

High Technology Park of the Kyrgyz Republic

A Case Study on the Institutional
Setup and Results



AGA KHAN FOUNDATION

Main Goals for Growing the Kyrgyz IT Industry

1. Transitioning from natural resource extraction and remittance dependency to the knowledge-based economy
2. Stimulating innovation, creativity, and digital transformation across traditional sectors of the economy
3. Educating highly skilled specialists and researchers in Information Technologies (IT) and High-Tech domains
4. Strengthening the country's exports potential by participating in global IT value chains
5. Increasing domestic IT industries capacity to develop imports substituting IT products



List of Constraints that Hamper IT Sector Growth at Early Stages

1	High degree of informal economy	<ul style="list-style-type: none">• IT companies are not willing to work formally under high tax rates and duties• IT revenues are difficult to track
2	Scarcity of qualified talent	<ul style="list-style-type: none">• Youth are not interested in pursuing IT professions• IT Education programs are outdated• Lack of qualified IT instructors
3	Undeveloped physical infrastructure	<ul style="list-style-type: none">• Lack of creative office spaces that meet the needs of IT companies• Underdeveloped broadband internet
4	Weak participation in global IT value chains	<ul style="list-style-type: none">• Country and its IT companies are not known for their IT services• International customers have a low trust
5	Limited access to international payments systems	<ul style="list-style-type: none">• Domestic banks do not support novel payment systems• Reputable international banks are reluctant to partner with domestic banks

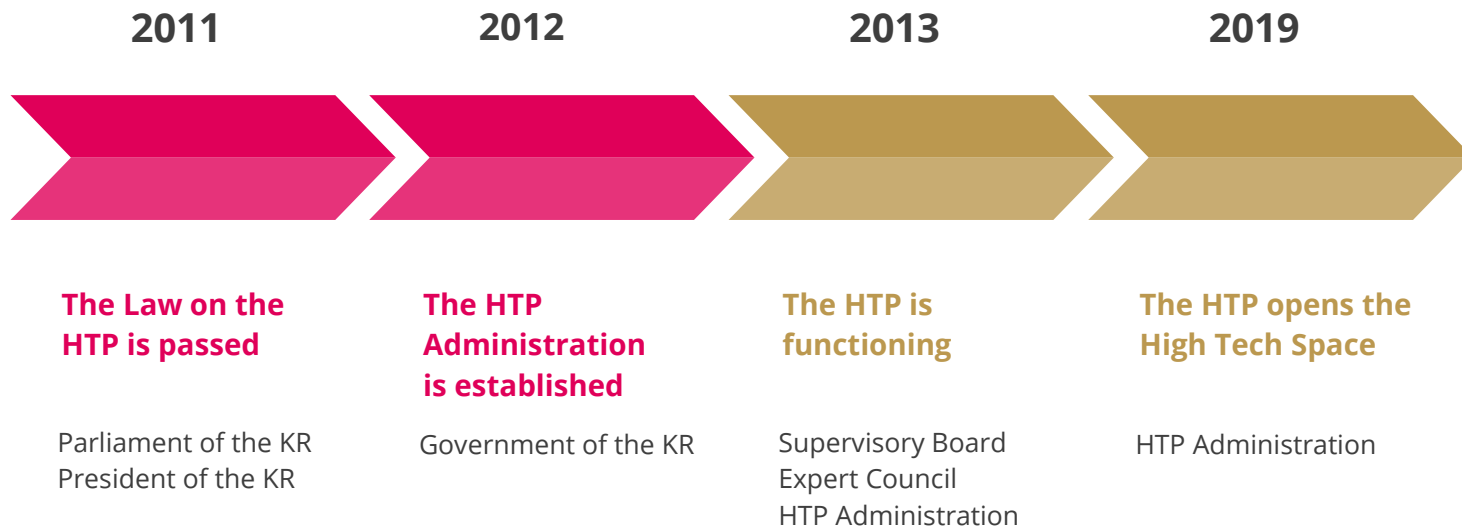


Main Objectives of the HTP for the Kyrgyz IT Industry

- 1.** Develop the domestic industry of software development, new and high information technologies, as well as the provision of interactive service centers (call-centers, BPO)
- 2.** Create an integrated system of state support for domestic high-tech business
- 3.** Promote scientific and technical activities of companies in domestic and international markets to increase exports of software development and services
- 4.** Attract investment by creating a favorable tax and business environment for international representatives
- 5.** Create a favorable environment and infrastructure for the legalization of the domestic IT industry
- 6.** Stimulate the development of science and education, to increase the number of specialists in IT fields
- 7.** Promote the implementation of modern world standards for the quality of software development



High Technology Park of the Kyrgyz Republic Timeline



Institutional setup of the HTP

HTP regime target and duration:

HTP regime is targeted at registered companies (including with foreign founders) and individual entrepreneurs that work in the domain of supported activities.

15 years from the moment of passing HTP legislation (i.e. until 2026).



Geography of the HTP regime:

- Exterritorial geography - meaning that any eligible IT company can register within the country.



Types of supported Economic Activities in IT:

- Software development: analysis, design and programming of information systems, including those ready for implementation, analysis of information needs and problems of users, design, development, delivery and documentation of individual and / or finished software, per orders of specific customers;
- Export of information technology and software;
- Creation and provision of services of interactive service centers.



The HTP Incentives

		General regime	Under the HTP	Comments
1	Value Added Tax	12%	0%	<ul style="list-style-type: none"> Under general tax regime exports of services are exempt from VAT taxes
2	Sales Tax	3%	0%	<ul style="list-style-type: none"> Under general tax regime cashless payments are exempt from Sales taxes
3	Tax on profit	10%	0%	<ul style="list-style-type: none"> While HTP Residents are exempt from listed taxes, they disburse 1% of their revenue to the HTP budget.
4	Income Tax	12%	5%	<ul style="list-style-type: none"> Income tax is paid by the HTP residents on behalf of employees
5	Social Security Duties	27.5%	12%*	<ul style="list-style-type: none"> Under general regime companies pay 17.5% and employees pay 10% from their salary. Under HTP 12% is calculated from the average annual salary (i.e. fixed amount payments)

HTP Administration's High Impact Interventions

Supporting IT companies and Startups

- Provide exhaustive information about the HTP and its benefits
- Facilitate knowledge and experience sharing among the companies and beyond
- Partner and build specialized startup incubation and acceleration programs

Supporting IT talent development

- Hold information campaigns to drive significant interest in IT, especially among youth
- Collaborate with private IT courses to quickly respond to the needs of IT companies
- Partner with formal education institutions to update their IT education programs

Supporting enabling physical infrastructure

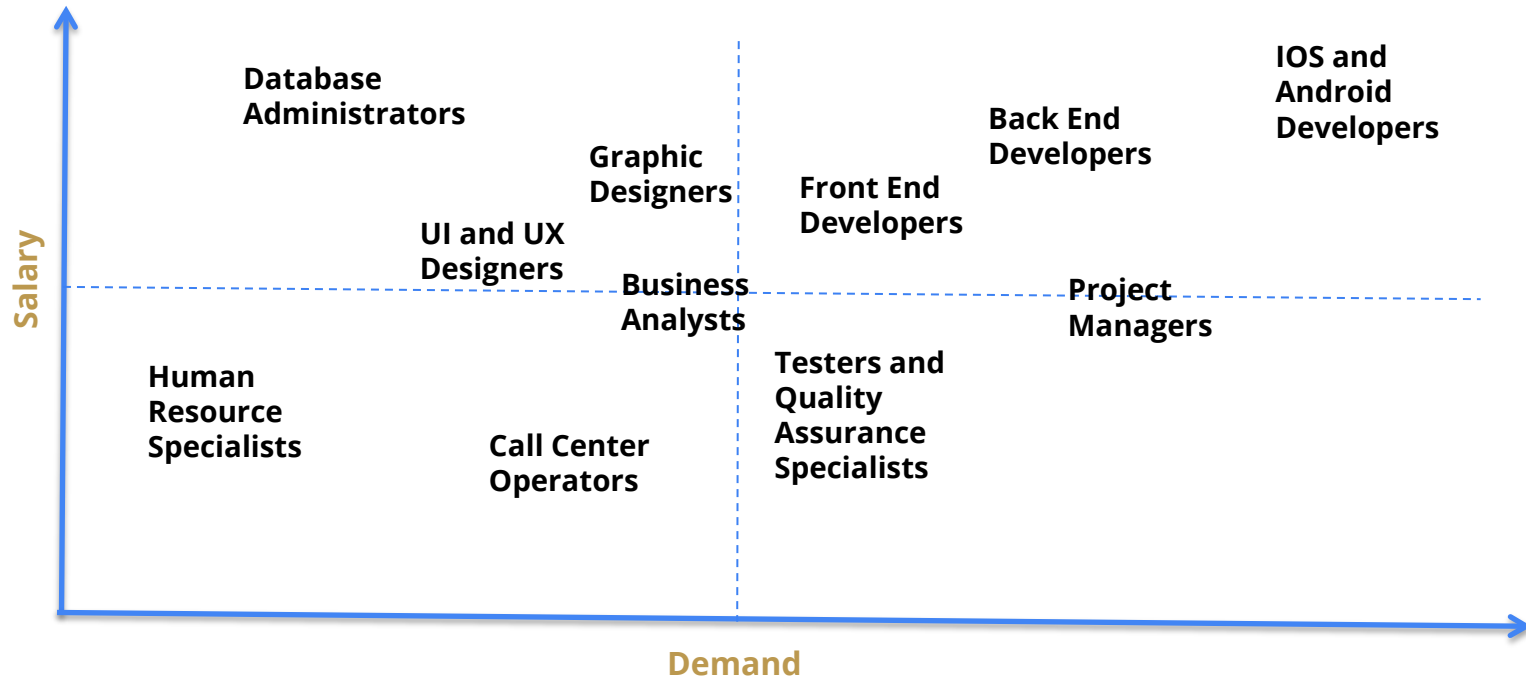
- Partner with the private sector, universities, and development agencies in creating a favorable physical environment for IT companies
- Provide acceleration and incubation services to Startups with free / discounted spaces in High Tech Space / coworking spaces

Supporting participation in IT Global Value Chains

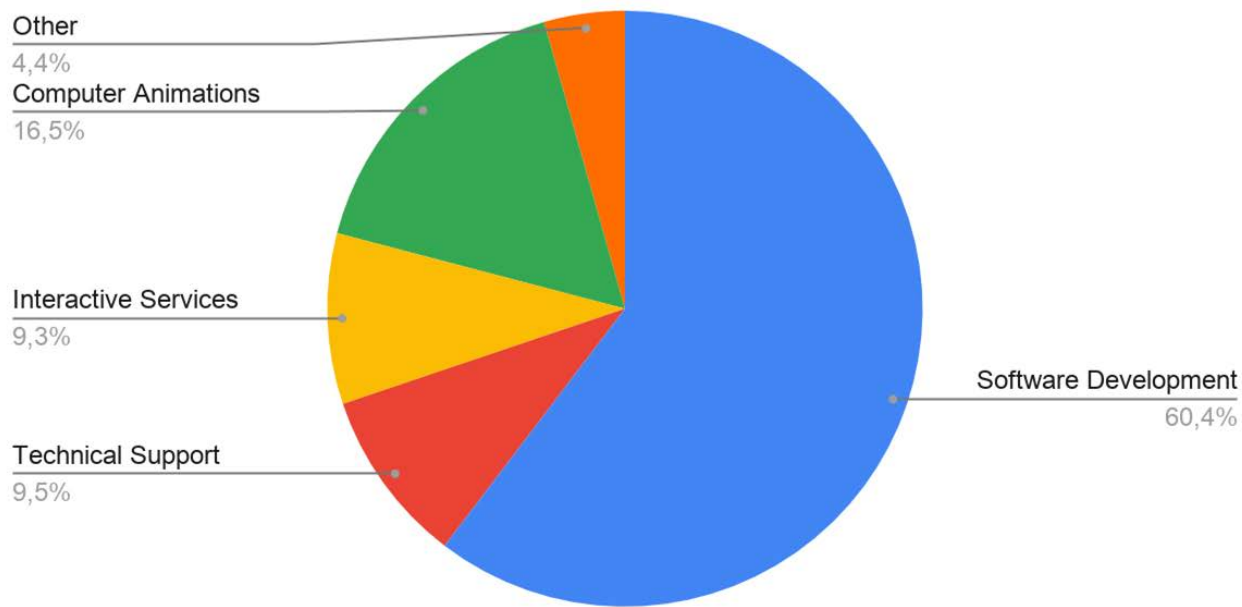
- Organize events to increase competence of IT companies in lead generation and sales on such platforms as Upwork, Clutch, Toptal
- Organize and participate in international conferences to market domestic IT companies



Highly Demanded Skills in IT at Early Stages



Breakdown of KG HTP Revenues by Type of Services (2019)



Suggested HTP Performance Indicators

1 # of registered HTP companies

2 # of employees of HTP residents

3 Annual revenues of HTP residents

4 Share of exports by country

5 Annual HTP residents' payrolls

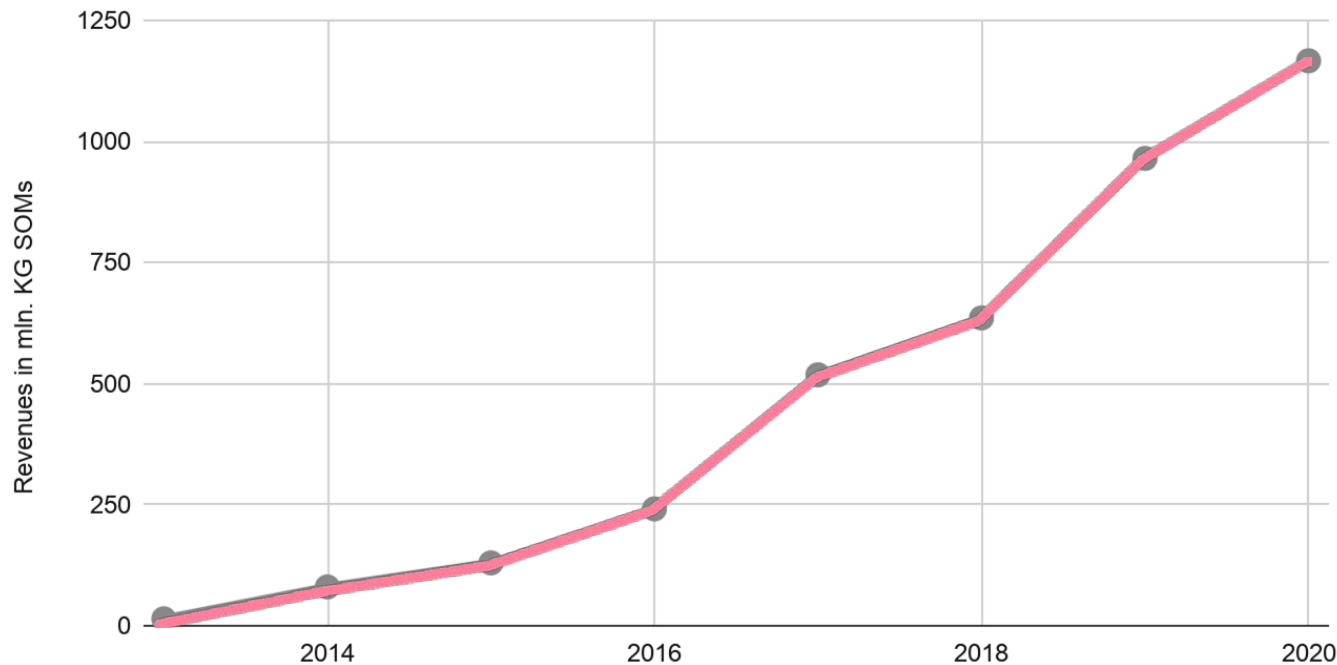
6 Annual taxes and duties paid to Government by residents

7 Annual revenues of HTP residents by type of services

8 Others



The Growth of KG HTP Residents' Revenues



Addressing the Main Challenges in Establishing the HTP

1	Weak Buy-In support among officials at the inception stage	<ul style="list-style-type: none"> • Conduct a thorough cost-benefit analysis of incentives of the selected IT industries and exploring domestic capacity • Public discussion with government members, industry leaders, and relevant stakeholders on HTP implications and expected results.
2	Prolonged review and passage of the HTP legislation	<ul style="list-style-type: none"> • Form the highest level working group with relevant stakeholders interested in passing the HTP legislation. • Active participation of relevant government bodies in advocating for the legislation. • Gain the highest level of political support.
3	Delays in financing and launching the HTP operations	<ul style="list-style-type: none"> • Partner with development organizations to help finance HTP launch during its initial stages. • Forming a strong Supervisory Board and Expert Council that will launch and oversee HTP operations. • Hiring competent HTP staff.
4	Risks related to the administration of the special tax regime	<ul style="list-style-type: none"> • Supervisory Board and the HTP Administration develop relevant policies and procedures that would regulate HTP resident registration processes, monitoring resident compliance to the law, and tracking performance of the HTP • Develop transparency and accountability mechanisms
5	Weak Buy-In among the private sector once HTP operations started	<ul style="list-style-type: none"> • Meet and build trust among existing IT companies that are eligible for registration • Proactive outreach to IT Companies and informing them about the HTP • Organizing informational and IT related events to establish HTP industry leadership



ANNEXES

1. HTP Eligibility and Governance
2. Results
3. Action Plan for HTP Setup
4. References

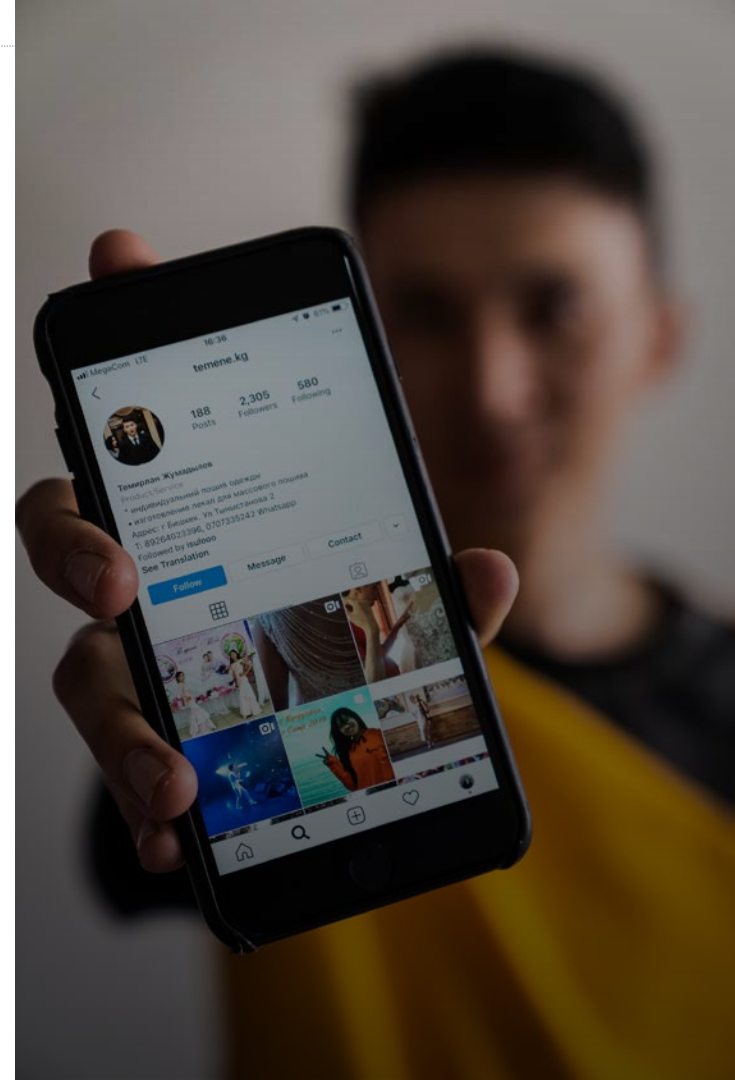


Eligibility & Governance

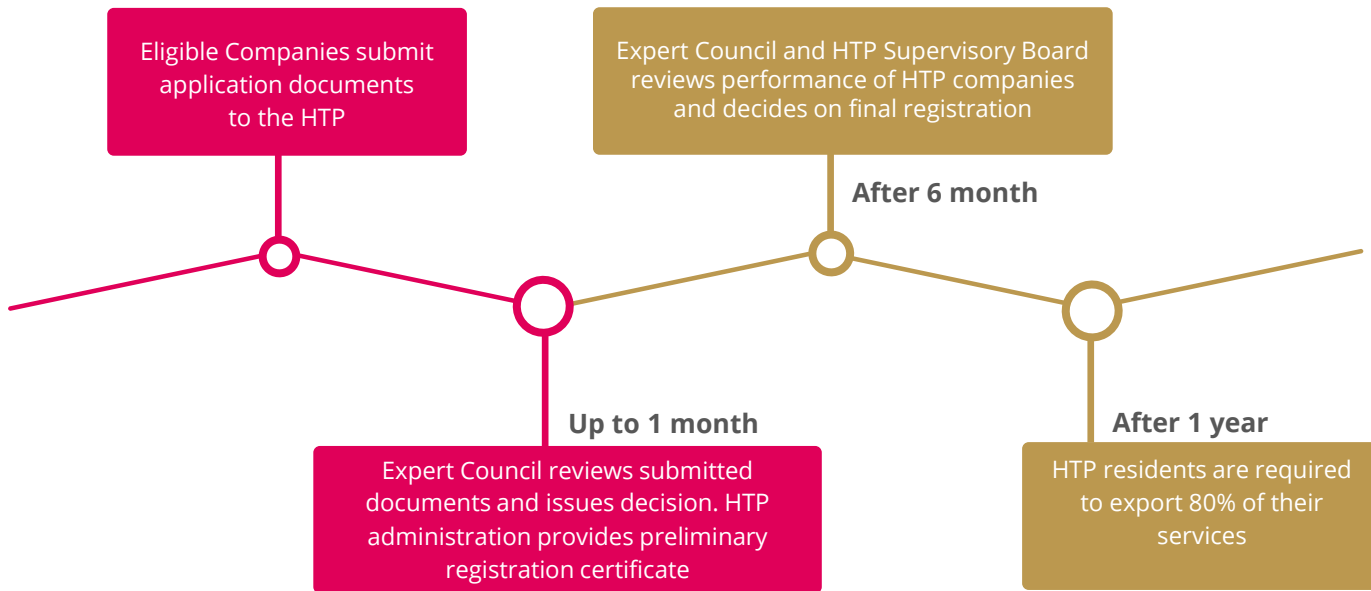


HTP Resident Eligibility Criteria

- Existing or intended business activities have to be within the domain of economic activities identified in the law of the country. An existing company must show 90% of its revenue as arising from one or more of the HTP economic activities.
- The company has to be officially registered within the country.
- The company has to file a special registration application in order to become the resident of the HTP.
- Companies must provide relevant documents to prove compliance with the above eligibility criteria, and exhaustive background information.



HTP Resident Registration Stages



Legal Liabilities of HTP Registered Companies

- 1 Registered companies must pass accounting tax registration with the tax authority, and duly provide tax reporting and make tax payments.
- 2 At least 90% of the company's income must be derived from economic activities that fall within the three listed industries (page 8). This ensures companies remain within HTP scope while enjoying its privileges.
- 3 All revenue payments of the company must be done on a cashless basis. This is important to track all economic activities and from where revenues are generated, using transactions in a bank account.
- 4 A year from the final registration, at least 80% of the income of the resident company should be from the export of goods and services. Compared to the Belarusian HTP experience, where 90% of services are exported, 80% requirement is not considered too ambitious. This requirement should be subject to in-depth IT industry research.
- 5 HTP residents must submit quarterly reports on their economic activities, which must be certified by an annual independent financial audit.
- 6 HTP residents must make quarterly deductions in the amount of 1% of their quarterly proceeds from their activities. These payments are required to finance the activities of the HTP authority.



Annuling the HTP Resident Status

1

**Based on a relevant statement
from the HTP resident**

2

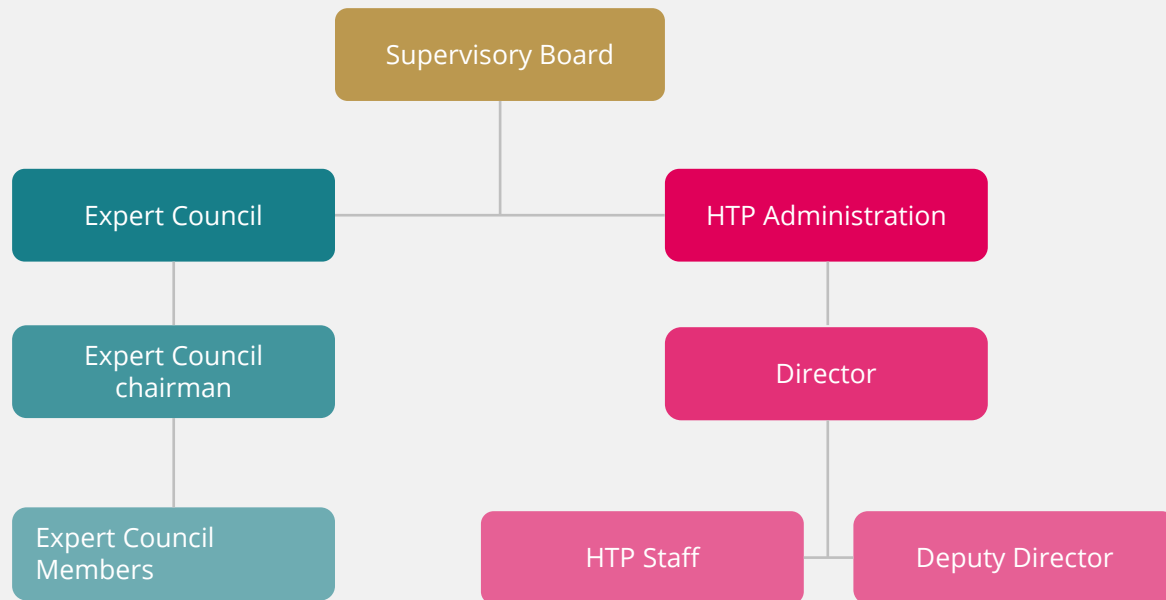
**Failure to fulfill the legal
liabilities mentioned**

3

**In case of liquidation (termination
of activity) of the HTP resident**



The HTP Organizational Chart



Supervisory Board

Parliament appointees:

- One with at least five years of professional experience in the field of information and communication technologies
- One with at least five years of professional experience in the field of economics
- One with at least five years of professional experience in the field of jurisprudence

Prime Minister appointees:

- One is a representative of the Office of the Government of the Kyrgyz Republic, who has at least five years of professional experience in ICT
- Two representatives of an authorized executive body of the Kyrgyz Republic, implementing state policy in the fields of: 1) communications and information system development, with at least five years of professional in ICT experience; 2) economic regulation, with at least five years in economics.

Professional association of software products manufacturers:

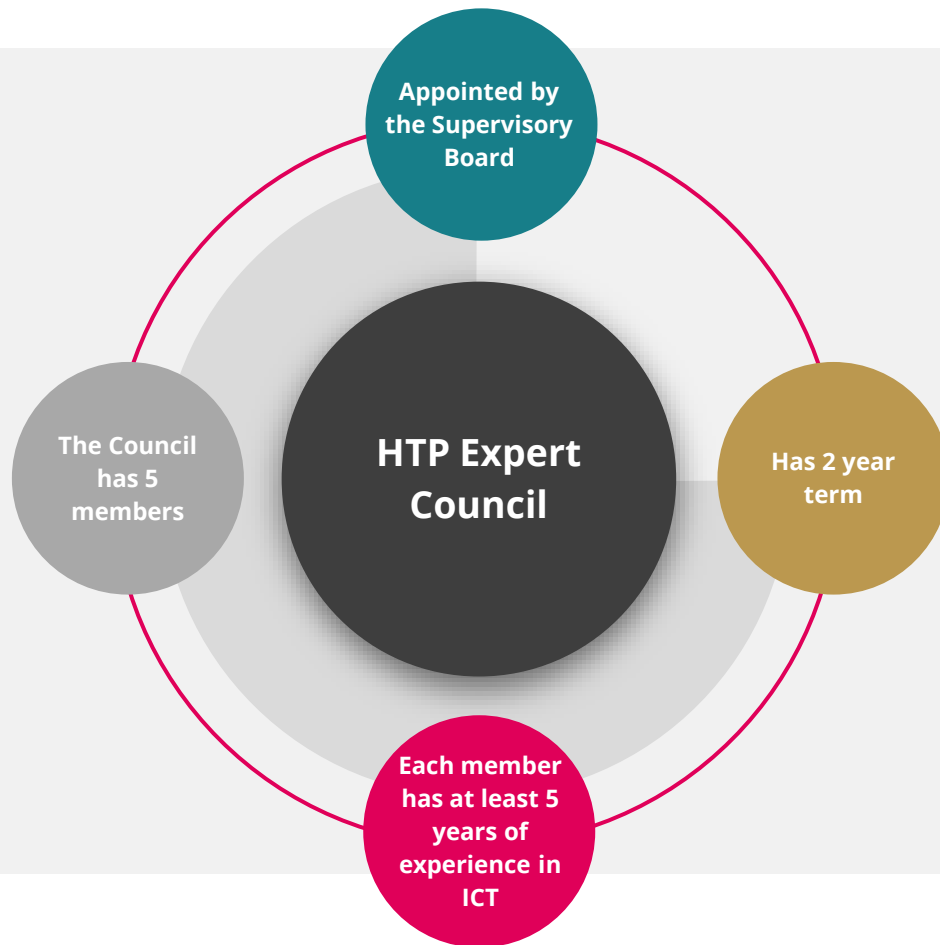
- Three members from the private/non profit sector, each with at least five years experience in ICT.

**Supervisory Board
has 9 members and
appointed for 3 years**

1. Three members are appointed by the Parliament of the Kyrgyz Republic
2. Three members are appointed by the Prime Minister of the Kyrgyz Republic
3. Three members are appointed by a professional association of software products manufacturers that has 5 years of experience in ICT
Supervisory Board Chairman is appointed by the Prime Minister of the Kyrgyz Republic



HTP Expert Council



HTP Administration (Directorate)

Directorate



The Directorate is a legal entity, registered as an institution, that has financial, economic, and legal independence

Director



Director is appointed by the Supervisory Board for a four-year term. The Director executes an approved annual plan using an allocated budget, approves staff structure, hires employees, presents annual reports to the Supervisory Board, and performs other duties

Main Goals



- Ensure the proper functioning of the HTP regime
- Increase the export of software products and ICT services
- Attract domestic and foreign investments
- Increase the competitiveness of the IT industries of the country



Suggested HTP Administration Initial Human Resources

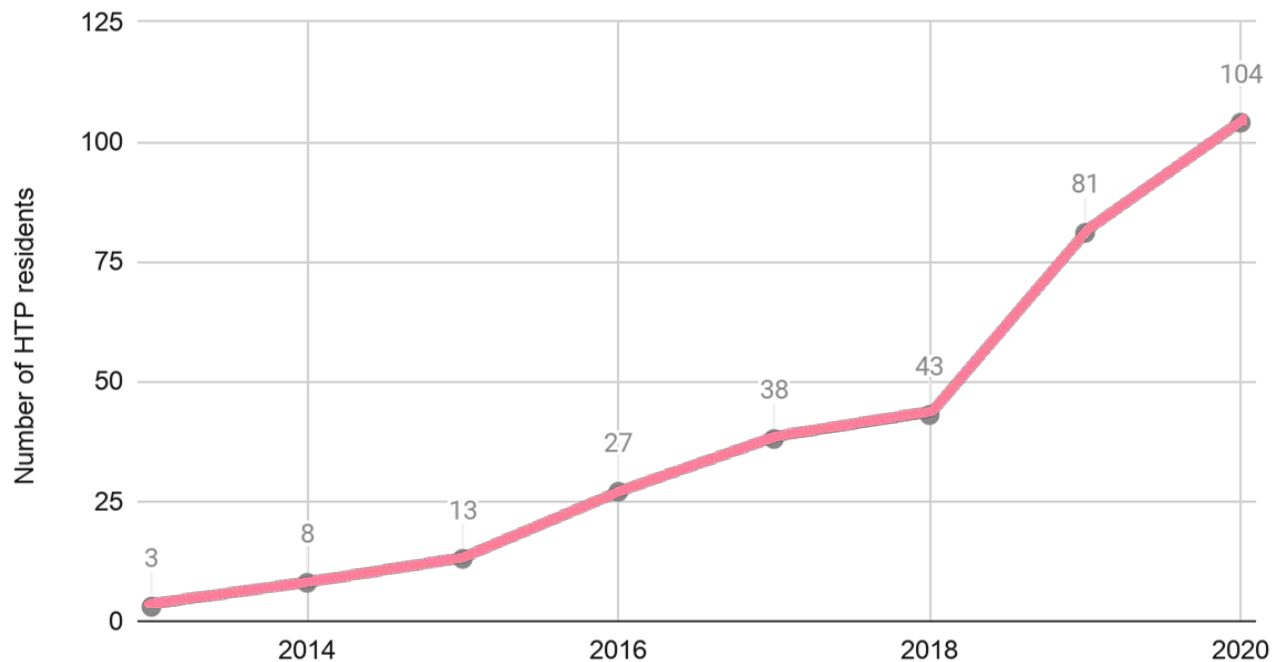
- **Director** - Responsible for general management of the HTP, including execution of annual plans, recruitment of staff, allocation of financial resources, signing documents, presenting annual reports, partnering with government bodies and organizations.
- **Deputy Director/HTP resident engagement manager** - Serves as acting Director during the absence of the Director. Responsible for HTP resident engagement: supervises residents reporting and reaches out to potential residents. Organizes meetings of the Supervisory Board and Expert Council.
- **Financial Accountant** - Responsible for bookkeeping, procurements, and payments. Oversees financial discipline.
- **Lawyer** - Provides legal advice to HTP Administration and Residents. Represents the HTP Administration on legal matters. Drafts HTP related legal documents.
- **Public Relations/Social Media Manager** - Responsible for informing the public and private sector about the HTP regime through Mass Media. Liaises with journalists, writes articles and press releases, prepares visuals, and organizes interviews. Maintains the HTPs social media accounts.
- **IT Education Development Manager** - Leads HTPs IT education development programs. Responsible for coordination between HTP residents and educational institutions. Researches needs for the IT talent, organizes internship programs, consults IT education operators, and recruits volunteers.
- **International Relations Manager** - Responsible for connecting the HTP Administration with international entities and residents to the IT global value chain. Liaises with international development organizations, reaches out to foreign IT companies, organizes trips to international conferences, sales events, etc.
- **IT Events Manager** - Responsible for organizing and facilitating IT related events. Organizes meetups, workshops, and conferences, builds IT communities, moderates and facilitates experience sharing.



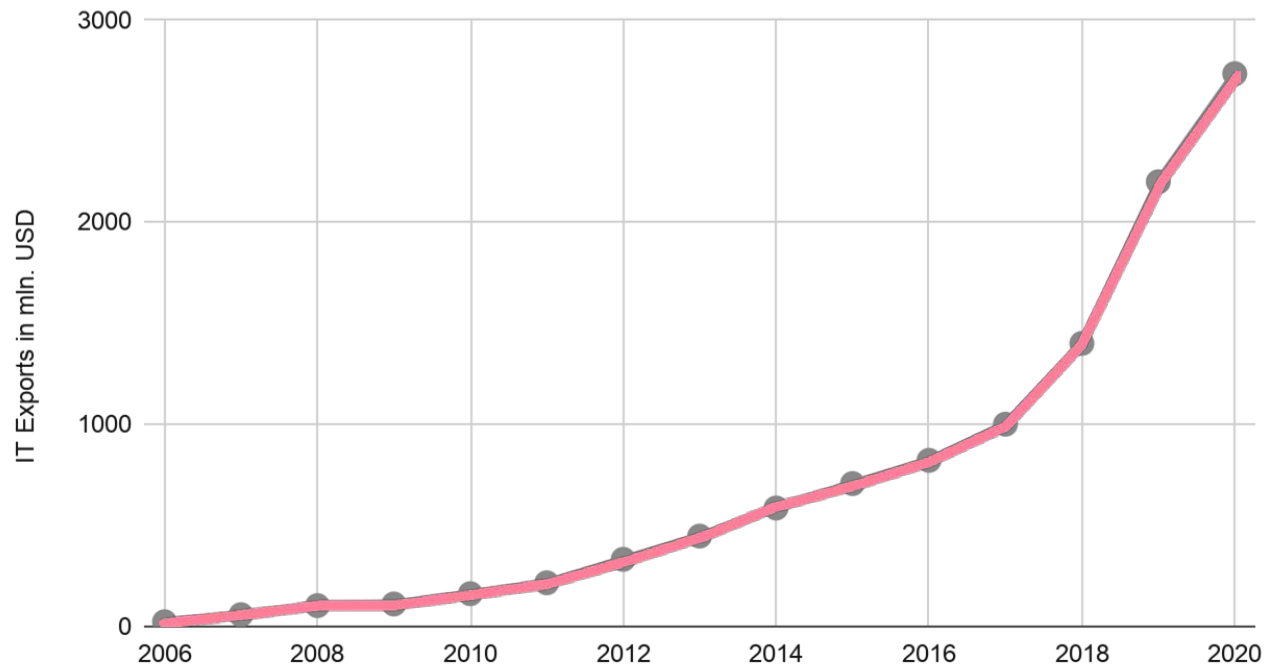
HTP Results



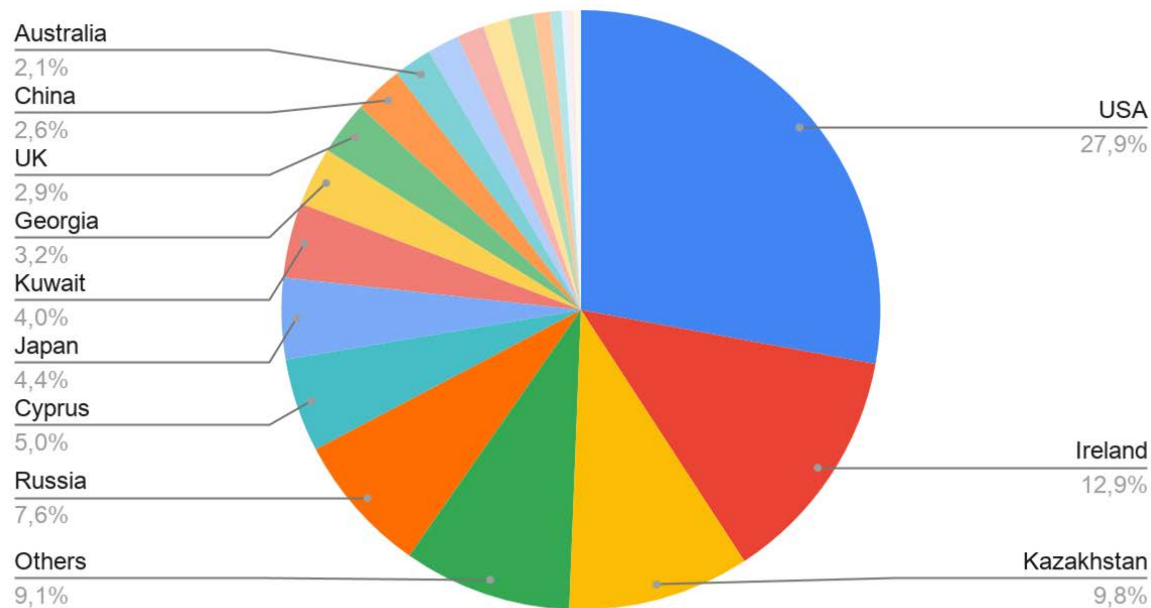
The Growth of Registered KG HTP Residents



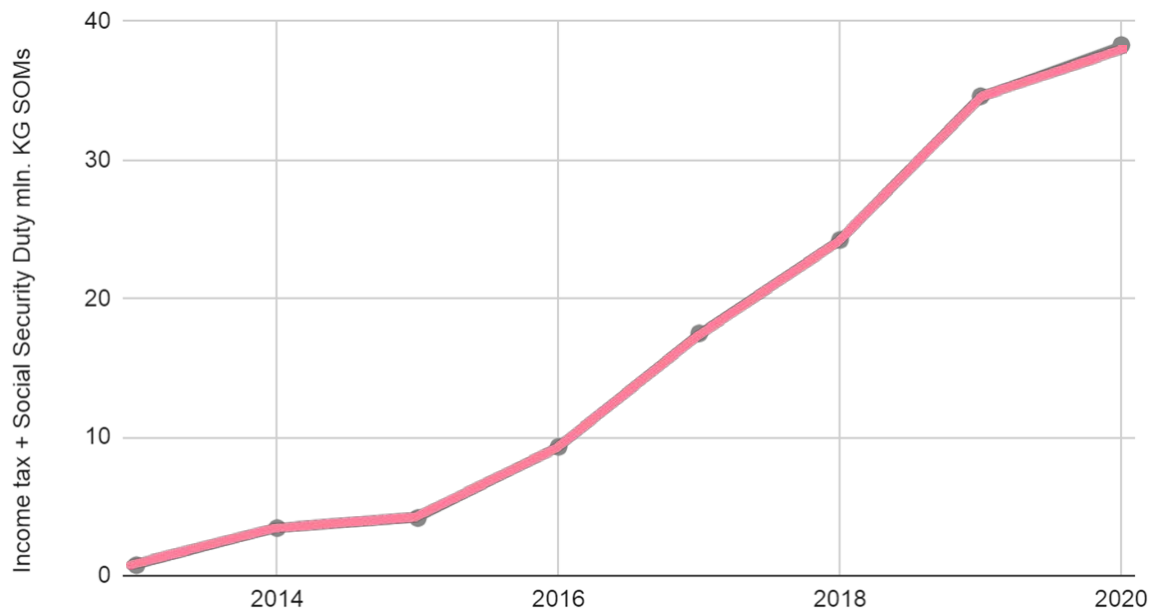
Belarus HTP IT Exports Growth



Breakdown of KG HTP Exports by Country (2019)



Growth of Disbursements to the Government Budget



Action Plan for a new HTP



Proposed Action Plan for HTP Setup

		Month 1				Month 2				Month 3				Month 4			
	Action Description/Weeks	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4
1	Forming the HTP Working Group																
2	Identifying IT industry needs and priority IT economic activities																
3	Identifying HTP fiscal mechanisms, registration eligibility criteria, management structure, and other configurations of the HTP regime																
4	Research and recommendation documents are sent to the Lead government authority																
5	Development of the draft HTP Law and the draft of needed amendments in the related legislation (e.g. Tax Code).																
6	Official introduction of the HTP legislation package draft and initiation of public discussions*																
7	The HTP legislation package draft is sent to Legislative Authority (e.g. Parliament)*																
8	Review of the HTP legislation package draft by Legislative Authority*																



Proposed Action Plan for HTP Setup

		Month 1				Month 2				Month 3				Month 4				Month 5				Month 6			
	Action Description/Weeks	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4
9	Development and introduction of charters, policies and procedures, and other regulatory documents of the HTP.																								
10	Forming of HTP Supervisory Board																								
11	Fundraising and securing the HTP budget																								
12	Hiring of HTP Administration's Director and appointing Expert Council members																								
13	Approving HTP annual budget and work plan																								
14	Hiring of HTP employees																								
15	Opening HTP office and launching of operations																								

*Approximated. Duration may be subject to pertinent regulations

References

1. Latest facts and figures related to HTP Revenues, Exports share, Government Disbursements, and other can be found at: http://htp.kg/news_items
2. The Law on the High Technology Park of the Kyrgyz Republic can be found at: <http://cbd.minjust.gov.kg/act/view/ru-ru/203327?cl=ru-ru> (in Russian)
3. The Kyrgyz Republic's Government Resolution on the HTP can be found at: <http://cbd.minjust.gov.kg/act/view/ru-ru/93557?cl=ru-ru> (in Russian)
4. Belarus HTP exports growth can be found at: <https://park.by/en/htp/about/>

