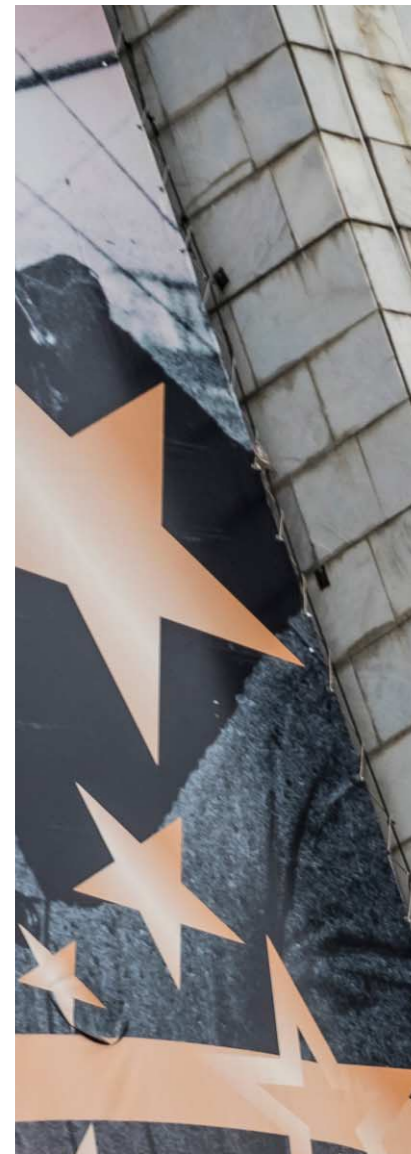


# Bumps in the Silk Road

## Kyrgyzstan

Despite a new gambling law passed last year growth is limited thanks to a ban on locals from entering land-based casinos or legally accessing online gambling.



*There has been a slow recovery from the pandemic, whilst the country has been contending with border conflict between Kyrgyzstan and Tajikistan, soaring inflation, increase in fuel and food prices, and the fall out from the Ukraine war. In the aftermath of two revolutions, the country adopted a parliamentary government. Corruption, however, remains and unrest surrounding the annulled 2020 elections led to upheaval and violence.*

The phrase 'the right hand giveth, the left hand taketh away' springs to mind when talking about business within Kyrgyzstan. There's progress. And then there's a constraint.

Even tourism has grown slowly mainly because there has been little investment. In the early 2000s around 200,000 tourists visited annually mostly from former Soviet Union countries whilst in 2019 this figure was 8.5 million dropping to 3.3 million in 2021.

In 2018 the country was voted fifth 'best adventure travel destination' by the British Backpacker Society. With stunning landscapes and a rich cultural heritage it is one of the best-kept secrets for travellers seeking an off-the-beaten-path type adventure.

Tourism accounted for about five per cent of the country's GDP pre-Covid which fell to around 3.5 per cent during 2020/21.

A programme introduced for 2019–2023 aimed to improve the image of Kyrgyzstan as a destination for adventure, eco and agri-tourism and the aim was to boost the sector's contribution to GDP to seven per cent by 2023. There has been a steady rise in the number of international tourists over the last 10 years and accommodation facilities have almost doubled.

However, the tourism sector in Kyrgyzstan is still hindered by underdeveloped infrastructure, lack of qualified staff and it is estimated that only 15 to 20 per cent of the country's tourism potential is being utilised. Bishkek has very few Western hotel chains and the resort Lake Issyk-Kul has none.

The tourism sector employs around 40,000 people which is about two per cent of the Kyrgyz's total employment.

Last year the government signed a 'Tourism Development Support Fund' with an authorised capital of KGS1bn (US\$12m) aimed at improving the tourism sector with 34 projects ready to go.

The plan is that funding will help improve infrastructure to encourage tourists to the region, create additional jobs, support vulnerable sectors of the population with training programmes, improve the level of education and quality of services in the tourism field, expand tours and create more competitive tourism products – basically aiming to increase the number of tourists visiting and improve the image of Kyrgyzstan internationally.

The country is already anticipating that the number of foreign tourists should grow by at least 25 per cent this year.

Kyrgyzstan's economy is also expected to grow over the next few years. It is estimated there will be a 4.5 per cent growth this year and four per cent in 2024. Per capita GDP growth is expected to be 0.8 per cent this year and 1.9 per cent next year.

It's not an easy road, however.

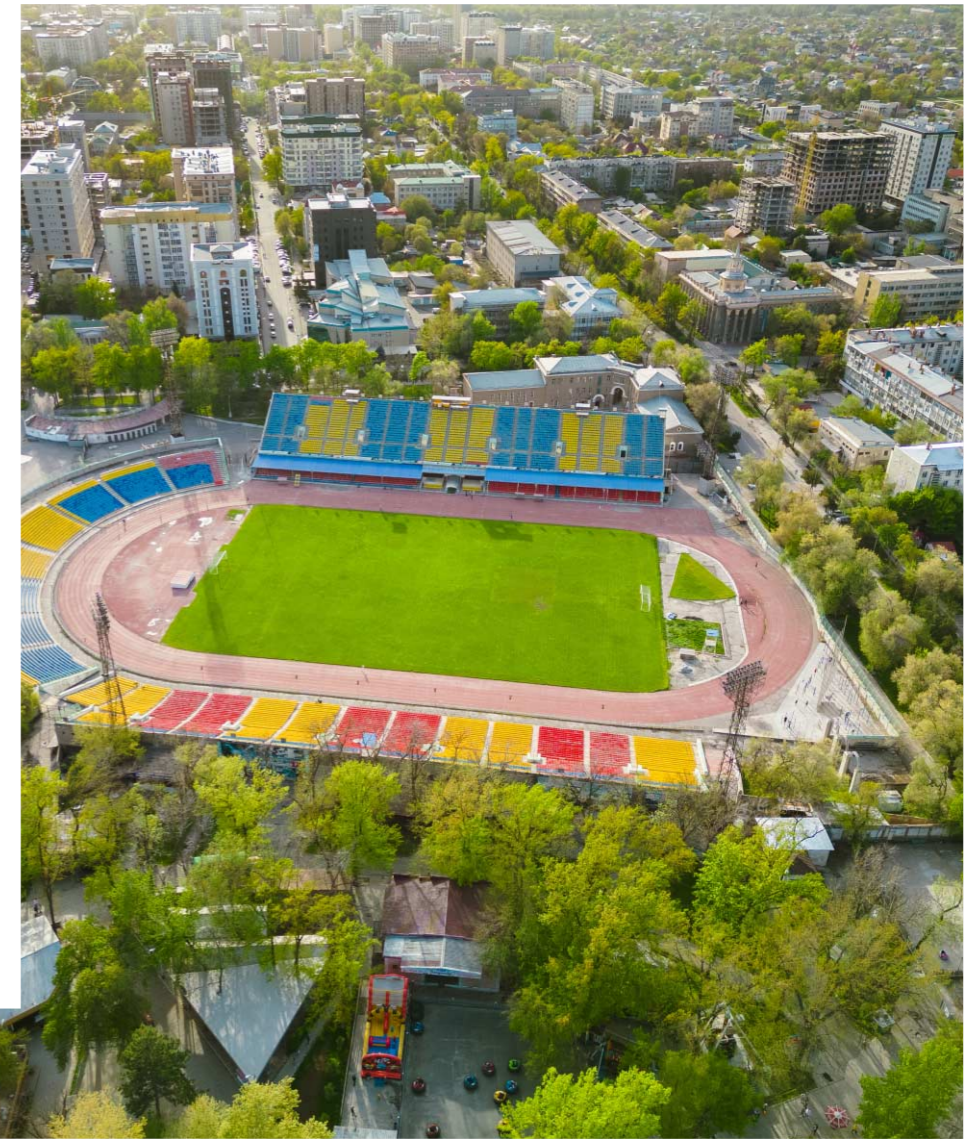
There has been a slow recovery from the pandemic, whilst the country has been contending with border conflict between Kyrgyzstan and Tajikistan, soaring inflation, increase in fuel and food prices, and the fall out from the Ukraine war.

In the aftermath of two revolutions, that saw authoritarian presidents ousted from their roles in 2005 and 2010, the country adopted a parliamentary government. Corruption, however, remains and unrest surrounding the annulled 2020 elections led to upheaval and violence.

There were major constitutional changes adopted a year later which increased presidential authority. A president can serve up to two five-year terms. President Sadyr Japarov was elected in January 2021 with 79 per cent of the votes but these were marred with irregularities.



The war on Ukraine has caused huge dilemmas for Kyrgyzstan as Russia is its largest trading partner and investor. Imports from Russia make up around 30 per cent of the country's overall imports. It is also the first choice destination for much of the country's labour migrants. There are limited opportunities for employment in the country and around one million Kyrgyzstans work abroad (mostly in Russia) and send money home to support their families amounting to one-third of the country's GDP.



Political leadership is questionable and there are ongoing reports of organised crime and economic oligarchies influencing the parties.

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The standard of living is low and average monthly salary is around KGS30,000 (\$344) whilst 88 per cent have internet access.

Inflation rate at the end of 2022 was 18 per cent whilst the supply of goods from Ukraine stopped which saw a lack of medicine in the pharmacies.

## THE GAMBLING MARKET

Casinos were banned in Kyrgyzstan back in 2012 whilst sports betting was banned in 2015.

The bill, 'On the Prohibition of Gambling Activities in the Kyrgyz Republic No. 191' was passed after repeated warnings from politicians that gambling had become a major social problem with links to organised crime. It came into force on January 1 2012.

Casinos and slot halls were shut down and the

idea was to create special gambling zones for tourists to attract foreign investment and contribute to tourism and reduce unemployment, much like Kazakhstan.

The closures saw a huge drop in tax revenues and unemployment figures rise. Then three years later the government introduced a second ban targeting sports betting via the 'On Amendments and Additions to Certain Legislative Acts No. 74' introduced in April 2015.

The law basically shut down the country's entire gambling market. Online gambling was also banned although players simply accessed offshore online casinos and bookmakers.

Apparently, Kyrgyzstan's budget has been down to the tune of \$500m each year in lost tax revenues.

But as the legal door closed the black market door opened and underground slots halls and lotteries mushroomed.

Two years after the ban there were said to be over 50 clandestine casinos whilst in the city of Osh alone there were an estimated 500 gambling halls both legal and illegal prior to the law in 2011.

The Kyrgyzstan government reacted with an idea to pass new legislation and after several plans and suggestions it's taken 10 years to come to fruition.

The bill 'Law No. 50 On Gambling in the Kyrgyz Republic' was adopted last summer and will permit casinos, slot halls, and retail bookmaking



for foreign players only. Online gambling will also be permitted but to foreign players.

Protests and campaigns to oust the bill had stalled the process but the President insisted legislation will help tackle the economic hardship the country has been facing for years especially during the post-pandemic era.

MP Dastan Bekeshev from the Committee on Law and Order tried to remove the provisions for online gambling from the bill which was rejected. He then proposed banning online gambling outside of gambling halls - this too was rejected.

Local players simply access sites in Kazakhstan and Russia sending millions of lost revenue abroad. Neighbouring Kazakhstan has seen its revenue increase to T500bn in 2021 and over the last decade the gambling business there has increased by 25 per cent annually.

Although the population in Kyrgyzstan is 2.8 times smaller and with a weaker economy the Kyrgyz love to bet and it is estimated if the volume of services are permitted like its neighbour, it could reach \$500m in gambling business.

To date five licences have already been issued to four betting services and one casino - the Grand Casino which opened in a former Golden

Dragon restaurant in Bishkek in May.

The state has received a reported KGS126m in total from licensing fees - KGS84m from the casino and KGS42m from the bookmakers. These included Olimpbet, Ringobet (Trust Game Ltd) and 1xBet (Sports Entertainment).

Grand Casino opened 10 months after gambling was legalised and is headed by Adilet Abdimanapov.

The rules include:

- Gambling permitted include landbased casinos, slot halls, bookmakers and totalisator plus online betting and casinos.
- Land-based casinos can only be located in restaurants or hotel complexes. The restaurant must have at least 100 seats and hotel at least 20 rooms.
- Casinos in the capital Bishkek must have at least 10 gaming tables (and five tables outside the city). Slot halls must have at least 30 machines.
- Players must be aged 21 years and over.
- Slot halls must be in separate rooms or buildings from any other business activity.

- Casinos and slot halls must have a currency exchange bureau and security measures in place.

- Use of credit cards and loans to gamble are prohibited, except for landbased slots.

- Slots machines must have a RTP of least 75 per cent.

- The State Service for Regulation and Supervision over Financial Market (Gosfinaadzor) under the Ministry of Economy will regulate gambling and set licensing fees (except for online/virtual casinos). The State Service for Regulation and Supervision of the Communications Industry (Gossvyaz) under the Ministry of Digital Development will cover the regulation of online casinos.

- Only resident legal entities can obtain a gambling licence and must have a reserve fund of MIC 10,000 to 80,000. Licences are issued for 10 years.

- A casino licence is KGS84m (\$965,000), a slot hall KGS42m (\$483,000) and betting company KGS10.5m (\$120,000)

- Taxes are:

- Gaming table - KGS1m approx €10,500



## Essential information and facts about Kyrgyzstan:

<b>Capital</b>	Bishkek
<b>Total Area</b>	199,951sq.km
<b>Population</b>	6.1 million
<b>Median age</b>	27.3 years
<b>Religion</b>	Muslim, Christian
<b>Ethnic Groups</b>	Kyrgyz, Uzbek, Russian
<b>Languages</b>	Kyrgyz, Uzbek, Russian
<b>Currency</b>	Som (KGS)
<b>Government type</b>	Parliamentary Republic
<b>Chief of State</b>	President Sadyr Japarov (since 2021)
<b>Head of Government</b>	President Sadyr Japarov
<b>Elections</b>	President elected by majority vote in two rounds. Next election due 2027.
<b>Unemployment</b>	2.8% (March 2023)
<b>Tourism</b>	8.5m (2019)

(2023) and rising to KGS1.25m in 2024

- Slot machines – KGS75,000 approx €788 (2023) and KGS100,000 from 2024
- Betting shops – KGS350,000 approx €3,680 (2023) and KGS500,000 (2024).
- Online casinos will pay four per cent per month of income.

### THE CHANGES

In March this year there was a draft bill proposing to lower the tax rates for gambling due to the lack of investors and interest in the country. The idea is to reduce the gaming table tax rate from KGS1m to KGS600,000 this year and down to KGS750,000 in 2024 and bring slot machine tax down to KGS15,000 this year

and KGS20,000 in 2024. The draft bill stated: "The development of the draft resolution is due to the need to ease the tax burden and give impetus to the development of the gambling industry in the Kyrgyz Republic. As a rule the main burden for entrepreneurs is the tax legislation of a particular country.

"An investor before starting his investment activity conducts an appropriate analysis of the country's legislation, including tax legislation, in order to access all the risks and benefits of these investments. As international practice shows, in countries with a stable economy and liberal taxation, business entities operate in quite comfortable conditions, the authorise of countries strive to create a favourable tax environment for entrepreneurs."

If the tax rates are lowered the possible tax

revenues will mean KGS81.6m in 2023 (from one casino, one slot hall and bookmakers) and KGS103.1m in 2024 estimated for one entity.

One of the biggest problems for the Kyrgyzstan market is the ban on local residents entering casinos and also online gambling. Not only does this restrict the number of visitors and players but is difficult to enforce at an online level particularly.

There has been a suggestion to allow online gaming to accept payments in foreign currency. The law at the moment says all payments must be in Soms but as online casinos can only be played by foreigners they find this inconvenient.

In May there was a proposal to allow local residents into betting shops claiming locals will just bet illegally. One suggestion is to send two per cent of income quarterly towards sports development programmes.

The prediction is the gambling business will bring KGS3bn to 5bn per year (\$60m) to the budget and provide jobs for around 5,000 people and create \$1bn in income tax.

Meanwhile, in June last year, the ban on gambling advertising via the 'On Advertising' law was removed however advertising must comply with certain rules and cannot target Kyrgyzstan residents.

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# Locals Anaesthetic

## Kyrgyzstan

Consulting agency, 4H, provides an overview of the current state of the gambling regulation in Kyrgyzstan. 4H Agency is an international consulting company in the field of gambling providing guidance relating to licensing, regulations, public affairs, banking and payments.



### BASIC MARKET INDICATORS

Below is an overview of some of the details, according to the World Bank Ranking, about Kyrgyzstan:

- GDP (2022) – US\$10.9 billion (Kyrgyzstan ranks 153th in the World Bank GDP Ranking between République togolaise and Tajikistan)
- GDP per capita (2022) – \$1,607.3
- The population is 6.8 million.
- Internet penetration rate – 51.1 per cent.

### REGULATORY OVERVIEW

Gambling received legal status in Kyrgyzstan in the summer of 2022.

The cornerstone of the current regulatory status of Kyrgyzstan is the fact that introduced regulations prohibit locals from gambling. Only foreigners aged 21+ are allowed to gamble.

This fact significantly narrows the interest in this market.

Kyrgyzstan gambling and betting industry is regulated by two legislative acts Law No. 50 of June 30, 2022 “On gambling in the Kyrgyz Republic” and Law No. 78 of May 10, 2017 “On lotteries”

The following gambling verticals are regulated in Kyrgyzstan:

- Land-based casinos;
- Slot machine halls;
- Land-based betting;
- Online betting;
- Land-based totalizator
- Online casino;
- Lottery (state monopoly)

Licences are issued for a period of 10 years; the cost of an offline gambling licence depends on the location. The amount of the licence fee is established by the Cabinet of Ministers of Kyrgyzstan and is calculated by the number of Calculated Indicator (as of the date of publication of this article, CI is equal to 1 Euro). So, for example, the cost of a licence for landbased totalizator is €110,374.

**4H Agency**  
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Information supplied by 4H Agency, providers of expert guidance to B2C operators and B2B providers, spanning market insights, payments, product localisation, regulations, licensing, public affairs, and more.

With a versatile team across gambling sectors, 4H Agency offers 360-degree support and market guidance.

Based on the fact that the regulation was introduced relatively recently, it can be assumed that the model of accepting only non-residents will soon show its inefficiency due to the complexity of its implementation and the lack of satisfaction of the internal needs of citizens. In our opinion, this will force Kyrgyzstan to return to the discussion about the reform of the gambling industry.

A very important restriction for casinos or betting shops in Kyrgyzstan is the prohibition on attracting local audiences. Residents of Kyrgyzstan are not allowed to visit landbased establishments and gamble online. Apart from severely limiting the pool of potential visitors, this prohibition is very challenging to enforce. There is no guarantee of entry using passports, as many Kyrgyz nationals hold passports from other countries, and no other control mechanisms have been devised.

### GAMBLING TAXES

It should be emphasised that in Kyrgyzstan, along with licence fees, there are additional payments for conducting activities in the field of gambling.

Operators are charged for the basic elements of the operator infrastructure in accordance with the field of activity. Below is information on the amounts of such fees applicable to elements of the operator’s infrastructure (fees below are as of 2023):

- Game table €10,512
- Slot machine 2023 – €788
- Land-based totalisator cash desk €3,679
- Land-based sports betting cash desks – €3,679

For online casinos and online betting, the tax rate is set at four per cent of incomes

Tax on winnings is 10 per cent if the winnings exceed €52.

### MARKET SIZE

At its core, the domestic market of Kyrgyzstan is unregulated, so it is not possible to talk about market volumes.

There are such betting operators on the market: 1xBet, Olimpbet, Ringobet.

### CURRENT STATUS

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Analysing the structure of Kyrgyzstan regulations, it can be seen that the Government used Russia and Kazakhstan regulatory frameworks as an inspiration for the development of the regulations. The only material difference between regulatory frameworks is the ban on locals.

This leads to similar regulatory errors as in Russia and Kazakhstan and contributes to the development of offshore operations in the market ultimately defeating the whole purpose of legalisation.

Also, because the economy of Kyrgyzstan needs to raise funds, the National Bank of Kyrgyzstan recently proposed to allow the online sector to accept payments in both national and foreign currencies, which may be an interesting solution in the region.