduction of bureaucratic licensing and regulatory procedures; ensuring declaratory registration of economic entities; maximum reduction of inspections of economic entities; elimination of corruption by stimulating transparency; accountability and toughening control over state bodies involved in regulating business and liability of civil servants; development of financial and credit support, including improvement of tax legislation, simplification of taxation, reduction of taxes and fee rates; increase access to loan resources for the private sector; growth of micro-crediting volumes at reasonable terms; as well as stimulation of self-financing through commercial banks, credit unions and

The number of small and medium-sized businesses operating in Kyrgyzstan is difficult to assess. According to the official statistics for last quarter of 2003, there are 7298 small enterprise, registered in Kyrgyzstan, 791 medium enterprises, 134386 individual entrepreneurs, and 266000 peasant farms and farming enterprises⁷. Many of the official registered companies do not exist or have never existed⁸. According to Resolution of the Government of the Kyrgyz Republic of November 25, 1999, # 640 (Kyrgyz Republic State Classifier of Types of Economic Activities) small and medium enterprises incorporate enterprises which are defined by sectors, and where average number of employees does not exceed:

- In agriculture, hunting and forestry industries, fishing and fish-breeding industries, mining industry, processing industry, manufacturing and power, gas and water distribution industries, construction – 50 employees for small enterprises and 51-200 employees for medium enterprises;
- In trade sector, enterprise specializing in car, home appliances and personal implement repair, engaged in providing accommodation and catering services (hotels and restaurants), transportation and communication services, financial business, real estate business, providing lease and other consumer services, engaged in education, health care, social services, public utility services, individual services – 15 employees for small enterprises and 16-50 employees for medium enterprises.

The small and medium enterprise sector is defined as total economic entities – SMEs, farms and private entrepreneurs. The share of gross added value of small and medium enterprise sector in GDP in 2003 averaged to 47.5%.

Yet despite somewhat positive statistics and declarations of the Government aimed at creating favorable business environment, a bulk of constraints that hinder the business development in the country do persist. These are unfavorable and frequently changing legislation and tax regime, obstructive bureaucratic practices and improper use of authorities, excessive and direct intervention into business operations, and corruption among government employees in the various regulatory bodies. This might lead to a conclusion that policy documents that had been developed for almost every determinant area of trade and investment promotion and SME development are mainly of declaratory nature, thus a special importance is attached to the implementing legislation. Yet the laws and regulations are often poorly drafted and need frequent amendments. While it is logical that legislation is to reflect the dynamics of the economic

cooperatives, insurance companies and other market structures; delegation of regulatory functions to associations and unions of businesses; formation of developed infrastructure of entrepreneurship, including development of business service market.

⁷ The small and medium enterprise sector had employed 223,100 individuals (excluding farms) that made up to 12.2% of the overall population. In 2003 small and medium enterprises generated 13583,2 mln. Som of revenues (gross income for enterprises in the distribution chain) from sales of goods, works and services. The share of enterprises constituted 44,9% of the total volume of revenues generated in 2003, and the share of medium enterprises constituted 55,1%. Foreign trade turnover of the small and medium enterprises constituted 552.8mln.USD in 2003 (at current prices). Export supplies constituted 147.4 mln.USD in 2003. Import gains reached 405.4mln.USD. The share of export-import operations of SMEs reached 42.6% in the total sales volume of the Kyrgyz Republic, with the relative weight in the total export volume making up 25.3% and in total import volume – 56.5%. Digest of SME Statistics – Kyrgyzstan. Available online: www.casme.net

⁸ Such gaps in data is due mainly to the cumbersome procedure for deregistration of legal entities, thus, many entities that have terminated their businesses in reality, prefer not to pass relevant administrative procedures. See point on Registration, Licensing, Permits and Inspections in the Summary Table.

development of the country, the instability of legislative framework also raises the issue of poor law-making capacity. Therefore, improvement of legislative and regulatory framework for businesses remains the major concern despite active law-drafting activities during the recent years. Implementation and enforcement of the laws and regulations is the second major problem that impedes the creation of favorable environment for doing business in Kyrgyzstan. Abuse of powers by government employees at all levels, corruption of the judiciary also contribute to the difficulties in implementing and enforcing the legislation. Detailed information on major policies, programs and law pursued by the Government, their goals and objectives, as well as problems that persist to exist from business viewpoint is provided in the Summary Table. Activities of donors assisting the Government and the private sector in the area of trade, investment and SME promotion are also provided in the table.

List of Interviews with Businesses, July 27-29, 2005.

(Question: Please, name the top priority/problem for your business)

1. "Garus" (production of knitted clothing) – dependency on the only one local supplier of raw material (yarn); problems at Russian customs (when exporting the goods it is quite difficult to prove that the goods were produced locally);
2. "Soteria" (cleaning services) - complicated taxation regime (lack of blanks, forms, no clear list of documents required, as a result of excessive number of document, no clear procedures for reporting, high tax rates), lack of standards for certain types of goods;
3. "Nogaro" (import and trade in German cosmetics) – unjustified tax inspections, abuse of powers of customs officers;
4. "Eurotechnika" (import and trade in home appliances from Italy, Spain, Czech Republic, Turkey) – high competition from counterfeit goods;
5. "Eurostyle" (import and trade in furniture) – non-beneficial terms for providing loans by local banks, high interest rates, long and bureaucratic procedure for obtaining loans.
6. "Aerodesign" (advertising on air balloons and decoration) - no access to loans, complicated customs clearance procedures (both in Kyrgyzstan and importing countries), high customs payments and duties rates, corruption among civil servants.

Summary Table¹

	(a) Major Policies/Laws/Programs/Actions adopted recently (or currently being implemented)	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining/current problems from businesses' perspectives	(d) Donor's activities/programs to support (a) or to solve (c)
Business Environment				
Trade Liberalization/Facilitation Customs	<p><i>Policy document:</i></p> <ol style="list-style-type: none"> 1. Draft "Concept Paper of Customs Development for 2002-2010" approved by the Government of June 25, 2002 2. Concept paper on Customs Development of the Kyrgyz Republic (1998-2000) (approved by Resolution of the Government of the Kyrgyz Republic of July 24th, 1998, # 494). <p><i>Legal:</i></p> <ol style="list-style-type: none"> 1. Customs Code of the KR (12 July 2004, # 87, entered into force on January 1, 2005) 2. Law of the KR "On Customs Tariff" (of March 10, 2005, # 48) (currently customs tariff for 2006 is being formed) 3. Law of the KR on Disciplinary Code of Customs Bodies of August 13, 2004, # 127 4. Law of the KR on Antidumping of October 31, 1998, # 139. 5. Law of the KR on Subsidies and Countervailing Measures of October 31, 1998, # 140. 6. Law of the KR on Safeguard Measures of October 31, 1998, # 131. 7. Law of the KR on Service in Customs of 	<ol style="list-style-type: none"> 1. Improvement of legislative framework; 2. Improvement of the customs administration system; 3. Development of customs infrastructure; 4. Improvement of customs technologies and deployment of all processes of customs control and clearance; 	<ol style="list-style-type: none"> 1. Enforcement of the Law of the KR "On Customs Tariff", including frequent (annual) review of the given law with minor changes; some inconsistent provisions of sub-legal acts (Customs Inspectorate regulations, instructions, etc.) with the national legislation; 2. Problems with VAT and excise tax administration 3. Underdeveloped customs ancillary services (customs brokers, freight forwarders, etc.); 4. Complex customs clearance procedures, including poor system of risk management; abuse of powers by customs officers and corruption (according to the National Business Opinion Survey² [hereinafter NBOS] 54% of exporters rated difficulties with 	<p>Trade Facilitation and Investment Project/Pragma, USAID, www.ca-tfi.net</p> <ol style="list-style-type: none"> 1. Further assistance in drafting amendments to the Customs Code and implementing regulations; 3. Further cooperation with the Association of Customs Brokers established in May 2005 with the help of TFI. 4. Further assistance on national risk management program implementation in the KR; further work on dissemination of information among transport companies in

¹ Prepared by Aisulu Chubarova, Legal Consultant for JICA Mission on Project Formulation Study on Business Promotion Program in the Kyrgyz Republic. July 27 – August 12, 2005.

² National Business Opinion Survey. Kyrgyz Republic. 3rd Survey, May 2004. Prisma Project Management Agency. The number of respondents: 3461. The survey was conducted in May 2004 [hereinafter NBOS].

	<p>July 21, 1998, # 93</p> <p><i>Responsible governmental body:</i> State Customs Inspectorate under (directly reports to) the Government of the Kyrgyz Republic</p> <p>NB. Although Customs Code of the KR was adopted about 6 months ago, Customs wants to introduce some amendments.</p>	<p>5. Modernization and use of ITs in customs;</p> <p>6. Personnel training.</p>	<p>customs and transit control as the main priority for government action for export development³)</p> <p>5 & 6. Difficulties in obtaining relevant information from customs bodies; lack of access to the recent internal regulations issued by the Customs Inspectorate.</p> <p>7. Interaction between business and customs: although the Customs Consultative Council under the Customs Inspectorate of the Kyrgyz Republic was established over one year ago (in Bishkek and Osh), the work of the Council is to be further promoted⁴.</p> <p><i>Policy issue:</i> Customs bears fiscal liability as it is obliged to fulfill plan of customs duties collection and is responsible for increase of customs payments into the state budget (for instance, administration of VAT and excise taxes).</p>	<p>Southern Kyrgyzstan about benefits of TIR Carnet⁵.</p> <p>Other donor activities: ADB Regional Trade Facilitation and Customs Cooperation Program</p> <p>TACIS: Eurocustoms</p>
WTO Post-Accession	<p>Working Party Report on the Accession of the Kyrgyz Republic</p> <p><i>See also,</i> point on Trade Liberalization/Facilitation Customs above.</p>	<p>1. Commitments on goods and services in trade;</p> <p>2. Liberalization program on the bound tariff;</p> <p>3. Legislation compliant with WTO</p>	<p>1. Lack of information about benefits of WTO membership among businesses leading to negative perception of Kyrgyzstan's WTO membership;</p> <p>2. Lack of WTO experts that would</p>	<p>Trade Facilitation and Investment Project/Pragma, USAID</p>

³ 51% of the respondents noted difficulties in accessing Russian market via Kazakhstan; 50% of the respondents noted difficulties in accessing the Kazakh market, and 44% of the respondents experience lack of information about foreign markets. *Ibid.*

⁴ USAID Trade Facilitation & Investment Project/Pragma assisted the Customs in establishing the Consultative Council, which serves as a mechanism for customs brokers, investors, and individual traders interaction. Fifteenth Quarterly Report/TFI Annual Report for Contract Year 1 June 2004 – 31 May 2005.

⁵ TIR is an international convention, establishing rules and procedures for providing guarantees for transit shipments. Each member of Central Asian countries are members of the convention. USAID TFI Project/Pragma identified potential subcontracting TIR holders in Southern Kyrgyz Republic; reached agreement with company to support subcontracting through seminars and consultations. *Ibid.*

	<i>Responsible governmental body: Ministry of Economic Development, Trade and Industry [hereinafter MEDIT]</i>	obligations.	work closely with SMEs in disseminating information and providing advice on WTO issues; 3. Training on specific topics of the WTO Agreements is needed both for businesses and civil servants.	Bearing Point/Barents Group/KPMG, USAID Economic Policy Reform Project 1 - 3. Assistance on taxation issues, in particular, drafting new Tax Code ⁶ . 4. Fiscal analysis (analysis of fiscal strategies). The Project also works on budgeting issues (program budgeting has been in place in Kyrgyzstan for 4 years) and provides trainings for the Ministry of Finance, Parliament and Treasury of the KR.
Taxation	<p><i>Policy documents:</i></p> <ol style="list-style-type: none"> 1. Strategy of Fiscal Reform in the Kyrgyz Republic up to 2005, approved by Decree of the President of the KR of July 16, 2002, # 191. 2. Concept Paper on Improvement of Tax Policy in the Kyrgyz Republic, approved by Resolution of the Government of the KR on May 29, 2001, # 255. <p><i>Legal:</i></p> <ol style="list-style-type: none"> 1. Tax Code of the KR of June 26, 1996, # 25 (as amended by Law of February 4, 2004, #14) 2. Resolution of the Government of the KR "On Implementation of Tax Reform in the Kyrgyz Republic" of November 27, 2003, # 737 (as amended by Resolution of the Government of the KR on April 29, 2004, # 310). 3. Law of the KR on Free Economic Zones of December 16, 1992, # 1076. 	<p>Mid-term objectives:</p> <ol style="list-style-type: none"> 1. Elimination of disproportions in taxation; 2. Simplification of tax payments procedures for SMEs; 3. Legalization of shadow economy; 4. Overcoming of fiscal deficit. 	<ol style="list-style-type: none"> 1. Reduction and/or cancellation of certain categories of taxes (according to the NBOS 80% of businesses stated that reducing tax rates is the priority for government action⁶); high rates of taxes (acc. to the NBOS only 25% of respondents believe that they can pay all taxes and still develop their business⁷); 2. Complicated and unclear tax payments procedures (despite the introduction of simplified tax regime for small businesses in 2001 [see point on Taxation in favor of SME below]), including problems with tax reporting requirements (acc. to the NBOS 60% of businesses stated that reducing tax reporting to one time a year is 'very important' for their operation), lack of information re changes in legislation; 3. Frequent tax inspections that as a rule lead to abuse of powers by tax officials 	

⁶ 60% of respondents (400 companies, represented by Limited Liability Companies and Joint Stock Companies) root for reduction of VAT tax, whereas 33% of respondents would like to cancel the recently introduced property tax; emergency and road taxes should also be cancelled according to the opinion of respondents. *Ibid.*

⁷ Although profit tax was reduced from 30% to 20%, 49% of companies said that they are ready to pay the profit tax set at 10% compared to 5% who stated that they can pay profit tax set at 20%. *Ibid.* See also, Survey of Investors (summer 2005), conducted by the International Business Council on a quarterly basis, where tax rates occupy the 3rd place in the top 10 issues when planning investment in the Kyrgyz Republic. Investment Now, Summer, 2005, p.18 [hereinafter IBC Survey].

⁸ The Economic Policy Development Project [hereinafter EPD/USAID] is the major drafter of the new Tax Code as members of the expert group working over the draft Code. About 700 amendments have been introduced to the current Tax Code since 1996, aggravated by ad-hoc exemptions, inconsistencies and unclear provisions. Ambiguous and unclear provisions of the Tax Code have been named as one of the major concerns of the businesses interviewed during the mission study. The Working group and Presidential Commission have been working over the Tax Code through the round tables and public discussions with stakeholders. Updates of the draft Code are available on the Revenue Committee website: <http://barwin2k.sti.gov.kg/ntaxcode/default.htm>

	<p><i>Responsible governmental body:</i> Tax Inspectorate under the Government of the Kyrgyz Republic</p> <p>NB. Currently new Tax Code is being drafted. More information can be obtained online: http://barwin2k.sfi.gov.kg/ntaxcode/default.htm</p>		(acc. to NOBS 55% of businesses say that tax officials abuse their powers and 68% state that reduction of number of inspection is 'very important' for them);	Other donors: IBC IMF WB DFID TACIS
Currency	See point "Banking/Finance" below. (no exchange restrictions on current account or capital transactions; individuals and legal entities could import and export foreign currency without limitation provided they declared the amount to the customs)			
Banking/Finance	<p><i>Policy documents:</i></p> <ol style="list-style-type: none"> 1. Strategy for Reform of the Banking Sector, approved by the Board of Directors of the National Bank of the KR on September 27, 2002, # 41/1/ 2. Program for Development of the Clearing and Settlement System for 2003-2005 of December 12, 31, 2002. 3. Development Program for the Insurance Sector for 2003-2010 of July 31, 2003. 4. Development Program for the Securities Market for 2004-2006 of July 26, 2004. <p><i>Legal:</i></p> <ol style="list-style-type: none"> 1. Law of the KR "On Banks and Banking Activity" of July, 1997, # 60 (as amended by Law of the KR on March 10, 2005, # 46). 2. Law of the KR "On National Bank" of July 29, 1997. # 59 3. Law of the KR "On Operations in Foreign Currency" of July 5, 1995, # 6-I 	<ol style="list-style-type: none"> 1. Improve access for financial resources for SME 2. Development of various types of loans and credits 	<ol style="list-style-type: none"> 1. Poor access to finance (acc. to NOBS 67% of businesses identified access to finance as one of the top 3 problems); main reasons are high interest rates, short loan terms and difficult application procedures; no loans for start-ups; 2. Improvement of legislative framework. 	<p>EBRD Capital participation and credit lines to commercial banks</p> <p>IFC Capital participation and credit lines to commercial banks</p> <p>WB Financial Sector Project "Reform of Payment System" Rural Finance Project II</p> <p>ADB Development of Credit Unions and Regulatory Environment for Microfinance</p>

	<p>4. Law of the KR on Securities Market of July 21, 1998, # 95</p> <p>5. Law of the KR on Insurance of July 23, 1998, # 96 (as amended by Law of 30 December, 1998, # 160)</p> <p>6. Law of the KR on Credit-Unions of October 28, 1999, # 117</p> <p>7. Law of the KR on Leasing of July 23, 2002, # 121 (as amended by Law of 4 July, 2005, # 95)</p> <p><i>Responsible body:</i> National Bank of the KR</p>			TACIS Technical Assistance to the non-banking sector
Price Liberalization	<i>SEE point below "Anti-Monopoly"</i>			n/a
Anti-Monopoly	<p><i>Legal:</i></p> <p>1. Law of the KR "On Restriction of Monopolistic Activity, Development and Protection of Competition" of April 15, 1994, # 1487-XII (hereinafter Competition Law)</p> <p>2. Law of the KR "On Permissible and Natural Monopolies in the Kyrgyz Republic" of October 8, 1999, # 106 (as amended by Law of the KR of December 10, 2004, # 190).</p> <p>NB. Concept Paper on Development of Anti-Monopoly Policy in the Kyrgyz Republic for 2005-2008 is currently being developed.</p> <p>Draft Law "On Competition" (available in Russian on the web-site of the MEDIT, www.mvtp.kg)</p> <p><i>Responsible governmental body:</i> State Department on Anti-Monopoly Law under the MEDIT</p>	<p>1. Creation of organizational and legal framework for development and protection of competition</p> <p>2. Development of competitive environment in goods and services' markets</p> <p>3. Demonopolization of the economy</p> <p>4. Regulation and control over activities of natural monopolies entities.</p> <p>5. State control over observance of anti-monopoly legislation and protection of consumers' rights</p>	<p>1. Development of proper legislative framework in the area of competition law⁹ and enforcement of anti-monopoly legislation;</p> <p>3 & 4. The issue of demonopolization: Kyrgyztelekom, Kyrgyzrailroad, Kyrgyzzalko, Kyrgyz Energy Holding.</p> <p>NB. The issue of competition is not a problem <i>per se</i> for many SMEs. Yet some SMEs experience competition constraints from Kazakh and Russian businesses.</p>	n/a

⁹ 72% of businesses noted increase of competition in 2004; 25% of businesses face unfair competition from illegal business; 19% face unfair competition from state supported business, and 11% of businesses noted unfair competition from foreign businesses. *Ibid.*

Legal System	<p><i>Policy documents:</i></p> <ol style="list-style-type: none"> 1. Resolutions of the "Judges Conferences" 2. Strategy on Public Administration Reform of June 5, 2004, #193 3. Program of Infrastructure Development of the Judicial System for 2000-2005 period <p><i>Legal:</i></p> <ol style="list-style-type: none"> 1. Constitution of the KR of May 5, 1993 (as amended by Law of February 18, 2003, #40) 2. Constitutional Law of the KR on the Status of Courts of October 8, 1999, # 105. 3. Constitutional Law of the KR on the Status of Judges of March 30, 2001, # 35. 4. Civil Code of May 8, 1996, # 15 (as amended by Law of the KR of June 4, 2005, #70) 5. Civil Procedures Code of December 29, 1999 # 146 (as amended by Law of the KR of July 18, 2005, # 106) 6. Administrative Code of August 4, 1998, # 114. 7. Criminal Code of October 1, 1997, # 68 (as amended by Law of the KR of August 5, 2005, #122) 8. Criminal Procedures Code of June 30, 1999, # 62 (as amended by Law of the KR of July 22, 2005, # 112) 9. Law of the KR on Advocacy of October 21, 1999, # 114 10. Law of the KR on Third Party Arbitration Courts of July 30, 2002, # 135 11. Law of the KR on Supreme Court and Local Courts of July 18, 2003, # 153. 	Overall objective is to create a strong, independent and respected court system free of corruption and protecting human and property right efficiently and effectively.	<ol style="list-style-type: none"> 1. Corruption among the judges is one of the major concerns of businesses¹⁰ due to no enforcement of criminal charges against bribe giving and taking; 2. A necessity to increase professional standards of judges; 3. Development of 'third party arbitration' courts; 4. Lack of transparency in court procedures and judgments¹¹; 5. Poor enforcement of courts decisions; 6. Lack of control over judicial system, (both internal and external) 7. Instability of legislation and its inadequate enforcement is one of the major concerns of businesses¹², which is a result of poor law making skills. 	<p>DFID: Third Party Arbitration System Project</p> <p>USAID (NB.: USAID and the Supreme Court of the Kyrgyz Republic entered into a Memorandum of Understanding on March 16, 2004)</p> <p>Legal Infrastructure for a Market Economy Project/ARD/Checci Judicial Opinion Database Project</p> <p>Judicial Training Program</p> <p>ABA/CEELI Judicial Reform Project</p> <p>ADB Corporate Governance Projects II.</p>
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¹⁰ 56% of respondents believe that the courts are corrupted. Medium-size enterprises seem to be the most convinced in corruption of courts, whereas larger businesses tend to give "do not know" answer to the question if the court decisions are corrupted. NBOS.

¹¹ Consistency of court judgments occupies the 3rd place out of top 10 issues for investors when planning investment in the Kyrgyz Republic. IBC Survey. Autumn, 2005.

Registration, Permit, License and Inspection	Legal:	1. Licensing:	1. Licensing:	Trade Facilitation and Investment
	<p>1. Law of the KR "On Licensing" of March 3, 1997 # 12 (as amended by Law of the KR of August 13, 2004 # 129)</p> <p>2. Law of the KR "On Registration of Legal Businesses" of July 12, 1996 # 39 (as amended by Law of the KR of July 12, 2005, # 104) [hereinafter Law on Registration of Legal Entities].</p> <p><u>NB.</u> Currently drafts Law "On Licensing" and Law "On Protection of the Rights of Businesses During Government Inspections" are at consideration of the Jogorku Kenesh (Parliament) (drafts are available on the web-site of the Ministry of Economic Development and Trade at www.mvtp.kg)</p> <p>Draft Law "On State Registration of Legal Entities, Branches and Representative Offices of Legal Entities and Private Entrepreneurs" [hereinafter Law on Inspections] is at consideration of the Government of the KR</p> <p>There are several <i>responsible government bodies</i> depending on the type of issued permit and/or license. These bodies include but not limited to: Ministry of Justice of the</p>	<p>1. Licensing:</p> <p>a) Elimination of administrative barriers to business development.</p> <p>b) Bringing import licensing procedures in compliance with international requirements, i.e. WTO Agreement on Import Licensing Procedures.</p> <p>2. Inspections:</p> <p>a) Statutorily (defined by law not by sub-legal acts) defined inspecting powers of state bodies.</p> <p>b) Introduction of a principle of presumption of fair will of a legal entity</p> <p>c) Introduction of a principle guaranteeing protection to legal abuse: conflicting provisions of the legislation can not be applied or used against legal entities</p> <p>d) Information on compulsory requirements to be followed by legal entities should be accessible.</p> <p>e) Clearly defined list of types of inspection is required.</p> <p>f) Clear procedures for conducting an inspection, including funding of inspections and maximum term of inspections.</p>	<p>1. Licensing:</p> <ul style="list-style-type: none"> - excessive number of types of activities subject to licensing; - duplication of licenses with other types of permits; - excessive interference of authorized bodies into entrepreneurial activity during licensing process. <p>2. Inspections:</p> <ul style="list-style-type: none"> - absolute control of the state over an enterprise and produced goods; - unclear statutory provisions; - lack of clear terms and schedule of inspections; - excessive number of controlling bodies, duplication of controlling functions and unclear liability of controlling bodies and authorized officials for abuse of powers; - blurred limits of fines and use of means collected from fines for funding the activity of a controlling body; - abuse of powers (corruption)¹³ and low competency of inspecting bodies officials (acc. to NBOS. 55% of businesses noted the increase of business inspections¹⁴) 	<p>Trade Facilitation and Investment</p> <p>Project/Pragma, USAID</p> <p>1-3. Adoption and assistance in implementing Licensing Law, Law on Inspections, and Law on Registration of Legal Entities and bringing conflicting local regulations into compliance with the national legislation.</p>

¹² 59% of respondents note that legislation changes too frequently. 47% of respondents believe that legislation for businesses is not implemented. Only 33% of businesses believe that legislation is clear for them, and only 29% of respondents consider that the legislation is designed to help business. 56% of businesses state that eliminating contradictions in legislation is 'very important' for their business. NBOS.

¹³ Business (75%) noted that eradication of bribery among state officials occupies the 2nd place out of 18 priorities for government action. NBOS.

¹⁴ The most difficult inspections are tax inspection; sanitary & epidemiology, police (Ministry of Home Affairs); fire prevention; local state bodies; social fund and traffic police. Business sectors that face the most frequent inspections (in a priority order) are: tourism (average number of inspections per year is 2.7), trade (2.3), educational and social sector (2.0), agriculture (1.8), transport and communications (1.7), manufacture (1.4). *Ibid*.

	KR (registration of legal entities), Tax Inspectorate (registration of individual businesses), Sanitary-Epidemiological Stations (issuance of sanitary certificates), Anti-Fire Department (inspection of premises for observance of anti-fire rules), and etc.	<p>3. Registration:</p> <p>a) Provide simple and prompt procedures of registration in one authorized body</p> <p>b) Provide simple and prompt procedures of deregistration in one authorized body</p> <p>c) Develop a list of documents required for submission for registration or deregistration</p>	<p>3. Registration:</p> <ul style="list-style-type: none"> - cumbersome and slow procedures of registration; - a business is to apply to different bodies for different types of documents; - unclear list of documents for submission for registration; - no clear procedures for deregistration. <p>4. Permits:</p> <ul style="list-style-type: none"> - big number of permits required from businesses; - high cost of permits; - difficulties in obtaining permits (acc. to NBOS 71% of businesses noted that reduction of the number of permits is very important for their businesses¹⁵) <p>5. Enforcement of the Laws in case they adopted.</p> <p>6. For all three points above (licensing, inspections, registration) corruption remains the most urgent issue (see point on Anti-Corruption below).</p>	
Standardization, Metrology, Certification	<i>Policy document:</i> Concept paper on Reform of Technical Regulation System in the Kyrgyz Republic	<p>1. Enforcement of the Law on Basics of TR</p> <p>2. Institutional and structural</p>	<p>1 & 3. Enforcement of the Law is one of the major concerns, including:</p> <p>(a) development of an exhausting list of</p>	Trade Facilitation and Investment Project/Pragma, USAID

¹⁵ Business Regulations, Licenses and Permits occupy the 5th place in the top 10 issues when planning investments in the Kyrgyz Republic. IBC Survey, *supra* note 6. Also note NBOS, where 49% of businesses indicated the increase of the number of permits (during the previous year, i.e. May 2003 – May 2004); 51% of business noted that it is getting more difficult to obtain permits; 63% of respondents noted the increase of the cost of permits. *Ibid.*

	<p>of September 11, 2002, adopted at the session of the Commission on Reform of Technical Regulation System.</p> <p><i>Legal:</i></p> <p>1. Law of the KR On Basics of Technical Regulation in the KR of May 22, 2004, # 67 (hereinafter Law on Basics of TR)</p> <p>2. Resolution of the Government of the KR "On Appointment of Authorized Body on Technical Regulation of the Kyrgyz Republic" of June 29, 2005, # 267</p> <p><i>See also, Decree of the Acting President of the KR "On Institutional and Structural Transformations in the Area of Technical Regulation in the Kyrgyz Republic" of April 30, 2005 # 149; Decree of the Acting President of the KR "On Introducing Changes and Additions to the Decree of the President "On Institutional and Structural Transformations in the Area of Technical Regulation in the Kyrgyz Republic" (April 30, 2005) of June 13, 2005, # 227.</i></p> <p><i>Responsible governmental body:</i> National Institute on Standardization and Metrology; Technical Regulation Division of the MEDIT</p>	<p>transformation)</p> <p>3. Development of technical regulations of the KR.</p> <p>4. Review of the current normative and legal acts with the aim of bringing them into compliance with the Law On Basics of TR</p>	<p>products subject to compulsory confirmation of compliance with requirements established in art. 7 of the Law on Basics of TR, including codes of goods nomenclature of foreign economic activity at the level of 10 digits and normative and legal acts or standards establishing such requirements; (b) identification of safety measures in the area of veterinary, plant quarantine, epidemiology, sanitary and ecology, including development of a list of objects subject to compulsory assessment of compliance with requirements of art. 7 of the Law on Basics of TR (see above);</p> <p>(c) development of procedures for state control exclusively at the stage of circulation of goods and with respect to observance of statutory requirements.</p>	<p>1-4. Assistance in drafting regulations implementing provisions of the Law on Basics of TR, and implementation of the regulations.</p>
<p>Infrastructure (IT, Communication, Electricity, Transport, etc.)</p>	<p><i>Policy documents:</i></p> <p>1. National Strategy "Informational and Communication Technologies for Development of the Kyrgyz Republic approved by Decree of the President of the KR of March 10, 2002, # 54.</p> <p>2. National Plan of Actions on Implementation of the National Strategy "ICT for Development of the Kyrgyz"</p>	<p>ICT:</p> <p>1. Improvement of information legislation compliant with international legislation;</p> <p>2. Ensure transparency in licensing and</p>	<p>ICT:</p> <p>1. Inconsistency of ICT legislation with international legislation: lack of statutorily defined common principles of network connections, no model contract on networks connection.</p> <p>2. Non-transparency of licensing</p>	<p>Telecommunications:</p> <p>Some assistance is provided by Soros Foundation, GIPI (www.internetpolicy.kg), UNDP, Association of Communication Operators (www.connect.kg)</p>

¹⁶ Consolidated Address of Participants of ICT Sector to State Agencies, International Organizations and NGOs, Business Sector, available at www.connect.kg

	<p>Republic approved by the ICT Council under the President of the KR on September 16, 2003</p> <p><i>Legal:</i></p> <p>1. Law of the KR "On Electrical and Postal Communication" of April 2, 1998, # 31 (as amended by Law of the KR of July 4, 2005, #89</p> <p><i>Responsible governmental body:</i> Ministry of Transport & Communications, National Communications Agency under the Government of the KR</p> <p>2. National Energy Program of the Kyrgyz Republic up to 2005 (approved by Resolution of the Government of the KR of July 16, 2001, # 353).</p> <p>3. Law of the KR "On Transport" of July 8, 1998, # 89 (as amended by Law of 7 February, 2005, #15)</p> <p>4. Law of the KR "On Railway Transport" of July 9, 1998, # 90 (as amended by Law of June 24, 2003, # 111)</p> <p>5. Law on Roads of June 2, 1998, # 72</p>	<p>certification procedures in the area of ICT business;</p> <p>3. Ensure competitive environment and eliminate monopolistic activities in the ICT and telecommunication market;</p> <p>4. Development of e-trade;</p> <p>5. Protection of IPRs in the area of ICT.</p> <p>6. Improvement of tax policy stimulating development of e-commerce.</p>	<p>procedures, long period of obtaining radio frequencies for satellite technologies, thus simplified procedure for issuance of radio frequencies is required, licensing of public of informational centers in the regions should be cancelled.</p> <p>3. Expensiveness of ICT services due to no competition; poor competition in the wireless communication market¹⁶. See Anti-Monopoly point above.</p> <p>4. Poor development of e-payment system.</p> <p>5. Enforcement of the legislation in IP area is the major problem, yet it is not a problem <i>per se</i> for the majority of SMEs due to the lack of information on IP rights. The latter is more urgent issue for SMEs, as well as use of IP subject matter in developing their businesses.</p> <p>6. See points on Taxation, Taxation in favor of FDI.</p> <p>7. Poor access to the relevant legislative and regulatory information from state bodies (no interoperable state data bases) and non-computerization of administrative procedures, i.e. no development of e-government, which would otherwise contribute to efficient and beneficial SMEs viz. State relationship. See also, points on Taxation, Taxation in favor of FDI, Databases.</p>	<p>Transport: World Bank/Urban Transport Project CSAC Project (Consolidated Structural Adjustment Credit) ADB 3th Road Rehabilitation Project Japanese Bank for International Cooperation Islamic Bank of Development</p>
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Anti-Corruption	<p><i>Policy documents:</i></p> <p>1. State Strategy on Fight Against Corruption in the KR approved by Decree of the acting President of the KR of June 21, 2005, # 251</p> <p>2. Action Plan on Implementation of the State Strategy on Fight Against Corruption in the Kyrgyz Republic</p> <p><i>Legal:</i></p> <p>1. Law of the KR "On Fight Against Corruption" of March 6, 2003, # 51</p>	<p>1. Development of activities following the four areas of anti-corruption measures, namely corruption prevention; public support; investigation of corruption crimes; international cooperation, including creation of an Anti-Corruption Body</p> <p>2. Priority areas for anti-corruption measures include political activity, administrative functions of state regulatory bodies, state finance, judicial, law enforcement and armed forces, and social development area</p>	<p>Corruption among civil servants and judicial bodies is the main concern for businesses. According to NBOS 46% of businesses noted the increase of corruption in government agencies during 2 months prior to the survey date. According to IBC Survey corruption of public officials is within the top 10 issues when planning investment in the country.</p>	n/a	
Land Ownership and Lease	<p><i>Legal:</i></p> <p>1. Land Code (of June 2, 1999, # 45, as amended by the Law of the KR on February 28, 2005, # 40).</p> <p>2. Resolution of the Government of the KR "On Approval of Regulations on the Procedure of Granting Property Right or Right to Lease Land Plots in Settlements and on Implementation of Investment and Construction Intentions" of February 5, 2004, # 57</p> <p><i>Responsible government body:</i> State Committee on Architecture and</p>	<p>1. Introduction of legal zoning concept;</p> <p>2. Simplification of procedures for obtaining permits for construction and re-design;</p> <p>3. Improvement of the current legislation (elimination of conflicting provisions in normative and legal acts, and sub-legal acts).</p>	<p>1 & 2. Legal zoning works only in pilot areas; in other areas development of rules on land use is required; complicated procedure for obtaining permits for re-design or construction. (50% of businesses state that facilitating the procedure of getting construction permits is 'very important' for their business. NBOS.)</p> <p>3. Not transparent procedures of tender for buying/leasing land.</p>	<p>Land Reform Project/Chemonics, USAID, www.landreform.kg Trade Facilitation and Investment Project/Pragma, USAID.</p>	

Investment Promotion	Construction			
Labor Environment	<p><i>Policy document:</i> National Program "Labor Market and Employment of the Population for the period till 2005" (Emgek) approved by Resolution of the Government of the KR of April 30, 1998, # 236)</p> <p><i>Legal:</i> 1. Labor Code of August 4, 2004 (as amended by the Law of the KR on June 30, 2005, # 85). 2. Law of the KR on Promotion of Employment of the Population</p> <p><i>Responsible government body:</i> Ministry of Social Protection and Labor, Employment Fund</p>	<p>Major objectives:</p> <ul style="list-style-type: none"> - analysis and forecasting of the labor market; - assistance for unemployed in selecting a profession and in finding a job; - professional orientation, training and re-training of unemployed; - organizing temporary and public works; - prevention of unemployment by eliminating and facilitating factors for mass unemployment; - support of business activities and self-employment; - provision of targeted social assistance during forced unemployment. 	<p>1. Improvement of labor-related legislation, certain provisions of the Labor Code are not employer-friendly</p> <p>2. Lack of competent working force.</p>	
Investment-related Laws	<p><i>Policy document:</i> 1. Investment Matrix for September 2004 – August 2005, approved by Decree of the President of the KR on October 7, 2004, # 331</p> <p><i>Legal:</i> 1. Law of the KR "On Investments in the Kyrgyz Republic" of March 27, 2003, # 66 (as amended by Law of the KR on June 14, 2004, # 76). 2. (arts. 20 and 23, repealed Law "On Foreign Investments in the Republic of Kyrgyzstan" 1991, # 13, as amended by the Law of the KR on July 28, 1995, # 10) 3. Law of the KR "On Concessions and Foreign Concessions Enterprises" (of</p>	<p>1. Deregulation of the economy;</p> <p>2. Tax policy and tax administration stimulating investments;</p> <p>3. Development of legislative framework, stimulating investments;</p> <p>4. Investment marketing (point 4 of the Investment Matrix V)</p>	<p>1. Regulation of business activity, licensing and permit system (see points on Licensing, Inspections, Permits, and etc. above)</p> <p>2. High tax rates, problems with tax administration (see point on Taxation above)</p> <p>3. Predictability of legislation (Predictability of rules, laws and regulations is the number one issue for investors when planning investment in the Kyrgyz Republic¹⁷ See also point and subsequent footnotes on Legal System)</p> <p>NB. Although new law "On Investments in the Kyrgyz Republic" provides equal</p>	

¹⁷ See, IBC Survey (Summer 2005), at p.18. The second major concern of investors is availability of qualified personnel.

	<p>March 6, 1992).</p> <p>4. Law of the KR "On Normative Legal Acts of the Kyrgyz Republic"</p> <p>See also laws indicated above in points on Registration, Licensing, Permits, etc. and Standardization, Metrology, and etc.</p> <p><i>Responsible government body:</i> Ministry of Economic Development, Industry and Trade, Center for FDI Attraction under the MEDIT</p> <p>(See also, Decree of the President of the KR On Measures on Further Development of State Policy in the area of Investment and Other Business Activity" of September 3, 2003, # 290</p>		<p>terms for domestic and foreign investors, some issues remain, such as preferences granted to foreign investors under old law "On Foreign Investments in the Kyrgyz Republic" (namely, arts.20 and 23). The preferences apply till the first profit obtained by a company (however most of the companies established prior to 1997 prefer to keep profit equal to zero in order to enjoy preferences).</p> <p>See also remaining/current problems in point on Taxation in favor of FDI and in points on Registration, Licensing, Permits, etc. and Standardization, Metrology, and etc.</p> <p>More information could be obtained from the web-site of Investment Round Table at www.investment.kg and International Business Council at www.ibt.kg</p> <p><i>See also,</i></p>	
Taxation in favor of FDI	<p><i>Policy document:</i></p> <p>1. Investment Matrix for September 2004 – August 2005, approved by Decree of the President of the KR on October 7, 2004, # 331.</p> <p><i>Legal:</i></p> <p>1. Tax Code of July 26, 1996 # 39 (as amended by Law of the KR on February 4, 2005, # 14).</p> <p>2. Law of the KR "On Simplified Taxation System for Entities of Small Entrepreneurship" of December 7, 2001, # 102.</p> <p><i>Responsible state body:</i> Tax Inspectorate under the Government of the KR</p>	<p>1. Develop and introduce procedures for tax administration aimed at decreasing investors' costs and liberalizing the regime for tax inspections to reduce their numbers;</p> <p>2. Develop a system to ensure enforcement of tax obligations;</p> <p>3. Improve taxation of SMEs;</p> <p>4. Develop investment incentives.</p>	<p>1. The current Tax Code does not contain clear provisions on taxation for non-residents (30% tax rate for non-residents, rendering services and works, the current Tax Code decreased the tax down to 20%, but 30%-rate is still applied to non-residents)</p> <p>2-4. See point on Taxation.</p>	

Database	See point ICT above. See also, Law of the KR on Legal Protection of Databases and Software of March 30, 1998, #28 (as amended by Law of the KR of March 31, 2005, #58)		Lack of unified state databases that would help businesses to pass administrative procedures online.	
Statistics	<p><i>Policy document:</i> Statistics Development Program in the Kyrgyz Republic for 2001-2005 approved by Resolution of the Government of 11 December, 2000, # 731.</p> <p><i>Legal:</i> Law on Statistics of January 12, 1994, #1390-XII (as amended by Law of the KR of June 19, 2002, # 104)</p> <p><i>Responsible government body:</i> National Statistics Committee under the President of the KR</p>	<p>Priorities are:</p> <ul style="list-style-type: none"> - improvement of the system of recording and statistics, including methodology of statistical observations and statistical indicators; - further development and introduction of systems of classifications, registers and standards; - transfer to the system of samplings; - development of ICT - creation of a system of publications and dissemination of statistical information; - development of regional statistics; - improvement of organizational structure of statistics bodies. 	<p>1. Cumbersome statistical reporting requirements;</p> <p>2. Many businesses doubt the quality of statistical data.</p>	
SME Promotion				
SME Promotion Policy/Law	<p><i>Policy documents:</i></p> <ol style="list-style-type: none"> 1. Concept paper on Development and Support of Small and Medium Business in the Kyrgyz Republic for 2001-2005 approved by Resolution of the Government of the KR of August 11, 2001, # 424. 2. Investment Matrix for September 2004 – August 2005, approved by Decree of the President of the KR on October 7, 2004, # 	<p>The overall objective is to create conditions favorable for creation and full-fledged use of the capacity of SMEs sector development (is divided by four areas, namely, increase of competitiveness of SMEs, increase of role of export of SMEs, increase of capital investments in SMEs, develop regions).</p>		<p>World Bank Project of Village Investment Land and Real Estate Registration Project</p> <p>USAID Legal Infrastructure for Market Economy</p>

¹⁸ Only 12% of businesses have used financial institutions. The majority either have not used the external finance or take loans from families or friends. The lowest use of finance from financial institutions is observed among businesses in Bishkek and Chui, they also show the highest % of using finance from friends and relatives. The agricultural sector has the greatest use of financial institutions due to the involvement of Kyrgyz-Agricultural Financial Corporation and cheaper loans. NBOS.

¹⁹ Domestic Trade Development Strategy. Assessing Internal Trade and Strategy Development. (Final version), prepared by EU TACIS and ECO. 2004.

	<p>331. See also, Investment Matrixes I to IV.</p> <p>3. Concept on Deregulation of the Economy approved by Resolution of the Government of the KR of February 5, 2004, # 25.</p> <p>4. State Program on Business Development in the Kyrgyz Republic approved by Resolution of the Government of the KR of February 28, 2004, # 43.</p> <p><i>Legal:</i></p> <ol style="list-style-type: none"> 1. Civil Code of May 8, 1996, # 15 (as amended by Law of the KR of June 4, 2005, #70); 2. Civil Procedures Code of December 29, 1999 # 146; 3. Criminal Code of October 1, 1997, # 68 (as amended by Law of the KR of August 5, 2005, #122); 4. Criminal Procedures Code of June 30, 1999, # 62 (as amended by Law of the KR of July 22, 2005, # 112); 5. Tax Code of June 26, 1996, # 25 (as amended by Law of February 4, 2004, #14); 6. Land Code of June 2, 1999, # 45 (as amended by Law of the KR of June 4, 2005, #67); 7. Labor Code of August 4, 2004, # 106 (as amended by Law of the KR June 30, 2005, #85); 8. Water Code of January 12, 2005, # 8 9. Law on Free Economic Zones of December 16, 1992, # 1076-XII); 10. Law on Business Partnerships and Companies of November 15, 1996, # 60; 11. Law on Pledge of March 12, 2005, #49; 12. Law on Protecting Rights of Businesses of February 1, 2001, # 15; 13. Law on Auditing Activity of July 30, 2002, # 31; 	<p>General objectives:</p> <ol style="list-style-type: none"> 1. ensure access to bank and other sources of funding, as well as reduce costs of such funding; 2. improvement of tax system within the framework of the Concept on Improvement of Tax Policy (see point on Taxation above); 3. restrict bureaucratic pressure and administrative barriers. <p>Specific objectives aimed at creating competitive terms for operation in free market:</p> <ol style="list-style-type: none"> 1. Expand system of consulting services related to business administration; 2. Improve access of SMEs to essential information (for instance, creation and provision of free access to databases on potential export possibilities); 3. Expand state financial support of SMEs; 4. Establish legislative framework promoting the development of stock market (particularly venture capital). 	<ol style="list-style-type: none"> 1. Poor or lack of access to funding, See point on Banking/Financing¹⁸ (availability of finance is a major problem for 79% of businesses. NBOS). 2. See points on Taxation, Taxation in favor of FDI, Taxation in favor of SMEs. 3. See point on Licensing, Registration, Permits and Inspections. 	<p>Project/ARD-Checci Investment Round Table/Bankworld Economic Policy Reform Project/Bearing Point</p> <p>Trade Facilitation and Investment</p> <p>Project/Pragma Enterprise Development Project/Pragma, www.casme.net</p> <p>Land Reform Project/Chemonics</p> <p>TACIS Support to PCA Implementation</p> <p>IBC Promotion of Investment and Trade</p> <p>JICA Agriculture Supporting Project</p> <p>DFID Development of Third Party Arbitration System</p> <p>ITC Trade Promotion Project in the Kyrgyz Republic</p> <p>GTZ Promotion of Private Sector Development Project (assistance for</p>
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	<p>14. Law on Privatization of March 2, 2002, # 31;</p> <p>15. Law on Licensing of March 3, 1997, # 12 (as amended by Law of the KR of August 13, 2004, # 129);</p> <p>16. Law on Business Registration of July 12, 1996, # 39 (as amended by Law of the KR of July 12, 2005, # 104);</p> <p>17. Law on Investments of March 27, 2003, # 66 (as amended by Law of the KR of June 4, 2004, # 76);</p> <p>18. Law on Joint Stock Companies of March 27, 2003, # 64 (as amended by Law of the KR of December 9, 2004, # 189);</p> <p>19. Law on Third Party Arbitration of July 30, 2002, #135 (as amended by Law of the KR of June 11, 2004, # 73);</p> <p>20. Law on Mortgage of March 12, 2005, #49</p> <p><i>Responsible government body:</i> Ministry of Economic Development, Industry and Trade</p>			<p>Kyrgyz service providers in developing and delivering demand-oriented services to SMEs; assistance to business associations; cooperation between local companies; export promotion (mainly focused on regional markets)</p> <p>GTZ Support for Legal Reform in Transition Countries (support of the reform of private and economic law)</p> <p>GTZ, CIM and ZAV joint project (CIM expert at the Textile Union of Kyrgyzstan: Enhancing a business association).</p>
Ministry in charge of SME Promotion	<p>Regulation on the Ministry of Economic Development, Industry & Trade approved by Resolution of the Government of the Kyrgyz Republic of May 11, 2004, # 347.</p> <p>NB. At present the Ministry included 7 regional economic divisions and two municipal economic divisions (in Bishkek and Osh). State department of anti-monopoly policy, Center for economic and social reforms, Center for FDI attraction, and Center for Corporate Development are also within the structure of the Ministry.</p> <p>See point Ministry in charge of SME promotion above</p>			
SME Promotion Agency				

SME loans Microcredit	See also Banking/Financing point above <i>Legal:</i> 1. Law on Micro-financing Organizations in the Kyrgyz Republic of July 3, 2002, # 124 ²⁰ ; 2. Decree of the President of the KR "On Measures on Development of Micro-crediting System in the Kyrgyz Republic" of May 8, 2001, YII # 159.	Overall objective is to establish sound and stable micro-financing market for the benefit of wide range of businesses.	1. Large unmet demand in micro-credits; 2. Further development of the legislation in micro-financing (for instance, no general category of non-banking financial institution exists under the current law) 3. Small producers and farmers still perceive credits as a burden and have a tradition of doing business through barter; 4. Corruption among loan officers (and a tradition of giving bribes)	UNDP, Poverty Reduction Program Establishment of 10 micro-crediting organizations. ADB Development of Credit Unions and Regulatory Environment for Microfinance EBRD Micro and Small Enterprise Finance Facility Project TACIS jointly with IFC Regional Development Project in Issyk-Kul region IFC Housing Finance Project GTZ Financial System Development in Rural Areas USAID Central Asian Microfinance Alliance WB Rural Finance Project II Payments and Banking Systems Agribusiness and Marketing Project (is to start late 2005)
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²⁰ As of December 31, 2004 the system of non-banking finance and credit institutions (NBFI) consisted of: two specialized finance and credit institutions, the KAFIC and the FCSDCU (Finance Company on Support and Development of Credit Unions), 78 micro-crediting agencies (MCA), 26 micro-crediting companies (MCC), 305 credit unions (CU) and 116 pawnshops. The number of MCA and MCC has been growing rapidly. By the end of 2003 NBKR had registered 72 MCA and MCC, one year later that had risen to 104

Guarantee	<p><i>Legal:</i> Law of the KR on Investments in the Kyrgyz Republic of March 27, 2003, # 66 (as amended by Law of the KR of June 14, 2004, # 76)</p>	<p>Chapter 2 of the Law sets forth legislative guarantees for investors, namely</p> <ul style="list-style-type: none"> - guarantees for protection of investors and investments (national treatment, equal investment rights for local and foreign investors, non-interference of state bodies and local self-government bodies into the economic activity of investors, provision of investment preferences for investors working in priority industries and social sphere); - guarantees for export or repatriation of investments, property and information outside the Kyrgyz Republic; - guarantees for protection of investments from expropriation and reimbursement of investors' damages; - guarantees for income use; - freedom of transactions; - free access to the publicly available information; - economic independency of investors and recognition of investors' rights; - granting concessions to investors for prospecting, development and exploitation of natural resources and soil on the basis of concession agreements with investors. 	<p>1. Corruption of judicial bodies; 2. Low competence of judges; 3. Interference of state bodies in business.</p>	n/a
Equity Investment	<p><i>Legal:</i> 1. Law of the KR On Investments in the Kyrgyz Republic of March 27, 2003, # 66 (as amended by Law of the KR of June 14, 2004, # 76)</p>	n/a	n/a	n/a

MCA and MCC. The NBKR also supervises pawn shops that in terms of amount of loans also can be considered micro credit oriented. Apart from this, several donor projects have promoted micro credit, for example through self help groups. www.nbkr.kg

	2. Law of the KR "On Joint-Stock Companies" of March 27, 2003, # 64 (as amended by Law of December 9, 2004, # 189) 3. Law on Economic Companies and Associations of November 15, 1996, # 60 (as amended by Law of the KR of December 24, 2003, # 238)			
Leasing	<i>Legal:</i> 1. Law on Leasing of July 23, 2002, # 121 (as amended by Law of 4 July, 2005, # 95). 2. Tax Code of June 26, 1996, # 25 (as amended by Law of February 4, 2004, #14)	Overall objective: creation of favorable environment for development of leasing	1. Problems with taxation, i.e. VAT for equipment to be leased); 2. Lack of knowledge and experience in leasing among financial institutions; 3. Time-consuming court proceedings.	IFC/Consultant 1. Development of recommendations for the state bodies on improvement of legislation on leasing; 2. Increase of knowledge and awareness about leasing; 3. Expansion of the resource framework for leasing sector. n/a
Venture Capital Database	n/a See point on Database above	n/a	n/a	n/a
Marketing Support	<i>Policy document:</i> Investment Matrix V	1. Implementation of External Marketing Strategy "Kyrgyzstan is Open to the World!" 2. Establishment of Investment Promotion Agency	1. The policy aimed at creating favorable legal and regulatory environment is illusory and declaratory. 2. Poor work of associations that would promote export-oriented products to foreign market.	SECO, Helvetas Destination Marketing Organization Project (The project assist the Kyrgyz Republic in setting up a national destination marketing organization (Destination Marketing Association), i.e. a comprehensive organizational framework and service network to effectively and efficiently market the country and its tourist products.

						WB Agribusiness Marketing Project
R & D Support Incubators	n/a <i>Legal:</i> 1. Regulation on Business-Incubators under the Ministry of Labor and Social Protection of the KR approved by Decree of the Ministry of September 7, 2004, # 114. 2. Model Regulation on Business-Incubators in the Kyrgyz Republic of June 2, 1997, # 325.	n/a Pursuant to point 2.2. the major functions of business-incubators are: - stimulation of the growth of employment among citizens; - initial support to small businesses and start-ups; - training for citizens to organizational business skills, business plans development, legal documents drafting; - assistance in access to market of goods, labor and loans.	n/a			n/a USAID/Eurasia Foundation (working with the Congress of Women of the KR; establishment of Association of Business Incubators); EBRD (provides only technical assistance), IT business incubator. GTZ – several business-incubator projects
Associations	<i>Legal:</i> Law of the KR On Non-commercial Organizations of October 15, 1999, # 111	Overall objective of the Government expressed in its many policy papers, concept papers and strategies is involvement of the private sector into policy-making process.		1. Lack of understanding of the role of association, including lack of leadership and organization skills; 2. Lack of lobbying power; 3. Lack of funding		USAID Enterprise Development Project/Pragma Trade Facilitation and Investment Project/Pragma ITC TACIS UNDP SECO
Taxation in favor of SME	See points on Taxation and Taxation in favor of FDI above.					
Business Service Providers	See point on SME Promotion Policy/Law	The Kyrgyz government is to decide whether it should be engaged in supporting business service market development or leave it for the private sector (the traditional division of labor in many countries is that the government takes care of policies, regulations, creating incentives to invest, whereas business services are		1. Improvement of legal and regulatory business environment (as a policy issue for the government); 2. Lack of access to financial means (for business service providers); 3. Poor access to the relevant informational sources (both for business service providers and business-users of their services ²³);		BAS/EBRD, USAID Enterprise Development Project/Pragma Promotion of Private Sector Development Project (assistance for Kyrgyz service providers in developing and

		usually provided by the private sector ²¹), yet no information exists as to the Government's intentions and/or decisions on the issue ²² .	4. Further improvement of qualification of business service providers' personnel; 5. Problems of awareness and understanding of importance of business service providers among businesses ²⁴ .	delivering demand-oriented services to SMEs; assistance to business associations; cooperation between local companies; export promotion (mainly focused on regional markets)
SME Human Resource Development				
Business Courses by SME Support Organizations/BSP			See point on Business Course by Universities.	JICA Human Resource Development Center EBRD/BAS USAID/CARANA
Business Courses by Universities	Major higher educational institutions in Bishkek City are: Kyrgyz State National University Kyrgyz-Russian Slavic University American University in Central Asia		1. Lack of qualified faculty; 2. Use of Soviet-style approach to teaching business courses; 3. Lack of funds (among businesses) to attend courses.	
Vocational/Training Schools	<i>Policy documents:</i> 1. State Programs "Bilim", "Experts of 21 st century". <i>Legal:</i> 1. Law of the KR on Education of	Major areas for reforms: 1. Legislative framework; 2. System of financing of vocational	1. Gaps and inconsistencies in the legislative framework and poor management system;	GTZ Regional Cooperation in Vocation Training of the Countries of Central Asia and Caucasus

²¹ The following approach to business development services was adopted by many donors, including in Kyrgyzstan: 1) focus on the development of a market; 2) stimulation of both the demand and the supply side through developing new services and opening up to more SMEs; 3) clear private-sector strategy to deliver business services in a cost-covering and profitable way through commercial providers. Business Development Services for Small Enterprises. Guiding Principles for Donor Interventions. 2001.

²² Currently private sector companies dominate the supply side in service provision, yet the supply is heavily concentrated in Bishkek. 73% of service providers are located in the capital. Some services, such as business information sector, are almost exclusively available in Bishkek (91%). Assessment of the Market for Business Development Services in Kyrgyzstan (among 500 SMEs). U.Roesler, E.Ryazanov, GTZ, Helvetas.

²³ For the latter the usual situation is selection of service provider through recommendations by friends, partner organizations and other trusted parties. *Ibid.*

²⁴ Managers of companies in Bishkek City seem to understand the essence of business development services better than their colleagues in the regions. Problems of awareness and understanding are observed in "strategic" services, such as management consulting, marketing and research, business information, product development and packaging. Textile industry is the sector with the lowest awareness, understanding and use of all services. *Ibid.*

	December 12, 1992 2. Law of the KR on Primary Vocational Education 3. Law on Libraries of the KR 4. Law of the KR on Approval of a List of Institutions of Primary Vocational Education	training ²⁵ ; 3. Organizational structure of vocational training; 4. Content of vocational training; 5. Human resources; 6. Professional re-training for adults; 7. Access to education	4. Poor participation of the private sector (potential employers) in defining the content of vocational training and its consistency with the market requirements, a need to revise national standards of vocational training 5. Lack of human resources, especially in remote areas.	- improvement of teachers' professional skills
Trade Promotion				
Trade Promotion Agency	Law of the KR on Chamber of Commerce and Industry of April 13, 1994, # 1460-XII Law of the KR on Internal Trade of March 20, 2002, # 40 Law of the KR on Export Control of January 23, 2003, # 30 Law of the KR on Licensing of March 3, 1997, # 121 (as amended by Law of August 3, 2004# 129).		1. Unclear status of Chamber of Commerce: overlapping of regulatory functions, yet the Chamber is non-governmental organization operating on self-financed basis.	
Credit/Guarantee	See points on Financing and Guarantees above.			

²⁵ System of financing of vocational training has been improved for the last several years. As of April 2005 the total number of vocational education and training institutions amounted to 101 (throughout the country, with the majority of the institutions located in Bishkek and Chui region), of them 99 institutions are commercial education centers. The Study of Current Situation of Vocational Education in the Kyrgyz Republic, SIAR for JICA, April 2005.