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KYRGYZSTAN: AID FOR TRADE NEEDS ASSESSMENT

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The **Aid for Trade project** is one of the most important development-related outcomes of the 2005 World Trade Organization (WTO) Ministerial Conference in Hong Kong. It targets developing countries by strengthening their productive capacities and trade-related infrastructures as well as their ability to compete in regional and global markets. Trade plays an important role in development, although the relationship between trade and human development is not automatic. In order for trade to be inclusive, it must be incorporated into a human development framework. It needs to be conceived as a tool to enhance people's abilities and widen their choices.

The Aid for Trade initiative covers the following categories:

- trade policies and regulations;
- trade development;
- developing productive capacities;
- trade related adjustment; and
- other trade-related needs.

UNDP's regional **Aid for Trade project** *Wider Europe: Aid for Trade for Central Asia, South Caucasus and Western Commonwealth of Independent States (CIS)*, financed within the framework of Finland's Wider Europe Initiative, focuses on identifying capacity gaps and technical assistance needs both at the national and sub-regional level in Central Asia, South Caucasus and Western CIS. It also provides support to economic development in the areas located along the selected transport corridors, helping small entrepreneurs capitalize on new trade opportunities.

The **Wider Europe Initiative**, Finland's harmonized regional development framework, targets the following themes: security, trade and development, information society development, energy and the environment, and social sustainability. The framework includes three regional cooperation programmes — in Eastern Europe (Belarus, Moldova and Ukraine), the South Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).

The **Needs Assessments** produced in the framework of the Aid for Trade project are part of a long-term vision of developing trade capacities, which will benefit human development in the region.

Publications preparation team

Authors
Kubat Umurzakov
Temur Burzhubaev

Advisory Group
Jacek Cukrowski

Peer Review Group
Anarkhan Rahmanova
Armen Zargaryan

Acronyms

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Acronyms

ADB	Asian Development Bank
BCP	Border Crossing Point
BIPM	International Bureau of Weights and Measures
BOMCA	Border Management Programme in Central Asia
CACO	Organization of Central Asian Commonwealth
CAREC	Central Asia Regional Economic Cooperation
CCI	Chamber of Commerce and Industry
CDS	Country Development Strategy
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CA	Central Asia
EBRD	European Bank for Reconstruction and Development
ECO	Economic Cooperation Organization
ECO TA	ECO Trade Agreement
EuroAsEC	Eurasian Economic Community
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTZ	German Society for Technical Cooperation
GVA	Gross Value Added
HACCP	Hazard Analysis and Critical Control Points
IAF	International Accreditation Agency
IEC	International Electro Technical Commission
ILAC	International Laboratory Accreditation Cooperation
IMF	International Monetary Fund
IPA	Investment Promotion Agency
ISO	International Organization for Standardization
ISO	International Organization for Standardization
ITC	International Trade Centre
KR	Kyrgyz Republic
KR JK	Jogorku Kenesh, the Parliament of the Kyrgyz Republic
KR SCME	State Committee on Migration and Employment of the Kyrgyz Republic
MAWRPI	Ministry of Agriculture, Water and Processing Industry
MER	Ministry of Economic Regulation
MF	Ministry of Finance of the Kyrgyz Republic
MFN	Most Favoured Nation
MSTQ	Metrology, Standardization, Testing and Quality

NBKR	National Bank of the Kyrgyz Republic
NISM	National Institute of Standardization and Metrology
NPA	Legal Acts and Regulations
OIML	International Organization of Legal Metrology
PPR	UNDP Programme on Poverty Reduction
SCO	The Shanghai Cooperation Organization
SECO	Swiss Cooperation Office in Kyrgyzstan
SMB	Small & Medium Business
SPECA	UN Special Programme for the Economies of Central Asia
SW	Single window
SWOT	The analytical matrix "strengths, weaknesses, opportunities, threats"
TIR Convention	Customs Convention on The International Transport of Goods under Cover of TIR Carnets
UN ECE	Economic Commission for Europe
UNCTAD	UN Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	U.S. Agency for International Development
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

I. Introduction

The current study on foreign trade in Kyrgyzstan aims to identify the opportunities to develop trade capacity and to improve trade infrastructure so to allow Kyrgyzstan to participate in and to benefit from international trade.

The authors have held meetings with relevant governmental authorities, with representatives of businesses and experts from international donor organizations. The authors would like to express their gratitude to all of them for their time and for the information provided.

The report contains the following sections. The second section presents the current situation of the national economy, including macroeconomic tendencies, poverty levels in the country, indicators of employment of the population, and the status of the business environment.

The third section analyzes the changes of trade volumes over the last years and presents a review of the basic measures of trade and investment policy that have been undertaken and a review of the institutes involved in foreign trade.

Furthermore, the fourth section discusses issues of trade facilitation and trade promotion taking into account improvements of the technical regulation system in the country, simplifications of administrative procedures and possibilities of costs reduction, including cargo transportation and logistics.

The fifth section, analyzes the current situation of some sensitive sectors, including agriculture and agricultural processing, textile and sewing industries and tourism, development of which can affect the advancement of foreign trade and human development.

Based on the analysis, the sixth section provides the recommendations on policy improvement aimed at capacity building in the country, and on rendering of technical assistance in a number of areas in order to improve the contribution of trade to human development.

Specific measures in relevant areas are reflected in the Action Matrix. The Donors Map provides a review of the major projects of technical and financial assistance that are carried out in the country in the area of foreign trade. The Action Matrix and the Donors Map are presented respectively, in Annex I and II.

2. Kyrgyzstan and the global financial crisis

2.1 Macroeconomic trends

In the early nineties, Kyrgyzstan carried out drastic reforms for the transition to a market economy. During this period, the Kyrgyz Republic experienced the transformation recession: real GDP fell sharply by 49.3 % in 1990-1995. In 1996, the economy began to rehabilitate. Rehabilitation is still ongoing.

Table 2.1.

Selected macroeconomic indicators in 1990 and 2000-2009

	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP growth rate, %	3.2	5.4	5.3	0.0	7.0	7.0	-0.6	2.7	8.2	8.4	2.3
GDP to 1990, %	100	66.5	70.1	70.1	75.0	80.3	79.8	81.8	85.9	93.1	95.2
inflation, %	85	18.7	6.9	2.0	3.1	4.1	4.3	5.1	20.1	24.5	6.8
FDI, in % to GDP	…	6.6	5.9	7.2	7.6	7.9	8.6	11.3	8.5	9.5	14.4
Exchange rate , Som./ USD	…	47.72	48.44	46.94	43.72	42.67	41.01	40.16	37.31	36.57	42.89
Population, million people	4,412	4,907	4,946	4,984	5,037	5,093	5,139	5,189	5,248	5,252	5,418
Poverty level, %	…	62.5	56.4	54.8	49.9	45.9	43.1	39.9	35.0	31.7	-

Source: National statistical committee of the Kyrgyz Republic

Real GDP has been growing almost continuously since 1996, except between 2002 and 2005. In 2008, GDP growth rate was at its highest at 8.4 %. Real GDP over the considered period has increased; nevertheless, in 2009 it remained below the level of 1990. Due to the big share of the sectors oriented on domestic market (agriculture, construction and services), the economy of Kyrgyzstan, according to official data, has not immediately responded to the global crisis. Moreover, in 2008, physical volumes of industrial products have grown almost by 15 %. This fact also mirrors the small impact of the 2008 energy crisis[2] on the national economy.

The crisis started to manifest itself in 2009. According to the preliminary data of the NSC, in 2009 the GDP growth slowed down (2.3 %). In all major sectors of industry, except for the food sector, a decline in production was registered. As a result, the real volume of industry output decreased by 6.4 %.[3] A decrease in demand for Kyrgyz products on international markets was the principal cause of the negative trends in the economy of Kyrgyzstan.

Instable dynamics of GDP growth rates highlights the instability of the economy of Kyrgyzstan and its exposure to the crisis caused by external and internal factors. Besides, it is necessary to take into account that in Kyrgyzstan the share of the shadow economy is still high[4]. Most likely, the shadow economy has responded to the crisis to a greater degree.

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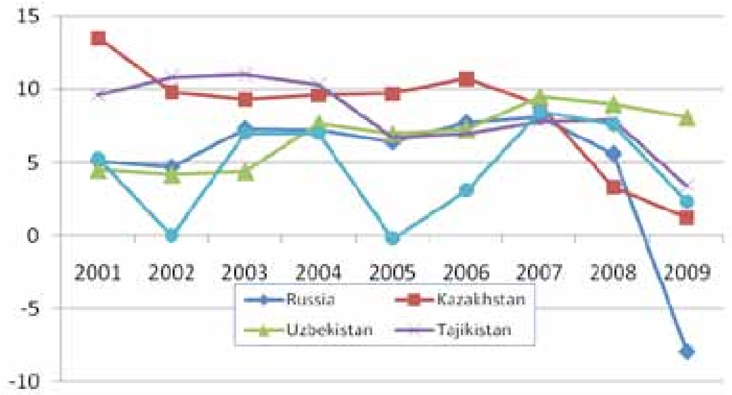
[1] Annually

[2] In 2008, because of a water level decrease in the Toktogulsky reservoir feeding Toktogulsky HPS – the basic source of the electric power in the Kyrgyz Republic, - the country government has been compelled to introduce limits on power consumption for all categories of consumers: private, commercial, industrial. In 2008, the limits were introduced 2 times: from March to June and from September to April, 2009, and have been resumed in the autumn of 2009.

[3] http://www.stat.kg/rus/express.pdf

[4] In 2006, the share of the shadow economy was about 53% of GDP. Source: Shadow economy in the Kyrgyz Republic: Tendencies, estimations and policy options. - Bishkek: UNDP, 2006.

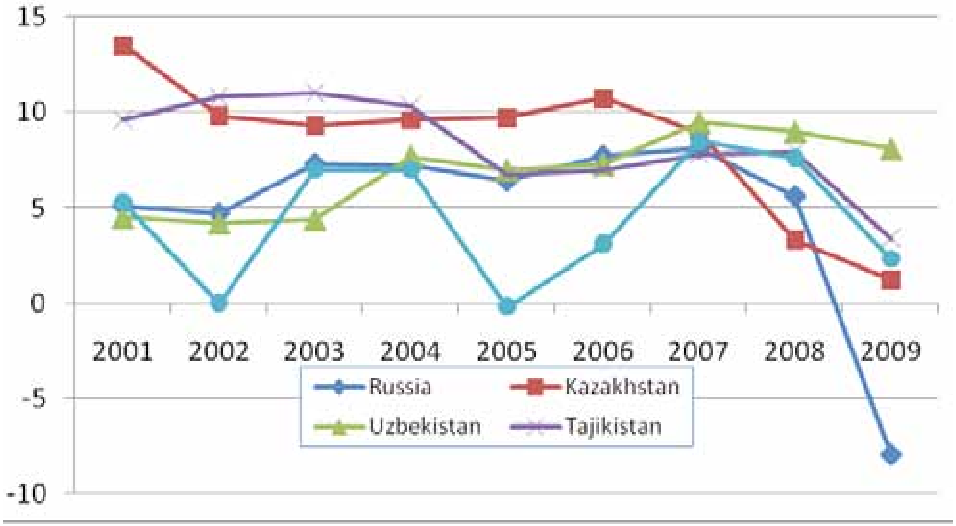
Figure 2.1. GDP growth rates in Russia and in selected Central Asian countries in 2001-2009, %



Source: CIS Interstate statistic committee

Over the past 8 years, the countries in Central Asia and Russia have showed rather stable GDP growth rates (see Figure 2.1). None of these have experienced an economic recession, as Kyrgyzstan did in 2002 and 2005. Kazakhstan and Tajikistan on average demonstrate the most dynamic development. However, all considered countries experienced recessions in 2008-2009.

Figure 2.2. Structure of GDP consumption in 2000-2009, %



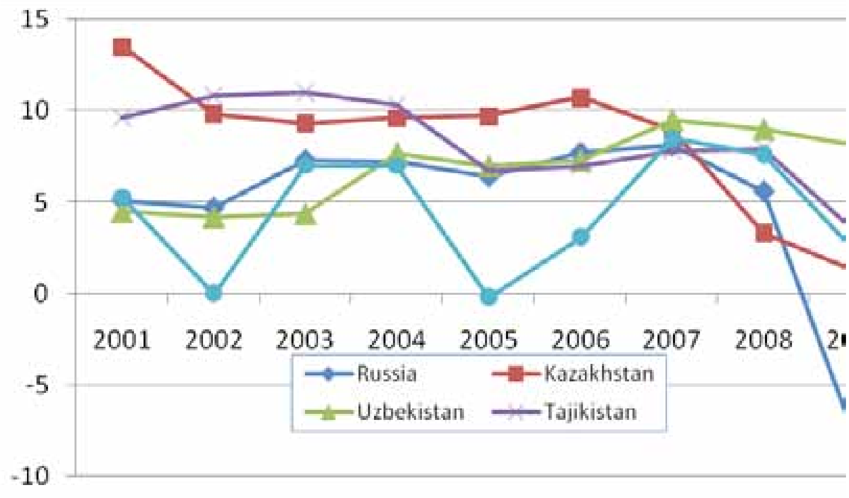
Source: National Statistic Committee of the Kyrgyz Republic

In Kyrgyzstan, the transition period is characterized by a growth in private consumption (Figure 2.2) which over the recent years has shown sustainable positive dynamics (Figure 2.3). Since 2005, the total consumption (private + public) has exceeded GDP, and consumption of households in GDP was 83-93 %. In 2008, the structure of final consumption of households shows that expenses for foodstuff were 54.7 %; expenses for non- foodstuff were 29.6 %; expenses for services were 15.2 %.

This tendency demonstrates an increasing well-being of the population and testifies to the large volume of remittances from migrants and the high proportion of the informal economy in the economic activity of the country. However, the sharp rise in prices for foodstuff due to adjustments on global markets in 2007 caused an increase in the share of consumption in the GDP.

All the above happened on the background of a recession in the industry (excluding Kumtor Company in the data portrays an even deeper recession). As a result, the share of industry in GDP has decreased by 11.2 percentage points in 2000-2009 (Table 2.2). The share of agriculture has decreased by 12.1 percentage points– at the expense of the major agricultural crops (wheat, sugar beet, cotton) and livestock. Accordingly, the share of services in the structure of GDP has grown by 16.6 percentage points, provided that the share of all subsectors of services has grown too.

Figure 2.3. Growth rates of key GDP components in 2000-2008, %



Source: National Statistic Committee of the Kyrgyz Republic

A considerable proportion of demand was satisfied through imports, which in 2007 reached 90 % of GDP. It should be noted that a considerable part of import (12.4 % in 2008[5]) is contained investment goods, which is illustrated by a simultaneous raise in growth rates of gross import accumulated in 2006 (investment goods occupied about 20 % of import7), as well as by the general dynamics of consumption indicators, of gross savings and import. A considerable proportion of import was re-exported.

Table 2.2.

GDP structure by sectors in 2000-20097, %

	2000	2004	2005	2006	2007	2008	2009
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100,0**
«Kumtor» Company	**9.0**	**8.0**	**6.2**	**3.1**	**2.5**	**4.5**	**3.9**
Economic sectors	**63.4**	**51.6**	**48.5**	**46.2**	**43.6**	**42.9**	**42.7**
Agriculture, hunting and forestry	34.2	29.9	28.5	28.7	26.9	25.8	22.1
Industry	25.0	19.2	17.3	14.8	13.1	14.0	14.8
Mining industry	0.5	0.6	0.5	0.4	0.5	0.5	0.6
Processing industry	18.1	15.3	12.9	11.0	9.9	11.3	12.5
Generation and distribution of power, gas and water	6.4	3.3	3.9	3.4	2.7	2.2	1.7
Industry without «Kumtor»	16.0	11.2	11.1	11.7	10.6	9.5	10.9
Construction	4.2	2.5	2.7	2.7	3.6	3.1	5.7
Services	**29.6**	**38.3**	**40.7**	**41.3**	**42.9**	**43.9**	**46.2**
Trade, repair	12.1	16.0	17.8	18.4	17.9	18.6	16.4
Hotels and restaurants	0.7	1.5	1.4	1.4	1.2	1.3	1.4
Transport and communication	3.7	6.4	6.6	6.1	7.4	8.4	9.1
Financial services	0.4	1.9	2.2	2.6	3.4	3.6	0.8
Public administration	3.8	4.6	4.6	4.4	4.3	4.2	6.3
Education	3.2	3.5	3.8	4.0	4.5	4.4	4.7
Health and social services	2.0	1.9	2.0	2.3	2.1	1.9	1.6
Net indirect taxes for products	**7.0**	**10.1**	**10.8**	**12.5**	**13.5**	**13.2**	**11.1**

Source: National Statistic Committee of the Kyrgyz Republic

[5] Balance of payments of the Kyrgyz Republic. The first half of 2009. NBKR, Bishkek, 2009.

Kyrgyzstan has been constantly increasing its investment capacity. Capital investments in Kyrgyzstan, in 2000, in relation to GDP were 16.6 %; in 2009, they reached 19.7 %. The level of foreign direct investment (FDI) into the national economy as share of total investments was low, from 6.2 to 11.2 %. This situation did not change until 2007. In 2008, the volume of foreign direct investment increased to 19.7 %, and in 2009 decreased to 7.4%.

The main sources of finance are funds of the companies (mainly funds of the companies with foreign participation). In 2007, the funds of the companies constituted 40.8 % of the total investment, and the share of foreign investment was 21.5 %. In 2008 and 2009, a decrease in financing at the expense of the funds of the companies occurred with a simultaneous growth of others sources, out of which foreign investments have grown most considerably. The increase of investment was mainly in the transport and communication sectors, in hotel and restaurant businesses, and in real estate operations.

Table 2.3.

Capital investment in 2003-2009

Name	2003	2004	2005	2006	2007	2008	2009
Total, million som	**8 950.5**	**10 218.6**	**11 594.6**	**18 771.3**	**24 087.5**	**32 535.0**	**38690.5**
In % to GDP	10.7	10.8	11.5	16.5	17.0	17.6	19.7
Proportion of the sectors in total amount (%):							
Agriculture, hunting and forestry	4.6	3.2	3.5	2.6	2.0	2.3	2.3
Mining industry	6.8	3.7	15.9	20.5	15.0	7.4	7.5
Manufacturing industry	10.3	9.2	10.0	8.7	12.9	11.2	8.4
Generation and distribution of power, gas, steam and warm water	15.7	14.4	11.8	6.8	7.8	7.0	14.2
Hotels and restaurants	2.8	4.0	2.4	2.0	5.8	7.2	8.3
Transport and communication	19.7	22.2	15.9	30.3	14.3	20.7	13.6
Sources of financing (%):							
Domestic investments	***65.1***	***66.2***	***71.6***	***75.9***	***78.5***	***64.0***	***74.2***
Public budget	10.2	10.4	7.6	6.8	11.2	12.7	14.2
Funds of enterprises and organizations	37.7	27.0	37.5	47.1	40.8	22.9	23.8
Funds of the population and others	17.3	28.7	26.6	22.0	25.9	27.6	30.2
Foreign investments	***34.9***	***33.8***	***28.4***	***24.1***	***21.5***	***36.0***	***25.8***
Foreign loans, grants and humanitarian aid	26.0	27.7	17.2	16.1	14.5	16.3	18.4
FDI	8.9	6.2	11.2	8.0	7.0	19.7	7.4

Source: National Statistic Committee of the Kyrgyz Republic

In 2009, the global economic crisis did not impact the capital investment, which over most of the year slightly grew (for the first 11 months: overall capital investment grew 1.4 times, investments financed by bank loans increased 12.5 times; by national budget - 1.6 times; and by funds of the population – increased by 37.8 %).[6]

The national economy at the present stage is rather open, and its openness is growing. Thus, in 2009, export and import of goods and services reached accordingly 56.2% and 80.6 % of GDP. Growth rates of exports (goods) essentially lag behind the growth rates of import: import during 1995-2008 has grown 7.1 times; export has grown only 3.7 times. Inflation, measured on the basis of the consumer price index (CPI), was at a one digit level (Figure 2.4) in 2003-2006. In 2007-2008, however, a sharp growth (by 20.1 % in 2007 and by 24.5 % in 2008), caused by the rise in prices for food items in 2007, and by the rise in prices for non-food items in 2008.

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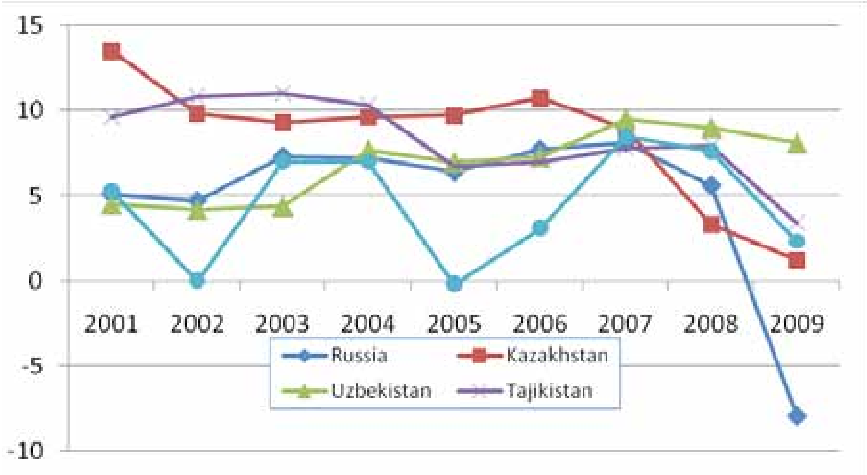
[6] Social and economic development of the Kyrgyz Republic in January-November 2009, KR NSC , 2009

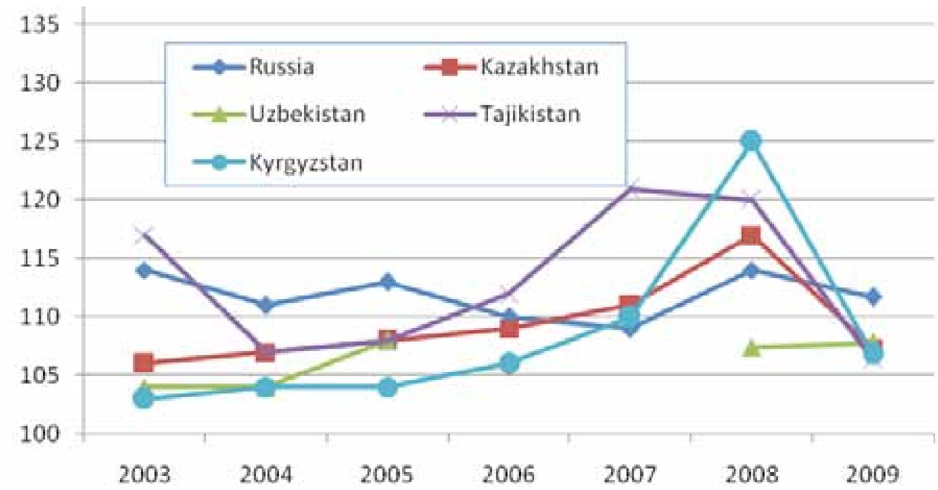
Figure 2.4. Dynamics of the consumer price index in 2003-2009, % to the previous year



Source: National Statistic Committee of the Kyrgyz Republic

This is mainly due to processes in international markets, that started in 2007, and led to a universal rise in prices for staple food (flour, sugar, meat, etc.), as well as a general trend of the global oil market. Monetary and fiscal policies of the government over this period focused on restraining inflationary processes in the country, resulting in stabilising CPI at a one-digit level (6.8%) in 2009.

Figure 2.5. Dynamics of the consumer price index in Russia and in selected countries of Central Asia in 2001-2009, % to the previous year



Source: Source: CIS Interstate statistic committee

The increase in food prices is likely to have a negative impact on the well-being of the population and to slow down social and economic development.

Before 2007, Kyrgyzstan witnessed a low rate of inflation (comparing to Russia and other Central Asian countries). However, since 2007, the situation has sharply changed – the republic "has caught up" with Kazakhstan and Russia. In 2008, Kyrgyzstan witnessed a much higher rate of inflation than Kazakhstan or Russia (see Figure 2.5).

2.2. Monetary and credit policy, exchange rates, fiscal policy

Monetary and credit policies of Kyrgyzstan, according to the National Bank (NBKR), in 2003-2009 were aimed at maintaining price stability, with the following objectives:

- develop and maintain a reliable bank sector and payment system with a view of long-term economic growth facilitation;
- prevent sharp fluctuations of the exchange rate (to insure price and financial stability).

In 2007-2009, the NBKR has carried out a tight monetary and credit policy in order to ensure inflation restrained.

The basic tools of the National Bank for open market operations were repo-operations with the use of governmental bonds. In 2008, the sale of bonds amounted to 20.7 billion som, versus 120.0 million som in 2003. The growth of the sales of bonds has led to a growth of the average profitability in all categories, and the NBKR discount rate has risen to a certain extent.

With a view of smoothing the sharp fluctuations of the exchange rate, the NBKR carried out currency interventions.

The monetary base calculated under the current exchange rate, as of the end of December 2009, was 41.6 billion som, having increased over the last 6 years by 4.1 times (in 2009 the increase was 18.3 %). The analysis of the sources of formation of the monetary base has shown that the increase of monetary base in 2009 was caused by the increase of net domestic and net foreign assets.

At the end of 2008, in order to protect the deposits of investors, maintain financial stability of the bank system, and increase the trust of the population, the Law "On protection of bank deposits" was approved. According to the law, if the bank goes bust an indemnity at a rate of up to 20 thousand som is to be paid to each investor irrespective of the initial currency and irrespective of bank where the deposits were placed. In order to ensure repayments to the investors, the Deposit Protection Fund was set up. The size of the Fund is about 340 million som, of which 50 % were contributed by the government.

As a result, the measures have strengthen the financial system as a whole as well as the banking sector of the country, and contributed to lower inflation to a one-digit level.

Fiscal policy

In 2006-2008, the budgetary revenues of the Kyrgyz Republic increased. The increase of key economic indicators, the efficiency of tax policy, improvement of the administration of taxes, improvement of the legislation, increase in the taxable base and efforts made to formalise the shadow economy have served as factors for the growth of revenues.

Budget revenues over the last three-year period annually increased on average by 10 billion Som – about 30 % a year. The most significant contribution to the growth of budgetary revenues was made by taxes. Tax collection in the period of 2006-2009 has increased from 20 to 48 billion som. Share of tax revenues in GDP has grown from 17.6 in 2006 to 18.3 % in 2009 (the highest growth of tax revenues was registered in 2009).

The level of *Personal Income Tax* collection is growing over time. This is mainly due to the growth of monthly average wages and due to the fact that more small and medium businesses entered the formal economy.

Revenues from *Tax on Profit* are also growing over time. This is mainly due to the substantial growth of revenues from the oil and gas industry, food sector, agriculture, water sector and alcohol production. Therefore, growth is caused by two factors: a rise in prices and the expansion of the tax base (due to the decrease in the tax rate from 30 to 10 %).

Similarly, collection of the *value added* tax is characterized by a pronounced growth - tax revenues for 2006-2008 have grown on average by over 3.5 billion som per year. The proportion of VAT charged for domestic products in GDP has grown from 1.5 % of GDP in 2006 to 1.9 % of GDP in 2008. VAT for imported products (the biggest share in the total VAT), showed a substantial growth: in 2006-2008, it grew on average by 2.7 billion som (the increase in the tax collection is caused by more than 1.5 times growth of import).

The new Tax Code (introduced in 2009) reduced the VAT rate from 20 to 12%. This, however, did not affect VAT collection: VAT collection increased almost on 1 billion soms.

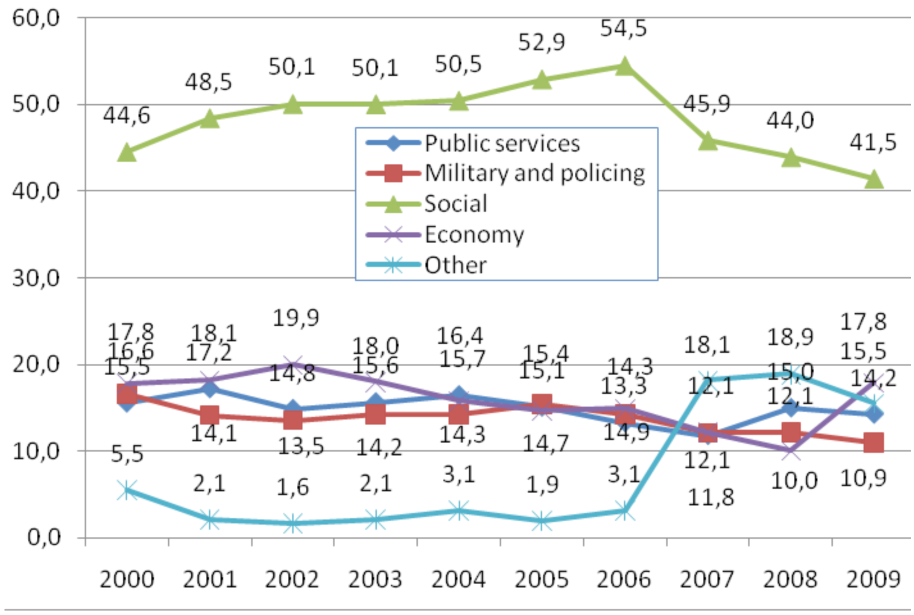
Improvement of customs administration and substantial growth of volumes of import, established good precondition for the expansion of the taxable base which in turn caused the growth of *customs duties* –customs duties have grown up to 4.6 billion som in 2008 versus 2.8 billion som in 2006, or by more than 1.5 times. Thus, the most considerable growth was observed in the collection of customs duties. In 2009, due to a decrease of imports the customs duties were 4.1 billion som.

Non- tax revenues, during 2006-2009, have increased from 4.6 billion som to 9.1 billion som. This growth is mainly due to the lump sum payment from the gold deposit Taldy-Bulak Levoberejnyi in 2007, the funds from the Ganci Air Base in 2007-2008, and the growth in profits of the National Bank in 2008.

Expenses of the state budget

Overall, the state budget exhibits a trend to increase expenditures over time. In 2006-2009, total expenses for education, public health services, housing and public utilities, social insurance and social protection have decreased (in 2000-2006 they increased by 10%) (Figure 2.6). The expenses for military and law-enforcing organs also decreased by 5.7 percentage points. On the other hand, financing of the economic sector increased (mainly for the Kambar-Ata-2 Hydro-Power Plant construction).

Figure 2.6. Expenditures of the state budget in 2003-2009, by functional classification, share in total amount, %



Source: National Statistic Committee of the Kyrgyz Republic

Thus, the state budget, without the loans of the state investments program, was implemented with a surplus (Table 2.4).

Table 2.4.

Balance of the state budget in 2003-2009, million som

	2003	2004	2005	2006	2007	2008	2009
Balance of the state budget	-681,6	-505,7	224,2	-216,5	129,0	1 564,7	-2 923,3

Source: National Statistic Committee of the Kyrgyz Republic

State debt

The state debt of the Kyrgyz Republic in 2006-2009 was growing (Table 2.5), however the debt level in relation to GDP was reduced.

Table 2.5.

State debt in 2006-2009 (end of the year), mln. som

	2006	2007	2008	2009
Total	**82 381.68**	**80 866.88**	**91 360.57**	**117 704.10**
Foreign debt	75 496.13	73 725.69	83 877.18	109 152.40
Internal debt	6 885.55	7 141.19	7 483.39	8 551.61

Source: Ministry of Finance of KR

The Kyrgyz Republic managed to achieve positive shifts in foreign debt, which was reduced from 77.0 % of GDP in 2005 to 55.6 % of GDP in 2009. This change was facilitated by re-structuring and write-offs of a part of foreign debt within the limits of the Paris Club in 2002 and 2005, which substantially enhanced the financial conditions of repayment of bilateral loans and created more budgetary space.

2.3 Population, employment, poverty and inequality

The population of Kyrgyzstan grows. In 2009, the number of inhabitants was 5,276,100 people and compared to 2000 it has grown by 408,600 people, or by 8.4 % (Table 2.6).

Table 2.6.

Population growth in 2003-2009, beginning of the year (% change since 2000)

	2003	2004	2005	2006	2007	2008	2009
Total population growth	2.4	3.5	4.6	5.6	6.6	7.3	8.4
including.:							
Below working-age	-3.6	-4.6	-5.4	-6.2	-6.5	-6.5	-6.3
At working-age	7.4	10.3	13.0	15.4	17.4	18.6	20.2
Above working-age	-2.1	-3.2	-3.5	-3.9	-3.1	-1.9	-0.4

Source: National Statistic Committee of the Kyrgyz Republic

Table 2.6 shows that the share of population (working age) increases. However, this capital is under-utilised, as the rates of job opportunities are obviously lagging behind. Negative tendencies in the labour market exacerbate this problem and the unemployment rate remains high at 7.5 % in 2000 and 8.2 % in 2008.

Table 2.7.

Employment and unemployment in 2000-2008, %

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Employment rate			56.3	57.7	58.3	59.5	60.1	59.8	60.0
Unemployment rate	7.5	7.8	12.5	9.9	8.5	8.1	8.3	8.2	8.2
Poverty rate, %	62.5	56.4	54.8	49.9	45.9	43.1	39.9	35.0	31.7

Source: National Statistic Committee of the Kyrgyz Republic

The most difficult situation in the labor market was observed in 2002, when the unemployment rate was 12.5 % (Table 2.7). The age structure of the unemployed is characterized by a large share of young people (50.7 % of unemployed are below 29 years). The average age of the unemployed is 31 years. Moreover, despite the low unemployment rate, 31.7% of the population lives in poverty.

Looking at a breakdown of employment by economic activities it is clear that in the majority of sectors employment over the last 8 years has increased (Table 2.8). In construction and hotel and restaurant businesses, the employment increased more than 5 times. In agriculture, an outflow of labour force was observed (since 2000 employment in agriculture decreased by 20.8 %).

Table 2.8.

Structure and employment growth by economic activities in 2000, 2006-2008, % to 2000

	2000	2006		2007		2008	
	Share	**Share**	**Growth since 2000**	**Share**	**Growth since 2000**	**Share**	**Growth since 2000**
Total	**100**	**100**	**118,5**	**100**	**121,7**	**100**	**123,5**
Agriculture, hunting and forestry	53.1	36.3	81.0	34.5	79.1	34.0	79.2
Industry	8.0	10.7	158.8	10.7	162.9	10.5	161.5
Civil engineering	2.5	8.7	418.0	9.5	473.0	10.2	511.3
Trade and car repairs and household items	10.6	14.7	164.0	14.7	168.6	14.6	169.9
Hotels and restaurants	0.7	2.3	374.0	2.7	445.8	3.0	505.3
Transport and communication	3.6	5.7	189.6	6.2	210.3	6.1	211.0
Social services	15.5	13.8	105.5	13.3	104.5	13.4	106.6
Others	6.0	7.8	153.0	8.3	168.6	8.2	168.2

Source: National Statistic Committee of the Kyrgyz Republic

During 2000-2008, a significant outflow of the labor force from the regions to the capital has been observed (the number of people working in Bishkek has increased by almost 110 thousand people). Moreover, the labor force tends to migrate abroad. According to the State Committee on Migration and Employment of the Kyrgyz Republic (KR SCME), in 2008-2009 the number of labor migrants has fluctuated within 350-400 thousand range, depending on the season. The number of labor migrants to the countries outside CIS remains unchanged. However, mainly due to the financial and economic crisis, the flow of migrants to Russia and Kazakhstan decreased.

Table 2.9.

Employment by regions in 2000, 2006-2008

	2000	2006		2007		2008	
	thou-sands	**thou-sands**	**% change since 2000**	**thou-sand**	**% change since 2000**	**thou-sand**	**% change since 2000**
Kyrgyz Republic	**1768.4**	**2096.1**	**18.5**	**2152.7**	**21.7**	**2184.3**	**23.5**
Batken Oblast	136.4	152.1	11.5	155.7	14.1	157.3	15.3
Jalalabat Oblast	311.2	377.0	21.1	388.5	24.8	390.7	25.5
Issyk-Kul Oblast	146.5	175.0	19.5	179.0	22.2	180.3	23.1
Naryn Oblast	88.2	84.6	-4.1	86.2	-2.3	89.3	1.2
Osh Oblast	456.6	534.2	17.0	544.4	19.2	555.7	21.7
Talas Oblast	74.9	90.6	21.0	93.2	24.4	95.3	27.2
Chui Oblast	277.5	319.1	15.0	325.4	17.3	328.0	18.2
Bishkek	277.1	363.5	31.2	380.4	37.3	387.8	39.9

Source: National Statistic Committee of the Kyrgyz Republic

GDP per capita has grown, after a significant decrease in the early nineties. In 2005, it exceeded the 2000 levels by almost 1.7 times, and in 2008 –3.2 times and reached 888 USD (Table 2.10). The sharp jump occurred in 2007.

Table 2.10.

GDP per capita in 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP per capita, som	13297	14911	15094	16646	18526	19617	21918	27107	35070	38300
GDP per capita, USD	278	309	323	384	436	478	549	731	959	888

Source: National Statistic Committee of the Kyrgyz Republic

Consumption growth, growth of gold production since 1997 and growth in agriculture and the service sector contributed to the growth of per capita GDP growth. Remittances from the labor migrants are considered as the major factor for the increase in consumption, especially in rural areas. According to the World Bank[7], over 70 % of remittances went to rural areas. According to the NBKR Balance of payments report, during2002-2008 the volume of remittances has increased by more than 27 times.

Remittances significantly affect consumption patterns and the quality of life in the country. The biggest share of remittances (about 55%) is spent on basic and non-productive goods, such as food, clothes, health care services; about 10% is spent for education, and about 5% for business activities (the remainder is used for the purchase of durable items).

The level of poverty during 2000-2008 has decreased from 62.5 to 31.7 % (Table 2.1). Poverty is distributed unevenly. In rural areas, poverty is 1.5 times higher than in urban areas. The inequality measured by the Gini coefficient of consumption inequality has been smoothed out a little (Table 2.11). In 2008, the Gini coefficient in rural areas was at its lowest, whereas in urban areas the coefficient has shown an increase, compared to 2004 and 2005. Consumption inequality in the whole country decreased as well.

Table 2.11.

Gini coefficient of consumption inequality

	2003	**2004**	**2005**	**2006**	**2007**	**2008**
Total	0.298	0.331	0.271	0.323	0.269	0.252
Urban	0.293	0.288	0.273	0.319	0.291	0.248
Rural	0.293	0.334	0.255	0.304	0.235	0.244
Ratio of level of expenses of 20 % of the most and of 20 % of the least provided groups, in folds	4.8	5.1	4.7	5.8	4.2	5.9

Source: National Statistic Committee of the Kyrgyz Republic

The improvement of macroeconomic indicators was also accompanied by a reduction in poverty levels and a better distribution of income throughout the population within the country.

2.4. Competitiveness and the business environment

The Kyrgyz Republic is committed to the principles of an open economy. As a result, the authorities support the improvement of the regulatory base of the economy.

[7] World Bank: Migration and remittances in Eastern Europe and Central Asia, 2006.

In 2009, the new Tax Code was approved. The new tax code represents a uniform document covering all types of tax and tax-related activities. Key changes introduced by the new Code include: decrease in total number of taxes and duties from 16 to 8; decrease and fixation on the low level of the basic tax rates; VAT rate is set at 12 % (instead of 20 %); the profit tax is set at 10 %; the income tax is 10 %; rates of the uniform tax on the simplified system of taxation are within 4-6 % range (instead of 5-10 %); limits for the number of unplanned tax inspections are introduced; etc. Thus, the new Code has been designed to support the business environment. However, Kyrgyzstan has not substantially reduced the number of "meetings" of businessmen with tax authorities in comparison with 2008. In the Doing Business 2010 report, the Republic belongs to the countries with the highest number of taxes payments per year – 75.[8]

Formally, Kyrgyzstan possesses a sufficiently competitive environment, with relevant antimonopoly institutes in place (legislation and the antimonopoly authority).

However, businesses still face a number of significant constraints, including an imperfect legislative base; difficulties to obtain bank loans; administrative and other barriers for business; a complicated system of licenses and permits.

A low level of transparency of the decisions of public authorities related to the licensing and permissions, on the one hand, and complexity of procedures to obtain permits and licenses, on the other hand, complicate economic activities and increase costs.

Furthermore, key factors determining the low competitiveness of the Kyrgyz manufacturers include the small size of the domestic market, low income of the population, outdated and deficient standards; poor quality of equipment; unskilled management of enterprises.

In 2008-2009, the authorities introduced the state policy for business support intended to set up conditions for the effective operation of small and medium enterprises. This policy included development of a sound legislative base and a reliable system of protection of the rights and interests of the businesses, restrictions on interventions of the state structures in the operations of businesses, granting businesspersons a wide access to loans, setting up preferential tax procedures, and the development of industrial, financial, social, and market infrastructures.

In order to abolish inefficient regulations, the state authorities and local governments reconsider the regulatory legal acts that regulate the work of business entities.

To reduce bureaucratic pressure on businesses, increase the level of economic freedom, define the new principles of a permit system to make it more accessible for businesses and improve efficiency in the sector, the licensing legislation has been amended. The law «On the optimization of the standard legal base for the regulating of businesses», adopted in 2008, provides the basic principles and actions for the revision of the regulations of business activities.

In September 2008, the Government of the Kyrgyz Republic introduced a moratorium on the adoption of regulations in the area of licenses and permits by executive authorities and by local governments before the end of the revision of the standard legal acts.

A survey of businesspersons carried out by the EBRD and by the World Bank in 2008, has shown that in comparison with 2005 the number of firms that made informal payments for the tax and customs authorities and courts had slightly decreased. However, the first priority among the current problems belongs to infrastructure, especially concerning electricity shortages, as well as communications and transport issues. Finally, corruption remains one of the most serious problems for businesses and the business environment.[9]

Despite the efforts undertaken by the government, the trust into the judicial system is low. The courts face weak material support, judges are overloaded, access to court proceeding and trials is limited; there is a shortage of court administration personnel and judicial secretaries; no mechanisms for the participation of citizens in justice, and a lack of clear criteria for the selection of judges. As a result, courts cannot properly implement their function to protect the constitutional rights and freedoms of people, property rights, contracts, as well as to control the legality of administrative decisions, etc.

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[8] Doing Business 2010. World Bank, 2010.

[9] Business Environment and Enterprise Performance Survey (BEEPS) 2008. Presentation of selected findings. Bishkek, January, 2010.

3. Trade and investment policy

3.1. Analysis of trade flows

Trade in Kyrgyzstan has considerably grown in 2000-2008, with the growth rates of imports far outstripping the growth rates of exports. The total amount of exports over the considered period has grown 3.3 times (Table 3.1.), especially in 2006 and 2007 (respectively, by 32 % and 48 %). The growth of export of gold and the rising prices for precious metals, as well as the growth in re-export of kerosene and other mineral oils (including the refueling of foreign military planes) have contributed largely to the growth of exports. The growth of export of construction materials (cement and building glass), dairy products, vegetables and fruits, garments has also played a role in the increase of exports.

Table 3.1.

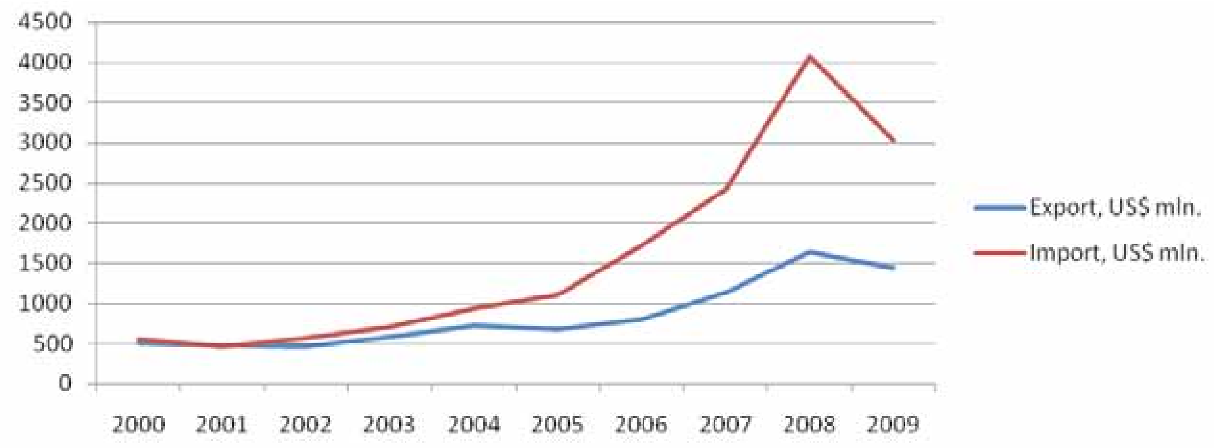
Annual rates of growth of export and import in 2000-2008, %

	Export				Import			
	2000-2008	2006	2007	2008	2000-2008	2006	2007	2008
Global growth of trade	12	16	16	15	12	15	15	15
Developing countries	15	20	17	20	15	17	18	21
CIS countries	22	25	20	35	25	30	35	31
Kyrgyzstan	16	32	48	24	28	63	44	46
Russian Federation	21	25	17	33	26	31	36	31
Kazakhstan	30	37	25	49	29	36	38	16

Source: National Statistic Committee of the Kyrgyz Republic

It follows from Table 3.1 that imports have been growing much faster than export. Imports to Kyrgyzstan have also been growing faster than in other CIS countries, especially over the last three years.

Figure 3.1. Dynamics of exports and imports in 2000-2009, mln. USD



Source: National Statistic Committee of the Kyrgyz Republic

As can be seen from Figure 3.1, foreign trade volumes decreased in 2009 (as a consequence of the global economic crisis). Exports decreased by 12.3 % and imports – by 25.3 %. The reduction in exports was mainly caused by a lower demand from the main trading partners (Russia and Kazakhstan). In 2009, a sharp decrease took place in imports of oil products (68.4% of 2008 volume), gas (65.5%) and cars (37.4%).

In 2008, exports per capita was about 314 USD and increased in comparison to 2002 (99 dollars). However, it is considerably below the average level of export per capita for CIS countries (2538 USD) (Table 3.2).

Table 3.2.

Exports in Kyrgyzstan and CIS countries, 2008

	Population (million people)	GDP (billion. $)	Export (billion $)	Export per capita ($)	Export in % to GDP
Kyrgyzstan (2008)	5.2	5.1	1.6	314	32.5
CIS countries	277.0	2,191.6	703.0	2538.0	32.1

Source: National Statistic Committee of the Kyrgyz Republic

Despite high import growth rates, the integration of the Kyrgyz economy into global trade remains limited.

Basic export items over the analyzed period were gold, the share of which in total export volume in 2009 was 36.8 %. The export of cement, building glass, garments, vegetables and fruit, milk and dairy products, electric bulbs has grown over the same period. However, traditional exports such as electric power, cotton fiber and tobacco not only decreased as a share of total export, but also in absolute value (Table 3.3).

Table 3.3.

Main export items of Kyrgyzstan, mln. USD

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Milk and diary products	1.6	3.7	5.7	9.4	10.5	16.2	23.2	29.2	33.1	22.0
Vegetables	4.5	6.6	10.4	8.1	16.0	12.7	23.3	46.1	42.9	37.4
Fruit	3.3	2.8	4.6	1.3	1.7	2.2	4.9	27.4	49.6	43.3
Tobacco	30.2	25.4	19.7	12.4	11.6	11.5	10.6	12.2	14.9	14.2
Cement	2.0	1.5	1.5	5.9	9.5	13.1	21.3	40.0	47.1	0.7
Electric power	79.8	46.8	22.0	19.2	21.9	20.4	25.1	32.5	25.1	37.3
Skins of cattle	4.7	6.1	17.2	6.2	4.6	6.5	8.9	7.4	9.7	1.3
Clothes and accessories	2.6	2.3	5.8	14.9	23.2	23.2	47.7	79.4	98.6	72.5
Fiber cotton	32.3	22.1	45.2	43.1	42.6	41.4	36.2	29.2	23.8	21.5
Glass	0.2	0.0	2.3	15.9	25.4	32.7	27.5	38.2	32.1	3.0
Waste and copper breakage	5.3	0.9	1.5	0.5	0.7	0.4	2.3	9.5	14.3	1.1
Oil and mineral oil	2.4	7.4	35.4	47.9	58.8	58.3	123.5	211.5	304.4	186.4
Gold	195.3	224.6	162.8	259.7	287.4	230.7	206.0	224.7	463.5	529.5
Electric bulbs	11.6	12.3	13.8	15.6	21.5	15.6	17.6	20.0	21.1	18.5

Source: National Statistic Committee of the Kyrgyz Republic

Over the last years, the exports of energy-related goods, in particular re-export of mineral oils, including the refueling of foreign military planes in the country, and re-export to neighboring countries have witnessed a sharp increase. Export of oil and mineral oils in 2008 was 19 % of total export. However, in 2009, export of these goods experienced an abrupt contraction: its share in total volume of exports decreased and amounted to 12.9 %.

As to the geographic distribution of trade, exports are concentrated on a small number of countries. Russia and Kazakhstan traditionally are the main partners, their proportion in export of Kyrgyzstan was, in 2008, 19.3% and 11.2%, and in 2009 accordingly 12.9% and 9.6%. The other neighboring country, Uzbekistan, over the last years has lost the status of an important country for Kyrgyz export, and despite the fact that the proportion of export to Uzbekistan in 2008 was 14.2 % of the total amount (in 2009 – 11.6%), 83.8% of export to this country were mineral-oil re-exports (74.0% in 2009). Switzerland (30.9% in 2009) has become another an important partner over the last year, where the key export item - gold - is exported.

During the considered period, there was a rapid growth of the economies of Russia and Kazakhstan accompanied by considerable growth of consumption with high growth rates of import. Experts of the World Bank concluded that Kyrgyzstan has not managed to take advantage of the situation, and raise the level of its presence in the markets of these countries. Exports of Kyrgyzstan have been limited to agricultural products and raw materials, including ores, minerals, metals and electric power, while consumers increasingly tend to give preference to sophisticated and high-quality products.[10] Kyrgyz exporters have managed to improve their positions in Russia and Kazakhstan only in relation to some goods, including dairy products, garments, building materials (including cement and building glass), fruit and vegetables (Table 3.4.). Kyrgyzstan has not yet succeeded to export goods with a higher added value. There are almost no examples of Kyrgyz goods in the international industrial chains. The country poorly uses opportunities to identify niches in the regional markets and gradually loses its positions in a number of goods and markets. In general, in 2000-2009, the share of exports has remained at the same level in total amount of imports to Russia and has considerably decreased in Kazakhstan.

Table 3.4.

Comparative data on proportion of exports in imports of Russia and Kazakhstan

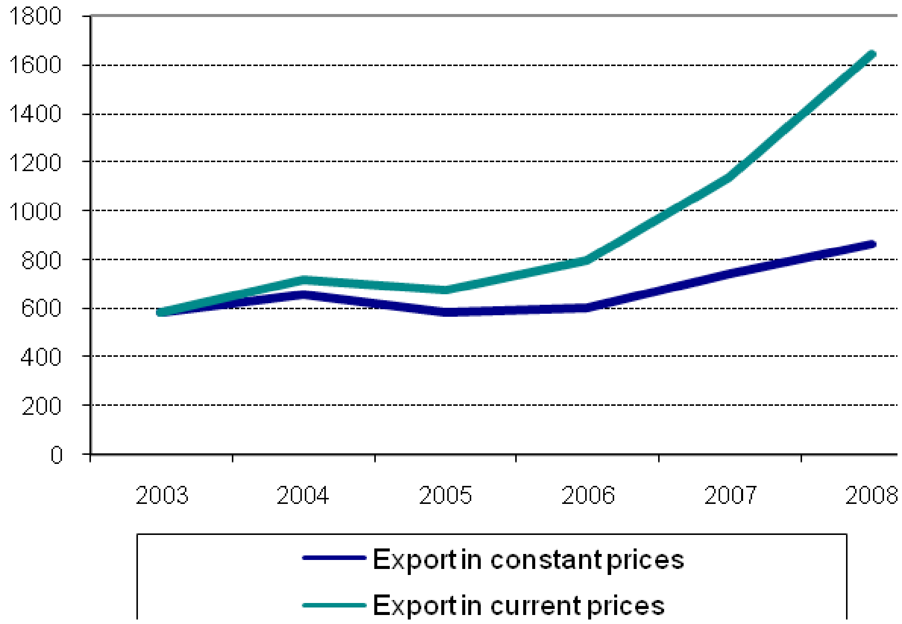
Total amount of import	2000	2006	2007	2008	2009
Russia (mln. USD)	49,125	181,161	245,365	292,000	292,000
Proportion of exports of Kyrgyzstan (%)	0,10	0,08	0,10	0,11	0,10
Kazakhstan (mln. USD)	5,040	23,663	32,756	37,815	28,409
Proportion of exports of Kyrgyzstan (%)	0,66	0,69	0,62	0,49	0,49

Source: National Statistic Committee of the Kyrgyz Republic

The increase of world prices for raw goods and foodstuffs represented an important factor of acceleration of growth rates for exports over the last years. Out of the total growth of exports over the period of 2003-2008, the index of export growth (in constant prices of 2003) was 1.49 (growth by 49 %). The rest of the export growth was related to the price factor (Figure 3.2.).

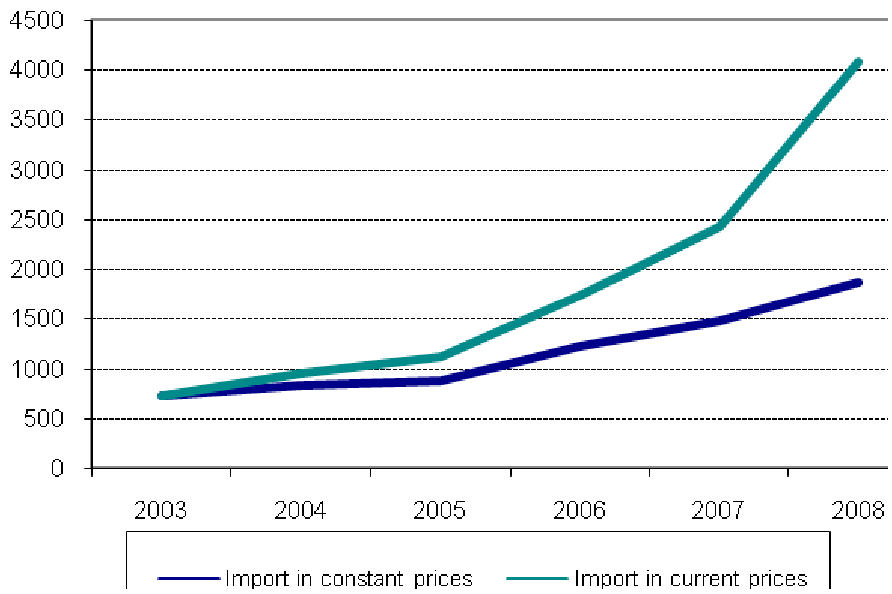
[10] Kyrgyz Republic Country Economic Memorandum. Enhancing the Prospects for Growth and Trade. Volume II. World Bank, 2005.

Figure 3.2. Growth of export of Kyrgyzstan for 2003-2008 in constant and current prices, in mln. USD



The growth of imports in current prices over 2003-2008 was 5.7 times, while import growth index in the constant prices of 2003 was 2.59 times. The rest of import growth was related to the price factor (Figure 3.3).

Figure 3.3. Growth of imports of Kyrgyzstan for 2003-2008 in current and constant prices, in mln. USD



The list of main import items included: fuel, wheat; medicines; cast-iron; cars, etc. (Table 3.5). The main goods that have affected the growth of imports were: mineral oil, natural gas, cast-iron and cast-iron based goods. The increase in the value of imports is mainly due to increases of oil prices on international markets. In 2008, a considerable growth of imported cars, both new and used, was observed (7.6 times comparing to 2007) and amounted to 13.1 % of the total import value. Data presented in Table 3.5 indicate that a considerable growth rate has been registered for all imported goods. However, in 2009, imports for most items declined

Table 3.5.

Imports of main product items to Kyrgyzstan, mln. USD

Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Meat and food sub-products	0.5	1.7	1.5	3.7	4.9	7.0	13.4	22.5	35.2	43.7
Milk and diary products	0.3	0.8	0.8	0.9	2.0	3.7	8.1	15.6	20.8	15.5
Coffee, tea, cocoa, spices and products made out of them	8.1	8.6	7.3	9.6	12.2	15.1	22.1	37.1	52.5	56.7
Wheat	33.3	6.7	11.7	7.5	11.1	17.6	25.5	69.9	87.6	62.7
Wheat flour	0.4	0.3	3.9	0.8	2.6	9.0	7.5	15.3	47.0	22.1
Sugar	2.9	4.5	8.7	11.6	18.0	19.5	31.0	23.7	37.7	45.8
Chocolate items	2.3	3.1	4.8	6.5	8.8	11.1	17.0	31.5	44.8	46.4
Beer	2.8	3.9	5.5	7.9	11.6	12.1	13.9	19.4	23.5	18.0
Automobile gasoline	24.0	22.1	20.8	43.0	82.2	104.1	142.0	216.6	334.4	249.8
Kerosene	11.5	11.8	42.5	53.4	73.5	104.9	218.1	227.3	467.5	303.5
Fuel diesel	17.2	19.9	11.8	17.0	33.6	42.3	61.0	140.5	141.4	92.1
Gas natural	33.2	33.2	41.8	30.8	32.8	30.4	41.0	75.2	105.6	69.2
Medicines	1.7	20.5	26.7	34.6	27.9	43.3	44.9	74.1	89.4	78.0
Textile yarn and fabrics	19.6	16.0	16.3	22.3	25.8	22.6	30.8	20.5	76.3	54.9
Footwear	5.0	4.8	5.6	20.1	5.5	4.9	7.4	3.2	77.3	54.0
Cast iron	9.8	8.7	10.7	17.7	31.9	31.9	43.5	77.9	110.5	101.0
Cars	31.6	29.2	26.0	41.5	64.8	40.3	103.2	70.0	534.2	199.6
Spare parts and equipment of cars	10.2	2.2	2.4	9.0	12.3	14.4	23.5	39.1	44.2	37.0
Furniture	4.6	2.7	3.1	5.6	5.1	6.7	10.4	22.0	26.8	25.6

Source: National Statistic Committee of the Kyrgyz Republic

The imports of Kyrgyzstan are concentrated on a rather small number of countries. Russia and Kazakhstan traditionally remain the main partners, and the role of Russia has essentially grown over the last years, its share in the total amount of import has grown from 23.9 % in 2000 to 35.9 % in 2009. Uzbekistan has, over the last years, appreciably lost the status of an important partner of Kyrgyzstan, both for exports, and for imports. In relation to other foreign countries, as a result of a sharp growth of imports, China became the second largest partner after Russia, with a share of 20.5 %.

Application of mirror statistics

The application of the simplified rules of customs registration when customs duty is paid based on weight,[11] giving considerable advantages in terms of the amount of customs duties in comparison with the

[11] Possibility of application of such procedure of customs clearance to shuttle traders in Kyrgyzstan has

usual procedure of customs clearance, implies that the huge and growing volumes of imported goods can be reflected in official statistics in insignificant degree only.

Thus, when analysing import dynamics from PRC, mirror statistics are obviously important. Foreign trade statistics frequently do not provide full data on costs and structure of trade flows and their composition since some cargoes going through the border are not registered by customs authorities in the importing country and/or by the customs authorities in the exporting country. Possible reasons for incomplete custom statistics may be statistically unregistered small shipments of imported goods in both countries as well as customs rules that allow for shuttle trade and smuggling of goods. Therefore, export statistics of the trading partner (PRC) represents the primary source of information on unregistered imports.

From Table 3.6, one can see that according to the customs statistics of PRC differences in the volumes of goods imported into Kyrgyzstan from the PRC, are very high in comparison with the data of official trade statistics of Kyrgyzstan. The difference in imports has grown from 763.4 million USD in 2005 to 8.4 billion USD in 2008.

Table 3.6.

Trade between Kyrgyzstan and PRC

(Comparative data of mirror statistics)

Million USD

	2005	2006	2007	2008
Exports to PRC				
According to Kyrgyzstan	26,6	38,1	61,9	44,4
According to PRC	105,1	112,9	113,7	121,3
Imports from PRC				
According to Kyrgyzstan	102,9	246,7	355,6	728,2
According to PRC	866,3	2 112,8	3 665,5	9 213,4

Source: National Statistic Committee of the Kyrgyz Republic, KR Customs committee, United Nations ComTrade database

The application of mirror trade statistics raises a number of questions, regarding quality of reporting on foreign trade with PRC. Bartlomiej Kaminski in his work[12], comparing indicators of trade statistics of China with data of trade statistics of EU, Japan and USA, shows, that the negative difference with mirror import corresponds to respective values reported for insurance and transportation, and recognizes that the general level of accuracy of data of trade statistics of China is satisfactory. Analyzing the difference with mirror import to Kyrgyzstan, Kaminski concludes, that the cause of this difference is the existing favorable procedures of customs clearance in Kyrgyzstan.[13]

In order to assess the volumes imported from PRC to Kyrgyzstan, the volumes imported from PRC to the other countries of Central Asia have been analyzed (Table 3.7).

Table 3.7.

Imports from PRC to Central Asian countries

Million USD

	2000	2004	2005	2006	2007	2008
Kyrgyzstan	110,2	492,7	867,2	2 112,8	3 665,5	9 212,0
Kazakhstan	150,9	758,1	1 251,8	1 924,9	3 507,3	4 565,1
Tajikistan	6,8	53,6	143,7	305,8	513,8	1 479,7
Uzbekistan	39,4	172,4	230,1	406,2	764,7	1 277,8

Source: UN ComTrade database

been introduced by the Governmental Decree 976, dated December, 31st, 2004

[12] Kaminski, Bartlomiej. How Kyrgyzstan has seized Opportunities offered by Central Asia's Economic Recovery. Background paper for Country Economic Memorandum: Kyrgyz Republic. World Bank, 2008.

[13] Ibid.

As can be seen from the Table 3.7, the volume of imports from PRC to Kyrgyzstan in 2008 was about 2 times higher than for Kazakhstan; 7.2 times higher than for Uzbekistan; and 1.9 billion USD higher than the total volume of import from PRC to Kazakhstan, Tajikistan and Uzbekistan.

On articles most commonly used for shuttle trade, import indicators in comparison with GDP and per capita data, are much higher than respective indicators in other Central Asian countries (Table 3.8). Moreover, imports to Kyrgyzstan considerably exceed imports to Kazakhstan - the country with the highest consumption level in Central Asia. It is obvious that a poor country with a small population, cannot consume the entire import, which in 2008 exceeded GDP 1.8 times. Therefore, one may conclude that the prevailing share of import from PRC is re-exported to neighboring countries.

Table 3.8.

Import of selected items to Central Asian countries[14]

	Импорт в % к ВВП				**Импорт на душу населения US$**			
	Ka-zakh-stan	**Kyrgyz-stan**	**Tadji-kistan**	**Uzbeki-stan**	**Ka-zakh-stan**	**Kyrgyz-stan**	**Tadji-kistan**	**Uzbeki-stan**
Fabrics, fiber, etc.	0,75	16,3	2,33	0,59	28	90	8,9	3,6
Travel accessories, suitcases, bags	0,09	1,1	0,04	0,01	4	6	0,2	0,1
Clothes and accessories	2,54	30,3	1,96	0,16	96	168	7,5	1,0
Footwear	0,98	10,4	0,66	0,09	37	58	2,5	0,6
Different industrial items	1,43	5,9	2,04	0,38	54	33	7,8	2,3
Total	5,79	64,1	7,02	1,24	220	355	27	7,5

Kyrgyzstan as a re-export centre

Kyrgyzstan has become, over the last years, the regional re-export center for Chinese goods. Although imports from PRC are not fully reflected in official trade statistics, nevertheless, the volume of imports from PRC over 2000-2008 has grown from 36.9 million USD to 728.2 million USD, or by 19.7 times. According to the World Bank, the volume of re-exports that went through the surveyed bazaars in Kyrgyzstan reached 2.7 billion USD, in 2008[15]. If this assessment is correct, the volume of unregistered re-exports from the country only through these channels is 1.6 times higher than official export data.

However, according to other estimations of the World Bank, the share of re-exports that have been sold on the bazaars of Kyrgyzstan during the period from 2003 to 2006, has grown from 83 % to 90 %.[16] If the share of re-exports in 2008 was at the level of 90 % it is possible to estimate re-export volumes at a level from 5.5 to 6 billion USD.

[14] Ibid.

[15] Bazaars and Trade Integration in CAREC Countries. Report prepared by World Bank, May 2009.

[16] Kaminski, Bartlomiej. How Kyrgyzstan has seized Opportunities offered by Central Asia's Economic Recovery, background paper for Country Economic Memorandum: Kyrgyz Republic. World Bank, 2008.

Box 3.1. Kyrgyzstan as the regional re-export centre of Chinese goods

Bazaars in Kyrgyzstan are the leaders in re-exports to other Central Asian countries and to Russia. They have appeared rather recently, as the basic storage terminals for Chinese export to Central Asia. Items sold at the bazaars*, sales of which have reached 7.4 bln. USD in 2006 and 9.9 bln. USD in 2007 amounted to one fifth of total imports to the four Central Asian countries over this period. Due to the geographical location and better logistics in comparison with the neighboring countries, Kyrgyzstan has become the regional centre for re-exporting bazaar-type goods mainly to Kazakhstan and Uzbekistan. There are two sources for Kyrgyzstan's advantage over other Central Asian countries: special, «almost duty-free procedures» for import by shuttle traders**, and bazaar trade regulations that are more liberal in comparison with other Central Asia countries.

According to the World Bank, Kyrgyz traders have a competitive advantage over other countries in the region in terms of their ability to buy goods from the best, in terms of price, sources, and to determine the demand for them. The huge share of the imported goods sold on the bazaars of Central Asia, "has touched" Kyrgyzstan. The geography of regular transport communications from the hub bazaars Dordoi and Karasuu reflect considerable flows of goods to Kazakhstan, Uzbekistan and Tajikistan. Some of the imported goods are consumed there, or move further, to Russia, also through bazaars. Sales volume at Kyrgyz bazaars to foreign countries in 2008 was estimated at 2.7 bln. USD.

* As a rule, building materials, chemicals, various manufactured goods, fabrics, clothes and footwear.

** The imported goods for the subsequent sale at the bazaars, i.e. those that are delivered by trucks, are taxed at the customs on the basis of their weight which gives a considerable advantage in comparison with traditional methods of a customs evaluation. The possibility of application of customs evaluation on the basis of weight has been introduced in Kyrgyzstan by the Decree of the Government # 976, dated December, 31st, 2004.

Source: Bazaars and Trade Integration in CAREC Countries. Report prepared by World Bank, May 2009.

According to the Table 3.8, the indicators of import to Uzbekistan of some of the bazaar-type goods lag far behind similar indicators not only for Kyrgyzstan, but also for Kazakhstan and Tajikistan. The key reason is that the trade regime of Uzbekistan restricts import of many kinds of goods. For example, for a wide range of consumer goods importers need to pay excise-duty, for some goods VAT. Furthermore, the nonfoods items imported for commercial purposes from the neighboring countries without certificate of origin, but not necessarily made in these countries, are taxed with an additional 20 % tax.[17]

At the same time, the considerable flow of Chinese goods to Uzbekistan from Kyrgyzstan through the Karasu bazaar, remain unregistered by official statistics. Thus, according to the World Bank the volume of such re-exports was about 400 million USD in 2008.[18]

Reasons for the re-export flows to Kazakhstan are different. Although imports to Kazakhstan are subject to simplified customs registration, the customs procedures in Kyrgyzstan, obviously, provide better options for the traders. As a result, only after 2005, the flows of the Chinese goods to Kazakhstan have been redirected via Kyrgyzstan (Table 3.7.).

One important consequence of the re-export trade is a positive impact on employment and income of the local population. Bazaars in Kyrgyzstan represent a major source of income for local communities in certain regions.

Impact on employment is not limited only to the number of people that work at the bazaars, i.e., to the number of owners, sellers, administrative staff and attendants. Bazaars also promote the growth of indirect employment. It includes not only job opportunities connected with transportation and processing of cargoes, but also to the traders that serve some other bazaars, to the suppliers of goods sold at the bazaars, including warehouses outside of the physical borders of bazaars.

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[17] Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit. ADB, 2006.

[18] Bazaars and Trade Integration in CAREC Countries. Report prepared by World Bank, May 2009.

According to the World Bank, total fixed costs of the surveyed bazaars have made approximately 33 % of Kyrgyz GDP. Wages, being the most relevant for poverty reduction, have made, on the average, about 30 % of total fixed costs.[19]

Increasingly growing volumes of import from PRC, irrespective of the preferential procedure of taxation, provide also an increasing share of customs duties. Thus, the amount of customs duties for imports from PRC, including duties obtained based on the simplified customs clearance has grown from 2.5 billion som in 2006 to 4.1 billion som

The above demonstrates the positive effects of the re-exporting trade. However, there exist negative consequences: the growing inflows of cheap Chinese goods, affects local manufacturers that are in a difficult situation because of the small size of the domestic market, the remoteness from the regional markets, considerable non-tariff barriers both in Kyrgyzstan and in the target countries, and high transportation and logistics costs.

Furthermore, although re-export operations contribute to employment and income generation, it does not provide a satisfactory solution for sustainable economic growth in the medium term and long-term. A high degree of competiveness of Kyrgyz companies in the regional markets and, consequently, a stable growth of exports are primary factors for sustainable economic development. Barriers to trade will be reviewed in the Section 4. However, considering the underlying causes of the deterioration of the position of Kyrgyz goods in regional markets, it is necessary to note the weak level of diversification of exports and a lack of a focused policy aimed to support the production and promotion of goods with high value added and export potential. Insufficient volumes of FDI flows into the export-oriented projects have an affect too.

3.2. Trade policy
3.2.1. General information

Kyrgyzstan has a liberal trade regime. In 1994, the government abolished the state monopoly on international trade, introduced a uniform list of low tariffs and eliminated restrictions on foreign direct investments. Based on preferential trade agreements with other CIS countries, Kyrgyzstan does not impose customs duties and quantitative restrictions on imports from these countries, amounting to more than half of total imports of the country (56.5% in 2009). Non-discriminatory tariff rates, also known as the "most favoured nation" (MFN) duties, are rather insignificant in comparison with other transition economies, and, probably, most importantly, in comparison with MFN tariff rates established by other countries in the region. In comparison with other EuroAsEC countries, the structure of tariffs in the Kyrgyz Republic is the least distortionary.[20] Moreover, the proportion of special tariffs, which, as a rule, have a high degree of protectionism, is rather small, and all tariffs are bound.[21]

3.2.2. Trade policy and practice that have a direct impact on import

Tariffs. Custom tariffs are one of the government's main regulation tools for foreign trade and are applied only to imported goods. Since the accession to the WTO and as per WTO regulations, the Kyrgyz Republic carries out annual reviews of and approves the custom duties on imported goods.

At present, the Law «On Custom duties of the Kyrgyz Republic» # 81, dated March, 29th, 2006 is effective, with subsequent amendments based on the uniform List of Goods of the Eurasian Economic Community (EuroAsEC), passed on September, 20th, 2002 in the framework of transition to the ten-digit code.

Currently, the zero customs duties rates are applied to 45.8 % of the EuroAsEC List of Goods; 5% rates of the customs duties to 12.4 %; 10% rates of the customs duties to34,2 %; 12% rates of the customs duties to 2.8 %; 15% rates of the customs duties to 2.2 %; 20% rates of the customs duties to 1.2 %; and 30% rates of the customs duties to 0.02 %. Specific rates of the customs duties make 0.1 % and the combined rates of the customs duties – 1.3 %. The average rate of custom duties in 2009 was 5.1 %.

On average, custom duties for imported goods are much lower than WTO obligations require. This is

[19] Bazaars and Trade Integration in CAREC Countries. Report prepared by World Bank, May 2009.

[20] Kyrgyz Republic Country Economic Memorandum. Enhancing the Prospects for Growth and Trade. World Bank, Volume I, 2005.

[21] That is, if applied tariff rates are raised above bound levels, an affected WTO-member country may seek compensation.

because the export sector depends on cheap imports (raw materials and materials that are not produced in the country, or when productive capacity is limited). Thus, in order to support the development of the food-processing industry and agriculture, so to achieve food security, and in order to ensure that food products are available at the domestic market at affordable prices, minimum or zero customs duties are established for raw materials, industrial equipment, agricultural machinery and mineral fertilizers, as well as for food produced in insufficient amounts.

Over the last years, the maximum level of customs duties on some finished goods was applied, in order to protect domestic markets against growing imports. One need to note, however, that out of the entire list of food items, only about 15 % are imported from non-CIS countries[22], i.e. WTO norms and rules are applied only to these imports.

Other charges on import. In addition to customs duties, VAT and excise taxes are levied on imported goods. These taxes are applied equally to imported goods and to goods made in Kyrgyzstan. Importers also pay customs fees amounting to 0.15 % of the costs of the goods (customs clearing). Representatives of businesses indicate that while importing goods they are compelled to make considerable informal payments in order to speed up customs procedures.

VAT on imports is paid for the majority of goods and services, except for finance, insurance, transport, postal services and utilities, gold, some medicines, children's food, and for processing equipment imported for industrial purposes. Imports from CIS countries pay the same VAT rate as locally produced goods.

Customs valuation and pre-shipment inspection. Kyrgyzstan applies import prices for customs valuation, including for second-hand goods. The basic method of a customs valuation is based on value of goods, i.e. on the price actually paid on export. If the declared cost is considered as undervalued or cannot be confirmed by the documents, the customs authority can apply the following: value of identical or similar goods; retained costs; or estimated cost. As set forth below, for the purpose of customs valuation of some goods imported by physical persons, the method of taxation of the imported goods is applied based on their weight, rather than their costs.

Kyrgyzstan does not apply a pre-shipment inspection.

Simplified procedure of customs clearance. Since 2005, a simplified procedure of customs clearance is being utilised. Simplified procedures are applied to goods imported by physical persons for commercial purposes, the cost of which does not exceed 4 million som (about 93 thousand USA dollars, at the exchange rate of 42.9 som/USD).[23] Customs clearance is made based on the uniform rate per 1 kg of weight. Groups of goods, eligible for the simplified procedure include building materials, chemicals, various manufactured goods, textiles, clothes, footwear and other goods.

The application of simplified procedures provides substantial advantages on the levels (value) of necessary customs payments in comparison with the ordinary procedure of customs clearance. As mentioned above, it has caused a substantial growth in actual trade flows from PRC and other countries to Kyrgyzstan.

Import prohibitions are introduced according to the international conventions to protect human health and safety, for the preservation of the environment, and for national security purposes.

In line with requirements of the Vienna Convention for the Protection of the Ozone Layer and of the Montreal Protocol on Substances, that Deplete the Ozone Layer, imports and exports of outdated and second-hand goods and equipment for which the ozone-destructive substances are used, is prohibited. Under the Basel Convention on the Control of Transboundary Movements of Hazardous Waste and their Disposal, hazardous waste is subject to export and import control. According to the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, the use of pesticides and industrial chemical substances in international trade is prohibited. Under the Stockholm Convention on Persistent Organic Pollutants, 12 chemicals are subject to export and import control.

Import quotas. The Kyrgyz Republic does not apply tariff quotas on imports of goods. The Kyrgyz Republic applies quotas only for imports of alcohol and beer from the countries which are not the WTO members (according to the Law of the Kyrgyz Republic «About the state monopoly for manufacture, storage and sales of spirit and alcohol» and to the Decree of the Government of the Kyrgyz Republic dated April, 5th,

[22] USAID «Impact of WTO rules and procedures on fruit-and-vegetable industry of KR », 2009

[23] Introduced by the governmental Decree # 976 dated December, 31st , 2004

2004, # 227, which provides the Regulation about procedures of establishing quotas for imports to the Kyrgyz Republic of alcohol and beer and determining the quota).

Quotas for the import of alcohol and beer are set by the Tender Commission, established by the State Inspectorate for the control of the production and turnover of ethyl spirit and alcohol of the Ministry of Economic Regulation.

Antidumping, protective and compensatory measures. The legal framework for regulating the use of protective, antidumping and compensatory measures, takes into account the provisions of WTO agreements and includes: the Antidumping Law of the Kyrgyz Republic; the Law of the Kyrgyz Republic «On protective measures»; the Law of the Kyrgyz Republic «On subsidies and compensatory measures»; Regulation on the resolution procedure prior to the introduction of protective measures, passed by the Government of the Kyrgyz Republic on January, 20th, 2001 # 15; Regulation about procedure of antidumping hearings and hearings about the establishment of subsidies subject to compensation, passed by the Government of the Kyrgyz Republic on January, 20th, 2001 # 14.

The Kyrgyz Republic has not introduced any antidumping and compensatory measures so far. In 2009, in order to protect domestic markets, the Government of the Kyrgyz Republic introduced a quota for sugar imports.[24] Moreover, with a view to protect the interests of the domestic flour-grinding sector, temporary duties for the import of wheat flour have been introduced twice: for the period of five months; and for the period of one year[25].

T*echnical regulation.* Having joined the WTO, Kyrgyzstan is a party to the WTO Agreement on technical barriers in trade and Agreements on the application of sanitary and phytosanitary measures in trade, and by doing so it has incurred the obligations to create systems of technical regulation that meet the requirements of international rules, norms and standards, widespread international practice and would reduce technical barriers in trade.

The List of Goods subjected to obligatory certification, has been reduced by more than 70 %, and the number of indicators for the remaining goods from the List which serve as the basis for obligatory certification, has been reduced 2–3 times. The list will be further reduced as relevant technical regulations are adopted.

Since December 2004, the Law of the Kyrgyz Republic «About the bases of technical regulation in the Kyrgyz Republic», which establishes standardization principles according to the WTO Agreement on technical barriers to trade, is being implemented. According to WTO rules, requirements are clearly divided into two categories: obligatory safety requirements that represent the minimum safety requirements included in the technical regulations; and voluntary safety requirements provided by the standards, observance of which has to be made by manufacturers. In section 4.1.3, the current situation in the area of technical regulation is considered in detail.

3.2.3. Trade policy and practice that have a direct impact on export

Transit Agreements. Kyrgyzstan is participant to several transit agreements, including agreements adopted in the framework of CIS and EuroAsEC, and bilateral agreements. However, the provisions of these agreements, concerning the equal treatment of carriers of member states of the agreement, are not always carried out according to the agreement, especially concerning motor transport. Although, the implementation of the bilateral agreement on transit with Kazakhstan has improved somewhat, local authorities in Kazakhstan continue to apply various kinds of road taxes and duties. Traffic police checks and bureaucratic obstacles targeting for informal payments is the everyday practice.[26]

After Uzbekistan left the 1996 bilateral transit agreement with Kyrgyzstan, the Kyrgyz carriers experienced serious difficulties at transit through this country. In particular, Uzbekistan established an entrance and transit fee per Kyrgyz truck at a rate of USD300. In addition, for Kyrgyz carriers the customs convoy (escort) is obligatory at a fee between €50 to €200 depending on a distance. In Kyrgyzstan, no restrictions or taxes are applied for the Uzbek trucks.

Export Taxes. In Kyrgyzstan customs duties on some items, including coal, raw skins of cattle and sheep,

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[24] Decision of the Government of the Kyrgyz Republic dated April 7, 2009 # 221.

[25] Decision of the Government of the Kyrgyz Republic dated May 16, 2009, # 296 and November 5, 2009, # 692.

[26] Trade and Transport Facilitation in Central Asia, World Bank, 2005.

metal waste and scrap metal, recycling paper and waste paper, are applied at present.[27]

Bans, restrictions and licenses. The export of goods that are important for national interest reasons, for the national and environmental safety of the country, are subject to licensing

The list of export items subject to licensing, include arms and military equipment; explosives; nuclear materials, technologies and equipment; materials, equipment and technologies which can be used for the development of arms and military equipment; precious metals, alloys, ores; precious natural stones; waste and breakage of black and nonferrous metals; live animals; phytogenesis medicinal raw materials and some other goods.

Tax incentives, grants. Direct export subsidies are not applied, including for agricultural goods. Kyrgyzstan does not have tax incentives or preferences for exporters. Large export-focused industrial enterprises can postpone VAT payment for imported raw materials, materials and components for a period of two months under certain conditions.

3.2.4. Trade policy that has an impact on production and trade

Legal framework for businesses. The government, over the last years, has been taking active measures to improve the business environment. Thus, in 2009, in order to optimize the legal base for regulation a number of amendments to the current laws was made so to reduce bureaucratic pressure upon businesses, leading to a simplification of administrative procedures, including procedures for obtaining permits and licenses.

These amendments reduced the number of permit related procedures from 13 to 10 in the construction sector. This, naturally, reduces time investments and costs related to acquiring the necessary construction licenses. The number of obligatory documents necessary for the registration of real estate rights was also reduced. The time period for registration has been reduced from 10 to 7 days for the initial registration and to 3 days for repeated registrations; and the number of procedures will be reduced from 7 to 2. The registration of legal entities is now possible within five days.

At the same time, despite these measures, administrative barriers continue to create problems to businesses, demanding a substantial time investment and resulting in increased costs. . Permit procedures in a number of sectors along with numerous inspections remain a serious obstacle, especially for small and medium businesses.

Corruption indicators in the country remain high.[28]

Support from the budget and tax preferences. Support from the budget is limited to agriculture. Farmers and governmental agricultural enterprises annually are provided with some funds from the budget in the form of soft loans for carrying out seasonal works, purchase mineral fertilizers, fuels, and spare parts. Besides, loans have been repeatedly extended for agricultural manufacturers that have debts from previous years. Furthermore, mineral fertilizers and other goods for farms are VAT exempt. The rate of the land tax for farmers is rather low (nevertheless, many farmers have debts under this tax).

State-owned enterprises, and privatization. Since 1991, several stages of privatization have taken place. As a result, the level of privatized enterprises as of January, 1st, 2008 was above 70 %. As of January, 1st, 2008, the state has shares in 111 joint-stock companies, including 72 joint-stock companies where the government possesses a control stake.

Currently the basic directions of privatization are targeting the reform of the strategic sectors of the economy, privatization of recreation objects, and privatization of state property that has not been privatized during the previous stages of privatization.

Competition policy and price control. The policy of the government to support business development has promoted competition. The State Antimonopoly Regulation Agency regulates the operations of companies so to prevent monopolistic (anti-competitive) behavior, including abuse of a dominating market position (if company's market share is 35 % and above) and unfair competition.

The Agency regulates natural and legal monopolies. Natural monopolies (the only supplier of a product due to technological reasons) are regulated both by prices, and by profit levels. A minimum level of services is established. The profit margin for legal monopolies has been limited to 25 -50%.

At present, the Agency regulates the state monopolies on gas and power, and the fuel and telecommunication companies, including the pricing policy, with the profit limit established at the level of

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[27] Decisions of the Government of the Kyrgyz Re public dated October 23, 2007 # 503 and September 30, 2009, # 610.

[28] Different surveys conducted by international organizations contain relevant country ratings reflecting the level of corruption in Kyrgyzstan, e.g. World Bank's Doing Business, BEEPS, Investment Climate Surveys, etc.

5 %. The prices for utilities, including potable water, sewage systems and public transport are established by local offices of the agency.

Intellectual property rights. The legislative base for the protection of intellectual property has been established. As a whole, Kyrgyz legislation contains procedures and measures on protection taking into account the norms of international agreements (civil, administrative, including measures at the border) in order to effectively protect right holders. .

The state agency on intellectual property (Kyrgyzpatent) implements a uniform governmental policy in the field of protection of intellectual property. In order to ensure co-ordinated actions of all ministries and departments, and public organizations for the detection and prevention of violation of intellectual property rights the Decree of the Government of the Kyrgyz Republic dated February, 23rd, 2003, # 93, has set up the Interdepartmental Commission.

Despite certain efforts of the government, the illegal use of intellectual property and the distribution of counterfeit products remain an important problem for the economy.

In all, the preferential terms of access to neighboring countries markets and a liberal trade policy alone are not able to contribute to export growth. Trade liberalization is a necessary, but not a sufficient condition to achieve an export-led growth of the economy. Other policy areas, beyond the structure of tariffs, tend to restrain the growth of exports. Section 4 describes internal barriers restraining export growth.

3.3. Regional trade agreements

Since 1991, the countries, which have emerged after the disintegration of the Soviet Union, have set up some regional organizations with corresponding regional trade agreements. Moreover, Kyrgyzstan has signed bilateral agreements with other CIS countries. Many regional trade agreements have not come into force yet, and some of them, which have formally come into force, have not been fully implemented.

3.3.1. Commonwealth of Independent States

On December 8th, 1991, in Minsk, Belarus the Agreement on the creation of the Commonwealth of Independent States (CIS) was signed. The CIS countries are: Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine.[29]

One of the basic documents of cooperation of the CIS states is the « Agreement on the establishment of a free trade area» dated April, 15th, 1994 with amendments and additions dated April 2nd, 1999. Moreover, Kyrgyzstan signed bilateral free trade agreements with the majority of the CIS countries, including Belarus (came into force on March 17th , 2000), Tajikistan (on December 7th, 2001), Azerbaijan[30], Armenia (October 27th, 1995), Kazakhstan (November 11th, 1995), Moldova (November 21st, 1996), Russia (March 24th, 1993), Uzbekistan (March 20th, 1997), Ukraine (December 31st, 1997).

Based on the above agreements Kyrgyzstan provides a free trade regime to all goods originating from CIS states. All CIS countries, except Turkmenistan, provide Kyrgyz exports with a free trade regime.

3.3.2. Eurasian Economic Community

The Eurasian Economic Community (EuroAsEC), the successor of the Customs Union[31], was set up in full conformity with the principles of the United Nations and the norms of international law. It is a clearly structured organization with a rigid enough mechanism of decision-making and implementation. The Agreement on the establishment of the Eurasian Economic Community was signed on October, 10th, 2000 in Astana (Kazakhstan).

Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan have been members to the EuroAsEC since its establishment. Observer status has been granted to Moldova and Ukraine, upon request of these states. Although Uzbekistan is a member of EuroAsEC, its membership is currently suspended.

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[29] Georgia in August, 2009 has formally finalized the process of secession from the CIS. At the same time, Georgia will remain party to some of CIS agreements, including the agreement on creation of a free trade area.

[30] The given Agreement was ratified by the Kyrgyz Republic on March, 2nd, 2006 (Law KP dated March, 2nd, # 72). Data on ratification from the Azerbaijan has not been communicated.

[31] The Customs Union was originally formed between the Russian Federation and Belarus, in January 1995 Kazakhstan and in March 1996 the Kyrgyz Republic joined the community. Tajikistan joined EuroAsEC in February 1999. The agreement on the creation of the Customs Union (Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan) was signed on January, 20th, 1995 in Moscow.

The real achievements of the integration of EuroAsEC member states include: elimination of the customs duties in mutual trade; functioning of free trade regime without withdrawals and restrictions; collection of indirect taxes based on the «country of destination» approach; adoption of the EuroAsEC commodities nomenclature on the basis of the ten-digit system of codification; establishment of the common external tariff (62 % of the EuroAsEC commodities nomenclature); adoption of some agreements (in total 88 documents) aimed to harmonize the legislation in the field of foreign trade, taxes, customs and non-tariff regulations, and currency regulation; agreements on border issues; on energy and transport sectors.

The level of harmonization of custom duties of the Kyrgyz Republic in 2008 with EuroAsEC common external tariffs is about 30 %. The Kyrgyz Republic considers that the actual common external tariff will be established after the EuroAsEC member states have joined the WTO, in line with their tariff obligations under the WTO. The Kyrgyz Republic will join the common external tariff after the other EuroAsEC members have joined the WTO; this position has been communicated to the EuroAsEC members.

3.3.3. Customs Union (Belarus, Kazakhstan and Russia)

A new turn in developing the relations between post-soviet countries emerged with the decision made by Belarus, Kazakhstan and Russia on the creation of a full-fledged Customs Union. In pursuance of the recently signed documents (in November 2009), the given organization was established on January 1, 2010. An intergovernmental authority was established; on January 1, 2010. A common external tariff was introduced; and since July 6, 2010, the Customs Code took effect. It is expected that the effect of the common external tariff will lead to substantial changes of trade flows in the three member countries.

It is not clear yet how it will affect Kyrgyzstan's trade. A comprehensive assessment of possible consequences of the new organization for Kyrgyzstan will take place in the near future. In this regard, the issue of joining the newly established Customs Union (CU) will be considered by the new government.

Based on the preliminary analysis of possible impact of the Customs Union on trade flows of Kyrgyzstan it could be assumed, that this impact could be considerable. Thus, it is necessary to consider the impact of both, possible accession of the country to the CU, and non-accession.

Box 3.2. Customs Union (Belarus, Kazakhstan and Russia)

The size of economy of the three countries differs strongly: in 2008 in relation to GDP of Russia the GDP of Kazakhstan was 8.1 %, and of Belarus – 3.6 %. Therefore, it could be assumed that interests of Russia would prevail in the trade policy of the Customs Union. For example, about 92 % of the common external tariff rates are based on Russian tariffs, which aim to protect Russian manufacturers against imports, and thus stimulate consumers of the other countries of the Customs Union to consume Russian goods. Due to large differences of the economic structure in Kyrgyzstan and CU countries, the rates of tariffs considerably differ.

Share of tariff groups of the common external tariff of CU and of Kyrgyzstan

Tariff groups (%)	0	5	10	12	15	20	30 (25)	Average
Share of CET* tariff rates, %	12.5	29.9	20.5	1.5	23.5	7.2	2.1	10.6
Share of KR tariff rates , %	45.8	12.4	34.2	2.8	2.2	1.2	0.02	5.1

It follows, from the data presented above that tariff rates of Kyrgyzstan are concentrated in the lower value groups. Moreover, in addition to tariffs based on ad valorem calculation (i.e. calculated according to the value of goods), CET applies specific rates for the 5.3 % of tariff items and the combined rates for 2 % of items. Kyrgyzstan applies specific rates for 0.1 % of tariff items and the combined rates for 1.3 %.

According to the Ministry of Economic Regulation, out of the total number of tariff positions of Kyrgyzstan, 34 % coincide with the CET rates; 21 % may be equated to the CET rates; and 43 % do not coincide, and therefore, in the WTO framework negotiations should be carried out on these positions.

* CET - common external tariff of the Customs Union

Source: Impact of the Customs Union on the economy of Kyrgyzstan. USAID Draft Report, April 2010.

Thus, joining the Customs Union for Kyrgyzstan means adopting the common external tariff (CET) of the Customs Union - the average rate of which amounts to 10.6%,[32] whereas the average rate of Kyrgyzstan's custom duties for 2009 was 5.1 %. Raising the country's tariff average rates more than twice will cause a considerable reduction of import volumes from non-CU countries and growth of trade with Russia and other members of the Customs Union.

Furthermore, accession to the Customs Union can lead to reduced budget revenues and to a growing inflation. For example, the introduction of the CET in Kyrgyzstan would cause an increase in the consumer price index of 1.42%.[33]

In case of joining the Customs Union, Kyrgyzstan would have to reconsider the main areas of trade policy towards implementing a common trade policy of the Customs Union where the interests of larger countries would obviously prevail, first of all those of Russia. Thus, the policy of import promotion, including imports from PRC, would be forced to change, leading to a considerable reduction in re-export volumes of the Chinese goods.

Positive consequences of accession to the Customs Union are connected with access of Kyrgyz manufacturers to the large regional market of CU countries, allowing companies to benefit from larger scales of production. It also increases attractiveness of the country for foreign direct investment.

At the same time, in the case of non-accession of Kyrgyzstan to the CU, the government would have to carry out negotiations with the main trade partners, Russia and Kazakhstan, on the possibility of preserving free access for goods produced in Kyrgyzstan, and imports of mineral oil and other kinds of raw materials on preferential terms. Less preferential customs procedures on the borders of the Customs Union will obviously lead to a considerable reduction of re-export volumes of Chinese goods.

3.3.4. Shanghai Cooperation Organization

The Shanghai Cooperation Organization (SCO) was set up as a result of a meeting of five heads of states (Kazakhstan, PRC, Kyrgyzstan, Russia and Tajikistan) in April, 1996 in the city of Shanghai (PRC), organized with the aim of signing an agreement on strengthening measures of trust in the military area. In April 2000, Uzbekistan joined the SCO.

In September 2001, a Memorandum was signed by the governments of the SCO member states clarifying the main objectives and areas of regional economic cooperation and launching the process of promoting a favorable environment in the field of trade and investment. During a second meeting of SCO member states in Beijing, PRC in September 2003, the Program of multilateral cooperation between SCO member states was signed, and a number of important decisions were made, including the adoption of the 2004 SCO budget. In September 2004, in Bishkek, Kyrgyzstan the next meeting took place, where a number of decisions were made on the financial performance of SCO, on setting up of the SCO Development Fund and the SCO Business Council. The web site of the SCO Regional Economic Cooperation was officially launched, and the Action Plan for the implementation of the Program of multilateral trade and economic cooperation of the SCO member states was adopted.

At present, the draft of the intergovernmental agreement of the SCO member states on the promotion of a favorable environment for over land transportation is being developed to facilitate trade between SCO member states and to increase the effective use of transit capacity.

3.3.5. Economic Cooperation Organization

Iran, Turkey and Pakistan are the founders of the Economic Cooperation Organization (ECO). In November 1992, Kyrgyzstan, Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan joined, together with Azerbaijan and Afghanistan. The primary goals of the organization are: promotion of regional cooperation in the field of economy, sciences and engineering, development of communication infrastructure both between the ECO member countries, and with other countries.

ECO has the following agreements: Framework Agreement on Trade Co-operation, ECOTA[34], Transit Trade Agreement and Transit Transport Framework Agreement.

ECO trade agreements do not envisage the establishment of a free trade area, or of a customs union. The ECOTA Agreement is preferential, but the Kyrgyz Republic has not joined this agreement, since it does not fully correspond to WTO obligations of Kyrgyzstan.

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[32] Impact of the Customs Union on the economy of Kyrgyzstan. USAID Draft Report, April 2010.

[33] Ibid.

[34] ECOTA Agreement was signed by Afghanistan, Iran, Turkey, Pakistan and Tajikistan.

3.4. Institutional map (foreign trade related institutions)

A number of ministries and departments are involved in the formulation and implementation of trade policy. The main body is the Ministry of Economic Regulation (MER). This ministry carries out the majority of the functions related to trade policy, including responsibility for foreign trade, and implementation of industrial policy; implementation of the policy on the improvement of the business environment and the investment climate. In particular, the MER bears direct responsibility for WTO policy, for the regulation of bilateral and regional trade, including export promotion, import substitution, application of tariffs and non-tariff tools for the protection of local manufacturers against unfair competition, technical regulation, etc.

Among the other authorities that carry out functions, related to trade procedures implementation and regulation, are the following: Ministry of Transport and Communications; State Customs Service; State Tax Service; State Agency of Antimonopoly Regulation.

The National Council on trade and transport facilitation, created by Decree in January 2008, is responsible for coordination and providing assistance for the development of a single state policy for the regulation of trade and transport procedures in the country. The Minister of Economic regulation is the Chairman of the National Council, the members of the Council are the heads of relevant ministries and departments, including the head of the State Customs Service, the Minister of Transport and Communications, heads of a number of business associations, and representatives of donor projects.

The Ministry of Economic Regulation plays an important role in the area of technical regulation, as it is the main co-ordinator of all the activities in this area.

The Chamber of Commerce and Industry (CCI) of the Kyrgyz Republic is a non-governmental organization, which carries out its activities with the aim to assist the development of the national economy and its integration in the world economic system, development of a modern infrastructure of market relations, setting up a favorable environment for foreign trade, promoting export of goods. The CCI establishes and develops communications with the Chambers of Commerce and other similar organizations abroad, makes agreements with them, arranges economic and trade missions and delegations; arranges trade fairs in the country and abroad, presentations of foreign firms and organizations in the country, issues the certificates of origin of the goods, etc.

Business associations, including sectoral associations, provide services related to the development and promotion of products of companies, including personnel training; capacity building; improvement of management and accounting systems; represent interests of market participants in their interactions with governmental authorities, in protecting the sectoral interests.

It is necessary to note, that institutional market infrastructure in the country so far is in a stage of development, and many trade support institutions have not been created yet, or are only in the process of development. There exists a need to continue to provide technical assistance on institutional development and capacity building.

3.5. Investment policy and investment flows
3.5.1. Measures for the improvement of the investment climate

Kyrgyzstan has undertaken a series of short-term measures in order to create an attractive investment climate and market investment opportunities. Foreign and local investments into the country have been restrained by red tape practices, by administrative barriers and by weak legal institutions. Over the last years, the government has made reforms in these areas a priority so to facilitate the improvement of the investment climate. Special importance was given to resolve the difficult issue of inefficient, not transparent and excessive regulation. Some progress has been achieved in improving the quality of new regulations proposed by the government, through revising their necessity and importance, as well as by assessing their relevance to the current legislation. The government has also taken steps to eliminate some of the main administrative barriers related to the registration of companies and has made some improvements in the legal framework for investment. Nevertheless, a weak enforcement of a legislation framework, which in itself is quite good, is the weakest element of the reforms and this reduces its benefits.

The results of the Doing Business program published by the World Bank in 2009,[35] show considerable progress: Kyrgyzstan has become the 41st out of the 183 countries of the world. In comparison with the results of 2008, the Republic has risen by 27 points, having shown the steady advancement in a rating and having outstripped all its neighbors in Central Asia region. Such progress has been achieved over two years,

[35] Doing Business 2010. World Bank, 2009.

because in the last years of the World Bank «Doing Business - 2009» report the Kyrgyz Republic has risen from the 99th to the 68th position. Comparative data over the last two years are provided in the Table 3.9.

Table 3.9.

Doing Business indicators in Kyrgyzstan in 2008-2009

	Country rating in 2009	Country rating in 2008	Rating change
Overall rating of the country	41	80	+39
Registration of enterprises	14	34	+20
Obtaining permits for construction	40	59	+19
Labor employment	47	76	+29
Property registration	19	52	+33
Lending	15	59	+44
Protection of investors	12	11	-1
Taxation	156	156	0
International trade	154	183	+29
Execution of contracts	54	57	+3
Liquidation of enterprises	140	139	-1

Positions of Kyrgyzstan have improved with regards to top reformers during the period 2008-2009. The Republic has remained one of the ten most active country-reformers and has improved its ranking from third to second. This is mainly due to reforms that have an impact on such indicators as: « Opening up the business», where Kyrgyzstan has risen by 17 points; «Obtaining permits for construction» - improvement by 18 points; «Property Registration» - improvement by 33 points; « Employment of labor force» - improvement by 34 points.

At the same time, it is important to continue working on "problematic" indicators, such as «Payment of taxes» and "International trade". The important and complex preparatory work for the introduction of a single window for foreign trade is under way; the successful solution of this problem would allow to drastically improve the state of affairs in this area (for more details see Section 4.1.1.).

The improvement of the «Doing Business» indicators highlights only one side of the economic reform. Reforms undertaken in the field of inspections and the work of supervising authorities have been carried out for the third year; as a result the number of unreasonable inspections has been considerably reduced.

Over a short period of time, the number of unreasonable business licenses and permits has been reduced by almost 30 %. Essential amendments to the Law «On licensing» are being developed, that would enable further optimization of the licenses and permits system.

The law of the laws was passed - "About normative legal acts" – that established a clear hierarchy of normative legal acts, approved the compulsory regulatory impact assessment for all rules and regulations that control business, and cancelled the possibility of departmental law making.

The progress in regulatory reforms has been achieved due to the joint work of the Government of the Kyrgyz Republic, of the international donor community, and the business community. Nevertheless, the challenge of enforcing the adopted regulations remains.

Authorities are in the process of on-going dialogue with domestic and foreign businesses; to develop platforms of interaction between the different business sectors and authorities.

One of the main mechanisms to improve the business environment is the Investment Council under the President of the Kyrgyz Republic, which is an advisory body of the President of the Kyrgyz Republic, which provides recommendations and suggestions to the President and to other governmental entities in relation to the improvement of the business environment and the investment climate.

During the meetings of the Council, the suggestions brought forward by the representatives of the business community are discussed, with a view to eliminate existing barriers and implement a deregulation policy in the country.

Following the April 2010 political events in the country, there were a series of meetings involving government officials, donors, and business representatives to discuss existing problems and to identify possible solutions.

3.5.2. Measures on investment promotion

Despite the fact that certain measures were implemented in order to develop an attractive investment climate and to reduce administrative barriers, the size of the attracted foreign direct investments still remains at a low level (table 3.10.).

Table 3.10.

Net foreign direct investment to Central Asian countries,

million USD

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2008 г. в %
										к 2000 г.
Kyrgyzstan[36]	-2	5	5	46	176	43	182	208	233	46,6 раз
Kazakhstan	1283	2835	2590	2092	4157	1971	6278	11126	14543	11,3 раз
Tajikistan	24	9	36	32	272	54	339	360	376	15,7 раз
Uzbekistan	75	83	65	70	187	88	195	739	918	12,2 раз

Source: World Investment Report. UNCTAD, 2009.

Despite the growth of net foreign direct investments (FDI) over the last years, their volume remains the lowest in the region. Kyrgyzstan lags behind in relation to the rates of investment growth too. The amount of the investments in Kyrgyzstan over the last three years has been below 2 % of the total amount of direct foreign investments of Central Asian countries.

Increased importance of FDI for the economic development and the high competition, has transformed investment promotion into one of the priority activities of the governments of all countries of the world, including developing countries and countries with transition economies. Obviously, the majority of the countries undertake efforts in order to attract the FDI, not only, through opening economies and liberalizing investment procedures, but also through implementing more effective measures for investment promotion.

With respect to this, investment promotion agencies (IPAs) were established in many countries. Such agencies have taken a central position in the development strategies of many countries. At present, the number of national IPAs in the world exceeds 160 entities. The main functions of IPA usually include the following:

Image building. The work connected with image building, includes focused advertising, PR actions, and preparation of favorable stories by means of providing information to the journalists, etc.

Investor facilitation. Activities in the given area include provision of information, "one-stop shop" services to obtain various permits, and assistance in granting of sites, utilities services, etc.

Investment generation. Activities include the identification of potential sectors and investors, e-mail news posting, telephone surveys, investment forums and seminars, and individual presentations for target investors. Investors targeting can be carried out both in the country, and abroad.

Policy advocacy. The work includes private sector surveys, participation in working groups, development of proposals for policy and legislation improvements, and lobbying.

Kyrgyzstan, over the recent years, was lagging behind in adopting measures to attract investment. Weak activities of the existing organizations that are involved in attracting investments are one of the principal reasons why Kyrgyzstan is lagging behind in this domain.

It is necessary to note that the Government only recently started its work in the area of investment promotion. Activities of the country's relevant agencies are fragmented and are not conducted in a co-

[36] Rate of growth is estimated in relation to 2001.

ordinated way. Considering the urgency in increasing FDI flows, the situation in this area demands immediate actions.

The basic disadvantages of the existing structure are:

- Lack of a clear understanding of global FDI flows;
- Lack of awareness on the specific methods required for targeted promotion of investments;
- Lack of marketing strategy and priorities for investment promotion;
- Insufficient capacity of the relevant agencies;
- Insufficient coordination among the agencies;
- Insufficient financing;
- Lack of skilled personnel.

In connection to this, targeted interventions should be undertaken in order to improve the situation with regards to investment promotion, both at the institutional level, and with regards to the application of specific methods. It is expected that an investment promotion agency will be established with the technical and financial assistance of the donor community and that this agency would be able to utilize international expertise and experience of other countries of the world, to achieve increased FDI flows to the country.

3.5.3. Foreign direct investment promotion strategy

The acceleration of the process of FDI liberalization across the world provides international investors with increased investment opportunities. As a result, investors have become more selective and demanding with respect to the investment climate. As the different countries are competing for FDI and are realizing, that a liberal policy is not sufficient, increased proactive measures to attract FDI are implemented by the different countries.

Investment promotion is considered a new niche of intervention, which has quickly developed during the nineties along with considerable FDI growth all over the world. The development of an investment promotion strategy starts with a thorough analysis of the national competitive advantages, of its strengths and weaknesses in comparison with other countries competing in the same regional or sectoral markets. Based on this analysis, priority sectors are identified, as well as relevant methods for proactive FDI promotion in the chosen sectors. After the adoption of the strategic approach and priorities in FDI promotion, the investment promotion agency of the country develops the Investment Promotion Action Programme.

An external marketing strategy to attract foreign direct investment called “Kyrgyzstan is open to the world” was prepared with the assistance of USAID and UNIDO in 2004 and with the participation of representatives of donor organizations and the private sector, in particular of the International Business Council.

The Strategy envisages the implementation of effective marketing actions for the maximum use of existing competitive advantages of Kyrgyzstan in the region in order to promote foreign direct investment, and to ensure sustainable economic growth and poverty reduction in the mid-term and long-term.

Considering the strengths and weaknesses of Kyrgyzstan as a potential location for foreign direct investment, among the factors which have been put forward as strengths, the strategy lists: availability of natural resources; favorable geographic location; educated, qualified and motivated labor force; sustainable macroeconomic situation; and highly competitive characteristics in the region, such as low labor costs, price for land and utilities, and tariffs for road transportation.

Among the factors that prevent the inflow of investments, the following factors have been noted: weak infrastructure; regional trade barriers; and a difficult business environment.

The priority sectors defined by the Strategy are: tourism; the mining industry; the energy sector; processing of agricultural goods; and telecommunications. Based on the current situation in the above-mentioned sectors, promotion methods were suggested to be applied in each of the priority sectors. In order to attract potential investors to the priority sectors, it was suggested to focus on the companies of neighboring countries, including in Russia, Kazakhstan and China.

Unfortunately, for some reasons the strategy has not been implemented. Taking into account the recent changes of the situation in the country and in the region, the new investment promotion agency should develop the investment promotion strategy for the priority sectors and start its implementation.

4. Trade facilitation and promotion
4.1. Behind the border trade barriers and reducing costs of exporting
4.1.1. Customs and other foreign trade procedures

According to various researches and surveys, despite the actions taken to improve the business environment there are still administrative barriers to business development in the country, including heavy interference of control agencies, unnecessary licenses and permits, inconsistent enforcement and interpretation of laws and regulations, corruption and unofficial payments and lack of institutional capacity of government agencies.

The Kyrgyz Republic has a complex and uncoordinated system of administering foreign trade procedures. The number of required documents, approvals and time for these procedures exceeds similar indicators in other countries.

Thus, the World Bank report[37] presents comparative analysis of key factors of the business climate in several countries. Among others, it presents indicators that reflect efficiency in foreign trade. Table 4.1 shows a slight improvement of these indicators in Kyrgyzstan over the past year, however, the country's rating remains far beyond average indicators.

Table 4.1.

Foreign Trade Indicators for 2007-2009 in the Kyrgyz Republic

	2007	2008	2009
Rank		183	154
Costs for the transportation of one container to be exported (USD)	2500	3000	3000
Costs for the transportation of one container to be imported (USD)	2450	3250	3250
Number of documents necessary to export	13	13	7
Number of documents necessary to import	13	13	7
Duration of delivery of exports (days)	64	64	63
Duration of delivery of imports (days)	75	75	72

Source: Doing Business 2010. World Bank, 2009.

Moreover, indicators for the Kyrgyz Republic are significantly behind the ones in other countries; including indicators in the trade partner countries (see Table 4.2).

Table 4.2.

Indicators of foreign trade in selected CIS countries

	Number of documents necessary for export	Duration of delivery for export (days)	Costs for the transportation of one container to be exported (US $)	Number of documents necessary for import	Duration of delivery for import (days)	Costs for the transportation of one container to be imported (US $)
Kyrgyzstan	7	63	3000	7	76	3250
Kazakhstan	11	89	3005	13	76	3055
Moldova	6	32	1815	7	35	1945
Russian Federation	8	36	1850	13	36	1850
Tajikistan	10	82	3150	10	83	4550
Ukraine	6	31	1230	10	36	1430

Source: Doing Business 2010. World Bank, 2009.

[37] Doing Business 2010. World Bank, 2009.

The overall time for receiving the complete package of certificates and approvals, including customs clearance, may take from 14 to 30 days for an import operation and up to 15 days for an export operation. This translates into higher costs incurred by foreign trade participants with respect to debt servicing, longer settlement period and logistics (idle cargo vehicles and storage of goods and so on.). Ultimately, these costs are included in the price of goods paid by the end-consumers. The low ranking of the Kyrgyz Republic with regards to the trading across borders indicator of the World Bank Doing Business Report highlights current problems and difficulties in the country that negatively impact trade transactions.

Among the problems that businesses face while, applying for the necessary documents for customs clearance the following may be noted:

- Lack of information about procedures, time needed venues and tariffs to pay for services, especially in remote areas of the country.
- Lack of information exchange among the relevant bodies and organizations, which make businesses to shuttle back and forth among the bodies and organizations to expedite procedures of filing documents.
- Administrative difficulties undermine interaction among divisions of the same body or organization (remoteness, mismatch of business hours, necessity to receive several signatures and so on.).
- The venue where the service is paid is located away from the venue where the service is received.
- Different bodies request the same set of documents (registration and incorporation documents).
- Relevant bodies and organizations request excessive numbers of documents, some of which are not even related to the competencies of these bodies and organizations.
- There are no representatives of state controlling bodies at crossing points.

The current administrative foreign trade procedures require the physical presence of applicants and personal contacts with officials of the relevant bodies and organizations, this creates an enabling environment for corruption.

Taking into account the situation in the area of regulating foreign trade procedures the Decree of the President of the Kyrgyz Republic adopted in October 2007 identified the following as major areas of foreign trade related state policy:

- Simplification and optimization of administrative procedures in foreign trade;
- Implementation of the "single window" mechanism that enables foreign trade participants to submit standardized (brought to a uniform standard) documents through the single entry channel to ensure compliance with all regulatory requirements pertaining to foreign trade.[38]

As part of the implementation of this decree the Government passed a number of normative acts reducing the number of documents that businessmen have to submit when applying for certificates and other permits for export/import as well as waiting periods (e.g. the Ministry of Healthcare repealed 13 out of 20 documents, certification bodies – 3 out of 8 documents; Chamber of Commerce and Industry of the Kyrgyz Republic reduced by 60% the number of documents requested for issuing certificates of origin; the list of goods to be licensed was reduced too (jewels and pharmaceuticals)).

However, the introduction of the "single window" mechanism appears to be the most important step in the simplification of administrative procedures and ensuring competitiveness of the country in foreign trade. In June 2008, the Government approved the Concept of introducing a "single window" mechanism in foreign trade,[39] and in February 2009 approved a feasibility study for a foreign trade single window project.[40]

The feasibility study[41] sets forth, as the primary goal, to streamline administrative procedures and reduce administrative constraints in processing documents for customs clearance by establishing an efficient information exchange mechanism that links interested parties and improves the interaction among executive bodies.

The Single Window will enable stakeholders to submit standardized (brought into uniform standard) documents using a single entry channel to comply with all regulatory requirements pertaining to foreign trade, including crossing points that work following the Single Stop Principle.

The Single Window will help to achieve the following goals:

- Ensure transparency and legality of all regulatory requirements set by the relevant bodies and organizations and organize a transparent access to information regarding foreign trade regulation.

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38 Decree of the President of the Kyrgyz Republic # 464 dated 23 October 2007.

39 Decree of the Government of the Kyrgyz Republic # 315 dated 19 June 2008.

40 Decree of the Government of the Kyrgyz Republic # 76 dated 4 February 2009.

41 Feasibility study for Kyrgyz Foreign Trade Single Window Project. Approved by Decree of the Government of the Kyrgyz Republic # 76 dated 4 February 2009.

- Ensure an efficient interaction between government bodies and foreign trade participants;
- Reduce time and financial costs associated with receiving approval documents;
- Implement payments by Single Window users for received approved documents in one office.

The rationalization and harmonization of the rules of the "Single Window" mechanism will allow businesses to go through pre-customs procedures in 5 days using one administrative document.

The implementation of the "Single Window" project aims to reduce administrative barriers in foreign trade and will allow for enhanced efficiency of customs procedures in general as well as to ensure transparency and predictability of administrative procedures and will lead to lower costs for businesses.

The introduction of the "Single Window" will be beneficial for both the state agencies (accurate and up-to-date information on scale, structure and geography of foreign trade, participants of foreign trade, quality and quantity of transmitted goods, ability to obtain statistical data in timely manner; transparency and higher quality of the state services in foreign trade; lowering corruption at the executive agencies level and reduction of the shadow economy) and businesses (significant savings in time and costs required for document processing, higher efficiency of business caused by increased predictability in the goods supply chain).

The Government had also approved the action plan for the implementation of the first phase of the "Single Window" project. The Single Window Centre State Enterprise has been established and is responsible for the implementation of the Single Window project. At the initial stage the Enterprise among other basic steps will call for bids and on a competitive basis select the supplier of software and hardware for the Single Window project, technical equipping of the Single Window project, training of Single Window users and testing the systems, etc.

The composition of the steering committee has been approved. This body carries out the functions of the highest governing body, responsible for the overall control and strategic governance of the Enterprise.

Project implementation is scheduled for 2009-2014. The implementation of the information system and major principles of the Single Window is carried out as a pilot in six ministries starting from 2010.

The implementation of this highly complex and comprehensive project is possible with the financial and technical assistance from international organizations and bilateral donors including the Asian Development Bank and GTZ.

4.1.2. Transportation and Logistics Services[42]

As noted in section 4.1.1, Kyrgyzstan is ranked 154th in foreign trade indicators and is far behind many other countries including some of its trade partners. Logistics performance indicators are not much better, with Kyrgyzstan being 91st among 155 countries according to the World Bank survey conducted in 2009 (Table 4.3).

Table 4.3.

The Logistics Performance Index for selected Central Asian countries in 2009

	Rank	Customs & other bodies	Infra-structure	International shipments	Logistics quality & competence	Tracking & tracing	Timeli-ness
People's Re-public of China	27	3.16	3.54	3.31	3.49	3.55	3.91
Kazakhstan	62	2.38	2.66	3.29	2.60	2.70	3.25
Uzbekistan	68	2.20	2.54	2.79	2.50	2.96	3.72
Azerbaijan	89	2.14	2.23	3.05	2.48	2.65	3.15
Kyrgyzstan	91	2.44	2.09	3.18	2.37	2.33	3.10
Tajikistan	131	1.90	2.00	2.42	2.25	2.25	3.16

Source: Connecting to Compete: Trade Logistics in the Global Economy. The Logistics Performance Index and Its Indicators. World Bank, 2009.

42 The analysis is based on "The Kyrgyz Republic: Trade Facilitation and Logistics Development Strategy Report". ADB, 2009.

The Logistics Performance Index reflects the level of trade logistics of the country by using appropriate indicators of customs and other export/ import procedures, quality of logistics services, state of the infrastructure, etc. Countries with a higher Logistics Performance Index have lower costs for trade transactions and better results in transportation of goods.

Box 4.1. Role of logistics in business processes

Logistics cover the optimization of transport, storage, handling and packaging of goods and services from the point of origin to the point of consumption. Logistics is the part of supply chain management encompassing transport and inventory.*

With the proliferation of modern economic systems, logistics became an essential part of business. Logistics plays a key role not only as a tool to cut costs but also as a competitiveness factor in the management of material and information flows. Logistics chains connect geographically remote partners and are a prerequisite for operations of transnational companies. Quality logistics for Kyrgyz companies among other things means better access to international markets.

The improvement of the quality of logistics services is of high importance for the enhancement of the competitiveness of Kyrgyz companies in order to penetrate regional markets, i. e. it is not possible to embed Kyrgyz-made produce into the international production chains without quality logistics that ensures a timely supply of goods.

* Trade Facilitation Terms: An English-Russian Glossary. UN ECE, 2008.

As can be seen from Table 4.2, Central Asian countries in terms of time and cost of transportation are behind many other neighboring countries; the level of logistics costs in the country and in the region is one of the highest in the world.

According to ADB estimate[43], transportation costs in Kyrgyzstan amount to 13% to the value of export and 10% - of import. In Central Asia, this is the highest indicator after Tajikistan.

According to other data, in Central Asia the export and import related costs amount to 7-10% of the value of export and 5-8% of import. In general, total logistics costs in trade in Kyrgyzstan amount to 21.5% of the value of export and 17% of import.[44]

The above indicators significantly exceed average international indicators (e.g. total transportation costs vs. value of import in Asia – 8.4%, and in average in the world – 6.1%).[45]

The remoteness of the country from global and regional markets, constraints in transit through neighbouring countries and deficiencies in physical infrastructure as well as home-made trade barriers, including a complicated and uncoordinated system of administering foreign trade procedures and drawbacks of logistics sector, may be noted among numerous reasons for high transportation and logistics costs.

Since Kyrgyzstan, like other Central Asian states, does not have access to sea and the closest port is in 3,000 km, integration with world markets is hindered. Moreover, Kyrgyzstan in dealing with the countries that do not directly border with it has to use territories of neighboring states for transit of cargo.

Therefore, Kyrgyzstan has to focus on improving the physical infrastructure, implementing better policies and procedures and increased efficiency of the logistics sector.

Physical infrastructure

Railroads in the Kyrgyz Republic run for 423.5 km, automobile roads – for 2242 km, with the automobile roads carrying 95% of the total amount of freight. Assets and equipment of railroad transportation facilities are in a better state compared to automobile roads due to better maintenance and less intensive exploitation. However, there is a limited ability to transport commodities via railroad – both branches end

43 Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit. ADB, 2006.

44 Simplification of export and import procedures in the Kyrgyz Republic. GTZ, 2007.

45 Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit. ADB, 2006.

with deadlock and when transporting goods from North to South and back transit through Kazakhstan and Uzbekistan are required. In terms of density of rails per 100 sq. kilometers, Kyrgyzstan is behind most of the Central Asian countries.

Even though density of automobile roads in the country is rather high, the quality of the surface of the automobile roads networks is quickly deteriorating due to excessive use by trucks that are often overloaded for the purpose of gaining maximum profits. Budgetary resources available for the transport sector amount only to 20% of the needs, therefore 200 km of automobile roads are lost every year due to excessive depreciation.[46] Automobile roads in mountainous regions deteriorate even faster due to cold weather conditions. The deterioration of the surface of automobile roads is also aggravated due to lack of funding for the repair of roads.

There is an urgent need for additional investments to improve the existing roads and to develop new transport infrastructure. International organizations, and primarily ADB provide financial and technical assistance to carry out a number of investment projects.

Logistics sector development

The road carriers' sector in the Kyrgyz Republic is mainly represented by numerous small companies and only a few companies have managed to expand their operations possessing over 100 trucks. Sometimes these companies hire drivers with their own trucks. In such cases, these enterprises act as holding companies and normally carry out functions of entering contracts and keeping paperwork while drivers are responsible for the transportation of goods and maintenance of their trucks. Each driver holds a patent (license) to carry freight as individual businessman and can either work for this company or independently.[47]

Most of the businessmen own old trucks mainly produced, in Russia and Belorussia, 10 or more years ago. Businessmen in better financial conditions prefer second-hand trucks and trailers made in Europe.

As noted earlier, the logistics sector is represented by numerous SME that have a weak financial base and provide a limited list of services. This can be explained by low barriers for entering the logistics industry and the way former state transport companies have been privatized. High price competition caused by these two factors lead to insufficient profits for most of the companies and insufficient financial abilities force most of the logistics companies to use old and inefficient trucks. This leads to high costs and creates a higher risk of accidents and damage of the vehicles.

Large companies that could carry out complete packages of logistics services including warehouse storage, re-loading, processing freight and other services with the use of progressive technologies as well as insurance and customs clearance services are almost non-existent. Most of the companies lack serious experience in carrying out multi-modal transport operations, including container transportation, and do not have logistics specialists with experience in modern types of international trade.

Experts indicate a low level of mechanization, automatization and computerization at the border checkpoints, warehouses and storage facilities (loading and unloading, storage and moving are operated manually).

Important kinds of services, very poorly represented in the market, are consolidated transportation – when the cargo takes only a fraction of the capacity of the container/truck transport. Similar transport services are widespread in developed countries. This service consists of consolidating cargo from different exporters that have no sufficient consignment of goods for a full loading of the container. Small cargo is gathered at customs terminals by freight forwarders. These cargoes are consolidated in a container, or cargo trailer, and forwarded to customs terminals for receipt of goods. The developed market of such services allows consignors to choose optimum volume and frequency of transportations that leads to the establishment of best prices for logistical services and better quality of services. Absence of such services leads to higher costs for export and import and detriments competitiveness of business (especially, for small and medium size enterprises).

A number of the carriers specializing in international transportation operate in the framework of the TIR convention[48]. The number of trucks operating under TIR convention keeps growing. Table 4.4 shows

[46] The Kyrgyz Republic: Trade Facilitation and Logistics Development Strategy Report. ADB, 2009.

[47] Ibid.

[48] TIR system allows decreasing downtimes when crossing borders as it permits transiting cargo from the country of origin to a country of destination without usual customs procedures at each border crossing point. This system can be used for all types of transportation in case if at least one of the stages was on

growth of number of TIR carnet issued by the International Road Union to the National Association in Kyrgyzstan, currently outstripping other countries of Central Asia.

Table 4.4.

TIR carnet issued by the International Road Union to national associations

	2000	2001	2004	2005	2006	2007	2008
Kyrgyzstan	100	550	4,900	6,250	11,450	18,100	17,050
Russian Federation	236,800	192,800	375,650	424,000	499,900	660,900	696,600
Kazakhstan	10,400	9,100	17,000	19,600	32,650	39,050	32,150
Tajikistan			0	50	300	500	400
Uzbekistan	900	600	2,400	1,800	4,500	7,000	5,000

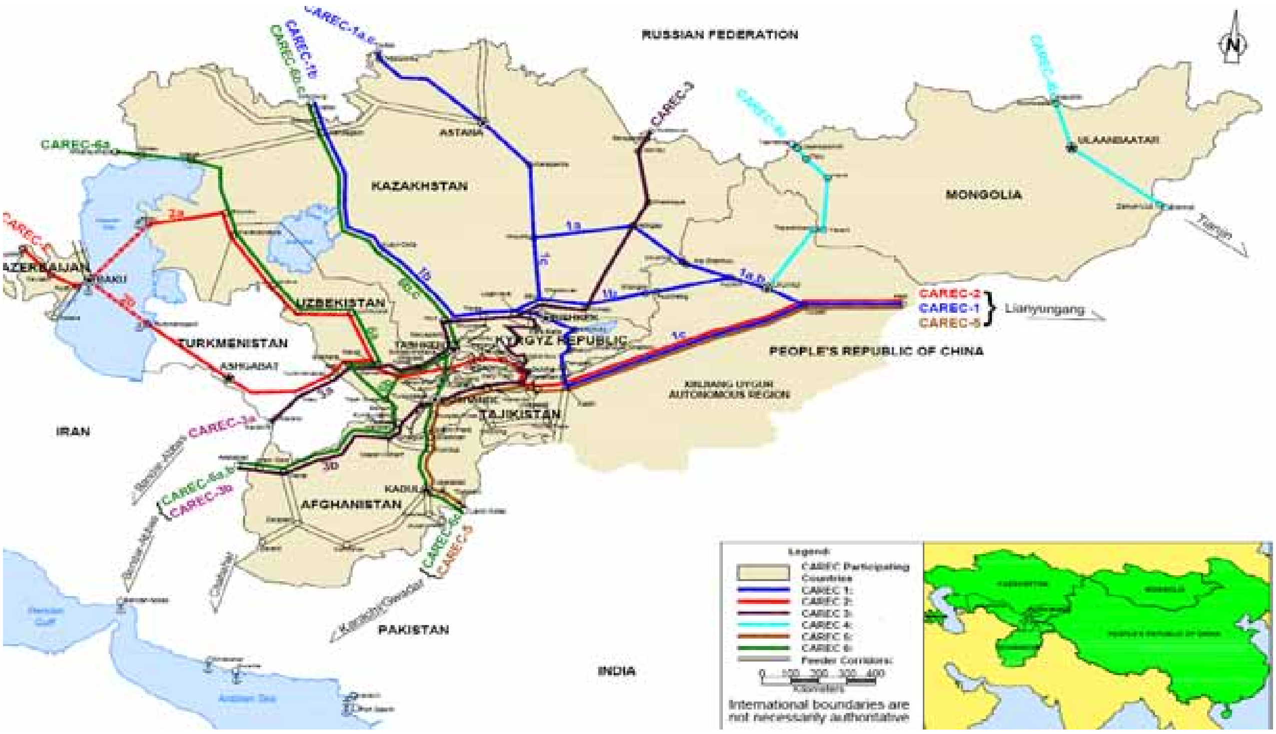
Source: International Road Union.

Road carriers in Kyrgyzstan have two associations: the National Association of road carriers and the Association of international road carriers (ASMAP). ASMAP acts as a representative issuing TIR carnet within the TIR system.

Transit

Transit cargoes are carried out mainly by roads, including transit of cargoes through border crossings at the border with the Peoples Republic of China – Torugart (transport corridor CAREC – 1) and Irkeshtam (transport corridor CAREC – 2) that have recently significantly increased. The flow of transit cargoes could increase further, but existing obstacles and difficulties need to be eliminated. Inefficient procedures for border crossings, weak road infrastructure and an insufficient level of logistical and other services represent the main problems.

Figure 4.1. Map of CAREC Transport Corridors



Source: CAREC Trade and Transport Facilitation Strategy, ADB, 2008.

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highways. It allows reducing transportation costs, number of required documents, number of inspections, enhances security, guarantees payment of customs duties and allows for more efficient operations of the personnel of customs offices.

There are four transit corridors that have been approved within the framework of the Central-Asian Regional Economic Cooperation (CAREC) that cross the territory of Kyrgyzstan – CAREC 1-c, 2, 3-b and 5. All of them are multi-modal.

There is limited number of logistics centers in the country having container terminals. Among those are the container yard at the Alamedin railroad station in Bishkek, another similar facility in Osh, which has appropriate capacity to work with 20-40 feet containers, and the container yard in Balykchi, which belongs to the Kumtor Operating Company.

There was no serious increase in investments into establishment and development of logistic centers in Kyrgyzstan in recent years, while during the same time in Kazakhstan large projects were carried out and the volume of such investments grew at high rates.

During the next years, with the support of the Government the establishment of the centre of trade and logistics in Sary-Tash is planned. This centre will be located along the Osh-Irkeshtam-Kashgar route and will carry out both trading, and logistic functions. This project is supported by the administration of the Osh province, which plans to attract about 23 million USD worth of investments at the first stage, and up to 100 million USD subsequently. According to preliminary estimates the centre will create about 3000 workplaces, and coupled with the rehabilitation of the Osh-Irkeshtam-Kashgar road will allow increasing the trade volume between the Peoples Republic of China and Kyrgyzstan about 3-4 times.

The Government also supported the development of the trade and logistics centre at At-Bashi village, Naryn Province, which is located at the route Bishkek-Naryn-Torugart. 24 hectares of land have been allocated for the construction of consignment warehouses, premises for processing, sorting, packaging, storage and sale of goods, industrial and office buildings. It is planned that buildings for support services, objects of rest and leisure will be constructed as well. The center will create more than 3 thousand new workplaces, increase export volume and will allow to lower internal and external migration in the region.

The Ministry of Transport and Communications of the Kyrgyz Republic identified improvement and rehabilitation of major transit roads of the country as one of the main priorities for the next years (Table 4.5).

Table 4.5.

Major Transit Corridors of Kyrgyzstan

Transport corridors	Length (km)	Amount of financing (million USD)	Implementation (%)	Date of completion
Bishkek – Osh	672	230	100	2007
Bishkek – Georgievka	16	7	100	2007
Bishkek – Naryn – Torugart	539	390	8.2	2014
Taraz – Talas – Suusamyr	199	28.3	13	2013
Osh – Sary-Tash – Irkeshtam	258	158	46	2012
Osh – Isfana	385	15mln. Euro 60mln. USD	42 6	2012
Saty-Tash – Karamyk – Jergetal	142	48,6	40,6	2012

Source: Ministry of Transport and Communications of the Kyrgyz Republic

According to the data of the Ministry of Transport and Communications, over 700 million USD are needed to rehabilitate roads along the regional transport corridors. The majority of these investments are financed by loans and grants of international financial institutions and bilateral donors.

In addition to road rehabilitation, it is necessary to develop trade-support facilities along transport corridors to ensure the comprehensive development of the adjacent territory with regard to the interests of local population as well as to gain profits from transport corridors. These actions should include transparent allocations of land plots through auctions and construction of shops, motels, cafés, exchange offices and gas stations, etc.

First steps in this area have been organized with the support of the Osh administration and the OSCE to establish the infrastructure of support facilities along the transport corridor Osh-Sary-Tash-Irkeshtam. Land plots were made available through bidding processes with all the necessary construction documents and land title paperwork. This project will support the construction of support facilities including 8 gas stations, 8 technical support stations, 2 hotels, 2 restaurants, 3 shops along 285 kilometers of the Osh-Sary-Tash-Irkeshtam route. The construction of these facilities will not only create favorable conditions for the drivers but also provide additional job opportunities for the local population.

Shipment of goods across the border

Low logistics indicators including lengthy shipment are mainly caused by delays at border crossing points since major stops and additional costs arise at the border checkpoints. Thus according to research conducted by the working group on transport and border crossing of the SPECA programme, the loaded trucks while moving from Bishkek, Kyrgyzstan to Novosibirsk, Russia had spent one third of their time at each border checkpoint along Kyrgyz -Kazakh and Kyrgyz - Russian borders. Moreover, 63% of all the travel related costs are spent at border checkpoints, most of it paid unofficially.[49]

According to monitoring results of the Association of Kyrgyz road carriers over two thirds of fees to inspection bodies are paid unofficially, with major halts and additional costs also born when crossing borders at border checkpoints.[50]

Border crossing monitoring data shows road carriers waste substantial periods of time because of cumbersome and non-transparent procedures which are frequently inadequately applied. It is expected that the introduction of the single window principle will lead to significant simplification and harmonization of procedures including border-crossing procedures.

The current state of border checkpoints infrastructure causes delays and additional costs when crossing border. Currently there are over 40 border checkpoints with four neighbouring countries. The existing border checkpoints equipment is outdated and measures to improve the infrastructure at 2-3 border checkpoints annually are envisaged by the State Customs Service.

Lately financial support from international organizations and bilateral donors facilitated the upgrading of a number of border checkpoints including the customs checkpoints Ak-Jol and Karasuu (with help from BOMCA) and Ak-Tilek (U.S. Government). The modernization of these border checkpoints allowed a significant improvement of services provided to traders and passengers. However, as the equipment was installed by different companies, its quality varies at different checkpoints. Since these activities are at the initial stage, the need for a common approach and common technology to be used to upgrade these border checkpoints is obvious. The upgrading of border checkpoints can be incorporated in one of the projects providing technical and financial assistance run by international donors.

4.1.3. Technical regulation[51]

By joining the WTO, Kyrgyzstan became participant to the WTO Agreement on Technical Barriers to Trade and to the Agreement on Sanitary and Phytosanitary Measures. The country is therefore, committed to establish a technical regulation system that is conform to international rules, norms and standards, international practice and that facilitates the reduction of technical barriers to trade.

In April 2004, the Parliament passed a Law "On the basics of technical regulation in the Kyrgyz Republic" within the framework of the Government's efforts to reduce state interference in the economy. The Law launched the transition of the country from the cumbersome regulatory system based on mandatory standards (soviet state standard system "GOST") to a rather flexible system based on international standards. The latter differentiates (i) mandatory standards (technical conditions) set exclusively for the purpose

[49] SPECA/PWG-TBG, *Analysis of Selected Routes of the SPECA Region using UNESCAP Time/Cost-Distance Methodology*, SPECA (11)/6.

[50] Monitoring transport corridors. Presentation at the CAREC Institute workshop. Bishkek , June 25-26, 2009.

[51] Source: draft Concept of Development of the National Infrastructure of Quality. Bishkek, 2008.

of protecting consumers' rights, and (ii) optional (recommended) standards that are mainly designed to encourage trade exchange and ensure product compatibility.

The Law aims to overcome cumbersome state regulation, enhance competitiveness through lowering operational costs (costs related to ensuring compliance with the regulatory norms, informal payments) and will encourage increases in export volumes by removing technical barriers in trade.

Findings of an analysis on the cost chain in the milk processing industry show that the removal of informal payments caused by the current standardization and certification regimes can lead to an increase of net profits of small milk processing enterprises up to 140%, and net profits of large enterprises can increase up to 40%.[52]

Moreover, the harmonization with international standards becomes a pre-condition for Kyrgyzstan to maintain and strengthen its current market position in relation to traditional trade partners, which gradually start applying international standards.

The establishment of a duly functioning infrastructure of metrology, standardization, testing and quality assurance (MSTQ) is important with regards to reforming the technical regulation system. The establishment of MSTQ infrastructure will facilitate ensuring continuity, reliability and recognizing measurements made by local laboratories along with conformity assessment carried out by local certification bodies.

Box 4.2. Major elements of the MSTQ infrastructure

MSTQ infrastructure is a multi-organization system that is essential for the effective implementation of technical regulations and standards consisting of the following elements:

National metrology laboratory that provides basic metrology services with a high accuracy rate and is responsible for the creation, storage and dissemination of measurement units through national standards (i.e., standard samples of physical measures such as mass, length, temperature, brightness, time, etc);

National accreditation scheme, that would ensure confidence in the correlation of abilities and competence of laboratories and certification agencies by verifying that (i) calibration and testing laboratories are able to carry out accurate measurements and provide services required for ensuring guaranteed quality of goods and that (ii) certification bodies are able to officially demonstrate conformity of goods to technical requirements set forth by regulatory agencies of the countries – trade partners.

Calibration laboratories responsible for the calibration of industrial controlling-measurement equipment in accordance with adequate accuracy level.

Testing laboratories and control. Testing certain copies and samples is the main way to identify product features. Normally testing is carried out by specialized testing laboratories that are responsible for the assessment of conformity of goods and services to existing standards.

Certification bodies. Certification guarantees the conformity of goods and processes to required standards or technical requirements of the client carried out by third party. Tests and certification carried out by accredited bodies of conformity assessment state that "once tested and certified product shall be recognized elsewhere" thus allowing to avoid unnecessary delays and costly duplication caused by repeated testing.

Source: Draft Concept of Development of National Infrastructure of Quality. Bishkek 2008

The MSTQ system that existed until recently in Kyrgyzstan was unable to ensure the implementation of the new Law "On basics of technical Regulation in the Kyrgyz Republic" and could not satisfy the needs of Kyrgyz industrial and trade companies. Major drawbacks of the system include:

Lack of professional competence in the area of development and acceptance of technical regulations and harmonization of local standards with international standards.

Remaining drawbacks in the institutional framework and absence of own accreditation body in Kyrgyzstan, which could acquire international recognition and would be able to carry out accreditation of the conformity assessment agencies (testing laboratories and certification agencies) in accordance with international standards.

[52] Kyrgyz Republic Country Economic Memorandum. Enhancing the Prospects for Growth and Trade. Volume II. World Bank, 2005.

Lack of an organized network of testing laboratories and certification agencies that are able to provide services to the enterprises in order to ensure that once verified and certified, goods would be accepted elsewhere.

Insufficient participation in MSTQ specialized activities held by regional and international organizations including partner involvement in assessment of laboratories and quality systems and in technical committees of appropriate international organizations (ISO, ILAC, IEC, IAF, BIPM, OIML, etc.).

Since the adoption of law "On basics of technical regulation in the Kyrgyz Republic", a number of measures related to its implementation has been carried out. The list of products subject to mandatory certification was reduced to about 70 %, and the indicators for the remaining products (subject to mandatory certification) reduced 2-3 times. The given list will continue to be reduced following the adoption of corresponding technical regulations. Currently, 5 technical regulations were approved; more than 41 projects of technical regulations are at different stages of development and approval, including those that are developed by the working groups that consist of experts of the ministries, departments, experts and representatives of business circles. Furthermore, 13 draft technical regulations are under clearance with the ministries and agencies, 6 draft technical regulations have been approved by the government and are pending approval by the parliament. At the same time, measures to implement reforms in the sphere of technical regulation were not actively pursued. Until now, efforts to harmonize Kyrgyz standards according to international and regional technical and sanitary requirements have been weak. In many countries, including the major trading partners, effective approaches in the sphere of technical regulation are strenuously applied.

Despite recent progress, the ministries and departments should strengthen measures to elaborate technical regulations; especially the lack of co-ordinated efforts to advance measures at the legislative level is an issue.

The implementation and application of commonly recognized international standards, adopting and adhering to requirements of national standards of other countries, which are the basic trading partners of Kyrgyzstan, could have been more dynamic. Adherence to their requirements, which are based on international requirements, can make the access to these markets easier for Kyrgyz goods.

It is also necessary to take steps towards the harmonization and enforcement of recognition and metrology equivalence of the national standards of the Kyrgyz Republic to international standards. National standards of weights and measures including secondary and applied standards require modification and technical upgrades.

Furthermore, the capacity of the Kyrgyz accreditation center needs to be improved, especially in areas such as confirmation of conformity to international standards and access to markets to other countries. Moreover, the possibility of establishing a regional accreditation agency should be considered.

One can note weak cooperation with the agencies on assessment of conformity of the other regional and international organizations, signatories of the Agreements on mutual recognition (MLA and MRA) ILAC and IAF, that can provide similar accreditation services.

International standards on quality management systems in enterprises are implemented to an insufficient degree. Internal problems of exporting enterprises also play a role: insufficient attention to quality assurance, lack of investments in fixed assets and measuring devices, unawareness of quality requirements of foreign countries, etc.

All of the above present serious barriers for the development and access to foreign markets.

Several international and bilateral donors support the Kyrgyz Republic with a number of projects in order to overcome these technical barriers to trade. In particular, the World Bank since October 2006, has been implementing the "Reduction of technical barriers to facilitate entrepreneurship and trade" project. Within the framework of this project, substantial efforts have been undertaken to harmonize the basic principles of technical regulation, as well as to strengthen metrology, standardization, testing and quality assurance (MSTQ) infrastructure in accordance with international standards and advanced practices. This project is facilitating the transition to new standards by providing assistance in developing capacities of the Ministry of Economic Regulation that is responsible for law enforcement and the other agencies involved in the development of technical regulations norms. The assistance is provided (i) to design technical regulations in the important industries of the economy, development and implementation of integrated information systems that would connect the Ministry of Economic Regulation, Center of Standards and Metrology and other appropriate ministries and agencies in the area of state regulation that are responsible for the development of technical regulations for each industry; (ii) to establish reference services to process requests and notifications of WTO and its members on the technical regulations adopted; (iii) to help develop the capacity of the Center of Standards and Metrology; etc.

The project on trade promotion of the International Trade Center (ITC) funded by the Government of Switzerland provides (i) assistance to the Kyrgyz accreditation center, so that the center can become a member of the International Laboratory Accreditation Cooperation (ILAC), and (ii) support in establishing a national information body and national reference centers on technical barriers to trade and sanitary and phytosanitary measures within the WTO framework.

Box 4.3. Providing assistance to laboratories in agribusiness and food industries

ITC, within the framework of its trade promotion project, carried out a preliminary assessment of testing laboratories that work in the sectors with export potential (processing agricultural produce, food industry, water supply, mining industry, etc.). The goal of the research was to assess the readiness of laboratories to achieve international accreditation in accordance with the requirements of ISO/IEC 17025.

20 out of 300 laboratories filled out detailed questionnaires used to gather data on the scale of the tests they do, typology of clients, internal procedures, qualification of staff, equipment and terms of work, as well as on the availability of testing and IT equipment. The final list included 10 laboratories that were classified by international experts as appropriate for one of the three categories that reflect the level of their readiness to achieve international accreditation.[53]

The component of the World Bank Project on testing laboratories is providing assistance to laboratories that work in the sector of agribusiness and food industry, $650,000 is provided for these purposes. As for now, the bids to supply the equipment have been collected. It is expected that the equipment will be supplied in 2010.

Source: World Bank Project Implementation Unit: Reduction of technical barriers to facilitate entrepreneurship and trade.

The responsibility to ensure unity of measurements in the country has been transferred to the Ministry of Economic Regulation (MER), at the same time the State Inspection on Metrology has been established under this Ministry it is necessary to develop a detailed description of the tasks and responsibilities of the MER with regards to ensuring unity of measurements and applying regulations of legislative metrology). The authors of this report suggest to invite international experts to assess the current situation to resolve this problem within the said World Bank project..

4.2. Export promotion programs

The competitive position of Kyrgyz goods on both the international and regional level has been substantially weakened over the last few years. Exports of goods produced in the Kyrgyz Republic are not diversified enough, and they mainly consist of raw materials. Furthermore, exports are to a large extent concentrated on a small amount of products.

Exports to CIS countries (mainly to Russia, Kazakhstan, Uzbekistan and Tajikistan) focus on raw materials including cotton and tobacco as well as on electricity and some categories of food products – fruits and vegetables, milk products. Exports of processed goods to CIS countries focus on garments, non-ore minerals, metal products, lamps, vehicles and spare parts for automobiles. Exports to non-CIS countries is less diversified and is limited to gold, cotton, wool, leather and skin, scrap metal and non-organic chemicals. This makes exports vulnerable to outside conditions such as prices for commodities and regional demand for water and electricity.

Furthermore, Kyrgyzstan lost its competitive advantage on a number of food and light industry products. Kyrgyz exporters managed to increase export volumes in some CIS markets only on a limited number of products (milk products, garments).

This is accompanied by decreasing comparative advantages in major commodity groups that characterize product competitiveness in the outside markets (see Table 4.6).

[53] First category is assigned to the laboratories that can qualify for international accreditation within 6 months; second category – to the laboratories that will need six to twelve months; and third category - to the laboratories that will need 12 to 18 months.

Table 4.6.

Index of identified comparative advantages on commodities nomenclature sections[54]

Commodities Nomenclature section	2004	2005	2006	2007	2008
Live animals and livestock products	0.66	0.91	0.81	0.48	0.44
Vegetable products	0.37	-0.22	-0.57	0.36	0.32
Fats and vegetable oil, and related products	-5.35	-1.46	-0.42	-0.45	-0.63
Ready food products, alcohol and alcohol-free products, tobacco	-0.42	-0.51	-0.64	-0.85	-0.99
Mineral products	-0.83	-0.74	0.50	-0.10	-0.09
Chemical and other related industrial goods	-1.41	-1.78	-1.22	-1.46	0.13
Plastics and plastic goods, rubber and resins	-1.25	-0.76	0.85	-0.97	-1.26
Raw skins, leather, natural fur and fur garments, harness, luggage, bags and other similar goods	1.84	1.89	3.41	2.51	1.97
Wood and wooden products; charcoal, cork and cork goods, other materials for wickering	-3.45	-3.53	-5.58	-3.54	-3.52
Paper mass from wood or other fiber materials; recycled paper, paper, cardboard and goods derived thereof	-1.94	-1.81	1.69	-1.38	-1.00
Textile and textile goods	0.86	1.24	2.59	1.69	0.25
Shoes, hats, umbrellas, canes, whips, knouts and parts thereof, processed feathers and feather goods, artificial flowers	-1.38	-1.05	-2.52	-0.77	-1.86
Goods from rocks, plaster, cement, asbestos, mica and other similar materials; ceramics, glass and glassware	1.50	1.53	2.39	1.18	0.65
Natural or cultivated pearls, precious or semiprecious stones, precious metals and goods made from them, faux jewelry, coins	7.33	2.95	3.62	5.76	4.91
Non-precious metals and goods made from them	-0.45	-0.56	-5.49	-0.46	-0.66
Machines, equipment and mechanisms, electro-technical equipment and parts, equipment for recording and reproduction of images and sounds and parts	-0.87	-1.09	-0.31	-0.84	-1.19
Land, air and water transportation and parts thereof	-1.32	-0.31	-0.08	-0.47	-1.85
Devices and cameras: optical, photographic, cinematographic, measuring, controlling and medical, watches, musical instruments and parts thereof	-2.04	-2.54	-1.70	-1.46	-1.87
Various manufacturing goods (including pieces of art)	-1.00	0.65	2.51	-1.24	-0.61

Source: Study on Tariff and Non-Tariff Barriers as impediments to trade between China and Kyrgyzstan. IRT, Bishkek, 2010.

[54] Index of comparative preferences was calculated according to the OECD formulae (Statistics of Foreign Trade, Series A_i):

$$RCA_i = \mathrm{Ln}\left(\frac{E_i^j}{I_i^j} / \frac{E^j}{I^j}\right)$$

where E_i^j - export of goods i to country j, I_i^j i – import of goods i from country j.

As one can see from the table there are positive values of the index of identified relative advantages with regards to livestock products and vegetables, raw skin, chemicals, textile and textile goods, construction materials including cement and construction glass, and gold. However, while the index for chemical products improved over the reporting period, all other groups have seen a decline in their trade positions in 2008.

One can note the following reasons for declining positions of Kyrgyz exports in international and regional markets:

- Absence of national strategy for export promotion,
- Lack of institutional infrastructure for export promotion,
- Lack of information on the possibilities and requirements of international and regional markets and conditions for accessing these markets,
- Business sector does not have the necessary advanced marketing strategies to penetrate and target highly competitive markets,
- Lack of knowledge, skills and funding to conduct marketing research and marketing campaigns to promote Kyrgyz goods,
- Insufficient development of support services for foreign trade (product quality management, packing, labeling, etc.),
- There exists no mechanism to fund exports including guarantees and insurance of export credits,
- Lack of qualified personnel.

In accordance with the Regulations on the Ministry of Economic Development and Trade of the Kyrgyz Republic approved by the Government Resolution #100 dated 6 April 2007, the Ministry was assigned to carry out the following steps to develop and promote export:

- implement measures to develop and encourage Kyrgyz exports and enhance the export potential of the Republic;

- Review and analysis of the situation in trade markets and coordination of policy in terms of improving the export and import structure;

- Develop suggestions, based on thorough market research, on how to produce import-substituting and export – oriented goods.

The development of the production of competitive products and services and support of exports thereof were delegated to the appropriate ministries and agencies including the Ministry of Industry, the Ministry of Agriculture, the Ministry of Transport and Communications, the Agency on Tourism, etc.

The Governmental Program on export development aims to develop and encourage exports, and enhance the country's export potential. Unfortunately, these efforts have been lacking in coordination and efficiency since ministries and agencies and most of the businesses do not have the necessary capacities in this area.

The existing export support institutions in the country are underdeveloped and are only being created. Some associations, linked to specific industries, conduct market research at regional markets, participate in exhibitions and trade fairs, organize trainings, etc. but it is necessary to strengthen their institutional potential as well as their financial position

Most (if not all) export support and promotion programs are carried out with the technical and financial support of various projects implemented by international and bilateral donors.

The Centre of Agribusiness Competitiveness, funded by the World Bank within the framework of its private sector assistance project, has conducted, since 2006, market researches in a number of sub-sectors of agricultural products and processed goods (potatoes, meat, etc.). International experts funded by this project provide advice to selected companies in terms of their export potential, product development, quality management, etc. Every year the Centre provides co-funding to some companies to participate in regional and international fairs, etc.

For several years, GTZ, within the framework of its project on private sector development, has been providing assistance to develop business services and support business associations in their export promotion activities (including the Soyuztextile Association - training and support to its members in attending international fairs). Within the framework of the project on sustainable development, an international expert designed a strategy to develop the textile and sewing industry. GTZ also supported overseas travel for the different representatives of sewing and knitting companies, so to facilitate market access. The project also provides support for research on the export potential of a number of products including drinking water, meat products and herbs.

Helvetas, the development organization funded by the Swiss Government, conducted research on food and vegetable products for several years, providing assistance to local companies, in developing marketing strategies, product development, training, etc.

The International Trade Center (ITC) is implementing a project on trade promotion, with financial support from the Swiss Government. The project aims to develop the capacities of companies and service providers, enhancing the potential of these companies in product development and marketing.

The experience of developing countries and countries with transition economies demonstrates that specialized state agencies responsible for export promotion play an important role in determining priorities and coordinating state policy on export promotion and development. Most developing countries and transit economies have such agencies.

These agencies are implementing the following major functions:

1. Coordination of export development efforts in various sectors and implementation of export promotion programs;

2. Monitoring and evaluation of export development efforts, and analysis of factual volumes of export;

3. Research of regional and international markets in order to identify opportunities for the promotion of national goods and services; marketing research for the purposes of expanding and diversifying export;

4. Taking steps to promote exports including organization of trade fairs overseas, assistance in participation of local companies in such exhibitions, supporting national stands at specialized fairs, organization of presentations of businessmen in foreign countries and visits of foreign trade companies to create contacts with local companies;

5. Export related efforts, including development of products and increasing supply capacity; holding training seminars related to export and import procedures, paperwork, requirements for packaging, standards, holding market researches, creation and development of brand names.

6. Collecting and disseminating trade information

For the purposes of strengthening export promotion efforts the former Ministry of Economic Development and Trade of the Kyrgyz Republic proposed to create an Agency on Export Promotion, which will take the lead on export promotion in the Kyrgyz Republic. This proposal will be reviewed by the new Government to be formed following the elections held in October 2010.

It may be noted, that the creation of a lead agency responsible for the development and promotion of exports will allow for an efficient interaction with local companies as well as investors. With regards to this, such coordinated efforts of state agencies and businesses are a key to ensure export growth.

In order to select the best strategy for the establishment of a state body responsible for the development and promotion of exports, it is suggested to envisage an international consultancy on the issue to be arranged within the framework of one of the technical assistance projects funded by international donors.

5. Analysis of potential influence of sensitive sectors on human development

5.1. Selection of foreign trade development sensitive sectors

In the process of transition, agriculture and agricultural processing, sewing industry and tourism were identified as sectors with a strong trade potential.

Agriculture, which is a basic sector for a number of processing industries, directly contributes to economic growth. The experience of other countries with a large agricultural sector shows that the impact of agriculture (taking into account a multiplier effect) can be substantial – every som invested in agriculture can generate two additional ones.

Agriculture of the Kyrgyz Republic consists of two industries – plant growing and stock farming. Plant growing contributes 58% of agriculture output and stock farming – the remaining 42%.

Processing of agricultural products plays an important role in the Kyrgyz economy too. This industry provides food to Kyrgyz people and has a high export potential. Since the majority of agricultural production (exported and consumed locally) is unprocessed, further development of agri-processing in the country is of high priority.

In 2008, the share of value added in agriculture and agri-processing amounted to 25.8% and 1.7% of GDP respectively. 34% of officially employed people worked in the agricultural sector. At the same time over 65% of Kyrgyzstan's population resides in the countryside.

In 2008, the textile and sewing industry produced 6.5% of the total output of the manufacturing industry in the Kyrgyz Republic.

The sector is highly labor intensive with a high female representation. Statistical data show growing rates in the textile and particularly sewing industry.

Small shops seem to be able to respond in a flexible way to market demands and accept to make small batches of garments, large enterprises, on the other hand, have proven to be less competitive.

The sewing sector has been quite successful due to a number of factors: quality of goods, cheap electric power and inexpensive workforce, as well as a liberal trade regime. The success of the sector was driven by the growth of foreign demand (over 80% of garments made in the Kyrgyz Republic was exported to Russia and Kazakhstan). At the same time, almost all of the equipment and assets, including threads, were imported from China.

Taking into account the potential of this industry in terms of job opportunities and improvement of living standards, the Government of the Kyrgyz Republic, in 2005, took steps to support and legalize sewing shops. Appropriate laws and regulations have been adopted and in 2006 this sector was allowed to use patent-based system.

Taking into account the large potential of tourist resources, historical and cultural legacy, as well as unique traditions and customs of the Kyrgyz Republic and growing popularity of the handicrafts in the international markets, Kyrgyzstan has good potential to develop a successful tourism sector. This will have positive impact on sustainable growth of employment and income of people, encourage development of affiliated industries, and increase investments in the national economy.

5.2. Agriculture and agri-processing[55]

Over 93 % of the territory of the Kyrgyz Republic is mountainous, which limits the potential of cultivating agricultural products. Only 1.3 million of hectares of land (about 6.5% of land) is arable and less than 0.8 millions of hectares are irrigated for agricultural needs. About 45% of available land is used as pasturage for domestic cattle. The remaining 3 million hectares of pasturages are located at high altitude and are barely reachable.

Nevertheless, agriculture remains the most important branch of the Kyrgyz economy. In 2009, it accounted for 22.1% GDP, and about 12% of the country's exports. Agriculture employs 34.0% of all *officially* employed Kyrgyz people; over 65% of population resides in the countryside. Therefore, it can be assumed that the real number of employed in this sector is much higher, especially considering the informal nature of the sector.

In general, gross production in agriculture since the late nineties has grown annually by 2%, except in 2005 (-4%) and 2008 (0.8%). The value of production in agriculture in 2009 amounted to 108.3 billion som. The growth of output in plant growing in the considered period has outstripped growth of stock-farming (see Table 5.1).

Table 5.1.

Agricultural produce by sectors, billion som

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agricultural produce - total	40.4	47.2	47.2	53.0	57.4	62.3	71.1	88.2	110.7	108.3
Plant growing	22.6	26.6	25.5	29.5	32.0	34.5	40.5	50.5	64.0	59.8
Stock farming	17.8	20.6	21.7	23.5	25.4	27.8	30.4	37.7	46.7	48.5

Source: CIS Interstate statistics committee

Out of all sectors of the economy, only agriculture (in 2002) reached pre-reform production volumes.

55 Source: RTLC USAID Research "Impact of WTO rules and procedures to fruit and vegetable industry", 2009

The Kyrgyz Republic was a leader in the region with regards to land reforms and private ownership of land. As a result of privatization, over a quarter million of private peasant farms are producing around 60%, and individual farms - 37% of agricultural produce of the country. However, agriculture is mostly represented by small peasant and collective farms that are not efficient enough due to the scale of business and the scatteredness.

Plant produce – crops, cotton, tobacco, fruits and berries have unsustainable growth trends due to unstable climatic conditions. Furthermore, the production of sugar beet and tobacco is decreasing due to several reasons including lack of interest of producers.

Stock-farming has demonstrated sustainable growth apart from cattle and poultry for fattening.

The problem of agricultural development is especially acute, since about 65% of the population of the country live in the countryside and agricultural production represents the main employment possibility in rural areas. The fact that the growth of income of population employed in the agricultural sector is consistently lagging behind that of other sectors is a major social and economic problem.

The agricultural sector does not fully ensure food security of the country. In 2008, Kyrgyzstan was able to produce the following basic food items for its own consumption per capita: bread - 57%, vegetable oil - 59,2 %, meat - 42%, sugar - 12,6%[56]. Actual consumption of milk amounts only to half of the recommended amount, nevertheless producers tend to export milk products to Kazakhstan. This explains significant growth rates of milk and milk products exports, which reached its maximum value (more than 20 times vs. 1999) in 2006 (Table 5.2).

Kyrgyzstan can fully cover its needs in terms of vegetables, fruits and melons, potatoes. The production of potatoes, in 2008, was twice as much as the demand for it. Nutritional need in vegetable consumption is 118.4 kg per capita annually. The country produces 157.1 kg, which allows, not only to saturate domestic market, but also to export it.

Table 5.2.

Growth rates of major agricultural goods exports in 2000-2008, in % to 1999

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Meat and edible sub-products	21.0	99.3	29.6	147.2	112.5	47.2	79.2	31.8	57.1
Milk and milk products	246.1	326.3	462.1	1046.6	933.3	1262.2	2119.4	1921.6	1648.0
Wheat	79.4	288.0	85.1	295.5	57.6	-	70.9	84.5	44.4
Vegetables	69.2	60.9	81.4	84.4	131.0	48.1	91.1	125.5	108.9
Fruits	108.5	69.7	55.0	29.6	46.2	42.1	80.5	161.5	324.0
Sugar	28.2	53.3	137.2	183.7	568.3	289.0	103.6	54.3	12.4
Tobacco	72.4	80.1	64.8	38.4	24.9	22.6	19.5	17.4	17.4
Cigarettes and cigars	107.4	105.0	0.9	10.6	8.0	24.2	31.2	96.1	31.8
Cotton fiber	133.3	108.1	248.5	173.0	188.8	209.9	184.1	131.7	95.0

Source: National Statistic Committee of the Kyrgyz Republic

The dynamics of cotton fibre exports are extremely uneven – exports of this agricultural product doubled vs. data of 1999 in 2005 and in 2008, it dropped to 5% and it corresponds to dynamics of used areas for this crop and volume of production.

Exports of tobacco and cigarettes significantly dropped due to low demand for tobacco and the tendency of local cigarette producers to satisfy internal demand.

56 Annual Statistical Collection "Commonwealth of Independent States in 2008", Moscow, 2009

Problems of the agricultural sector are related to imperfect market mechanisms and a prevailing number of small-scale farms in the sector. In 2008, there were about 322,000 individual farms, most of them are small.

Farms, which have small plots of land do not see any stimuli in putting together their land plots in larger commercially viable farms. Small farms have no opportunity to introduce more progressive technologies, apply machinery, ensure crop rotation and, in general, increase effectiveness of farming.

As a result, utilization of major agricultural machinery in the sector is very low: it covers only 60-70 % of technological needs and consists mainly of obsolete machinery. Furthermore, scarce financing possibilities cause for old machineries not to be renewed at appropriate intervals.

Marketing is another problem. Most of the wholesale clients operate without long-term contracts with individual and peasant farms. Furthermore, producers are faced with a lack of information on accessing export channels or on possibilities to rent warehouses. The situation is often aggravated by the "interference" of criminals.

The wholesale sector does not possess large companies that would export produce made by agricultural and processing companies. Often farmers have to sell their products themselves. A lack in the coordination leads to irregular supplies and uneven quality of products.

A significant portion of products remains unprocessed mainly due to a lack of established market mechanisms and established ties between farmers and agri-processing companies (Table 5.3.).

Table 5.3.

Share of industrial processing of major agricultural crops in 2009 (thousands of tons)

	Produced	Processed	Share, %
Meat and meat products	166.1	8.2	4.9
Flour	1056.7	401.7	38.0
Potatoes	1393.1	42.7	3.1
Vegetables	832.5	2.5	0.3
Vegetable oil	73.3	20.3	27.7
Tobacco	12.0	8.4	70.0

Source: Ministry of Economic Regulation of the Kyrgyz Republic

Meat, potatoes and vegetables are the least processed goods. Therefore, it is necessary to develop an efficient market mechanism to enhance long-term ties between farmers and agri-processing companies.

Moreover, in order to ensure the supply of raw materials in accordance with the needs of the processing enterprises, it is necessary to identify appropriate mechanisms of mutually beneficial direct ties, so that these companies would provide technical and financial assistance to the farmers.[57] Donors and the Government should facilitate this process.

Wages of agricultural workers are the lowest in the country – more than two times less than the average salary, despite the fact that they grow annually – over the period of 2000-2008 they increased 4.2 times. Salaries from the agricultural sector represent a major source of income for the rural population – it represents 68.8% in household revenues. Incomes from the sale of agricultural produce amounts to 17.3% of rural household revenues.

Food production represents a significant portion of the total amount of industrial produce of the Kyrgyz Republic. In 2002, the share of this industry reached 18.5%. In 2009, it amounted to 14.3% of the total amount of production. The drop has been caused by a lag in the growth rates of this industry vs. growth rate of the manufacturing sector in general.

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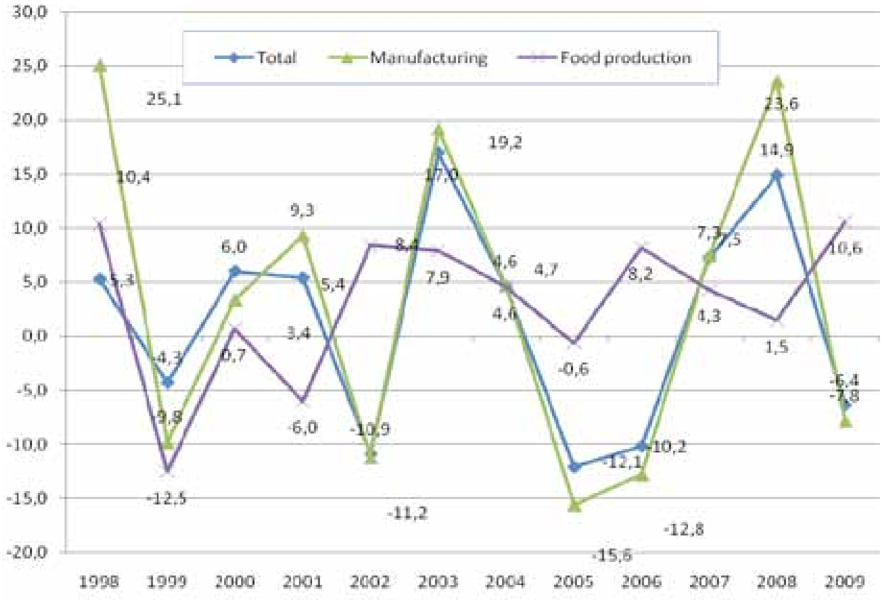
[57] Kyrgyz Republic Country Economic Memorandum. Enhancing the Prospects for Growth and Trade. World Bank, Volume I, 2005.

Figure 5.1. Growth rates of all manufacturing industries, processing and food industry in 2000-2009, in % to previous year



Source: National Statistic Committee of the Kyrgyz Republic

The growth rates of physical volumes of the food industry in general remained positive. (Figure 5.1).

Growth rates in the processing sector of agricultural produce are connected to the positive dynamics of fruit processing and milk productions.

The fruit-processing industry is highly export-oriented. Fruit-processing production is dispersed all over the country but Chuy, IssykKul, Jalalabad and Osh provinces take the lead in this sector, large processing plants and density of population higher than elsewhere.

According to data of the Ministry of Agriculture, Water and Processing Industry, over the past 5 years Kyrgyzstan produced 5.5-6.8 thousands of tons of fruits and vegetables. As maximum capacity of the sector is 25 thousand tons, the current potential capacity is only used to 25%. Currently, no more than 10% of produce is processed. Moreover, there is a general tendency to replace processed and canned fruits and vegetables (dropped to 10% over the past 6 years, see Table 5.3) by juice production (increased 8.4 times).

The production of fruit and vegetables does not cover the needs of the population. While the growth of exports of canned fruits and vegetables during 2000-2008 was less than 2 times, imports over the same period increased 8 times. Prevailing growth of import over export is caused by a growing domestic demand. Moreover, low competitiveness of locally processed fruits and vegetables vs. imported goods is another reason for growing imports.

The technical and technological level of local enterprises is insufficient and prevents the production of quality products as well as the establishment of a functioning quality control system for raw materials.

Currently milk processing is one of the most dynamic and competitive sectors of the processing industry. The share of milk products in the total amount of food production is about 10%. Despite a significant increase of production volumes, its supply for processing remained limited and in 2000 amounted to 77.2 thousand tons and in 2008 – 97.6 thousands of tons, which makes 6.7% and 8.2% of the volume of milk produced over these years, respectively. Therefore, processing enterprises with the capacity to process 1.5 tons of milk a day use this capacity to 20-30% only. In recent years, the volume of milk products significantly increased and in 2009 growth vs. 2002 amounted to more than 5.5 times (see Table 5.4).

Milk products are mainly exported to Russia, Kazakhstan, Pakistan and Afghanistan. The majority of raw milk (about 90%) goes to Kazakhstan. Currently, enterprises with a foreign stake dominate the market.

The sugar industry used to be one of the leading industries in the food industry; the capacity of four enterprises can process over 700 thousand tons of sugar beet a year and 300 thousand tons of raw sugar. In 1980-1990, sugar plants of the Republic produced about 350-400 thousand tons of sugar, with over 50 % exported to Central Asian states, mainly Kazakhstan and Russia, and partially to Afghanistan. Currently, low prices for sugar beet do not allow production at full capacity – in 2009 sugar production volume dropped 12 times vs. 1999 (see Table 5.4). As a result, sugar needs to be imported in order to satisfy the needs of the domestic market.

Meat processing enterprises are located all over the country mainly in the cities and industrial centers. There are 14 meat-processing factories with a total capacity of 400 tons of processed meat per shift. However, currently these production facilities remain unused, as there does not exist enough funding to procure the necessary raw materials. Earlier these meat factories produced up to 100 thousand tons of meat. In 2008, meat production increased 11.3% vs. volume of 1999.

The tobacco industry is highly profitable (it also contributes to tax revenues). During 50 years, the Kyrgyz Republic has been one of the largest exporters of fermented tobacco in the former Soviet Union. Production facilities allow processing of over 70 thousand tons of tobacco per year. JSC “Reemtsma-Kyrgyzstan” possesses exclusive rights to produce cigarettes. JSC “Reemstsma-Kyrgyzstan” produces annually 3.2-3.6 billions of cigarettes (3.6 in 2009), while the domestic market consumes 5-6 billion cigarettes per year. As a result, local production capacities are only used by 30% and there exists an increasing tendency to import cigarettes.

Table 5.4.

Growth rates of major types of agricultural processed products in 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Meat and edible products	63.9	43.9	87.7	131.6	133.0	117.3	104.5	104.8	111.3	279.2
Sausages	119.8	109.2	106.8	78.9	68.0	78.5	96.3	116.6	190.4	382.8
Fruit and vegetables juices*				186.3	513.9	508.7	552.2	765.6	841.8	
Fruits, vegetables and mushrooms, processed and canned *				211.1	193.1	65.9	139.2	82.7	90.0	
Vegetable oil	116.4	92.1	124.8	142.3	163.9	204.3	223.1	234.0	246.2	
Processed liquid milk *				130.9	187.6	242.4	306.8	407.6	355.3	546.4
Flour from crops	95.7	92.9	90.0	86.4	89.4	95.8	99.5	119.6	100.4	82.4
Fresh bread	93.6	87.0	83.2	85.7	86.5	92.7	98.7	86.5	78.7	46.8
Sugar	82.5	43.4	72.8	107.4	125.5	63.9	83.0	52.4	15.4	7.9
Pasta	51.3	26.2	21.7	23.1	22.0	81.1	78.1	106.9	55.9	129.3
Fermented tobacco	82.7	71.2	54.8	34.1	21.7	21.5	21.9	20.5	22.7	23.5
Cigarettes with and without filter	150.7	143.3	139.2	147.6	150.8	151.2	146.8	145.2	143.8	170.5
Tobacco	104.8	81.1	76.8	76.3	70.3	77.5	73.3	75.9	81.5	81.2
Fiber-cotton cardo and combed	117.1	145.4	197.6	176.3	196.5	192.9	179.5	116.7	115.0	

** - compared to 2002.*

Source: National Statistic Committee of the Kyrgyz Republic

In general, output of the processing industry is potentially competitive in terms of prices in CIS markets, with Russia and Kazakhstan being major consumers.

Experts of the Market Development Service of the Agribusiness Competitiveness Centre argue that with the low export share of Kyrgyzstan in import volumes of both Kazakhstan and Russia, there is a large potential for exporting agricultural produce to these markets. Kazakhstan can consume ten times more Kyrgyz produce than it currently imports. The same applies to Russia, where Kyrgyz imports represent only one percent.

As noted in section 3.2.2, in order to develop the production of the food industry and the agricultural sector, and in order to achieve food security and meet domestic demand at reasonable prices, minimal or zero customs duties have been set for raw materials, production assets, agricultural machinery, and mineral fertilizers as well as food items that cannot be produced domestically in sufficient amounts to cover local needs.

In order to protect internal markets from growing import volumes, maximum levels of customs duties have been applied for certain types of goods. However, as previously mentioned, only 15% of food items are imported from non-CIS countries[58], i.e. only these imports are subject to WTO restrictions and rules.

CIS countries represent the main trade partners of Kyrgyzstan and according to the Agreement on Free Trade Zone[59] trade operations with them are duty free. Therefore, tariff regulations of imports in the given circumstances do not protect local producers. As a result, import volumes of processed food products keep growing. In 2008, import volumes outstripped exports 5 times (see Table 5.5). Increasing revenues of the population and expanding demand for quality goods are among other reasons the growth of imports.

Table 5.5.

Exports and imports of major agricultural produce and The agri-processing sector in 2001-2009, in mln. dollars

	2001		2006		2007		2008		2009	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
Live animals and products of animal origin	3.2	3.3	13.2	12.5	5.1	21.8	6.1	35.2	28.6	66.1
Vegetable origin products	13.3	15.5	36.1	41.1	80.4	96.9	95.0	165.2	86.2	142.7
Including fruits and vegetables	10.9	1.9	35.9	22.4	78.0	14.0	92.6	16.6	67.8	17.9
Food products, drinks and tobacco	32.7	35.8	68.4	110.0	55.0	198.6	63.0	310.2	36.4	245.9
Including milk and milk products	1.5		20.2	1.3	25.4	15.4	30.1	20.1	24.0	15.8
Raw tobacco	25.6	2.0	10.6	1.6	12.2	2.8	15.9	3.9	14.2	-
Grain products	1.3	11.3	0.3	34.5	0.7	79.8	1.3	100.1	-	62.7
Sugar, confectionery and honey	2.6	7.6	7.1	51.7	3.0	42.1	0.7	49.1	-	45.8
Agricultural raw materials	34.8		54.8	2.5	47.3		41,3		-	-

Source: National Statistic Committee of the Kyrgyz Republic

58 USAID "Impact of WTO rules and procedures to fruit and vegetable industry", 2009
59 Agreement on setting up free trade zone, 15 April 1994

Conclusions and recommendations

The analysis of the state of agriculture reveals some positive tendencies in the industry. However, the overall situation in the agrarian sector of the Kyrgyz Republic is fairly unstable and uncompetitive.

Currently the country cannot satisfy domestic needs in essential food products and keeps importing substantial part thereof, despite conditions (climate, fertile soil, human potential and other resources) that allow growing and processing essential food products (meat and meat products, bread and bread products, sugar, vegetables, eggs, vegetable oil, etc.).

Relatively low productivity of agriculture facilitates a further increase of the gap between rural and urban regions in terms of wages and living standards. In order to reduce this gap it is necessary, first of all, to take steps to ensure increased profits for the farmers. The assistance of the government would be very important in marketing agricultural produce. Moreover, it is necessary to enhance the effectiveness of agricultural production by providing support to improve infrastructure, production facilities and develop capacities. In order to ensure a sufficient supply of raw materials, in accordance with the needs of processing enterprises, it is necessary to identify proper mechanisms of mutually beneficial ties.

It is important to implement a thoughtful policy to ensure adequate conditions for mergers and enlargement of companies, especially small individual farms, by creating associations, cooperatives and other types of associations on a voluntary basis.

Appropriate forms of cooperation should be established for joint supplies of mineral fertilizers, pesticides, agricultural machinery, inventory and spare parts to agricultural producers.

Moreover, the Government suggested the creation of agricultural production clusters that would ensure processing facilities in the vicinity of agricultural production. It is obvious that the creation of such clusters requires a thorough analysis and research. Therefore, assistance of international experts within the framework of technical assistance projects is essential.

To make Kyrgyz agricultural products more attractive in regional and international markets, it is necessary to establish a network of laboratories for the certification of agricultural produce including for certificates of ecologically pure standards, i.e."organic".

Government bodies have to be more active in harmonizing existing technical standards with international standards, and simplifying customs procedures in order to facilitate the export of Kyrgyz goods to international markets.

It is very important to continue reforms in the agriculture sector related to the introduction of private ownership of land. This will allow increasing labor productivity and lower costs.

Furthermore, the promotion of competitiveness, the diversification of agricultural production, the introduction of private ownership in land and the expansion of export of ready food products should become priorities in the development of the agricultural sector. This would enable the country to gain additional revenues for economic growth and ensure food security in the country.

A comprehensive strategy for the development of the agricultural industry, which would contain detailed plans of development with appropriate prioritization for each area, detailed plans for the development of the agriculture and agri-processing sector– with a special focus on the production of agricultural machinery and tools as well as an agriculture and agri-processing sector export program is essential.

SWOT analysis

Strengths - There exists extensive experience in the development of animal husbandry and poultry farming. - More than one third of economically active population works in agriculture. - The country's authorities recognize the importance of agriculture and agricultural processing. - In general, agricultural products processing facilities have sufficient capacity. - The Government realizes the importance of the food-processing industry to ensure food security in the republic. - The majority of technologies of agricultural processing is rather simple and inexpensive and in the first production phases do not demand know-how. Such processing can even be organized at the level of minishops. - Agricultural processing is subject to indirect state subsidies (tax privileges and reliefs, lower tariffs for main processing factors of agricultural raw materials).	**Weaknesses** - Enterprises work seasonally. - Non-conformity to standards and specifications accepted internationally, and therefore - limited market opportunities. - Difficult to ensure appropriate quality of production. - Lack of qualified technologists and specialists. - Often poor quality of raw materials, non-conformity to requirements (sugar content, density, wateriness). - Poor working conditions (premises, transportation). - High degree of deterioration of the equipment and-or its obsolescence. - Use of primitive equipment limits manufacturing volumes. - Underdeveloped marketing - Shortage of operational capital.
O**pportunities** - The climate of Kyrgyzstan supports the development of agriculture and modern agricultural technologies allow to further increase output levels of agricultural processing. - Readiness of the Government to find possibilities to support the food and processing industry. - Relatively well-developed system of educational institutions that can train experts at all levels for the processing industry. - Globally growing demand for ecologically pure organic production, possibility of development of the Halal-industry. - Growing world prices for foodstuffs can "switch" the attention of consumers from imports to domestic production. - Use of possibilities to utilize the full capacity of the enterprises all year long. - The growing potential of the Kazakh and Russian commodity markets. - Development of tourism can entail directly (for example, eco-tourism) and indirectly (through the increased demand for qualitative ecologically pure foodstuff) improvement of the situation in the agrarian and industrial sectors. - Accession of the main import countries to the WTO will provide for the possibility to refuse conditions of a free trade area.	**Threats** - Unforeseen increase in budget deficits can lead to a failure to finance agrarian and industrial sectors support, and the state investment program. - The Kyrgyz Republic is mountainous with high seismic activity. Landslides and mudslides are frequent, posing a potential threat to agricultural fields and pastures. Agriculture and in particular the fruit-and-vegetable industry can suffer from epidemics of illnesses of plants, invasions of pests. There is a high probability of droughts, and insufficient precipitation. - Failure to implement programs to develop agrarian and industrial sectors, especially with regards to state financial support can impede the development of agrarian and industrial sectors considerably. - A considerable rise in prices for gas will likely result in an increase in the cost of production, which can entail a new coil of inflation and, thereby, lower real incomes of peasants and farmers, and the rest of the population of the country. - Restrictive customs policy of the states - trading partners of Kyrgyzstan, suppliers, and foodstuffs consumers, will detriment the relative advantages Kyrgyz producers had, and will cause a rise in the production cost. - Loss of commodity markets.

5.3. Textile and clothes industry[60]

During Soviet times, rather large textile enterprises producing woolen, cotton and silk fabrics existed. These in turn served as raw materials for manufacturing garments. Now the majority of these enterprises have stopped to produce, with only a few functioning, but not at full capacity.

The crisis of early 90s, substantially influenced the value added chain of the textile industry. As a result manufacture volumes have significantly dropped. Manufacturing and management models that existed before ceased to be effective.

The value chains of the textile industry covers two sectors: 1) fiber manufacturing (agriculture); 2) processing fibers (textiles).

During the last years, the textile and the clothing industry has been radically transformed. As a result of these changes, the complete textile-sewing industrial chain has ceased to exist, and adjacent sectors developed independently from each other and therefore exhibit different levels of development (see Table 5.6).

Recently volumes of cotton and wool production of cotton dropped. Small farmers quite often prefer to grow more favorable crops, than cotton, and sell harvested cotton as a raw material abroad through wholesale buyers rather than process it. A similar situation exists in sheep breeding - farmers are not interested in sheep with merino wool, as their basic income comes from meat, not fiber. As a result, the quality of local wool does not conform to international standards and does not meet requirements of textile enterprises. As of today, there is no supply of raw materials for the textile production chain from internal sources. Textile enterprises that used to process hundreds of thousand tons of raw materials, either do not operate, or work at a minimum capacity.

Table 5.6.

Dynamics of production of the textile and cloth industry

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Textile and sewing industries, mln. Som	1896.0	2032.5	1992.9	1652.1	1192.9	2491.1	2261.8	4641.7	5553.3	5934.8	4497.6
Growth rates of the textile and sewing industry, in % to previous year	113.7	107.2	98.1	82.9	72.2	208.8	90.8	205.2	119.6	110.9	75.8
Cloth, mln. Som	265.0	403.2	487.0	472.8	232.4	1216.4	1269.8	3287.0	3277.2	5074.0	3713.2
Growth rates in the volume of clothes, in % to previous year	177.0	152.1	120.8	97.1	49.2	523.4	104.4	258.9	99.7	150.9	68.3

Source: National Statistic Committee of the Kyrgyz Republic

Currently, the sewing industry mainly uses fabrics from China, Turkey and other countries that are widely available in a large variety of choices in the domestic market. Due to trade liberalization, local manufacturers have the possibility to use diversified fabrics, accessories and other materials.

Originally, the enterprises used various equipments (mainly sewing and knitting machines) from out-of-date Soviet factories. Recently, however, the supply of sewing equipment has increased several times. Thus, the quality of equipment of the majority of the sewing enterprises (also due to exemption of technological equipment from import duties) has considerably improved. Rapid modernization of production facilities is observed. The enterprises invest in rather cheap and simple machinery made in China.

It is estimated that there are about 200-300 enterprises of an average size (with 50-80 staff employed)

[60] The following sources were used while working on this section: Draft Strategy for the development of the textile and sewing industry for 2009-2011, Bishkek, 2009; Economic impact from Kyrgyzstan's participation in multilateral trade system (WTO): textile industry sector. USAID, Bishkek, 2009.

in the sewing industry and about 1200-1500 small enterprises (with 5-15 workers)[61]. According to other estimates, there are 2 to 3 thousand enterprises.

Furthermore, there is a considerable quantity of shops, which work without official registration. It is estimated that the share of the shadow economy, after introduction of the patent system and the legalization campaign, amounts to 40 %.

The sewing sector covers companies producing finished goods, such as clothes from yarn and fabrics, home textiles (blankets, quilts and other production for homes). According to official statistics, major items of export of garments are clothes for women and girls, which account for 80 % of exports[62].

The sewing sector became an exception in the general state of affairs in the light industry. The clothing industry producing finished textile production is at the most developed stage in the value chain. Its dynamic development became possible because of the ability to create competitive advantages that have not been developed in other sectors. As a result, the Kyrgyz sewing production has occupied a considerable share in the regional markets. In 2008, export volumes were close to 100 million USD. Table 5.7 presents the dynamics of exports of cloth and accessories.

Box 5.1. Sewing industry in Kyrgyzstan

According to the World Bank the success of the clothing industry is remarkable. Practically duty-free imports of Chinese clothes has not destroyed the sewing industry of the country, and, on the contrary, has led to its impressive development in many respects thanks to the presence of hub markets in Kyrgyzstan.

Though official statistics essentially underestimates the contribution of the clothing industry to exports, analysis of mirror statistics prove that clothes with the label «Made in Kyrgyzstan» is present in the markets of Kazakhstan, Tajikistan and of some regions of Russia. Interviews of salespeople in the markets of Almaty, Astana (Kazakhstan) and Dushanbe (Tajikistan) show that the clothes from Kyrgyzstan are one of the most important goods in these markets. At the same time, dealers of fabrics in Madina market in Bishkek (Kyrgyzstan) testify, that their basic consumers are local manufacturers of clothes. Madina market is also a source of supplies to Karasuu market located near to the border with Uzbekistan, but supplies include mainly clothes made in workshops, which are located within market territory.

Data of mirror statistics indirectly confirm the specialization of Kyrgyzstan as the region's manufacturer and exporter of clothes. Thus, mirror import volumes of fabrics and clothes accessories outstrip import volumes of other kinds of the goods. This can be explained, to some extent, by the use of these fabrics and accessories to manufacture and export clothes.

Share of mirror imports of fabrics and clothes to Kyrgyzstan in mirror imports to the Central Asia, %

	2003	2004	2005	2006
Fabrics and accessories	54	70	58	67
Clothes and underwear	9	17	16	31

Source: Bazaars and Trade Integration in CAREC Countries. Report prepared by World Bank, May 2009.

Table 5.7.

Volumes of export of clothes and accessories in 2000-2009, in million USD

Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Clothes and accessories	2,6	2,3	5,8	14,9	23,2	23,2	47,7	79,4	98,6	73,1

Source: National Statistic Committee of the Kyrgyz Republic

61 Assessment of impact of the trade policy on development in the Kyrgyz Republic, UNDP, Bishkek 2008

62 Economic impact from participation of Kyrgyzstan in the multilateral trade system (WTO): sector of textile industry. USAID, Bishkek, 2009

In fact, the sewing industry is one of the few industries in the country that produces added value that can serve as a basis for further development of a complete sewing cluster. On the other hand, the clothing industry had already acquired high social significance due to its considerable potential for the creation of workplaces (even now total amount of people employed amounts to 150 thousand).

Products of the cloth industry are sold through several channels, e.g., deliveries of the goods through wholesalers or sale through representatives of "Legprom" association in certain regions of Russia. In the Dordoi market through, which huge flows of re-export goods are going and which grants important opportunities for marketing and promotion of goods within the Central Asian region plays an important role in the promotion of garments. Furthermore, garments, along with other goods, are bought by shuttle traders in small batches for export. See Box 3.1 for more detailed explanations on the role of markets as re-exporting hubs.

As of today, Kyrgyzstan occupies about 6 % of the Russian market of ready-to-wear clothes[63]. It is estimated, that approximately 40 % of trading operations go through the Dordoi market in Bishkek. The major part of sales occurs in the clothes markets of various regions of Russia (cities with sales representatives of association "Legprom"). In Kazakhstan, sales are carried out through large wholesale markets in Almaty and Astana, and through direct purchases of wholesale buyers at the Dordoi market in Bishkek.

According to the "Legprom" association, 40 % of exports to Russia transited through the "Cherkizovo" market in Moscow. After the closure of this market in 2009, the sewing enterprises of Kyrgyzstan lost one of the largest distribution channels - and started looking for new markets with the assistance of the "Legprom" association.

According to various estimates up to 90% of ready-to-wear clothes are exported (in 2008 exports amounted to about 100 million USD), and garments are the second-largest item in the export structure, after the gold. Due to the economic crisis, the volume of garments export declined in 2009 to 73.1 million USD (Table 5.7).

Box 5.2. Patent-based tax system in the sewing industry of the Kyrgyz Republic

Output volumes of the clothing industry started to increase in the late nineties, however up to 2004 over 2/3 of manufacturers were working in the shadow economy, therefore pre-2004 official statistics poorly reflect real volumes of manufacture.

Development of the industry reached a critical limit when its illegal status became an impediment for the further acceleration of turnover. Exports to Russia through the largest freight forwarding agent "Biek Cargo" was suspended in 2004. At that time, officially 2 million pieces of clothes were made in Kyrgyzstan, whereas Russia imported 7 million pieces from Kyrgyzstan. Russian customs officers raised inevitable questions regarding the origin of the clothes. Questions were raised on whether these clothes were made in Kyrgyzstan or China. These disputes resulted with the establishment of the "Legprom" Association. The association's main aim was to unite the Kyrgyz sewing enterprises that had been functioning illegally and to prove, that the goods were produced in Kyrgyzstan. As a result, in 2004 the Government issued a Decree "On patent system for the sewing enterprises" which allowed most of the sewing shops to legalize their status. Results were immediately reflected in the official statistics for 2004: the rate of growth of the manufacture of garments increased more than 5 times in comparison with the previous year.

On the basis of the framework of the patent system, businessmen purchase the patent from tax authorities once a year, tax payments depend on the size of the workplaces, rather than on manufacturing volumes, and businesses can pay uniform tax rates (patent) once a month. According to the director of "Legprom", the introduction of the patent system is one of the main drivers in the legalization of the sewing industry. He believes that "the patent solves the following three tasks: first of all it contributes to the legalization of the shadow economy; secondly it enables the creation of a favorable environment for enterprise development, and, thirdly, it eradicates corruption".

Source: Economic influence from participation of the Kyrgyz Republic in multilateral trading system (WTO) sector of the textile industry. USAID, Bishkek, 2009.

63 Project "Strategy of textile and sewing industries for 2009-2011", Bishkek, 2009.

Since 2008, local manufacturers have been exposed to the consequences of the global crisis transmitted through a decline of demand for sewing production in the Russian and Kazak markets. In addition to external shocks, changes in the taxation system in early 2009, when patents were eliminated, posed another challenge to the sector. However, after consultations with the business associations the patent system was brought back. The government cancelled the previous decision and restored the patent system; however, tax rates of patents have been doubled.

Taking into account, that wages represent more than 30 percent in the production cost, access to cheap labor is considered as the main reason for the success of the sewing industry. Other factors include, low expenses for deliveries of fabrics and clothes accessories, preferential mode of customs clearance; preferential mode of the taxation patent system; and use of advantages provided by the hub markets in Dordoi and Karasuu for marketing and promotion. The high customs duties imposed by Russia on imports of Chinese clothes have a favourable impact for Kyrgyz production.

All of the above, provided that the design and quality of goods meet the requirements of low and mid-level income groups of the population in Russia and Kazakhstan, leads to a strengthened position of Kyrgyz production in a number of regions of these countries, and also other countries in Central Asia.

SWOT analysis of the sector of ready-to-wear clothes[64]

Assessment of the current situation

- Positive dynamics of sales in Russia, and partially in Kazakhstan since 2005 (export increased four times by 2008);
- 10-15 % recession of sales in 2009 owing to financial crisis (external factor);
- Sector is mainly represented by small and medium size enterprises (with 20-50 workers);
- The technological base has considerably improved due to large investments into equipment;
- Biek Cargo company provides reasonable prices for logistical services;
- "Legprom"- business association rendering commercial and logistical services for exports of clothes to Russia (16 representations in Russia);
- The simplified patent system for small companies (uniform tax, payment for the patent, social expenses) with low income tax;
- Rather developed educational centers for workers in the sewing sector due to efforts of the "Soyuz textile" association.
- The reasons for success of Kyrgyz clothes manufacturers in Russia
- Favorable import and export conditions
- Favorable conditions for foreign trade:
- Absence of customs duties on imported equipment;
- The simplified customs procedures in Russia.
- Duty-free import of the goods to Russia (for EurAsEC countries);
- Low manufacturing costs, partially because of the low cost of electric power in Kyrgyzstan;
- Similar requirements and standards for production in Russia and Kyrgyzstan (GOST);
- Kyrgyz production is known for acceptable price vs. quality (Trademark "Made in Kyrgyzstan");
- Small and mobile enterprises;
- Profound knowledge of the Russian market thanks to the efforts of the "Legprom" association (clients, consumer's taste, trade representations);
- The international fashion fair in Bishkek (tool to support sales).

[64] Project "Strategy of textile and sewing industries for 2009-2011", Bishkek, 2009.

Strengths	Weaknesses
- Young, dynamic and growing cluster of private enterprises; - Strong enterprises strive for improvements and innovations; - Low costs and motivated labor force; - Stable financial situation; - Quality acceptable in CIS countries; - Availability of services by Center of professional training "Shvei Profi".	- Weak integration in the national chain of value added; - Unstable supply of yarn, fabrics and accessories; - Limited design and insufficient efforts in developing new products; - Extremely weak marketing; - Limited working capital; - Low productivity;
Opportunities	**Threats**
- Development of logistics chain and value added chains (in both directions); - Expansion to neighboring markets; - Design of knitwear collections for spring-summer season; - Penetrating small, specialized market sectors in industrialized countries; - Improvement of assortment.	- Growth rate of the cluster is not sufficient to reach economically profitable volumes; - Dependence on one monopolist-exporter to the Russian market; - Decreasing sales at the main national market Dordoi; - Possibly strong competition with China after Russia joins WTO; - Change of the national economic policy.

In order to ensure a sustainable development of the industry, especially given the decline in demand in the target markets, the following steps should be undertaken in the short-term prospective.

1. Develop and implement an aggressive export promotion program for the Russian and other CIS countries markets;
2. Conduct research on ready-to-wear clothes in Russian regional markets;
3. Strengthen the marketing potential of Kyrgyz enterprises;
4. Strengthen the different business associations and the "Shvei-profi" center to provide services of suitable quality to its members;
5. Accelerate the allocation of a site for the creation of an industrial park for sewing and related enterprises.

5.4. Tourism[65]

Kyrgyzstan, with its unique natural resources and original culture of nomadic people, has a large unused potential for tourism both in international and regional markets.

Recreational resources and the historical and cultural heritage, as well as originality, uniqueness of customs, traditions of the Kyrgyz people and artisans' works that are gaining more and more popularity in the world markets, allow Kyrgyzstan to be integrated into the international tourism market, and to intensify the development of tourism sector in the country. It will ensure steady growth of employment and sources of income for the population, encourage development of the economic sectors involved with tourism, and increase investment inflows into the national economy.

The tourism industry in Kyrgyzstan is recognized as one of the priority sectors of economy at the state level. The analysis of statistical and empirical data demonstrates an increasing interest in Kyrgyzstan and favorable tendencies of quantities of tourists.

The republic is becoming more attractive to businesspersons, athletes, scientists, fans of extreme sports, and to those that are interested in the history and contemporary life of the countries located on the Great Silk way.

The latest trends, demonstrate that the tourism industry in Kyrgyzstan has transformed into a significant independent branch of the national economy.

The specific nature of the industry, competitive advantages of the tourism industry in Kyrgyzstan, as well as a consistent state policy for the development of the industry allowed the formation of a steady

[65] Source: National Review of the policy of the service sector of the Kyrgyz Republic: energy and tourism sectors' services, UNCTAD, 2009

market of tourist services, with a prevalence of the private sector. However, the quality of services has yet to meet regional and international requirements.

The tourism sector in Kyrgyzstan develops very quickly. It follows from Table 5.8, that in 2008, since 2003 the share of the total value added (TVA) of the tourism in GDP had increased by 5 points, having reached 4.1 %. Thus, in 2008, TVA of the industry has exceeded TVA of the construction industry by 31 %, and the average nominal growth amounted to more than 21 % a year. In 5 years, export of tourist services in USD has grown 10.7 times.

Table 5.8.

Some indicators of the tourism sector of the Kyrgyz Republic in 2003-2008

	2003	2004	2005	2006	2007	2008
GDP, million som	**83 871,6**	**94 350,7**	**100 899,2**	**113 800,1**	**139 749,4**	**185 013,6**
TVA of tourism, million. Som	3 010,9	3 372,2	3 303,9	4 015,8	5 598,3	7 612,5
Share of TVA tourism in GDP, %	3,6	3,6	3,3	3,5	4,0	4,1
Export of tourism services, million USD	47,8	75,3	70,5	164,6	341,7	509,2

Source: National Statistic Committee of the Kyrgyz Republic

In order to meet the needs of tourists, the tourist sectors as well as related sectors need to cooperate to provide satisfying services to the tourism sector. Tourism, especially with regards to related economic sectors, can function as a large multiplier effect for economic development.

The attractiveness of the tourism business has been growing over the past years. This is confirmed by the growing number of tourists to Kyrgyzstan, volumes of tourist services, and also the number of registered businesses in the sphere of tourism – as of January, 1st 2009 it has grown more than one quarter, in comparison with January, 1st 2004 (Table 5.9).

Table 5.9.

Registered tourism companies in 2003-2009 as of beginning of the year

	2004	2005	2006	2007	2008	2009	2010
Number of entities	4255	4601	4787	5036	5321	5424	5779

Source: National Statistic Committee of the Kyrgyz Republic

From 2003 to 2009, staff levels in the tourism sector dropped by 14.3%, however productivity in the sector more than doubled from 2003 to 2009. The total number of employees in the tourism industry amounts to 0.3% of total employment in the economy.

The development of tourism is not necessarily accompanied by an increase in tax revenues: out of all the priority industries, tourism generates the least amount of taxes. On the one hand, this makes the sector very attractive for entrepreneurs, on the other - indicates the weakness of fiscal institutions and the imperfections of the tax legislation in the sphere of tourism.

During 2003-2009 investments into the tourism sector boosted the tourism industry. The United States remained the main investor to this industry prior to 2006 (Table 5.10). In 2007-08, the situation changed in favor of investors from Kazakhstan, investments from this country increased more than 4 times. However, US investments in 2009 increased sharply while investments from Kazakhstan dropped. As a result, total investment levels in 2009 compared to 2003 increased more than 4 times.

Table 5.10.

FDI in tourism by countries in 2003-2009 in thousands of USD

	2003	2004	2005	2006	2007	2008	2009
Total	**6419**	**7840,9**	**7231,1**	**11223,2**	**16174,1**	**19962,7**	**27111,0**
From the countries outside of CIS	4586,9	5299,0	4895,1	7781,2	4808,0	4978,0	21212,0
USA	2769,6	4586,4	4019,6	4468,4	3674,6	4286,9	16870,1
From CIS	1832,1	2541,9	2336,0	3442,0	11366,1	14984,7	5898,7
Kazakhstan	353,8	1777,4	1556,7	2962,2	10655,5	14449,9	4994,1
Russia	857,3	453,1	504,0	72,8	663,6	494,2	835,5

Investments were made mostly in main assets; increase of contractual works was high due to rising costs of construction. Investments in equipment, tools and inventory remained at the same level over this period.

The share of tourism in Kyrgyzstan in total worldwide tourism is small. However, due to the current state of tourism and domestic infrastructure, the resort and recreation tourism sector which represents the main type of tourism (mainly at Issyk-Kul Lake) is close to saturation point. Thus, it is necessary to shift the focus away from this type of tourism to other types.

Tourism services are supported by enterprises that represent numerous sectors of the economy. Most of the tourists are served by private firms (travel agencies). Despite the fact that there are about 25 thousand businesses related to tourism in Kyrgyzstan, there are only about three dozens of private companies that take care of 90% of the tourists. The average number of employees per tour agencies is 14 people.

The hotel sector is a major component of the tourism industry. In Kyrgyzstan, in 2009 there were 154 hotels with 2,787 rooms with a one-time capacity of 4,990 beds, serving 172.5 thousand customers. The number of hotels and their capacity over the past 5 years has increased significantly.

The number of restaurants in Kyrgyzstan in recent years has been growing rapidly. Statistics show that the volume of services provided by restaurants, bars, canteens and other enterprises (prepared food) over the past 5 years has more than tripled and in 2008 amounted to 6.0 billion soms.

Transport is one of the most important issues for the tourism industry. In Kyrgyzstan, there is a clear "division of responsibilities" between the modes of transport: air and rail transport infrastructures mainly serve tourists, crossing the state border, road and water provide the movement of tourists within the country. The main challenge in this area is to establish direct international air services, to implement the construction of the China-Kyrgyzstan-Uzbekistan railway, and to improve the roads network.

According to the NSC KR, in 2009 all types of transport carried 6519.6 thousand tourists (Table 5.11). Transportation of tourists during the period increased significantly - more than 3 times. Accordingly, the share of tourists in the total amount of passengers increased from 0.5 to 1.0 %.

Table 5.11.

Transportation of tourists in 2003-2009, in thousands

	2003	2004	2005	2006	2007	2008	2009
Total number of tourists transported	**2245.4**	**2893.6**	**4327.3**	**4710.1**	**5041.7**	**6144.9**	**6519.6**
Share of tourists in total volume of passenger transportation, %	0.5	0.6	1.0	1,0	1.1	1.2	1.2
By air	217.6	257.9	242.8	232.0	279.1	370.8	357.8
By railroad	229.7	250.5	255.2	338.1	392.8	473.8	414.1
By automobile transport	1798.1	2385.2	3829.3	4140.0	4369.8	5300.3	5747.7

The greatest number of tourists (52.9% in 2009) arrives in Kyrgyzstan by railroads. Inside the country tourists move by cars. Highways that coincide with the main routes of the Silk Road, which are of great importance for the development of tourism in the country, are: Bishkek-Osh, Bishkek-Naryn-Torugart, Balykchy-Bishkek-Karakol, Osh-Irkeshtam, as well as roads leading to the historical and architectural monuments of the country. The organization of tourist travel on these routes could become a major income-generating sector.

The entertainment industry of Kyrgyzstan includes parks, theaters, circus, museums and other entertainment venues. This also includes reserves and natural parks. There are 8 national parks, six natural reserves and 69 wildlife sanctuaries and natural monuments in Kyrgyzstan.

Tourism is a special sector of the economy. Firstly, it consists of several sub-sectors, which may be considered independently and, secondly, tourism depends on the development of other sectors itself while at the same time affecting them as well. That is why the development of the tourism sector is a very important factor for economic and human development.

The banking sector is important for the tourism sector as the development of convenient payment systems through the accounts of commercial banks is one of the most important measures for tourism. It is planned to develop a nationwide infrastructure for receiving and servicing payments using innovative technologies and payment cards.

The communications sector. In Kyrgyzstan the mobile communications sector is booming, it covers more than 90% of the populated territory. All mobile operators provide international services and mobile internet.

The craftsmanship sector is important for the development of the tourism sector as well. The handicraft sector in Kyrgyzstan consists mainly of small and microenterprises. The handicraft sector has a high potential for further growth and expansion of jobs for local people. At this stage, however, local artisans need support and resources.

Tourists are also interested in agricultural produce and processed agricultural products.

In six years, the total number of foreign tourists increased almost 6.7 times (Figure 5.2).

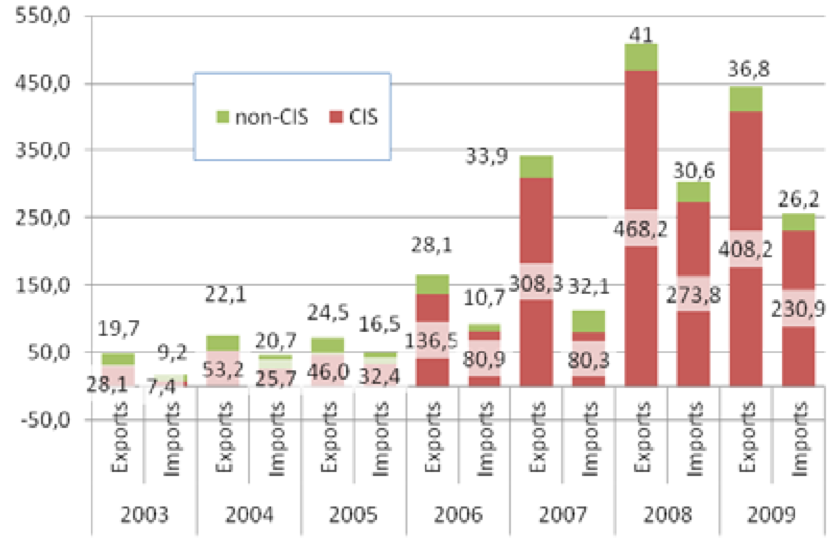
Figure 5.2. Number of foreign tourists arriving in Kyrgyzstan, thousands of persons, %

Source: National statistics committee of the Kyrgyz Republic

The number of Kyrgyz citizens who went abroad for tourism purposes increased almost 10 times, this is mainly due to an increase in the number of wealthy citizens. Domestic tourism is also growing, though not at such a rate - the increase was only 80% in 6 years.

As a result, for several years the volume of services for tourist activities outside the country has been significantly exceeding the volume of tourism services inside the countries (Figure 5.3).

Figure 5.3. Import and export of tourism services in 2003-2009, mln. of USD



Source: National statistics committee of the Kyrgyz Republic

Until the end of 2009, state regulations in the tourism sector were carried out by the State agency on tourism. The agency has been active in promoting Kyrgyzstan as a tourist country: holding tourist exhibitions and fairs in the country, participation in international tourism exhibitions, forums and conferences, implementation of public information campaigns, etc. The agency broadly advertised the tourist potential of Kyrgyzstan in the world. Unfortunately, other players in the tourist market have always played a rather passive role. Naturally, travel agencies that provide services in the sector were placing ads on their websites and in brochures, but this is insufficient. Furthermore, recent events broadcasted globally give an unfavourable impression of the country.

Currently, the tourism policy, at the state level, is defined by the Ministry of Economic Regulation. It is not yet clear whether the tourism sector will be a priority – it is unlikely, given that the activities of the whole agency will be carried out by one sub-unit of the Ministry.

Because of its specificity, the development of tourism sector depends on many institutions. The Ministry of Foreign Affairs determines the visa policy, and many experts have concluded that, despite some relief measures in the application process, foreigners are still experiencing some difficulties that impede access of tourists into Kyrgyzstan (there is an insufficient number of consulates abroad). Other ministries such as the Ministry of Interior and Ministry of Emergency Situations are also important players in the tourism market. They are responsible for the safety of residents and visitors alike, and their image directly depends on the quality and effectiveness of their work. Special trainings for police officers are organized on a regular basis on the rules of conduct when dealing with foreign tourists. Tourist potential also depends on the work of state bodies related to culture, recreation and sport.

The law that regulates the sector is the Law of the Kyrgyz Republic "On Tourism". There exist also regulations that define the responsibilities of public authorities in relation to visitors to ensure their safety and other issues of their stay in the country, as well as their rights and responsibilities. Unfortunately, the regulatory framework, including the Law "On Tourism", regulating tourist activities on the territory of Kyrgyzstan does not meet modern requirements, is currently undergoing a process of improvements and optimizations.

The basic guidelines for sustainable tourism development are embedded in the Country Development Strategy (CDS) for 2009-2011.

Tourism also depends on overall conditions created for businesses in the country. This includes normative acts regulating activities of small and medium-sized businesses, exports of goods and services, border-crossing procedures for foreigners and conditions of their stay in the country, etc. Therefore, tourism is regulated by most of the laws of the Kyrgyz Republic since it encompasses the economic, social and cultural spheres.

Among the challenges and barriers for the development of the sector are the lack of safety of tourists and the difficult access of foreigners to tourist services in Kyrgyzstan. It is also necessary to address inconsistencies in the legislation with regards to authority of various agencies directly or indirectly involved in developing the sector. There is the phenomenon of departmental "indifference" demonstrated by institutions that are not directly responsible for the implementation of tourism policies.

Conclusions and recommendations

Tourism is an important industry. Its development can enhance the welfare of a large number of people employed in the various sectors of services and manufacturing. Officially, according to the NSC KR, in 2009 more than 8,000 people were employed in the tourism sector. However, this does not include employees of the transport industry, manufacturers of souvenirs, owners and employees of small cafes, stalls, shops, etc. Therefore, the development of tourism is very important not only in terms of growth of official macroeconomic indicators, but also in terms of improving the quality of life.

Kyrgyzstan, by its very nature, can successfully develop many types of tourism: resort and recreation and medical tourism, extreme and adventure tourism, eco and rural tourism, scientific tourism. Moreover, the country under certain conditions can promote cultural, business and congress tourism, business, SPA-and wellness tourism, religious tourism, shopping tourism, gastronomic tourism, etc. When defining priority kinds of tourism it is necessary to pay special attention to such kinds of tourism which positively influence the development of other sectors of the economy (eco-tourism, gastronomic and rural tourism can improve the situation in agriculture and living standards in the countryside, resort and recreation and rehabilitation tourism closely connected with medicine etc.).

Since the economy of Kyrgyzstan is liberal enough, it is necessary to find special tools and mechanisms for the development of the industry. First of all, it is necessary to facilitate easier access to Kyrgyzstan for foreigners. Access to the country can be facilitated through the participation in the agreement on special visa spaces, e.g. such as project «Silk Road», which suggests the introduction of a single regional visa for the five countries of the Silk Road: Kyrgyzstan, Kazakhstan, Uzbekistan, Tajikistan and China. In this case, the country could use all extensive networks of diplomatic representatives of all these countries. Furthermore, such a special visa space is likely to increase the visibility of the country with regards to tourism. It is also possible to expand the list countries, whose citizens have the right of visa waiver entry to the country.

International transportation possibilities are likely to increase with increasing numbers of tourists. However, in order to maximize the country's favourable geographical position (in the centre of the Eurasian continent), it would be advisable to create an air transport hub at Manas airport.

It is necessary to develop a comprehensive strategy for the development of tourism in Kyrgyzstan. Such a strategy should contain measures to solve the problems listed above. Sectoral strategies of other branches of the national economy should also contribute to the development of the sector.

SWOT analysis

Strengths Rich, live, original culture and traditions, history. Main routes of the Great Silk Road may be used to enter the territory of Kyrgyzstan. The country is rich with attractive natural resources, including national parks and reserves, ideal for ecological tourism. Presence of the lake Issyk Kul - a unique resort zone in the region. The country possesses a high potential for the development of adventure and extreme tourism (mountaineering, mountain skiing, rafting, paragliding, etc.). The country is located in the centre of Eurasia, at the center of promising transport and economic arteries between Europe and Asia, the North and the South, i.e. the republic can become an international transport (passenger and cargo) hub. Authorities of the country realize the importance of tourism for the development of the country and promote a consistent policy to strengthen the industry. Tourism plays a catalyst role for the growth of other sectors of the national economy.	**Weaknesses** Intersectoral legislation lacks harmonization. Insufficient budget financing for state policy measures in the field of tourism. Most of tourism and tourism related infrastructure are in an unsatisfactory condition. The quality of services on most of the objects do not conform to requirements of international quality standards, safety and preservations of the environment Limited aviation access. High share of transport expenses in the price for tourism packages, bad roads. Tourism in the country is of seasonal nature, especially with regards to the resorts of Issyk Kul where the season lasts approximately 60-70 days. Insufficient levels of safety of the tourism organization. Incomplete and inaccurate statistics on foreign tourists. Difficulty in acquiring visas for foreigners due to a limited number of consulates abroad Constant threat of environmental contamination in zones of mass tourism. Shortage of professional tourism operators
Opportunities There exists a high educational potential and necessary professionals can be trained quickly. The active promotion of Kyrgyzstan as a tourism country, carried out at both the state, and the private level, can generate positive impacts, (increasing flows of tourists to the republic). Nature and country landscapes allow developing practically all kinds of tourism (from bank and business tourism to informative and extreme sports); Another valuable tourist resource of Kyrgyzstan are the mountains, ecologically pure areas and the clean air. Natural resources of Kyrgyzstan allow organizing highly effective medical treatment at a high level (mineral and thermal waters, mud wraps, and koumiss). The organization of a passenger hub and a cargo-terminal at Manas airport will substantially increase tourist inflows to the country. In general international tourists start to prefer longer distance travel and search for new destinations.. Absence of manmade influence on ecology and a wide biological variety of flora and fauna. Active private sector is essential for development of tourism.' - According to GATS obligations, the tourism sector is open for competition.	**Threats** Macroeconomic threats. Possibility of deterioration of the internal and external situation, decline in rates of growth of economy, level of investment activity, high inflation. Financial threats. Insufficient levels of budgetary financing. Possibility of failure of budgetary obligations, that threaten the achievement of the planned targets. Man-made and ecological threats. Change of natural climatic conditions. Any large natural, technological or ecological accident will lead to a decrease in the appeal of the country as a tourist destination. Climate change will also affect the dynamics of tourist flows which is especially risky for the main tourist areas; Geopolitical threats. The development of the sphere of tourism, both internal, and foreign, is strongly influenced by the political situation in the country and in neighboring states. Political instability, military conflicts and acts of terrorism can lead to decrease in tourist flows and lead to a negative image of Kyrgyzstan. Legislative threats. Failure of programs and statutory acts in the tourism sphere will negatively reflect on development of the sector. Besides, there is a high probability that the parliament will not accept the proposed changes to the legislations. External threats. The success of the tourism sector also depends on the situation in the international markets, exchange rates, degree of mutual integration of the states (especially important for regions of frontier tourism).

6. Conclusions

Below are the findings of the analysis of the current situation in the area of foreign trade and trade-related sectors.

Import policy

1. Government policy has been de facto oriented towards the creation of favorable conditions for imports and subsequent re-export thereof. Import-related trade policy measures are not restrictive and do not result in substantial barriers. This includes safeguard measures that have not been applied frequently during the considered period.

2. Surveys of business representatives revealed that the companies involved in import operations sometimes do not consider existing administrative barriers as serious impediments since they learnt how to avoid these barriers particularly through informal payments. At the same time, existing barriers that impede export operations negatively impact on export development, especially taking into account insufficient potential of most Kyrgyz producers and a lack of capacity of the institutions that support export.

3. As a result, over the past years Kyrgyzstan has become a regional centre for re-exporting Chinese goods to other Central Asian countries and Russia.

4. The increased re-export flows of Chinese and other goods to a large extent positively influence employment and incomes of the local population. Re-export flows promote growth of both direct and indirect employment, and result in a considerable growth of customs payments. Income from re-export activities was one of the main sources for financing current account deficits and poverty reduction measures in the country.

5. In order to retain a role as a re-export center for the Chinese goods, especially in view of the creation of the Customs union between Belarus, Kazakhstan and Russia and influence of other factors, Kyrgyzstan has to increase efforts to remove trade barriers and create high quality infrastructure (roads, border crossing points, logistical centers, etc.).

6. The policy measures aimed at encouraging imports of the goods and their subsequent re-export, are not sufficient to achieve sustainable economic growth in the mid- and long-term. With regards to this, the importance of active export promotion needs to be emphasized.

Export Policy

1. Kyrgyzstan has lost its competitive advantage in a number of products, particularly in the food and light industry, and other sectors. Export market shares of Kyrgyz exporters in international and regional markets have declined.

2. The main obstacles to export growth include unfavorable business environment, administrative barriers, including customs and other trade-related procedures, the slow pace in reforming the system of technical regulation, drawbacks in the sector of logistics and a poor state of infrastructure as well as a lack of capacity of export promotion institutions.

3. Difficulties that Kyrgyz companies face while penetrating international and regional markets, are related on the one hand to insufficient potential of the majority of the companies-manufacturers, and on the other hand, to a lack of capacity of export promotion institutions, a lack of export financing mechanism, including granting guarantees and insurance of export credits.

4. Kyrgyzstan lacks a focused policy for export promotion.

5. It is necessary to develop a policy that targets the development of a favourable export environment. This strategy should also take into account the following:

- Gradual removal of trade barriers in Kyrgyzstan;
- Rehabilitation of physical infrastructure (roads, border crossing points, logistics centers, etc.);
- Development of support sectors;
- Elaboration of an export promotion program;

- Implementation of a development strategy of export sectors;
- Use of financial incentives and other stimulus for export promotion.

6. A dedicated export promotion program needs to be developed, in order to ensure export growth and a reduction of the trade balance deficit. Within the framework of this program, it is necessary to increase efforts to facilitate exports towards international and regional markets. Such measures could include:

- Market research of target markets;
- Providing companies with the information on requirements of target markets (certificates, licenses, etc.);
- Consultations for companies on product development, carrying out training and seminars;
- Support for the regular participation of Kyrgyz companies in international trade fairs;
- Organization of presentation trips of Kyrgyz businessmen and visits of representatives of foreign trade companies to the Kyrgyz Republic, in order to establish contacts with local companies;
- Introduction of a credit financing and export credit guarantee and insurance schemes;
- Granting subsidies, tax preferences.

7. In order to implement all of the above activities an Agency on export promotion should be established.

<u>Development of agriculture and agri-processing</u>

The analysis of the sensitive sectors revealed that the greatest difficulties were observed in the development of agriculture and processing of its products, considerable potential of the sector from the point of view of supplying competitive production to foreign markets was not realized to a large extent. In addition to this, weak economic growth and delays in structural transformation resulted in low incomes for a considerable part of the population and lagging development in rural regions.

In order to resolve the current situation following actions need to be undertaken:

1. Implement measures to promote larger enterprises (especially small peasant farms) through mergers, as well as by establishing associations, cooperatives and other kinds of associations on a voluntary basis.
2. Introduce an appropriate market mechanisms to promote direct links between processing enterprises and peasant farms by rendering technical and financial assistance to farmers in exchange for raw materials deliveries that fit the needs of the processing enterprises.
3. Establish agribusiness support centers in rural regions to support farms and processing enterprises in the development of products and the promotion of their production in regional markets.
4. Promote the creation of agro-industrial clusters in order to ensure that processing facilities are located in rural areas.
5. Create appropriate cooperatives and associations that would be responsible for the supply of fertilizers, pesticides, agricultural machinery, inventory and spare parts for agricultural machinery.

* * *

The above-proposed measures should provide a framework for the implementation of economic strategies that facilitate sustainable economic growth that is conducive to human development.

Concrete measures, including specific technical and financial assistance by donors, are presented in Annex-I. Action Matrix.

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Action Matrix

#	Recommended actions	Target indicator and desired outcome	Timeline	Involved agencies	Required participation of the donors and other organizations
A. Trade policy and regulation					
1. Trade policy measures					
1.1.	Develop a strategy for the development and promotion of products that have a significant export potential including those with high added value	Strategies in place	2010-2011	Ministry of Economic Regulation, Ministry of Agriculture, field associations	GTZ, ITC, World Bank, Swiss Cooperation office
1.2.	Establish an export promotion agency as lead agency responsible for the development and promotion of exports	Established	2010-2011	Ministry of Economic Regulation, Ministry of Agriculture	GTZ, ITC, World Bank, EC, Swiss Cooperation office
1.3.	Establish export support centers in the cities and regions with the assistance from local authorities	Established	2010-2012	Municipal and rayon authorities	GTZ, ITC, World Bank, Swiss Cooperation office, UNDP
1.4.	Design measures to create mechanisms for export financing including export credit guarantees and insurance with the support of international financial organizations	Proposals on mechanism of export financing	2010	Ministry of Economic Regulation, Ministry of Finance	GTZ, ITC, World Bank, Swiss Cooperation office, EBRD
1.5.	Establish a specialized portal for foreign trade participants that will contain information on normative documents, market researches, bids, fairs, training seminars, statistical data on trade flows, useful links, etc.	Information support to the private sector	2010-2011	Ministry of Economic Regulation, National Statistic Committee, ministries and agencies, business associa-tions	ITC, GTZ, World Bank, USAID, WTO, ADB

1.6.	Design a program of actions to assist local companies' efforts to enter global and regional networks and production supply chains	Action programs in place	2010-2011	Ministry of Economic Regulation, business associations	ITC, GTZ, World Bank
1.7.	Conduct an analysis on the potential impact of setting up a regional re-export centre in the Kyrgyz Republic and propose corrections to the policy based on findings of the analysis	Policy adjustment proposals	2010	Ministry of Economic Regulation, Ministry of Agriculture, State Customs Service, National Statistic Committee, NBKR	USAID, ADB, World Bank, GTZ,
1.8.	Conduct research within the framework of one of the technical assistance projects in order to determine real volumes of re-exports in the country and draft suggestions on improving the quality of the official trade statistics	Suggestions on improving quality of official trade statistics	2010-2011	Ministry of Economic Regulation, State Customs Service, National Statistics Committee	USAID, ADB, World Bank, UN ECE
1.9.	Analyze the impact of the Customs Union (Belarus, Kazakhstan, Russia) for the Kyrgyz economy as well as the consequences of the Kyrgyz Republic joining (not joining) this Customs Union, and propose measures to minimize negative impacts	Measures to minimize negative consequences	2010	Ministry of Economic Regulation, Ministry of Agriculture, State Customs Service, National Statistic Committee	USAID, ADB, World Bank, UN ECE
1.10.	Increased application of safeguard measures allowed within the framework of WTO, regional and bilateral agreements and train personnel and strengthen capacity of the ministries and agencies	Apply safeguard measures	2010-2012	Ministry of Economic Regulation, Ministry of Agriculture, State Customs Service	WTO, USAID
2. Trade facilitation measures					
2.1.	Continue the process of establishing "a single window" mechanism in foreign trade, including measures on simplifying procedures and facilitation of the border crossing process	First phase of "a single window" setting is completed	2010	Ministry of Economic Regulation, State Customs Service, relevant ministries and agencies	GTZ, ADB, World Bank, EC

2.2.	Within the framework of actions aimed at the implementation of the first phase of the «single window» project (including simplification of procedures and documentation), organize trainings for people in rayons and smaller towns	People in rayons and smaller towns have been informed	2010	Ministry of Economic Regulation, State Customs Service, relevant ministries and agencies	GTZ, ADB, World Bank,
2.3.	Improve actions of the National Council on Trade and Transport Facilitation in the area of coordinating government policy on regulation of trade and transport procedures in the country	Council held its meetings	2010	Prime-Minister's Office	
2.4.	Simultaneously with setting up the "single window" implement the project for the creation of the integrated database of foreign trade data that will contain complete information on legal entities, foreign trade participants, and all export, import and transit transactions on the territory of the country	Project proposal designed	2010-2011	Ministry of Economic Regulation, State Customs Service, appropriate ministries and agencies	GTZ, ADB, World Bank, EC
2.5	Draft a proposal for the creation of an electronic trade and commodities exchange aimed at setting up a unified electronic trade platform in Central Asia to provide producers and buyers an opportunity to sell and purchase goods without intermediaries with payment guarantees and supply of products at fixed prices, as well as to introduce more efficient market mechanisms to organize state procurement	Proposal designed	2010	Ministry of Economic Regulation	ITC
2.6.	Design a project for border-crossing points that would take into account needs for upgrading and modernization	Model project designed	2010-2011	State Customs Service, appropriate ministries and agencies	GTZ, ADB, World Bank, EC, USAID
2.7.	Carry out measures for the development of the logistics sector, rendering a full range of logistics services facilitating mergers and consolidations	Program of actions in place	2010-2012	Ministry of Transport and Communications, State Customs Service, business associations	USAID, ADB, GTZ, World Bank

2.8.	Consider providing loans for enterprises with low interest rates and tax relief for new vehicles and discouraging the use of old trucks, so to stimulate transport companies reinvesting in purchase of new vehicles with more efficient consumption of fuel	Project proposal designed	2010-2011	Ministry of Transport and Communications, Ministry of Economic Regulation, Ministry of Finance, business associations	USAID, ADB, GTZ, World Bank
2.9.	Actively assist the Kyrgyz accreditation centre in its efforts to join the International Laboratories Accreditation Cooperation (ILAC)	Assistance to the Kyrgyz accreditation centre provided	2010-2011	Ministry of Economic Regulation	ITC, World Bank
2.10.	Provide assistance to support the Ministry of Economic Regulation in terms of ensuring high quality measurements and applying regulations of legislative metrology	International consultant services provided, TOR for the component drafted	2010-2011	Ministry of Economic Regulation	World Bank, EC, GTZ
2.11.	To provide assistance on a pilot basis for the modernization and accreditation of the laboratories working in the agribusiness sector and food industry taking into account the priorities of the country in expanding exports in this area	Assistance in the modernization and accreditation of laboratories provided	2010-2012	Ministry of Economic Regulation	World Bank, ITC
3. Foreign trade-related training					
3.1.	Expand programs of training specialists of line ministries and agencies in designing technical regulations as well as harmonization of the local standards with the international ones	Programs of training specialists implemented	2010-2011	Ministry of Economic Regulation, ministries and agencies	USAID, GTZ, ITC
3.2.	Organize training seminars for business communities on risk assessment and management in developing and introducing technical regulations and its implementation in practice	Workshops for business communities organized	2010-2011	Ministry of Economic Regulation, business associations	USAID, GTZ, ITC
3.3.	Conduct capacity building trainings in the ministries and agencies targeting the use of safeguard measures allowed within the WTO framework, regional and bilateral agreements	Workshops for staff of ministries and agencies organized	2010-2011	Ministry of Economic Regulation, ministries and agencies	WTO, IDB, EC

3.4.	Establish an international trade institution in Bishkek with the support of the WTO to conduct training of Central Asian specialists on the matters of multilateral trade system, WTO accession, regional integration agreements and other important issues of foreign trade	Institution established	2010-2012	Ministry of Economic Regulation	WTO, IDB, ADB, GTZ, EC
B. Economic infrastructure					
1. Plans on the construction of physical infrastructure objects					
1.1.	Carry out projects on the rehabilitation of the following roads: Bishkek-Naryn-Torugart and Osh-Sary Tash-Irkeshtam, Osh-Isfana, Taraz-Talas-Suusamyr and ring road around Issyk Kul lake	Rehabilitation of roads implemented	2010-2014	Ministry of Transport and Communications	ADB, World Bank, EC, IDB, EBRD, EximBank of China, Development Bank of China, Arab Coordinating Group
1.2.	Start the construction of the rail road Kashgar-Torugart-Karasuu	Decision on the construction taken	2010-2012	Ministry of Transport and Communications	ADB, World Bank, EBRD, EximBank of China, Development Bank of China
1.3.	Support the construction of logistics objects such as logistics parks, transport terminals, container yards and terminals	Construction programme adopted	2010-2012	Ministry of Transport and Communications	ADB, EC, IDB, EBRD
1.4.	Carry out investments projects on establishing the border trade and logistics centers "Sary Tash" and "At Bashi"	Construction completed	2010-2012	State administrations of Osh and Naryn provinces	
1.5.	Carry out projects for the development of multimodal hubs at Alamedin stations, in Balykchi and Karasuu and container yard in Osh city	Construction completed	2010-2013	Ministry of Transport and Communications	ADB, EC, IDB, EBRD, Arab Coordinating Group
1.6.	Support the establishment of the centres of logistics and marketing (agricultural produce), including transport terminals and warehouses in all rural regions, first of all such centers should be established in Bishkek, Osh and Karakol	Centres established in Bishkek, Osh and Karakol	2010-2011	State administrations of the provinces and adjacent rayons	World Bank, EC, ITC, IDB, Swiss Cooperation office

1.7.	Carry out measures to modernize border crossing points	Gradual modernization of the BCPs	2010-2012	State Customs Service, related ministries and agencies	ADB, EC, USAID, GTZ, World Bank
1.8.	Establish support infrastructure along transport corridors to ensure comprehensive development of the adjacent territory taking into account the interests of local population including construction of shops, motels, cafes, exchange offices and gas stations, etc.	Support infrastructure created	2010-2013	Ministry of Transport and Communications, state administrations of the provinces and adjacent rayons	
C. Production capacity enhancement					
1. Agriculture and agri-processing enterprises					
1.1.	Support appropriate market mechanisms that can meet demands of the processing industries through providing technical and financial support to farmers.	Proposals for the creation of appropriate market mechanisms	2010	Ministry of Agriculture, Ministry of Economic Regulation, business associations	World Bank, EC, USAID, GTZ, ITC, Swiss Cooperation office
1.2.	Develop and implement policy measures that facilitate the creation of larger enterprises, first of all through mergers of small peasant farms as well as by creating associations, cooperatives and other types of voluntary associations	Policy action proposals	2010	Ministry of Agriculture, Ministry of Economic Regulation, business associations	World Bank, EC, USAID, GTZ, ITC, Swiss Cooperation office
1.3.	Establish cooperatives and associations to ensure supply of agricultural producers with fertilizers, pesticides, agricultural machinery, inventory and spare parts	Cooperatives established	2010-2011	Ministry of Agriculture, state administrations of the provinces and rayons, business associations	
1.4.	Elaborate a proposal on creating agri-industrial clusters that would ensure location of processing facilities in the vicinity of agricultural production. These clusters should be developed with the support of international experts and within the framework of one of the technical assistance projects.	Proposals on setting up clusters	2010-2011	Ministry of Agriculture, state administrations of the provinces and rayons, business associations	World Bank, EC, USAID, GTZ, ITC, Swiss Cooperation office

1.5.	Set up centres of agribusiness support in rural areas to provide assistance to peasant farms and processing enterprises for the development of products, specifically through conducting market research and organization of workshops	Gradual creation of such centers	2010-2012	Ministry of Agriculture, state administrations of the provinces and rayons, business associations	World Bank, EC, USAID, GTZ, ITC, Swiss Cooperation office
1.6	Develop and adopt technical regulations for plant-growing and animal husbandry products	Technical regulations developed	2010-2011	Ministry of Agriculture, Ministry of Economic Regulation	World Bank, EC, USAID, GTZ
1.7.	Implement measures to create a network of laboratories to certify agricultural produce (fresh and after processing including obtaining certificates confirming ecologically pure product standard "organic")	Creation of laboratories on certification of agricultural produce	2010-2012	Ministry of Agriculture, Ministry of Economic Regulation	World Bank, EC, USAID, GTZ, ITC
1.8.	Introduce quality control systems for agricultural and food products in accordance with international requirements (NASSP)	Introduction of quality control systems	2010-2012	Ministry of Agriculture, individual farms, processing enterprises	World Bank, EC, USAID, GTZ, ITC
1.9.	Develop and set up measures to improve seeds for plant growing and to enhance productivity of pedigree cattle	Implementation of the measures	2010-2011	Ministry of Agriculture	World Bank, EC, USAID, GTZ,
1.10.	Take steps to support the introduction of the newest technologies and modernization of equipment in processing enterprises	Support steps taken	2010-2012	Ministry of Economic Regulation, business associations	World Bank, EC, USAID, GTZ, Swiss Cooperation office
1.11.	Carry out a set of measures to promote the production of agricultural and processing enterprises in regional and international markets, including through participation in trade fairs, marketing campaigns in target countries, organization of presentation trips of representatives of Kyrgyz agribusiness and visits of the representatives of the foreign trade companies to the Kyrgyz Republic to visit local processing companies and peasant farms	Steps to promote products of the industry implemented	2010-2011	Ministry of Agriculture, Ministry of Economic Regulation, business associations	World Bank, EC, USAID, GTZ, ITC, Swiss Cooperation office

2. Industry					
2.1.	Develop and implement a proactive program for the promotion of clothes exports to Russia and other CIS countries	Promotion programme implemented	2010-2011	Ministry of Economic Regulation, business associations	GTZ, ITC, USAID
2.2.	Conduct market research of the Russian regional clothes markets	Market research conducted	2010-2011	Ministry of Economic Regulation, business associations	GTZ, ITC, USAID
2.3.	Provide assistance in strengthening marketing potential of enterprises engaged in sewing and other industries	A set of measures taken to enhance marketing potential of enterprises	2010-2011	Ministry of Economic Regulation, business associations	GTZ, ITC, World Bank, Swiss Cooperation office, UNDP
2.4.	Strengthen the capacity of business associations and the "Shwei Profi" center to provide services of appropriate quality to its members	Capacity strengthened	2010-2011	Ministry of Economic Regulation, business associations	GTZ, ITC, EC
3. Tourism					
3.1.	Take steps to promote the slogan "Kyrgyzstan is a country of tourism", including through the participation in the largest international tourism exhibitions and fairs, organization of PR campaigns and presentation of the tourism potential of the country, organization and holding information tours for foreign media, business circles and tourism organizations	Building an image of Kyrgyzstan as a tourist country, increasing number of tourists	2010-2011	Ministry of Economic Regulation, tour operators	
3.2.	Provide support for the development of applied arts and crafts, conducting international festivals on a regular basis, visits of yurt camps and ethnographic centers to demonstrate the traditions and customs of the Kyrgyz people, holding national games – horse race, etc.	Conditions for the development of ethno-graphic tourism cre-ated, increased number of incoming tourists	2010-2011	Ministry of Economic Regulation, state agency on culture, craftsmen associations, tour operators	ADB, Aga Khan Foundation, Swiss Cooperation office
3.3.	Organize annual Kyrgyz tourism fair "BITF" in Bishkek and tourism fairs in the provinces of the republic	Increased amount of incoming tourists	2010-2011	Ministry of Economic Regulation, tour operators	

3.4.	Publish advertisement booklets on the tourism potential of the Kyrgyz Republic: catalogues of tours, guidebooks, booklets, calendars and posters	Image building of the Kyrgyz Republic as a country of tourism, increase in the number of incoming tourists	2010-2012	Ministry of Economic Regulation, tour operators	TIKA
3.5.	Organize producing and broadcasting of videos on the tourism potential of the Kyrgyz Republic in leading CIS and World TV channels: ORT, RTR, BBC, National Geographic, Discovery in Russian, English, Chinese and Japanese languages	Image building of the Kyrgyz Republic as a country of tourism, increase in the number of incoming tourists	2010-2012	Ministry of Economic Regulation	
3.6.	Create centers providing information on tours and services at Kyrgyz Embassies and Consulates in Moscow, Yekaterinburg, Novosibirsk, and Almaty. Advertise the tourism potential of the Kyrgyz Republic in the streets of these cities	Image building of the Kyrgyz Republic as a country of tourism, increase in the number of incoming tourists	2010-2012	Ministry of Economic Regulation	
3.7.	Create tourism offices at Manas Airport, railroad stations, organize 24-hour service to meet tourists during high season	Information support for the tourists	2010-2011	Ministry of Economic Regulation, tourism operators	
3.8.	Set up a National service for the registration and rescue of mountaineers and tourists and ensure its operations	Tourists' safety ensured	2010-2012	Ministry of Economic Regulation	
3.9.	Develop a strategy for the development of ecological tourism in the country to cover all components of the infrastructure, ensuring the preservation of ecological diversity and the integrity of the ecosystems. This strategy should be developed following a human development framework.	Conditions for development of ecological tourism established	2010-2011	Ministry of Economic Regulation	UNDP, World Bank, ADB, JICA,

3.10.	Create and maintain a tourism web-portal under the brand "Kyrgyzstan is a country of tourism" with search and information system services as well as online ordering and booking services	Image building of the Kyrgyz Republic as a country of tourism, private sector in tourism services developed	2010-2011	Ministry of Economic Regulation, tourism operators	UNCTAD, ADB, GTZ, World Bank
3.11.	Create centers providing information on tours and services in the provinces of the country	Information support for tourists	2010-2012	Ministry of Economic Regulation, State administrations of the provinces	
3.12.	Ensure the creation of tourism clusters, investments to construct hotels, campings and other objects to improve road support infrastructure	Private sector involvement in tourism services developed	2010-2013	State administrations of the provinces and rayons	
3.13.	Conduct training seminars on tourism issues for National Security Services, Ministry of Interior, Border Guard Service and customs	Image building of the Kyrgyz Republic as a country of tourism	2010-2011	Ministry of Economic Regulation	
3.14.	Capacity building of staff at resorts, hotels, catering sector	Quality of services improved	2010-2011	Tourism operators, hotel and catering businesses	GTZ, Swiss Cooperation office
4. Investment promotion measures					
4.1.	Support export-oriented projects utilizing fiscal and other incentives and preferences	Steps taken to promote investment projects	2010-2012	Ministry of Economic Regulation, Ministry of Finance, business associations	GTZ, OECD, JICA, USAID, World Bank
4.2.	Establish an agency on investment promotion as the lead agency responsible for investment promotion in the country	Proposals for the creation of such an agency drafted	2010-2011	Ministry of Economic Regulation, Secretariat of the Investment Council under the President of the Kyrgyz Republic	GTZ, OECD, JICA, USAID, World Bank, EBRD
4.3.	Develop strategies on investment promotion in priority sectors and start their implementation using the most efficient techniques including investor targeting	Strategy for investment promotion in place	2010-2011	Ministry of Economic Regulation, relevant ministries and agencies, business associations	GTZ, OECD, JICA, USAID, EBRD

Donor map

Name	Sector	Country	Funding sources, funding type, amount (in millions of dollars unless otherwise stated)	Start date	Status
Projects in the Kyrgyz Republic					
Transport corridor of CAREC I (Bishkek-Torugart road) Project 2	transport	KR	ADB, Loan – 28+12, Grant – 22,	2009	In process
Project to improve the Osh- Asfana road	transport	KR	EBRD - 35, Loan	2009	In process
Training administration of civil aviation and staff involved in air-transportation	transport	UZB, TAJ, KR, KAZ, Azerb.	TRACECA– 2 mln. euro, Technical assistance	2009	In process
Program to promote sustainable economic development	Foreign trade	KR	GTZ, Technical assistance	2009	In process
Program to improve investment climate	Foreign trade	KR	ADB, 3.6 Technical assistance	2009	In process
Lowering technical barriers for trade and business	Foreign trade	KR	World Bank, 5	2006	In process
Project to enhance the potential of economic management	other	KR	World Bank, Technical assistance	2009	In process
Agribusiness and marketing	Foreign trade	KR	World Bank, 14,87	2006	In process
Trade promotion in the Kyrgyz Republic	Foreign trade	KR	ITC, 1,8	2009	In process
Business organization environment	Business environment	KR	SECO/IFC, Technical assistance	2009	In process
Project of emergency assistance to the energy sector	Energy industry	KR	ВБ – 11, Grant	2008	In process
Project on transport corridor of CAREC I (Bishkek-Torugart road)	transport, trade organization	KR	ADB - 20, GOKG – 10,3, grant	2008	In process
Strengthening capacity of training in transport sector in NIS	transport	UZB, TAJ, KR, KAZ, Azerb.	TRACECA - 2, Technical assistance	2008	In process

Transport corridor of CAREC (Bishkek-Torugart road)	transport	KR	ADB – 0,15, GOKG – 0,01, Technical assistance	2008	Completed
CAREC project on improvement of regional transport corridors (KR component)	transport, trade organization	KR	ADB – 25,6, GOKG – 13,9, Grant	2007	In process
Trans border agreement between KR, PRC and Tajikistan	transport, trade organization	PRC, KR, TAJ	ADB – 0,5, GOKG – 0,05, Technical assistance	2007	In process
Development of coordinated national transport strategies	transport, trade organization	UZB, TAJ, KR, KAZ	TRACECA – 2, Technical assistance	2007	Completed
Training operations air-personnel of the countries of the Southern Circle	transport	UZB, TAJ, KR, KAZ, Azerb.	TRACECA – 2,5, Technical assistance	2007	Completed
Central-Asian – South Asian project of regional energy market	Energy industry	AFG, KR, TAJ	ADB – 3, Co funding – 0,337, Technical assistance	2007	In process
Feasibility study of Sary Tash road	transport	KR	TRACECA – 1,75, Technical assistance	2006	Completed
Money transfers and poverty in Central Asia and Southern Caucasus	other	Azerb., KAZ, KR, TAJ	ADB – 1,3, Technical assistance	2006	Completed
Project to support regional transport corridors	transport	KR, TAJ	ADB – 0,5, GOKG – 0,15, Technical assistance	2006	In process
Drafting and implementation of the intergovernmental agreement of SCO members to facilitate international road transportation	transport	PRC, KAZ, KR, TAJ, UZB	ADB – 0,5, ESCATO – 0,98, Co funding – 0,05, Technical assistance	2004	Completed
Enhancing potential and institutional enhancing of modernization of customs and development of infrastructure (KR component)	trade organization	KR	ADB – 0,5, GOKG – 0,1, Technical assistance	2004	Completed
Regional project to modernize customs and infrastructure development (KR component)	trade organization	KR	ADB – 7,5, GOKG – 1,87, Loan	2004	In process
Project to rehabilitate roads of the southern transport corridor	transport	KR	ADB – 32,8, OPEC foundation - 4, GOKG – 6,6, Loan	2004	In process
Improvement of roads maintenance and enhancing department on management of transport corridors	transport	KR	ADB – 0,5, GOKG – 0,15, Technical assistance	2004	Completed

Improved management of water resources in Central Asia	Power industry	KAZ, KR, TAJ, UZB	ADB – 0,7, Co funding – 0,15, Technical assistance	2003	Completed
Enhance potential of selected WTO items	trade organization, trade policy	UZB, TAJ, Mong, KR, KAZ, PRC, Azerb.	ADB – 0,45, Technical assistance	2003	Completed
Capacity building for senior officers in the transport sector	transport, trade organization	UZB, TAJ, KR, KAZ, Azerb.	TRACECA - 1,8, Technical assistance	2003	Completed
Modernization of customs and development of infrastructure (KR component)	trade organization	KR	ADB – 0,5, GOKG – 0,1, Technical assistance	2002	Completed
Program for regional and customs cooperation (KR component)	trade organization	KR	ADB – 15, Loan	2002	Completed
Enhanced potentials of WTO trade systems for developing member countries	trade organization, trade policy	UZB, TAJ, Mong, KR, KAZ, PRC, Azerb.	ADB – 0,45, Technical assistance	2002	Completed
Regional project to improve natural gas transportation in CA countries	Power industry	KAZ, KR, TAJ, UZB	ADB – 0,9, GORK, GOKG, GTAJ, GTUR, GOUZ – each 0,56, Technical assistance	2002	Completed
Regional cooperation in transport projects of CA	transport, trade organization	PRC, KR, UZB	ADB – 0,85, Technical assistance	2002	Completed
Telecommunications of railroads of CA	transport	UZB, TAJ, KR, KAZ	TRACECA – 1,5, Technical assistance	2002	Completed
Harmonization of the procedures for border crossing	transport, trade organization	KAZ, Azerb., UZB, TAJ, KR	TRACECA – 1,5, Technical assistance	2001	Completed
Drafting pre-feasibility study to build a new railroad between Fergana Valley, Bishkek and Kashghar, China	transport	UZB, TAJ, KR, PRC	TRACECA – 2, Technical assistance	2001	Completed
Third project for the rehabilitation of roads	transport	KR	ADB - 40, GOKG – 10, Loan	2001	Completed
Institutional support in the transport sector	transport	KR	ADB – 0,65, GOKG – 0,12, Technical assistance	2001	Completed

Possibilities of customs in border crossing matters in CA	transport, trade organization	TAJ, KR, KAZ, Azerb., UZB	TRACECA – 2, Technical assistance	2001	Completed
Regional project to rehabilitate the Almaty-Bishkek road (KR component)	transport	KR	ADB - 5, TRACECA – 0,4, GOKG – 1,3, Loan	2000	Completed
Project to enhance effectiveness of the road sector (KR component)	transport, trade organization	KR	ADB – 0,44, GOKG – 0,075, Technical assistance	2000	Completed
Third project for the rehabilitation of roads	transport	KR	ADB – 0,6, Technical assistance	1999	Completed
Project for the rehabilitation of the Bishkek-Osh road	transport	KR	OECF – 5 454 mln. yen, Loan	1997	Completed
Modernization of the international airport "Manas"	transport	KR	JBIC - – 5, 45 mln. yen, Loan	1996	Completed
Regional projects					
Regional economic integration in CA: re-evaluation and experience sharing	other	CA	ADB – 0,9, Technical assistance	2009	In process
Regional Trade Liberalization & Customs Project	Foreign trade	CA	USAID, Technical assistance	2009	In process
Support regional economic cooperation in CA	Foreign trade	CA	GTZ, Technical assistance	2008	In process
CAREC institute, 2009-2012	other	CA	ADB – 5, Technical assistance	2008	In process
CAREC research on strategy for the transport sector (additional)	transport	CA	ADB – 0,95+0,325, Technical assistance	2008	Completed
Integrated support for the regional economic cooperation in CA	trade organization	CA	ADB – 0,65, Technical assistance	2007	In process
Strengthened regional economic cooperation in CA, 2007-2009	CAREC priority areas	CA	ADB 55,4, joint (World Bank and IBD) – 223,5, Technical assistance	2007	In process
CAREC Members Energy Regulators Forum (CMERF)	Energy industry	CA	ADB -0,5, Technical assistance	2007	In process
Enhance potential for the development of regional cooperation of CAREC member countries (phase I)	other	CA	ADB - 0,49, CAREC – 0,5, Technical assistance	2006	In process

CAREC research on strategies for the transport sector	transport	CA	ADB – 0,950, ADB – 0,325, Technical assistance	2006	Completed
Support preparation of the CACER Forum on business development	other	CA	ADB – 0,2, Technical assistance	2006	Completed
Sub regional economic cooperation in South and Central Asia II	other	CA	ADB – 0,95, Technical assistance	2006	Completed
Organization of transport cooperation of CAREC member countries (phase I)	transport	CA	ADB – 0,65, Technical assistance	2005	Completed
Enhance potential of economic cooperation on CAREC program	other	CA	ADB 0,4, CAREC – 0,05, Technical assistance	2005	Completed
Great Silk Road Initiative 2006	CAREC priority areas	CA	ADB – 0,985, co funding – 0,065, Technical assistance	2005	Completed
Organization of CAREC Members Energy Regulators Forum	Energy industry	CA	ADB – 0,5, Co funding – 0,1, PPIAF - 0,2428, Technical assistance	2005	Completed
Program for regional and customs cooperation, phase II	trade organization	CA	ADB – 0,9, Co funding – 0,22, Technical assistance	2004	In process
Great Silk Road Initiative 2005	CAREC priority areas	CA	ADB – 0,9, Co funding -0,1, Technical assistance	2004	Completed
Central Asian regional cooperation in trade, transport and transit areas	trade policy	CA	ADB – 0,35, Technical assistance	2004	Completed
Review of the rehabilitation of rail roads in CA	transport	CA	TRACECA – 2, Technical assistance	2004	Completed
Enhancing the potential of regional cooperation in CA	other	CA	ADB – 0,95, Co funding – 0,05, Technical assistance	2003	Completed
Great Silk Road Initiative	CAREC priority areas	CA	ADB – 0,95, Technical assistance	2002	Completed
Reevaluation of the regional strategy of the transport sector	transport, trade organization	CA	ADB – 0,15, Technical assistance	2002	Completed

Regional economic cooperation in CA (phase II, third year)	other	CA	ADB – 0,95, Technical assistance	2001	Completed
Regional project of modernization of electric power transportation	Energy industry	CA	ADB – 0,9, Technical assistance	2000	Completed
Regional economic cooperation in CA (phase II, 2nd year)	other	CA	ADB – 0,42, Technical assistance	2000	Completed
Regional economic cooperation in CA (phase II)	other	CA	ADB – 1,35, Technical assistance	1998	Completed
Workshops on regional economic cooperation in CA	other	CA	ADB – 0,344, Technical assistance	1997	Completed
Regional economic cooperation in CA	other	CA	ADB, 1,15, Technical assistance	1996	Completed
Other projects and areas of donors operations relevant to AfT initiative and research					
World Bank					
Second project of interfarm irrigation	Agriculture	KR	Grant - 16 , co funding GOKG - 4,55	2008	In process
Project to rehabilitate irrigation	Agriculture	KR	Loan - 35.0	2006	Completed
Project of municipal infrastructure of Bishkek and Osh	Agriculture	KR	Loan - 12	2008	In process
Credit for privatization in the agricultural sector and regulation of the enterprises	Agriculture	KR	Loan - 45	1997	Completed
Finance project in rural areas	Agriculture	KR	Loan - 16	2001	Completed
Agricultural investments project (1)	Agriculture	KR	NA	2008	Completed
Agricultural investments and services project (AISP) (2)	Agriculture	KR	Grant - 25.0 (out of that: IDA grant– 9 ; IDA add. finance – 4 ; MFSR – 9 ; SURC - 3 Swiss franks (project dates at preparation stage); GOKG co funding – 0,5	2008	In process

Improved water resources management	Agriculture	KR	Grant - 23,4. (out of them : World Bank grant – 19,0 Japanese grant – 4,4 mln).; GOKG co funding –4,8	2006	In process
Strengthening Bishkek laboratory on agricultural chemicals quality	Agriculture	KR	Grant - 246 thou.	2010	In process
Rehabilitation project	Industry and Trade	KR	60,3, loan	1993	Completed
Project to improve sheep breeds and wool	Agriculture	KR	11,6, loan	1996	Completed
Credit for the privatization and improvement of the industrial sector	Industry and Trade	KR	60, loan	1994	Completed
Reforms in telecommunications area	Energy and mining industries	KR	31, loan	1994	Completed
Project to rehabilitate the electric power sector and heating	Energy and mining industries	KR	98,5, loan	1996	Completed
Project to support private businesses	Industry and Trade	KR	15, loan	1995	Completed
Credit to consolidate of structural reforms	Energy and mining industries	KR	35, loan	2000	Completed
Project to support agricultural services	Agriculture	KR	30,2, loan	1998	Completed
Municipal transport project	Transport	KR	24,22, loan	2000	Completed
Power industry and heating	Energy and mining industries	KR	20, loan	1998	Completed
Support the program on the implementation of the Comprehensive Development Framework	ICT	KR	0,32, grant	2001	Completed

Project to enhance potential and infrastructure of small cities	Water supply	KR	15,55, loan	2004	In process
Second project of irrigation	Agriculture	KR	20,55, loan	2007	In process
Rehabilitation of national roads (Osh-Batken-Isfana)	transport	KR	30,76, loan	2009	In process
Additional funding of the Project to enhance potential and infrastructure of small cities	Water supply	KR	4, loan	2009	In process
Additional funding for AISP 2	Agriculture и Education	KR	10, loan	2009	In process
Additional funding of the emergency project of technical assistance to the energy sector	Energy and mining industries	KR	4, loan	2009	In process
United States Agency on International Development					
Land reforms and market development II	Agriculture	KR	-	2008	Completed
Kyrgyz project of agribusiness procurement and development II	Agriculture	KR	Grant - 5.6	2007	In process
Join Development Initiative Program	Agriculture	KR	Grant - 3.95	2009	Completed
Improvement of business environment	Business development	CA	Grant, for KR - 5,85	2006	Completed
Central Asian Micro Financial Alliance	Finance	CA	Grant, for KR - 5,6	2002	Completed
Land reforms and market development	Agriculture	KR	Grant - 4,59	2005	In process
Advisory services in power industry of the Kyrgyz Republic	Energy industry	KR	Grant - 2,06	2008	Completed
Economic reforms to enhance competitiveness (EREC)	Economic Development	CA	Grant, for KR - 3,96	2008	In process

Development of agribusiness in the Kyrgyz Republic	Agriculture	KR	Grant - 5,7	2001	In process
Support to water users associations	Agriculture	KR	Grant - 4,73	2004	In process
Local economic development	Economic Development		N/A		N/A
Program to facilitate energy markets	Energy industry	KR	Grant - 16,5	2009	In process
USAID regional project on trade liberalization and customs reform (RTLC)	Trade	CA	Grant, total: 5,5 ; for KR - 5,4	2007	In process
Improvement of the business environment	Business	CA	Grant, total: 17 ; for KR - 5,85	2006	Completed
German Society for Technical Cooperation (GTZ)					
Program "Facilitating sustainable economic development"	Agriculture	KR	Grant - 12,0 mln. Euro	2008	In process
German Development Bank (KfW)					
Funding municipal infrastructure	Rural regions	KR	Grant – 8,1 mln. Euro	2003	N/A
Swiss Government					
Kyrgyz-Swiss Agrarian Program	Agriculture	KR	Grant - 15,7	2010	In process
Swedish Agency for International Development					
Project II "Support Development of Seeds Industry in the Kyrgyz Republic"	Agriculture	KR	22,7 mln. Swiss crowns	2009	Completed
European Bank for Restructuring and Development					
Regional program for trade support	Finance	KR	Loan- 0,34 mln. Euros	2000	N/A
Regional program for trade support	Finance	KR	Loan - 0,828 mln. Euros	2001	N/A
Central Asian Fund Aureos	Funds	KR	Loan - 0,569 mln. Euros	2008	N/A
Central Asian Private Fund	Funds	KR	Loan - 0,64 mln. Euros	2007	N/A
First NIS Regional Fund	Funds	KR	Loan - 0,31 mln. Euros	1994	N/A

United Nations Development Programme
Regional Centre for Europe and the CIS
Grösslingova 35
811 09 Bratislava
Slovak Republic
Tel: +421 2 5933 7111
Fax: +421 2 5933 7450
http://europeandcis.undp.org