2014

Review of Investment Incentives Inventory in the Kyrgyz Republic

IFC INVESTMENT CLIMATE ADVISORY SERVICES PROJECT IN THE KYRGYZ REPUBLIC

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I. Introduction

IFC, a member of the World Bank Group, launched its Investment Climate Advisory Services Project in the Kyrgyz Republic in 2013. The Project is a part of Central Asia Investment Climate Program that is being implemented with financial support from the UK and Switzerland.

IFC's work aims to reduce the cost of doing business and generate investment to boost the private sector, create jobs, and support sustainable economic development. Areas of focus include reducing regulatory barriers for small businesses and improving investment climate.

One of the tasks is to assist the Government of the KR with drafting regulations and ensure adherence to international best practice with the goal to improve the country investment policy.

Objective

The overall Objective of this Report is to assist the Government of the KR with optimization of existing investment incentives regime. The first step towards this reform is to collect detailed qualitative and quantitative information about existing regime of investment incentive and form an exhaustive register thereof.

The complete register of investment incentives is required for development and implementation of the program for reform on improvement of the country investment climate. This information may also be utilized as an open resource for data base and a reference book for the purpose of increasing transparency in granting incentives.

The last section of this Report describes preliminary conclusions and recommendations for possible actions under the reform for granting incentives for investment. At this stage, general analysis and recommendations are presented. Further in-depth research and evaluation, in particular, cost and benefit analysis, requires development of a specific and target research program of the regime of incentives for investment.

Research Data and Scope

With respect to each element of the Inventory of Investment Incentives the following data has been collected: an objective, legal framework, a level of government bodies, access to information about incentives, criteria for granting incentives, fiscal or non-fiscal basis, economic sectors, period of consideration, monitoring, right to appeal, budget allocations, the number of recipients, and the period of validity of incentives.

Taking into account that similar researches have not been earlier performed in the country, the majority of data has been collected over the short period, with the support provided by participating institutions at all public governance levels. Nevertheless, some indicators have not been derived; this is mostly data on amounts allocated from the budget for incentives. Likewise, there is no data about the number of economic entities that have been granted the benefits.

This Inventory includes all types of incentives for investment that have been divided into fiscal and non-fiscal incentives. In this context, fiscal incentives imply benefits related to any taxes or customs duties that have an effect on investment behavior of specific companies, groups of companies or sectors. Non-fiscal measure represents any non-fiscal measure that is applied to have an impact on investment behavior of specific companies, groups of companies or a sector.

This Inventory comprises two levels of public governance: republican and local levels of governance. Each level of governance has its objectives, legal framework and practices to grant investment incentives.

Methodology

Data derived in the course of compilation of the Investment Incentives Inventory is based on the information furnished by various government bodies and the review of the Kyrgyz legislation. Questionnaires with the request to provide detailed information about existing tax and customs privileges, financial preferences, discounted services, grants, subsidies, credits, collections and payment from the state budget for the benefit of private enterprises have been circulated to the government bodies.

After these questionnaires have been filled out, the project team has followed-up by phone calls, meetings and consultations with public servants to verify data in the Inventory, explain the objectives of the Survey, and clarify specific matters, as well as to ensure timely submission of survey results. In addition, the review of legislation and regulatory framework related to each specific investment incentive has been performed.

The questionnaire has stated a broad definition of “incentive” so that to cover the largest number of preferences and benefits that are provided by the government bodies. All benefits have been entered into the Register and then carefully examined regarding their classification as investment incentives.

This Inventory has not included some non-fiscal benefits granted at the municipal level, in particular, incentives related to provision of land and streamlining the administrative procedures. The incentives related to land matters include provision of land plots, premises and/or infrastructure on gratis basis or at the discounted rate, exemption from rent payment, deferral or payment by installations, and charges for development of construction land. Streamlining administrative procedures extends to simplified and less costly issuance of permits for construction, utilization of city and municipal lands, infrastructure, expedited procedure for issuance of permits. These municipal-level incentives have not been entered into the Inventory because they are provided at a special-purpose initiative of a Mayor/municipal council to a specific investor.

As these incentives represent an important element within the general system of investment incentives, it is expected that this area should become an important part of future effort to capture data on land related incentives, which would need to be carried out by the Government.

II. Definition of investment incentives

Investment incentives can be defined as ‘measurable economic advantages that governments provide to specific enterprises or groups of enterprises, with the goal of steering investment into favored sectors or regions or of influencing the character of such investments. These benefits can be fiscal (as with tax concessions) or non-fiscal (as with grants, loans, or rebates to support business development or enhance competitiveness).’

Forms and Types of Investment Incentives

The broad definition of ‘investment incentives’ suggests that a very large number of different investment incentives exist, such as derogations from fiscal policies, grants, soft loans, access to free or subsidized land, support in training and employment, infrastructure subsidies and ad hoc exceptions. The range of possible investment incentives offered to investors is potentially unlimited.

Investment incentives can generally be categorized in three different types: regulatory incentives, financial incentives and fiscal incentives. (Occasionally, there is only one differentiation made, between non-fiscal incentives and fiscal incentives. In this case, regulatory incentives and financial incentives form together the category of non-fiscal incentives).

1) Fiscal Investment Incentives

Third, the most commonly used investment incentives are fiscal FDI incentives. (Due to the focus of this note on non-fiscal incentives, the following lists the main fiscal investment incentives only briefly):

- Reduced direct corporate taxation, such as tax holidays and special tax-privileged investment zones.
- Incentives for capital formation, such as special investment allowances, investment tax credits, and reinvested profits.
- Reduced impediments to cross-border operation, such as withholding tax, taxation of foreign trade, taxation of employees.
- Other tax reductions, such as lower sales taxes and VAT reductions, property tax reductions, and lump sum tax models.

2) Financial Investment Incentives

Financial investment incentives is a broad category covering those investment incentives that grant the investor a financial advantage by supporting the investor in ways that reduces the investor’s costs relating to both the establishment and operation of the investment.

Financial investment incentives may be categorized as follows:

Employment incentives: Employment incentives are investment incentives reducing the investor’s staff costs, often through human wage subsidies. The host government regularly justifies employment incentives with the spill-over effects to be expected from the investment.

Training incentives: Particularly in case of a shortage in qualified employees in a host country subsidized training programs can help attract an investment and provide for host country benefits in improving human capacities.

Financing incentives: Financing incentives aim at facilitating an investment by offering financial support to the investor mostly relating to the start-up costs (occasionally also relating to operating costs). Financial incentives can take different forms, such as subsidized loans, loan guarantees, cash grants, or even public sector equity participation.

Provision of physical infrastructure: Investment incentives consisting in the provision of physical infrastructure aim at reducing the costs investors face for real estate and transport facilities. National or local authorities may sell public land (below market price) and provide infrastructure such as roads, railways, harbors, communication infrastructure etc., if the need of an investor for such a service is assumed or established.

Special Economic Zones (SEZs): A prominent feature of investment attraction strategies are incentives offered through various types of development zones, such as export promotion zones or industrial parks. These zones usually combine various types of fiscal and non-fiscal investment incentives to offer a very attractive package of benefits to investors including physical infrastructure, special attention by relevant authorities (aftercare) and tax breaks. Further benefits for investors and the domestic industry are assumed to develop through the emergence of industry clusters within or around the zones.

Support in business set-up: Investors have special needs in terms of setting up their business, including information on availability of land, domestic rules and regulations, needs in marketing of their products and services and help in general administration.

Investors may also appreciate support in meeting and cooperating with local officials, suppliers, service providers, and other investors. These functions are often provided free of charge by the domestic investment promotion agency. Depending on their character, these services may amount to an implicit subsidization of the investment.

Aftercare services: Closely related to the support in business set-up are aftercare services as constituting a follow-up service for the investor helping to remove obstacles and solve problems the investor faces in their start-up and operations. Host countries may offer these services in an effort to build a long-term, collaborative relationship with the investors.

3) Regulatory Investment Incentives

Regulatory investment incentives are any type of incentives offered to foreign investors by way of derogation from national rules (including rules and regulations on the sub national level). According to the OECD, there is little concrete evidence for wide-spread application of regulatory investment incentives. One reason for the low numbers of regulatory investment incentives noted may be that derogations from national policies can take the form of a relaxation of environmental, social and labor-market related requirements for foreign investors. In these instances, host countries and investors may not be keen to communicate these incentives publicly.

III. Background

A relatively liberal legislative framework for protection of foreign investors' rights has been established in Kyrgyzstan.

The key principles of the state investment policy aimed at improving investment climate in the Republic and encouraging attraction of domestic and foreign investments are stipulated by the Law of the Kyrgyz Republic "On Investments in the Kyrgyz Republic". This Law regulates relations between the State and an investor.

The legislation of the Kyrgyz Republic prescribes a priority application of international agreements provisions in the event of contradictions between provisions of the Law of the Kyrgyz Republic "On Investments in the Kyrgyz Republic" and international agreements, to which the Kyrgyz Republic is a party.

The Kyrgyz Republic for the foreign investors operating on the territory of the Kyrgyz Republic grants the national regime of economic activities applied to legal entities and individuals of the Kyrgyz Republic. Meanwhile, foreign investors have the right for free movement across the territory of the Kyrgyz Republic except for those areas, where the terms and procedure for staying is subject to the respective legislation of the Kyrgyz Republic.

The legislation anticipates non-interference into economic activity, rights and legally recognized interests of investors, except for cases stipulated by the legislation of the Kyrgyz Republic. Officials of the Kyrgyz Republic who fail to comply with these requirements are liable under the Kyrgyz legislation.

Investors in the priority economic sectors and social sector, and on certain areas of the Republic in line with the state development programs (projects) may be granted investment benefits. Investments may take any forms and be made into objects and types of activities not prohibited by the legislation of the Kyrgyz Republic, including licensing activities under the Law of the Kyrgyz Republic "On Licensing".

Taxation and Other Payments in Favor of the State

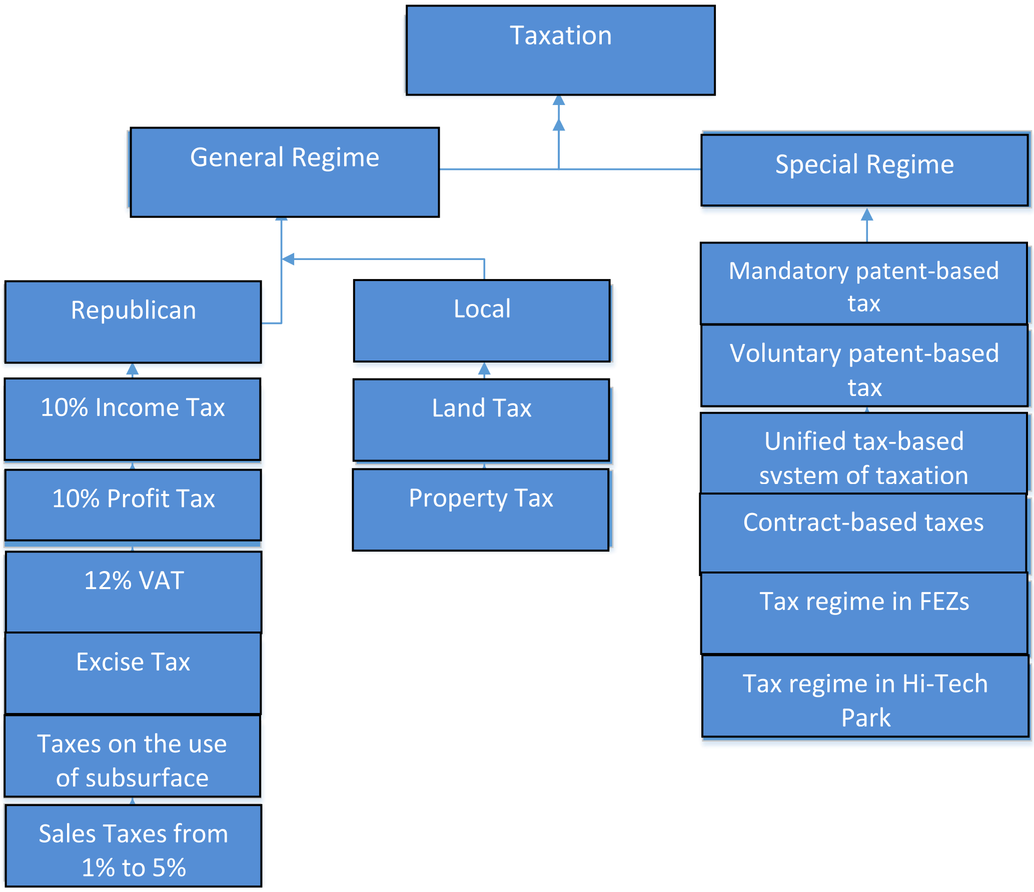
From beginning of 2009 the amended Tax Code has been effective in the Kyrgyz Republic; it has laid grounds for reforming the tax policy and created conditions to increase tax collections. New Tax Code envisions the following:

- Decrease of tax burden and liberalization of taxation system for foreign investors;
- Decrease of the number of taxes from 16 to 8;
- VAT rates decrease from 20% down to 12%;
- Introduction of uniform rates for small business entities;
- Application of simplified tax regime and some tax preferences.

Taxation system in the Kyrgyz Republic includes a two-tier structure of tax payments: nation-wide and local. Nation-wide types of taxes shall be mandatory for payment throughout the territory of the Kyrgyz Republic. Local taxes, within the powers assigned to local Kenesh, shall be effectuated by normative and legal acts of local Kenesh. The legislation of the Kyrgyz Republic also sets forth the special tax regimes for certain groups of tax payers.

Additional burden represents mandatory payments that indicate signs of tax, such as customs duties, the state social insurance contributions, environmental pollution payments, payments for withholding a license, and local budget contributions. The State shall be paid up the amounts generated by competitive bids and auctions for the right for subsoil use for the purpose of development, prospecting and exploration, by charges for use of information collection and mandatory purchase of a package set to obtain mining license, by deductions for development and maintaining infrastructure, and special income tax on gold.

Figure 1: Taxation System in the Kyrgyz Republic



IV.Results of Review of Investment Incentives Inventory

Below are the results of quantitative review of incentives for investment granted in the Kyrgyz Republic.

Data Collection

27 respondents have been surveyed in the process of Questionnaire, including representatives of 10 ministries, 13 state inspectorates, services and agencies, three government funds, Bishkek City Mayor Office. In addition, the key normative and legal acts that regulate investment activity in the Kyrgyz Republic have been examined:

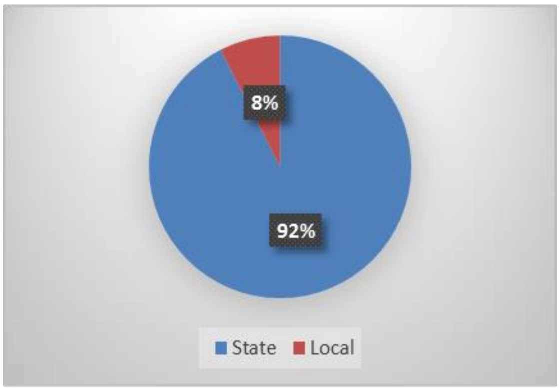
- Tax Code of the KR No. 231, dated October 17, 2008;
- Customs Code of the KR No. 87, dated July 12, 2004;
- Labor Code of the KR No. 106, dated August 4, 2004;
- Land Code of the KR No.45, dated June 2, 1999;
- Part 1 of the Civil Code of the KR No. 15, dated May 8, 1996;
- Part 2 of the Civil Code of the KR No. 1, dated January 5, 1998;
- Law of the KR No. 66 "On Investments in the Kyrgyz Republic", dated March 27, 2003;
- Law of the KR No. 92 "On Investment Funds" dated July 26, 1999;
- Law of the KR No. 7 "On Public-Private Partnership in the Kyrgyz Republic", dated February 22, 2012;
- Law of the KR No. 122 "On Securities Market" dated July 25, 2012;
- Law of the KR No. 64 "On Joint Stock Companies", dated March 27, 2003;
- Law of the KR No. 850-XII "On Concessions and Concession Enterprises in the Republic of Kyrgyzstan" dated March 6, 1992;
- Law of the KR No. 1076-XII "On Free Economic Zones in the Kyrgyz Republic", dated December 16, 1992;
- Law of the KR No. 8 "On State Social Insurance Contribution Rates" dated January 24, 2004;
- Law of the KR No. 1480-XII "On Non-Tax Payments" dated April 14, 1994.

There are 80 investment incentives, this is the total number of items in the inventory and basis for the following analysis. For the purpose of qualitative description of benefits we have applied 25 variables, thus, total data array has been 2000 points.

Types of Investment Incentives

The majority of investment incentives are provided at the state level - 74, and six types of investment incentives for land and property tax are granted at the local level.

Figure 2: Level of granting incentives



Most incentives provided in Kyrgyz Republic are fiscal and provided both at state and local levels; non-fiscal incentives are available only on state level. Breakdown of fiscal and non-fiscal incentives by type is given below.

Type:	Number of incentives:
2. Fiscal, including:	**53**
a) Tax benefits	44
b) Customs benefits	5
c) Social insurance privileges	4
3. Non-fiscal, including:	**27**
a) Financial incentive	14
b) Regulatory incentive	13
Total:	**80**

Legal Framework for Incentives

The Law of the KR "On Investments in the Kyrgyz Republic" envisages granting investment benefits for investors that make investments into priority economic sectors and social sector, and on certain areas of the Republic in line with the state development programs (projects) and in accordance with the legislation of the Kyrgyz Republic (Article 4.7, Chapter 2). It should be noted that this Law contains neither definition of investment incentives, nor the procedure or conditions for granting such incentives, and it is not backed by respective bylaws.

Tax Code of the KR regulates granting 44 types of fiscal incentives. Customs privileges are set forth by the Customs Code of the KR (2), the Law of the KR "On Investments in the Kyrgyz Republic" (1), Law of the KR "On Public-Private Partnership in the KR" (1) and Law of the KR "On Free Economic Zones in the KR" (1). Social insurance privileges are stipulated by the Law of the KR "On State Social Insurance Contribution Rates" (4).

Non-fiscal incentives are regulated by different documents. The largest number of financial incentives are provided under the Law of the KR "On Public-Private Partnership in the KR" (7); three financial incentives are envisioned by the Law of the KR "On State Support for Small Entrepreneurship", one financial incentive is set forth in the Law of the KR "On Free Economic Zones in the KR", and the rest three incentives are regulated by Resolutions of the Kyrgyz Government.

Regulatory incentives are provided by the Law "On Public-Private Partnership in the KR" (5), Law of the KR "On State Support for Small Entrepreneurship" (5), Law of the KR "On Free Economic Zones in the KR" (2) and Resolution of the Kyrgyz Government "On Approval of Procedure for Registration and Issuance of Visa in the KR" No. 156, dated March 10, 2009.

Objectives for Granting Incentives

Review of objectives for incentives has identified 12 items, with the majority of incentives provided with the view of the state support for subsidized sectors, in particular, agriculture, agricultural processing and development of remote areas of the country. For the purpose of long-term cooperation under public-private partnership for the period up to 50 years, 16 types of investment incentives are provided.

Table 2

#	Area:	Number:
1.	State aid	40

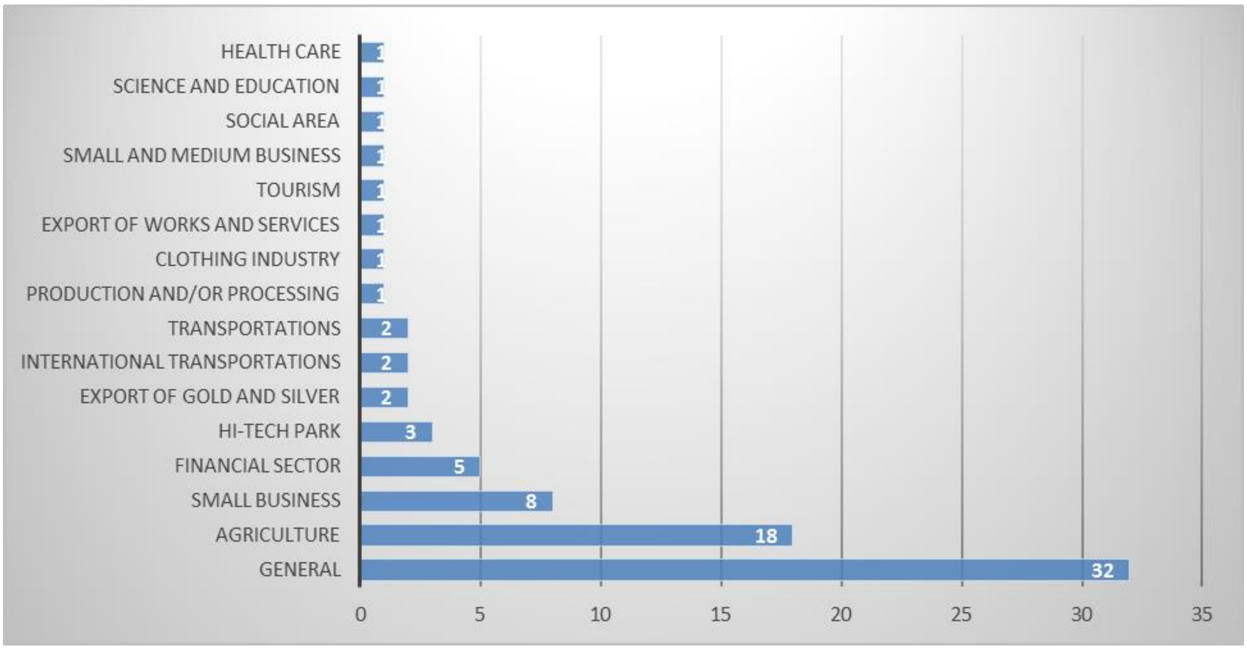
2.	Long-term cooperation (PPP, up to 50 years)	16
3.	Small business development	8
4.	KR development assistance	5
5.	Development of Hi-Tech industry	3
6.	Creation of favorable investors regime	2
7.	Promotion of clothing industry	1
8.	Fostering export of gold and silver	1
9.	Accelerated regional development	1
10	Avoidance of double taxation	1
11	Strengthening intellectual capacity	1
12	Incentivize doctors	1

Sectoral distribution of incentives has demonstrated that 48 incentives are provided to specific sectors and economic sectors and 32 incentives are general and applicable for all economic sectors.

The largest number of sectoral incentives for investment is provided in agriculture (18) that is entailed by the state support for subsidized sectors. To support small businesses eight investment incentives are proposed, and one specific incentive for small and medium-scale business. Financial sector may apply five investment incentives of fiscal nature. Residents of the Hi-Tech Park acquire three incentives related to taxation and social insurance benefits.

At the local level the incentives are provided in the following sectors: agriculture (2), tourism (1), manufacturing and/or processing (1); and two incentives are general.

Figure 3: Distribution of incentives by industry



Procedures and Conditions for Incentives

Review of procedures and conditions for granting incentives enables to determine their efficiency and potential initiatives for reform of investment incentives. Meanwhile, full information about duration and cost of procedure for granting incentives may not be determined under the first stage of review that represents an initial inventory of incentives. To build a complete picture it is necessary to examine the results of a large-scale survey of investors, which accept or anticipate to accept investment incentives.

However, one of the most crucial factors for attractiveness of incentives is a transparent and unbiased process of granting incentives. The more discriminatory the process is, the more uncertainty it generates for an investor and opens the potential for informal payments.

Important element of a good procedure is an objective decision-making process. An incentive decision is either automatic, e.g. based on a stipulated minimum investment, or discretionary, e.g. at the discretion of the authorized body. Discretionary decision-making is used in international practice in exclusive cases for making a just decision by taking into account the specifics of an individual case or the assumption. Such decision-making may be transparent and under specific legal framework, or closed. In case of closed decision-making, an investor feels unsure in just decision. Uncertainty of discretion as well as its potential for abuse can be minimized by publishing the decision criteria upfront, as well as reasons that may affect the decision-making, and giving the investor the right to appeal.

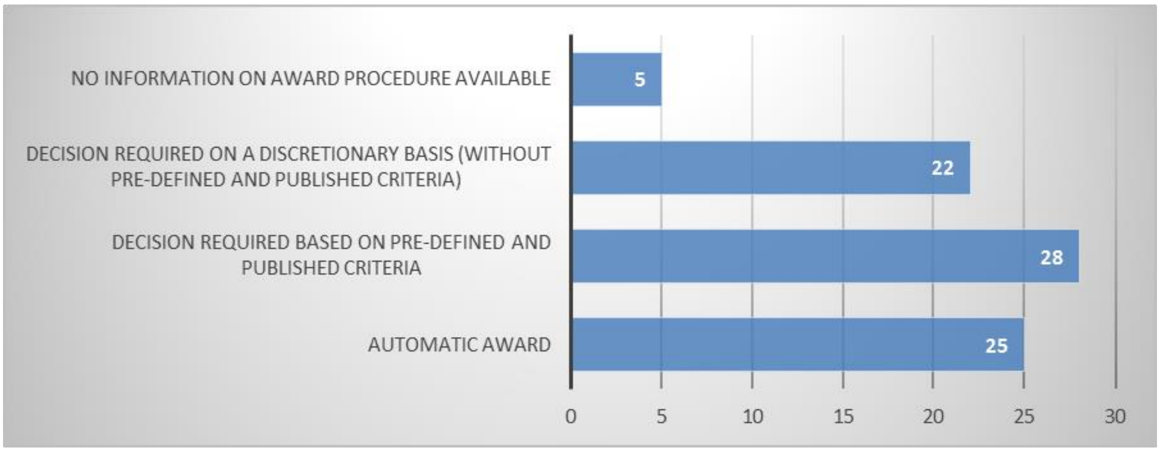
Most incentives in Kyrgyz Republic are granted on discretionary basis with some pre-defined and published criteria and requirements for granting incentives (28) such as incentives in FEZ, Hi-Tech park, PPP, textile and agricultural industry. The awarding procedures are clearly formulated in the legislation and available on websites for public access.

The incentives provided on automatic basis (25) include incentives for small and medium business, farmers, credit unions and leasing companies. These types of incentives are provided automatically upon a registration of business classified in the relevant categories or if information is available in tax reports that the taxpayer falls under the given category.

With respect to 22 incentives granted by decision based on a discretionary basis, no information is publicly available and the decision-making process is cloased. For example, Tax State Service allows incentives provided for the companies included in the respective list approved by the Government of the Kyrgyz Republic (8), but no clear procedures or information for inclusion of such companies into the said list, are available. The regime for provision of investment incentives in the Kyrgyz Republic is complicated and not always transparent in most cases, it declares different objectives and requirements to one and the same incentives, which are not always publicized.

No procedure for granting investment incentives and terms of receipt thereof has been identified for 5 types of investment incentives.

<u>Figure 4: Awarding procedures</u>



No defined process
Closed decision-making process
Open decision-making process
Automatic award

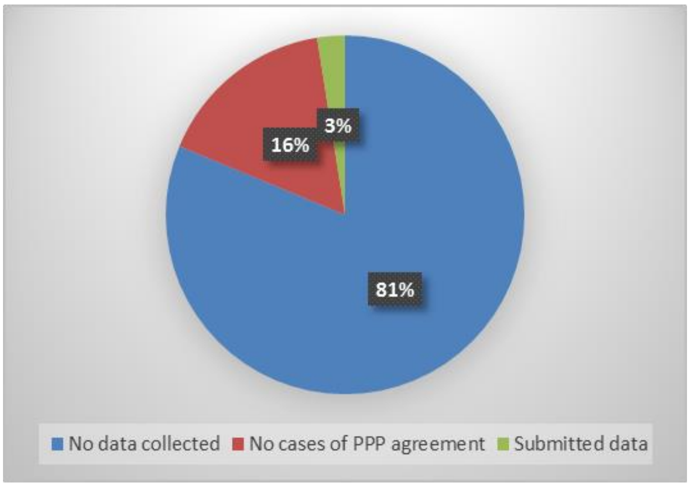
Data on number of recipients and cost of incentives

For the purpose of a comprehensive review, monitoring and ensuring control over extension of investment incentives, it is important that government bodies update information about quantity of entities, which have been granted incentives, the amount of republican budget spending related to incentives.

A comprehensive cost-benefit analysis is beyond the scope of this report. However, a first estimate of some of the costs of the incentives can be made by using the available data of the inventory. If decided by the Government of Kyrgyz republic, then further data collection could be undertaken to conduct a comprehensive cost-benefit analysis for specific incentives or groups of incentives.

Upon results of government bodies' survey, it is clear that no information is available for 81% of incentives, for 16% no cases of active agreements on PPP and only for 3% of incentives some information is in place. This 3% of incentives are non-fiscal types and provided for inventors, innovators and researchers as financial support.

Figure 5: Data on number of incentives provided



V. Preliminary observations and suggestions for further work

The Investment Incentives Inventory in the Kyrgyz Republic allows for a preliminary appreciation of the incentives regime for investment in the country, both at the state and local levels.

The Inventory includes 80 items. The large part of incentives is fiscal-based, and granted for the state aid to subsidized sectors, including agriculture and small and medium enterprises, and regions.

Analysis of the inventory allows for an initial picture of the existing investment incentives system. More research and analysis would be required to develop more in-depth recommendations in investment policy reform; the cost and benefit analysis should be prepared based on the review of state budget revenue and expenditures, and a large-scale investors' survey.

Preliminary observations

At the state level all types of incentives in the Inventory are offered; at the local level only fiscal incentives for land tax and property tax are applied.

Most incentives in Kyrgyz Republic are typically based on a law, for instance, granting of tax incentives is regulated by the Tax Code of the Kyrgyz Republic; the information about requirements and criteria of tax incentives' granting is publicly available. Though the procedures are transparent for fiscal incentives, the manner in which the information is presented is often not sufficiently user-friendly. Transparency means not only to provide access to the legal base for investors. The information should also be provided in an appropriately processed way.

The regime for provision of non-fiscal incentives in the Kyrgyz Republic is complicated and not always transparent in most cases, it declares different objectives and requirements to one and the same incentives, and such information is not always publicized.

While a number of awarding authorities apply guidelines for incentives based on formulated objectives individually, an overarching incentive policy for the whole country does not exist. Such overall policy and implementing guidelines, however, are necessary to ensure consistency, efficiency, and clear direction of the high number of different incentives toward targeted sectors and regions.

No central database exists on granted incentives, incentivized entities, and the state budget spending associated with provision of incentives, though this database would be helpful for evaluation of efficiency, coordination and avoidance of duplication. In addition, no data available about target utilization of incentives granted, whereas this data is the key for successful management of the regime for encouraging investment activity.

Following questionnaire-based survey of state authorities the majority of investment incentives lack clear criteria on efficiency of the incentives granted; it is also unclear to which extent the Government of the Kyrgyz Republic assesses the impact of the granted incentives. However, the actual impact of the incentives in terms of the generation of employment, economic activity, etc. should be part of the investment incentives system.

Review of the investment incentives inventory in the Kyrgyz Republic demonstrated specific deficiencies in the area of monitoring, control and recording of incentives' granting. Insufficient coordination and lack of centralized database about incentives leads in the majority of cases to biased decision making on incentives' granting, non-targeted spending, corruption and eventually distortion of the entire system of investment incentives.

Potential reform measures

The inventory shows some areas, which could be improved to ensure more effective and efficient work over encouraging of investment activity in the country. The following provides first thoughts on potential reform measures. At this time, they are of generic nature and further discussion and research is needed:

- Introduce the collection and recording of data on the cost of incentives' granting as information about the actual disbursement of incentives is inevitable for any analysis of the effectiveness of an incentive. A regular exchange of key information on types of incentives and award decisions should be established for the purpose of coordination of activities of authorized state bodies. Open access of investors to the central database may become a reliable tool for investments' attraction.
- Conduct a cost-benefit analysis of specific types of incentives. Considering the significant loss benefites from tax revenues, it is important that the policy-makers have information about their effect. A thorough cost-benefit analysis would provide information on the benefits for the state, how many additional jobs do the incentives create, revenues to the local budget, infrastructure development and overall effect of the incentives on the economic development of regions or industries, etc.
- Introduce transparency principles to the maximum extent possible into the decision-making process on incentives award. Procedures and terms of receipt of investment incentives must be simple, objective, transparent and publicly avialble. Automatic award of incentives with clearly formulated eligibility criteria are optimal and increase certainty on the investors' side in objective solution of issues. It is also easier to administrate from the public sector's perspective.
- Strengthen monitoring and supervision over incentives awarded; authorized state bodies should be in charge of monitoring the use of public resources for the purpose of incentives award. Information should be documented and exchanged with other regulatory bodies in the country.
- Improving targeting the incentives. The current incentive regime is characterized by many general incentives and a strong preference for incentives in the agriculture sector. However, well-designed incentive may support the development of other sectors with high development capacity and multiplying effect for the economic development of the country.
- Analyze and assess various procedures and mechanisms of incentives award in detail for assessment of efficiency thereof. A large number of procedures is time-consuming for investors and decreases attractiveness of investment incentives. A flow chart of each process would be useful for assessment of established requirements and duration of each step.
- Review of the overall investment incentive policy. The efficient use of incentives depends on a concerted approach, identification of priority sectors, regions, types of incentives, types of companies that are offered such incentives, which will not only diminish distortions and unfair competition, but will also improve the impact of the used resources.

Annex 1: Deductions, Exemptions from Taxation and Zero Taxes

i. Revenue shall be exempted from taxation for the following entities:
   1) Charitable organizations;
   2) Societies of the disabled of 1st and 2nd categories, organizations of the Kyrgyz Association of the Blind and Deaf, individual entrepreneurs which employ at least 50% of disabled, deaf and blind employees of total number of employed and if their salary amounts to no less than 50% of gross payroll fund. The List is to be determined by the Government of the KR;
   3) Agricultural producers;
   4) Correctional system facilities of the Kyrgyz Republic;
   5) Agricultural commodity and service cooperatives;
   6) Tax payer that received this revenue from sale of goods of manufacturing processing of berries, fruits and vegetables from own raw materials, which were processed at production facilities he owns, related to purchase, reconstruction, upgrade of basic production assets (shall be invalid from January 1, 2016 pursuant to para 5, Article 6 of the Law No. 231, dated October 17, 2008);
   7) Credit unions;
   8) Enterprises of food and manufacturing processing industries of agricultural products (except for products used for manufacture of excisable commodity groups) for the period up to three years. The list of enterprises and criteria for their selection to be incorporated into the list shall be approved by the KR Government;
   9) Leasing companies.

ii. Deductions from the profit tax in the tax legislation refers to tax payer's incurred costs of gaining income and deductible from annual gross income to determine the tax base (object of taxation). These deductions include:
   - Costs of business trips and representation costs ;
   - Costs of training and re-training personnel;
   - Costs of interest payments against credits and loans;
   - Costs of scientific research works, experiment-constructive and project-exploration works;
   - Cost of fixed assets, intangible assets and inventories;
   - Amount of depreciation charges on fixed assets;
   - Costs of repair of the fixed assets
   - Contributions to the Social Fund of the Kyrgyz Republic;
   - Losses incurred from the sale of securities;
   - Reserve funds for covering potential losses and damages;
   - Charity expenses.

iii. VAT exempted supplies include:
   - Supply of land, residential buildings and premises;
   - Supply of agricultural produce and products of industrial processing of berries, fruit and vegetables;
   - Supply of public utility services, supply of utility services for correction facilities and penitentiary systems;
   - Supply of fixed assets under a financial lease agreement;
   - Goods and services in the sphere of medical activity;
   - Financial services;

- Insurance services;
- Pension security services;
- Transportation services;
- Roaming, network interconnection services and international transit traffic communication services;
- Supply of textbooks and school supplies, scientific publications in the state language;
- Privatization;
- Supplies by Charitable Organizations;
- Supplies by not-for-profit organizations;
- Supply on gratis basis;
- Supply of ritual goods and ritual services by government or municipal organizations;
- Supply of mineral fertilizers and plant protecting chemicals, veterinary vaccines and medicines
- Supply of agricultural machinery produced at enterprises of the Kyrgyz Republic;
- Supply and export of gold and silver;
- Supply by private partner and/or project companies pursuant to the legislation of the Kyrgyz Republic on public-private partnership.

iv. The following goods and services are VAT exempted:

1) Imported to the territory of the Kyrgyz Republic:

- Securities of the citizen of the Kyrgyz Republic;
- Specialized goods for disabled persons;
- Textbooks, school supplies and scientific publications;
- Laboratory equipment of the geologic expeditions for measuring and monitoring the seismic environment;
- Excise stamps, latent stamps;
- Goods for providing assistance in liquidation of the consequences of natural calamities;
- Goods imported as humanitarian aid;
- Goods intended for personal use by diplomatic agents, including members of their families and diplomatic missions, pursuant to international agreements;
- Infant food;
- Natural gas;
- Medicines;
- Specialized goods for construction and reconstruction of open-hearth glass furnace and converter (ferroalloy furnace);
- Pedigree cattle and seed materials, mineral fertilizers and plant protecting chemicals;
- Fixed assets for own production purposes.

2) Export of goods, works and services.
3) International transportation.
4) Transit flight services and services incidental to international transportation.
5) Services pertaining to power supply of pump stations designed for irrigation of agricultural lands, ensuring population with drinking water.

v. Zero-rated VAT supplies include:
- Export of goods, works and services, except for exports of gold alloy and refined gold;
- International transportation of passengers, luggage and cargo;

- Transit flight services and services incidental to international transportation.

vi. The following entities are exempted from payment of tax for subsurface use:
- Landowner extracting the generally found minerals for purposes other than business activities;
- Entity that received the subsurface plots for creation of the specially protected natural territories;
- Entity engaged in processing of wastes of mining, mineral processing and metallurgical production;
- Subsurface users carrying out the geological works of subsurface exploration.

vii. Sales tax is exempted for sale of goods, performance of works and provision of services by:
- Agricultural producer;
- Agricultural commodity and service cooperative society;
- Charitable organization;
- Society of disabled people of the 1st and 2nd groups, organizations of the Kyrgyz Society of the Blind and Deaf,
- Individual entrepreneurs which employ the disabled, blind and deaf people and their share compose no less than 50 % of the total number of employees and their wages account for no less than 50% of the total wage fund.

viii. Local Kenesh has the right to provide exemption from property tax for the period up to 5 years for a newly formed organization which produces and/or processes products, provided that production and/or processing output is no less than KGS 30.0 million per year.

ix. Companies operating in FEZs shall be granted the following privileges and benefits:
- Partial exemption from all types of taxes, duties, fees and collections over the entire period of performance of activity at FEZ;
- 0.1-2% deductions from the proceeds from sales of good and services during a year made to the General Directorate of FEZ for granting tax and other privileges on the FEZ territory;
- Export of goods produced at FEZ, import of goods into FEZ and goods designated for re-export shall be completely exempted from customs duties;
- Export goods produced at FEZ shall be exempted from quota allocation (except for export to the customs territory of the Kyrgyz Republic which quantities shall not exceed 30% of total production output of FEZ over a year) and licensing;
- Simplified entry and exit regime for foreign employees;
- Simplified and expedited registration of economic entities;
- Simplified customs procedures;
- Direct access to infrastructure, including telecommunications, water supply, power supply and transportation means for performance of activity on the FEZ territory.

Annex 2: Features of effective incentive regimes

The following characteristics are identified in global research as factors that typically improve the effectiveness and efficiency of investment incentives:

Affordable – forgone income or the direct costs of financial incentives should not severely undermine government revenue streams. The Government should calculate and document the cost of direct and indirect incentives to ensure that the costs are affordable.

Transparent – the incentive regime should be transparent for investors and public institutions: investors should have easy access to information on available incentives, qualification and documentation requirements, maximum amounts, the procedure and decision criteria for the award, the length of the procedure, the authority in charge, etc. Relevant public institutions should collect and exchange information on who receives what kind of incentives from whom. A public investment incentive Inventory or any other kind of centralized database could help collecting and distributing information on awarded incentives.

Efficient – apply a streamlined, well-coordinated procedure with one authority responsible to award and monitor the respective incentive. Efficient is a regime that uses the type or category of incentives that achieves the stated objective with the least costs in the shortest amount of time. Efficient is an award process, which does not duplicate efforts, asks only for the necessary documents, coordinates with other involved authorities.

Targeted – targets for incentives should be based on research to confirm that they will benefit the country in ways that would not have been possible if there were no incentives, thereby reducing revenue costs.

Simple – incentive administration should permit easy accessibility and determination of eligibility. The more complex an incentive regime is, the less effective it is. Targeted investors may not know about the offered incentives or do not apply because the process is too lengthy and complicated. Applying investors may spend unnecessarily long time and money to collect reliable information and prepare redundant application documents. Incentives may be duplicated, overlapping, untargeted in a complicated regime. Finally, it might be difficult if not impossible to identify the true costs and impact of an overly complicated regime with numerous involved authorities and players.

Non-discretionary – A regime without discretion and a firm set of award criteria is least discriminatory, limits possibilities for bribes, and increases transparency and accountability, and gives an investor certainty. Consequently, the legal base for an incentive should not give the awarding authority the flexibility to decide upon vaguely formulated decision criteria. Discretion is often supported by a lack of transparency in order to make the decision-maker less accountable.

Positive in its cost-benefit relation – Investment incentives aim to attract additional incentives. But not at all costs. The effort to attract investments makes economically only sense for the State if the costs are more than compensated for by higher benefits from the additional investment. The potential benefits of an investment incentive arise from:

- Higher revenue from possible increased investment.
- Social benefits – such as jobs, positive externalities, and signaling effects – from this increased investment.

The costs are due to:

- Revenue losses from investments that would have been made even without the incentives.
- Indirect costs such as economic distortions and administrative and leakage costs.

It is difficult to quantify these elements, but trying to do so provide a useful conceptual tool for policy-makers analyzing the general framework for incentives as well as targeted incentives for anchor investments, export-oriented and mobile investments, extractive industries, and so on.

Reviewed periodically – investment incentives should be regularly reviewed to determine their relevance and economic benefit relative to their budgetary and other costs, including long-term impacts on resource allocation.

Annex 3: List of Surveyed Ministries and Agencies

#	Name	Answer received
1.	Ministry of Foreign Affairs of the Kyrgyz Republic	No
2.	Ministry of Justice of the Kyrgyz Republic	No
3.	Ministry of Finance of the Kyrgyz Republic	Yes
4.	Ministry of Economy of the Kyrgyz Republic	Yes
5.	Ministry of Transport and Communications of the Kyrgyz Republic	Yes
6.	Ministry of Energy and Industry of the Kyrgyz Republic	Yes
7.	Ministry of Education and Science of the Kyrgyz Republic	Yes
8.	Ministry of Health Care of the Kyrgyz Republic	Yes
9.	Ministry of Social Development of the Kyrgyz Republic	No
10.	Ministry of Youth, Labor and Employment of the Kyrgyz Republic	No
11.	Social Fund of the Kyrgyz Republic	Yes
12.	Fund for State Property Management under the GoKR	Yes
13.	Fund for Mandatory Medical Insurance under the GoKR	No
14.	State Inspectorate of Environmental and Technical Safety under the GoKR	No
15.	State Inspectorate of Veterinary and Phytosanitary Safety under the GoKR	Yes
16.	State Agency for Anti-Monopoly regulation under the GoKR	Yes
17.	State Agency for Environmental Protection and Forestry under the GoKR	No
18.	State Agency for Construction and Regional Development under the GoKR	Yes
19.	State Agency for Geology and Mineral Resources under the GoKR	No
20.	State Agency for Physical Culture and Sport under the GoKR	No
21.	State Agency for Architecture, Construction and Housing and Utilities Sector under the GoKR	No
22.	State Tax Service under the GoKR	Yes
23.	State Customs Service under the GoKR	Yes
24.	State Service of Regulation and Oversight of Financial Market under the GoKR	No
25.	State Registration Service under the GoKR	No
26.	State Intellectual Property Service of the Kyrgyz Republic	Yes
27.	Bishkek City Mayor’s Office	Yes

Annex 4: Tables

Legal Framework for Granting Incentives

#	Main document	Additional document:	Number
1.	Tax Code of the KR		28
2.	Tax Code of the KR	Law of the KR “On Free Economic Zones in the KR”	2
3.	Tax Code of the KR	Law of the KR “On Public-Private Partnership in the KR”	1
4.	Tax Code of the KR	List approved by the GoKR Resolution	6
5.	Tax Code of the KR	Order by the GOKR	1
6.	Tax Code of the KR	Decision by LSGB	6
7.	Customs Code of the KR		2
8.	Law of the KR “On State Support for Small Entrepreneurship”		8
9.	Law of the KR “On Public-Private Partnership in the KR”		13
10.	Law of the KR “On Free Economic Zones in the KR”		4
11.	Law of the KR “On State Social Insurance Contributions Rates”		4
12.	Law of the KR “On Investments in the Kyrgyz Republic”		1
13.	GoKR Resolution		2
14.	GoKR Resolution	Regulation on encouraging creative and innovative activity in the KR	1
15.	GoKR Resolution	Technical Regulation On Safety of Veterinary Drugs	1

Types of Incentives:

#	Name:	Number:
1.	VAT exemption	21
2.	Exemption from profit tax	7
3.	VAT zero rate	4
4.	Exemption from land tax	4
5.	Benefits for social contributions tariffs	4
6.	State support measures	4
7.	Exemption from sales tax	3
8.	Duty benefits	3
9.	Loan	3
10.	Exemption from property tax	2
11.	Tax holiday	2
12.	Customs duty deferral and payment by installments	2
13.	Exclusive rights	2
14.	Simplified entry and exit procedures	2
15.	VAT procedures facilitation	1
16.	Accelerated depreciation	1
17.	Tariff subsidies	1
18.	Subsidies	2
19.	Insurance	1
20.	Bank security	1
21.	State guarantee	1
22.	Rental fee benefit	1
23.	Quota allocation and licensing	1
24.	Procedure for issuance of licenses, permits and certificates	1
25.	Rights for movable or immovable property	1
26.	Rights for collection of tariffs	1
27.	Free convertibility of foreign currency	1
28.	Non-cash support	1
29.	Easement concerning movable and immovable property	1
30.	Professional training incentive	1

Criteria for Granting Incentives:

#	Item:	Number:
1.	Tax reporting information that a tax payer is covered by this category	18
2.	Incorporation of incentives into the PPP Agreement	15
3.	Incorporation in the List approved by the KR Government	8
4.	(i) Registration as a small business entity; (ii) Contract between an insurance company and the Fund for Support of Small Entrepreneurship connected with the amount, procedure and conditions for compensation	8
5.	(i) Registration as FEZ entity; (ii) Available contract on conditions for operations in FEZ.	6
6.	An organization or an individual manufacturing agricultural products, including their own agricultural processed products, other than excisable goods, provided that earnings from sale of these products make no less than 75% of total sales	4
7.	Status of a resident of Hi-Tech Park	3
8.	Exemption shall apply to fixed assets classified under commodity headings of the Commodity Nomenclature of Foreign Economic Activity of Eurasian Economic Community (CNFEA) 8401-8406, 840710, 8410-8414, 8416-8447, 8449-8465, 8471, 8474, 8475, 8477-8480, 8504, 8505, 8514, 8515, 8525, 8526, 8529, 8530, 8601-8606, 8608, 8609, 8701, 8702 (except for microbuses), 8704, 8705	2
9.	Disabled, deaf and blind employees should constitute at least 50% of total number of employed and their salary amounts to no less than 50% of gross payroll fund. (The List of individual entrepreneurs is to be determined by the Government of the KR)	2
10.	A cooperative society, in which at least 75% of members are agricultural producers and at least 75% of earnings come from sale of goods, works and services produced by this cooperative over a calendar year.	2
11.	Registration as a credit union	1
12.	Registration as leasing company	1
13.	Registration as an agricultural cooperative society for manufacturing of agricultural products	1
14.	Registration as individual entrepreneur which apply simplified taxation system or tax contract-based system	1
15.	Registration or presence of a tax patent of an individual entrepreneur engaged into textile and clothing production	1
16.	Registration as private veterinary practitioners as an individual entrepreneur and their participation in anti-epizootic activities held by the State Inspectorate of Veterinary and Phytosanitary Safety.	1
17.	Industrial processing: (i) from own raw materials, (ii) at own production facilities; (iii) upgrade of own production facilities.	1
18.	Procedure and conditions for compensation of interests	1

	paid in the process of implementation of PPP agreement shall be determined by the Government of the KR.	
19.	A newly established entity which produce and/process products provided that its production/processing output is no less than KGS 30.0 million per year.	1
20.	Proof that: (i) an investor is a foreign; (ii) an investor has been registered before 2003.	1
21.	(i) A foreign investor upon expiration of one year from its staying in the KR and performing investment activity in the KR, (ii) at least USD 500 thousand of invested capital, (iii) designated for production purposes, for the period up to 5 years.	1
22.	Availability of a statement, a letter of recommendation, a business plan or justification, an opinion of an enterprise or an independent expert.	1

Annex 5: Inventory of investments incentives in Kyrgyz Republic – attached as an Excel file.