

# U.S. Country Commercial Guides



Kyrgyz Republic

2018

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## **Doing Business in the Kyrgyz Republic**

### **Market Overview**

The Kyrgyz Republic is a lower middle income country, with an estimated GDP per capita of less than \$1,100 (\$3,700 PPP). The economy remains heavily dependent on remittances from Russia (over 37% of GDP in 2017), and revenue from gold exports (ranging from 8-10% of GDP) – almost entirely from output at the Kumtor gold mine. The Kyrgyz Republic hosts a large, informal economy estimated at up to 60% of GDP. Trade with and investment from Russia and China remain important contributors to the Kyrgyz economy. Keys to sustainable future growth include progress in fighting corruption, improving transparency in business permit issuance and taxation, addressing persistent energy issues, and attracting new sources of foreign investment while decreasing reliance on international donors.

The Kyrgyz Republic is still undergoing an economic transition to the Eurasian Economic Union (EAEU). The accession process has altered economic conditions, as cheaper goods from other EAEU member states have flooded the local market and squeezed Kyrgyz domestic industries. EAEU accession also introduced new regulatory hurdles and led to an increase in non-tariff measures, to which the Kyrgyz government and businesses alike have struggled to adapt. Persistent reliance on Russia as a source of remittances, imports, and government financing subjects the Kyrgyz economy to Russian influence and external shocks.

### **Market Challenges**

The investment climate in the Kyrgyz Republic is best for those intrepid investors who have experience doing business in other parts of the former Soviet Union, and have both a high risk tolerance and flexible time horizons. The country struggles with major issues. Corruption is rampant and rule of law is weak. The judicial system is not independent and every sector of government struggles with capacity and resource shortages. For most areas of interest, a legal framework exists but enforcement is poor, including in the area of intellectual property rights. Investors should be aware that more than an estimated 60% of the economic activity in the country occurs in the unregulated gray economy. Investors in politically sensitive areas, such as resource extraction, spend much of their time renegotiating contracts, as is evident in the experience of the Canadian-owned Kumtor gold mine (refer to Investment Climate Statement for details).

In August 2015, the Kyrgyz Republic acceded to the EAEU, joining Belarus, Armenia, Kazakhstan, and Russia. The Kyrgyz Republic joined the EAEU to strengthen economic integration and trade with member countries, and Kyrgyz migrant laborers now enjoy greater legal protections within the Union. However, the Kyrgyz Republic has struggled to harmonize its laws with EAEU policies and regulations, and thus far has yet to experience the full, tangible economic benefits of membership. Accession to the bloc may also negatively impact the Kyrgyz Republic's non-EAEU trade, as the government has increased tariffs on hundreds of categories of goods to meet Union regulations. Inadequate preparation for the implementation of EAEU requirements, non-standardized application of the common customs code, and unclear documentation requirements continue to affect importers and exporters.

### **Market Opportunities**

The Kyrgyz Republic's major exports include gold, textiles, non-precious metals, electricity, footwear, alcoholic beverages, and mechanical equipment. Major imports include fuel, natural gas, iron, machinery, automobiles, chemical products, medicine, and food products.

Mining has attracted more foreign investment than any other sector, but the sector remains underdeveloped and extremely politically sensitive. Chinese, Kazakh, and Russian firms continue to seek access to other natural resources.

Consumption fueled by remittances from Russia continues to be a key component of the economy. The middle class has grown substantially, mainly in Bishkek, generating demand for Western products. Construction, fueled largely by remittances, has been booming in recent years, primarily in the form of apartment buildings that have drastically changed the Bishkek skyline over the past five years.

### **Market Entry Strategy**

While the Investment Promotion and Protection Agency under the Government of the Kyrgyz Republic was created to guide foreign investors through the business registration process, the most proven strategy for market entry remains the establishment of a joint-stock venture with a local partner who knows the system. Many U.S. firms also avail themselves of the services of local distributors and franchisees. That notwithstanding, U.S. companies have had success opening regional offices without local investment.

For most large-scale investments, a visit to the country and meetings with appropriate public officials are generally necessary. Reliable partners can be found, and there are several consulting services available to U.S. businesses in the country, including the following:

#### **American Chamber of Commerce**

Ms. Zarina Chekirbaeva, Executive Director  
Hyatt Regency Bishkek, Room no. 123  
191 Sovietskaya Street  
Bishkek 720011, Kyrgyz Republic  
Phone: +996 (312) 68 09 07  
Fax: +996 (312) 68 11 72  
E-mail: director@amcham.kg  
Web: www.amcham.kg

#### **U.S. Embassy Bishkek**

Munara Niiazova  
171 Prospect Mira  
Bishkek 720016, Kyrgyz Republic  
Phone: +996 (312) 59 70 00, ext. 7607  
Fax: +996 (312) 59 77 44  
Email: NiiazovaME@state.gov

## **Political Environment**

### **Political Environment**

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

[U.S. Relations with Kyrgyzstan](#)

## **Selling U.S. Products & Services**

### **Using an Agent to Sell U.S. Products and Services**

Business in the Kyrgyz Republic is largely based on personal relationships. In an economy where rule of law is not yet firmly established, the quality and depth of business relationships are often the best protection against loss and are key to market access. Selection of a local partner (or partners) is probably the most important decision a company makes in its market entry. Though on-the-ground contacts are important, most firms choose to cover the Kyrgyz market from a regional office in Kazakhstan or Russia.

A reliable distributor is the best way to address challenges including communicating with clients and providing after sales service. Many exporters designate a local trading company as their local sales agent responsible for handling customs clearance of imported goods, dealing with established wholesalers and/or retailers, marketing the product directly to major corporations or the government, and handling after-sales service. Many Almaty-based distributors cover the Kyrgyz market.

### **Establishing an Office**

In order to start operating in the Kyrgyz Republic, a legal entity must be registered with four governmental bodies:

- The Ministry of Justice (receives registration certificate containing the registration number as well as entry of data into the Unified State Register of Legal Entities);
- The National Statistics Committee (receives statistical registration card as well as entry of state registration data into the Uniform State Register of Statistics);
- The State Tax Inspectorate (receives a unique identification number that is to be entered in all financial, accounting, and customs documents); and,
- The Social Fund.

Individual entrepreneurs, however, need only to register with the Statistics Committee and the Tax Inspectorate.

A one-stop shop concept was re-introduced in 2015 under the aegis of the Investment Promotion and Protection Agency (IPPA), which works to ease the process of opening a company. Registration with the Ministry of Justice automatically registers the company with the other agencies. For commercial companies the registration takes approximately three days, while for financial and credit institutions or non-commercial organizations the registration process is typically 10 days. According to the World Bank's Ease of Doing Business rankings, the Kyrgyz Republic ranked 29th out of 190 countries for Starting a Business.

An enterprise can operate as a limited liability company, additional liability company, joint-stock company, general or limited partnership, foreign enterprise, or enterprise with foreign participation. There are some additional types such as individual entrepreneur, representative office, branch office, commercial cooperative, and credit union. All incorporating documents should be in Russian or Kyrgyz and be notarized by a notary office.

### **Franchising**

Franchising is not widespread, but is growing in the Kyrgyz Republic. A few large Western firms such as Coca-Cola, Hyatt, Baskin Robbins, Yum! Brands, and Nathan's Famous Hot Dogs currently have a presence or affiliates in the country.

## **Direct Marketing**

Direct marketing is gradually becoming more popular in the Kyrgyz Republic, due in part to increased internet penetration and the development of mobile networks. It is common for entrepreneurs to distribute samples and promotional materials at business events and forums, but the primary channels for advertisement remain television, newspapers, and the internet. There are no international advertising companies currently operating in the Kyrgyz Republic, but local firms should be able to assist in direct marketing activities.

## **Joint Ventures/Licensing**

Joint ventures are the most proven strategy for entry into the Kyrgyz market. Foreign investors are generally protected by the inclusion of a well-positioned national investor familiar with the local system. Furthermore, Kyrgyz law gives more protection to joint ventures than to representative offices or international businesses.

Several commercial activities require government licenses. The list below is not exclusive:

- Exploration, prospecting and use of mineral deposits
- Manufacture and sale of pharmaceuticals, medicine, perfume-cosmetic and chemical substances, and medical equipment, except enterprises that sell soap, cleanser and perfume-cosmetic goods with a certificate of quality from the manufacturers
- Production of beer, wine, champagne, liquor, vodka, cognac and alcohol
- Organization of gaming and gambling establishments
- Urban planning, drafting and design of housing, public buildings or industrial construction
- Building and assembly jobs, excluding individual residence buildings construction
- Banking operations, credit union and pawnshop activities
- Securities
- Insurance
- Trade in alcohol
- Private educational institutions

## **Selling to the Government**

Many governments finance public works projects through borrowing from multilateral development banks. Please refer to the "Project Financing" Section in "Trade and Project Financing" for more information.

There is an official public procurement agency operating in accordance with the public procurement law. (This law is available at [Zakupki](#) -- Russian only.)

There are three types of procurement of goods and services. Foreign companies can participate only in one type, called "Unlimited Bidding." Instructions and standard documents and forms for "Unlimited Bidding" can be found in Russian at [Zakupki](#).

Additionally, procurement of goods and services for projects financed by international donors is announced through common international channels of tender information. Unfortunately, some government procurement

actions occur outside of regularized procurement channels. In some cases, tenders are announced only one or two days prior to the bidding deadline. In such instances, insider knowledge provides advantages to well-connected companies.

In 2016, the U.S. Embassy in Bishkek partnered with the American Chamber of Commerce in the Kyrgyz Republic to launch an online business portal. Hosted on AmCham's website ([U.S. Business Portal to the Kyrgyz Republic](#)), this project compiles information on open tenders in the Kyrgyz Republic in an effort to attract prospective bidders among U.S. companies.

## **Distribution & Sales Channels**

Around 80% of the foreign investment in the country is centered in Bishkek, with the majority of the remainder focused on extractive industry firms and production plants operating in the regions. Most U.S. firms currently operating in the country have not expanded their businesses significantly outside of the capital because of limited market capacity. Many imported products come overland from Kazakhstan to the Bishkek market. Additional goods are transported from China. The road network for distribution of goods is largely sub-standard. A recently constructed highway connecting Bishkek to western China is by far the best road in the country. According to the World Economic Forum's Global Competitiveness Index for 2017, the Kyrgyz Republic ranks 122 out of 137 countries by quality of roads.

## **Express Delivery**

DHL, UPS, and Federal Express are all present in the Kyrgyz Republic, though their reach does not extend outside the cities of Bishkek and Osh. Overnight service is not available and packages usually require three to four days to arrive from the United States.

## **Selling Factors & Techniques**

Products sold in Bishkek tend to be marketed in Russian and Kyrgyz. There is a mandatory requirement for all advertisements to be in the Kyrgyz language. Due to the widespread use of the Russian language, however, companies usually advertise in both languages.

## **eCommerce**

### **Overview**

Electronic commerce is still developing in the Kyrgyz Republic. Internet access outside of major cities is unreliable but improving quickly. ATM/debit cards are extremely common in Bishkek and ATMs are a common sight in most medium-sized villages. Electronic payment of salaries is becoming more common, and some local banks have developed applications for mobile phones. Nevertheless, the Kyrgyz Republic is primarily a cash economy.

### **Internet Penetration**

According to a January 2017 [wearesocial.com](#) assessment of the Kyrgyz internet environment, internet penetration in the Kyrgyz Republic is approximately 34% of the total population. This low level of internet penetration is likely due to a variety of demographic, geographic, and economic factors. The Kyrgyz Republic has an extremely low amount of internet traffic and online engagement compared to neighboring countries Kazakhstan and Uzbekistan; only 20% of the Kyrgyz population are regular internet users. Mobile broadband continues to rapidly expand, but only 2.4% of the population use fixed broadband, according to the survey.

### **Current Market Trends**

Recently, eCommerce has experienced rapid growth in the Kyrgyz Republic. In recent years, significant advances have occurred locally in mobile payment systems and app-based commercial platforms. There are

more online shops now than several years ago, and the variety of commercial services available via the internet has expanded significantly.

Despite recent technological developments, however, the majority of Kyrgyzstanis continue to prefer traditional forms of purchasing goods and ordering services. A key challenge to development of robust eCommerce in the Kyrgyz Republic is the perception that goods purchased online may be of lesser quality, and that services can be better negotiated in person. Consumers may also be concerned about poor customer service and no clear recourse in the event of a negative eCommerce experience.

There is ample opportunity for improvement and development of eCommerce in the Kyrgyz Republic. High speed, affordable internet access and usage -- particularly in mobile broadband -- are expanding throughout the Kyrgyz Republic, albeit primarily in urban areas. Rural areas, where 60% of the total populace reside, have limited internet access and low levels of internet use. The Kyrgyz Republic does have a steadily developing IT sector, and the undeveloped eCommerce sector may present investment opportunities for tech entrepreneurs.

### **Popular eCommerce Sites**

Local internet retailers are increasing in the Kyrgyz Republic, though overall penetration remains low. Popular domestic eCommerce sites include Svetofor.info and Lalafo.kg. Svetofor identifies itself as the most popular online commercial market in the Kyrgyz Republic, and offers a wide variety of retail goods. Lalafo is akin to an online trading site such as eBay or Craigslist. Additionally, websites that provide services are increasing in both number and use; websites such as Tez.kg or Namba.kg offer consumers a mobile and web-based interface to order taxis and food delivery services in Bishkek. Chinese eCommerce websites such as taobao.com and alibaba.com are more popular than other international eCommerce platforms; many Kyrgyz companies retain Chinese-speaking staff to help locals make purchases through Chinese eCommerce websites.

### **Social Media**

The social media market in the Kyrgyz Republic is relatively small compared to other nations, with only 10% of internet users actively engaged on social media platforms, but it is growing. Recent studies indicate a 107% increase in social media users from 2016 to 2017, with this growth centered predominantly in urban areas. Facebook's dominance of the social media market declined steadily throughout 2017, from an estimated 70% share in January to approximately 27% by the end of the year. YouTube, Twitter, and Russian social media network VKontakte together occupied slightly more than 60% of social media use as of December 2017.

### **Trade Promotion & Advertising**

A full range of advertising opportunities is available via print media, radio, television, billboards, promotional goods and sponsorship of events. Several local agencies can handle advertising campaigns.

### **Pricing**

The Kyrgyz Republic's VAT is currently 12%. There is also a sales tax of 1% for trade activity and 2% for all other business. For companies that are not obligated to pay VAT, sales taxes are a bit higher – 2% for trade activity, and 3% for all other business. In January 2017, the Kyrgyz government canceled sales tax for non-cash transactions. Leasing companies are exempt from VAT and sales tax, and receive a preferential income tax rate of 5%.

### **Sales Service/Customer Support**

Consistent, friendly customer service is still a relatively rare phenomenon in the Kyrgyz Republic, but the service in Bishkek is improving. Any firm offering reliable customer and after-sales service stands to benefit in the local marketplace.

## **Protecting Intellectual Property**

Granting patents is based on a first-to-file (or first-to-invent, depending on the country), first-in-right basis. Similarly, registering trademarks is based on a first-to-file (or first-to-use, depending on the country), first-in-right basis, so investors should consider how to obtain patent and trademark protection before introducing products or services to the local market. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. government cannot enforce rights for private individuals in the Kyrgyz Republic. It is the responsibility of the rights-holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in national law. The U.S. Commercial Service can provide a list of local lawyers upon request. The U.S. Embassy in Bishkek maintains a list of lawyers for the convenience of American citizens abroad.

While the U.S. government stands ready to assist, there is little we can do if the rights-holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. In no instance should U.S. government advice be seen as a substitute for the responsibility of a rights-holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners. A good partner is an important ally in protecting IP rights. Potential investors should consider carefully, however, whether to entrust registration of IP rights to a partner. Doing so may create a risk that the partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Projects and sales in the Kyrgyz Republic require constant attention.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting. There are a number of these organizations, both Kyrgyz Republic and U.S.-based. These include:

- The U.S. Chamber and local American Chambers of Commerce
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

In any foreign market companies should consider several general principles for effective protection of their intellectual property. For background, please link to our article on [Protecting Intellectual Property](#) and [Stopfakes.gov](#) for more resources.

## **Due Diligence**

Due diligence is difficult in the Kyrgyz Republic. Market research capacity is underdeveloped and reliable information can be difficult to find. Most reliable economic information is produced by aid and humanitarian organizations operating within the country, including the UNDP, USAID projects, the World Bank and the IMF. The American Chamber of Commerce in the Kyrgyz Republic and the U.S. Embassy can provide advice to firms planning to conduct business in the Kyrgyz Republic.

## **Local Professional Services**

Here are some firms providing professional services:

### **Kalikova & Associates**

Ms. Gulnara Kalikova, Director  
71 Erkindik Blvd.  
Bishkek  
Kyrgyz Republic  
Phone: +996 (312) 66 60 60  
Fax: +996 (312) 66 27 88  
Email: lawyer@k-a.kg  
Web: www.k-a.kg

### **Grand Thornton**

Mr. Gurgen Hakobyan, Director  
109, Turusbekova str, office 109,  
Bishkek  
Kyrgyz Republic  
Phone: +996 (312) 39 40 64  
<https://www.grantthornton.kg>

### **Ernst & Young Audit LLC**

Apartment 11, 170 Chui Ave.  
Bishkek  
Kyrgyz Republic  
Phone: +7 (727) 258 5960 (Almaty Office)

### **PricewaterhouseCoopers Bishkek LLP**

Dordoi - Plaza Business Center  
115 a Albraimova Street, 6th floor  
Bishkek, 720010  
Kyrgyz Republic  
Phone: +996 (312) 69 05 42  
Fax: +996 (312) 69 05 28

### **Deloitte & Touche**

Business Centre «Russia»  
19, Razzakov Street  
Office 905/906  
Bishkek 720040  
Kyrgyz Republic  
Phone: +996 (312) 39 82 88  
Fax: +996 (312) 39 82 89  
Email: bishkek@deloitte.kg

### **KPMG**

Mr. Gregor Mowat, Managing Director  
Office 201, 21 Erkindik Blvd  
Bishkek 720040  
Kyrgyz Republic  
Phone: +996 (312) 62 33 80  
E-mail: kpmg@kpmg.kg

## **Principal Business Associations**

The American Chamber of Commerce in the Kyrgyz Republic and the International Business Council accept U.S. companies into their memberships.

## **Limitations on Selling U.S. Products and Services**

There are no restrictions on selling U.S. products, though all products must conform to Kyrgyz and EAEU standards and regulations.

## **Web Resources**

- [Ministry of Finance](#)
- [AKI Press](#)
- [Delo](#)
- [The Times of Central Asia](#)
- [Evening Bishkek](#)
- [Max KG](#)
- [Koort](#)
- [Kyrgyz Turkish Manas University](#)
- [Deloitte](#)
- [American Chamber of Commerce in the Kyrgyz Republic](#)
- [Chamber of Commerce and Industry of the Kyrgyz Republic](#)

## **Leading Sectors for U.S. Exports & Investments**

### **Agricultural Sector**

#### **Overview**

The agricultural sector is the largest employer in the Kyrgyz Republic and accounts for an estimated 23% of GDP, but is disorganized and undercapitalized. Most agriculture is family-based on small plots of land. Larger production, particularly in apples, apricots, cherries, sugar beets, beans, cotton, tobacco, and walnuts, is regional and still small-scale compared to Western standards. Most families grow small amounts of fruits and vegetables that are consumed locally, though the Kyrgyz Republic did export more than \$95 million of produce in 2017.

Several international donor projects, including USAID, focus on improving credit to the sector, though the results of such efforts are mixed. There are opportunities for small-scale operations in a variety of areas: orchards, dried fruits, improved seed, fertilizer, small-scale farm equipment, food processing equipment and slaughterhouses, improved storage, and packaging.

#### **Leading Sub-Sectors**

##### *Food Processing/Packaging Equipment*

The agricultural sector remains the primary source of employment in the Kyrgyz Republic, with over 40% of the country's labor force participating in agriculture. The sector is also the second-largest component of national gross domestic product. Despite its significance to the economy, most vegetable production is seasonal, and export markets are quite limited due to inefficiencies, regional barriers and packaging deficiencies that limit the amount of transport produce can endure. Disorganization and limited capital not only hamper the fruit and vegetable industry, but also constrain cereal, dairy and meat production. Many international donors assist the agricultural sector, but inefficient and inadequate processing, packaging, and marketing limit the transition from localized production and consumption to international competition. Furthermore, many Kyrgyz dairy, meat, and fruit and vegetable producers are currently unable to meet the higher veterinary and phytosanitary standards of the EAEU necessary to export to other Union countries.

In general, the food processing industry of the Kyrgyz Republic remains underdeveloped. Local companies often lack sophisticated management skills and productive equipment, and many of them operate only at 20-40% of capacity. There is a demand for various types of food-processing equipment, including production lines for juice, ketchup, dried vegetables and fruits, potato chips, pasta products, meat products, and packaging. Local firms have limited financial resources and therefore prefer to purchase semi- and non-automated equipment. Refurbished and used equipment is popular for the same reason. Potential clients are food businesses with plans to produce new products or upgrade the packaging or quality of current product lines.

Most small food processing companies use local or Chinese equipment, which is much cheaper than U.S. or European machines. However, the largest and most successful companies use equipment from Italy, Germany, Austria and other European countries. Medium-size companies tend to buy Russian food processing equipment.

There are local representatives several international food processing equipment companies.

#### **Opportunities**

*Dairy:* The Kyrgyz Republic produces over one million tons of milk annually, but processes only 2.5% of its production. The cost of raw milk is lower in the Kyrgyz Republic than in neighboring Kazakhstan. While foreign investors cannot own farmland, joint ventures with local partners who own land could further decrease production costs and guarantee a consistent supply of raw milk. Milk yields can also be substantially increased

from the current 2-4 liters per day to 15 liters per day. Due to local inefficiencies, milk, butter, yogurt, cheese and other dairy products sold in the Kyrgyz Republic generally are sourced from more expensive producers in Russia and Kazakhstan, but Kyrgyz producers are catching up. Export of dairy products to the EAEU market, predominantly to Kazakhstan and Russia, doubled from 2016 (22 tons) to 2017 (45 tons). ; Investment in the local dairy industry could present an opportunity to perpetuate this trend.

***Meat:*** The Kyrgyz Republic has an underdeveloped meat market. Neighboring Kazakhstan provides a market for Kyrgyz beef and lamb products, but the Kyrgyz Republic lacks most of the processing capability for value-added production. Foreign investment is making improvements in meat processing; USAID helped establish a modern slaughterhouse in Naryn region, which has the largest number of cattle in the country. A joint Kyrgyz-Chinese company plans to launch what may become the largest meat-processing plant in the country in Balykchy in early 2019. Also, there is an increasing demand for chicken quarters which is largely satisfied by U.S. exports. U.S. poultry transiting Russia and Kazakhstan and destined for the Kyrgyz Republic faces a number of bureaucratic hurdles, but the Kyrgyz Ministry of Agriculture is taking steps to resolve the situation.

***Fruit & Vegetable Processing:*** Similar to the dairy industry, processed fruits and vegetables amount to slightly more than 2% of total production, but the export of dried fruits has been steadily increasing since 2016. Potential U.S. investors may be interested in establishing a factory to produce Western-quality processed fruits and vegetables. Possible products include marinated products, canned vegetables, and fruits.

## **Energy**

### **Leading Sub-sectors**

#### *Hydropower*

Hydropower accounts for the overwhelming majority of electricity produced in the Kyrgyz Republic (nearly 90%). However, heavily subsidized energy tariffs below cost recovery, corruption, and other obstacles have long hindered private investment in the sector. Lacking major new sources of investment, generating capacity has stagnated in the Kyrgyz Republic and failed to keep pace with growing energy demand. Once a net exporter of electricity, in recent years the Kyrgyz Republic has imported power to meet domestic demand. With rare exceptions, the majority of the Kyrgyz Republic's hydropower plants (HPPs), including Toktogul HPP, the country's principal source of electricity, were constructed in the Soviet era. Equipment is outdated and in need of replacement and upgrading, and poses a risk for system-wide catastrophic breakdowns.

#### **Opportunities**

U.S. firms have recently demonstrated an increasing interest in the Kyrgyz hydropower market, which presents a range of opportunities to prospective companies. The Kyrgyz government seeks to attract industry leaders with deep experience and technical know-how to improve the country's hydropower infrastructure. Major capacity generation projects financed in large part by IFIs offer an opportunity for private foreign companies to enter and compete in the Kyrgyz hydropower market. In 2017, the Kyrgyz government announced tenders to upgrade and expand generating capacity at 14 small HPPs across the country. The Kyrgyz government recently awarded a turn-key contract for the Asian Development Bank-supported modernization of the Toktogul HPP to a joint venture of GE Hydro (France) and GE Renewables (Switzerland), with delivery in November 2023. Targeted opportunities also exist for firms that provide niche engineering services and other support to the hydropower sector. Foremost among potential risks to entrants are the complexities of the local market, which continues to suffer from widespread corruption.

## **Franchising and Distribution:**

### **Overview**

Franchising and distribution offer the opportunity to introduce American products and brands into the Kyrgyz market and give local entrepreneurs an attractive entry point to purchase into a U.S. company. Recent years have witnessed a significant expansion of U.S. franchises operating in the Kyrgyz Republic, particularly in the food service, hospitality, and entertainment industries. There are more than 30 U.S. brands already officially operating in the Kyrgyz Republic, including Hyatt Regency, Coca-Cola Bottlers, KFC, Papa John's, Baskin-Robbins, Nike, Levi's, New Balance, General Electric, Avon and others.

In most instances, Kyrgyz franchisees of U.S. companies have purchased their licenses from regional master franchisers, often located in Moscow. Kyrgyz franchisees are held to the rigorous standards established by corporate headquarters, and in several instances have invested significant capital in order to receive company certification. Entrants into this market have largely partnered with Kyrgyz firms with a demonstrated track record of experience in related sectors, such as retail sales and distribution.

Increasing travel and internet penetration have raised international brand awareness among Kyrgyz consumers, particularly in urban areas. The Kyrgyz market has gradually matured over the last 26 years, with preferences evolving toward quality, branded products sold by authorized outlets, including franchises, over informal retailers. Western brands, including American product lines, are widely perceived by the Kyrgyz consumers as being of higher quality and command a premium price.

These trends are most prominent in Bishkek, where opportunities and levels of disposable incomes are highest in the country. At present, U.S. franchises in the Kyrgyz Republic are predominantly located in Bishkek, with several franchisees considering expanding operations to Osh, the country's second-largest city, located in the south.

The growing middle class and increasing disposable income, particularly in Bishkek, offer real opportunities for American firms that pair with locally-based operators who can navigate the complexities of the Kyrgyz business environment. Targeted opportunities exist in the Kyrgyz Republic, particularly for U.S.-based restaurant operators, though thorough market research is important to understand the distinct tastes and preferences of local consumers. On balance, Kyrgyz consumer demand remains very sensitive to price, and U.S. companies that have opened franchises in the Kyrgyz Republic benefit from economies of scale and are able to offer high-quality products at an attractive price point. Kyrgyz entrepreneurs, particularly those with international experience, are largely open to adopting U.S. business practices, though maintaining rigorous standards set by corporate headquarters involve higher costs for local franchise operators.

## Mining Industry Equipment

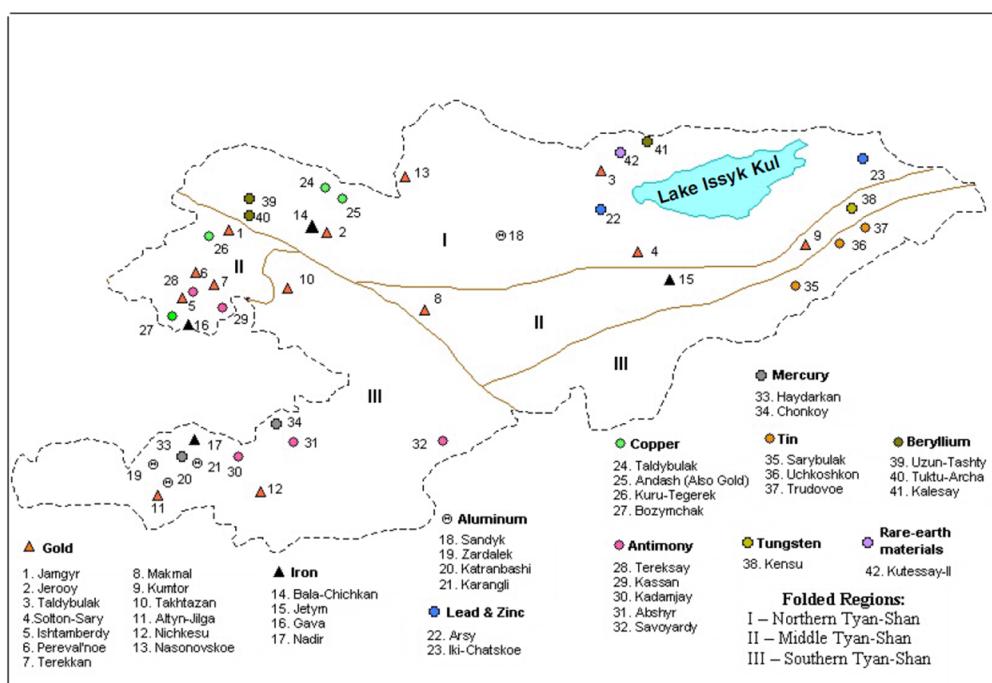
### Overview

Mining in the Kyrgyz Republic remains a sensitive area, and major investors must consider both politics and economics when determining whether to enter the local market. However, supplying the mining industry provides opportunities for U.S. exporters. The Kyrgyz Republic is home to a plethora of minerals, including gold, iron, copper, coal, and antimony. There are large- and small-scale mines throughout the country.

The economic output of the Kumtor gold mine is greater than all other mines in the country combined. Kumtor, the largest gold producer in the Kyrgyz Republic and operator of the namesake mine, produces 10-23 metric tons of gold per year. In operation since 1996, it has estimated proven and probable "contained gold" reserves of 114 metric tons. The Kyrgyz Republic owns approximately 30% of the shares of Centerra Gold, the Canadian parent of Kumtor. The macroeconomic impact of the Kumtor mine is substantial, comprising a significant share of the industrial sector and 8-10% of GDP.

The government has worked hard to improve transparency in the sector, but it has a long way to go before meeting international standards. The Kyrgyz Republic's membership in the Extractives Industry Transparency Initiative (EITI) was suspended in 2017 for inadequate progress overall in implementing the 2016 EITI Standard, citing a need for improvement in terms of disclosure of information related to the extractive sector. Kumtor has been a politically sensitive topic in the Kyrgyz Republic since the company's inception, and local communities often protest proposed new mining sites.

The State Committee on Industry, Energy and Subsoil Use maintains a website to update prospective investors about sites and bids. It is in Russian, Kyrgyz, and English, though the English is not updated as regularly as the other two.



### Opportunities

- Feasibility and exploration studies: Foreign firms are commonly employed to conduct feasibility studies, as well as to further explore potential reserves.

- Mining & ore processing equipment: U.S.-manufactured machinery, particularly excavating, loading, and transportation equipment, is utilized at the Kumtor gold mine. Such equipment could be used at other mines, following further investment and construction. Kumtor's namesake operator procures U.S.-manufactured parts and supplies, and periodically makes significant capital expenditures on U.S.-manufactured equipment in support of mine operations.
- Development of existing and new mineral deposits: Gold, silver, tin, copper, tungsten, coal, oil, natural gas, antimony, and other minerals can be exploited with additional investment and development.

## **Travel and Tourism**

### **Overview**

The tourism industry in the Kyrgyz Republic contributes an estimated 4.7% to GDP and represents an important growth industry for jobs and economic development. The Kyrgyz Republic features numerous unique natural and cultural attractions such as Lake Issyk-Kul -- the second-largest alpine lake in the world, the prominent Tian-Shan mountain range, and a section of the historic "Silk Road," all with potential to attract additional international visitors. In September 2018, the Kyrgyz Republic will host the third World Nomad Games, and a concerted PR campaign will attract global media attention to the Games and help promote the Kyrgyz Republic's unique brand on the international stage.

The Kyrgyz Republic was a popular regional tourist destination during Soviet times, with nearly one million visitors annually during the 1980s, predominantly from other Soviet republics. A wide array of tourist lodging, along with supporting physical infrastructure including paved roads, was developed. Following the dissolution of the Soviet Union, tourism in the Kyrgyz Republic collapsed, with arrivals declining by nearly 90% by the end of the 1990s. The tourism industry experienced years of contraction and disinvestment, from which the sector is only recently beginning to recover.

Since independence the number of tourists has steadily rebounded to 1.3 million in 2017, and visitors from the former Soviet Union continue to comprise the overwhelming majority of tourists who travel to the Kyrgyz Republic. According to estimates, approximately 70% of tourists visit from Kazakhstan, and 13% from Russia, with roughly 2% from European countries. The tourism sector employs approximately 40,000 people, or roughly 2% of the Kyrgyz Republic's total formal employment.

While the sector has made significant strides in recent years, it continues to face several challenges. Standards, particularly in customer service, remain weak and inconsistent across the sector, and service capacity is underdeveloped. Tourist infrastructure is slowly improving, but significant capital investment is needed to reverse two decades of degradation. Promotion of the sector, particularly to external markets, is also improving, but lacks a unified marketing and information campaign. Due to a failure to fully comply with International Civil Aviation Organization (ICAO) standards, the Kyrgyz Republic remains on the EU's "black list," which prevents European carriers from operating direct routes to the country and subsequently hampers the further development of tourism.

Through its Business Growth Initiative, USAID has worked with partners across the sector to improve tourism potential in the Kyrgyz Republic. USAID support has helped establish and coordinate international marketing efforts, fostered the development of basic industry standards, improved local planning, and upgraded tourist information and sector outreach.

### **Opportunities**

The tourism industry in the Kyrgyz Republic offers targeted opportunities for U.S. investment, particularly in the hospitality sector. Bishkek has very few Western hotel chains, and the popular resort destination of Lake Issyk-Kul has none. Local Kyrgyz entrepreneurs are exploring the possibility to opening franchise locations of major U.S. hospitality chains. Opportunities also exist for U.S. tour operators seeking to sell both individual tour packages to the Kyrgyz Republic and regional trips to Central Asian destinations along the historic Silk Road.

## **Garment Manufacturing**

### **Overview**

The Kyrgyz Republic has been home to a notable garment manufacturing industry since Soviet times. Since independence, the sector experienced rapid development, fueled by comparative advantages such as low labor costs, favorable customs agreements, and historical ties to large, post-Soviet consumer markets. Since 2014, the sector has grown by approximately 1100%.

The vast majority of Kyrgyz companies in the industry operate as “cut-make-trim” garment manufacturers, with domestic textile production having virtually ceased. The sector remains fragmented, comprised predominantly of numerous small- and medium-sized enterprises (SMEs), with many manufacturers operating informally. Due to this aspect, estimates of both the market size and the number of worker employed in the sector vary widely. The latest statistics, from 2016, estimated garment industry production at \$375 million, with approximately \$95.5 million - nearly 7% of the country’s total – as exports. An estimated 150,000-300,000 people work in the garment manufacturing sector in the Kyrgyz Republic, or between 6-12% of the total labor force.

After years of producing for the bazaar trade, without firm orders, Kyrgyz garment manufacturers are now beginning to fulfill “cut-make-trim” contracts with fabric and fixtures provided by clients, with a few advanced firms involved in design, branding and production. As global competition in the sector has accelerated in recent years, Kyrgyz garment manufacturers have been forced to adapt to shifts in supply chains and are now positioning themselves to meet this international demand.

USAID partnered with SMEs in the garment and apparel industry to increase their export potential. Through this cooperation, Kyrgyz apparel manufacturers have undergone Business Social Compliance Initiative (BSCI) social and labor audits and certification, enhanced their quality control systems and expanded their base of suppliers. As a result, they have been able to attract new buyers to include international retailers from Europe in addition to their traditional Russian and Kazakh clients.

However, several other short- and medium-term challenges persist, including a lack of access to finance and modern inputs, and an underdeveloped capacity to market to demanding, yet lucrative European buyers. The Kyrgyz Republic’s accession to the Eurasian Economic Union in August 2015 raised tariffs on several inputs into the garment manufacturing process, and the country continues to harmonize its laws and regulations to conform to the standards of the EAEU.

### **Opportunities**

The garment and apparel manufacturing industry presents opportunities for U.S. retailers to diversify their supply chain away from countries with troubling labor standards, and particularly those seeking to export to the larger, nearby markets of Russia and Kazakhstan. U.S. retailers committed to low carbon footprints will also be encouraged by the fact that 80% of electricity is generated from renewable hydro-power assets. Opportunities also exist for professional service providers that specialize in certification and standardization and assist garment manufacturers in navigating the export process. On balance, the sector requires significant capital expenditures to upgrade machinery in order to remain competitive, which offers prospects for U.S. producers of advanced and specialized sewing, processing and cutting equipment.

## **Customs, Regulations & Standards**

### **Trade Barriers**

Structural barriers to trade in the Kyrgyz Republic include a weak system of business law, a lack of an effective judicial system for breach-of-contract resolution, an unwieldy government bureaucracy, and rampant corruption. Many companies serving the market report significant logistical difficulties. In addition, there is a burdensome tax monitoring system for all companies operating in the Kyrgyz Republic, which may affect U.S. firms that decide to operate through a representative office.

Uniform implementation of EAEU customs requirements has been uneven across the Union and within the Kyrgyz Republic itself. Customs inspectors are unable or unwilling to make informed decisions regarding requirements or clearances. Widespread corruption, extending even to the judicial system, affects nearly all aspects of doing business, including customs clearance, registration, employment of locals and foreigners, and payment of taxes.

### **Import Tariff**

With the Kyrgyz Republic's entry into the EAEU, the average import tariff rate increased from 5.04% to 9.4%, according to Ministry of Economy estimates. Member countries are opening their markets to one another, exposing domestic producers to greater competition. Popular pressure has forced the government to consider raising customs duties within the EAEU, though the legality of such measures is debatable. The Kyrgyz Republic is a member of the WTO, but it remains unclear how the country will balance the demands of the Eurasian Economic Union and its WTO commitments.

The full EAEU tariff schedule can be found (in Russian only) at the websites of the [Eurasian Economic Commission](#).

### **Import Requirements & Documentation**

For the successful importation of products into the Kyrgyz Republic, the local partner/office must have the following documents:

1. Charter of the company (notarized)
2. Certificate of registration from the Statistical Department (notarized copy)
3. Certificate of registration from the Ministry of Justice of the Kyrgyz Republic (notarized copy)
4. Kyrgyz taxpayer identification number with registration form of the taxpayer (notarized copy)
5. An official document from the bank confirming the presence of an account (original)
6. An official document from the tax inspectorate confirming company's good standing (original)
7. Completed documentation concerning company's foreign trade activities
8. Warranty for the right of cargo handling in customs sphere (original)
9. Passport of the person who is in charge of customs clearing

Additionally, when imported goods arrive in country, the local counterpart must have the following documents at hand:

1. Contract between the local and the U.S. company
2. Invoice
3. Certificate of origination from the sending country

## **Labeling/Marking Requirements**

Products sold in the Kyrgyz Republic must include Russian and/or Kyrgyz language labeling. Labeling in both languages is encouraged.

## **U.S. Export Controls**

U.S. products exported to the Kyrgyz Republic must conform to export controls established by the U.S. government. Such controlled items may include weapons, military hardware, high-technology goods, and other items.

A list that consolidates eleven export screening lists of the Departments of Commerce, State and the Treasury into a single search as an aid to industry in conducting electronic screens of potential parties to regulated transactions is available here: [Trade.gov - Consolidated Screening List API](#).

## **Temporary Entry**

As a rule, Kyrgyz officials give temporary imports full conditional exemption from import duties and taxes. For goods to qualify as “temporary entry”, the importer must identify them, so customs authorities can ensure that those presented for re-export are the same as the ones originally brought in. Products that cannot be identified under this definition (such as electricity), cannot be placed under the temporary import regime.

## **Prohibited & Restricted Imports**

Weapons of mass destruction, narcotics, and pornography are prohibited imports.

## **Customs Regulations**

On May 8, 2015, the Kyrgyz Republic adopted the unified customs tariffs and non-tariff regulations of the Russia-led Eurasian Economic Union. The Kyrgyz Republic implemented the new common Customs Code and abolished internal customs borders upon fully acceding to the Union in August 2015, but implementation of the agreement is slow. Detailed information on legal agreements and the customs duties schedule can be found at the website of the Eurasian Economic Commission.

## **Standards for Trade**

In April 2004, the Parliament passed a technical regulation law, amended in 2009, 2011, 2014, and 2015, which decreased government regulation. The national system previously functioned along Soviet standards requiring obligatory certification of 70% of all products. Approximately 50,000 official documents regulated security and quality of goods. The 2004 law states that certification is only required for products that can potentially endanger consumer health. This legislative change reduced standards coverage from 70 to 22 percent. Other goods can be certified on a voluntary basis, but only to confirm product quality. Unfortunately, EAEU accession is changing much of this, but implementation of new protocols has been slow. Concerns about standards should be directed to the U.S. Embassy in Bishkek.

### **Standards**

Center for Standards and Metrology under the Ministry of Economy of the Kyrgyz Republic

197 Panfilov Street

720040 Bishkek

Kyrgyz Republic

Phone: +996 (312) 62 37 90

Fax: +996 (312) 66 13 67

E-mail: [nism@nism.gov.kg](mailto:nism@nism.gov.kg)

Web: [www.nism.gov.kg](http://www.nism.gov.kg)

Testing, inspection and certification

The Center for Standards and Metrology under the Ministry of Economy of the Kyrgyz Republic is responsible for accreditation. Products that could possibly endanger human health must be certified. This list includes items such as alcohol, tobacco products, medical supplies and equipment, and other items. Conformity assessment is not required for goods that do not require product certification.

#### Publication of technical regulations

The Kyrgyz Center of National Standards and Metrology maintains most technical regulations and has regulations available for public access.

Members of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to notify to the WTO proposed technical regulations and conformity assessment procedures that could affect trade. Notify U.S. ([www.nist.gov/notifyus](http://www.nist.gov/notifyus)) is a free, web-based e-mail registration service that captures and makes available for review and comment key information on draft regulations and conformity assessment procedures. Users receive customized e-mail alerts when new notifications are added by selected country(ies) and industry sector(s) of interest, and can also request full texts of regulations. This service and its associated web site are managed and operated by the USA WTO TBT Inquiry Point housed within the National Institute of Standards and Technology, part of the U.S. Department of Commerce.

#### Contact Information

Center for Standards and Metrology under the Ministry of Economy of the Kyrgyz Republic  
197 Panfilov Street  
Bishkek 720040  
Kyrgyz Republic  
Office: +996 (312) 62 37 90  
E-mail: [nism@nism.gov.kg](mailto:nism@nism.gov.kg)  
Internet: [www.nism.gov.kg](http://www.nism.gov.kg)

#### Trade Agreements

On April 15, 1994, CIS member states (Azerbaijan, Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan) agreed to establish a free-trade zone. According to the agreement, imports of goods produced within the CIS having respective certificates of origin are not subject to any customs or value-added taxes in the Kyrgyz Republic. However, this exemption does not cover excise goods (such as alcohol and tobacco); furniture; video, television and computer equipment and any accessories to such electronic equipment. Russia, Belarus, Kazakhstan, the Kyrgyz Republic and Tajikistan have also signed a customs agreement.

In June 2004, the Kyrgyz Republic signed a Trade and Investment Framework Agreement (TIFA) with the United States, Kazakhstan, Tajikistan, Turkmenistan, and Uzbekistan. The objective of the TIFA is to provide a forum for addressing trade issues and enhancing trade and investment between the United States and Central Asia. The TIFA also provides a platform to address regional trade issues that hamper intra-regional trade, economic development and investment. The TIFA creates a United States-Central Asia Council on Trade and Investment, which is designed to consider a wide range of issues that include, but are not limited to, intellectual property, labor, environmental issues and enhancing the participation of small- and medium-sized enterprises in trade and investment.

The Kyrgyz Republic has bilateral investment treaties with the United States, Armenia, Azerbaijan, Belarus, China, Finland, France, Georgia, Germany, India, Indonesia, Iran, Kazakhstan, the Republic of Korea, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Sweden, Switzerland, Tajikistan, Turkey, United Kingdom, Ukraine and Uzbekistan.

The Kyrgyz Republic has also signed double-taxation treaties with 27 countries including Armenia, Austria, Belarus, Canada, China, Finland, Germany, India, Iran, Kazakhstan, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Poland, Russia, Switzerland, Tajikistan, Turkey, Ukraine, and Uzbekistan. The U.S.-U.S.S.R. treaty on double taxation, which was signed in 1973, remains in effect between the U.S. and the Kyrgyz Republic.

In August 2015, the Kyrgyz Republic formally joined the Eurasian Economic Union (EAEU). However, most of the technical regulations, including taxes, tariffs, inspections, and standards, will not be fully implemented for many years to come. Several aspects of the agreement, including levels of taxation on various goods, have not been decided.

### **Licensing Requirements for Professional Services**

Per the Law "On Licensing System in the Kyrgyz Republic" of November 2014 with amendments of May 2017, licenses are required only for activities and operations specified by law including the following:

- Production, transmission, distribution, sale, export and import of electricity (except electricity produced from renewable sources or from other sources for personal use with capacity up to 1,000 kWh);
- Production, transmission, distribution, sale, export and import of heat (except heat produced from renewable sources or from any sources for personal use);
- Processing of oil and natural gas, except industrial-scale production and sale of bioethanol produced from vegetable feed;
- Production, transfer, distribution, and sale of natural gas;
- Production and distribution of ethyl alcohol;
- Production and distribution (storage for production or sale purposes, wholesale and retail trade) of alcoholic products;
- Private medical practice (except under a service or employment contract with private medical institutions or individual entrepreneurs);
- Production, manufacture and sale of medicines and medical equipment;
- Production and sale of vaccines and serums in specialized veterinary enterprises;
- Activities involving work with RG2 microorganisms;
- Activities in the field of electric communication;
- Activities in the field of postal communication;
- Activities in the field of data transfer;
- TV and radio broadcasting activities, including production, transmission, and distribution of broadcasting programs;
- Urban planning, research and design of residential, public and production buildings and structures (Category I, II and III facilities);
- Construction and installation operations, except construction of individual residential houses (Category I, II and III facilities);
- Passenger transport services by motor vehicle (except taxi cars);

- International cargo transportation by truck;
- Passenger and (or) cargo transportation by air;
- Aircraft ground handling in airports (aerodromes) during arrival and departure, except maintenance and (or) repair of aircrafts;
- Passenger and (or) cargo transportation by water;
- Banking operations specified under Article 2.4.2 of the Law "On Licensing and Permit System in the Kyrgyz Republic";
- Credit union activities;
- Microfinance activities;
- Pawn shop activities;
- Foreign currency exchange services;
- Payment intermediary services using IT-based and electronic payment systems;
- Acceptance, processing, and issuance of financial information (processing and clearing services) relating to payments and settlements between third parties and participants of the payment system of a given processing or clearing center;
- Betting office and bookmaker activities;
- Lottery activities (except stimulating lottery);
- Transportation (including trans-boundary transportation) of toxic substances, including radioactive waste;
- Design, manufacture and sale of military products (munitions, military equipment, military-technical property, documentation, intellectual property, military-technical information referred to military products under Kyrgyz law) and military services (maintenance, upgrade, and disposal of munitions or military equipment and their transportation, supply, and storage);
- Production, use, disposal of industrial explosive materials;
- Sale of explosive substances and products (including pyrotechnic ones);
- Production, repair, and trade in weapons and munitions;
- Design, production, manufacture, processing, storage, issue, sale, purchase and distribution of narcotic drugs, psychotropic substances and their precursors;
- Advocate practice;
- Private notarial practice;
- Voluntary universal life insurance services;
- Voluntary personal insurance services;
- Voluntary property insurance services;
- Voluntary liability insurance services;
- Mandatory insurance services;
- Mandatory and voluntary inward reinsurance services;

- Non-governmental pension fund activities;
- Organized market for trading securities;
- Securities broker services;
- Security holders registry keeper services;
- Securities depository services;
- Securities dealer services;
- Investment fund activities;
- Investment trust activities;
- Audit services;
- Bankruptcy administration services;
- Design, installation, adjustment and repair of anti-fire automatic devices; flame-proofing of wooden structures and combustible theatrical display equipment;
- Educational activities (except state and municipal educational institutions carrying out preschool, primary, basic and secondary general education programs);
- Import or export of specific goods according to the list approved by the Government of the Kyrgyz Republic;
- Import, export, or re-export of goods included in the National Checklist of Controlled Products.

Additionally, licensing is mandatory for the following activities involving the use of limited public resources:

- Using the radio frequency spectrum to provide electrical communication and (or) data transmission services;
- Taking timber from the woods of the forestry fund (felling license, small-scale timber supply permit);
- Taking flora for commercial purposes (flora-taking permit, forest-use permit);
- Disposal, storage, burial and elimination of toxic waste, including radioactive waste;
- Mineral tenure-related activities
- Generation, use, processing, formation, storage, and elimination of substances which can form explosive mixtures (flammable oxidizing gases and filling stations which fill compressed or liquefied gas cylinders);

Generation, formation, storage, use and elimination of hazardous chemical substances.

## **Web Resources**

Customs is the best source for information regarding changes to trade regulations in the Kyrgyz Republic.



## **Investment Climate Statement**

### **Executive Summary**

The investment climate in the Kyrgyz Republic is characterized by considerable risk and uncertain time horizons. Widespread corruption and uneven application of the rule of law continue to pose major obstacles for the business community. The judicial system is not fully independent, and each sector of government experiences capacity and resource shortages. Weak enforcement undermines the legal and regulatory framework, especially with regard to intellectual property rights. In addition to at times restricting movement of expatriate staff of foreign entities, in one case the Kyrgyz government arbitrarily detained local staff for executing routine official duties. Potential investors should also be aware that more than an estimated 60 percent of economic activity in the country occurs in the unregulated gray economy.

Kyrgyz government officials continue to speak positively and with hope of factors they say indicate an improving investment climate, but there have been few significant and measurable improvements. The government has identified FDI as a key component to growing the economy and has created a strategic roadmap for economic development designed to facilitate this growth. The government is taking steps to streamline the process of starting a business, as well as its tax regime. Still, many burdensome regulations hinder business development for foreigners and locals alike.

The Kyrgyz government's relationship with Centerra Gold, a Toronto-based company that is the single largest source of FDI in the country, continues to serve as the bellwether for Western investment. In 2016, Kyrgyz law enforcement officials raided the Bishkek headquarters of Kumtor Gold, Centerra's subsidiary which operates the Kyrgyz Republic's largest gold mine, on suspicions of financial irregularities. The Kyrgyz government prevented expatriate officials from exiting the country while a local court issued an injunction precluding the company from transferring profits to Centerra. The Kyrgyz government's failures to abide by previous agreements led Centerra to file claims in a court of international arbitration. The two parties successfully negotiated a comprehensive settlement in September 2017 that lifted the travel ban and allowed for the repatriation of profits, however subsequent changes in the Kyrgyz government have delayed full implementation of the agreement and made further renegotiation possible. A hydropower deal with General Electric signed in early 2018 may prove to be an additional point of reference for potential foreign investors.

The Kyrgyz Republic struggles to meet basic infrastructure needs. The government has difficulty providing adequate power supply, especially outside of the capital, Bishkek. Several failed infrastructure projects, tied to corruption allegations, plagued the government's development efforts. Power plants, roads, and canals are dilapidated and in need of major capital investment. Chinese infrastructure projects tend to improve market access predominantly for Chinese goods.

The Kyrgyz Republic is still undergoing an economic transition to the Eurasian Economic Union (EEAU), whose current members also include Russia, Kazakhstan, Armenia, and Belarus. Membership has altered economic conditions, as cheaper goods from competitive firms of other EEAU member states have flooded the local market and squeezed Kyrgyz domestic industries. EEAU accession also introduced new regulatory hurdles and led to an increase in non-tariff measures, to which the Kyrgyz government and businesses alike have struggled to adapt. Persistent reliance on Russia as a source of remittances, imports, and financial support subjects the economy to Russian influence.

Kyrgyz entrepreneurs increasingly are purchasing franchise licenses of major U.S.-based companies, particularly in the food service industry. The Kyrgyz Republic has also experienced a modest uptick in interest from U.S. corporations interested in bidding on infrastructure development projects funded by international financial institutions.

Table 1

Measure	Year	Index/Rank	Website Address
TI Corruption Perceptions Index	2017	135 of 175	<a href="http://www.transparency.org/research/cpi/overview">http://www.transparency.org/research/cpi/overview</a>
World Bank's Doing Business Report "Ease of Doing Business"	2017	77 of 190	<a href="http://www.doingbusiness.org/rankings">http://www.doingbusiness.org/rankings</a>
Global Innovation Index	2017	95 of 128	<a href="https://www.globalinnovationindex.org/analysis-indicator">https://www.globalinnovationindex.org/analysis-indicator</a>
U.S. FDI in partner country (M USD, stock positions)	2016	USD 18	<a href="http://www.bea.gov/international/factsheet/">http://www.bea.gov/international/factsheet/</a>
World Bank GNI per capita	2016	USD 1,100	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">http://data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

## Openness To, and Restrictions Upon, Foreign Investment

### Policies Towards Foreign Direct Investment

The Kyrgyz Republic is open to foreign direct investment and the government publicly recognizes that foreign direct investment is an important component to growing the economy. Laws exist that make the investment climate more favorable than in the past for foreign companies. Application of these laws, however, is inconsistent, which can cause problems for and deter foreign investors. In addition, government activities, including demands for renegotiation of operating contracts, invasive and time-consuming audits, levies of large retroactive fines, and disputes over licenses, are impediments to foreign investment.

Since 1993, the United States has a bilateral investment treaty with the Kyrgyz Republic that encourages and offers reciprocal protection of investment.

The Kyrgyz Republic has an Investment Promotion and Protection Agency under the Government of the Kyrgyz Republic. The agency participates in the development and implementation of measures to attract and stimulate investment activity. Under the umbrella of the Prime Minister's office, its mandate is to coordinate with state bodies, local municipalities, business entities, and non-state actors to promote investment in the Kyrgyz Republic, including private investment and public-private partnerships. The Agency has investor support programs to help guide investors through the registration process and conducts outreach aimed at helping create an environment conducive to foreign investment. The Agency often coordinates with international donor organizations on hosting round tables discussions, exchanges, and capacity building workshops in the field of economic development.

The Agency serves as a vehicle for maintaining an ongoing dialogue with foreign investors. At present, the Kyrgyz Republic does not have an Ombudsman with oversight on foreign investment. In 2017, the Kyrgyz Parliament created a Business and Entrepreneurship Development Council under the Speaker of the Parliament whose primary function is to strengthen cooperation between the country's legislative body and business entities. The Council consists of MPs, business community representatives from across sectors of the economy, and members business associations. It meets on a regular basis to discuss measures to improve the investment, promotion of entrepreneurship, and legislation to facilitate doing business in the Kyrgyz Republic.

The Kyrgyz government also interacts with the business community via a number of local associations that serve as a voice for entrepreneurs and corporations, including the American Chamber of Commerce in the Kyrgyz Republic (AmCham), the International Business Council (IBC), and Business Association JIA, among others. The Ministry of Economy, Parliamentary Business and Entrepreneurship Development Council, and other government bodies often seek the opinion of these associations during the formulation of policy. In 2016, the Washington, DC-based U.S.-Kyrgyz Business Council relaunched under new leadership. The Business Council, which counts major U.S. multinational corporations among its charter members, seeks to strengthen economic and commercial ties between the United States and the Kyrgyz Republic.

#### **Limits on Foreign Control and Right to Private Ownership and Establishment**

While there are no official limits on foreign control, a large investor in a politically sensitive industry may find that the government imposes investor-specific requirements such as a high percentage of local workforce employment or a minimum number of local seats on a board of directors. Foreigners have the right to establish and own businesses. In 2017, U.S. investors did not allege any restrictions on market access.

According to the law, the Kyrgyz Republic guarantees equal treatment to investors and places no limit on foreign ownership or control. In 2017, there were no known cases of sector-specific restrictions, limitations or requirements applied to foreign ownership and control. In April 2017, the Kyrgyz Parliament passed the "Law on Mass Media" that limits foreign ownership of television broadcasters to 35 percent. This law does not affect print media or radio stations.

The US Embassy is unaware of any formal investment screening processes in the Kyrgyz Republic.

#### **Other Investment Policy Reviews**

In 2014, the World Trade Organization (WTO) reviewed Kyrgyzstan. In 2016, the International Finance Corporation (IFC), a member of the World Bank Group, released a report on the Kyrgyz investment climate in January 2016. The report is available here: <http://www.worldbank.org/en/news/press-release/2016/01/28/world-bank-group-helps-boost-investment-in-the-kyrgyz-republic>.

#### **Business Facilitation**

The Kyrgyz Republic does not have a business registration website. Registration of legal entities, branches, or representative offices in the Kyrgyz Republic is based on "registration by notification" and the "one stop-shop" practice. State registration of a legal entity is completed within three business days from the date of filing the necessary documents for a specified fee. The Kyrgyz Republic ranked in the top quintile of the World Bank's 2018 *Doing Business* report (29<sup>th</sup> out of 190 countries surveyed) in "Starting a Business."

#### **Outward Investment**

The US Embassy is not aware of host government efforts to promote outward investment from the Kyrgyz Republic, nor of any instances in which the government sought to restrict domestic investors from investing abroad.

## **Bilateral Investment Agreements and Taxation Treaties**

The Kyrgyz Republic currently has bilateral investment treaties with the United States, Armenia, Azerbaijan, Belarus, China, Finland, France, Georgia, Germany, India, Indonesia, Iran, Kazakhstan, the Republic of Korea, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Sweden, Switzerland, Tajikistan, Turkey, United Kingdom, Ukraine, and Uzbekistan.

The U.S.-U.S.S.R. treaty on double taxation, which was signed in 1973, remains in effect between the U.S. and the Kyrgyz Republic. The Kyrgyz Republic has also signed double taxation treaties with Armenia, Austria, Belarus, Canada, China, Finland, Germany, India, Iran, Kazakhstan, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Poland, Russia, Switzerland, Tajikistan, Turkey, Ukraine, and Uzbekistan.

In August 2015, the Kyrgyz Republic fully acceded to the Eurasian Economic Union (EAEU), joining Russia, Belarus, Kazakhstan, and Armenia in the trade bloc. Though regulations are still being harmonized, free movement of labor, capital, and goods forms the basis of the EAEU.

The Kyrgyz Republic has a Bilateral Investment Treaty with the United States, which entered into force in 1993.

## **Legal Regime**

### **Transparency of the Regulatory System**

Although many laws and regulations in the Kyrgyz Republic were developed with technical assistance from donors and are consonant with international best practices, the legal and regulatory system of the Kyrgyz Republic continues to develop slowly. The process of implementing regulations and court orders relating to commercial transactions remains inconsistent. Some court decisions, which appear to contradict established procedures, can be implemented expeditiously in certain cases and are subject to outside influence. The Kyrgyz system is heavily bureaucratic and investors must overcome a great deal of formalities in order to conduct business.

After the former president was deposed in 2010, the interim government established public supervisory boards in ministries, state agencies, and state committee. These bodies are typically comprised of former government employees and representatives from non-state actors, including business associations, rights organizations, the media, and independent experts. The objective of these committees is to provide citizen oversight of policy formulation and execution, though their efficacy remains in question. There have been no known facts where U.S. Investors had been discriminated against during the reporting period.

Rule-making authority is vested in the Kyrgyz Parliament, which features robust committees that oversee legislation and regulations affecting several areas of the economy, including: the Committee on Economic and Fiscal Policy; the Committee on Fuel, Energy, and Subsoil Management; the Committee on Transport, Communications, Architecture, and Construction; and the Committee on Budget and Finance. The Office of the Prosecutor General is the supreme legal and regulatory enforcement body in the Kyrgyz Republic. The State Service on Financial Market Regulation and Supervision and the State Service on Combating Economic Crimes under the Kyrgyz Government both play important regulatory roles. The Anticorruption Service under the State National Security Committee is the state body tasked to prevent, suppress, and identify corruption within state agencies.

Accounting procedures tend to adhere to internationally recognized accounting rules, such as the International Financial Reporting Standards (IFRS), and audits are conducted regularly, often in compliance with agreements with international financial institutions (IFIs). Audit results of state organizations tend to be publicly available, unlike those of private organizations. Draft bills or regulations are posted on Parliament's web site and are typically open to public comment for 30 days prior to consideration by Parliament and its committees.

Parliament often holds public hearings on draft legislation, and is open to the participation of representatives of civil society organizations and the business community in relevant hearing.

The Investment Promotion and Protection Agency (IPPA), under the Government of the Kyrgyz Republic, assists investors with bureaucratic procedures. This agency also consolidates information about potential investment projects in the Kyrgyz Republic. However, the efficacy of this office in assisting firms with setting up shop is limited since official bureaucratic procedures comprise only some of the hurdles to opening a business. Investment councils, under the auspices of the Office of the President and Parliament respectively, exist to further regulatory improvements for the business climate. Contradictory government decrees often create bureaucratic paralysis or opportunities for bribe solicitation in order to complete normal bureaucratic functions. As often in the Kyrgyz Republic, the legal and regulatory framework is largely sound but reports about weak implementation and enforcement abound.

Regulatory enforcement bodies are known to conduct periodic inspections according to standards defined by law. However, businesses often complain about the uneven application of rule of law in the Kyrgyz Republic. Businesses that do not meet legally defined standards are often fined depending on the severity of the violation, and the enforcement process is reviewable through the judicial system.

### **International Regulatory Considerations**

In August 2015, the Kyrgyz Republic acceded to the Eurasian Economic Union (EAEU), whose current members also include Russia, Kazakhstan, Armenia, and Belarus, and adopted the Union's b. The Kyrgyz Republic continues to harmonize its laws to comply with regulations set by the Eurasian Economic Commission, the executive body of the EAEU. However, transition-related issues still continue to persist, and numerous Kyrgyz entrepreneurs have criticized non-tariff measures that emerged after the country's accession to the Union, which act as barriers that prevent some local exporters from fully accessing the wider EAEU market.

The United States and other international partners provided substantial technical assistance to the Kyrgyz Republic in support of its accession to the WTO in 1998, and the country's regulatory system reflects many international norms and best practices. The Law on the Fundamentals of Technical Regulation in the Kyrgyz Republic, which provides for standardization principles under the WTO Technical Barriers to Trade Agreement, entered into force in 2004. To Post's knowledge, the Kyrgyz government notifies all draft technical regulations to the WTO Committee on Technical Barriers to Trade (TBT). In 2016, the Kyrgyz Republic ratified the WTO Trade Facilitation Agreement.

### **Legal System and Judicial Independence**

The formal legal system of the Kyrgyz SSR largely mirrored that of other union republics. The legal system has undergone a dramatic transformation since the breakup of the Soviet Union. The general principles of the reform encourage ideological and political pluralism, a socially oriented market economy, and the expansion of individual rights and freedoms. Major barriers to foreign investment derive from a lack of adequate implementation rather than gaps in existing laws.

The judicial system is technically independent, but political interference and corruption regularly besmirch its reputation and undermine its effectiveness. Resolution of an investment dispute within the Kyrgyz Republic depends on several factors, namely who the parties are and the amount of investment.

The key problem in dispute resolution is the weak and opaque Kyrgyz judicial system that often fails to act as an independent arbiter, according to local business associations and councils. Since most of these disputes are between foreign investors and the Kyrgyz Government, local courts often serve as executors of the authorities' political agenda. Regulations and enforcement actions can be appealed and are adjudicated in the national court system.

## **Laws and Regulations on Foreign Direct Investment**

The Kyrgyz Republic's main legal framework for foreign direct investment remains the "2003 Law on Investments," and the "Law of the Kyrgyz Republic on Amendments to the Law on Investments," adopted in February 2015. Cases that have gone through the justice system however, have been reported to take years, with the process characterized by a lack of judicial independence.

The Kyrgyz Republic does not have a business registration website. The IPPA maintains the country's main website for investment queries, [www.invest.gov.kg](http://www.invest.gov.kg). The site also contains information regarding current legislation and regulations affecting potential investors. Registration of legal entities, branches, or representative offices in the Kyrgyz Republic is based on "registration by notification" and the "one stop-shop" practice.

## **Competition and Anti-Trust Laws**

The State Agency for Anti-Monopoly Regulation under the Government of the Kyrgyz Republic conducts unified state antitrust price regulation in the economy. The main tasks of the State Agency are:

- to develop and protect competition
- to control compliance with legislation in the field of anti-trust, price regulation
- to protect the legal rights of consumers against manifestations of monopoly and unfair competition
- to ensure observance of legislation on advertising.

To Post's knowledge, there have been no developments in any significant competition cases over the past year.

## **Expropriation and Compensation**

According to the Law on Investments in the Kyrgyz Republic, investments shall not be subject to expropriation (nationalization, requisition, or other equivalent measures, including actions or omissions by the government bodies of the Kyrgyz Republic which have resulted in forced withdrawal of investors' funds or in depriving them of an opportunity to gain on the investments' results), except as provided by Kyrgyz laws when such expropriation is in the public interests and is carried out on a non-discriminatory basis and pursuant to a proper legal procedure with the payment of timely, appropriate and feasible reparation of damages, including lost profit.

In December 2017, the Kyrgyz government agreed to return four Uzbek-owned resorts on Lake Issyk-Kul, which the government had expropriated in April 2016. The resorts trace back to the Soviet Union, when the neighboring socialist republics of Uzbekistan and Kazakhstan built resorts to help boost the region's tourism potential.

The Kyrgyz government spent much of 2013 and 2014 renegotiating the agreement underpinning foreign investment in the Kumtor gold mine and many aspects of the dispute remained unresolved until September 2017. In 2016, a Kyrgyz court issued an interim ruling that prevented Kumtor Gold from transferring property or assets, declaring or paying dividends, or making loans to its parent company, Centerra Gold, Inc. While the order did not prohibit the company from using its cash resources to operate the Kumtor mine, cash generated from mining operations (a reported USD 350 million in 2017) was held by Kumtor Gold and was not distributed to Centerra. Citing this action by the Kyrgyz judicial system, Centerra suspended its dividend payments to shareholders. In September 2017, the Kyrgyz government and Centerra Gold reached a comprehensive agreement, resolving outstanding disputes. The Kyrgyz government universally dismissed its claims against Centerra, allowing freedom of movement for Centerra's staff after a nearly 18-month travel ban and permitting

Centerra to repatriate profits out of the country. Centerra, in exchange, agreed to a USD 60 million lump sum payment in addition to a tenfold increase in annual environmental damage payments.

Both the executive and legislative bodies perpetually discuss how and when to allocate, reallocate, revoke, suspend, and otherwise handle mining licenses. Foreign investors have the right to compensation in the case of government seizure of assets. However, there is little understanding of the distinction between historical book value, replacement value, and actual market value, which brings into question whether the government would provide fair compensation in the event of expropriation.

### **Dispute Settlement**

#### *ICSID Convention and New York Convention*

The Kyrgyz Republic is a member of the International Center for the Settlement of Investment Disputes (ICSID). It signed the ICSID agreement on June 9, 1995, and ratified it on July 5, 1997. The Kyrgyz Republic became a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards on March 18, 1997.

#### *Investor-State Dispute Settlement*

The Code of Arbitration Procedure specifies that, if an international treaty of the Kyrgyz Republic establishes the rules of court procedure other than those provided by the legislation of the Kyrgyz Republic, rules of the international treaty shall apply. The U.S.-Kyrgyz BIT outlines procedures by which parties may consent to binding arbitration. The US Embassy is unaware of any claims made by U.S. investors under the agreement since it entered into force.

Cases of investment disputes have been reported to be subject to corruption during the judicial process. Since most of these disputes are between foreign investors and the Kyrgyz government, local courts serve as the executors of the authorities' political agenda.

In September 2017, a local media outlet, citing the Kyrgyz government's center for legal representation, reported that, between 2011 and 2017, eighteen lawsuits were filed against the Kyrgyz Republic totaling over USD 1.8 billion in claims. 11 of these arbitration disputes totaling over USD 1.6 billion in claims had been settled.

The most well-known investment dispute centers on the Kumtor gold mine. Since the mine began commercial production in 1997, Canadian-based Centerra Gold, whose mine is operated by local subsidiary, Kumtor Gold, has renegotiated the terms of their investment with the government more than three times at the request of the Kyrgyz Government. In December 2015, both sides tabled the talks without resolution. In 2016, Kyrgyz law enforcement officials raided the Bishkek headquarters of Kumtor Gold on accusations of financial irregularities, and prevented expatriate officials from exiting the country. A local court issued an injunction to preclude the company from making financial transfers to Centerra, and later fined Kumtor for nearly USD 98 million in alleged environmental damages. Shortly afterward, Centerra elevated its dispute with state corporation KyrgyzAltyn over environmental, dividend, and land use claims to a court of international arbitration. In September 2017, the two parties negotiated a settlement without a decision from the arbitration court, but subsequent changes in the Kyrgyz government have delayed full implementation of the agreement and made yet another renegotiation possible.

Stans Energy Corporation, a Toronto-based resource development company focused on mining rare earth metals, has also been involved in a long running, high profile investment dispute with the Kyrgyz Republic. In 2009, Stans acquired a 100 percent stake in the Kutessay II rare earth mine in the Kyrgyz Republic. Claiming the acquisition process was tainted, a Kyrgyz parliamentary committee revoked the company's permits, prompting Stans to file a lawsuit against the Kyrgyz government claiming it took expropriatory actions

against the firm's interests. In June 2014, an international arbitration court in Moscow awarded Stans a USD 118 million judgment. The company has yet to receive compensation, and contends the Kyrgyz government has sought to undo this ruling. Canadian courts rejected Stans efforts twice, preventing the miner from seizing shares of Centerra Gold belonging to state-owned company KyrgyzAltyn as compensation.

As of 2017, the Kyrgyz Republic had not yet compensated a Turkish company despite a 2009 ICSID tribunal determination. In 2005, armed personnel raided the Pinara (now the Ak-Keme Hotel), a Turkish-owned hotel in Bishkek. An ICSID tribunal determined in 2009 that the Kyrgyz government's actions related to the incident were tantamount to expropriation, and the government bore full responsibility for reparations, a decision subsequently recognized by arbitration courts in the United States, Canada, and France. To date, the Kyrgyz Republic has failed to provide compensation – currently in excess of USD 11.6 million – to the Turkish company Sistem Muhendislik Insaat Sanayi Ve Ticaret Anonim Sirketi in accordance with the international tribunal.

#### *International Commercial Arbitration and Foreign Courts*

The Code of Arbitration Procedures allows for international and domestic arbitration of disputes. If feasible, the arbiter and the terms of arbitration should be identified in the initial contract. Establishing the terms for arbitration beforehand may prevent further complications in the event of a dispute. According to local media, seven arbitration claims against the Kyrgyz Republic totaling USD 250 million remain unresolved.

Parties can agree to any judicial institution, including third-party courts within or outside of the Kyrgyz Republic, or domestic or international arbitration. If the parties fail to settle the dispute within three months of the date of the first written request, any investment dispute between an investor and the public authorities of the Kyrgyz Republic will be subject to settlement by the judicial bodies of the Kyrgyz Republic. Any of the parties may initiate a settlement by recourse to:

- the International Centre for Settlement of Investment Disputes under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States or;
- arbitration or a provisional international arbitration tribunal (commercial court) established under the arbitration procedures of the UN Commission for International Trade Law (UNCITRAL)

#### **Bankruptcy Regulations**

The Kyrgyz Republic has a written law governing bankruptcy procedures of legal persons and insolvent physical persons (Law of the Kyrgyz Republic "On Bankruptcy" September 22, 1997, with amendments of December 30, 1998; July 7, 1999; September 29, 2000; June 17, 2002; March 7, 2005; July 4, 2005; August 10, 2005; January 27, 2006; July 27, 2006; June 13, 2007; July 24, 2009; April 20, 2015; June 22, 2016; July 7, 2016; December 16, 2016; April 20, 2017; and May 12, 2017) which covers industrial enterprises and banks, irrespective of the type of ownership; commercial companies; private entrepreneurs; foreign commercial entities. Bankruptcy proceedings are conducted by the court of arbitration competent for the district in which enterprise is located. The procedure of liquidation can be carried out without the involvement of the judicial bodies if all creditors agree on out-of-court proceedings. Chapter 10 of the law on bankruptcy provides for the possibility of an amicable settlement between the enterprise and its creditors, which can be made at any stage of the liquidation process. The World Bank has ranked the Kyrgyz Republic 119 out of 190 countries in "Resolving Insolvency" in its 2017 *Doing Business* report.

#### **Industrial Policies**

##### **Investment Incentives**

The Kyrgyz Government has reduced the tax burden on repatriation of profits by foreign investors to conform to the tax rate for domestic investors. The IPPA and the Ministry of Economy often expresses the government's willingness to discuss potential incentives, including access to land, with specific foreign investors.

### **Foreign Trade Zones/Free Ports/Trade Facilitation**

There are five Free Economic Zones (FEZs) in the Kyrgyz Republic: Bishkek, Naryn, Karakol, Leilek, and Maimak. Each is situated to make use of transportation infrastructure and/or customs posts along the Kyrgyz borders with China, Kazakhstan, Tajikistan, and Uzbekistan. Currently only the Bishkek FEZ is operating, as the other four have failed to comply with infrastructural requirements such as video surveillance systems and fencing. Government incentives for investment in the zones include exemption from several taxes, duties and payments, simplified customs procedures, and direct access to utility suppliers. The production and sale of petroleum, liquor, and tobacco products in FEZs are banned. The Kyrgyz Republic's accession to the EAEU may lead to the closure of all FEZs; according to EAEU regulations, goods produced within a FEZ and then delivered to an EAEU country are considered the equivalent of imports from third countries and thus subject to customs duties, eliminating many of the tax preferences inherent to FEZs.

### **Performance and Data Localization Requirements**

While there are no formal legal requirements for local employment, most major international investors are subject to tremendous public pressure to hire as many local employees as possible. New investors may find local employment quotas included in potential investment agreements, mandating numbers for boards of directors, senior management, and/or other employees. There are no known barriers to mobility of foreign investors and their employees or any conditions on permission to invest. The Kyrgyz Government does not enforce any "forced localization" policies. There are no known government/authority-imposed conditions on permission to invest. The U.S.-Kyrgyz BIT ensures that investments are guaranteed freedom from performance requirements, including requirements to use local products or to exports local goods.

Foreign investors may freely transmit customer or other business related data outside the country's territory upon their own need as long as it does not contradict with local law on investments. There are no known instances of requiring foreign IT providers to turn over source code and/or provide access to encryption. There is no legislation on maintaining data storage within the country.

### **Protection of Property Rights**

#### **Real Property**

In its 2013-2017 National Strategy for Sustainable Development, the Kyrgyz Government identified property rights as one of the priority areas for strengthening investment climate in Kyrgyzstan. The Kyrgyz Republic was first among its neighboring Central Asian states to introduce private property rights for land ownership. According to government sources, there are no lands without a clear title. According to the World Bank, the Kyrgyz Republic is among the easiest countries in which to register property, ranking 8<sup>th</sup> out of 190 countries in the Bank's 2018 *Doing Business* report.

However, a study recently conducted by a local NGO revealed that, despite significant legislative amendments, the Kyrgyz government continues to lack capacity to properly enforce property rights. The study cited weak rule of law and the persisting need for judicial reform as among the primary factors.

Mortgages and liens are common in the Kyrgyz Republic and operate according to relevant legislation. The State Registration Service is the major operator of a recording system (database) on property under mortgage/lien commitments. When providing mortgages, local banks must request a reference from the State Registration Service that confirms the property is not under lien. However, several have questioned the reliability of the recording system, and the Service itself is frequently subject to allegations of corruption.

There are a number of legal restrictions on the right of foreign persons to own land in the Kyrgyz Republic. The land rights of foreign persons are limited to the following:

- Foreign persons may not own or use agricultural land.
- Foreign persons may not own or use any land except residential land, which has been foreclosed under a mortgage loan agreement in accordance with Kyrgyz Pledge Law. Foreclosed agricultural land may belong to foreign banks and specialized financial institutions but only for the period of three years.
- Foreign persons may use non-residential land transferred thereto by way of universal succession, except agricultural and mining use land, subject to permission of the Kyrgyz Government, for the period of up to 50 years.
- Foreign persons who have acquired ownership of land by way of universal succession (inheritance, reorganization) must transfer such land to a Kyrgyz national or legal entity within one year from the date of acquiring such ownership.

### **Intellectual Property Rights**

Intellectual property right protections are slowly emerging. The State Service for Intellectual Property and Innovation under the Government of the Kyrgyz Republic (“Kyrgyzpatent”) is the authorized body of the Executive Branch that issues documents to certify intellectual property. Kyrgyzpatent establishes the Appeal Council that is the primary body to hear intellectual property related disputes. While the Kyrgyz Republic has a robust body of laws, regulations, and rules governing protection of intellectual property, and while the country is a signatory to several international treaties on the subject, enforcement remains problematic. The judicial system remains underdeveloped and lacks independence. Due to the structure of the system, the appeals process can be lengthy and prolonged. Court actions can force the sale of property to enforce payments and other contractual obligations. The government does not pay a sum as compensation for these actions.

The Kyrgyz Republic is obligated to protect intellectual property rights as a member of the WTO. The Kyrgyz Republic acceded to both the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty in 2002. Counterfeit goods made primarily in China, however, are widely available. The Kyrgyz Republic is not on the Office of the United States Trade Representative (USTR) Special 301 Report nor is it listed on the USTR Out-of-Cycle Review of Notorious Markets.

While there have been no significant cases thus far, the recent increase in the number of American franchises such as KFC, Baskin-Robbins, and Papa John’s raises some concerns about IP issues moving forward. In one notable instance, the Kyrgyz government supported the KFC franchise in obtaining the rights to the initials “KFC,” forcing a long-standing local company “Kyrgyz Fried Chicken,” to change its name to “Bishkek Fried Chicken.”

To Post’s knowledge, the Kyrgyz Republic did not pass any new IP related laws or regulations in 2017. There are no pending IP bills listed on the Parliament’s website. Criminal liability for violation of IPR is listed in the Criminal Code. Unfortunately, enforcement is lax and according to sources, there have been no successful prosecution for IP violations in the history of the Kyrgyz Republic. In 2018, Kyrgyzpatent agreed to develop a project called “IP Chain,” a “trust infrastructure” network for IP protection through the digitization of data. The Kyrgyz government intends to launch IP Chain within the framework of its national program “Taza Koom” (Clean Society), a comprehensive effort to provide digital government services.

There are no official statistics on seizure of counterfeit goods. However, the State Customs Service regularly writes alerts and notifications on the recent seizure of counterfeit goods on its official website. Most counterfeit goods transit via the massive Dordoi bazaar – Central Asia’s largest market – from China en route to Russia and Kazakhstan. The Kyrgyz Republic is not known as a major producer of counterfeit goods. However, in 2017, Adidas, Reebok, and Tango officially applied to the State Customs Service to prohibit the production and trade

of counterfeit products under their brand-names within the Kyrgyz Republic. In response, the State Customs Service included these trademarks in the Customs Register of Intellectual Property Objects and officially stated their intent to fully protect these companies' intellectual property related to goods transported across the customs border.

#### *Resources for Rights Holders*

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For additional information about national laws and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>

### **Financial Sector**

#### **Capital Markets and Portfolio Investment**

The Kyrgyz government is generally open toward foreign portfolio investment, though experts from international financial institutions (IFIs) have noted that capital markets in the Kyrgyz Republic remain underdeveloped. The economy of the Kyrgyz Republic is primarily cash-based, although non-cash consumer transactions, such as debit cards and transaction machines, have quadrupled in the last five years. In 2017, Moody's Investors Services assigned the Kyrgyz Republic a sovereign credit rating of B2. The government debt market is small and limited to short maturities, though Kyrgyz bonds are available for foreign ownership. Broadly, credit is allocated on market terms, but experts have noted that the presence of the Russian-Kyrgyz Development Fund subsidized sources of credit have introduced market distortions. Bank loans remain the primary source of private sector credit, and local portfolio investors often highlight the need to develop additional financial instruments in the Kyrgyz Republic.

There are two stock exchanges in the Kyrgyz Republic (Kyrgyz Stock Exchange and Stock Exchange Kyrgyzstan), but all transactions are conducted through Kyrgyz Stock Exchange. In 2017, the total value of transactions amounted to 4.6 billion soms (approximately USD 67.5 million). The small market lacks sufficient liquidity to enter and exit sizeable positions. Since 1995, the Kyrgyz Republic has accepted IMF Article VIII obligations.

Foreign investors are able to acquire loans on the local market if the business is operating on the territory of the Kyrgyz Republic and collateral meets the requirements of local banks. The average interest rate for loans in USD is between 10-15 percent.

#### **Money and Banking System**

The National Bank of the Kyrgyz Republic (NBKR) is a nominally independent body whose mandate is to achieve and maintain price stability through monetary policy. The Bank is also tasked with maintaining the

safety and reliability of the banking and payment systems. The NBKR licenses, regulates, and supervises credit institutions. The penetration level of the banking sector is 40.1 percent.

According to the IMF, the Kyrgyz banking system at present remains well capitalized. Non-performing loans decreased from 8.8 percent to 7.6 percent in 2017, with restructured loans in excess of 20 percent. Net capital adequacy decreased from 24.8 percent to 24.2 percent in 2017. Total assets in the Kyrgyz banking system in 2017 equaled 198 billion *som* (USD 2.87 billion) in 2017. As of August 2017, the Kyrgyz Republic's three largest banks by total assets were Kyrgyz Investment and Credit Bank (KICB; 27.0 billion *som*, approximately USD 394 million), Optima Bank (26.3 billion *som*, approximately USD 382.6 million), and Aiyл Bank (20.9 billion *som*, approximately USD 304.8 million).

There are currently 25 functioning commercial banks in the Kyrgyz Republic, with 319 operating branches throughout the country; the five largest banks comprise 56 percent of the total market. There are eight foreign banks operating in the Kyrgyz Republic: Demir Bank, National Bank of Pakistan, Halyk Bank, Optima Bank, Finca Bank, Kompanion Bank, Chang An Bank, and Kyrgyz-Swiss Bank are entirely foreign held. Other banks are partially foreign held, including KICB and BTA Bank. KICB has multinational organizations as shareholders including the European Bank for Reconstruction and Development, Economic Finance Corporation, the Aga Khan Fund for Economic Development and others. The micro-finance sector in the Kyrgyz Republic is robust, representing nearly 10 percent the market size of the banking sector. Trade accounted for 28.7 percent of the total loan portfolio of the banking sector, followed by agriculture (19.9 percent) and consumer loans (9.9 percent).

Although no U.S. bank operates in the Kyrgyz Republic, many Kyrgyz banks maintain subordinated debts from U.S. and other foreign banks to facilitate short-term commercial lending, such as letters of credit. Outside investors rarely seek financing from domestic banks. Bank lending is heavily biased towards short-term loans, although mid-term loans are also offered.

During the summer of 2017, the Kyrgyz banking sector witnessed the complete exodus of U.S. financial institutions with correspondence accounts tied to Kyrgyz banks as a result of "de-risking" - a strategy whereby large international banks terminate or limit relationships with local or regional banks to limit the larger banks' exposure to perceived risks. These risks often, but not exclusively, refer to higher than average risk for money laundering or terrorism financing. As a result, Kyrgyz banks must operate through second- or third-tier Russian financial institutions for U.S. dollar transactions.

The National Bank of the Kyrgyz Republic exercised conservatorship of eight banks, including some since the mid-1990s. Four banks under conservatorship were liquidated in 2016, one in 2017, with the remaining three expected to be liquidated in 2018. In 2016, the Kyrgyz Parliament passed a reformed Banking Law praised by the IMF as an important step toward building a modern and effective regulatory framework. The amended law, which entered into effect in June 2017, is expected, *inter alia*, to strengthen the NBKR's ability to better quarantine problem banks from impacting the wider banking system.

Since July 2017, new banks must have a minimum charter capital requirement of 600 million soms (USD 8.7 million). Banking laws also require that banks maintain an 8.5 percent reserve with the National Bank for national currency liabilities and a 9.5 percent reserve for foreign currency liabilities. A deposit insurance system exists for the benefit of individual investors. With the support of the Kyrgyz Government, accounting systems in banks and enterprises are being converted to international standards. In addition, international assistance programs contributed to rapid progress in reaching these standards via accounting training and certification.

The Government of the Kyrgyz Republic is considering the introduction of blockchain technologies into different sectors of the economy, including the banking sector. In December 2017, the National Bank of the Kyrgyz Republic announced the use of blockchain technologies in its operations. In April 2018, the Kyrgyz Stock

Exchange and the International Financial Center Development Agency published a report, commissioned from international legal experts, on "the Legal Status of Blockchain Commerce in the Kyrgyz Republic," which recommended the use of blockchain for Government registers and State procurement procedures. The National Bank and the Kyrgyz Stock exchange have no plans to impede the development of cryptocurrency in the country.

Microfinancing in the Kyrgyz Republic is rapidly growing. In 2017, approximately 150 microfinance companies, 110 credit unions, 669 pawnshops and 396 exchange offices operated in the Kyrgyz Republic. Over the last four years, the three largest microfinance companies (Bai-Tushum, Finca and Kompanion) transformed into banks with full banking licenses.

### **Foreign Exchange and Remittances**

#### *Foreign Exchange Policies*

Foreign exchange is widely available and rates are competitive. The local currency, the Kyrgyz *som*, is freely convertible and stable compared to other currencies in the region. While the *som* is a floating currency, the NBKR periodically intervenes in the market to mitigate the risk of exchange rate shocks. As of March 28, 2018, the National Bank of the Kyrgyz Republic established the official exchange rate at 68.2 som to the U.S. dollar, while the market rate was slightly higher at 68.38 som to the U.S. dollar.

The National Bank of the Kyrgyz Republic conducts weekly inter-bank currency auctions, in which competitive bids determine market-based transaction prices. Banks usually clear payments within a single business day. Complaints of currency conversion issues are rare. With occasional exceptions in the agricultural and energy sectors, barter transactions have largely been phased out.

#### **Remittance Policies**

The Kyrgyz economy remains heavily reliant on remittances, which typically account for 25-30 percent of GDP. However, according to the IMF, remittances in 2017 spiked to 37.1 percent of GDP. There are no known plans to change remittance policies or limitations on remittances. In 2014, the Financial Action Task Force (FATF) recognized the Kyrgyz Republic's significant progress with regards to policies on money laundering and financial crimes, and removed the country from the "gray list." The State Department assessed the Kyrgyz Republic as "fiscally transparent."

#### **Sovereign Wealth Funds**

The Kyrgyz Republic's Sovereign Wealth Fund originated from proceeds of the Kumtor gold mine and is composed of shares in the parent company of the gold mine operator, Centerra Gold. The Kyrgyz Republic owns roughly 77 million shares of the company, which are currently valued at USD 566 million. The Fund was associated with the corrupt practices of deposed ex-President Kurmanbek Bakiev and the Bakiev family allegedly used it as their personal slush fund. Today, large percentages of the Fund are frozen due to several pending legal cases regarding Kumtor gold mine.

#### **State-Owned Enterprises**

There are approximately 166 SOEs in the Kyrgyz Republic that play a significant role in the local economy. The State Property Management Fund of the Kyrgyz Republic ([www.fgi.gov/kg](http://www.fgi.gov/kg)) is the public executive authority representing the interests of the state as the owner of the state property. The purpose of the Fund is to ensure the efficiency of the use, management, and privatization of state property. The list of the largest SOEs and the responsible ministry is available online, but not comprehensive. Information on allocations to and earnings from SOEs is included in budget execution reports and is published (in Russian) on the Kyrgyz Treasury's website. Information on assets, earnings, profitability, working capital, and other financial indicators is available on the State Property Management Fund's website

([http://finance.page.kg/index.php?act=svod\\_profit](http://finance.page.kg/index.php?act=svod_profit)). The State Property Management Fund also reviews the budgets for the largest SOEs, while the Accounting Chamber reviews the accounts of all SOEs and publishes audit reports on their website ([www.esep.kg](http://www.esep.kg)). Within the framework of the Kyrgyz Republic current three-year extended credit facility (ECF) program with the IMF, the State Property Management Fund is required annually to submit the balance sheets of the ten largest SOEs to the Fund.

The State Property Management Fund executes corporate governance of SOEs and appoints members of the SOE boards of directors. The board, in return, appoints an executive director. In 2015, the Government adopted “Concepts of reforming the system of state property management” intended to ensure the integrity, proper development, and administration of SOEs. As a result of these Concepts, in 2017 the Government decided to liquidate non-operating SOEs.

While the Heritage Foundation’s 2017 Index of Economic Freedom report did not specifically address SOEs, previous analyses identified cronyism and corruption within SOEs as a major obstacle to the Kyrgyz Republic’s economic development. In many cases, the Foundation noted, elected officials appoint company board members based on political loyalty rather than professional skills and corporate governance knowledge. Positions on boards of directors are frequently used as rewards for political support, and the dynamic has reinforced the patronage system and resulted in poor economic performance and public service delivery. The Foundation also assessed that rule of law remains weak and the state lacks the capacity to enforce contracts and sufficiently protect property rights. Broadly, the country does not fully adhere to the OECD Guidelines on Corporate Governance of SOEs.

The government tries to practice an open and transparent policy when it comes to contracts and biddings. However, due to widespread corruption, there are common complaints that only individual government officials have access to government contracts and bidding processes. SOEs purchase goods and services from the private firms and usually place the calls for bids either on their websites or in public newspapers, as required. Private enterprises have the same access to financing as SOEs and are subject to the same tax burden. In some cases, SOEs have preferential access to land and raw materials. However, transparency initiatives attempt to hold the government accountable in such proceedings.

### **Privatization Program**

The Kyrgyz government periodically auctions rights to subsoil usage and broadcasts tender announcements, including disseminating information to diplomatic missions, in order to attract foreign investors. There are no restrictions on foreign investors participating in privatization programs. The privatization process is not well defined and is subject to change. There is ongoing deliberation on the privatization of other state-owned assets, such as the postal service and the capital’s international airport, but lack of interest by private partners has stalled any potential moves.

In 2015, the Kyrgyz government privatized AlfaCom (operating as MegaCom), the country’s largest mobile telecommunications company. In February 2017, the leader of Parliament’s leading opposition faction was arrested and charged with corruption on allegations he received a bribe from a Russian businessman in connection with the sale of a MegaCom stake in 2010. After years of delays, the Kyrgyz government announced it would auction its 100 percent stake in MegaCom in July 2017; to date, the Kyrgyz government has been unable to divest itself of the telecommunications firm.

Foreign investors – both companies and individuals – are generally able to participate in public auctions of state owned properties unless specifically prohibited in the terms and conditions. There are, however, some land legislation restrictions concerning the property rights of foreigners. Information about terms and conditions of SOE sales are posted on the State Property Management Fund’s website ([www.fgi.gov.kg](http://www.fgi.gov.kg)).

## **Responsible Business Conduct**

There is a general awareness about responsible business conduct (RBC). The Kyrgyz Government does not factor RBC policies or practices into its procurement decisions. Kumtor, the largest gold mining company operating in the Kyrgyz Republic, often draws criticism for violating environmental regulations and thus damaging the living standards of the nearby villages, and local villagers staged rallies to protest the operations of smaller gold mines owned and operated by Chinese mining companies in 2017 and 2018. However, these accusations often are used for political purposes rather than legitimate RBC concerns. Few NGOs work to promote RBC.

Corporate social responsibility (CSR) is not a fully developed concept or practice. Most companies have not yet developed the capacity to coordinate with civil society on this level. The companies that generally demonstrate CSR are large, foreign-owned companies that participate in or lead industry-strengthening training sessions, work with local universities to develop internship programs and donate to national development projects. Many new large investors, particularly in natural resource extraction, find that there is a requirement to establish a sizeable “social development fund” as a prerequisite for doing business in the Kyrgyz Republic. Charitable donations are not tax deductible.

The Kyrgyz Republic is a member of the Extractive Industries Transparency Initiative (EITI), but is currently behind on several annual reports. According to the license register of the State Committee on Industry, Energy, and Subsoil Use, the Kyrgyz Republic currently has 2480 active extractive licenses, and EITI covers more than 95 percent of mining revenues in the Kyrgyz Republic. In 2017 the Kyrgyz Republic was named the recipient of the 2017 EITI Chair’s Award for Beneficial Ownership Transparency at the EITI’s “Opening Up Ownership” Conference. The Kyrgyz Republic was honored for its new mining law, which requires companies to disclose their beneficial owners when they apply for a license. The law also includes a clear definition of ownership, as well as sanctions for failure or false reporting.

The US Embassy is unaware of the Kyrgyz government’s efforts to implement OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Afflicted and High-Risk Areas or OECD or UN Guiding Principles on Business and Human Rights.

## **Corruption**

Corruption remains a serious problem at all levels of Kyrgyz society and in all sectors of the economy. According to Transparency International’s Corruption Perception Index, in 2017 the Kyrgyz Republic ranked 135<sup>th</sup> out of 176 countries rated, climbing from 136<sup>th</sup> in 2016. Kyrgyz politicians and citizens alike are aware of the systemic corruption, but the problem has shown to be difficult to fight. Moreover, many in the Kyrgyz Republic view paying of bribes as the most efficient way to receive government assistance and many, albeit indirectly, gain benefits from corrupt practices.

The Kyrgyz Republic is a signatory of the UN Anticorruption Convention but not party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Kyrgyz Government has announced a number of initiatives to fight corruption. Former President Almazbek Atambayev established an anticorruption service within the State Committee on National Security. The service has taken action against a limited number of ministers and parliamentarians. Over the past year, instances of corruption-related arrests against public figures from the political opposition have increased. President Sooronbai Jeenbekov criticized state anticorruption entities for failing to achieve sufficient results in their efforts to fight corruption during a speech at the Security Council of the Kyrgyz Republic in February 2018. The President announced urgent measures to clean up state bodies and purge corruption. The Kyrgyz Government encourages all companies to establish internal codes of conduct that, among other things, prohibit bribery of public officials, but not all companies have effective internal controls. The Kyrgyz Republic has laws that

criminalize giving and accepting a bribe, with penalties ranging from a small administrative fine to a prison sentence, but the government's active enforcement of these laws is uneven. While senior government officials pledge strong support to anticorruption measures, a sustained effort would probably result in more consistent enforcement of the existing laws.

Businesses operating in the Kyrgyz Republic often encounter some or all of these practices. The Government of the Kyrgyz Republic issues special colored license plates to foreign business owners, which the police frequently target for regular stops. Foreign businesses may also find themselves the subject of frequent tax audits or a variety of inspectors consistently visiting their establishments. Each experience presents an opportunity to demand a bribe.

Public procurement remains an area prone to corruption. Allegations of corruption in a USD 100 million Chinese-financed highway tender prompted the resignation of the Kyrgyz Prime Minister in April 2016. The Kyrgyz government is currently investigating corruption allegations related to improper management of a USD 386 million modernization project, funded by EximBank of China, which led to massive failures at the Bishkek Central Heating Plant during a severe cold snap in January 2018. With support from international donors, in recent years the Kyrgyz government has prioritized advancements in e-governance, with the aim to increase transparency and, in part, combat corruption in public procurement. In 2016, the WTO noted progress in negotiations with the Kyrgyz Republic on acceding to the Government Procurement Agreement. Projects supported by IFIs and subject to their standards of transparency may present greater opportunities for prospective U.S. bidders in the Kyrgyz Republic.

Corruption, including bribery, raises the costs and risks of doing business in the Kyrgyz Republic. It has had a corrosive impact on both market opportunities for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines rule of law.

It is important for U.S. companies, regardless of their size, to assess the business climate in the relevant sector in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the Kyrgyz Republic and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

#### *UN Anticorruption Convention, OECD Convention on Combating Bribery*

The Kyrgyz Republic ratified the UN Anticorruption Convention in September 2005. The Kyrgyz Republic is not a party to the OECD Convention on Combating Bribery.

#### *Resources to Report Corruption*

Hotline of the Anti-corruption Service of the State Committee for National Security:

Bishkek,

Zhibek-Zholu street

+996 (312) 660020

[aks.gknb@gmail.com](mailto:aks.gknb@gmail.com)

Contact at "watchdog" organization:

Mukanova N.A., General Secretary

Anticorruption Business Council of the Kyrgyz Republic

Ministry of Economy

114Chui Avenue, Bishkek

+996 312 895 496

[secretariat.adc@gmail.com](mailto:secretariat.adc@gmail.com)

[www.adc.kg](http://www.adc.kg)

## **Political and Security Environment**

The Kyrgyz Republic has a history of political upheaval, although recent years have seen greater stability. In 2005, and again in 2010, mass protests against government corruption precipitated the ouster of the country's elected president. The country has experienced a period of relative political stability since 2010. The first peaceful transfer of power in the nation's history occurred with the inauguration of President Almazbek Atambayev in December 2011. The governing coalition changed peacefully in September 2012 and again in the spring of 2014 with no impact on foreign business or investment interests. In October 2015, the Kyrgyz Republic successfully conducted competitive national parliamentary elections, and a nationwide Constitutional Referendum was held in December 2016. With the historic election and inauguration of President Sooronbai Jeenbekov in 2017, the Kyrgyz Republic oversaw Central Asia's first transition from one democratically elected president to another.

Since independence, governments in the Kyrgyz Republic have frequently turned over (30 prime ministers in 27 years), though the transitions have occurred in accordance with Kyrgyz law. Protests organized by opposition politicians are common, and have been occurring with greater frequency over the past year. Concerns about law enforcement abuses and human rights violations in the country remain.

The Kyrgyz government has also at times attempted to use aggressive tactics for political or economic leverage in negotiations with international organizations. For example, in an apparent response to Centerra Gold's acquisition of an American mining company – which the Kyrgyz Republic perceived as an attempt to dilute its influence over and benefits from the Kumtor Gold venture – the Kyrgyz government raided Kumtor Gold's offices in 2016, enforced travel restrictions on all expatriate staff and their family members, and issued an injunction to prevent repatriation of company assets.

Interethnic tensions persist in the southern part of the country, but did not have a destabilizing effect on the government in 2017. In 2016, ISIS efforts to recruit Kyrgyzstani fighters to Syria continued to generate headlines. Supporters of extremist groups such as the Islamic Movement of Uzbekistan (IMU), Al-Qaeda, and the Eastern Turkistan Islamic Movement (ETIM) remain active in Central Asia. These groups have expressed anti-U.S. sentiments and could potentially target U.S.-affiliated concerns. In August 2016, a suicide bomber, reportedly affiliated with ETIM and trained in Syria, detonated a vehicle-borne improvised explosive device inside the Chinese Embassy compound in Bishkek, located less than 200 yards from the U.S. Embassy. The attack reportedly killed the perpetrator and injured four others, and caused extensive damage. The United States has cooperated with the Kyrgyz Government to improve border and internal security and efforts to stem the flow of fighters to Syria are ongoing.

In the recent past, the extractive resources companies have been the target of localized instability, with 2017 seeing a resurgence of demonstrations against mine operators after relative calm in 2015 and 2016. Protestors have targeted various installations, at times resorting to vandalism and violence. The trouble caused by repeated protests prompted one large, international mining firm to sell its share of an exploration project in 2014 and leave the Kyrgyz market entirely. In 2017, the Kyrgyz government suspended the license of the

largest Kazakh mining company due to purported environmental violations. Some experts believe the suspension was linked to deteriorating relations between the two countries in late 2017.

The Department of State urges U.S. citizens to plan ahead when traveling to the Batken region. Demarcation along portions of the Kyrgyz-Uzbek and Kyrgyz-Tajik borders are in dispute. These disputed areas occasionally experience skirmishes between border guards that can include violence and sometimes involve civilians. When traveling near the border, be prepared with either the appropriate travel documents (visas), or plan your routes to avoid these disputed areas. U.S. citizens planning to travel to the Kyrgyz Republic should refer to the U.S. Department of State for updated security information. This information is available on the Internet at <http://travel.state.gov>.

## **Labor Policies and Practices**

There is significant competition for skilled and educated individuals in the Kyrgyz labor market as many qualified Kyrgyz citizens find lucrative job opportunities abroad, and the nation's education system has largely failed to keep pace with advancing educational needs within many sectors. International organizations are generally able to employ competent staff, often bilingual in English or other languages. However, reports indicate there is a shortage of highly qualified local candidates in IT, mining, energy, and manufacturing, forcing international organizations to rely on expatriates for these skills. Literacy in the Kyrgyz Republic is approximately 97 percent. The official unemployment rate is approximately 7 percent, though experts estimate the number of actual unemployed individuals exceeds this figure. Additionally, approximately one million Kyrgyz citizens work abroad because of limited opportunities in the Kyrgyz Republic.

There are no government policies that require hiring Kyrgyz nationals, though it is often added as a condition for investment, particularly in the mining sector. There are no restrictions on employers adjusting to fluctuating market, including hiring and firing workers at will. Many private companies use temporary or contract workers. The Labor Code does not provide any special conditions in order to attract investment. Labor unions are independent and are not subject to state bodies, employers, political parties, or other unions. In practice, labor unions are not very active when it comes to the protection of workers' rights.

Workers have the right to form and join trade unions. The law allows unions to conduct their activities without interference, organize, and bargain collectively. Workers may strike, but the requirement to receive formal approval has made striking difficult and complicated. The law prohibits government employees from striking, but the prohibition does not apply to teachers or medical professionals. The law does not prohibit retaliation against striking workers. Labor disputes are settled by Commission for Labor Disputes (established within all organizations with 10 or more employees), by the authorized state body, or by courts of the Kyrgyz Republic. The employee has the right to choose one of these bodies to settle the dispute.

Safety and health conditions in factories are generally poor. The law establishes occupational health and safety standards, but to a large extent the Kyrgyz government did not enforce them. The State Labor Inspectorate is responsible for protecting workers and carrying out inspections for all types of labor problems, but its activities were limited, and business compliance was uneven. Workers in the informal economy had neither legal protection nor mandated safety standards. See more at: <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper>

While the Labor Code of the country complies with all required international laws and treaties, there is a gap in protecting the rights of individuals employed by private companies. Many employees are hired based on basic or even oral agreements and lack knowledge of their rights. In February 2015, the Ministry of Economy established a working group to amend the Labor Code with the goal of simplifying labor agreements and making them more common. The proposed amendments aimed to lower payment for overtime work and simplify firing processes. The bill was heavily criticized and eventually dropped.

In January 2017, amendments to the Labor Code of the Kyrgyz Republic entered into force that strengthened labor rights and protections for people under the age of 18. The law now prohibits people under the age of 18 from being sent on business trips, engaging in overtime work, night shifts, and working on days off or official holidays. However, child labor laws are not uniformly enforced.

### **OPIC and Other Investment Insurance Programs**

The United States signed a bilateral OPIC agreement with the Kyrgyz Republic in 1992. OPIC recently financed part of the campus expansion of the American University of Central Asia in Bishkek and the University of Central Asia in Naryn. In 2016, OPIC approved USD 21 million in credit to Gazelle Finance for a special purpose investment fund to promote lending to small and medium enterprises in four countries in Eurasia, including the Kyrgyz Republic.

Bank lending and international donor financing remain the primary mechanisms by which businesses in the Kyrgyz Republic seek to fund their growth. There are few investment funds in the Kyrgyz Republic. OPIC products have the potential to expand small and medium enterprise lending and assist the development of private equity funds in the Kyrgyz Republic, which are currently few in number.

### **Foreign Direct Investment and Foreign Portfolio Investment Statistics**

*Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy*

Economic Data	Year	Amount	Year	Amount	Host Country Statistical source*	USG or international statistical source	USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Host Country Gross Domestic Product (GDP) (M USD)	2016	USD 6,880	2016	USD 6,551	<a href="http://www.worldbank.org/en/country">www.worldbank.org/en/country</a>		
Foreign Investment	Direct	Host Country Statistical source*	USG or international statistical source	USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other			
U.S. FDI in partner country (M USD, 2016 stock positions)		USD 3.1	2016	USD 96	BEA data available at <a href="http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm">http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm</a>		
Host country's FDI in the United States (M USD, stock positions)	2016	USD 0.9	2016	USD 0	BEA data available at <a href="http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm">http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm</a>		

**Total inbound stock** 2016 12% 2016 USD 7.1 <https://data.worldbank.org>  
of FDI as % host GDP

\* National Statistical Committee of the Kyrgyz Republic <http://www.stat.kg>

According to the National Statistical Committee, U.S. FDI in the Kyrgyz Republic in 2016 was USD 3.1M, while FDI from the Kyrgyz Republic in the U.S. was USD 0.9M. According to the Bureau of Economic Analysis of the Kyrgyz Republic, U.S. FDI into the Kyrgyz economy was estimated at USD 96M. Discrepancies are linked to different methodologies used by two institutions.

*Table 3: Sources and Destination of FDI*

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**Direct Investment from/in Counterpart Economy Data**

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**From Top Five Sources/To Top Five Destinations (US Dollars, Millions)**

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<b>Inward Direct Investment</b>			<b>Outward Direct Investment</b>		
Total Inward	Amount	100%	Total Outward	Amount	100%
China	USD 1,299	27%	Canada	USD 372	72.8%
Canada	USD 1,145	23%	Russia	USD 76	14.9%
Russia	USD 1,110	23%	Mauritius	USD 26	5.1%
United Kingdom	USD 322	7%	Georgia	USD 23	4.5%
Turkey	USD 172	4%	Singapore	USD 8	1.6%

"0" reflects amounts rounded to +/- USD 500,000.

The Kyrgyz Republic has limited stock and bond markets for portfolio investors. The country is not listed on the IMF's Coordinated Portfolio Investment Survey (CPIS) site. It is unlikely the country has any large portfolio investors.

*Table 4: Sources of Portfolio Investment*

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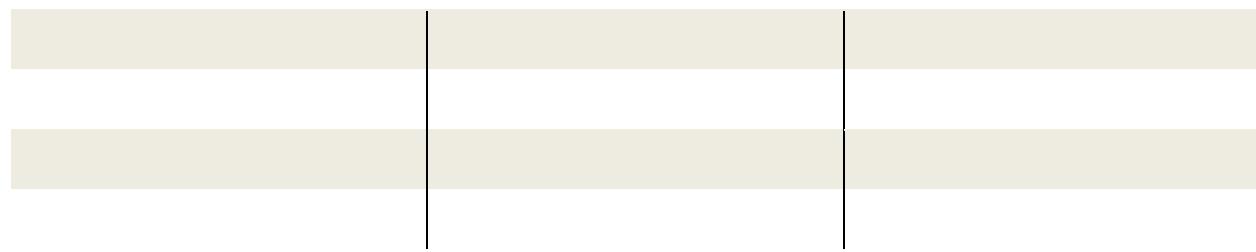
**Portfolio Investment Assets**

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**Top Five Partners (Millions, US Dollars)**

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<b>Total</b>			<b>Equity Securities</b>			<b>Total Debt Securities</b>		
All Countries	Amount	100%	All Countries	Amount	100%	All Countries	Amount	100%
No Available Data								



The Kyrgyz Republic has limited stock and bond markets for portfolio investors. The country is not listed on the IMF's Coordinated Portfolio Investment Survey (CPIS) site. It is unlikely the country has any large portfolio investors.

### **Contact for More Information**

Dominic McIntyre

Commercial Officer, U.S. Embassy in the Kyrgyz Republic

171 Prospekt Mira

Bishkek, Kyrgyz Republic 720016

+996-312-597-000

## **Trade & Project Financing**

### **Methods of Payment**

Most imports are paid for in cash and cash transfers in advance. Letters of credit are uncommon in the Kyrgyz Republic, but can be obtained through most banks. Credit cards are common in Bishkek and Osh, but rare outside of the cities. Nearly all business is done in cash and large transactions are usually in U.S. dollars, but Kyrgyz government incentives have been fairly successful in increasing the number of non-cash transactions. In April 2016, legislation requiring all prices be denominated in som came into effect. Enforcement to this point has been weak, so the impact of the law is still unclear.

### **Banking Systems**

There are 25 commercial banks operating in the Kyrgyz Republic that offer a wide range of services, including assistance with new enterprise development and implementation of new investment projects. Some commercial banks operate through the Interbank Processing Center CJSC. Enterprises may use this system to pay salaries and make other payments. Transactions can be done in local currency or U.S. dollars, though new legislation mandating the Kyrgyz som as the official currency may eventually make dollar-denominated transactions more difficult.

### **Foreign Exchange Controls**

The Kyrgyz Republic has a liberal exchange system and in general there are no restrictions on converting or transferring funds into freely usable currency at the legal, market-clearing rate. Investment or import/export activities do not require a special type of bank account. Foreign investors may convert Kyrgyz soms for repatriation. Banks and exchange offices can exchange local currency.

### **U.S. Banks & Local Correspondent Banks**

There are no U.S. banks or local correspondent banks operating in the Kyrgyz Republic.

### **Project Financing**

Securing financing from local banks may be difficult. The U.S. Export-Import Bank is open to financing certain public and private sector purchases in the Kyrgyz Republic for periods of up to seven years. OPIC is active in the Kyrgyz Republic. The European Bank for Reconstruction and Development finances private-sector projects. The Asian Development Bank and the World Bank/IFC also finance public-sector projects in agriculture, transport, energy, telecommunications and education.

U.S. Commercial Service Liaison Offices at the Multilateral Development Banks (World Bank):

The Commercial Service maintains Commercial Liaison Offices in each of the main Multilateral Development Banks, including the World Bank. These institutions lend billions of dollars in developing countries on projects aimed at accelerating economic growth and social development by reducing poverty and inequality, improving health and education, and advancing infrastructure development. The Commercial Liaison Offices help businesses that create U.S. jobs learn how to get involved in bank-funded projects and how to connect to other parts of the International Trade Administration, including the U.S. Field; the overseas network of Commercial Service offices; and, in Washington, desk officers, sectoral experts and the Advocacy Center.

### **Web Resources**

[Commercial Liaison Office to the European Bank for Reconstruction and Development](#)

[Commercial Liaison Office to the World Bank](#)

## **Financing Web Resources**

Trade Finance Guide: A Quick Reference for U.S. Exporters, published by the International Trade Administration's Industry & Analysis team:

[Export.gov - Trade Finance Guide](#)

[Export-Import Bank of the United States](#)

[Country Limitation Schedule](#)

[OPIC](#)

[Trade and Development Agency](#)

[SBA's Office of International Trade](#)

[USDA Commodity Credit Corporation](#)

[U.S. Agency for International Development](#)

## **Business Travel**

### **Business Customs**

The Kyrgyz Republic draws on a combination of Central Asian and Russian cultural influences, and customs may depend on the ethnicity of the person with whom you are meeting. It is customary to shake hands and call people by their first name and patronymic (adaptation of the father's first name) at business meetings and at informal gatherings, though use of just the first name is also acceptable. Business attire is generally a suit and tie for men, and a suit or business dress for women. Refreshments are usually served at business meetings - coffee, tea and water are the norms. Small gifts (pens, company logo pins, portfolios, and books) are frequently given at the end of an initial meeting as a token of appreciation. Business cards are the norm, often printed in both Russian and English.

Scheduling meetings can be difficult, but this is also the norm. It can sometimes take weeks to get a response to an e-mail, fax, or a telephone message request for a meeting. Once contact has been established, patience is still required to confirm a date and time to meet. It is not uncommon for meetings to be cancelled with no explanation.

Kyrgyzstani businessmen are generally less direct than American businessmen. What can be accomplished in a few meetings in the U.S. might take more in the Kyrgyz Republic, requiring patience and discipline on the part of the American. An experienced and competent interpreter can be invaluable in business meetings.

Though the Kyrgyz tend to be Muslim, business travelers with experience in Islamic countries will find the country to be very secular, and many practices that exist elsewhere are not widely observed here, although this is slowly changing. It is quite common for ethnic Kyrgyz to consume alcohol at dinner functions or receptions.

### **Travel Advisory**

Please consult the State Department's Bureau of Consular Affairs web site, <http://www.travel.state.gov>, or the Embassy's website, <https://kg.usembassy.gov/>, for current travel and consular information, including the most recent Consular Specific Information for the Kyrgyz Republic.

All U.S. citizens residing in or visiting the Kyrgyz Republic are encouraged to sign up for the Smart Traveler Enrollment Program (STEP). Enrollment in the STEP greatly facilitates our ability to locate you in the event of an emergency. The STEP also allows us to replace your passport quickly if it is lost or stolen, or contact you in case the Embassy or your relatives need to pass you an urgent message. We will release information about you to others only in accordance with your wishes (as stipulated by the U. S. Privacy Act of 1966).

The U.S. Embassy in Bishkek is located at:

171 Prospect Mira, Bishkek 720016

Kyrgyz Republic

Telephone: +996 (312) 59 70 00.

### **Visa Requirements**

You must have a valid U.S. passport to visit the Kyrgyz Republic. Your passport must be valid for a minimum period of six months from the date of entry into the Kyrgyz Republic and must have at least one full blank page if you are applying for a visa.

A visa-free regime for citizens of some states, including the United States of America, was introduced in July 2012. U.S. citizens are permitted to enter the country for tourism for up to 60 days without a visa; U.S. citizens who intend to stay in the Kyrgyz Republic beyond 60 days must register with their district [State Registration Service Office \(Passport Desk\) \(State Registration Service\)](#). It is illegal to engage in religious activity on a tourist

visa. Travelers should apply for the correct category of visa for their purpose of travel. For the most up-to-date visa information and information regarding entry/exit requirements, contact the Embassy of The Kyrgyz Republic.

Individuals traveling to the Kyrgyz Republic to perform religious work or work in affiliation with any religious organization in any capacity are required by national law to declare so on their visa applications, and must obtain a work visa and register with the Office of Religious Affairs after arrival. The Embassy recommends that U.S. citizens traveling in the Kyrgyz Republic also obtain Kazakh visas, as commercial air travel out of the Kyrgyz Republic is limited and U.S. citizens may need to travel through Kazakhstan to return to the United States. Travelers intending to transit through Russia in route to a third country must have a Russian transit visa. Even travelers who are simply changing planes in Moscow or another international airport in Russia for an onward destination will be asked to present a transit visa issued by a Russian Embassy or Consulate. Russian authorities may refuse entry to travelers who do not have transit visas.

Some HIV/AIDS entry restrictions exist for visitors and foreign residents in the Kyrgyz Republic. The law states that visitors staying more than one month must present evidence that they are HIV-negative. This restriction has not been actively enforced, but enforcement could begin without notice. Please verify the status of this requirement with the Embassy of the Kyrgyz Republic before you travel.

The Kyrgyz Republic allows travelers to enter and exit the country with up to the equivalent of 3000 USD. For sums greater than 3000 USD, a customs declaration is required.

Information about dual nationality or the prevention of international child abduction can be found on our website. For further information about customs regulations, please read our Customs Information page.

## **Currency**

The som is the official currency of the Kyrgyz Republic. The use of U.S. dollars, particularly for informal activity, is still prevalent in the country, despite recent legislation that outlaws the publication of prices in dollars. Debit and credit cards are common in Bishkek and Osh. ATMs are common throughout the country, though less so in rural areas. Visa and Mastercard are commonly accepted.

## **Telecommunications/Electric**

Telephone coverage in the Kyrgyz Republic remains less than universal and internet connections are not ideal in remote areas, but there is significant progress in providing high speed internet in the largest cities. As in developing countries with poor telecommunications infrastructure and regulations, the number of cellular users has surpassed the number of landlines. Most business travelers with roaming capabilities will have no problem using mobile phones here. Both landline and cellular rates in the Kyrgyz Republic are higher than in Europe, especially for domestic long-distance and international calls.

Business travelers can obtain internet access via most hotels, but at a price. Wi-Fi at cafes is becoming more and more common in Bishkek and Osh. Fast and reliable internet is available in most apartments in Bishkek.

## **Transportation**

Bishkek is the Kyrgyz Republic's main transportation hub. Most business travelers arrive into Bishkek via Istanbul (Turkish Airlines) or Moscow (Aeroflot). It is roughly a six-hour flight from either location. For up-to-date travel information, it is best to check the websites of the airport in Bishkek for arrival/departure schedules. Osh now receives flights from Istanbul as well, but with much less frequency.

Several operators offer daily flights between Bishkek and Osh. Jalalabad and Batken also have regular flights from Bishkek and Osh.

## **Language**

Despite a national movement to encourage the use of the Kyrgyz language, Russian is still widely used, especially in business. English is uncommon, though younger businesspeople often have at least a basic grasp of the language. Though good interpreters demand a premium price, business travelers are well advised to ensure they have a qualified interpreter in business meetings.

## **Health**

Medical care in the Kyrgyz Republic is limited and well below North American and Western European standards. Basic medical supplies, including disposable needles, anesthetics, and antibiotics can be in short supply. Elderly travelers and those with pre-existing health problems may be at risk due to inadequate medical facilities. Most resident Americans travel to Western Europe for serious medical treatment. Such travel can be extremely expensive if undertaken under emergency conditions. For this reason, all visitors are strongly advised to carry medical evacuation insurance that includes overseas hospitalization coverage and emergency air ambulance evacuation insurance. There are many private insurers that offer these types of services such as: [www.medjetassist.com/](http://www.medjetassist.com/) or [www.internationalsos.com/en/](http://www.internationalsos.com/en/).

Although the U.S. Embassy cannot provide medical assistance or care to private citizens visiting the Kyrgyz Republic, there is a link to medical resources in Bishkek on the consular section of the Embassy's website. No medical facilities in the Kyrgyz Republic take U.S.-issued insurance cards so be prepared to pay cash or, in some locations, with a credit card. You may be refused service at some hospitals if you cannot pay in cash at the time of service. Travelers requiring prescription medications or specific brand-name medicines should bring sufficient supplies with them and not rely on local availability.

Information on vaccinations and other health precautions, such as safe food and water precautions and insect bite protection, may be obtained from the Centers for Disease Control and Prevention's hotline for international travelers at 1-877-FYI-TRIP (1-877- 394-8747) or via the CDC's internet site. For information about outbreaks of infectious diseases abroad consult the World Health Organization's (WHO) website. Further health information for travelers is available at [World Health Organization - International Travel and Health](http://www.who.int/travelers/).

## **Local Time, Business Hours and Holidays**

The Kyrgyz Republic is 10 or 11 hours ahead of EST, depending on the time of year. (The Kyrgyz Republic does not observe Daylight Savings Time.) Business hours are normally 9:00 a.m. – 6:00 p.m.

Local holidays can be found on the Embassy's website, but travelers are also advised to confirm dates with contacts in the Kyrgyz Republic.

## **Temporary Entry of Materials or Personal Belongings**

As a rule, officials give temporary imports full conditional exemption from import duties and taxes. For goods to qualify as "temporary entry," the importer must identify them so customs authorities can ensure that the ones presented for re-export are the same as those originally brought in. Products that cannot be identified under this definition (such as electricity), cannot be placed under the temporary import regime.

## **Travel Related Web Resources**

- [State Department Bureau of Consular Affairs](http://travel.state.gov)
- [State Department Visa Website](http://travel.state.gov)
- [U.S. Embassy in the Kyrgyz Republic](http://travel.state.gov)
- [Embassy of The Kyrgyz Republic, Washington, DC](http://travel.state.gov)

- [Centers for Disease Control](#)
- [World Health Organization](#)