



Issue 1, April 2015
NEWSLETTER

The USAID Business Growth Initiative (BGI)



VALUE CHAINS

APPAREL SECTOR
COURTS RUSSIAN
FASHION RETAILERS

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Dignitaries from both the Kyrgyz Republic and the United States attend BGI's launch. Right to left: Mr. Valeriy Dil, Vice Prime Minister of the Kyrgyz Republic; Mr. Dan Rosenblum, Deputy Assistant Secretary, US Department of State; Ms. Pamela Spratlen, US Ambassador to the Kyrgyz Republic; Mr. Michael Greene, USAID Mission Director; and Mr. Paul Hamlin, USAID Senior Economic Development Advisor.



BUSINESS ENVIRONMENT

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USAID LAUNCHES BGI PROJECT WHILE COMMEMORATING REFORMA ACHIEVEMENTS

On October 14, 2014, USAID officially launched the Business Growth Initiative (BGI), a four-year, multi-faceted economic development project designed to strengthen the competitiveness of Kyrgyzstan's apparel, tourism and construction materials value chains and improve the overall business enabling environment.

the Civil Aviation Agency were among the 30 partners from government, the business community and civil society who commented on REFORMA's contributions in strengthening the business and investment climate since the project's launch in October 2011.

More than 100 counterparts from the Government of the Kyrgyz Republic, business associations, local implementing partners and other stakeholders attended the half-day session that introduced BGI's objectives and acknowledged the closing of USAID's business environment improvement project, REFORMA.

"I would like to acknowledge the high quality work of the project. There was clear identification of priorities that we jointly discussed to improve the business environment and investment climate. I would also like to emphasize the high level of professionalism of the project team, and specifically, the project's timely responsiveness to our requests for assistance. We have had a good relationship with the REFORMA Project and would like to express gratitude for the work done," the Prime Minister said.



HUMAN CAPITAL

BGI SEEKS TO IMPROVE
WORKER SKILLS
THROUGH EDUCATION
ALIGNED WITH SECTOR
DEMAND

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After opening remarks from Vice Prime Minister Valeriy Dil and visiting US Department of State Deputy Assistant Secretary Dan Rosenblum, the agenda featured a 10-minute video entitled, *REFORMA Through the Eyes of Our Partners*.

In the video, USAID Mission Director Michael Greene said, "The US Agency for International Development (USAID) is delighted with the work done by the REFORMA Project over the last years, mostly because REFORMA assisted in achieving the goals outlined by the Government. The

In the video, Prime Minister Joomart Otorbaev, Minister of Economy Temir Sariev, and Directors of both the State Geology Agency and

REFORMA approach, based on building a partnership between the Government and private sector, worked out policy directions that were supported by both sides. Such a process ensures sustainability of reforms, and I think this approach will be acknowledged through the adoption of long-term programs and policies.” Mr. Greene attended the launch event accompanied by US Ambassador to the Kyrgyz Republic, Pamela Spratlen.

While the first half of the program featured presentations by counterparts highlighting REFORMA’s achievements in mining strategy development, VAT administrative reforms, aviation safety initiatives, and institutional and human capacity development of government agencies, the second half outlined BGI’s future activities. BGI will continue the business environment initiatives launched by REFORMA, but the project will focus primarily on building and strengthening the competitiveness of Kyrgyz firms and value chains to promote business growth, job creation and economic development.



USAID Mission Director Michael Greene presents awards of appreciation to REFORMA’s local implementing partners. Mr. Valentin Bogdetsky accepts the award for the Kyrgyz Mining Association.

In introducing BGI to stakeholders, USAID Senior Economic Development Advisor Paul Hamlin said the project will work with individual firms and sector stakeholders in the selected value chains to improve productivity, product offerings, branding, input sourcing, new market access, quality control, financial management, and other critical components of internationally competitive value chains. It will introduce activities to improve access to long-term

finance for small firms and build stronger relationships between educational institutions and value chain firms to improve workforce and management skills.

In the following pages, this news bulletin highlights initial activities BGI has pursued since its October launch. BGI will highlight expanded activities in its quarterly bulletin throughout its project life, ending in June 2018.

BUSINESS LEADERS DISCUSS ECONOMIC CHALLENGES WITH VISITING USAID EXECUTIVE

On December 8, BGI hosted a round table meeting with representatives of the business community to discuss their outlook on Kyrgyz economic development with USAID Associate Administrator Mark Feierstein. The session introduced Mr. Feierstein to the challenges and opportunities for Kyrgyz businesses in the current economic environment, particularly in light of the Kyrgyz Republic’s imminent accession to the Eurasian Economic Union (EEU).

Representing the Kyrgyz business community were Mr. Emil Umataliev, President of Kyrgyz Concept, Mr. Aktilek Tungatarov, Executive Director of the International Business Council (IBC), Mr. Uluk Kydyrbaev, CEO of the Chamber of Tax Consultants and Chairman of the think-tank BizExpert, and Mr. Kuban Ashyrkulov, Adviser to the President of the Central-Asian Corporation. Participants discussed the challenges and advantages that EEU membership will bring to Kyrgyzstan. One participant noted that the economic landscape is rapidly changing so the ultimate impact of joining the customs union is currently unclear. Although they observed that the Government has shown commitment to reform



Senior USAID official, Associate Administrator Mark Feierstein (second from left) visits development projects in the Kyrgyz Republic, including BGI.

the business environment, they stated that many challenges remain in the areas of tax, inspections, trade and property rights, among others.

USAID Mission Director in the Kyrgyz Republic, Mr. Michael Greene, also took part in the meeting with several members of his USAID Economic Development staff and representatives of the U.S. Embassy. Trade Specialist Mr. Farhat Y. Farhat provided background information on the genesis of the EEU and its predecessor, the Eurasian Customs Union. Mr. Farhat serves as

Regional Trade Advisor to ATAR, a USAID project that seeks greater trade integration of Afghanistan with Central Asian countries.

Associate Administrator Feierstein is the third most senior executive of USAID in Washington, DC, and the highest ranking USAID official ever to come to the Kyrgyz Republic. His visit demonstrates the U.S. Government’s interest in continuing to support growth and development of the only parliamentary democracy in Central Asia.

KYRGYZ APPAREL SECTOR COURTS RUSSIAN FASHION RETAILERS

On February 18, BGI hosted a presentation of the production capabilities of the Kyrgyz apparel industry to Russian retailers in a business-to-business (B2B) meeting conducted in association with the Russian Tekstilgprom apparel exhibition in Moscow.

This was the first time that Kyrgyz producers engaged a captive audience of 24 Russian retail brands and designers' studios, most of which had never previously contracted with Kyrgyz apparel makers. The presentation highlighted Kyrgyz advantages in flexible product development and production capabilities, lower logistics costs and shorter lead times than many international mass-market competitors. Feedback also revealed that joining the Eurasian Economic Union could offer immediate price advantages for Kyrgyz apparel producers who sell to retailers within the economic bloc, despite widespread fears that tariff hikes on Chinese fabrics would destroy Kyrgyz competitiveness.

Responding to the changing tastes and purchasing characteristics of the Russian market is critical to the long

term health of Kyrgyzstan's textile/apparel sector, currently experiencing falling sales after nearly 10 years of rapid growth. The meeting highlighted the production demands of Russian retail buyers, which Kyrgyz producers will need to meet to compete in this market segment.

An immediate result of the presentation was that two Russian retailers provided BGI with detailed buying specifications while two Kyrgyz firms reported that serious discussions are underway with three other significant brands. The following week, BGI facilitated the first purchase mission of a sizable Russian apparel chain to the Kyrgyz Republic and is now negotiating contracts with two Kyrgyz firms. A smaller, but more upscale retailer visited Kyrgyzstan in mid-March also keen to find sources of previously untapped supply.

But terms may be difficult for Kyrgyz manufacturers to meet. While it is evident that there is substantial Russian interest in sourcing from Kyrgyzstan, it has also become clear that Kyrgyz firms will need to change the



Ms. Larisa Popkova, Director of Larisa Fashions, outlines Kyrgyzstan's advantages in product sourcing to representatives of Russian retail brands.

way they do business and adjust to the demands of large-volume buyers to conclude supply contracts with this new market segment.

In the long run, however, Russian retail chains may be the most promising target for Kyrgyz apparel firms, who have found that traditional bazaar trade has plummeted in recent years. BGI is poised to help Kyrgyz producers tap into this expanding segment, which now represents to 70 percent of the Russian market.

BGI OUTLINES STRATEGIES AND OPPORTUNITIES TO APPAREL MAKERS

BGI held its first meeting with apparel manufacturers and other value chain stakeholders on January 29 to introduce the project's vision for helping firms transition beyond current market challenges.

After opening remarks from USAID Senior Economic Development Advisor Paul Hamlin and Fatima Sadamkulova, Head of the Department of Light Industry of the Ministry of Energy and Industry, BGI Apparel Sector Program Manager Artur Aliev presented a current assessment of the Russian and Belarussian apparel market entitled, *Crisis – A Problem or an Opportunity?*

In his presentation, Mr. Aliev discussed how the Russian retail apparel market has undergone a huge transformation in the past few years, with bazaar sales losing significant market share to large retail chains and internet sales, and retailers expanding to smaller cities across Russia.



BGI presents initial activities to assist the apparel value chain to meet current market challenges.

“Ten years ago, bazaar sales accounted for 70 percent of the apparel market – it is now 30 percent and shrinking with the growth of vertically integrated retail brands – both Russian and international – and an annual doubling of growth in internet sales,” he said. Most Kyrgyz producers have traditionally relied on bazaar sales accessed through wholesale channels that sprung from Chinese re-exports through Dordoi Market.

“Combined with the 100 percent ruble devaluation against the dollar in the past few months, this has created a real crisis for Kyrgyz apparel makers.”

But even with shifts in marketing channels and recessionary pressures, Russia remains a viable market for Kyrgyz producers, with annual apparel sales of US \$50 billion, Mr. Aliev said. Further, many Russian retail brands seek to diversify their source of supply and could be interested in direct wholesale purchases of Kyrgyz appar-

el, which would constitute new distribution channel for Kyrgyz producers.

Fred Levitan, BGI Competiveness Team Leader, followed Mr. Aliev’s market analysis with BGI’s proposal to conduct an initial presentation of Kyrgyz manufacturing capabilities to Russian retailers attending the February Tekstilegprom trade exhibition in Moscow, which was described in the previous article.

As part of the presentation, representatives from Central Asian International Consulting (CAIC) and M-Vector introduced preliminary findings from studies sponsored by BGI on the characteristics of the apparel sector and an assessment of the types of skills required for sector development and the ability of Kyrgyzstan’s educational institutions to develop these skills within the future workforce.

Owners of Kyrgyz apparel firms noted that BGI has been launched at a time of market downturn when apparel



Mr. Artur Aliev presents the current state of the Russian apparel sector and opportunities for Kyrgyz Suppliers.

makers need more support than ever before.

“This project is vital for the development of the apparel industry in the country. In today’s presentations, experts highlighted the real problems and challenges we currently face, and, what is more, experts know how to address those problems. This is exactly what the apparel/textile industry needs today,” said Lubov Ardamina, Director of the Ardamina Company.

TOURISM PLANNING NEEDS COLLECTION OF RELIABLE STATISTICS

The collection of accurate tourism statistics has been a challenge for the Kyrgyz Government partially due to the absence of a tourism data collection methodology that meets international standards. But reliable statistics are critical for business planning and essential for macroeconomic analysis and policymaking.

Consequently, a component of BGI’s support for the development of the tourism value chain is to improve the ability of Government institutions to collect and report statistics on both international and domestic tourism. The first initiative of BGI’s program was to support a group of Kyrgyz stakeholders to participate in a workshop on Tourism Statistics and Tourism Satellite Accounts (TSA), held in December in Ankara, Turkey.

The workshop organizer was the United Nations World Tourism Organization (UNWTO), which is a global agency that promotes the development of competitive and sustainable tourism policies, distributes market knowledge, fosters tourism education and training, and encourages investment in tourism as an effective tool for economic development and job creation. The UNWTO developed its satellite accounts system to standardize the collection of statistical data around the world for comparative analysis of the global tourism sector.



Members of the Kyrgyz delegation attend the UNWTO Tourism Statistics Workshop in Ankara, Turkey.

In total, 50 participants attended the workshop representing national statistical offices, government tourism departments, central banks, and tourism business associations from the CIS and the Middle East. Four delegates represented Kyrgyzstan from the National Statistics Committee, the Department of Tourism, the Kyrgyz Association of Tour Operators (KATO) and the BGI project.

The workshop was particularly useful because it helped Kyrgyz stakeholders to understand the scope of how much needs to be done in order to improve tourism statistics to bring them up to international standards. It also provided an opportunity to gain

insight on the challenges and solutions experienced by other countries in implementing a rigorous program of collecting tourism statistics.

The workshop emphasized that countries cannot produce good tourism statistics without the development of a well-functioning, inter-institutional data collection and reporting platform. BGI plans to conduct a number of activities in order to enhance the Kyrgyz Republic’s collection of tourism statistics, including hiring a former United Nations Statistics Division official to conduct a baseline assessment of the capacities of the Kyrgyz Government to generate statistics critical for monitoring sector development.





Tourism sector stakeholders attend launch of BGI's Destination Management Program in Bishkek.

On February 25, BGI launched its Tourism Destination Management Program as a foundation upon which the project will assist tourism stakeholders to prioritize and implement strategies for developing the tourism value chain in the Kyrgyz Republic.

Following a presentation to approximately 100 tourism sector stakeholders in Bishkek, two BGI tourism teams conducted road shows to cities throughout Kyrgyzstan to introduce the Destination Management concept and solicit proposals from local stakeholders to develop community-based tourism strategies. Once BGI has received applications in mid-April, the team will select 2-3 proposals to obtain technical assistance and grants to realize proposed strategies.

Destination management strategies have been employed internationally as a way to develop improved tourism products and services at the local

level. Their success hinges on creating grass-roots organizations that leverage resources and build social cohesion around strategies and initiatives to boost tourism in local communities.

Activities to improve tourist experiences may include conducting cultural fairs, implementing basic improvements in light infrastructure and sanitation, upgrading museum displays, expanding handicraft retailing, employing better and multi-lingual signage, and development of small businesses to deliver services better targeted toward tourism development, among many others. Through this program, BGI hopes to broker partnerships for wider engagement of local businesses and citizens as key stakeholders in community tourism development strategies.

Despite associations of tour operators, hotels, restaurants and others, many firms are unaligned, and local-

based tourism clusters lack connections to various links of the national tourism chain. This was apparent to the BGI road show teams, which received widespread feedback from local communities that there is little communication among local providers of tourism products and services – let alone with firms delivering services nationally such as tour operators and transportation companies.

By creating a network of successful destination management initiatives, BGI will connect community groups to each other and to national tourism delivery systems to build tourism products that will appeal to various tourism segments, both international and domestic. During the course of the project, BGI will publicize the innovations of selected projects and their impact on destination development for replication in other venues throughout Kyrgyzstan.

More than 300 local stakeholders from a wide range of organizations attended BGI's destination management presentations in Talas, Osh, Jalal-Abad, Batken, Naryn and Karakol. Presentations explained key program concepts, qualification requirements and how to apply to the program. Among those participating were representatives of guest houses, hotels, restaurants, tour operators, transportation companies, souvenir producers, natural parks and preserves, ski resorts, IT companies, associations, municipalities, NGOs and other organizations.

The concept of developing a specific destination drew genuine interest from the tourism community and many expressed their intention to develop and submit their concepts. The program will allow communities to address the development of the destination in many different ways.

BGI will announce the winning communities in May and begin to work with local stakeholders to further develop and implement their proposed destination management plans, which are expected to generate greater income for local destinations as well as contribute to the development of the Kyrgyz tourism sector as a whole. Based on the experience of selected stakeholder groups, BGI will expand opportunities to other communities during the life of the project.



A participant from Batken reviews procedures for Destination Management applications.



USAID receives an Honorable Mention by the Tourism Department as one of the best donors in tourism. Members of the BGI team with Deputy Minister of Culture, Information and Tourism, Maksat Chakeev.

The Tourism Department of the Ministry of Culture, Information and Tourism recognized firms and organizations whose activities and service have promoted tourism development efforts at an awards ceremony that took place on January 23.

Deputy Minister Maksat Chakiev presented grand prizes to award recipients in 15 categories for the greatest achievements in developing tourism in 2014. Each category acknowledged a grand prize winner, while recipients in second place received an honorable mention. Any industry stakeholder could nominate candidates for awards

over a period of eight months. Winners were determined by an Evaluation Committee consisting of journalists, NGO representatives, and tourism entrepreneurs.

Vice Prime Minister Damira Niyazalieva gave a keynote address to more than 180 participants, including members of Parliament, Government officials, business associations, NGOs, representatives of the business community and international donors. Hostesses in Kyrgyz traditional costume greeted guests, while the ceremony featured a cultural presentation of Kyrgyz music. Several NGOs and art-

ists/entrepreneurs exhibited and sold handicrafts before the presentation and during the buffet following the ceremony.

Guests acknowledged the usefulness of such an awards ceremony in providing incentives for stakeholders to engage in innovative activities to promote tourism and to improve tourism product and service offerings. Participants expressed hope that the event will be expanded in the future and attract even broader participation of sector stakeholders. Several noted, however, that the opportunity to nominate award candidates must be better promoted and that criteria for award selection be more widely publicized.

The US Agency for International Development received an honorable mention for its active contribution to tourism development in Kyrgyzstan initiated through its REFORMA project and continuing through the activities of BGI. USAID believes that tourism has great potential to become one of the leading sectors of economic growth in Kyrgyzstan and has dedicated substantial support to sector development through the BGI project.

WINNERS OF THE 2014 TOURISM AWARDS

Award Category	Grand Prize	Honorable Mention/Certificate
Best Ski Resort	Karakol Ski Base	Orlovka Ski Base
Best Tourism Event Project	World Nomad Games at Issykul Lake	Karagat Fest – annual summer fruits and berries fest
Best Tourism Complex	Culture Center Rukh Ordo named after Chingiz Aitmatov	Baibol-Ata – Eco Tourism Complex in Talas oblast
Best Hotel	Green Yard, Karakol	Keremet-Resort – Entertainment and Spa Complex in Jalal-Abad region, Ak-Bermet Hotel – Issyk kul resort
Best Tour Operator	Ak-Sai Travel	Osh Travel
Best Tourism Internet Project	Trip to Kyrgyzstan; www.triptokyrgyzstan.com	Visit Karakol
Best Idea on Tourism Promotion	“Clean WC - Happy Tourist” by Kyrgyz-Turkish University “Manas”	Silk Road Fest
Best Diplomatic Mission on Tourism Promotion	German Embassy and General Consulate of the KR in Istanbul	Embassy of Japan in the Kyrgyz Republic
Best Educational Institution for Tourism	Kyrgyz Economic University named after M. Ryskulbekov Kyrgyz-Turkish Manas University	-
Best Oblast for Tourism Development	Naryn Oblast	Batken Oblast
Best City for Tourism Development	Osh	-
Best Media Outlet for Tourism Promotion	K-News	Kabar News Agency, Vlad Ushakov – Photographer
Best Partner/Sponsor	MP Karganbek Samakov	Askar Salymbekov – President of the Dordoi Association
Best Donor in Tourism Development	Helvetas	USAID
Best Expert in Tourism	Gulmira Karymshakova	Vladimir Komissarov

CABINET OF MINISTERS APPROVES MINING STRATEGY

On February 20, the Cabinet of Ministers resolved to adopt the Medium- and Long-Term Development Strategy for the Mining Sector for 2015-2035, which the Ministry of Economy created with the help of local experts funded by USAID's REFORMA Project.

The strategy, developed in response to deterioration of the business and investment environment for mining since 2010, sets forth a policy vision based on international practices in mineral resources development. Key policy changes include engaging local communities in resource allocation decisions, providing transparent information to both the Kyrgyz public and potential investors, and consolidating site inspections for environmental and safety compliance, among many others.

"The strategy is built on the fundamental principle that extracting benefits from developing mineral resources is possible only by taking a long-term, socially and environmentally respon-



REFORMA conducted a number of policy discussions in the process of developing the Mining Strategy of the Kyrgyz Republic.

sible approach," said Minister of Economy Temir Sariev.

Adoption of the strategy signals to investors a positive change in government policy while ensuring that profits from mining activity are widely distributed, he said.

The USAID REFORMA Project financed the development of the

strategy during 2012-2013 based on widespread input from stakeholders. The Government's approval followed months of public discussion and circulation of the strategy among Kyrgyz ministries and agencies. BGI will continue USAID's support to the sector and will provide assistance in implementing key components of the strategy.

BGI INITIATES GROUNDBREAKING STUDY OF THE CONSTRUCTION MATERIALS VALUE CHAIN

Despite the surge of construction projects throughout the country over the past few years, the composition, competitiveness and growth potential of the Kyrgyz construction materials value chain has never been adequately studied.

Consequently, BGI chose the International Business Council (IBC), with its subcontracting team, the Young Entrepreneurs Association (JIA) and Serep, to work with international consultants to undertake a comprehensive study of its third selected value chain for development assistance. The other BGI value chains are the apparel and tourism sectors.

On February 26, the BGI team launched an initial round table discussion on the Problems and Development Prospects of the Construction Materials Sector in Kyrgyzstan. BGI presented the goal of the research, its objectives, principles and methodology through with the study will examine the key value chain players, major manufacturers, characteristics of production and supply chains, and the state of the business environment surrounding the



Mr. Aktilek Tungatarov, Executive Director of IBC, and Member of Parliament, Mr. Samatbek Ibraev, share their vision for sector development with participants of BGI's kickoff event for assistance to the construction materials sector.

sector. The value chain study began in March, with research results to be presented in July.

"To date, growth of the construction materials sector is associated with the construction boom in Kyrgyzstan, and therefore, the importance of this sector of the economy should not be underestimated," said Samatbek Ibraev, MP and member of the Committee for Transport, Communications, Architecture and Construction of the Jogorku Kenesh.

However, during the discussion Mr. Aktilek Tungatarov, Executive Director of IBC, urged participants to consider possible risks that may arise in the development of the construction materials industry, particularly changes that may occur with accession to the Eurasian Economic Union. Mr. Tungatarov also highlighted the need to create conditions for further development of the sector in the Kyrgyz Republic.

Mr. Temirbek Azhykulov, Chairman of the Construction Committee of the

Young Entrepreneurs Association (JIA) noted that the share of the construction materials industry in Kyrgyzstan's GDP is 5-7 percent and its share of the country's industrial production is more than 12 percent. Currently, more than 200 business entities are engaged in the production of construction materials and approximately 10,000 people work in the sector.

"One of the priorities of this study is to identify the potential for both exports and import substitutions of construction materials. Kyrgyzstan, with its abundance of natural resources in construction materials, has the ability to increase the contribution of the sector in the development of the economy as a whole," said Timur Gainanov, BGI Program Manager for Mining and Construction Materials.

The USAID BGI Project believes that it can develop and implement a clear and detailed program of activities to improve the competitiveness of the construction materials value chain and reduce construction costs, both locally and throughout Central Asia. The value chain study will identify which activities will yield greater results in sector development when it is completed this summer.

MINISTRY OF TRANSPORT AND COMMUNICATIONS SUBMITS DRAFT OF NEW AIR CODE

On March 23, the Ministry of Transport and Communications presented the draft of the new Air Code for Government review, circulation and submission to Parliament. Three days later, the draft was posted to the Kyrgyz Government's website at <http://www.gov.kg/?p=52354> for public discussion.

The new Air Code, developed by a public-private working group under the Civil Aviation Agency (CAA) and supported by BGI's predecessor project REFORMA, brings Kyrgyz aviation legislation in line with the air safety standards of the International Civil Aviation Organization (ICAO). Adoption of the new Air Code is considered the first step in efforts to release Kyrgyz airlines from a ban on flights to the European Union.

Kyrgyzstan's existing Air Code was deemed an inadequate foundation for adopting the full package of ICAO rules and regulations governing international aviation safety by the working group upon the advice of international aviation consultants and Kyrgyz law firm, Kalikova & Associates.

The first public discussion of the draft Air Code took place at the CAA



Members of the civil aviation community review the provisions of the draft Air Code.

on December 4, 2014, with participation of nearly 60 Kyrgyz aviation stakeholders, including members of the Association of Civil Aviation Enterprises, which has been instrumental in promoting initiatives to address the flight ban.

The CAA subsequently organized three round tables which solicited 159 stakeholder comments on the provisions of the draft Air Code, which were further addressed by the drafting committee prior to submission to the Government. One of these took place at the offices of Vecherniy Bishkek, where stakeholders discussed the genesis of the EU flight prohibition, the difficulty of removing the ban, and

the need to adopt the new Air Code to journalists and members of the mass media.

It is expected that ministries and agencies will endorse the draft and the Prime Minister's office will submit it to Parliament by the end of April. Stakeholders seek to obtain Parliamentary approval of the Air Code prior to the summer recess so that its passage is not delayed by elections this fall. Upon adoption, BGI intends to support harmonizing ICAO rules with the new Air Code and help build the capacity of the CAA to ensure flight safely by implementing international regulatory procedures.

VAT REFORM CONTINUES UNDER BGI



Fiscal policy experts discuss options for developing a comprehensive Fiscal Policy Concept for the next five years

BGI, through subcontractor MF Consulting, continues to support the efforts of the State Tax Service (STS) and the Ministry of Economy in improving Value-Added Tax (VAT) administration. Following public discussion and approval by line ministries, the Ministry of Economy in January submitted a package of amendments to the Tax Code on VAT to the Government for review and further submission to the Parliament. The proposed tax amendments are expected to be passed by July 1 of this year.



Proposed legislative changes include greater STS scrutiny of firms upon VAT registration to prevent falsified VAT refund applications. The amendments streamline VAT crediting and refund processes to allow conscientious taxpayers to reduce time and effort in claiming VAT overpayments. The STS will also replace the highly burdensome procedure of obtaining VAT paper invoice forms by assigning electronically generated invoice numbers, which will spare taxpayers from physically coming to the tax office. The USAID REFORMA project provided assistance to the STS to adapt its information systems to issue these electronic numbers to VAT payers.

Overall, the adoption of the proposed changes will significantly reduce taxpayers' administrative burdens by reducing the number of days they must wait for obtaining VAT refunds, from 60 to 45 days. The num-

ber of documents required for VAT refund will be reduced from seven to two. New legislation will also allow regional tax offices to make decisions for refunds up to 1 million som, from the current ceiling of 300,000 som.

In addition, MF Consulting is providing support to the Ministry of Economy in revising tax legislation in light of the upcoming accession to the Eurasian Economic Union (EEU). These revisions will eliminate potential legal controversies by harmonizing indirect tax administration procedures for trade transactions with EEU member countries. To familiarize VAT payers with the EEU-mandated legal and procedural changes, BGI supported the conduct of four workshops in December 2014 for 111 large VAT payers.

As part of its tax reform program, BGI is also supporting the Ministry of Economy in the development of the draft Fiscal Policy Concept for 2015-

2020 and an Action Plan that determines government policy priorities regarding taxes, social contributions and mandatory non-tax payments and identifies challenges that must be overcome to achieve them. In November 2014 and February 2015, BGI sponsored off-site meetings of the public-private Methodological Council to discuss reform proposals in fiscal policy.

The earlier National Midterm Strategy for Tax Policy covered the period 2006-2008, but since adoption of the Tax Code in 2009, no such visionary documents have been developed in the fiscal policy field. The adoption of the Fiscal Policy Concept for 2015-2020 will help the Government pursue consistent fiscal policy during the next five years. The concept is currently being circulated for comment by ministries and agencies.

BGI ENHANCES TAX LITERACY THROUGH DECLARATION CAMPAIGN

BGI has continued the public education campaign initiated by REFORMA to improve tax literacy in preparation for the 2016 introduction of universal tax declaration.

For the second year, BGI has sponsored the broadcast of REFORMA's animated television commercials and radio announcements that educate citizens on the current reporting requirements for uniform declaration and build awareness of the upcoming universal tax reporting mandate.

Beginning February 7 and ending March 31, twelve television channels and three radio stations across the Kyrgyz Republic aired the video and audio ads. BGI's implementing partner, the Chamber of Tax Consultants (CTC), also published and distributed informational leaflets and posters and placed banners on popular local websites during this period.

BGI's support of tax declaration also includes simplifying tax declaration forms and improving the capacity of State Tax Service (STS) officials to assist the public in uniform tax reporting.

The CTC conducted a one-day seminar for tax officials on the requirements, procedures and forms for processing uniform tax declarations, beginning in Bishkek on February 10 and continuing through March in Osh, Naryn, Cholpon-Ata, Talas, and



Ms. Tatiana Kim, Chairperson of the Chamber of Tax Consultants, Mr. Oktyabr Abdykaimov and Mr. Ysabekov Kybanychbek of the Ministry of Economy's Tax Policy Division discuss UTD forms with the business community.

Jalal-Abad. The CTC subsequently selected candidates attending these seminars to participate in a training-of-trainers program that took place in April. These trainers will then deliver seminars and provide consulting services to colleagues and taxpayers in regional tax offices.

The CTC is also working with the STS and tax policy officials to improve and further simplify the declaration forms, particularly for first-time filers following adoption of universal declaration in 2016.



BGI's animated moderator informs taxpayers of declaration requirements.

BGI SEEKS TO IMPROVE WORKER SKILLS THROUGH EDUCATION ALIGNED WITH SECTOR DEMAND

Many Kyrgyz firms claim that universities and vocational schools do not adequately prepare workers for the job market, and they must be further trained at substantial expense to the employer. This is particularly burdensome for small firms and in sectors that experience high rates of attrition and seasonality. Insufficient communication and a historical lack of partnership between employers and educational institutions is one reason why this deficiency persists. The educational system needs to build skills demanded by the business community to ensure that Kyrgyz firms can compete in the global marketplace.

For this reason, BGI launched a study of the demand for and the supply of workforce skills to support the apparel and tourism value chains. BGI selected the market research firm, M-Vector, to undertake this study in December and will present its conclusions and recommended solutions at stakeholder events in late April.

Through surveys and focus groups

of apparel and tourism firms, M-Vector has obtained information to determine which skills the private sector deems most critical to effectively compete in the market and the degree to which educational institutions are able to produce future workers with these skills.

M-Vector also conducted interviews with faculty and administrators to understand what relevant knowledge and skills they impart to future workers and where gaps may exist. M-Vector reviewed the development programs of international donors to determine in what ways their programs target improving higher education and vocational skills to meet sector demand. Overall, the study reviewed ways in which both industry and education stakeholders communicate and how to promote better alignment of workforce education with the demands of the market.

Analysis of the results will enable BGI to quantify the size and nature of the managerial and workforce skills gaps of each value chain. From this analysis, BGI will develop a strategy to



Mr. Nail Haibulin, General Director of M-Vector, presents preliminary results of the survey to assess the demand and supply of skills for the tourism and apparel value chains.

narrow these gaps by strengthening the capacities of educational and vocational institutions to meet the skills requirements of value chain firms. In creating this plan, BGI will build on the activities of other donors that are working to improve vocational education targeted to the apparel and tourism sectors.

GEOLOGICAL MANAGEMENT SYSTEM PROMOTES EFFICIENCY AND TRANSPARENCY

BGI's predecessor project, REFORMA, implemented a comprehensive data management system for the State Geology Agency that has helped staff to significantly shorten document processing times for issuing mining licenses and generate timely reports on license activity and tax payments.

"Before this automated system was developed, we spent hours and days in manual calculation of information on existing or annulled licenses to be able to draft our periodic performance reports to the Government. The new system significantly drove change in the way we work and made us aware that we can be more efficient when responding to various requests by clients," said Ulan Ryskulov, Deputy Director of the State Geology Agency.

To further boost the efficiency, productivity and transparency of the licensing department, BGI and its local subcontractor, Education and Career Development Fund – Art Pro, is now helping the Agency to standardize administrative processes and the types of information collected and maintained by the department. The project is also

developing a new electronic module that optimizes the work of the licensing committee and will enable information on license holders and licensing decisions to be uploaded directly to the Agency's website at <http://geology.kg>. The Agency is now upgrading the website on its own after REFORMA provided initial assistance two years ago.

Additionally, BGI has been working with Agency staff to create a formal student internship program with the Mining Institute that arose informally during implementation of the data management system. On April 2, the Agency organized an open door event for 22 third- and fourth-year students to familiarize them with the role and the mandate of the Agency so they will be better prepared for internship opportunities and future employment. Students were introduced to the responsibilities of key departments followed by departmental tours. This activity is a first step towards strengthening cooperation and communication between the Geology Agency and educational institutions.

"The development of the geological management system, along with other



The Licensing Department of the State Geology Agency demonstrated the functions of the data base management system to students from the Mining Institute.

performance solutions supported by USAID, has improved the overall image of the agency and increased the transparency of our operations," said Duishenbek Zilaliev, Director of the Agency.

BGI TEAMS WITH GGPAS TO PROMOTE ACHIEVEMENTS IN CAPACITY DEVELOPMENT

On December 16, BGI worked with the USAID Good Governance and Public Administration Strengthening (GGPAS) Project to conduct a joint, one-day conference on *Improving Institutional Efficiency in the Public and Private Sector*.

The conference highlighted the various Human and Institutional Capacity Development (HICD) methodologies and approaches that have been introduced within several Kyrgyz public sector organizations by both GGPAS and BGI's predecessor project, REFORMA, and the achievements of the projects to date.

USAID created the HICD methodology specifically for use in its development projects around the world. It is a holistic approach that builds the capacities of implementing institutions as a framework to promote improvements in individual employee performance.

Deputy Director of the State Geology Agency, Mr. Ulanbek Ryskylov, and REFORMA's local consultant, Mr. Feliks Shapiro, delivered a presentation on implementing the automated management system at the Agency. The presentation focused on how the Agency was able to operationalize the system by implementing a well-developed process to track the scanning and input of data on exploration and



Mr. Feliks Shapiro, a member of the IT team implementing the data management system at the State Geology Agency, presents REFORMA's work at the HICD conference.

development licenses issued by the Agency.

Ms. Nazgul Sydygalieva, Head of the Strategic Planning Unit at the Ministry of Economy, and IT expert, Vlad Tkachov, also delivered a presentation that highlighted REFORMA's implementation of a monitoring and evaluation system to measure the achievement of the Ministry's Internal Development Strategy as part of its HICD program.

GGPAS's counterparts and their consultants at the Ministry for Social Development, the Agency for Local Self-Government, the State Tax Service and the State Personnel Service also made presentations on improv-

ing the quality of government services, developing human resources management systems, and managing effective communications with stakeholders under their HICD programs.

During the afternoon, conference participants worked on case studies in small groups in which they proposed how to improve both institutional and individual performance by employing a range of practical tools for increasing capacity. Case study materials were developed by a team of local consultants who had implemented projects under REFORMA and GGPAS. The conference was attended by 99 representatives from ministries, agencies, associations and local consulting and research companies.

INSTITUTE OF MANAGEMENT CONSULTANTS CONDUCTS FOURTH NATIONAL FORUM

Improving the local capacity of management consultants is one of the objectives of the BGI project, which hires local organizations, firms and individual consultants to deliver the majority of technical assistance to counterparts.

To further this goal, BGI agreed to co-sponsor the Fourth National Institute of Management Consultants (IMC) Forum on *Developing Professional Standards in Consulting* that took place in Bishkek on December 17, 2014. Other sponsors of the event were the European Bank for Reconstruction and Development (EBRD) and the Embassy of Switzerland in the Kyrgyz Republic.

At the Forum, local and international experts discussed the development of professional standards in consulting, with a focus on ways to obtain inter-



Ms. Chnara Mamatova, USAID Project Management Specialist, welcomes consultants to the IMC's Fourth Annual Forum.

national certification, such as Certified Management Consultant (CMC), Project Management Professional (PMP), Certified Performance Technologist (CPT), and others.

Nearly 120 consultants and other stakeholders attended the day-long Forum, during which IMC announced the award of ongoing prizes to those participants who collected the most

likes and tweets on electronic media based on their real-time posts. Afterwards, IMC placed a five-minute video of highlights of the Forum on Facebook.

BGI sponsored two presentations at the Forum: (1) Project Management Professional and the PMP Chapter in Kazakhstan, delivered by Vladimir Zotolokin from the Potential Chapter of the Project Management Institute in

Almaty, Kazakhstan; and (2) Certified Performance Technologist Certification, delivered by Tanja Georgievska, Leader of BGI's Human Capital Development Component. The BGI project also sponsored its own exhibition stand, as did many IMC member firms and representatives from other donors and projects. BGI's exhibit provided information about the new project's objectives and first year activities and

presented work that was done under the USAID REFORMA Project.

The following day, BGI also sponsored a discussion seminar on PMP certification, which provided general information about the procedures and criteria for obtaining the designation. BGI continues to work with IMC and helped the association to print its 2015 Directory of Consultants, which was published in April.

BGI'S TECHNICAL ASSISTANCE PROJECTS UNDERTAKEN WITH IMPLEMENTING PARTNERS

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

USAID BUSINESS GROWTH INITIATIVE (BGI) PROJECT

BGI is a four-year, multi-faceted project that builds and strengthens the competitiveness of Kyrgyz firms and value chains to promote business growth, job creation and economic development.

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

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

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