

World Bank

# Doing Business in Kyrgyz Republic

## Reform Memo

*Background paper prepared for the Kyrgyz Republic under Country Economic Memorandum TA*

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FEBRUARY 2008

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# I Introduction

## Possible support from the Doing Business team to Kyrgyz Government and WB team

The Doing Business stands ready to help the Government of Kyrgyz Republic to support reforms to improve the ease of doing business in the country. Possible support that can be provided in the following areas:

- Preparation of more in-depth advisory memos;
- Review and suggest amendments to laws and regulations;
- Review and suggest changes to existing procedures;
- Engagement of international experts who can work with Government experts and staff on specific aspects of the DB agenda, drawing on concrete examples; and
- Organization of workshops to discuss the DB methodology and potential for reform.

It is important to bear in mind that for reforms to be reflected in the next Doing Business report, they must be fully implemented before June 1 of the year of publication, and show a real, positive impact which is measured through improvements in the data.

## Doing Business in Kyrgyz Republic: current status

The objective of this memo is to provide suggestions to the Government of Kyrgyz Republic to improve the ease of doing business. The analysis is based on the Doing Business (DB) methodology and indicators.<sup>1</sup> This memo is intended as an input for discussions with the Government of Kyrgyz Republic on possible reforms to improve key aspects of business environment in the country, which in turn would contribute to increasing firms' start up and growth rates and decreasing informality.

Kyrgyz Republic's rankings on the ease of doing business have deteriorated during the past year. Ranked 88 out of 175 countries in 2007, the country has dropped 6 places and is now ranked 94<sup>2</sup> out of 178 countries. Kyrgyz Republic's global strengths lie in Registering Property and Enforcing Contracts In 3 of the 10 stages measured (Indicators), Kyrgyz' regulations were found to be in the bottom 30 of the 178 countries that were ranked (Table 1).

**Table 1. Kyrgyz Republic DB rankings per indicator**

	Doing Business 2008 rank		Doing Business 2008 rank
Doing Business	94		
Starting a Business	49	Protecting Investors	33
Dealing with Licenses	152	Paying Taxes	152
Employing Workers	74	Trading Across Borders	177
Registering Property	16	Enforcing Contracts	32
Getting Credit	68	Closing a Business	128

<sup>1</sup> See Doing Business 2008, with data and details available on [www.doingbusiness.org](http://www.doingbusiness.org).

<sup>2</sup> Due to a data correction in Dealing with licenses indicator, the overall rank is likely to further deteriorate to 99.

## II. Potential for improvements in Kyrgyz Republic's ease of doing business

Overall, Kyrgyz Republic is positioned in the middle of the regional ranks, 19<sup>th</sup> out of 28 countries - ahead of Russia, Belarus, Uzbekistan, Ukraine and Tajikistan, but behind Kazakhstan, Moldova, Georgia, Armenia and the Baltic countries. In order to improve significantly on Doing Business indicators and ranks, the progress could be jumpstarted with more reforms.

Top reformers in Doing Business 2008 were Egypt, Croatia and Ghana, each having made improvements in 4-5 indicators. With aggressive reform efforts, Ghana's ranking, for instance, improved from 109 to 87 between the 2007 and 2008 reports, up 22 places. The annual average improvement of the top 10 reformers from Doing Business 2006 to Doing Business 2007 was 19 places in the global rankings –Table 2. This year, the average improvement was 16 places. Substantial jumps in ranking from year to year are indeed possible, as exhibited by Georgia– the country moved up 75 places in global rankings between the 2006 and 2007 reports through concentrated and aggressive reforms in the past year. Similar leaps are feasible, but require dedicated effort on most, if not all, indicators.

**Table 2: Top ten reformers in Doing Business 2007 report**

Country	Shift in Rankings	2006 Rank	2007 Rank
Georgia**	75	112	37
Romania**	22	71	49
Mexico	19	62	43
China	15	108	93
Peru	13	78	65
France	12	47	35
Croatia	10	134	124
Guatemala	10	128	118
Ghana	8	102	94
Tanzania	8	150	142
<b>Annual Average Improvement</b>	<b>19</b>	-	-

\* based on 175 countries

\*\* Georgia and Romania were also among top 10 reformers in the Doing Business publication of 2006

Analysis of the change in rankings after reforms was based on the assumption that no other countries improve—the calculation is available on the website: [www.doingbusiness.org](http://www.doingbusiness.org), “Reform Simulator”. Further dynamic analysis, assuming that countries follow past reform trends, shows similar results. While it is not possible to predict the exact level of improvement of all other 177 countries in the study and therefore Kyrgyz Republic's exact rank, a concerted reform effort will definitely improve the country's indicators in the future.

The Government of Kyrgyz Republic could make substantial, rapid improvements in four areas: starting a business, dealing with licenses, and paying taxes. In all of these three areas, several “quick win” actions could be undertaken in a few months. Though some may involve various ministries and some legal changes, they could be achievable within the year, as other countries have done, such as Egypt and Saudi Arabia. These “quick wins” would move Kyrgyz Republic's from rank 94 to above 50, all else equal. Further—more ambitious—reforms could also be pursued<sup>3</sup> Such reforms would take more time, as they require changes in legislation, institutions and systems' computerization. One area on which the

<sup>3</sup> Analysis of the change in Kyrgyz Republic's rankings after reforms was based on the assumption that no other countries improve—the calculation is available on the Doing Business website: [www.doingbusiness.org](http://www.doingbusiness.org), using the ‘Reform Simulator’ in the right column.

government could expedite ongoing reforms, but that will lead to results only in the long term, is trading across borders. It is important to note improvements in the rankings are difficult to predict for Kyrgyz Republic and other countries. Rather than aiming at specific improvements in the rankings, we recommend that emphasis is placed on implementing key reforms to improve the ease of doing business. A concerted reform effort will certainly be reflected in the Doing Business indicators and –more importantly—will increase the number of registered businesses, reduce informality and facilitate growth of existing firms.

## 1. Starting a business

Doing Business records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities. After a study of laws, regulations and publicly available information on business entry, a detailed list of procedures is developed, along with the time and cost of complying with each procedure under normal circumstances and the paid-in minimum capital requirements. Subsequently, local incorporation lawyers and government officials complete and verify the data.

Information is also collected on the sequence in which procedures are to be completed and whether procedures may be carried out simultaneously. It is assumed that any required information is readily available and that all agencies involved in the start-up process function without corruption. If answers by local experts differ, inquiries continue until the data are reconciled.

The Doing Business Report identifies Kyrgyz Republic as one of the more efficient countries in the world to start a business and ranks it 49 out of the 178 countries surveyed, 8 out of the 28 countries in the ECA region. Kyrgyz Republic is well positioned to improve its performance in the starting a business indicator further and reach OECD level on the ease to start a business (Table 3).

**Table 3. Starting a business in Kyrgyz Republic is relatively easy**

STANDARDIZED COMPANY: Private Limited Liability Company  
Paid in Minimum Capital Requirement: KGS 100, city: Bishkek

No:	Procedure	Time to complete:	Cost to complete:
1	Deposit not less than 50% of the charter capital in a bank and get a proof thereof	1 day	no charge
2	Notarize company foundation agreement	1 day	Public notary: KGS 150 (KGS 50 of State duty x 3 copies of foundation agreement) Private notary: KGS 300 (KGS 50 of State duty x 3 copies of foundation agreement + KGS 150 of services fee)
3	Obtain proof of company location	1 day	no charge
4	Register at the appropriate body of the Ministry of Justice, state registration	10 days	KGS 174
5	Register with the State Tax Inspectorate and obtain a confirmation for making a company seal	2 days	KGS 60
6	Obtain permission to make company seal and make a seal	3 days	KGS 1,100 (125 of permission cost + service fees of 450-1,500).
7	Register with the Social Fund	2 days	KGS 30
8	Open bank account	1 day	no charge

## **Quick wins and medium-term**

**Quick wins: eliminate requirement to deposit 50% of the charter capital in the bank, eliminate obsolete requirement to obtain authorization to make a company seal, eliminate substantive review of documents at the company registry and ISO certify the registry. All else being equal, making these reforms alone would cause Kyrgyz Republic to cut 12 days, 2 procedures, 80% of current registration fees and jump 9 places on the global ease of doing business ranks.**

The easiest reform of business entry is to cut the capital requirement. Some countries justify the capital requirement—as protecting creditors, as protecting the company against insolvency and as protecting consumers against bad products. But in many countries, capital can be paid with in-kind contributions, such as management time. In any case, recovery rates in bankruptcy do not differ between countries with or without a capital requirement. In Kyrgyz Republic minimal capital amounts to a nominal sum of 100 soms (0.48% of GNI p.c.), and can be easily abolished.

The requirement for a company seal or stamp is still on the books in 81 countries. Only in 7 of these, including Kyrgyz Republic, entrepreneurs have to get official approval to make a seal. In earlier centuries a seal symbolized the legal identity of a business and authenticated all its contracts. Now most documents are sent electronically. More than 100 countries have regulations allowing electronic signatures. These cost nothing and are more difficult to forge. All else being equal, cutting this procedure would improve overall ranking from 90 to 94.

The longest procedure in business startup in Bishkek is the state registration at the Ministry of Justice – it takes 10 days out of total 21. The Ministry of Justice conducts a substantive review of the documents to assess their compliance with laws and regulations in place. At the same time, the documents are prepared by lawyers and reviewed by a notary, but may also be based on standard forms with clear instructions provided by the Ministry itself. In this light, a substantive review that in practice takes up to a week is redundant. Countries that are on top of the ranks in Starting a business category - Australia, Canada, Hong Kong, Singapore and the United States - do not require substantive reviews at all. Registration is completed in one or two days, or a maximum of one week in Hong Kong. Armenia does not require substantive reviews in cases where the applications are made with standard company deeds. In fact, more and more countries are moving away from substantive reviews, making company registration a simple administrative formality. Serbia, Slovakia, Romania and Poland recently eliminated the need for substantive reviews. For example, in only two years, Slovakia dramatically reduced the delay at the county registry courts from 60 to five days by first imposing a stricter time limit in 2003, and eliminating the substantive review requirement in 2004.

Another step that could expedite business startup in Kyrgyz Republic is ISO certification of, or implementation of its own quality control procedures in the commercial registry at the Ministry of Justice. For example, this worked in El Salvador where customer satisfaction shot up from 42% to 87% in 2005, after ISO certification (ISO requires 85% customer satisfaction to be maintained). As a part of the first phase of the registry reform a “Quality Management System Documentation” manual is provided to each employee with both a narrative and schematic map to guide them through the particular processes within the registry. The manual explains the employee’s role in her team and outlines procedures for correcting registration errors and methods of ensuring that they were not repeated. It used to take 115 days to start a business in El Salvador, now it takes 26 days.

The ISO process could be completed within 6 month. It includes an annual outside review to ensure continuing compliance. This allows the Registry to be ready for the evolution in commercial practice in Kyrgyz Republic.

## **Ambitious (long-term) reforms**

**Ambitious reforms to business start-up could cause Kyrgyz Republic to become one of the most efficient countries in the world to start a business and increase the rankings by additional 4-5 places.**

Australia, New Zealand, and Singapore, the world's most efficient countries in business startup have achieved that by centralizing registration procedures online, thereby creating a virtual single access point. Japan, Thailand, the Philippines and Vietnam have improved efficiency and eliminated opportunities for corruption by allowing for electronic filing for company registration.

In Denmark an entrepreneur can start a business without leaving the house. Using the Internet, the entrepreneur can obtain a digital signature, register with the commercial registry and tax authority and submit the incorporation documents. All data are automatically validated—no public officials are involved. The entrepreneur receives a business identification number online, and the company notice is published on the web. Making registration electronic is one of the most effective ways to speed start-up. Since 2003, 13 countries have introduced electronic registration, including Belgium, Ireland, Mauritius and Norway. This cut the average time to start a business in those countries from 40 days to 17. And with no contact between the entrepreneur and the public official, no bribes can change hands.

Online start-up works best in countries with high Internet penetration and laws allowing electronic signatures. As a start, countries can introduce online name search and publication or computerize registration records. Over the past 2 years Germany, FYR Macedonia, Mozambique and Serbia made the company establishment notice electronic, saving up to 3 months in waiting time. Online name checking is now available in Moldova, Nigeria and Vietnam. Georgia computerized business registration records, eliminating 63,000 visits a month to tax offices by Georgians seeking business abstracts. That frees more time to start companies—and run them. Such reforms can be cheap. When Guatemala made registry records electronic, it took 5 months and 10 people to scan 1,620,000 files, all at a cost of \$100,000.

Further consolidation of procedures – Tax and Social fund registration - will make Kyrgyz Republic's one of the most efficient countries in the world to start a business. As a transitional measure, business registrations may be coordinated through the single access point, but processed in the different agencies. It is important to specify how long this transitional period would be. Unless an intra-agency fast-delivery service is available, delays are likely to increase.

As example of Macedonia could be studies to assist the Government to implement such reform. A one-stop-shop system was implemented in January 2006. The Central Register of Republic of Macedonia is now the only institution responsible for registration of limited liability and other forms of trade companies and foreign representative offices. The procedure at the Central Register covers: (a) registration of the company in the Trade Register; (b) providing the statistic number for the company; (c) opening of the bank account of the company; (d) registration of the company in the Public Revenue Office - Tax Office; (e) publishing of the company's creation notice on the web site of the Central Register ([www.crm.com.mk](http://www.crm.com.mk)).

Main features of the reform:

- A new one-stop shop combines company, tax and statistics registration.
- A new company number was introduced (but there is still a separate tax number).
- Registration was changed from a judicial to an administrative process.
- Application forms are now available online but online registration not possible, yet.

- Time limits were reduced to 5 days.  
The publication requirement in the official gazette was replaced with automatic registration on company's website.

## 2. Dealing with licenses

The Doing Business Report records all procedures required for a business in the construction industry to build a standardized warehouse. These include obtaining all necessary licenses and permits, completing all required notifications and inspections and submitting the relevant documents (for example, building plans and site maps) to the authorities. Doing Business also records procedures for obtaining utility connections, such as electricity, telephone, water and sewerage.

The survey divides the process of building a warehouse into distinct procedures and calculates the time and cost of completing each procedure under normal circumstances. Information is collected from construction lawyers, construction firms and public officials who deal with building regulations. To make the data comparable across countries, several assumptions about the business and the procedures are used.

Kyrgyz Republic inherited a multi-layered approval system from the Soviet days and is ranked 170<sup>4</sup> (152 published ranking) out of 178 countries on the ease of receiving construction permits. Displayed herewith are the procedures, time, and costs to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections in Bishkek (Table 4).

**Table 4. Construction permitting in Kyrgyz Republic is complicated**

Data as of: December 2007

Estimated Warehouse Value: KGS 10,925,040, city: Bishkek

No:	Procedure	Time to complete:	Cost to complete:
1	Request and obtain approval (land allocation) of City Planning Council under Bishkek City Architecture Department	60 days	no charge
2	File application-intention and obtain City Planning Regulation of Architectural Planning Conditions (AII3) from the unit of State Department for Architecture and Construction Supervision	5 days	KGS 3,000
3	Request and obtain technical conditions to connect to networks for electricity supply	60 days	KGS 3,000
4*	Request and obtain technical conditions to connect to networks for water supply	60 days	KGS 3,000
5*	Request and obtain technical conditions to connect to networks for sewage system	60 days	KGS 3,000
6*	Request and obtain technical conditions to connect to networks for telephone line	60 days	KGS 3,000
7*	Request and obtain topographic survey conclusion of land from Kyrgyz GIIZ	14 days	KGS 7,5000
8*	Request and obtain engineer and geological survey conclusion of land from Kyrgyz GIIZ	14 days	KGS 10,000
9	Request and obtain Architectural Planning Conditions (AII3) from the local unit of State Department for Architecture and Construction Supervision	55 days	KGS 3,000
10	Request and obtain engineer and communications (utilities) approval from authorities issuing Technical Conditions	7 days	KGS 1,350
11	Request and obtain approval of draft proposal from Technical Council under the State Agency for Architecture and Construction	30 days	No charge
12	Request and obtain State Expertise of project documentation	20 days	KGS 32,775
13	Request and obtain approval of project documentation from local unit of State Department for Architecture and Construction Supervision	10 days	KGS 32,000
14	Enter into an agreement with the Department on State Architectural and Construction Supervision with regard to supervision and control of construction	5 days	KGS 32,950
15	Request and obtain authorization to conduct earthwork	5 days	KGS 680
16	Request and obtain equipment operating permit	15 days	KGS 1,462
17	Register documents with the State Department for Architecture and Construction Supervision	2 days	KGS 2,000
18	Obtain building permit from State Department for Architecture and Construction	30 days	KGS 717

<sup>4</sup> Due to a data correction based on new information received during the Doing Business Central Asia regional study.

	Supervision		
19	Request and receive connection to electricity	10 days	KGS 1,000
20*	Request and receive connection to water and sewage services	9 days	KGS 1,000
21*	Request and receive connection to telephone	8 days	KGS 3,000
22	Request final inspection	1 day	KGS 1,500
23	Receive final inspection and obtain Act of Acceptance	1 day	KGS 5,000
24	Obtain Occupancy Permit	49 days	no charge
25	Register the building with the real estate registry	20 days	KGS 5,000

\* Takes place simultaneously with another procedure

## Quick wins and medium-term reforms

**Quick wins: reduce days from 388 to 187, number of procedures and costs stay the same. All else being equal, making these reforms alone would cause Kyrgyz Republic to jump 27 places on the global ease of doing business ranks, all else being equal.**

*Doing Business* counts the procedures, time and cost necessary for a business in the construction industry to build a standardized warehouse. It now takes 25 procedures, 388 days and 757.7% GNI per capita to build a warehouse in Bishkek. An optimal solution would be creation of a single window clearance system to expedite pre-project approval times. Another remedy that would not only reduce the time but also cut a number of procedure is to address the duplication of project expertise functions by Technical Council under the State Agency for Architecture and Construction and State Expertise Department of State Construction Inspection (Gosarchstroinadzor). Until that plan is realized, the Government of Kyrgyz Republic can facilitate construction with the following short-term goals. Introduction of time limits and clarity of procedures would reduce total time from 388 to 187 days, 64 days less than average time required to obtain construction clearances in the ECA region.

### ***Cut time from 388 days to 187 days by:***

Reducing time for receiving land allocation permit (draft project) from City Planning Council under Bishkek City Architecture Department from 60 to 30 days; technical condition to connect to water, electricity, sewage and phone plans from 60 to 10 days; Architectural Planning Conditions from 55 to 30 days, Technical Council's approval time from 30 to 10 days; Equipment operation permit from 15 to 5, and to obtain the occupancy permit from 49 days to 5, reduce time to register a building from 20 days to 5.

## Ambitious (long-term) reforms

**Ambitious reforms to construction licensing could cause Kyrgyz Republic to become a regional leader on the dealing with licenses indicator and increase the rankings by additional 10-15 points.**

*Implement a single clearance window.* Kyrgyz Republic could benefit from introducing a single window clearance for construction that would include a plan for all authorities (federal and municipal), currently involved in issuing approvals to communicate internally, rather than directly with clients. This reform could be built on the existing practice where all utilities companies involved in issuance of technical conditions come to Bishkek City Architecture Department once a week to approve the routes of connection. Ideally, the client would only apply once to the Single window, which would distribute relevant documents and applications internally to the appropriate departments. Furthermore, utilities representatives could be located at the Single window office to be simultaneously contacted for issuing technical conditions prior to construction and obtaining connections upon construction completion.

*Shift responsibility for quality control to private experts—internalize inspections and make the occupancy permit obsolete.* Kyrgyz Republic could study reforms in Finland, Singapore, Georgia and other

exemplary countries in this area are all following a similar trend: make the building architect or engineer responsible for quality. These qualified experts are private practitioners, certified and bound by the government to provide quality control from first drawings to final occupancy permit. If a cadre of such professionals were created, the occupancy permit could also become obsolete—the qualified expert would merely notify authorities of building completion and certify that it is compliant with all safety standards necessary for use.

Architectural Planning Conditions (APZ) are issued mostly in post Soviet countries, of which many are reforming that and moving towards simplified schemes of pre-project approval. Georgia recently abolished this procedure and started a broader reform to enforce the norms and standards of the International Building Code.

Clarity of rules and procedures is essential to companies doing business in such complex sector as construction. Obsolete laws, chaos in hierarchy of legal acts, and abuse of public’s legal ignorance are perfect match that add unnecessary steps and extra costs. For instance, functional responsibilities of State Expertise and Technical Council overlap on the same subject of safety expertise. These two procedures could be merged and streamlined. Equipment operation permit and earth works permit could be merged into the process of building permit as well.

### 3. Paying Taxes

The data presented shows the tax that a medium-size company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes. These measures include the number of payments an entrepreneur must make; the number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes (Table 5).

**Table 5. Paying taxes in Kyrgyz Republic is not easy**

Tax or mandatory contribution	Payments (number)	Notes on Payments	Time (hours)	Statutory tax rate (%)	Tax base	Total tax rate (% profit)	Notes on TTR
Emergency tax	12		-	1.5%	cost of goods sold	22.1	
Pension contribution	0	paid jointly	71	19.0%	gross salaries	21.4	
Tax on the usage of roads	12		-	0.8%	cost of goods sold	11.8	
Corporate income tax	12		60	10.0%	taxable profits	3	
Health insurance	12		-	2.0%	gross salaries	2.3	
Tax on immovable property	2		-	0.9%	assessed property value	0.8	
Tax on interest	0	withheld	-	10.0%	interest income	0.3	included in other taxes
Property tax (land)	12		-	SOM 0.16 per square meter	land area	0	
Fuel tax	1		-	SOM 0.2 per liter	per liter		small amount

Value added tax (VAT)	12		71	20.0%	value added		not included
Sales tax	0	withheld	-	4.0%	sales		withheld
Totals:	75		202			61.4	

*Notes:* Name of taxes have been standardized. For instance income tax, profit tax, tax on company's income are all named corporate income tax in this table.

The hours for VAT include all the VAT and sales taxes applicable.

The hours for Social Security include all the hours for labor taxes and mandatory contributions in general.

## Quick wins and medium-term reforms

**Reduce payments from 75 to 52, time to pay from 202 to 150 hours. All else equal, these reforms would bring Kyrgyz Republic up 5 ranks on the global ease of doing business.**

*Combine property taxes (land and real estate) and have it paid once a year.* Currently, Kyrgyz companies separately pay the Property tax on land (small amount of 0,16 soms per square meter) monthly and Property tax on immovable property twice a year, together they make up for 14 separate payments. Since both share the same base, it would be easier for the employer to pay them at the same time and location once a year. This would reduce the number of payments from 75 to 52, and likely reduce time to file and pay from 202 to 150 hours.

## Ambitious (long-term) reforms

**Ambitious reforms to paying taxes in Kyrgyz Republic could cause a further jump – by 5-8 points - in ranks on the global ease of doing business. In addition to the quick wins, this would require reducing payments further, down to 7 or less per year.**

*Introduce online tax payment system.* Allowing payment online would save the employer the time of paying physically and ease compliance. According to Doing Business methodology, if a tax is payable online, no matter how many times per year it is actually paid, only one payment is counted. The experience of neighboring Kazakhstan could be useful for Kyrgyz Government to explore. In Alma-Aty it only takes 9 payments per year due to online reporting.

## 4. Trading across borders

The costs and procedures involved in importing and exporting a standardized shipment of goods are detailed under this topic. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods. With 64 days to export and 75 days to import a standardized container of goods, Kyrgyz Republic is the second most difficult country in the world to trade across borders (Table 6). Being a double land-locked country, Kyrgyz Republic still could significantly improve its rankings by streamlining customs procedures, and improving banking infrastructure.

**Table 6: Procedures, time and costs to export and import are high in Kyrgyz Republic**

<b>Nature of Export Procedures (2007)</b>		<b>Duration (days)</b>	<b>US\$ Cost</b>
Documents preparation		24	200
Inland transportation and handling		34	2000
Customs clearance and technical control		3	200
Ports and terminal handling		3	100
<b>Totals:</b>		<b>64</b>	<b>2500</b>
<b>Nature of Import Procedures (2007)</b>		<b>Duration (days)</b>	<b>US\$ Cost</b>
Documents preparation		26	100
Customs clearance and technical control		13	250
Ports and terminal handling		3	100
Inland transportation and handling		33	2000
<b>Totals:</b>		<b>75</b>	<b>2450</b>
<b>Export documents</b>		<b>Import documents</b>	
Bill of lading		Bill of lading	
Cargo release order		Cargo release order	
Certificate of origin		Certificate of origin	
Commercial invoice		Commercial invoice	
Consular invoice		Consular invoice	
Customs export declaration		Customs import declaration	
Export license		Foreign exchange authorization	
Foreign exchange authorization		Import license	
Inspection report		Inspection report	
Packing list		Packing list	
Tax certificate		Tax certificate	
Technical standard/health certificate		Technical standard/health certificate	
Terminal handling receipts		Terminal handling receipts	

## **Ambitious (long-term) reforms**

**Ambitious reforms – introduction of on-line and risk-based clearance, implementation of pre-arrival release of goods and account management service and time procedures to identify bottlenecks could significantly – by 10-15 points - increase the ranks of Kyrgyz Republic.**

*Implement on-line clearance system.* In Bosnia and Herzegovina customs clearance sped up sharply, thanks to a new online system. Traders submit their customs declarations electronically and get a response within 30 minutes. Before, this was done face-to-face with customs officials, a long process and a great opportunity to extract bribes. Another 17 reformers set up or improved electronic exchange of information between traders and customs. Armenia introduced electronic transmission of trading documents, reducing the time to prepare and submit documents to customs by 3 days. FYR Macedonia eliminated repetitive customs procedures at its borders. Waiting time fell by 75%. One study estimates that exporting from the Kyrgyz Republic to Russia by land takes 208 hours and that 60% of this is waiting time at the borders—thanks to multiple inspections by customs, phytosanitary officers, immigration officers and the border police.<sup>i</sup> Measure delays at the border

*Introduce risk-based customs clearance system.* Time to pack/unpack and load/unload goods on/off a rail platform in Bishkek can take 10-14 days, due to 100% inspections. It is crucial to set up a risk-based inspection system that allows custom authorities to only conduct spot inspections and not need to inspect all cargo. Spot inspections could easily help Kyrgyz Republic to improve customs clearance time from 13 days to 1. Most countries that have modernized their custom clearance procedures have adopted risk

based system. This allows them to only inspect a proportion of the cargo going through their points of entry. Prior dealings with certain freight forwarders, prior inspection of cargo from the same shipment and other statistical elements can help determine how best to select the cargo for inspection.

*Introduce pre-arrival release of goods.* The philosophy of this approach is based on launching the documentary procedures on the goods that are being shipped and before its arrival at the country as the shipment will be released through documents. Upon the actual arrival of the shipment, the goods will be released through the contact points located in the customs sectors, thus the clearance time is reduced as is the cost of the imported articles which eventually is in favor of the consumers.

Pre-arrival customs procedures:

- Inserting the data into computers.
- Submitting the originals obtained from freight forwarders, banks, etc., and a commitment to pay for any difference occurred.
- Determining the release channel (green, yellow or red channel).
- Payment of the accrued taxes and duties.
- Getting an initial release order of three copies (one for the client or his representative, another for the file, and a third for the gate).
- Sending the release order, the invoices and the packing list to the contact point of the releasing customs via fax or scanner.

Post-arrival customs procedures:

- The importer submits to the head of the contact point the original and the copy of the release order, and the other documents.
- The declaration will be then recalled from the terminal according to the release channel.
- Verify the goods with the submitted documents and, in case of matching, the goods will be released after obtaining the permits of the other control authorities, if any.
- In case of discrepancy, the shipment will be inspected and the accrued differences will be calculated. Issue the final release order of three copies (one for the client or his representative, another for the customs file, and a third for the gate).

*Implement Account Management Service (AMS).* This service is provided for large importers who have no record of infractions and who are being compliant with customs systems and procedures that are only ensured by applying risk management and post clearance audit systems and according to the customs data base. The Account Management Service is one of the best practices which are being applied in the modern customs authorities. The US authorities pioneered the service in 1984. Egypt, upon implementing AMS in 2005-2007 reduced average customs clearance time from 2 month to just a few hours.

AMS benefits to Customs:

- Account compliance with import requirements.
- Pre-arranged inter-authority agreements that facilitate clearance.
- Eliminates burdensome and sequential inspection process at port.
- Increases throughput at sea ports, with capability of expanding service to airports.
- Focused port level resources on high-risk shipments rather than repetitive, low-risk shipments.
- More in-depth knowledge of customer and goods imported.
- Enhanced risk assessment and risk mitigation capabilities.
- Standardized procedures across ports.
- Ability to collect revenues earlier and more predictably.
- Reduced reliance on multiple personal relationships for predictable and expedited service.

AMS benefits to importers:

- Expedited clearance processing time.
- Improved ability to manage inventory, resulting in decreased costs to importer and across the supply chain.
- Lowers need for demurrage, resulting in lessened demurrage costs.
- A dedicated Accounts Manager who will represent importer interests and facilitate the clearance process.
- Standardized and consistent service across ports.
- Pre-arranged inter-authority agreements that facilitate clearance.
- System of data capture that establishes compliance and facilitates trust.
- Reduced reliance on multiple personal relationships for predictable and expedited service.
- Establishing a system for data collection which will help to enhance compliance and trust among customs and dealers.
- Reduced reliance on multiple personal relationships for expedited service.

*Time procedures to identify bottlenecks.* In Tanzania the tax authority carries out an annual exercise of random checks across border points. In August 2005 the average time to process documents for imports, from arrival to entry into the country, was 8 days, 23 hours across seaports; 6 days, 15 hours across airports; and 3 days, 9 hours across land crossings. In August 2006 the exercise was repeated to monitor the pace of improvements. In a year delays for importers were reduced by a quarter on average, from 39 days to 30.

Georgia's customs office is going even further. With the help of the U.S. Agency for International Development, evaluators were posted at random times at the 2 main border crossings (Sarphi and Red Bridge) and the 4 customs terminals (Adlia, Opiza, Lasare and Barvil). Their task was to clock the speed at which inbound cargo is processed. Interesting differences emerged: while processing trucks takes 28 minutes on average at the Red Bridge crossing, it takes 52 minutes at Sarphi. Similar differences are recorded at customs terminals. Customs is now setting up a bonus system to reward teams of customs officials that process goods faster than their colleagues. The bonus payment is substantial: 2 months' salary for each customs official on a winning team.

*Improve banking infrastructure.* It currently takes up to 3 weeks to obtain a letter of credit in Bishkek and there is only 1 bank able to issue it. Improvement of the banking system is outside the scope of the Doing Business project as it requires fundamental structural changes in the economy.

## **5. PROTECTING INVESTORS**

The focus of this indicator is to measure the strength of minority shareholders' protections against directors' misuse of corporate assets for personal gain. Such protection fosters good corporate governance. The indicators rely on data generated from a survey of corporate lawyers and are based on company laws, securities regulations and court rules of evidence.

The indicators presented describe three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection. The main weakness of Kyrgyz Republic's performance in Protecting investors indicator is due to the insufficient director liability score (Table 7).

**Table 7. Kyrgyz Republic ranks higher than the region on average**

<b>Indicator</b>	<b>Kyrgyz Republic</b>	<b>Region</b>	<b>OECD</b>
Disclosure Index	8	4.9	6.4
Director Liability Index	1	3.8	5.1
Shareholder Suits Index	9	6.3	6.5
Investor Protection Index	6.0	5.0	6.0

## **Ambitious (long-term) reforms**

**Kyrgyz Republic could improve its ranking on the protecting investors index and overall ranking by 5-10 points by reforming some of the provisions of the Joint-Stock Companies Act:**

- The Joint-Stock Companies Act should offer the possibility of derivative (10% or less shareholding required) and direct suits against directors of a company.
- The Joint-Stock Companies Act should state clear directors' duties. The reviewed law must require that directors, during the exercise of their powers, are subject to a duty of care (duty to exercise appropriate diligence and make decisions that are informed) and to a duty of loyalty (duty to act without conflict and always put the interest of the corporation before those individual director or other individuals)
- By law, directors should be individually and jointly liable for violation of their duties. They should be liable even if they disclose all the information and they do not participate in the process of approval of a related-party transaction. A diligent and loyal director should put the interest of the company and its shareholders before his personal interest.
- Directors should be required, by law, to pay the damages caused to the company and also repay the profit made from this type of transaction.

Economies that regulate self-dealing—the use of corporate assets for personal gain—see greater equity investment and lower concentration of ownership.<sup>5</sup> A recent study of Bulgaria found exactly that: tougher investor protections from a 2002 securities law reform stopped a growing flow of delistings from the stock exchange and led to higher equity values.<sup>6</sup> The Georgian reforms also allow investors to appeal harmful actions of directors to the court and demand compensation—including a refund of the benefiting director's personal profit. To receive these damages, investors need only prove that the transaction could have had better terms and conditions.

<sup>5</sup> Djankov and others (forthcoming).

<sup>6</sup> Atanasov, Ciccotello and Gyoshev (2006).

## 6. Getting credit

*Doing Business* constructs measures of the legal rights of borrowers and lenders and the sharing of credit information. The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.

The second set measures the coverage, scope, quality and accessibility of credit information available through public and private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions (Table 8). Currently private Credit Information Bureau Ishenim is the only credit information entity in Kyrgyz Republic that gathers and maintains records for borrowers of its member-banks.

**Table 8. Kyrgyz Republic ranks lower than the region on average in getting credit**

Indicator	Kyrgyz Republic	Region	OECD
Legal Rights Index	5	5.6	6.4
Credit Information Index	3	3.4	4.8
Public registry coverage (% adults)	0.0	2.4	8.6
Private bureau coverage (% adults)	1.6	15.4	59.3

### **Ambitious (long-term) reforms**

**Getting credit reforms typically require regulatory changes. Kyrgyz Republic would benefit from developing a Law on credit information, to clarify rules of engagement in the field of credit information. In the area of legal rights of borrowers and lenders an obvious step would be to allow for general rather than specific description of pledged assets. These reforms could lead to improving the country's overall rankings by 5-10 places.**

*Eliminate legal obstacles to sharing credit information.* Credit registries store sensitive information, making credit reporting an easy target for critics. The best way to counter their concerns is to introduce laws that safeguard borrowers' privacy and create incentives for registries to maintain high-quality data. Legislation can guarantee borrowers the right to inspect their data, obliging the credit bureau to send them the data for review once a year free of charge. Membership in a credit bureau for the credit organizations should be made mandatory: this will increase the bureau coverage and allow for a higher Doing Business score.

*Allow for general rather than specific description of assets and for all types of assets to be used as collateral.* Countries that require specific descriptions of assets in collateral agreements make it impossible for a borrower to use changing pools of assets (such as inventory or receivables), future assets (such as crops) or the entire business as collateral. This is especially costly for small firms, which are less likely to own real property and instead need to rely on receivables and movable property as collateral.

A better way is to permit general descriptions in loan agreements, allowing the use of all types of assets as collateral—present and future, tangible and intangible. Bosnia and Herzegovina, Denmark, France, Peru, Serbia, Ukraine and Vietnam have done so since 2004. When Slovakia allowed general descriptions, credit to the private sector jumped by 10%. More than 70% of the new credit was secured by movables and receivables. Even without such radical change, reformers can ease access to credit by broadening the range of assets that can be used as collateral to include such asset classes as accounts receivable (as China did in 2007), inventory (as Croatia did in 2006) and future assets (as Japan did in 2005).

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