

TACKLING CORONAVIRUS (COVID-19):
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OECD Eurasia Webinars

Supporting Recovery and Enhancing Resilience



Improving the Legal Environment for Business in Central Asia

Ministerial regional webinar – summary record

Wednesday, 23 September 2020



Improving the legal environment for business in Central Asia

The arrival of COVID-19 in the spring of 2020 to Central Asia called for immediate policy interventions, whilst also highlighting concerns about regional resilience, which is undermined by the fragility of the private sector. This has foregrounding the need for recovery efforts to go together with long-term reforms to improve the business climate.

These longer-term reforms were discussed at the Ministerial Regional Webinar, for which the OECD's analysis and recommendations in the draft report on "Improving the Legal Environment for Business in Central Asia" served as a basis. The assessment resulted from a thorough examination of ten dimensions of the business environment: legal and regulatory frameworks for investment; tax regulations; land legislation; registration procedures; contract enforcement and dispute settlement; the operational environment for firms; trade facilitation; expropriation regimes; exit mechanisms; and public-private dialogue.

The Ministerial Regional Webinar allowed for the OECD to present its assessment of the legal environment for business and investment in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. The session marked the end of the first analytical phase of the project, with the second phase focused on capacity building on identified priority reforms. The project is financed by the European Union as part of the EU Central Asia Invest (CAI) initiative.

Speakers

In order of appearance:

- **Ambassador Peter Burian**, EU Special Representative for Central Asia
- **Mr Andreas Schaal**, Director, OECD Global Relations
- **Mr Stephen Thomsen**, Head of Investment and Sustainable Development Unit within the Investment Division, OECD
- **Mr Sardor Umurzakov**, Deputy Prime Minister for Investments and Foreign Economic Relations and Minister of Investments and Foreign Trade of Uzbekistan
- **Mr Bakhyt Sultanov**, Minister of Trade and Integration of Kazakhstan
- **Mr Farrukh Hamralizoda**, Chairman of the State Committee for Investment and State Property Management, Tajikistan
- **Mr Manas Sarymsakov**, Deputy Minister of Justice of Kyrgyzstan
- **Ms Beata Javorcik**, Chief Economist of the EBRD
- **Mr Luke Mackle**, Policy Analyst, OECD Eurasia Division
- **Mr Muhammetgeldy Serdarov**, Minister of Finance and Economy of Turkmenistan
- **Mr Sanjar Mukhanbetov**, Minister of Economy of Kyrgyzstan
- **Mr Ruslanbek Davletov**, Minister of Justice of Uzbekistan
- **Ms Nigina Alizoda**, First Deputy Minister of Justice of Tajikistan
- **Ms Akerke Akhmetova**, Vice-Minister of Justice of Kazakhstan
- **Ms Lilia Burunciuc**, Regional Director for Central Asia, World Bank
- **H.E. Mr Sven-Olov Carlsson**, Ambassador and Head of Delegation, EU Delegation to Kazakhstan

Opening remarks

There is a pressing need for countries of Central Asia to strengthen competitiveness and resilience with structural, regulatory and legal reforms. The COVID-19 crisis yet again exposed the vulnerabilities of existing economic models; short-term fixes will not be sufficient to deliver sustainable and inclusive growth. At the same time, the crisis presents an opportunity for governments to transition to new, more sustainable economic models. A major impediment to achieving this, however, is a legal and regulatory environment that makes doing business difficult and expensive. The European Union is committed to support Central Asia's efforts to improve that environment, in collaboration with the OECD ([Ambassador Peter Burian](#)).

Economic development in Central Asia has been undeniably impressive, with average real GDP growth of 6% since 1996. However, growth has now been slowing for more than a decade. At the root of the slowdown has been the region's

dependence on volatile growth drivers, including exports of minerals and labour. The region needs a new, private-sector driven growth agenda, guided by clear long-term reform priorities. The OECD report has highlighted gaps between *de jure* provisions, and the *de facto* business climate. The focus for Central Asian governments should therefore be on implementation, making good policy a reality for those firms that need it to grow, create and innovate ([Mr Andreas Schaal](#)).

First panel discussion: The general framework for investment and trade

Setting the stage

Levels of formal statutory restrictions on foreign investors in Central Asia are in many instances below those found in other non-OECD countries. The *OECD FDI Regulatory Restrictiveness Index* – a diagnostic tool for governments to assess the restrictiveness of their investment environment – shows that **Central Asia is close to the OECD average when it comes to regulatory restrictions on foreign investment**. However, the index does not take into account the **role of the SOEs in the economy**, nor their governance, both of which are important issues for the region. **Statutory restrictions on land, in particular for agriculture, and financial services, may damage the attractiveness of the region as an FDI destination** since businesses may be prevented from accessing necessary inputs and ancillary services. From a regulatory perspective, governments in the region should focus their efforts by improving land legislation and strengthening intellectual property rights. Over the long term, such efforts may raise investor confidence in the region's strengths at a time where the global investment environment will become more competitive ([Mr Stephen Thomsen](#)).

Perspectives from Central Asia

For several years, countries in Central Asia have been undertaking reforms to improve their business regulations and public services for firms. In 2017, **Uzbekistan** began a policy of trade openness (improvement of the tax code, lifting exchange rate restrictions, emphasis on training of young workers) with a view to improving the investment attractiveness of the country, as well as of Central Asia more broadly. The operational environment for domestic firms has also been markedly improved through greater digitalisation of government services and the removal of cumbersome regulations ([Mr Sardor Umurzakov](#)).

COVID-19 has underscored the volatility of the region, requiring the government of **Kazakhstan** rapidly to adapt its support for both citizens and businesses. As seen in other countries, the crisis has accelerated digitalisation process in Kazakhstan. For example, the **government has digitised a range of government services for businesses**, improving access by introducing a **single import-export window** for businesses as well as **digitalising customs** procedures ([Mr Bakhyt Sultanov](#)).

In **Tajikistan**, the government is looking to restore investor confidence by ensuring its population receives additional **financial support to maintain liquidity and consumption**, whilst also pushing ahead with the implementation of longer-term reforms. These longer-term reforms have been a long-standing priority for the government, which has implemented several reforms recently to support **investment and trade facilitation**. This process has followed the country's greater **co-operation with the WTO**, and saw it adopt a large number of regulations and new laws, expand digitalisation, as well as establishing **one-stop-shops** for businesses ([Mr Farrukh Hamralizoda](#)).

Noting that dispute resolution is a key concern for international firms, **Kyrgyzstan** has been very active in recent years with improving the **enforcement of dispute settlements** and increasing **transparency in the judicial system** for citizens and enterprises. In part this has involved making it easier to access the appeals system. The government sees **digitalisation playing an important role in improving the accessibility and transparency of the justice system**. It has established a **universal portal** with information on the work of the arbitration courts. Beyond the judiciary, **digitalisation is also being extended to public service delivery and consumer protection** ([Mr Manas Sarymsakov](#)).

Perspectives from development partners

The COVID-19 pandemic will have a particularly severe impact on trade and FDI in Central Asia. Key to overcoming the challenges to FDI attraction and trade will be regional co-operation. Collaboration with international institutions such as the OECD, EU, EBRD and the World Bank for the post-crisis recovery period will be of primary importance. **Investment promotion policies** can serve as a tool to attract FDI and help diversification. FDI can serve as a conduit of knowledge and good practice, something which is crucial for transition economies looking to boost productivity and innovation. **Diversifying the sources of FDI** is therefore also important, ensuring that flows are attracted from advanced economies and multinationals with cutting-edge business practices. **Promoting regional trade** as a stepping stone

towards global trade will also be key for Central Asia to successfully weather the COVID-19 storm, paving the way for greater internationalisation and value-chain participation in the future ([Professor Beata Javorcik](#)).

Second panel discussion: the legal and operational environment for domestic firms

Policy priorities for Central Asia countries

Governments have taken significant steps to improve their business climates, yet efforts have at times focussed too heavily on the “low-hanging fruit” of reform. And while legislation may have improved, it is subject to frequent change, creating inconsistencies, contradictions and unpredictability. At the same time, implementation of laws and regulations remains weak. The most commonly cited **challenges facing firms across the region tended to be grouped in three categories: tax policy and administration, trade facilitation, and contract enforcement**. Left unaddressed, these issues will inevitably undermine the region’s competitiveness, making the recovery from COVID-19 harder and slower. It is the intention of the OECD to use the findings from this project to help focus reform efforts in the region in the coming years ([Mr Luke Mackle](#)).

Perspectives from Central Asia

Turkmenistan has taken steps to **digitise services for businesses**, including the creation of a unified online public portal that will allow businesses to automatically register their entity. With registration a long-standing challenge in Turkmenistan, this simple but important step could markedly improve the operational environment for firms ([Mr Muhammetgeldy Serdarov](#)).

The digitalisation agenda has been prominent in **Kyrgyzstan** for a number of years, with the government setting it as one of its top priorities for the coming decade. Given the impact of COVID-19, digitalisation and the need to administer remote support across the country has accelerated these efforts, with the country’s **flagship ‘Tunduk’ platform** at the heart of these efforts ([Mr Sanjar Mukhanbetov](#)).

The Ministry of Justice of **Uzbekistan** intends to **streamline the regulatory environment**, consolidating business-related laws and regulations into a single code. Doing so could add much needed clarity to the legal environment for business in a country where the pace of reform continues to be rapid. Uzbekistan is also trying to **improve the inclusivity of decision making** through greater involvement of regional authorities and agencies. The government has also **established an ombudsman** which reports directly to the presidential administration, improved **land allocation procedures**, and streamlined the **issuance of licenses and permits**. Similar to its regional neighbours, Uzbekistan has identified digitalisation as its top priority ([Mr Ruslanbek Davletov](#)).

Tajikistan is also using **online platforms to improve service provision to businesses** as well as to **better involve the private sector in decision making** that affects firms. For example, a newly-established online portal will allow businesses to become involved and discuss the drafting and implementation of business related legislation, marking a significant improvement in the consultative process in the country which could greatly enhance both the predictability of the legislative environment as well as making it more representative of business needs and concerns ([Ms Nigina Alizoda](#)).

Kazakhstan, which began to develop e-government services over a decade ago, has put in place **a portal which allows businesses to conduct tax payments or register**. Over recent years, the government has focused its regulatory efforts on the **improvement of property rights and intellectual property rights** for businesses, reflecting a number of the key challenges addressed in the *Improving the Legal Environment for Business* report ([Ms Akerke Akhmetova](#)).

Perspectives from development partners

The silver lining of the COVID-19 crisis in Central Asia might be **the emergence of an opportunity to begin long-awaited and much needed reforms to the region’s economies**. Noting that certain jobs may disappear for good when the crisis abates, there is a need for governments in the region to target new sectors, particularly those with high-growth potential such as IT and in the green economy. Indeed, government support should be mobilised to support where possible rising sectors. With much of the day’s conversation addressing ‘resilience’, it is important to lay the groundwork now that will allow the emergence of new sectors, and new jobs, that will provide this resilience in the future ([Ms Lilia Burunciuc](#)).

Closing remarks

The global health crisis has exacerbated the strains of an already difficult economic transition for many economies in Central Asia. If the region is to emerge with economies that are more able to support its growing and skilled labour force, then **it is imperative that the private sector plays a bigger role going forward**. For theory to become reality, governments must do all that they can to improve their business climates. **The critical step is to ensure that improvements in implementation keep pace with formal legal, policy and institutional changes** ([Ambassador Sven-Olov Carlsson](#)).