



USAID | **KYRGYZ REPUBLIC**
FROM THE AMERICAN PEOPLE

USAID Business Growth Initiative (BGI)

Year 1, Second Quarterly Report

First Quarter 2015

April 30, 2015

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USAID Business Growth Initiative (BGI) Year 1, Second Quarterly Report

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Table of Contents

| | |
|---|-----------|
| 1. SUMMARY OF ACTIVITIES AND MAJOR ACCOMPLISHMENTS DURING Q4 2014 | 4 |
| 2. PROGRESS OF ACTIVITIES FOR SELECTED VALUE CHAINS | 5 |
| TEXTILE/APPAREL VALUE CHAIN..... | 5 |
| BGI's ACTIVITIES IN Q1 2015..... | 5 |
| NEW BGI INITIATIVES PLANNED FOR Q2 2015 | 7 |
| TOURISM VALUE CHAIN..... | 7 |
| BGI's ACTIVITIES IN Q1 2015..... | 7 |
| NEW BGI INITIATIVES PLANNED FOR Q2 2015 | 8 |
| CONSTRUCTION MATERIALS VALUE CHAIN..... | 9 |
| BGI's ACTIVITIES IN Q1 2015..... | 9 |
| NEW BGI INITIATIVES PLANNED FOR Q2 2015 | 9 |
| GENDER/YOUTH..... | 9 |
| BGI's ACTIVITIES IN Q1 2015..... | 9 |
| 3. PROGRESS OF ACTIVITIES FOR STRENGTHENING HUMAN CAPITAL | 10 |
| BGI's ACTIVITIES IN Q1 2015..... | 10 |
| NEW BGI INITIATIVES PLANNED FOR Q2 2015 | 10 |
| 4. PROGRESS OF ACTIVITIES FOR IMPROVING THE BUSINESS ENVIRONMENT | 11 |
| TAX POLICY AND ADMINISTRATION | 11 |
| BGI's ACTIVITIES IN Q1 2015..... | 11 |
| NEW BGI INITIATIVES PLANNED FOR Q2 2015 | 14 |
| LEGAL AND REGULATORY FRAMEWORK FOR BUSINESS LICENSING AND INSPECTIONS..... | 15 |
| BGI's ACTIVITIES IN Q1 2015..... | 15 |
| NEW BGI INITIATIVES PLANNED FOR Q2 2015 | 15 |
| ACCESS TO FINANCE | 16 |
| BGI's ACTIVITIES IN Q1 2015..... | 16 |
| NEW BGI INITIATIVES PLANNED FOR Q2 2015 | 16 |
| CIVIL AVIATION SAFETY | 17 |
| BGI's ACTIVITIES IN Q1 2015..... | 17 |
| NEW BGI INITIATIVES PLANNED FOR Q2 2015 | 17 |
| MINING POLICY AND CAPACITY DEVELOPMENT | 18 |
| BGI's ACTIVITIES IN Q1 2015..... | 18 |
| NEW BGI INITIATIVES PLANNED FOR Q2 2015 | 19 |
| 5. LOCAL SUBCONTRACTS AND CONSULTANTS..... | 20 |
| 6. FINANCIAL RESULTS | 22 |
| 7. REPORT ANNEXES | 22 |

1. Summary of Activities and Major Accomplishments during Q4 2014

During the first quarter of 2015, BGI achieved the following key project results:

Launch of Apparel Value Chain Activities. On January 29, BGI held its first meeting with apparel manufacturers and other value chain stakeholders to introduce the project's vision for helping firms transition beyond current market challenges. Subsequently, BGI hosted a presentation of the production capabilities of the Kyrgyz apparel industry to Russian retailers in a business-to-business meeting conducted in association with the Russian Tekstilgiprom apparel exhibition in Moscow. Presentations highlighted advantages to sourcing from the Kyrgyz Republic to a captive audience of 24 Russian retail brands and designers' studios. The level of interest by Russian retailers was unexpected, particularly with the subsequent visits of two firms to Kyrgyzstan directly following the presentation. The experience for both the BGI project and Kyrgyz apparel producers was extremely valuable in not only in confirming buyer strong interest, but also identifying key challenges in meeting the needs of Russian buyers. A subsequent BGI trip to the Central Asian Fashion Fair in Almaty also provided insight into the Kazakh apparel market and the differences in the structure of the retail apparel businesses between the two markets. BGI has utilized this knowledge and experience in developing our comprehensive approach to provide assistance to the sector, which will be presented in April.

Launch of Destination Management Program in Tourism. On February 25, BGI launched its Tourism Destination Management Program as a foundation upon which the project will assist tourism stakeholders to prioritize and implement strategies for improving tourism products and services in local communities. Following a presentation to approximately 100 tourism sector stakeholders in Bishkek, two BGI teams conducted road shows to cities throughout Kyrgyzstan to introduce the Destination Management concept and solicit proposals from local stakeholders to develop community-based tourism strategies. Presentations explained key program concepts, qualification requirements and how to apply to the program. Once BGI has received applications in mid-April, the team will select three proposals to obtain technical assistance and grants to realize proposed strategies. BGI expects to select and begin working with the winning communities in June.

Launch of Construction Materials Value Chain Study. In December, BGI selected IBC/JIA to conduct a comprehensive value chain study of the construction materials sector with support from international consultants. Prior to the arrival of the international team in March, IBC/JIA gathered statistical data, created a stakeholder data base, and arranged meetings and logistical support for the two international advisors who arrived in late March. The team conducted interviews, workshops, and focus group discussions, and began mapping the value chain and completing the stakeholder analysis portion of the study. The international team will return in late May to complete the second portion of the study

Government Adoption of Mining Strategy. On February 20, the Cabinet of Ministers resolved to adopt the *Medium- and Long-Term Development Strategy for the Mining Sector for 2015-2035*, which the Ministry of Economy created with the help of local experts funded by USAID's REFORMA Project. The strategy sets forth a policy vision based on international practices in mineral resources development. Key policy changes include engaging local communities in resource allocation decisions, providing information transparency to both the Kyrgyz public and potential investors, and consolidating site inspections for environmental and safety compliance, among many others. The Government's approval followed months of public discussion and circulation of the strategy among Kyrgyz ministries and agencies. BGI will continue USAID's support to the sector and will provide assistance in implementing key components of the strategy.

Submission and Review of Draft Air Code. On March 23, the Ministry of Transport and Communications presented the draft of the new Air Code for Government review, circulation and submission to Parliament. Three days later, the draft was posted to the Kyrgyz Government's website at <http://www.gov.kg/?p=52354> for public discussion. It is expected that ministries and agencies will endorse the draft and the Prime Minister's office will submit it to Parliament in the beginning of May. Stakeholders seek to obtain Parliamentary approval of the Air Code prior to the summer recess so that its passage is not delayed by elections in the fall. Upon adoption, BGI intends to support harmonizing ICAO rules to the new Air Code and help build the capacity of the CAA to ensure flight safely by implementing international regulatory procedures.

Tax Literacy on Universal Declaration. BGI has continued the public education campaign initiated by REFORMA to improve tax literacy in preparation for the 2016 introduction of universal tax declaration. For the second year, BGI has sponsored the broadcast of REFORMA's animated television commercials and radio announcements that educate citizens on the current reporting requirements for uniform declaration and build awareness of the upcoming universal tax reporting mandate in 2016. Beginning February 7 and ending March 31, twelve television channels and three radio stations across the Kyrgyz Republic aired the video and audio ads, arranged by a subcontract to the media firm, Vsglyad.kg. During the period, the video was broadcast 1,368 times, and the audio commercials aired 943 times. In addition, BGI's implementing partner, the Chamber of Tax Consultants (CTC), published and distributed 800 posters and 10,000 leaflets, and contracted for banners to be placed on two popular local websites. In preparation for the tax filing deadline, the uniform tax declaration forms and procedures manual were posted to the STS website. BGI will initiate a survey to measure improvements in public awareness of tax declaration requirements in June, against which we will compare results with surveys conducted in 2013 (baseline) and 2014.

2. Progress of Activities for Selected Value Chains

Textile/Apparel Value Chain

BGI's Activities in Q1 2015

Presentation to Apparel Value Chain Stakeholders (*Work Plan Apparel VC, Activity 1.*)

BGI held its first meeting with apparel manufacturers and other value chain stakeholders on January 29 to introduce the project's vision for helping firms transition beyond current market challenges. After opening remarks from USAID Senior Economic Development Advisor Paul Hamlin and Fatima Sadamkulova, Head of the Department of Light Industry of the Ministry of Energy and Industry, representatives from Central Asian International Consulting (CAIC) and M-Vector introduced preliminary findings from studies sponsored by BGI on the characteristics of the apparel sector and an assessment of the types of skills required for sector development and the ability of Kyrgyzstan's educational institutions to develop these skills within the future workforce.

BGI Apparel Sector Program Manager Artur Aliev then presented a current assessment of the Russian and Belarusian apparel market entitled, *Crisis – A Problem or an Opportunity?* In his presentation, Mr. Aliev discussed how the Russian retail apparel market has undergone a huge transformation in the past few years, with bazaar sales losing significant market share to large retail chains and internet sales, and retailers expanding to smaller cities across Russia. But despite shifts in marketing channels and recessionary pressures, Russia remains a viable market for Kyrgyz producers, with annual apparel sales of US \$50 billion. Many Russian retail brands seek to diversify their source of supply.

Fred Levitan, BGI Competitiveness Team Leader, followed Mr. Aliev's market analysis with BGI's proposal to conduct an initial presentation of Kyrgyz manufacturing capabilities to Russian retailers attending the February Tekstilegprom trade exhibition in Moscow. BGI noted that this will provide the opportunity to determine the level of interest in sourcing from Kyrgyzstan and what the trade

terms Russian retailers would require. Owners of Kyrgyz apparel firms noted that BGI has been launched at a time of market downturn when apparel makers need more support than ever before.

Tekstilegprom Presentation, Moscow, Russia (*Task Order, Apparel VC, Activity 2.*)

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

This was the first time that Kyrgyz producers engaged a captive audience of 24 Russian retail brands and designers' studios, most of which had never previously contracted with Kyrgyz apparel-makers. The presentation highlighted Kyrgyz advantages in flexible product development and production capabilities, lower logistics costs and shorter lead times than many international mass-market competitors. Feedback also revealed that joining the Eurasian Economic Union could offer immediate price advantages for Kyrgyz apparel producers who sell to retailers within the economic bloc, despite widespread fears that tariff hikes on Chinese fabrics would destroy Kyrgyz competitiveness. Responding to the changing tastes and purchase characteristics of the Russian market is critical to the long term health of Kyrgyzstan's textile/apparel sector, currently experiencing falling sales after nearly 10 years of rapid growth. The meeting highlighted the production demands of Russian retail buyers, which Kyrgyz producers will need to meet to compete in this market segment.

An immediate result of the presentation was that two Russian retailers provided BGI with detailed buying specifications while two Kyrgyz firms reported that serious discussions were underway with three other significant brands. The following week, BGI facilitated the first purchase mission of a sizable Russian apparel chain to the Kyrgyz Republic and is now negotiating contracts with two Kyrgyz firms. A smaller, but more upscale retailer visited Kyrgyzstan in mid-March also keen to find sources of previously untapped supply. But BGI determined that terms may be difficult for Kyrgyz manufacturers to meet. While it was evident that there is substantial Russian interest in sourcing from Kyrgyzstan, it also became clear that Kyrgyz firms will need to change the way they do business and adjust to the demands of large-volume buyers to conclude supply contracts with this new market segment.

Participation in Fashion Exhibition in Almaty (*Task Order, Apparel VC, Activity 2.*)

On March 13-14, two members of BGI staff attended the Central Asian Fashion Fair in Almaty, Kazakhstan, to learn more about the Kazakh apparel market and to formulate the appropriate market entry strategies for Kyrgyz apparel firms. Exhibitors at the event represented 16 countries, including: Italy, France, Greece, Portugal, Spain, Russia, Turkey, Latvia, Lithuania, Great Britain, Poland, Kazakhstan, Mongolia, Belarus, and Romania. Attendees were from Kazakhstan, Turkmenistan, Russia, and other CIS countries. Kazakhstan is considered the second largest export market for Kyrgyz apparel producers, with most sales transactions being conducted through traditional bazaar outlets.

BGI's established initial contact with buyers, consultants, trade associations, and other individuals that could help BGI to better understand the market. The most significant finding was that, while retail stores/malls are the preferred venues for apparel purchasing by Kazakh consumers, the retailers do not design, produce, or sell their own store brands. The vast majority of retailers acquires marketing and distribution rights for Kazakhstan of other foreign brands and simply sells the merchandise in upscale retail areas.

In this way, the Kazakh market differs from Russia, where most retailers have their own brands that are supported by design, product development, merchandising and sales departments. Russia is more suited for contract manufacturing partnerships while Kazakhstan requires that companies have their own brands that are supported with strong marketing and sales strategies. Thus, these two key

markets offer different production and business models to Kyrgyz apparel makers. BGI will develop country-specific marketing and sales strategies that can be used to support Kyrgyz companies that are interested in either contract manufacturing, brand development or both.

New BGI Initiatives Planned for Q2 2015

Presentation of Comprehensive Value Chain Study and Future Work Plan (*Work Plan Apparel VC, Activity 1.*)

During the fourth quarter of 2014, BGI issued a competitive tender to undertake a value chain study of the textile/apparel sector, which was awarded to CAIC. The goal of the study was to validate key economic data points, better understand the structure and dynamics of the key actors, and identify specific value chain behavior, trends, and needs both at the sector and company levels. The value chain will also be assessed by 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. BGI will make a presentation of the conclusions and recommendations of the study to a large group of apparel sector stakeholders on April 29, 2015.

Development of Tax Strategy for Apparel Sector (*Task Order, Apparel VC, Activity 2*)

BGI has learned many valuable lessons learned during the past quarter, especially in understanding market realities in Russia and Kazakhstan. BGI learned that there is substantial market demand especially in Russia, but to supply this market requires a fully integrated approach that combines improvement in workforce skills and the overall productivity of manufacturers with changes in the way firms do business. Of particular importance is helping firms transition from the current patent-based tax regime to one that supports business expansion and the conclusion of international contracts. BGI is currently reviewing resumes of local legal and tax advisors to study the tax policy environment and develop proposals to present to the Government to enable firms to transition away from the existing tax patent regime. A new tax regime would enable apparel companies to conclude sales contracts with brands and large customers in Russia, Kazakhstan and other countries.

Keqiao Textile Fair in China (*Task Order, Apparel VC, Activity 3.*)

BGI will continue to follow-up with Kyrgyz apparel companies on the progress of already concluded and potential contracts with Russian brands resulting from the Tekstilegprom event. In May, BGI will support three apparel companies with pending Russian contracts (Zorin, Panin and Olga Classic Style), on a cost sharing basis, to attend the Keqiao Textile Fair in China (near Shanghai) as a way to find alternative suppliers of production inputs (fabric and accessories) from the limited supply and quality available from Kyrgyz wholesale bazaars. By identifying alternative sources of supply, it is anticipated that companies will be able to save 10-15 percent of production input costs, which will help them to become more competitive in the Russian market and in other countries. This will also eventually help them absorb the additional costs associated with converting to a more rigorous tax regime.

Selection of Apparel Companies for Assistance (*Work Plan, Apparel VC, Activity 2.*)

By the end of the second quarter, BGI will select the first group of beneficiary apparel companies to participate in the development program that will be presented to apparel companies in April, and finalize individual and group action plans for FY 2016.

Tourism Value Chain

BGI's Activities in Q1 2015

Launch of Destination Management Program (*Work Plan Tourism VC, Activity 1.*)

On February 25, BGI launched its Tourism Destination Management Program as a foundation upon which the project will assist tourism stakeholders to prioritize and implement strategies for developing the tourism value chain in the Kyrgyz Republic. Following a presentation to approximately 100 tourism sector stakeholders in Bishkek, two BGI teams conducted road shows to six cities throughout Kyrgyzstan. Presentations introduced the Destination Management concept and explained key program concepts, qualification requirements and how to apply to the program to more than 300 local stakeholders from a wide range of organizations. Among those participating were representatives of guest houses, hotels, restaurants, tour operators, transportation companies, souvenir producers, natural parks and preserves, ski resorts, IT companies, associations, municipalities, NGOs and other organizations. Once BGI has received applications in mid-April, the team will select 2-3 proposals to obtain technical assistance and grants to realize proposed strategies to improve local tourism products and services.

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

New BGI Initiatives Planned for Q2 2015

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

In April, BGI will launch an activity to improve the quality and reliability of tourism statistics in the Kyrgyz Republic. BGI will mobilize international advisor, Vladimir Markhonko, to introduce and implement international/UNWTO best practices/recommendations for the collection and reporting of tourism statistics. A competitively selected local consultant will work with Mr. Markhonko to adopt locally based solutions at each stage. The project will strengthen the level of collaboration between the National Statistics Committee (NSC), the Border Service, and other Government. 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 the presentation of tourism statistics through improved website features for better use by both the public and private sectors in business planning. The first phase of the project is expected to last six months.

Launch of BGI's Turkish Outbound Tourism Program (*Work Plan Tourism VC, Activity 6.*)

BGI intends to build upon strong historic, cultural, economic, and political ties between the Kyrgyz Republic and Turkey by creating a program to promote Kyrgyzstan to the Turkish outbound tourism market. Many Turks have been drawn to the country for education, commercial, and personal reasons. BGI believes that the Kyrgyz Republic can entice a substantial number of Turkish tourists to the cultural, historical, and religious tourist attractions that the Kyrgyz Republic has to offer. BGI's comprehensive approach will first examine demand in the Turkish outbound tourism market by analyzing various types of interests and expectations of Turkish tourists. Then, BGI will address identified market segments by doing an analysis of existing tourism attractions in the Kyrgyzstan that may appeal to Turks based on the developed profile of the segment. BGI will bring both elements of the initiative together through the implementation of marketing/promotional initiatives, and destination development, if necessary, over the coming year. BGI will launch this project in the second quarter.

Selection of Destination Management Proposals and Conducting a Baseline Survey of Destination Management Sites (*Work Plan Tourism VC, Activity 1.*)

In May, BGI will select three destination consortia from applications for the destination management program. Once selected, BGI will work with these groups to further develop their destination development work plans before rolling out technical assistance and grants to implement plans. Since the timing of this selection occurs at the height of the summer tourism season, BGI will also issue a tender to select a market research firm to conduct surveys of tourists in these selected destinations to provide baselines for measuring the impact of first year activities on tourism during the summer of 2016.

Participation in International and Regional Tourism Fairs (*Work Plan Tourism VC, Activity 4.*)

BGI will support the creation of a marketing brochure and tourism map to be disseminated during the Milano Expo 2015 to be held from May 1 to October 31. Over this six-month period, Milan will become a global showcase where more than 140 participating countries will exhibit safe and healthy food products and general facts about their respective countries. Event organizers estimate that more than 20 million visitors will come to this exhibition. The Kyrgyz Government wishes to use this venue as a promotional tool to increase awareness of Kyrgyzstan and its opportunities for tourism and investment.

Construction Materials Value Chain

BGI's Activities in Q1 2015

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

In December, BGI selected a joint proposal presented by International Business Council (IBC) and the Association of Young Entrepreneurs (JIA), to contribute to the conduct of a comprehensive value chain study of the construction materials sector with international consultants from Deloitte's subcontractor, SSG Advisors. Prior to the arrival of the international team in March, the IBC team was gathering statistical data, creating a stakeholder data base, and arranging meetings and logistical support for SSG Advisors. Once Chris Cavanaugh and Jeff Readman arrived, the team has been conducting interviews, workshops, and focus group discussions, mapping the value chain and completing the stakeholder analysis portion of the study. The international team will return in late May to complete the second portion of the study.

New BGI Initiatives Planned for Q2 2015

Completion of the Construction Materials Value Chain Study (*Work Plan Construction Materials VC, Activity 1.*)

The BGI team will complete the value chain study in June, after which BGI will conduct a presentation to stakeholders on the analysis and planned future activities to support value chain development. BGI will use the findings of the study to enhance the competitiveness of Kyrgyzstan's construction materials industry cluster to take advantage of both domestic and regional construction spending patterns. BGI will work with value chain participants to strengthen linkages throughout the value chain so firms at each point can expand and enhance production, increase productivity, hire more skilled labor for higher value-added production, and effectively market output to profitable accounts.

Gender/Youth

BGI's Activities in Q1 2015

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

In March, BGI began conducting a gender and youth assessment to obtain information about possible approaches for increasing the participation of gender and youth in the project's activities. The study was initiated by a desk review, which examined the main findings from eight reports, surveys, and evaluations of gender and youth programs. BGI is analyzing these reports regarding social norms and stereotypes, access to education, access to finance, and labor opportunities for women and youth. Initial findings point to gender and age specific deficiencies in education that are acting as constraints to greater workforce participation. It is expected that the deliverables of the assignment will provide a deeper understanding of women's/youth's access to productive resources and opportunities to add value, both as individuals and group enterprises. The study will also take into consideration the impact of issues in the business environment on women and youth employment. The desk assessment will be completed in May, after which BGI will develop activities to address deficiencies identified in the report.

3. Progress of Activities for Strengthening Human Capital

BGI's Activities in Q1 2015

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

During the first 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 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. After conducting a desk research, which identified the key issues studied under various surveys or reports, M-Vector conducted 38 in-depth interviews in tourism and 54 in the apparel sector, with representatives from both firms and educational institutions. The firm held six additional six in-depth interviews with government institutions and other organizations. M-Vector also surveyed 376 textile companies and 291 tourism companies, mainly in Bishkek and Chui Oblast, Issyk-Kul Oblast, Osh and Osh Oblast. The firm prepared a data base in Excel of the surveyed companies in both sectors with full contact details and information on the type of business activities pursued. Together with the BGI team, M-Vector also met most of the international donor organizations that have been supporting the apparel sectors in the past years. Meetings were held with representatives from ADB, International Labor Organization, GIZ (3 project units), USAID WLSME Program, European Training Foundation (ETF), ITC, as well as some local organizations such as Business Professional Network (BPN) supported by Swiss funds.

With this data, M-Vector analyzed the size and nature of managerial and workforce skills gaps of the value chains. The firm also evaluated the participation of women and youth in formal education and training and barriers that prevent them from accessing skills and jobs in the sectors. BGI will present conclusions and recommendations of the study at events planned for April 28 and 29.

New BGI Initiatives Planned for Q2 2015

Presentation of Recommendations of the Study of the Demand and Supply of Value Chain Skills (*Work Plan Human Capital, Activity 1.*)

The study will be presented to tourism stakeholders at a meeting scheduled for April 28, while it will present findings and future steps in the apparel value chain stakeholder meeting scheduled for April 29. Both events will provide a forum for education and training institutions to display materials about their programs to members of the business community. For the post part, findings from the study so far have primarily confirmed expectations, concluding that educational institutions have low capacity to meet the needs of businesses, the quality of training in vocational schools is low, and there is a lack of communication and cooperation between education and business. One of the key findings was that

firms were even unable to list the necessary skills required to fulfill job functions of their businesses. While BGI has envisioned a human capital development strategy for the apparel sector, in the third quarter the team will more fully concentrate on creating a plan for skills development targeted to the remaining value chains.

Conduct of a Deep Dive Workshop for the Tourism Sector (*Work Plan Human Capital, Activity 2.*)

Soon after the REFORMA Project launch in 2011, the project conducted two, half-day workshops called *Deep Dive* sessions with members of private sector business associations to encourage private sector participants to work together to identify policy barriers to business development and generate creative ideas for reform implementation approaches. BGI proposes to conduct similar workshops for initiating better communication and cooperation between educational institutions and the business communities they serve. BGI will better identify how and when to implement the Deep Dive approach in the third quarter.

Development of a Scorecard for Measuring Improvements in HICD (*Task Order Business Environment, Activity 1.*)

In preparation for implementing BGI's AMEP, the project will develop a scorecard for measuring increases in institutional capacity for our HICD counterpart agencies. Based on maturity model tools developed by Deloitte, BGI will develop a customized tool, conduct tests of counterpart institutions, and create baseline assessments of the Ministry of Economy, the State Geology Agency, and the Tourism Department at the Ministry of Culture, Information and Tourism. The tool will be developed in the third quarter, and baselines collected for reporting in BGI's First Year Annual Report in October.

4. Progress of Activities for Improving the Business Environment

Tax Policy and Administration

BGI's Activities in Q1 2015

Simplified VAT Administration System (*Work Plan Tax Administration, Activity 1.*)

Following approval by all relevant ministries, the Ministry of Economy submitted the package of VAT amendments to the Government on January 19 for review, approval and further submission to the Parliament. Since then, BGI has continued providing consultative assistance throughout the process of approval of the proposed VAT package in the Government. Once the Parliament has passed the package of amendments, MF Consulting will conduct eight training workshops for tax officials in six cities throughout the country on the new VAT administration procedures. MF Consulting will develop a VAT Q&A book for tax inspectors and a VAT Administration brochure written in simple and easy to understand language for the taxpayers. Since VAT is the most complicated tax for administration, MF Consulting will develop a video training course for tax inspectors on the new VAT administration procedures.

Also during the quarter, MF Consulting analyzed laws and regulations reflecting indirect tax administration processes, reporting forms, and other procedural VAT documents based on accession to the Eurasian Economic Union (EEU). The analysis revealed discrepancies and contradictions in tax legislation and administration procedures, and MF Consulting submitted a detailed comparative table of the Kyrgyz and EEU legal provisions with recommendations to the State Tax Service for further action, along with the list of laws and regulations that need to be developed or amended. The company mapped the processes showing taxation procedures for import and export transactions with EEU countries for goods, works and services. It conducted a similar mapping exercise to show taxation procedures for goods processed in Kyrgyzstan and those processed by other countries within

the EEU. As a result of this analysis, MF Consulting developed new VAT forms to adjust previously recommended STS VAT administrative processes with those of the EEU. Finally, the firm submitted a list of VAT documents and reporting forms, both existing and proposed, to the STS for further review and approval.

Tax Literacy on Universal Declaration (*Work Plan Tax Administration, Activity 2.*)

BGI has continued the public education campaign initiated by REFORMA to improve tax literacy in preparation for the 2016 introduction of universal tax declaration. For the second year, BGI has sponsored the broadcast of REFORMA's animated television commercials and radio announcements that educate citizens on the current reporting requirements for uniform declaration and build awareness of the upcoming universal tax reporting mandate.

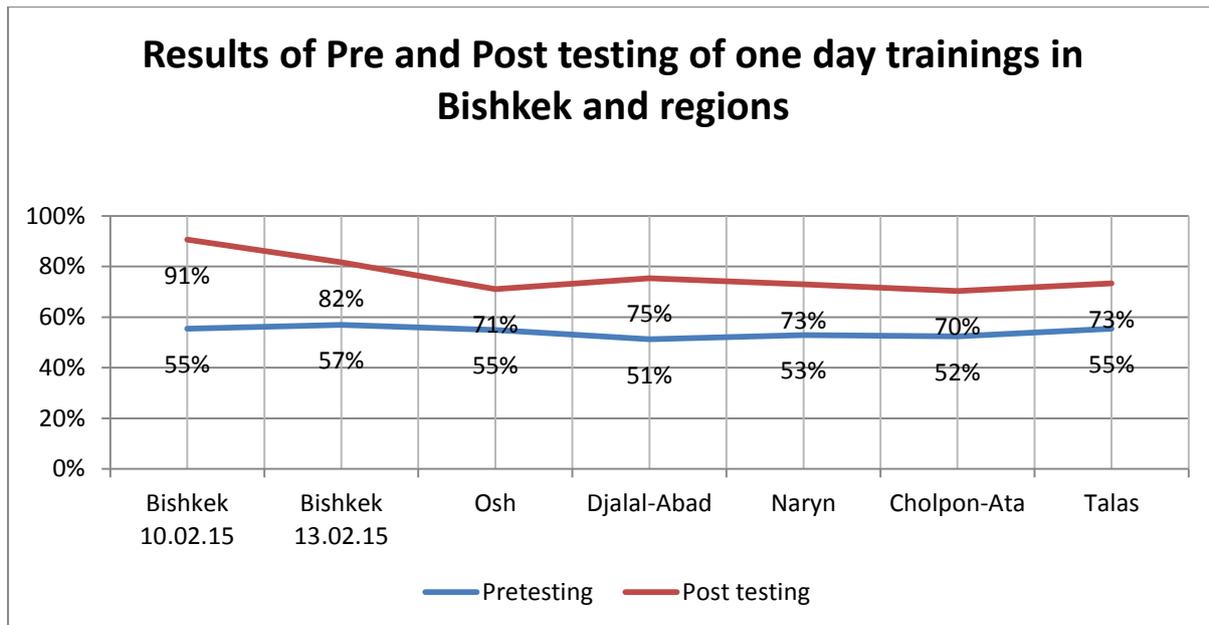
Beginning February 7 and ending March 31, twelve television channels and three radio stations across the Kyrgyz Republic aired the video and audio ads, arranged by a subcontract to the media firm, Vsglyad.kg. During the period, the video was broadcast 1,368 times, and the audio commercials aired 943 times in Russian and Kyrgyz languages. In addition, BGI's implementing partner, the Chamber of Tax Consultants (CTC), published and distributed 800 posters and 10,000 leaflets, and contracted for banners to be placed on two popular local websites akipress.kg and 24.kg. The uniform tax declaration forms and procedures manual were posted to the STS website for use by the taxpayers.

The CTC conducted a master class for mass media representatives on how to complete the tax declaration forms using an electronic calculator and a mini press club for Kyrgyz language media representatives. Following these activities, seven articles on UTD were published in print and electronic media.

During the two-month campaign, the CTC actively employed internet resources, posting information on the web sites of partner organizations (CTC, the Ministry of Economy and the State Tax Service), in social networks (Diesel, Facebook, Odnoklassniki and the CTC Facebook page). During the public awareness campaign, the CTC received 64 questions on its website and responded to all. Taxpayers asked 100 questions the popular diesel.kg internet forum, and the CTC also responded to all immediately. The number of people on Diesel.kg forum who viewed the Kyrgyz Republic's Universal Declaration section increased from 33,107 to 48,089 during the campaign. It was the most viewed notice in the Policy and Society section of the Diesel forum. More than 4,551 users actively participated in voting and evaluating information posted by the administrator on the Odnoklassniki CTC page at <http://ok.ru/profile/561547304941/statuses/63614791123181>

Capacity Development for Tax Officials on the Declaration Forms (*Work Plan Tax Administration, Activity 2.*)

In February and March, The CTC conducted one-day seminars on the uniform tax declaration forms for tax service officials in six cities throughout the country to enhance the capacity of tax inspectors and improve the delivery of public assistance in completing the declaration forms. In total, 142 inspectors attended the training courses. The focus of the training was to teach tax officers on the procedures for manual and electronic completion of forms and filing procedures. More than 300,000 taxpayers have been filing declaration forms. The results of pre and post testing showed a 41 percent increase in the level of knowledge on completing the forms and calculating tax obligations. The following chart demonstrates the increase in knowledge between the pre- and post-tests in each of the training courses:



According to the STS Press Service, 11 000 phone calls were received from the beginning of 2015 and 70 percent of taxpayers were asking questions in connection with the tax declaration public awareness campaign.

The CTC subsequently selected candidates attending these seminars to participate in a training-of-trainers program that will take place in April. These trainers will then deliver seminars and provide consulting services to colleagues and taxpayers in regional tax offices. The CTC is also working with the STS and tax policy officials to improve and further simplify the declaration forms, particularly for citizens who will need to begin filing in 2016 following adoption of universal declaration.

Also, on February 20, BGI held a round table attended by 31 representatives of the business community to brainstorm ways to improve and simplify declaration forms. The issues raised and proposals received from businesses are submitted with this quarterly report deliverables. Proposed improvements will be considered at the next stage of the project for finalization of the declaration forms and procedures for filing.

Support for the National Fiscal Policy Concept (*Work Plan Tax Administration, Activity 3.*)

BGI continued providing support to the Government's Working Group in developing a National Fiscal Policy Concept for 2015-2020. On February 12-13, 2015, BGI supported a two-day round table with the participation of the members of the Working Group, 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, the Bishkek Business Club and the Tax Consultants' Chamber. The purpose of the workshop was to finalize the draft of the National Fiscal Policy Concept for 2015-2020, based on comments previously received from business community, and to develop an Action Plan to implement the Policy Concept. On March 26, 2015, the Government sent the Draft Concept and the Action Plan to the relevant ministries and agencies for review and approval. The documents are expected to be adopted through Government Resolution in May, but this could be delayed by Kyrgyzstan's accession to the EEU. Once the Fiscal Policy Concept is adopted, BGI will work with key government agencies to identify priorities for tax policy assistance in implementing the Fiscal Policy Concept for 2015-2020.

New BGI Initiatives Planned for Q2 2015

Study of the Elasticity of Social Fund Contributions (*Work Plan, Support the Private Sector Development Plan, Activity 1.*)

At the request of the Prime Minister through the Secretariat of the Business Development and Investment Council, BGI will provide financial support to undertake a survey and an economic analysis of the rates of social insurance contributions to the Social Fund. In March, BGI announced a tender among local companies and organizations to conduct a survey among the SMEs and analyze to what degree reduction in social insurance contribution rates will persuade more businesses to register employees for Fund contributions. The project will also conduct sensitivity analyzes for different contribution rates and make policy recommendations to the Government to the system of social contributions. This work will be awarded in April and will be completed in August.

Results Survey of the Tax Declaration Campaign (*Work Plan Tax Administration, Activity 2.*)

Following the completion of the tax declaration campaign, BGI will conduct a nationwide survey to assess taxpayer awareness of uniform tax declaration requirements and those for universal tax declaration that will take effect in 2016. In 2013 and 2014 REFORMA completed two waves of similar surveys to measure awareness of these requirements. BGI will subcontract a survey company to conduct focus groups in Bishkek, Tokmok, Talas, Naryn, Cholpon-Ata, Osh, Jalal-Abad and Batken, and interview 1,200 respondents in the same localities as previous surveys, based on a representative sample of taxpayers.

Implementing Electronic Signature Security for VAT Administration (*Work Plan Tax Administration, Activity 3.*)

New VAT processes will require mandatory electronic filing of reports and expanded access for taxpayers to the VAT payers' database. For that purpose, MF Consulting conducted a needs assessment of regional tax offices to determine the material and technical resources required for implementation of the new requirements. BGI is determining whether to support procurement of hardware and software for regional tax offices. BGI is also planning to support the STS in creating software to certify digital signatures for electronic tax reporting, including VAT, thus streamlining the tax filing process and eliminating taxpayer burdens currently associated with registering and obtaining e-keys from an intermediary firm. The developed software will allow the STS to authorize taxpayers' digital signatures with substantially less cost and difficulty through the intermediary. BGI is currently working with the STS to refine its proposed scope of work, which envisions subcontracting an IT firm to work with the STS on this project.

Transferring Registration of Individual Entrepreneurs to the STS (*Work Plan Tax Administration, Activity 5.*)

Currently, individual entrepreneurs in Kyrgyzstan must register their business activity with both the statistics bodies and the STS, which is time-consuming for the taxpayers. The Government's Draft Fiscal Policy Concept and the STS Development Strategy provide for the transfer of individual entrepreneur registration to the STS in 2016. To implement this change, the STS requested that BGI assist in drafting the legal framework for the transfer and automate registration through the development a separate software module. The STS has also asked BGI to provide training to STS staff and conduct a public education campaign about the new procedure. BGI will work with the STS to prepare a scope of work for this activity for USAID approval.

Legal and Regulatory Framework for Business Licensing and Inspections

BGI's Activities in Q1 2015

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

During the first quarter, BGI continued supporting the Ministry of Economy in drafting amendments to the Law on the Licensing and Permitting System of the Kyrgyz Republic to strengthen implementation of the law and to ensure that it supports the implementation of the four draft regulations created under the REFORMA Project. In January 2015, the MoE established an expert group comprised of the representatives of licensing agencies, the business community, and BGI experts. The group conducted weekly meetings to discuss the proposed amendments to 28 articles of the law. The proposed legal amendments include new definitions of licensing terms, introduce licensing checklists, automate the license issuing process, reduce the number of licenses for 12 types of licensed activities, and remove other controversies identified during the meetings.

In March, BGI experts participated in a presentation of the proposed amendments to Minister Sariev and management staff of the Ministry. BGI modified the draft law based on the Minister's comments and will prepare a presentation to be delivered to the business community in April. Once the draft law is finalized, BGI will prepare the RIA for the draft law and will also finalize the other required documents to prepare the full package to be circulated among the ministries and agencies for review and approval. When the Government approves the draft law and regulations developed under REFORMA, BGI will undertake training for both licensing issuing agency personnel and businesses to ensure the smooth implementation of the licensing regulations.

New BGI Initiatives Planned for Q2 2015

Optimizing the Conduct of Environmental and Technical Safety Inspections (*Work Plan Business Regulation Reform, Activity 1.*)

Beginning in 2013, REFORMA hired the local firm, EcoPartner, to implement a project to improve the conduct of inspections by the State Inspectorate for Environmental and Technical Safety. The firm strengthened the Law 'On Procedures for Inspecting Business Entities' according to international practice, modified checklists to eliminate duplication with other inspections agencies and to ensure they complied with laws and regulations, drafted amendments incorporating proposed changes to legislation, and drafted implementing regulations. To address the absence of a prescribed methodology for conducting inspections, the project drafted regulations describing this methodology, including provisions to ensure the efficacy of samples taken for laboratory testing for environmental compliance. In July 2014, REFORMA submitted the entire package of checklists, legal amendments, the inspections methodology, the sampling methodology and a Manual on Inspections

In March 2015, BGI held 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 European Economic Union (EEU), and to draft 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 EEU accession. BGI again awarded the contract to EcoPartner. In addition to this work, the firm will conduct training on the new inspections methodologies for both inspectors and businesses, originally planned to take place under REFORMA. The last stage will be to prepare and submit amendments to the law on inspections and accompanying documentation to the Ministry of Economy and provide assistance during the review and approval process by the Kyrgyz Government and Parliament.

Pilot for Automated Issuance of Business Licenses (*Work Plan Business Regulation Reform, Activity 4.*)

In late March, the Ministry asked BGI to support a pilot program for automating the issuance of business licenses. In the second quarter, BGI will work with the Ministry to better define the objectives and parameters of the pilot for further consideration.

Access to Finance

BGI's Activities in Q1 2015

Revival of the Purchase Order Finance (POF) Product (*Work Plan Access to Finance, Activity 1.*)

In the first quarter, BGI mobilized consultant Rick Currie to help the project assess the current status of the POF product, particularly with regard to National Bank of Kyrgyzstan (NBK) prudential regulations, and the level of interest by banks in reviving the product. He and BGI Project Manager Aliya Niyazalieva met with four partner banks of the previous USAID Local Development Project (LDP) project (Demir Bank, Aiyl Bank, Bakai Bank and Bank of Asia). Demir and Bakai Banks agreed to participate in BGI's POF scaled-up program, pending results of the National Bank's decision on the proposed changes to prudential regulations. Aiyl Bank was also interested, but the bank might not be a suitable partner bank for POF loans. Due to the liquidity problems and very limited market focus, Bank Asiyi is not a candidate for BGI's access to finance program. In Mr. Currie's next visit, he and BGI will identify partner banks for the BGI POF program.

BGI and the Union of Kyrgyz Banks, also met with Lada Orozbaeva, Deputy Chairperson of the NBK to discuss the proposed reforms and changes to collateral, loan loss reserves, client identification and screening, POF risk identification and mitigation and other prudential regulation issues for short-term loans of 6 months or less, including POF. The NBK stated it made additional changes to the proposed recommendations (generated by Mr. Currie and the bank association under LDP), but declined to share them at that time. The NBK planned to post the draft regulations for public discussion on its website in April. Public discussion will last for one month. If there are no major objections or comments, the draft will be submitted to the NBK board for review, deliberation and approval. In finalizing the proposed regulations, Mr. Currie provided advice via e-mail to the Methodology Department of the NBK. During Mr. Currie's second trip, expected in May, he will work with the National Bank, Union of Banks and commercial banks on implementing the POF loan program. He will also make a presentation on POF at the Union of Kyrgyz's Banks' Bishkek International Financial Forum, described below.

New BGI Initiatives Planned for Q2 2015

Support to the Annual Bishkek International Finance Forum (BIFF) (*Work Plan Access to Finance, Activity 1.*)

BGI will provide partial financing to support the conduct of the BIFF, scheduled for May 22. Mr. Currie will conduct a session on POF financing focusing on key features of this banking product and successful experience of POF implementation in CIS countries.

Study on the Leasing Environment in the Kyrgyz Republic (*Work Plan Access to Finance, Activity 2.*)

Leasing is a financial product that BGI would like to integrate into its access to finance activities partially because the Kyrgyz Government has initiated positive changes to legislation and the leasing regime to stimulate growth. Engaging in leasing services, however, has proven problematic for banks and leasing firms only partially due to the lack of access to longer-term funding. Government implementation of some of the aspects of the regime has lagged, and benefits to lessors and lessees have been less than anticipated based on existing laws and regulations. Therefore, in April, BGI will issue a competitive tender to identify a local organization who will assess the leasing environment in

the Kyrgyz Republic, including the legal and tax framework, the degree of implementation by government institutions, the characteristics of leasing operations at financial institutions, the types of assets current leasing operations support, and other issues. The study will identify possible sources of longer-term funding to support leasing and the challenges lessors and lessees face in the market. In addition to reviving the POF product, the purpose of Mr. Currie's second visit to Kyrgyzstan will be to support the team conducting the leasing study.

Civil Aviation Safety

BGI's Activities in Q1 2015

Work for Passage of New Air Code (*Work Plan Civil Aviation, Activity 1.*)

On March 23, the Ministry of Transport and Communications presented the draft of the new Air Code for Government review, circulation and submission to Parliament. Three days later, the draft was posted to the Kyrgyz Government's website at <http://www.gov.kg/?p=52354> for public discussion. The new Air Code, developed by a public-private working group under the Civil Aviation Agency (CAA) and supported by BGI's predecessor project REFORMA, brings Kyrgyz aviation legislation in line with the air safety standards of the International Civil Aviation Organization (ICAO). Adoption of the new Air Code is considered the first step in efforts to release Kyrgyz airlines from a ban on flights to the European Union. It is expected that ministries and agencies will endorse the draft and the Prime Minister's office will submit it to Parliament by early May. Stakeholders seek to obtain Parliamentary approval of the Air Code prior to the summer recess so that its passage is not delayed by elections in the fall. Upon adoption, BGI intends to support harmonizing ICAO rules to the new Air Code and help build the capacity of the CAA to ensure flight safety by implementing international regulatory procedures.

Launch of IT Assessment of the Civil Aviation Agency (*Work Plan Civil Aviation, Activity 5.*)

In April 2014, ICAO's inspectors recommended that the CAA establish and implement a documentation control system to ensure that all necessary documentation is available to CAA staff, including ICAO documents that are not published in the ICAO-NET website. In March, BGI contracted an IT expert to carry out an assessment of the Agency's IT infrastructure and its current level of compliance with ICAO requirements and make recommendations on how to harmonize them with these requirements. The IT expert will also develop a Scope of Work for an IT company to create online data base of aviation legislation for the Agency, and BGI will then engage an IT company to create the data base. CAA will provide all documents for this e-database. The IT consultant is to complete the assessment in May.

New BGI Initiatives Planned for Q2 2015

Implementation of Provisions of the New Air Code (*Work Plan Civil Aviation, Activities 2-3.*)

Upon obtaining approval of the new Air Code, 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 for submission to the Government. Based on consulting firm Integra's recommendations and approval of the Government for the draft Provision on the mechanism of self-financing of the Agency, BGI will develop 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 Activities in Q1 2015

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

On February 20, the Cabinet of Ministers resolved to adopt the *Medium- and Long-Term Development Strategy for the Mining Sector for 2015-2035*, which the Ministry of Economy created with the help of local experts funded by USAID's REFORMA Project. The strategy sets forth a policy vision based on international practices in mineral resources development. Key policy changes include engaging local communities in resource allocation decisions, providing information transparency to both the Kyrgyz public and potential investors, and consolidating site inspections for environmental and safety compliance, among many others. The Government's approval followed months of public discussion and circulation of the strategy among Kyrgyz ministries and agencies. BGI will continue USAID's support to the sector and will provide assistance in implementing key components of the strategy.

Participation of Kyrgyz stakeholders in international mining forums to promote KR investment opportunities and study best international practices in mining. (*Work Plan Mining Policy, Activity 5.*)

BGI assisted a delegation of counterparts from the Ministry of Economy and State Geology Agency to participate in the Sixth Annual International Mining Forum, MINEX Central Asia, held March 17-20 in Astana, Kazakhstan. The purpose of the forum is to stimulate multilateral discussion of regional perspectives for development of the mineral resources sector, particularly in stimulating its use of modern technologies for exploration and international-practice policies for attracting investment. At the forum, Deputy Director of the State Agency of Geology and Mineral Resources, Mr. Ulanbek Ryskulov, presented the mineral resource potential of the Kyrgyz Republic and the reforms recently undertaken to improve management of the sector. In addition, government representatives obtained an opportunity to study international trends, mining industry development forecasts, analysis and recommendations from leading international experts.

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

BGI is providing additional capacity development assistance to the State Geology Agency, particularly in further refining the Agency's ability to utilize the comprehensive data management system created under the REFORMA project. Agency staff, supported by local subcontractor, Education and Career Development Fund – Art Pro, has begun developing the draft regulation on licensing cases that outlines required procedures, checklists, methods for information exchange among departments, archiving procedures, and other data management practices. The project will develop and test another data management system module to support the internal licensing commission and an interface with other modules to achieve greater transparency of licensing commission operations. This will be completed and launched in the second quarter. The Agency has assigned five Agency employees across several departments to monitor and support the work of the data base to support institutionalization of the processes and activities undertaken with this project. These representatives were given practical training on developing an action plan for activities under this project using MS Project.

Additionally, BGI has been working with Agency staff to create a formal student internship program with the Mining Institute that arose informally during implementation of the REFORMA data management system. To initiate the internship program, the project assessed the motivations and

career goals of 230 students using motivation evaluation testing. Of the students assessed, 100 students were short-listed for participation in the internship program at the Geology Agency. Currently, 15 students have already started an internship at the Agency. Also, to ensure better knowledge transfer, the BGI team developed guidelines for the scanning process of documents and populating the data base. Since the beginning of this BGI project, the students supported by the Agency staff have scanned 77 licenses cases.

New BGI Initiatives Planned for Q2 2015

Public Awareness for Mining Sector Development (*Work Plan Mining Policy Activity 3-4.*)

To increase public awareness of the benefits of supporting mining development, the Ministry of Economy seeks to launch a public awareness campaign and asked for assistance from BGI. BGI has developed a scope of work and will issue a tender to select a subcontractor to develop and deliver eight regional training courses to local stakeholders, revise a leaflet, brochure and poster providing information about the Mining Strategy that were originally developed by REFORMA, and produce a video clip providing brief information about the mining industry, describing its role in economic development, and encouraging people to support creating a favorable environment for investment in the sector. BGI expects to award this work to the winning bidder in May or June.

National Conference on Building Partnerships and Conflict Mitigation in Osh (*Work Plan Mining Policy Activity 4*)

The State Geology Agency requested BGI's support for conducting a conflict mitigation conference in Osh. The first such conference was held in October 2014 in Issyk-Kul with support of USAID and became the first platform for dialogue for government authorities, mining companies and local communities. Based on the positive feedback from this conference, the State Geology Agency wanted to offer a similar opportunity for dialogue in the South. Originally, the conference was planned for late March, then it was moved to April, and it has now been postponed again. BGI will co-sponsor the conference with GIZ. Many members of Government, Parliament, and local self-government will participate, as well as representatives of mining companies, donor and non-government organizations and mining firms.

5. Local Subcontracts and Consultants

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

BGI Local Subcontracting Awards and History – Q1 2015

| | <i>Subcontracting Activity</i> | <i>Subcontractor(s)</i> | <i>Award Date</i> | <i>Period of Perform.</i> | <i>Contract Value</i> | <i>Status</i> |
|-----------------------------------|--|---|-------------------|---------------------------|-----------------------|---------------|
| 1 | Conducting Textile/Apparel Value Chain Study | Central Asia International Consulting (CAIC) | Dec 2014 | 4 months | \$61,096 | Ongoing |
| 2 | Conducting Assessment of Demand and Supply of Skills in BGI Value Chains | M-Vector | Dec 2014 | 4 months | \$56,411 | Ongoing |
| 3 | Promoting Passage of the New Air Code | Kalikova & Associates | Dec 2014 | 6 months | \$38,329 | Ongoing |
| 4 | Implementing VAT Administrative Reform | MF Consulting | Dec 2014 | 6 months | \$72,460 | Ongoing |
| 5 | Providing Services for Entering the Russian Apparel Market for Kyrgyz Apparel Producers | Fashion Consulting Group | Feb 2015 | 2 months | \$26,220 | Completed |
| 6 | Promoting Tax Literacy to Prepare for the Introduction of Universal Tax Declaration | Chamber of Tax Consultants | Feb 2015 | 6 months | \$68,960 | Ongoing |
| 7 | Conducting Construction Materials Value Chain Study | International Business Council | Feb 2015 | 4 months | \$56,436 | Ongoing |
| 8 | Broadcasting Video and Audio Announcements on Universal Tax Declaration | Vzglad.kg | Feb 2015 | 2 months | \$41,856 | Completed |
| 9 | Providing Continued Capacity Developments for the State Geology Agency | Education and Career Foundation | Feb 2015 | 6 months | \$24,812 | Ongoing |
| 10 | Legal Revision, Checklist Development and Training on New Inspections Methodologies | EcoPartner | Mar 2015 | 7 months | \$103,278 | Initiated |
| TOTAL SUBCONTRACTS AWARDED | | | | | \$549,858 | |

Anticipated BGI Local Subcontracting Awards – Q2 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> |
|--|---|--------------------------------|-------------------------------|-------------------------------------|--------------------------------------|
| 11 | Conducting Study of the Market for Leasing in the Kyrgyz Republic | April 2015 | May 2015 | 4 months | \$60,000 |
| 12 | Conducting Study of the Elasticity of Social Fund Contributions | April 2015 | May 2015 | 5 months | \$85,000 |
| 13 | Launching Public Education Campaign for Mining Strategy | May 2015 | May 2015 | 3 months | \$50,000 |
| 17 | Conducting Study of the Turkish Outbound Tourism Market | May 2015 | Jun 2015 | 3 months | \$50,000 |
| 14 | Conducting Baseline Survey of Destination Management Sites | May 2015 | Jun 2015 | 2 months | \$40,000 |
| 15 | Conducting Results Survey of the Tax Declaration Campaign | May 2015 | Jun 2015 | 2 months | \$25,000 |
| 16 | Implementing Provisions of the New Air Code | Jun 2015 | Jun 2015 | 8 months | \$145,000 |
| 18 | Implementing Electronic Signature Security for VAT Administration | Jun 2015 | Jul 2015 | 4 months | \$70,000 |
| 20 | Pilot for Automated Issuance of Business Licenses | Jun 2015 | Jul 2015 | 7 months | \$60,000 |
| 19 | Transferring Registration of Individual Entrepreneurs to the STS | Jun 2015 | Jul 2015 | 6 months | \$50,000 |
| TOTAL ANTICIPATED SUBCONTRACT VALUE FOR Q1 2015 | | | | | \$635,000 |

BGI Independent Local Consultant Awards and History – Q1 2015

| <i>Consulting Activity</i> | <i>Consultant</i> | <i>Award Date</i> | <i>Period of Perform.</i> | <i>Contract Value</i> | <i>Status</i> |
|---|--------------------|-------------------|---------------------------|-----------------------|---------------|
| Amending the Law on the Licensing System and Implementing Regulations | Nurgazy Zhokunov | Jan 2015 | 12 months | \$20,000 | Ongoing |
| Assessing the IT Capabilities of the Civil Aviation Agency | Bolot Orozmatov | Mar 2015 | 9 months | \$10,000 | Ongoing |
| Improving the Collection and Reporting of Tourism Statistics | Nurjan Toktogulova | Apr 2015 | 6 months | \$15,000 | Ongoing |
| TOTAL CONSULTANT CONTRACTS AWARDED | | | | \$35,000 | |

BGI Anticipated Independent Local Consultant Awards – Q1 2015

| <i>Consulting Activity</i> | <i>Anticipated Award Date</i> | <i>Target Period of Performance</i> | <i>Anticipated Contract Value</i> |
|---|-------------------------------|-------------------------------------|-----------------------------------|
| Developing a Tax Strategy for the Apparel Sector | May 2015 | 2 months | \$10,000 |
| Advising the Government on WTO Obligations Relative to Accession to the Eurasian Economic Union | May 2015 | 6 months | \$10,000 |
| TOTAL CONSULTANT CONTRACTS AWARDED | | | \$20,000 |

6. Financial Results

| Budget Cost Elements | Budgeted Amount | Invocied Amount as of March 7, 2015 | Accrual Amount as of March 31, 2015 | Expended Amount** | Remaining Budget to Complete |
|-------------------------------------|------------------------|-------------------------------------|-------------------------------------|-----------------------|------------------------------|
| Labor | \$3,589,499.00 | \$292,838.84 | \$30,686.18 | \$323,525.02 | \$3,265,973.98 |
| Total Other Direct Costs | \$5,652,519.00 | \$457,523.56 | \$117,410.39 | \$574,933.95 | \$5,077,585.05 |
| PROJECT FUND | | | | | |
| <i>Local Subcontractor</i> | \$3,397,795.00 | \$132,067.12 | \$0.00 | \$132,067.12 | \$3,265,727.88 |
| <i>Grants</i> | \$1,225,490.00 | \$0.00 | \$0.00 | \$0.00 | \$1,225,490.00 |
| Indirect cost | \$5,348,954.00 | \$462,241.96 | \$61,969.00 | \$524,210.96 | \$4,824,743.04 |
| <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 | \$1,392,510.48 | \$210,065.57 | \$1,602,576.05 | \$18,568,457.95 |

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 |
|-------------------------------|---|--|------------|------------|--------------|
| Apparel | E | January 29, 2015 – “Stakeholder Meeting in Apparel Industry” | 32 | 89 | 121 |
| | E | February 18, 2015-Buyer-Seller Meeting in Moscow | 23 | 34 | 57 |
| | F | February 10, 2015: “Research of Apparel Value Chain” | 4 | 5 | 9 |
| | F | February 13, 2015: “Research of Apparel Value Chain” | 3 | 5 | 8 |
| | F | February 16, 2015: “Research of Apparel Value Chain” | 6 | 6 | 12 |
| | F | February 19, 2015: “Research of Apparel Value Chain” | 3 | 4 | 7 |
| | F | February 26, 2015: “Research of Apparel Value Chain” | 4 | 4 | 8 |
| | F | February 27, 2015: “Research of Apparel Value Chain” | 3 | 4 | 7 |
| Tourism | E | February 25: Launch of Destination Management Program | 61 | 59 | 120 |
| | E | February 27, 2015: Destination Management Roadshow in Talas | 39 | 31 | 70 |
| | E | March 2, 2015: Destination Management Roadshow in Osh | 45 | 24 | 69 |
| | E | March 3, 2015 Destination Management Roadshow in Naryn | 23 | 9 | 32 |
| | E | March 4, 2015: Destination Management Roadshow in Jalalabad | 14 | 9 | 23 |
| | E | March 5, 2015: Destination Management Roadshow in Batken | 15 | 8 | 23 |
| | E | March 6, 2015: Destination Management Roadshow in Karakol | 22 | 25 | 47 |
| Construction Materials | E | February 26: BGI-IBC Construction Materials Stakeholder event | 68 | 21 | 89 |
| Human Capital | F | March 03, 2015 – Focus group “Survey to Assess the Supply and Demand for Skills in Textile Value Chain”, Bishkek | 1 | 9 | 10 |
| | F | March 04, 2015 – Focus group “Survey to Assess the Supply and Demand for Skills in Textile Value Chain”, Osh | 4 | 6 | 10 |
| | F | March 04, 2015 – Focus group “Survey to Assess the Supply and Demand for Skills in Textile Value Chain”, Bishkek | 1 | 8 | 9 |
| | F | March 04, 2015 – Focus group “Survey to Assess the Supply and Demand for Skills in Tourism Value Chain”, Bishkek | 2 | 7 | 9 |
| | F | March 05, 2015 – 3 Focus groups “Survey to Assess the Supply and Demand for Skills in Tourism Value Chain”, Karakol | 4 | 5 | 9 |
| | F | March 05, 2015 – 3 Focus groups “Survey to Assess the Supply and Demand for Skills in Tourism Value Chain”, Bishkek | 4 | 3 | 7 |
| Tax Policy and Administration | E | February 12-13, 2015 – Two day Meetings of the working group on Fiscal Policy Concept 2015-2020 Action Plan Development. Jannat Resort Bishkek | 9 | 4 | 13 |
| | T | February 10, 2015 – One day Training for regional STS officials on UTD. Bishkek. | 7 | 15 | 22 |
| | T | February 13, 2015 - One day Training for regional STS officials on UTD. Bishkek. | 14 | 10 | 24 |
| | T | February 16-20, 2015 – Five day Training for STS officials on UTD (Headquarter). Bishkek. | 13 | 9 | 22 |
| | T | February 12, 2015 – One day Training for regional STS officials on UTD. Naryn. | 8 | 9 | 17 |
| | T | March 2, 2015 – One day Training for regional STS officials on UTD. Cholpon-Ata. | 6 | 16 | 22 |
| | T | March 5, 2015 – One day Training for regional STS officials on UTD. Osh. | 20 | 5 | 25 |
| | T | March 6, 2015 – One day Training for regional STS officials on UTD. Djalal-Abad. | 15 | 1 | 16 |
| | T | March 11, 2015 – One day Training for regional STS officials on UTD. Talas. | 9 | 7 | 16 |
| | T | February 20, 2015 –Round Table Discussion UTD Forms. Business and Government agencies | 9 | 11 | 20 |
| | T | February 27, 2015 – Master Class for Mass media Representatives on using UTD calculator. | 3 | 4 | 7 |
| | E | February 20, 2015 –Round Table Discussion on UTD Forms. Business and Government agencies | 9 | 21 | 30 |
| | T | March 4, 2015 –Press-cafe on UTD. Mass media Representative and Government agencies | 4 | 7 | 11 |
| | E | March 27, 2015 – Round Table Discussion on VAT administration within the context of CU. MF Consulting and Government agencies | 2 | 5 | 7 |
| Business Licensing | E | Presentation of the proposed amendments to the Licensing Law to Minister Sariev and MoE management staff | 13 | 2 | 15 |
| | | | 522 | 501 | 1,023 |

Annex B: Table of Deliverables

| Component | Document | ENG | RUS |
|-------------------------------|---|-----|-----|
| Apparel | Stakeholder Meeting in Apparel Industry Event Presentations | ✓ | ✓ |
| | Apparel VC -Buyer – Seller Moscow Event Presentations | ✓ | ✓ |
| | Apparel VC -Buyer – Seller Moscow Event Attendance List | | ✓ |
| | Apparel VC Chain Focus Group Discussions' Protocols (6) | ✓ | ✓ |
| | Apparel -Buyer Seller Moscow Event Database | | ✓ |
| Tourism | Tourism Destination Management Launch Presentations | ✓ | ✓ |
| | Tourism -Attendance Sheets for destination management events in Bishkek, Osh, Batken, Talas, Naryn,Karakol (6) | | ✓ |
| Construction Materials | Construction Materials VC Launch event Presentations | ✓ | ✓ |
| | Construction Materials VC Launch Event Attendance sheets | ✓ | ✓ |
| Human Capital | Desk Research on Survey to Assess the Supply and Demand for Skills in Textile Value Chain | | ✓ |
| | Desk Research on Survey to Assess the Supply and Demand for Skills in Tourism Value Chain | | ✓ |
| | IMC Directory of Consultants and Consulting Companies | ✓ | ✓ |
| Tax Policy and Administration | Problems of the CU tax legislation | | ✓ |
| | Analysis of taxation procedures for imports from CU countries | | ✓ |
| | Analysis of taxation procedures for exports to CU counties | | ✓ |
| | Analysis of taxation procedures for goods produced on commission processing in KR | | ✓ |
| | Taxation procedures for the goods made on commission processing outside KR in CU | | ✓ |
| | Analysis of taxation procedures for works and services in CU | | ✓ |
| | List of NLAs to be amended in light of CU accession | | ✓ |
| | List of the documents used in CU | | ✓ |
| | Analytical Notes on Legal Collisions and Controversies revealed in light of CU accession | | ✓ |
| | Draft Guidelines on VAT Administration including procedures in CU | | ✓ |
| | STS Needs Assessment Report | ✓ | ✓ |
| Tax Literacy Campaign | Initial Report Vzglyad.KG | ✓ | ✓ |
| | Monitoring Report Vzglyad.KG. February 2015 | ✓ | ✓ |
| | Interim Report Vzglyad.KG. | ✓ | ✓ |
| | Monitoring Report Vzglyad.KG. March 1-8. 2015 | | ✓ |
| | Monitoring Report Vzglyad.KG. March 9-15.2015 | | ✓ |
| | Monitoring Report Vzglyad.KG. March 16-23. 2015 | | ✓ |
| | Monitoring Report Vzglyad.KG. March 24-31. 2015 | | ✓ |
| | Vzglyad.KG_Final Report | ✓ | ✓ |
| | Vzglyad.KG_ Monitoring Report -Final | ✓ | ✓ |
| | Unified Tax Declaration Manual | | ✓ |
| | Question –and – Answer Digest | | ✓ |
| | List of participants 2015 . Trainings | | ✓ |
| | List of participants 2015. Public events | | ✓ |
| | Trainings Report | ✓ | ✓ |
| Access to Finance | Access to Finance First Year Work Plan | ✓ | |
| | Rick Currie Exit Report for the work performed under Launch of Access to Finance Component of USAID BGI Project | ✓ | |
| | Statement of Work to analyze the practice of leasing transactions in the Kyrgyz Republic | ✓ | |
| | Scope of Work for Richard P. Currie – Follow up Project Activities under | ✓ | |

| | | | |
|---------------------------|---|---|---|
| | Access to Finance Component of USAID BGI Project | | |
| Business Licensing | Draft Law to Make Amendments and Additions to the KR Law On Licensing and Permitting System | | ✓ |
| | Matrix of Disagreements (comparative table) to the Draft Law on Amendments and Additions to the KR Law On Licensing and Permitting System | | ✓ |
| | Justification Memo to the Draft Law on Amendments and Additions to the KR Law On Licensing and Permitting System, | | ✓ |
| Mining | Final Draft of Mining Strategy and Action Plan (also in Kyrgyz) | | ✓ |
| | Final Draft of the Mining Strategy Presentation | ✓ | ✓ |
| | Matrix of Disagreements | | ✓ |
| | Mining Strategy Presentation | | ✓ |
| | Presentation of the mineral resource potential of the Kyrgyz Republic | | ✓ |
| | Guidelines for scanning process and working with the data base for Geology Agency | | ✓ |
| | Progress Report on Continued Capacity Development at the Geology Agency by Feliks Shapiro | | ✓ |

USAID Business Growth Initiative (BGI)
15 Razzakova Street, Office 6, Second Floor
Bishkek, Kyrgyz Republic 720040
Tel: +966 312 66 60 44, 61 04 48
+966 312 66 16 34