



USAID | **KYRGYZ REPUBLIC**
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USAID Business Growth Initiative (BGI) First Quarterly Report

Fourth Quarter 2014

January 30, 2015

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USAID BUSINESS GROWTH INITIATIVE
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DELOITTE CONSULTING, LLP

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The USAID BGI Project is a four (4) year project economic development project to improve the enabling environment for business and investment and to stimulate development of non-agricultural, non-extractive value chains in the Kyrgyz Republic. It was awarded to Deloitte Consulting on August 7, 2014, thus overlapping with the USAID REFORMA Project, also implemented by Deloitte, for approximately 7 weeks. This negated the need for Deloitte to demobilize prior to the end of the REFORMA Project on September 25 and contributed to the continuity of proposed business environment initiatives pursued by REFORMA that were to continue under BGI.

During BGI's first quarter of operation, Deloitte fulfilled all contractual obligations outlined in the BGI Task Order, including submission of the following:

- Submission of a draft BGI Draft Work Plan on September 22, 2014, and a revised Work Plan on October 24, 2014.
- Submission of a draft Activity Monitoring and Evaluation Plan (AMEP) on September 22, 2014.
- Submission of the draft BGI Project Fund Manual on November 6, 2014.

USAID accepted the BGI Work Plan on November 18, 2014. Due to USAID's engagement of the organization, Social Impact (SI) to produce the Performance Monitoring Plan (PMP) for the Mission, which will dictate the performance indicators that BGI and its Kyrgyz Republic Economic Growth (KREG) Activity will collect and report, USAID has not yet approved a final version of BGI's AMEP. BGI's management team, with BGI's Monitoring and Evaluation Program Manager, Kanybek Konokbaev, participated in a two-day indicator development workshop sponsored by SI on November 20-21, 2014. BGI is awaiting Contracting Officer approval of the Project Fund Manual.

1. Summary of Activities and Major Accomplishments during Q4 2014

During the fourth quarter of 2014, BGI achieved the following project results:

Public Launch of the BGI Project

On October 14, the BGI Project conducted a launch event to introduce the project to Kyrgyz stakeholders, donor organizations, and existing and future counterparts within the public and private sectors. More than 130 participants attended the event, which was attended also by Vice Prime Minister Valery Dil, Deputy Assistant Secretary of the US Department of State Dan Rosenblum, US Ambassador to the Kyrgyz Republic Pamela Spratlen, and USAID Mission Director to the Kyrgyz Republic Michael Greene. The event introduced BGI, featured presentations from previous REFORMA counterparts and implementing partners, and aired a 10-minute video of comments about the success of the REFORMA Project by counterparts and partners.

Business Environment Round Table for USAID Visitors

On December 8, BGI hosted a round table for Mark Feierstein, USAID Associate Minister, and other US dignitaries to provide an overview of the principal economic challenges and opportunities facing the Kyrgyz Republic – including Customs Union Accession – and the role foreign assistance plays in shaping economic development. Also attended by USAID Mission Director Michael Greene and other USAID and US Embassy representatives, the round table featured discussion by four leading members of the business community, including: President of the KyrgyzConcept Travel Agency Emil Umetaliev, Executive Director of the International Business Council Aktilek Tungatarov, CEO of the Chamber of Tax Consultants Uluk Kydyrbaev, and Adviser to the President of the Central-Asian Corporation Kuban Ashyrkukov. In addition, Farhat Farhat, Regional Trade Expert, USAID Afghanistan Trade and Revenue Project, also provided comment on the regional trade environment.

Presentation of the Draft Air Code

On December 4, the Working Group for drafting the new Air Code made a public presentation of the key provisions to civil aviation stakeholders at the Civil Aviation Authority (CAA). After introduction by CAA Director Erkin Isakov and comments by Mr. Ernis Mamyrganov, Deputy Minister of Transport and Communication, BGI subcontractor Kalikova & Associates (K&A) and consultant Karsten Theil, representing Integra Consulting, presented the draft Air Code, which meets ICAO standards, to nearly 50 representatives of airline companies, airports, air navigation and refueling companies, and other stakeholders. From December 4, 2014 - January 5, 2015, the CAA organized three additional round tables with participation of interested stakeholders. K&A received 159 comments to the draft Air Code and carefully considered and addressed each comment for its final draft. The Working Group will present the draft to the CAA in January for submission to the Parliamentary Committee on Transportation. In December, the CAA sent unofficial versions of the draft to Parliamentary members and Government officials.

Conduct of Training on New VAT Administration Processes

From December 1-5, BGI conducted four 4-hour workshops for 111 large- and medium-sized VAT payers in Bishkek to present the proposed VAT administration changes to the Tax Code as well as new processes to be introduced after accession to the CU. During the workshops, BGI conducted a survey to determine the time and costs taxpayers currently experience in performing six existing VAT procedures, which will provide baseline data to determine the impact of BGI's proposed changes to VAT Administration procedures once adopted. In addition, 11 taxpayers were interviewed in Osh and Jalal-Abad to understand taxpaying experience in the South.

Launch of Apparel Value Chain Study

During the fourth quarter, BGI issued its first competitive procurement to undertake a value chain study of the textile/apparel sector. After reviewing submissions from three vendors, BGI selected Central Asian International Consulting (CAIC) as the winner of the procurement. The goal of the study is to refine industry statistical data as well as collect information on the state of the sector to validate key economic data points and understand better the structure and dynamics of the value chain. The study will identify specific value chain behavior, trends, and needs both at the sector and company levels. The value chain will also be assessed in terms of its competitiveness potential, impact on the economy and beneficiaries, quality of leadership within the value chain, synergies with other value chains, cross-cutting themes, and other important aspects.

Launch of Demand/Supply Study of Skills for Value Chains

During the fourth quarter, BGI conducted a tender for the selection of a local organization to undertake a qualitative and quantitative analysis of the key skills demanded by private firms in the development of the apparel and tourism value chains and the sources and quality of the preparedness of future workers among universities, vocational schools and training organizations. BGI selected M-Vector as the winning firm, which began working with BGI's Human Capital and Value Chain teams, as well as CAIC. M-Vector will interview educational and training providers and assess the capabilities of education and training providers to meet the workforce development demands of BGI value chains. It will undertake an analysis that quantifies the size and nature of managerial and workforce skills gaps to understand the skills and knowledge required by value chain firms. At the same time, M-Vector will conduct a qualitative analysis of value chain firms and the necessary workforce and managerial skills required by value chain firms.

Belarus Apparel Study Tour

BGI Apparel Sector Program Manager Artur Aliev was invited to participate in a study tour to Belarus sponsored by GIZ from November 30 – December 5, 2014. The primary participants of the tour were government officials from the Ministry of Economy, the Ministry of Foreign Affairs, Ministry of Energy and Industry, the Kyrgyz Embassy in Minsk, Legprom, and a few owners of

apparel firms. The main objectives of the study tour were to acquire a better understanding of the likely impact of the Customs Union on Kyrgyzstan's textile/apparel sector by examining how Belarus's government has collaborated with the private sector to take advantage of opportunities, mitigate problems and manage the potential loss of competitiveness. Study tour participants visited government agencies responsible for sector development policy, international trade, product testing laboratories, sector business associations, government-owned textile/fabric factories and private apparel producers.

Ankara United Nations World Trade Organization Tourism (UNWTO) Statistics Conference

BGI participated in the UNWTO Statistics Conference in Ankara, Turkey, from December 2-4, 2014. The conference covered a comprehensive range of subjects to improve the quality of statistics collection for tourism volume, expenditures and accommodation for both inbound and outbound tourism, international practices in measuring tourism sector employment, the collection of domestic tourism statistics, the establishment of UNWTO Tourism Satellite Accounts (TSA), and other key subjects. Attending this conference was the prelude to developing a comprehensive program to improve the collection of tourism statistics in the Kyrgyz Republic and introduced key participants to the issues involved. BGI partially sponsored the participation the National Statistics Committee (NSC) official, a Tourism Department manager at the Ministry of Culture, Information and Tourism, the head of the Kyrgyz Association of Tour Operators (KATO), and BGI Tourism Program Manager Artyom Zozulinsky, at the conference.

2. Progress of Activities for Selected Value Chains

Textile/Apparel Value Chain

BGI's Activities in Q4 2014

Comprehensive Value Chain Study (*Work Plan Apparel VC, Activity 1; Task Order Apparel Value Chain Activity 1*)

During the fourth quarter, BGI issued one of its first competitive procurements to undertake a value chain study of the textile/apparel sector. After reviewing submissions from three vendors, BGI selected Central Asian International Consulting (CAIC) as the winner of the procurement. The goal of the Textile/Apparel Value Chain Study is to refine industry statistical data to order to validate key economic data points and understand better the structure and dynamics of the key actors in this value chain. The Study will identify specific value chain behavior, trends, and needs both at the sector and company levels. The value chain will also be assessed in terms of its competitiveness potential, impact on the economy and beneficiaries, quality of leadership within the value chain, synergies with other value chains, cross-cutting themes, and other important aspects.

CAIC will complete a desk review of reports that describes in detail the Kyrgyz textile/apparel value chain and use published reports and documents to obtain a clear picture and organize data about the overall structure and dynamics of textile/apparel value chain. Following the desk review, CAIC will conduct a survey of at least 200 textile/value chain actors, incorporating firms of all sizes, from small workshops to large apparel producers, trade associations that are registered as business entities, or individual entrepreneurs (which may actually own a sizable apparel firm). CAIC will conduct a minimum of six (6) focus groups in Bishkek and Osh to obtain qualitative information and validation of results obtained through survey questionnaires. This study is expected to take four months, with a draft expected by the end of March 2015.

To assist CAIC to undertake these surveys and focus groups, BGI mobilized John Haycock, an international advisor with more than 40 years of experience in apparel manufacturing management and apparel sector consulting. From November 28 to December 20, Mr. Haycock worked with BGI and CAIC to design the research and analysis activities that shaped the completion of the textile/apparel value chain study. He helped CAIC to design value chain survey questionnaires,

mentored CAIC and BGI staff in conducting interviews with key value chain stakeholders and focus groups, and provided analysis of interview responses to contribute to eventual conclusions reached through the value chain study. On December 9, he conducted a day-long seminar to train both CAIC researchers and those from M-Vector, which is conducting the value chain skills study, on the relevance of survey questions and key issues within the sector to enable them to generate follow-up questions based on responses.

The final value chain study is expected to be completed by the end of March 2015 and will significantly contribute to the formulation of apparel sector activities throughout the course of the BGI project.

Belarus Study Tour (*Work Plan Apparel VC, Activity 1; Task Order Apparel Value Chain Activity 1*)

BGI Apparel Sector Program Manager Artur Aliev was invited to participate in a study tour to Belarus sponsored by GIZ from November 30 – December 5, 2014. The Belarusian apparel sector is one of the Kyrgyz Republic's greatest competitors in the Russian apparel market. The primary participants of the tour were government officials from the Ministry of Economy, the Ministry of Foreign Affairs, Ministry of Energy and Industry, the Kyrgyz Embassy in Minsk, Legprom, and a few owners of apparel firms. The main objectives of the study tour were to acquire a better understanding of the likely impact of the customs union on Kyrgyzstan's textile/apparel sector by examining how Belarus's government has collaborated with the private sector to take advantage of potential opportunities and mitigate problems and the potential loss of competitiveness. Study tour participants visited government agencies responsible for sector development policy, international trade, product testing laboratories, sector business associations and government-owned textile/fabric factories. Additionally, upon BGI's suggestion, GIZ arranged visits to two Belorussian apparel producers to explore areas of potential collaboration.

Planned BGI Activities for Q1 2015

The key BGI apparel sector activity during the first quarter of 2015 is to conduct and finalize the value chain study. In addition, BGI will sponsor an Apparel Sector Stakeholders' Meeting on January 29, to introduce the BGI project to apparel sector firms, government officials, business associations, and other donors. Although BGI has not yet finalized our complete approach for pursuing apparel value chain strengthening activities, BGI will present our high-level approach to sector development as well as some preliminary findings from both the value chain study and the skills analysis. The Womens' Leadership in Small and Medium Enterprises (WLSME) will present a synopsis of its apparel sector activities, and BGI will present overall impressions received from participating in GIZ's Belarus study tour. By the end of the quarter, BGI will have developed a comprehensive approach for developing the apparel sector value chain for further discussion and refinement with USAID.

Tourism Value Chain

BGI's Activities in Q4 2014

Participation in the United Nations World Tourism Organization (UNWTO) Statistics Conference (*Work Plan Tourism VC, Activity 3*)

BGI participated in the UNWTO Tourism Statistics Conference in Ankara, Turkey, from December 2-4, 2014. BGI partially sponsored the participation the National Statistics Committee (NSC) official, a Tourism Department manager at the Ministry of Culture, Information and Tourism, the head of the Kyrgyz Association of Tour Operators (KATO), and BGI Tourism Program Manager Artyom Zozulinsky, at the conference. The conference covered a comprehensive range of subjects to improve the quality of statistics collection for volume, expenditures and accommodation for both inbound and outbound tourism, international practices in measuring tourism sector employment, the collection of domestic tourism statistics, the establishment of UNWTO Tourism Satellite Accounts (TSA), and

other key subjects. Attending this conference was the prelude to developing a comprehensive program to improve the collection of tourism statistics in the Kryrgyz Republic and introduced key participants to the issues involved.

Participation in WLSME’s Presentation to Tourism Stakeholders (*Work Plan Tourism VC, Activity 1; Task Order Tourism Value Chain Activity 3*)

On December 12, BGI participated in a meeting hosted by the WLSME for tour operators, guesthouse owners and other tourism sector stakeholders to discuss KATO initiatives, including the compilation of an electronic business catalogue for guest houses that WLSME is considering supporting. WLSME conducted a brainstorming session that identified the key constraints the sector faces and which should be priorities for donor support. BGI had the opportunity to present our approach to destination management development (discussed below) to an audience comprised of possible leaders within location-based tourism consortia. It provided BGI an introduction to private sector stakeholders who may become partners in various BGI tourism initiatives.

Planned BGI Activities for Q1 2015

Destination Management Launch (*Work Plan Tourism VC, Activity 1; Task Order Tourism Value Chain Activity 3*)

In February and March 2015, BGI will conduct a series of road shows throughout Kyrgyzstan to make presentations of our approach to develop destination management consortia within specific destination locations that will develop and manage initiatives to improve locally based tourism. BGI intends to partner and work with a select number of consortium that are willing, able, and committed to submit and implement grant applications and requests for technical assistance for developing and managing the locally-based tourism products that will enhance tourist destinations in Kyrgyzstan and, in turn, the overall tourist experience. A consortium is a grouping of firms, associations, local government municipalities, and/or community based organizations that work together in this context to develop and promote a specific destination. Viable proposals may have elements of the following activities: development of destination management organizations/consortia, innovative destination products, marketing tools and activities to promote destination products, sustainable tourism approaches, land and resource management initiatives, financial management and related tools that can be used to secure better access to finance, enhanced quality and service capabilities at facilities/attractions, improved public budget planning capabilities, and monitoring and evaluation systems, among others.

It is expected that BGI will receive and evaluate destination management proposals during March and begin to launch destination management programs by April/May 2015.

Launch Project to Improve the Collection of Tourism Statistics. (*Work Plan Tourism VC, Activity 3*)

In the first quarter of 2015, BGI intends to introduce its project to work with tourism stakeholders/partners to improve the quality of tourism statistics collected in the Kyrgyz Republic. BGI will mobilize an international advisor to introduce and implement international/UNWTO best practices/recommendations for tourism statistics. BGI will team the advisor with a competitively selected local organization to adopt locally based solutions to improve the quality of surveys by adopting a user-intuitive approach at each level of statistics collection – design of survey forms, complexity of questions, length of questionnaires, etc. The project will strengthen the level of collaboration between the Border Service, and other Government agencies with National Statistics Committee. While NSC staff has mathematical capacity, they lack the critical thinking capacity required for producing and analyzing meaningful statistics. The project will improve the analytical capacity of the NSC as well as enhance presentation of tourism statistics through improved website features for better use in business planning in both the private and public sectors. The first phase of the project is expected to be six months and launched in March 2015.

Construction Materials Value Chain

BGI's Activities in Q4 2014

Competitive Local Tender for Construction Materials Value Chain Study (*Work Plan Construction Materials VC, Activity 1; Task Order Construction Materials Value Chain Activity 1*)

In December, BGI launched a tender to select a local organization to contribute to the conduct of a comprehensive value chain study of the construction materials sector. There is a limited amount of current and comprehensive information available about the construction materials value chain (s) that can adequately inform the project about the present state of the industry. BGI seeks to engage a team comprised of one local firm and one international firm that, in close collaboration, will work with BGI to define and structure the construction materials value chain (upstream and downstream), identify and analyze actors/stakeholders, map and quantify the activities within the value chain by actor and, cumulatively, identify and analyze stakeholder interests and prioritize sector wide constraints. The local contracting firm will be responsible for three groups of tasks which consist of conducting the value chain mapping and analysis, identifying and preparing a stakeholder database, gathering statistical data, providing event planning, arranging meetings and logistical support for the international contracting firm, conducting full quota of interviews, workshops, and focus group discussions, and completing the stakeholder analysis. BGI was evaluating the four submitted proposals at the end of 2014.

Planned BGI Activities for Q1 2015

Construction Materials Value Chain Study (*Work Plan Construction Materials VC, Activity 1; Task Order Construction Materials Value Chain Activity 1*)

In the first quarter of 2015, BGI will select the winning local vendor and contract with SSG, the international contracting firm that is part of the Deloitte BGI team. SSG will be responsible for providing a two-person team that will be responsible for the value chain mapping/analysis, including analysis and summary of stakeholder interests and prioritization of sector-wide constraints and actionable recommendations that will be submitted to BGI and the local contracting firm. SSG, in collaboration with BGI, will guide/manage the local contractor's activities and be responsible for compiling and drafting the interim and final reports. The final value chain study is expected to be completed by the end of May 2015.

Gender/Youth

Planned BGI Activities for Q1 2015

Conduct a Baseline Gender and Youth Study (*Work Plan Gender/Youth, Activity 1; Task Order Gender, Activity 1, Youth, Activity 1*)

As of the end of 2014, BGI had begun developing a scope of work for conducting a gender and youth assessment to obtain information to introduce the gender and youth dimensions of BGI. The study will help BGI develop strategies for integrating gender and age-responsive approaches to value chains in the selected areas. It is expected that the deliverables of the assignment will give deeper notion regarding women's/youth's access to productive resources and opportunities to add value, both as individual and group enterprises. The study will also take into consideration the impact of issues in the business environment on women and youth employment. The project is expected to launch in February/March and be completed by May 2015.

3. Progress of Activities for Strengthening Human Capital

BGI's Activities in Q4 2014

Launch of the Study of the Demand and Supply of Value Chain Skills (*Work Plan Human Capital, Activity 1; Task Order Human Capital, Activity 1*)

During the fourth quarter, BGI conducted a tender for the selection of a local organization to undertake a qualitative and quantitative analysis of the key skills demanded by private firms in the development of the apparel and tourism value chains and the sources and quality of supply of future workers among universities, vocational schools and training organizations. BGI selected M-Vector as the winning firm, which is an organization that REFORMA had not previously engaged. M-Vector began working with BGI's Human Capital and Value Chain teams, as well as CAIC, the firm engaged to conduct the apparel value chain study. M-Vector will interview educational and training providers and assess the supply and the capabilities of education and training providers to meet the demand of BGI value chains. It will undertake an analysis that quantifies the size and nature of managerial and workforce skills gaps of the value chains and the participation of women and youth as beneficiaries of formal education and training and barriers that prevent women and youth for assessing skills and jobs in the sectors. It will also undertake a quantitative analysis of the demand side to understand the skills and knowledge required by value chain firms by conducting field interviews of a sufficient size to be reasonably representative, in conjunction with the CAIC study. At the same time, M-Vector will conduct a qualitative analysis of value chain firms and the necessary workforce and managerial skills required by value chain firms. The study is expected to be completed by March 2015.

Sponsorship of the Institute of Management Consultants (IMC) Annual Forum and Presentation of the Programs Available through the Project Management Institute (PMI) in Almaty. (*Work Plan Human Capital, Activity 3; Task Order Human Capital, Activity 3*)

IMC is a business association with membership of roughly 70 mostly independent management consultants. IMC conducts an annual Forum each December to promote the development of the consulting profession in the Kyrgyz Republic. One of BGI's objectives is to improve the capacities of local consultants to provide services to value chain firms, and IMC is the key counterpart to reach local consultants.

The theme of this year's Annual Forum was *Development of Professional Standards in Consulting*, which took place on December 17 in Bishkek. The event was organized by the Institute of Management Consultants (IMC) in the Kyrgyz Republic with the support of the European Bank for Reconstruction and Development (EBRD), Embassy of Switzerland and BGI. Within the framework of this forum, local and international experts discussed the topics of development of professional standards in consulting, ways to obtain certifications such as the Certified Management Consultant (CMC), the Project Management Professional (PMP), the Certified Performance Technologist (CPT), as well as other standards and certifications in consulting.

BGI supported IMC with 2 presentations: Project Management Professional and the PMI Chapter in Kazakhstan delivered by Vladimir Zotolokin from PMP Chapter in Almaty, Kazakhstan and the Certified Performance Technologist delivered by BGI Human Capital Component Leader Tanja Georgievska. BGI provided funds to support the Forum by sponsoring the speaking engagement of Mr. Vladimir Zolotin of the PMI in Almaty, who discussed the benefits of obtaining certification as a Project Management Professional (PMP). The following day, Mr. Zolotin made a more in-depth presentation to interested consultants on the field of project management, which provided general information about the procedures and criteria for PMP certification, an international certification in project management. The participants of the workshop also discussed creation of an open platform for all individuals interested to obtain the PMP Certification.

BGI also provided funding for covering some of the organizational costs of the Forum. BGI took part in the exhibition with its own stand providing information about the new project and informing

participants about work that was done under REFORMA project. The Forum was attended by 116 participants. After the Forum, IMC prepared and submitted a brief report and a 5-minute video about the Forum.

Improving Institutional Efficiency in the Public and Private Sector, in cooperation with USAID GGPAS (*Work Plan Human Capital, Activity 3; Work Plan Business Environment, Mining, Activity 7; Task Order Business Environment, Activity 1*)

On December 16, BGI and GGPAS organized a one-day conference on *Improving Institutional Efficiency in the Public and Private Sector*. The conference was attended by 99 representatives from ministries, agencies, associations and local consulting and research companies. It offered an opportunity for information exchange and showcased various methodologies and approaches applied in different public organizations under Human and Institutional Capacity Development (HICD) programs. In addition to the plenary session, the conference gave participants the opportunity to participate in groups and expose themselves to case studies on practical instruments and tools for increasing efficiency at work, developed and delivered by local consultants who implemented capacity development projects under REFORMA and GGPAS.

The State Geology Agency's Deputy Director Ulan Ryskylov and REFORMA subcontractor Feliks Shapiro delivered a presentation on implementing the geological management data base at the Agency with a focus on the scanning process of licenses. The Head of the Strategic Planning Unit at the Ministry of Economy, Nazgul Sydygalieva, and REFORMA local IT expert, Vlad Tkachov, delivered a presentation on the implementation of the monitoring and evaluation system at the Ministry to measure progress of its Internal Development Strategy.

Following the event, a conference participant attending the sessions, sent a thank you note to the Project staff adding: "We gained new and interesting information in the area of monitoring and evaluation that will help us improve and revise our future plans."

4. Progress of Activities for Improving the Business Environment

Tax Policy and Administration

BGI's Continued Activities in Q4 2014

Simplified VAT Administration System (*Work Plan Tax Administration, Activity 1; Task Order Business Environment Activity 3*)

In 2013, the Kyrgyz Government asked REFORMA to undertake an analysis of the country's indirect tax regime to determine what fiscal policy changes it could make in the near term to reduce taxation burdens on business yet maintain current level of revenue collection. In addition, the study evaluated some of the current practices in VAT and sales tax administration to make specific recommendations to improve and simplify the administrative regime in reporting, crediting, collecting and refunding indirect taxes. Among the key administrative burdens the study identified were the following: (1) the mandatory use of security invoices in the State Tax Service's (STS) attempt to curtail fraud in VAT reporting; (2) excessive documentation required for the submission of monthly VAT reports; (3) widespread rejection of what are claimed to be legitimate VAT credits; (4) failure to remit VAT refunds to exporters. The STS countered these complaints with accusations of significant VAT fraud on the part of the private sector, as well as deliberate attempts by businesses to avoid reporting revenue above the 4 million som threshold that would trigger mandatory VAT registration.

Overall, the REFORMA study concluded that VAT invoicing and reporting requirements penalize legitimate VAT taxpayers while failing to significantly curtail the incidence of fraud. The study identified several recommendations to improve administrative processes in VAT registration and inspection that would have far greater impact on combatting fraud, but to develop a concrete plan for

VAT administration reform required a more in-depth analysis of VAT administrative processes and procedures. Consequently, REFORMA sponsored a second study to address specifically the STS's business processes associated with VAT administration while determining where the major bottlenecks exist in private sector compliance with VAT reporting. The goal of the study was to identify specific recommendations to improve the way in which the STS administers the VAT regime while reducing incentives for legitimate businesses to avoid VAT registration, thereby bringing a larger percentage of firms into the VAT system.

The tax authorities proved to be quite open to changing VAT registration procedures, simplifying VAT crediting and refunding procedures and phasing out the requirements for paper-based, high security invoices. In 2014, REFORMA extended this scope of work to include drafting amendments to the Tax Code that would enable the implementation of recommended changes to VAT administrative procedures. In addition to drafting these Tax Code amendments, REFORMA also realigned the specific processing procedures as part of the STS internal regulation and drafted a VAT Administration Procedures Manual to standardize practices and ensure that the administrative reforms will be equally implemented across STS branches.

In July 2014, MF Consulting conducted two final round tables presenting all recommended changes to VAT administration, one to the accountants of primary VAT payers and the other to key Government officials. Following this, the Ministry of Economy circulated the package to ministries and agencies, in accordance with established protocol prior to submission of legislation to Parliament. At the end of the REFORMA contract, proposed amendments were still undergoing review by state agencies.

With the award of the BGI project, USAID has determined to continue to support VAT administrative reform. Throughout the fourth quarter, BGI Tax Program Manager Dilyara Ishalina provided advice on the recommended changes to VAT administration reflected in amendments to the Tax Code, the Criminal Procedural Code, and the Code on Administrative Responsibility to government officials throughout the process of obtaining approval of the proposed amendments from the relevant ministries and agencies. The proposed changes: (1) eliminate the use of high-security invoice forms and replace them with a system for generating unique electronic invoice numbers; (2) simplify the VAT crediting and refunding procedure for conscientious taxpayers who meet fast track criteria; (3) tighten voluntary VAT registration procedures by conducting thorough due diligence prior to registration; and (4) reduce the period for which distributed invoice numbers are valid following the failure of any taxpayer to file a monthly VAT report. The package of VAT amendments is expected to be submitted to the Government for review and approval and further submission to the Parliament in January 2015.

The decision made by the Kyrgyz Republic on accession to the CU, however, fundamentally changes VAT administration procedures for the goods brought from the CU member-countries. If before, the State Customs Service (SCS) was responsible for VAT administration for imports, after accession to the CU, indirect tax administration (VAT and excise tax) in trade transactions with CU-member countries will be fully transferred to the STS. This will change administrative procedures for VAT payers trading with CU-member. In early December 2014, BGI subcontracted MF Consulting to revise the earlier developed Manual on VAT administration processes to reflect new processes to be introduced upon Kyrgyzstan's accession to the CU and to conduct training courses for tax inspectors on new VAT administration processes.

Additionally, from December 1-5, BGI conducted four 4-hour workshops for 111 large- and medium-sized VAT payers in Bishkek to present the proposed VAT administration changes to the Tax Code as well as new processes to be introduced after accession to the CU. During the workshops, BGI conducted a survey to determine the time and costs taxpayers currently experience in performing six existing VAT procedures. In addition, 11 taxpayers were interviewed in Osh and Jalal-Abad to understand taxpaying experience in the South. The baseline data collected will help to further monitor the changes in time and costs following adoption of the VAT amendments. The results of the survey are attached to this Report.

Participation in VAT Workshop in Moscow (*Work Plan Tax Administration, Activity 1; Task Order Business Environment Activity 3*)

From December 9-11, 2014, BGI sponsored participation of Kyrgyz tax experts in a VAT training workshop in Moscow conducted by Eurasian Academy of Public Finance for CIS tax experts and tax service officers. At the workshop, participants were presented the main trends in VAT policy in European countries. These included VAT rate increases, revocation of benefits, fighting VAT fraud, approaches and instruments for effective VAT payment control, tax audit methodologies, automation of VAT administration processes and other VAT-related best practices.

Support for the National Fiscal Policy Concept (*Work Plan Tax Administration, Activity 2; Task Order Tax Administration Activity 2*)

BGI Program Manager Dilyara Ishalina is a member of the Government's Working Group to develop a National Fiscal Policy Concept for 2015-2020. In October-December, 2015, she worked closely with the relevant government ministries and agencies to identify the key issues that need to be addressed in the proposed Fiscal Policy Concept.

On November 28, 2014, BGI supported a one-day round table with the participation of tax experts from the President's Administration, Parliament, Government Office, Ministry of Finance, Tax Service, representatives of the Customs Service and representatives of business associations, such as the International Business Club, Bishkek Business Club and Tax Consultants' Chamber to discuss key tax policy priorities and finalize the Draft of the National Fiscal Policy Concept for 2015-2020. The proposed Fiscal Policy Concept defines the primary tax policy and administration issues and sets forth mid-term goals and objectives in the area of fiscal policy and tax administration. The finalized draft of the Concept was presented to the Prime Minister and to the economic development departments of the Government Office.

The Fiscal Policy Concept is expected to be approved by the Government Resolution in the first quarter of 2015. The adopted Concept will be an important strategic document that will determine the main priorities for consistent fiscal policy improvement in the upcoming 6 years. Once the Fiscal Policy Concept is adopted, BGI will work with the key government agencies to identify key priorities for tax policy assistance in implementing the Fiscal Policy Concept for 2015-2020.

Planned BGI Activities for Q1 2015

Simplified VAT Administration System (*Work Plan Tax Administration, Activity 1; Task Order Business Environment Activity 3*)

Following the approval by all relevant ministries, the MoE will submit the package of VAT amendments to the Government in January 2015 for review, approval and further submission to the Parliament. BGI will continue providing consultative assistance throughout the process of approval of the proposed VAT package in the Government and the Parliament.

MF Consulting will analyze laws and regulations reflecting indirect tax administration processes, reporting forms, and other procedural VAT documents based on CU accession. Subsequently, MF Consulting will develop amendments to the existing VAT reporting forms, and, if necessary, develop new forms, and adjust proposed working processes in line with CU VAT administration procedures. MF Consulting will also revise the previously drafted Manual on VAT Administration to reflect CU-related procedural changes.

New VAT processes will require mandatory electronic filing of reports and expanded access for the taxpayers to the VAT payers database. MF Consulting will also conduct a needs assessment of regional tax offices to determine the material and technical resources required for implementation of

the new requirements. This assessment will help BGI determine whether to support procurement of hardware and software for regional tax offices.

Once Parliament has passed the package of amendments, MF Consulting will provide a series of training courses to tax officials that reflect documented operations manual procedures, also highlighting those aspects of current procedures that significantly deviate from existing law. This will strengthen the implementation of VAT administrative procedures and reduce burdens on VAT taxpayers. BGI will also widely publicize changes to VAT payers and offer training in new procedures to the business community.

Tax Literacy on Universal Declaration (*Work Plan Tax Administration, Activity 2; Task Order Business Environment Activity 9*)

The Tax Code adopted in 2009 intended to introduce a system of universal tax reporting for all forms of economic activity in the Kyrgyz Republic, as well as for all Kyrgyz families and citizens. Due to widespread lack of tax literacy among the Kyrgyz population, however, Parliament waived the universal tax declaration (UTD) requirement until January 2016. Consequently, the REFORMA team worked with the STS and its subcontractor, the Chamber of Tax Consultants (CTC), throughout 2013 and 2014 to develop and implement a comprehensive public outreach campaign to strengthen taxpaying culture throughout the country. REFORMA's implementing partner executed a program of public relations, advertising and information that was distributed via electronic and print media throughout the country. REFORMA contracted with a local animated video production company to create a total of three commercials in Russian and Kyrgyz, aired from October 2013 to June 2014, to improve public awareness of tax obligations and future universal declaration requirements. REFORMA also undertook a taxpayer awareness survey to obtain baseline data for monitoring and evaluating the impact of REFORMA public education campaign. Teams surveyed 1200 taxpayers throughout the Kyrgyz Republic, in both August 2013 and August 2014 to determine the impact on awareness. Nearly all awareness indicators posted significant gains, but the largest evidence of success was the STS's reporting a 7% increase in the submission of tax declaration in 2014.

In January 2015, BGI will adjust REFORMA's UTD video commercials and audio announcements for further broadcasting on TV channels and radio stations in February-March 2015 to continue the tax literacy broadcast campaign prior to the April declaration filing deadline. BGI will support the STS's other public awareness efforts through radio interviews, regular updates of information about the UTD in social networks, information forums, and press café for journalists. BGI will also make necessary changes to the UTD calculator in line with the changes made to the tax declaration forms and develop software for offline completion of the UTD.

Legal and Regulatory Framework for Business Licensing and Inspections

BGI's Continued Activities in Q4 2014

Reforms in Optimizing the Conduct of Environmental and Technical Safety Inspections (*Work Plan Business Regulation Reform, Activity 1; Task Order Business Environment Activity 4*)

As part of the program for easing business regulations, in 2012 the Kyrgyz Government decided to consolidate the inspections functions of 21 business regulatory agencies into two primary government inspectorates – the State Inspectorate for Sanitary, Veterinary, and Phytosanitary Safety and the State Inspectorate for Ecological and Technical Safety. Subsequently, the MoE requested that REFORMA provide assistance to undertake a legal and regulatory analysis to remove legal loopholes in inspections activities created from the functional consolidation as well as to eliminate continued compliance burdens on the business community. Unable to undertake a massive review for both new inspecting agencies, as well as 11 additional inspecting agencies, REFORMA elected to focus on the

State Inspectorate for Environmental and Technical Safety, because it also strategically supported REFORMA's activities in improving the business environment for mining.

During 2013, REFORMA reviewed the provisions of 100 relevant NLAs in the Kyrgyz Republic and made recommendations for strengthening the Law 'On Procedures for Inspecting Business Entities' according to best international practice. It reviewed the set of inspections checklists that were created by the State Inspectorate for Ecological and Technical Safety and compared them for consistency with the body of NLAs and the checklists of other government bodies to determine if any were conducting inspections with duplicative criteria. Finally, the project developed recommendations and draft amendments incorporating proposed changes to legislation and NLAs.

In May 2014, REFORMA subsequently drafted implementing regulations supporting these amendments and regulations to amend checklists employed in the inspections process to reflect the law. The project revised eight checklists for inspections covering environmental impact, land use, fire, labor safety and others. To address the absence of a prescribed methodology for conducting inspections, the scope included the development of a methodology for conducting ecological and technical safety inspections, as well as the methodology for taking samples for compliance testing. In July, REFORMA submitted the entire package of checklists, legal amendments, the inspections methodology, the sampling methodology and a Manual on Inspections for entrepreneurs to the Ministry of Economy for circulation prior to submitting them to the Government for approval.

During the fourth quarter, BGI experts participated in three Working Groups established by the MoE for optimization of the business regulation functions in 12 inspection agencies to help them improve the conduct of business inspections based on the positive results achieved at the State Ecological and Technical Safety Inspectorate. BGI provided legal, consultative and technical assistance during the fourth quarter to the remaining inspection agencies to revise their checklists according to the Government's approved format. As of the end of the quarter, new checklist forms were approved for use in six of the 12 inspection agencies.

On December 11, BGI met with the newly appointed Director of the State Ecological and Technical Safety Inspectorate to brief him on the work undertaken, the submitted draft of the new Regulation on the State Ecological and Technical Safety Inspectorate, all analytical materials, and the Draft Government Resolution on cancelling the Special Account of the Inspectorate for his review and further action. BGI discussed a program of cooperation with the State Ecological and Technical Safety Inspectorate for the upcoming year, which needs to be further defined.

BGI Expert Raisa Ermakova reviewed the two new Methodologies developed by REFORMA for submission to the State Ecological and Technical Safety Inspectorate and the MoE for consideration and further submission to the Government. These are the Methodology for Conducting Inspections by the State Ecological and Technical Safety Inspectorate and the Methodology for ensuring the efficacy of the water, air, and ground samples taken for laboratory testing of environmental violations.

In November 2014, a new Deputy Minister of Economy, Kylych Djakypov, was appointed who will oversee business regulation reforms. BGI make presentation to him on REFORMA's technical assistance in the sphere of inspections and plans to continue this work under BGI.

Reforms in Business Licensing and Permitting (*Work Plan Business Regulation Reform, Activity 2*)

In 2008, the Kyrgyz Republic began to undertake a substantial program to improve the enabling environment for business growth and investment with a focus on reducing the number of licenses and permits required to conduct business activity. Using a guillotine rationalization methodology, the Government initiated an assessment of the stock of licenses and permits across all public institutions over the next three years. Providing a team of lawyers and experts to resolve technical and legal issues that arose with this initiative was one of the primary activities of the USAID Business Environment Improvement (BEI) project. The project, however, was unable to complete the work prior to its end of the project in September 2011. Based on a request from the MoE and validated by the business community, REFORMA agreed to complete the review process and draft a framework law that would establish overarching principles for business regulation through licensing and permitting

Consequently, REFORMA's work produced legislation resulting in the elimination of more than 200 licenses and permits, resulting in the passage of a Law 'On the Licensing and Permitting System' in October 2013 that left only 101 business activities subject to licensing and permitting and introduced key international principles that included: (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. Although not explicitly stated, a 'silence is consent' provision was implied in the draft law. REFORMA then helped the Government to draft four implementing regulations: (1) the regulation on licensing; (2) the regulation on the methodology for risk assessment; (3) the regulation on the procedures for licensing control; and (4) the regulation on the procedure for maintaining a register of licenses and permits.

The Regulations drafted by REFORMA were formally submitted by the MoE to the Government on 30 September 2014. In the fourth quarter, BGI hired an individual consultant to assist the MoE in the passage and adoption of the four licensing regulations, who worked with the Government in conducting discussions and provided consultative advice and comments on the content of the proposed draft regulations.

BGI experts held 114 meetings with 27 license issuing agencies, Government, Justice Ministry and MoE and developed 32 Matrices of Disagreements for contentious issues of the Regulations argued by government agencies. Most of the license-issuing agencies argued about the term of the license, attempting to retain their right to issue licenses for a certain time frame as opposed to the permanent licenses provided for by the Law on Licensing and Permitting System. Finally, it was agreed that amendments will be made to the Law on Licensing and Permitting System allowing for licenses to be issued by certain agencies for the desired term.

Another important issue is that the law provides for the list of 101 licensable business activities which may include several sub-activities that may require a separate license (or a sublicense). The MoE was convinced by BGI experts that the list will be expanded to include those activities for which a separate sub-license is required.

Meetings were held with the Vice Prime Minister Elvira Sariyeva, VPM Valeri Dil, Minister Sariyev and other government officials to discuss the disputable issues of the draft Regulations. On 18 December 2014, BGI made a presentation on the contentious issues at the meeting of the Business Development and Investment Council chaired by Prime Minister Otorbaev. Following the meeting, the decision was made to establish a working group to resolve the open issues. BGI was included in the working group to provide further consultation.

Planned BGI Activities for Q1 2015

Reforms in Optimizing the Conduct of Environmental and Technical Safety Inspections (*Work Plan Business Regulation Reform, Activity 1; Task Order Business Environment Activity 4*)

BGI will hold a tender to subcontract a local firm to revise the drafted 60 laws and regulations to reflect changes caused by the Kyrgyz Republic accession to the Customs Union, including the drafting of the four laws on ecological safety, fire safety, industrial safety and radiological safety to close the legal gap caused by the revocation of all technical regulations following the CU accession.

BGI will also conduct training on the new inspections methodologies, originally planned to take place under REFORMA, in February and March under BGI. BGI will sponsor training and practical classes for both inspectors and businesses, at which time BGI will distribute guidelines to the private sector to be better prepared to monitor the legality of inspectors during the inspections process. The last stage in optimizing the legal framework for inspections optimization it is preparation of amendments to the law on inspections, coordinate delivery of the amendments and accompanying documentation to the Ministry of Economy, and provide assistance during the review and approval process by the Kyrgyz Government and Parliament. It is expected that these will be completed in April-May of 2015.

Reforms in Business Licensing and Permitting (*Work Plan Business Regulation Reform, Activity 2*)
BGI will help the MoE in drafting amendments to the Law on the Licensing and Permitting System of the Kyrgyz Republic to ensure that they support the implementation of the four draft regulations. When the Government approves the draft regulations, BGI will undertake training for both licensing issuing agency personnel and businesses to ensure the smooth implementation of the licensing regulations.

Access to Finance

BGI's Activities in Q4 2014

Initial Review of Status of Access to Finance Products (*Work Plan Access to Finance, Activities 1-3; Task Order Access to Finance Activities 6-8*)

During the fourth quarter of 2014, BGI Access to Finance Program Manager Aliya Niyazalieva reviewed the experience of the Purchase Order Financing Product (POF) product introduced in a pilot program under USAID's Local Development Program (LDP). She prepared an update on the status of the POF financing product, reviewed information about USAID's Development Credit Authority (DCA) guarantees, and discussed enabling environment barriers to promoting equipment leasing following meetings with the following local counterparts: Anvar Abdraev, Chairman of the Union of Banks, Jarkynai Tashpolotova, Head of Leasing Department/Senior Corporate Credit Officer at KICB, Asel Usupkojeva, Deputy Head of Credit Unit, Alina Asanbekova, Head of Branch SME Marketing and Aliya Dospaeva, Lawyer of Demir Bank. On December 31, 2014, DCA Loan Portfolio Guarantee Agreements were signed with Bai Tushum Bank and Demir Bank. Several of the POF participating banks expressed interest in renewing the program, and Demir Bank and KICB expressed interest in expanding their leasing operations to value chains in textile/apparel if a more comprehensive analysis of the Kyrgyz leasing market is conducted.

BGI also prepared a scope of work (SOW) for international consultant Richard Currie, who had introduced POF under LDP, to assist with launching an Access to Finance component of the project. The SOW included reviewing the available funding mechanisms for SMEs in the textile/apparel and tourism sectors focusing on the POF financing, leasing and DCA guarantees.

Planned BGI Activities for Q1 2015

Develop and Initiate Detailed Access to Finance Work Plan (*Work Plan Access to Finance, Activities 1-3; Task Order Access to Finance Activities 6-8*)

The BGI team will work with Mr. Currie to prepare a detailed first year work plan for the Access to Finance component based on the BGI First Year Work Plan. Mr. Currie will also help draft an SOW for a local firm to be subcontracted for undertaking the analysis of the practice of leasing transactions

in the Kyrgyz Republic, including the difficulties and risks. BGI will also draft an SOW to conduct an external assessment of guarantee funds operations in the country.

Civil Aviation Safety

BGI's Continued Activities in Q4 2014

In April 2014, REFORMA issued a grant to the Association of Civil Aviation Enterprises (ACAE) to implement a Corrective Action Plan to improve air safety prior to an International Civil Aviation Organization (ICAO) Validation Mission scheduled for August. The need for this project arose from a 2006 audit by the Air Safety Committee of the European Commission, which found that “The Kyrgyz Civil Aviation Authority (CAA) has an insufficient ability to implement and enforce the relevant safety standards in accordance with their obligations under the Chicago convention.” As a result, all airlines, as well as the CAA were placed on the EU’s Safety List, which banned them from flying to, from or over the territory of the countries of the European Union. Prior to 2006, Kyrgyzstan-based airlines regularly conducted flights to Europe 5 times a week, transporting between 25,000 – 30,000 passengers per year and generating annual revenue of \$18-21 million.

After failing this audit, preliminary discussions with the European Commission conveyed that successful passage of an audit by ICAO would be an initial step for Kyrgyz airlines to be removed from the Safety List and allowed to fly to the EU. As a member of ICAO, the Kyrgyz CAA undergoes a mandatory audit every five years.

From 2006 to 2009, the CAA made significant improvements to comply with international safety standards by developing a number of new aviation rules, forbidding use of outdated and deteriorated air vessels, terminating operating certificates of airlines that did not comply with aviation rules, and conducting a large number of ICAO-sanctioned training courses for CCA officers. The next ICAO scheduled audit took place in 2009, which did not identify any Significant Safety Concerns, but it did identify 67 recommendations for corrective action, which collectively indicated overall poor capacity in meeting air safety standards. In response, the CAA proposed a Corrective Action Plan to address areas of non-compliance, which was accepted by ICAO and attached as an addendum to its final audit report in February 2010. The CAA was supposed to implement the Corrective Action Plan from 2009-2014, but due to a number of reasons, chiefly the political events of 2010, the Action Plan was accomplished only in part.

Consequently, in preparation for the August ICAO safety validation mission, the CAA realized that the audit could reveal insufficient progress in action plan implementation, thereby incurring further delay in any European decision to lift Kyrgyz sanctions. The REFORMA grant supported the following activities: (1) ensure that Kyrgyz aviation legislation and implementing institutions comply with international standards; (2) train aviation specialists in air safety oversight; (3) study the experiences of Latvia and Jordan in meeting air safety requirements; and (4) conduct discussions with the Air Safety Committee of the EU to understand the requirements for releasing the Kyrgyz Republic from the EU Safety List.

As of the end of the REFORMA Project, the civil aviation grant had achieved the following:

1. Developed a draft of a new Air Code. The original Air Code had been developed in 1994 and had been amended only two times since then. According to the order of CAA Director, dated June 30, 2014, a working group was created to work with Integra and Kalikova & Associates lawyers to draft the new Air Code. The working group included representatives of the CAA, the Association, air carriers, and airports. The Integra consultant reviewed the final draft of the Air Code for compliance with ICAO provisions and deemed it satisfactory.
2. Analyzed the existing system of financing the Civil Aviation Agency and proposed recommendations for implementing a mechanism of self-financing through collection of user charges for service providers. Based on the consultants’ recommendations, the Agency

developed a draft provision on the mechanism of self-financing and submitted it for approval by the Kyrgyz Government. This draft legal act is under review now.

3. Analyzed the current organizational structure of the CAA and proposed recommendations regarding changes to the structure of the Agency in order to strengthen its safety oversight capacity and rectify the findings of the ICAO Universal Safety Oversight Audit in 2009.
4. Analyzed the current State Safety Program of the Kyrgyz Republic and proposed recommendations, including the associated requirements for Safety Management Systems for air operators, maintenance organizations, airport operators and air navigation service providers, in line with ICAO provisions.
5. Analyzed the current qualification requirements for key personnel in the Agency and proposed recommendations for qualification requirements and an associated salary strategy and structure in order to optimize the availability of qualified staff to carry out the required safety oversight functions

In addition, the grant provided training for CAA officials and inspectors on Aircraft Accident/Incident Investigation Techniques and Aerodrome Operations. The grant also supported two study tours for CAA officials, one of which was to Jordan obtain information on successful strategies for advocating the EU's removal of airlines from the Safety List, and the other to Latvia to determine how it was able to develop an internationally compliant Safety Management System (SMS) and a State Safety Program (SSP) from an original Soviet-era safety framework.

As it turned out, however, at the request of the Government of the Kyrgyz Republic the ICAO Validation Mission was postponed to enable the CAA to have implemented more reforms to its aviation safety regime prior to undergoing further analysis.

Passage of new Air Code (*Work Plan Civil Aviation, Activity 1; Task Order Tourism Value Chain, Activity 9.*)

In December 2014, BGI subcontracted Kalikova & Associates (K&A) law firm to provide legal support to the process of getting approval by Parliament of the draft new Air Code. Within the framework of this activity, K&A provided legal support for conducting public discussions of draft Air Code, providing explanatory activities among ministries and agencies, members of Parliament, Government and President's offices, revising the draft Air Code based on the comments and feedback received.

The first discussion of the draft of the new Air Code took place on December 4 in the Civil Aviation Agency (CAA). Ernys Mamyrganov, Deputy Minister of Transport and Communication of KR, Management and staff of CAA, representatives of air companies, Manas Airport management, refueling complexes, and officials from 'Kyrgyzairnavigation' participated in the discussions. Karsten Theil, representing Integra Consulting and the former Director of ICAO for Europe and North Atlantic Region, participated in the meeting. Mr. Theil had previously provided technical consulting support to the working group in order to ensure compliance of the Air Code with the ICAO standards. In the meeting, Mr. Theil noted the high quality of the drafted Code and that the Code meets ICAO standards.

From December 4, 2014 - January 5, 2015, the CAA organized three round tables with participation of all interested stakeholders. K&A received 159 comments to the draft Air Code and carefully considered and addressed each comment. K&A, together with the working group will finalize the draft Air Code and present to the CAA in January for submission to the Parliamentary Committee on Transportation. In December, the CAA sent unofficial versions of the draft to Parliamentary members.

Negotiations with the European Commission Air Safety. (*Work Plan Civil Aviation, Activity 1; Task Order Tourism Value Chain, Activity 9.*)

On December 17, 2014, Mr. Erkin Isakov, Director of the CAA, met with Peter Bombay, Deputy HOU Air Safety, in charge of the EU Air Safety List, and Irina Petrova, EU Air Safety List case handler for Kyrgyzstan. Representatives of the Kyrgyz Embassy in Brussels, A. Kadyraliev and J. Sarybaev,, were also present at the meeting.

Director Isakov also had a meeting with the Directorate-General of the European Commission for Mobility and Transport (DG MOVE) to update him on Kyrgyzstan's progress in the field of aviation safety. Isakov informed DG MOVE that in May 2014, CAA had begun to amend the Air Code and provided a set of training courses for state safety inspectors with the USAID assistance. Director Isakov also noted that the ICVM mission scheduled for August 2014 was postponed at the request of the Kyrgyz aviation authorities due to its unpreparedness to meet audit requirements. As a result of the meeting it was decided that in March 2015, the CAA would provide another update on progress in improving aviation safety. If this update will satisfactory, then DG MOVE will invite the KG aviation authority and possibly representatives of the KG aviation industry to a technical consultation meeting in Brussels prior to the June ASC. The results of this technical consultation would be brought to the attention of the ASC.

Planned BGI Activities for Q1 2015

Implementation of Provisions of the New Air Code (*Work Plan Civil Aviation, Activities 2-3; Task Order Tourism Value Chain, Activity 9.*)

Upon obtaining assurances of approval of the new Air Code of the Kyrgyz Republic, BGI will begin to bring ICAO's aviation rules (nineteen annexes of the Chicago Convention) into compliance with the new Kyrgyz Air Code and ensure that they are in line with EU norms and standards, including harmonization with both Kyrgyz and European legislation. BGI will also develop a draft Provision for the new organizational structure of the Agency to strengthen its safety oversight capacity and rectify the findings of the ICAO Universal Safety Oversight Audit in 2009 and submit it for Kyrgyz Government's approval. Based on Integra's recommendations and approval of the Government for the draft Provision on the mechanism of self-financing of the Agency, BGI develop and approve a new Provision on the qualification requirements for key personnel in the Agency, a salary strategy and a structure to optimize the availability of qualified staff to carry out the required safety oversight functions. BGI also plans to help the CAA develop a training policy and framework to ensure adequate and sustainable training of CAA oversight personnel. To the degree possible, BGI will help the CAA develop internal guidelines, tools, handbooks, manuals, instructions and other materials for internal use by Agency staff that will govern the implementation of the Air Code and ICAO aviation rules.

Mining Policy and Capacity Development

BGI's Continued Activities in Q4 2014

Government Adoption of the Medium- and Long-Term Development Strategy. (*Work Plan Mining Policy, Activity 1.*)

In January 2012, the newly formed Kyrgyz Government identified development of the mining sector as one of its key priority economic reforms required to jump-start the economy. REFORMA responded to specific requests of the Government for immediate assistance to support the Government's Working Group to propose amendments to four laws affecting development of the mineral resources sector. Despite the passage of these amendments, the Government recognized that it needed to create a vision for sector development based on a sustainable policy framework and articulated through a comprehensive development strategy. The lack of an overarching policy framework reflecting widespread stakeholder consensus had been one of the many contributors to the ad hoc approach to sector development, which provoked misunderstanding and miscommunication among stakeholders, including public officials, private investors and civil society.

Subsequently, REFORMA developed a strategic approach and action plan for providing ongoing assistance to sector development through the remainder of the project, which included support for the creation of a Medium- and Long-Term Development Strategy for the Mineral Resources Sector. REFORMA awarded a contract to a consortium of local organizations, led by the Kyrgyz Mining Association (KMA) and supported by the Kalikova & Associates law firm, a leading firm representing private investors in the Kyrgyz Republic, and Ken-Too, an environmental company, to work with the MoE to develop the Strategy and a prioritized road map for Strategy implementation.

On December 10, 2013, the MoE introduced the key policy provisions outlined in the Development Strategy at a public presentation to roughly 150 stakeholders and participants from Government, Parliament, local authorities, private firms, international donors, and members of civil society. On March 31, 2014, the REFORMA team submitted the final version of the Development Strategy and Action Plan to the MoE. Since then, the Ministry reviewed the documentation and circulated the draft to relevant ministries and agencies for comment. In REFORMA also provided assistance in creating and implementing a Public Outreach Action Plan to disseminate information about the Strategy, to include conducting media training courses and press cafes.

For the remainder of 2014, REFORMA, and subsequently BGI, conducted a number of meetings with specialists and authorities of relevant ministries and agencies to explain the strategy's recommendations, provide responses to questions and objections, and revise the draft Strategy based on these comments. As a result, some of the objections and comments were accepted and incorporated into the document while others were declined. The MoE prepared a matrix of disagreements, which was included in the Final Mining Package submitted to the Government on October 30, 2014. After Government review, the Strategy will be submitted to the Prime Minister and further presented at the Government Meeting scheduled for February 20, 2015.

Planned BGI Activities for Q1 2015

Implementation of the Medium- and Long-Term Development Strategy. (*Work Plan Mining Policy Activities 2-6.*)

Following the adoption of the Mining Strategy by the Government, BGI assist the MoE in conducting a broad donors' meeting to present the Mining Strategy and solicit donor assistance in its implementation. Following this, BGI will develop a comprehensive plan to help the MoE and the State Geology Agency to implement elements of the Strategy as determined with USAID.

Mining Strategy Implementation and Capacity Development Assistance to the State Geology Agency (*Work Plan Mining Policy Activity 7.*)

In December 2012, REFORMA officially launched a Human and Institutional Capacity Development (HICD) Program at the Agency. Following the conduct of a performance assessment, REFORMA chose to support three implementation activities, including development of a: (1) comprehensive data base management system as a central and definitive repository for sector regulatory information; (2) a modern web site that would communicate policies, promote public transparency, and serve as a repository for critical documents to be used in auctions and competitive tenders for mining exploration rights; and (3) a system of standard report templates and reporting processes for the required periodic report submissions of private sector exploration and mining activities.

In July 2013, REFORMA began the development of the data base management system, which would enable the Agency to create, update and review data on licenses awarded for mining rights, registered licensees, geological-mining surveys, fluctuations in the value of mineral resource reserves, extraction and loss of minerals during the production phase, geologically explored subsoil, and other critical information required for management of the Kyrgyz Republic's mineral resources. To ensure the data base's operation by the end of the project, REFORMA subcontracted the Education and Career

Development Fund to enter data entry and scan documentation for all existing licenses. As a result of this project, 1,035 existing mining licenses and the geographical coordinates of licensed rights were entered in the data base system. This helped staff to shorten document processing time and to generate various statistical and program reports related to the management of license rights. As of the end of the REFORMA Project, the data base system contained the data required to generate mining license reports according to multiple criteria. The HICD project also delivered a fully functional website in October 2013 and optimized and standardized the templates for the exploration and extraction reports to provide mining companies with clear guidance and templates to prepare required annual and semi-annual reports on mining activity.

However, the State Geology Agency needs addition support to be able to better manage and monitor implementation of geological management data base, particularly in improving the process for working with licensing cases. BGI will further subcontract the Education and Career Development Fund to complete a number of tasks to further institutionalize the data base system. The project will develop and introduce a regulation on licensing cases that outlines required procedures, including checklists, information exchange among departments, archiving procedures, and other data management practices. It will develop and test another system module to support the internal licensing commission and an interface with other data base modules to achieve greater transparency of licensing commission operations. It will develop a formal process to support a student internship program with mining institutes and universities to further support data entry and scanning of documents for the data base as well as develop a mechanism for hiring entry-level staff upon graduation. Finally, the project will provide coaching and training for Agency employees to support institutionalization of the processes and activities undertaken with this project.

5. Local Subcontracting Disbursements

The following is a list of local subcontracts and awards under the REFORMA Project.

BGI Subcontracting Awards and History – Q4 2014

<i>Subcontracting Activity</i>	<i>Subcontractor(s)</i>	<i>Award Date</i>	<i>Period of Perform.</i>	<i>Contract Value</i>	<i>Status</i>
Conducting Textile/Apparel Value Chain Study	Central Asia International Consulting (CAIC)	Dec 2014	4 months	\$61,096	Ongoing
Conducting Assessment of Demand and Supply of Skills in BGI Value Chains	M-Vector	Dec 2014	4 months	\$56,411	Ongoing
Promoting Passage of the New Air Code	Kalikova & Associates	Dec 2014	6 months	\$38,329	Ongoing
Implementing VAT Administrative Reform	MF Consulting	Dec 2014	6 months	\$72,460	Ongoing
TOTAL SUBCONTRACTS AWARDED				\$228,296	

BGI Subcontracting Pipeline – Q1 2015

<i>Subcontracting Activity</i>	<i>Anticipated Tender Date</i>	<i>Anticipated Award Date</i>	<i>Target Period of Performance</i>	<i>Anticipated Subcontract Value</i>
Conducting Value Chain Study for Construction Materials Sector	Dec 2014	Feb 2015	6 months	\$70,000
Supporting Capacity Development for the State Geology Agency's Data Base	N/A	Feb 2015	6 months	\$25,000
Implementing Reform of the Regulatory Environment for Conducting Business Inspections	N/A	Feb 2015	6 months	\$90,000
Improving the Collection and	Feb 2015	Mar 2015	3 months	\$50,000

<i>Subcontracting Activity</i>	<i>Anticipated Tender Date</i>	<i>Anticipated Award Date</i>	<i>Target Period of Performance</i>	<i>Anticipated Subcontract Value</i>
Reporting of Tourism Statistics				
Conducting a Baseline Study for Gender and Youth	Feb 2015	Mar 2015	3 months	\$30,000
TOTAL ANTICIPATED SUBCONTRACT VALUE FOR Q1 2015				\$265,000

6. Financial Results

Budget Cost Elements	Budgeted Amount	Invocied Amount as of December 31, 2014	Accrual Amount as of December 31, 2014	Expended Amount*	Remaining Budget to Complete
Labor	\$3,589,499.00	\$133,960.08	\$34,398.00	\$168,358.08	\$3,421,140.92
Total Other Direct Costs	\$5,652,519.00	\$144,980.62	\$192,984.00	\$337,964.62	\$5,314,554.39
PROJECT FUND					\$0.00
<i>Local Subcontractor</i>	\$3,397,795.00	\$9,235.67	\$74,333.00	\$83,568.67	\$3,314,226.33
<i>Grants</i>	\$1,225,490.00	\$0.00	\$0.00	\$0.00	\$1,225,490.00
Indirect cost	\$5,348,954.00	\$252,697.49	\$132,678.00	\$385,375.49	\$4,963,578.51
<i>Fixed Fee</i>	\$858,738.00	\$47,839.00	\$0.00	\$47,839.00	\$810,899.00
<i>Fixed fee on subs and grants</i>	\$98,039.00	\$0.00	\$0.00	\$0.00	\$98,039.00
Total	\$20,171,034.00	\$588,712.86	\$434,393.00	\$1,023,105.86	\$19,147,928.14

7. Report Annexes

Annex A: Primary Events, Training, and Focus Group/Research Conducted

Annex B: Table of Deliverables

Annex A: Primary Events, Training, and Focus Group/Research Conducted

Primary Events, Training and Focus Group/Research Conducted (E=event, T=training, F=focus group)

Component		REFORMA Event	Men	Women	Total
BGI Launch Event	E	October 14, 2014 – Launch event for BGI	85	46	131
Apparel	T	December 9, 2014 - John Haycock training of BGI Value Chain and Skills Demand/Supply subcontractors on key structure of the apparel sector	9	7	16
Human Capital	E	December 16, 2014 – Conference on Improving the Institutional Efficiency in the Public and Private Sector, in cooperation with GGPAS	58	41	99
	E	December 17, 2014 – IMC Forum on Developing Professional Standards in Consulting	44	76	120
	E	December 18, 2014- Informative presentation on “Professional Standards in Consulting: PMP Certification”	8	12	20
VAT Administration	E	November 28, 2014 – Meeting on Discussion of draft Fiscal Policy Concept 2015-2020. Jannat Resort	12	5	17
	T	December 9-11, 2014 – VAT Conference. Moscow	3	1	4
	T	December 1,2,4,5, 2014 – Seminars for Taxpayers “Changes of VAT administration in 2015” Bishkek	2	110	112
Access to Finance	E	December 13, 2011 – Union of Entrepreneurs	35	12	47
	E	December 14, 2011 – American Chamber of Commerce (AmCham), International Business Council (IBC)	12	6	18
Business Inspections	E	Presentation of the Results of Work on Optimization of Inspection Procedures at the MoE with the participation of Deputy Minister of Economy Danil Ibraev	11	4	15
Licensing	E	Presentation of the work on licensing regulations at the MoE with the participation of State Secretary Aidai Kurmanova	9	3	12
Civil Aviation	E	December 4, 2014 – Presentation of the draft new Air Code	36	12	48
Total			324	335	659

Annex B: Table of Deliverables

Component	Document	ENG	RUS
BGI Lunch Deliverables	Accepted Work Plan	✓	
	Activity Monitoring and Evaluation Plan	✓	
	Project Fund Manual	✓	
	BGI Launch Event Agenda	✓	✓
Apparel Value Chain	Trip Report for Apparel Study Tour to Belarus	✓	
	Scope of Work for Apparel Value Chain Study	✓	
	Scope of Work for John Haycock	✓	
	John Haycock training of BGI Value Chain and Skills Demand/Supply subcontractors on key structure of the apparel sector	✓	✓
Tourism Value Chain	Presentation of the Destination Management Program	✓	✓
	Trip Report for Tourism Statistics Conference in Ankara, Turkey	✓	
	Scopes of Work for Destination Management Program	✓	
Construction Materials Value Chain	Scope of Work for Value Chain Study for Local Subcontractor	✓	
	Scope of Work for Value Chain Study for International Subcontractor	✓	
Human Capital	Scope of Work for Demand/Supply Study of Value Chain Skills	✓	
	Work Plan on the Survey to Assess Supply and Demand for Skills in Textile and Tourism Value Chains	✓	✓
	Brief Report on IMC Forum prepared by IMC staff	✓	✓
VAT Administration	Scope of Work for Continuation of VAT Administration Project	✓	
	Questionnaire for VAT Taxpayers.	✓	✓
	Questionnaire Statistics		✓
	Presentation "Changes on VAT administration at 2015"		✓
	Report on basic indicators in VAT administration	✓	✓
Access to Finance	Update on POF financing, DCA guarantees and leasing	✓	
	Scope of Work for Richard P. Currie – Launch of Access to Finance Component of USAID BGI Project	✓	
Business Inspections	Approved checklists to be used by the State Ecological and Technical Security in conducting inspections: 1. Checklist applicable to ecological security 2. Checklist applicable to radiological security 3. Checklist applicable to industrial security and mines inspectorate 4. Checklist applicable to architecture and construction on construction objects 5. Checklist applicable to fire security 6. Checklist applicable to protection of labor 7. Checklist applicable to land conservation 8. Checklist applicable to electrical safety		✓
	Scope of Work for Licensing Consultant Nurgazy Zhokunov	✓	
Licensing	Tables of Disagreements with 32 government agencies to the following Licensing Regulations: 1. Regulation on Licensing Certain Types of Business Activity 2. Regulation on Licensing Control 3. Regulation on Creation and Keeping the Register of Licenses and Permits and 4. Risk Assessment Methodology		✓
	Scope of Work for Passage of Air Code	✓	
	Presentation of the draft new Air Code	✓	✓
	Working Group revised draft Air Code including comments and feedback from participants of public discussions developed the Table of comments and disagreements		✓
Mining	Final Draft of Mining Strategy and Action Plan (also in Kyrgyz)	✓	✓
	Final Draft of the Mining Strategy Presentation		✓
	Matrix of Disagreements		✓

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