

TACKLING CORONAVIRUS (COVID-19)
CONTRIBUTING TO A GLOBAL EFFORT

IMPLEMENTATION SUPPORT WEBINAR

Improving the Legal Environment for Business in Central Asia:

*Simplifying the regulatory and operational environment for SMEs
in Kyrgyzstan*

25 March 2021

10:00 – 12:00 (GMT+1: France)
15:00 – 17:00 (GMT+6: Kyrgyzstan)

OECD Eurasia Competitiveness Programme

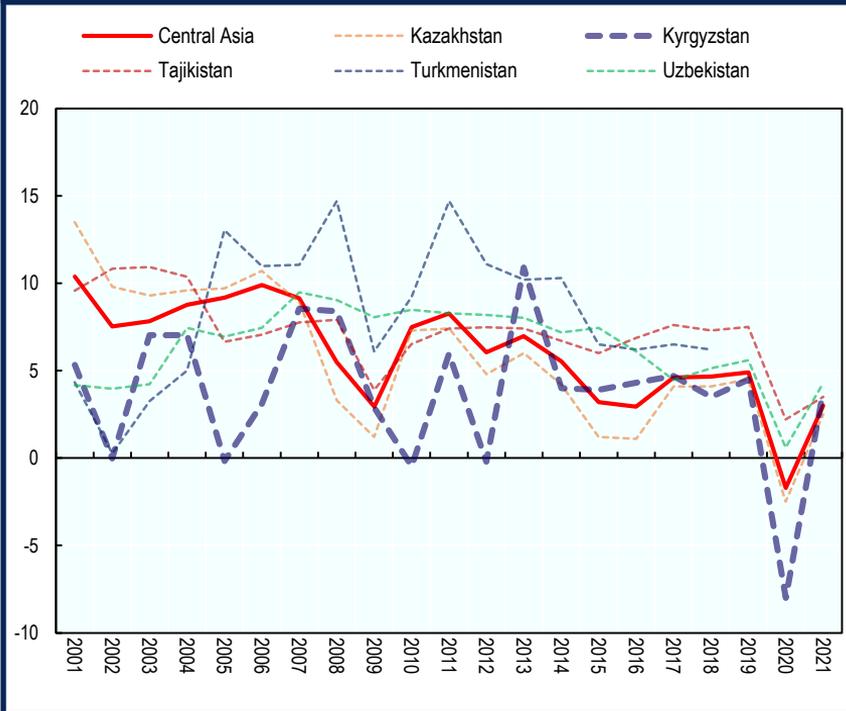


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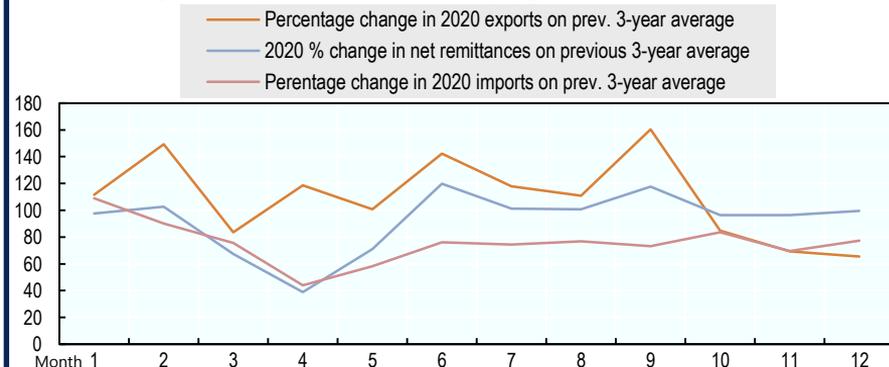
COVID-19 has had a large negative impact on Kyrgyzstan's economy and has highlighted its longstanding dependency on volatile – and vulnerable – drivers of growth

Kyrgyzstan recorded the biggest economic contraction in Central Asia in 2020



Many of the economy's key drivers were particularly affected by the crisis

- Though **remittances** bounced back following a **sharp decline in April-May 2020**, the sudden drop highlighted Kyrgyzstan's exposure to the impact of external shocks.
- **Important sectors** such as tourism (hotels and restaurants' activities decreased by **-50%**), construction (**-27%**) and mining (**-41%**) have been particularly affected by COVID-19.
- The crisis was exacerbated **by a fall in investment (-31%)**.
- Only **gold exports** sustained Kyrgyz trade in 2020.



Kyrgyzstan aims to foster a more dynamic private sector, but the regulatory environment needs to be streamlined

COVID-19 has hit trade and investment, foregrounding need to foster domestic private-sector driven growth...

- Kyrgyzstan's private sector remains encumbered by a challenging business climate, contributing to a large **informal sector** and to the **limited development of formal SMEs**.
- **Business activities** have been hit hard by COVID-19. **Value added by SMEs decreased by 8.5%** during the first three quarters of 2020 compared to 2019.
- With limited public investment capacity and long-standing dependence on external demand, the government must address the barriers that have prevented private sector growth **as part of the country's recovery plan**.
- The government has recognised that a sustainable recovery will require making **business conditions better for the country's SMEs**.

Sources: National Statistical Committee of the Kyrgyz Republic, OECD

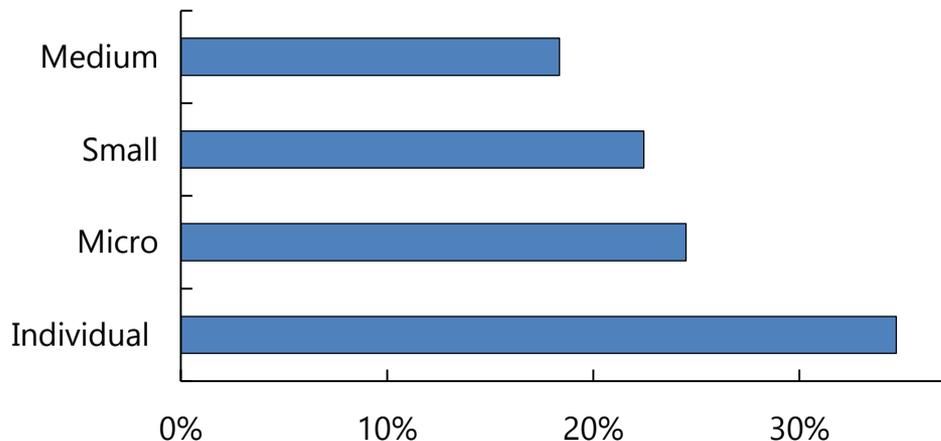
...Kyrgyzstan has outlined a number of reforms but implementation will be crucial

- The government has enacted a number of measures to **support SMEs during the pandemic**, such as *the Act on New Economic Freedom* and an Anti-Crisis Fund.
- The government has extended its **moratorium** on inspections, but this is not a permanent solution.
- **The creation of the Business Ombudsman** in 2020 provided a promising avenue to protect entrepreneurs' rights in disputes with the state.
- Platforms such as **Tunduk** have demonstrated their utility as conduits for key services to the private sector.
- Discussions are ongoing about the creation of a **one-stop-shop**, with a deadline of December 2021.
- **Tax administration** is a key concern for firm of all sizes.



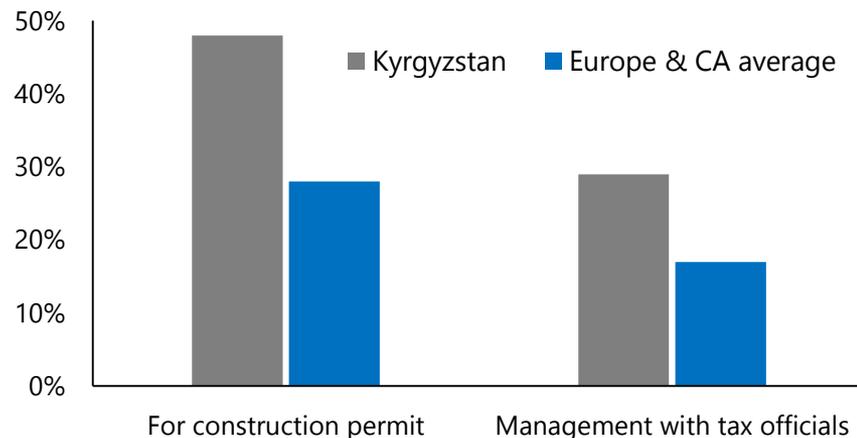
Zoom on today's priority for discussion: Issues on business licensing, permits and interactions with the administration remain high

Problems with business licensing and permits



Sources: OECD survey, WB Enterprise surveys, JICA

% of firms requested or expected to give gifts or informal payments



The government should foster the streamlining and digitalisation of licenses and procedures through one-stop shops



Zoom on today's priority for discussion: Simplifying the regulatory environment could significantly improve the business climate

Key findings and issues

- The **98 different licenses for business** activities in Kyrgyzstan remain above the regional average (around 60 in neighbouring countries), with information at times difficult to obtain and processes complicated.
- The regulatory environment is complex and changeable, while legislation **could benefit from consolidation and streamlining**.
- The requirements for **inspections** are not always clear, with administration and oversight poor; the presidential decree of January 2021 recognises this as a priority.
- Plans to develop a **one-stop-shop** remain at an early stage with multiple initiatives and a lack of integration between agencies.
- Recent **digitalisation efforts** have been impressive especially under the *Tunduk* initiative.
- Plans for **expanded digitisation** must take into account infrastructure constraints and investment needs, and the absorption capacity of firms.

Recommendations

- ➔ Create and establish **one-stop-shops** for SME access to regulatory information, license and permit applications, inspection requirements, trade requirements, etc.
- ➔ Ensure interoperability and a whole-of-government approach.
- ➔ Put business needs first.
- ➔ Continue to **streamline and digitalise** license and permit processes.
- ➔ Consider options for **legislative consolidation and streamlining**, possibly through the creation of an entrepreneurial code.



Reform priorities: Improving the operational environment for SMEs, tax administration and contract enforcement

Reform area	Key findings and issues	Recommendations	Priority for today's discussions
Operational environment for SMEs	<ul style="list-style-type: none">• Inadequate and insufficiently transparent delivery of business services, including licensing and permits.• Regulatory environment changeable, requirements opaque, legislation unconsolidated.• Justification for inspections not always clear, process often onerous, administration and oversight poor.• Digitalisation relatively advanced, but key challenges with interoperability and whole-of-government strategy.	<ul style="list-style-type: none">➔ Physical and online one-stop-shop➔ Rationalisation of permits and licenses➔ Legislative consolidation and streamlining➔ Further digitalisation of services and support for SME digitalisation	

Contract enforcement: Discussions to take place in **Q3** on contract enforcement recommendations

Taxation: Discussions to take place in **Q3** on tax administration and policy recommendations



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Thank you

For more information

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