Kyrgyz Republic – Inspection Reform Case Study

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1. Executive Summary

When undertaking comprehensive reforms in complex policy areas such as inspections, the government should consider including four closely linked elements: (i) institutional and procedural changes; (ii) development of ICT-based processes and tools in implementation; (iii) evaluation of the implementation process by monitoring, surveying, and receiving feedback; and (iv) capacity building among the public and private sectors.

Policy-makers should keep in mind that when embarking on in-depth institutional inspection reform that can have a truly meaningful impact, a long-term strategy is needed. Without this, ad hoc decisions such as a moratorium may occur that have not proven to be a solution to the underlying issues that needed to be tackled. Institutional consolidation is not only consistent with the overarching goal of the reforms; it also enhances procedures on a more granular level for businesses.

The introduction of risk-based inspections in 2011 occurred too early for the stage of inspection reform development in the country at that time. To find the most convenient or effective algorithm, various approaches should be analyzed and combined, and the local context should be taken into account. A simpler approach to risk-based inspections would start by focusing on the size of a given firm and sector, then gradually move to a more complex, granular approach based on new feedback and experience.

Identify common norms and procedures for all inspectorates to create a “universal” system. While developing the IT inspection system, inspectorates claimed that their norms and procedures were unique and specific and, thus, that they could not be incorporated into the common IT system. Hence it is important to work closely with the client to identify common norms and procedures.

Finally, conducting regular awareness and educational campaigns for businesses on their rights and responsibilities is vital to the inspections process. Even if the laws and regulations are conceptually appropriate, if business owners are not aware of how the laws should work, and if regulations are not implemented in a transparent manner, companies will continue to experience the inspections process as a barrier to business. In addition, such transparency can help protect businesses from abuse of power by inspectors and other public officials.
2. Introduction

Inspections are one element used by the Government to implement regulation and can be a key source of valuable evaluation and information to identify whether a particular piece of law is actually effective (ex post evaluation). For example, inspectors can assess whether the law is practically enforceable and capable of achieving the improved outcomes it was originally designed to achieve. They therefore have an important part to play in the policy process.¹

This paper examines different stages of inspection reforms that took place in the Kyrgyz Republic over a 13-year period (2006-2019) with the goal of informing and assisting policymakers, experts, and government officials undertaking or wishing to undertake similar efforts elsewhere. By providing detailed explanations of measures taken, milestones reached, and lessons learned, the authors hope to reveal the complexities of the reform process, lay out different policy options for inspection reform, and detail the implications of various approaches.

Inspection reform is a long-term process. It is not just adoption of checklists, or reform of one inspectorate, or piloting work in one agency, or introducing risk-based inspection for one state entity. Inspection reform is a systemic reform that requires institutional, organizational, operational, and information technology reform, and usually takes many years to complete.

The reform of the inspections system in the Kyrgyz Republic began in 2006. After the “Tulip Revolution” of March 2005, the President used his mandate to focus on improvements in the business environment.³ The first comprehensive Law on Inspections was adopted in 2007, and over the next 11 years, nine changes to inspection legislation took place (see Annex 1 for timeline).

The Paper is organized into three chapters: Chapter One deals with the early stages of the Inspection Reform; Chapter Two covers a second phase of substantial changes in the relevant institutions; and Chapter Three details the moratorium on inspections in 2018. The paper concludes with sections on lessons learned and possible next steps.

² On-site visits by government agencies to enforce compliance with laws and regulations.
³ The President Decree #435 (December 9, 2008), on improvement of the state policy in regulation of the businesses activity

When the government developed its Country Development Strategy for 2007-10, one of the key pillars was to improve the governance and business environment in order to address corruption and create fair and transparent conditions for businesses. This reform started with a comprehensive overhaul of the regulatory framework. As part of this strategy, the government initiated the development of a Law on Inspection aimed at eliminating duplication of functions among the controlling agencies and reducing the administrative burden that inspections impose on businesses. The Ministry of Economy was designated as the coordinating authority for developing and implementing the Law on Inspections.

The first significant advancement was adoption of the Law on Inspections in May 2007, which was considered a major breakthrough at the time and established a horizontal procedural framework for business inspections that had never existed before. The law focused on introducing basic inspection procedures, setting up inspection processes and visits, and introducing basic inspection planning.

3.1. Procedural Changes

The 2007 Law on Inspections introduced planning for inspections, defined five types of inspections depending on their subject, and set up a regular frequency and duration of planned inspections. Key procedures introduced in the law were:

- **Five types of inspections (planned, unplanned, counter-inspection, follow-up, and re-inspection):** planned inspections are performed by inspectorates in accordance with pre-approved plans; unplanned inspections are prompted by the request of a business, receipt of information about a potential violation, or an official complaint from a citizen; counter-inspections are inspections conducted by the tax service in respect of third parties, if during planned inspections it became necessary to verify documents related to operations carried out by these (third) persons with a taxpayer (inspected); follow-up inspections are carried out to verify that previous violations have been rectified; and re-inspections are performed in the event that a business disputes the outcome of a previous inspection.

- **Frequency of inspections:** planned inspections are limited to no more than one inspection per year per inspectorate. The same applies for the counter-inspection. However, the frequency of other inspections (unplanned, follow-up, and re-inspections) is unlimited. Planned inspections are announced ahead of time, by sending notification to the business 10 days prior to the visit.

- **Duration of inspections:** all inspections are limited to a duration of 30 days and may be extended by no more than 10 days.

- **Inspection completion procedures:** if an inspector finds any violation during their planned inspection, they should prescribe an order for the business to take corrective action (within 3 days in a dangerous or precarious situation, and within 30 days for other situations). The outcomes of all inspections must be documented in a report made in two copies, one of which must be given to the business.

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4. Unplanned inspections are based on complaints or suspicion that some wrongdoing is committed.
5. In general, having so many different types of inspection is not a good practice. Follow-up inspections should be combined with regular inspection to be performed where there is a need for follow-up; re-inspection should be prohibited, to avoid opening doors for inspectors to retaliate against businesses that dispute the findings of an inspection. Also, authorities should strive to have all inspections be planned inspections wherever possible.
6. In general, it is not good practice to have unlimited frequency for any inspection.
7. In many jurisdictions, this maximum duration for an individual inspection visit is considered excessive.
Box 1: Key Procedures Introduced in the 2007 Law on Inspections

<table>
<thead>
<tr>
<th>Type of inspection</th>
<th>Goal of inspection</th>
<th>Reason</th>
<th>Frequency</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned</td>
<td>Control of compliance with legal requirements</td>
<td>Planned inspection</td>
<td>No more than once per year per business per inspectorate</td>
<td>No more than 30 calendar days</td>
</tr>
</tbody>
</table>
| Unplanned          |                    | 1. At the business request  
                      2. Information about the facts of violation  
                      3. Violation of the technological process, emergency situations in which life, health of the citizens, or the environment can be harmed  
                      4. At the written complaint/application of citizen for violation of the rights and interests of the applicant | Anytime | 3 days |
| Counter-inspection | Monitoring of tax compliance | Need to obtain information on inspected taxpayer from the third party (counter-partner) | No more than once per year per business per inspectorate | No more than 30 calendar days |
| Follow-up          | Verification of the elimination of violations noted by the previous test | Previous inspection | For violations affecting the lives and health of people: within 3 days  
                      In other cases: within 30 days | |
| Re-check           | Recheck the facts of the previous inspection | Appealing the result of the inspection | Anytime | No limit |

These initial steps taken were in the right direction. However, the government has not achieved its desired result of reducing the administrative burden of inspections for businesses. Reasons for this may include lack of readiness to implement reforms, poor capacity of controlling agencies, lack of institutional reform given that the Law was purely procedural, lack of enforceability of certain provisions of the law, and overall weak rule of law. For these reasons, after the Law on Inspections was adopted in 2007, the number of individual controlling agencies and inspections was not reduced, and the inspection regime remained cumbersome for businesses.

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8 The Law covered only the process of conducting inspections, not the operational, organizational, or institutional organization of inspectors, or the rights and responsibilities of inspectors and the inspected.
A business survey carried out in 2008\(^9\) showed that 40\% of inspections conducted involved violations by inspectors. Information gathered during business consultations in January 2009 showed that inspections were frequent, secondary legislation was not transparent, and that overlap existed between visits and the mandates of controlling agencies. In 2009, a more granular survey was conducted\(^{10}\) aimed at identifying key constraints in order to prepare recommendations for the government on further improvement of the business environment. The survey showed that businesses in the Kyrgyz Republic had long suffered from excessive inspections, with over 90\% of businesses inspected at least once per year. The inspectorates did not apply risk-based inspection targeting: the scope of inspections was the same regardless of business size, profile, and risks to health and the environment. For instance, on environmental issues, businesses that usually operated in low-risk services, such as beauty salons, were inspected as often as large enterprises operating in high-risk industries, such as leather processing.

The reform initiative gained more speed after a new government came to power in 2009. The new prime minister appointed in 2009 was willing to pay more attention to the needs of the private sector. With his strong support, the government pushed to implement a risk-based approach in inspection planning and targeting, as well as to introduce the use of checklists. The government recognized the need to put in place a unified approach to conducting inspections and planning the activities of the controlling agencies. In 2011, a follow-up survey on businesses was conducted to assess the situation and compare the data, wherever possible, with the results from the 2009 survey. It showed that the number of inspected businesses remained high (at over 90 per cent) and had not fallen.

Given this situation and the limited impact on businesses of the 2007 reform, something had to be changed. The government then initiated amendments to the Law on Inspections in 2011. These amendments, adopted later that year, introduced an improved risk-based approach, reduced inspection types to four, shortened the duration of inspections, and introduced an inspection coordinating body. Key procedural changes were:

- **Risk-based approach:** all inspectorates had to assess the level of risk businesses pose to society, consumers, and the environment, and to classify enterprises into different groups according to an assigned level of risk. The risk assignment was based on international best practices and a basic approach based on sector, volume of activity, and results of previous inspections.\(^{11}\)

- **Frequency of inspections:** these become proportional to the level of risk, which correlates with the likelihood and magnitude of a potential hazard. The maximum frequency of visits according to the level of risk was:
  - Group 1: high-risk businesses should be inspected no more than once a year, subject to planned inspections.\(^{12}\)
  - Group 2: medium-risk businesses should be inspected no more than once in three years.
  - Group 3: low-risk businesses should be inspected no more than once in five years.

- **Mandatory use of checklists.** No planned inspection is allowed if the inspector does not use a checklist. Checklists should include all questions deemed essential from a risk management perspective, rather than include all technical specifications prescribed by regulation. Checklists define the inspections’ scope and ensure that inspectors will focus on the key risks posed by businesses. Business operators can use the checklists by performing a pre-inspection self-assessment to ensure they are compliant, thus minimizing fines and penalties.

- **Database:** Inspectorates should develop a database available to stakeholders involved in the inspection process containing all relevant facts and information on inspections, including businesses visited, risk profiles, key information, and follow-up actions required, to avoid function duplication, improve inter- and intra-agency communication, and boost efficiency, allowing inspectors to monitor inspections across the country.

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11. Given the lack of databases, data interoperability, or electronic record keeping, a proper risk-based approach and risk-based planning were not possible. The best possible approximation was done at the time.
12. Except for businesses with high-risk level from an epidemiological and public health perspective.
Shorter Durations. The government reduced the maximum duration of planned inspections from 30 days for all businesses to 15 days for large businesses and five days for small ones.

During the early reform period (2007-2011), many trainings were delivered, primarily aimed at capacity building for inspectors. The trainings focused on (i) planning of inspections based on the risk-based approach, including identification of risk criteria for each group of businesses and development of checklists; (ii) usage of an information management system, and (iii) collaboration with the private sector. Despite notable efforts, IFC did not find evidence of increased capacity as a result of this work.

Initially, the private sector was neglected in the reform process. Public-private dialogue in reform design and implementation was inconsistent. Even when the government introduced improvements to the legislation, businesses were rarely informed of them. This led to many problems, such as lack of trust between the public and private sectors, implementation gaps, and non-compliance by businesses.

3.2. IT Solutions

In 2007, a simple Windows-based software called Contro-Pro was introduced to collect data on inspections. The idea was to use this software for coordination purposes, to support implementation of the risk-based inspection reform, and to increase transparency of the inspection system. The software allowed collection of basic data, assessment of inspection outcomes (results/findings), generation of general statistics. The government used data from internal inspectorates’ databases to create a unified database on inspections and compile a complete registry of inspection subjects and objects. Uptake of this system was limited and did not produce results. Also, there were no revisions of the key performance indicators for inspections, such as consultations with business owners and timely submission of all inspection data into the inspection management system. The government agencies continued to use old performance indicators, resulting in no change in approach or behavior.
3.3. Role of the Coordination Body

Implementation of the 2007 law required constant pressure from the Ministry of Economy. Since adoption of the 2008 Presidential Decree, the ministry became actively involved in reforming the inspection system. Amendments to the Inspection Law made in 2011 officially tasked it with supervising and monitoring the inspectorates. This new role helped the ministry apply a unified approach in implementation of the Law. The ministry’s key functions included:

- Monitoring compliance of the inspectorates with prescribed procedures in the Law on Inspections;
- Providing recommendations to the government on how to improve the Law;
- Introducing a unified computerized database for registering inspections and recording their outcomes;
- Receiving and considering complaints from businesses.

The Ministry of Economy was also obligated to approve inspection plans and inspectorates’ requests for inspections, except follow up inspections and inspections when public health and safety are in endangered. Planned and unplanned inspections that were unregistered were considered illegal, but they were still conducted. The ministry did not have effective enforcement mechanisms or powers to force other inspection bodies to implement the Law, change the behavior of inspectors, or mandate coordination of inspections.

However, the experience of many other countries has shown that having a coordinating body has led to notable improvements in only a very few selected cases (and mostly in developed countries). In transition economies, a more structured approach is needed, where reform includes in-depth organizational, institutional, and operational reorganization and change, with a clear lead agency responsible for implementing reform. This body should have a mandate to implement inspection reform and control the workings of inspections.

3.4. Impact

The initial steps carried out in 2007-2011 were in the right direction, nonetheless the achievement of the desired results of the reform was lagging. As described earlier, the reasons for this included lack of institutional reform, lack of willingness to implement them, and low capacity among inspectors. After the Law on Inspections was adopted in 2007, the number of individual inspectorates and inspections was not reduced, and the inspection regime remained cumbersome for businesses.

The reform initiative gained more speed after a new government came to power in 2009. The new government pushed to implement a risk-based approach in inspection planning and targeting, as well as to introduce the use of checklists. The government recognized the need to put in place a unified approach to conducting inspections and planning inspectorate activities.

The first stage of reform did not produce the desired results because of absence of in-depth institutional change, insufficient coordinating body powers and oversight, and very limited IT solutions (at the time, the Kyrgyz Republic did not have adequate digital platforms to support meaningful data exchange). In fact, there was little evidence from private sector surveys that the situation improved at all during this period. Nonetheless, adoption of the Law in 2007 was an important trigger that created momentum and initiated more serious and systematic work on reforming business inspections starting in 2012.

13 The Ministry of Economy is the competent authority for developing a unified state policy across all regulatory areas and for coordinating optimization processes in the regulatory oversight domain. There are no inspectorates under the Ministry of Economy.
15 A risk-based approach and use of checklists was mandated by the 2007 Law, but was not implemented and enforced.
Chapter Two: Institutional Change, 2012-2016

The first fundamental change since 2007 came with the adoption of amendments to the Law on Inspections in 2011. These amendments required inspectorates to introduce more rigorous risk-based inspection planning and targeting and to create a database that was later translated to an inspections management portal www.proverka.gov.kg. These changes took place in 2012-2016.

In 2012 the implementation of institutional reform began, resulting in the number of inspectorates being reduced from 21 to 12, while leaving the scope of the inspection reform unchanged (i.e., it included all inspections laid out in 2007 reform). This is an example of best practices globally. More importantly, the government did this on their own, without any assistance from development partners or international donors.

The reform process in 2012-2016 included the following approaches:

► Consolidation of several agencies with similar regulatory areas (institutional reform) by merging 21 inspectorates into 12. This was a critical part of the reform, without which they would be incomplete. The decision to merge these entities was made solely by the government. The institutional reform was based on four key goals:

  › Optimize government resources by abandoning functions that are irrelevant or excessive while merging others and eliminating duplication;
  › Institute a results-based approach by reviewing roles, functions, and competencies of inspectorates and aligning them with specific, well-defined goals; and
  › Separate policymaking from policy implementation and operations to ensure appropriate incentives.

► Introduction of a risk-based approach to inspection planning and targeting, as well as mandating the use of checklists. The risk-based planning system is still in a nascent stage and lacks a scientific approach to assessments; however, it represented a milestone in using available resources more efficiently to achieve better overall results.

► Introduction of a unified IT solution for all inspectorates, including data exchange and analysis, and application of simple risk-based planning.

By combining three aspects of the reform (institutional, procedural, and ICT), the government applied best practices for successful inspection reforms and set the stage for strong follow-up efforts that could then work on closing the identified gaps in implementation.

There are many countries that have done similar reform in inspection, by merging inspection bodies and creating a centralized inspectorate. The reform has been done often through a major law, the intent has been to employ ‘shock therapy’ to merge several inspections under one inspectorate (sectoral approach) or establish a new institution by consolidating all or most inspection bodies in order to achieve economies of scale and scope, reduce the budgetary burden, improve the coordination and systematization of procedures and accelerate the diffusion of better practices. A specific practical goal has been the additional possibility of organizing joint inspections in a simpler and more effective way, thus minimizing the burden of inspections on businesses.
Consolidation of agencies. Example from Croatia, Bosnia and Herzegovina, Moldova and Albania

Croatia

In 1997 the Croatian government established a new State Inspectorate through the Law on the organization of Ministries and State Administrative organizations, followed by a specific Law on the State Inspectorate in 1999. The State Inspectorate assumed the former responsibilities of 12 various inspectorates (labor and workers safety and protection; trade and market surveillance; power, mining and equipment) that had been split between four ministries.

Croatia reduced the number of inspections bodies from about 25 to less than 20 (for the 12 inspections moved to the Central Inspectorate, 4 inspectorates were established; but subsequently few inspections have been added) and the number of inspection units (representing different branches and departments in Croatia) from 100 to 49. This significantly reduced the number of inspections needed for an effective level of compliance, and has permitted the sharing of the reform’s benefits between the state administration and the business community. Fifteen years later, Croatia dismantled central inspectorate, but kept merged inspectorates.

Bosnia and Herzegovina

The Federal Inspectorate is organized as a central public and independent authority. It merged 26 types of inspections that existed prior to the reform into 11 inspectorates. All inspections (except tax, customs, financial police) are taken out of ministries and placed in the inspectorate that reports to the Government and Prime minister.

The Federal Inspectorate has 11 inspection departments headed by chief inspectors. The chief inspectors are appointed in accordance with the Law on Civil Servants of the Federation.

In general, it carries out inspection concerning the application of regulations within the competence determined by federal regulations and regulations issued at the BIH level, which defines the competence of entity inspections to perform inspection supervision, as well as other regulations.

In its work, the Federation Administration Inspectorate promotes:

▸ More rational inspection supervision;
▸ Less burden on business entities;
▸ Combating corruption;
▸ Increased involvement of the public and transparency of work;
▸ Great importance given to the efficiency of inspections and the teamwork of inspectors.

The synergy effect of the federal inspection system resulted in better quality, comprehensive and efficient inspection supervision.

Albania

The Albanian Central State Inspectorate established in 2011 (ACSI) that includes supervisory functions, such as monitoring, auditing, advice, advocacy, coordination and participation in international forums. The Albanian Central State Inspectorate is subordinated to the Prime Minister and the its head is appointed and dismissed by the Prime Minister.

16 Inspections Reforms: Do models exist?, Cesar Cordova-Novion and Tarik Sahovic, 2010
This approach is interesting as it shows that governments often start on a soft basis of coordination and progressively shift towards a stronger oversight authority with more sanctioning power, particularly where there is a lack of compliance by inspectorates (in terms of reform implementation and coordination of inspection functions). This is once again shown by the latest development in Albania, where the government discusses the option of unifying the inspectorates under the authority of the ACSI and transforming it into a General State Inspectorate.\(^7\) It unified more than 25 inspectorates into less than 14.

The Albanian Central State Inspectorate carries out a variety of horizontal functions among which the most important are:

a) It coordinates the activities of central and local inspectorates through a unique inspection portal that enables the planning and coordination of inspections;

b) It issues basic binding rules on methodology of risk assessment, inspection planning techniques and documentation of the inspection activity, as well as reporting by the inspectorates;

c) It approves the general indicators on efficiency and quality of the inspection activity and the criteria for their assessment;

d) It oversees the implementation of the Law on Inspection and of special laws by the state inspectorates with regard to the planning, authorization and performance of the inspection activity;

e) It has the right to propose disciplinary actions against inspectors or the Chief inspector;

f) It provides legal opinions on draft laws or secondary legislation in the field of inspection;

g) It coordinates the training and qualification activities for the inspectors;

h) It keeps and publishes on its official website the list of the inspectors in duty for every central and local inspectorate.

**Moldova\(^8\)**

During the last decade Moldova launched a series of reforms to improve the inspection environment for businesses. A key milestone was the approval in 2012 of the Law No. 131 “On the State Inspectorate of Entrepreneurial Activities”. This law incorporated good international principles and practices and introduced unified inspection procedures. The law reduced 64 inspection agencies to 18 inspectorates.

The main purposes of the reform were:

- Avoid overlap and duplication between the inspectorates;
- Reduction of cost of inspections.

The central public administration authority responsible for supervising implementation of inspections, is the State Chancellery\(^9\). The key responsibilities of the Chancellery are:

a) supervision of compliance with this law, including by central and local authorities, public authority, as part of the process of regulating state inspection of entrepreneurial activity;

b) ensuring the entry in the State Register of Inspection of inspection data, its planning and implementation;

c) the collection and analysis of information necessary to ensure the application of the principles and mechanisms established by this law;

d) providing advisory support to inspected individuals and bodies with inspection functions, in relation to the application of principles and mechanisms established by this law.

\(^7\) The Albanian Central State Inspectorate case study in the Annex.

\(^8\) Legal and Institutional Review of Inspections Functions/Official Controls in the Republic of Moldova, IFC.

\(^9\) The Law No. 131 “On the State Inspectorate of Entrepreneurial Activities”, the Republic of Moldova.
4.1. Mergers

The government initiated institutional reform of inspections in January 2012, cutting the number of inspectorates from 21 to 12 (see Box 2).

Box 2 List of Inspection Agencies, Before and After Institutional Reform in 2012

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition.</td>
<td>5. State Inspectorate on Ecological and Technical Safety (under the Government of the Kyrgyz Republic).</td>
</tr>
<tr>
<td>the Government of the Kyrgyz Republic).</td>
<td>7. Department on Development of Competition under the Ministry of Economy and Antimonopoly Policy of the Kyrgyz Republic.</td>
</tr>
<tr>
<td>and Beverages (under the Ministry for Agriculture, Water, and</td>
<td>9. Department of Medicine Security and Medical Equipment (under the Ministry of Health).</td>
</tr>
<tr>
<td>7. Department for Precious Metals (under the Ministry of Finance).</td>
<td></td>
</tr>
<tr>
<td>8. State Inspectorate for the Supervision of Industrial Safety and</td>
<td></td>
</tr>
<tr>
<td>Mining (under the Ministry of Emergencies).</td>
<td></td>
</tr>
<tr>
<td>9. State Labor Inspectorate of the Kyrgyz Republic (under the</td>
<td></td>
</tr>
<tr>
<td>Ministry of Labor and Social Development).</td>
<td></td>
</tr>
<tr>
<td>10. Kyrgyz Transport Inspectorate (under the Ministry of Transport</td>
<td></td>
</tr>
<tr>
<td>and Communications).</td>
<td></td>
</tr>
<tr>
<td>11. State Inspectorate for Energy and Gas (under the Ministry for</td>
<td></td>
</tr>
<tr>
<td>13. State Agency for Geology and Mineral Resources (under the</td>
<td></td>
</tr>
<tr>
<td>Government of the Kyrgyz Republic).</td>
<td></td>
</tr>
<tr>
<td>15. Department for the Supply of Medicines and Medical Equipment (under the Ministry of Health).</td>
<td></td>
</tr>
<tr>
<td>17. Department for Sanitary and Epidemiological Supervision (under the Ministry of Health).</td>
<td></td>
</tr>
<tr>
<td>18. State Fire Service (under the Ministry of Emergencies).</td>
<td></td>
</tr>
<tr>
<td>19. Agency of Communications (under the Government of the Kyrgyz Republic).</td>
<td></td>
</tr>
</tbody>
</table>
The institutional reform was accomplished mainly by merging several inspectorate functions under just two inspectorates: the State Inspectorate on Ecological and Technical Safety (under the Government of the Kyrgyz Republic) and the State Inspection on Veterinary and Phytosanitary Safety. Inspection functions of seven ministries and agencies were merged into the State Inspectorate on Ecological and Technical Safety (under the Government of the Kyrgyz Republic) and inspection functions from two ministries and one agency merged into the State Inspection on Veterinary and Phytosanitary Safety (under the Government of the Kyrgyz Republic). See Box 3.

**Box 3. List of Inspection Agencies Merged into Two Larger Entities During the 2012 Reform**

<table>
<thead>
<tr>
<th>The State Inspectorate on Ecological and Technical Safety (under the Government of the Kyrgyz Republic):</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Architecture and Construction Agency;</td>
</tr>
<tr>
<td>2. Agency on Environmental Protection and Forestry;</td>
</tr>
<tr>
<td>3. Inspection on Industrial Safety and Mining Supervision (under the Ministry of Emergency Situations);</td>
</tr>
<tr>
<td>4. Labor Inspection (under the Ministry of Labor and Social Development);</td>
</tr>
<tr>
<td>5. Energy and Gas Inspection (under the Ministry of Industry, Energy, and Fuel Resources);</td>
</tr>
<tr>
<td>6. Fire Rescue Service (under the Ministry of Emergency Situations);</td>
</tr>
<tr>
<td>7. Land Inspection on State Control of Land Use and Protection (under the Ministry of Natural Resources).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The State Inspectorate on Veterinary and Phytosanitary Safety (under the Government of the Kyrgyz Republic):</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Veterinary Department (under the Ministry of Agriculture and Land Reclamation);</td>
</tr>
<tr>
<td>2. Plant Quarantine Service (under the Ministry of Agriculture and Land Reclamation);</td>
</tr>
<tr>
<td>3. Agency for Control over Production and Circulation of Ethyl Alcohol, Alcoholic, and Alcohol-Containing Products.</td>
</tr>
</tbody>
</table>
4.2. Procedural Changes

The Inspection Law of 2011 strengthened the risk-based approach and the use of checklists by making them mandatory for inspectorates. There were no other major improvements in procedures. However, uptake of this approach was not significant. Amendments to the Inspection Law in 2016 therefore focused on strengthening risk-based planning and further increasing transparency of inspections to businesses by making it mandatory to publish inspection plans and results on the websites of the Ministry of Economy and all inspectorates.

Amendments to the Law on Inspection, adopted in 2016, introduced the following key operational changes:

► **Risk-based approach**: The government would develop and approve a list of business activities that are not subject to planned inspections if those activities had no adverse effects. The right to perform inspections of activities with high sanitary and veterinary risk, as and when needed, was eliminated.

► **Frequency of inspections**: No major changes except for high-sanitary-risk entities, which post-reform could be inspected not more than twice a year. Another change was introduced for newly formed businesses which could not be subject to inspections during their first three years of operation.

► **Mandatory use of checklists**: No changes.

► **Database**: No changes.

► **Duration of Inspections**: The government restricted the maximum duration of inspections to one working day for small business, two working days for other businesses, and three working days for unplanned inspections.

► **Transparency**: Inspectorates were required to publish their inspection plans, an annual report covering implementation and inspection results related to the safety and health of citizens and the environment on official sites and in public places.

Changes in 2016 aimed to close implementation gaps on the ground, as it was evident that risk-based inspections were not fully implemented, checklists were not used, and inspections were lasting longer than planned or needed. There was also a need to increase transparency in inspections. However, even this reform failed to substantially improve key performance indicators for inspections.

4.3. Capacity Building

Since 2012 numerous trainings have been conducted, mostly aimed at building capacity among inspectors. Analysis and data collected on the topic shows that over 20 international experts have conducted training sessions on subjects including design, hands-on implementation of the reforms, practical solutions, and global experience. The trainings focused on: (i) planning inspections using a risk-based approach, including by identifying risk criteria for each group of businesses and developing checklists; (ii) use of the information management system (proverka.kg); and (iii) collaborating with the private sector.

These trainings contributed to capacity building among the regulators. Meanwhile, peer-to-peer exchanges with experienced practitioners led to stronger commitments, deeper motivation, and behavioral change. Kyrgyz regulators visited the UK’s Business Regulation Delivery Office and facilitated collegial exchange and mentoring. The regulators also collaborated with Lithuanian partners, which resulted in their starting to develop a mobile application for checklists that, by 2017, helped increase the effectiveness of the inspection system.
4.4. IT Solutions

In 2012 the government launched a web-based, custom software\(^{20}\) that was developed using open-source technology. The proverka.kg information management system connects all 679 inspectors from 12 inspectorates.

This was the result of an evolutionary approach to implementation that began in 2007 with the Windows-based software called Contro-Pro, designed to collect inspection outcomes and generate statistics. Proverka is a web-based, bespoke software specifically developed to implement a shared inspection management system.

Proverka supports basic risk assessment of businesses and locations and facilities for inspection planning. The risk level associated with a business entity is automatically calculated based on risk indicators configured in the software, although this functionality is not applicable to all inspection domains. To compile the registry of inspection subjects and objects in Proverka, the inspectorates used their internal data sources on businesses. And while inspectors update data on businesses in the software, there is no data exchange with the business registry or with the entities responsible for business authorization.

In preparing for an inspection, the inspector can access a business’s inspection history using the software, but not the inspection results from other inspectorates (although technical capability for this exists). Inspection minutes are created at the business premises and delivered to the business representative in paper form. While inspectors are supposed to record results in the software in a structured format using inspection checklists, this is not yet applied by all the inspectorates. Nevertheless, it is mandatory for inspectors to record detected nonconformities and indicate actions taken to rectify them.

Proverka has a public portal that allows businesses to access inspection plans and outcomes using a unique business identifier. The portal also enables access to inspection checklists, legal acts, and information for businesses about the requirements.

Access to the system is provided online. Major users of the system are:

- Employees of inspectorates (including inspectors) responsible for preparing, approving, and reporting on business inspections (via special access);
- Employees of the Ministry of Economy responsible for approving inspections and reviewing reports on inspections from the inspectorates (via special access);
- Businesses and other stakeholders (via open access);
- System administrators (full technical access).\(^{21}\)

The case of the unified IT system of the Central Inspectorate in Republika Srpska, Bosnia and Herzegovina is often referred to as an example of best practice\(^{22}\).

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\(^{20}\) Proverka.kg is a custom-developed software based on PHP, MySQL, Unix, and Apache. The hosting is outsourced by the Ministry of Economy.

\(^{21}\) These rights were transferred to the Ministry of Economy after the IFC project’s completion.

\(^{22}\) Oversight and coordination of inspection system - institutional models and the role of the function in inspection reforms. A comparative study prepared by IFC Moldova team.
4.5. Private Sector Role

During the initial reform process, the private sector was neglected. Public-private dialogue in reform design and implementation was inconsistent. Even when the government introduced improvements to the legislation, businesses were rarely informed of them. This led to many problems, such as lack of trust between the public and private sectors, implementation gaps, and non-compliance.\(^{23}\)

The government tried to gather feedback from businesses but setting up a business “hotline” to hear their views. However, this was largely a “tick-the-box” exercise: feedback received through the hotline was rarely taken seriously. Reasons for this included: complicated operations procedures, poor technical implementation, and the government’s failure to respond to feedback, which undermined the private sector’s trust in the process.

Through the Ministry of Economy, the government started to partner and consult actively with the private sector, especially while preparing amendments to the Law on Inspections and revising checklists for sanitary, technical, and environmental inspectorates. In 2015 the State Inspectorate of Ecology and Technical Safety,\(^{24}\) one of the largest inspectorates, initiated the creation of an inspection feedback mechanism and consulted with the private sector to identify channels to collect feedback collection and develop a business survey. This helped boost public-private dialog, generate information on the quality of reform implementation, and ensure their commitment to the reforms. Previously, there were no reliable ways for the government and private sector to communicate. Instead, businesses relied on friends and contacts for information about regulations and requirements. The new feedback mechanism was user-friendly and mostly automated. More important, the government was committed to take action on the feedback received and disseminate the results to the business community (i.e., closing the feedback loop).

The new feedback mechanism is embedded in the www.proverka.kg portal, allowing businesses to provide feedback, in two ways. First, feedback is solicited via email and collected by the inspector at the time of the inspection. Once the inspector submits an inspection report, the system automatically triggers the feedback mechanism by sending a questionnaire to the business via email. Second, feedback is collected directly on www.proverka.kg, where the link to the questionnaire is clearly advertised. In this case, the feedback mechanism is triggered by the business that received the inspection. In both ways, feedback is collected anonymously (see Figure 1), the system processes feedback results instantaneously, and the data is aggregated and presented on the portal using visual aids such as charts and graphs.

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\(^{23}\) This was evidenced in the findings of regulatory gap studies conducted by IFC in 2014 and 2016.

\(^{24}\) Since October 2017, the feedback is implemented in all 11 inspectorates.
The Sanitary Inspectorate received reports from entrepreneurs in District A that the inspectorate’s district head had asked for bribes. The director of the inspectorate asked the project team to conduct a follow-up survey with entrepreneurs to verify if the report was true and if similar claims had been registered in nearby districts. A phone survey confirmed incidents involving bribe-seeking in District A.

Some survey questions sought to assess cooperation levels among local inspectors and entrepreneurs. The survey revealed that one inspector in District B regularly consulted entrepreneurs about changes in the legislation and helped them comply with legal requirements in one-on-one meetings.

Based on survey findings, the Sanitary Inspectorate decided to conduct an analysis of inspector performance in District A, and to organize a peer-to-peer learning event for the inspectorates, at which the inspector from District B could share his/her experience with raising awareness among entrepreneurs and helping with their day-to-day operations.

The Ministry of Economy joined with the Sanitary Inspectorate to develop the Regulation on Food Hygiene Rating Scheme, which was approved in January 2018 and came into force in April 2018. The Regulation encourages businesses that serve food directly to the public to meet hygiene standards. The businesses are then given stickers with a rating that shows their customers how good their hygiene standards are. The Regulation identifies: (i) outcomes of inspections showing compliance of food-serving businesses (restaurants, cafes, buffets, caterers) with hygiene standards, and (ii) display of inspection outcomes using a simple form of presentation for consumers: smiley-faces with legends indicating whether a given business complies with requirements, requires minor improvements, or requires significant improvements. Implementation of the Regulation on Food Hygiene Rating Scheme was postponed due to the introduction of a moratorium on inspection in January 2019. Prior to the moratorium, the Sanitary Inspectorate assigned only a few stickers in two pilot areas: the city of Bishkek and the region of Issyk-Kul. Further opportunities to assign “smiles” were discontinued. Such a system, however, requires consistency and continuity to gain significant traction and interest among consumers and food-serving enterprises.
4.6. **Role of the Coordination Body**

Since 2008, the Ministry of Economy has become a catalyst for ensuring implementation of the Law on Inspections, pursuing an upgrade to the proverka.kg system and building public-private dialog. This role was more formally established in 2011, since when they have been entrusted with monitoring the controlling agencies' compliance with the Inspection Law.

4.7. **Impact**

According to the Ministry of Economy, between 2010 and 2013 the number of inspections fell by 30%-an improvement driven especially by the risk-based approach introduced through the amendments.

As for reducing the burden of compliance for the private sector, the IFC team estimates that direct compliance cost savings (CCS) for businesses in 2008-2013 totaled $1.7 million,\(^25\) as a direct result of the 2011 amendments. These savings were achieved by introducing a risk-based approach for inspections and by reducing the number of inspections and their duration (see Box 4). For similar reasons, the 2016 amendments to the Law on Inspections reduced compliance costs by another $5 million a year (see Box 5).

**Box 4: Impact of Inspection Reforms in 2013**

The 2013 amendments to the Law on Inspections reduced compliance costs for businesses through provisions including:

(a) requiring all inspectorates to categorize businesses by their level of risk, then apply an appropriate frequency of inspection to each group (once a year for high-risk entities; up to four times a year for Sanitary, Veterinary, and Ecology agencies; once every year for medium-risk entities; once every five years for low-risk entities; and no more than once every five years for businesses where frequency is not defined);

(b) reducing the timeframe for planned inspections (from 30 calendar days for all businesses to five working days for small entities and 15 working days for other entities); and

(c) introducing use of checklists for planned inspections.

\(^{25}\) Calculation was made based on World Bank Group methodology developed for calculating cost savings for the private sector from the reforms in inspection system from 2008 to 2013.

\(^{26}\) Source: IFC Business Enabling Environment Project: Compliance Cost Saving.
As a result of the 2017 amendments to the Inspection Law and by-laws on risk-based inspections: compliance costs for businesses fell by 55 million, inspections coverage fell significantly from 73% to 45%, the number of inspections per business fell from 2.7 to 1.5, and the average cost per inspection to businesses fell from $182 to $2.50, according to the 2016 World Bank survey—a significant difference from the situations in 2009, 2011, and 2013. Institutional reform, implementation support, ICT solutions, and sound delivery of risk-based approaches in inspections was ensured by application of a comprehensive program combining policy and process reforms, ICT-based management and information tools, surveying the business environment to track reform implementation, and large scale outreach and training. According to interviews with businesses, inspections are no longer considered burdensome. In fact, they state that: “Previously inspectors would come any time, unexpectedly… but this is regulated now; it is planned and transparent.” And: “Over the last three years, under the authority of the Ministry of Economy, the inspections have been done more systematically.” And: “[the reforms have] enabled businesses to save money for expansion, equipment, and technology.” And: “We had a lot of complaints about inspections in the past, but inspections are no longer an issue for businesses.”

Overall, the 2012-2017 reforms made significant changes that will affect the inspection landscape in the country for decades to come, due to sustainability of institutional reforms, mindset change of controlling agencies, and private sector support. Institutional reform, combined with IT solutions and process changes, created measurable and concrete results on the ground and reduced the burden businesses are facing. However, this reform was not comprehensive. Full utilization of the IT solutions were not possible at the time; KPIs were insufficiently leveraged as incentives and underlying drivers of inspectors’ work; and gaps in regulatory implementation prevented the reforms from achieving their full impact.

27 Source: Evaluation report of the Investment Climate Project conducted by the IFC audit team in 2018.
5. **Chapter Three: Moratorium (2018)**

The government introduced a temporary moratorium on inspection for three years starting from January 1, 2019. The main reasons given were: (a) to create favorable conditions for business development, and (b) to eliminate unreasonable and unnecessary interference of the authorized bodies in businesses' activities. The government initially planned to apply the moratorium only to inspections conducted by the tax services, prosecutor's office, and law enforcement agencies. However, after internal discussions they applied it to all the controlling agencies, with the exception of inspections for the initial state bodies (the tax services, prosecutor's office, and law enforcement agencies).

Inspections are exempt from the moratorium if they are:

a. Related to criminal and civil proceedings;
b. Based on statements by business entities in compliance with the country's laws;
c. Done at the request of state authorities of other countries;
d. Based on statements concerning facts posing a threat to the life and health of the population or the environment;
e. Conducted during proceedings concerning violation of antimonopoly laws;
f. Concerned with issues of environmental and technical safety among businesses in the energy industry as included in the “List of Strategic Objects” approved by Government Decree No. 99 dated February 17, 2014 No. 99, and business entities engaged in the study and development of mineral resources;
g. Concerned with legal compliance in the fields of fuel and energy, or with the formation and application of tariffs for electric and thermal energy or natural gas.

To prevent violations during the moratorium, the controlling agencies are obliged to provide advice on compliance with the legislation's requirements to the public. The advice of the controlling agencies can be given only upon request by business entities.

The government tasked the Ministry of Economy – jointly with business associations, the controlling agencies, heads of local state administrations, and the mayors of the cities of Bishkek and Osh – to conduct a wide-ranging information campaign for business communities on the introduction of the moratorium and the provision of advisory assistance to business entities on compliance with the legislation's requirements. The moratorium was introduced against recommendations provided by different international partners. According to the latest Enterprise Survey, in 2019, one of the top obstacles for businesses is informality and informal competition. This was not so a few years ago. While the full effects have yet to become fully clear, the moratorium may have contributed to this deterioration of business conditions. 2010 IFC survey\(^{28}\) showed that post-moratorium inspections coverage was indeed higher than pre-moratorium coverage for both small and medium companies and individual entrepreneurs (box below).

The Government expended the moratorium for one year till January 2022 in response to the COVID-19.

\(^{28}\) IFC Investment Climate in the Kyrgyz Republic as seen as by the Small and Medium Enterprises, 2010.
Inspections frequency dropped during moratorium, but this “pause” was not used to initiate reform

Moratoriums have become popular tools to reduce the number of inspections in several post-Soviet countries. In the Kyrgyz Republic, the Presidential Decree # 145 of April 22, 2008 “On the Moratorium on Inspections by the Tax Authorities of the Kyrgyz Republic, and Reduction of Inspections of Business Entities Implemented by Other Authorized Inspectorates of the Kyrgyz Republic” detailed the modalities of the moratorium implemented between April 25, 2008 and December 31, 2008. The moratorium on inspections was effective from April 25, 2008 until December 31, 2008. The purpose of the moratorium was to eliminate excessive interference in entrepreneurial activity, to create favorable conditions for investments, and to increase tax revenue through the expected boost in business growth.

During the moratorium, the state inspectorates were to decrease the number of inspections by 70% compared to 2007. All the inspections conducted by the State Tax Service were covered by the moratorium with the exception of (i) inspections of businesses working under the voluntary patent regime, (ii) inspections requested by businesses, (iii) inspections requested by tax authorities of other countries, (iv) inspections conducted within the framework of a criminal case or (v) in the case of tax evasion.

Survey results indicated that the percentage of businesses inspected in a given month decreased by more than half during the moratorium (April 25, 2008 to December 31, 2008) compared to pre-moratorium levels (January-April 2008) (chart 8). Not only did state inspectorates listed in the Parliament Resolution # 553-IV reduce inspections coverage, but other inspectorates such as local governments, decreased their inspections coverage as well. For example, during the moratorium, local governments inspected 2% of farmers monthly, as opposed to 13% before the moratorium (Annex 3). In addition, the duration of inspections during the moratorium was shorter than before the moratorium (chart 10). The moratorium was therefore successful in decreasing the inspection burden for businesses.

However, although 2007 was not included in the reference period of the survey, pre-moratorium 2008 data suggest that the moratorium did not quite reach its target of a 70% decrease in the number of inspections compared to 2007 numbers. Most importantly, inspectorates did not use the moratorium as a way to kick start deeper reform such as introducing the risk-based selection of businesses to be inspected – on the contrary, they just deferred inspections, and thus their control activity increased as soon as the moratorium was over (chart 11). Post-moratorium inspections coverage was indeed higher than pre-moratorium coverage for both small and medium companies and individual entrepreneurs. For example, 15% of individual entrepreneurs were inspected monthly before the moratorium against 18% after the moratorium.

29 IFC Investment Climate in the Kyrgyz Republic as seen as by the Small and Medium Enterprises, 2010.
6. **Next Steps: Areas for Further Reform**

1. Strengthen and formalize institutional arrangements to ensure there is a central inspection coordination body ensuring the long-term sustainability of reform. Move away from a voluntary coordination body to more systemic central oversight at the Prime Minister level.

2. Eliminate remaining overlaps among inspectorates that increase the burden of compliance on businesses. These overlaps include scope of work and functions, such as the division of labor between the State Inspectorate on Technical and Environmental Safety, and the Sanitary Inspectorate, both of which inspect the working conditions of employees.

3. Develop a performance management system for inspectorates (KPIs) focused on consulting with businesses; shifting from inspections to systematic and constant data analysis; systematic planning; and building up inspectors' awareness of ethical norms. The existing system does not yet allow for adequate management of human resources from the inspectorates. With no proper performance monitoring and evaluation system for inspectorates (KPIs), the focus of inspections on businesses is often to find violations requiring payment of high fines, rather than to help businesses comply with regulatory requirements. Measurement criteria can include: increasing number of businesses who operate in compliance with requirements and decreasing the number of cases with one-type violations.

4. Although the use of checklists is required by law, 50 percent of inspectorates have not developed or do not have such tools. This inhibits the consolidation process and may undermine or prolong it. Checklists are not just a tool to ensure uniformity of new inspection processes and philosophy; developing them requires analyzing what should be included in compliance checks and allows each department to understand what the other does.

5. Upgrade the e-inspection software to introduce a more developed ICT system for better interoperability and coordination of inspections (such as data exchange with the business registry and registries of permits and licenses, integration of border inspections, and shared inspection history and view).

   - Develop risk-based inspection checklists and dynamic risk models, to employ inspection history and a knowledge base for improved risk management;
   - Develop a module to support the recording of inspection outcomes using the checklists, and to generate statistics and record answers;
   - Introduce inspectors’ mobile application to support recording inspection findings and outcomes in the field, by using mobile devices and creating standardized inspection reports; and
   - Introduce additional self-regulation mechanisms, such as making inspection checklists available online for businesses to make self-assessments, and publishing information and manuals on good risk management practices for businesses.
Key Results of Inspections Reform in the Kyrgyz Republic

Successes:

1. Adoption of a unified umbrella law defining the general principles of conducting inspections for all relevant government agencies;\(^\text{30}\)
2. Use of checklists that help business leaders and owners understand the exact requirements for their business and self-inspect to ensure compliance;
3. Use of inspection plans that are posted publicly on the Ministry of Economy’s website to inform and guide businesses and help them prepare.

Challenges:

1. The risk-based approach is not fully implemented. The methodology for calculating risks needs to be updated and expanded, so that it incorporates not only general principles but also detailed knowledge of specific industries;
2. Quality of the checklists is poor. These need to be simplified to focus on the most necessary requirements, instead of including the maximum possible number to avoid accusations of negligence. Also, many of the questions need to be reformulated in a way that non-professional users and business owners can easily understand;
3. Key Performance Indicators are lacking. The existing system focuses on inspectorates and inspectors rather than metrics, which encourages only identification of violations and imposition of sanctions rather than measurement of overall results.
4. Enhancements of e-Inspection digital module to truly serve as a coordination and planning tool.

\(^{30}\) Excluding inspections conducted by the tax services, prosecutor’s office, and law enforcement bodies.
7. Lessons learned

1. When embarking on in-depth institutional inspection reform that can have a truly meaningful impact, a long-term strategy is needed. Without this, ad hoc decisions such as a moratorium may occur that have not proven to be a solution to the underlying issues that needed to be tackled. Introducing a three-year moratorium can distort the market, while leaving no plan in place for addressing the underlying issues that resulted in the moratorium.

    a. From an implementation perspective

2. When undertaking comprehensive reforms in complex policy areas such as inspections, the government should consider including four closely linked elements: (i) institutional and procedural changes, such as merging inspectorates, eliminating overlapping competencies, introducing stronger coordination and oversight; (ii) development of ICT-based processes and tools in implementation; (iii) evaluation of the implementation process by monitoring, surveying, and receiving feedback through a web-based mechanism in order to close any implementation gaps; and (iv) capacity building among the public and private sectors.

3. A third recommendation is to focus on major agency consolidation in order to achieve maximum results for the private sector. The State Inspectorate of Environmental and Technical Safety was created by merging nine different controlling agencies covering environmental, labor, fire, manufacturing/industrial, mining, architectural, construction, and energy sector safety, as well as land protection. It consists of seven different departments and embodies, working in a coherent and consistent manner to preserve the safety of persons, workers, and the environment. Institutional consolidation is not only consistent with the overarching goal of the reforms; it also enhances procedures on a more granular level for businesses. Despite the important milestones achieved during the institutional reform period, the challenge remaining is better internal integration. For instance, information-sharing among all divisions should be introduced, and ecological and industrial safety divisions should work in closer coordination. It is not enough simply to pass a law; to achieve meaningful impact, what is required is to spend considerable amount of time in thorough and systematic implementation, including by fixing internal processes, enhancing tools, building new capacity, and deepening coordination.

4. The introduction of risk-based inspections in 2011 occurred too early for the stage of inspection reform development in the country at that time. Inspectors were not ready for it; the IT tools and databases for this did not yet exist. When determining risk criteria, it is important not to stick to closely to one approach or data source. To find the most convenient or effective algorithm, various approaches should be analyzed and combined, and the local context should be taken into account. When the reform of risk based inspections began, many statistics and other needed information were not yet available. A simpler approach to risk-based inspections would start by focusing on the size of a given firm and sector, then gradually move to a more complex, granular approach based on new feedback and experience.

5. In developing checklists, a balance is needed between theoretical knowledge and practical skills. Experts with diverse backgrounds, representing different levels of hierarchy (from department heads and supervisors to inspectors and analysts), should be highly involved. Because each of these positions has unique knowledge and expertise, which helps to review the checklists from different angles, including the full range of workers will improve the quality of checklists, reduce time for inspections, and increase safety.

6. It is essential to pilot draft checklists during real inspections in the field before finalizing and approving them. This will help enhance quality, and more importantly, make the checklists more practical. Also crucial is to always stay informed of new requirements in legislation, to regularly collect information from inspectors about their inspections, and to field complaints from businesses. This will help determine whether and how any checklists that have been already adopted ought to be revised.

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31 There is no information on the costs and benefits of this merger.
b. **IT tools (management information system)**

7. Conducting a proper IT due diligence, including assessing capacity of clients before starting a reform, is critical when one wants to embark on a comprehensive reform.

8. Developing Terms of Reference on the IT tool jointly with the Ministry of Economy and Inspectorates is key. The clients should be involved from the outset and consulted throughout the process to ensure their buy-in. Involving the client when shaping the IT product is crucial in ensuring that the technology will be subsequently used by all parties involved in the inspection system. Involving them too late will cause them to be unfamiliar with the improvements and may jeopardize their buy-in into the solution, thereby decreasing its effectiveness.

9. Identify common norms and procedures for all inspectorates to create a “universal” system. While developing the IT inspection system, inspectorates claimed that their norms and procedures were unique and specific and, thus, that they could not be incorporated into the common IT system. Hence it is important to work closely with the client to identify common norms and procedures.

10. Regularly consult with the inspectorates’ administrative staff and inspectors to constantly improve the system. The IT system is an evolving mechanism that should be modified if legislation changes. Administrative staff and inspectors using the system on a daily basis are a valuable source of information to understand the IT solution’s glitches and deficits.

c. **Private Sector**

11. Conducting regular awareness and educational campaigns for businesses on their rights and responsibilities is vital to the inspections process. Even if the laws and regulations are conceptually appropriate, if business owners are not aware of how the laws should work, and if regulations are not implemented in a transparent manner, companies will continue to experience the inspections process as a barrier to business. In addition, such transparency can help protect businesses from abuse of power by inspectors and other public officials.
Annex
## Annex

### Annex 1. Timeline

<table>
<thead>
<tr>
<th>Period</th>
<th>Milestone</th>
<th>Key features</th>
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<tbody>
<tr>
<td>2006-2007</td>
<td>Government develops Law on Inspections. Parliament adopts the Law on Inspections in 2007.</td>
<td>The Law introduced five types of inspections (planned, unplanned, counter-inspection, control, and re-inspection) and defined the frequency and duration of planned inspections (30 days for all types of inspections, with possibility to extend for no more than 10 days). The reform was supported by various business associations.</td>
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<td>2006-2010</td>
<td>Government develops applications for inspections management, Contro-Pro 1 and Contro-Pro 2, the prototypes for the later-developed online inspections management system (<a href="http://www.proverka.gov.kg">www.proverka.gov.kg</a>).</td>
<td>The Contro-Pro 1 and 2 were desktop Windows applications with functions limited to data exchange via files (memory sticks), lacking transparency on assigning inspections and coordination among controlling agencies and the Ministry of Economy.</td>
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<td>2008</td>
<td>President adopts Decree 4435 (December 9, 2008) on the improvement of state policy in regulating business activity. (The decree was repealed in 2017).</td>
<td>The decree mandated the government to develop a complex of actions aimed at reducing regulatory burden to businesses from inspections by cutting the number of inspections by implementing a risk-based approach. It mandated reduction of the number of the controlling agencies by 30%.</td>
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<td>2010</td>
<td>Government develops online inspections management system and launches e-Inspection portal, <a href="http://www.proverka.gov.kg">www.proverka.gov.kg</a>.</td>
<td>The portal contained specialized software to manage risk-based inspections, house the database comprising businesses’ risk profiles, and serve as an information portal on inspections for businesses.</td>
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<tr>
<td>2011</td>
<td>Government adopts amendments to the Law on Inspections, introducing risk-based inspection approach.</td>
<td>These amendments introduced a risk-based approach to inspections and obliged all inspectorates to assess the level of risk businesses pose to society, consumers, and the environment, and to places all enterprises into different groups according to assigned level of risk. No planned inspection is allowed without an inspector following a checklist. Developed a database available to stakeholders involved in the inspections process (businesses and inspectorates) containing all relevant facts and information on inspections, including businesses visited, risk profiles, key information, and follow-up actions required. The maximum duration of a planned inspection is now five days for small businesses and 15 days for other businesses. This reform cycle was also supported by the Council of Business Development and Investments under the Prime Minister.</td>
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<tr>
<td>Year</td>
<td>Event</td>
<td>Description</td>
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<td>2012</td>
<td>Government conducts institutional reform, cutting the number of inspectorates from 21 to 12. Government Resolutions #12 (January 12, 2012) and #87 (February 10, 2012) shifts the largest share of supervisory functions to two agencies: the State Inspectorate on Ecological and Technical Safety under the government, and the State Inspectorate on Veterinary and Phytosanitary. Government develops and adopts Regulation #108 (February 18, 2012) mandating a risk-based inspection approach. Government adopts Regulation #195 (April 15, 2013) on the Unified Automated Database of Inspections of Business Entities.</td>
<td>The institutional reform's objectives included to optimize government spending, abandoning functions that are irrelevant or excessive; and to simplify the inspections regime for business by eliminating duplication. Effectiveness is an important aspect of institutional reform: for instance, consolidated control of the food production value chain is far more effective than fragmented control. During the reform, the roles, functions and competencies of inspectorates were reviewed and overlapping functions merged. Policy making was separated from executive functions. This reform benefited businesses by eliminating inspections duplication, overlap, and excessive checks. The regulation defines a single approach for all controlling agencies on determining risk levels for businesses by appointing certain scores. Also, the regulation defines specific risk criteria for all risk fields. The regulation defines the role and functions of the single automated database of inspection objects (information system Proverka.kg), approves “Procedure for the organization and maintenance of a database of inspection objects,” and contains instructions to authorized bodies.</td>
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<td>2012-2017</td>
<td>Government enhances the online inspections management system (IMS) and e-Inspection portal - <a href="http://www.proverka.gov.kg">www.proverka.gov.kg</a>.</td>
<td>The e-Inspection portal (<a href="http://www.proverka.gov.kg">www.proverka.gov.kg</a>) became a single online inspection platform for the Ministry of Economy and all 11 controlling agencies. Businesses benefited from up-to-date information related to inspection posted on the web-portal. IMS was fine-tuned with additional features that are essential to conducting risk-based inspections, including planning of the inspections, development of businesses’ profiles based on inspections results, and monitoring and analyzing the inspections data. Certain inspection processes were automated, reducing paper workload related to inspection plans and reports.</td>
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<td>2016</td>
<td>Government adopts amendments to the Law on Inspections. Government adopts amendments to the Law on Inspections. Government introduces a web-based inspection feedback mechanism (private-sector feedback loop).</td>
<td>These amendments reduced the allowed frequency of planned inspections for objects of high sanitary risk, exempted newly established firms from planned inspections for three years, and introduced the possibility for open data on inspections results. The feedback mechanism contributed to boosting public-private dialogue and generating information on the quality of the reform implementation. Initially introduced in two controlling agencies in March 2016, it was later implemented in all 11 controlling agencies in late 2017.</td>
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<td>2017</td>
<td>Government converts the inspection checklists to web and mobile apps (currently piloted in one inspectorate in Bishkek).</td>
<td>The mobile application is aimed at increasing transparency of the inspection process, which allows further automation of inspections by making it possible to fill inspection checklists online, during inspections, through the online inspection management portal, <a href="http://www.proverka.gov.kg">www.proverka.gov.kg</a>.</td>
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## Annex 2. List of Relevant Legal Acts

<table>
<thead>
<tr>
<th>Legal act</th>
<th>Brief description</th>
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<tr>
<td>Government Resolution No. 533 “On the Procedures for Inspecting Business Entities,” adopted November 6, 2007.</td>
<td>This resolution prescribes the mandatory prior registration of all planned and unplanned inspections by the Ministry of Economic Development and Trade (currently the Ministry of Economy). Planned and unplanned inspections that have not been registered are considered illegal.</td>
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<tr>
<td>Parliamentary Resolution No. 553-IV “On Approval of the List of Authorized Bodies Having the Right to Inspect Business Entities,” adopted June 20, 2008.</td>
<td>The list of authorized bodies is approved by the Parliament.</td>
</tr>
<tr>
<td>Law on Inspections: On Introducing Amendments to the Law on Inspections of the Kyrgyz Republic N 121 of July 22, 2011.</td>
<td>Reduces the maximum allowed duration of planned inspections, introduces a risk-based approach for planned inspections and compulsory use of checklists.</td>
</tr>
<tr>
<td>Regulation on State Inspectorates regarding Sanitary, Veterinary and Phytosanitary Security under the Government of the Kyrgyz Republic N 135 of February 20, 2012 (not in force now).</td>
<td>Defines functions of the State Inspectorates on Veterinary and Phytosanitary Security. This inspectorate assumed functions from the Department of State Veterinary Inspection, the State Plant Quarantine Service, and the State Agency for Control over Production and Turnover of Ethyl Alcohol.</td>
</tr>
<tr>
<td>Regulation on State Inspectorates on Veterinary and Phytosanitary Security under the Government of the Kyrgyz Republic N 256 of May 7, 2013.</td>
<td>Defines the functions of the State Inspectorates on Veterinary and Phytosanitary Security. This inspectorate assumed functions from the State Inspection on Industrial Safety and Mining Supervision, the State Architecture and Construction Agency, the State Environment Protection Agency, the State Fire Security Agency, Land Inspection, the State Energy and Gas Inspection, and the State Labor Inspection.</td>
</tr>
<tr>
<td>Regulation on State Inspection on Ecological and Technical Security under the Government of the Kyrgyz Republic N 136 of February 20, 2012.</td>
<td>Approves the new list of authorized agencies mandated to conduct inspections of business entities. The number of authorized agencies was reduced from 21 to 12.</td>
</tr>
</tbody>
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