

KYRGYZ REPUBLIC: INVESTMENT CLIMATE STATEMENT 2015

*U.S. Department of State
Bureau of Economic and Business Affairs*

EXECUTIVE SUMMARY

The investment climate in the Kyrgyz Republic is best for those who are intrepid and have a high risk tolerance. The country struggles with major issues. Corruption is rampant and rule of law is weak. The judicial system is not independent and every sector of government struggles with capacity and resource shortages. For most areas of interest, a legal framework exists but enforcement is poor. Nowhere is this truer than in the area of intellectual property rights. Investors should be aware that over 60% of the economic activity in the country occurs in the unregulated gray economy. Investors in politically sensitive areas, such as resource extraction, spend much of their time renegotiating contracts, as is evident in the experience of the Canadian-owned Kumtor gold mine.

Government officials of the Kyrgyz Republic speak positively and with hope of factors they say indicate an improving investment climate. Government statistics show foreign direct investment increasing yearly, though this is due largely to growing Russian and Chinese infrastructure investment that is creating little employment. The government identified foreign direct investment as a key component to growing the economy in the coming years and has created a strategic roadmap for economic development to facilitate this growth. The government is taking steps to streamline the process of starting a business as well as streamlining its tax regime. Still, many burdensome regulations strangle business development for foreigners and locals alike. Tangible results from reforms have yet to be seen.

Additionally, the Kyrgyz Republic is struggling to meet basic infrastructure needs. The government has struggled to provide adequate power supply, especially outside of the capital, Bishkek. Power plants, roads, and canals are dilapidated. Municipal waste problems routinely plague Bishkek. Chinese infrastructure projects only improve market access for Chinese goods and Russian economic recession is delaying promised development assistance.

The Kyrgyz Republic is on the verge of several major economic transitions and decisions. The government is committed to joining the Eurasian Economic Union (current members: Russia, Kazakhstan, and Belarus). The accession process will alter economic conditions, both immediately and long-term, particularly in relation to the gray economy, day trading and currency stability. Growing reliance on Russia as a source of remittances, imports, and government financing makes the economy vulnerable to the whims of Moscow.

1. OPENNESS TO, AND RESTRICTIONS UPON, FOREIGN INVESTMENT

Attitude toward Foreign Direct Investment

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

Other Investment Policy Reviews

The Kyrgyz Republic has not conducted an investment policy review through the Organization for Economic Cooperation and Development, the World Trade Organization, nor the United Nations Conference on Trade and

Development (UNCTAD). Post is unaware of any reports on the investment climate in the country or specific sectors.

Laws/Regulations of Foreign Direct Investment

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

Industrial Promotion

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

Limits on Foreign Control

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

Privatization Program

There is an ongoing discussion to privatize certain government assets and enterprises such as the postal service, a telecom company and the capital's international airport. There is no set timeline for privatization nor is the bidding process clear. The process is unclear, may be lacking in transparency, and has been delayed for years.

Screening of FDI

Coca-Cola and Hyatt are the only major U.S. businesses in Kyrgyzstan. There is no known process to screen foreign investment.

Competition Law

The State Agency for Anti-monopoly Regulation of the Kyrgyz Republic conducts unified state antitrust price regulation in the economy. The main tasks of the State Agency are:

- to develop and protect competition
- to control compliance with legislation in the field of anti-trust, price regulation
- to protect the legal rights of consumers against manifestations of monopoly and unfair competition
- to ensure observance of legislation on advertising.

Table 1.

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	136 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	102 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	112 of 143	globalinnovationindex.org/content.aspx?page=data-analysis

Investment Trends

The largest investment projects are in the areas of infrastructure and energy made by the Kyrgyz Republic's largest neighbors, China and Russia. The monetary return on investment is unclear, even in the long term. The intangible return on investment (economic for China, political for Russia) appears to be high.

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) or USD 4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015>.

2. CONVERSION AND TRANSFER POLICIES**Foreign Exchange**

Foreign exchange is widely available and rates are competitive. The local currency, the som, is freely convertible and stable, trading in a narrow range for all of 2014. As of April 7, 2015, the exchange rate was 62.8 soms to the U.S. dollar. The National Bank of the Kyrgyz Republic conducts weekly inter-bank currency auctions, in which competitive bids determine market-based transaction prices. Banks usually clear payments within a single business day.

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

Remittance Policies

There are no known plans to change remittance policies. The Kyrgyz Republic continues to work toward full Financial Action Task Force (FATF) compliance, but failed to pass the main anti-money laundering legislation before Parliament in 2013. The country remains on the FATF "gray list" and the Department of State's Bureau of International Narcotics and Law Enforcement lists the Kyrgyz Republic as a "monitored" country with regard to money laundering and financial crimes. The State Department assessed Kyrgyzstan as "fiscally transparent" in 2013 for the purposes of U.S. government assistance programs.

3. EXPROPRIATION AND COMPENSATION

In 2014, the government of the Kyrgyz Republic did not expropriate or nationalize any foreign businesses. The government spent the better part of 2013 and 2014 renegotiating the agreement underpinning foreign investment in the Kumtor gold mine and continues the effort into 2015. Meanwhile, both the executive and legislative bodies perpetually discuss how and when to allocate, reallocate, revoke, suspend, and otherwise handle mining licenses. Foreign investors have the right to compensation in the case of government seizure of assets. However, there is little understanding of the distinction between historical book value, replacement value and actual market value, which brings into question whether the government would provide fair compensation in the event of expropriation.

4. DISPUTE SETTLEMENT

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The formal legal system of the Kyrgyz SSR was largely a copy of other union republics. The legal system has undergone a dramatic transformation since the breakup of the Soviet Union. The general principles of the reform encourage ideological and political pluralism, a socially oriented market economy, and the expansion of individual rights and freedoms. Kyrgyzstan does not have written commercial or contractual law.

The judicial system is technically independent, but political interference and corruption regularly besmirch its reputation and undermine its effectiveness. Resolution of an investment dispute within Kyrgyzstan depends on several factors, namely who the parties are and the amount of investment. The best example is the dispute between CJSC “Jerooyaltyn” and the government of Kyrgyzstan on the revoked license to develop the second largest gold mine in Kyrgyzstan. The dispute started after the government revoked the company’s license on November 18, 2010. Following judicial hearings, on February 6, 2012, the Supreme Court dismissed the company’s appeal to litigate the government’s decree. This dispute lasted for two years.

The key problem in resolution of disputes is a weak and corrupt judicial system that fails to act as an independent arbiter. Since most of these disputes

are between foreign investors and the government of Kyrgyzstan, local courts serve as an executor of the authorities' political agenda.

There is no known example in which final verdict on an investment dispute between an investor and the government has favored the investor.

Bankruptcy

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

Investment Disputes

A weak and corrupt judicial system fails to act as an independent arbiter in investment disputes. Since most of these disputes are between foreign investors and the government of Kyrgyzstan, local courts serve as an executor of the authorities' political agenda. There is no known example in which the final verdict on an investment dispute between an investor and the government has favored the investor.

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

routinely protest, sometimes violently, and the government routinely revokes licenses at smaller sites and suspends work at various sites in response to these protests.

International Arbitration

The Law on Commercial Arbitration allows for international and domestic arbitration of disputes. If feasible, the arbiter and the terms of arbitration should be identified in the initial contract. Establishing the terms for arbitration beforehand may prevent further complications in the event of a dispute. According to the Ministry of Justice, there are currently nine lawsuits against Kyrgyzstan in international courts. These cases seek a total of USD 925 million. The outcome of these cases is uncertain, as is how the results of arbitration might be respected or enforced in practice. Currently, the majority of the government's shares in Centerra Gold, operator of the Kumtor Gold Mine, have been frozen by Canadian provincial courts in two different arbitration cases.

ICSID Convention and New York Convention

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

Duration of Dispute Resolution

Investment dispute parties may agree on any judicial institution to settle their dispute, including arbitration courts located inside and outside the Kyrgyz Republic. In the absence of such an agreement, the dispute is considered in the courts of the Kyrgyz Republic.

Courts rarely issue verdicts in dispute resolution cases and are often corrupted by politicians or parties to the dispute. Almost all disputes are settled outside of court, if ever.

5. PERFORMANCE REQUIREMENTS AND INVESTMENT INCENTIVES

WTO/TRIMS

A World Trade Organization (WTO) member, the Kyrgyz Republic is compliant with WTO Trade Related Investment Measures obligations. As a remote country that is loosely integrated with the world economy, the Kyrgyz Republic has little practical experience working under the guidelines of WTO and the country's treaty obligations remain poorly understood by many within the government.

Investment Incentives

The Kyrgyz government has reduced the tax burden on repatriation of profits by foreign investors to conform to the tax rate for domestic investors.

Research and Development

There are very few government financed or subsidized research and development programs in the Kyrgyz Republic. Almost all research and development is funded externally.

Performance Requirements

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

Data Storage

There are no known instances of "forced localization" or source code access demands in Kyrgyzstan.

6. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

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

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

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

7. PROTECTION OF PROPERTY RIGHTS

Real Property

The Kyrgyz Government identified property rights as one of the priority areas to strengthen investment climate in Kyrgyzstan (e.g., National Strategy for Sustainable development 2013-2017). The main guarantor of this right is the Constitution of the Kyrgyz Republic (Article 12). There is no legislation that officially defines “private property.”

A survey conducted by local NGO “Institute for Constitutional Policy” (2014) revealed that despite significant legislative amendments, the rule of law is still weak in the Kyrgyz Republic and the state lacks capacity to properly enforce property rights. The long-drawn judicial reform has not lived up to business’ expectations, as it continues to be the main target of corrupt court decisions.

The mortgages and liens are common in the Kyrgyz Republic. Both operate in line with relevant legislation. The mortgage procedure is simple and was in demand until the recent economic crisis hurt remittances from Russia. The developed system of mortgages has been a major factor in the recent construction boom. When providing mortgages, banks request a reference

from the State Registration Service that the property is not under lien. Banks do not have their own system to check this type of information.

The State Registration Service is the major operator of a recording system (database) on property under mortgage/lien commitments. However, the level of the recording system reliability is questionable, since the Service itself is frequently subject to allegations of corruption. Moreover, while the Service struggles to produce proper voter lists, its capacity to operate a nationwide property database is unlikely as well.

Kyrgyzstan was first among its neighboring Central Asian states to introduce private property rights for land. According to government sources, there are no lands without a clear title.

Intellectual Property Rights

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

The Kyrgyz Republic is obligated to protect intellectual property rights as a member of the WTO. The Kyrgyz Republic acceded to both the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty in 2002. Counterfeit goods made primarily in China, however, are widely available. The Kyrgyz Republic does not track or report on seizures of counterfeit goods.

Resources for Rights Holders

Contact at Mission: Aigerim Zholomanova Commercial Assistant

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Country/Economy Resources: American Chamber of Commerce

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E-mail: pa.amcham@gmail.com, memberservices@amcham.kg

A list of local lawyers is available at: http://bishkek.usembassy.gov/legal_assistance.html

The World Intellectual Property Organization (WIPO) provides available at: <http://www.wipo.int/directory/en>

8. TRANSPARENCY OF THE REGULATORY SYSTEM

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

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

9. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

The National Bank of the Kyrgyz Republic is a nominally independent body and regularly intervenes in the market to stabilize the Kyrgyz som against the U.S. dollar. The currency is freely convertible and Kyrgyz bonds

are available for foreign ownership. According to the Kyrgyz National Statistical Committee, the Kyrgyz Republic's Consumer Price Index increased by 6.1% in 2014, 4% in 2013, 5.76% in 2012, and 4.6% in 2011. The economy of the Kyrgyz Republic is primarily cash-based, although non-cash consumer transactions, such as debit cards and transaction machines, grew in the past few years.

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

Money and Banking System, Hostile Takeovers

There are currently 24 functioning commercial banks in the Kyrgyz Republic, with a total of 289 branches throughout the country. There are nine foreign banks operating in the Kyrgyz Republic. Demir Bank, Bank of Asia, National Bank of Pakistan, Halyk Bank, Kazcommerce Bank - Kyrgyzstan, Finance Credit Bank and Uni Credit Bank are entirely foreign held. Other banks are partially foreign held, including Manas Bank and Kyrgyz Investment and Credit Bank (KICB). KICB has multinational organizations as shareholders including the European Bank for Reconstruction and Development, Economic Finance Corporation, the Aga Khan Fund for Economic Development and others. The National Bank of the Kyrgyz Republic took control of Asia Universal Bank (AUB) in April 2010 and reorganized it under the new name of Zalkar Bank, which in 2013 was sold to a Russian bank and renamed Rosinbank. Although no U.S. bank operates in the Kyrgyz Republic, many Kyrgyz banks maintain correspondent relations with U.S. and other foreign banks to facilitate short-term commercial lending, such as letters of credit.

Outside investors rarely sought financing from domestic banks. Bank lending is heavily biased towards short term loans, although mid-term loans are also offered. The micro-finance sector in the Kyrgyz Republic is robust, representing nearly half the market size of the banking sector. As of October 2013, the micro-finance loan stock was valued around USD 300 million. Agriculture accounted for half of the loans, followed by trade and consumer loans. The average interest rate in the banking sector was 22.45%, as opposed to the micro-finance sector where the average interest rate is 35% (more than

50% higher) due in part to the vast majority of the micro-finance loans being handled in rural areas outside of Bishkek. Over the last year, Parliament and the National Bank have worked together to better regulate and stabilize the micro-finance sector.

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

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

10. COMPETITION FROM STATE-OWNED ENTERPRISES

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

OECD Guidelines on Corporate Governance of SOEs

Corporate governance of SOEs is executed through the government appointed members of the board of directors. The board, in return, appoints an executive director. The main state agency in charge is the Fund for State Property Management. The Fund functions in line with a Provision adopted by Government of the Kyrgyz Republic.

In 2014, The Ministry of Economy established a working group that developed a draft project on reform of the system of SOEs management. It is currently under government review.

According to the Center for International Private Enterprise: “In Kyrgyzstan, state-owned companies play a significant role in the economy, especially in the banking, mining, and transportation sectors. According to the Index of Economic Freedom, government expenditure accounts for 38 percent of Kyrgyz domestic output. Cronyism and corruption within these companies presents a major obstacle to Kyrgyzstan’s market- economic transition. In many cases, elected officials appoint company board members based on political loyalty rather than professional skills and corporate governance knowledge. The positions on boards of directors are frequently used as

rewards for political support. This dynamic only reinforces a patronage system—the antithesis to democracy—resulting in poor economic performance and public service delivery.”

Sovereign Wealth Funds

Kyrgyzstan's Sovereign Wealth Fund was USD 893 million in 2007. The Fund originated from proceeds of the Kumtor gold mine and is primarily composed of shares in the parent company of the gold mine operator, Centerra Gold. The Fund was associated with the corrupt practices of ex- President Kurmanbek Bakiev and the Bakiev family used it as their personal slush fund. Today, large percentages of the Fund are frozen due to several pending legal cases regarding Kumtor gold mine.

11. CORPORATE SOCIAL RESPONSIBILITY

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

OECD Guidelines for Multinational Enterprises

Kyrgyzstan is not an adherent to the OECD Guidelines for Multinational Enterprises.

12. POLITICAL VIOLENCE

The Kyrgyz Republic enjoyed another year of relative political stability in 2014. The first peaceful, democratic turnover of presidential power in the

nation's history occurred with the inauguration of President Almazbek Atambaev in December 2011. The governing coalition changed peacefully in September 2012 and again in the spring of 2014 with no impact on foreign business or investment interests. The government was politically stable, withstanding periodic protests organized by opposition politicians. Concerns about law enforcement abuses and human rights violations in the country remain.

Interethnic tensions persisted in the southern part of the country, but did not have a destabilizing effect on the government. In 2014, DAESH/ISIL efforts to recruit Kyrgyzstani fighters to Syria generated headlines. Supporters of extremist groups such as the Islamic Movement of Uzbekistan (IMU), Al-Qaeda, and the Eastern Turkistan Islamic Movement remain active in Central Asia. These groups have expressed anti-U.S. sentiments and could potentially target U.S.-affiliated concerns. With U.S. assistance, the Kyrgyz Government has improved border and internal security and efforts to stem the flow of fighters to Syrian are ongoing.

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

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

13. CORRUPTION

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

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

Businesses operating in the Kyrgyz Republic will encounter some or all of these experiences.

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

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

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

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by upholding their obligations under relevant international

conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Kyrgyzstan ratified the UN Anticorruption Convention in September 2005. Kyrgyzstan is not a party to the OECD Convention on Combatting Bribery.

Resources to Report Corruption

Contact at government agency responsible for combating corruption
Mr. Tilek Sayakbaev
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Contact at "watchdog" organization
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14. BILATERAL INVESTMENT AGREEMENTS

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

Bilateral Taxation Treaties

The U.S.-U.S.S.R. treaty on double taxation, which was signed in 1973, remains in effect between the U.S. and the Kyrgyz Republic. The Kyrgyz Republic has also signed double taxation treaties with Armenia, Austria,

Belarus, Canada, China, Finland, Germany, India, Iran, Kazakhstan, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Poland, Russia, Switzerland, Tajikistan, Turkey, Ukraine and Uzbekistan.

15. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

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

16. LABOR

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

The law provides workers the right to form and join trade unions. The law allows unions to conduct their activities without interference and provides them the right to organize and bargain collectively. Workers may strike, but the requirement to receive formal approval made striking difficult and complicated. The law on government service prohibits government employees from striking, but the prohibition does not apply to teachers or medical professionals. The law does not prohibit retaliation against striking workers.

Safety and health conditions in factories are poor. The law establishes occupational health and safety standards, but the government generally did not enforce them. The State Labor Inspectorate is responsible for protecting workers and carrying out inspections for all types of labor problems, but its activities were limited, and business compliance was uneven. Workers in the informal economy had neither legal protection nor mandated safety standards. See more at: <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper>.

17. FOREIGN TRADE ZONES/FREE PORTS/ TRADE FACILITATION

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

18. FOREIGN DIRECT INVESTMENT AND FOREIGN PORTFOLIO INVESTMENT STATISTICS

Table 2. Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2013	7,230	2013	7,230	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	N/A	N/A	2013	12	World Bank
Host country's FDI in the United States (\$M USD, stock positions)	N/A	N/A	2013	0	U.S. Department of Commerce
Total inbound stock of FDI as % host GDP	N/A	N/A	2013	41%	U.S. Department of Commerce

Official statistics unavailable.

Table 3. Sources and Destination of FDI**Direct Investment from/in Counterpart Economy Data****From Top Five Sources/To Top Five Destinations (US Dollars, Millions)**

Inward Direct Investment			Outward Direct Investment		
Total Inward	Amount	100%	Total Outward	Amount	100%
Canada	793	27%	Tajikistan	1	88%
China	698	24%	Turkey	0	6%
United Kingdom	299	10%	Kazakhstan	0	3%
Russian Federation	196	7%	Russian Federation	0	2%
Kazakhstan	181	6%	Ukraine	0	0%

"0" reflects amounts rounded to +/- USD 500,000.

Canada's investment in the Kumtor gold mine accounts for most of the country's investment in Kyrgyzstan. Russian Federation accounts for only 7% of inbound FDI.

Kyrgyzstan is not listed on the IMF's Coordinated Portfolio Investment Survey (CPIS) site (cpis.imf.org). Since the IMF relies on country authorities to submit data for the survey, it is most likely that Kyrgyzstan did not submit.

19. CONTACT FOR MORE INFORMATION

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