



Issue 2, July 2015

## NEWSLETTER

# The USAID Business Growth Initiative (BGI)



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*Mr. Argynbek Malabaev, Minister of Transport and Communication, and Mr. Ulan Uezbaev, Deputy Minister, present the Air Code at a session of Parliament.*

## PARLIAMENT PASSES NEW AIR CODE

On June 29, the Parliament of the Kyrgyz Republic passed a new Air Code that now brings Kyrgyz civil aviation legislation in line with international standards.

BGI, and the prior USAID REFORMA Project, provided significant technical assistance for drafting the legislation by employing international aviation experts and the Kyrgyz law firm, Kalikova & Associates, to work with the Civil Aviation Agency (CAA) and the Kyrgyz airline industry to undertake the project.

Passage of this legislation is an important milestone in demonstrating tangible improvement to the International Civil Aviation Organization (ICAO) in an upcoming audit of Kyrgyzstan's air safety system. ICAO is the international body that sets standards for global aviation safety.

A strong showing in the audit, scheduled for January 2016, would bolster the Kyrgyz Republic's case for lifting a ban on flights to the European Union. The EU imposed the ban in 2006 when the Kyrgyz Republic failed a similar European Commission safety audit.

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## BGI CHOOSES FOUR DESTINATIONS FOR TOURISM DEVELOPMENT PROGRAM

BGI selected four tourist destinations across the Kyrgyz Republic to receive assistance under the project's destination development program. Chosen through a highly competitive process, these destinations will receive various forms of assistance to implement tourism development strategies proposed by consortia of local stakeholders. Proposals have included activities such as tourism product and service development, improvement of light infrastructure and signage, marketing and promotion campaigns, and others.

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## PARLIAMENT PASSES NEW AIR CODE

The initiative obtained the support of Mr. Jusupali Isaev, Chairman of the Parliamentary Committee on Transport, Communication, Architecture and Construction, who presented the legislation to the General Assembly. He emphasized that the Committee and all five Parliamentary factions approved the draft Air Code and that it is the foundation for adopting the full set of ICAO air safety regulations, which is one of the next steps in meeting audit standards.

“The new Air Code will ensure air safety in the Kyrgyz Republic and enable the CAA to engage qualified inspectors

through an expanded financing mechanism,” said Mr. Erkin Isakov, CAA Director. That lack of qualified inspectors was one of the most flagrant shortcomings found in ICAO’s previous 2009 audit of the Agency. The audit found that the CAA did not have adequate capacities and systems in place to train and retain qualified safety inspectors.

Bakyt Djunushaliev, President of the Association of Civil Aviation Enterprises, noted that passage of the Air Code is a significant, although initial, step in reforming the regulatory oversight systems and capacities of the CAA.

Over the coming year, BGI will continue to assist the Kyrgyz Republic in its efforts to turn legislative gains into tangible safety improvements. In addition to harmonizing international aviation rules with Kyrgyz legislation, BGI will help the CAA to implement effective document, management, and training systems and adjust its organizational structure and qualifications for staff positions to meet international standards.

The President of the Kyrgyz Republic is expected to sign the new Air Code into law in the near future.

## BGI CHOOSES FOUR DESTINATIONS FOR TOURISM DEVELOPMENT PROGRAM

The winners of BGI’s Destination Management Program are:

- **Karakol Riverpark Consortium, Issyk-Kul Oblast** – Improve riverfront property, organize and promote cultural festivals, market and promote activities;
- **Burana Consortium, CSR Central Asia, Chui Oblast** – Improve signage, sanitation, experiences for visitors to this 9th century religious monument;
- **Osh Silk Road Consortium, Osh Travel, Osh Oblast** – Develop signage and product and service delivery of accommodations along this segment of the Silk Road;
- **Jyrgalan Consortium, Issyk-Kul Oblast** – Conduct promotional activities and upgrade light infrastructure and guesthouses surrounding a nascent winter sports area, 50 kilometers from Karakol.

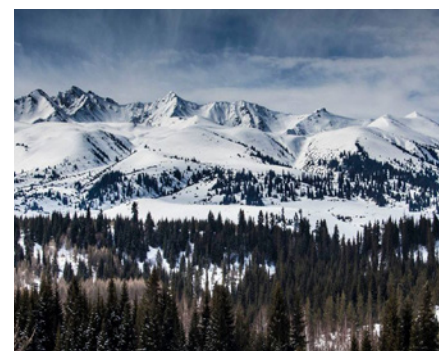
BGI selected these proposals from more than 50 applications for diverse projects from stakeholder groups representing every region of the Kyrgyz Republic. After inviting 11 shortlisted candidates to make oral presentations to the five-member evaluation committee, the BGI tourism development team and independent experts selected the four initial winners to receive support for implementing their destination management plans.

Applicants that have not been selected for the destination management program will be eligible to apply for other BGI development assistance in the future.

BGI will finalize first year development plans with consortia this summer for presentation to their communities in September. Plan results are expected to generate greater income for local destinations as well as contribute to the development of the Kyrgyz tourism sector overall.



The Karakol Riverpark consortium will bring tourists to events and festivals at the riverfront in Karakol.



The consortium Jyrgalan represents a developing winter sports area in Issyk-Kul oblast.



The Burana consortium, under the leadership of CSR Central Asia, plans to improve the tourist experience at this ancient monument in Chui oblast.



Osh Travel leads the consortium, Osh and the Silk Road, and hosted a tour of the museum at Mount Suleiman-Too to the BGI team.

## NSC WELCOMES SUPPORT TO IMPROVE DATA COLLECTION IN TOURISM

Collecting reliable statistics on tourism is essential for policy making, business planning and evaluating investment opportunities.

But gathering accurate statistics has been challenging for Kyrgyz government institutions, particularly statistics that reflect tourist demand – arrivals, expenditures, itineraries and visitor perceptions of the Kyrgyz tourism experience. In addition, the extent of Kyrgyz domestic tourism is little known, but many countries count domestic tourists as a key target market for economic development and sector growth.

With the National Statistics Committee (NSC), BGI launched a study in April to determine how the NSC and its key counterparts – the Border Service, the National Bank and the Tourism Department – can improve the reliability of statistics collected on foreign and domestic visitors throughout Kyrgyzstan. BGI hired an expert in tourism statistics to determine to what degree the Kyrgyz Republic employs international methodologies and practices in data collection, including standards set by the United Nations World Tourism Organization (UNWTO).

The research identified that, despite the availability of a large number of sup-



National Statistics Committee staff and other stakeholders assess current data collection methods with statistics expert, Mr. Vladimir Markhonko.

ply-side statistics – number of hotels, guest houses, beds, restaurants and the supply of other services – the accuracy of much of this data is questionable.

Research also found that the Kyrgyz Republic collects very little data on the demand side. This is primarily because it is significantly more challenging – and costly – to collect information from tourists through surveys and other research instruments than through suppliers of goods and services.

Additionally, the study found that institutional arrangements among data collection agencies could be strengthened and that developing standard definitions for

tourism indicators would contribute significantly toward the collection and compilation of appropriately corresponding data.

Over the coming year, BGI will assist the NSC in implementing many of the study's priority recommendations to establish the foundation for improving the accuracy of collected data and strengthen communication among key agencies and their mechanisms for information exchange. The project will introduce internationally recommended standards for the collection and reporting of tourism statistics and help implement methodologies for gathering demand-side data to improve their use in business and strategic decision making.

## BGI LAUNCHES PLANS TO IMPROVE COMPETITIVENESS OF APPAREL FIRMS

On April 29, BGI unveiled its strategy to support the Kyrgyz apparel sector to address competitive challenges within the rapidly changing Russian and global clothing markets.

Based on the results of meetings with Russian apparel brands, Kazakh apparel retailers, and Chinese wholesale suppliers of fabric, BGI formulated its strategy to stimulate systemic change in how Kyrgyz clothing producers respond to evolving opportunities and sector competitive threats. To better understand the current structure of the Kyrgyz apparel sector, BGI also drew upon the results of a detailed value chain study undertaken by BGI's subcontractor, Central Asia International Consulting (CAIC).

A foundation of BGI's support will be to provide highly customized and sustained firm-level assistance to a select group of apparel producers, based on the submission of business plans that demonstrate strategic vision for future growth. After achieving results with BGI assistance,



The apparel sector is a primary employer in the Kyrgyz Republic.

these firms will, in turn, demonstrate to sector peers how to find and supply new buyers, reduce production costs, improve quality, and build strategies that will help them make the transition required to serve increasingly demanding customers.

To help prospective applicants develop their plans, in May BGI offered busi-

ness planning workshops with an emphasis on contract manufacturing and brand development, two strategic models that have been successful for competing in global apparel markets. By the submission deadline on June 8, BGI received 23 applications from apparel makers who want to participate in the program. BGI

will select winning firms in July, which will be followed by a gap assessment and finalization of work plans with the selected companies.

To help small firms continue to compete in traditional bazaar markets, BGI also offered a workshop in June to entrepreneurs who want to receive assistance for creating apparel innovation centers to supply outsourced services to small apparel workshops. These services may provide access to specialized equipment, apparel design, or other services that would improve product quality, reduce production costs and enable expansion of product lines. Ideally, innovation centers would be co-located with the numerous apparel workshops occupying former Soviet factories. BGI will select innovation center winners in August.



Owners of leading apparel firms participate in seminars for submitting business plan applications to BGI's sector development program.

## APPAREL FIRMS FIND NEW SOURCES OF FABRIC SUPPLY

Since fabric prices consume roughly 50 percent of the production cost of a garment, Kyrgyz apparel makers working with BGI have found that cutting fabric costs while increasing use of higher-quality fabrics is critical for those trying to break into the supply chain for Russian apparel brands.

As a result of the BGI-sponsored introduction of Kyrgyz producers to Russian retailers in February, two local apparel makers have signed supply contracts with a medium-sized Russian retailer. In fulfilling these contracts, however, producers must cut their unit costs while improving the quality of fabric and accessories used in production.

Traditionally, Kyrgyz apparel makers have sourced their fabrics from Madina and other local wholesale bazaars, whose quality and fabric selection are limited to what has been imported from China. But Chinese manufacturers, dominating the global supply of fabrics and accessories, produce fabrics of every quality and price, as well as the opportunity to directly supply Kyrgyz apparel producers.

To assist firms to expand their source of fabric supply, BGI sponsored partici-



Kyrgyz apparel firms participate in fabric-sourcing mission to Chinese textile exhibition sponsored by BGI and organized by Inter Asia Trade.

ipation in a key international exhibition of textiles, yarn and accessories, the Keqiao Textile Expo 2015, which took place May 6-8, just outside of Shanghai. In addition to textiles, the exposition exhibited textile and apparel-making machinery and equipment for knitting, sewing and dyeing garments and fabrics. The Kyrgyz logistics firm, Inter Asia Trade, helped BGI to organize the trip.

Keqiao itself is a famous center for the wholesale trade of textile products. In addition to visiting the exhibition, BGI and Kyrgyz companies observed Keqiao's year-round markets and wholesale centers and also visited Yiwu – known throughout China as the center for wholesale supply of hardware and accessories for garments.

Participation in the exposition will bring significant benefits to Kyrgyz apparel firms, who will now be able to source a wide

range of higher-quality fabrics and accessories directly from Chinese manufacturers. Even more importantly, these fabrics will cost 30-50 percent less than what they had been paying to wholesalers in Bishkek.

Firms also said that a wider source of supply will help them to expand their product lines and improve product quality and variety by using better fabrics at cheaper prices, and pass these reduced prices on to customers. It will help them bring production costs to a level at which they can conclude manufacturing contracts with Russian brands, whose wholesale price points have been lower than the best prices offered by Kyrgyz producers. These savings will also generate greater margins for producers to spend on marketing, brand promotion and other costs of business expansion.



The Keqiao exhibition is among the largest textile trade fairs in the world.

## USAID EXECUTIVE TOURS DORDOI BAZAAR

BGI hosted a tour of Dordoi bazaar for the Assistant Administrator of USAID's Asia Bureau, Mr. Jonathan Stivers, the senior USAID executive for assistance to 32 countries in Central Asia, South Asia, East Asia, and the Pacific Islands.

On his circuit through Central Asia in April, Mr. Stivers sought to meet not only with USAID mission and project staff, but also with entrepreneurs and representatives of Kyrgyz business. BGI's focus on the apparel value chain and the role that Dordoi has played in fueling sector growth compelled him to visit the market as part of his Bishkek tour.

Ms. Lubov Ardamina, head of a Kyrgyz knitwear company, escorted the USAID party to the wholesale containers of several leading apparel firms, including Olga Classic Style, Alinex, and Larisa Fashion. At the Larisa container, the group interviewed owner Larisa Popkova as well as the heads of Diva Style and E-Line Moda. USAID Mission Director Michael Greene and Deputy Mission Director Nate Park were among those touring the market.

"The USAID-funded trip of textile manufacturers from the Kyrgyz Republic to Moscow in February helped them discover new potential business partners

and better adjust and respond to the pricing crisis in the textile industry," said Ms. Ardamina during the tour.

In addition to the bazaar tour, BGI hosted a round table for Mr. Stivers to meet representatives of other business sectors. Executive directors of the Chamber of Tax Consultants, the Association of Markets, the Association of Young Entrepreneurs, and Bishkek Business Club offered views on the current business climate and perspectives on the impact of

the Kyrgyz Republic's accession to the Eurasian Economic Union.

"It is important for USAID executives like Mr. Stivers to have an opportunity to see our work here and meet with local stakeholders. His background as a foreign policy advisor to members of the U.S. Congress, and his current senior position with USAID, enable him to tell our story to legislators and government officials in Washington," Mr. Greene said.



Mr. Jonathan Stivers, USAID Assistant Administrator for the Asia Pacific Region, tours Dordoi wholesale bazaar with USAID colleagues and members of the BGI team.

## KYRGYZ DESIGNERS SHOWCASE COLLECTIONS IN FASHION COMPETITION

More than 50 Kyrgyz fashion designers, many of them students and young people, presented their collections at a fashion show competition that coincided with the 10th anniversary of the Association of Light Industry of the Kyrgyz Republic (Legprom).

Legprom, which represents the Kyrgyz apparel sector, sponsored a week-long set of events, from June 11-15, commemorating its decade of sector promotion activities. Representatives of light

industry associations from throughout the CIS spoke at the opening session and also participated in an awards ceremony that took place at the end of the week. Other events included a clothing exhibition at the Kojomkul Sports Palace, and seminars for apparel makers throughout the week, culminating in the **Fashion Industry – 2015** competition for Kyrgyz designers.

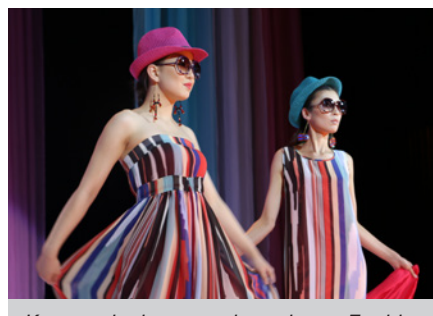
As general sponsor of the competition, BGI provided a forum to display Kyrgyz

design talent and award winners in the Professional Designer and Young Designer categories. Show organizers received more than 70 applications to participate, of which they selected the 52 best collections. The awards jury consisted of both national and international fashion industry experts and leading designers.

Fred Levitan, head of BGI's value chain component, presented certificates to the two grand prize winners, who now have the opportunity to represent Kyrgyz-



Ms. Ilzara Kombarova receives the grand prize in the Young Designer category.



Kyrgyz designer and producer Fashion Nuance introduces summer collection of colorful stripes.



Designers showcase themed collections for men, women and children, including casual and evening wear, traditional Kyrgyz themes and wildly creative ensembles.

stan at designers' competitions this fall in Moscow. Professional designer Aysanat Abdrasulova received the grand prize for her product line, Solar Nostalgie, and will now take her collection to the **Russian Fashion – 2015** competition. Ilzara Kombarova won the young designer prize for her collection, Azari, and will compete in the *Exercice* competition dedicated to showcasing young talent.

BGI sponsored the competition to promote the further development of talented students, young fashion designers and design professionals. BGI believes that Kyrgyz designers will play a key role in strengthening the competitive position of domestic garment manufacturers in the CIS regional markets in the future.

BGI also supported the week-long gala by sponsoring a training workshop

entitled "The DNA of *clothing brands in the fashion industry*," conducted by Andrei Burmatikov, an expert in the Russian fashion industry. During the seminar, participants examined commercial trends in the development of merchandise collections and learned how to improve marketing strategies based on the specifics of the Russian apparel market. More than 40 representatives of clothing and knitwear companies attended the workshop.

## BGI BOOSTS YOUTH STARTUPS THROUGH BUSINESS BOOT CAMP

BGI has teamed up with the Business Clinic of Central Asia (BCCA) to host a 10-week training and business planning program for seven selected startup firms founded by Kyrgyz youth.

Selected from 40 applicants, these early-stage entrepreneurs will participate in classroom training and mentor and peer coaching while developing a complete business plan for launching their enterprises and prototypes of their initial product or service offerings. Each startup team will receive seed capital of US \$1,000 from BCCA. On August 18, teams will present their business plans to a group of potential Kyrgyz investors, some of whom may provide additional capital and continued coaching should they choose to invest.

BCCA is a for-profit business that began in 2013 to stimulate entrepreneurship among young people and identify potentially lucrative investment opportunities for its small capital fund. In 2014, BCCA pioneered the Boot Camp concept by sponsoring a six-week training session for four selected startups, three of which are still operating with funds initially provided by BCCA. Following this experience, the firm decided to provide a longer incubation period in 2015 and expand the number of enterprises selected for participation.

Startups participating in this year's Boot Camp largely plan to develop services delivered through the internet. They



*Mr. Chris Corin, marketing expert and Bootcamp mentor, stresses the importance of product testing and obtaining customer feedback in a market research session.*

include an internet cosmetics store, an on-line cinema, a website offering temporary employment opportunities, internet sales of Kyrgyz handicrafts, an electronic platform for wholesale trade, and an on-line market for cleaning service.

"We're opening the second startup Boot Camp because we think that the Kyrgyz Republic has many potentially successful projects and the participation of active young people in their implementation will ensure their success," said BCCA co-founder Abhi Adhikari.

"Many startups fail because their founders give up after facing initial challenges. We will provide regular training

and coaching and offer teleconferenced sessions from successful startup entrepreneurs, not only from nearby countries but also from the US and Latin America. Our long-term vision is to convert Kyrgyzstan into the startup hub of Central Asia," he said.

BGI Chief of Party Karen Westergaard, who participated in the Boot Camp's opening session, told the young entrepreneurs, "Believe in yourselves! It is this belief that will bring you success. I hope the startup Boot Camp is going to be one of the most exciting experiences in your lives and that the knowledge you gain from mentors and coaches will be only the beginning."

## M-VECTOR PRESENTS FINDINGS FROM STUDY ON WORKFORCE SKILLS

In April, BGI presented findings from its study on the size and nature of demand for workforce skills in the Kyrgyz apparel and tourism sectors and the degree to which universities and vocational schools are able to meet these needs.

The Kyrgyz consulting and research firm, M-Vector, which BGI selected to conduct the study, outlined its conclusions in two different presentations to sector

stakeholders that took place on consecutive days.

"There is a need for a systematic approach to solve problems related to human capital development. Future efforts should be focused on joining forces between institutions that prepare students for the workplace and the private sector firms that employ them," said Nail Haibulin, Director of M-Vector.

BGI's study was the first large-scale research of the workforce skills demanded by firms in the apparel and tourism sectors. The results of the study were based on interviews with roughly 800 managers and employees of firms and more than 70 managers and instructors of educational institutions.

The most significant finding was that neither employers nor educational profes-



*Educational institutions and training providers exhibit their programs at presentations of BGI's workforce skills study to apparel and tourism sector stakeholders.*

sionals were able to identify what specific knowledge and skills are most critical to the successful performance of companies. Nevertheless, a majority of employers indicated that more than 30 percent of their employees lack special training or an educational background in their fields prior to employment.

In addition, the study revealed that

educational institutions do not produce enough graduates annually to meet employer demand nor does the level of their skills meet employer expectations. Overall, employers exhibited a lack of confidence in the ability of educational institutions to prepare students for future jobs.

Yet the survey also demonstrated that most employers pay little heed to their

own professional development as well as to that of their staff. For example, only a quarter of apparel employers themselves participated in training courses related to their industry, and only 10 percent of all employers sent employees to professional development courses.

In connection with these presentations, BGI also invited providers of education and training to exhibit their services to participants during coffee breaks before and after the event programs. As many as 25 universities, vocational schools and training institutions offered exhibits over the two-day period, the first day featuring tourism sector curricula and the following day that for apparel design and production. The exhibition provided an opportunity to initiate contact between educational providers and their ultimate private sector clients.

BGI is employing the results of the study to develop its plans for strengthening the knowledge and skills of Kyrgyzstan's future workers as well as improving access to education and training for employers and workers in these sectors.

## GEOLOGY AGENCY IN FINAL PHASE OF SYSTEM IMPLEMENTATION



During the past quarter, the Geology Agency launched a new electronic module as part of its automated geological management system, which optimizes data and document management for overseeing licensing and development of the Kyrgyz Republic's mineral resources.

While the system, developed under USAID's REFORMA Project, has helped the licensing department to manage documents related to administering licenses, the new module automates the decision-making activities undertaken by the licensing committee. The committee is the body that determines whether mining licenses should be granted, extended, suspended, or amended.

The new module facilitates the systematic entry of information to record the decisions of licensing committee meetings. It enables tracking of all license cases submitted to the Geology Agency and reviewed during the committee's meetings, and records issues discussed, decisions made, the presence of committee members, and the outcomes of each committee vote.

To enable greater public transparency, BGI's development partner, Art-Pro, is creating an interface between the data base and the Geology Agency website



*The geological management system helps the Licensing Committee of the State Geology Agency track issues and decisions in granting license awards.*

that will allow posting of updated results of licensing committee decisions. This will help mining companies to monitor the status of their licenses, reduce the number of calls to Agency staff, and offer local communities transparency in monitoring the status of mining licenses in their regions.

Parallel to this activity, the licensing committee drafted and approved a regulation on licensing cases that outlines required internal procedures, checklists,

methods of information exchange among departments, and other data management practices previously undocumented.

With the completion of this module, BGI's work with the data management system is nearly completed. BGI will continue to monitor the impact of the system on institutional performance while providing additional capacity development assistance to the Agency.

## MINING INSTITUTE SIGNS COOPERATION PACT WITH GEOLOGY AGENCY

In a move to strengthen relationships with educational institutions, the Geology Agency and the Institute of Mining and Mining Technologies signed a Memorandum of Cooperation that creates student internship programs and the development and implementation of mutual innovation projects. The goal of the agreement is to improve the quality of education by exchanging experience and knowledge not only through internships but also through jointly sponsored seminars and conferences.

“Investing in human capital is crucial for the further development of the mining industry in the Kyrgyz Republic,” said Geology Agency Director Duishenbek Zilaliev at the signing ceremony.

Upon signing the memorandum, the Agency approved a decree that creates a formal student internship program for an initial 10 students. Under staff supervision, interns in a previously conducted informal program helped the Agency to populate the geological data management system by scanning 216 licenses cases.

On June 4, the Geology Agency also organized its second Open Door Event for 15 third- and fourth-year students from the Institute that gave students the opportunity to become more familiar with the work of the various departments of the Geology Agency.

“This tour around the Agency helped me to observe the practical application of the theory I studied at the Institute. It has



State Geology Agency Director Zilaliev and Dean of the Institute of Mining and Mining Technologies Maralbaev sign memorandum to forge stronger ties between the two institutions.

been an eye-opening experience for me – very useful and informative,” said a fourth-year student at the end of the event.

## BGI PROMOTES AWARENESS OF RECENTLY ADOPTED MINING STRATEGY

In cooperation with the Ministry of Economy and the State Geology Agency, BGI will conduct a public awareness campaign to outline the policy recommendations set forth in the Medium- and Long-Term Development Strategy of the Mineral Resources Sector adopted by the Kyrgyz Government in February.

BGI's predecessor, the USAID REFORMA Project, assisted the Ministry of Economy to formulate the strategy through a series of public discussions that engaged stakeholders from the public, private and NGO sectors in the policymaking process.

To implement the public education program, BGI hired the NGO, Nedra, to conduct a series of public seminars. Seminars and public meetings will take place with regional stakeholders across the country



Citizens of Issyl-Kul region question representatives of government agencies at public awareness seminars on mining policy issues.

during July and August. Awareness-raising activities include discussions with local communities affected by mining exploration and development, with the participation of local and national policymakers and government officials.

Regional workshops such as these have proven to be effective in the past in

disseminating information on new policy approaches and in building dialogue between local communities and government officials. By continuing to offer such a forum for discussion, government officials and policymakers will have an additional opportunity to learn more about issues of primary concern voiced by local communities.

## NATIONAL BANK REMOVES OBSTACLES TO SHORT-TERM LENDING



Ms. Elizat Japarova, Chief Inspector of the Supervision and Licensing Department of the National Bank of the Kyrgyz Republic, presents changes and additions to bank regulations on short-term lending.

The board of the National Bank of the Kyrgyz Republic (NBK) recently approved changes to its prudential regulations on credit risk management, asset classification and loan loss reserve requirements to discontinue the required use of real estate to collateralize short-term working capital loans.

Begun under USAID's Local Development Program (LDP), BGI revived the project in January to help the NBK to introduce regulatory changes that would enable banks to use purchase orders or sales contracts to back-stop loans of up

to one year. This promotes greater access to finance for firms lacking real property to obtain working capital loans. The new regulations set maximum risk exposures and a ceiling on the percentage of past due loans in a bank's total loan portfolio to continue to protect the stability of the banking system.

BGI will now work with partner banks to help them roll out short-term lending products to finance small and medium enterprises, particularly those in the apparel, tourism and construction materials sectors, which is a focus for the BGI project.



## BGI SPONSORS UNION OF KYRGYZ BANKS' ANNUAL FORUM

On May 22, the Union of Kyrgyz Banks hosted its annual Bishkek International Financial Forum (BIFF) with the participation of representatives of Kyrgyz government agencies, banks, non-bank financial institutions, international institutions, and the business community.

Vice Prime Minister and Keynote Speaker, Mr. Valeriy Dil, said, "The forum will contribute to the development of the economy of the Kyrgyz Republic and will attract attention to new potential opportunities in the financial sector and the resources for its development."

"The financial forum will help to further a uniform approach to financial sector development, generate new ideas, and propose effective solutions needed for the country," he said.

More than 200 stakeholders from the Kyrgyz Republic and neighboring countries attended the one-day forum at which participants discussed challenges in financing, leasing, insurance and other access to capital issues.

After the morning plenary discussion, the forum offered break-out sessions that brought forth perspectives in introducing new financial products, such as purchase order financing (POF) and, leasing, and new methods of electronic product delivery, including digital payments through mobile phones. Another session examined how to improve the financial literacy of consumers and clients.

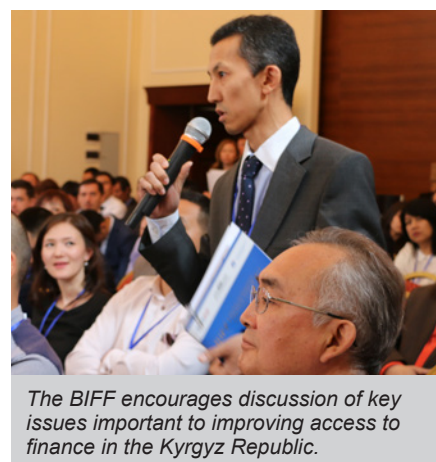
BGI hosted the session on POF that featured a presentation by BGI financial advisor Richard Currie. Mr. Currie shared his experience in the successful implementation of the product through both



Vice Prime Minister and Keynote Speaker, Mr. Valeriy Dil, welcomes participants to the Bishkek International Finance Forum (BIFF).



Mr. Richard Currie, BGI's banking advisor, outlines how to utilize new bank regulations to introduce purchase order finance (POF) to bank lenders and potential borrowers.



The BIFF encourages discussion of key issues important to improving access to finance in the Kyrgyz Republic.

banks and specialized non-bank financial institutions in Azerbaijan, Armenia, Moldova, Macedonia and Kosovo.

During his presentation, he also familiarized participants with the results of

a USAID-sponsored POF pilot loan program in Kyrgyzstan in 2012-2013. In this pilot, six financial institutions participated in POF credit training, and four partner banks issued nine loans totaling US \$4 million.

## BANK UNION AND ISR CONSULT STUDY LEASING HURDLES

Although the Kyrgyz Republic introduced leasing legislation more than 10 years ago, double taxation, lack of long-term bank funding, and costly mandatory insurance for leased equipment has limited its widespread use in equipment financing.

In 2012, however, the government adopted changes to legislation that provides favorable tax treatment of equipment leases. While these changes stimulated growth in the leasing industry, persistent obstacles have restrained extensive use of the instrument to improve access to finance.



Mr. Aibek Kurenkeev, Managing Partner of ISR Consult, introduces BGI study of the leasing market at a meeting of the Club of Private Investors.

To investigate underlying causes of constraints, BGI selected ISR Consult and the Union of Kyrgyz Banks to review the legal framework and local practices and experiences in using leasing as a financing mechanism for private sector capital equipment investment. The team will identify remaining constraints, particularly in the implementation of tax and customs regulations.

The study will also analyze the leasing portfolios of banks, leasing companies and non-bank financial institutions and conduct in-depth interviews and focus groups with lessors and lessees to

understand how successful leases have been structured, why these particular structures work, and what mechanisms could be introduced to make them work better.

According to the Union of Kyrgyz Banks, which has been promoting the product through its annual BIFF, leasing represents an optimal tool to help develop the agricultural, food processing, and light manufacturing sectors in the Kyrgyz Republic. However, since use of leasing is still not widespread, it is important to identify the reasons it has not expanded more quickly. Even so, the number of

leasing transactions has grown in recent years, from roughly 200 in 2010 to nearly 1,200 in 2013, the most recent year with published data available.

The final report will include recommendations for how to strengthen the business environment for leasing, both in terms of the quality of the legal framework as well as in its implementation. The BGI team will present all findings to stakeholders at a round table planned for September and begin to implement recommendations for the further development and expansion of leasing in Kyrgyzstan.

## BGI'S ENVIRONMENTAL SAMPLING METHODOLOGY MEETS INTERNATIONAL TESTS

In early June, the Finnish Environmental Institute (SYKE), as part of a project with the Kyrgyz State Agency for Environment Protection to measure the water quality of Lake Issyk-Kul, took samples from 17 sites around the lake using a proposed sampling methodology developed by the BGI subcontracting consortium, EcoPartner and Independent Ecological Expertise.

The proposed methodology "is in line with state standards" and "covers the whole chain of sampling procedures in detail that, according to best international practices, is essential for...proper analyses and increasing the performance of laboratories responsible for conducting such analyses," the Finnish-Kyrgyz Water/Issyk-Kul Project concluded. At the same time, the results of the water sampling and analysis showed that Lake Issyk-Kul is clean and within the maximum allowable concentrations of pollutants. Project experts recommended that the Government approve the proposed methodology.

The Kadamjai Center for Disease Prevention and State Sanitation-Epidemiological Oversight under the Health Ministry supported the above conclusion, which also tested the new methodology to measure the level of antimony, mercury and arsenic in the air, soil and water of the Chauvai settlement in Batken oblast.

BGI sponsored the development of this sampling methodology and an overall framework methodology for conducting inspections because, while conducting a REFORMA-supported project to optimize the legal framework for inspections, EcoPartner found that inspection methodologies were undocumented. This has resulted in the use of vastly differing methodologies by state ecological and technical safety inspectors, which creates uncertainty for firms undergoing inspec-



tions and opportunities for corruption by state officials.

On June 30, the consortium presented the two methodologies to 48 officials from the State Inspectorate for Ecology and Technical Safety and the State Agency for Environmental Protection. The new methodologies received positive feedback from participants as did a presentation on four revised checklists for industrial safety and mining oversight, ecological safety, fire safety, and labor safety that the consortium presented on June 18. These four checklists were revised to reflect new requirements imposed by the government to introduce the international system for classification and labeling of hazardous chemical substances.

In March, BGI had subcontracted the consortium to complete a project launched under REFORMA, to improve the regu-

latory framework of inspections, which helped the Ministry of Economy to draft amendments to the Law on the Procedure for Conducting Inspections of Businesses. Since then, EcoPartner has also drafted laws on radiation and ecological safety to close a legal gap caused by the revocation of national technical regulations due to the Kyrgyz Republic's accession to the Eurasian Economic Union. These drafts are currently posted on the Parliament's website for public discussion.

In the coming months, BGI will provide legal support to the Ministry of Economy and Parliamentary committees for the passage of these drafted laws and amendments and will conduct a series of training on the new regulations, methodologies and checklists for entrepreneurs and technical and ecological safety inspectors throughout the country.



## PROMOTANK AND SIAR RESEARCH TO STUDY SOCIAL INSURANCE PAYMENT RATES

In May, BGI launched a study to support a request of the Secretariat of the Business Development and Investment Council to assess the attitudes of business owners and entrepreneurs toward Social Fund insurance rates.

The purpose of the study is to determine if reducing the rate of mandatory social insurance payments will motivate firms to increase the number of formally registered workers, thereby reducing the level of activity in the shadow economy. The combined employer and employee contribution rate for social insurance is 27.25 percent, which the business community deems excessively high, particularly relative to benefits provided.

The study seeks to find ways to spread the burden of social contributions more equitably across the economy. The Social Fund provides benefits to many people who never contribute to the system, placing payment liabilities almost entirely on businesses that are fully operating in the formal economy.

The Secretariat designed the study to survey 1,200 businesses, individual entrepreneurs and farm entities and to build a macroeconomic model to analyze the sensitivity of responses to payment rates. Based on this analysis, the model will help to determine if reducing the rate would ultimately increase Social Fund revenue collection.



*The Secretariat of the Business Development and Investment Council leads a round-table discussion of its economic analysis on social insurance contribution rates with members of the business community and government agencies.*

Increasing the collection rate for social insurance payments would reduce pressure on the national budget to fund pension benefits that currently comprise 12.5 percent of the entire budget.

BGI and the Secretariat selected two organizations to complete the study. To conduct the business survey, the team selected Siar Research and Consulting. Promotank will build and analyze the results of the macroeconomic model and, with Siar, make recommendations to the Business Development and Investment Council for Government consideration.

On July 8, BGI hosted a round table with the business community to present

proposed approaches and seek feedback on the survey instrument to determine whether firms would be willing to provide honest answers to questions essential to preserve the efficacy of the study. Despite emphasizing that firms would prefer to remain anonymous in responding to the survey, the business community expressed support that a study on social insurance issues was underway.

BGI expects to complete the survey by the end of August and begin modeling the sensitivity of responses in September. BGI and the Secretariat plan to present the results of the study to public and private stakeholders in November.

## VAT ADMINISTRATIVE REFORM CONTINUES ITS PROGRESS

Prior to the June 30 legislative recess, Parliament approved the first reading of BGI-sponsored Tax Code amendments that would significantly improve VAT administrative processes and reduce many burdens for taxpayers. Nevertheless, there was insufficient time to obtain full legislative approval before the break, despite significant support for its passage.

Proposed provisions to the new legislation include greater State Tax Service (STS) scrutiny of firms upon VAT registration to prevent falsified VAT refund applications. The amendments streamline VAT crediting and refund procedures that allow conscientious taxpayers to reduce time and effort in claiming VAT overpayments. The legislation also replaces the highly burdensome process of obtaining VAT paper invoice forms by assigning electronically generated invoice numbers.



*Tax inspectors participate in BGI-sponsored training on proposed improvements in VAT administration.*

Despite the delay in passing reform legislation, the STS determined to make changes in business processes even before legislation is adopted, particularly since the Eurasian Economic Union (EEU) requires that the STS begin collecting VAT for trade transactions that

was previously collected by the State Customs Service (SCS).

Consequently, BGI subcontractor, MF Consulting, conducted a series of training seminars in May and June for STS officials throughout the Kyrgyz Republic. Roughly 170 tax inspectors participated

in training that addressed administrative changes reflected in the proposed VAT amendments as well as those dictated by the EEC.

MF Consulting is also producing a training video for the STS to instruct inspectors nationwide and a brochure that answers taxpayer questions on the new

VAT procedures. Once Parliament passes VAT reform legislation, BGI will continue to help the STS implement process changes that will significantly simplify VAT administration, including assistance in securing electronic signatures from taxpayers who must begin to submit VAT reports through the internet. BGI will also

monitor the impact of administrative improvements by surveying VAT payers.

The Government is hopeful that the amendments will pass at an extraordinary session of Parliament at the end of July because changes in VAT procedures are expected to take effect as of January 2016.

## BGI'S TECHNICAL ASSISTANCE PROJECTS UNDERTAKEN WITH IMPLEMENTING PARTNERS

No.	Project Name	Implementing Partner
1	Kyrgyzstan Textile / Apparel Value Chain Study	Central Asia International Consulting (CAIC)
2	Assessment of the Supply and Demand for Skills Development in the Tourism and Textile Value Chains	M-Vector
3	Approval Process for the Draft New Air Code	Kalikova & Associates
4	Introduction of New VAT Administration Procedures	MF Consulting, LLC
5	Continued Capacity Development Support to the State Geology Agency for Geology	Education and Career Development Fund – ART PRO
6	Implementation of New Methodologies and Draft Laws Supporting the State Inspectorate of Ecology and Technical Safety	EcoPartner, LLC
7	Promotion of Tax Literacy for the Introduction of Universal Tax Declaration	Chamber of Tax Consultants
8	Broadcasting of Video and Audio Commercials for Tax Literacy	VZGLYAD.KG, LLC
9	Value Chain Study for the Construction Materials Sector	International Business Council (IBC)
10	Consulting on Entering the Russian Retail Apparel Market	Fashion Consulting Group
11	Analysis of Leasing Practices in the Kyrgyz Republic	Union of Kyrgyz Banks, ISR Consult
12	Survey And Economic Analysis on Contribution Rates for Social Insurance	Promotank, Siar Research and Consulting LLC
13	Public Education Campaign for Promoting the Mining Development Strategy	Nedra Public Fund
14	Results Survey of the Tax Declaration Campaign 2015	ISR Consult

## THE USAID BUSINESS GROWTH INITIATIVE (BGI) PROJECT

USAID's Business Growth Initiative (BGI) is a four-year, multi-faceted project that builds and strengthens the competitiveness of Kyrgyz firms and value chains to promote business growth, job creation and economic development.

BGI works with individual firms and sector stakeholders in the apparel, tourism and construction materials value chains to improve their productivity, branding, product offerings, input sourcing, access to markets, quality control, financial management, and other critical components of internationally competitive value chains.

The project expands upon the business enabling environment reforms initiated by the USAID REFORMA Project in VAT administration, licensing, business inspections, mining and civil aviation. Work with government agencies continues to reinforce reform implementation by strengthening human and institutional capacity (HICD) and monitoring whether key reforms implemented in practice. It also introduces activities to improve access to long-term finance for small firms. Finally, the project builds stronger relationships between educational and training institutions and value chain firms to improve workforce and management skills.

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