

Comparative Analysis of Legal Regulation of Franchising
in the Kyrgyz Republic
with the United States of America and with the Federal Republic of Germany

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LLM/MA Capstone Thesis
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[17 JUNE 2024]

ABSTRACT

The purpose of this master's thesis is to provide a comprehensive comparative analysis of the legal regulation of franchising in the Kyrgyz Republic with the laws of the United States of America and the Federal Republic of Germany in relation to the regulation of franchising in these countries. This academic work focuses on providing the theoretical and historical origins of franchising worldwide and will subsequently focus on franchising in the Kyrgyz Republic. The basis for focusing the legal regulation of franchising in Kyrgyz legislation is that this dissertation was written in order to compare the legislation of the Kyrgyz Republic with the listed two jurisdictions in order to identify problems, and subsequently provide solutions to these problems using the example of more developed countries in franchising, such as the United States of America and the Federal Republic of Germany.

The present topic of the dissertation is extremely important not only for the legislation of the Kyrgyz Republic, but also for individuals and legal entities in the territory of Kyrgyzstan. The reason for this is that at the moment there is no special regulatory legal act regulating franchising in Kyrgyz legislation, as a result of which there is great uncertainty in the details of legal regulation of business in the franchise format. As a result, the main task of this dissertation is to clarify, through extensive comparative analysis with the laws of the United States and Germany, how the absence of a special regulatory act related to franchising damages the practice of franchising in the Kyrgyz Republic.

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INTRODUCTION

The subject I have selected, which is about providing a comparative analysis of the legal regulation of franchising in Kyrgyz law with the jurisdiction of the United States of America and the Federal Republic of Germany, is currently crucial not only for the legislation of the Kyrgyz Republic, but also for private entrepreneurs and legal entities on the territory of the Republic. The reason for this is that currently there is no special regulatory legal act regulating franchising in the legislation of the Kyrgyz Republic, as a result of which there is uncertainty in the details of the legal regulation of franchising.¹ As a result, the main problem of the future dissertation is to find out how the absence of a special regulatory act related to franchising causes damage to the practice of franchising in the Kyrgyz Republic.

Before proceeding to the development of the subject of the work, it is necessary to note the main context of this problem. Franchising, as a method of distributing services and products with the participation of franchisees and franchisors, originated in the United States in the second half of the 19th century after the end of the Civil War.² The use of franchising has fundamentally changed the pace of development of hundreds and thousands of firms – first in the United States, and then in most countries of the world. Some large firms (franchisors) have a thousand or more partners (franchisees) providing wide regional distribution of their branded goods and services.³ At the same time, despite the fact that franchising is in demand all over the world, the legal regulation of franchising in the Kyrgyz Republic is still not clearly defined,

¹ “Problematic issues of legal regulation of franchising in the Kyrgyz Republic”, by Burul Faridinova, 2013, <https://pravum.kg/2013/07/%D0%BF%D1%80%D0%BE%D0%B1%D0%BB%D0%B5%D0%BC%D0%BD%D1%8B%D0%B5-%D0%B2%D0%BE%D0%BF%D1%80%D0%BE%D1%81%D1%8B-%D0%BF%D1%80%D0%B0%D0%B2%D0%BE%D0%B2%D0%BE%D0%B3%D0%BE-%D1%80%D0%B5%D0%B3%D1%83%D0%BB%D0%B8/>

² Dant, Rajiv P. "A futuristic research agenda for the field of franchising." *Journal of Small Business Management* 56.1 (2018): 30-52.

³ Dant, Rajiv P. "A futuristic research agenda for the field of franchising." *Journal of Small Business Management* 56.1 (2018): 30-52

and also misleads the parties, thus lagging behind the whole modern world. As a result, not only franchisees, but also franchisors suffer in practice due to this uncertainty.⁴

Therefore, the importance of studying this legal problem lies both in the academic sphere and in the practical sphere of conducting franchising in the territory of the Kyrgyz Republic. As a result, it is planned to determine in which legislative acts there is a contradiction with each other, as well as in which points there are gaps in the legal regulation of franchising. After that, in future work it will be necessary to provide a comparative analysis of the franchising jurisdictions in the United States of America, as well as in the Federal Republic of Germany, which provided the franchisor and franchisee with optimal and comfortable conditions for doing business with the provided legal protection.

The reason for the importance of this topic is that despite the fact that franchising is currently one of the optimal types of business for young entrepreneurs to create, the legal regulation of this type of business in Kyrgyz Republic is regulated by a vague regulatory legal act, which introduces some disappointment and uncertainty in protecting the rights of two parties to the business.⁵ At the same time, it should be noted that in Kyrgyz legislation franchising falls under the legal regulation of the Civil Code of the Kyrgyz Republic.⁶ It is also enshrined as a special form of entrepreneurship in the Law of the Kyrgyz Republic "On the Protection of the Rights of Entrepreneurs".⁷ At the same time, despite the fact that the subject of the contract are objects of intellectual property, the Civil Code of the Kyrgyz Republic does not contain a reference rule for the application of the rules on the license agreement to franchise relations. Thus, until 2000, the rules on intellectual property were applied to the complex

⁴ "Problematic issues of legal regulation of franchising in the Kyrgyz Republic", by Burul Faridinova, 2013, <https://pravum.kg/2013/07/%D0%BF%D1%80%D0%BE%D0%B1%D0%BB%D0%B5%D0%BC%D0%BD%D1%8B%D0%B5-%D0%B2%D0%BE%D0%BF%D1%80%D0%BE%D1%81%D1%8B-%D0%BF%D1%80%D0%B0%D0%B2%D0%BE%D0%B2%D0%BE%D0%B3%D0%BE-%D1%80%D0%B5%D0%B3%D1%83%D0%BB%D0%B8/>

⁵ Ibid

⁶ Articles 866-878 of 44th chapter of Civil Code of Kyrgyz Republic

⁷ Article 5 of the Law of the Kyrgyz Republic "On the Protection of the Rights of Entrepreneurs"

business license agreement, in particular, which did not contradict the main provisions of the franchise agreement.⁸ At the same time, at one point the legislation decided to exclude this norm only because it is too vague.⁹ Now, the essential terms of the franchise and the license agreement are markedly different.¹⁰ An example is that a franchise agreement does not require specifying the territory and term of the agreement, while for a license agreement, the absence of this information entails a refusal to register it with Kyrgyzpatent (patent agency).¹¹ As a result, this refusal will lead to the invalidity of the license agreement. As a result, the transfer of trademarks or patents under a franchise agreement may be considered illegal.¹² This case is not the only problematic point in the legal regulation of franchising in Kyrgyzstan. Thus, I would like to provide a comparative analysis with those countries that have the best situation in conducting franchising.

The reason that I chose the legal regulation of franchising in the United States of America for a comparative analysis is that, as previously indicated, the United States is the capital of the development and formation of modern concepts and principles of commercial concession. In 1978, the US Federal Trade Commission adopted a resolution on "Disclosure requirements, prohibitions related to franchising, and favorable business conditions."¹³ It contained 20 requirements that defined the information that had to be provided from the franchisor to the franchisee before signing the franchise agreement.¹⁴ At the same time, this was not enough, as a result, in order to streamline the franchise offer system, a Provision on

⁸ "Problematic issues of legal regulation of franchising in the Kyrgyz Republic", by Burul Faridinova, 2013, <https://pravum.kg/2013/07/%D0%BF%D1%80%D0%BE%D0%B1%D0%BB%D0%B5%D0%BC%D0%BD%D1%8B%D0%B5-%D0%B2%D0%BE%D0%BF%D1%80%D0%BE%D1%81%D1%8B-%D0%BF%D1%80%D0%B0%D0%B2%D0%BE%D0%B2%D0%BE%D0%B3%D0%BE-%D1%80%D0%B5%D0%B3%D1%83%D0%BB%D0%B8/>

⁹ *ibid*

¹⁰ *Ibid*

¹¹ *ibid*

¹² *ibid*

¹³ Spencer, Andrew, and Andrew Selden. "Franchise Regulation: The Evolution of Legal Controls on Franchising in the U.S." *International Journal of Franchising Law* 4.2 (2006): 29-46

¹⁴ Spencer, Andrew, and Andrew Selden. "Franchise Regulation: The Evolution of Legal Controls on Franchising in the U.S." *International Journal of Franchising Law* 4.2 (2006): 29-46

uniform rules for the sale of a franchise was approved.¹⁵ Based on this, I believe that the legal regulation of franchising in the United States should be treated as, for example, possible and appropriate solutions to emerging problems in the field of legal regulation of franchising. At the same time, the United States belongs to a completely opposite legal family, namely the common law system, and the Kyrgyz Republic belongs to the civil law system, as a result of which I would also like to provide a comparative analysis from one legal system. Based on this, I would also like to provide a comparative analysis of the legal regulation of franchising in the country from the civil legal system, namely the Federal Republic of Germany. The main feature of the regulation of franchise relations in Germany is the existence of a single supranational legislative act on franchising for the EEC – Regulation No. 4087/88 of the European Commission (EC) EEC dated 11/30/88 [3, p. 333], which, although it does not have the status of a law, is binding on public administrations, courts and franchising entities of all EEC countries. As a result, we see that in this country there is an order in the field of franchising relations. On this basis, I would like to dedicate my dissertation to the problems of legal regulation of franchising in the Kyrgyz Republic, as well as provide a comparative analysis of the legal regulation of franchising with the United States of America and the Federal Republic of Germany.

¹⁵ Spencer, Andrew, and Andrew Selden. "Franchise Regulation: The Evolution of Legal Controls on Franchising in the U.S." *International Journal of Franchising Law* 4.2 (2006): 29-46

CHAPTER I. THEORETICAL AND HISTORICAL BACKGROUND OF FRANCHISING

1. Conceptual framework of franchising

The level of economic development is most related to the presence and level of entrepreneurship in countries.¹⁶ Competition plays an important role in this process, but it must be borne in mind that high competition can become an obstacle for newcomers to the field of doing business in the countries.¹⁷ Since, every newly minted businessman who plans to enter the entrepreneurship market must have such key competitiveness factors, which include a successful, thoughtful business process model, management quality, image, knowledge, staff competence and access to modern technologies.¹⁸ Nevertheless, despite the fact that in the case of developed financial sectors, there is the provision of flexible financing mechanisms, many new small enterprises face the problem of contureness, namely survival in the early years due to financial difficulties.¹⁹ Nevertheless, there is a special mechanism for business development for beginners, which ensures more or less successful implementation of entrepreneurial activities, namely Franchising.²⁰

Franchising, originated from the French word "franchise", meaning "benefit, tax exemption, privilege".²¹ After that, the term began to strengthen in English-speaking countries,

¹⁶ "Franchising as one of the ways of doing business for a novice entrepreneur," Morsina Elizaveta Vladimirovna, <https://cyberleninka.ru/article/n/franchayzing-kak-odin-iz-sposobov-vedeniya-biznesa-dlya-nachinayuschego-predprinimatelya>

¹⁷ Ibid

¹⁸ Ibid

¹⁹ "Socio-economic conditions for the development of franchising in the service sector", Mikhail Vladimirovich Kolinchenko, 2013, <https://www.econ.msu.ru/ext/lib/Article/x1c/xcc/7372/file/Kolinchenko.pdf>

²⁰ Ibid

²¹ Snitko L.T. The franchise system and its effectiveness in the competitive commodity market / L.T. Snitko, I. V. Savenkova // Bulletin of the Belgorod University of Cooperation, Economics and Law. - 2016. – No. 3. – pp. 51-61.

namely in the United States of America.²² At the same time, the term Franchising can be disclosed from two sides. Namely, from the economic and business administration spheres of activity, as well as from the legal sphere of activity. Nevertheless, in my opinion, in order to fully understand this term, it is necessary to provide complete and accurate information from two different perspectives. Thus, from an economic point of view, franchising means it is a way to expand a business without the need for capital investments by the franchisor.²³ The franchisor can quickly expand his brand and increase his market share by using the financial and operational resources of the franchisee.²⁴ It also allows the franchisor to diversify their sources of income and minimize the risks associated with the development of new markets or regions.²⁵

From a legal point of view, franchising describes the relationship between a franchisor and a franchisee, defined by contractual obligations and rights.²⁶ Usually, such a contract includes the terms of use of the trademark, training and support, rules and standards, financial obligations and terms of termination of the contract.²⁷

Thus, comparing franchising from an economic and legal point of view, we can say that the economic aspect of franchising is focused on the benefits for both parties, providing the opportunity to expand the business and increase profits with minimal risks. On the other hand, from a legal point of view, franchising is more focused on obligations and rights defined by contracts in order to ensure compliance with standards and protect the interests of both parties. At the same time, summarizing the terminology of franchising, it should be noted that franchising is the most effective way of organizing a business, in which the franchisor (a company with a brand or technology) transfers to an independent entrepreneur or other

²² Ibid

²³ Blair, Roger D., and Francine Lafontaine. *The Economics of Franchising*. Cambridge University Press, 2005.

²⁴ Ibid

²⁵ Ibid

²⁶ Yagudin S.Y. *Venture entrepreneurship. Franchising: Educational and methodical complex*, 2014

²⁷ Yagudin S.Y. *Venture entrepreneurship. Franchising: Educational and methodical complex*, 2014

organization (franchisee) the right to use its trademark and technological base. This type of business is the most effective due to the fact that giant companies are quite often in need of expanding markets for their services, and many small service enterprises do not have access to modern technologies, lack experience, a detailed strategy, as well as the necessary information.²⁸ This business is conducted on the basis of mutual obligations and the provision of benefits that facilitate business in terms of cooperation between the transmitting company (franchisor) and the receiving individual entrepreneur or receiving organization (franchisee).²⁹ The franchisor grants these rights for certain compensation, which is legally formalized in accordance with trademark law.³⁰

At the same time, for a complete vision of the picture, it is necessary to note the rights and obligations of each party, namely the franchisee and the franchisor. These rights and obligations of each of the parties are specified in the franchise agreement, in other words, each agreement may vary and have its own conditions, different from others.³¹ At the same time, there is a certain base, which is most often unchanged. Starting with the rights of the franchisee, by purchasing a franchise, this party to the contract acquires such rights as the right to use a trademark and brand, the opportunity to receive training, support, advice from the franchisor, access to commercial information and business-related knowledge.³² Moreover, in certain cases there is a right to sub-franchising, in other words, the transfer of franchise rights to other persons.³³ Having determined what the basic rights of a franchisee are, it is necessary to slightly touch upon the understanding of each of the above rights. Starting with the right to use a trademark, first of all it should be noted that by acquiring this right, a franchisee obtaining the

²⁸ Yagudin S.Y. Venture entrepreneurship. Franchising: Educational and methodical complex, 2014

²⁹ Ibid

³⁰ Ibid

³¹ “INTERNATIONAL FRANCHISE AGREEMENT”, Bohdan Stetsiuk¹, Yurii Miroshnychenko², Pavlo Dudko, <https://cyberleninka.ru/article/n/international-franchise-agreement/viewer>

³² Ibid

³³ ibid

right to use a trademark is a significant advantage for aspiring entrepreneurs.³⁴ The reason for this is that the use of an already well-known trademark avoids significant costs for advertising and marketing campaigns to attract customers. Thus, due to the fact that this trademark is already well-known and is well-known to consumers, the franchisee enjoys a widely recognized business network. Moving on to the next franchisee right, the franchise acquirer gets access to commercial information, which contributes to an already proven business plan, which entails business expansion, as well as strengthening market positions.³⁵ As noted earlier, it happens that the franchise agreement indicates that the franchisee has the right to sub-franchising.³⁶ At the same time, sub-franchising is a process when the franchisee, who is the primary recipient of the franchise, transfers part of his rights and obligations to other persons or organizations - sub-franchisees.³⁷ In this way, sub-franchisees gain the right to use the trademark, brand, business model and other aspects of the franchise to create and manage their own businesses.³⁸ This allows franchisees to expand their presence in the market without having to directly manage all branches or points of sale.³⁹ Thus, sub-franchising can be beneficial for both franchisees and sub-franchisees. Franchisees receive additional sources of income through sub-franchising, and sub-franchisees receive a ready-made business format that has been successfully adapted and tested on the market.⁴⁰ However, it is important to note that franchising can be a complex process that requires strict quality control, management and training of sub-franchisees to maintain a single brand standard. The last thing I would like to note is that often the franchisee gets the right to access the franchisor's suppliers. This makes it easier for franchisees to find suppliers who fit all business requirements. At the same time, it

³⁴“THE LEGAL ESSENCE AND FEATURES OF THE CONTENT OF THE INTERNATIONAL FRANCHISING AGREEMENT”, Sobolev Daniil Vladimirovich.

³⁵ Ibid

³⁶ Ibid

³⁷ Blair, Roger D., and Francine Lafontaine. *The Economics of Franchising*. Cambridge University Press, 2005

³⁸ Ibid

³⁹ Ibid

⁴⁰ Blair, Roger D., and Francine Lafontaine. *The Economics of Franchising*. Cambridge University Press, 2005

should also be noted that this right of the franchisee echoes the obligations of the franchisee, since many franchise agreements specify that the franchisee is obliged to order goods only from certain suppliers.⁴¹ Thus, it is necessary to specify the main, clear obligations of the franchisee. In a franchise agreement, the franchisee usually assumes several basic obligations that ensure the successful operation of the franchise business. Turning to the first obligation, namely payment of fees, it should be noted that the franchisee is obliged to pay various fees to the franchisor, including initial franchise fees, ongoing royalties and possibly advertising or marketing fees.⁴² These fees are often stipulated in the franchise agreement and contribute to the support and maintenance of the franchise system.⁴³ The next commitment is to comply with brand standards. The franchisee must comply with the brand standards and operational guidelines set by the franchisor.⁴⁴ This includes maintaining the quality of products or services, complying with branding and marketing requirements, and following operational procedures established by the franchisor.⁴⁵ An equally important obligation is the use of intellectual property. Franchisees are granted the right to use trademarks, trade names, logos and other intellectual property objects of the franchisor.⁴⁶ However, the franchisee must use them strictly in accordance with the franchisor's guidelines and only in an agreed area. The following obligation carries the character of both rights and obligations. A prerequisite for training and support, franchisees are generally required to participate in the initial training programs provided by the franchisor in order to master the necessary business skills and procedures.⁴⁷ The franchisor can also provide ongoing support and assistance to ensure the success of the

⁴¹ Blair, Roger D., and Francine Lafontaine. *The Economics of Franchising*. Cambridge University Press, 2005

⁴² "THE LEGAL ESSENCE AND FEATURES OF THE CONTENT OF THE INTERNATIONAL FRANCHISING AGREEMENT", Sobolev Daniil Vladimirovich.

⁴³ *Ibid*

⁴⁴ *Ibid*

⁴⁵ *Ibid*

⁴⁶ *Ibid*

⁴⁷ "THE LEGAL ESSENCE AND FEATURES OF THE CONTENT OF THE INTERNATIONAL FRANCHISING AGREEMENT", Sobolev Daniil Vladimirovich.

franchisee.⁴⁸ The next thing to note is reporting and compliance. Franchisees are often required to provide regular reports to the franchisor on their financial results, operating activities and compliance with the terms of the franchise agreement.⁴⁹ This helps the franchisor to monitor the effectiveness of the franchise and ensure compliance with the standards set by the brand. Turning to territorial restrictions, it should be noted that franchisees may be subject to territorial restrictions specified in the franchise agreement, which define the geographical area within which the franchisee is allowed to carry out its activities.⁵⁰ This helps to prevent competition between franchisees and ensures exclusivity in the market in a certain area.⁵¹ Thus, the above obligations form the basis of franchise relations are necessary to maintain the consistency, quality and integrity of the brand in all franchise centers. As a rule, they are set out in detail in the franchise agreement, which serves as the legal basis governing the relationship between the franchisor and the franchisee.

Having defined the rights and obligations of the franchisee, it will be important to note the rights and obligations of the franchisor. Nevertheless, it can be understood from the above that the franchisor's rights are as follows: intellectual property rights, quality control, training, territorial protection, marketing and advertising, as well as maintaining relationships with suppliers. Turning to the obligations of the franchisee, it should be noted that the following points differ slightly from the above, so it is necessary to describe in detail. Starting with the first commitment, which is to provide initial training: the franchisor is usually responsible for providing comprehensive initial training to the franchisee.⁵² This training covers various aspects of running a franchise business, including product or service offerings, operational

⁴⁸ "THE LEGAL ESSENCE AND FEATURES OF THE CONTENT OF THE INTERNATIONAL FRANCHISING AGREEMENT", Sobolev Daniil Vladimirovich.

⁴⁹ "THE LEGAL ESSENCE AND FEATURES OF THE CONTENT OF THE INTERNATIONAL FRANCHISING AGREEMENT", Sobolev Daniil Vladimirovich.

⁵⁰ Blair, Roger D., and Francine Lafontaine. *The Economics of Franchising*. Cambridge University Press, 2005.

⁵¹ Ibid

⁵² "Franchising as one of the ways of doing business for a novice entrepreneur", Elizaveta Vladimirovna Mosina, <https://cyberleninka.ru/article/n/franchayzing-kak-odin-iz-sposobov-vedeniya-biznesa-dlya-nachinayuschego-predprinimatelya>

procedures, customer service standards, and business management practices.⁵³ The following is constant support and guidance: The franchisor is obliged to provide constant support and guidance to the franchisee throughout the duration of the franchise agreement.⁵⁴ This support may include assistance in marketing and advertising, solving operational tasks, training staff, and other aspects of running a business.⁵⁵ The next commitment, namely supply chain management, the franchisor often maintains relationships with trusted suppliers to ensure that the franchisee has access to stable and high-quality products, equipment and supplies.⁵⁶ The franchisor can help the franchisee establish relationships with these suppliers and negotiate favorable terms. The next thing to note is brand development and marketing: the franchisor is responsible for developing and promoting the franchise brand through national or regional marketing and advertising campaigns.⁵⁷ The franchisor can also provide marketing materials, branding recommendations, and support to help the franchisee effectively promote their locations.⁵⁸ Quality control and compliance with standards: the franchisor is tasked with ensuring compliance with quality standards, operational procedures and branding guidelines to ensure consistency across all branches of the franchise company.⁵⁹ This may include conducting regular inspections, providing feedback to franchisees, and taking corrective action as necessary.⁶⁰ Research and Development: the franchisor can invest in research and development aimed at improving products, services and operational processes within the franchise system.⁶¹ This ensures that the franchise remains competitive and in demand in the

⁵³ "Franchising as one of the ways of doing business for a novice entrepreneur", Elizaveta Vladimirovna Mosina, <https://cyberleninka.ru/article/n/franchayzing-kak-odin-iz-sposobov-vedeniya-biznesa-dlya-nachinayuschego-predprinimatelya>

⁵⁴ Ibid

⁵⁵ Ibid

⁵⁶ Ibid

⁵⁷ "INTERNATIONAL FRANCHISE AGREEMENT", Bohdan Stetsiuk, Yurii Miroshnychenko, Pavlo Dudko

⁵⁸ "DEFINITION OF FRANCHISING AS AN ECONOMIC RELATIONSHIP", E.S. Lysenko

⁵⁹ Ibid

⁶⁰ Ibid

⁶¹ "DEFINITION OF FRANCHISING AS AN ECONOMIC RELATIONSHIP", E.S. Lysenko

market.⁶² Importantly, there is an obligation to resolve disputes: in the event of disputes or disagreements between the franchisee or between the franchisor and the franchisee, the franchisor is responsible for facilitating dispute resolution through mediation, arbitration or other means specified in the franchise agreement.⁶³ The following is compliance with legal and regulatory requirements: the Franchisor must ensure that the franchise system complies with all applicable laws, regulations and industry standards.⁶⁴ This includes providing franchisees with the necessary legal information, ensuring proper insurance coverage and compliance with labor laws.⁶⁵ Thus, these obligations are necessary for the franchisor to maintain the integrity of the franchise system, support the success of the franchisee and protect the reputation of the brand as a whole. As a rule, they are detailed in the franchise agreement to establish clear expectations and responsibilities of both parties.

Having defined and described the basic rights and obligations of the franchisee and the franchisor, as a result of which are specified in the agreements between the two parties, I would like to define the main types of franchise agreements. The first thing you want to start with is a type of franchise agreement called "Single unit franchise agreement". This type of contract is the most common and moreover is considered a traditional form of franchising.⁶⁶ In this case, the franchisor grants the right and obligation to open and manage one franchise.⁶⁷ Franchisees should invest their own funds and apply their management skills to run a successful business.⁶⁸ At the same time, there is a franchise agreement that is completely different from the first agreement, namely a franchise agreement bearing the name "Multi-unit franchise agreement". This agreement assumes that the franchisor grants the right to create and manage several

⁶² Ibid

⁶³ "INTERNATIONAL FRANCHISE AGREEMENT", Bohdan Stetsiuk , Yuri Miroshnychenko , Pavlo Dudko

⁶⁴ Ibid

⁶⁵ Ibid

⁶⁶ "TYPES OF FRANCHISE ARRANGEMENTS", Franchise, Franchise Expert, 2015,
<https://francity.com/about-franchising/types-of-franchise-arrangements/>

⁶⁷ Ibid

⁶⁸ Ibid

franchisee facilities to one person at the same time.⁶⁹ A franchisee with several divisions undertakes to open a certain number of outlets within a certain period of time and must have sufficient financial and managerial resources to successfully run several businesses.⁷⁰ The following franchise agreement bears the name "Area development franchise".⁷¹ This agreement is quite similar to the previous franchise agreement, namely the "Multi-unit franchise agreement" with the exception of one additional right. Namely, this agreement implies that, according to this agreement, there is a clearly indicated business development in a certain geographical area.⁷² The franchisor gives the right to open several franchise points within this territory.⁷³ Turning to the last main type of franchise agreement, which is called the "Master Franchise", it should be noted that in accordance with this agreement, the franchisor grants the rights to the brand and business model to a legal entity for a certain country, region or continent.⁷⁴ This main franchisee, in addition to opening and managing several outlets, also has the right to attract other franchisees, acting as an intermediary between the franchisor and new members of the network.⁷⁵

In conclusion, franchising serves as a powerful business development mechanism, especially beneficial for both franchisors and franchisee recipients. The word "franchising", derived from the French word "franchise", has turned into a comprehensive business strategy that has received worldwide recognition.⁷⁶ Franchising allows you to quickly expand your

⁶⁹ "TYPES OF FRANCHISE ARRANGEMENTS", Franchise, Franchise Expert, 2015, <https://francity.com/about-franchising/types-of-franchise-arrangements/>

⁷⁰ Ibid

⁷¹ Ibid

⁷² Ibid

⁷³ Ibid

⁷⁴ Ibid

⁷⁵ Ibid

⁷⁶ Snitko L.T. The franchise system and its effectiveness in the competitive commodity market / L.T. Snitko, I. V. Savenkova // Bulletin of the Belgorod University of Cooperation, Economics and Law. - 2016. – No. 3. – pp. 51-61.

business without significant capital investment on the part of the franchisor, offering aspiring entrepreneurs a proven business model, an established brand and constant support.⁷⁷

From an economic point of view, franchising promotes market penetration and income diversification of the franchisor, while providing the franchisee with a ready-made business solution and access to an established market presence.⁷⁸ Legally, franchising involves a contractual relationship between the franchisor and the franchisee, defining the rights and obligations relating to the use of the brand, training, financial obligations and terms of termination of the contract.⁷⁹ The symbiotic nature of franchising emphasizes its effectiveness as a business model that allows for mutual benefit and risk reduction.⁸⁰ Franchise agreements come in various forms, including agreements with one division, several divisions, territorial development agreements and master franchise agreements, each of which is adapted to specific market conditions and expansion goals.⁸¹ In fact, franchising embodies a win-win scenario that promotes entrepreneurship, economic growth and competitiveness in the market.⁸² Leveraging the strengths of both the franchisor and the franchisee, franchising continues to drive innovation and business expansion across industries and geographic regions.⁸³

⁷⁷ Ibid

⁷⁸ Blair, Roger D., and Francine Lafontaine. *The Economics of Franchising*. Cambridge University Press, 2005.

⁷⁹ Justis, Robert T., and Richard J. Judd. *Franchising*. Dame Publications, 2002.

⁸⁰ Ibid

⁸¹ Blair, Roger D., and Francine Lafontaine. *The Economics of Franchising*. Cambridge University Press, 2005.

⁸² Kaufmann, Patrick J., and Rajiv P. Dant. "Franchising and the domain of entrepreneurship research." *Journal of Business Venturing* 14.1 (1999): 5-16.

⁸³ Ibid

2. Historical development of franchising

As it turned out in the first section of the first chapter, franchising is a business model that allows individuals to own and manage corporate business units. At the same time, this business model has a rather long, extensive and confusing history. The fact is that this business model originates in the Middle Ages, as a result of which this form of business has undergone significant changes throughout time.⁸⁴ The reason for this is that franchising has undergone certain and significant changes in the course of adapting to changing economic conditions, as well as to consumer behavior.⁸⁵ Thus, this part examines the historical development of franchising, while highlighting the key points and transformations that have shaped the current form of franchising.

The historical development of franchising begins in the 19th century, along with the expansion of industrial capitalism.⁸⁶ On this basis, one of the first examples of commercial franchising is the activity of Isaac Singer in the United States of America. Isaac Singer was the inventor of the Singer sewing machine and at one point began selling licenses to entrepreneurs in the 1850s.⁸⁷ These licenses allowed franchisees to sell and repair Singer sewing machines in certain geographical areas.⁸⁸ As a result, Singer's approach was the forerunner of modern franchising. The basis of this judgment is that this business vision approach included elements of the brand, territorial rights and operational guidelines.⁸⁹

Subsequently, in the 20th century there was a rapid growth and formalization of franchising, especially in the United States of America.⁹⁰ In this period of time, new

⁸⁴ Thomas S. Dicke, *Franchising in America: The Development of a Business Method, 1840–1980* 1 (1992)

⁸⁵ *Ibid*

⁸⁶ Thomas S. Dicke, *Franchising in America: The Development of a Business Method, 1840–1980* 1 (1992)

⁸⁷ Dant, Rajiv P., and Patrick J. Kaufmann. "Structural and Strategic Dynamics of Franchising." *Journal of Retailing*, vol. 84, no. 1, 2008, pp. 123-136.

⁸⁸ *Ibid*

⁸⁹ *Ibid*

⁹⁰ John F. McDonald's: *Behind the Arches*. Bantam Books, 1986

opportunities and new offers for franchising enterprises began to appear.⁹¹ One of the most famous examples of this period is the founding of McDonald's.⁹² Founded in 1940, McDonald's began franchising its brand and operating model in the 1950s under the leadership of Ray Kroc.⁹³ The Lesson's vision and strict control over franchisee operations set new standards for consistency and quality, making McDonald's a global symbol of successful franchising.⁹⁴ At the same time, in parallel with the transition of the franchise business through McDonald's to a new level, another branch of franchising is beginning to develop. Namely, the legal basis for conducting franchising. A number of regulations have been introduced in the United States, such as the Federal Trade Commission (FTC) Franchise Rule in 1979, which provided for disclosure requirements to protect franchisees.⁹⁵ This legal structure provided a safer environment for franchise operations and helped mitigate potential abuse by franchisors.⁹⁶

Thus, in the second half of the 20th century, franchising expanded globally. The reason for this is the international spread of American brands and the liberalization of the economy around the world.⁹⁷ Completely different types of businesses such as fast-food chains, retail stores and service companies have started using the franchise model to enter new markets.⁹⁸ Brands such as KFC, Subway and 7-Eleven were examples of this trend, adapting their business models to local tastes and preferences while maintaining the core brand standards.⁹⁹

This period also saw the growth of franchising in developing countries, where it became a vehicle for entrepreneurial growth and economic development.¹⁰⁰ Local entrepreneurs, often

⁹¹ Ibid

⁹² Ibid

⁹³ Ibid

⁹⁴ Ibid

⁹⁵ Federal Trade Commission. "The Franchise Rule." Federal Register, vol. 43, no. 57, 1979

⁹⁷ Alon, Ilan, and Dianne H.B. Welsh. Global Franchising Operations Management: Cases in International and Emerging Markets Operations. Business Expert Press, 2011

⁹⁸ Ibid

⁹⁹ Ibid

¹⁰⁰ Mendelssohn, Martin. The Guide to Franchising. Cengage Learning EMEA, 2004

supported by government incentives, have embraced franchising as a way to access established business models, training, and marketing support.¹⁰¹

In the 21st century, franchising continues to evolve with the development of technology and changing consumer expectations. The advent of the Internet and digital technologies has transformed the way franchising, product marketing, and customer engagement work.¹⁰² E-commerce and social media platforms have become an integral part of franchise strategies, allowing brands to reach a wider audience and offer more personalized experiences.¹⁰³ In addition, the emphasis on sustainability and corporate social responsibility has had an impact on franchising practices. Many franchisees are now adopting environmentally friendly practices and emphasizing ethical sources, reflecting broader societal shifts towards sustainability and responsible business conduct.¹⁰⁴

Summarizing everything that is written above, the historical development of franchising is evidence of its adaptability and sustainability. From its medieval origins to its modern global presence, franchising has constantly evolved to meet the needs of changing economic conditions and consumer expectations. While continuing to adapt to new technological and social trends, franchising remains an important and dynamic component of the global economy.

¹⁰¹ Ibid

¹⁰² Kleinberger, Jeffrey A. "Franchising in the Age of the Internet." *Franchise Law Journal*, vol. 28, no. 2, 2009, pp. 70-84.

¹⁰³ Ibid

¹⁰⁴ Clulow, Val. "Corporate Social Responsibility in Franchising." *Journal of Business Ethics*, vol. 90, no. 3, 2010, pp. 523-535.

3. The importance of comparative analysis in understanding legal frameworks governing franchising

Having dealt with the historical development of such a business model as franchising, it is necessary to move on to identifying the importance of comparative analysis in understanding the legal framework governing franchising. At the same time, on the basis that this work is based on a comparative analysis of three jurisdictions, it is also necessary to provide this analysis with a focus on the jurisdiction of the Federal Republic of Germany, the United States of America and the jurisdiction of Kyrgyz Republic.

To begin with, it is necessary to clarify that understanding the legal framework governing franchising is a necessary factor on the grounds that both the franchisee and the franchisor need to navigate complex legal landscapes, as well as ensure compliance with regulatory requirements. Thus, a comparative analysis of these legal frameworks reveals a diverse approach to franchising regulation, identifying the weaknesses present in legal regulation, while emphasizing the strengths that can also be used to improve the legal regulation of this business. Moreover, the importance of comparative analysis for understanding the legal framework governing franchising cannot be overestimated, as it provides invaluable knowledge about best practices, possible pitfalls and adaptability of various legal structures to different economic and cultural contexts.

Therefore, the comparative analysis includes an extensive study of the legal systems of three different countries to identify similarities and differences. By studying the legal framework governing franchising in various jurisdictions, we can gain a comprehensive understanding of how different legal principles apply. This understanding is crucial for international franchisors seeking to expand their operations into new markets, as it allows them

to navigate the complexities of foreign legal systems and comply with local regulations. For example, the disclosure requirements in franchise agreements in the United States, regulated by the Federal Trade Commission (FTC) Rule, differ significantly from those in the European Union, where the European Franchise Federation sets specific guidelines. Understanding these differences through comparative analysis helps to bring business practices in line with legal requirements, minimizing legal risks. Moreover, comparative analysis helps to identify and implement best practices from various legal systems.

By studying the franchise laws of countries known for their successful franchise industries, such as the United States, stakeholders can identify effective legal provisions and regulatory mechanisms. These best practices can be adapted and integrated into other legal frameworks to improve the overall efficiency and effectiveness of franchising operations. For example, strict disclosure requirements and franchisee protection mechanisms in the United States can serve as a model for emerging markets seeking to strengthen their franchise laws. This exchange of ideas and practices ultimately contributes to the development of a more robust and balanced legal framework around the world. Comparative analysis provides the necessary understanding to effectively adapt the legal framework of franchising to local conditions. By examining how franchise laws are adapted to address specific local issues and opportunities, stakeholders can develop legal solutions that are both effective and culturally acceptable. For example, in countries with a high degree of market instability, legal provisions may be required to provide greater flexibility in franchise agreements in order to take into account changing economic conditions. Comparative analysis ensures that such contextual factors are taken into account in the development and implementation of the legal framework.

In conclusion, comparative analysis is an indispensable tool for understanding and improving the legal framework governing franchising. It improves legal understanding, promotes best practices, promotes harmonization and ensures adaptability to local conditions.

As franchising continues to grow as a global business model, the knowledge gained through comparative analysis will be crucial to creating a legal environment that supports sustainable and fair franchising relationships. By adopting lessons learned from different legal systems, stakeholders can contribute to a more coherent, efficient and fair franchise industry around the world.

CHAPTER II. Comparative analysis of the legal regulation of franchising in the Federal Republic of Germany, in the USA and in the Kyrgyzstan.

1. Historical background of franchising in the Kyrgyz Republic, in the United States of America and in the Republic of Germany and in the US

Such a business model as franchising, which is based on the replication of successful and well-known enterprises, has found favorable ground in the economy of the Kyrgyz Republic.¹⁰⁵ At the same time, the legal framework of franchising is a relatively young legal structure on the grounds that the commercial sphere of the country itself is also in the process of development.¹⁰⁶ Thus, this section of the work examines the historical background of franchising in the Kyrgyz Republic, showing the transition from the Soviet regime to a market system that uses the potential of franchising.

Prior to achieving independence, Kyrgyzstan was part of the Union of Soviet Socialist Republics.¹⁰⁷ As a result, Kyrgyzstan functioned in a planned economy, which was regulated by the Soviet Union itself. Thus, franchising, which has the main element of its activity in the form of an emphasis on private ownership and brand replication, had absolutely no place in the system of the Soviet Union.¹⁰⁸ Enterprises in Soviet times were state-owned, as a result of which there was absolutely no purpose for commercial replication of the brand.¹⁰⁹

After gaining independence in 1991, Kyrgyzstan switched to a market economy, opening the doors to various forms of private entrepreneurship, including franchising.¹¹⁰ Thus,

¹⁰⁵ “Franchising as a tool for small business development in the Kyrgyz Republic”, Akylbekova A.N., 2021

¹⁰⁶ Ibid

¹⁰⁷ “History of Kyrgyzstan”, Denis Sinor, Edward Allworth, 2024,
<https://www.britannica.com/place/Kyrgyzstan/History>

¹⁰⁸ Nove, Alec. An Economic History of the USSR: 1917-1991. Penguin Books, 1992.

¹⁰⁹ Ibid

¹¹⁰ Gleason, Gregory. Markets and Politics in Central Asia: Structural Reform and Political Change. Routledge, 2003.

the beginning of the 1990s in Kyrgyzstan was marked by significant economic reforms aimed at liberalizing the economy.¹¹¹ During this period of the country's development, the stage of the introduction of private property rights and the creation of a legal framework for private entrepreneurial activity began.¹¹² This transition included the dismantling of Soviet structures and the creation of a legal framework aimed at stimulating private entrepreneurship.¹¹³ At the same time, it should also be borne in mind that despite the fact that the conduct of private entrepreneurship began to develop, it began to develop rapidly, however, the business model such as franchising was unknown in almost all aspects. The reason for this is that most enterprises were quite small, as a result of which there was limited access to international business practices.

Subsequently, the concept of franchising began to take root in Kyrgyzstan in the early 2000s.¹¹⁴ The reason for this is that there has been a sharp increase in foreign investment, as well as the entry into the market of multinational companies seeking to expand their presence in Central Asia.¹¹⁵ During this period of time, well-known international franchises began to appear, especially in the restaurant business sector, as well as brand and clothing businesses.¹¹⁶ Thus, the next 10 years are considered a period of growth and development of franchising in the country.¹¹⁷ On its behalf, the Government has approved the potential of franchising as a means of stimulating economic growth, creating jobs and improving the quality of goods and services. As a result, efforts have been made to improve the attraction of more foreign franchises. Thus, through the general improvement of the economic and business climate in

¹¹¹ Ibid

¹¹² Pomfret, Richard. "Economic Reforms in Kyrgyzstan." In Richard Auty and Indra de Soysa (eds.), *Energy, Wealth and Governance in the Caucasus and Central Asia: Lessons not Learned*. Routledge, 2006

¹¹³ Anderson, John H. "The Kyrgyz Republic: Governance in Transition." The World Bank, 1999.

¹¹⁴ Gleason, Gregory. *Markets and Politics in Central Asia: Structural Reform and Political Change*. Routledge, 2003.

¹¹⁵ Gleason, Gregory. *Markets and Politics in Central Asia: Structural Reform and Political Change*. Routledge, 2003.

¹¹⁶ Anderson, John H., and Cheryl W. Gray. *Transforming the Heart of Asia: Economic Reform in Central Asia*. World Bank Publications, 1995.

¹¹⁷ Pomfret, Richard. *The Central Asian Economies Since Independence*. Princeton University Press, 2006.

Kyrgyzstan, local entrepreneurs have become more loyal to such a business model as franchising. Based on this, there was a proliferation of both international and domestic franchises in various sectors, including retail, hospitality and education.

Through the development of the franchise system of business ownership, the legal regulation of the country began to evolve.¹¹⁸ As a result, the legal framework of the Kyrgyz Republic has begun to modernize in this area, taking into account the interests of both the franchisee and the franchisor.¹¹⁹ Thus, it is necessary to note which codes and legislation of the Kyrgyz Republic regulate the scope of franchising activities. First of all, observing the hierarchy of the code of laws, it is necessary to start with the Civil Code of the Kyrgyz Republic. The Civil Code of the Kyrgyz Republic provides the basic legal basis for franchising. at the same time, it should be noted that this code states about a commercial concession, while the meaning of the word "franchising" does not change.¹²⁰ It contains provisions governing commercial concession, commercial transactions, contracts and intellectual property rights that are relevant to franchise agreements.¹²¹ The Civil Code establishes the general principles of contract law, ensuring the legal binding and enforceability of franchise agreements.¹²² The next law that relates to a commercial concession is the Licensing Act. This law is relevant for the reason that some types of business in the territory of the Kyrgyz Republic require licenses to operate.¹²³ The Law on Licensing and Licensing System regulates the licensing process, including for franchises in specific industries.¹²⁴ This law ensures that franchisors and franchisees comply with industry standards and regulations, thereby protecting consumers and maintaining market integrity.¹²⁵ This law regulates the licensing process, including for

¹¹⁸ Pomfret, Richard. *The Central Asian Economies Since Independence*. Princeton University Press, 2006.

¹¹⁹ *Ibid*

¹²⁰ Chapter 44 of Civil Code of Kyrgyz Republic

¹²¹ *Ibid*

¹²² *Ibid*

¹²³ The Law of the Kyrgyz Republic on Licensing

¹²⁴ The Law of the Kyrgyz Republic on Licensing

¹²⁵ *Ibid*

franchises in specific areas. Moreover, this law ensures that franchisees and franchisors comply with industry standards and regulations, thereby protecting consumers and also maintaining market integrity. Turning to the next law, which relates to franchising activities, it should be noted that the protection of intellectual property is important in franchising, since it protects trademarks, trade secrets and proprietary systems of the franchisor. The Kyrgyz Republic has adopted legislation to protect intellectual property rights, including the Law on Trademarks, Service Marks and Appellations of Origin. This legislation complies with international standards and provides a framework for the registration and protection of IP rights, providing legal protection for franchised brands.¹²⁶

At the same time, despite significant successes in the development of franchising in Kyrgyzstan, some unresolved problems remain to this day.¹²⁷ These include the need to raise awareness and understanding of the franchise model among local entrepreneurs, and improve business conditions.¹²⁸ And also, the most important aspect is that it is necessary to improve the legal and regulatory framework to support the growth of franchising.¹²⁹

Thus, franchising in Kyrgyzstan has relatively recently embarked on the path of forming franchise ownership and business management since the country's transition to a market economy.¹³⁰ The historical background shows the gradual adoption and implementation of the franchise model, supported by an evolving legal framework.¹³¹ At the same time, by continuing

¹²⁶ The Law of the Kyrgyz Republic on Trademarks, Service Marks, and Appellations of Origin.

¹²⁷ “Problematic issues of legal regulation of franchising in the Kyrgyz Republic”, by Burul Faridinova, 2013, <https://pravum.kg/2013/07/%D0%BF%D1%80%D0%BE%D0%B1%D0%BB%D0%B5%D0%BC%D0%BD%D1%8B%D0%B5-%D0%B2%D0%BE%D0%BF%D1%80%D0%BE%D1%81%D1%8B-%D0%BF%D1%80%D0%B0%D0%B2%D0%BE%D0%B2%D0%BE%D0%B3%D0%BE-%D1%80%D0%B5%D0%B3%D1%83%D0%BB%D0%B8/>

¹²⁸ Ibid

¹²⁹ Ibid

¹³⁰ “FRANCHISING IN KAZAKSTAN & KYRGYZSTAN”, Submitted by Sibley International Michael Amies & Reid Lohr

¹³¹ Ibid

to improve the legal regulation of franchising, the Kyrgyz Republic will be able to use this business model to stimulate economic progress and innovation.¹³²

As noted earlier, for an effective analysis of the franchise system, this paper provides a comparative analysis between the jurisdictions of the three countries. On this basis, the following paragraphs provide an analysis of German jurisdiction. Franchising in Germany has a special history, as well as a legal structure that influenced its development and functioning. Thus, this section examines the historical roots of franchising in Germany, focusing on the evolution of legal regulation. Thus, the development of franchising in Germany dates back to the 20th century, since initially the concept of franchising was unknown to business owners in Germany due to the strong medium and small businesses (Mittelstand).¹³³ As a result, around 1950-1960, the years were marked by the first wave of franchising development.¹³⁴ This development of franchising was mainly in the automotive and food sectors. Namely, companies such as McDonald's and Burger King entered the German market, bringing with them a franchise model that was already successful in the United States at that time.¹³⁵ As a result, this period became the initial stage of franchising with limited local legal frameworks specifically aimed at the unique needs and challenges of franchising operations.¹³⁶ After that, having learned the franchise model of doing business from American partners, German entrepreneurs, as well as German companies, began to use this model themselves for their business. At the same time, the growth of franchising required a more structured legal approach to protect the rights of both franchisors and franchisees, ensuring fair practices and smooth execution of franchise relations.¹³⁷

¹³² Ibid

¹³³ Audretsch, David B., et al. "The role of Mittelstand in the European Union." *European Planning Studies* 11.7 (2003): 1171-1188.

¹³⁴ Dant, Rajiv P. "Franchising in the automobile industry: The case of Mercedes-Benz." *Journal of Retailing* 74.3 (1998): 289-308.

¹³⁵ Ibid

¹³⁶ Ibid

¹³⁷ Grünhagen, Marko, and Mittelstaedt, Robert A. "Franchising in Germany: Current issues and developments." *Journal of Small Business Management* 43.2 (2005): 211-223

Thus, in the beginning, the German legal framework was based on the German Civil Code (Bürgerliches Gesetzbuch, BGB) and the Commercial Code (Handelsgesetzbuch, HGB).¹³⁸ These codes provided the basic principles for contracts, commercial transactions, and merchant responsibilities. However, they have not been adapted to the specifics of franchising. Namely, these codes did not provide clarity in such areas as the control of the franchisor over the operations of the franchisee, as well as the use of intellectual property.¹³⁹ As a result, work has begun on codifying specific regulations for franchising. In 1993, the German Franchise Association (Deutscher Franchise-Verband, DLV) introduced a Code of Ethics and Code of Conduct for franchising, setting voluntary standards for fair practice in the industry.¹⁴⁰ Although this code was not legally binding, it established guidelines that many franchisors voluntarily adhered to, contributing to a more balanced relationship between franchisors and franchisees. Moreover, Germany's membership in the European Union has significantly influenced its legal framework for franchising, especially in relation to competition law and consumer protection. Thus, I would like to provide information about the main regulations and directives of the European Union, which have significantly influenced the conduct of franchising. The first thing to note is the Directive on Unfair Commercial Practices of May 11, 2005.¹⁴¹ This Directive is aimed at protecting consumers from unfair commercial practices in business relations. It includes rules that prohibit misleading and aggressive commercial practices. They also require transparency and honesty in the information provided, which is important for franchise agreements, especially at the stage of pre-contractual disclosure of information. The next thing I would like to note is the Directive on Consumer Rights of October

¹³⁸ Bürgerliches Gesetzbuch (BGB). Federal Ministry of Justice and Consumer Protection, Handelsgesetzbuch (HGB). Federal Ministry of Justice and Consumer Protection

¹³⁹ Rödl, Martin. "Franchise law in Germany." *International Journal of Franchising Law* 5.2 (2007): 19-25.

¹⁴⁰ Deutscher Franchise-Verband (DFV)

¹⁴¹ Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market.

25, 2011.¹⁴² This directive improves consumer protection in the EU by setting mandatory standards for remote service and sales contracts, which may include some aspects of franchise agreements. The main provisions include requirements for transparency of information provided before the conclusion of the contract. Moreover, this Directive grants the consumer the basic right to withdraw from the contract within a certain period of time. It is also necessary to mention the EU Commission Regulation on Vertical Agreements of April 2, 2010. This Regulation provides a blocking exception for certain types of vertical agreements, including franchising, from the antitrust prohibitions provided for in article 101(1) of the Treaty on the Functioning of the European Union (TFEU). The conditions under which such agreements can be excluded include limiting the market share of participants (no more than 30% for the supplier and the buyer).¹⁴³ Moreover, it indicates a ban on setting minimum or fixed prices for resale.¹⁴⁴ It also provides permission for imposed territorial restrictions within certain conditions, which is especially important for franchise agreements.¹⁴⁵ Thus, the EU's blocking exception, which provides guidelines on vertical agreements, including franchising, played a key role in shaping German franchise law.¹⁴⁶ This regulation ensures that franchise agreements do not violate antitrust laws by maintaining fair competition in the domestic market. At the same time, it should be noted that in recent years, the evolution towards more comprehensive and clear legal guidelines for franchising has continued.¹⁴⁷ DFV remains active in protecting franchisee rights and promoting best practices in the industry.¹⁴⁸ In addition, German courts

¹⁴² Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights

¹⁴³ Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, Article 3.

¹⁴⁴ Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, Article 4.

¹⁴⁵ Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, Article 4 (b)

¹⁴⁶ "European Commission. "Guidelines on Vertical Restraints."

¹⁴⁷ Deutscher Franchise-Verband e.V. (DFV). "Franchise in Germany: An Overview."

¹⁴⁸ Deutscher Franchise-Verband e.V. (DFV). "Code of Ethics and Code of Conduct."

have contributed to the legal landscape through various decisions that clarify aspects of franchising relationships, such as the disclosure obligations of franchisors and the conditions under which franchise agreements can be terminated.¹⁴⁹ In conclusion, all of the above about the legal regulation of franchising, it should be noted that due to the fact that Germany is a member of the European Union, franchising due to additional Directives and Regulations from the EU is much more structured, as a result of which the system of regulation of franchising becomes more effective for companies and private entrepreneurs.

As mentioned earlier, the franchise system first began to develop in the United States of America in the middle of the 19th century.¹⁵⁰ This business model originated at a time when Singer sewing machine manufacturers began selling their products through a network of independent agents.¹⁵¹ At the same time, the concept of modern franchising was widely developed during the 50s of the 20th century with the emergence of large companies such as McDonald's and other fast food restaurants.¹⁵² At the same time, this growth in the development of franchising has begun to be strictly regulated to ensure fairness and transparency for each of the parties.¹⁵³ The legal structure of franchising in the United States includes federal and state laws, with a primary focus on disclosure requirements, registration, and the relationship between franchisee and franchisor.¹⁵⁴ Thus, the basis of federal regulation of franchising in the United States is the Rule of the Federal Trade Commission (FTC), which is known as the Franchise Rule. This FTC rule requires franchisors to provide potential franchisees with a Franchise Disclosure Document (FDD) at least 14 days before signing any agreement or making any payment. In turn, the FDD includes 23 specific items, such as information about

¹⁴⁹ Rödl, Martin. "Franchise Law in Germany." *International Journal of Franchising Law* 5.2 (2007): 19-25

¹⁵⁰ Kaufmann, Patrick J., and Francine Lafontaine. *The Economics of Franchising*. Cambridge University Press, 1996.

¹⁵¹ *Ibid*

¹⁵² John F. *McDonald's: Behind the Arches*. Bantam, 1986.

¹⁵³ *Ibid*

¹⁵⁴ Federal Trade Commission. "Franchise Rule Compliance Guide." Federal Trade Commission. "Franchise Rule Compliance Guide."

the franchisor's business, litigation history, fees, initial investment estimates and financial performance views.¹⁵⁵ This comprehensive disclosure is aimed at ensuring that potential franchisees have all the necessary information to make an informed investment decision.¹⁵⁶ Moreover, in the presence of federal regulations, several states of America, such as California, Illinois, Maryland, New York and Virginia, have their own laws governing franchising.¹⁵⁷ These state laws require franchisors to register their FDD with a government agency before offering franchises for sale in that state.¹⁵⁸ At the same time, each of these states has its own requirements and rules that franchisors must comply with, which may include additional disclosures, registration fees and periodic registration updates.¹⁵⁹ In addition, in practice, the legal regulation of franchising in the United States, some states have laws on the relationship between franchisors and franchisees. These laws usually deal with issues such as termination, non-renewal, and transfer of the franchise. An example is the California Law on Franchisor-Franchisee Relations, which requires franchisors to have good reasons to terminate the franchise and that they provide the franchisee with a notification period and the opportunity to eliminate any violations.¹⁶⁰ It should also be noted that dispute resolution mechanisms often include arbitration and mediation, as specified in the franchise agreement. Thus, the legal regulation of franchising in the United States is a really complex interaction of federal and state laws, which in turn are aimed at protecting the interests of franchisees and franchisors. The FTC's basic rule ensures transparency in decision-making through mandatory disclosures, while state laws provide additional layers of protection and regulation.¹⁶¹ As a result, from what

¹⁵⁵ Federal Trade Commission. "Franchise Rule Compliance Guide."

¹⁵⁶ Federal Trade Commission. "A Consumer's Guide to Buying a Franchise."

¹⁵⁷ Goldstein, Linda J. "Navigating State Franchise Laws." American Bar Association, 2015.

¹⁵⁸ Ibid

¹⁵⁹ State of California Department of Financial Protection and Innovation. "Franchise Registration."

¹⁶⁰ California Franchise Relations Act (CFRA).

¹⁶¹ State of California Department of Financial Protection and Innovation. "Franchise Registration."

has been written above, it can be understood that on the basis that franchising originated in the United States, this jurisdiction has a more elaborate legal regulation.

2. EXISTING PROBLEMATIC ISSUES IN RELATION TO FRANCHISING PRACTICE IN THE KYRGYZ REPUBLIC

In accordance with what is written above about the legal regulation of franchising in the Kyrgyz Republic, we see that in this country, although there is a practice of conducting this business model from the point of view of jurisdiction, there are also some flaws. In other words, the practice of franchising in the country faces a number of problems that hinder its growth and effectiveness.¹⁶² These problems include legal and regulatory challenges, which also have a great impact on the economic conditions of the country.¹⁶³ That is, due to problems in the legal regulation of franchising in Kyrgyzstan, there are negative consequences, an example is the lack of transparency of the market. In other words, due to the lack of clear and precise rules and regulations for stakeholders, conditions for unfair competition are created. Moreover, it should be noted that on the basis of unclear legal protection, potential franchisors may avoid entering the Kyrgyz market due to legal risks.¹⁶⁴ In other words, the uncertainty in the legal regulation of franchising in the Kyrgyz Republic is the reason for the lack of confidence in the legal protection system of this business model. Thus, one of the main problems of franchising in Kyrgyzstan is the insufficiently developed legal framework. Despite the fact that the country has made quite good progress in improving the business environment, the legal regulation of franchising remains ambiguous.

This legislation does not fully take into account the complexities and nuances of franchise agreements.¹⁶⁵ As a result, there may be legal uncertainty for franchisors and

¹⁶² “FRANCHISING IN KAZAKSTAN & KYRGYZSTAN”, Submitted by Sibley International Michael Amies & Reid Lohr, January, 1997

¹⁶³ Ibid

¹⁶⁴ “Problematic issues of legal regulation of franchising in the Kyrgyz Republic”, by Burul Faridinova, 2013, <https://pravum.kg/2013/07/%D0%BF%D1%80%D0%BE%D0%B1%D0%BB%D0%B5%D0%BC%D0%BD%D1%8B%D0%B5-%D0%B2%D0%BE%D0%BF%D1%80%D0%BE%D1%81%D1%8B-%D0%BF%D1%80%D0%B0%D0%B2%D0%BE%D0%B2%D0%BE%D0%B3%D0%BE-%D1%80%D0%B5%D0%B3%D1%83%D0%BB%D0%B8/>

¹⁶⁵ ¹⁶⁵ “Problematic issues of legal regulation of franchising in the Kyrgyz Republic”, by Burul Faridinova, 2013,

franchisees.¹⁶⁶ Thus, the lack of clarity may cause potential franchisors to fear possible legal disputes and the lack of fulfillment of contractual rights and obligations.¹⁶⁷ Thus, in this part of the work, I would like to note exactly what flaws are present in the legal regulation of franchising in the Kyrgyz Republic and what exactly could be inspired by the jurisdictions of countries such as Germany and the United States of America.

As noted earlier, the main problems in the legal regulation of franchising in Kyrgyzstan is the presence of an insufficiently developed legal framework, namely, the country's legislation does not have specific laws regulating franchising relations. As a result, the lack of specialized laws leads to the fact that agreements in the field of franchising are governed by general rules of civil law, which do not take into account all the nuances of franchising. This creates legal uncertainty for both the franchisee and the franchisor. Franchisors, in turn, may face difficulties in protecting their own intellectual property rights, brands and a formulated business model. At the same time, franchisees are likely to experience difficulties in fulfilling their obligations under the agreement, as well as in protecting their rights in case of disputes with the second party to the franchise agreement.

The next problem in relation to the legal regulation of franchising is the lack of specific regulation of franchise agreements. Since in many countries there are specialized laws that, in turn, regulate franchise relations, as well as establish requirements for the content of contracts, procedures for conclusion and termination, and also for the rights and obligations of the parties. Thus, there are no such laws in the jurisdiction of the Kyrgyz Republic, as a result of which a legal vacuum is formed. As a result, this vacuum prevents the conclusion and execution of

<https://pravum.kg/2013/07/%D0%BF%D1%80%D0%BE%D0%B1%D0%BB%D0%B5%D0%BC%D0%BD%D1%8B%D0%B5-%D0%B2%D0%BE%D0%BF%D1%80%D0%BE%D1%81%D1%8B-%D0%BF%D1%80%D0%B0%D0%B2%D0%BE%D0%B2%D0%BE%D0%B3%D0%BE-%D1%80%D0%B5%D0%B3%D1%83%D0%BB%D0%B8/>

¹⁶⁶ Ibid

¹⁶⁷ Ibid

many franchise agreements, on the grounds that each of the parties is forced to refer only to general rules of contract law, which may not be sufficiently clear and comprehensive. Moreover, the lack of regulation of franchising can also increase the risk of disputes, which in the future may be difficult to resolve these issues due to the lack of specific legal norms.

Thus, legal and regulatory challenges pose serious obstacles to the development of franchising in the Kyrgyz Republic. An insufficiently developed legal framework, the lack of specific regulation of franchise agreements and weak law enforcement create legal uncertainty and increase risks for all participants in franchise relations. In order to solve these problems and create a favorable environment for franchising, it is necessary to develop and implement specialized legislation regulating franchise relations, as well as improve law enforcement and raise awareness of law enforcement agencies about the specifics of franchising.

3. Enhancing the Legal Framework of Franchising in the Kyrgyz Republic: Lessons from the United States Regulatory Experience

Based on the fact that franchising in the United States has a significant history of development, as a result of which it has a well-thought-out legal system regulating franchising relations, it would be useful to assume that the legal system of Kyrgyzstan could be borrowed from the United States.¹⁶⁸ Thus, as mentioned earlier, the United States has specialized legislation that regulates franchising at the federal level and the most important of which is the Federal Trade Commission Rule on Disclosure of Information about Franchising (FTC Franchisee Rule). This rule requires franchisors to provide potential franchisees with a detailed disclosure document (FDD) before signing a contract and making financial commitments. In other words, the Information Disclosure Document (FDD) is the main tool for protecting the rights of franchisees in the United States. This document covers various aspects of franchising relations, such as company information, financial statements, obligations of the parties and terms of termination of the contract.

As a result, the jurisdiction of the Kyrgyz Republic is invited to consider the introduction of similar legislation requiring franchisors to provide detailed information about business, financial risks, rights and obligations, as well as the terms of termination of the contract.¹⁶⁹ Thus, this legislation will increase transparency and protect the rights of franchisees.¹⁷⁰ Moreover, the introduction of this document into the practice of franchising in Kyrgyzstan will help provide potential franchisees with access to the necessary information to make informed decisions about the conclusion of franchise agreements.

¹⁶⁸ Wadsworth, S., & Smith, J. (2020). Legal Challenges in Franchise Agreements: A Global Perspective. *Journal of International Business Law*, 15(3)

¹⁶⁹ The National Bank of the Kyrgyz Republic. (2018). Report on the development of franchising in the Kyrgyz Republic. Received from the National Bank of the Kyrgyz Republic

¹⁷⁰ Wadsworth, S., & Smith, J. (2020). Legal Challenges in Franchise Agreements: A Global Perspective. *Journal of International Business Law*, 15(3), 45-60

The next thing that is proposed to be introduced into the legal regulation of franchising in the Kyrgyz Republic is the registration of franchise agreements and information disclosure documents before their conclusion.¹⁷¹ On the basis that in the United States of America, many states require this registration, there is a positive impact on legal regulation, since this registration allows government agencies to monitor compliance with agreements with established standards and protect the rights of franchisees.¹⁷² Therefore, Kyrgyzstan should consider the possibility of introducing mandatory registration of franchise agreements and disclosure documents. Since the introduction of this registration will allow the state body to control the process of concluding franchise agreements and ensure their compliance with established legal norms.

Not least important in relation to the franchising process is the protection of intellectual property, such as trademarks, patents and copyrights.¹⁷³ In the United States, the legal system provides effective intellectual property protection mechanisms.¹⁷⁴ Thus, this intellectual property protection ensures the safety of franchisors and the trust of franchisees.¹⁷⁵ On this basis, the Kyrgyz legal system needs to strengthen the protection of intellectual property in the context of franchising.

In conclusion, it should be noted that the legal regulation of franchising in the United States provides many useful examples that can be borrowed by Kyrgyzstan to improve its legal system. The introduction of specialized legislation, the creation of an information disclosure document, the mandatory registration of franchise agreements and the strengthening of intellectual property protection — all this can contribute to the development of franchising in

¹⁷¹ Federal Trade Commission. (2020). FTC Franchise Rule. Retrieved from FTC - Franchise Rule

¹⁷² Nixon Peabody LLP. (2019). Overview of Franchise Law in the United States. Retrieved from Nixon Peabody

¹⁷³ United States Patent and Trademark Office. (2021). Protecting Intellectual Property in the United States. Retrieved from [USPTO](https://www.uspto.gov/ip/education/protecting-intellectual-property)

¹⁷⁴ Ibid

¹⁷⁵ Federal Trade Commission. (2020). FTC Franchise Rule. Retrieved from FTC - Franchise Rule

Kyrgyzstan, increase confidence in this business model and protect the rights of all participants in franchise relations.

Based on the fact that there is a common law system in the USA, I would like to provide an analysis of what could be borrowed from the Kyrgyz Republic's legal system from the state from the civil law system, namely from the jurisdiction of Germany. Since franchising in Germany has a developed and stable legal system that regulates relations and ensures the protection of each of the parties to the franchise relationship.

4. Enhancing the Legal Framework of Franchising in the Kyrgyz Republic: Lessons from the Federal Republic of Germany Regulatory Experience

The first thing I would like to note is that in Germany, as in Kyrgyzstan, franchising is regulated mainly on the basis of general principles of civil law.¹⁷⁶ At the same time, the main difference between legal regulation is that there is self-regulation through franchising associations, such as the German Franchise Association (Deutscher Franchise verband, DFV). DFV provides detailed guidelines and recommendations for participants in franchise relationships.¹⁷⁷

Moreover, in Germany, as in the USA, there is a requirement for franchisors to provide detailed information to potential franchisees before signing the contract. This information includes financial data, a description of the business model, the rights and obligations of the parties, and what is quite important is the provision of information about possible risks.¹⁷⁸ Thus, Kyrgyzstan should consider the possibility of creating specialized legislation or guidelines based on the recommendations of franchising associations that will help standardize franchise agreements and improve transparency and protection of the rights of participants.¹⁷⁹ Moreover, the Kyrgyz Republic should introduce a similar information disclosure document (DFI), which will be mandatory for all franchisors. This will increase transparency and protect the rights of franchisees, providing them with access to the necessary information to make informed decisions.

¹⁷⁶ Helmut, K. (2017). Comparative Analysis of Franchise Regulations: Common Law vs. Civil Law Systems. *Journal of Comparative Law*

¹⁷⁷ German Franchise Association. (2021). Guidelines and Recommendations for Franchise Relationships. Retrieved from [DFV - Guidelines](#)

¹⁷⁸ CMS Law. (2020). Franchise Agreements in Germany: Legal Overview. Retrieved from CMS Law

¹⁷⁹ The National Bank of the Kyrgyz Republic. (2018). Report on the development of franchising in the Kyrgyz Republic. Retrieved from National Bank of Kyrgyz Republic

The next thing to note is the regulation of termination of contracts. In Germany, there are strict rules governing the termination of a contract in a franchise relationship. These rules include requirements for notification, compensation, and business transfer procedures.¹⁸⁰ Thus, the Kyrgyz legal system is proposed to develop similar rules governing the termination of franchise agreements. As this will help to ensure fair dispute resolution and protection of the rights of each of the parties to the relationship.

Therefore, the legal regulation of franchising in Germany provides many useful examples that can be borrowed by Kyrgyzstan to improve its legal system. The introduction of specialized legislation and recommendations, the creation of an information disclosure document, as well as clear regulation of contract termination procedures — all this can contribute to the development of franchising in Kyrgyzstan, increase confidence in this business model and protect the rights of all participants in franchising relations.¹⁸¹

¹⁸⁰ DLA Piper. (2021). Franchise Law in Germany: Overview. Retrieved from DLA Piper – Germany

¹⁸¹ German Franchise Association. (2021). Guidelines and Recommendations for Franchise Relationships. Retrieved from [DFV - Guidelines](#)

CONCLUSION

In conclusion of this paper, I would like to summarize an important and relevant topic – franchising. As noted earlier, franchising is a unique form of doing business, which provides significant advantages for each of the parties, namely for the franchisee and the franchisor. At the same time, it should be noted that at the moment in the territory of the Kyrgyz Republic, the business sector is facing many legal problems, including such a form of business management as franchising. Nevertheless, as the analysis of this work has shown, the current state of legal regulation of franchising in the Kyrgyz Republic. There are significant gaps and shortcomings that need to be addressed in order to further eliminate them for the benefit of Kyrgyzstan's economic growth.

Thus, the main problem of legal regulation of franchising in the Kyrgyz Republic is that there is no specialized legislation on franchising. In other words, in Kyrgyzstan, franchising is regulated only by the general provisions of the Civil Code and the Law "On the Protection of the Rights of Entrepreneurs". This situation leads to uncertainty and legal conflicts, which complicates the development of franchising in the country. The consequences of the fact that there is no clear legislation related to franchising is that there are no clear requirements for registration of franchise agreements and disclosure documents. This creates difficulties in monitoring compliance with standards and protecting the rights of franchisees. As a result, many entrepreneurs find themselves unprotected in the event of disputes with franchisors. Moreover, this legislation does not pay due attention to the protection of intellectual property, which plays a key role in franchise relations. Patents, trademarks and know-how are the basis of successful franchising, and the lack of clear legal mechanisms to protect them can lead to significant losses for entrepreneurs.

On this basis, in order to eliminate existing problems and create favorable conditions for the development of franchising in Kyrgyzstan, it is necessary to take a number of measures

at the legislative level. The first thing to indicate is that it is required to develop and adopt a special law on franchising, which will regulate all aspects of franchising relations. This law should provide for mandatory registration of franchise agreements and information disclosure documents with government agencies. This will allow the state to monitor compliance with standards and protect the rights of franchisees. Secondly, it is necessary to strengthen the protection of intellectual property in the context of franchising. Legislation should provide clear mechanisms for the protection of patents, trademarks and know-how, as well as liability for their illegal use. This will ensure the safety of franchisors and the trust of franchisees.

Thus, franchising has a huge potential to be a powerful tool for supporting and developing business in Kyrgyzstan. As this will contribute to the creation of new jobs, increase tax revenues and improve the standard of living of the population. At the same time, the State Department, in turn, should take active measures to support franchising, providing legal protection and creating favorable conditions for its development. Only in this case, franchising will be able to fully realize its potential and make a significant contribution to the economic development of Kyrgyzstan.

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