

Kyrgyzstan

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Kyrgyzstan	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	<p>Non - Compliance with FATF 40 + 9 Recommendations</p> <p>Not on EU White list equivalent jurisdictions</p> <p>Corruption Index (Transparency International & W.G.I.)</p> <p>World Governance Indicators (Average Score)</p> <p>Failed States Index (Political Issues)(Average Score)</p>
Medium Risk Areas:	Weakness in Government Legislation to combat Money Laundering
<p>Major Investment Areas:</p> <p>Agriculture - products:</p> <p>tobacco, cotton, potatoes, vegetables, grapes, fruits and berries; sheep, goats, cattle, wool</p> <p>Industries:</p> <p>small machinery, textiles, food processing, cement, shoes, sawn logs, refrigerators, furniture, electric motors, gold, rare earth metals</p> <p>Exports - commodities:</p> <p>gold, cotton, wool, garments, meat, tobacco; mercury, uranium, electricity; machinery; shoes</p> <p>Exports - partners:</p> <p>Uzbekistan 28.8%, Kazakhstan 22%, Russia 14.6%, China 7%, UAE 6.3%, Afghanistan 5.7% (2012)</p> <p>Imports - commodities:</p> <p>oil and gas, machinery and equipment, chemicals, foodstuffs</p> <p>Imports - partners:</p> <p>China 55.9%, Russia 17.7%, Kazakhstan 6.4% (2012)</p>	

Investment Restrictions:

The Kyrgyz Republic is open to foreign direct investment and the government publically recognizes that foreign direct investment is an important component to growing the economy. Laws exist that make the investment climate more favorable, than previously, for foreign companies. Application of these laws, however, is inconsistent, which can cause problems for and deter foreign investors. In addition, government activities, including constant renegotiation of operating contracts that were legally concluded, commissioning invasive and time consuming audits, levying large retro-active fines, and disputes over licenses are impediments to foreign investment.

Foreign ownership of land is prohibited,

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Section 1 - Background

A Central Asian country of incredible natural beauty and proud nomadic traditions, most of Kyrgyzstan was formally annexed to Russia in 1876. The Kyrgyz staged a major revolt against the Tsarist Empire in 1916 in which almost one-sixth of the Kyrgyz population was killed. Kyrgyzstan became a Soviet republic in 1936 and achieved independence in 1991 when the USSR dissolved. Nationwide demonstrations in the spring of 2005 resulted in the ouster of President Askar AKAEV, who had run the country since 1990. Subsequent presidential elections in July 2005 were won overwhelmingly by former prime minister Kurmanbek BAKIEV. Over the next few years, the new president manipulated the parliament to accrue new powers for himself. In July 2009, after months of harassment against his opponents and media critics, BAKIEV won re-election in a presidential campaign that the international community deemed flawed. In April 2010, violent protests in Bishkek led to the collapse of the BAKIEV regime and his eventual fleeing to Minsk, Belarus. His successor, Roza OTUNBAEVA, served as transitional president until Almazbek ATAMBAEV was inaugurated in December 2011. Continuing concerns include: the trajectory of democratization, endemic corruption, poor interethnic relations, and terrorism.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Kyrgyzstan is no longer on the FATF List of Countries that have been identified as having strategic AML deficiencies

Date: 27 June 2014

The FATF welcomes Kyrgyzstan's significant progress in improving its AML/CFT regime and notes that Kyrgyzstan has established the legal and regulatory framework to meet its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in October 2011. Kyrgyzstan is therefore no longer subject to FATF's monitoring process under its on-going global AML/CFT compliance process. Kyrgyzstan will work with EAG as it continues to address the full range of AML/CFT issues identified in its mutual evaluation report.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Kyrgyzstan was undertaken by the Financial Action Task Force (FATF) in 2007. According to that Evaluation, Kyrgyzstan was deemed Compliant for 5 and Largely Compliant for 9 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 4 of the 6 Core Recommendations.

IMF Report: Kyrgyz Republic: Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria (May 2012)

Extract:

With Fund assistance the authorities are preparing an action plan to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) regime (LOI 12). The Fund's TA will focus on reviewing the legal framework and assisting the State Financial Intelligence Service (SFIS) and other relevant agencies in reinforcing their functions and bilateral coordination. The authorities will submit amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to the parliament to strengthen the AML/CFT legal framework by end-September 2012 (structural benchmark).

Kyrgyzstan was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

The Kyrgyz Republic is not a regional financial center. A large shadow economy (which the World Bank estimates at 40 percent of current GDP, or approximately \$7.5 billion), corruption, organized crime, and narcotics trafficking make the country vulnerable to financial crimes. Although no hard figures are available, it appears narcotics trafficking is the main source of criminal proceeds as the Kyrgyz Republic sits along a key northern transit route from Afghanistan to the Russian Federation, Europe, and beyond. In addition, the smuggling of consumer goods, including fuel, tax and tariff evasion, and official corruption continue to serve as major sources of criminal proceeds. Money laundering also occurs through trade-based fraud, bulk cash couriers, and informal and unregulated value transfer systems. By tradition, many transactions occur without written records. There is no evidence of large-scale money laundering through the banking system. The banking system is immature and markets are tiny; therefore, any movement of a large amount of hard currency through this system would be immediately noticeable.

In 2015, known remittances from migrant workers abroad comprised nearly 31 percent of the GDP. A significant portion of remittances enters informal channels or is hand carried to Kyrgyzstan from the country where the migrant is residing. Weak political will, resource constraints, inefficient financial systems, and corruption all serve to stifle efforts to effectively combat money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Are legal persons covered: criminally: NO civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

KYC covered entities: Banks, credit institutions, stock brokerages, foreign exchange offices, insurance companies, notaries, attorneys, regulators, tax consultants and auditors, realtors, the state's property agency, trustees, jewelry stores and dealers, and customs officers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

STR covered entities: Banks; finance organizations and offices; mortgage companies and credit organizations; credit unions; insurance/re-insurance organizations; professional participants of the equity market; private pension funds and retirement assets management companies; financial leasing companies; persons providing funds or value transfer; currency exchanges, pawnshops, and buyer companies; commodity exchanges; persons organizing and conducting lotteries; realtors; dealers of precious metals and stones; trustee services, including trust companies; and postal and telegraph services providing funds transfers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2015

Convictions: 0 in 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES

With other governments/jurisdictions: YES

The Kyrgyz Republic is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of the Kyrgyz Republic continues to address its recognized AML/CFT deficiencies; however, it appears lack of political will, resource constraints, and corruption are large hurdles to effective enforcement of AML/CFT provisions. The AML law was amended twice in 2015. Amendments in April specifically exclude the gaming industry, with the exception of lotteries, from coverage under the law. Additional amendments in July expand the list of entities required to report suspicious transaction reports (STRs) to include postal or telegraph services providing funds transfers, but remove notaries; modify the definition of "crime proceeds" to include any economic benefit or property derived from or obtained, directly or indirectly, through the commission of an offense; and provide that all references to terrorism financing now include "terrorism or extremism financing." Finally, the amendments place the determination of when, and which, assets will be frozen in the hands of the government rather than the Financial Intelligence Service (FIS).

Despite this progress, significant gaps still exist in enforcement and implementation. The procedures for investigation and enforcement are still underdeveloped, and there are virtually no investigations and prosecutions of money laundering or terrorism financing. Both government and private institutions lack personnel, training, and capacity to enforce the law and its attendant regulations. A previous attempt at reform of the Financial Police proved ineffective. The FIS, the country's financial intelligence unit, is not recognized by other government entities as a legitimate investigative agency, resulting in a lack of cooperation and information sharing across agency lines. The FIS says it sends prosecutable cases, which the prosecution service refuses to pursue; the prosecutors say they receive scant information from the FIS and requests to prosecute without sufficient evidence. In March, 2015, the government amended the FIS law and ordered the FIU to create a Public Advisory Council in order to monitor its activities.

The threshold for mandatory currency transaction reporting (CTRs) is 1,000,000 som (approximately \$13,700). An additional challenge to effective enforcement and investigation is the lack of criminal sanctions for legal entities involved in money laundering or terrorism financing activity.

The Government of the Kyrgyz Republic should provide additional personnel, resources, training, and other capacity building support to bodies authorized to investigate and prosecute money laundering, corruption, financial crimes, and terrorism financing. The government should adjust the CTR threshold to a level that is more appropriate for commercial transactions in the country and should make legal entities subject to criminal sanctions for money laundering or terrorist financing activity. The Kyrgyz Republic also should review its decision to remove gaming establishments and notaries from the list of reporting entities.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Kyrgyzstan does not conform with regard to the following government legislation: -

System for Identifying/Forfeiting Assets - The jurisdiction has enacted laws authorizing the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

Ability to freeze assets without delay - The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations)

Disclosure Protection - "Safe Harbour" - By law, the jurisdiction provides a "safe harbour" defense to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

EU White list of Equivalent Jurisdictions

Kyrgyzstan is not on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Kyrgyzstan is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2016

Kyrgyzstan lies along a significant transit route for illegal drugs moving north from Afghanistan to Russia and other European countries. Illicit drugs are often smuggled from Tajikistan across un-demarcated borders through southern Kyrgyzstan. Kyrgyzstan's geographic location, limited resources, and weak criminal justice system make it a prime transshipment location. There were no significant changes in the country's domestic counternarcotics strategy or law enforcement and judicial capabilities in 2015. In August, the Kyrgyz government terminated the 1993 agreement with the United States regarding cooperation assistance. As a result, some U.S. bilateral cooperation projects with the Kyrgyz government were suspended and some preplanned activities had to be cancelled, although counternarcotics and law enforcement reform programs continued through multilateral frameworks. In the run-up to the October 2015 parliamentary elections, authorities instituted a requirement that all meetings to discuss cooperation be requested through an official diplomatic note routed through the Ministry of Foreign Affairs. Previously, counterdrug discussions were conducted directly with the State Service for Drug Control (SSDC). This added step complicated the planning of counterdrug activities and resulted in some delays.

Corruption

As a matter of government policy, the Government of Kyrgyzstan does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. However, organized crime and corruption throughout the criminal justice system remain ongoing problems for the government. In recent years, several high-ranking officials have been implicated in corruption cases.

US State Dept Trafficking in Persons Report 2014 (introduction):

Kyrgyzstan is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

The Kyrgyz Republic (or Kyrgyzstan) is a source, transit, and destination country for men, women, and children subjected to forced labor, and for women and children subjected to sex trafficking. Kyrgyzstani men, women, and children are subjected to forced labor primarily in Russia and Kazakhstan, and to a lesser extent in Turkey and other Eastern European countries. They are also subjected to forced labor primarily within the country's agricultural, forestry, construction, and textile industries, as well as in domestic service and child care. In 2012, 26 Kyrgyzstani forced laborers were identified in Finland. Kyrgyzstani women are subjected to forced prostitution abroad, reportedly in Turkey, the United Arab Emirates (UAE), Russia, Kazakhstan, and within the country. Small numbers of women and children from Uzbekistan are subjected to sex trafficking in Kyrgyzstan. Some men and women from Uzbekistan, Tajikistan, and Turkmenistan transit the Kyrgyz Republic as they migrate to Russia,

the UAE, and Turkey, where they subsequently become victims of sex and labor trafficking. Kyrgyzstani boys and girls are subjected to sex trafficking and forced labor, including the forced selling and distribution of drugs, within the country. NGOs continue to report that some schools in the south of the country cancel classes in the fall to send children to pick cotton, and other schools require children to harvest tobacco on school grounds. Street children who engage in begging and children engaged in domestic work (often in the homes of extended family members) are vulnerable to human trafficking.

The Government of the Kyrgyz Republic does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government provided in-kind contributions to assist NGOs and international organizations in training law enforcement officials, provided the premises used for protection of identified trafficking victims, and worked to raise awareness of the crime. However, the government's investigation of trafficking crimes decreased and it did not report convicting any traffickers for the second consecutive year. The U.N. Special Rapporteur on the Sale of Children, Child Prostitution, and Child Pornography alleged the serious and endemic corruption of police officers, who allegedly participated themselves in the detention and rape of child sex trafficking victims. The Kyrgyzstani government took no action to investigate allegations of officials' complicity in trafficking crimes. It identified few victims and did not adequately protect child victims during the investigation and prosecution of their traffickers.

US State Dept Terrorism Report 2015

Overview: In 2015, the Kyrgyz Republic's counterterrorism efforts focused on countering violent extremism (CVE), rooting out extremists, monitoring the flow of Kyrgyz national foreign terrorist fighters, and preventing those returning from conflicts abroad from engaging in terrorist activities. The State Committee for National Security (GKNB) and Ministry of Internal Affairs (MVD) conducted several operations targeting individuals suspected of affiliation with banned religious groups or extremist recruitment activities. GKNB and MVD officials conducted two counterterrorism operations that resulted in the deaths of several suspected terrorists. In 2015, the MVD estimated that 400 Kyrgyz citizen fighters were in Islamic State of Iraq and the Levant (ISIL)-controlled territory in Syria and Iraq, though the number could be higher. The government estimated that 70 percent of Kyrgyz citizens fighting in Iraq and Syria were ethnic Uzbeks. Kyrgyzstan restricts public information on national security issues, making it difficult to assess the efficacy of its counterterrorism operations and the wider extent of the threat.

The Kyrgyz Republic remained vulnerable to transnational threats, especially in southern areas. People and illicit goods continued to move relatively freely into and out of the country. The recession in Russia increased unemployment among Kyrgyz migrant laborers and had significant ripple effects on the Kyrgyz economy, potentially leaving the population more vulnerable to terrorist recruitment. The lack of opportunities for Kyrgyz youth also increased the vulnerability of young people. The MVD's Tenth Directorate, which is responsible for counterterrorism operations, reported that in 2015, ISIL recruiters expanded their search for recruits to include more women and children, individuals with higher education and with professional skills such as doctors and computer technicians, which remain in short supply in ISIL-controlled territory. The government is concerned about the

potential for an influx of terrorist elements from Afghanistan via Tajikistan and for instability to spread into Central Asia.

In 2015, the United States continued its programming to train customs and border security agencies to help detect and deter terrorist threats and combat corruption within various police organizations. The Kyrgyz State Border Guards and Customs Service cooperated closely with the Export Control and Related Border Security (EXBS) program. In 2015, EXBS funded a portion of the construction of two Border Service Horse Stables for improved interdiction along the border and additional interdiction and commodity identification training for Border and Customs Service officers.

Legislation, Law Enforcement, and Border Security: The Kyrgyz Republic has two primary laws that govern counterterrorism operations. The first law, the “Law on Countering Terroristic Acts” (last revised in 2005), defines terrorism and provides the MVD and GKNB the authority to identify terrorist threats and prevent attacks. The second law, the “Law on Countering Money Laundering,” which was revised in 2006, addresses terrorism financing. Kyrgyz law criminalizes all activities in support of terrorism, extremism, and radicalization if the activities instigate a public security threat, recruit individuals, or include children. The GKNB leads the country’s Counterterrorism Center, which is comprised of representatives at the deputy minister level of relevant government ministries.

In July, the Kyrgyz parliament introduced and approved amendments to its counterterrorism legislation that increased the penalty for convictions for recruitment, training, and participating in military operations abroad to up to 15 years with confiscation of property. According to the office of the Prosecutor General, these stricter penalties will help law enforcement by deterring both prospective terrorists and those who wish to return to Kyrgyzstan. The government delivered statements indicating the need to reform the judiciary and strengthen rule of law, but made no concrete progress in 2015 as the judicial system remained vulnerable to corruption and political bias.

At the request of law enforcement agencies, the Kyrgyz parliament passed legislation increasing the legal penalties for returning fighters from Syria and Iraq, in an effort to dissuade them from returning to the Kyrgyz Republic. According to the MVD, it arrested all of the 20 to 30 foreign terrorist fighters known to have returned to the Kyrgyz Republic. In 2015, Kyrgyz President Atambaev expressed support for proposed new legislation that would strip Kyrgyz foreign terrorist fighters of their citizenship.

Although the GKNB’s Counterterrorism Center has demonstrated the ability to quickly react to bomb scares or other potential terrorist threats, it lacks specialized training and equipment. Interagency cooperation, coordination, and information sharing is sporadic. For example, the Prosecutor General’s office receives the results of GKNB and MVD investigations, including information to use in its prosecutions, but it has no mechanism to seek additional information after the investigation is complete. Kyrgyz security services face capacity issues, are overly bureaucratic, and struggle with corruption. Law enforcement agencies continued to lack equipment, manpower, and funding to effectively detect and deter criminal and potential terrorist operations in remote and mountainous areas of the south.

The Department of State's Antiterrorism Assistance (ATA) program continued to offer assistance to Kyrgyz security forces during much of 2015, including training focused on border control.

The government does not maintain a terrorist screening watchlist. It also does not have biographic or biometric screening capabilities at ports of entry. Information sharing with other countries occurs rarely and usually only by request in the context of corruption or organized crime investigations. Information sharing and cooperation with counterterrorism officials in Turkey continued to increase in 2015, including information on the travel of Kyrgyz citizens to Turkey. The government does not collect advance passenger records on commercial flights.

According to open source reporting, in 2015 there were numerous counterterrorism operations in the Kyrgyz Republic. Most were small operations that resulted in the arrests of suspected extremists due to their possession of extremist materials.

There were two major law enforcement operations targeting suspected terrorists in Bishkek. On July 16, a counterterrorism operation closed down streets in central Bishkek for more than five hours. By the end of the operation, GKNB reported that it had "liquidated" four suspects – Kazakh nationals – who had been radicalized in prison, become members of ISIL, and planned a terrorist attack on the main square in Bishkek during the mass prayer event marking the end of Ramadan. GKNB also reported that these suspects planned to attack the Russian military base in Kant. On December 10, the GKNB killed two suspected terrorists in an effort to arrest them. The two suspects reportedly had ties to a terrorist cell led by a violent extremist that died in the July 16 operation.

In November, two men attacked Kadyr Malikov, Director of the Religion, Law, and Politics Analytical Center. According to the GKNB, the suspects were supporters of ISIL and fled to Turkey after the attack. Both suspects were detained in Turkey pending extradition to the Kyrgyz Republic to face charges in connection with the attack.

Law enforcement claimed to have found extremist materials in the homes of all of the suspects. At year's end, the Kyrgyz government had released few additional details on the operations.

Impediments to more effective counterterrorism law enforcement activity included interagency rivalries, a lack of coordination between the GKNB and MVD, and budgetary constraints. Inefficient Soviet-era bureaucratic structures, corruption, low salaries, and frequent personnel turnover also hampered law enforcement efforts. Counterterrorism police units were still largely untested in real-life situations.

Countering the Financing of Terrorism: Kyrgyzstan belongs to the Eurasian Group on Combating Money Laundering and Financing of Terrorism, a Financial Action Task Force (FATF)-style regional body. The Financial Intelligence Service of the Kyrgyz Republic is a member of the Egmont Group. In 2012, the government established a Commission on Combating the Financing of Terrorism; the Commission was largely inactive in 2015. The Kyrgyz Republic did not pursue any terrorism finance cases and did not identify or freeze any terrorist assets.

For further information on money laundering and financial crimes, see the 2016 International Narcotics Control Strategy Report (INCSR), Volume II, Money Laundering and Financial Crimes: <http://www.state.gov/j/inl/rls/nrcrpt/index.htm>.

Countering Violent Extremism: The Kyrgyz Republic showed political support for CVE programs, but did not adopt any new strategies, policies, or initiatives in 2015. The government sent high-level representatives to the White House Summit on Countering Violent Extremism, the regional CVE conference in Kazakhstan in June, and the Leader's Summit on Countering ISIL and Violent Extremism hosted by President Obama in New York on the margins of the UN General Assembly in September, but did not implement new initiatives from the resulting action agendas in 2015.

The Ministry of Education took steps to develop a new curriculum for high school-aged students on moderate Islam and identifying terrorist recruitment tactics. The government also worked with the State Committee on Religious Affairs and Muslim leaders to develop a new national religious strategy to include counter-extremism measures. In 2015, the government cooperated with the OSCE and other international organizations and foreign governments to facilitate counter-extremism assistance programs. The government typically does not discourage or interfere with non-governmental programs that work with religious communities vulnerable to radicalization.

The GKNB continued its public awareness campaign in the Kyrgyz language press to discredit the efforts of ISIL recruiters. The Tenth Department of the MVD, together with local religious leaders in the southern provinces of Batken, Jalalabad, and Osh, conducted meetings with schoolchildren and their parents to explain the recruitment tactics of violent extremists and the legal consequences for foreign terrorist fighters from the Kyrgyz Republic if they choose to return.

International and Regional Cooperation: In 2015, the Kyrgyz government continued to seek training and technical assistance from international organizations and foreign governments to bolster its capacity to prevent terrorist attacks. During the reporting period, the Kyrgyz Republic participated in counterterrorism activities and studies organized by the OSCE, CIS Antiterrorism Center, the Shanghai Cooperation Organization (SCO) Antiterrorism Center, and the Collective Security Treaty Organization (CSTO). In 2015, the Kyrgyz Republic participated in three CSTO military exercises, which took place in Russia, Armenia, and on the Tajik border with Afghanistan. The exercises were aimed at strengthening the capacity of CSTO members to quickly deploy counterterrorism operations. The Kyrgyz Republic Special Forces are actively involved with the SCO's Regional Antiterrorism Center and, in 2015, participated in a joint two-day counterterrorism training operation. Terrorist threats were also a matter of frequent discussion in meetings of the CIS.

Beginning in 2010, the OSCE, through its Community Security Initiative (CSI), embedded an international police advisor with law enforcement agencies in each region of the Kyrgyz Republic. Along with community policing, the advisor trained local law enforcement officials on how to counter violent extremism and identify terrorist threats. The program concluded in December 2015. In November, the Counterterrorism Center agreed to a 2015 training plan developed through funding by the OSCE to increase its capacity to share information on terrorist threats between law enforcement agencies at all levels of government.

The OSCE facilitated cooperation between the GKNB and the National Police of Turkey, based on an agreement of cooperation signed in 2014, to provide training and study tours for special staff of the GKNB, MVD, and Kyrgyz Border Service on countering terrorism and extremism. Also, with the support of the OSCE and the National Police of Turkey, the GKNB

held public hearings on counterterrorism and trained law enforcement in the provinces outside of Bishkek.

Throughout 2015, the Counterterrorism Center partnered with the UK-funded NGO Search for Common Ground to create community leadership groups in each region of the Kyrgyz Republic to deter potential fighters from traveling to Syria. The groups were led by local religious leaders who are trained in methods to prevent violent extremism. Parliament worked with the OSCE to host public hearings in the southern cities of Osh and Jalalabad (from where many fighters originated) to increase local awareness of ISIL recruitment methods.

International Sanctions

None applicable

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	28
World Governance Indicator – Control of Corruption	12

US State Department Report

Corruption remains a serious problem at all levels and in all sectors of Kyrgyz society and the economy. According to the Transparency International Corruption Perception Index, in 2013 the Kyrgyz Republic ranked 150th out of 177 countries surveyed. Kyrgyz politicians and citizens alike are aware of the systemic corruption, but the problem is deeply entrenched and difficult to fight. Moreover, many in the Kyrgyz Republic view paying of bribes as the most efficient way to receive government assistance and many, albeit indirectly, gain benefits from corrupt practices.

The Kyrgyz Republic is a signatory of the UN Anticorruption Convention but not party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Kyrgyz Government announced a number of initiatives to fight corruption. Current President Almazbek Atambayev established an anticorruption service within the State Committee on National Security. The service has taken action against a limited number of ministers and parliamentarians. The Kyrgyz Government encourages all companies to establish internal codes of conduct that, among other things, prohibit bribery of public officials, but not all companies have effective internal controls. The Kyrgyz Republic has laws that criminalize giving and accepting a bribe, with penalties ranging from a small administrative fine to a prison sentence, but the government’s active enforcement of these laws is uneven. While, at times, senior government officials take anticorruption efforts seriously, a truly serious, sustained effort would probably result in more consistent enforcement of the existing laws.

Businesses operating in the Kyrgyz Republic will encounter some or all of these experiences. The Government of the Kyrgyz Republic issues special license plates to foreign business owners, which the police target for regular stops. Foreign businesses may also find themselves the subject of frequent tax audits or a variety of inspectors consistently visiting their establishments. Each experience opens the door for bribery.

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines rule of law.

It is important for U.S. companies, regardless of their size, to assess the business climate in the relevant sector in which they will be operating or investing, and to have an effective

compliance program or measures to prevent and detect corruption, including bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the Kyrgyz Republic and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by upholding their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies.

Corruption and Government Transparency - Report by Global Security

Political Climate

Kyrgyzstan has experienced a period of changes in the political landscape in recent years, and despite governmental efforts to make the fight against corruption the top priority of the administration, the country's environment remains unstable. Debates about the checks and balances of democratic institutions have been on-going since Kyrgyzstan's Tulip Revolution in 2005. Government opposition groups became increasingly invigorated, holding mass protests and calling for reforms and stronger measures to fight corruption and crime, while former President Bakiyev, himself, was accused of nepotism. The Bakiyev Administration was generally perceived to have had a poor record of fighting corruption, according to the Bertelsmann Foundation 2012. While occasionally an obscure public servant was sacked for abuse of office, no legal prosecution of any high-level figure is known to have taken place. Independent observers have criticised Bakiyev and his government, voicing complaints regarding the ongoing accumulation of power and illicit wealth by Bakiyev's family members. In February 2013, Bakiyev and his sons were finally prosecuted and sentenced to long prison terms for corruption and abuse of office.

In the October 2011 presidential elections, former Prime Minister Almazbek Atambayev won a landslide victory with more than 60% of the vote, becoming the President of Kyrgyzstan in December 2011. In February 2012, Atambayev and his government adopted the new State Anti-Corruption Strategy aimed at improving monitoring and supervision of the anti-corruption policy implementation in Kyrgyzstan. The Strategy also includes recommendations on the development of specific action plans for various institutions of judicial, executive, and legislative branches. According to Transparency International's Global Corruption Barometer 2013, 20% of surveyed Kyrgyz households perceive that corruption has increased a lot over the past two years, and 45% reported to have paid a bribe within the last year. Furthermore, 68% believe that the government's actions to fight corruption are ineffective.

According to an evaluation by the US Department of State 2013, corruption remains endemic at all levels of society in Kyrgyzstan. The law provides criminal penalties for official corruption, but the law has not been effectively enforced, and officials continue to engage in corrupt practices with impunity, as well as the payment of bribes to avoid investigation or

prosecution. The interim government took limited steps to address the problem, including arrests of government officials on corruption charges. In order to address public discontent with anti-corruption efforts in the country former President Rosa Otunbayeva signed a decree in September 2010 requiring polygraph testing for a number of public institutions to ensure recruitment of 'clean' state employees. This included government officials at the Financial Police, the Customs Service, the Tax Service, as well as competitive selection and certification of state secretaries of state bodies. Moreover, the public advisory councils formed by Otunbayeva with the help of international donors in 2011, and the decentralised political system have increased transparency in most government structures, according to Freedom House 2013. Given a political environment rife with political uncertainty and corruption, business executives surveyed in the World Economic Forum Global Competitiveness Report 2013-2014 reveal that the level of public trust in politicians is relatively low.

Business and Corruption

Despite Kyrgyzstan's solid economic growth up to 2009, a lack of transparency, corruption, and the inconsistent and selective enforcement of laws have hindered the country's economic development. According to Bertelsmann Foundation 2012, the main constraint on healthy business competition and liberalised foreign trade in the country is corruption. This is supported by the World Economic Forum's Global Competitiveness Report 2013-2014, in which the companies surveyed ranked corruption as the most problematic factor for doing business in Kyrgyzstan, after government instability. Nevertheless, while Kyrgyz entrepreneurs agree that informal 'taxes' solicited by officials have disappeared and that the overall level of corruption has also decreased, businessmen still find that petty corruption is fairly common when dealing with the state bureaucracy, according to Freedom House 2013.

The World Economic Forum's Global Competitiveness Report 2013-2014 also reveals that Kyrgyzstan performs poorly in relation to the ethical behaviour of companies in interactions with public officials, politicians, and other companies, and that public funds are often diverted to companies, individuals, or groups due to corruption. For these reasons, companies are recommended to use a specialised public procurement due diligence tool in order to mitigate corruption risks related to public procurement in Kyrgyzstan. The US Department of State 2013 reports that foreign investors operating in the country regularly suffer from a simple lack of knowledge about the complex Kyrgyz business environment and related procedures. Well-connected local companies are able to exploit their contacts to achieve their business aims. Given this environment, it has become a common practice for foreign investors to form joint ventures with local Kyrgyz partners, in order to facilitate market entry and business transactions. However, companies can be held legally liable for corrupt acts performed by their partners, highlighting the need for companies to develop, implement, and strengthen integrity systems and to exercise due diligence when planning to do or already doing business in Kyrgyzstan. According to Transparency International's Global Corruption Barometer 2013, corruption within the business and private sector is perceived to be pervasive, with approximately half of all respondents evaluating it as 'extremely corrupt'.

The absence of a coherent legal framework for business development is also a deterrent for investment. Contradictory laws, such as those on establishing companies, obtaining business licences, and securing credit, create the opportunity for public officials to extort bribes.

According to the US Department of State 2013, corruption related to taxes and tax audits are reported by companies to be among their most severe problems for conducting business. According to Enterprise Surveys 2009, almost half of the surveyed companies expect to make informal payments to get things done, which is more than twice the regional average and indicates that bribes and facilitation payments are widespread. Standard business operations, like getting paperwork done, either for companies or private individuals, normally require unofficial payments to officials in order to show gratitude. Facilitation payments are widespread in Kyrgyzstan and are extensively used by foreign companies to achieve benefits when starting and registering business in the country, according to the US Department of State 2013. Trading across borders, paying taxes, and obtaining licences for standard business operations are highlighted as some of the largest obstacles in terms of administrative rigidity.

Regulatory Environment

The Kyrgyz legal and regulatory environment is still developing and remains highly bureaucratic, inconsistent and fraught with corruption, while the size of the informal economy has been estimated at some 50% of the country's GDP, and has reached over USD 26 billion in recent years, according to the Bertelsmann Foundation 2012. The World Bank & IFC Doing Business 2013 identify a negative change in rank on the ease of doing business in Kyrgyzstan, due to complexity of the tax code reforms. Similarly, business executives surveyed in the World Economic Forum Global Competitiveness Report 2013-2014 perceive government administrative requirements to be quite burdensome. Moreover, business executives also report that government policy-making is fairly opaque and that government officials usually favour well-connected companies and individuals when deciding on policies and contracts. Commercial regulations can be ambiguous and inconsistent, and the lack of transparency increases start-up and overall operational costs.

To assist foreign companies with the implications of numerous bureaucratic procedures, the Kyrgyz government has established a one-stop shop licenses and permits office under the Ministry of Economy and Anti-Monopoly Policy. This department gathers information about potential investment projects in Kyrgyzstan. The US Department of State 2013 evaluates the office's capacity to guide investors through the system as limited and inefficient. In addition, foreign investors must often deal with fair amount of red tape in order to conduct business. The Kyrgyz government has also adopted a new tax code that aims to be more business and investment friendly. However, due to the novelty of the tax code reforms, many tax inspection and collection authorities have been accused of misusing their positions for personal enrichment.

The protection of property rights is slowly improving, although foreign ownership of land continues to be prohibited, according to the US Department of State 2013. Due to the structure of the judicial system, which remains underdeveloped and lacks independence, the appeals process can be lengthy and burdensome. According to the same source, the courts can force the sale of property to enforce payments and other contractual obligations, although observance of the legal concept of contract sanctity is inconsistent. Parliament passed the Law on Commercial Arbitration in June 2002, leading to the creation of the Commercial Arbitration Court, with a mandate to expedite the resolution of commercial disputes. The Law on Commercial Arbitration allows for disputes to be settled domestically or internationally as Kyrgyzstan is party to the International Centre for the Settlement of

Investment Disputes (ICSID) and the New York Convention of 1958. Due to potential legal complications and judicial deficiencies, it is recommended that companies include a provision for international arbitration within their contracts. Business executives surveyed in the World Economic Forum Global Competitiveness Report 2013-2014 report that the judiciary is often politically influenced by members of government, individual citizens, or companies. Access the Lexadin World Law Guide for a collection of laws in Kyrgyzstan.

Section 3 - Economy

Kyrgyzstan is a poor, mountainous country with a dominant agricultural sector. Cotton, tobacco, wool, and meat are the main agricultural products, although only tobacco and cotton are exported in any quantity. Industrial exports include gold, mercury, uranium, natural gas, and electricity. The economy depends heavily on gold exports - mainly from output at the Kumtor gold mine - and on remittances from Kyrgyzstani migrant workers primarily in Russia. Following independence, Kyrgyzstan was progressive in carrying out market reforms, such as an improved regulatory system and land reform. Kyrgyzstan was the first Commonwealth of Independent States (CIS) country to be accepted into the World Trade Organization. Much of the government's stock in enterprises has been sold. Drops in production had been severe after the breakup of the Soviet Union in December 1991, but by mid-1995, production began to recover and exports began to increase. The overthrow of President BAKIEV in April 2010 and subsequent ethnic clashes left hundreds dead and damaged infrastructure. Under President ATAMBAYEV, Kyrgyzstan has developed a plan for economic development in coordination with international donors, and has also expressed its intent to join the Customs Union of Russia, Belarus, and Kazakhstan. Progress in fighting corruption, improving transparency in licensing, business permits and taxations, restructuring domestic industry, and attracting foreign aid and investment are key to future growth.

Agriculture - products:

tobacco, cotton, potatoes, vegetables, grapes, fruits and berries; sheep, goats, cattle, wool

Industries:

small machinery, textiles, food processing, cement, shoes, sawn logs, refrigerators, furniture, electric motors, gold, rare earth metals

Exports - commodities:

gold, cotton, wool, garments, meat, tobacco; mercury, uranium, electricity; machinery; shoes

Exports - partners:

Uzbekistan 28.8%, Kazakhstan 22%, Russia 14.6%, China 7%, UAE 6.3%, Afghanistan 5.7% (2012)

Imports - commodities:

oil and gas, machinery and equipment, chemicals, foodstuffs

Imports - partners:

China 55.9%, Russia 17.7%, Kazakhstan 6.4% (2012)

The banking system of Kyrgyzstan consists of two levels: the upper level consists of the National Bank of Kyrgyzstan; the second level is comprised of commercial banks and other credit organizations. In comparison with other types of financial activity the banking sector occupies the largest part of the financial market of Kyrgyzstan and totals 20% of GDP.

Extracted from IMF Report: Kyrgyz Republic: Selected Issues (June 2011)

The impact of the political crisis on the Banking Sector

1. During the first days of the April events, a reported US\$240 million deposit outflow prompted fears of capital flight and led to the imposition of temporary administration on seven banks, including the country's largest bank. The main criterion for imposing temporary administration (outside of the largest bank) appears to have been alleged links to the previous regime. Strengthened supervision was also put in place in ten more banks, to safeguard the system against capital flight. Depositors were permitted to withdraw money up to a certain limit per day. In the month of April 2010, total deposits declined by 30 percent, predominantly due to the large outflow from nonresident deposits at Asia Universal Bank (AUB)—the country's largest bank accounting for 44 percent of private deposits in December 2010. Resident deposits declined by 10 percent.
2. The National Bank of the Kyrgyz Republic (NBKR) conducted audits of the banks under temporary administration; certain irregularities were detected in AUB's activities which suggested that the bank was insolvent. Foreign securities purchased for AUB by Kyrgyz brokerage companies linked to the previous regime could not be confirmed as registered to AUB. Some loans were made against likely unrecoverable collateral in foreign countries. When these losses were provisioned for, the bank's insolvency became evident and the bank was placed under conservatorship on June 4, 2010. Except for one foreign bank, other banks under temporary administration were found to be in a reasonable financial condition.
3. Plans to resolve AUB were disrupted by the June 2010 events and court processes led to further delays. AUB was nationalized on June 7, 2010, and an action plan was adopted that would have involved its recapitalization by the government. The recapitalization plan was later rescinded due to the unanticipated budgetary resource needs for reconstruction in the areas affected by the June 2010 events. As an alternative course of action, on August 5, 2010, the NBKR petitioned the court to recognize AUB as insolvent and to commence its resolution. The lower court denied the petition and the decision was ultimately appealed to the highest court. The process of appeals was finally exhausted in October 2010. AUB was recognized as insolvent and a special administrator was appointed to commence resolution of the bank through the split of its assets into a "good" and "bad" bank.
4. Zalkar Bank (good bank) was established on December 14, 2010, and the split of assets and liabilities from AUB occurred in late February 2011. AUB kept assets and liabilities of bank-related parties, nonresident liabilities, and deposits from the State Property Bureau due to pending criminal cases relating to these deposits. Zalkar Bank received most of the loan book (which included collateralized nonperforming loans), liquid and fixed assets, public sector deposits, the remaining deposits, and losses from AUB's swap arrangements with

micro-finance institutions (MFIs). An asset transfer was made from Zalkar to AUB in March 2011, to further clean up Zalkar's balance sheet and make it more attractive for sale.

5. Four of the banks under temporary administration were eventually placed under conservatorship. In each of the remaining four cases, mandatory grounds for the appointment of a conservator were triggered; the banks either breached regulatory norms and/or criminal cases were initiated against officers of the bank. Pending litigation by shareholders and officers of the banks under conservatorship has prevented the NBKR from taking any further actions to resolve these banks. If these cases are not resolved in a timely fashion, the banks' operations will be hindered and it is unlikely that they will remain viable.

Stock Exchange

As of January 1, 2006, there were three licensed exchanges in Kyrgyzstan: the Kyrgyz Stock Exchange, the Stock Exchange Trade System and the Central Asian Stock Exchange. The volume of sales is estimated in the amount of 10-15 deals per day in all three stock exchanges. Currently only the Kyrgyz Stock Exchange lists securities. Listing requirements are established by its internal regulations.

Executive Summary

Government officials of the Kyrgyz Republic speak positively and with hope of factors they say indicate an improving investment climate. Government statistics show foreign direct investment increasing yearly, though this is due largely to growing Russian and Chinese infrastructure investment that is creating little employment. The government identified foreign direct investment as a key component to growing the economy in the coming years and has created a strategic roadmap for economic development to facilitate this growth. The government is taking steps to streamline the process of starting a business as well as streamlining its tax regime. The country, however, still struggles with major issues. Corruption is rampant and rule of law is weak. The judicial system is not independent and every sector of government struggles with capacity and resource shortages. For most areas of interest, a legal framework exists but enforcement is poor. Nowhere is this more true than in the area of intellectual property rights. Investors should also be aware that over 60% of the economic activity in the country occurs in the unregulated gray economy.

The investment climate in the Kyrgyz Republic is best for those who are intrepid and have a high risk tolerance. Investors in politically sensitive areas, such as resource extraction, spend much of their time renegotiating contracts, as is evident in the experience of the Canadian-owned Kumtor mine.

The Kyrgyz Republic is on the verge of several major economic transitions and decisions. The government is committed to joining the Eurasian Customs Union (current members: Russia, Kazakhstan, and Belarus). The accession process will alter, both immediately and long-term, economic conditions, particularly in relation to the gray economy, day trading and currency stability.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude Toward FDI

The Kyrgyz Republic is open to foreign direct investment and the government publicly recognizes that foreign direct investment is an important component to growing the economy. Laws exist that make the investment climate more favorable than in the past for foreign companies. Application of these laws, however, is inconsistent, which can cause problems for and deter foreign investors. In addition, government activities, including constant demands for renegotiation of operating contracts that were legally concluded, invasive and time consuming audits, levying large retroactive fines, and disputes over licenses are impediments to foreign investment.

Other Investment Policy Reviews

The World Trade Organization (WTO) published a Trade Policy Review in January 2014. The report is available through the WTO website at this address:
http://www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm#bycountry

Laws/Regulations of FDI

The Kyrgyz Republic’s main legal framework for foreign direct investment remains the “2003 Law on Investments” which remains unchanged to date. The justice system in the Kyrgyz Republic is inefficient and not independent and cases can take years to be resolved.

Industrial Strategy

In its January 2013 Sustainable Development Strategy Roadmap, the government acknowledged that “attracting investment requires having transparent and well-functioning legislation that provides actual protection of rights of ownership and reduces interference from the state and eliminates corruption, and having a stable finance system with the ability to provide benefits to investors, and equal treatment for both foreign and domestic investors.” The government is working to lay the foundations for these key components.

Limits on Foreign Control

While there are no official limits on foreign control, a large investor in a politically sensitive industry may find that the government imposes investor-specific requirements such as a high percentage of local workforce employment or a minimum number of local seats on a board of directors.

Privatization Program

There is an ongoing discussion to privatize certain government assets and enterprises such as the postal service, a telecom company and the capital’s international airport. There is no set timeline for privatization nor is the bidding process clear. The entire process does not seem non-discriminatory or transparent.

Investment Trends

The largest investment projects are in the areas of infrastructure and energy made by the Kyrgyz Republic’s largest neighbors, China and Russia. The monetary return on investment is unclear. The intangible return on investment (access and influence) appears to be high.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(150 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation’s Economic Freedom index	2013	(85 of 177)	http://www.heritage.org/index/ranking

World Bank's Doing Business Report "Ease of Doing Business"	2013	(68 of 189)	http://doingbusiness.org/rankings
Global Innovation Index	2013	(117 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	\$6.4 Million	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

TABLE 1B: Kyrgyzstan Scorecard:

MCC Scorecard Categories		Percentage Score	Raw Score
MCC Gov't Effectiveness	2013	73%	0.26
MCC Rule of Law	2013	33%	-0.25
MCC Control of Corruption	2013	35%	-0.18
MCC Fiscal Policy	2013	19%	-5.4
MCC Trade Policy	2013	79%	75.2
MCC Regulatory Quality	2013	85%	0.40
MCC Business Start Up	2013	98%	0.978
MCC Land Rights Access	2013	91%	0.77
MCC Natural Resource Protection	2013	30%	20.2
MCC Access to Credit	2013	92%	50
MCC Inflation	2013	83%	2.8

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or \$4,085 or less. A list of countries/economies with MCC scorecards and links to those

scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>.

2. Conversion and Transfer Policies

Foreign exchange is widely available and rates are competitive. The local currency, the som, is freely convertible and stable, trading in a narrow range for all of 2013. As of February 26, 2014, the exchange rate was 51.93 soms to the U.S. dollar. The National Bank of the Kyrgyz Republic conducts weekly inter-bank currency auctions, in which competitive bids determine market-based transaction prices. Banks usually clear payments within a single business day.

Complaints of currency conversion issues are rare. With occasional exceptions in the agricultural and energy sectors, barter transactions have largely been phased out. Payment disputes adjudicated through the court system can be extremely lengthy and inconsistent.

The Kyrgyz Republic continues to work toward full Financial Action Task Force (FATF) compliance, but failed to pass the main anti-money laundering legislation before Parliament in 2013. The country remains on the FATF "gray list" and the Department of State's Bureau of International Narcotics and Law Enforcement lists the Kyrgyz Republic as a "monitored" country with regard to money laundering and financial crimes.

3. Expropriation and Compensation

In 2013, the government of the Kyrgyz Republic did not expropriate or nationalize any foreign businesses. The government spent the better part of 2013 renegotiating the agreement underpinning foreign investment in the Kumtor gold mine and continues the effort into 2014. Meanwhile, both the executive and legislative bodies perpetually discuss how and when to allocate, reallocate, revoke, suspend, and otherwise handle mining licenses. Foreign investors have the right to compensation in the case of government seizure of assets. However, there is little understanding of the distinction between historical book value, replacement value and actual market value, which brings into question whether the government would provide fair compensation in the event of expropriation.

4. Dispute Settlement

Bankruptcy

The Kyrgyz Republic has a written law governing bankruptcy procedures of legal persons and insolvent physical persons (Law of the Kyrgyz Republic "On Bankruptcy" September 22, 1997 and amended December 30, 1998) which covers: industrial enterprises and banks, irrespective of the type of ownership; commercial companies; private entrepreneurs; foreign commercial entities. Bankruptcy proceedings are conducted by the court of arbitration competent for the district in which enterprise is located. The procedure of liquidation can be carried out without the involvement of the judicial bodies if all creditors agree on out-of-court proceedings. Chapter 10 of the law on bankruptcy provides for the possibility of an amicable settlement between the enterprise and its creditors which can be made at any stage of the liquidation process.

Investment Disputes

The most well-known investment dispute of the last 10 years has been ongoing since the early days of the country's independence and centers around the Kumtor gold mine. Since the mine opened after independence, the Canadian operating company, Centerra Gold, has renegotiated the terms of their investment with the government more than three times at the request of the government and is currently in the midst of another renegotiation. The pattern of possessive nationalism observed with the Kumtor mine is repeated at all foreign-owned/operated mining sites. Local populations near mine sites routinely protest, sometimes violently, and the government routinely revokes licenses at smaller sites and suspends work at various sites in response to these protests.

International Arbitration

The Law on Commercial Arbitration allows for international and domestic arbitration of disputes. If feasible, the arbiter and the terms of arbitration should be identified in the initial contract. Establishing the terms for arbitration beforehand may prevent further complications in the event of a dispute. According to the Ministry of Justice, there are currently nine lawsuits against Kyrgyzstan in international courts. These cases seek a total of \$925 million. The outcome of these cases is uncertain, as is how the results of arbitration might be respected or enforced in practice.

The Kyrgyz Republic is a member of the International Center for the Settlement of Investment Disputes (ICSID). It signed the ICSID agreement on June 9, 1995, and ratified it on July 5, 1997. The Kyrgyz Republic became a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards on March 18, 1997.

5. Performance Requirements and Investment Incentives

A World Trade Organization (WTO) member, the Kyrgyz Republic is compliant with WTO Trade Related Investment Measures obligations. The Kyrgyz government also reduced the tax burden on repatriation of profits by foreign investors to conform to the tax rate for domestic investors. As a remote country that is loosely integrated with the world economy, the Kyrgyz Republic has little practical experience working under the guidelines of the WTO and the country's treaty obligations remain poorly understood by many within the government.

The Kyrgyz government adopted a tax code, which took force in January 2009, which aims to be more business and investment friendly. Under this tax code, a number of taxes were abolished and some new taxes were introduced, including a reduction of the VAT rate from 20% to 12%. Hotel, advertising and resort taxes were abolished. A unified sales tax replaced several previous taxes, and property taxes were also introduced. The tax code, at least on paper, also establishes a presumption of innocence for the taxpayer, improves collection provisions, and supports automation and e-filing.

Payroll taxes, such as social fund payments used for the National Pension System, are complex. Many recent tax inspections of companies, including foreign companies, focused on social fund payments. Potential foreign investors are encouraged to hire a local tax adviser before they start their operations in the Kyrgyz Republic. Due to the complexity of the tax code reforms, many tax inspection and collection employees are ignorant of the subtleties of the code and have been accused of using their positions for personal enrichment.

While there are no formal legal requirements for local employment, most major international investors feel tremendous public pressure to hire as many local employees as possible. New investors may find local employment quotas included in potential investment agreements, mandating numbers for boards of directors, senior management and/or other employees.

6. Right to Private Ownership and Establishment

Foreign and domestic private entities may own business enterprises and engage in a broad range of commercial activities. Foreign entities are expressly forbidden from owning land, including farmland, although regulations allow for up to 99-year leases of property.

Foreign investors are theoretically given equal treatment under Kyrgyz law. In reality, the business operating environment is complex in the Kyrgyz Republic and many foreign investors are disadvantaged less by outright discrimination than by a simple lack of knowledge of how to "work the system."

There is no prohibition on foreign rental of land for residences or factory sites. A central land registry has helped potential lenders and others deal with the financing of real property (e.g. land, buildings, and other improvements). Yet the banking system of the Kyrgyz Republic remains relatively undeveloped and uncompetitive by international norms. The introduction of property taxes made land ownership slightly more transparent.

7. Protection of Property Rights

Property right protections are slowly emerging. The State Service for Intellectual Property and Innovation under the Government of the Kyrgyz Republic (Kyrgyzpatent) is an authorized body of the Executive Branch that issues documents to certify intellectual property. Kyrgyzpatent establishes the Appeal Council that is the primary body to hear intellectual property related disputes. While the Kyrgyz Republic has a robust body of laws, regulations, and rules governing protection of intellectual property and while the country is a signatory to several international treaties on the subject, enforcement remains problematic. The judicial system remains underdeveloped and lacks independence. Due to the structure of the system, the appeals process can be lengthy and prolonged. Court actions can force the sale of property to enforce payments and other contractual obligations.

The Kyrgyz Republic is obligated to protect intellectual property rights as a member of the WTO. The Kyrgyz Republic acceded to both the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty in 2002. Counterfeit goods made primarily in China, however, are widely available. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at: <http://www.wipo.int/directory/en/>.

Resources for Rights Holders:

Contact at Mission:

- **Aigerim Zholomanova**
- **Commercial Assistant**

- **+996 312 551 241 ext. 4411**

- ZholomanovaAC@state.gov

Country/Economy Resources:

- American Chamber of Commerce
- **Address:** 191 Abdrakhmanov Street, Office #123
- **Phone:** +996 312 623 389, 623 395
- **Fax:** +996 312 623 406
- **E-mail:** pa.amcham@gmail.com, memberservices@amcham.kg

8. Transparency of the Regulatory System

The legal and regulatory system of the Kyrgyz Republic continues to develop slowly. The process of implementing regulations and court orders relating to commercial transactions remains inconsistent. Some court decisions, which appear to contradict established procedures, can be implemented expeditiously in certain cases and are subject to outside influence. The Kyrgyz system is heavily bureaucratic and investors must overcome a great deal of red tape in order to conduct business.

There is an investment department at the Ministry of Economy, which assists investors with bureaucratic procedures. This department also consolidates information about potential investment projects in the Kyrgyz Republic. However, the efficacy of this office in assisting firms with setting up shop is limited since official bureaucratic procedures comprise only some of the hurdles to opening a business. An investment council, under the auspices of the president, exists to further regulatory improvements for the business climate. Contradictory government decrees often create bureaucratic paralysis or opportunities for bribe solicitation in order to complete normal bureaucratic functions. As with many aspects of life in the Kyrgyz Republic, the laws are sound but the implementation is weak.

9. Efficient Capital Markets and Portfolio Investment

The National Bank of the Kyrgyz Republic is a nominally independent body and regularly intervenes in the market to stabilize the Kyrgyz som against the U.S. dollar. The currency is freely convertible and Kyrgyz bonds are available for foreign ownership. According to the Kyrgyz National Statistical Committee, the Kyrgyz Republic's Consumer Price Index increased by 4% in 2013, 5.76% in 2012, and 4.6% in 2011. The economy of the Kyrgyz Republic is primarily cash-based, although non-cash consumer transactions, such as debit cards and transaction machines, grew in the past few years.

There are two stock exchanges in the Kyrgyz Republic (Kyrgyz Stock Exchange and Stock Exchange Kyrgyzstan), but all transactions are conducted through Kyrgyz Stock Exchange. In 2013, the total value of transactions amounted to 1.65 billion soms (approximately \$33.3 million) compared to 1.04 billion soms (approximately \$22 million) in 2012.

There are currently 24 functioning commercial banks in the Kyrgyz Republic, with a total of 289 branches throughout the country.

There are nine foreign banks operating in the Kyrgyz Republic. Demir Bank, Bank of Asia, National Bank of Pakistan, Halyk Bank, Kazcommerce Bank - Kyrgyzstan, FinanceCredit Bank and UniCredit Bank are entirely foreign held. Other banks are partially foreign held, including Manas Bank and Kyrgyz Investment and Credit Bank (KICB). KICB has multinational organizations as shareholders including the European Bank for Reconstruction and Development, Economic Finance Corporation, the Aga Khan Fund for Economic Development and others. The National Bank of the Kyrgyz Republic took control of Asia Universal Bank (AUB) in April 2010 and reorganized it under the new name of Zalkar Bank, which in 2013 was sold to a Russian bank and renamed Rosinbank. Although no U.S. bank operates in the Kyrgyz Republic, many Kyrgyz banks maintain correspondent relations with U.S. and other foreign banks to facilitate short-term commercial lending, such as letters of credit.

Outside investors rarely sought financing from domestic banks. Bank lending is heavily biased towards short-term loans, although mid-term loans are also offered. The micro-finance sector in the Kyrgyz Republic is robust, representing nearly half the market size of the banking sector. As of October 2013, the micro-finance loan stock was valued around \$300 million. Agriculture accounted for half of the loans, followed by trade and consumer loans. The average interest rate in the banking sector was 22.45%, as opposed to the micro-finance sector where the average interest rate is 35% (more than 50% higher) due to the vast majority of the micro-finance loans being handled in rural areas outside of Bishkek. Over the last year, Parliament and the National Bank have worked together to better regulate and stabilize the micro-finance sector.

Since March 2008, new banks must have a minimum charter capital requirement of 600 million soms (\$12.8 million). Banking laws also require that banks maintain a 10% reserve with the National Bank. A deposit insurance system exists for the benefit of individual investors.

With the support of the government, accounting systems in banks and enterprises are being converted to international standards. In addition, international assistance programs contributed to rapid progress in reaching these standards via accounting training and certification.

10. Competition from State-Owned Enterprises

There are no nationally-owned companies in the Kyrgyz Republic that compete unfairly with private companies. Most state-owned enterprises are uncompetitive, Soviet-legacy institutions.

11. Corporate Social Responsibility

Corporate social responsibility is not a fully developed concept or practice in the Kyrgyz Republic. Most Kyrgyzstani-owned companies have not yet developed the capacity to coordinate with civil society on this level. The companies that generally demonstrate CSR are large, foreign-owned companies that participate in or lead industry-strengthening training sessions, work with local universities to develop internship programs and donate to national development projects. Many new large investors, particularly in natural resource extraction, find that there is a requirement to establish a sizeable "social development fund" as a prerequisite for doing business in the Kyrgyz Republic. Charitable donations are not tax deductible.

12. Political Violence

The Kyrgyz Republic enjoyed another year of relative stability in 2013. The first peaceful, democratic turnover of presidential power in the nation's history occurred with the inauguration of President Almazbek Atambayev in December 2011. The governing coalition changed peacefully in September 2012 and again in the spring of 2014 with no impact on foreign business or investment interests. The government was politically stable, withstanding periodic protests organized by opposition politicians. Concerns about law enforcement abuses and human rights violations in the country remain. Interethnic tensions persisted in the southern part of the country, but did not have a destabilizing effect on the government. Supporters of extremist groups such as the Islamic Movement of Uzbekistan (IMU), Al-Qaeda, and the Eastern Turkistan Islamic Movement remain active in Central Asia. These groups have expressed anti-U.S. sentiments and could potentially target U.S.-affiliated concerns. With U.S. assistance, the Kyrgyz Government has improved border and internal security.

The biggest exception to this general state of stability is in the extractive resources industry. Over the last several years, various installations were the target of violent protests, some resulting in severe vandalism. The trouble caused by repeated protests prompted one large, international mining firm to sell its share of an exploration project in the last year and leave Kyrgyzstan's market entirely.

The Department of State urges U.S. citizens to consider carefully travel to the Batken region along the Kyrgyzstan-Tajikistan border. U.S. citizens planning to travel to the Kyrgyz Republic should refer to the U.S. Department of State for updated security information. This information is available on the Internet at <http://travel.state.gov>.

13. Corruption

Corruption remains a serious problem at all levels and in all sectors of Kyrgyz society and the economy. According to the Transparency International Corruption Perception Index, in 2013 the Kyrgyz Republic ranked 150th out of 177 countries surveyed. Kyrgyz politicians and citizens alike are aware of the systemic corruption, but the problem is deeply entrenched and difficult to fight. Moreover, many in the Kyrgyz Republic view paying of bribes as the most efficient way to receive government assistance and many, albeit indirectly, gain benefits from corrupt practices.

The Kyrgyz Republic is a signatory of the UN Anticorruption Convention but not party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Kyrgyz Government announced a number of initiatives to fight corruption. Current President Almazbek Atambayev established an anticorruption service within the State Committee on National Security. The service has taken action against a limited number of ministers and parliamentarians. The Kyrgyz Government encourages all companies to establish internal codes of conduct that, among other things, prohibit bribery of public officials, but not all companies have effective internal controls. The Kyrgyz Republic has laws that criminalize giving and accepting a bribe, with penalties ranging from a small administrative fine to a prison sentence, but the government's active enforcement of these laws is uneven. While, at times, senior government officials take anticorruption efforts seriously, a truly serious, sustained effort would probably result in more consistent enforcement of the existing laws.

Businesses operating in the Kyrgyz Republic will encounter some or all of these experiences. The Government of the Kyrgyz Republic issues special license plates to foreign business owners, which the police target for regular stops. Foreign businesses may also find themselves the subject of frequent tax audits or a variety of inspectors consistently visiting their establishments. Each experience opens the door for bribery.

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines rule of law.

It is important for U.S. companies, regardless of their size, to assess the business climate in the relevant sector in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the Kyrgyz Republic and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by upholding their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies.

Resources to report corruption:

Contact at government agency responsible for combating corruption.

- Mr. Tilek Sayakbaev
- Head of the Department
- Department for Corruption Prevention Policy
- Ministry of Economy,
- Bishkek, Prospekt Chui

- +996 312 620 535
- mail@mineconom.kg

Contact at "watchdog" organization

- **Mukanova N.A., General Secretary**
- **Anticorruption Business Council of the Kyrgyz Republic**
- **Ministry of Economy**

- 114Chui Avenue, Bishkek
- +996 312 895 496
- secretariat.adc@gmail.com
- www.adc.kg

14. Bilateral Investment Agreements

The Kyrgyz Republic currently enjoys bilateral investment treaties with the United States, Armenia, Azerbaijan, Belarus, China, Finland, France, Georgia, Germany, India, Indonesia, Iran, Kazakhstan, the Republic of Korea, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Sweden, Switzerland, Tajikistan, Turkey, United Kingdom, Ukraine and Uzbekistan.

The U.S.-U.S.S.R. treaty on double taxation, which was signed in 1973, remains in effect between the U.S. and the Kyrgyz Republic. The Kyrgyz Republic has also signed double taxation treaties with Armenia, Austria, Belarus, Canada, China, Finland, Germany, India, Iran, Kazakhstan, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Poland, Russia, Switzerland, Tajikistan, Turkey, Ukraine and Uzbekistan.

15. OPIC and Other Investment Insurance Programs

OPIC provided insurance in the Kyrgyz Republic in the past and currently welcomes applications for financing or insurance in the country.

16. Labor

There is significant competition for skilled individuals in the Kyrgyz labor market as many qualified Kyrgyz citizens found lucrative job opportunities abroad, and the nation's education system failed to keep pace with advancing educational needs within many sectors. International organizations are generally able to employ competent staff, often bilingual in English or other languages. Literacy in the Kyrgyz Republic is approximately 97 percent. According to the Kyrgyz Ministry of Labor, Migration and Youth, the unemployment rate was approximately 8.4 percent as of February 2014. However, approximately one million Kyrgyz work abroad because of limited opportunities in the Kyrgyz Republic.

17. Foreign Trade Zones/Free Ports

There are five Free Economic Zones (FEZs) in the Kyrgyz Republic: Bishkek (2), Naryn, Karakol and Maimak. Each is situated to make use of transportation infrastructure and/or customs posts along the Kyrgyz borders. Government incentives for investment in the zones include exemption from several taxes, duties and payments, simplified customs procedures and direct access to utility suppliers. The production and sale of petroleum, liquor, and tobacco products in FEZs are banned.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	2012	\$6.475 billion	First Half 2013	GDP grew by 7.9%,	http://www.worldbank.org/en/country

According to the Kyrgyz National Statistical Committee, Foreign Direct Investment (FDI) for the first nine months of 2013 totaled \$685 million, higher than in 2012 when it totaled \$412 million for the same period*. The table below shows historical FDI data.

FDI	Year
\$372.00 million**	2012
\$849.2 million	2011
\$446.0 million	2010
\$660.9 million	2009
\$866.2 million	2008
\$436.8 million	2007
\$335.6 million	2006
\$210.3 million	2005

*Government's statistics, **World Bank's statistics

(Note: Getting accurate figures is always a challenge in the Kyrgyz Republic)

TABLE 3: Sources and Destination of FDI

Kyrgyzstan, 2012

Direct Investment from/in Counterpart Economy Data

From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	2,357	100%	Total Outward	1	100%
Canada	788	33%	Tajikistan	1	86%
China, P.R.: Mainland	334	14%	Turkey	0	6%
United Kingdom	220	9%	Kazakhstan	0	4%
Kazakhstan	177	8%	Russian Federation	0	2%
Russian Federation	132	6%	Ukraine	0	%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: <http://cds.imf.org>

Host country data is often unreliable. The IMF numbers are probably the most reliable numbers available for a breakdown of inward and outward direct investment.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

civil law system which includes features of French civil law and Russian Federation laws

International organization participation:

ADB, CICA, CIS, CSTO, EAEC, EAPC, EBRD, ECO, EITI (compliant country), FAO, GCTU, IAEA, IBRD, ICAO, ICC (NGOs), ICRM, IDA, IDB, IFAD, IFC, IFRCS, ILO, IMF, Interpol, IOC, IOM, IPU, ISO (correspondent), ITSO, ITU, MIGA, NAM (observer), OIC, OPCW, OSCE, PCA, PFP, SCO, UN, UNCTAD, UNESCO, UNIDO, UNISFA, UNMIL, UNMISS, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

There are generally no restrictions on converting or transferring funds (associated with cross-border transactions) into freely-usable currency and at the legal, market-clearing rate.

Treaty and non-treaty withholding tax rates

The U.S.-U.S.S.R. treaty on double taxation, which was signed in 1973, remains in effect between the U.S. and the Kyrgyz Republic. The Kyrgyz Republic has also signed double taxation treaties with Armenia, Austria, Belarus, Canada, China, Finland, Germany, India, Iran, Kazakhstan, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Poland, Russia, Switzerland, Tajikistan, Turkey, Ukraine and Uzbekistan.

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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