



U.S. Department of State FY 2001 Country Commercial Guide: Kyrgyzstan

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CHAPTER I EXECUTIVE SUMMARY

THIS COUNTRY COMMERCIAL GUIDE (CCG) PRESENTS A COMPREHENSIVE LOOK AT THE KYRGYZ REPUBLIC'S COMMERCIAL ENVIRONMENT, USING ECONOMIC, POLITICAL, AND MARKET ANALYSIS. THE CCGS WERE ESTABLISHED BY RECOMMENDATION OF THE TRADE PROMOTION COORDINATING COMMITTEE (TPCC), A MULTI-AGENCY TASK FORCE, TO CONSOLIDATE VARIOUS REPORTING DOCUMENTS PREPARED FOR THE U.S. BUSINESS COMMUNITY. COUNTRY COMMERCIAL GUIDES ARE PREPARED ANNUALLY AT U.S. EMBASSIES THROUGH THE COMBINED EFFORTS OF SEVERAL U.S. GOVERNMENT AGENCIES (SEE REFTTEL).

KYRGYZSTAN IS A SMALL, LOW INCOME COUNTRY EMERGING FROM DECADES OF SOVIET RULE. SINCE INDEPENDENCE THE COUNTRY HAS BEGUN AN IMPORTANT TRANSITION TOWARD A DEMOCRATIC POLITICAL SYSTEM AND A

MARKET ECONOMY. SIGNIFICANT ACHIEVEMENTS INCLUDE DECREASING INFLATION, SUCCESSFULLY COMPLETING A MASS PRIVATIZATION PROGRAM AND ESTABLISHING A CURRENCY THAT IS FREELY CONVERTIBLE WITH NO CONTROLS ON CAPITAL FLOWS.

DESPITE THESE ACHIEVEMENTS THE TRANSITION TO A MARKET ECONOMY IS ONLY PARTIALLY COMPLETE. PROPERTY RIGHTS AND THE LEGAL SYSTEM ARE STILL WEAK. INTERNATIONAL ACCOUNTING STANDARDS HAVE BEEN INTRODUCED TO THE BANKING SYSTEM AND PARTIALLY TO THE INDUSTRIAL SECTOR AND NEED TO BE ADOPTED FOR THE BUDGET SYSTEM OF KYRGYZSTAN. INTERNATIONAL DONORS, INCLUDING, USAID, ARE SUPPORTING PROGRAMS TO STRENGTHEN THESE AREAS.

KYRGYZSTAN REMAINS VERY POOR WITH WAGES AVERAGING 966 SOMS (\$21.00) PER MONTH IN THE FIRST QUARTER OF 2000. UNEMPLOYMENT REMAINS VERY HIGH. INTERNATIONAL DONORS FINANCE MOST MAJOR BUDGET ITEMS. RECENT IMPROVEMENT PROJECTS HAVE BEEN IN TELECOMMUNICATIONS, POWER SYSTEM REHABILITATION, AGRICULTURAL AND IRRIGATION SYSTEM DEVELOPMENT, ROAD CONSTRUCTION, AND CORPORATE MANAGEMENT INTRODUCTION. KYRGYZSTAN'S MAJOR EXPORTS ARE GOLD, TEXTILES, NON-PRECIOUS METALS, ELECTRICITY, FOOTWEAR, TOBACCO, ALCOHOLIC BEVERAGES, AND MECHANICAL EQUIPMENT. MAJOR IMPORTS INCLUDE FUEL, NATURAL GAS, MACHINERY, CHEMICAL PRODUCTS, AND FOOD PRODUCTS. KYRGYZSTAN ELIMINATED EXPORT TARIFFS AND HAS A UNIFORM IMPORT TARIFF OF TEN PERCENT ON MOST GOODS.

COUNTRY COMMERCIAL GUIDES ARE AVAILABLE FOR US EXPORTERS FROM THE NATIONAL TRADE DATA BANKS CD-ROM OR VIA THE INTERNET PLEASE CONTACT STATE- USA AT 1-800-STAT-USA FOR MORE INFORMATION. COUNTRY COMMERCIAL GUIDES CAN BE ACCESSED VIA THE WORLD WIDE WEB AT [HTTP://WWW.STAT-USA.GOV](http://www.stat-usa.gov), [HITP://WWW.STATE.GOV](http://www.state.gov), AND [HTTP://WWW.MAC.DOC.GOV](http://www.mac.doc.gov). THEY CAN ALSO BE ORDERED IN HARD COPY OR ON DISKETTE FROM THE NATIONAL TECHNICAL INFORMATION SERVICE (NTIS) AT 1-800-553-NTIS. U.S. EXPORTERS SEEKING GENERAL EXPORT INFORMATION/ASSISTANCE AND COUNTRY-SPECIFIC COMMERCIAL INFORMATION SHOULD CONTACT THE US DEPARTMENT OF COMMERCE, TRADE INFORMATION CENTER BY PHONE AT 1-800-USA-TRAD(E) OR BY FAX AT (202) 482-4473.

CHAPTER II ECONOMIC TRENDS AND OUTLOOK

MAJOR TRENDS AND OUTLOOK

THE KYRGYZ ECONOMY SUFFERED SERIOUS DECLINES IN OUTPUT FOLLOWING THE BREAK-UP OF THE SOVIET UNION. THE INDUSTRIAL PORTION OF THE ECONOMY WAS SKEWED STRONGLY TOWARD DEFENSE INDUSTRIES AND INCLUDED LITTLE MANUFACTURING CAPACITY THAT PROCESSED RAW MATERIALS PRODUCED IN KYRGYZSTAN.

FOLLOWING INDEPENDENCE, THE GOVERNMENT CARRIED OUT PROGRESSIVE MARKET REFORMS. IN 1995-1997 THE REFORM POLICIES BEGAN TO BEAR FRUIT AS INFLATION DECREASED, THE CURRENCY STABILIZED AND ECONOMIC GROWTH RESUMED. HOWEVER, THE ECONOMY STEADILY WORSENERD IN THE COURSE OF 1999 WITH INFLATION REACHING 40 PERCENT. THE U.N. ESTIMATES THAT 55 PERCENT OF THE POPULATION ARE BELOW THE POVERTY LINE. THE COUNTRY FACES AN EXTERNAL DEBT OF USD \$1.3 BILLION. INDUSTRIAL PRODUCTION REMAINS SIGNIFICANTLY BELOW PRE-INDEPENDENCE LEVELS. THE LEVEL OF HARDSHIP FOR PENSIONERS, UNEMPLOYED WORKERS, AND GOVERNMENT WORKERS WITH SALARY ARREARAGES CONTINUES TO BE VERY HIGH.

KYRGYZSTAN POSTED INFLATION OF 6.3% IN THE FIRST FIVE MONTHS OF 2000. INFLATION THIS YEAR MAY BE LESS THAN THE 20% PREDICTED IN THE JOINT STATEMENT OF THE GOVERNMENT AND THE NATIONAL BANK. INFLATION WAS 39.9% AND GDP GROWTH WAS 3.6% IN 1999.

INDUSTRIAL OUTPUT IN KYRGYZSTAN DECLINED AT AN ANNUAL RATE OF 5.1 % FROM JANUARY TO APRIL 2000. AGRICULTURAL, HUNTING AND FORESTRY OUTPUT FROM JANUARY TO APRIL WAS 4.419 BILLION SOM (47.9725 SOM/USD), ON PACE FOR AN ANNUAL INCREASE OF 4.4% OVER 1999. SINCE THE BEGINNING OF THE YEAR, WORK ON CONSTRUCTION AND RECONSTRUCTION OF THE ELECTRIC GRID, TRANSPORTATION, AND COMMUNICATION FACILITIES HAS BEEN UNDERWAY. GROSS CONSTRUCTION OUTPUT CAME TO 973.6 MILLION SOM, A 50% INCREASE OVER 1999.

PRINCIPAL GROWTH SECTORS

THE AGRICULTURAL SECTOR EXPANDED AT A RATE OF 8.7% IN 1999, MAKING IT THE FASTEST GROWING SECTOR OF THE KYRGYZ ECONOMY. HOWEVER, MINING HAS ATTRACTED MORE FOREIGN INVESTMENT THAN ANY OTHER SECTOR ALTHOUGH THERE HAS BEEN NO NEW INVESTMENT IN THIS SECTOR IN SEVERAL YEARS.

GOVERNMENT ROLE IN THE ECONOMY

IN 1998, THE GOVERNMENT OF THE KYRGYZ REPUBLIC PUBLISHED ITS PROGRAM OF ECONOMIC STABILIZATION FOR 1999-2001. THE PROGRAM LISTS GOALS FOR STRENGTHENING THE FINANCIAL STABILITY OF THE COUNTRY:

- TO IMPLEMENT A SOUND MONETARY-CREDIT POLICY;
- TO RESTRUCTURE THE PAYMENT SYSTEM;
- TO CREATE A DEPOSIT INSURANCE SYSTEM AND AN INTER-BANK INSURANCE FUND;
- TO INCREASE MINIMUM CAPITAL REQUIREMENTS FOR COMMERCIAL BANKS.

THE PROGRAM ALSO INCLUDES ACTIVITIES AIMED AT SUPPORTING AND IMPLEMENTING A REALISTIC AND TRANSPARENT BUDGET. THE BUDGET POLICY IS DIRECTED AT IMPROVING MACROECONOMIC STABILITY AND REDUCING THE BUDGET DEFICIT. PROGRESS ON THESE PLANS HAS BEEN LIMITED.

IN EDUCATION, THE GOVERNMENT HOPES TO INCREASE INVESTMENTS IN HUMAN RESOURCE DEVELOPMENT AND TO BRING COMPUTER TECHNOLOGY TO ALL LEVELS OF EDUCATION BUT EXPENDITURES ON EDUCATION REMAIN LOW DUE TO GOVERNMENT BUDGETARY CONSTRAINTS.

A MEDICAL INSURANCE SYSTEM IS IN THE WORKS TO FINANCE THE PUBLIC HEALTH SECTOR.

THE TREASURY PLANS TO INTRODUCE A NEW SYSTEM FOR MONETARY TRANSFERS.

TAXES ARE HIGH FOR PRIVATE BUSINESS. (SEE CHAPTER 6, SECTION B)

INVESTMENT POLICY

THE GOVERNMENT STATES THAT IT WISHES TO ATTRACT FOREIGN INVESTMENTS, CREATE FAVORABLE CONDITIONS FOR FOREIGN AND DOMESTIC INVESTORS, AND ATTRACT DIRECT INVESTMENTS IN PRIORITY INDUSTRIES OF THE KYRGYZ REPUBLIC (EXPORT ORIENTED INDUSTRIES, AS WELL AS SMALL AND MEDIUM SIZED BUSINESSES).

THE KYRGYZ GOVERNMENT HAS ANNOUNCED PLANS TO PRIVATIZE THE LARGEST COMPANIES IN THE STRATEGIC SECTORS OF THE ECONOMY, SUCH AS MINING, TELECOMMUNICATIONS, ENERGY, AVIATION, PRINTING AND RECREATION, ALTHOUGH NONE OF THESE INDUSTRIES HAS YET BEEN PRIVATIZED.

INVESTMENT PROJECTS WILL BE PRIMARILY FOCUSED ON "RAW MATERIALS -- PROCESSING -- FINAL PRODUCT" CYCLES FOR SUCH SECTORS AS TOBACCO, SUGAR, COTTON, LEATHER, WOOL AND SILK PRODUCTION.

BALANCE OF PAYMENTS SITUATION

IN 1999 THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS HAD A DEFICIT OF USD 185.3 MILLION OR 15.4 PERCENT OF GDP. THIS FIGURE REPRESENTS A SUBSTANTIAL DECREASE FROM THE CURRENT ACCOUNT DEFICIT OF 364.7 MILLION IN 1998. KYRGYZSTAN RAN A TRADE BALANCE DEFICIT OF USD 84.4 MILLION IN 1999 COMPARED TO A DEFICIT OF 220.7 MILLION IN 1998. THIS IMPROVEMENT IN THE TRADE BALANCE WAS CAUSED BY A 13.6 PERCENT DECREASE IN EXPORTS COMBINED WITH A 27.6 PERCENT DECREASE IN IMPORTS IN 1999.

CAPITAL OUTFLOW POLICY

THE NEGATIVE BALANCE OF THE CAPITAL ACCOUNT HAS BEEN INCREASED FROM USD 8.1 MILLION IN 1998 UP TO USD 15.1 IN 1999. THE MAJOR REASON FOR CAPITAL OUTFLOW WAS INTENSIFICATION OF MIGRATION OUT OF KYRGYZSTAN AFTER EVENTS OF 1999 IN SOUTHERN KYRGYZSTAN. THE VOLUME OF CAPITAL GOODS ENTERING KYRGYZSTAN AS CAPITAL TRANSFERS OR GRANTS WAS USD 6.7 MILLION IN 1999 IN COMPARISON TO USD 3.9 MILLION IN 1998. THE NET INFLOW OF DIRECT INTERNATIONAL INVESTMENTS IN 1999 TOTALED USD 34.5 MILLION AS OPPOSED TO USD 108.6 MILLION IN 1998. LOANS OF USD 164.4 MILLION WERE RECEIVED FROM FOREIGN ENTITIES (EXCLUDING IMF CREDITS), OR FIVE PERCENT MORE THAN IN 1998. THE POSITIVE BALANCE OF THE OTHER INVESTMENTS LOOKS VERY STABLE AGAINST THE BACKGROUND OF DECREASING INFLOW OF DIRECT INVESTMENTS AND LOW INTEREST ON PORTFOLIO INVESTMENTS IN 1999. HOWEVER, THE OVERWHELMING PART OF THESE FUNDS (MORE THAN 95 PERCENT) WERE GOVERNMENT GUARANTEED OFFICIAL LOANS. THE WORLD BANK, ASIAN DEVELOPMENT BANK, AND JAPAN STILL REMAIN THE MAJOR CREDITORS OF THE REPUBLIC. THEY RECENTLY ALLOCATED USD 145.9 MILLION OVER SEVERAL YEARS FOR FINANCING THE GOVERNMENT BUDGET DEFICIT AND REFORMING THE ENERGY AND INFRASTRUCTURE SECTORS IN KYRGYZSTAN. IN 1999, THE PRIVATE SECTOR RECEIVED LOANS FROM ABROAD WORTH USD 8.6 MILLION, THE MAJORITY OF WHICH CONSISTS OF SHORT-TERM COMMERCIAL LOANS FROM THE CENTRAL ASIAN BANK FOR COOPERATION AND DEVELOPMENT. KYRGYZSTAN'S TOTAL FOREIGN DEBT AMOUNTS TO USD 1.3 BILLION.

INFRASTRUCTURE SITUATION

THE INFRASTRUCTURE SITUATION IN KYRGYZSTAN IS POOR AND DETERIORATING. THE ROAD SYSTEM IS POOR IN THE NORTHERN PART OF THE COUNTRY, WITH REASONABLY EASY ACCESS TO NEIGHBORING ALMATY (3 HOURS BY CAR IN GOOD WEATHER). THE ROADS CONNECTING THE NORTH AND SOUTH PORTIONS OF THE COUNTRY ARE IN EXTREMELY POOR REPAIR AND ARE OFTEN IMPASSABLE. THE ASIAN DEVELOPMENT BANK IS FINANCING A PROJECT TO REHABILITATE THE MAIN NORTH-SOUTH ROAD, THE HIGHWAY FROM OSH TO BISHKEK. SOME ROAD MAINTENANCE CONTINUES BUT OVERALL CONDITIONS ARE SLOWLY DECLINING. THE AIRPORT INFRASTRUCTURE IS ALSO IN POOR CONDITION. HOWEVER, SEVERAL FOREIGN COMPANIES ARE CURRENTLY WORKING ON PROJECTS TO UPGRADE AIRPORT INFRASTRUCTURE IN BISHKEK AND OSH.

A PROJECT FOR CONSTRUCTING THE TRANSCONTINENTAL JALAL-ABAD-TORUGART-KASHI(CHINA) RAILROAD HAS BEGUN. THIS WILL BE THE SHORTEST ROAD LINKING EUROPE AND ASIA.

TELECOMMUNICATIONS CONNECTIONS ARE MINIMALLY ACCEPTABLE. LOCAL CALLS NEARLY ALWAYS GO THROUGH AND CONNECTIONS WITH OTHER CIS COUNTRIES ARE GENERALLY GOOD. REACHING MORE REMOTE PLACES IN KYRGYZSTAN CAN BE DIFFICULT. INTERNATIONAL CONNECTIONS ARE OF REASONABLE QUALITY BUT OVERLOADED.

E-MAIL AND INTERNET ACCESS IS EASILY AVAILABLE FROM COMMERCIAL SERVICES. A PROJECT FOR MODERNIZATION OF TV AND RADIO BROADCASTING IS BEING IMPLEMENTED. THE PROJECT INCLUDES RECONSTRUCTION AND PRIVATIZATION OF RADIO RELAY LINES, AS WELL AS MODERNIZATION OF TV AND RADIO STATIONS NETWORKS.

CHAPTER III POLITICAL ENVIRONMENT

NATURE OF POLITICAL RELATIONSHIP WITH THE UNITED STATES
THE UNITED STATES AND KYRGYZSTAN HAVE ESTABLISHED GOOD BILATERAL RELATIONS. THE UNITED STATES WAS AMONG THE FIRST TO OPEN AN EMBASSY IN KYRGYZSTAN AND THE FLEDGLING COUNTRY'S EARLY STEPS TOWARD DEMOCRACY AND ECONOMIC REFORM GARNERED STRONG SUPPORT FROM THE UNITED STATES. HOWEVER, THE U.S. HAS MADE CLEAR ITS CONCERNS OVER RECENT BACKSLIDING ON DEMOCRATIC REFORMS. THE U.S. HAS A BROAD ASSISTANCE PROGRAM THAT IN 1999 TOTALED USD \$56 MILLION.

MAJOR POLITICAL ISSUES AFFECTING THE BUSINESS CLIMATE

THE FOREMOST ISSUE AFFECTING THE BUSINESS CLIMATE IS THE ABILITY OF THE GOVERNMENT TO SUCCESSFULLY IMPLEMENT ITS ECONOMIC REFORM PROGRAM. ON THE WHOLE, THE POPULATION IS SUPPORTIVE OF REFORM, BUT VESTED INTERESTS, PERVASIVE CORRUPTION, AND OLD WAYS OF CONDUCTING BUSINESS ARE SOMETIMES PROBLEMS.

CORRUPTION IS A SERIOUS PROBLEM FOR KYRGYZSTAN, AFFECTING THE BUSINESS CLIMATE. LATELY, LAW ENFORCEMENT AUTHORITIES HAVE UNDERTAKEN STEPS TO CURTAIL THE PROBLEM, BUT THERE IS NO ASSURANCE THAT THESE ACTIONS WILL BE SUFFICIENT TO DEAL EFFECTIVELY WITH THE PROBLEM.

IN THE SUMMER OF 1999, ARMED INSURGENTS ENTERED SOUTHERN KYRGYZSTAN AND TOOK A NUMBER OF CAPTIVES INCLUDING KYRGYZ CITIZENS AND FOREIGNERS. THE U.S. DEPARTMENT OF STATE CAUTIONS U.S. CITIZENS TO AVOID ALL TRAVEL SOUTH AND WEST OF THE PROVINCIAL CAPITAL OSH. PLEASE CONTACT THE U.S. DEPARTMENT OF STATE FOR THE LATEST INFORMATION.

POLITICAL SYSTEM

KYRGYZSTAN HAS AN ELECTED PRESIDENT WHO SERVES A FIVE-YEAR TERM. THE MEMBERS OF THE TWO CHAMBER PARLIAMENT ALSO SERVE FIVE YEAR TERMS. VOTERS ELECTED ASKAR AKAYEV TO A SECOND TERM IN DECEMBER 1995 IN AN ELECTION THAT WAS MARRED BY IRREGULARITIES. THE 2000 PARLIAMENTARY ELECTIONS WERE DETERMINED BY THE OSCE NOT TO HAVE BEEN FREE AND FAIR. PRESIDENTIAL ELECTIONS ARE SCHEDULED FOR OCTOBER 2000.

THE PRESIDENCY IS VERY POWERFUL AND CONTROLS ALL EXECUTIVE AND JUDICIAL BRANCH APPOINTMENTS, MOSTLY WITHOUT PARLIAMENTARY OVERSIGHT. THERE HAS BEEN AN INCREASING TENDENCY FOR THE PRESIDENTIAL ADMINISTRATION TO TAKE OVER DECISION MAKING AUTHORITY FROM LINE MINISTRIES, FURTHER CENTRALIZING DECISION MAKING POWER.

THE PARLIAMENT IS BICAMERAL AND CONSISTS OF ELECTED OFFICIALS WHOSE MAIN TASK IS TO DRAFT AND APPROVE LEGISLATION AND TO RATIFY TREATIES. THE CURRENT PARLIAMENT WAS SEATED IN APRIL 2000.

THE JUDICIARY IS STATUTORILY INDEPENDENT, BUT IN REALITY FAIRLY WEAK.

CHAPTER IV MARKETING U.S. PRODUCTS AND SERVICES

DISTRIBUTION AND SALES CHANNELS/FINDING PARTNERS

THE FORMER SOVIET DISTRIBUTION AND SALES NETWORKS HAVE COMPLETELY COLLAPSED. THE NASCENT PRIVATE SECTOR IS BEGINNING TO FILL IN THIS VACUUM BUT MOSTLY ON A VERY INFORMAL AND SMALL SCALE BASIS. MANY WESTERN PRODUCTS REACH KYRGYZSTAN VIA DISTRIBUTORS BASED IN TURKEY, RUSSIA, OR EUROPE.

FINDING A LOCAL AGENT OR DISTRIBUTOR IS A CHALLENGING PROCESS BECAUSE THERE ARE FEW SOURCES OF RELIABLE INFORMATION ON POTENTIAL PARTNERS.

FRANCHISING/DIRECT MARKETING

FRANCHISING AND DIRECT MARKETING ARE POORLY DEVELOPED IN KYRGYZSTAN. ACCORDING TO THE LAW ON PROPERTY RIGHTS, PROTECTION OF TRADEMARKS, LOGOS, AND INTELLECTUAL PROPERTY IS AVAILABLE. FOREIGN INVESTMENTS WITH FRANCHISING POTENTIAL (COCA-COLA, XEROX, KODAK, MOTOROLA, ETC.) ARE REPRESENTED IN THE COUNTRY.

CHAPTER V LEADING SECTORS FOR U.S. EXPORTS AND SERVICES

BELOW IS A BRIEF OVERVIEW OF ACTIVITY IN KEY ECONOMIC SECTORS.

BEST PROSPECTS FOR AGRICULTURAL PRODUCTS

THE AGRICULTURE SECTOR IS THE LARGEST SECTOR IN KYRGYZSTAN BUT IS DISORGANIZED AND UNDERCAPITALIZED. SEVERAL DONOR PROJECTS ARE FOCUSED ON IMPROVING CREDIT TO THE SECTOR AND THERE ARE OPPORTUNITIES FOR SMALL SCALE OPERATIONS IN A VARIETY OF AREAS: IMPROVED SEED, FERTILIZER, SMALL SCALE FARM EQUIPMENT, FOOD AND TEXTILE PROCESSING EQUIPMENT, IMPROVED STORAGE, AND PACKAGING. ALTHOUGH A LAW ESTABLISHING PRIVATE OWNERSHIP OF LAND HAS BEEN ENACTED, AS OF JULY 2000 IT HAS NOT BEEN IMPLEMENTED.

BEST PROSPECTS FOR NON-AGRICULTURAL GOODS AND SERVICES

A). MINING HAS ATTRACTED THE MOST FOREIGN INVESTOR INTEREST. THERE ARE SEVERAL LARGE JOINT VENTURE MINING PROJECT CONTRACTS, INCLUDING SOME WITH U.S. PARTNERS. THERE ARE ALSO PROGRAMS FOR COAL INDUSTRY DEVELOPMENT AND A PROGRAM FOR GEOLOGICAL SURVEYS FOR OIL AND GAS. SO FAR THE ONLY PROJECT THAT HAS MADE ANY SIGNIFICANT PROGRESS TOWARD FRUITION IS THE CANADIAN GOLD MINING JOINT-VENTURE KUMTOR. IN 1999, THE COMPANY PRODUCED 18.9 TONS OF GOLD. WHEN OTHER PROJECTS GET OFF THE GROUND THERE MAY BE GOOD POTENTIAL FOR EXPORT OF MINING EQUIPMENT AND TECHNOLOGY.

SURVEYED GAS DEPOSITS AMOUNT TO 4.9 BILLION CUBIC METERS, PRESENTING ANOTHER INVESTMENT OPPORTUNITY. THE GOK IS PRESENTLY SEEKING INVESTORS FOR A JOINT-STOCK COMPANY THAT SPECIALIZES IN LOCATING, SURVEYING AND EXPLOITING GAS AND OIL DEPOSITS.

B). ELECTRIC POWER

KYRGYZSTAN IS A MAJOR PRODUCER OF HYDROELECTRIC POWER AND HAS GREAT UNEXPLOITED POTENTIAL. SEVERAL POTENTIAL PROJECTS ARE ON THE DRAWING BOARD, BUT NEED SECURED EXPORT MARKETS AND PROJECT FINANCING. PROJECTS INCLUDE UPGRADE OF THE DISTRICT POWER AND HEATING PLANT, UPGRADE AND MAINTENANCE OF THE ELECTRIC DISTRIBUTION SYSTEM, AND OTHERS, PROVIDING OPPORTUNITIES FOR ELECTRIC POWER EQUIPMENT EXPORTS.

C). OTHER INDUSTRIES

THE GOVERNMENT SUPPORTS NEW TECHNOLOGIES INCLUDING PRODUCTION OF BASALT FIBERS, SYNTHETIC DIAMONDS, CONSTANT MAGNETS, NITRITE CERAMICS, TRANSFORMERS, ETC. THE RADIO-ELECTRONIC INDUSTRY AND SILICON PRODUCTION IN KYRGYZSTAN ARE PRIORITIES FOR DEVELOPMENT, BUT REMAIN UNDERDEVELOPED.

THERE IS A VARIETY OF NICHE OPPORTUNITIES IN SMALL AND MEDIUM-SCALE LIGHT MANUFACTURING EQUIPMENT. BECAUSE LIGHT INDUSTRY IS BASED ON THE USE OF DOMESTIC RAW MATERIALS (WOOL, COTTON, SILK), FINANCIAL AND ORGANIZATIONAL MEASURES ARE NECESSARY TO UPGRADE TEXTILE AND KNITTING ENTERPRISES.

AGRICULTURAL PRODUCE PROCESSING AND PACKAGING PRESENTS ANOTHER INVESTMENT OPPORTUNITY.

D). TOURISM

CONSIDERING THE GEOGRAPHIC POSITION AND MOUNTAINOUS TOPOGRAPHY OF THE

COUNTRY, THERE ARE MANY OPPORTUNITIES FOR DEVELOPING TOURISM. ISSYK-KUL, THE SECOND LARGEST ALPINE LAKE IN THE WORLD, IS AN EXCELLENT PLACE FOR DEVELOPING RECREATION FACILITIES, SINCE EXISTING FACILITIES ARE FAR BELOW INTERNATIONAL STANDARDS. HOWEVER, POOR INTERNAL INFRASTRUCTURE AND LIMITED INTERNATIONAL AIR SERVICE ARE CONSTRAINTS TO DEVELOPMENT.

CHAPTER VI TRADE REGULATIONS AND STANDARDS

TRADE BARRIERS, INCLUDING TARIFFS, NON-TARIFF BARRIERS AND IMPORT TAXES

KYRGYZSTAN HAS A UNIFORM IMPORT TARIFF RATE OF TEN PERCENT ON ALL GOODS. IN ADDITION TOBACCO, ALCOHOL, PRECIOUS METALS, PETROLEUM, CARPETS, COFFEE AND COCOA, JEWELRY, CRYSTAL, FUR, AND FIREARMS HAVE EXCISE TAXES OF 10-20 PERCENT. A TWENTY-PERCENT VAT IS LEVIED ON ALL IMPORTS EXCEPT FOR THOSE PRODUCED IN RUSSIA, AZERBAIJAN, AND BELARUS.

FREE TRADE ZONES

THERE ARE SEVERAL FREE TRADE ZONES. THEY HAVE BEEN ESTABLISHED IN MAJOR TRANSIT AREAS OF KYRGYZSTAN, AT MANAS AIRPORT (IN BISHKEK) AND IN SPECIAL ZONES LOCATED CLOSE TO RAILWAY STATIONS AND CUSTOMS POSTS ALONG THE CHINESE BORDER. GOODS ENTERING AND GOODS TRADED WITHIN THESE ZONES ARE DUTY FREE. IF THESE GOODS ARE SOLD WITHIN THE KYRGYZ REPUBLIC ALL DUTY FEES WILL BE PAID IN FULL. GOODS CAN BE SOLD TO THIRD COUNTRIES FREE OF DOUBLE TAXATION.

CUSTOMS VALUATION

THREE METHODS ARE USED:

- AD VALOREM, CALCULATED AS A PERCENTAGE OF THE PRICE OF THE GOODS;
- SPECIFIC, CALCULATED AT A STANDARD AMOUNT PER UNIT;
- COMBINED, INCLUDING BOTH OF THE ABOVE METHODS.

IMPORT LICENSES

IMPORT OF THE FOLLOWING GOODS IS SUBJECT TO LICENSING: CIPHER EQUIPMENT; MILITARY ARMAMENT AND ARMAMENTS TECHNIQUES; EQUIPMENT TO COMBAT TOXIC AGENTS/POISON GASES; NUCLEAR MATERIALS AND TECHNOLOGIES; DUAL-USE MATERIALS, EQUIPMENT AND TECHNOLOGIES; PRECIOUS METALS AND ALLOYS; NATURAL PRECIOUS STONES; NARCOTIC REMEDIES, PSYCHOTROPIC SUBSTANCES AND PRECURSORS; POWERFUL POISONS; DANGEROUS WASTES; MEDICAL REMEDIES; ALCOHOL AND ALCOHOL PRODUCTS; OFFICIAL (LAW ENFORCEMENT) AND CIVILIAN ARMS; TOBACCO.

DOCUMENTATION REQUIREMENTS FOR IMPORTS:

- CUSTOMS CARGO DECLARATION FORMS;
- ACCOMPANYING DOCUMENTS PERTAINING TO ANY CARGO;
- CONTRACTS;
- SAFETY CERTIFICATIONS;

-- CERTIFICATES OF ORIGIN;
-- INVOICES;
-- POWER OF ATTORNEY DOCUMENTS CONFIRMING AUTHORIZATION FOR PROPER CUSTOMS PROCESSING.

A LEGAL ENTITY SHOULD ALSO SUBMIT THE FOLLOWING:

-- COMPANY CHARTER;
-- INCORPORATION AGREEMENT;
-- CERTIFICATE OF REGISTRATION;
-- BANK REFERENCE CONFIRMING BANK ACCOUNT;
-- REFERENCE FROM THE LOCAL TAX AGENCY;

IF NECESSARY, THEY SHOULD ALSO SUBMIT THE FOLLOWING:

-- PHYTO-SANITARY CERTIFICATE;
-- VETERINARY CERTIFICATE;
-- LICENSE FOR IMPORT/EXPORT.

CUSTOMS OFFICERS CAN REQUEST ADDITIONAL DOCUMENTS TO CONFIRM INFORMATION INDICATED ON THE CUSTOMS DECLARATION FORM.

BODIES RESPONSIBLE FOR CERTIFICATION:

-- KYRGYZ CHAMBER OF COMMERCE AND INDUSTRY
-- THE NATIONAL AGENCY ON STANDARDIZATION AND METROLOGY (KYRGYZSTANDARD)
-- THE STATE DEPARTMENT OF SANITATION AND EPIDEMIOLOGICAL SURVEILLANCE UNDER THE MINISTRY OF HEALTH
-- THE STATE AGENCY ON PLANT QUARANTINE UNDER THE MINISTRY OF AGRICULTURE AND WATER RESOURCES
-- THE MAIN VETERINARY DEPARTMENT
-- THE MINISTRY OF ENVIRONMENTAL PROTECTION.

PROHIBITED IMPORTS AND EXPORTS:
NARCOTICS AND PORNOGRAPHY.

EXPORT CONTROLS

IN ORDER TO PROMOTE EXPORTS, THE GOK HAS INTRODUCED A ZERO CUSTOMS RATE FOR EXPORTS FROM KYRGYZSTAN.

TEMPORARY ENTRY OF GOODS

IN CASE OF TEMPORARY ENTRY OF GOODS, THE FOLLOWING DOCUMENTS ARE NEEDED: REGISTRATION DOCUMENTS FOR THE GOODS, DOCUMENTS PROVING RIGHTS OF OWNERSHIP AND A FORM OF OBLIGATION THAT THE GOODS WILL BE REMOVED FROM KYRGYZSTAN AFTER A TIME.

LAW FIRMS

BISHKEK REPRESENTATIVE OFFICE "MAYER, BROWN & PLATT"
MS. GULNARA KALIKOVA, LOCAL ATTORNEY
66, KALYK AKIYEV STREET, BISHKEK 720001, KYRGYZSTAN
TEL: 996 (317) 77 14 05, 65 02 56, 65 0129, FAX: 996 (312) 65 09 80
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BISHKEK OFFICE "LEBOEUF, LAMB, GREENE&MACRAE, LLP"
JOHN T.CORRIGAN, LAWYER
205, PANFILOV STREET, BISHKEK 720040, KYRGYZSTAN
TEL: 996 (312) 22 29 94, 996 (317) 77 17 53, FAX: 996 (312) 66 22 33
E-MAIL: LLGM@MAIL.ELCAT.KG OR CORRIGAN@ELCAT.KG

KENENBAYEV LAW OFFICE (AFFILIATED WITH PATTERSON, BELKNAP, WEBB&TYLER)
MR. TEMIRBEK KENENBAYEV, MANAGER
57, KALYK AKIYEV STREET, #21, BISHKEK 720001, KYRGYZSTAN
TEL: 996 (312) 24 06 65,65 00 19, FAX: 996 (312) 65 03 80
E-MAIL: BAKYT@IMFIKO.BISHKEKSU

LABELING REQUIREMENTS
KYRGYZ LAW REQUIRES THAT THE TEXT ON LABELS FOR FOOD PRODUCTS BE IN KYRGYZ AND RUSSIAN.

STANDARDS
KYRGYZSTAN IS A CORRESPONDENT MEMBER OF THE INTERNATIONAL STANDARD ORGANIZATION (ISO). THE GOK HAS ALREADY ADOPTED 28 ISO STANDARDS AS KYRGYZ STATE STANDARDS, COVERING ENVIRONMENT PROTECTION, PETROLEUM PRODUCTS, TRANSPORT, QUALITY OF WATER, AND WOOL. AT PRESENT, 38 PERCENT OF KYRGYZ STANDARDS MEET INTERNATIONAL STANDARD REQUIREMENTS.

MEMBERSHIP IN FREE TRADE ARRANGEMENTS
ON APRIL 15,1994, CIS STATES (AZERBAIJAN, ARMENIA, BELARUS, GEORGIA, KAZAKSTAN, KYRGYZSTAN, MOLDOVA, RUSSIA, TAJIKISTAN, TURKMENISTAN, UKRAINE, UZBEKISTAN) SIGNED AN AGREEMENT TO ESTABLISH A FREE TRADE ZONE. ACCORDING TO THE AGREEMENT, IMPORTS OF GOODS PRODUCED WITHIN THE CIS HAVING RESPECTIVE CERTIFICATES OF ORIGIN ARE NOT SUBJECT TO ANY CUSTOMS OR VALUE ADDED TAXES IN KYRGYZSTAN. HOWEVER, THIS EXEMPTION DOES NOT COVER EXCISE GOODS, FURNITURE, VIDEO, TELEVISION, COMPUTER EQUIPMENT, OR ANY ACCESSORIES TO THE ABOVE ELECTRONIC EQUIPMENT. RUSSIA, BELARUS, KAZAKSTAN, KYRGYZSTAN, AND TAJIKISTAN HAVE ALSO SIGNED AN AGREEMENT ON CUSTOMS.

LICENSING

THERE ARE A NUMBER OF ACTIVITIES REQUIRING LICENSING IN THE KYRGYZ REPUBLIC

(SEE APPENDIX G). IN MAY, 2000, THE GOVERNMENT EXPANDED THE LIST OF BUSINESS ACTIVITIES REQUIRING A LICENSE TO INCLUDE:

- PRODUCTION AND SALE OF HOT DOGS, CHEESEBURGERS, AND HAMBURGERS;
- SALE OF FISH (FRESH, SALTED, DRIED) AND FISH PRODUCTS;
- PRODUCTION AND SALE OF SPARE PARTS FOR AGRICULTURAL EQUIPMENT;
- REPAIR OF AGRICULTURAL EQUIPMENT;
- STORAGE (PURCHASE) AND RE-SALE OF AGRICULTURAL PRODUCTS, EXCEPT BY THE ORIGINAL AGRICULTURAL PRODUCERS;
- SALE OF MINERAL FERTILIZERS AND PESTICIDES;
- ASTROLOGICAL FORECAST SERVICE.

STEPS TO ESTABLISHING AN OFFICE

A). REGISTRATION

ACCORDING TO THE MINISTRY OF JUSTICE REGULATIONS, IN ORDER TO BE REGISTERED

A LEGAL ENTITY MUST SUBMIT THE FOLLOWING DOCUMENTS:

- APPLICATION;
- COMPANY CHARTER;
- INCORPORATION AGREEMENT;
- CERTIFICATE OF REGISTRATION IN HOME COUNTRY (FOR FOREIGN ENTERPRISES);
- DOCUMENTS CONFIRMING CHARTER CAPITAL.

AN ENTERPRISE CAN OPERATE AS A LIMITED LIABILITY COMPANY, ADDITIONAL LIABILITY COMPANY, JOINT-STOCK COMPANY, GENERAL OR LIMITED PARTNERSHIP, FOREIGN ENTERPRISE OR ENTERPRISE WITH FOREIGN PARTICIPATION. ALL INCORPORATING DOCUMENTS SHOULD BE IN RUSSIAN OR KYRGYZ AND BE NOTARIZED BY A KYRGYZ NOTARY OFFICE.

AN APPLICANT SHOULD ALSO SUBMIT THE ABOVE DOCUMENTATION TO THE LOCAL TAX AGENCY FOR REGISTRATION. IF AN ENTERPRISE IS A JOINT OR FOREIGN VENTURE, IT SHOULD BE REGISTERED AS A FOREIGN INVESTOR WITH THE STATE STATISTICS COMMITTEE.

B). TAXATION OF COMPANIES

THE FOLLOWING BASIC TAXES SHOULD BE PAID:

- VALUE-ADDED TAX (VAT) - 20 PERCENT MONTHLY OR QUARTERLY;
- PROFIT TAX - 30 PERCENT MONTHLY;
- ROAD FUND TAX – 0.8% PERCENT OF THE COST OF GOODS AND SERVICES SOLD QUARTERLY;
- EMERGENCY FUND TAX - 1.5 PERCENT MONTHLY;
- FEE FOR MUNICIPAL GARBAGE REMOVAL

-- SOCIAL FUND - 31 PERCENT MONTHLY OF MINIMUM WAGE MULTIPLIED BY THE NUMBER OF EMPLOYEES (AS OF JUNE 2000, THE MINIMUM WAGE WAS 100 SOM OR USD \$2.1 PER MONTH);

- EMPLOYER'S SHARE, 7 PERCENT - DEDUCTED FROM THE EMPLOYEE'S WAGE;
-- INCOME TAX - UP TO 35 PERCENT MONTHLY DEDUCTED FROM EMPLOYEES' SALARIES

(ACCORDING TO A SCALE OF THE MINISTRY OF FINANCE FOR CALCULATING INCOME TAXES).

-- AGRICULTURAL LAND TAX (RATES OF LAND TAX DEPEND ON QUANTITY AND LOCATION OF LANDS).

C). VAT FOR IMPORT

THE FOLLOWING ITEMS ARE EXEMPT FROM VAT:

-- DELIVERIES OF GOODS FOR NATURAL DISASTERS;

-- GOODS ENTERING KYRGYZSTAN ERRONEOUSLY;

-- GOODS FOR OFFICIALS (DIPLOMATIC, CONSULAR REPRESENTATIVES) AND MEMBERS

OF THEIR FAMILIES FOR PERSONAL PURPOSES;

-- PREVIOUSLY EXPORTED GOODS THAT ARE IMPORTED BY THE SAME IMPORTER;

-- GOODS IMPORTED TEMPORARILY WITH A GUARANTEE THAT THEY WILL BE EXPORTED

DURING THE NEXT 12 MONTHS WITHOUT ANY ALTERATION;

-- HUMANITARIAN AID;

-- CERTAIN MEDICINES;

-- TEXT BOOKS AND SCHOOL ACCESSORIES, AS WELL AS SCIENTIFIC LITERATURE;

-- BABY FOOD AND FORMULAS;

-- IMPORT GOODS ORIGINATING IN CIS COUNTRIES, EXCEPT IN CASES COVERED BY

INTERGOVERNMENTAL AGREEMENTS RATIFIED BY THE KYRGYZ PARLIAMENT;

-- CAPITAL GOODS IMPORTED AS BASIC MEANS OF PRODUCTION.

THE VAT AMOUNT ON GOODS IS CALCULATED IN THE CURRENCY IN WHICH THEIR

VALUE IS DECLARED. MAXIMUM FEES FOR DECLARED COST OF GOODS MAY INCLUDE:

-- 20 PER CENT FOR VAT;

-- 0.15 PER CENT FOR PROCESSING DOCUMENTS;

-- 10 PER CENT FOR CUSTOMS DUTIES OR EXCISE TAXES FOR EXCISE GOODS.

ADVERTISING AND TRADE PROMOTION

A FULL RANGE OF ADVERTISING OPPORTUNITIES ARE AVAILABLE IN PRINT, RADIO, TELEVISION, BILLBOARDS, PROMOTIONAL GOODS AND SPONSORSHIP OF EVENTS. THERE ARE SEVERAL LOCAL ADVERTISING AGENCIES WHICH CAN HANDLE CAMPAIGNS.

CONTACT INFORMATION FOR MAJOR AGENCIES, NEWSPAPERS AND OTHERS:

THE AKI PRESS COMMERCIAL INFORMATION AGENCY AND BIWEEKLY JOURNAL

(CIRCULATION ONE THOUSAND)

MR. MARAT TAZABEKOV, DIRECTOR

189, MOSKOVSKAYA STREET, BISHKEK 720010, KYRGYZSTAN

TEL: 996 (312) 65 02 02, 65 03 09, FAX: 996 (312) 65 02 04

E-MAIL: AKI@INFOTEL.KG

DEKA - ADVERTISEMENT AGENCY (OUT-DOOR ADVERTISEMENT)

MR. KEMEL JUMAGULOV, DIRECTOR

73, SOVETSKAYA STREET, #41, BISHKEK 720005, KYRGYZSTAN

TEL: 996 (312) 54 42 23, 54 42 24, FAX: 996 (312) 54 42 28

E-MAIL: DEKA@ELCAT.KG

ERIDAN CENTER - PUBLIC RELATIONS AGENCY (TELEVISION ADVERTISEMENTS)

MR. BAKIR JUSUPBEKOV, DIRECTOR

73, SOVETSKAYA ST. #27, BISHKEK 720005, KYRGYSZTAN

TEL: 996 (312) 54 17 39, FAX: 996 (312) 54 42 28, 620940

E-MAIL: ERIDAN@IMFIKO.BISHKEK.SU OR

ALEX@ERIDAN.BISHKEK.SU

THE VOSST PRIVATE TV AND RADIO COMPANY

MR. VALERY KHON, PRESIDENT

7 MICRO-RAYON, 46-A, BISHKEK 720020,

KYRGYZSTAN

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E-MAIL: TRKVOSS@INFOTEL.KG

THE KOORT TV AND RADIO COMPANY

MR. TEMIRBEK TOKTOGAZIYEV, DIRECTOR GENERAL

226, CHUI AVENUE, BISHKEK 720010, KYRGYZSTAN

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E-MAIL: KOORT@KOORT.KG

THE PYRAMID TV AND RADIO COMPANY

MS. LYUDMILA PANOVA, EDITOR-IN-CHIEF

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E-MAIL: TV@PYRAMID.ELCAT.KG OR

RADIO@PYRAMID.ELCAT.KG

THE EUROPE PLUS BISHKEK RADIO COMPANY

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KYRGYZSTAN
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CHAPTER VII INVESTMENT CLIMATE

AI. OPENNESS TO FOREIGN INVESTMENT

THE GOVERNMENT ATTITUDE TOWARD FOREIGN INVESTMENT IS GENERALLY FAVORABLE, AND GOVERNMENT OFFICIALS SEEK TO ATTRACT FOREIGN INVESTMENT. HOWEVER, SANCTITY OF CONTRACTS AND OTHER SUCH CONCEPTS ARE DEVELOPING AND NOT UNIFORMLY IMPLEMENTED. INDIVIDUAL INVESTORS CAN BECOME INVOLVED IN DISPUTES OVER LICENSING, REGISTRATION, ENFORCEMENT OF CONTRACTS, AND THE LIKE, PARTICULARLY AT THE MIDDLE AND LOWER LEVELS OF OFFICIALDOM. CORRUPTION IS A SERIOUS PROBLEM.

FOREIGN INVESTORS MUST REGISTER THEIR FIRM AS A LEGAL ENTITY WITH THE MINISTRY OF JUSTICE. IN ADDITION TO SUCH REGISTRATION, EXPATRIATE EMPLOYEES MUST OBTAIN A PERMIT TO WORK IN KYRGYZSTAN FROM THE MINISTRY OF LABOR. MOST TYPICALLY, FOREIGN INVESTORS FORM A JOINT VENTURE TOGETHER WITH A LOCAL ENTITY. ALTHOUGH THERE ARE SELDOM OVERT OBSTACLES TO FORMING A WHOLLY OWNED FOREIGN VENTURE, THE BINATIONAL JOINT VENTURE FORMULA HAS PROVED THE MOST SUCCESSFUL TO DATE.

KYRGYZ LAW ON FOREIGN INVESTMENTS GUARANTEES PROTECTION FOR FOREIGN INVESTORS FROM EXPROPRIATION, NATIONALIZATION, AND SIMILAR ACTIONS. IT ALSO PROTECTS AGAINST BUREAUCRATIC DELAYS WITHIN THE KYRGYZ GOVERNMENT STRUCTURE. HOWEVER, THE LAWS AFFECTING BUSINESS IN KYRGYZSTAN ARE NOT ABSOLUTELY EXPLICIT AND ARE NOT ALWAYS IMPLEMENTED FAIRLY, CONSISTENTLY, OR IN CONCERT WITH THEIR STATED AIMS. KYRGYZ OFFICIALS AND AGENCIES OFTEN HAVE WIDE LATITUDE IN INTERPRETING LAW.

PRIVATIZATION, BOTH OF LARGE ENTERPRISES AND OF LAND, HAS AT TIMES BEEN CONTROVERSIAL, STIMULATING HEATED DEBATE IN PARLIAMENT AND OTHER GOVERNMENT CIRCLES. HOWEVER, REGULATIONS ALLOWING 99-YEAR LEASES OF PROPERTY ARE PROBABLY ADEQUATE FOR MOST BUSINESS PURPOSES.

BANKING LAWS DO NOT OVERTLY DISCRIMINATE AGAINST FOREIGN BANKS, WHICH ARE AFFORDED THE SAME TREATMENT AS KYRGYZ BANKS. HOWEVER, THE STRUCTURE OF BANKING REGULATIONS TENDS TO PLACE A SIGNIFICANT DISADVANTAGE ON BANKS THAT DO NOT MEET THE NATIONAL BANK OF KYRGYZSTAN'S REQUIREMENT FOR MINIMUM CAPITAL. TO DATE, ONLY THREE FOREIGN BANKS - THE DEMIR BANK, THE BANK OF ASIA AND THE NATIONAL BANK OF PAKISTAN - ARE REGISTERED IN BISHKEK. SEVERAL OTHER BANKS HAVE MAJORITY FOREIGN OWNERSHIP (SEE PARA 34 BELOW).

IT IS WIDELY BELIEVED THAT FEW PROPOSALS FOR LARGE VENTURES ESCAPE THE NOTICE OF THE PRESIDENT'S AND PRIME MINISTER'S OFFICES, AS WELL AS, FOR AMERICAN FIRMS, OF THE KYRGYZ EMBASSY IN WASHINGTON. SCREENING AT THESE OFFICES IS BELIEVED TO INCLUDE SUCH FACTORS AS THE SOUNDNESS OF THE PROPOSING ENTITY AND THE PROBABLE IMPACT ON THE KYRGYZ ECONOMY OF THE PROJECT. CRITERIA FOR SUCH SCREENING HAVE NOT BEEN PUBLISHED.

INVESTMENT IS SOMETIMES COMPLICATED WHEN DIFFERENT COMPETITORS FEEL COMPELLED TO NEGOTIATE WITH ONE AND THE SAME PARASTATAL MONOPOLY, PLACING THE MONOPOLY IN AN APPARENT CONFLICT OF INTEREST VIS-A-VIS THE DIFFERENT EXTERNAL COMPETITORS. ALSO, WHEN A SPECIFIC PRIVATIZATION SCHEME IS ENVISAGED, SUCH A SCHEME OFTEN ENGENDERS DEBATE IN THE PARLIAMENT AND ELSEWHERE.

KYRGYZSTAN BOASTS A GENERALLY LIBERAL INVESTMENT REGIME. A BROAD BASE OF EFFECTIVE COMMERCIAL LAWS IS NOW IN PLACE, ALTHOUGH COURTS ARE ONLY NOW COMING TO TERMS WITH THIS EXTENSIVE NEW BODY OF LAW AND THE LAWS ARE NOT ALWAYS IMPLEMENTED FAIRLY OR CONSISTENTLY.

THERE IS NO OVERT EVIDENCE OF DISCRIMINATION AGAINST FOREIGN INVESTORS. HOWEVER, PROCEDURES FOR LICENSING, APPROVALS, ETC., ARE SELDOM FULLY TRANSPARENT. ALSO, TAX AUTHORITIES SOMETIMES APPEAR TO SINGLE OUT FOREIGN ENTITIES, PERHAPS BELIEVING THEY ARE MORE SOLVENT AND TAX-COMPLIANT THAN LOCAL ENTITIES.

A2. CONVERSION AND TRANSFER POLICIES

FOREIGN EXCHANGE IS WIDELY AVAILABLE, AND THE LOCAL CURRENCY, THE SOM, IS FREELY CONVERTIBLE. CURRENTLY, THE NATIONAL BANK OF KYRGYZSTAN (NBK) CONDUCTS WEEKLY INTER-BANK CURRENCY AUCTIONS WHERE COMPETITIVE BIDS DETERMINE MARKET-BASED TRANSACTION PRICES.

AS OF MID-1995, BANKS HAVE BEEN ORDERED TO CLEAR PAYMENTS WITHIN A SINGLE WORKING DAY.

FEW FOREIGN BUSINESSES COMPLAIN OF CURRENCY CONVERSION ISSUES AS A MAJOR PROBLEM. HOWEVER, SOME KYRGYZ ENTITIES, PARTICULARLY IN THE AGRICULTURAL SECTOR, ARE STRAPPED FOR CASH. SUCH ENTITIES SOMETIMES ENGAGE IN CASHLESS BARTER TRANSACTIONS. IN GENERAL, MANY DOMESTIC ENTITIES OWE EACH OTHER (AND THEIR WORK FORCES) MONEY, AND PAYMENT ARREARAGES ARE A GENERAL PROBLEM THROUGHOUT THE ECONOMY. HOWEVER, THIS PROBLEM GENERALLY AFFECTS DOMESTIC ENTITIES MORE THAN FOREIGN VENTURES.

IN 1999, SEVERAL KYRGYZ BANKS DECLARED BANKRUPTCY, LOST THEIR LICENSES, OR WERE RESTRUCTURED. THESE EVENTS MADE REMITTANCE OF FUNDS DIFFICULT FOR INVESTORS WHO WERE SERVED BY THESE BANKS.

A3 EXPROPRIATION AND COMPENSATION

KYRGYZSTAN HAS NOT PRACTICED EXPROPRIATION. FOREIGN INVESTORS HAVE THE LEGAL RIGHT TO COMPENSATION IN THE CASE OF GOVERNMENT SEIZURE OF ASSETS. UNFORTUNATELY, OFFICIAL POLICY AND PRACTICE OFTEN DIVERGE IN KYRGYZSTAN. CHANGES IN LAWS, CHANGES IN THEIR ENFORCEMENT, AND BUREAUCRATIC ENTANGLEMENTS CAN RESULT IN SUBSTANTIAL LOSSES. EXPERIENCE FROM VARIOUS ATTEMPTS AT PRIVATIZATION SUGGESTS THAT ASSET VALUATION CAN BE A COMPLEX ISSUE, OFTEN LEADING TO DISPUTES BETWEEN GOVERNMENT AGENCIES. THERE APPEARS TO BE LITTLE UNDERSTANDING OF DISTINCTIONS AMONG HISTORICAL BOOK VALUE, REPLACEMENT VALUE, AND ACTUAL MARKET VALUE, SUCH AS IN A RELATIVELY SUDDEN LIQUIDATION. SUCH SHORTCOMINGS BRING INTO QUESTION WHETHER THE GOVERNMENT COULD CALCULATE A FAIR BASIS FOR COMPENSATION IN ANY CASE OF EXPROPRIATION. ALSO, IN PREVIOUS YEARS, BANK ACCOUNTS HAVE BEEN FROZEN WHILE DISPUTES WERE RESOLVED.

PREVIOUSLY, NEITHER FOREIGNERS NOR LOCALS HAD THE RIGHT TO OWN LAND. AS A RESULT OF THE OCTOBER 1998 REFERENDUM, PRIVATE LAND OWNERSHIP HAS BEEN INTRODUCED. HOWEVER, THE PARLIAMENT PASSED A 5-YEAR MORATORIUM ON ALL LAND TRANSACTIONS. MEANWHILE, REGULATIONS FOR LAND USE ARE BEING DEVELOPED AND RESPECTIVE LAWS ARE BEING ELABORATED. CURRENTLY, THERE DOES NOT APPEAR TO BE A MAJOR OBSTACLE FOR FOREIGN RENTAL OF LAND FOR RESIDENCES OR FACTORY SITES. A CENTRAL LAND REGISTRY HAS HELPED POTENTIAL LENDERS AND OTHERS DEAL WITH LAND FINANCING IN A MORE SOPHISTICATED MANNER.

A4. DISPUTE SETTLEMENT

TO DATE, THE GOVERNMENT OF KYRGYZSTAN HAS A MIXED RECORD ON THE HANDLING OF INVESTMENT DISPUTES. THE GOVERNMENT APPEARS RELUCTANT TO DISCIPLINE EVEN ITS OWN PARASTATAL MONOPOLIES INVOLVED IN BREACH

OF CONTRACT. THE COURTS HAVE SIMILARLY PROVED RELUCTANT TO ISSUE RULINGS. ONE DISPUTE WAS PASSED UP THROUGH THE KYRGYZ COURT SYSTEM OVER A PERIOD OF NEARLY TWO YEARS, WHILE NEVERTHELESS FAILING TO RENDER ANY FINAL VERDICT. HOWEVER, JUDICIAL TRAINING IS PROCEEDING AND LEGAL INFORMATION SYSTEMS ARE BEING PUT IN PLACE.

TO THE EXTENT THAT INVESTMENT DISPUTES INVOLVING FOREIGNERS REFLECT A PATTERN, IT IS PROBABLY DUE TO WEAK INSTITUTIONS (INCLUDING COURTS), POOR UNDERSTANDING OF CONTRACT LAW, AND OTHER SUCH STRUCTURAL SHORTCOMINGS. MANY OF THESE WEAKNESSES ARE BEING ADDRESSED, AND THE SITUATION MAY IMPROVE OVER TIME.

THE COURTS ARE WIDELY BELIEVED TO BE SUBJECT TO HEAVY INFLUENCE FROM THE EXECUTIVE BRANCH. JUDGES ARE POORLY PAID AND ARE THEORETICALLY SUBJECT TO REMOVAL AFTER FAIRLY SHORT TERMS OF OFFICE, PERHAPS INCLINING THEM TO BE MALLEABLE TO EXECUTIVE AUTHORITIES. MANY JUDGES ARE PRESUMED BY BOTH THE PUBLIC AND LAWYERS TO BE OPEN TO SUBORNMENT.

HOWEVER, ONE FACTOR FORMERLY SUGGESTED AS A REASON FOR SLOW COURT ACTIONS -INCOMPETENCE OF THE JUDICIAL CORPS TO DEAL WITH A WIDE BODY OF NEW LAWS - IS BEING ADDRESSED. INCREASINGLY, JUDGES MUST PASS DIFFICULT EXAMINATIONS ON CURRENT LAWS, AND THE JUDICIAL CORPS IS BECOMING BOTH MORE PROFESSIONAL AND MORE INDEPENDENT OVER TIME. STILL, ACTUAL COURT PROCEDURES SOMETIMES TEND TO FOLLOW WHIMSY OR SOVIET PRACTICE. HOWEVER, NEW LAWS ON COLLATERAL AND BANKRUPTCY ROUND OUT A WIDE BODY OF COMMERCIAL LAW THAT WILL, WHEN ENFORCED UNIFORMLY, PROVIDE A SOUND BASIS FOR COMMERCE.

BINDING INTERNATIONAL ARBITRATION, EVEN WHEN WRITTEN INTO CONTRACTS, IS OFTEN IMPRACTICAL FEW PARTIES, EVEN WESTERN INVESTORS, CAN GENERALLY AFFORD THE TRIPS TO WESTERN EUROPE AND EXPENSIVE LEGAL FEES THAT SUCH ARBITRATION TYPICALLY ENTAILS. TO THE EXTENT ARBITRATION IS EMPLOYED IN CONTRACTS, THE SPECIFIED ARBITER SHOULD BE A NEUTRAL ENTITY, APPOINTED SPECIFICALLY FOR THE CONTRACT IN KYRGYZSTAN OR AT LEAST IN A NEARBY LOCATION.

FORMER TAX HOLIDAYS AND OTHER INCENTIVES FOR FOREIGN INVESTORS HAVE BEEN ELIMINATED, (IN ACCORDANCE WITH STANDARDS PREFERRED BY INTERNATIONAL FINANCIAL INSTITUTIONS AND OTHER ADVISING BODIES). THE KYRGYZ GOVERNMENT HAS ALSO REDUCED THE TAX BURDEN ON REPATRIATION OF PROFITS BY FOREIGN INVESTORS TO BRING IT IN LINE WITH THE TAX RATE FOR DOMESTIC INVESTORS.

THERE ARE SELDOM SPECIFIC CONDITIONS FOR PERMISSION TO INVEST. ON THE OTHER HAND, THE SPECIFIC NATURE OF ANY POTENTIAL INVESTMENT PROJECT IS LIKELY TO BE SCRUTINIZED FOR ITS PROBABLE EFFECT ON EMPLOYMENT, TAX REVENUES, AND SO ON.

A5. PERFORMANCE REQUIREMENTS AND INCENTIVES

VISA REQUIREMENTS AND FEES MAY STILL CHANGE ON SHORT NOTICE. GOVERNMENT MINISTRIES, SELDOM PROVIDED WITH ADEQUATE BUDGETS, OFTEN APPEAR TO FINANCE THEIR OPERATIONS THROUGH SOMEWHAT ARBITRARY USERS' FEES. FOR EXAMPLE, NOTARIES PUBLIC PROVIDE THE JUSTICE MINISTRY WITH MUCHNEEDED FUNDS BY ASSESSING A PERCENTAGE FEE (GENERALLY TEN PERCENT) BASED ON A PROJECT'S OVERALL VALUATION.

A6. 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 TO OWN LAND, INCLUDING FARMLAND (ALTHOUGH RENTING/LEASING OF LAND AND FARMLAND IS USUALLY ALLOWED).

STATE AND PARASTATAL MONOPOLIES INCLUDE ELECTRICITY AND HEATING, MUNICIPAL WATER, SEWAGE SERVICE, GRAIN PROCESSING, ELEVATOR SERVICE, BUILDING REPAIR, CERTAIN PUBLIC TRANSPORTATION, PRODUCTION OF ASPHALT, REFUSE REMOVAL, AND FUNERAL SERVICES.

A7. PROTECTION OF PROPERTY RIGHTS

PROTECTION OF PROPERTY RIGHTS IS NOW DEVELOPING, AFTER A SLOW START. COURT ACTIONS SOMETIMES FORCE SALE OF PROPERTY TO ENFORCE PAYMENTS AND OTHER CONTRACTUAL OBLIGATIONS. NEW LAWS ON COLLATERAL AND BANKRUPTCY MAKE THE ENFORCEMENT OF COMMERCIAL OBLIGATIONS INCREASINGLY VIABLE (AND MORE WIDELY RESPECTED). A CENTRAL LIEN REGISTRY, NOW FUNCTIONING, ALSO REDUCES THE TENDENCY FOR DISPUTES OVER COLLATERAL. THE GOK HAS RECENTLY BEGUN WORK ON CREATING A MORTGAGE SYSTEM FOR KYRGYZSTAN, THOUGH THIS WORK HAS NOT BEEN COMPLETED.

KYRGYZSTAN IN GENERAL ADHERES TO AGREEMENTS ON INTELLECTUAL PROPERTY RIGHTS. DUE TO CHANGES IN BUSINESS PRACTICES AND ADHERENCE TO INTERNATIONAL STANDARDS REQUIRED FOR WTO MEMBERS, KYRGYZSTAN'S TRADE AND INVESTMENT REGIME IS ALREADY UNUSUALLY LIBERAL FOR CENTRAL ASIA AND THE SURROUNDING REGIONS AND THE UNITED STATES RECENTLY ESTABLISHED NORMAL TRADE RELATIONS WITH KYRGYZSTAN. HOWEVER, COURT ACTIONS HAVE TYPICALLY BEEN SLOW. ORGANIZATIONS EXPECTING TO TAKE RECOURSE TO KYRGYZ COURTS FOR DISPUTE SETTLEMENT OR CONTRACT ENFORCEMENT CAN GENERALLY EXPECT LENGTHY WAITS.

A8. TRANSPARENCY OF THE REGULATORY SYSTEM

THE LEGAL AND REGULATORY SYSTEM OF THE KYRGYZ REPUBLIC IS STILL DEVELOPING. ALTHOUGH THE BODY OF NEW COMMERCIAL LAW PROMISES TO BE AN EFFECTIVE BASIS FOR COMMERCE, IMPLEMENTING REGULATIONS AND COURT PROCEDURES, IN MANY CASES, REMAIN TO BE WORKED OUT AND THE LAW IS NOT ALWAYS IMPLEMENTED FULLY.

IN AN EFFORT TO ASSIST FOREIGN INVESTORS ON A VARIETY OF ISSUES, THE STATE COMMITTEE FOR FOREIGN INVESTMENTS AND ECONOMIC DEVELOPMENT ESTABLISHED AN AGENCY BASED ON THE 'ONE-STOP-SHOP' MODEL. HOWEVER, BUSINESSES REPORT THAT REGISTRATION WITH THIS NEW AGENCY DOES NOT PREVENT BUREAUCRATIC HOLDUPS IN OTHER PARTS OF THE KYRGYZ GOVERNMENT.

BUDGETS FOR PRINTING LAWS AND REGULATIONS ARE, IN MANY CASES, NON-EXISTENT. NGOS WORKING IN THE FIELD OF LEGAL INFORMATION COMPENSATE TO SOME EXTENT FOR THIS SHORTCOMING. ALSO, MID AND LOW-LEVEL OFFICIALS SOMETIMES RESERVE THE RIGHT TO REVERSE STATED POLICIES WITHOUT PRIOR NOTICE. THEREFORE, IT CANNOT BE SAID THAT BUREAUCRATIC PROCEDURES HAVE YET BEEN "STREAMLINED." HOWEVER, BY THE STANDARDS OF THE FORMER SOVIET UNION, PROCEDURES ARE OFTEN SMOOTHER AND MORE TRANSPARENT THAN IN SURROUNDING COUNTRIES.

A9. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

KYRGYZ POLICIES INCREASINGLY FAVOR MODERN FINANCIAL PRACTICES. THE CURRENCY IS FREELY CONVERTIBLE, KYRGYZ BONDS ARE AVAILABLE FOR FOREIGN OWNERSHIP, AND A STOCK MARKET IS DEVELOPING FAIRLY WELL. NEVERTHELESS, THE DEMOGRAPHICALLY SMALL DOMESTIC MARKET NECESSARILY LIMITS THE SIZE OF THE STOCK MARKET AND THE CAPITALIZATION LEVEL OF BANKS. AS OF JUNE 2000, THE STOCK MARKET LISTED 67 COMPANIES (VERSUS 55 A YEAR AGO). THERE ARE ALSO 20 TO 30 UNLISTED COMPANIES TRADING AT THE EXCHANGE WEEKLY. THE TOTAL OUTSTANDING STOCK WAS USD 3.6 MILLION DURING THE FIRST 6 MONTHS OF 2000 AND THE CURRENT CHARTER CAPITAL OF THE KYRGYZ STOCK EXCHANGE IS USD 507,000.

ALTHOUGH THE MAJORITY OF SHARES ARE STILL TRADED OVER THE COUNTER, AND NOT THROUGH THE CENTRAL EXCHANGE, A NEWLY ESTABLISHED COMPUTERIZED CENTRAL DEPOSITORY FOR SHAREHOLDER INFORMATION HAS GREATLY SIMPLIFIED TRADES AND RECORD-KEEPING.

TYPICALLY, FEW OUTSIDE INVESTORS HAVE SOUGHT FINANCING FROM DOMESTIC BANKS. BANK LENDING IS HEAVILY BIASED TOWARD SHORT TERM LOANS AGAINST PHYSICAL ASSETS AS COLLATERAL. EARNING POTENTIAL OF INDIVIDUALS AND ENTITIES, ALTHOUGH MORE RELIABLE OVERALL THAN PHYSICAL ASSETS, IS SUSPECT AS A BASIS FOR LENDING DECISIONS. INDEED,

MANY BANKS PREFER TO DEAL IN NATIONAL BONDS RATHER THAN LENDING AT ALL.

SEVERAL FOREIGN BANKS NOW OPERATE IN KYRGYZSTAN, INCLUDING A 99 PERCENT TURKISH-HELD BANK, (SLATED, HOWEVER, TO BE RESTRUCTURED FOR INCREASED HOLDINGS BY IFIS), AND A BRANCH OF THE NATIONAL PAKISTANI BANK. THERE IS ALSO A 51 PERCENT SWISS-HELD BANK, AS WELL AS TWO RUSSIAN-OWNED BANKS. ALTHOUGH NO U.S. BANK HAS SET UP OPERATIONS IN KYRGYZSTAN TO DATE, MANY KYRGYZ BANKS MAINTAIN CORRESPONDENT RELATIONS WITH SOLID U.S. AND OTHER FOREIGN BANKS TO FACILITATE SHORT-TERM COMMERCIAL LENDING, SUCH AS LETTERS OF CREDIT.

THE 22 COMMERCIAL BANKS IN KYRGYZSTAN MAINTAIN AT LEAST USD 19.4 MILLION IN CAPITALIZATION BETWEEN THEM. THE LARGEST COMMERCIAL BANK (THE KAIRAT BANK) HAS USD 2.7 MILLION IN CAPITALIZATION. AS OF JULY 31, 2000, THE NATIONAL BANK OF KYRGYZSTAN, IN RESPONSE TO ASIAN DEVELOPMENT BANK CONDITIONS, WILL REQUIRE ALL BANKS TO MEET A MINIMUM CAPITAL REQUIREMENT OF 50,000,000 SOM.

LAST YEAR FOUR BANKS (THE MAKSAT BANK, THE KRAMDS BANK, THE INSAN BANK AND THE MERCURY BANK) WERE SUSPENDED AND THIS YEAR, THE BISHKEK BANK WAS SUSPENDED. LATER, MAKSAT WAS RESTRUCTURED AND GIVEN OVER TO THE NEWLY CREATED KAIRAT BANK WHICH IS FULLY CONTROLLED BY THE NATIONAL BANK THE KRAMDS BANK IS ALSO UNDER THE NATIONAL BANK'S SPECIAL ADMINISTRATION. THESE ACTIONS WERE CAUSED BY THE CRISIS OF THE BANKING SYSTEM IN GENERAL AND NON-RETURN OF SIGNIFICANT LOANS TO THE BANKS. LICENSES FOR OPERATION OF INSAN AND MERCURY WERE RECALLED AND THEY WERE DECLARED BANKRUPT.

TAXES ARE COMPLEX AND SOMETIMES BURDENSOME. FOR MANY BUSINESSES THERE ARE 12 TO 19 DIFFERENT TAXES. SOME OF THESE, ALTHOUGH MINUSCULE, NEVERTHELESS INVOLVE COMPLEX AND TIME-CONSUMING ACCOUNTING. PAYROLL TAXES SUCH AS SOCIAL FUND PAYMENTS (WHICH ARE USED FOR THE NATIONAL PENSION SYSTEM, AMONG OTHER THINGS) ARE ALSO COMPLEX. BUREAUCRATIC PROCEDURES, ALTHOUGH FAR FROM STREAMLINED, ARE NEVERTHELESS FAR SMOOTHER THAN IN MANY NEARBY COUNTRIES. TRANSPARENCY IS INVARIABLY A PROBLEM, AS EVEN BASIC LAWS, TAX RATES, AND REGULATIONS ARE SELDOM PUBLISHED (LARGELY DUE TO EXTREMELY SMALL GOVERNMENT BUDGETS). CURRENT ASSISTANCE PROGRAMS, SUCH AS THE ESTABLISHMENT OF A LEGAL INFORMATION CENTER, ARE SEEKING TO RECTIFY SOME OF THESE PROBLEMS.

ACCOUNTING SYSTEMS ARE RAPIDLY BEING CONVERTED TO INTERNATIONAL ACCOUNTING STANDARDS, FIRST IN BANKS, AND THEN IN ENTERPRISES. HIGH-LEVEL GOVERNMENT ENTITIES HAVE BEEN EXTREMELY SUPPORTIVE EXERCISE. INTERNATIONAL ASSISTANCE PROGRAMS HAVE MADE RAPID PROGRESS IN ACCOUNTING TRAINING AND CERTIFICATION.

THE NATIONAL BANK OF KYRGYZSTAN IS TRYING TO IMPOSE STRICT REGULATION OF THE BANKING SYSTEM, ESPECIALLY AFTER THE COLLAPSE OF FOUR BANKS. AS A NUMBER OF WEAKER BANKS WERE FORCED TO CLOSE OR MERGE IN RECENT YEARS, THE BANKING SECTOR IS GRADUALLY BECOMING INCREASINGLY STRONG AND VIABLE. ALSO, SOME BANKS, DESIGNATED AS PRIMARY DEALERS FOR NATIONAL BONDS AND MORE HEAVILY EXPOSED, COULD BE SUBJECT TO EXTREME ECONOMIC PRESSURE IN THE EVENT OF ANY FUTURE DEFAULT ON SUCH SECURITIES.

A10. POLITICAL VIOLENCE

POLITICAL VIOLENCE IS UNLIKELY TO AFFECT FOREIGN-BASED ENTERPRISES IN KYRGYZSTAN. POLITICAL TENSIONS WERE HEIGHTENED IN 2000 DUE TO IRREGULARITIES IN THE 2000 PARLIAMENTARY ELECTIONS. NEVERTHELESS, KYRGYZ CITIZENS ENJOY BASIC RIGHTS, INCLUDING THE RIGHT TO PROTEST AND DEMONSTRATE. THEY HAVE EXERCISED THESE RIGHTS MORE FREELY THAN CITIZENS IN NEARBY COUNTRIES ALTHOUGH THE GOVERNMENT OF KYRGYZSTAN HAS MOVED TO LIMIT THESE RIGHTS RECENTLY. PRESIDENTIAL ELECTIONS ARE SCHEDULED FOR OCTOBER 2000.

IN THE SUMMER OF 1999, ARMED INSURGENTS ENTERED SOUTHERN KYRGYZSTAN AND TOOK A NUMBER OF CAPTIVES INCLUDING BOTH KYRGYZ CITIZENS AND FOREIGNERS. THE U.S. DEPARTMENT OF STATE CAUTIONS U.S. CITIZENS TO AVOID ALL TRAVEL SOUTH AND WEST OF THE PROVINCIAL CAPITAL OSH. PLEASE CONTACT THE U.S. DEPARTMENT OF STATE FOR THE LATEST INFORMATION.

THERE ARE OCCASIONAL TENSIONS AMONG THE KYRGYZ, RUSSIANS, UZBEKS, AND OTHER ETHNIC GROUPS. SUCH TENSIONS, HOWEVER, WOULD SELDOM AFFECT FOREIGN EMPLOYERS DIRECTLY. ADDITIONALLY, KYRGYZSTAN SOMETIMES FACES TENSIONS WITH NEARBY COUNTRIES OVER WATER RIGHTS, ENERGY PAYMENTS, AND OTHER ISSUES. HOWEVER, EFFECTIVE MEASURES HAVE BEEN TAKEN TO DISCUSS SUCH ISSUES IN INTERNATIONAL FORA, AND IT IS UNLIKELY THAT SUCH TENSIONS WOULD TRANSLATE INTO DISPUTES DIRECTLY AFFECTING FOREIGN INVESTORS.

A11. CORRUPTION

AS IN MANY DEVELOPING COUNTRIES, CORRUPTION EXISTS AT ALL LEVELS OF SOCIETY. AS ELSEWHERE, U.S. FIRMS COMPLYING WITH THE FOREIGN CORRUPT PRACTICES ACT ARE SOMETIMES DISADVANTAGED WITH RESPECT TO OTHER FOREIGN FIRMS. HOWEVER, MOST U.S. FIRMS THAT HAVE RESOLVED TO INVEST IN KYRGYZSTAN HAVE EVENTUALLY BEEN ABLE TO DO SO.

TO PREVENT INDISCRIMINATE ISSUANCE OF CREDITS UNDER THE GOK'S GUARANTEE, THE GOVERNMENT VOIDED ALL PREVIOUS GUARANTEES IF THEY

WERE GRANTED WITHOUT PRIOR APPROVAL FROM THE MINISTRY OF FINANCE AND HAS ESTABLISHED MORE RIGID CONTROL OVER GRANTING GUARANTEES.

TO DATE, CONTROLLING MEASURES AGAINST BRIBERY AND OTHER SUCH ECONOMIC CRIMES HAVE BEEN SELECTIVELY ENFORCED, TYPICALLY AGAINST PERSONS PERCEIVED AS POLITICAL ENEMIES OF THE GOVERNMENT. NO PROMINENT CASE HAS BEEN BROUGHT AGAINST FOREIGN INVESTORS. THE MINISTRIES OF INTERNAL AFFAIRS (THE POLICE) AND OF NATIONAL SECURITY (THE SUCCESSOR TO THE KGB) ARE RESPONSIBLE FOR INVESTIGATING CORRUPTION, TOGETHER WITH THE PROSECUTOR GENERAL AND SUBORDINATE PROSECUTORS.

B. BILATERAL INVESTMENT TREATIES

KYRGYZSTAN CURRENTLY ENJOYS BILATERAL INVESTMENT TREATIES WITH THE UNITED STATES, UNITED KINGDOM, GERMANY, FRANCE, TURKEY, CHINA, INDIA, PAKISTAN, INDONESIA, MALAYSIA, IRAN, SWITZERLAND, ARMENIA, UKRAINE, UZBEKISTAN, AZERBAIJAN, GEORGIA, KAZAKSTAN, BELARUS, MONGOLIA, AND TAJIKISTAN.

KYRGYZSTAN HAS ALSO SIGNED THE DOUBLE TAXATION TREATIES WITH SEVERAL COUNTRIES INCLUDING UKRAINE, BELARUS, UZBEKISTAN, KAZAKSTAN, TAJIKISTAN, RUSSIA, CANADA, POLAND, TURKEY, INDIA, AND MONGOLIA. THE U.S.-U.S.S.R. TREATY ON DOUBLE TAXATION, WHICH WAS SIGNED IN 1973 (U.S.T. LEXIS 164), REMAINS IN EFFECT BETWEEN THE U.S.A. AND KYRGYZSTAN.

C. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) IS CURRENTLY ACTIVE IN KYRGYZSTAN. THE EVENT OF AN INCONVERTIBILITY CLAIM AGAINST OPIC IS HIGHLY UNLIKELY, GIVEN KYRGYZSTAN'S LIBERAL CONVERSION REGIME. AS OF JULY 2000 THE LOCAL CURRENCY, THE SOM, HAS A CONVERSION RATE OF 47 SOMS TO THE DOLLAR. THE EXCHANGE RATE IS MARKET-BASED, AND THERE IS NO OTHER EXCHANGE RATE THAT WOULD LIKELY BE APPLIED. OVER THE FIRST QUARTER OF 2000, THE CPI (CONSUMER PRICE INDEX) INCREASED 4.5%.

D. LABOR

LABOR IS WIDELY AVAILABLE, INCLUDING WELL-EDUCATED SPECIALISTS. INTERNATIONAL ORGANIZATIONS ARE GENERALLY ABLE TO EMPLOY COMPETENT STAFF, OFTEN BILINGUAL IN ENGLISH OR OTHER LANGUAGES, WITHOUT MUCH DIFFICULTY. GIVEN THE CURRENT LEVEL OF INTEREST AMONG YOUNG PEOPLE IN STUDYING BUSINESS, INTERNATIONAL RELATIONS, AND FOREIGN LANGUAGES, THE AVAILABILITY OF COMPETENT STAFF IS LIKELY TO GROW, NOT DIMINISH, WITH TIME. LITERACY IN THE KYRGYZ REPUBLIC IS ON THE ORDER OF 98 PERCENT.

MANY TECHNICAL SPECIALISTS CHOSE TO LEAVE KYRGYZSTAN AFTER THE BREAKUP OF THE SOVIET UNION. SHORTAGES OF TRAINED PERSONNEL IN SOME TECHNICAL FIELDS CONTINUE. HOWEVER, CONSIDERING THE DIM EMPLOYMENT PROSPECTS FOR TECHNICALLY SKILLED WORKERS, INVESTORS SHOULD NOT HAVE DIFFICULTY OBTAINING SKILLED LABOR IN KYRGYZSTAN. THE OFFICIAL UNEMPLOYMENT RATE IS CLOSE TO THREE PERCENT, WHILE THE ACTUAL RATE IS AT LEAST 10 TIMES HIGHER DUE TO HIDDEN UNEMPLOYMENT.

E. FREE ECONOMIC ZONES

FREE ECONOMIC ZONES (FEZ) HAVE LONG EXISTED, BUT SOME OF THEM ARE LIKELY TO BE CLOSED BECAUSE OF POOR RESULTS. FEZS HAVE NOT YET ATTRACTED GREAT ATTENTION FROM MAJOR FOREIGN INVESTORS, ALTHOUGH IN RECENT YEARS THEY HAVE SUCCEEDED IN ATTRACTING MORE PRIVATE FOREIGN INVESTMENTS THAN OTHER PARTS OF KYRGYZSTAN EVEN WITHOUT GOK GUARANTEES. FEZS ARE UNDER CLOSE SCRUTINY BY THE GOK, WHICH IS TRYING TO CONTROL THEIR OPERATIONS. FEZS ARE BANNED FROM THE PRODUCTION AND SALE OF PETROLEUM, LIQUOR AND TOBACCO PRODUCTS.

F. FOREIGN DIRECT INVESTMENT STATISTICS

NATIONAL STATISTICS MOSTLY ORIGINATE WITH THE STATE STATISTICAL COMMITTEE. STATISTICS ARE GENERALLY ACCURATE REGARDING INFLATION AND PRICE LEVELS. HOWEVER, THE PROBLEM OF COUNTING, REGISTERING, AND TRACKING THE MANY NEW PRIVATE BUSINESSES HAS RENDERED STATISTICS ON EMPLOYMENT, THE TAX-BASE, AND NATIONAL ECONOMIC PERFORMANCE LESS ACCURATE. BY SOME ESTIMATES, A SHADOW ECONOMY MAY ACCOUNT FOR UP TO A THIRD OF OVERALL ECONOMIC PERFORMANCE.) THE STOCK MARKET IS EVALUATED PROMPTLY AT CURRENT MARKET PRICES, BASED ON THE NUMBER OF SHARES OUTSTANDING.

FOREIGN DIRECT INVESTMENT HAS TO DATE BEEN MODERATE, CHIEFLY ORIENTED TOWARD TRADE, RESTAURANT SERVICES, INDUSTRY, TRANSPORTATION, COMMUNICATIONS, AND THE FINANCIAL SECTOR. MANY FOREIGN FIRMS CONDUCT CONTRACT WORK FOR FOREIGN ASSISTANCE ORGANIZATIONS.

JOINT VENTURES WITH FOREIGN INVESTMENTS PRODUCE ONE THIRD OF ALL KYRGYZ INDUSTRIAL OUTPUT AND EXPORT APPROXIMATELY 16 PERCENT OF THIS OUTPUT. KYRGYZSTAN HAS ATTRACTED USD 438.7 MILLION IN DIRECT INVESTMENT SINCE 1995. CURRENTLY, THERE ARE 2,649 JOINT VENTURES AND FOREIGN COMPANIES IN KYRGYZSTAN. THEY INCLUDE THE REEMSTMA - KYRGYZSTAN COMPANY, THE PLASKAP BISHKEK COMPANY, THE CENTRAL ASIAN GROUP, AND THE HYATT REGENCY BISHKEK WHICH REMAINS UNDER CONSTRUCTION. COCA-COLA BOTTLES ITS SOFT DRINKS LOCALLY, AND THE CANADIAN GOLD-MINING FIRM CAMECO HAS FORMED THE LARGEST WESTERN JOINT VENTURE IN KYRGYZSTAN, THE KUMTOR OPERATING COMPANY. JOINT

VENTURES PLAY A LEADING ROLE IN MINING GOLD, MANUFACTURING SUGAR, PASTA, GASOLINE, AND DIESEL FUEL, AND PACKAGING TEA.

IN RECENT YEARS, KYRGYZSTAN HAS ATTRACTED FOREIGN INVESTMENT FROM THE FOLLOWING SOURCES: GREAT BRITAIN (USD 28.3 MILLION), USA (USD 18.4 MILLION), TURKEY (USD 9.7 MILLION), ITALY (USD 2.2 MILLION), RUSSIA (USD 1.3 MILLION), AND CANADA (USD ONE MILLION). TURKS HAVE BEEN THE MOST NUMEROUS INVESTORS, ALTHOUGH THEY TYPICALLY RUN SMALL RESTAURANTS OR ENGAGE IN TEMPORARY CONSTRUCTION PROJECTS. SOME LAW FIRMS AND OTHER SERVICE ORGANIZATIONS HAVE ALREADY OPENED OFFICES IN THE CAPITAL OF BISHKEK.

KYRGYZ REGIONS HAVE RECEIVED THE FOLLOWING LEVELS OF FOREIGN INVESTMENT: OSH OBLAST - USD 19,445,000 OR 28.5 PERCENT OF TOTAL INVESTMENT, JALAL-ABAD OBLAST - USD 7,346,000 OR 10 PERCENT, ISSYK-KUL OBLAST - USD 656,600 OR 1 PERCENT, NARYN OBLAST - USD 537,300 OR 0.8 PERCENT, CHUI OBLAST EXCLUSIVE OF BISHKEK - USD 2,751,600 OR 4 PERCENT, AND THE CITY OF BISHKEK USD 37,570,200 OR 55 PERCENT.

G. GENERAL

THE CAPITAL CITY OF BISHKEK BOASTS AN INTERNATIONAL ENGLISH-LANGUAGE ELEMENTARY SCHOOL, AND SOME OTHER SERVICES FOR EXPATRIATE FAMILIES. AT PRESENT, THE PINARA HOTEL (A KYRGYZ-MALAYSIAN-GERMAN VENTURE) IS THE ONLY 4-STAR HOTEL IN TOWN. A HYATT HOTEL, WHICH WILL OPEN IN FALL 2000, IS EXPECTED TO SERVE AS THE CITY'S PREMIER BUSINESS HOTEL. DIRECT AIR CONNECTIONS PROVIDE SERVICE TO ISTANBUL, LONDON, HANOVER, AND A FEW ASIAN LOCATIONS INCLUDING CHARJAH, BEIJING, AND DELHI. OTHER CITIES, SUCH AS AMSTERDAM, VIENNA, AND FRANKFURT, ARE SERVED FROM KAZAKSTAN'S LARGEST CITY, ALMATY, WHICH IS THREE TO FOUR HOURS FROM BISHKEK BY CAR.

CHAPTER VIII TRADE AND PROJECT FINANCING

IN 1999, THE RATIO OF AVERAGE TRADE VOLUME TO GDP, AN INDICATOR OF THE OPENNESS OF THE ECONOMY, HAS GROWN TO 41.8 PERCENT, THE LARGEST IN THE LAST SIX YEARS. THIS STATISTIC INDICATES THE IMPORTANT ROLE OF INTERNATIONAL EXCHANGE OF GOODS FOR THE ECONOMY OF KYRGYZSTAN.

BANKING SYSTEM

AS OF JANUARY 1, 2000, THERE WERE 20 COMMERCIAL BANKS AND SETTLEMENT AND SAVING COMPANIES IN KYRGYZSTAN. AT THE PRESENT TIME, KYRGYZ COMMERCIAL BANKS HAVE CORRESPONDENT RELATIONS WITH 413 FOREIGN BANKS, 60 PERCENT OF WHICH ARE CIS BANKS.

THE BANKING SYSTEM CONSISTS OF BOTH STATE-OWNED AND PRIVATE BANKS SUPERVISED BY THE NATIONAL BANK. LAST YEAR, THE NATIONAL BANK FORCED FOUR PRIVATE BANKS TO ENTER BANKRUPTCY PROCEDURES BECAUSE THEY EITHER HAD ISSUED SIGNIFICANT LOANS THAT WERE NOT SECURED BY THEIR CAPITAL OR HAD VIOLATED OPERATIONAL RULES FOR BANKS. THERE ARE PLANS TO PRIVATIZE THE HIGHLY CAPITALIZED KAIRAT BANK, THE SETTLEMENT AND SAVING COMPANY, AND THE FINANCIAL COMPANY. AS OF JULY 31, 2000, THE NATIONAL BANK OF KYRGYZSTAN HAS REQUIRED ALL BANKS TO MEET A MINIMUM CAPITAL REQUIREMENT OF 50,000,000 SOM IN RESPONSE TO ASIAN DEVELOPMENT BANK CONDITIONALITIES.

IN GENERAL, THE BANKING SYSTEM IS WEAK AND UNDERCAPITALIZED. THERE ARE CURRENTLY 23 OPERATING BANKS WITH 151 BRANCHES. REAL INTEREST RATES REMAIN HIGH AND LONG TERM CREDIT IS UNAVAILABLE. MOST BANKS EARN PROFIT PRIMARILY FROM FOREIGN EXCHANGE OPERATIONS AND TRADING OF TREASURY BILLS. THERE ARE NO FOREIGN EXCHANGE CONTROLS FOR EITHER TRADE OR INVESTMENT. HUNDREDS OF LICENSED FOREIGN EXCHANGE VENDORS FREELY TRADE CURRENCIES AT MARKET PRICES. SHORT TERM FINANCE FOR TRADE IS AVAILABLE AT HIGH INTEREST RATES. MOST FOREIGN ENTITIES DO NOT SEEK CREDIT IN KYRGYZSTAN BECAUSE OF ITS HIGH COST. EXPORT FINANCE IS DIFFICULT TO OBTAIN. MOST IMPORTS ARE PAID FOR BY CASH OR CASH TRANSFER. LETTERS OF CREDIT ARE NOT COMMONLY USED HERE. NEARLY EVERYTHING IS DONE ON A CASH BASIS IN THE PRIVATE SECTOR. THE U.S. EXIMBANK DOES NOT FINANCE EXPORTS TO KYRGYZSTAN.

THERE ARE A NUMBER OF SOURCES OF PROJECT FINANCING. OPIC FINANCES INVESTMENTS IN KYRGYZSTAN. THE CENTRAL ASIAN-AMERICAN ENTERPRISE FUND PROVIDES LOANS FOR VARIOUS PROJECTS. THE EUROPEAN DEVELOPMENT BANK FINANCES PRIVATE SECTOR PROJECTS IN KYRGYZSTAN BY MEMBER COUNTRIES. THE ASIAN DEVELOPMENT BANK AND THE WORLD BANK/IFC ALSO FINANCE PUBLIC SECTOR PROJECTS IN AGRICULTURE, TRANSPORT, ENERGY, TELECOMMUNICATIONS, AND EDUCATION.

LIST OF BANKS WITH CORRESPONDENT U.S. BANK ARRANGEMENTS AND SELECTED FINANCIAL INSTITUTIONS:

NATIONAL BANK OF THE KYRGYZ REPUBLIC
(CENTRAL BANK ISSUING THE LICENSES FOR BANK ACTIVITIES,

DEBT COLLECTION, INSTALLMENT LENDING)

CHAIRMAN: MR. ULAN SARBANOV

101, UMETALINEV ST., BISHKEK 720040, KYRGYZSTAN

TEL: (996-312) 2175 93, 66 90 11, FAX: (996-312) 21 74 27, 61 07 30

TELEX: 24 51 27 RAHAT SU

E-MAIL: MAIL@NBKR.KG

U.S. CORRESPONDENT BANKS: NEW YORK CITIBANK, RIGGS

BANK IN WASHINGTON, DC, FEDERAL RESERVE BANK OF NEW YORK

IMF OFFICE:

MR. IQBAL ZAIDI, RESIDENT OFFICER

101, UMETALIYEV ST., BISHKEK 720040,

KYRGYZSTAN

TEL: (996-312) 21 65 84, FAX: (996-312) 61 01 65

E-MAIL: IZAIDI@IMF.ORG

NIS MONETARY RESTRUCTURING PROJECT (USAID -
IBTCI)

MS. SUSAN THETFORD, PROJECT MANAGER

101, UMETALIYEV ST., #202, BISHKEK 720040,

KYRGYZSTAN

TEL: (996-312) 2158 62, 2158 72, 21 73 46

FAX: (996-312) 61 09 50

E-MAIL: THETFORD@IMFIKO.BISHKEK.SU

THE WORLD BANK, RESIDENT MISSION KYRGYZ REPUBLIC

MR. MOHINDER S. MUDAHAR, CHIEF, RESIDENT MISSION

214, MOSKOVSKAYA STREET, BISHKEK 720010,

KYRGYZSTAN

TEL: (996-312) 21 74 63, 21 74 72, 62 14 83, 61 01 57

FAX: (996-312) 61 03 56, 61 04 81

E-MAIL: TBUKATOVA@WORLDBANK.ORG

ASIAN DEVELOPMENT BANK

MR. J.C. ALEXANDER, RESIDENT REPRESENTATIVE

MS. ZEINEB BAIMATOVA, ADB LIAISON OFFICE

58-S, ERKINDIK BVLD., BISHKEK 720000,

KYRGYZSTAN

TEL: 996 (312) 22 36 01, FAX: 996 (312) 66 19 85

E-MAIL: ZEINEB@ADBANYLELKAT.KG

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT:

RESIDENT BANKER - MR. FERNAND PILLONI,

26, GEOLOGICHESKIY PEREULOK, BISHKEK, KYRGYZSTAN

TEL: 996 (312) 53 00 16, 53 00 17, FAX: 996 (312) 62 08 00

E-MAIL: ABDURAHA@BSK.EBRD.COM

COMMERCIAL BANKS:

AKYL-INVEST BANK CHAIRMAN: KUBANYCHBEK CHYNYBAYEV
121, MOSKOVSKAYA STREET, BISHKEK 720040, KYRGYZSTAN
TEL: (996-312) 22 89 27; 22 39 67, FAX: (996-312) 61 02 77;
TELEX: 24 51 08 AKYL KH
U.S. CORRESPONDENT BANK: BANK OF AMERICA.

BANK - BAKAI
CHAIRMAN: MARAT ALAPAYEV
75, ISANOV STREET, BISHKEK 720001, KYRGYZSTAN
TEL: (996-312) 66 06 10, 66 08 24, 66 08 20, FAX: (996-312) 66 06 12
E-MAIL: BANK@BAKAI.KG
U.S. CORRESPONDENT BANK: BANK OF AMERICA

DEMIR KYRGYZ INTERNATIONAL BANK
ACTING GENERAL MANAGER: MR. IHSAN UGUR
245, CHUI PROSPECT, BISHKEK 720040, KYRGYZSTAN
TEL: (996-312) 61 06 10, 61 04 41, FAX: (996-312) 61 04 44, 61 04 45
E-MAIL: DKIB@DEMIRBANK.COM.KG
THIS BANK CONVERTED TO GAAP ACCOUNTING STANDARDS.
U.S. CORRESPONDENT BANKS: NEW YORK CITIBANK, BANK OF NEW YORK.

ENERGOBANK
CHAIRMAN: MAKSAT ISHENBAYEV
326, JIBEK-JOLU PROSPECT, BISHKEK 720070, KYRGYZSTAN
TEL: (996-312) 27 39 33, 27 39 41, FAX: (996-312) 66 25 76
E-MAIL: ENERGYKG@ELCAT.KG
U.S. CORRESPONDENT BANKS: RIGGS BANK

ERIDAN
CHAIRMAN: MURAT KUNAKUNOV
57, KALYK-AKIEVA ST., BISHKEK 720001, KYRGYZSTAN
TEL: (996-312) 65 06 10
FAX: (996-312) 65 06 54
E-MAIL: ERIDANBANK@INFOTEL.KG
U.S. CORRESPONDENT BANK: BANK OF NEW YORK, RIGGS BANK,
CITIBANK.

KYRGYZAUTOBANK
CHAIRMAN: AKYLBEK JUMABAYEV
42, ISANOV ST., BISHKEK 720017, KYRGYZSTAN
TEL: (996-312) 66 21 86, 21 37 32, 66 58 03, FAX: (996-312) 66 07 04, 66 06 53
TELEX: 24 51 81 AVTO SV
E-MAIL: AUTOBANK@ELCAT.KG
U.S. CORRESPONDENT BANK: NEW YORK CITIBANK.

KYRGYZPROMSTROYBANK
CHAIRMAN: MURATBEK MUKASHEV

168, CHUI PROSPECT, BISHKEK 720040, KYRGYZSTAN
TEL: (996-312) 21 65 43, FAX: (996-312) 21 84 45
TELEX: 24 51 13 ERKIN SU
E-MAIL: KIRGPSB@TRANSFER.KG
U.S. CORRESPONDENT BANKS: NEW YORK CITIBANK AND BANK OF NEW YORK.

KYRGYZSTAN
CHAIRPERSON: SHARIPA SADYBAKASOVA
54-A, TOGOLOK MOLDO ST. BISHKEK 720001, KYRGYZSTAN
TEL: (996-312) 21 95 98, FAX: (996-312) 61 02 20
TELEX: 24 51 26 MEKEN SU
E-MAIL: AKB@ELCAT.KG
U.S. CORRESPONDENT BANKS: NEW YORK CITIBANK, BANKER TRUST COMPANY OF NEW YORK AND RIGGS NATIONAL BANK IN NEW YORK.

KURULUSH BANK
CHAIRMAN: KARIM URAZBAYEV
28, MANAS ST. BISHKEK 720391, KYRGYZSTAN
TEL: (996-312) 21 97 36, 21 79 22, FAX: (996-312) 21 97 43
TELEX: 24 51 70 DRAFT
E-MAIL: KURULUSH@BANK.KG
U.S. CORRESPONDENT BANK: NEW YORK BRANCH OF CREDIT LYONNAIS.

KAIRAT (WAS REORGANIZED FROM THE FORMER "MAKSAT" BANK) CHAIRPERSON: MARIYA TARANCHIYEVA
390, FRUNZE ST. BISHKEK 720033, KYRGYZSTAN
TEL: (996-312) 21 89 32, 21 35 46, FAX: (996-312) 21 89 55
E-MAIL: KAIRAT@KAIRATBANK.KG
WEBSITE: WWW.KAIRATBANK.KG
U.S. CORRESPONDENT BANK: BANK OF AMERICA INTERNATIONAL IN NEW YORK. NEW YORK BRANCH OF CREDIT LYONNAIS.

BANK ASSOCIATION OF KYRGYZSTAN
EXECUTIVE DIRECTOR: ABDYKALY IMANALIYEV
207, CHUI PROSPECT, #33, BISHKEK 720001,
KYRGYZSTAN
TEL: (996-312) 21 15 04, 66 57 21

IN 1998, KYRGYZ BANKS CONVERTED TO THE NEW NATIONAL ACCOUNTING STANDARDS, WHICH WERE ADOPTED BY THE KYRGYZ NATIONAL BANK, THE KYRGYZ MINISTRY OF FINANCE, AND USAID CONTRACTORS USING GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES).

CHAPTER IX BUSINESS TRAVEL

BUSINESS CUSTOMS

BUSINESS CUSTOMS ARE CLOSELY TIED TO SOCIAL CUSTOMS AND IT IS IMPORTANT TO ALLOW PLENTY OF TIME FOR MEETINGS. BUSINESS MEETINGS OFTEN LEAD TO OFFERS OF MEALS THAT MAY BE MANY HOURS LONG, OFFERING COURSE AFTER COURSE AND MANY TOASTS. SOME HIGH LEVEL OFFICIALS AND BUSINESSMEN DO NOT DRINK, BUT OTHERS DO DRINK ALCOHOL. IF YOU ARE FIRM YOUR HOSTS WILL ALLOW YOU TO TOAST WITH A NON-ALCOHOL BEVERAGE. IF YOU START WITH ALCOHOL, HOWEVER, IT IS DIFFICULT TO SWITCH TO SOMETHING NON-ALCOHOLIC, AND YOU MAY OFFEND THE HOST IF YOU TRY. TOURS OF FACTORIES AND FACILITIES MAY ALSO BECOME AN OBLIGATORY PART OF INITIAL MEETINGS. MEETINGS ARE RARELY HELD SEPARATELY WITH DIFFERENT OFFICIALS IN A SINGLE COMPANY. MOST, AND OFTEN ALL, RELEVANT OFFICIALS WILL BE AT ONE LARGE MEETING, BUT VERY OFTEN ONLY THE MOST SENIOR PERSON WILL DO MOST OF TALKING.

SMALL GIFTS WITH COMPANY LOGOS, BOOKS, FRUIT, AND ALCOHOL OR CANDY ARE OFTEN PRESENTED OR EXCHANGED.

TRAVEL ADVISORY AND VISAS

VISA REGIME

PASSPORT AND VISA ARE REQUIRED FOR TRAVEL TO KYRGYZSTAN. VISAS ARE ISSUED AT KYRGYZ EMBASSIES ABROAD, OR RUSSIAN EMBASSIES IN COUNTRIES WITH NO KYRGYZ EMBASSY. THE KYRGYZ EMBASSY IN THE UNITED STATES IS LOCATED AT 1732 WISCONSIN AVE., NW, WASHINGTON, D.C. 20007, TEL. (202) 338-5141, FAX (202) 338-5139, E-MAIL: KYRGYZ01@AOL.COM, INTERNET: [HTTP://WWW.KYRGYZSTAN.ORG](http://www.kyrgyzstan.org). IT IS ALSO POSSIBLE TO RECEIVE AN ENTRY VISA AT THE MANAS INTERNATIONAL AIRPORT UPON ARRIVAL IN BISHKEK. ONE SHOULD REGISTER WITH THE LOCAL INTERNAL AFFAIRS DEPARTMENT WITHIN THREE DAYS OF ARRIVAL IN KYRGYZSTAN.

ACCOMMODATION.

THERE IS A RANGE OF HOTELS IN BISHKEK. AT PRESENT, THE PINARA HOTEL IS THE ONLY 4-STAR HOTEL IN TOWN. A HYATT HOTEL, WHICH WILL OPEN IN NOVEMBER 2000, IS EXPECTED TO SERVE AS THE CITY'S PREMIER BUSINESS HOTEL. THERE ARE ALSO SEVERAL THREE STAR HOTELS IN BISHKEK.

BISHKEK HAS AN INTERNATIONAL ENGLISH-LANGUAGE ELEMENTARY SCHOOL, A MEDICAL CLINIC (FOR REGISTERED MEMBERS), AND OTHER SERVICES FOR EXPATRIATE FAMILIES.

KYRGYZ HOLIDAYS

JANUARY 1	NEW YEAR'S DAY
JANUARY 7	ORTHODOX CHRISTMAS
MARCH 8	WOMEN'S DAY

MARCH OR APRIL**	OROZO AIT DAY
MARCH 21	MUSLIM NEW YEAR
MAY 1	LABOR DAY
MAY 5	CONSTITUTION DAY
MAY 9	VICTORY DAY
MAY OR JUNE	KURBAN AIT DAY
AUGUST 31	INDEPENDENCE DAY

**THESE DATES ARE DETERMINED EVERY YEAR BY THE LUNAR CALENDAR

BUSINESS INFRASTRUCTURE

A). TRANSPORTATION

THE ONLY TWO INTERNATIONAL CARRIERS FLYING TO BISHKEK ARE TURKISH AIRLINES AND BRITISH AIRLINES. OTHERWISE, KYRGYZ AIR RUNS INTERNATIONAL FLIGHTS TO HANOVER AND FRANKFURT (GERMANY), NEW DELHI, KARACHI, ISTANBUL, AND A FEW OTHER CITIES. AEROFLOT AND UZBEK AIRLINES ALSO FLY TO BISHKEK.

MANY U.S. TRAVELERS FLY TO ALMATY VIA EUROPE AND THEN COME BY CAR TO BISHKEK. THE TRIP BETWEEN BISHKEK AND ALMATY TAKES THREE HOURS WHEN THE ROADS ARE CLEAR. THE ROAD GOES THROUGH MOUNTAIN PASSES WHICH ARE NORMALLY PASSABLE ALL WINTER, BUT THE TRIP CAN TAKE LONGER WHEN SNOW AND ICE ARE HEAVY. VISITORS TAKING THIS ROUTE MUST HAVE A VALID KAZAKH VISA AS WELL AS A VALID KYRGYZ VISA.

WITHIN THE COUNTRY, IT IS POSSIBLE TO FLY TO MAJOR CITIES, OSH, JAJAL-ABAD AND KARAKOL. THERE ARE DAILY BISHKEK-OSH FLIGHTS. TAXIS ARE EASILY AVAILABLE AND REASONABLY PRICED, THOUGH OFTEN DANGEROUS AND SHABBY. IT IS EASY TO ARRANGE FOR A CAR AND DRIVER FOR LONGER TRIPS OR FOR THE DAY, AND MODERN COMFORTABLE VEHICLES ARE AVAILABLE. TRAIN AND BUS TRAVEL ARE NOT RECOMMENDED.

B). LANGUAGE

BOTH KYRGYZ AND RUSSIAN ARE WIDELY USED IN KYRGYZSTAN. IN BISHKEK AND SOME NORTHERN TOWNS AND CITIES RUSSIAN PREDOMINATES ALTHOUGH KYRGYZ IS GAINING IN IMPORTANCE AND FREQUENCY OF USE. IN RURAL AREAS AND SOME PARTS OF THE SOUTH, KYRGYZ DOMINATES BUT MOST PEOPLE CAN AND WILL SPEAK RUSSIAN. MOST DOCUMENTS ARE WRITTEN IN RUSSIAN. ENGLISH IS NOT GENERALLY SPOKEN, BUT A FEW HIGH LEVEL OFFICIALS AND BUSINESSMEN SPEAK ENGLISH. AN INCREASING NUMBER OF PEOPLE KNOW AT LEAST A LITTLE ENGLISH AND THE STUDY OF ENGLISH IS POPULAR.

C). COMMUNICATIONS

TELEPHONE SERVICE IS ACCEPTABLE IN KYRGYZSTAN. THERE ARE DIGITAL LINES ALLOWING DIRECT CALLS ABROAD. WHEN USING ANALOG LINES, CALLS

SHOULD BE PLACED VIA AN OPERATOR AFTER SUBSCRIPTION TO THE SERVICE IS MADE. IT IS POSSIBLE TO REACH AT&T USA DIRECT BY DIALING THE NECESSARY CODES. CELLULAR, RADIOTELEPHONE, LOCAL E-MAIL, AND INTERNET CONNECTIONS ARE AVAILABLE FROM LOCAL PRIVATE COMPANIES.

D). HOUSING

GOOD QUALITY HOUSING IS AVAILABLE IN BISHKEK RANGING FROM INEXPENSIVE SMALL APARTMENTS, THROUGH LUXURY APARTMENTS, TO OLDER HOUSES AND NEWLY BUILT LUXURY HOUSES. THE PRICE RANGE IS CORRESPONDINGLY WIDE. THE MOST IMPORTANT THING TO CONSIDER IN HOUSING IS THE QUALITY AND AVAILABILITY OF WATER, GAS, AND ELECTRICITY. APARTMENTS IN THE CENTER OF TOWN ARE MORE EXPENSIVE, BUT USUALLY HAVE MORE RELIABLE SERVICES. HOUSES MAY OR MAY NOT HAVE ADEQUATE SERVICES AND SHOULD BE CAREFULLY SCRUTINIZED. ALL HOUSING SHOULD ALSO BE CAREFULLY SCRUTINIZED ON SECURITY GROUNDS.

E). CRIME

BOTH ECONOMIC AND VIOLENT CRIME IS INCREASING IN KYRGYZSTAN. STREET CRIMES, SUCH AS MUGGING, PHYSICAL ASSAULTS, AND PICKPOCKETING ARE COMMON DUE TO HIGH UNEMPLOYMENT. VIOLENT CRIMES, SUCH AS MURDER AND HOME INVASION HAVE OCCURRED, DUE IN PART TO AN INCREASE IN THE EXPATRIATE COMMUNITY AND THE PRESENCE OF ORGANIZED CRIME AND GANGS. THE U.S. EMBASSY BISHKEK RECOMMENDS THAT TRAVELERS NOT WALK ALONE AFTER DARK ANYWHERE, AND SHOULD AVOID BEING OUT LATE AT NIGHT. THE U.S. EMBASSY BISHKEK ALSO RECOMMENDS THAT TRAVELERS NOT TAKE ANY FORM OF PUBLIC TRANSPORTATION ALONE, ESPECIALLY DURING THE EVENING HOURS. TRAVELERS SHOULD NOT USE UNMARKED TAXIS AND SHOULD AVOID THE PUBLIC DISPLAY OF MONEY OR CREDIT CARDS. VISITORS SHOULD BE EXTREMELY CAUTIOUS IN AND AROUND HOTELS, BARS, AND PARKS. POLICE ASSISTANCE, IN MOST CASES, IS MINIMAL. UNIFORMED MILITIA PATROLLING THE MARKET NEAR THE PINARA HOTEL FREQUENTLY CHALLENGE FOREIGNERS AND DEMAND MONEY FROM THEM.

F). HEALTH

MEDICAL ASSISTANCE IN KYRGYZSTAN IS NOT READILY AVAILABLE. THERE IS A SEVERE SHORTAGE OF ALL FORMS OF MEDICAL SUPPLIES, DIAGNOSTIC EQUIPMENT, AND MEDICINES, AND OF WESTERN-TRAINED DOCTORS AND NURSES. FOOD SANITATION IS A MAJOR PROBLEM, AND FOOD POISONING, SALMONELLA, GIARDIA AND DIARRHEA ARE COMMON. THE U.S. EMBASSY BISHKEK RECOMMENDS THAT ALL VISITORS EAT ONLY COOKED FOODS (NO RAW VEGETABLES) AND DRINK ONLY BOTTLED OR DISTILLED WATER. ALL VISITORS SHOULD ENSURE THEY HAVE UP-TO-DATE VACCINATIONS FOR TYPHOID FEVER, HEPATITIS A AND B, DIPHTHERIA, AND MENINGITIS. THERE IS A HIGH INCIDENCE OF CONTRACTIBLE TUBERCULOSIS.

PEOPLE SHOULD BRING THEIR OWN SUPPLIES AND MEDICINES FOR MINOR ILLNESSES OR INJURIES. FOR MAJOR ILLNESSES OR INJURIES THE NORMAL PRACTICE IS TO GET EMERGENCY TREATMENT AT LOCAL FACILITIES AND TO ARRANGE FOR MEDICAL EVACUATION. ALL VISITORS SHOULD MAINTAIN MEDICAL EVACUATION INSURANCE.

G). FOOD

GOOD FRESH FOOD IS READILY AVAILABLE IN KYRGYZSTAN AND IMPORTED PROCESSED FOODS ARE AVAILABLE IN MANY STORES IN BISHKEK. NORMAL PRECAUTIONS SHOULD BE TAKEN IN CLEANING FRESH FRUITS AND VEGETABLES, THOROUGH COOKING OF MEAT AND POULTRY AND BOILING OF MILK IS REQUIRED. CAUTION SHOULD BE TAKEN WITH NON-PASTEURIZED DAIRY PRODUCTS IN GENERAL.

CHAPTER X ECONOMIC AND TRADE STATISTICS

APPENDIX A: COUNTRY DATA

SOURCE: UNDP HUMAN DEVELOPMENT REPORT

POPULATION: 4.9 MILLION

POPULATION GROWTH RATE (PERCENT): 1.3

RELIGIONS: ISLAM, RUSSIAN ORTHODOX

GOVERNMENT SYSTEM: PRESIDENTIAL

LANGUAGES: KYRGYZ, RUSSIAN, UZBEK

WORK WEEK: MONDAY-FRIDAY OR MONDAY-SATURDAY FOR SOME INDUSTRIES

APPENDIX B: DOMESTIC ECONOMY

SOURCE: NATIONAL STATISTICS COMMITTEE, NATIONAL BANK OF KYRGYZSTAN

	1995	1996	1997	1998	1999
GDP IN CURRENT PRICES (MLN SOM)	16145.1	23399.3	30685.7	33890.9	48321.1
GDP GROWTH RATE (%)	-5.4	7.1	9.9	2.1	3.6
GDP PER CAP ITA (USA)	1,850	2,101	2,264	2,229	2,374
CONSUMER PRICE INDEX (% INCREASE)	32.1	34.8	13.0	16.8	39.9

FOREIGN EXCHANGE RESERVES (USD MILLIONS)	51.8	76.9	165.9	163.1	219.5
AVERAGE EXCHANGE RATE FOR USD \$1.00	10.85	12.81	17.36	20.93	39.02
U.S. ASSISTANCE (USD MLN)	-	42	28	50	56

APPENDIX C: TRADE (ESTIMATED IN USD MILLIONS) SOURCE: NATIONAL BANK OF KYRGYZSTAN

	1995	1996	1997	1998	1999
TOTAL COUNTRY EXPORTS	408.9	531.2	630.8	535.1	462.6
TOTAL COUNTRY IMPORTS	530.9	782.9	646.0	755.7	546.9
EXPORTS TO THE USA	4.0	17.6	17.9	7.6	11.2
U.S. IMPORTS	19.1	35.7	39.6	40.9	54.2

APPENDIX D: INVESTMENT STATISTICS (ESTIMATED IN USD MILLIONS) SOURCE: NATIONAL BANK OF KYRGYZSTAN

	1995	1996	1997	1998	1999
DIRECT INVESTMENTS	96.1	46.8	83.0	108.6	14.3
PORTFOLIO INVESTMENTS	1.7	-1.7	24.6	26.3	26.3
OTHER INVESTMENTS	162.2	317.2	142.2	157.0	166.0
TOTAL	260.0	362.3	249.9	291.9	206.5
TOTAL CREDITS RECEIVED:					
BY GOVERNMENT	174.7	155.7	150.3	149.7	188.1
BY PRIVATE SECTOR	89.7	203.3	12.9	8.8	8.6

APPENDIX E: U.S. AND COUNTRY TRADE RELATED CONTACTS

U.S. EMBASSY BISHKEK
COMMERCIAL SECTION
KIRK SMITH, POL/ECON OFFICER
(THROUGH AUG. 2000, THEREAFTER PETER ECKSTROM)
IRINA MUKAMBAEVA, COMMERCIAL ASSISTANT
171, PROSPECT MIRA, BISHKEK 720016, KYRGYZSTAN
TEL: 996 (312) 55 12 41S FAX: 996 (312) 55 12 64 OR (517) 77 72 02
E-MAIL ADDRESS: MUKAMBAEVAIBX@STATE.GOV
DEPARTMENT OF STATE
WASHINGTON, DC 20521-7040

NORTH AMERICAN-KYRGYZ BUSINESS COUNCIL INC.
MS. ANNE PENDLETON, EXECUTIVE DIRECTOR
3028 KNOLL DRIVE, FALLS CHURCH, VIRGINIA, 22042
TEL: 703-532-1851, FAX: 703-241-1215

CENTRAL ASIAN-AMERICAN ENTERPRISE FUND
SOUTH GATE BUSINESS CENTER,
28-A, SOVETSKAYA STIL, FLOOR 6, 8TH MICRORAYON,
BISHKEK 720075, KYRGYZSTAN
TEL: 996 (312) 51 23 18, 51 23 19, FAX: 996 (312) 51 23 25

KYRGYZ-AMERICAN BUSINESS COUNCIL
MR. ASYLBEK AYDARALIYEV - CHAIRMAN (PRESIDENT OF THE
INTERNATIONAL UNIVERSITY OF KYRGYZSTAN)
225, CHUI PROSPECT, #210, BISHKEK 720001, KYRGYZSTAN
TEL: 996 (312) 21 83 35, FAX: 996 (312) 21 77 47
E-MAIL: ROOT@JUK.BISHKEK.SU.

CHAMBER OF COMMERCE AND INDUSTRY
MR. BORIS PERFILYEV, CHAHMAN
107, KIYEVSKAYA STR., BISHKEK 720001, KYRGYZSTAN
TEL: 996 (312) 21 05 65, 21 05 73, 21 05 64, FAX: 996 (312) 21 05 75
E-MAIL: CCI-KR@IMFIKO.BISHKEK.SU

NATIONAL AGENCY ON STANDARDIZATION AND METROLOGY
(KYRGYZSTANDART)
MR. BATYRBEK DAVLESOV, DIRECTOR
197 PANFILOV STREET, BISHKEK 720040, KYRGYZSTAN
TEL: 996 (312) 22 78 84, FAX: 996 (312) 66 13 67
E-MAIL: KMC@INFOTEL.BISHKEK.SU

NATIONAL STATISTICS COMMITTEE
MR. ZARYLBEK KUDABAYEV, CHAIRMAN
374 FRUNZE STREET, BISHKEK 720033, KYRGYZSTAN
TEL: 996 (312) 22 74 85; FAX: 996 (312) 22 07 50, 22 07 59
WWW.STAT-GVC.BISHKEK.SU

STATE CUSTOMS AGENCY UNDER THE MINISTRY OF
FINANCE

MR. AZAMAT KANGELDIYEV, DIRECTOR
4-A, SOVETSKAYA STR., BISHKEK 720020, KYRGYZSTAN
TEL: 996 (312) 47 96 02, 51 06 51, FAX: 996 (312) 47 91 12

BISNIS (BUSINESS INFORMATION SERVICE FOR THE NEWLY INDEPENDENT
STATES)

1401 CONSTITUTION AVE., NW
RONALD REAGAN BUILDING, R - BISNIS
WASHINGTON, D.C. 20230
TEL: 202/482-4655, FAX: 202/482-2293
E-MAIL: BISNIS@ITA.DOC.GOV
HOME PAGE: WWW.MAC.DOC.GOV/BISNIS
FLASHFAX: 1-800-USA-TRADE, TOLL FREE: 1-800-872-8723

U.S. DEPARTMENT OF AGRICULTURE
FOREIGN AGRICULTURAL SERVICE
TRADE ASSISTANCE AND PROMOTION OFFICE
1400 INDEPENDENCE AVE., S.W.
WASHINGTON D.C., 20250
TEL: 202 720-7420

TPCC TRADE INFORMATION CENTER IN WASHINGTON:
1-800-USA-TRADE

U.S. DEPARTMENT OF STATE OFFICE OF BUSINESS AFFAIRS:
TEL: 202 746-1625
FAX: 202 647-3953

OVERSEAS PRIVATE INVESTMENT CORPORATION:
TEL: 202 336-8799

APPENDIX F: MARKET RESEARCH
POST DOES NOT HAVE A MARKET RESEARCH REPORTING PROGRAM. SEVERAL
IMI REPORTS SUBMITTED THIS YEAR ARE AVAILABLE THROUGH BISNIS AND IN
THE NATIONAL TRADE DATA BANK.

APPENDIX G:
ACTIVITIES REQUIRING LICENSING:
-- EXPOLORATION, PROSPECTING AND USE OF MINERAL
DEPOSITS;
-- BUILDING DAMS ON RIVERS AND RESERVOIRS;
-- VETERINARY PRACTICE;
-- USE OF WATER RESOURCES AND INFRASTRUCTURE;
-- MANUFACTURE AND SALE OF CHEMICAL SUBSTANCES;

- COMMERCIAL COLLECTION OF MEDICINAL GRASS THAT GROWS WILD, EXCEPT ON FOREST FUND LANDS;
- HUNTING AND CATCHING BIRDS;
- MEDICAL PRACTICE;
- MANUFACTURE AND SALE OF DRUGS, MEDICINE, PERFUME COSMETIC AND CHEMICAL SUBSTANCES, AND MEDICAL EQUIPMENT, EXCEPT ENTERPRISES WHICH SELL SOAP, CLEANSER AND PERFUME-COSMETIC GOODS WITH A CERTIFICATE OF QUALITY FROM THE MANUFACTURERS;
- PRODUCTION AND SALE OF POISON AND RADIOACTIVE SUBSTANCES;
- PRODUCTION OF BEER, WINE, CHAMPAGNE, LIQUOR, VODKA, COGNAC AND ALCOHOL;
- TRADE IN ALCOHOL;
- JURIDICAL PRACTICE;
- ORGANIZATION OF GAMING AND GAMBLING ESTABLISHMENTS;
- PRIVATE DETECTIVE AND GUARD ACTIVITIES;
- DESIGNING, INSTALLING, AND REPAIRING OF SECURITY AND FIRE CONTROL SYSTEMS;
- FIRE PROTECTION OF WOODEN STRUCTURES AND THEATER EQUIPMENT, WHICH MAY IGNITE;
- TEACHING OF FIRE SECURITY MEASURES;
- IMPORTING, DEVELOPING, PRODUCING OR SELLING EXPLOSIVE OR PYROTECHNIC PRODUCTS;
- FIREARMS AND AMMUNITION TRADE;
- REPAIR OF FIREARMS;
- ANY KIND OF AIR SERVICE AND THE SALE OF AIR +TRANSPORTATION;
- TRANSPORTATION;
- POSTAL AND ELECTRICAL CONNECTIONS, TELECOMMUNICATIONS, TV AND RADIO BROADCASTING, INCLUDING DESIGN, CONSTRUCTION, PRODUCTION AND INSTALLATION OF NETWORKS, LINES AND SYSTEMS, EXCEPT INTERNAL TECHNICAL CONNECTIONS FOR INDUSTRY;
- CONSTRUCTION, REPAIR AND RECONSTRUCTION OF ROADS AND ROAD STRUCTURES;
- TOURISM AND MOUNTAIN CLIMBING;
- PRIVATE SPORT SCHOOLS AND PROFESSIONAL SPORT CLUBS;
- URBAN PLANNING, DRAFTING AND DESIGN OF HOUSING, PUBLIC BUILDINGS OR INDUSTRIAL CONSTRUCTION;
- PRODUCTION OF CONSTRUCTION MATERIALS;
- BUILDING CONSTRUCTION;
- CERTIFICATION OF STRUCTURES AND CONSTRUCTION MATERIALS, TESTING OF CONSTRUCTION STRUCTURES, RECONSTRUCTION AND REINFORCEMENT OF BUILDINGS, QUALITY CONTROL FOR BUILDING PROJECTS, DESIGNS, CONSTRUCTION MATERIALS, AND STRUCTURES, AND BUILDING CONSTRUCTION;
- COLLECTING, BUYING, PROCESSING AND SELLING SCRAP AND WASTE OF FERROUS AND NON-FERROUS METALS;
- TOPOGRAPHICAL. GEODETIC, AERIAL PHOTOGRAPHY, AND CARTOGRAPHIC AND ENGINEERING RESEARCH;
- INDEPENDENT PROPERTY APPRAISING;

- PROPERTY TRUST ACTIVITY;
- BANK AND PAWNSHOP ACTIVITIES, DEBT COLLECTION, INSTALLMENT LENDING;
- FIXING AND PRODUCING DENTURES FROM PRECIOUS METALS;
- TRUST FUND ACTIVITY;
- AUDITING;
- BUYING AND SELLING PRODUCTS FROM PRECIOUS METALS AND STONES;
- SECURITIES
- PRODUCING OR ENTERING SECURITIES BLANK FORMS, MAKING IMPRINTS AND STAMPS;
- SECURITIES TRUSTS;
- INSURANCE;
- NON-GOVERNMENT PENSION FUNDS;
- ACTIVITY RELATED TO JOB PLACEMENT OF KYRGYZ CITIZENS ABROAD AND JOB PLACEMENT OF FOREIGNERS IN KYRGYZSTAN;
- RADIO BROADCASTING, INCLUDING DESIGN, CONSTRUCTION, PRODUCTION AND INSTALLATION OF NETWORKS, LINES AND SYSTEMS, EXCEPT INTERNAL CONNECTIONS FOR INDUSTRY;
- GENERATION, TRANSMISSION, DISTRIBUTION AND SALE OF ELECTRIC POWER AND HEAT; OIL AND GAS PROCESSING;
- CONSTRUCTION OF ELECTRIC POWER PLANTS, SUBSTATIONS AND TRANSMISSION LINES;
- PRODUCTION, REPAIR, SALE AND RENTAL OF MEASURING INSTRUMENTS;
- OBLIGATORY CERTIFICATION FOR PURPOSES OF TRADE;
- EDUCATIONAL INSTITUTIONS INCLUDING SCHOOLS AND UNIVERSITIES;
- HYDRA-METEOROLOGY, ENVIRONMENT AND POLLUTION MONITORING;
- TOBACCO FERMENTATION AND TOBACCO PRODUCTION.