



USAID | **KYRGYZSTAN**
FROM THE AMERICAN PEOPLE

USAID REFORMA Project Year One, Third Quarterly Report

Second Quarter 2012

July 10, 2012

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USAID REFORMA Project Year One Second Quarterly Report

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1. Summary of Activities, Achievements and Challenges

In the Second Quarter of 2012, the USAID REFORMA Project moved well into implementation of its Year 1 work plan activities. Highlights of REFORMA's activities and accomplishments during the Quarter are outlined below:

- Completion of the *Review and Recommendations for Optimizing and Streamlining Business Licenses and Permits* by Foresight Foundation and submission to the Government of required changes to all normative legal acts (NLAs) to enable Parliament to collectively cancel all licenses recommended for elimination. In all, 148 licenses were recommended for elimination. A list of these licenses is presented in *Licenses – Annex 1*. There is some debate as to the number of licenses that have truly been in effect – and which could be considered permits, not licenses – but Foresight Foundation has reviewed a total of 464 licenses, previously and under the REFORMA project. This recommended reduction, then, represents approximately 32 percent of the total, well above the Government's target of eliminating 25 percent of all licenses for conducting business activity. The final report submitted by Foresight Foundation detailing this work is located in *Licensing – Annex 1*.
- Initial drafting of the '*Law on Licensing*' by Foresight Foundation, which was presented both to Government institutions and to the public beginning in late May 2012. The Government's haste in getting the Law drafted and passed, prior to the beginning of the Parliamentary summer recess, was sub-optimal relative to best practice policy discussion and formulation prior to legal drafting. As a result, the number of comments the Ministry of Economy and Antimonopoly Policy (MEAP) received from its mandated circulation for comment to Government Ministries and Agencies prevented the presentation of the Law to the Jogorku Kenesh prior to the end of its spring session on June 29. Consequently, REFORMA is now working with the MEAP to determine how it can assist the Ministry in soliciting wider comment from the business community on the proposed draft before it is presented to Parliamentary Committee for discussion in the fall. REFORMA will also provide assistance to the Ministry and Parliament in conducting a public hearing, as required under Kyrgyz Law during Parliamentary legislative deliberations. In this way, the merit of the policies as reflected in the Law will be subjected to additional scrutiny than it has thus far. A draft final report submitted by Foresight Foundation detailing this work is located in *Licensing – Annex 2*.
- Completion of REFORMA's *Mineral Resources Development Action Plan*, developed in cooperation with the International Business Council, for comprehensive assistance to improve the business and investment environment for sector development. This Action Plan (a summary of which is located in *Mining – Annex 1*) was approved by USAID in May, and the Government indicated its willingness to participate in implementation through a letter to REFORMA from the MEAP Deputy Minister responsible for developing the sector, Adlybek Kasymaliev (*Mining – Annex 2*). To strengthen MEAP's commitment to implementation, REFORMA has prepared an Agreement on Roles and Responsibilities to be signed by Minister Sariev. REFORMA has a strong partner and counterpart in the Ministry through its recently named Head of Mineral Resources Policy, Mr. Almaz Alymbekov.
- Mobilization of REFORMA's international expert, Mr. Kirk Adams, to provide external *comment on the Government's proposed changes to the legal and regulatory framework for development of its mineral resources sector*. Mr. Adams commented on both the 'Law on Subsoil' and the 'Provision on the Procedure for Regulation of Subsoil Use;' which, among other things, puts forth procedures for competitive tenders and auctions for issuing new mining exploration licenses. Mr. Adams's assessment was that the Government's proposed auction procedures were suboptimal in meeting stated objectives to improve transparency in license allocation and to obtain the highest value possible from participating bidders. Although REFORMA offered to provide hand-holding

assistance in the conduct of the first competitive tender – according to leading international practices -- the Government declined such assistance and determined to follow its proposed auction procedures. Consequently, REFORMA will be observing the conduct of the auction, whose target date in August is many months past the Government’s original projection for April. Nevertheless, REFORMA will continue to offer assistance to the Government should it demonstrate political will to conduct them according to international practices.

- Launch of a competitive tender among Kyrgyz organizations for creation of a ***Medium- and Long-Term Development Strategy for the Mineral Resources Sector***. Supported fully by the MEAP, REFORMA issued this tender to contract a Kyrgyz organization to research, analyze and recommend the adoption of leading international development policies and practices for sector development. The outcome of the Development Strategy will provide stakeholders in the Kyrgyz Republic the appropriate policy choices to ensure widespread economic growth, job creation, environmental and health protection, and a fair distribution of economic benefits to the government, private investors, and the Kyrgyz people. In conjunction with MEAP, the successful organization will: (1) research policy, legal, and regulatory practices among top-performing countries; (2) analyze the impact of various international policies and practices based on current industry status and the business environment in the Kyrgyz Republic; (3) work with stakeholders throughout the development period to vet political and economic choices and the appropriateness of policy approaches; and (4) recommend a comprehensive policy approach to sector development to be used as the basis for implementing recommended policies across legislative, regulatory, fiscal, environmental, educational and social spheres. The project is designed to take place over a six-month period upon contract award, expected in late July.
- Completion of two short-term consulting assignments to help the MEAP analyze ***the impact of Customs Union membership on Kyrgyzstan’s import tariff structure and technical product regulations***, particularly to provide analysis supporting the Kyrgyz Republic’s membership negotiations with Customs Union members. To analyze customs and tariff regulations, the REFORMA consultant compared the customs tariff structure of the Kyrgyz Republic with the Uniform Customs Tariff (UCT) and with Russia’s pending WTO obligations across the nomenclature of commodity tariffs. The assignment also analyzed which commodities will not be affected by tariff increases and, alternatively, which will be quite sensitive to Customs Union membership negotiations. The project to align Kyrgyz technical regulations with those of the Customs Union produced a substantial set of recommendations to the Government in the areas of veterinary, sanitary and phyto-sanitary (SPS) regulations as well as technical requirements for non SPS product manufacturing. It also identified the changes to normative and legal acts that must be undertaken by the Kyrgyz Republic to ensure harmonization with the legal framework of the Customs Union. As part of the scope of the project, REFORMA delivered 12 seminars for 262 Government staff and the private sector on issues of labor safety requirements, SPS arrangements and other technical regulations for Customs Union compliance.
- Launch of the assessment phase of REFORMA’s first ***Human and Institutional Capacity Development (HICD) Program with the Ministry of Economy and Anti-Monopoly Policy (MEAP)*** in conjunction with our implementing partner, the Promotion and Development Center (PDC). REFORMA hired a noted HICD specialist, Mr. Steven Kelly, to provide guidance in the launch of the assessment program with the assistance of REFORMA’s HICD Manager. The MEAP was selected as REFORMA’s first HICD institution for two key reasons: (1) it is a primary REFORMA counterpart across nearly policy reform activities; and (2) it actively solicited REFORMA’s support in addressing performance gaps in its human and institutional capacity. To date, the HICD program: developed a detailed work plan; created a Steering Committee; collected and analyzed normative legal acts authorizing MEAP’s scope of activity and authority; reviewed MEAP’s mission, goals, HR systems and organizational structure; conducted interviews with all senior MEAP officials and department heads; conducted focus groups for MEAP specialist staff; completed interviews with external ‘consumers’ of MEAP services; began to model and analyze

work processes throughout the Ministry using an ARIS methodology; and reviewed communication and information channels within the Ministry. The assessment phase is expected to be completed by August 30, with further support for the implementation of recommendations in the next project phase.

1.1 Optimizing and Streamlining Business Licenses and Permits

Background. In 2008, the Kyrgyz government initiated a process for optimizing the regulation of business activities, which included initiating a review process designed to eliminate at least 25 percent of required licenses and permits. This review process continued with the support USAID’s Business Environment Improvement (BEI) Project through the summer of 2011 although it was not completed by the end of the BEI contract. Parallel to this review process, the Government wanted to sponsor a framework “Law on Licensing” that would establish overarching principles for government regulation through licensing and permitting and would delineate the specific activities subject to licensing, thereby eliminating licensing of activities not specifically included in the Law. Consequently, the Government included completion of the licensing/permitting review process and the draft and passage of a “Law on Licensing” as part of the 100-Day Plan under the responsibility of the Ministry of Economy and Anti-Monopoly Policy (MEAP). To support the Government’s 100-Day Plan, REFORMA issued its first tender to Foresight Foundation, a local NGO, to complete the license review process, offer recommendations to the Government for eliminating or retaining these licenses, and help the Government develop its future policy on licensing and permitting to be reflected in Law. Foresight began its work under the REFORMA contract in late March 2012.

REFORMA Activities in Q2 2012.

Completing the License and Permit Review Process. The Foresight Foundation completed the licensing review activity in three stages:

1. Reviewed the protocols of 22 prior meetings of the Government’s Interagency Commission, conducted between 2008 and 2011, and ensure that the decisions taken at these meetings were effectively implemented by drafting the required changes in nominative and legal acts (laws and regulations) for inclusion in a Government Resolution to request that Parliament adopt the recommended changes to legislation that will eliminate 41 types of licenses and 16 types of permits. This work was completed on April 12, 2012 and package presented to Parliament in May 2012. The list of licenses recommended for elimination in this package is in Licensing – Annex 3.
2. Undertook a thorough review of 86 additional licenses and permits by the Foresight Foundation’s team of experts to determine whether to recommend their retention or elimination. These licenses were those that had not passed the Government’s adopted guillotine-review process in which issuing agencies had to prepare a Regulatory Impact Analysis (RIA) and adequately justify the need to continue to license these activities to protect human or environmental safety. In this review, the Foresight Foundation conducted informal discussions with members of the business community and technical experts in the business activity whose license requirements were undergoing scrutiny. The team also identified the existence of an additional 10 sub-licensing activities while undergoing this review process. This review resulted in the recommendation that an additional 91 licenses be eliminated. Subsequently, Foresight Foundation drafted the required changes in nominative and legal acts (laws and regulations) that were contained in a request presented to Parliament on June 18, 2012, to eliminate 72 of these licenses. The list of licenses recommended for elimination in this package is in Licensing – Annex 4.
3. Determined that the changes to legislation addressing the remaining 19 licenses recommended for elimination will be included in the proposed legislation for issuing a new ‘Law on Licensing’, which was subsequently drafted by Foresight Foundation as an addendum to its scope of work contracted by REFORMA to undertake this review process.

With these submissions and submission of Foresight Foundation's final report, REFORMA considers this portion of the project completed.

Drafting the Proposed 'Law on Licensing.' Optimizing the regulation of business activity was identified as a key reform priority outlined in the government's Medium-Term Development Strategy (MTDS), created in the summer of 2011. To support this work, the then Ministry of Economic Regulation (MER) was tasked with drafting a revised "Law on Licensing" that was circulated in November 2011 by the Government Office for comment from relevant ministries and agencies. The new Government, however, determined that this proposed Law was hastily drafted and sought to redraft the new law taking into consideration the completion of the license review process. Consequently, with USAID's approval, REFORMA expanded the scope of work of Foresight Foundation's license review contract to include drafting a revised 'Law on Licensing' to incorporate international processing in licensing as a regulatory tool and to reflect a definitive list of business activities subject to licensing to limit the ability of Ministries and State Agencies to expand these activities outside of the legislative process. (The expanded scope of work is located in Licensing – Annex 5.) International principles included in the draft law was: (1) the regulatory goals of a licensing regime; (2) the definition of businesses licenses; (3) the introduction of licensing based on risk criteria; and (4) the introduction of a provision enabling the electronic issuance of licenses. Items not included in the law were a 'silence is consent' provision, and an extension of the terms of licenses from two to five years for those not classified as high risk activities.

As a result, Foresight Foundation drafted a new 'Law on Licensing' in May 2012 that was presented for stakeholder comment in three public sessions conducted from May 22 to June 11. During these sessions, it became clear that there was insufficient time to fully consider all aspects of the law and, although there was sufficient representation from Government Ministries and Agencies in these sessions, there was inadequate representation from business associations and private sector participants to express their views. Additionally, the two sessions conducted on June 8 and 11 included discussion of several amendments that substantially expanded the scope of the law to include: (1) all permits (many of which were not previously considered under the review process); (2) all export and import permits (also not previously considered as they fell under the purview of nominative legal acts governing foreign trade and obligations of external trade agreements); (3) provisions authorizing self-regulation to 10 types of business activity; and (4) the adoption of a Licensing Chamber, the exact function of which was not fully contemplated. Consequently, the MEAP collected written comments on the proposed Law from all Government Ministries and Agencies, which resulted in submissions from 17 institutions. (Comments from the Ministry of Energy to the draft law are located in Licensing – Annex 6.) The volume of comments ensured that the Ministry would be unable to submit the draft Law to the Government for presentation to Parliament prior to final day of the legislative session on June 29.

Planned REFORMA Activities for Q3 2012. REFORMA learned several lessons from working with the MEAP and our implementing partner, Foresight Foundation, in the conduct of this work, which will drive an adjustment of our approach in the next quarter. The existence of an established process of license review, promoted by the staff of Foresight Foundation as they conducted it under USAID's BEI project, perpetuated an approach that, in REFORMA's view, did not sufficiently engage the private sector in the policy dialogue and narrowly focused its work on improving the legal framework with limited emphasis on implementation. The Government's haste in finalizing a law resulting from its 100-Day Plan activities also denied what should have been a more robust discussion of the underlying policy goals of this activity. REFORMA intends to change this approach to sponsor a wider discussion of the underlying regulatory reform goals in licensing and permitting, either prior to the presentation of the proposed Law on Licensing to Parliament in the fall, or as part of the compulsory public hearings in the introduction of new laws before Parliament.

In addition, the Government's narrowly focused project scope must be expanded to determine the actual impact a reduction in licensing regulation will have on improving the business environment and what assistance Government agencies will need to ensure that licenses for business activities no

longer required are, in fact, eliminated. REFORMA is now determining what measures it will take in the third quarter to broaden the policy dialogue and the implementation scope of these activities. This is also critical in responding to MEAP's request for further assistance in streamlining the legal and regulatory framework for inspections. The proposed scope of this activity is similarly limited and the proposed time line similarly unrealistic for widespread policy dialogue both with the private sector and with the affected Government Ministries and Agencies. REFORMA is still contemplating whether to propose such assistance to USAID and, if so, how the project will redesign the scope to improve the process of policymaking and institutionalize a focus on implementation of the policy and legal framework accordingly.

1.2 Improving the Business Environment for Mining and Mineral Resources

Background. While developing the REFORMA Agenda in late 2011, the project identified improving the business environment for mining as a key priority for reform and noted the relative dearth of donors providing policy, legal and regulatory assistance to the sector. The newly formed Kyrgyz Government also identified development of the mining sector as one of its key priority economic reforms and formed a Working Group of independent experts to assess the legal framework and make recommendations for changes to the package of four laws (the Law on Subsoil, the Land Code, the Tax Code, and the Law on Non-Tax Payments) underpinning development of the sector as part of the 100-Day Plan. In the first quarter of 2012, REFORMA responded to specific requests of the Government for immediate assistance to support the Government's Working Group, including the allocation of a REFORMA staff member to participate full-time and providing meeting space for the Group in REFORMA offices. REFORMA also supported the conduct of open hearings in Batken, Osh and Jalalabad for the Government and members of the Working Group to present recommended legislative changes to the public for comment. Subsequently, REFORMA issued a tender to provide advice to the project on the development of a comprehensive project Action Plan for REFORMA assistance to the sector, which was awarded to the International Business Council (IBC) in March.

REFORMA Activities in Q2 2012.

Development of REFORMA Action Plan for Mineral Resources Sector Development. Early in the quarter, REFORMA worked with IBC to develop an Action Plan through which to implement assistance to substantially improve the business environment for mining. This plan was presented to USAID for approval in early May after receiving feedback and support from key Government and private sector stakeholders, particularly the MEAP (Mining – Annex 1.) At the same time, the pace of the Government's overall reform agenda resulted in numerous requests and/or needs to provide immediate assistance to the State Agency for Geology and Mineral Resources early in the quarter. In late April, REFORMA agreed to sponsor 4 persons from the Kyrgyz Government to participate in the Central Asian Minex Forum on April 17-19 in Astana. The Agency also made a request to REFORMA to provide the following immediate assistance: (1) drafting the underlying policies and procedures for implementation of the hastily drafted "Provision on the Procedure for Regulation of Subsoil Use," which was adopted to govern the issuance of mining licenses through negotiated competitions and auctions; and (2) collecting, reviewing, consolidating and validating documentation that describes the characteristics of land objects to be auctioned to potential investors.

Assessment of Proposed Legislative Package and Competitive Tender Regulation. At the same time, REFORMA was also concerned that the draft regulation did not fully reflect international practices in the allocation of rights for mining exploration and development and set forth an unrealistic time frame in the conduct of proposed auctions as reflected in the Regulation. In these respects, there were few immediate resources within the Kyrgyz Republic from which the Government could seek advice to ensure that policies and procedures currently under consideration reflect the international practices. Consequently, REFORMA mobilized Mr. Kirk Adams, a mining expert who has had vast experience in both the private sector and in helping governments create sound mineral resources development policies, particularly in setting the parameters for adopting and implementing policies and procedures in transparent, competitive tenders that would attract a

significant increase in investment while obtaining both superior value and substantial revenue for the Kyrgyz Republic in granting the rights to extract its mineral resources. During his three-week assignment, Mr. Adams completed the following:

1. Made presentations of REFORMA’s policy comments and recommendations, entitled “Mining Policy Reform for Growth in the Kyrgyz Republic;” to Minister Sariev, Chairman Tashbaev, Mr. Akeneev (Consultant to Vice Prime Minister Otorbaev) and Mr. Djeenchoroev (Manager of the Subsoil Sector, Office of the Prime Minister). (Mining – Annex 3).
2. Annotated comments on the “Law on Subsoil;” (Mining – Annex 4).
3. Annotated comments on the ““Provision on the Procedure for Regulation of Subsoil Use;” (Mining – Annex 5).
4. Provided a sample “Rules of Tender” that meet international practices in competitive tenders. (Mining – Annex 6).

Mr. Adam’s analysis concluded that, while several policy choices represent good international practices, the auction process as outlined by the Regulation represents some significant risks to the Government in seeking to achieve its sector development objectives. He recommended and outlined a detailed process with a set of rules for the conduct of sealed-bid competitive tenders that would obviate such risks. Consequently, REFORMA suggested a follow-up assignment for Mr. Adams to work with the MEAP and the State Geology Agency to develop and implement a process for sealed-bid competitive tenders as reflected in Mr. Adams’s proposals within an ambitious but achievable time frame. So far, however, the Kyrgyz Government has rejected such an offer and has since announced that it plans to commence the auction of 93 objects for mineral exploration in late August 2012.

At the same time, the package of four laws affecting development in the sector passed relatively uncontested in Parliament prior to the beginning of its summer recess on June 29. On the whole, the Government did a reasonable job of soliciting ongoing comment from the private sector as well as the general public on the proposed changes to the package of laws, while the IBC also hosted several round tables to discuss the proposed changes to the Laws and comment on key private sector objections to provisions in the Regulation, particularly the requirement that private firms contribute 20 percent of the shares in their companies to the Government in exchange for receipt of exploration licenses. It appears likely, however, that this provision will ultimately be removed from the Regulation.

Planned REFORMA Activities for Q3 2012. REFORMA’s proposed Action Plan Summary (Mining-Annex 6) for providing assistance to the Government in sector development not only received approval from USAID but also received MEAP buy-in as indicated by a letter received by MEAP Deputy Minister Adylbek Kasymaliev on June 5, acknowledging that the Ministry is ready to implement the provisions of the Plan (Mining-Annex 7). To obtain further support, REFORMA has drafted an Agreement on the Roles and Responsibilities of both REFORMA and MEAP in implementing the Plan, which MEAP has agreed to sign to establish the set of provisions guiding its relationship with REFORMA (Mining-Annex 8).

The first Action Plan activity REFORMA is supporting is for the creation of a **Medium- and Long-Term Development Strategy for the Mineral Resources Sector**. The activity will be managed on a daily basis by Almaz Alymbekov, Head of the MEAP’s Department for Mineral Resources Policy, and monitored by REFORMA’s Manager for Mineral Resources Activities, whose SOW is currently submitted for approval by USAID. The majority of the research, analysis and generation of recommended policies and strategies to be pursued by the Kyrgyz Republic will be undertaken by a firm or consortium of firms who win an outstanding tender launched by REFORMA on June 22 (Mining – Annex 7). So far, there is substantial interest by local firms and organizations to bid for the project, which is designed to take place over a six-month period upon contract award, expected in late July. While, ideally, this Development Strategy would have been developed, vetted, and adopted by the Government prior to the initiative to change the body of governing laws, REFORMA determined

it was expedient to provide support for the current legal changes as part of the 100-Day Plan while viewing development of the Strategy as a longer-term reform objective. This longer-term approach has also been supported by the MEAP..

REFORMA's Action Plan represents a portfolio of activities that strategically addresses a number of business environment constraints for development of the mineral resources sector. REFORMA's intention, subsequently, is to develop competitive tenders for local firms and organizations to implement the range of activities identified in the proposed Work Plan. It is expected that this Action Plan will also include a number of activities requested by the Government for assistance but also reflect the identified reform needs of the private sector. REFORMA will further develop its Action Plan during the quarter for inclusion in its Second Year Work Plan due on August 30.

1.3 Providing Trade Policy Advice and Requirements for Harmonization and Negotiation with the Customs Union

Background. REFORMA's initial approach to trade policy support has been to provide short-term consultants for a 90-day period to conduct research to better prepare the Government of the Kyrgyz Republic for negotiating potential membership in the Russia-Kazakhstan-Belarus Customs Union. Therefore, in mid-March, REFORMA hired Ms. Zhiparkul Aibasheva to undertake analysis of customs and tariff regulations and Mr. Nuritdin Dzhambankulov to provide advice on the impact of the Customs Union's technical regulations on Kyrgyz exports. USAID and REFORMA determined that providing this type of support would have significant impact on the negotiated terms upon which the Kyrgyz Republic would join the Customs Union, should it decide to do so.

REFORMA Activities in Q2 2012. Ms. Aibasheva and Mr. Dzhambankulov completed their 90-day assessment during the second quarter of 2012. Below is a summary of their work:

Analysis of Tariff Rate Structures for Customs Union Membership Negotiations. Ms. Aibasheva undertook an analysis of customs and tariff regulations, comparing the customs tariff structure of the Kyrgyz Republic with the Uniform Customs Tariff (UCT) and with Russia's pending WTO obligations to reveal options for changing the obligations of the Kyrgyz Republic across the nomenclature of commodity tariffs. Ms. Aibasheva analyzed the 2011 data on imports to the Kyrgyz Republic to determine which commodity classifications would be most sensitive to the increase of customs duties with Customs Union membership. She presented this analysis to the MEAP in a 256-page spreadsheet, of which 12 pages represented an analysis of goods that are categorized as 'sensitive' for Customs Union membership negotiations. (A brief summary of this work is located in Trade – Annex 1). These commodities are identified in two schedules: Schedule 1 – those commodities whose average rates of consolidated duties are below the average rate of the Common Customs Tariff of the Customs Union tariff rates and, therefore, to increase them would consequently require a change in tariff structure within the WTO framework ; and Schedule 2 – those commodities whose average rates of consolidated duties are above the average rate of the Common Customs Tariff and, thus, not contradict the obligations of the Kyrgyz Republic to the WTO. (A combined table of these schedules is located in Trade – Annex 2).

Examples of commodities listed under Schedule 1 are: (1) packaged infant food for retail sale; (2) insulin-containing drugs packaged for retail sale; (3) miscellaneous human vaccines; (4) veterinary vaccines; (5) carpets and other textile floor coverings, etc. Examples of commodities listed under Schedule 2 are: (1) fermented black tea; (2) non-fermented green tea; (3) fresh bananas; (4) fresh oranges; (5) woven blouses for women and girls; (4) compression household refrigerators; etc. Changes to the tariff structures for commodities under Schedule 2, however, may impact the competitiveness of nationally produced goods and will require further consultations with domestic producers.

Ms. Aibasheva also compared customs tariffs of the Common Customs Tariff of the Customs Union with the consolidated customs tariff of the Kyrgyz Republic and Russian Federation according to WTO obligations (at the level of the six-figured classification of Foreign Economic Activity – Classification of Goods for 97 commodity groups with 5,052 sub-positions). She performed a sensitivity analysis of adopting the Common Customs Tariff of the Customs Union on Kyrgyz Republic WTO obligations using a special algorithm for computing the average duty for the Foreign Economic Activity Classification of Goods. As a result of such comparison, the average duty for the Kyrgyz Republic is 7.4 percent; for the Russian Federation is 7.7 percent; and for the Customs Union is 9.9 percent. Such computations will help the Kyrgyz Republic prepare advantageous proposals to change in customs duties rates within the framework of the Customs Union and WTO. (A table of these comparisons is located in Trade – Annex 3.)

Ms. Aibasheva then prepared a draft proposal for Kyrgyz Republic Customs Union accession negotiations that will request different rates of imported customs duties than those established by the Common Customs during a transitional period. This list covers 128 commodity items supplied from the countries of the Customs Union and the CIS, which do not include goods categorized as ‘sensitive.’ Ms. Aibasheva recommended that the MEAP conduct follow up consultations with ministries and agencies for the following groups of commodities: (1) Group 39 – plastic and plastic items; (2) Group 87 – vehicles for land transport; and (3) and Section 11 -- textile materials and textile items. Several examples from this list include pharmaceutical and plastic products, paper and cardboard, felt, nonwoven fabric and others. The complete list is located in Trade-Annex 3.

Recommendations for Aligning Kyrgyz Technical Regulations with those of the Customs Union.

Mr. Dzhamankulov analyzed how Kyrgyz national technical regulations and those set forth in international agreements comply with the legal framework of the Customs Union, including those for veterinary, sanitary and phyto-sanitary (SPS) regulations. He also identified the changes to normative and legal acts that must be undertaken by the Kyrgyz Republic to ensure harmonization with the legal framework of the Customs Union. He submitted recommendations for implementation timelines to ensure that Kyrgyz products are registered in the Customs Union’s database as meeting veterinary, sanitary and phyto-sanitary technical requirements. He put forth his set of recommendations in a 98-page report submitted to the MEAP and REFORMA, which is currently still in translation (Trade – Annex 4). Although Mr. Dzhamankulov’s Scope of Work included participation in meetings of the Coordination Committee of the Customs Union and the Expert Group on technical regulations and SPS in Moscow, the MEAP did not support his participation during this period of assignment.

Key elements of his recommendations to the Government of the Kyrgyz Republic are the following:

Take the following institutional and financial action to align Kyrgyz technical regulations and SPS measures to those required for CU and Common Free Market Zone (CFMZ):

- Establish an Interagency Council on technical regulation issues and use of SPS measures to be chaired by the Vice Prime Minister of the KR;
- Support national budgeting for activities related to the preparation of KR accession to the CU and CFMZ in the area of technical regulation and SPS measures;
- Monitor the progress of government agencies in fulfilling identified requirements for: (1) aligning technical regulations and SPS measures (especially with respect to veterinary and phyto-sanitary certification, state registration of pesticides and agrochemicals, medicinal products) to CU requirements; (2) improving the technical competence of state sanitary, veterinary and phyto-sanitary services; and (3) strengthening the capacity of management personnel in government agencies to implement required changes in the area of technical regulations and SPS measures.

Harmonize Kyrgyz technical regulation and SPS measures with those required of CU:

- Develop and submit to the KR Parliament draft laws on addenda and amendments to the KR legislative acts pertaining to harmonization of state supervision over compliance with

mandatory requirements for the facilities targeted by technical regulation and rules of conducting compulsory conformity assessment procedures, including within the Framework of the Agreement on Harmonization of Legislation of the CU Member States pertaining to determining types of administrative violations and responsibility for violations in the area of technical regulation, application of sanitary, veterinary and phyto-sanitary measures;

- Adopt normative legal acts on mandatory product conformity assessment based on the Agreement, “On Common Principles and Rules of Technical Regulation in the Republic of Belarus, Republic of Kazakhstan and Russian Federation” and the Regulation on the Procedure of using Standard Assessment Schemes of Conformity with Technical Regulations of the CU, as approved by the CU Commission decision N621 of April 7, 2011.
- Approve the Regulation on the procedure of importing goods to the Kyrgyz Republic subject to mandatory confirmation of conformity, sanitary-epidemiological, veterinary and phyto-sanitary control of products on the KR border by taking appropriate Regulations of the CU as the basis;
- Take the relevant provisions of CU technical regulations and applicable CU normative legal acts as the basis for introducing the state registration of production facilities and products in the KR;
- Introduce CU-required sanitary, phyto-sanitary, veterinary, and technical regulations and make them compulsory in the Kyrgyz Republic by adopting the applicable systems of veterinary and phyto-sanitary certification to ensure that they are recognized by the CU;
- Develop a short-term Program of Urgent Measures for the use of the CU-Member State Agreement on elimination of technical barriers in mutual trade with CIS participating countries that are not the CU member states. In the KR, prepare such a program for food products and food stock, light industrial goods, construction materials. Also, use common technical regulations of the CU as directly applicable alternatives to those currently in force in the Kyrgyz Republic.

Improve the capacity of state and private laboratory testing and certification bodies to meet Customs Union conformity assessment criteria:

- Allocate the financial and organizational resources to equip state testing and research laboratories with the proper equipment and required testing standards so that they qualify for inclusion into the Common Register of certification bodies and testing laboratories of the CU. This includes improving human resource management and learning new product testing techniques pertaining to food products, food stock and light industrial goods;
- Develop measures on stimulating the creation of private certification and control bodies and testing laboratories that meet conditions for inclusion into the Common Register of certification bodies and testing laboratories of the CU;

Assist exports and improve the competitiveness of Kyrgyz goods in CU markets:

- Develop road maps to promote export to the CU countries, particularly for meat and dairy products, fresh fruit and vegetables, processed fruit and vegetables, and light industrial goods, including textiles;
- Conduct urgent anti-epizootic and other organizational and technical activities to remove restrictions for importing live animals and livestock products to the CU countries;
- Create a standing advisory service for entrepreneurs on CU and CFMZ market access issues relating to technical and SPS regulations under the MEAP.

Seminars on Customs Union technical and SPS Regulations to Government Agencies and Private Sector Institutions. Mr. Dzhamankulov also held weekly meetings for MEAP staff and members of private sector business associations on issues of labor safety requirements, (LSR), SPS arrangements and other technical regulations for Customs Union compliance. During the period of his contract, he delivered 12 seminars to 262 participants. Topics covered included; the general conditions for the admission of goods to the CU; specific CU technical regulatory requirements for light industry, child

safety requirements, sanitary and phyto-sanitary requirements; elimination of technical barriers to trade with non-CU/CIS countries; and specific requirements for the export of dairy products and fruits and vegetables; and veterinary certification, production compliance certification requirements, and others. (The topics and dates of these seminars is located in Trade – Annex 5. A list of participants and their demographics are located in Trade – Annex 6).

Planned REFORMA Activities for Q3 2012. It was originally envisioned that REFORMA will develop a tender and issue an award to a local organization to provide ongoing trade policy advice to the Ministry over the coming two years to include the implementation of recommendations resulting from these activities. This approach is still under consideration although REFORMA is also considering awarding Indefinite Quantity Contracts to several organizations (think tanks, NGOs, consulting firms) in the area of trade policy to ensure greater flexibility in responding to trade policy needs of the MEAP throughout the REFORMA contract period, including the implementation of recommended actions to ensure harmonization of technical regulatory requirements. REFORMA is also discussing the content of additional trade policy projects once we have worked with the MEAP to develop appropriate scopes of work for these activities. REFORMA expects to have the appropriate contract vehicles in place to respond to the trade policy needs of the Government prior to the end of the third quarter.

1.4 Building Human and Institutional Capacity Development (HICD) in the MEAP

Background. Implementing HICD programs in three counterpart Government institutions is one of the major activities envisioned by the REFORMA Project, to be undertaken with key counterparts of REFORMA-sponsored reforms to the business environment. The Ministry of Economy and Anti-Monopoly Policy (MEAP) was selected as our first HICD institution for two key reasons: (1) its substantial scope in setting and monitoring the implementation of economic and fiscal policy made it a primary counterpart for REFORMA across nearly each of the project's policy reform activities; and (2) it was the first Government organization that actively solicited REFORMA's support in addressing performance gaps in its human and institutional capacity. Consequently, in March 2012, REFORMA worked with the MEAP to develop a scope of work for undertaking a full performance assessment of the ministry to identify its baseline performance and performance gaps, determine the causes of these gaps, and recommend the implementation of HICD solutions to close the gaps and improve performance.

REFORMA Activities in Q2 2012. In early April, REFORMA issued a competitive tender to local firms to select an implementing partner to complete Phase I of this work – to undertake a full diagnostic study of MEAP's organization, its functions and its activities to present a holistic view of the Ministry's current performance, identify performance gaps, and recommend targeted performance solutions. (The scope of work for this tender is located in HICD – Annex 1.) By early May, REFORMA's evaluation committee, also representing the MEAP Acting State Secretary, Ms. Aidai Kurmanova, and the head of MEAP's Investment Promotion Department, Mr. Almaz Sazbakov, selected the Promotion and Development Center (PDC) as the winning bidder. REFORMA also engaged Mr. Steven Kelly of KNO Worldwide to provide guidance to PDC in applying USAID's HICD methodology for institutional assessment.

Mr. Kelly arrived in late May 2012 to complete the first of three anticipated short-term trips to the Kyrgyz Republic. During this first trip, he worked with PDC to develop the project Work Plan for the MEAP Assessment, which designated all key deliverables, activities and associated deadlines (HICD -- Annex 2). REFORMA held a kick-off meeting with Minister Sariev at which he identified the goals he was expecting to achieve as a result of the implementation of assessment recommendations, such as improved internal and external communication and information flows and the adoption of a modern, results-oriented management system. Ultimately, he expects the project to help MEAP become a 'Model Ministry' within the Kyrgyz Government. At the meeting, Steven Kelly and PDC experts presented assessment approaches, assessment implementation plans, and the timing of project

milestones. The Minister committed to providing political and technical support for achieving the set goals.

Subsequently, Minister Sariev announced the launch of HICD performance assessment at MEAP's weekly staff meeting and introduced the REFORMA assessment team. The Minister also issued a ministerial order creating the MEAP Project Steering Committee whose role is to assist the assessment team in data collection and learn the HICD methodologies to be used in assessment. The Committee is composed of representatives of MEAP's staff departments, such as Legal, HR, Policy Development Group, One-Stop-Shop Centre, and the Public Supervisory Board (PSB), with both REFORMA and PDC (HICD-Annex 3). The Committee is chaired by Ms. Kurmanova, who was also designated Project Coordinator and authorized to make decisions related to HICD project undertakings. As part of the Ministry's support, it provided office space to the HICD team for conducting the study, with a separate telephone line, internet access and access to MEAP's database and internal network.

At the end of May, the Project launched a kick-off meeting of the Steering Committee, which made the following decisions: (1) approved the Work Plan; (2) authorized support to the assessment team in data collection and the conduct of diagnostic interviews; and (3) decided to hold biweekly meetings to discuss progress of activities. Each unit of MEAP assigned a staff member to assist in project implementation. To simplify and speed up the exchange of information within MEAP, the Project established an IT communication platform using MEAP's internal IT networks Palringo, CommFort and LanDocs. The assessment team created a database of normative legal acts (NLAs) on MEAP's server where data are collected and can be accessed by all MEAP employees in the future.

Since the launch of the HICD program, the REFORMA team has completed the following activities:

- Conducted a series of external interviews with donor organizations (World Bank, IMF, GIZ, ADB, UNDP), business associations, who rely on MEAP's services (IBC, Business Development and Investment Council, Union of Entrepreneurs), and MEAP staff members. The purpose of these interviews was to obtain their views on MEAP's performance and determine other donor assistance provided to MEAP.
- Conducted diagnostic interviews with MEAP employees and made initial analysis of work processes throughout the Ministry, which was conducted by PDC's modeling consultant from Russia. All MEAP Deputy Ministers, Department Heads, and business representatives were interviewed (HICD – Annex 4). The modeling consultant developed the Business Process Modeling Reference Book describing the ARIS methodology that will be used to model MEAP's current and future business processes and will help to identify performance gaps. The assessment team prepared the list of legal acts regulating MEAP's activity for further data collection and analysis. (HICD – Annex 5)
- Conducted two focus groups among line employees to get their views on MEAP's objectives and functions, understand information flows in the ministry, document review processes, identify the internal media they use to obtain information, understand how staff meetings work within departments, etc. The focus group participants also completed questionnaires to expand upon focus group comments.
- Collected data, analyzed the legal acts regulating MEAP's activities, reviewed results of diagnostic interviews and focus groups, and began analysis of the collected data. The areas of specific focus during data collection were the mission and goals of MEAP, its regulatory framework, management structure, roles and responsibilities of individuals, HR management systems, actual employee turnover, the salary and bonus system, communication channels, distribution of information within MEAP, and many other issues.
- Conducted the second meeting of the Steering Committee to brief the committee members about the progress of activities.

Planned REFORMA Activities for Q3 2012. The Assessment Team recently submitted its first monthly report (located in HICD – Annex 6.) In July-August, the assessment team will process the collected data, map current business processes and the model the desired business processes, identify the MEAP's performance gaps, prepare an interim report of the assessment findings and present them to the Stakeholder Group in late July or early August. In August, the team will prepare a Performance Solutions Package under Mr. Kelly's guidance. REFORMA will present the final report with findings and recommendations at the Stakeholder Group meeting scheduled for late-August. The output of the project will help the Ministry to identify and offer recommendations for solving existing performance problems, determine its priorities and key development benchmarks, organize MEAP operations with the use of modern management technologies, and ensure the distribution of responsibilities among senior level staff. It is expected that the assessment project will identify the scope for implementation of the recommended solutions package. Once the Solutions Package is presented, REFORMA will work with USAID and MEAP to identify the MEAP's areas where HICD technical assistance will be channeled to close the identified performance gaps. For that purpose, REFORMA will issue a tender to complete Phase II of the project, expected to launch in the early autumn of 2012.

With the mobilization of REFORMA's resident advisor in early August (pending USAID approval), REFORMA will launch its assessment of alternative Government counterpart organizations as potential targets for undertaking a similar HICD program. At this stage, REFORMA is considering the following possible targets for HICD support: (1) the State Agency for Geology and Mineral Resources; (2) either of the two regulatory inspectorates newly merged from 10 prior inspection agencies – the State Inspectorate for Sanitary, Veterinary, and Phyto-sanitary Safety or the State Inspectorate for Ecological and Technical Safety; (3) the Chamber of Accounts; or (4) one of the counterparts that will emerge from REFORMA's fiscal reform program.

1.5 Determining REFORMA's Fiscal Assistance Agenda

Background. Aware that fiscal policy and public financial management were areas crowded with donor assistance, USAID determined that the REFORMA Project would undertake a Fiscal Assessment within the first months of project launch to evaluate assistance needs in fiscal policy management and implementation and assess opportunities for REFORMA to provide complementary assistance to support and to reinforce the reform initiatives of other donors. Consequently, REFORMA conducted this assessment in February 2012 with the objective to determine the content and timing of opportunities for REFORMA assistance. The assessment findings confirmed that the fiscal policy and public financial management space is crowded with donors seeking to provide assistance and as many as 10 different donor organizations are providing some support in the field of fiscal reform. Most of the expenditure-side functions have fallen under the Multi-Donor Trust Fund's (MDTF) Public Financial Management (PMF), which, while significantly behind implementation targets, consequently has substantial remaining resources for continued assistance. Additionally, numerous fiscal management functions are currently being automated with donor assistance and are at various stages of testing and implementation. The implementation time schedules for several of these programs have lagged, however, so with USAID concurrence, REFORMA determined that it remains premature to move forward with institutional development assistance until the impact of these process improvements can be examined.

REFORMA Activities in Q2 2012. The REFORMA Project continued an initiative begun under the EREC program to sponsor an intercollegiate conference organized by the students and faculty at the Kyrgyz-Russian Slavic University (the KRSU) to pursue academic discussion of fiscal policy. This year's conference theme was. "Issues in the application of the 2009 Tax Code of the Kyrgyz Republic" Approximately 300 students attended the conference on May 12, at which 13 students from several universities presented their papers on taxation policy. REFORMA also provided funding to publish these papers in a conference publication. Three students were granted award diplomas for papers on "Improving tax audits in the Kyrgyz Republic," "A comparative analysis of the use of income tax in the Kyrgyz Republic and the Republic of Belarus," and "Analysis of the results of tax

raids and fiscal control." The purpose of the annual conference has been to promote academic study and future professional careers within fiscal and tax policy and administration.

Planned REFORMA Activities for Q3 2012. REFORMA will work with USAID to identify which fiscal policy and implementation activities it should support during the remainder of 2012. There are several opportunities that that REFORMA has recently identified, all of which will be qualified early in the third quarter, presented to USAID for consideration, and those selected launched before the end of the quarter. Among these are the following:

Private Sector-Driven Tax Policy Changes. Although the Government's Methodological Council, which sets goals to strengthen tax policy, is aware of private sector priorities for tax policy changes, it has been slow to initiate these changes due to uncertainty on how these changes will affect tax collection. This is particularly critical in light of the Government's substantial budget deficit, some of which is supported by the IMF's Extended Credit Facility (ECF) and the World Bank/ADB's budget support programs. Consequently, the Government has requested that private sector associations seeking tax policy changes substantiate the impact that these changes will have on tax revenue collections. The Government's current approach for fiscal policy reform seems to place the onus on private sector associations to prove to the government that priority reforms will at least have a revenue-neutral impact on the national budget. Several associations have recently asked REFORMA to provide funding to complete a comprehensive Regulatory Impact Assessment (RIA) on the requested changes. REFORMA is currently planning to host a small round-table in the coming weeks to determine what assistance we can provide to business associations collectively to support priority changes in tax policy and administration. This will help REFORMA to develop a project plan to present to USAID for approval to assist private sector-led initiatives to implement identified tax policy and administration reforms.

Assistance to the State Tax Service (STS) in Implementing Strategic Plan Objectives. The STS spent the first quarter of 2012 working with IFC to finalize its strategic plan for the period 2012-2014. It has identified several areas for which it is seeking assistance from REFORMA to implement: (1) analyze and draft normative legal acts to improve the sharing of taxpayer information among Government organizations; (2) analyze methods of state registration of legal entities and individual entrepreneurs and provide assistance in information exchange and the drafting of normative legal acts to streamline enterprise registration procedures; (3) help the STS develop alternative methods of paying taxes through mobile communication, internet banking, and bank payment cards, and design and implement pilot project(s) for implementation; and (4) undertake a study of the key business sectors with the greatest number of enterprises operating in the informal sector (oil/fuel, wholesale trade, mining activities), international experience in drawing them into the formal economy, and make recommendations for implementing policy and legal approaches to reduce informal business activity in these sectors.

Supporting the Chamber of Accounts Strategic Plan Implementation. The Chamber of Accounts has submitted a request to REFORMA to provide support in implementing its recently developed strategic plan. A key component of the plan is to adapt SIMBase information management software to the business needs of the Chamber. GIZ purchased the software but did not provide assistance for implementation of the system within the Chamber. The Chamber believes that implementing this system will significantly improve operational efficiency and cost savings of the Chamber, transparency in planning and conducting audits, and identifying areas of corruption and taking the appropriate measures to curtail it, and significant cost savings.

Providing HICD Assistance to the Chamber of Accounts. In 2010, the Chamber of Accounts underwent a diagnostic assessment of its institutional performance financed by GIZ, similar to the one REFORMA is conducting for the MEAP. There was little assistance for implementation of recommended changes in institutional structures and business processes, so the impact of the assessment was virtually non-existent. The Chamber, however, seeks assistance from REFORMA in implemented recommended reforms. REFORMA could conduct an abbreviated HICD assessment to

validate prior finding and provide implementation assistance to streamline the organization and improve its functional performance.

Providing Support for Implementing Initiatives of the Chamber of Tax Consultants. REFORMA has received unsolicited grant concept papers from the Chamber to: (1) fund the research and publication of tax commentaries on the practical application of the 2009 Tax Code for use by both tax inspectors and tax consultants in determining tax liabilities; (2) fund the creation of a Tax Court to significantly reduce the burden on business of filing for appeals of tax rulings and disputes with tax authorities; and (3) improving the policy and administration of non-tax payments, which has produced opportunities for corruption due to ambiguous treatment of these payment obligations in the 2009 Tax Code.

1.6 Promoting Platforms for Public-Private Dialogue

Background. The Kyrgyz Republic has admirably attempted to establish a practice of promoting government transparency initiatives and mechanisms for public-private dialogue. Establishment of the Public Advisory Boards (PABs) as watchdog bodies to monitor the institutional expenditures of Government was one mechanism to promote transparency in fiscal management. The legislative requirement to hold public hearings on proposed laws and regulations and requirements for conducting Regulatory Impact Assessments (RIAs) to evaluate the potential impact of proposed legislation are other mechanisms designed to promote public dialogue and government accountability. Likewise, the creation of the Business Development and Investment Council and its Permanent Secretariat as an institutional platform for addressing the legal and regulatory concerns of the business community is also an attempt to establish open dialogue between Government, the private sector and civil society.

REFORMA Activities in Q2 2012. In developing the REFORMA Agenda, the project considered what support it could provide to strengthen or build on these initiatives to promote dialogue and responsive government. Although REFORMA initially identified providing training and capacity building to improve the quality and effectiveness of RIAs, the World Bank's Capacity Building Program at the MEAP has decided to provide some assistance in this area. Consequently, REFORMA will determine how it can reinforce these efforts once this relatively short program has concluded. Support to build the capacity of the PABs was considered as part of REFORMA's Fiscal Assessment and could be a target of support by the other US Government assistance programs that were considered as part of the assessment.

Planned REFORMA Activities for Q3 2012. REFORMA has decided to work with the Council's Secretariat to help it develop a strategy for sustainability, to be supported by REFORMA's Grant Program when it comes on line. In the meantime, REFORMA is continuing to provide the Council with access to a business environment improvement specialist, Mr. Azamat Akeneev, for an interim period to act as a liaison among REFORMA, the Council's Secretariat and Vice Prime Minister Ortobaev's office to better integrate REFORMA initiatives with Mr. Otorbaev's office and the Council Secretariat. It is expected that REFORMA will work with the Secretariat during the third quarter of 2012 to help it develop a more robust program for sustainability to be funded by one of REFORMA's grants. REFORMA will help the Secretariat in developing its vision for sustainability to be reflected in a grant application to enable it to continue to act as an ongoing mechanism for public-private dialogue to voice private sector reform priorities and the Government's progress in addressing these priority reforms.

2. Major Accomplishments

The following are the REFORMA Project's major accomplishments during the Second Quarter of 2012:

2.1 Subcontract Awards and Outstanding Tenders

- Completion of the *REFORMA Action Plan for Assistance to Develop the Mineral Resources Sector of the Kyrgyz Republic* by the International Business Council (IBC) on April 10, 2012 and subsequent acceptance of the Action Plan by both the Ministry of Economy and Anti-Monopoly Policy and USAID in May 2012.
- Expansion of the scope of the contract *Review and Recommendations for Optimizing and Streamlining Business Licenses and Permits in the Kyrgyz Republic*, to Foresight Foundation on May 15, 2012, for US \$24,150 to develop the draft “Law on Licensing.”
- Award and launch of the competitive tender, *Ministry of Economy and Antimonopoly Policy (MEAP), Human and Institutional Capacity Development (HICD) Assessment*, to the Promotion and Development Center (PDC) on May 24, 2012 for US \$49,675.
- Issuance of the competitive tender, *Medium- and Long-Term Development Strategy for the Mineral Resources Sector*, on June 22, 2012, for submissions due on July 16, 2012.

2.2 Seminars and Public Events

- Launched a series of weekly seminars on *Technical Regulation Requirements of the Customs Union*. Conducted a total of 12 seminars to Government staff, Parliamentarians, business association staff, and members of the private sector, with a total of 262 participants. Schedule and topics are included in Trade – Annex X.
- Conducted a Seminar/Briefing for *Responding to REFORMA Subcontracting Tenders*, on April 10, 2012. 60 participants registered and attended the event, representing 47 Kyrgyz organizations.

2.3 Reports and Studies

See 7. Annexes below.

3. Progress and Challenges in Government Coordination

USAID is aware of donor coordination issues with the Government, particularly with the initiatives pursued by Vice Prime Minister Otorbaev’s office and those tracked by Mr. Tolkun Abdygulov office at the Economy and Investments Division of the Government Office. It is unclear what REFORMA is to be communicating to the Economy and Investments Division’s Donor Coordination function. Also, there seems to be little coordination among Government organizations in developing their various plans and strategies. The World Bank is working with Mr. Otorbaev’s office to develop a Private Sector Development Strategy, whereas the Medium-Term Development Strategy was developed by MEAP. The MEAP has requested REFORMA’s assistance to draft a revised ‘Law on Entrepreneurship’ while another section of the MEAP is currently creating an Export Development Strategy.

4. Anticipated Variances from the Work Plan

REFORMA is generally on-track according to its Work Plan presented in December 2011. A copy of the Work Plan with a status update is attached to this document, which delineates between the status update it presented at the end of the First Quarter of 2012 (labeled Q1) with the status update submitted with this report for the Second Quarter of 2012 (labeled Q2).

5. Administrative and Staffing Issues

REFORMA has released a staff member originally named in its proposal budget and mobilized to manage private sector HICD pursuits. REFORMA is currently focused on pursuing HICD opportunities with the Government and will launch HICD programs with private sector counterparts in the latter half of Year 2. Therefore, REFORMA sought to replace this staff member with a

Manager of Mineral Resources Sector Initiatives, who will manage and coordinate the REFORMA Action Plan for sector development. REFORMA is also considering hiring a Manager of Macroeconomic Policy Initiatives who will coordinate REFORMA initiatives in trade and investment policy, fiscal policy and overall macroeconomic policy and policy-formulation capacity building activities although a specific position description and project scopes have not yet been fully developed.

6. Subcontracting and Grant Pipeline, Performance and Results

The REFORMA Project submitted its draft Subcontracting Plan to USAID in late January. The Project is on track regarding its plan for subcontracting to local organizations, but it must present its Grants Manual for approval to the USAID Contracting Officer and develop its overall strategy and approach for grant awards. It is currently seeking approval to mobilize a Grants Management specialist to assist REFORMA in completing and submitting its Grants Program early in the Third Quarter of 2012.

7. Report Annexes – Training Materials, Policy Papers, Etc.

Reform Activity	Annex Number	Name of Annex
Licensing	Annex 1	Final Report Licensing Review Process – EN – May 2012
	Annex 2	Final Report Licensing Law Draft – EN – July 2012
	Annex 3	List of Licenses and Permits Recommended for Elimination – EN - Package 1
	Annex 4	List of Licenses and Permits Recommended for Elimination - EN - Package 2
	Annex 5	Scope of Work for Licensing Law Amendment to Licensing Review Purchase Order - EN
	Annex 6	Comments on Licensing Law from Ministry of Energy - EN
Mining	Annex 1	Mining Action Plan Summary – EN - May 2012
	Annex 2	Letter from Deputy Prime Minister Kasymaliev for Action Plan Implementation – EN – June 2012
	Annex 3	Presentations of REFORMA’s policy comments and recommendations, “Mining Policy Reform for Growth in the Kyrgyz Republic – EN – May 2012
	Annex 4	Annotated comments on the “Law on Subsoil” - EN – May 2012
	Annex 5	Annotated comments on the “Provision on the Procedure for Regulation of Subsoil Use” - EN – May 2012
	Annex 6	Sample “Rules of Tender” that meet international practices in competitive tenders - EN – May 2012
	Annex 7	Scope of Work for Medium- and Long-Term Development Strategy for the Mineral Resources Sector – EN – Jun 2012
Trade Policy	Annex 1	Summary Final Report – Customs Union Tariff Analysis –EN – RU – Jun 2012
	Annex 2	Combined Schedules 1 and 2 of Sensitive Goods – RU – Jun 2012
	Annex 3	Comparison of Tariff Structures – KR and RF – RU – Jun 2012
	Annex 4	Final Report - Harmonizing KR Technical Regulations with Customs Union - Jun 15 2012
	Annex 5	List of Customs Union Technical Regulation Seminars – EN – Jun 2012
	Annex 6	List of Participants in Customs Union Technical Regulation Seminars – EN – June 2012
MEAP HICD	Annex 1	Scope of Work for MEAP HICD Assessment – EN - Apr 2012
	Annex 2	HICD Assessment Work Plan – EN – Jun 27 2012
	Annex 3	MEAP Minister’s Order for HICD Work – EN
	Annex 4	MEAP Interview Schedule – EN
	Annex 5	List of NLAs Government MEAP Activity – EN - Jun 5, 2012
	Annex 6	REFORMA- KNO – MEAP Assessment Progress Report – EN - Jul 2012

8. Quarterly Financial Report

Budget Cost Elements	Budgeted Amount	Disbursed Amount	Accrual Amount	Expended Amount*	Remaining Budget to Complete
Labor	\$1,004,654.53	\$240,564.66	\$32,429.94	\$272,994.60	\$731,659.93
Program Expenses	\$4,099,545.59	\$88,139.07	\$42,731.94	\$130,871.01	\$3,968,674.58
ODCs	\$777,382.34	\$195,283.02	\$26,176.67	\$221,459.69	\$555,922.65
Overhead	\$499,292.43	\$118,672.92	\$16,130.65	\$134,803.60	\$364,488.83
G&A	\$1,105,479.93	\$131,260.26	\$23,998.95	\$155,259.21	\$950,220.72
Fixed Fee	\$227,243.02	\$23,226.01	\$4,244.04	\$27,470.05	\$199,772.97
Total	\$7,713,597.83	\$797,145.94	\$145,712.19	\$942,858.13	\$6,770,739.70

Disbursed + Accrued

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