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INTERNATIONAL FINANCE CORPORATION  
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**COUNTRY PARTNERSHIP STRATEGY**

**FOR THE  
KYRGYZ REPUBLIC  
FOR THE PERIOD FY14-17**

**June 24, 2013**

**Central Asia Country Management Unit  
Europe and Central Asia Region**

**International Finance Corporation  
Eastern Europe and Central Asia Region**

**Multilateral Investment Guarantee Agency**

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**CURRENCY EQUIVALENTS**

Currency Unit = Kyrgyz Som (KGS)

US\$1 = 48.64 Som

(June 24, 2013)

**GOVERNMENT FISCAL YEAR**

(January 1 to December 31)

**WEIGHTS AND MEASURES**

Metric System

**ABBREVIATIONS AND ACRONYMS**

AAA	Analytic and Advisory Activities	KfW	Germany Development Bank
ADB	Asian Development Bank	MDGs	Millennium Development Goals
BEEPS	Business Environment and Enterprise Performance Survey	MDTF	Multi-Donor Trust Fund
CPS	Country Partnership Strategy	MFOs	Microfinance Organizations
DfID	Department for International Development	MoE	Ministry of Economy
DPO	Development Policy Operation	MoF	Ministry of Finance
DSA	Debt Sustainability Analysis	MTBF	Medium-Term Budget Framework
EBRD	European Bank for Reconstruction and Development	MTDP	Medium-Term Development Program
EC	European Commission	NBKR	National Bank of the Kyrgyz Republic
ECA	Europe and Central Asia	NSDS	National Sustainable Development Strategy
ECF	Extended Credit Facility	NPLs	Non-Performing Loans
ERSO	Economic Recovery Support Operation	OECD	Organization for Economic Co- operation and Development
FDI	Foreign Direct Investment	PEFA	Public Expenditure and Financial Accountability
FESTI	Fuel and Energy Sector Transparency Initiative	PER	Public Expenditure Review
FIRST	Financial Sector Reform and Strengthening	PFM	Public Finance Management
GDP	Gross Domestic Product	PPL	Public Procurement Law
GFS	Government Finance Statistics	PPP	Public Private Partnership
GNP	Gross National Product	PSD	Private Sector Development
GTAC	Governance Technical Assistance Credit	SAI	Supreme Audit Institution
IBRD	International Bank for Reconstruction and Development	SDR	Special Drawing Rights
IDA	International Development Association	SIDA	Swedish International Development Agency
IFC	International Finance Corporation	SME	Small and Medium Enterprises
IMF	International Monetary Fund	SOE	State Owned Enterprise
IsDB	Islamic Development Bank	TMIS	Treasury Management Information System
ISN	Interim Strategy Note	TSA	Treasury Single Account
JEA	Joint Economic Assessment	UCoA	Unified Chart of Accounts
JSAN	Joint Staff Advisory Note	UNDP	United Nations Development Program
		USAID	United States Agency for International Development

**KYRGYZ REPUBLIC**  
**COUNTRY PARTNERSHIP**  
**STRATEGY, FY14-17**

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## EXECUTIVE SUMMARY

- i. **Background.** This Country Partnership Strategy (CPS) marks the Bank Group's return to a standard assistance framework for the Kyrgyz Republic. Owing to uncertainties in the country that followed the political turmoil and violence of April-June 2010, Bank Group activities in FY11 were guided by a Joint Economic Assessment (JEA)<sup>1</sup> and during FY12-13 by an Interim Strategy Note (ISN).<sup>2</sup> The former concentrated mainly on the country's emergency post-conflict needs for budget support, humanitarian aid, and infrastructure repair and rehabilitation. The latter, recognizing that corruption, nepotism, and the misuse of public assets had been fundamental, systemic causes of the mid-2010 crisis, focused on three themes: governance; economic adjustment; and social stabilization, especially in the south of the country. The ISN served as a bridge between the JEA's post-crisis recovery strategy and this full CPS.
- ii. **Recent Economic Developments.** The country's economic performance over the last decade has been volatile, reflecting several domestic and external shocks. Its economy remains characterized by significant informality, reliance on a few sectors, and remittances. The prudent fiscal stance adopted until 2008 was replaced by significant expansion—initially in response to the 2008-09 global recession and later to the 2010 domestic crisis—resulting in budget deficits averaging 5.4 percent of GDP during 2010-12, one of the highest in the Europe and Central Asia region. Partly a result of volatile growth and periodic price shocks, poverty levels remain significant.
- iii. **Economic Prospects.** While a favorable regional economic outlook would be an important pull factor for the Kyrgyz economy over the medium term, achieving and maintaining growth rates of 5 percent or more will also require sound macroeconomic policies, increased efficiency of public spending, and the development of a vibrant private sector. Governance reforms, if implemented effectively, would also promote the economy's potential, including in agriculture, regional trade and transit, and natural resources, while strengthening the country's social fabric.
- iv. **Development Challenges.** Despite important progress since 2011, the country's overriding development challenge remains improved governance. This is reflected in the government's recently issued *National Sustainable Development Strategy* (NSDS), 2013-17, which adopts improved governance and reduced corruption as unifying themes and as the basis for the country's economic and social development. The NSDS' development priorities also include: maintenance of macroeconomic stability; an improved business environment and investment climate; a strengthened financial sector; and the promotion of strategic industries such as agro-processing, energy, mining, transport and telecommunications, and tourism.
- v. **Governance Focus.** The CPS' strategic goal is to help reduce extreme poverty and promote shared prosperity through support for improved governance. This governance-oriented

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<sup>1</sup> Kyrgyz Republic: *Joint Economic Assessment—Reconciliation, Recovery, and Reconstruction*, July 21, 2010, prepared jointly by the WBG, Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), and International Monetary Fund (IMF).

<sup>2</sup> Kyrgyz Republic: *Interim Strategy Note*, FY12-13, Report No. 62777-KG dated June 16, 2011

approach focuses on three dimensions of the relationship between the state and the citizen—as, respectively, provider and consumer of essential public services, as enabler and developer of private business, and as steward and user of natural resources and physical infrastructure, key public goods. Thus, the Bank Group will partner the Kyrgyz authorities’ commitment to make the state more accountable to its citizens and, at the same time, strengthen citizens’ voice in the activities of the state.

vi. **Three Areas of Engagement.** Corresponding to these three dimensions, the CPS proposes three broad areas of engagement—public administration and public service delivery, business environment and investment climate, and the management of natural resources and physical infrastructure. The rationale for selecting these three areas is: (a) more efficient public administration and public services—especially those relating to lowering poverty, improving accountability, enhancing human capital, and reducing ethnic, gender, and social disparities—are preconditions for political stability, effective public expenditure, and long-term growth and poverty reduction; (b) an improved business environment and investment climate, including a more transparent, rules-based relationship between the state and the private sector, are prerequisites for promoting competitiveness, diversification, and productivity as well as job creation; and (c) better management of scarce natural resources and physical infrastructure, while at the same time taking into account climate change, environmental sustainability, and regional considerations, is crucial for improved poverty outcomes, in particular for the almost two-thirds of the population that live in isolated rural and mountainous areas.

vii. **CPS Program.** Support for these three areas of engagement would be provided through the existing portfolio, by new IDA lending averaging US\$55 million annually (supplemented where appropriate by trust fund financing), and by intensified analytical and advisory activities that emphasize practical, problem-solving advice. A balance of investment and development policy lending is envisaged, subject to a satisfactory macroeconomic framework and reform implementation record. The planned shift to fewer, but larger investment lending operations would permit greater selectivity, a more strategic focus on reforms and results, and continued consolidation of the portfolio. It would also help reduce the burden on the government’s limited absorptive and project implementation capacity, as well as on scarce Bank Group staff supervision resources. IFC’s primary focus would be the second and potentially the third areas of engagement, contributing to the CPS agenda by promoting private sector development through investment and advisory services that encourage diversification and competitiveness. The program is consistent with Bank Group corporate and ECA regional priorities and mandates, includes cross-cutting thematic emphasis on fragility, gender, climate change, and social accountability, and takes into account key lessons learned from the previous country assistance strategy, which were validated during execution of the recently completed ISN.

viii. **Risks and Risk Management.** The CPS is predicated on decisive implementation by the government of its medium-term NSDS, which in turn depends on continued consolidation of the new constitutional settlement. In addition, the program is subject to four main types of risk—a deteriorating macroeconomic framework, renewed political instability, ineffective implementation capacity, and a fragile consensus on key reforms. Options for managing and/or mitigating them are discussed in Section IV.

## I. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

### A. Regional, Political, and Social Context

1. **Landlocked and largely mountainous, with a multi-ethnic population of about 5.5 million and a GNI *per capita* of US\$880 in 2011 (Atlas methodology), the Kyrgyz Republic is one of the two poorest countries in the Europe and Central Asia (ECA) region.** Located within reach of the large Chinese, Russian and South Asian markets, it borders rapidly-growing middle-income Kazakhstan, Tajikistan, and Uzbekistan, the most populous country in Central Asia. Due to its elevation and topography, barely 7 percent of the land area is arable, the rest consisting of glaciers, mountains, and pastureland or steppe that support livestock grazing.<sup>3</sup> The country's natural resources—comprising minerals, mainly gold, and water for hydropower generation—are also limited. In the circumstances, realizing its modest potential—including for export of hydroelectricity, as a nexus for regional trade and transport, and for tourism—will depend *inter alia* on diversifying economic activities through increased private sector development and upgrading the occupational skills and productivity of its young labor force. Above all, however, it will require dramatic improvements in all aspects of the country's governance.

2. **While its economy and society may be the most liberal and open in Central Asia, the Kyrgyz Republic experienced significant political and social instability during its second decade of independence.** In April 2005, after nearly 15 years in power, its first president was forcibly removed from office following his disputed re-election. Five years later, in April 2010, his successor was overthrown following widespread public demonstrations against corruption, nepotism, and the misuse of public assets. A resulting power vacuum in the south of the country—a mosaic of diverse ethnicities, languages, and traditions—aggravated longstanding economic and social tensions which, in June 2010, exploded into three days of violence. These events resulted in large numbers of dead and injured and extensive destruction of public infrastructure and private property. They also undermined private sector confidence and generated serious economic and fiscal pressures.

3. **An interim administration headed by a coalition of opposition leaders drafted a new constitution that shifted the balance of executive power from the presidency to the prime minister, chosen by and responsible to the legislature.** Parliamentary elections under the new constitution were held in October 2010 and a four-party coalition committed to macroeconomic stability and continued market-oriented reforms took office in December 2010. A presidential election took place in October 2011 and the new president was sworn in on December 1, 2011. Although the government collapsed in August 2012, it was promptly replaced by a new three-party coalition, which has continued the policies initiated by its predecessor.

4. **This narrative exemplifies, on the one hand, the historic constitutional transition underway since mid-2010 but, on the other, the country's still fragile economic, political, and social environment.** The Kyrgyz economy is vulnerable to exogenous shocks, owing to its reliance on one gold mine, *Kumtor*, which in 2011 accounted for over 10 percent of GDP and 43

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<sup>3</sup> Over 90 percent of its 198,500 km<sup>2</sup> area is at least 1,000 meters above sea level and 30 percent higher than 3,000 meters.

percent of exports, and on migrant workers' remittances, which were equivalent to 30 percent of GDP in the same year. Political instability and weak governance remain major challenges: though ranked 70 out of 185 countries in the Bank Group's *Doing Business* 2013—following aggressive attempts to improve the business climate—the Kyrgyz Republic is in the bottom third of all countries on most internationally recognized governance and transparency indicators. Finally, while reconstruction and repair of public and private properties continue in the south of the country, the underlying causes of the June 2010 conflict—minority ethnicities' lack of representation and voice, as well as poverty and unemployment—remain still to be fully addressed.

## **B. Recent Economic Developments**

5. **The Kyrgyz economy's rate of growth has been volatile over the last decade.** Between 2003 and 2012, GDP growth averaged just over 4 percent annually, but with widely varying year-to-year rates ranging from 8.5 percent in 2007 to -0.9 percent in 2012. This volatility reflects periodic external and domestic shocks, the latest one being a glacier movement at the *Kumtor* mine in early 2012, which caused a sharp drop in gold output. Nonetheless, the rest of the economy grew by 5 percent in 2012, reflecting strong remittances as well as higher public spending.

6. **Characterized by significant informal activity, the Kyrgyz economy relies heavily on the performance of a few sectors and remittances.** Industry accounts for about 20 percent of GDP (less if gold is excluded), mostly in low-value added manufacturing. Agriculture, employing one-third of the labor force, contributes 20 percent of output but has been shrinking, despite indicators that suggest it could be a growth driver. Services generate 50 percent of GDP and, excluding the public sector, appear to have significant unrealized potential in areas such as communications, trade and tourism. Overall economic activity relies heavily on remittances and on public spending, which has boosted domestic demand. The large informal or shadow economy is currently estimated by Kyrgyz authorities to be as high as 40-60 percent of GDP.

7. **Fiscal policy has been expansionary in recent years.** A generally prudent stance until 2008 was replaced by significant fiscal expansion—initially in response to the 2008-09 global downturn and subsequently to the mid-2010 domestic crisis—in particular higher spending for reconstruction in the south of the country and for increases in public sector wages, pensions and social allowances. As a result, public expenditures rose from less than 30 percent of GDP in 2009 to almost 40 percent by 2012 and, despite a strong upturn in public revenues, the budget deficit averaged 5.4 percent of GDP during 2010-12. The large concessional elements of public debt, as well as debt write-offs, have so far moderated the risk to public sector solvency.

8. **Inflation has been high and volatile in recent years, due partly to repeated spikes in global food and energy prices.** With food and energy a large share of imports and also of households' expenditure, three global food price shocks over the past five years have resulted in high and volatile inflation. The most recent started in the second half of 2012 and by February 2013 had pushed inflation to almost 8 percent. It also increased the number of food insecure households to 25 percent. Besides these external shocks, the large fiscal deficit as well as some loosening of monetary policy over the past year may also have kept core inflation high.

9. **Although the current account deficit widened in 2012, pressures on the exchange rate were avoided.** The Kyrgyz Republic customarily runs a large trade deficit, financed mainly by remittances. In 2012, the current account deficit increased to over 15 percent of GDP, as gold exports plummeted and domestic demand remained strong.<sup>4</sup> Foreign direct investment (FDI) inflows, mostly reinvested earnings, have improved in recent years and, together with increased borrowing, have sufficed to finance the current account deficit. They also prevented pressures on the exchange rate and permitted an increase in reserves, which at the end of 2012 were equivalent to 3.9 months of recorded imports.

10. **Employment is concentrated in sectors that contribute little to growth and weak governance and poor infrastructure continue to hinder competitiveness.** During 1998-2008, labor has moved away from high productivity, formal sectors, such as mining and manufacturing, to low productivity sectors with high levels of informality such as agriculture and services, in particular construction, trade, and tourism. At the same time, labor costs have risen faster than productivity and several manufacturing industries, such as electrical and office machinery, metals, textiles, and transport equipment have become less competitive. Moreover, despite numerous regulatory reforms in recent years, these have not yet translated into actual improvements in the business environment.

### C. Economic Prospects

11. **The authorities project GDP growth approaching 8 percent by 2015, which may be over-optimistic.** Under the baseline scenario, neighboring economies in Central Asia and China are expected to continue growing, providing an important pull factor for the Kyrgyz economy. However, the authorities project investment rising by 10 percent annually, reaching over 30 percent of GDP by 2015. Given past performance, the overall investment climate, and infrastructure constraints, as well as current trends, these growth rates appear ambitious and the CPS envisages a more conservative, yet steady, economic performance.

12. **Growth in 2013 and part of 2014 will be driven by a recovery in gold output, a favorable regional economic outlook, and remittances.** This will contribute to a lower current account deficit which is expected to be fully financed by FDI and external borrowing. Output expanded by 7.6 percent in the first quarter of 2013 and this trend is forecast to continue for the rest of the year.

13. **Beyond this rebound effect, growth will be driven by increased efficiency of public spending and development of a vibrant private sector, including small and micro enterprises.** Given current fundamentals (education, infrastructure, macroeconomic policies, etc.), growth is projected to average about 3 percent annually over the medium- to long- term.<sup>5</sup> With sound macroeconomic policies and effective implementation of the structural reforms, growth could potentially increase to over 5 percent annually aided by private sector development that could realize the country's potential—including in agriculture, trade and natural resources—and ensure more productive use of remittances. Table 1 below presents selected economic indicators, actual and projected, for the period 2010-17.

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<sup>4</sup> Large errors and omissions (possibly due to unrecorded re-exports of oil to Tajikistan) imply that the current account deficit may be smaller than the official number.

<sup>5</sup> Bank staff estimates from growth forecasting tool based on Loayza (2004).

**Table 1: Selected Economic Indicators, 2010-17**  
(in percent of GDP, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP growth, in %	-0.5	6.0	-0.9	7.4	7.5	5.3	5.0	5.0
Gross Domestic Investments	27.4	25.5	25.4	25.6	25.8	26.2	26.7	26.9
Inflation	8.0	16.6	2.8	8.6	7.2	6.6	6.0	5.7
<b>Public sector</b>								
Revenues	30.5	31.8	34.5	32.0	32.1	31.8	32.0	32.0
Expenditures	36.8	36.4	39.9	37.3	36.1	35.5	35.0	34.8
Current spending	31.0	30.9	32.4	30.8	29.3	28.3	27.4	27.2
Capital spending	5.8	5.5	7.5	6.4	6.8	7.2	7.6	7.6
Balance	-6.3	-4.6	-5.4	-5.3	-4.0	-3.6	-3.0	-2.8
Public debt	59.7	50.1	51.5	50.6	48.5	47.6	46.5	45.0
<b>External sector</b>								
Exports of G&S	51.6	54.5	55.1	54.9	53.4	52.3	51.4	50.5
Imports of G&S	81.7	81.6	102.3	88.6	82.5	79.7	77.5	75.3
Current account balance	-6.9	-6.6	-15.4	-8.0	-6.0	-5.6	-4.2	-4.0
FDI	9.1	11.2	5.7	3.8	4.8	4.6	4.3	4.2
External debt	85.8	88.5	75.6	73.4	68.0	65.1	61.4	57.9

Source: Ministry of Finance and World Bank staff estimates.

14. **Governance reforms that improve the efficiency of public spending will be critical for growth, inclusion, and stability.** Current fiscal trends are unsustainable and the medium-term fiscal framework envisages a significant adjustment. Still, public investment needs to remain high in order to address infrastructure bottlenecks; and improved quality and efficiency of public service delivery are required to raise human development indicators which, according to the 2010 Living in Transition Survey (*cf.* Table 2), fall well below the average for the ECA region. Improved efficiency and quality of public expenditure, including on education, energy, health and social protection, could help resolve these competing priorities. This will require addressing governance issues, including public finance management, revenue administration, transparency and accountability—all areas where, based on selected indicators in the country's 2012 Country Policy and Institutional Assessment (CPIA), there is substantial scope for improvement (*cf.* Table 3). Box 1 below discusses public spending in more detail.

**Table 2: Satisfaction with quality and efficiency of public service delivery**  
(% of respondents)

	KG	ECA
Health	53.0	61.4
Education	58.0	73.2
Traffic police	21.0	45.9
Official documents	36.0	67.4
Vocational education	56.0	70.3

**Table 3: Country Policy Institutional Assessment: —selected indicators**

(on ascending scale from 1 to 6)

CPIA Indicator	KG	ECA
A. Economic Management	4.0	4.0
B. Structural Policies	3.7	3.8
C. Social Inclusion / Equity	3.6	3.9
Equity of Public Resource Use	3.5	3.8
Social Protection and Labor	3.5	3.7

Social security	46.0	51.7
Unemployment benefits	44.0	45.1
Civil Courts	5.0	41.6

Source: 2010 Living in Transition Survey

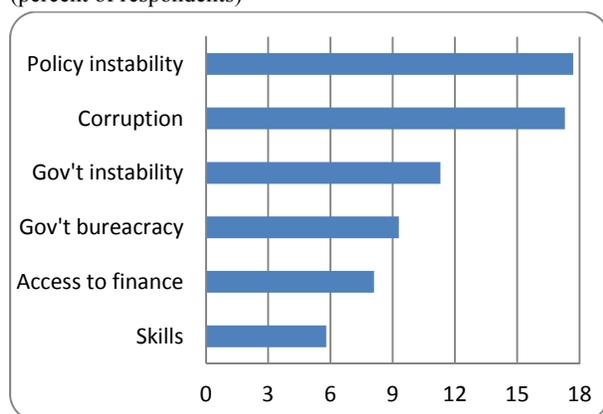
Environmental Sustainability	2.5	3.6
D. Public Sector Mgmt and Inst.	3.1	3.5
Property Rights & Rule-based Governance	2.5	3.2

Source: World Bank

15. **A strong private sector development agenda, under the broad theme of governance, could unleash the potential of the economy.** CPIA scores point to especial weakness in natural resource governance compared with ECA and IDA averages, and the rural sectors could contribute more significantly to growth and jobs, if key constraints—affecting, for example, pastureland management, water resource management, farm and land consolidation, and agricultural extension services—are addressed. Second, growing regional integration and improved infrastructure and trade institutions could support the growth of the country’s vibrant, but largely informal trade and transit sector. Third, the country’s natural resources, including gold, can generate important foreign exchange inflows, if a sound framework for their utilization is established. A significant part of the government’s National Sustainable Development Strategy, 2013-17 (NSDS), including actions supported by this CPS, address improvements in governance that are needed to realize the potential of these sectors, including reforms in state property management, licensing, the regulatory and supervisory framework, tax administration, and, more broadly, the public sector’s role in the economy. Addressing these issues effectively, including policy instability, corruption, government instability, and bureaucracy, would alleviate the four main obstacles to doing business in the Kyrgyz Republic, according to the World Economic Forum’s (WEF) 2012-13 Global Competitiveness Report (*cf.* Figure 1), as well as Kyrgyzstan’s comparatively weak CPIA score for rules-based governance. Together with improved energy and transport infrastructure and better operation and maintenance of public assets, this would relieve connectivity issues affecting the entire country—such as unreliable electricity supply, poor access to remote areas, and high costs of internal transport—and help boost productivity.

**Figure 1: Most problematic factors for doing business**

(percent of respondents)



Source: WEF Global Competitiveness Report, 2012-2013

**Table 4: Ease of Doing Business**

	Rank
<b>Ease of Doing Business</b>	<b>70</b>
Starting a Business	15
Construction Permits	67
Getting electricity	177
Registering Property	11
Getting Credit	12
Protecting Investors	13
Paying Taxes	168
Trading Across Borders	174
Enforcing Contracts	47
<b>Closing a Business</b>	<b>155</b>

Source: Doing Business 2013

16. **The financial sector could support growth if opportunities emerge and bottlenecks are removed.** Following the financial crisis caused by the 2010 turmoil, the banking system has

stabilized with strong growth in both assets and deposits and improving indicators of stability (e.g. non-performing loans, capital adequacy, and liquidity). Resolution of the Zalkar Bank<sup>6</sup> and other banks still under stewardship, as well as the central bank's enhanced supervision and ability to intervene, should help increase intermediation and make financing available for good projects.

17. **Migrants can also contribute to the country's development.** More than 10 percent of the Kyrgyz population is migrant workers, mostly in Russia, who together send home up to about 30 percent of GDP in the form of remittances. While these flows are important in sustaining consumption and alleviating recipients' poverty, there is less evidence that they are contributing to investment or development. Typical migrants are young, male, with little education or qualifications, who work in often hard manual jobs with little or no legal or other protections. Improving these migrants' skills, making it easier for them to send and receive remittances, and implementing a "diaspora engagement strategy" could help strengthen the domestic economy and facilitate knowledge exchange with positive impacts on development.

#### **Box 1: Improving the efficiency of public spending**

**Fiscal consolidation will be critical for macroeconomic sustainability.** In 2012, the fiscal deficit was 5.4 percent of GDP, one of the highest in the ECA region, due largely to the increase in public spending to almost 40 percent of GDP, compared to under 30 percent in 2008. However, WB/IMF DSA, concluded in June 2011 and updated in November 2012 as a part of IMF Program review, confirms that debt sustainability remains moderate. Ensuring macroeconomic stability will require reducing the deficit to 2-3 percent of GDP over the medium term, in line with the fiscal framework agreed with the International Monetary Fund (IMF). This will strengthen public debt sustainability, reduce the economy's vulnerability to external shocks, and facilitate a more accommodative monetary policy and credit to the private sector. At the same time, the quality of fiscal consolidation will be important to ensure that it supports growth and the country's social policy objectives.

**Consolidation from the revenue side may be limited.** The Kyrgyz Republic's tax burden is already moderate to high and its tax revenues are close to, or above potential. Recent high revenue trends may not be sustainable as gains from improved tax administration and one-off effects, such as the revenue smoothing agreement with *Kumtor* and higher customs due to re-export of oil, are exhausted. However, policy changes could improve incentives and the distributional impact of taxation, although a more thorough revenue analysis is needed to inform this dialogue.

**Quality consolidation will require tackling inefficiencies in public spending.** Public sector wages and social protection have driven expenditure growth in recent years, while spending on goods and services also remains high. An important challenge will be to restrain the growth of wages by avoiding *ad-hoc* increases and gradually consolidating employment through civil service reform. Reforms in education, including school rationalization and measures to improve quality, can save resources while enhancing outcomes. Better targeting of social benefits to the poor can generate further savings, while pension reforms should ensure the sustainability of the system. Savings on goods and services (at around 10 percent of GDP, the country is an outlier internationally) can come from restraint on non-priority spending and procurement reforms.

**Under this scenario, the fiscal position and ability to absorb shocks would be significantly strengthened.** Public investment could be maintained at relatively high levels of 6-7 percent of GDP, while debt is expected to decline to slightly above 40 percent of GDP by the end of the CPS period.

**Contingent quasi-fiscal liabilities are sizeable.** The quasi-fiscal deficit in energy alone is estimated at around 3 percent of GDP and there may be contingent liabilities in other sectors as well (e.g. banking, utilities). A strong reform

18. **Core inflation should gradually moderate as macroeconomic policies are adjusted, though headline inflation may remain elevated.** Fiscal consolidation and carefully managed monetary policy will reduce price pressures. However, adjusting energy prices and those of other

<sup>6</sup> Zalkar Bank was created following the nationalization of the AUB Bank by the interim government after the 2010 events.

regulated utilities to cost recovery levels may prevent a reduction in overall inflation. In addition, headline inflation spikes reflecting global food and energy prices cannot be ruled out.

19. **The current account deficit should gradually narrow and greater reliance on non-debt creating flows would moderate sustainability concerns.** Exports are expected to grow as gold output recovers and as currently positive trends in other exports are amplified through reforms. According to a recent IMF assessment, the real exchange rate appears to be in line with the economy's fundamentals. Imports will also grow as the country upgrades its capital stock and integrates better into global trade. Remittances are projected to continue growing at around 10 percent annually, helping to narrow the current account deficit to around 4 percent of GDP by the end of the CPS period.<sup>7</sup> Under a high reform scenario, the country is well positioned to attract increasing inflows of FDI. Globally, flows to emerging markets are expected to recover and, given its proximity to China, access to markets in Russia and Kazakhstan, and low labor costs, the Kyrgyz Republic could benefit.<sup>8</sup> Large infrastructure projects in energy, roads, railways and telecommunications could also attract FDI under the right conditions.

20. **Significant risks to this outlook remain, however, both external and internal.** Externally, the global economic outlook remains uncertain and an eventual sharper slowdown in either Russia and/or Kazakhstan could reduce remittances and undermine Kyrgyz growth and external balances. Second, fluctuations in the world price of gold add another layer of uncertainty: if recent declines continue, Kyrgyz fiscal and external accounts could be affected. Third, the political situation in the region remains fragile and could become more so after 2014. Finally, and most important, the government's ability to address and implement difficult reforms has yet to become manifest. Despite its declared commitment to fiscal consolidation and reforms, tough decisions are still needed. While the reforms laid out in the NSDS are encouraging, they need to be enacted and implemented effectively.

#### **D. Poverty and Gender Profile and Trends**

21. **After a decade of rapid decline—from 63 percent in 2000 to 32 percent in 2009—poverty increased to 37 percent in 2011.**<sup>9</sup> This was partly the result of slower growth following the 2008-09 global downturn, but mainly due to the social unrest of mid-2010—the temporary closure of borders with Kazakhstan and Uzbekistan disrupted cross-border trade, the supply of agricultural inputs, and tourism—as well as food price increases. While the reversal of energy price hikes and the retention of increases in public sector wages, pensions, and social allowance enacted earlier in 2010 mitigated the impact, urban poverty nonetheless rose faster in 2010-11 than in rural areas. From 2004-11, growth benefited poor more than affluent households and, as a result, the Gini coefficient declined from 0.33 to 0.24. Meanwhile, most Kyrgyz human development indicators compare well with those of other low-income countries. It was one of the top five 'medium human development' countries that in 2012 ranked better on UNDP's Human

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<sup>7</sup> These projections are in line with those for the ECA region in the *Migration and Development Brief*, Issue 19, dated November 20, 2012.

<sup>8</sup> *Capital Flows to Emerging Markets*, Institute for International Finance, January 2013.

<sup>9</sup> The Kyrgyz Republic's poverty line, defined by its National Statistics Committee, is based on a basic needs approach that estimates the costs of a consumption basket, excluding rent.

Development Index (HDI) than on gross GNI *per capita*.<sup>10</sup> Box 2 below discusses poverty and inequality in more detail, based on ongoing programmatic poverty studies.

22. **The Kyrgyz Republic's scores on international gender indices are high for education, but low for economic and political empowerment.** The country has a non-discriminatory legal framework—a 2008 law, the 2010 constitution, and a new national action plan and strategy guarantee equal rights and opportunities to women and men—but declining employment opportunities and, since independence, a renewed emphasis on women's domestic responsibilities have constrained their economic activities. While Kyrgyz women are involved in business more than the average in the ECA region, their participation in the formal labor market in 2009 was only 48 percent, compared to 71 percent for men, and slightly lower than in 2003. Moreover, partly because women in the formal labor market tend to be employed mainly in the relatively low paid public education and health sectors, their average earnings in 2010 were only about 64 percent those of men. Overall, the main gender-related challenges are threefold: *first*, reversing the still elevated maternal mortality ratio; *second*, closing the gap between male and female labor force participation; and *third*, reducing the disparity in wages. Addressing these challenges will require a multi-pronged approach focusing on overall improvements in the business environment and labor market.<sup>11</sup> Box 3 below highlights the results of a 2011 Bank Group country study on gender and women's empowerment.

#### Box 2: Poverty and Inequality

**Despite the impact of the 2008-09 global economic downturn, growth benefited poor more than affluent households during 2004-11.** As a result, inequality as measured by the Gini coefficient declined from 0.33 to 0.24. Though poverty increased from 32 percent in 2009 to 37 percent in 2011—partly the result of slower growth following the global downturn, but mainly due to the social unrest of 2010 and food price increases—inequality did not, which may reflect government measures to increase public wages, pensions, and social allowances as well as the reversal of energy price hikes earlier in 2010. Decomposition of inequality in declared income identifies earnings from self-employment, pensions, and social benefits as income sources that decrease inequality.

**Regional disparities remain an important issue due to the large gap in living standards between Bishkek, the capital, and the rest of the country.** In 2011, 18 percent of Bishkek's population lived below the poverty line, compared to 40 percent in the rest of the country. Analysis of welfare disparities between Bishkek and neighboring Chui *oblast*, on the one hand, and all other *oblasts*, on the other, shows that the latter lag behind due to the concentration of people with a higher standard of living in Bishkek/Chui and because people there are more productive for a variety of reasons, such as better access to infrastructure and markets and the quality of the education and health systems.

**Notwithstanding economic growth and poverty reduction, access to water supply and sanitation has declined steadily over the past 20 years**—with pronounced differences according to place of residence and poverty status—due to unsatisfactory operations and maintenance, poor asset management, and underinvestment. Thus, 13 percent of the rural population, all of them are poor, still gets water from unprotected sources and a further 33 percent are more than 100 meters from a water source. Marked differences are also observed in urban areas, with the likelihood of having to use a public water pump six times higher for poor than for non-poor households. In 2011, for example, only 11 percent of urban poor had access to running water, down from 33 percent in 2005, and only 63 percent of non-poor, down from 71 percent in 2005.

Source: World Bank staff estimates, based on Kyrgyz Integrated Household Survey (KIHS)

23. **The Kyrgyz Republic is on track to meet its poverty, environmental sustainability, and global partnership Millennium Development Goals (MDGs).** However, according to the last progress report, its targets for universal education, health, and gender are unlikely to be

<sup>10</sup> *Human Development Report 2013*, United Nations Development Programme (UNDP).

<sup>11</sup> Cf. ADB/UNDP/WB Gender Assessment, 2012.

achieved.<sup>12</sup> While the country's literacy rates among young people are very high, the resources needed to meet the 100 percent target for all boys and girls to complete basic secondary education appear to be insufficient. Its health-related MDGs, however, are the most problematical. Infant and child mortality have both been declining, but at a rate slower than needed, and the number of newborn deaths has actually increased due to insufficient and/or low quality neonatal care. Maternal mortality also remains high, although the quality of the reported data is uncertain. Likewise none of the HIV/AIDS, malaria, or tuberculosis targets are likely to be achieved, with both HIV and tuberculosis rates particularly troublesome. Finally, as already noted, men tend to occupy higher-paid managerial or specialist positions and women are typically employed in lower-paid jobs in education, health and social services. Thus, the gender equality and women's empowerment goal is also considered unachievable. Further details of the country's progress towards meeting its MDGs are contained in the attachment to Annex A1.

### Box 3: Gender and Women's Empowerment

**There are noticeable gender differences in human capital and access to economic opportunities between men and women in the Kyrgyz Republic.** Paradoxically, the erosion of human capital over the past two decades has in many respects affected men more than women. For example, their life expectancy has fallen relative to women's, potentially a result of life style choices by men such that they are more likely to abuse alcohol, tobacco, and drugs; and they are more likely to suffer from tuberculosis, sexually transmitted diseases and HIV/AIDS. There are nevertheless important issues affecting women as well: maternal mortality remains high and households tend to prioritize men's health needs over women's.

**Although the gender gap in educational qualifications is growing**—with relatively fewer men than women attending secondary professional vocational schools and universities—**different specializations at the tertiary level favor men**, which later become reflected in the labor market. For example, female university students tend to choose majors leading to relatively low paying public sector jobs, most notably in education, while 70 percent of male students majoring in construction, transport and veterinary science end up in better paid private and public sector occupations.

**Despite their higher human capital endowments, women's access to economic opportunities is lower than men.** Women are less likely to be employed and, when employed, they earn on average 30 percent less than men. There is a high level of occupational segregation, with women working in traditionally female, less well-paid jobs, which may reflect their greater compatibility with family responsibilities. Lower average wages and fewer years of service in turn increase women's risk of poverty in old age. Finally, women are less likely to be in positions of economic power or owners of capital: they account for only about 20 percent of all Kyrgyz entrepreneurs; and they are under-represented in management in both business and government. However, these data may not capture the fact that many women, as well as men, work in the informal economy.

Source: *Kyrgyz Republic: Gender Disparities in Endowments and Access to Economic Opportunities*, World Bank, Report No. 72291, June 26, 2012

## E. Development Challenges and Opportunities

24. **Since mid-2010, the Kyrgyz authorities have made important progress towards restoring economic, political, and social stability.** The new constitutionally-mandated division of responsibilities between the presidency, the prime minister, and the parliament continues to hold, though the transition to more inclusive, open, and representative government—including the novel experience of coalition rule—is at an early stage. It is also susceptible to occasional volatility. Second, macroeconomic stability has been largely maintained, even if fiscal consolidation, with budget support from IDA, the IMF and other development partners, still

<sup>12</sup> 2<sup>nd</sup> Progress Report on Millennium Development Goals, UNDP, Kyrgyzstan, 2010.

poses a major challenge. Third, physical reconstruction continues in the south of the country through compensation to conflict-affected communities, as well as through other measures to help re-establish livelihoods, re-start private businesses, and revive investment and trade. However, social reconciliation remains very much a work in progress, with the fundamental causes of the conflict remaining still to be fully addressed.

**25. Despite these laudable achievements, the country’s overriding development challenge remains improved governance—in state institutions and in virtually all aspects of the economy and society.** Weak governance and entrenched corruption were major stress factors underlying the political and social upheavals of 2005 and 2010. State capture, links between civil servants, business interests, and politicians, the misuse of public assets, corrupt practices in procurement, and institutional and systemic weaknesses in public finance management had together eroded public trust in government institutions at all levels. The authorities have thus accorded high priority to developing a comprehensive anti-corruption program with a broad inter-sectoral focus. Its effective implementation will require political leadership and will and, at the bureaucratic level, determined management, including the creation of results-based monitoring systems with learning feedbacks to inform any needed changes in design. Given the tendency of Kyrgyz government agencies and ministries to function independently, a particular focus on institutional coordination and development will also be required.

**26. If the Kyrgyz Republic’s economic and social development agenda is viewed through the single lens of improved governance, three wide-ranging areas of activity come into focus as key challenges and opportunities in the medium- and longer-term.** These are: (a) *strengthening public administration and public services*, especially those relating to lowering poverty, improving accountability and oversight, enhancing human capital, and reducing ethnic, gender, and social disparities; (b) *improving the business environment and investment climate*, both necessary prerequisites for promoting competitiveness, diversification, and productivity; and (c) *managing scarce natural resources such as forests, pastureland, and water, and maintaining physical infrastructure*, while at the same time taking into account climate change, environmental sustainability, and regional considerations. These three challenges and the opportunities they present for addressing them are discussed briefly in paragraphs 27-38 below.

### **Strengthening Public Administration and Public Services**

**27. A decade-long effort to improve public finance management supported by several development partners has to date yielded only modest results, largely because of residual vested interests that seek to dilute public accountability.** Actions to build a ‘leak-proof’ treasury, an enforceable budget code, effective public audit and oversight, and a transparent public procurement system need more attention to detail and a results focus. While there has been some progress in public asset management, the government’s role as owner and manager of public companies needs to be strengthened. Moreover, corporate governance in state-owned enterprises (SOEs) falls far short of internationally accepted practice, with management and accounting that is weak and not subject to market forces. Going forward, it will be important to introduce rules of contestability and profitability targets, with dividends paid to the state budget, and to review ownership arrangements. Meanwhile, the privatization program, essentially stalled for several years, needs to be re-designed to permit greater private participation in, if not full

private ownership of communications, utilities, and several other sectors. A rules-based, transparent approach to licensing in mining is also needed, with concessions awarded through open tenders. Finally, ongoing civil service reforms—to ensure merit-based recruitment and retention of qualified staff, as well as to reduce corruption—need to be broadened and deepened.

28. **Effective implementation of recent executive and legislative initiatives to reform the judiciary and court system will require sustained political will.** Judicial independence and high professional standards for judges, as well as modern court management systems and the administration of judicial reforms, will necessitate the creation of new institutions and practices and a clear focus on results.

29. **Improved governance needs to encompass the delivery of essential public services, such as education, health, and social protection.** While public spending on education increased from 3.9 percent to 7.1 percent of GDP during 2001-11, outcomes in terms of quality have been unsatisfactory. National assessments show that fully half of all fourth and eighth grade students score below basic competency levels in mathematics, reading, and sciences. According to the recent public expenditure review, there are at least five areas where inefficiencies, due mainly to weak financial management and poor governance, need to be addressed: ensuring tighter control of future wage growth; reducing the unit costs of pre-primary and vocational education to those in general education; improving procurement; limiting administrative, non-teaching positions in general education; and rationalizing the general education school system. In addition, there needs to be increased school autonomy and accountability through decentralization and *per capita* financing. Not least important, the content of vocational and technical education needs to be revised to address actual skills shortages and labor market needs.

30. **Despite some recent improvements, health indicators remain poor and, as noted earlier, the country's MDG goals are unlikely to be achieved by 2015.** Besides maternal and child mortality concerns, overall mortality remains high, reflecting the high incidence of non-communicable diseases, such as cardiovascular, cancer, and other tobacco and alcohol-related illnesses and injuries. Reforming the health insurance fund to introduce modern management practices and efficiency is a priority, as is the need for increased autonomy to health care providers to improve resource allocation. The role of the Ministry of Health as steward, exercising broad oversight, needs to be strengthened through changes in legislation, human and institutional capacity building, and more competitive salaries. Effective purchasing requires a relaxation of rules governing the use of budget funds. Finally, the country's social assistance and protection system, still dominated by large numbers of categorical transfers, does not reach those most in need. A broad-based reform that would improve the targeting of benefits to the poorest, most vulnerable groups is currently under discussion and needs to be implemented, taking into account overall fiscal constraints.

### **Improving the Business Environment and Investment Climate**

31. **The Kyrgyz economy is constrained by its narrow production base and its reliance on gold mining, as well as migrant workers' remittances.** Moreover, the state is dominant in communications, industry, and public utilities and still exerts a powerful influence in banking. Recent growth has been mainly capital-driven and a steady decline in total factor productivity

has reduced rates by several percentage points, most obviously in construction and industry. Overall labor productivity is less than one-third that of Russia, owing to weak internal competition, exacerbated by low skills, inadequate incentives for technological innovation, and outdated management practices. Corporate financial reporting standards and practices, as well as transparency and the public availability of reliable financial data, need significant strengthening. The international comparison of competitiveness indicators cited earlier (para. 15) revealed deficiencies in terms of policy uncertainty, corruption, government instability and bureaucracy, as well as limited access to financing, weak property rights, and taxes. Overall productivity has also been affected by inferior equipment and machinery, reflecting low levels of technology transfer and absorptive capacity at the enterprise level. Goods market efficiency is also weak due to anti-monopoly policies, customs services, and tax rates. Local business sophistication is negligible because of a limited local supplier base and the low breadth of value chains, exacerbated by the poor quality and availability of infrastructure.

**32. Financial institutions remain underdeveloped and access to finance, particularly for micro, small and medium-sized enterprises (MSMEs), continues to be very limited.** Credit to the private sector is below 15 percent of GDP, compared to the 47 percent average of developing countries in the ECA region—an indication of the low level of financial intermediation. Furthermore, barely 14 percent of small firms in the formal sector have access to credit—many do not have the type or quality of collateral that banks require—and ultimately their opportunities for growth and development are limited. Alternatives to bank financing and microfinance remain underdeveloped.

**33. Notwithstanding these natural and man-made constraints, the country’s relatively open economy, alongside its energy export and regional trade and transit potential, could facilitate efforts to diversify.** Maintaining low tariffs and an open trade régime with reduced customs costs will thus be vital. In this context, the trade diversion and increased imported input cost effects of the country’s proposed accession to the Belarus, Kazakhstan and Russia customs union need to be studied with care, especially given CIS members’ free access to these three markets.

**34. Meanwhile, agriculture, agro-processing in particular, and livestock have good prospects, in principle, although improved policies will be needed to strengthen their international competitiveness.** This will entail policy reforms centered on expanding access to, and increasing the effectiveness of agricultural extension and research services, pastureland management and improvement, animal health and veterinary services, and food safety, as well as farm and land consolidation, irrigation infrastructure, and water resource institutions. Encouraging greater private sector participation is also needed to strengthen farmers’ organizations, develop small and medium-sized agricultural enterprises, design appropriate financial instruments (including for supply chain finance, rural credit, and crop insurance), and invest in storage and distribution.

### **Managing Natural Resources and Physical Infrastructure**

**35. Owing partly to the Kyrgyz Republic’s elevation, geography, and topography, the governance and management of its natural resources present particular challenges.** Extensive high altitude glaciers, the source of its water, and limited forests and pastureland are

all particularly vulnerable to climate change. The country is also susceptible to natural disasters such as droughts, earthquakes, and landslides, whose frequency require strengthened risk reduction and response capacity. Environmental sustainability is also an issue, in particular the expansion of pastureland capacity and the exploitation of forest resources within community-use structures. At the same time, carbon dioxide intensity, high energy inefficiency, and the health burden of industries need to be addressed: present policy instruments offer few incentives for industries to invest in modernizing production.

**36. Landlocked, mountainous, and with limited international connectivity, managing the country's energy and transport infrastructure pose similar challenges.** Diversified growth based on exports will require a reduction in economic distances, greatly improved connectivity, and lower transport costs, both within the country and through regional corridors. In this context, smoother functioning of land border crossing points and an improved institutional framework for modern asset management are needed if the country is to realize its potential as a nexus for regional road and rail transit. In addition, improved planning and management of road investments, including new decision-making tools to facilitate resource allocation, could increase efficiency—in particular, a shift towards more spending on maintenance. This would also require new approaches, including attracting private investment and, where appropriate, community participation.

**37. Severe power shortages occur during winter peak periods as supply lags demand and decades of poor maintenance cause outages.** With the lowest tariffs in the ECA region, Kyrgyz energy enterprises are poorly resourced to fund routine operations and maintenance, let alone new investments. There is no independent regulator and the electricity transmission and distribution system, rife with corruption and political interference, suffers from large commercial and technical losses. The collapse of the Central Asia energy trade market and challenging relations with neighboring countries in water and energy resources management are leading to costly, sub-optimal outcomes, such as in-country transmission investments for defensive purposes. The water resources sector also suffers from backlogs in maintenance and investments, poor metering, and inefficient management.

**38. Since 1991, managing the country's natural resources and physical infrastructure, formerly part of an integrated and centrally planned and managed system, has involved important regional dimensions.** For example, as an upstream riparian, regional coordination and cooperation in the use of trans-boundary energy and water resources is obviously a high priority. Under the proposed CASA-1000 transmission project, the Kyrgyz Republic together with Tajikistan could become a major exporter of summer surplus electricity to South Asia. Similarly, transport, especially roads and railways, human and animal health, climate change, and the environment are also areas where regional approaches have become increasingly important. Thus, the Kyrgyz Republic is a strong advocate of closer, more effective regional cooperation and dialogue *inter alia* through its membership in the Eurasian Economic Community. It also participates in the ADB-sponsored Central Asia Regional Economic Cooperation (CAREC) program; plays an active role in various regional bodies such as the more broadly based Shanghai Cooperation Organization (SCO); and, since 2011, has been involved in the Central Asia Energy-Water Development Program (CAEWDP), which focuses on strengthening energy and water security through national projects and regional activities.

## F. Government Priorities and Medium-Term Strategy

39. **The government's priorities and medium-term strategy are described in its *National Sustainable Development Strategy (NSDS), 2013-17, issued earlier this year.*** Part 1 of the document, admitting frankly that previous country development strategies (in 2001, 2003, and 2009) had largely failed due to "... *bad governance, corruption, and criminalization of certain state institutions...*" establishes governance and state-building as the NSDS' overarching theme. In particular, it calls for creating a state governed by the rule of law, including a strengthened legal system, constitutional stability, the creation of a legal culture, democratic elections, combating corruption, developing local self-government, and reforming the judiciary and law enforcement services. It also envisages measures to promote national unity, based on the rights of the country's various ethnic groups, and to strengthen the Kyrgyz Republic as a state based on civic identity, or citizenship, not on ethnicity. In other words, this part of the NSDS presents a vision of improved governance and reduced corruption as a unifying theme, and the foundation of the country's economic and social development. As such, it is a logical next step in the national governance transition set in motion by the new constitution approved by a two-thirds majority of the population on June 27, 2010.

40. **The second part of the NSDS outlines the country's economic development priorities for the period 2013-17.** These include maintenance of macroeconomic stability, an improved business environment and investment climate, a strengthened financial sector, and the development of the economy's strategic industries and sectors, including: agro-processing, energy, mining, transport and telecommunications infrastructure, and tourism. In addition to the ambitious GDP growth objectives already noted earlier (paras. 11-20), the NSDS also sets a number of socio-economic targets for the five-year period, including the following: a doubling in GDP *per capita* from US\$1,200 to US\$2,500; an increase in average life expectancy from 69 to 73 years; the creation of 350,000 additional jobs, implying that each family would have at least one wage earner; an increase in the average annual wage from KGS 11,500 to KGS 26,000; and a reduction in poverty from 37 percent to 25 percent. The authorities initiated a nationwide consultation process in January, 2013.

41. **To implement the NSDS' vision, the government published very recently a policy-focused medium-term development program.** This program, in effect an update of the medium-term program that has guided the country's macroeconomic and development policies since mid-2010, will also cover the five years 2013-17, coterminous with the terms of the current president and parliament. Viewed together, the NSDS and the revised program reflect the collective vision of all three branches of the state and provide a framework for development partners' cooperation.

## II. BANK GROUP COUNTRY PARTNERSHIP STRATEGY

### A. Background and Rationale

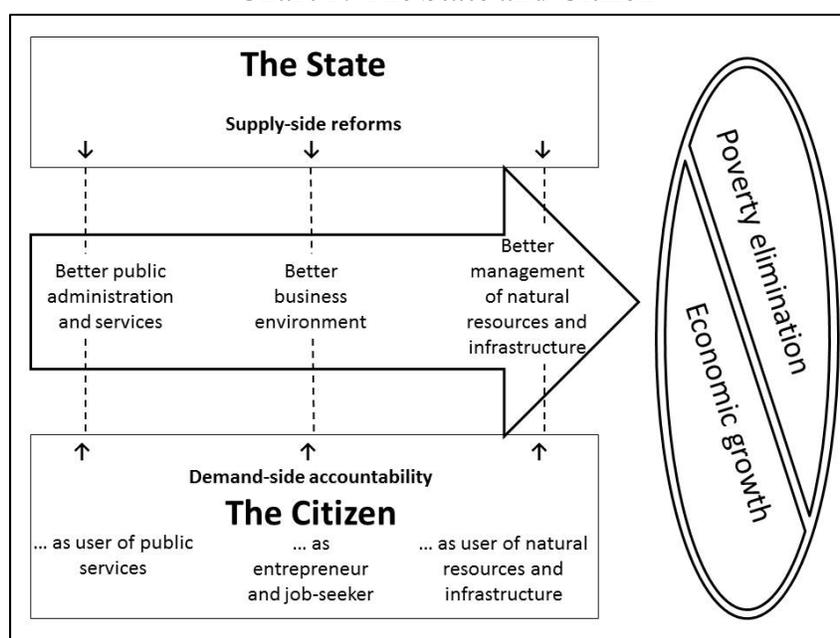
42. **By the early 2000s, the Kyrgyz state was gradually becoming an instrument not only to ensure national security and provide essential public services, but also to channel economic rents to a new political élite.** At the macro level, the main sources of these rents included energy, narcotics, public revenues, and state assets, including state-owned enterprises. At the micro level, people's livelihoods depended upon their ability to ‘negotiate’ access to employment, land, markets, water, and social services. Although the first president’s involuntary departure in April 2005 briefly raised hopes for change, his successor made things worse by further centralizing power and resources within a narrow clique, including his own immediate and extended family. This not only alienated the emerging urban middle class, but by early 2010 had also created huge popular resentment. As the post-conflict JEA stated: “... *Over the recent past, the president concentrated power in his administrative apparatus, reduced the national assembly to a cipher, and circumvented ministerial forms of government. Thus, checks and balances all but disappeared, consultation over policies and accountability was greatly reduced, and governance standards fell.*” The violent overthrow of the second president and his government in April, 2010 may thus be viewed as the population’s response to what had become a national crisis of governance.

43. **Since then, the Kyrgyz authorities have re-affirmed their understanding of the essential links between improved governance, inclusive growth, and poverty reduction.** In particular, they recognize that the country’s future stability depends upon the population seeing tangible improvements in governance—a view that the Bank Group’s 2012 conflict filter study validated and that is reflected *inter alia* in the government’s NSDS, 2013-17, which adopts improved governance and reduced corruption as unifying themes. It also constitutes the rationale for this CPS, whose strategic goal is to help reduce extreme poverty and promote shared prosperity through support for improved governance, with particular emphasis on three broad areas of engagement: public administration and public service delivery; business environment and investment climate; and natural resources and physical infrastructure.

44. **The reasons for selecting these three areas of engagement, depicted graphically in Chart 1 below, may be summarized as follows.** *First*, more efficient public administration and public services—especially those relating to lowering poverty, improving accountability, enhancing human capital, and reducing ethnic, gender, and social disparities—are preconditions for political stability, effective public expenditure, human capital formation, and thus for long-term growth and poverty reduction. Though public expenditure has risen to 40 percent of GDP since 2005 and spending on education, health and social protection is high by international standards, results have not been commensurate because of its composition and management. As recent and ongoing Bank Group studies have confirmed, better control over the huge public component of aggregate demand is critical for its productivity. *Second*, an improved business environment and investment climate, including a more transparent, rules-based relationship between the state and the private sector, are prerequisites for promoting competitiveness, diversification, and productivity as well as job creation. The NSDS emphasizes the importance of the business environment in relation to the growth potential of sectors such as agro-processing, mining, textiles, and cross-border commerce, while the CPIA highlights the deficit in

rules-based governance relative to ECA and IDA averages. *Third*, better management of natural resources and physical infrastructure as essential public goods, while at the same time taking into account climate change, environmental sustainability, and regional considerations, is crucial for improved poverty outcomes, in particular for the almost two-thirds of the Kyrgyz population that live in isolated rural and mountainous areas. Recent analytical work, such as the 2013 climate change issues paper and spatial analysis of household survey data, have highlighted the relationship between natural resources management, local community governance, and poverty outcomes, while the CPIA highlights the country’s lagging performance on natural resource governance.

**Chart 1: The State and Citizen**



**B. Lessons Learned from Previous CAS and Stakeholder Feedback**

45. **While the previous FY07-10 CAS pinpointed political instability, ineffective reforms, and weak institutions as key risks, it underestimated their extent and cumulative impact.** With the benefit of hindsight, it is now clear that the previous CAS, whose completion was disrupted by the April-June 2010 crisis, misjudged the threats posed by systemic stress factors such as corruption, nepotism, and the misuse of public assets, as well as inter-ethnic tensions exacerbated by poverty in the south of the country. Reflecting this experience and the analysis of the 2011 World Development Report (WDR) on *Conflict, Security and Development*—which advocated deepened political economy and social stress analysis, closer examination of institutional deficits, and the design of ‘inclusive-enough’ approaches—the FY12-13 ISN committed to applying a conflict and fragility filter instrument to all projects in the portfolio. Since then, this instrument has been used to help adjust the design and targeting of all ongoing and proposed new operations, in particular those located in the three conflict-affected southern *oblasts*.

46. **Other more specific lessons learned from the previous CAS, which experience under the ISN has validated, include the need for improved flexibility, balance, strategic focus,**

**and partnerships.**<sup>13</sup> *First*, Bank Group responses to dynamic, rapidly changing economic, political, and social conditions—whether advisory or operational—need to be *flexible*. As risks increase, in-depth analysis of the operating environment and of possible implications for Bank Group activities becomes crucial. *Second*, despite the Kyrgyz Republic’s uneven record of development policy lending in the mid-2000s, experience since FY11 suggests that CPS programs need to strike a *balance* between development policy operations (DPOs) that support implementation of fundamental reforms and individual investment projects that aim to alleviate poverty and promote institutional change. Moreover, DPOs can be an important convening and coordinating instrument, especially in countries such as the Kyrgyz Republic where political consensus on particular reforms may be fragile. *Third*, CPS programs need a sharper, more *strategic focus*, leading to better selectivity, fewer projects of larger average size in order to optimize potential impact, and lower staff supervision costs. Finally, while *partnerships* can enhance aid coordination—the FY07-10 Joint Country Support Strategy provided a useful platform—increased efficiency and effectiveness also require explicit agreement on policy and operational objectives, support areas, and instruments.

47. **Meanwhile, the results of a client survey undertaken during February-March 2013 to inform CPS preparation indicate clear support for Bank Group involvement in public sector governance and reform.** Almost 40 percent of respondents said that public sector governance was the country’s top development priority, followed by 35 percent who cited corruption as its biggest challenge. Energy, jobs, and rural development were also mentioned as priorities for poverty reduction and sustainable growth. Moreover, 30 percent of respondents said that public sector governance was the most useful area for the Bank Group to focus on and that government inefficiency was the greatest obstacle to reform.

48 **Likewise, stakeholder consultations at the national and local levels during March-April, 2013 offered several important insights for the preparation of this CPS.** In particular, the CPS’ overall focus on governance and its three planned areas of engagement where the government or state interfaces with its citizens found wide support among participants. Support for the business environment and investment climate agenda was strongest among the private sector, while improving public administration and public service delivery was strongest among representatives of civil society. Consultations at the sub-national level proved useful in providing an appreciation of the scope for tackling inter-regional disparities. The results of the client survey and stakeholder consultations are summarized in Annex 5.

### **C. Proposed Bank Group Strategy**

49. **The strategic goal of this CPS is to help reduce extreme poverty and promote shared prosperity through support for improved governance.** Thus, the Bank Group will partner the Kyrgyz authorities’ commitment—announced first at the July 2010 Donors’ Conference and reaffirmed in its recently issued NSDS—to reform the relationship between the state and the citizen: that is, to make the state more accountable to its citizens and, at the same time, to strengthen citizens’ voice in the activities of the state. This governance-oriented approach would focus on three dimensions of the relationship between the state and the citizen—as, respectively,

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<sup>13</sup> Annex 2: Kyrgyz Republic—FY07-10 CAS Completion Report.

provider and consumer of essential public services, as enabler and developer of private business, and as steward and user of natural resources and physical infrastructure, key public goods.

50. **CPS support for improved governance would center on the three broad areas of engagement described above—public administration and public service delivery, business environment and investment climate, and natural resources and physical infrastructure.** It would be provided through the existing portfolio, by new IDA lending totaling about US\$55 million annually (supplemented where appropriate by trust fund (TF) financing), and by intensified analytical and advisory activities (AAA) that emphasize practical, problem-solving advice and effective dissemination rather than extensive analysis or broad-based studies.

51. **The country context demands careful attention to the choice of instruments.** The strategy envisages a balanced approach, using DPOs to convene support for legal, regulatory and institutional reform at the center, while demand-side, local and community governance would also be supported by investment lending operations at the grassroots level and by the Kyrgyz Republic's participation in the Global Program for Social Accountability (GPSA). If the authorities are able to maintain a satisfactory macroeconomic framework and an acceptable reform implementation record, up to half of new lending would be in the form of annual development policy operations (DPOs). If not, the available resources would be re-allocated to augment existing or new investment operations already in the pipeline. In addition, the potential for using the new '*program for results*' lending instrument will be explored, for example in the area of business environment improvement. However, strengthening of country systems in procurement, currently under way, and in financial management may be necessary prerequisites. In any case, lessons from the current TF results-based pilot in child and maternal health would be taken into account. As regards AAA, recent experience suggests that broad strategic analysis alone has little traction, perhaps because of frequent changes in the country's leadership and limited coordination. The preferred approach will thus be for AAA that involves "hands-on" technical assistance for specific reforms, or linkages to Bank Group-financed DPOs and investment operations.

52. **Accordingly, the indicative lending program provides for 2-3 IDA operations, including one DPO, annually, i.e. up to 4 DPOs and 4-8 sector investment lending operations over the four year period.** Based on recent experience, DPOs have become a key instrument to support implementation of structural reforms over the medium-term. In particular, they play a critical convening role in framing supply-side governance reforms, helping build policy consensus within the government, and strengthening coordination and implementation structures and practices. Consistent with the CPS' strategic goal, the main focus of the new programmatic series of DPOs would be governance. In addition to the current emphasis on accountability, anti-corruption, and transparency—including structural reforms in energy, the judiciary, public financial management and the business climate—the agenda and road map for later DPOs may extend to areas crucial to social equity and stability, in particular education, health, pensions, and social protection, with the aim of strengthening institutions and improving outcomes of public spending in the context of continued fiscal consolidation. The policy framework would draw upon the analysis and recommendations of the programmatic poverty studies and public expenditure review currently underway, upon recommendations emerging from IFC's advisory services, as well as policy dialogue with the authorities under the ongoing education and health and social protection operations.

53. **Within this architecture, trust funds will play a specific and well-defined role.** Since 2010, there has been strong government demand for “hands-on” technical assistance for a range of supply-side governance reforms. At the same time, there are potentially high returns to the financing of community mobilization and demand-side accountability activities. However, given strong parliamentary resistance to the use of IDA financing for technical assistance and the Bank Group’s own constrained budgetary resources, technical assistance would be provided in partnership with other development partners and the IDF. Trust funds for governance reforms will help implement DPOs while trust funds for social accountability will support both DPO-linked reforms and investment projects. During IDA17, the Bank Group will continue to leverage IDA resources with trust funds such as the Global Agriculture and Food Security Program and the Results-Based Financing Facility.

54. **Finally, IFC’s primary focus, jointly with IDA, will be on the second and potentially the third areas of engagement.** IFC will contribute to the CPS agenda by promoting private sector development through investment and advisory services that focus on improving the investment climate, broadening access to finance, and increasing private sector participation in the economy, particularly in agribusiness, infrastructure and, potentially, mining, with the goal of encouraging the Kyrgyz economy’s diversification and competitiveness. Specifically, IFC’s advisory services will remain focused on helping improve the business enabling environment, while exploring a greater role in energy efficiency and renewable energy, including opportunities for public-private partnerships (PPPs). IFC-financed analysis will also continue to inform the design of DPOs and IFC-financed enterprise surveys will strengthen demand-side accountability by providing feedback from enterprises to government. In the financial sector, IFC aims to increase MSMEs’ access to finance by enhancing the regulatory framework, strengthening financial institutions (including for microfinance), and providing short-and long-term capital to local banks. In the real sector, IFC aims to help improve corporate business practices, while at the same time pursuing opportunities to invest, particularly in agribusiness, mining, and infrastructure. Subject to the availability of suitable opportunities, including the opening of infrastructure to private and foreign investments as well as improved corporate disclosure standards, IFC could commit up to US\$10 million annually in the financial sector, up to US\$15 million annually in infrastructure, and up to US\$5 million annually in agribusiness, manufacturing, and services. Commitments for advisory services, financed by Austrian, Dutch, Swiss, and United Kingdom trust funds, could total about US\$5 million.

#### **D. Expected Results and Program of Lending and Non-Lending Activities**

##### **Area of Engagement 1: Public Administration and Public Service Delivery—the state as provider and the citizen as consumer of essential public services**

55. **The Kyrgyz authorities’ main goal in this area, outlined in the NSDS (Chapter 2.6), is to restore the public’s confidence in the three branches of government—executive, judicial, and legislative.** Specific objectives include: *first*, creating a modern, professional system of public administration, including law enforcement and the judiciary, at the national, regional and local levels; *second*, improving the efficiency, integrity, and quality of essential public services; and *third*, strengthening accountability and transparency in the management of public assets and finances, including reducing corruption and overlapping functions. To achieve the latter, the NSDS calls for more inter-action between national and local government bodies,

on the one hand, and civil society institutions, on the other, both at the policy formulation stage as well as in monitoring reform implementation. Against this background and based partly on the government's multi-sectoral *Governance and Anti-corruption Action Plan* adopted in 2012, the CPS program includes a mix of advisory, knowledge, and lending activities intended to help achieve two country development goals: (a) creating a robust public administration (including strengthened, more transparent public finance management) and reforming the judiciary; and (b) expanding access to, and improving the efficiency and quality of education, health, and other essential public services.

***Country Development Goal: Creating a robust public administration and reforming the judiciary.***

56. **Creating a more robust public administration would be supported by six operations, five ongoing and one proposed, as well as related analytical and advisory activities.** The five ongoing operations are: *Governance Technical Assistance* (FY04), *Public Finance Management Capacity Building*, and *Capacity Building for Economic Management* (FY09), and two recently approved ones: an Institutional Development Fund (IDF) grant for *Capacity Building for Public Sector Internal Audit*; and the first *Development Policy Operation—DPO-1*. The IDF grant assists Ministry of Finance efforts to strengthen the institutional framework for public sector internal audit and improve the knowledge and skills of internal auditors. The DPO-1 supports implementation of reforms in two complementary policy areas: (a) *strengthening governance and fighting corruption*, including through preparation of a judiciary reform action plan and public finance management reforms relating to budget transparency, procurement, and public accountability; and (b) *sharpening competitiveness and attracting private investment*, including through removing barriers that hinder business registration and activity, restructuring the energy sector, critical for both economic growth and the population's welfare, and bolstering financial system stability. Though the policy framework of future DPOs may extend to other areas, as already noted above, public financial management will remain a constant focus, as will the energy sector which, given its weak governance, opaque regulatory environment, and lack of transparency, is crucial to the authorities' entire anti-corruption and governance effort. Finally, a proposed 3rd *Village Investment Project* (FY16) would focus in particular on strengthening local governance and transparency by bringing together community-driven development approaches, social accountability mechanisms, and local government strengthening.

57. **These six operations are supplemented by two major ongoing analytical and advisory activities.** The purpose of the *Programmatic Public Expenditure Review* (FY13-14) is to make recommendations on the fiscal adjustment needed to reduce and then stabilize the budget deficit and public debt at sustainable levels in the medium-term; and the *Programmatic Poverty Studies* (FY13-16), financed partly by the United Kingdom's DfID, aim to enhance data quality and access and to strengthen national analytical capacity. In this connection, the Bank Group recently helped the National Statistical Committee (NSC) prepare a new, long-term national strategy for statistics development, 2012-20 and, during the CPS, it will remain engaged, together with other development partners, in efforts aimed at upgrading the quality and reliability of official statistics in general. This is important not only in terms of enhancing public accountability and transparency, but also to upgrade the basis for improved policy formulation and for monitoring reform implementation.

58. **Reforming the judiciary would ultimately be supported by a proposed *Judiciary Modernization* operation.** Based on the recommendations of a diagnostic study completed in 2011, financed partly by Switzerland, and the judiciary reform action plan currently under preparation supported by DPO-1, this operation is expected to finance the rehabilitation upgrading of court facilities, the development of modern legal information systems, and measures to improve court management and, more broadly, the administration of justice.

***Country Development Goal: Improving the efficiency and quality of essential public services.***

59. **Improving the efficiency, governance, and quality of essential public services would be supported by operations in education, health and social protection, and rural water supply and sanitation.** In education, the ongoing 2<sup>nd</sup> *Education Reform* project, financed by Russian Education Aid for Development (READ), supports the strengthening of the national student assessment system; and the recently approved *Sector Support for Education Reform* project supports two priorities in the Ministry of Education & Science's medium-term action plan, namely: reforming the curriculum for primary and secondary education; and enhancing school-level autonomy and accountability. A proposed 3<sup>rd</sup> *Global Partnership for Education* (GPE) project would finance increased access to pre-primary education for children aged 4-5 years and adoption of a revised pre-school curriculum based on already approved early learning development standards. These three operations are underpinned by several recently completed analytical and advisory activities, including a comprehensive education sector policy review undertaken jointly with OECD and a benchmarking of policy in four areas (teachers, student assessment, school accountability, and early childhood development), as well as the ongoing *Programmatic Public Expenditure Review*. Complementing these efforts, IFC would seek opportunities for private sector investment and participation in education, focusing on vocational and higher education, promoting South-South investment flows, and support for increased competition and higher benchmarks for education service delivery.

60. **In health, the recently approved 2nd *Health and Social Protection SWAp* operation supports implementation of the government's 2012-16 *Den Sooluk* health strategy in four priority areas for health improvement.** These are: cardiovascular diseases, maternal and child care, tuberculosis, and HIV. The same operation also aids government efforts to improve the efficiency and effectiveness, including the targeting, of social protection services. Complementing the SWAp, a *Health Results-Based Financing* project (financed by the Health Results Innovation Trust Fund), pilots a hospital-level, performance-based payment scheme that aims to improve the quality of maternal and child health care. In addition to these operations, two studies are planned for FY16: a *Health Sector Review*; and a *Social Protection* study that would address long-standing equity and targeting concerns affecting policies and programs in this area and, in addition, provide context for a proposed *Social Protection* operation in FY17. Finally, the ongoing (and recently re-structured) *Rural Water Supply and Sanitation* project (FY09) seeks to improve access to potable water and hygiene, sanitation, and water-related practices in rural communities. In this connection, if requested by the authorities, IFC would be ready to assist with privatizations and/or concessions in municipal public services and utilities, including health facilities, in order to encourage private participation in these areas and ultimately improve service efficiency and quality.

## **Area of Engagement 2: Business Environment and Investment Climate—the state as enabler and the citizen as developer of private business**

61. **As noted earlier, a more open and efficient business environment would help foster private and financial sector development, to which the NSDS devotes significant attention.** (Chapters 8 and 9). Noting that the country’s investment climate is inadequate, the NSDS calls for: reforms in customs, investment, and tax policy; measures to facilitate micro, small, and medium enterprise (MSME) development and improve their competitiveness; and actions to strengthen state property management, including the governance of state-owned enterprises (SOEs) and the corporate financial reporting framework. NSDS plans for financial sector development focus mainly on the banking system, where the central bank is in the process of updating its prudential regulatory and supervisory policies in the wake of the global and domestic crises of 2009-10, but they also include measure to promote micro-credit, private pension funds, and the nascent insurance and securities’ markets.

***Country Development Goal: Promoting financial and private sector development.***

62. **Reflecting the country’s banking crisis of 2010 and low penetration indicators, IDA and IFC’s joint program in the financial sector aims to maintain stability and improve access to finance.** The *Financial Sector Development* project seeks to: strengthen the legal, regulatory, and supervisory framework for banks, micro-finance organizations, and credit unions; equip the central bank with a new data management system to increase the efficiency of its banking supervision function; expand financial services through the Kyrgyz post office network; and modernize the moveable collateral and debt resolution régimes. In addition, the Bank Group will start a new programmatic technical assistance activity to develop consumer protection and address priorities for financial sector development, in collaboration with other development partners. Meanwhile, under the second phase of its *Azerbaijan-Central Asian Financial Infrastructure Advisory Project (ACAFI)*, IFC will train staff of credit bureaus, public registries and movable collateral registries to improve their knowledge and enhance institutional capacity, and build financial intermediaries’ capacity in risk management, credit underwriting and secured lending. To help expand MSME access to finance, IFC’s *Transformation for Microfinance Institutions (MFIs) Project* will continue to support the strengthening of MFIs’ institutional capacity, help them transform into deposit-taking institutions or banks, and extend their outreach, especially to rural communities. Complementing these efforts and to improve access to finance specifically for farmers and aggregators, IFC will launch a *Central Asia Agri-Finance Project* which will help introduce customized agri-finance lending and guarantee products and establish better links between farmers, aggregators, and financial intermediaries. The recently launched *Housing Microfinance Advisory Project* seeks to improve the housing of low-income groups by introducing new home improvement loan products through local MFIs. As for investment, IFC will continue working with existing clients, predominantly MFIs, focusing on: credit lines to MSMEs; risk management practices through advisory services and specific lending products; and provision of short-term trade finance.

63. **Promoting private sector development, especially regulatory reform activities aimed at improving the business environment and investment climate, would also be a joint IDA-IFC effort.** First, with the ultimate goal of investment climate improvement, IFC’s new *Investment Climate Project* is designed to help enhance the policy framework, simplify business

inspections, and improve the business environment for agri-business. Its agri-business component, supported by IFC's regional *Food Safety Program*, is designed to help develop a food safety framework and harmonize agribusiness regulations with WTO standards with the aim of enhancing agricultural products' export potential. Jointly with IDA, the project will also support the roll out of a *Gender and Governance Survey* to assess the reform implementation gap for agribusiness and generate proposals to address any findings that disproportionately affect women. Second, IFC's recently launched *Central Asia Tax Project*, focuses on tax administration reform, including further improvements in risk-based approaches to tax inspections, tax reporting simplification, as well as VAT administration. Third, under the second phase of its *Central Asia Corporate Governance Project (CACGP II)*, IFC will continue efforts to help build a sustainable private sector through better corporate governance of enterprises and banks and, at the policy level, through a strengthened regulatory framework. As regards investments, IFC intends to increase its activities in the real sector, if opportunities arise, particularly in agribusiness. Advisory work on resource efficiency and food safety will accompany these investments where appropriate.

**64. CPS support for financial and private sector development would also be provided by four proposed studies.** A proposed FY14 study on the implications for efficiency and diversification of the Kyrgyz Republic's planned accession to the *Belarus-Kazakhstan-Russia Customs Union* would help inform pending decisions in this area. Second, a planned FY14 *Investment Climate Study*, to be implemented as part of the government's IDF-financed *Private Sector Development Action Plan*, would recommend second generation reforms to address continued shortcomings. The objectives of the IDF-financed project itself are to: strengthen coordination and communication between government agencies, the private sector, and development partners; to design a private sector development strategy and action plan; and to enhance the authorities' policy implementation and supervision capacity. Third, a proposed study on *Raising Factor Productivity and Promoting Diversification* (FY15) would respond to government interest in measures and policies required to diversify the economy. Fourth, the purpose of a small *Mining Sector Business Environment* study is to define gaps that most urgently need assistance in terms of mining policy and governance. Finally, a study designed to measure the shape and size of the large informal sector would be undertaken in FY15.

***Country Development Goal: Increasing the efficiency and competitiveness of agri-business.***

**65. Increasing the efficiency and competitiveness of agriculture would be supported by a proposed agribusiness investment climate study.** Despite the Kyrgyz Republic's reputation as a producer of high quality fresh and processed fruit and vegetables, less than 20 percent of its agricultural produce is processed. Agribusiness development is hampered by institutional, policy, regulatory, and infrastructure impediments and, in addition, individual producers face challenges in satisfying changing consumer preferences and more stringent export requirements. A proposed policy note—*Improving the Agribusiness Investment Environment*—would review the obstacles to agribusiness development and identify options for their removal. A joint venture with IFC, the analysis would cover key aspects impacting competitiveness and development and identify governance-related reforms (regulatory, tariff, taxation, *etc.*) that could potentially be included in future development policy operations. In addition, it could identify areas for possible joint IDA-IFC investment as well as provide guidance to other development partners and private sector investors on capacity building and associated investment needs. Meanwhile, to support the

development of food supply chains, IFC could prepare feasibility studies and seek private investors to finance, build and operate a series of refrigerated warehouses for agricultural produce.

**Area of Engagement 3: Natural Resources and Physical Infrastructure—the state as steward and the citizen as user of natural resources and public assets**

66. **The Kyrgyz Republic is a party to 13 international conventions or treaties that commit its signatories to sustainable development and environmental protection.** Moreover, at the 2012 United Nations Conference on Sustainable Development (Rio+20), it supported “green economy” priorities such as improved, more efficient management of natural resources such as forests, pastureland, and water and of physical assets such as energy and transport infrastructure, while at the same time taking into account the need to mitigate and adapt to climate change. Against this background, a planned FY15 study would take an integrated approach to the management of forestry, pastureland and related water resources, propose policy reforms, and also provide the framework for the five operations in these areas outlined below (paras. 67-70).

*Country Development Goal: Improving management of agriculture, forestry, livestock, pastureland, and water resources, including extension and other support services, for sustainable development*

67. **CPS support for improved governance of the country’s water resources would be provided through the proposed *National Water Resource Management Project (NWRMP)*.** Financed by a Swiss Development Cooperation (SDC) trust fund, the FY14 NWRMP would: (a) strengthen national water management capacity, implementation of the 2006 Water Code and 2013 National Water Council roadmap, including capacity building to strengthen Kyrgyz contributions to international meetings on regional water issues and regional data sharing; (b) improve irrigation services delivery, thereby increasing water use efficiency from river basin to field level; and (c) support water users’ associations (WUAs), related users’ organizations, and farmers to improve water management.

68. **The proposed *Agriculture Productivity and Nutrition Improvement Project (APNIP)* would reinforce the NSDS’ goal to increase agricultural productivity and food security (Chapter 10.1).** Financed by the Global Agriculture and Food Security Program (GAFSP), the FY14 multi-sectoral APNIP would finance: (a) rehabilitation of on-farm irrigation infrastructure as well as bottlenecks in main canals; (b) agricultural advisory services and training; and (c) nutrition interventions. Women would benefit from all three interventions: an estimated 20 percent of the 36,000 smallholder farms expected to benefit from improved irrigation systems are headed by females; about half of these farms would receive advisory services and training, including cultivators of household plots who are mostly women; and nutrition interventions would target women and children specifically.

69. **The proposed *Pasture Management Improvement Project* would advance NSDS goals for environmental protection and social stability (including food security) in rural communities.** The 2009 Pasture Law established the principle of community-based pasture management and the recently completed *Agricultural Investments and Services Project* financed the establishment and training of pasture committees (PCs) nationwide, the demarcation of

pastureland boundaries, and the implementation of community-based pasture infrastructure subprojects. Based on three seasons' experience, the remaining challenges include making PCs more accountable and inclusive, upgrading their technical competence, and building them into financially sustainable institutions—the main purpose of the proposed FY15 project. Specific objectives would be: to ensure fair access to pastureland; to increase livestock owners' incomes; and to arrest long term pasture degradation.

**70. CPS support for better management of forests and to mitigate climate change would be the focus of a proposed *Forestry and Climate Change Management Project*.** Working with local communities and state-owned forest enterprises (*leskhoz*s) to improve governance of forests and pastureland, this FY16 operation, for which GEF co-financing is envisaged, would help improve the integrated, participatory, and sustainable management of these natural resources. In particular, it would support policy reforms designed to increase local communities' role in the governance of forests and ecosystems and mechanisms to improve their livelihoods and reduce poverty, by such means as the sustainable harvesting of non-timber forest products and forest-pasture leasing to livestock producers. In some areas, the project may support targeted payments for environmental services with high climate change mitigation and adaptation value and thus generate co-benefits for local communities directly and also indirectly through improved ecosystem services such as reduced land degradation in forest areas and preservation of habitat and biodiversity.

**71. Finally, the CPS would support the Kyrgyz Republic's participation in a proposed regional animal health project.** Since animal diseases are the main cause of restrictions on exports of livestock within the Central Asia and, in particular, to Europe, Russia, and the Middle East, this regional approach to animal disease control would help improve the Kyrgyz Republic's competitive position in international livestock markets.

***Country Development Goal: Ensuring energy security and developing export potential.***

**72. Efficiency, governance, and transparency are key elements of the NSDS' goal to achieve energy security and develop the country's energy export potential (Chapter 10.2).** This will involve reducing large commercial and system losses, curbing corruption by vested interests, and modernizing the financial and operational management of the state-owned enterprises responsible for generation, transmission, and distribution. Thus, the purpose of the proposed *Electricity Supply Accountability and Reliability Improvement Project* (FY15) would be to reduce losses and revenue leakages in the service area of *SeverElectro*, the distribution company that serves Bishkek, by improving governance and by establishing a transparent accountability framework in the company. It would finance investments in metering and billing infrastructure and commercial management designed to trim the company's commercial losses, boost its cash flow, and improve its financial viability. It would also finance urgently needed rehabilitation of Bishkek's old and poorly-maintained distribution infrastructure. If successful, the project could be a model for the country's three other distribution companies. At the same time, the current DPO-1 will support strengthened energy sector accountability and transparency, including in particular the management of revenue flows from existing energy exports as well as those that would be generated by the proposed regional projects, such as the *Central Asia-South Asia Electricity Transmission and Trade Project* (CASA-1000) discussed below (para. 74).

73. **Meanwhile, two knowledge products would broaden and deepen the Bank Group’s energy policy and broader governance dialogue with the authorities.** The energy chapter of the ongoing *Programmatic Public Expenditure Reviews* will present policy scenarios (including different investment alternatives) for improving the sector’s financial and operational performance so as to facilitate informed decision making by the government and, in turn, inform the dialogue and design of future development policy operations. Second, the *Heating and Energy Efficiency Assessment* aims to help the authorities address winter power shortages by identifying alternative heating options and related energy efficiency measures in urban residential and public buildings, including recommendations for streamlining policies and reforming the sub-sector’s institutional framework. In addition, aiming to advance the energy efficiency and renewable energy agenda, IFC plans to establish a *Regional Renewable Energy Advisory Program*, in which the Kyrgyz Republic would be eligible to participate. Its purpose is to help governments improve the regulatory framework for renewables and support IFC and non-IFC projects through provision of sectoral expertise, market assessments, product design and financial structuring.

74. **Developing the country’s energy export potential would be supported through two regional operations currently under preparation.** The proposed *Central Asia-South Asia Electricity Transmission and Trade Project* (CASA-1000), a joint venture with IFC, would make possible exports of electricity from the Kyrgyz Republic and Tajikistan to Afghanistan and Pakistan, thereby enhancing regional cooperation and trade. It would also support accountability, governance, and transparency reforms by improving the management of energy export revenues. At the same time, the proposed *Chemin-Almaty* transmission line—a high return project that would permit large volumes of seasonal trade with Kazakhstan in both directions—could be financed by private investors, with possible IFC and/or MIGA assistance. To complement these activities, IFC will also explore other opportunities in hydropower, including through direct investments by its *InfraVentures Fund*,<sup>14</sup> sub-national finance and PPPs, and particularly in small hydropower plants (HPPs).

***Country Development Goal: Expanding national and regional transport connectivity.***

75. **With cargo and passenger traffic increasing at up to 10 percent annually, the NSDS’ goal for transport and communications is to improve the population’s access to markets for goods and services within the country as well as regionally.** This will entail *inter alia* the rehabilitation of five regional road corridors, within the framework of the Central Asian Regional Economic Cooperation (CAREC), as well as better operation and maintenance of the country’s road infrastructure, including the regulation of vehicle weights. The NSDS also anticipates creating a more favorable environment for private investment in road transport infrastructure through public-private partnerships.

76. **The proposed *Central Asia Road Links—Kyrgyz Republic* adaptable program loan (FY14) would finance rehabilitation of priority road sections in Osh and Batken oblasts linking the Kyrgyz Republic and Tajikistan.** It would also support improved highway

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<sup>14</sup> Responding to the dearth of bankable transactions in IDA countries’ infrastructure, IFC’s Board authorized the establishment of *InfraVentures*, a US\$100 million 5-year Fund, designed to facilitate IFC support for private and public-private partnership infrastructure projects in IDA countries.

operation and maintenance practices, including the piloting of multi-year contracts by selected road maintenance units, based on agreed performance standards. By encouraging more efficient and transparent use of public assets, this would also enhance governance. Additionally, road user satisfaction surveys would help foster government accountability for the effectiveness and quality of services. Three knowledge products would augment this operation and the ongoing *National Road Rehabilitation Project* (Osh-Batken-Isfana): first, an Institutional Development Grant (IDF) is supporting the introduction of quality management systems; second, a Trade Facilitation Facility (TFF) is assessing the feasibility of a proposed rail link between China and Uzbekistan through the Kyrgyz Republic; and third, a planned new study would focus on the management of road assets and development of resilient designs. Meanwhile, IFC has been asked to review strategic options for the future management of Bishkek's airport at Manas and is currently preparing a proposal for advisory services and eventual sub-sovereign lending.

***Country Development Goal: Ensuring sustainable urban development and communal services.***

77. **With about 37 percent of the population now living in urban areas, overall access to essential public utilities such as clean water and sanitation has been declining.** Poor communities bear the greatest burden since, unlike the more affluent; they cannot afford to purchase private, more costly services. Sustainable interventions will also better address the country's high vulnerability to natural hazards and mainstream climate adaptation and disaster risk management measures. The long-term vision for sustainable urban development includes integrating it with disaster risk management, including proper land planning, enforcement of disaster resilient building codes, critical infrastructure retrofitting, disaster response, and post-disaster reconstruction support.

78. **Ensuring sustainable urban development and communal services would be supported by a proposed Urban Development and Communal Services project (FY17).** It would finance municipal infrastructure investments, including water supply and sanitation, solid waste management, and other social infrastructure, and specialized technical assistance and capacity building programs. Informed by analytical work planned for FY15 and structured to facilitate the mobilization of co-financing, the project would promote integrated urban development in selected cities or towns, with provisions for climate resilience, disaster risk management, energy efficiency, and gender. It would also contribute to improved governance by strengthening the capacity of local governments in beneficiary communities and boosting the financial performance, sustainability and accountability of service providers, with key outcomes including expanded coverage and enhanced quality of services for targeted communities and improved performance of local governments and service providers.

## **E. Implementing Bank Group Strategy**

79. **The provisional IDA lending program comprises fourteen operations over the four years FY14-17, including Kyrgyz components of three regional operations.** Five would support public administration and public service delivery, one regional operation would indirectly contribute to the business environment and investment climate, and eight would concentrate on natural resources and physical infrastructure. Actual IDA allocations will depend on: (i) the country's own performance; (ii) its performance relative to that of other IDA

recipients; (iii) the amount of overall resources available to IDA; (iv) changes in the list of active IDA-eligible countries; (v) terms of financial assistance provided (grants or loans); and (vi) the amount of compensatory resources received for MDRI.” These amounts are expected to be supplemented by trust fund financing from various sources.

## **Managing Program Implementation**

80. **The planned concentration of new lending in fewer, but larger operations, including annual DPOs, is arguably a high risk—high return approach.** On the one hand, concentration on fewer but larger investment lending operations will permit greater selectivity, a more strategic focus on results, and continued consolidation of the portfolio; second, it will help reduce the burden on limited government absorptive and implementation capacity, as well as on scarce Bank Group staff project preparation and supervision resources; and third, not least important, DPOs have become a key instrument in catalyzing the passage of key structural reforms and bolstering their implementation, helping build policy consensus and strengthening coordination within the government. The latter is crucial, given the multi-dimensional nature of the governance agenda. On the other hand, if the authorities are unable to maintain a satisfactory reform implementation record and/or macroeconomic framework, DPOs would be seriously impacted and, in the worst case, overall lending could be significantly downsized. Though remaining vigilant to this risk, the CPS does not include a formal *low-case scenario* and the lending program will be managed with flexibility in order to respond to any major change in the operating environment. In this event, available resources would be re-allocated to existing or new investment operations already in the pipeline, with an emphasis on community and demand-side governance.

81. **Meanwhile, the existing portfolio remains well aligned with the CPS’ strategic goal and priority areas of engagement.** As of end-December, 2012, it comprised 15 projects with a net IDA commitment of US\$274.4 million. With the recent closure of several long-standing projects, it is currently undergoing much needed consolidation, declining from 19 projects totaling US\$248 million in mid-2010 at the end of the last CAS—a trend that the planned concentration of new lending on fewer, larger operations during FY14-17 will reinforce.<sup>15</sup> While portfolio quality overall, including the 23 percent disbursement ratio, is judged satisfactory, five operations are currently ‘problem projects’. Their status and several generic issues affecting portfolio performance were addressed at a country portfolio performance review (CPPR) with the government held last January. The key findings and agreed next steps, including action plans covering generic issues and individual operations, are summarized at Annex 7. These action plans form the basis for quarterly mini-CPPR follow up meetings with the government, focused on resolving ‘problem projects’. Meanwhile, IFC’s committed portfolio totals US\$23.3 million, comprising 7 clients in hydropower and manufacturing, and it is performing satisfactorily.

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<sup>15</sup> Compared to the last CAS, when IDA commitments during FY07-10 averaged US\$9 million, IDA operations planned for FY14-17 average US\$16.5 million, including Kyrgyz contributions to three regional operations, or US\$15.7 million, excluding them.

**Table 5: Indicative Work Program, FY14-17<sup>16</sup>**

Areas of Engagement	Current Portfolio	Planned Lending and TA	Advisory, Knowledge, and NLTA Products
<b>Public Administration &amp; Public Services</b>	Governance TA (FY03) <i>Public Finance Mgt. Capacity Building TA</i> Capacity Building for Economic Mgt. (FY09) Development Policy Operation (FY13) Health & Social Protection SWAp (FY11) & 2 <sup>nd</sup> Health & Social Protection (FY13) <i>Health Results-Based Financing Pilot</i> (FY13) Sector Support for Education Reform (FY13) <i>Education Reform-2</i> (FY13) Rural Water Supply & Sanitation (FY09) Social Protection (FY17)	Development Policy Operations (DPOs)—FY14, 15, 16 & 17 <i>Public Procurement Capacity Building</i> (FY14) <i>Governance</i> (FY14) <i>Statistical Capacity Building</i> (FY14) Judiciary Reform (FY16) Social Protection Project (FY17) Potential investments in private health and education (IFC)	Programmatic Poverty Studies Programmatic Public Expenditure Review Public Sector Action Plan Governance in Local Social Services (FY15) Health Sector Review (FY16) Social Protection: Equity & Targeting (FY16) High Level Human Development Review (FY14) Regional Water Supply & Sanitation—KG (FY14)
<b>Business Environment &amp; Investment Climate</b>	Financial Sector Development (FY12) IFC portfolio ( 6 clients in financial and manufacturing sectors)	<i>Agriculture Productivity and Nutrition Improvement</i> (FY14) Regional Animal Health Control—Kyrgyz contribution (FY15) Capital Markets Development Potential investments in financial, agribusiness and manufacturing sectors (IFC)	<i>Private Sector Development Action Plan</i> (ongoing) Customs Union—implications for KG (FY14) Agribusiness—Challenges & Opportunities (FY14) Factor Productivity & Diversification Strategy Measuring Informal Sector (FY15) Investment Climate (IFC) Central Asia Taxation (IFC) Housing Microfinance (IFC) MFIs Transformation (IFC) Cold Storage (IFC) Central Asia Corporate Governance (IFC) Central Asia Financial Market Infrastructure (IFC) Central Asia Agri-Finance (IFC)
<b>Natural Resources &amp; Physical Infrastructure</b>	Water Mgt. Improvement (FY06) 2 <sup>nd</sup> On-Farm Irrigation (FY09) 2 <sup>nd</sup> Village Investment (FY13)  Energy Emergency Assistance (FY11) Emergency Recovery (FY11)  National Road Rehabilitation—Osh-Batken-Isfana (FY10) Bishkek & Osh Urban Infrastructure (FY12)  IFC investment in hydropower	<i>National Water Resources Mgt.</i> (FY14) Pasture Management (FY15) Forestry & Climate Change Mgt. (FY16) 3 <sup>rd</sup> Village Investment (FY16) <i>Support to Community Seed Funds</i> (FY14) <i>Social Cohesion thru Community-based Devt.</i> (FY14) C Asia Regional Roads (FY14) CASA-1000 (FY14) Electricity Supply Acct. & Rel. Improvement (FY15) Urban Planning & Development (FY17) Potential investments in hydro-power and mining (IFC)	Pasture Mgt. (FY15) Forestry & Climate Change Mgt. (FY16) <i>Central Asia Energy &amp; Water Development</i> (CAEWDP)  Heating & Energy Efficiency Assessment <i>Power Sector Note</i> (FY14) <i>Tariff Design Methodology</i> (FY14) Power Sector Financial Mgt. Assessment (FY15)

<sup>16</sup> Current and planned activities in *italics* are, or are expected to be financed by trust fund sources.

## Cross-cutting Themes—Gender, Climate Change, Social Accountability

82. **The CPS program is consistent with IDA, Bank Group corporate, and ECA regional priorities and mandates.** Regarding *gender*, the design of all new operations would be subject to basic gender sensitivity analysis and at least four—*Pasture Management, Forestry & Climate Change Management, 3<sup>rd</sup> Village Improvement, and Urban Planning & Development*—have the potential to be deeply gender informed, *i.e.* their design and implementation would address gender disparities and reflect enhanced integration of gender considerations. At the same time, IFC will explore possibilities for investments in companies managed or owned by women. As for *climate change*, the Bank Group plans through its current portfolio but more importantly in future operations to assist in addressing climate adaptation and mitigation challenges—for example in agriculture, energy, forestry, and health care. Box 4 below outlines the main elements of the CPS’ approach to climate change.

### Box 4: Climate Change in the Kyrgyz Republic

Owing to its high exposure and low adaptive capacity, the Kyrgyz Republic’s is one of the countries most vulnerable to climate change in the ECA region. Multi-model forecasts for higher temperatures and increased variability of precipitation point towards a deterioration of ecosystems, an expansion in semi-arid and arid areas, significantly reduced glacier cover, and lower soil productivity and eroding biodiversity. A higher incidence of climate-related natural disasters is also projected. According to the country’s 2<sup>nd</sup> National Report to the International Panel for Climate Change, agriculture, energy, forestry including biodiversity, healthcare, and natural disasters are the areas most vulnerable to climate change, requiring climate-informed action.

The Bank Group is already involved in mainstreaming the climate change agenda into the Kyrgyz development dialogue. Its activities include: advocacy and awareness raising, knowledge sharing of adaptation approaches and strategies, institutional strengthening, and support for framework legislation, regional trans-border cooperation, and analyses of stress factors. In addition, several ongoing operations in agriculture and water resources, energy, and health, as well as the Central Asia Hydro-meteorology Modernization Project, have climate change adaptation co-benefits.

During the CPS, at least four new operations are likely to be explicitly climate-informed—*Pasture Management, Forestry & Climate Change Management, 3<sup>rd</sup> Village Investment, and Urban Planning & Development*. In addition, although two proposed energy projects—*Electricity Supply Accountability & Reliability Improvement* and *CASA-1000* do not aim discretely for climate change outcomes, their focus on improved accountability, efficiency, and governance will clearly have climate change adaptation co-benefits.

83. **Enhanced approaches to social accountability and demand-side governance would be mainstreamed into the design of all future projects.** Addressing demand- and supply-side governance together facilitates the use of enhanced approaches to social accountability. This would empower Kyrgyz citizens, giving them greater control over decisions that affect their lives, strengthen public outreach efforts, and improve the efficiency of infrastructure and services available to the poor. Projects with the most potential for application of demand-side governance are those aimed at ensuring high levels of citizen engagement and participation in project design. Thus, while all projects would pay attention to the basic principles of demand-side governance—accountability, participation, and transparency—at least five—*Electricity Supply Accountability and Reliability Improvement; Pasture Management; Forestry and Climate Change Management; Third Village Investment Project; and Urban Planning and Development*—have the potential for enhanced approaches to social accountability and demand side governance. During CPS implementation, other projects may also be added. Finally, the Kyrgyz Republic is one of 12 countries participating in the Global Partnership for Social Accountability (GPSA). With

indicative funding amounts to eligible CSOs ranging from US\$500,000 to US\$1 million, the GPSA is a new, potentially important instrument for CPS support to the country's governance and social accountability agenda.

### **Civil Society, Partnerships and Development Coordination.**

84. **Although government coordination and management of external aid by is weak, especially since mid-2010, cooperation among key development partners remains exemplary.** Its most obvious manifestations are the Development Partners' Coordination Council (DPCC), which meets monthly to discuss common issues, and DPCC sector working groups, which convene as needed to coordinate activities and approaches to policy dialogue with the Kyrgyz authorities. In this connection, the FY07-10 Joint Country Support Strategy (JCSS)—an initiative by five development partners including the Bank Group to harmonize their activities and advance the goals of the 2005 Paris Declaration on Aid Effectiveness—has been succeeded by a more inclusive, less binding *Joint Statement of Partnership between the Kyrgyz Republic and Development Partners* that was signed towards end-2012. This *Joint Statement*, to which 10 development partners have subscribed, outlines agreed principles and values for implementation of the authorities' NSDS. Annex 5 summarizes key development partner coordination issues and activities by sector and thematic area.

85. **With perhaps the most liberal economy and open society in Central Asia, the Kyrgyz Republic is known for its relatively free press and vibrant civil society.** Not surprisingly given the country's recent history, many CSOs and the media focus on governance issues, especially corruption, public accountability, and transparency, as well as climate change, community development, the environment, gender, and poverty. Since mid-2010 in particular, the government has solicited CSOs' advice on development strategies and programs and CSOs in turn are represented on ministry and government agency supervisory councils. They also play an important role in identifying policy and institutional development issues and, through the Bank Group's Country Office in Bishkek, in contributing to the design, implementation, and monitoring and evaluation of Bank Group-financed investment projects. This CPS anticipates broadening and deepening the Bank Group's relations with CSOs.

### **Monitoring and Evaluation**

86. **Expected outcomes of the CPS are expressed in the results framework attached at Annex 1.** Based on discussions with the government and consultations with other stakeholders, it is organized around the CPS' over-arching governance theme and the three priority areas of engagement: public administration and public service delivery; business environment and investment climate; and natural resources and physical infrastructure. These three areas are then disaggregated into eight country goals and related outcomes that the CPS program expects to influence and a larger set of intermediate outcomes or milestones that will be used to track progress periodically. The matrix also identifies the lending, advisory and analytical, and technical assistance interventions that are intended to contribute towards the achievement of CPS outcomes.

87. **While the results framework is designed to monitor progress and measure outcomes, its application is intended to be flexible.** It provides an initial sense of strategic

direction for Bank Group assistance, but should be thought of as being flexible and subject to change if evolving government priorities or external developments so warrant. A Progress Report slated for end-FY15 would adjust, update, and extend the results framework as needed to reflect activities planned for FY16-17 and a Completion Report would be prepared during the second half of FY17.

### III. MANAGING RISKS

88. **The CPS is predicated on decisive implementation by the government of its medium-term NSDS, which in turn depends on continued consolidation of the new constitutional settlement.** In addition, the CPS program outlined above is subject to four main types of risk—a deteriorated macroeconomic framework, renewed political instability; ineffective implementation capacity; and the fragile consensus on certain key reforms.

89. **Deteriorating macroeconomic framework.** While the Kyrgyz Republic is unlikely to be impacted directly by developments in the euro zone, its economy remains vulnerable to possible exogenous shocks from a weaker global and regional outlook, as well as specific short-term risks. Lower growth in Russia and Kazakhstan, for example, resulting from either contagion effects from the eurozone or a fall in international oil prices, could reduce remittance flows and weaken external demand for Kyrgyz exports. Second, the country relies significantly on imports of food and fuel and thus remains vulnerable to inflationary pressures stemming from international food and fuel price increases. In the short-term, the main potential risks are that gold output in 2013-14 does not fully recoup the shortfall experienced in 2012 and/or that other sectors such as agriculture and energy underperform. If either or both were to materialize, public revenues would drop and incomes would be negatively impacted. The Bank Group would address a deteriorating external environment or less than adequate policy responses by adjusting the program either to meet urgent financing needs, if appropriate, or, alternatively, to reduce planned budget support. Meanwhile, the government's structural reform agenda aims over the medium-term to help diversify economic activity away from its reliance on gold by encouraging the private sector, enhancing human and physical capital, and strengthening market institutions.

90. **Renewed political instability.** The dispersion of responsibility under the 2010 constitution, patronage rivalries, an assertive parliament, significant street protests and coalition politics circumscribe the government's ability to take difficult but necessary decisions. Moreover, while reconstruction continues in the south of the country, the underlying causes of the June 2010 conflict—minority ethnicities' lack of representation and voice, as well as poverty and unemployment—remain still to be fully addressed. The potential linkage of political volatility at the national level with social tensions, especially in the south, could therefore potentially undermine a still tenuous peace. Underlying these vulnerabilities, corruption continues to be a major concern, preventing the private sector from operating effectively, adversely impacting public sector incentives, and undermining the government's credibility and legitimacy. While political instability and risks are beyond the Bank Group's ability or mandate to influence, CPS support for ongoing governance reforms are designed to help mitigate these risks indirectly by reinforcing the state's accountability and legitimacy. Specifically, support for

measures to combat corruption, improve public accountability, and enhance transparency include: developing and supporting implementation of an anti-corruption strategy; reforming the judiciary; strengthening the public finance management system, including accounting controls and information security; designing a budget code and procurement reforms; and improving the business environment for private sector growth.

91. **Ineffective implementation capacity.** Implementation of the reform agenda is constrained by at least two factors: insufficient human, institutional, and technical capacity to design policy measures and, once enacted, to carry them out; and limited ability to build consensus and coordinate action across the key economic and social agencies and ministries. In particular, project approvals are often the subject of protracted discussion between the government and the legislature. The authorities are aware of these challenges and are working to address them by strengthening the institutional framework and augmenting their technical capability. In this context, the Bank Group will continue to emphasize public outreach and communications, particularly with the parliament, and, together with other development partners, provide technical assistance and support for capacity building.

92. **Fragile consensus on certain key reforms.** While there is overall understanding within the political leadership that the country's future stability depends upon the population seeing tangible improvements in governance, translating this into sustained commitment for, and implementation of key reforms remains a challenge. The country's ongoing transition to more inclusive, open, and representative government is still at an early stage and coalition rule is inherently unstable. While the fragile consensus on certain key reforms prolonged the preparation of DPO-1, development policy lending nevertheless plays a critical convening role by framing supply-side governance reforms and fostering inter-agency coordination.

## Results Framework: Ongoing and Confirmed Program

*FY indicates Board Approval Year*

Institutional Outcomes in the Government Strategy to be supported by the CPS	Milestones and Outputs	CPS Outcomes	Instruments and Partners
<b>Area of Engagement 1: Public Administration and Public Service Delivery</b>			
<p><b>Establish a robust system of public administration and reforming the judiciary (NSDS, 2.6)</b></p>	<ul style="list-style-type: none"> <li>Public Sector Reform Roadmap adopted and its implementation monitored regularly</li> <li>Effective implementation of strategic Judicial action plan</li> </ul>	<ul style="list-style-type: none"> <li>Progress in institutionalizing a more meritocratic public administration <i>Baseline:</i> World Economic Forum score on favoritism in decisions of government (rank 136 out of 144) <i>Target:</i> 120 out of 144</li> <li>Improving access to affordable civil justice <i>Baseline:</i> 0.64 score (2012-2013 World Justice Project Rule of Law Index - sub-indicator 7.1: "People can access and afford civil justice") <i>Target:</i> 0.7 (2017)</li> </ul>	<p><u>Bank lending:</u> Annual DPOs with strong governance content; Capacity Building for Economic Management (FY09); Judiciary Reform (FY16) <u>AAA:</u> Governance TA (FY03); programmatic poverty studies (planned); public sector action plan; governance reforms – second generation, including justice reform (FY14); Programmatic Public Expenditure Reviews <u>Trust Fund:</u> Public Financial Management Capacity Building multi-donor trust fund; Public Procurement Capacity Building (FY14); Statistical Capacity Building (FY14)</p>
<p><b>Expanding access to, and increasing the efficiency and quality of education, health, and other public services (NSDS, 4.1-4.5)</b></p>	<ul style="list-style-type: none"> <li>Number of local officials and community members trained in budgeting and planning principles and procedures. <i>Baseline:</i> 20,000 (2007) <i>Target:</i> 90,000 (2015)</li> <li>Number of schools supplied with package of teaching-learning materials. <i>Target:</i> 100% (2016)</li> </ul>	<ul style="list-style-type: none"> <li>Increasing villages with access to improved social and economic infrastructure <i>Baseline:</i> 1000 (2007) <i>Target:</i> 2000 (2017)</li> <li>Increase on the percentage of Grade 4 students that master the competency required by the curriculum in reading. <i>Baseline:</i> 40% (2012)</li> </ul>	<p><u>Bank Lending:</u> Second Village Improvement Project (FY13); Rural Water Supply and Sanitation (FY09); Health &amp; Social Protection SWAp (FY11) &amp; 2<sup>nd</sup> Health &amp; Social Protection (FY13); Sector Support for Education Reform (FY13) <u>IFC Investments:</u> Potential investments in private health and education providers <u>AAA:</u> Social Protection: on Targeting and Equity (FY16); Poverty</p>

Institutional Outcomes in the Government Strategy to be supported by the CPS	Milestones and Outputs	CPS Outcomes	Instruments and Partners
	<ul style="list-style-type: none"> <li>• Number of training-certified primary grade teachers who follow the revised curriculum and apply improved teaching-learning practices. <i>Baseline:</i> None (2014) <i>Target:</i> 9,000 (2016)</li> <li>• Improved access of the patients to preventive care measured by % of detected cases of hypertension (HT) at the primary health care level. <i>Baseline:</i> 27% (2011) <i>Target:</i> 50% (2016)</li> <li>• Reduce exclusion errors in targeting of MBPF transfers <i>Baseline:</i> 71% (2011) <i>Target:</i> 60% (2016)</li> <li>• Social assistance (SA) beneficiaries of MBPF, Monthly Social Benefits (MSB) and Cash compensations with records in the unified SA Beneficiary Registry. <i>Baseline:</i> 0% (2011) <i>Target:</i> 100% (2016)</li> </ul>	<p><i>Target:</i> 45% (2017)</p> <ul style="list-style-type: none"> <li>• Mortality rate from cardiovascular disease (40-59 years, per 100 000) <i>Baseline:</i> 310 (2011) <i>Target:</i> 287 (2017)</li> <li>• Share of Social Assistance spending on poverty-targeted program(s) <i>Baseline:</i> 15% (2011) <i>Target:</i> 35% (2017)</li> <li>• Share of the poorest quintile population covered by Social Assistance. <i>Baseline:</i> 28% (2011) <i>Target:</i> 40% (2017)</li> </ul>	<p>studies (planned); Health Sector Review (FY16); High Level Human Development Review (FY14); Regional Water Supply and Sanitation (FY14); Governance in Local Social Services (FY15) <u>Trust Funds:</u> Health Results-Based Financing Pilot (FY13); Support for improved Learning through Pre-school Education (EFA-FTI); 2<sup>nd</sup> Education Reform (through READ) Partners: Russia; EFA-FTI</p>
<b>Area of Engagement 2: Business Environment and Investment Climate</b>			
<b>Promoting financial and private sector development (NSDS, 8.1-8.6 and 9.1-9.6)</b>	<ul style="list-style-type: none"> <li>• Improved legal and regulatory framework for financial infrastructure as a result of enactment of a new <i>Law on Credit Reporting</i>, which stipulates</li> </ul>	<ul style="list-style-type: none"> <li>• Improved access to finance for MSMEs as measured by a volume of outstanding MSME loans provided by MFIs supported by IFC</li> </ul>	<p><u>Bank Lending:</u> Financial Sector Development Project (FY12); <u>AAA:</u> Strategy to Raise Factor Productivity and Promote Diversification (FY15); Programmatic</p>

Institutional Outcomes in the Government Strategy to be supported by the CPS	Milestones and Outputs	CPS Outcomes	Instruments and Partners
	<p>mandatory provision of information to the credit bureaus without borrowers' consent, and amendment of the existing legislation to align it with a new Law.</p> <ul style="list-style-type: none"> <li>• New tax reporting forms introduced to reduce filling and payment frequency and reporting procedures.</li> <li>• The tax code and the supporting legislation are amended and enacted to improve VAT refund procedures, simplify VAT reporting procedures, and introduce more equitable MSME regime.</li> <li>• A new framework for risk-based streamlined business inspections and technical regulations is implemented by pilot agencies.</li> <li>• The development of a PSD strategy, associated action plans, monitoring and evaluation indicators, and a communication plan.</li> <li>• Identification of drivers of gaps between laws and implementation and the</li> </ul>	<p><i>Baseline:</i> US\$150 million (2011) <i>Target:</i> US\$200 million (2016)</p> <ul style="list-style-type: none"> <li>• Increased private credit bureau coverage (% of adults) <i>Baseline:</i> 24.6% (2012) <i>Target:</i> 30.0% (2016)</li> <li>• Increased number of registrations in collateral registry <i>Baseline:</i> 42,000 per annum (2013) <i>Target:</i> 62,000 per annum (2016)</li> <li>• Reduced tax compliance cost for businesses as measured by the average labor costs associated with tax accounting and mandatory reporting per business per year <i>Baseline:</i> SOM 34 thousand (2013) <i>Target:</i> 10% lower in real terms (2016)</li> <li>• Decreased regulatory compliance cost and improved quality of the business inspections in pilot agencies as measured by non-tax inspection compliance cost <i>Baseline:</i> US\$1.8 million (2011) <i>Target:</i> 10% lower costs in real term (2016)</li> </ul>	<p>Public Expenditure Review (planned); Trade – Implications of Proposed Customs Union Membership (FY14); State-Owned Enterprises (planned); Private Investment Climate Study (planned); <u>Joint WB-IFC Activity:</u> Improvement of legal framework for moveable collateral (ongoing) <u>IFC Advisory:</u> Azerbaijan-Central Asia Financial Infrastructure Project Phase II (ongoing); Transformation for MFIs (ongoing); Housing Microfinance (ongoing); Central Asia Tax Project (ongoing); Investment Climate Project (planned); Central Asia Corporate Governance Project in the Kyrgyz Republic (CACGP II) (planned) <u>IFC Investments:</u> potential investments in financial sector (loans, equity, trade finance lines, credit lines for SMEs, risk management products) and in real sector companies. <u>Trust Fund:</u> Strengthening banking supervision and consumer protection frameworks (SECO); IDF grant for Private Sector Development Action Plan; USAID TF on measuring and reducing regulatory discretion for female entrepreneurs in Central Asia in the area of Tax Inspections <u>Partners:</u> ADB, USAID, SECO, UN</p>



Institutional Outcomes in the Government Strategy to be supported by the CPS	Milestones and Outputs	CPS Outcomes	Instruments and Partners
<b>Area of Engagement 3: Natural Resources and Physical Infrastructure</b>			
<b>Ensuring Energy Security and Developing Export Potential (NSDS, 10.2)</b>	<ul style="list-style-type: none"> <li>New commercial management system established.</li> </ul>	<ul style="list-style-type: none"> <li>Energy loss reduction, measured through total distribution loss <i>Baseline:</i> 22% loss (2012) <i>Target:</i> 15% loss (2017)</li> </ul>	<p><u>Bank lending:</u> Electricity Supply Accountability and Reliability Improvement Project (FY14); Energy Emergency Assistance (FY11); Emergency Recovery (FY11)</p> <p><u>IFC Investment:</u> Potential investments in HPPs</p> <p><u>AAA:</u> Energy Chapter of the Public Expenditure Review (ongoing); Heating and Energy Efficiency Assessment (FY14); Power Sector Note (FY14); Tariff Methodology Design Study (FY14)</p> <p><u>IFC Advisory:</u> Regional Renewable Energy Advisory Program</p> <p><u>Trust Funds:</u> ESMAP, CAEWDP</p> <p><u>Partners:</u> KfW, ADB, JICA</p>
<b>Expanding domestic, regional, and international development transport connectivity (NSDS, 10.4)</b>	<ul style="list-style-type: none"> <li>National road safety program launched</li> <li>Number of kilometers of roads rehabilitated along the Osh-Batken-Isfana road corridor <i>Baseline:</i> 0 (2010) <i>Target:</i> 60 (2015)</li> </ul>	<ul style="list-style-type: none"> <li>Increase share of rural population with access to an all-season road <i>Baseline:</i> 76 (2010) <i>Target:</i> 78 (2017)</li> </ul>	<p><u>Bank Lending:</u> National Road Rehabilitation (Osh-Batken-Isfana) Project (ongoing); Bishkek and Osh Urban Infrastructure (FY12); Central Asia Road Links – Kyrgyz Republic (FY14)</p> <p><u>AAA:</u> Management of road assets and development of resilient design (planned)</p> <p><u>Trust Funds:</u> Institutional Development Grant (IDF) for Introduction of Quality Management System; Trade Facilitation Facility (TFF) for Technical Advisory Services on a proposed new rail link China-Kyrgyz-Uzbekistan</p> <p><u>Partners:</u> JICA, EADB, ADB</p>

Institutional Outcomes in the Government Strategy to be supported by the CPS	Milestones and Outputs	CPS Outcomes	Instruments and Partners
<p><b>Improving the management of agriculture, forestry, mineral, pastureland, and water resources, including extension and other support services, for sustainable development (NSDS, 5.1-5.2, 10.3)</b></p>	<ul style="list-style-type: none"> <li>• Number of WUAs where minimum maintenance expenditure for sustainable operation identified and used in setting the ISF. <i>Baseline: 0 (2008)</i> <i>Target: 115 (2015)</i></li> <li>• Number of Pasture Committees with satisfactory implemented Community Pasture Management Plans <i>Baseline: 0 (2008)</i> <i>Target: 300 (2017)</i></li> <li>• Institutional structure for IWRM established and functioning with prepared National Water Strategy and river basin plans (2014)</li> <li>• Mining Tender Procedure in line with good international practice is developed;</li> <li>• Mining Industry Investment Guide is developed.</li> <li>• Improved international transparency rates through confirmation of KR EITI Full Compliance Status by second validation in 2015.</li> </ul>	<ul style="list-style-type: none"> <li>• Water distribution to farmers within 80 percent of the rehabilitated systems closely matches the crops' irrigation water demands. <i>Baseline: 10 WUA systems(2008)</i> <i>Target: 104 WUA systems (2017)</i></li> <li>• On-farm irrigation and drainage systems will be rehabilitated and managed in an efficient manner (<i>Target: 27,000 ha 2017</i>)</li> <li>• Number of Pasture Committees with increased pasture performance rating. <i>Baseline: 0 PCs (2008)</i> <i>Target: 300 PCs (2017)</i></li> <li>• Transparent and competitive Mining Tenders in line with international best practices held on Togolok deposit and other mineral deposits in 2014-2015;</li> </ul>	<p><u>Bank Lending:</u> Second on-farm irrigation project (FY09); water management improvement project (FY06); Forestry and Climate Change Management (FY16); Pasture Management Improvement Project (FY15); Village improvement (FY13/FY16); Rural Water Project (planned)</p> <p><u>IFC Investment:</u> Potential investments in private mining companies</p> <p><u>AAA:</u> Pasture Management (FY15); Forestry and Climate Change Management (FY16)</p> <p><u>Trust Fund:</u> National Water Resources Management Project (SDC financed), Agriculture Productivity and Nutrition Improvement Project (GAFSP financed); Central Asia Energy and Water Development Program (CAEWDP); Extractive Industries - Technical Advisory Facility (EI-TAF) <i>Mining Sector Technical Assistance Project (Bank-Executed)</i>; Extractive Industries Transparency Initiative Multi-Donor Trust Fund (EITI-MDTF) – Recipient Executed Project; EITI-MDTF Civil Society Organizations Direct Support Program – Bank Executed Project</p> <p><u>Partners:</u> Switzerland, GAFSP, EBRD</p>

**KYRGYZ REPUBLIC: COUNTRY ASSISTANCE STRATEGY, FY07-10 AND  
INTERIM STRATEGY NOTE, FY12-13**

**Completion Report**

**Date of CAS:** May 23, 2007 (Report No. 39719-KG)—Board discussion June 19, 2007

**Date of CAS Progress Report:** October 1, 2009 (Report No. 48300-KG)

**Date of ISN:** June 16, 2011 (Report No. 62777-KG)—Board discussion August 2, 2011

**Period covered by CAS/ISN Completion Report:** August 2007—December 2012

**CAS Completion Report prepared by:** Dinara Djoldosheva (IDA) and Oksana Nagayets (IFC), with inputs from Saumya Mitra, David Pearce, and the Kyrgyz Country Team

**I. Executive Summary**

**Background**

i. **The WBG’s Country Assistance Strategy (CAS) for the period FY07-10<sup>17</sup> was part of a broader initiative by five development partners<sup>18</sup> to harmonize their activities in the country and advance the goals of the 2005 Paris Declaration on Aid Effectiveness.** Anchored in the Kyrgyz Republic’s coterminous Country Development Strategy (CDS), the CAS program’s four priority areas were: (a) economic management to support sustained growth; (b) improving governance, upgrading public administration, and reducing corruption; (c) building human and social capital; and (d) ensuring environmental sustainability and natural resources management.

ii. **A Progress Report issued towards the end of the CAS period<sup>19</sup> noted that the country’s overall governance environment had improved slowly, but that more concerted efforts were needed to strengthen public accountability and enhance transparency.** It also cited better development partner coordination and increased use of country systems for project implementation as two significant achievements of the Joint Country Support Strategy (JCSS). Responding to a government request for budget support to counter the effects of the 2008-09 global downturn, the Progress Report proposed the resumption of development policy lending in FY10 and beyond. In the event, although the first in a planned series of three development policy operations (DPOs) was appraised in early 2010, processing

<sup>17</sup> Kyrgyz Republic: *Joint Country Support Strategy, 2007-10*, Report No. 39719-KG dated May 23, 2007.

<sup>18</sup> Asian Development Bank (ADB), Swiss Agency for Development and Cooperation (SDC), U.K. Department for International Development (DfID), United Nations Agencies (UN), and World Bank Group (WBG). Germany, the European Union (EU), and the International Monetary Fund (IMF) subsequently joined the JCSS consultation and coordination process.

<sup>19</sup> Kyrgyz Republic: *Country Assistance Strategy Progress Report*, Report No. 48300-KG dated September 16, 2009.

had to be suspended due to the overthrow of the government in April 2010 and the eruption of violence in the south of the country in June 2010.

iii. **Given the uncertainties that followed these events—just before the end of the CAS—a Joint Economic Assessment (JEA) prepared by the WBG and three other partners in mid-2010 helped mobilize pledges of over US\$1.1 billion for the country’s post-crisis recovery and reconstruction.**<sup>20</sup>

It also guided WBG activities during the transitional FY11—concentrating on budget support, humanitarian aid, and infrastructure repair and rehabilitation—and served as background for preparing an Interim Strategy Note (ISN) for the period FY12-13.<sup>21</sup> Besides focusing on the country’s continuing economy recovery and social stabilization needs, the ISN retained the preceding CAS’ emphasis on governance, public administration, and corruption—stress factors underlying the 2010 crisis. It also paved the way for returning to a standard assistance framework and preparation of a full CAS. In the circumstances, this Completion Report assesses outcomes of the original FY07-10 CAS and, at the same time, takes into account developments since end-FY10, including the first eighteen months of the FY12-13 ISN.<sup>22</sup>

### Program Outcomes

iv. **The Completion Report rates the achievement of outcomes foreseen in the CAS and ISN programs as *moderately satisfactory*.** The reasons for this assessment are as follows. *First*, CAS support for macroeconomic management and financial and private sector development sustained broadly positive CDS outcomes in these two areas. However, despite attaining project-specific targets for irrigation, pastureland management, animal health, and agro-processing, these had little influence on the CDS goals for agricultural productivity and output which were probably unrealistic and, in any case, barely changed. Moreover, CAS contributions in energy were only partly effective and progress towards the CDS goal of financial viability remained slow. *Second*, although governance, public administration, and corruption remain long-term, systemic challenges, CAS and especially ISN support contributed to significant, albeit incremental progress in all three areas, especially public financial management during FY12-13. Third, results in terms of building sustainable human and social capital were disappointing. While the CAS provided support for important financing, institutional and service delivery reforms in both education and health, these have had negligible impact to date on the quality of services or on MDG outcomes. Similarly, progress towards improving the social protection system’s efficiency and effectiveness remains at best a work in progress. Finally, CAS interventions to support improved environmental sustainability and help mitigate natural disasters were satisfactory.

### WBG Performance

v. **Overall, the design and content of the CAS, the related JCSS, and the ISN were highly relevant and closely aligned with the country’s development strategy.** However, links between broad-based CDS goals and CAS/JCSS-specific indicators and outcomes were often inconsistent, indirect, or unclear and the quality of the results framework was uneven. New operations took into account lessons learned from preceding ICRs, especially institutional development experience.

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<sup>20</sup> Kyrgyz Republic: *Joint Economic Assessment—Reconciliation, Recovery and Reconstruction*, July 21 2010, prepared jointly by the WBG, together with ADB, the European Bank for Reconstruction & Development (EBRD), and the IMF.

<sup>21</sup> Kyrgyz Republic: *Interim Strategy Note, FY 12-13*, Report No. 62777-KG dated June 16, 2011.

<sup>22</sup> It is based *inter alia* on: portfolio implementation performance reports; the last two Implementation Status and Results Reports (ISRs) of each active project as well as Implementation Completion and Results reports and Project Performance Assessment Reports of projects that closed during the CAS and ISN periods; in-country interviews with selected client counterparts; and self-assessments by the WBG’s Kyrgyz country team.

vi. **The WBG response to the sudden domestic political crisis in mid-2010, when the country at times appeared to be on the brink of civil war, was extremely quick and very effective.** Within less than three months, it re-oriented its program, mobilized US\$56 million of incremental IDA resources, and delivered two emergency operations totaling US\$80 million in September 2010. Simultaneously, it took the lead in assessing the country's post-crisis external financing requirements, together with three other development partners, and helped organize an international conference in July 2010 where the international community pledged about US\$1.1 billion over a 30-month period, July 2010-December 2012. The Joint Economic Assessment also provided a strategic framework for external support during 2010-12.

vii. **The Completion Report rates the WBG's performance in terms of program implementation as satisfactory.** In particular, its rapid response during and since the mid-2010 crisis must be considered highly satisfactory. Relatively strong performing areas were: macro-management, financial and private sector development, and governance, including public finance management. Relatively weak performing areas included energy, and education, health, and social protection. Development partner coordination was by and large satisfactory, although there remains room for improvement in addressing the broader global aid effectiveness agenda.

## II. Progress toward Country Development Goals

1. **The Kyrgyz Republic's macroeconomic outcomes during the second half of the CAS period (FY09-10) were adversely affected by two shocks—the global economic and financial downturn of 2008-09 and the domestic political turmoil of mid-2010.** In 2007-08, GDP growth averaged 8 percent annually, twice the rate recorded in 2004-06 and significantly higher than the CDS goal of 6 percent. In 2009, it slowed to 2.9 percent, due mainly to reduced demand for the country's exports and much lower remittances—the two main effects of the global recession. These were partly mitigated, however, by a bumper harvest and a fiscal stimulus equivalent to 7 percent of GDP. By early 2010, having weathered the global crisis relatively well, the economy began to recover but, following the overthrow of the government in April and the outbreak of inter-ethnic violence in the south of the country in June, it contracted by 0.5 percent.

2. **In 2011, the economy rebounded quickly and, although a sharp drop in gold output curtailed growth in 2012, the medium-term outlook—midway through the ISN period (FY12-13)—is broadly positive.** With physical security and political stability largely restored, the economy grew by 6 percent in 2011. Industry, especially gold and hydropower, was the main driver, with agriculture, services, and trade also contributing. In 2012, by contrast, the economy contracted by 0.9 percent, due to a sharp drop in output at the *Kumtor* gold, although, excluding gold, GDP increased by 5 percent, reflecting strong remittances as well as higher public spending. Going forward, growth over the medium-term is projected to average 5 percent annually, powered mainly by a revival in gold output and also by agriculture, hydropower, and textiles. However, this positive outlook assumes continued government commitment to, and effective implementation of structural reforms, especially those related to combating corruption, improving governance, and facilitating financial and private sector development.

3. **Poverty continued to decline towards the CDS goal for the period but, following the economic slowdown of 2009 and the political turmoil of 2010, began to increase.** According to official data, the share of the population living below the poverty line fell from 40 percent in 2006 to 32 percent in 2009, well on track towards the CDS target of 31 percent.<sup>23</sup> However, it rose to 34 percent in

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<sup>23</sup> Kyrgyzstan's poverty line, defined by the National Statistics Committee, is based on a basic needs approach that estimates the costs of a consumption basket, excluding rent.

2010 and further to 37 percent in 2011, partly the result of slower growth following the 2008-09 global downturn, but mainly due to the social unrest of mid-2010, as well as food price increases. While the reversal of energy price hikes and the retention of increases in public sector wages, pensions, and social allowances enacted earlier in 2010 may have mitigated the impact, urban poverty nonetheless rose faster during 2010-11 than in rural areas. Extreme poverty in the conflict-affected urban areas of Osh and rural areas of Jalal-Abad also increased—to 17.5 percent and 9 percent respectively—leading to a concentration ( $\leq 45$  percent) of very poor households in regions where high unemployment, low social indicators, and thin public service coverage are already a source of community stress. Meanwhile, with job creation lagging behind the growth of the economically active population, both employment and labor force participation fell slightly during the period.

**4. Progress towards other country development goals supported by the CAS, including those for agriculture, energy, and financial and private sector development, varied widely.** Although overall macroeconomic management and performance were broadly satisfactory, results for key aspects of the CDS' structural reform agenda—especially agriculture and energy but also financial and private sector development—were modest and often unclear, owing at least partly to insufficient or poor quality data. For example, despite the bumper harvest of 2009, agricultural output and productivity growth averaging 1.7 percent annually during 2007-10 barely advanced from the 2002-06 1.5 percent baseline; and, development of a competitive food processing industry—a related CDS goal—remains a work in progress. Similarly, energy—a constraint on the economy's growth potential and a drain on the budget—remained a major challenge. Although electric power generation expanded by 22 percent in 2011, the highest in five years, the comprehensive reforms initiated in 2009 failed due partly to weak implementation but mainly owing to lack of political will. As for financial and private sector development, the investment/GDP ratio increased from 22.6 percent in 2006 to 24 percent in 2010 as projected, but private sector credit—13 percent of GDP in 2010 and below 15 percent in 2012—fell short of the CDS goal of 17 percent for 2010.

**5. Outcomes for the business environment and, more broadly, the country's overall governance framework were uneven, though the current government appears committed to an improved governance strategy.** Ranked 70<sup>th</sup> in the most recent *Doing Business*, the Kyrgyz Republic's 2013 result is the best in Central Asia and exceeds several middle income countries. On the other hand, its scores vary widely across different dimensions of the business environment and there remains ample scope for improvement, especially in areas such as reliable access to electricity, tax administration, cross-border trade, contract enforcement, and bankruptcy resolution. Moreover, the gap between enactment of laws, rules, and regulations and their effective implementation needs to be narrowed. Second, although the Kyrgyz economy is one of the least competitive and most corrupt in the world according to several internationally accepted governance indicators, in March 2011 the country was declared fully compliant with the Extractive Industries Transparency Initiative's (EITI) global standards for improved transparency in oil, gas and mining—one of only 11 countries to achieve this status to date. Third, despite some advances towards creating an independent, more professional civil service, promoting greater transparency in public finance management, and further deregulating the economy, their combined impact was evidently insufficient to reduce, much less remove the corruption, governance, and lack of voice that were underlying causes of the political turmoil in 2010. In this context, the focus of the government's recently issued medium-term *National Sustainable Development Strategy, 2013-17* on improved governance and strengthened accountability is encouraging.

**6. Finally, results in terms of building sustainable human and social capital and, in particular, progress towards achieving the country's Millennium Development Goals (MDGs) was mixed.** Although Kyrgyz human development indicators are better than many other low-income countries and the country is on track to meet its poverty, environmental sustainability, and global partnership MDGs by 2015, its universal education, health, and gender-related indicators are lagging, according to the last (2010) progress report. Despite high literacy rates, the resources needed to meet the 100 percent target for

all boys and girls to complete basic secondary education appear insufficient; infant and child mortality are declining but slower than needed and maternal mortality has actually increased, although the quality of the reported data is uncertain; and, though the country's scores on international gender indices are high for education, they are low for economic and political empowerment. It seems unlikely therefore that the country's education, health, and gender-related MDGs will be achieved. While the political instability of 2010 may partly explain these outcomes, the content and especially the quality of essential public services—a major concern particularly in education but also in health—are also important contributing factors.

### III. Highlights of CAS Program Performance

#### Priority Area 1: Economic management for sustained and shared growth

7. **The first priority area envisaged a mix of lending, advisory and analytical services, policy dialogue, and technical assistance activities linked to six broad CDS objectives.** These were: (a) sound economic management; (b) expanded access to financial services; (c) improved business environment and investment climate; (d) increased agricultural productivity and output; (e) easier access to regional markets; and (f) enhanced energy sector financial viability.

8. **CAS support for sound economic management focused on three clusters of activity.** First, the FY08 *Capacity Building in Economic Management* project facilitated reforms to develop a new, more equitable and transparent civil service pay and remuneration system, to ensure that public service recruitment and career development are merit-based, and to introduce public oversight of government policies and activities through the creation of supervisory councils that include representatives of civil society in individual ministries and agencies. Progress in these areas enabled achievement of the CAS outcome for quality of public administration, whose CPIA score improved from 2.5 to 3 in 2010 and 2011. Second, the authorities made progress during the first two years in aligning CDS objectives more closely to annual budgets and improving capacity for CDS monitoring and evaluation (with ADB-financed technical assistance). Unfortunately, owing to the political events and violence in mid-2010, the CDS monitoring and evaluation system is now defunct.

9. **CAS assistance for expanding access to financial services was narrowly defined.** The *Payments and Banking System Modernization* project (FY04) supported establishment of a national payments system which, by end-September 2011, had processed transactions valued at twice the original 2008 target. Two additional indicators of expanded access to financial services—the number of individual bank accounts nationwide and the number of government employees receiving their salaries by direct deposit to commercial bank accounts—were also achieved. On the other hand, although credit to the private sector increased modestly, from 10.5 percent in 2006 to 13 percent by 2010, it remained below 15 percent in 2011-12 and thus short of the CDS 17 percent goal for 2010. Meanwhile, the *Economic Recovery Support Operation*—a single tranche budget support operation approved early FY12—supported the central bank's direct supervision and temporary administration of several banks that became financially-distressed as a result of the 2010 crisis and also the reconstitution of the Deposit Protection Agency (DPA) as an independent legal entity.

10. **IFC helped expand access to finance by providing credit lines to banks for on-lending to micro, small, and medium-sized enterprises (MSMEs), as well as a variety of advisory services.** By end-2011, its bank clients held outstanding MSME portfolios of totaling US\$277 million, compared to US\$99 million at end-2007. Some credits were channeled to agriculture and thus improved access to finance for farmers and rural MSMEs. IFC also undertook advisory work in housing finance, leasing, and

microfinance and contributed to a new banking code, especially relating to corporate governance. Key outcomes in housing finance included standard mortgage practice requirements, streamlined registration of property and mortgage transactions, and improved mortgage lenders' institutional capacity. IFC's *Microfinance Transformation Project* is working with three institutions accounting for 70 percent of the market, having helped one of them – *Bai-Tushum* – to acquire a deposit-taking license in 2010 and to become the first microfinance organization in Central Asia, which in 2012 obtained full banking license. Meanwhile, IFC's *Azerbaijan-Central Asia Financial Infrastructure Project* helped draft a law on credit bureaus, provided capacity-building support to the country's only private credit bureau, and promoted the use of credit risk mitigation tools by banks and financial literacy among the borrowers.

11. **The Kyrgyz authorities' efforts to improve the country's business environment and investment climate** were facilitated in part by several CAS outcomes. The *Reducing Technical Barriers for Entrepreneurship and Trade Project* (FY07) supported the acquisition of two state-of-the-art laboratories by the Kyrgyz Center for Standards and Metrology, the upgrading of the Ministry of Health's epidemiology laboratory, and the establishment of the Kyrgyz Accreditation Center. According to recent reports, the latter is making good progress towards formal recognition by the International Laboratory Accreditation Cooperation (ILAC). Second, CAS indicators quantifying progress towards improved property rights and landowners' ability to borrow—a strategic goal of two *Land and Real Estate Registration* projects (FY00 and FY09)—were comfortably achieved. Third, IFC's *Investment Climate* advisory project helped introduce and implement risk-based inspections and assisted the State Tax Service draft a development strategy and implementation plan for 2012-14, as well as tax administration related legislation. To address the country's inadequate financial disclosure requirements, IFC undertook a study to identify the main policy constraints and causes of low formalization and poor tax compliance. Its corporate governance advisory work helped introduce best practice amendments to the Law on Joint Stock Companies, to improve investor protection, and to strengthen corporate governance in selected companies. Lastly, IFC direct investments in the real economy sought to introduce better business practices in the enterprises concerned and to attract other financiers, thereby generating demonstration effects.

12. **CDS goals to double agricultural productivity and output were to be influenced by four CAS interventions.** The first—improved sustainability of irrigation supported by the second *On-Farm Irrigation* project (FY07)—was partly achieved. Although 85 of 320 Water Users' Associations (WUAs) nationwide have collection rates of 90 percent or more, an in-depth study of four WUAs indicated that fee levels covered only between 25-33 percent of the amount needed to ensure proper maintenance. It also noted that irrigation water was not being used effectively. The second—enhanced efficiency of pastureland use supported by the *Agricultural Investments and Services* project (FY08)—was fully achieved. Following enactment of a new Pasture Law in 2008, the number of fully operational Pasture Users' Unions nationwide more than doubled compared to the 2006 baseline, easily exceeding the CAS' 40 percent target. Likewise, efforts to improve animal health—another component of the same *Agricultural Investments and Services* project—were largely successful, with a >50 per cent drop in the incidence of brucellosis in humans in targeted communities and the extension of the program to include five additional diseases. However, there are no data readily available to determine whether the share of agricultural output processed locally—the fourth CAS outcome indirectly supported by the *Agribusiness and Marketing* project (FY05) and by IFC—has increased. Notwithstanding these project-level successes, they had little or no impact on CDS goals for agricultural productivity or output which, probably unrealistic, barely changed, except from the bumper harvest of 2009.

13. **Better transport infrastructure to improve access to regional markets**—measured by an increase in the share of the national road network classified as being in fair or good condition—was to be facilitated by prioritizing maintenance on 95 per cent of the country's roads by 2010 using economic criteria, and by the rehabilitation of key regional corridors in the Fergana Valley. While the *National Road Rehabilitation* project (FY10) contributes directly to improving key regional corridors and thus to

the broader CDS' regional market access goal, there are no data readily available to verify whether the detailed maintenance target was achieved.

14. **The CDS goal of improving the energy sector's financial viability**—measured by increased access to fuel for heating, a 2.5 percent increase in energy output, and reduced system losses—was to be supported by one CAS outcome, which was partly achieved. On the one hand, system losses remained at about 40 percent, well above the CAS target of 14 percent for 2010, although metering in several pilot projects demonstrated their potential for limiting commercial losses and increasing the efficiency of energy use. On the other, the cash collections to billing ratio increased significantly—from 58 percent in 2006 to 79 percent in 2010—albeit remaining well below the CAS target of 94 percent target as well as the industry norm of 95-98 percent. Meanwhile, the *Economic Recovery Support Operation* (FY12) supported implementation of the authorities' energy sector transparency initiative, adopted in July 2010, which included measures designed to reduce corruption, improve the energy system's financial viability, and enhance public accountability including: (a) the creation of transparent, rules-based mechanisms for managing and monitoring financial flows, especially electricity export proceeds in escrow accounts; and (b) the enactment of performance agreements between the energy regulatory authority and energy companies.

## **Priority Area 2: Governance, public administration, and corruption**

15. **To bolster government efforts aimed at improving governance, upgrading public administration, and reducing corruption, the CAS addressed two CDS objectives.** The first, improved accountability and transparency in public financial management, was to be measured *inter alia* by an increase in the Kyrgyz Republic's score on Transparency International's (TI) Corruption Perception Index. The second, an increase in the share of mining in GDP, was to be monitored by increased growth in mining from a baseline of 3.2 per cent annually in 2006 to 5 per cent annually in 2010.

16. **Improved accountability and transparency in public financial management.** Results to date under the FY09 *Capacity Building in Public Financial Management* project include: a stronger budget process with improved indicators for accountability and internal management; increased predictability of the annual budget as a result of the medium term budget framework; implementation of the treasury management information system (ongoing under the FY03 *Governance Technical Assistance* project); and intensified interaction between the government and the population on fiscal issues. In addition, with support under the *Economic Recovery Support Operation* (FY12), the government has restored accountability and responsibility for public investments to the Ministry of Finance (MOF), where all capital spending is now part of the budget and subject to parliamentary approval. Moreover, the MOF now publishes all approved and revised budget laws, the medium-term budget framework, and monthly and annual budget execution reports on its website; the treasury likewise publishes detailed budget execution reports and other public financial statements; and since 2011 the newly empowered parliament conducts budget hearings, with budget committees that involve civil society organizations, professional associations, the media, and independent experts. Finally, all external grants and loans to the Kyrgyz Republic, including from IDA, are now subject to parliamentary approval, further proof of progress towards improved governance and transparency in the management of public revenues. Thus, despite the slight deterioration in the Kyrgyz Republic's score on Transparency International's (TI) Corruption Perception Index—arguably an inappropriate CAS indicator and in any case an imperfect yardstick of performance—there has clearly been significant progress in this area, especially during the last two year ISN period.

17. **The second CDS objective was to increase the share of mining in GDP.** In support of this goal, the CAS and ISN provided advice through two studies: one on the policy changes needed to increase foreign direct investment in Kyrgyz extractive industries, based on international best practice; the other on

appropriate policies and procedures for the tendering of mineral deposits. A second contribution comprised technical assistance to the Kyrgyz Extractive Industries Transparency Initiative (KEITI). Whereas only six companies were reporting at the outset, the number increased to 26 in 2008, 46 in 2011, and 57 in 2012, the latter covering almost 95 percent of total extractive industries' revenues. The number of government agencies involved has also risen to 35. With these results and the country's achievement of full EITI compliance in early 2011, governance and transparency in mining have evidently improved, but remains a work in progress. Meanwhile, although the share of mining in GDP, mainly gold, increased to about 10 percent, this was mainly due to the high price of gold in recent years.

### **Priority Area 3: Human and social capital**

18. To build sustainable human and social capital, the CDS defined four goals: (a) ensuring equitable access to quality health care; (b) guaranteeing access to and the quality of basic and upper secondary education; (c) improving the social protection system's efficiency and effectiveness; and (d) expanding access to clean water and sanitation. The first, second, and fourth of these objectives supported Kyrgyzstan's MDGs for reducing child mortality and improving maternal health, achieving universal primary education, and ensuring environmental sustainability. CAS support for human and social capital development consisted of financing for health, education, rural water supply and sanitation, village investment, and small towns' infrastructure, related analytical and advisory services, and technical assistance.

19. **Equitable access to quality health care.** The May 2011 joint annual review of the large multi-donor-financed *Health & Social Protection Project* (Health SWAp) and the government's health reform program (*Manas Taalimi*) confirmed gradual progress in areas such as better access to services overall, reduced informal payments by patients, and improved efficiency of resource allocation (functionally and geographically). However, only one of two planned CAS outcomes—health's 13 percent share of the national budget—was achieved. The number of visits to family doctors in rural areas—a measure of improved access to primary health care—averaged only 2.4 per person annually by end-2011, well below the access outcome planned for 2010. More importantly, while infant and under-5 mortality continued to decrease slowly during the period, maternal mortality increased, implying that, as noted earlier, these two important MDGs are unlikely to be reached by 2015. Thus, despite important advances in terms of health financing, structural, and service delivery reforms over the last decade, these have not yet translated into major change in the country's principal health status indicators.

20. **Access to and quality of basic and upper secondary education.** According to government and IMF data, public spending on education fell from over 25 percent of the national budget in 2007, or 6.5 percent of GDP, to less than 19 percent in 2010, or 6 percent of GDP, although the latter remained in line with the resource allocation outcome envisaged in the CAS. Yet, this significant allocation of resources, which included external financing from IDA and other development partners, was hardly reflected in either better access or enhanced quality: primary education enrolment and completion rates increased only slightly between 2005-10—from 88 percent to 90 percent and from 86 percent to 88 percent respectively (according to the Bank's WDIs); and, Kyrgyzstan's PISA scores, a proxy for the improved quality outcome foreseen in the CAS, likewise improved only marginally—from an average of 306 in 2006 to 325 in 2009.<sup>24</sup> In the circumstances, it is unlikely that the MDGs for primary education enrolment and completion will be achieved. Against this background, a 2010 joint World Bank-OECD review of PISA outcomes recommended a program of systemic, sector-wide reforms designed to reverse the trend of high spending, low impact and poor results. These would encompass financing, governance and management

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<sup>24</sup> The Programme for International Student Assessment (PISA) is a study by the Organization for Economic Cooperation and Development (OECD) in member and non-member countries of 15-year-old school children's scholastic performance in mathematics, reading, and science. First undertaken in 2000 and repeated every three years, its aim is to help improve educational policies and outcomes.

of early childhood education; teacher education and development; teacher management, retention and performance; school curriculum and assessment; vocational education and training; and higher education and research.

21. **Improving the social protection system's efficiency and effectiveness**—to be measured by an increase in the ratio of the unified monthly benefit (UMB) to extreme poverty from 37 per cent to 100 per cent. Two planned CAS outcomes were designed to support this goal: (a) improved targeting of social benefits, measured by an increase in the share of extremely poor households receiving guaranteed minimum income (UMB); and (b) improved fiscal sustainability of the pension system. While the Kyrgyz Republic spends over 5 per cent of GDP on social protection, including 2 per cent on social assistance, the latter finances mainly categorically targeted programs. By contrast, coverage of the monthly benefit for poor families—the only social assistance program targeted to the poorest—has actually fallen since 2007. Thus, despite a decrease in the number of so-called categorical benefits, a reform supported under the FY12 *Economic Recovery Support Operation*, the social safety net still plays only a limited role in protecting the poor. Progress towards improving the social protection system's efficiency and effectiveness remains at best a work in progress.

22. **Access to clean water and sanitation.** Owing to the inconsistency of available data, it is difficult to determine whether, and to what extent, the Kyrgyz Republic is making progress towards its MDGs for water and sanitation, which are to increase the share of the population with access to clean water and improved sanitation from 67 per cent and 29 percent respectively in 2006 to 90 per cent and 40 percent in 2015. According to the Bank's WDIs, the respective shares were already 86 percent and 60 percent in 2005 and increased slightly to 88 percent and 62 percent in 2010, implying that the water MDG may still be attainable and the sanitation MDG has already been achieved. Similarly, it is difficult to assess whether one of the two planned CAS outcomes designed to support the water MDG goal—an increase in the share of the rural population with access to clean water, from 50 per cent in 2006 to 75 per cent in 2010—was achieved. On the other hand, while the financial viability of utilities and municipalities remains weak, other measures of increased efficiency such as lower energy consumption, improved billing and collections, and strengthened management capacity were recorded in 23 municipalities/utilities supported in the *Small Towns Infrastructure and Capacity Building Project*.

#### **Priority Area 4: Environmental and natural resources management**

23. **The only CDS objective in the fourth environment and natural resources management priority area was the maintenance of pastureland management effectiveness—measured by IUCN scorecards—at the 77 per cent baseline.** One planned CAS outcome was designed to influence this objective, namely an improvement in the survival rate of re-forestation from 10 per cent in 2006 to 50 per cent in 2010. There are no data readily available to verify whether this outcome was achieved.

24. **Three additional CAS interventions under the FY04 Disaster Hazard Mitigation project were designed to support improved environmental sustainability.** By end-2010, the relocation of radioactive uranium tailings to safe repositories—thereby reducing the risk of exposure to radiation by animals, humans, and plants in the area— was about 90 percent complete. Also, by end-March 2012, a disaster hazard monitoring warning and response system was in place, with a response time of less than one day. However, monitoring and warning systems that were vandalized in 5 of 10 vulnerable landslide areas during the political disturbances of 2010 still need to be replaced.

## Program Outcomes

25. **The Completion Report rates the achievement of outcomes foreseen in the CAS and ISN programs as *moderately satisfactory*.** The reasons for this assessment are as follows. *First*, CAS support for macroeconomic management and financial and private sector development sustained broadly positive CDS outcomes in these two areas. However, despite attaining project-specific targets for irrigation, pastureland management, animal health, and agro-processing, these had little influence on the CDS goals for agricultural productivity and output which were probably unrealistic and, in any case, barely changed. Moreover, CAS contributions in energy were only partly effective and progress towards the CDS goal of financial viability remained slow. *Second*, although governance, public administration, and corruption remain long-term, systemic challenges, CAS and especially ISN support contributed to significant, albeit incremental progress in all three areas, especially public financial management during FY12-13. Third, results in terms of building sustainable human and social capital were disappointing. While the CAS provided support for important financing, institutional and service delivery reforms in both education and health, these have had negligible impact to date on the quality of services or on MDG outcomes. Similarly, progress towards improving the social protection system's efficiency and effectiveness remains at best a work in progress. Finally, CAS interventions to support improved environmental sustainability and help mitigate natural disasters were satisfactory.

## IV. World Bank Group Performance

26. **The political upheavals of April-June 2010 disrupted formal completion of the CAS which, after a transitional year of emergency responses to the crisis, was followed by an Interim Strategy Note (ISN) covering FY12-13.** They also delayed resumption of budget support lending planned for FY10 to counter the impact of the 2008-09 global downturn, as well as food price shocks and a weather-related domestic energy shortage. Linked to the new government's post-crisis medium-term development strategy (2012-14), the ISN was built around three key themes: (a) improving governance, supporting effective public administration, and reducing corruption—identical to the second priority area of the FY07-10 CAS; (b) recovery, reconstruction, and sustained growth; and (c) social stabilization—community infrastructure, employment, social services—especially in the south. It provided for IDA financing averaging US\$60 million for 3-4 operations annually, *i.e.* US\$120 million over FY12-13, partly grant, partly credit.

27. **Against this background, FY07-10 commitments totaled US\$137.7 million for 15 operations—almost exactly as planned in mid-2007, albeit US\$32.3 million less than the country's revised IDA allocation of US\$166 million reflected in the Progress Report.** Health, social development and rural water supply (US\$40.8 million) and agriculture and rural development (US\$35.9 million) together accounted for 56 percent of the total, followed by transport and urban development (US\$40 million or 29 percent), energy (US\$13 million or 9 percent), and two technical assistance projects (US\$8 million or 6 percent). In terms of thematic priorities, two pillars accounted for 90 percent of the total: economic management for growth totaling US\$81.9 million, or 60 percent, and sustainable human and social capital totaling US\$40.8 million, or 30 percent. Five commitments totaling US\$21.8 million, or 16 percent, were additional financing for five ongoing operations—*Agricultural Investments and Services, Health and Social Protection, Small Towns Infrastructure, 2<sup>nd</sup> Village Investment, and Energy Emergency Assistance*. Highlights of the non-lending program included: a livestock sector review completed in FY07; poverty, public procurement, and country fiduciary assessments completed in FY08; an education fiduciary assessment and ROSC (accounting and auditing) in FY09; and a farm mechanization and agricultural productivity study in FY10.

28. **In FY11, the WBG’s rapid response to the crisis included leadership of a Joint Economic Assessment (JEA), the convening of an emergency meeting of development partners, and new IDA commitments totaling US\$136 million.** The centerpiece was a US\$70 million *Emergency Recovery* operation delivered in about three months, followed by US\$66 million of additional financing for four ongoing operations—*National Road Rehabilitation* (US\$26 million), *Disaster Hazard Mitigation* (US\$1 million), *Health and Social Protection* (US\$24 million), and *On-Farm Irrigation* (US\$15 million). Besides the JEA, non-lending activities completed during FY10-11 included: a judicial system diagnostic study; banking supervision and resolution; and a poverty update.

29. **In FY12, under the ISN, IDA commitments totaled 58.8 million for three operations.** These were: *Economic Recovery Support* (US\$30 million); *Financial Sector Development* (US\$13 million); and additional financing for *Bishkek-Osh Urban Infrastructure* (US\$15.8 million). Non-lending activities included initiation of a programmatic public expenditure review and programmatic poverty studies, as well as work in agricultural policy, food security, and a conflict filter study. In FY13 to date, two operations each in education and health have been approved, two IDA-financed and the other two by trust funds, and a first *Development Policy Operation* is currently planned for processing in the fourth quarter.

30. **IFC investments over the CAS and IS periods totaled US\$48 million for 18 projects.** Most were in the financial sector, but also in manufacturing as well as an equity investment in hydropower through InfraVentures. IFC investments significantly increased over the CAS period as a result of special initiative for Central Asia launched in FY08, which helped raise total IFC commitments in the Kyrgyz Republic from US\$10 million in 6 projects during FY04-07 to US\$35 million in 9 projects during FY08-11. While the anticipated increase in investments to US\$25-30 million during FY09-10 was almost achieved, the ambition under the ISN to commit between US\$20-40 million annually was not. This was because the authorities’ intention to open infrastructure and mining to private and foreign direct investment, as well as to improve corporate disclosure standards, did not materialize. Moreover, perceived political risks have increased, deterring new investors. As of end-2012, IFC’s committed portfolio reached US\$30 million with nine clients, 95 percent of which is disbursed.

31. **As of December 31, 2012, IDA’s Kyrgyz portfolio comprised 15 active projects totaling US\$274 million, compared to 20 projects totaling US\$268 million in mid-2007 and 19 projects totaling US\$248 million in mid-2010, the start and end of the original CAS.** This recent trend towards fewer operations of larger average size reflects a conscious effort by regional and country management to consolidate the portfolio and the WBG’s implementation support and supervision resources and thus improve efficiency and effectiveness. While portfolio quality overall, including the disbursement ratio, is judged satisfactory, four operations are currently “problem projects” (*Financial Sector Development, Governance Technical Assistance, Rural Water Supply, and Water Management Improvement*) and six are rated only ‘moderately satisfactory’ for both development objectives and implementation progress. The portfolio’s average age is 5.2 years—up from 3.5 years in 2008—with seven operations older than the average, some as a direct result of the increased use of additional financing. In this context, seven credits have been extended by more than 1 year, some doubtless a direct result of the turmoil in 2010. Five are due to close by end-FY13 and three more by end-CY13. One new, potentially troubling portfolio issue is the increase in the number and length of delays experienced in signing and declaring effective IDA credit and grant agreements, partly due to additional steps required for their ratification by parliament.

32. **IFC contributed to improving the business environment and strengthening the financial sector and its performance is judged moderately satisfactory.** This rating is supported by the strong results achieved by IFC investments in the financial sector, evidenced by the indicators cited earlier, and by the expansion in investments in the private sector. Accompanying advisory services focused on improving the investment climate, strengthening financial sector infrastructure, developing housing finance, leasing, and microfinance activities, and helping bring corporate governance practices to

international standards. IFC's response to the 2010 crisis included contributions by its investment climate team to the JEA, an advisory engagement with Zalkar Bank, and a proposed new housing finance project.

**33. Performance in terms of acting upon lessons learned from the previous (FY03-06) CAS and, in the FY12-13 ISN, from the FY07-10 CAS has been uneven.** For example, three related lessons—the need for greater selectivity, for a less ambitious reform agenda, and, given the country's weak implementation capacity, for simpler project design and conditionality—were not reflected in the FY07-10 CAS' overly complex results matrix, which contained 24 outcome indicators and over 50 milestones or intermediate indicators linked to 13 country development (CDS) objectives. Second, although the CAS initially foreswore development policy lending as a lever for policy change or reform, based on unsatisfactory experience during FY03-06, by FY09 budget support was being planned for FY10 in response to the global downturn. While this was delayed until FY11, due to the domestic political crisis, and reconfigured as a single tranche *Emergency Recovery Operation*, the ISN includes annual development policy operations in both FY12 and FY13. Citing the 2011 World Development Report (WDR), the ISN justifies these operations: (a) by the need for 'coalition building' as a critical determinant of stabilization; and (b) the importance of assured, predictable financing as a way of mitigating the risk of renewed instability. On the other hand, the ISN frankly acknowledges that the risks posed by economic, political, and social stress factors were not adequately appreciated in FY09-10 and, in line with the 2011 *World Development Report* (WDR) on fragility and conflict, advocates deepened political economy and social stress analysis, closer examination of institutional deficits, and clearer definition of 'inclusive' strategies. In addition, both the CAS and especially the ISN recognized the need to engage with and support non-government stakeholders as potential champions for reforms even where significant vested interests remain.

### **CAS Design and Relevance**

**34. Overall, the design and content of the CAS, the related JCSS, and the ISN were highly relevant and closely aligned with the country's development strategy.** However, links between broad-based CDS goals and CAS and/or JCSS-specific outcomes were often inconsistent, indirect, or unclear. Moreover, despite the alignment and coordination imperatives of the CAS and related JCSS—implying not only a common set of objectives but also a common accountability or results framework—the two documents included separate results frameworks. In addition, CAS and corresponding JCSS intermediate and outcome indicators were different in some areas, although their broad programmatic objectives were broadly consistent. With these caveats, planned outcomes were by and large realistic, with many based on already agreed project-specific results that were relatively undemanding and clearly intended to ensure achievement. Annex 1 summarizes CAS outcomes, the lending and other activities that contributed to or influenced them, and lessons and recommendations as evaluated by the country team.

**35. Design of new projects/programs.** New operations took into account lessons learned from preceding ICRs, especially institutional development experience. Moreover, the potential for more programmatic approaches to (e.g.) future education activities, as well as health and social protection (ongoing), is under consideration. At the same time, the Bank's project processing cycle and the government's internal procedures, especially the Kyrgyz legislature's process for approving externally-financed operations, are not well aligned, leading to long delays in signing, effectiveness, and initial implementation.

**36. Relevance, quality, and dissemination of knowledge-based activities.** Given the satisfactory outcome of analytical and advisory services and technical assistance under the first and second (growth and governance) pillars, knowledge-based activities were evidently highly relevant, of appropriate quality, timely, and driven by client demand. The JEA was a particularly good and visible example of these characteristics.

37. **Responsiveness to changing country circumstances, priorities and demands.** The Bank's response to the sudden domestic political crisis in mid-2010, when the country at times appeared to be on the brink of civil war, was extremely quick and very effective. Within barely 3 months, it re-oriented its own program, mobilized US\$56 million of incremental IDA resources, and delivered two emergency operations totaling US\$80 million in September 2010. At the same time, it took the lead in assessing the country's post-crisis external financing requirements, together with six other development partners, and helped organize an international conference in July 2010 where development partners pledged about US\$1.1 billion over a 30-month period, July 2010-December 2012. The JEA also provided a strategic framework for external support during 2010-12.

38. **Effectiveness of development partner assistance.** According to a mid-2010 independent review commissioned by the UK Department for International Development (DfID), the JCSS' achievements were modest but significant<sup>25</sup>. They included: a shared analysis of the country's context, problems and prospects; a results matrix that helped align partners' assistance with the CDS; and a consultative process that helped boost sectoral coordination, which remained largely *ad hoc*, however. On the other hand, the environment for JCSS implementation had been difficult, with low levels of country ownership and leadership, and progress towards improving aid effectiveness in line with the Paris Declaration—its original impetus and inspiration—was at best mixed. Moreover, some partners, including the WBG, took the view that the JCSS' main benefits emerged from the preparation process and that it had broadly succeeded in improving coordination. Meanwhile, coordination and management of external aid by and within the government remains weak, especially since the changes in 2010-11. In the circumstances, the principal development partners concerned have decided to move on to a looser, less binding, and more inclusive Joint Statement of Partnership between the Kyrgyz Republic and Development Partners, which was signed towards end-2012. This document outlines agreed principles and values for implementation of the authorities' new National Sustainable Development Strategy, 2013-17.

39. **Effectiveness of risk mitigation.** The CAS correctly identified the main risks to program implementation—renewed political instability, inadequate commitment to reform, weak institutions and operational capacity, and exogenous shocks—of which two materialized in FY09-10: the global economic downturn of 2008-09; and the violent overthrow of the government in 2010. While action to mitigate the impact of the former was initiated promptly in early 2010, *i.e.* the resumption of budget support lending, the subsequent political turmoil delayed its implementation, which was then reconfigured and merged with the much larger JEA-sponsored emergency and economic recovery program to address the aftermath of the political crisis.

## **WBG Performance**

40. **Overall, the Completion Report rates the WBG's performance in terms of CAS, JCSS, and ISN program implementation as satisfactory.** In particular, its rapid response during and since the mid-2010 crisis must be considered highly satisfactory. Relatively strong performing areas were: macro-management, financial and private sector development, and governance, including public finance management. Relatively weak performing areas included energy, and education, health, and social protection. Development partner coordination was by and large satisfactory, although there remains room for improvement in addressing the broader global aid effectiveness agenda.

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<sup>25</sup> *Kyrgyz Republic Joint Country Support Strategy: Internal Review and Perceptions Study*, Agulhas, September 29, 2010.

## V. Key Lessons and Suggestions

41. **The CAS and related JCSS clearly underestimated the risks posed by systemic stress factors, such as corruption and misappropriation of public assets, as well as social tensions, especially in the south of the country.** Reflecting the analysis and recommendations of the 2011 WDR on fragility and conflict, the ISN suggested that future country partnership strategies be informed by deepened political economy and social stress analysis, by closer examination of institutional deficits, and by the design of more ‘inclusive’ strategies. In addition, the ISN made the following suggestions, which remain valid:

- Responses to rapidly changing political and social circumstances need to be flexible: as risks—whether economic political, or social—increase, in-depth analysis of the operating environment and implications for the WBG is critical;
- CAS programs need to be a balance of budget support operations in support of basic policy reforms and investment projects designed to alleviate poverty and promote institutional change;
- Development policy operations (DPOs) can be an important convening and coordinating instrument, especially in countries where political consensus on reforms may be fragile;
- CAS programs also need a sharper strategic focus, leading to better selectivity, fewer projects of larger average size, and reduced staff supervision costs; and
- Effective partnerships enhance the prospects for overall success—the JCSS provided a useful platform—but agreement on assistance objectives, support areas, and instruments needs to be deepened.

42. **Other more detailed lessons and suggestions emerging from experience during implementation of the CAS and ISN to date include the following.** First, regarding *approach*: the stress factors that triggered the 2010 crisis need to be taken explicitly into account in the design of future CPSs; a flexible, more empathetic approach to the country’s political economy, as well as to the government’s coherence, capacity, and ability to engage the WBG, would help ensure the right knowledge products as well as more effective support for the development agenda; and programs work best when focused on core policy actions linked to government priorities and timetables and when supported by analytical work. Second, regarding *process*: with high project preparation costs due to weak government capacity unlikely to decline in the immediate future, more attention is needed to realistic processing timetables and projects’ readiness for implementation; with improved political and policy stability, the WBG needs to engage at the highest levels of government regularly, especially regarding policy coordination and reform implementation; and a more structured government approach to policy design and coordinated, accountable implementation of reforms is urgently required. Third, regarding *implementation*: with credit and grant effectiveness and initial implementation recently hampered by procedures that require three rounds of legislative approval, this needs to be factored into WBG programming; and strategies and projects that require inter-ministerial/agency effort and/or coordination, though often critically important, are at particular risk for major delay or failure.

Attachments:

Table 1: Summary of CAS Program Self-Evaluation

Table 2: Planned Lending and Actual Deliveries

Table 3: Planned Non-Lending Services and Actual Deliveries

TABLE 1: SUMMARY OF CAS PROGRAM SELF-EVALUATION<sup>26</sup>

PRIORITY AREA 1: PROMOTING ECONOMIC MANAGEMENT CONSISTENT WITH STRONG AND SUSTAINED PRO-POOR GROWTH (14)			
CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
Enhanced efficiency of public administration, as measured by CPIA indicator 15: <i>Baseline: 2.5 (2006)</i> <b>Target: 3.0 (2010)</b>	<b>Achieved</b> —Rated 3 in 2010 & 2011 on all three dimensions, <i>i.e.</i> core administration (3); quality of policy implementation & regulatory management (3); and coordination in public sector human resource mgt. regime (3).	<ul style="list-style-type: none"> <li>• Capacity Building for Economic Management</li> <li>• Programmatic CEM and PER</li> <li>• Comprehensive poverty assessment</li> <li>• Corruption diagnostic (WBI)</li> </ul>	
Benchmarks for public finance mgt. reform agreed with development partners	<b>Ongoing</b>	<i>Cf.</i> above	
Closer link between annual budgets and CDS objectives, as measured by PEFA indicator P1-12: <i>Baseline: D+ (2006)</i> <b>Target: B+ (2010)</b>	<b>Ongoing</b>	<i>Cf.</i> above	
Implementation of measures to support growth agreed between government and private sector	<b>Ongoing</b>	<i>Cf.</i> above	
Better statistical capacity for monitoring and evaluation of CDS	<b>Partly achieved</b> —simplified CDS monitoring and evaluation system up in Ministry of Economic Development & Trade, with technical assistance from ADB. However, post-2010 conflict sustainability unclear.	<i>Cf.</i> above	

<sup>26</sup> Data and assessments as of mid-FY10, before April-June 2010 political crisis which affected availability and reliability of information.

CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
<ul style="list-style-type: none"> <li>• Increase in number and value of transactions processed by national payments system: <i>Baseline:</i> 109,000 (2005) <b>Target: 180,000 (2008)</b></li> <li>• Increase in total number of bank accounts: <i>Baseline:</i> 200,000 (2005) <b>Target: 400,000 (2008)</b></li> </ul>	<p><b>Achieved</b>—as of end-September 2011, value of transactions processed by national payments system totaled over 400 million <i>soms</i>, twice the original 2008 target. Meanwhile, estimated number of bank accounts totaled over 750,000 or 50% higher than the revised target of 500,000 for 2010. Meanwhile, as of end-March 2011, number of government employees receiving salaries by direct deposit to their commercial bank accounts had increased to about 64,000.</p>	<ul style="list-style-type: none"> <li>• Payments and Banking System Modernization Project (FY04)</li> <li>• FSAP Follow-up on Access to Finance</li> <li>• IF C investments and advisory services in financial sector and legal and regulatory framework for leasing and housing finance</li> </ul>	
<ul style="list-style-type: none"> <li>• Harmonization of regulations with international standards</li> <li>• Reduced costs of import &amp; export transactions <i>Baseline:</i> 18 docs and 127 days (2006) <b>Target: 8 docs and 40 days (2010)</b></li> <li>• Elimination of inspections not required by new law</li> </ul>	<p><b>Partly achieved</b>—according to Doing Business 2012, the number of documents required to import and export had decreased to 9 and 8 respectively—in line with the target. However, the 72 days and 63 days needed to import and export respectively, unchanged from 2011, remained well below the target.</p>	<ul style="list-style-type: none"> <li>• RTBET</li> <li>• Programmatic CEM</li> <li>• Judicial Reform Study</li> <li>• IFC advisory services on inspections, licensing, permits, as well as corporate governance</li> </ul>	
<p>Improved property rights and landowners' ability to borrow, as measured by annual number of registered land/real estate sales, leases, and mortgages: <i>Baseline:</i> 88,000 (2006) <b>Target: 120,000 (2010)</b></p>	<p><b>Achieved</b>—by mid-2012, 2.82 million land and real estate units had been registered in the Kyrgyz Land Information System (compared to the 2007 baseline of 2.4 million), with the numbers of registered mortgage transactions and registered sales respectively 30% and 12% higher than the 2007 baseline. average transaction time reduced to 1.1 from 4 days in 2007.</p>	<ul style="list-style-type: none"> <li>• Land and Real Estate Registration Project</li> </ul>	
<p>Improved sustainability of irrigation, as measured by annual irrigation service fee collection rates: <i>Baseline:</i> 80% (2006) <b>Target: 95% (2010)</b></p>	<p><b>Partly achieved</b>—while 85 Water Users' Associations (WUAs), or 27% of 320 WUAs nationwide, have collection rates of 90% or more, a study of 4 WUAs indicated that fees cover only 1/4-1/3 of amount needed to maintain system properly and that irrigation water was not being used effectively, due to inadequate measuring tools and farmers' ignorance of crops' water requirements.</p>	<ul style="list-style-type: none"> <li>• On-farm Irrigation Projects</li> <li>• Water Mgt. Improvement Project</li> </ul>	

CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
Improved efficiency of pastureland use, measured by % of land transferred to local pasture users' associations: <i>Baseline:</i> 25% (2006) <b>Target: 40% (2010)</b>	<b>Achieved</b> —in 2008, new Pasture Law delegated responsibility for pasture management to communities. By 2011, 245 Pasture Users' Unions, or 54% of 454 unions nationwide, were operational and about 580 micro-projects had been implemented.	<ul style="list-style-type: none"> <li>• Agriculture Support Services Project</li> <li>• Agricultural Investments and Services Project</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainability of investments in public goods such as pastureland requires basic legal and institutional reform and capacity building, including commitment to CDD and long term investment A nationwide approach is rational</li> </ul>
Improved animal health, as measured by 50% reduction in incidence of brucellosis in humans: <i>Baseline:</i> 75-150 <b>Target: 35-75</b>	<b>Achieved</b> —initial results of nationwide rollout of brucellosis control program indicate >50% reduction in human cases in targeted communities. Program expanded to include 5 additional diseases including 3 zoonoses (rabies, anthrax, and echinococcosis)	<ul style="list-style-type: none"> <li>• <b>Agricultural Investments and Services Project</b></li> <li>• Avian Flu Project</li> <li>• Central Asia One Health Project</li> </ul>	<ul style="list-style-type: none"> <li>• Need for systemic approach to animal health issues and coordination and cooperation with Ministry of Health.</li> <li>• Given potential trans-boundary impact of disease outbreaks restricting trade, need for better regional coordination and cooperation.</li> </ul>
Increase in share of agricultural output processed: <i>Baseline:</i> 12% (2005) <b>Target: 17% (2010)</b>	<b>Partly achieved</b> — <b>tbc</b>	<ul style="list-style-type: none"> <li>• Agribusiness &amp; Marketing Project</li> <li>• IFC advisory services and investments</li> </ul>	
Maintenance of 95% of regional/national roads prioritized by end-2010 using economic criteria	No specific data available	<ul style="list-style-type: none"> <li>• National Road Rehabilitation Project</li> <li>• Village Investment Project</li> <li>• Regional Trade/Transport Study</li> </ul>	
Increased energy efficiency, measured by: reduced system losses; and by increased collections 2006-10: <i>Baseline:</i> 40% & 58% <b>Target: 14% &amp; 94%</b>	<b>Partly achieved</b> —at end-2007, system losses remained about 40%, unchanged from baseline, although pilot project demonstrated significant potential for reduced commercial losses through metering. Meanwhile, the cash collections to billing ratio improved to 79% (compared to industry norm of 95-98%).	<ul style="list-style-type: none"> <li>• <b>Power &amp; District Heating Project</b></li> <li>• Heat Strategy Study</li> <li>• CAEWADP studies</li> <li>• Policy dialogue</li> </ul>	<ul style="list-style-type: none"> <li>• Timing and sequencing of ambitious sector reforms need to be geared to overall macroeconomic and political realities</li> <li>• Bank and IMF conditionality needs to be coordinated</li> </ul>
<b>PRIORITY AREA 2: IMPROVING GOVERNANCE, EFFECTIVE PUBLIC ADMINISTRATION, AND REDUCING CORRUPTION (5)</b>			
Predictability in availability of funds, as measured by PEFA indicator P1-16: <i>Baseline:</i> D (2006) <b>Target: B (2010)</b>	<b>Partly achieved</b> —	<ul style="list-style-type: none"> <li>• GSAC and GTAC</li> <li>• Economic Mgt. TA</li> <li>• Programmatic PER</li> <li>• Public expenditure tracking</li> </ul>	

CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
Improved quality & timeliness of annual financial statements, as measured by PEFA indicator P1-25: <i>Baseline:</i> C (2006) <b><i>Target:</i> B+ (2010)</b>	<b>Achieved</b>	<i>Cf.</i> above	
Improved controls in budget execution, as measured by PEFA indicator P1-20 <i>Baseline:</i> D (2006) <b><i>Target:</i> C+ (2010)</b>	<b>Partly Achieved</b>	<i>Cf.</i> above	
More transparent legal and regulatory framework for mining sector	<b>Partly Achieved—work in progress</b>	<ul style="list-style-type: none"> <li>• TA for mining code revision</li> <li>• IFC investments</li> </ul>	
Improved governance and transparency in mining (annual publication of EITI data)	<b>Achieved</b> —number of reporting companies increased from 26 in 2008 to 57 in 2012, accounting for almost 95% of extractive industry revenues. Kyrgyzstan achieved full EITI Compliance status on March 1, 2011	<ul style="list-style-type: none"> <li>• TA for EITI implementation</li> </ul>	
<b>PRIORITY AREA 3: BUILDING SUSTAINABLE HUMAN AND SOCIAL CAPITAL (8)</b>			
Enhanced access to primary health care, as measured by number of visits to family doctor per person: <i>Baseline:</i> 2.2 (2006) <b><i>Target:</i> 3.0 (2010)</b>	<b>Partly achieved</b> —by end-2011, average number of visits to a family doctor had increased to 2.4 per person annually, which is more than 2006 baseline but short of the 2010 target.	<ul style="list-style-type: none"> <li>• Health SWAp</li> </ul>	
Adequate financing of basic health care, as measured by its share of state budget: <i>Baseline:</i> 10.4% (2006) <b><i>Target:</i> 13.0% (2010)</b>	<b>Partly achieved</b> —according to Health SWAp, 2010 target was achieved, although, according to WDI, health accounted for only 11%. Public spending on health overall was unchanged at 3% of GDP through 2010 (WDI). Primary health care accounted for 38% of public expenditure on health, up from 29% in 2005.	<ul style="list-style-type: none"> <li>• Public Expenditure Tracking Survey</li> <li>• User surveys to track access to health services (planned)</li> </ul>	

CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
<p>Adequate resources for total and secondary education, as measured by public expenditure as % of GDP: <i>Baseline:</i> 4.4% &amp; 2.2% (2005) <b>Target: 6.0% &amp; 3.5% (2010)</b></p> <p>Improved quality of education, as measured by PISA scores <i>Baseline:</i> n.a. (2006). <b>Target: tbd (2009)</b></p>	<p><b>Achieved</b>—public expenditure on education overall increased to 6.4% of GDP in 2007, declined to 5.9% in 2008, increased again to 6.3% in 2009 and was 6% in 2010—the last year for which data are available.</p> <p><b>Partly achieved</b>—although Kyrgyzstan’s PISA scores in 2009 averaging <b>325</b> (reading—314, science—331, math—330) were slightly better than the 2006 PISA baseline averaging <b>306</b> (reading—285, science—311, math—322), they were the worst in Europe and Central Asia and significantly lower even than Kazakhstan’s which averaged 398.</p>	<ul style="list-style-type: none"> <li>• Rural Education Project</li> <li>• Education for All Fast Track Initiative Catalytic Fund Grant</li> <li>• Fiduciary Assessment of education spending</li> <li>• Programmatic Public Expenditure Review (PPER)</li> </ul>	
<p>Improved targeting of social benefits, as measured by % of extreme poor receiving guaranteed minimum income benefit (UMB) <i>Baseline:</i> 30% (2006) <b>Target: 50% (2010)</b></p>	<p>No information available</p>	<ul style="list-style-type: none"> <li>• Social Protection Strategy</li> <li>• PPER</li> <li>• Economic Management TA</li> </ul>	<p>—</p>
<p>Improved fiscal sustainability of pension system</p>	<p>No information available</p>	<p><i>Cf.</i> above</p>	
<p>Increased access to clean, potable water in rural areas, as measured by % of rural population: <i>Baseline</i> (2006)—50% <i>Target</i> (2010)—75%</p>	<p><b>Not achieved</b>—owing to lack of data, it is difficult to assess access to water and its quality in rural areas. In 2008, it was estimated that about 66 percent of the rural population had access to clean, potable water. Meanwhile, the pace at which rural water supply schemes are being rehabilitated does not keep up with their deterioration and, until recently, the government has not given priority to these services.</p>	<ul style="list-style-type: none"> <li>• Rural Water Supply &amp; Sanitation Projects</li> <li>• Village Investment Project</li> </ul>	

CAS Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that contributed to Outcome	Lessons and Suggestions for new CAS
<p>More efficient water utilities, as measured by number of financially viable water utilities:  <i>Baseline: 0 (2006)</i>  <b>Target: 12 (2010)</b></p>	<p><b>Partly achieved</b>—while the financial viability of utilities and municipalities remains weak, operational efficiency and energy consumption improved substantially. Specifically, 3/4 of 23 municipalities/utilities under the Small Towns Infrastructure &amp; Capacity Building Project achieved or exceeded energy consumption targets and 55% improved or achieved their operational efficiency targets. This was achieved through installation of new technologies and high efficiency pumps, by strengthened local government and utility management capacity, and by significantly improved bill collections.</p>	<ul style="list-style-type: none"> <li>• Small Towns Infrastructure &amp; Capacity Building Project (STICBP)</li> <li>• Bishkek &amp; Osh Urban Infrastructure</li> <li>• PPER</li> <li>• TA to improve local government financial management and service delivery</li> </ul>	
<b>PRIORITY AREA 4: ENVIRONMENTAL SUSTAINABILITY AND NATURAL RESOURCES MANAGEMENT(4)</b>			
<p>Improved re-forestation activities, as measured by re-forestation survival rate:  <i>Baseline: 10% (2006)</i>  <b>Target: 50% (2010)</b></p>	<p>No information available</p>	<ul style="list-style-type: none"> <li>• Bio-diversity &amp; Natural Resources Mgt. Project</li> <li>• TA carbon finance development</li> </ul>	
<ul style="list-style-type: none"> <li>• Reduced exposure to radiation from uranium tailings by animals, humans, and plants;</li> <li>• Increased effectiveness of disaster hazard monitoring warning and response system.</li> <li>• Real-time landslide monitoring and effective warning system</li> </ul>	<p><b>Substantially achieved</b>—by end-2010, relocation of radioactive uranium tailings to safe repositories was about 90% complete. Also, by end March 2012, disaster hazard monitoring warning and response system was in place, with response time of less than 1 day. However, monitoring and warning systems in 5 of 10 vulnerable landslide areas vandalized during 2010 political disturbances need to be replaced.</p>	<ul style="list-style-type: none"> <li>• Disaster Hazard Mitigation Project (FY04)</li> </ul>	

TABLE 2: PLANNED LENDING AND ACTUAL DELIVERIES (FY07-13)

CAS PLANS (05/23/07)			STATUS (as of 06/30/10)	
		IDA		IDA
<b>2007</b>	Reducing Technical Barriers to Enter' ship & Trade	5.0	Approved 07/13/06 (Gr. H2470)	5.0
	2 <sup>nd</sup> Village Investment Project	15.0	Approved 08/03/06 (Gr. H2500)	15.0
	2 <sup>nd</sup> On-farm Irrigation	16.0	Approved 06/19/07 (Gr. H3120)	16.0
	<b>Subtotal:</b>	<b>36.0</b>	<b>Subtotal:</b>	<b>36.0</b>
<b>2008</b>	Statistical Capacity Building	1.0	Dropped	
	Bishkek & Osh Urban Infrastructure	15.0	Approved 03/18/08 (Gr. H3580)	12.0
	Agricultural Investments and Services	10.0	Approved 04/29/08 (Gr. H3710 )	9.0
			Approved 06/13/08 (Gr. H3900)—Add. Financing	4.0
			Approved 06/12/08 (Gr. 3910)—Add. Fin. Health & Social Protection	6.0
			Approved 07/01/08 (Gr. H3880)	3.0
	Capacity Building Economic Management	4.0		
	<b>Subtotal:</b>	<b>30.0</b>	<b>Subtotal:</b>	<b>34.0</b>
	<b>Total FY07-08:</b>	<b>66.0</b>	<b>Total FY07-08:</b>	<b>70.0</b>
CAS PROGRESS REPORT PLANS (10/01/09)			STATUS (as of 06/30/10)	
<b>2009</b>	2 <sup>nd</sup> Land & Real Estate Registration 08	6.0	Approved 07/15/08 (Gr. H3800)	5.9
	Energy Emergency Assistance 08	11.0	Approved 11/25/08 (Gr. H4290)	11.0
	Add Fin.—Small Towns Infra. & Capacity Building	4.0	Approved 04/02/09 (Gr. H4550)	1.8
	2 <sup>nd</sup> Rural Water Supply & Sanitation	10.0	Approved 04/21/09 (Gr. H4620)	10.0
	<b>Subtotal:</b>	<b>31.0</b>	<b>Subtotal:</b>	<b>28.7</b>
<b>2010</b>	Add. Fin.—2 <sup>nd</sup> Village Investment 09	7.0	Approved 11/03/09 (Gr. H5190)	8.0
	Nat'l Road Rehabilitation (Osh-Batken-Isfana) 09	20.0	Approved 11/03/09 (Gr. H5200)	25.0
	Add. Fin. Energy Emergency Assistance	2.0	Approved 11/19/09 (Gr. H5340)	2.0
	Education SWAp	15.0	Forwarded to FY13	
	Programmatic Lending Operation	10.0	Dropped	
	<b>Subtotal:</b>	<b>54.0</b>	<b>Subtotal:</b>	<b>35.0</b>
	<b>Total FY09-10:</b>	<b>85.0</b>	<b>Total FY09-10:</b>	<b>63.7</b>
	<b>TOTAL FY 07-10:</b>	<b>121.0</b>	<b>TOTAL FY 07-10:</b>	<b>133.7</b>

<b>2011</b>			Emergency Recovery [09/30/10]	70.0
			Add. Fin—National Road Rehabilitation [06/28/11]	26.0
			Add. Fin—Disaster Hazard Mitigation [06/09/11]	1.0
			Add. Fin—Health & Social Protection [06/09/11]	24.0
			Add. Fin—2 <sup>nd</sup> On-farm Irrigation [06/28/11]	15.0
			<b>Subtotal FY11:</b>	<b>136.0</b>
	<b>ISN PLANS (06/16/11)</b>		<b>STATUS (as of 05/03/13)</b>	
<b>2012</b>	Economic Recovery Support	30.0	Approved 08/02/11	30.0
	Financial Sector Development	13.0	Approved 03/08/12	16.0
	Add Fin— <i>Bishkek-Osh Urban Infrastructure</i>	15.8	Approved 01/12/12	15.8
	<b>Subtotal:</b>	<b>58.8</b>	<b>Subtotal:</b>	<b>58.8</b>
<b>2013</b>	2 <sup>nd</sup> Village Investment	4.2	Approved 12/20/12	4.2
	Sector Support for Education Reform	16.5	Approved 03/05/13	16.5
	2 <sup>nd</sup> Health & Social Protection	16.5	Approved 05/03/13	16.5
	Development Policy Operation-1 (DPO-1)	30.0	Negotiations pending	
	<b>Sub-total</b>	<b>67.2</b>	<b>Sub-total</b>	37.2
	<b>Total FY12-13:</b>	<b>126.0</b>	<b>Total FY09-10:</b>	<b>96.0</b>

**TABLE 3: PLANNED NON-LENDING SERVICES AND ACTUAL DELIVERIES (FY07-10)**

<b>CAS PLANS (05/23/07)</b>		<b>STATUS (06/30/10)</b>
<b>2007</b>	Poverty Assessment Update Country Procurement Assessment(CPAR) and Country Fiduciary Assessment (CFA) Update Financial Sector Assessment—Update	<i>Cf.</i> 2008 below Reports 42391-KG— <i>Public Procurement System Assessment</i> —and 42392— <i>Country Fiduciary Assessment Update</i> —issued 11/10/07 Report 4116-KG—Joint IMF/WB Financial Sector Assessment—issued 09/01/07
<b>2008</b>	Country Economic Memorandum (CEM) follow-up Poverty Assessment	Report 46533—ROSC: <i>Accounting and Auditing</i> — issued 11/10/08 Report 40864-KG— <i>Poverty Assessment (2 Volumes)</i> —issued 10/19/07
<b>PROGRESS REPORT PLANS (10/01/2009)</b>		<b>STATUS (as of 06/30/2011)</b>
<b>2009</b>	Heating Strategy Fiduciary Assessment Education	Completed Report 46652— <i>Education Sector Fiduciary Capacity</i> —issued 09/08
<b>2010- 2013</b>	Country Economic Memorandum (CEM) Corporate Governance ROSC Judicial System Diagnostic	Report 53536— <i>Farm Mechanization &amp; Agricultural Productivity</i> —issued 12/01/09  Report 61906— <i>Judicial System Diagnostic</i> —issued 06/08/11
	Banking Supervision and Resolution Conflict Filter Programmatic Poverty Studies Programmatic Public Expenditure Review	Completed Completed Ongoing Ongoing

**Planned IDA Lending, FY14-17 (by Area of Engagement and Fiscal Year)**  
**[TOTAL: US\$239 million—IDA17: US\$172 million]**

**(1) BY AREA OF ENGAGEMENT**

	<b>IDA</b>
<b>PUBLIC ADMINISTRATION &amp; PUBLIC SERVICES</b>	
Development Policy Operations (FY14 (2), FY15, FY16, FY17)	122.0
Judiciary Reform	12.0
	<b><u>134.0</u></b>
 <b>BUSINESS ENVIRONMENT/INVESTMENT CLIMATE</b>	
<i>Regional Animal Health Control—Kyrgyz contribution</i>	<b><u>5.0</u></b>
 <b>NATURAL RESOURCES/PHYSICAL INFRASTRUCTURE</b>	
Rural Water Supply and Sanitation-2 Additional Financing	2.0
Pasture Management	12.0
Electricity Supply Accountability & Reliability Improvement	12.0
<i>Central Asia Road Links—Kyrgyz contribution</i>	15.0
<i>CASA-1000 (regional)—Kyrgyz contribution</i>	16.0
Forestry & Climate Change Management	12.0
3 <sup>rd</sup> Village Investment	12.0
Social Protection	7.0
Urban Planning & Development	12.0
	<b><u>100.0</u></b>
 <b>Total (16 operations, including 3 regional):</b>	<b><u>239.0</u></b>

**(2) BY FISCAL YEAR**

	<b>IDA</b>
<b>FY14 (4)</b>	
Development Policy Operation-1	25.0
Development Policy Operation-2	25.0
<i>Central Asia Road Links—Kyrgyz Republic</i>	15.0
Rural Water Supply and Sanitation-2 Additional Financing	2.0
	<b><u>67.0</u></b>
<b>FY15 (5)</b>	
Development Policy Operation	24.0
<i>Regional Animal Health Control—Kyrgyz contribution</i>	5.0
Pasture Management	12.0
Electricity Supply Accountability & Reliability Improvement	12.0
<i>CASA-1000—Kyrgyz contribution</i>	16.0
	<b><u>69.0</u></b>
<b>FY16 (3)</b>	
Development Policy Operation	24.0
Forestry & Climate Change Management	12.0
3 <sup>rd</sup> Village Investment	12.0
	<b><u>48.0</u></b>
<b>FY17 (4)</b>	
Development Policy Operation	24.0
Judiciary Reform	12.0
Social Protection	7.0
Urban Planning & Development	12.0
	<b><u>55.0</u></b>
 <b>Total FY14-17 (16 operations, including 3 regional):</b>	<b><u>239.0</u></b>

## Kyrgyz Republic—Development Partner Coordination

### Overview

1. In 2011, according to OECD-DAC data, net overseas development assistance (ODA) to the Kyrgyz Republic totaled about US\$523 million, compared to US\$380 million in 2010 and US\$313 million in 2009. This significant increase reflected special assistance pledged at a July 2010 meeting of development partners in Bishkek to finance the country's emergency post-conflict needs for budget support, humanitarian aid, and infrastructure repair and rehabilitation. In 2011, the bilateral share of gross ODA was 45 percent, down from 56 percent and 57 percent in 2010 and 2009 respectively. Net ODA as a share of GNI increased from 7 percent in 2009 to 9.3 percent in 2011. ADB, EU, IDA, IMF, and IsDB were the top five multilateral contributors during 2010-11 and Germany, Japan, Switzerland, Turkey, and United States, the leading bilateral donors. Program assistance, health and population, and humanitarian aid were the three largest components of bilateral aid during 2010-11. Besides Russia, other non-OECD countries such as China, India, and Iran have also become increasingly important sources of official aid and investment.

### Development Partner Coordination

2. All the main bilateral aid agencies are represented in Bishkek, as are the principal multilateral institutions—ADB, EBRD, EDB, EU, IMF, IsDB, and the United Nations Specialized Agencies. A Development Partners' Coordination Council (DPCC), established in 2001, meets monthly to coordinate activities and policy dialogue with the Kyrgyz authorities.

3. During the February 2003 Rome Conference on Harmonization, the Kyrgyz Republic was selected as one of several pilot countries. Since then, key development partners have learned to better coordinate and harmonize procurement procedures, oversee financial management and monitoring, share project implementation units, and conduct joint country portfolio reviews. For example, IDA and ADB have jointly assessed the country's public procurement system. In health, five agencies—DfID, KfW, SDC, SECO, as well as IDA—support a large SWAp operation, and several are involved in coordinated activities supporting governance, public sector management, and public financial management. The policy framework for IDA-financed DPOs is coordinated with similar support provided by ADB, EU and the IMF. Finally, as part of a broader regional initiative to enhance Bank Group collaboration in Central Asia, IDA and IFC recently developed a joint business plan for all five countries, including the Kyrgyz Republic.

4. From 2007-10, six development partners including IDA programmed their activities within the framework of a Joint Country Support Strategy (JCSS)—an initiative designed to advance the goals of the 2005 Paris Declaration on Aid Effectiveness. While a mid-2010 independent review commissioned by one of the partners confirmed that the JCSS' achievements were significant—they included a shared analysis of the country's context, problems and prospects, a results matrix that helped align partners' assistance with the country's development strategy, and a consultative process that helped boost sectoral coordination—progress towards improving aid effectiveness and efficiency was mixed. On the other hand, some partners, including IDA, took the view that the main benefits emerged during its extended preparation, which had itself broadly succeeded in improving coordination. In the circumstances, development partners decided to pursue coordination and harmonization goals through a looser, less binding, and more inclusive *Joint Statement of Partnership between the Kyrgyz Republic and*

*Development Partners* that outlines agreed principles and values for implementation of the country's current medium-term development program. This document was signed by 10 development partners and the Kyrgyz government in October, 2012.

### **Summary of Key Development Partner Activities**

5. **ADB** is one of the Kyrgyz Republic's major development partners and all its assistance is from its concessional Asian Development Fund (ADF). As of 30 September 2012, ADB had committed 34 loans totaling US\$816.2 million and 16 grants (15 ADF and one GEF) worth US\$299.1 million. ADB is the largest external funder in education and transport. Its active portfolio of 13 projects totaling US\$480.9 million comprises nine ADF loans totaling US\$220.2 million and 11 ADF grants totaling US\$260.7 million. ADB has also provided 79 technical assistance projects amounting to US\$44.15 million. A strong advocate of regional economic cooperation, the Kyrgyz Republic is an active participant in the Central Asia Regional Economic Cooperation (CAREC) Program. ADB cooperates extensively with civil society organizations to strengthen the effectiveness, quality, and sustainability of the services it provides.

6. **EBRD** has been active in the Kyrgyz Republic since 1995 and as of end-October 2012, had signed 88 projects with a net cumulative business volume of €415 million. Its annual business volume has steadily increased in recent years, rising from €12 million in 2008 to €86 million in 2010 and €66 million in 2011. EBRD's current private sector portfolio accounts for 77 percent of the total, well above the Bank's 60 percent mandated ratio. In September 2011, EBRD's Board approved a new country strategy, whose key priorities are supporting local private enterprises, in particular micro, small, and medium sized enterprises (MSMEs), alongside support to strengthen the financial sector and develop critical infrastructure.

7. **United Nations (UN)** support to the Kyrgyz Republic, under the overarching goal of peace and stability towards sustainable development, focuses on three inter-related areas: peace and cohesion, effective democratic governance and human rights; social inclusion and equity; and inclusive and sustainable job-rich growth for poverty reduction. The resources expected to be mobilized for this five-year program, 2012-16, total about US\$186 million, of which US\$51 million or about 27 percent is allocated for peace and cohesion, US\$72 million or 39 percent on social inclusion and equity, and US\$63 million or 34 percent on inclusive and sustainable growth.

8. **European Union (EU)** support to the Kyrgyz Republic totals €156.2 million or around US\$200 million (excluding humanitarian aid) during 2007-13. It focuses on agriculture and rural development, conflict mitigation and good governance, education, and social protection. Education and social protection account for about 45 percent of the total (in the form of budget support), agriculture and rural development for about 17 percent, and governance almost 15 percent. In addition, the EU committed €242 million or around US\$315 million in grant aid for regional integration, development and stabilization in Central Asia during the same five year period.

9. The **International Money Fund (IMF)** approved a three year US\$102.3 million Extended Credit Facility (ECF) to the Kyrgyz Republic In June 2011. The ECF supports the authorities' efforts to restore and maintain macroeconomic stability, rebuild policy buffers, promote inclusive growth in a low-inflation environment, achieve medium-term fiscal consolidation, address weaknesses in the financial sector, bolster reserves, and catalyze critical donor support. The IMF, together with other development partners, is also providing technical assistance in the areas of public financial management, tax policy and administration, and financial sector issues.

The matrix attached to this Annex indicates the current arrangements for development partner coordination by sector or theme.

## KYRGYZ REPUBLIC—Development Partner Coordination by Sector/Theme

Sector/Thematic Group	Chair/Focal Point	Development Partner
<b>Social Development</b>		
<b>Education</b>		
<ul style="list-style-type: none"> <li>▪ International Advisory Council in Education (IACE)</li> <li>▪ Global Partnership for Education (GPE)</li> <li>• Working Group</li> </ul>	Chair: Vice Prime Minister Co-Chair: UNICEF Chair: Deputy Minister of Education Chair: EU, UNICEF	ADB, AKDN, EU, GIZ, SCUUK, SFK, UCA, UN (UNESCO), USAID, and WB ADB, AKDN, EU, SCUUK, SFK, UN (UNESCO, UNICEF), USAID, WB, PIUs ADB, AKDN, EU Delegation, GIZ, JICA, SCUUK, SFK, TIRI, UCA, UN (UNESCO), USAID, WB
<b>Health</b>		
<ul style="list-style-type: none"> <li>▪ Health SWAp—Joint Annual Reviews of KG Health Strategy</li> <li>▪ Semi annual Development Partners meetings</li> <li>▪ Monthly Joint Financiers meetings</li> <li>▪ Country Multi-sectoral Coordinating Committee (CMCC)</li> </ul>	<b>Chair:</b> Minister of Health <b>Co-chairs:</b> WB Task Team Leader  Chair: Minister of Health Co-Chair: Head of CCM Secretariat,	AKDN, DFID, GIZ, JICA, KfW, Swiss Embassy, UN (UNAIDS, UNFPA, UNICEF, WHO),WB  AKDN, DFID, UN (UNRC, UNAIDS), WB
<b>Social Protection</b>	Co-chairs: EU and UNICEF	AKDN, EU Delegation, GIZ, HelpAge, JICA, KfW, SCO, UN (UNICEF), WB
<b>Private/Financial Sector</b>		
<b>Business Environment</b>		
<ul style="list-style-type: none"> <li>▪ Investment Council</li> </ul>	Chair: EBRD	ADB, EU, GIZ, JICA, OSCE, Swiss Embassy, USAID, WB
<ul style="list-style-type: none"> <li>▪ Microfinance/ Financial Sector Development</li> </ul>	Chair: KfW	AKDN, EBRD, EDB, GIZ, KfW, Swiss Embassy, USAID, WB
<b>Energy</b>		
<ul style="list-style-type: none"> <li>▪ Working group</li> <li>▪ Extractive Industries Transparency Initiative</li> </ul>	Co-chairs: ADB and USAID <b>EITI Secretariat</b>	ADB, EBRD, EDB, EU, JICA, KfW, OSCE, Swiss Embassy, UN (UNDP), USAID, WB EBRD, SFK, WB, NGOs

<b>Sector/Thematic Group</b>	<b>Chair/Focal Point</b>	<b>Development Partner</b>
<b>Agriculture</b>		
Agriculture, Food Security and Rural Development Working Group	Co-chairs: <b>FAO and WFP</b>	AKDN, CACILM, EU, FAO, GIZ, JICA, Swiss Embassy, UN (FAO, UNDP, UNIDO), USAID, WB,
<b>Environment</b>		
Disaster Preparedness and Risk Reduction	Chair: UN	AKDN, EU, GIZ, JICA, OSCE, Swiss Embassy, UN (UNDP, UNHCR, OHCHR, UNFPA), WB
<b>Governance</b>		
Public Finance Management	DFID, EU Delegation, SCO	ADB, BE, EU Delegation, IMF, Swiss Embassy, WB
Reconciliation, Conflict Prevention and Peace-building (RECAP)	Co-chairs: EU, OSCE, UN RCCA	AKDN, DFID, EU Delegation, EFCA, FAO, JICA, OHCHR, OSCE, Swiss Embassy, UNDP, UNHCR, USAID
Youth	Chair: Ministry of Youth	AKDN, EU, Germany, GIZ, JICA, OSCE, Swiss Embassy, SKF, UN (UNICEF, UNDP, UNFPA, UNESCO), USAID, WB
Shelter, Reconstruction/ Urban Development	Co-chairs: OSCE, UNDP and WB	AKDN, DFID, EDB, EU, FMCC, German Embassy, ICRC, JICA, KfW, Swiss Embassy, UNHCR, USAID, WB,
Civil Society	Co- chairs: OSCE and USAID	AKDN, EU Delegation, OSCE, SFK, Swiss Embassy, UN (UNDP, UNIFEM), WB
Local Self Government	Swiss Embassy, UNDP	AKDN, EU Delegation, OSCE, Swiss Embassy, SFK, UN (UNDP, UNIFEM), WB
Rule of Law	Co-Chairs: OHCHR, USAID	GIZ, OHCHR, USAID, WB
<b>Infrastructure</b>		
Water Supply	Co-Chairs: UNICEF, WB	ADB, AKDN, EBRD, EDB, JICA, Swiss Embassy, WB
Transport	Co-Chairs: ADB, EDB, JICA	ADB, EDB, EBRD, JICA

## Kyrgyz Republic—Consultations with Civil Society

### A. FY13 Client Survey<sup>27</sup>

#### Background

1. During February-March 2013, a client survey of the Bank's activities in the Kyrgyz Republic was undertaken—the first since FY06. Its objectives were threefold: (a) to better understand how the Bank's stakeholders in the Kyrgyz Republic perceive its role and performance; (b) to obtain systematic feedback on a range of country-specific operational issues; and (c) to help inform the FY14-17 Country Partnership Strategy (CPS)

#### Process

2. Survey participants included national and local government officials at all levels, consultants and contractors working on Bank Group-supported projects and programs; and representatives of bilateral and multilateral development partners and a wide range of Kyrgyz non-governmental, civil society organizations (CSOs), including the media, the private sector, and public policy research institutes. The survey questionnaire—administered by courier, email, and regular mail—comprised over 100 questions covering: general issues facing the country; overall attitudes towards the Bank; the Bank's effectiveness and results, knowledge and research, and communications and information sharing; and perception about its future role in the country. Of 300 stakeholders invited, 166 or 55 percent actually participated, of which CSOs and local government officials each accounted for about 20 percent and national government officials about 5 percent.

#### Summary of Results

3. Overall, the Bank is viewed positively in several areas related to results on the ground. Governance-related issues emerged repeatedly, with nearly 40 percent of respondents saying that public sector governance and reform are the country's top development priority, followed by 35 percent who cited corruption as its biggest development challenge. Energy, jobs, and rural development were also mentioned as priorities for poverty reduction and sustainable growth. Importantly, the survey indicates clear support for Bank involvement in these areas: almost 30 percent of respondents said that public sector governance and reform are the most useful area for the Bank to focus on, followed by education, energy, growth, and rural development. Given their concern with governance and corruption, stakeholders not surprisingly consider government inefficiency as the greatest obstacle to reform.

4. Overall ratings for the Bank's effectiveness are fairly positive—6.1 on a ten point scale. Though most valued for its investment lending, capacity development is viewed by almost 50 percent of respondents as the institution's most effective instrument. Similarly, respondents' views on how the Bank collaborates with the government and other development partners are quite positive, albeit less so with non-governmental groups. Overall, the survey suggests that the Bank's greatest weaknesses, as perceived by stakeholders, relate to its flexibility and speed. In this connection, ratings in priority areas such as

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<sup>27</sup> Kyrgyz Republic: *The World Bank Country Survey, FY13—Report of Findings*, May 2013.

corruption, jobs and energy, are relatively low, as are those for education, governance, growth, and rural development.

5. One quarter of survey respondents claimed that reforms are slow because the Bank is not sufficiently sensitive to political realities and also because of government inefficiency. Related to this, more than a third said that for the Bank to achieve added value, it should reach out more to non-governmental groups and enhance public disclosure of its activities. In practice, since broad-band, high speed internet access and penetration remains still very modest in the Kyrgyz Republic, Bank knowledge products may need to be disclosed, distributed, and shared in ways other than, or in addition to the internet in order to reach more stakeholders. Finally, the issues that emerged most consistently, especially from non-ministerial respondents, related to the complexity of borrowing from the Bank, as well as to its flexibility, speed, and the accessibility of its staff especially those from headquarters.

## **B. CPS Multi-stakeholder consultations**

### **Objective**

6. The goal of the public consultations, held in Bishkek, the capital, and in three regions, Osh, Karakol and Naryn during March-April, 2013, was to discuss the general direction of the Bank Group's proposed new Country Partnership Strategy (CPS), as well as the specific activities planned during the FY14-17 CPS period. During the process, Bank staff met with about 200 representatives of civil society organizations, professional associations, the business community, members of Parliament, as well as with other development donors active in the country.

### **Governance**

7. Governance was a recurrent theme in all four consultations. Participants expressed concern about the low capacity of government institutions at all levels, the unsatisfactory quality of public services such as education, health, social protection, and water supply & sanitation, and the limited role and voice of local communities in decision making. Poor governance and extensive corruption at all levels was the main impediment to the country's development and the reason for citizens' dissatisfaction with authorities.

### **Business climate**

8. Complaints were expressed about the lack of financial resources, especially for agribusiness, the high interest rates charged by micro-credit institutions and commercial banks, and corrupt practices at business registration offices. Farmers' representative expressed the view that scaling up small businesses to medium- or large enterprises was not possible due to the unfavorable tax régime and excessive inspections by multiple government bodies.

### **Role of local communities**

9. During the last decade, 481 Water Users Associations (WUA), 1,700 Rural Health Committees (RHC), 454 Pasture Committees, and 35 Community Drinking Water Users (CDWU) have been established, trained and become active throughout the country. Representatives of these community-driven development organizations believe that local communities have matured, understand their role, and are now ready to take responsibility for improving living standards and for managing of physical assets along with local governments. They would like to be more involved in the design, preparation, implementation, and oversight of development projects financed by the Bank Group, although most still need to learn about best practices and capacity building.

## **Information Sharing**

10. Lack of communication between ministries and agencies at the national level and between government bodies at all levels and local communities contribute to citizens' dissatisfaction with on-going reforms. Participants strongly believe that the Bank Group can play an important role in strengthening communications with all stakeholders in the country. They also welcomed Bank Group efforts to increase access to information on its activities and suggested that communications components be included in the project preparation and implementation process. Remote regions of the country that do not have easy access to the Internet appreciate meeting field missions and receiving hard copies of reports.

## **Focus on results**

11. Measurable, tangible, and visible results on the ground have a substantial influence on people's opinions concerning the Bank Group's relevance and effectiveness. It therefore needs to put greater emphasis on project monitoring and on facilitating and strengthening civil society participation in oversight activities. Greater transparency and accountability in government agencies would also contribute to better results.

## **Conclusion**

12. The consultations were a venue for a meaningful exchange of views with the government and with various stakeholders on the critical development challenges facing the country as well as policy options and programs to address them. They also helped increase government and public understanding of the Bank Group's work in the Kyrgyz Republic. The CPS' focus on governance and its three priority areas of engagement where the government or state interfaces with its citizens—public administration and public services, business environment and investment climate, and natural resources and physical infrastructure—found wide support among participants.

## Kyrgyz Republic—Country Portfolio Performance Review

1. From 2003-09, IDA country portfolio performance reviews (CPPRs) with the government were conducted jointly with ADB, IsDB and KfW, focusing on results-based management and overall development outcomes. Since the events of 2010 and partly due to frequent ministerial changes, the government's capacity to manage its externally-financed development portfolio has declined significantly and, as a result, IDA decided to revert to the traditional CPPR format, concentrating on key generic and project-specific issues impeding effective implementation. Against this background, CPPR preparation began in September 2012, together with the Ministry of Finance's Public Investments and Technical Assistance Department, following which Country Office staff prepared an agenda of key issues for discussion. A one-day wrap-up meeting was held on January 22, 2013 at the Ministry of Finance (MOF).

### Key Findings

2. The CPPR identified and discussed the following five generic issues affecting overall portfolio and individual project performance: (a) the government's protracted internal procedures for negotiating, signing and ratifying IDA grants and credits, in particular those required by the new, post-2010 legislature; (b) insufficient supervision by project implementing agencies, including follow up of agreed next steps; (c) poor project governance—an increasing number of cases had been reported to the Bank Group's INT department; (d) extension of closing dates; and (e) financial management, in particular the delayed submission of audit reports.

3. The CPPR recommended the following actions to address these issues:

- MOF to initiate changes in government procedures aimed at avoiding the need for parliamentary clearance for IDA credit/grant negotiations and signing. Bank to allow at least three weeks for internal clearances by government.
- Implementing agencies to be more pro-active in project supervision/implementation, to report on the performance of 'problem projects' to the Council on Macroeconomic Policy and Investments. Bank visiting missions to discuss and agree draft aide-memoires during their stay, to leave copies with counterparts before leaving the country, and to send final, management-approved aide memoires within two weeks of mission completion.
- Government to develop performance evaluation criteria for PIU staff to raise accountability of their staff. Bank to provide training on GAC issues.
- Government and Bank teams to pay more attention to implementation risks and plan implementation taking into account the seasonal character of civil works; PIUs to synchronize procurement, disbursement and activities plans; implementing agencies to monitor their implementation and manage contract implementation. The MoF to closely monitor projects closing within next 12 months. The WB to provide training on contract management.
- PIUs to commence selection of auditors in advance (e.g. in August for the following year's reporting period) and, starting 2013 and to sign three-year contracts. Bank to conduct review of audit firms during April–May annually, so that updated list of eligible firms is available by August each year.

4. The CPPR also discussed several procurement-related issues, including: (a) project readiness for implementation and the need for advance contracting of procurement consultants using retroactive financing and/or the Project Preparation Facility (PPF); (b) the need to down-size tender evaluation committees to 3-5 technical specialists and complete bid evaluations 3-4 weeks after bid opening; (c) the need to reduce and harmonize multiple, duplicate procurement-related inspections with ongoing public procurement reforms (d) the need to ensure that in employing public officials as consultants the Bank Group's Guidelines should be followed; (e) the need for the MOF to track ongoing contracts and for PIUs to develop schedules of contract payments and share with MOF, in order to delays in payments to contractors or vendors; (f) the need for the MOF and central bank to issue transparent instructions to commercial banks regarding bid security, advance payment security and performance security; and (g) the need for the Bank to provide training in contract management to PIUs and implementing agencies' staff, and for the latter to include contract management in operational manuals for all new projects.

5. Following the wrap up meeting, joint action plans covering portfolio generic issues and individual projects were prepared, with the former to be discussed and approved at the February 2013 meeting of the Council on Macroeconomic Policy and Investment. The action plan covering individual projects will be available in electronic format on the MOF's web site for use by the MOF, project implementing agencies, and the Country Office in tracking implementation of agreed actions. It will be updated by the Country Office regularly to reflect project progress. This innovative approach is intended to encourage greater ownership and accountability by implementing agencies, as well as to provide the MOF with a user-friendly and convenient monitoring tool.

### **Next Steps**

6. Finally, the CPPR agreed on the following next steps to guide the country portfolio performance review process in future:

- MOF and Bank to solicit commitment from ADB, KfW, and IsDB to joint portfolio reviews focusing on developmental impact every two years;
- MOF and Bank to conduct IDA portfolio reviews focusing on generic issues annually;
- MOF and Bank to conduct risk management portfolio review focusing on problem projects quarterly; [First meeting took place on April 30, 2013, the next meeting is scheduled for September 2013.]
- MOF to post on its web site individual project action plans, to be updated regularly by Country Office operations team;
- Government to approve draft action plan on portfolio performance improvement, based on findings of 2013 CPPR; and
- Government to review status of problem projects at Council on Macroeconomic Policy and Investment quarterly.

## Review of Kyrgyz National Statistical System

1. The Kyrgyz Republic's national statistical system (NSS) is one of the most important information systems of the country alongside the collection of fiscal and administrative data at the ministerial level. In 1991, the Kyrgyz Republic inherited an official statistical system which was a "regional" segment of the Soviet Union's state statistical system. The country transformed it into a complete and fully independent national statistical system of a sovereign state. The Kyrgyz Republic's NSS has also successfully passed the process of transition from a system oriented towards the needs of a centrally planned economy, based on the "Material Product System" (MPS) standards. Its national official statistical system is now adjusted to the needs of a market-driven economy.

2. The existing system of official statistics has successfully finalized the process of modernization and realized the objectives defined in the Statistical Master Plan for 2005 – 2009. By 2011, the Kyrgyz Republic's NSS has fully completed the transition to a model of official statistics implementing international methodological standards. In particular, the country adopted and implemented the System of National Accounts (SNA) early in its transition process. From the methodological perspective, all the main areas of official statistics are fully harmonized with international standards of the United Nations, some of them in the version adopted by the EU.

3. In the second decade of the 21<sup>st</sup> century, the Kyrgyz Republic's official statistics faces new challenges. These challenges are the consequence of the influence of internal and external factors including those of a social, economic and technological nature.

4. Though acknowledging the past achievements, the Kyrgyz Government is well aware of the weaknesses and challenges facing the country's NSS. These challenges were broadly identified in the National Strategy for the Development of Statistics (NSDS), 2012-2020. They include: (i) weak capacity within the National Statistical Committee (NSC), and statistics producing Government ministries, departments, and agencies (MDAs); (ii) limited technical ability; (iii) constrained financial resources; (iv) poor statistical coordination within the NSS; and (v) outdated mechanisms for dissemination of statistics produced by the NSC and MDAs.

5. To address these challenges, the NSC and MDAs need to improve their ability to produce timely and reliable statistics, and have to build public trust in official statistics. In particular, the NSC will need to establish itself as the leading producer, and provider of cost-effective, timely and quality statistics. There is also a need to enhance NSC's capability to carry out its mission as the principal collector, aggregator and disseminator of statistics and the coordinator of the NSS. To achieve this, NSC has to strengthen its capacity to make statistics quickly, easily, and widely available by designing a data access and dissemination mechanism for the NSS that will enable: (i) policy makers to use these statistics for evidence-based decision making; (ii) GOKG and also the public to monitor targets set by the Government including the reform program and indicators of socio-economic development and poverty reduction; and (iii) development partners get data for monitoring performance indicators and targets (such as the MDGs), and the IDA 15-16 Results Measurement System.

6. The government is committed to sustained improvement in the production, availability and use of statistics by taking a comprehensive solution to the above challenges. The NSDS for 2012-2020 was developed and adopted as the guiding document for the development of the NSS. The first Law "On State Statistics" was adopted in 1994; in March 2007 the new version of the Law was adopted. Currently the work is under way on further development of the Law "On State Statistics" that will put principles guiding the NSS more in accordance with the fundamental principles of the UN and the recommendations of the Global Assessment of the national statistical system of Kyrgyzstan is being prepared with the support of Statistics Division of the United Nations Economic Commission for Europe (UNECE).

7. The NSDS is comprehensive and intended to build on what already exists. It covers statistics needed to monitor and evaluate the poverty reduction strategies. It also will address legal and institutional issues, identify technical assistance and training needs, estimate the costs of implementing the strategy and explain how these costs will be financed. The plan was developed to cover the entire country's statistical system (both vertically and horizontally). The needs assessment covered data users, producers, providers and research institutions as well as the providers of financial and technical assistance. The eight-year Plan covers stakeholders at both the national, regional and district (rayon) levels (who were consulted as part of the process). The World Bank team provided technical support for development of the NSDS and stays in close contact with the NSC, donors active in the area of statistical capacity building and other stakeholders.

8. While NSC is very active in attracting the donor support (both financial as well as technical assistance) in improving the quality and innovation of statistical work, the donor assistance is fragmented and lacks comprehensive approach to modernization of the statistical system of the country. International agencies are interested in improving sectoral statistics as these data are also needed for monitoring of programs and projects in specific areas. For example, UNFPA, UNICEF and WHO provide technical support in area of social indicators related to children, gender, and health development. There are two projects that explicitly target NSC activities on a larger scale: TA from the Statistics Norway and from FAO/WFP. Both projects aim at improving data collection and processing related to agricultural sector to strengthen the production and use of food security indicators.

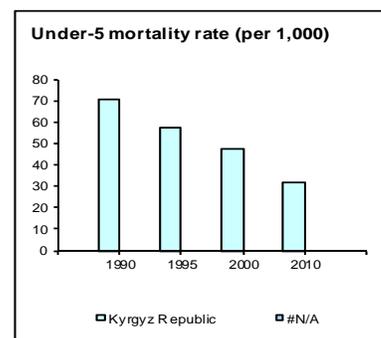
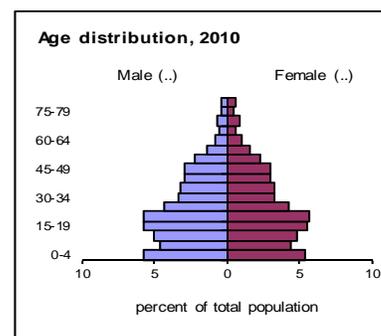
9. The proposed CPS for FY14-17 is looking at the statistics as a part of the overall agenda for governance. The readily available high quality statistical information will strengthen evidence-based policy making and public oversight of the government actions, strategies and targets of the country's social and economic development towards medium term and long term vision. The project financed by ECASSTAT TF will provide the key relevant indicators for formulating, updating, monitoring and evaluating the strategies and targets of the country's social and economic development towards medium term and long term vision. Thus, indicators and the data for monitoring performance will be improved by strengthening the national statistical system.

## Country At A Glance: Kyrgyz Republic

Key Development Indicators	Europe & Central Asia		
	Kyrgyz Republic	Low income	Low income
<b>(2011)</b>			
Population, mid-year (millions)	5.5	405	796
Surface area (thousand sq. km)	200	23,614	15,551
Population growth (%)	12	0.4	2.1
Urban population (% of total population)	35	64	28
GNI (Atlas method, US\$ billions)	5.0	2,947	421
GNI per capita (Atlas method, US\$)	900	7,272	528
GNI per capita (PPP, international \$)	2,070	13,396	1,307
GDP growth (%)	6.0	5.7	5.9
GDP per capita growth (%)	4.7	5.3	3.7

**(most recent estimate, 2005-2011)**

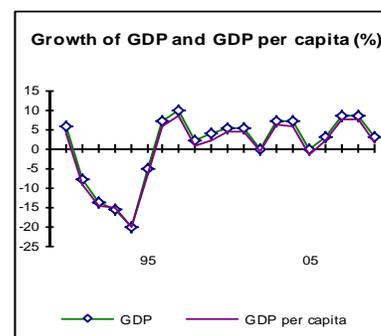
Poverty headcount ratio at \$ 1.25 a day (PPP, %)	6	0	..
Poverty headcount ratio at \$ 2.00 a day (PPP, %)	22	2	..
Life expectancy at birth (years)	70	71	59
Infant mortality (per 1,000 live births)	27	19	70
Child malnutrition (% of children under 5)	3	2	23
Adult literacy, male (% of ages 15 and older)	100	99	69
Adult literacy, female (% of ages 15 and older)	99	97	54
Gross primary enrollment, male (% of age group)	102	99	108
Gross primary enrollment, female (% of age group)	100	98	101
Access to an improved water source (% of population)	90	96	65
Access to improved sanitation facilities (% of population)	93	84	37



Net Aid Flows	1980	1990	2000	2011 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	..	21	215	373
Top 3 donors (in 2010):				
n.a.	..	1	25	56
n.a.	..	0	5	25
n.a.	..	0	15	24
Aid (% of GNI)	..	0.9	16.7	8.4
Aid per capita (US\$)	..	5	44	68

**Long-Term Economic Trends**

Consumer prices (annual % change)	..	208.8	18.7	16.6
GDP implicit deflator (annual % change)	..	7.9	27.2	22.5
Exchange rate (annual average, local per US\$)	..	0.0	47.7	46.1
Terms of trade index (2000 = 100)	..	12	100	81



	1980-90	1990-2000	2000-11	
<i>(average annual growth %)</i>				
Population, mid-year (millions)	3.6	4.4	4.9	5.5
GDP (US\$ millions)	..	2,674	1,370	6,199
<i>(% of GDP)</i>				
Agriculture	..	34.2	36.7	18.6
Industry	..	35.8	31.4	30.8
Manufacturing	..	27.7	19.5	20.6
Services	..	30.0	31.9	50.6
Household final consumption expenditure	..	71.1	65.7	83.4
General gov't final consumption expenditure	..	25.0	20.0	18.2
Gross capital formation	..	24.2	20.0	25.5
Exports of goods and services	..	29.2	41.8	54.5
Imports of goods and services	..	49.6	47.6	81.6
Gross savings	..	9.8	14.7	19.5

Note: Figures in italics are for years other than those specified. 2011 data are preliminary. .. indicates data are not available.

a. Aid data are for 2010.

**Balance of Payments and Trade**      **2000**      **2011**

(US\$ millions)

Total merchandise exports (fob)	511	2,271
Total merchandise imports (cif)	559	4,275
Net trade in goods and services	-81	-1,712
Current account balance as a % of GDP	-75	-406
	-5.5	-6.6
Workers' remittances and compensation of employees (receipts)	9	1,275
Reserves, including gold	263	1,835

**Central Government Finance**

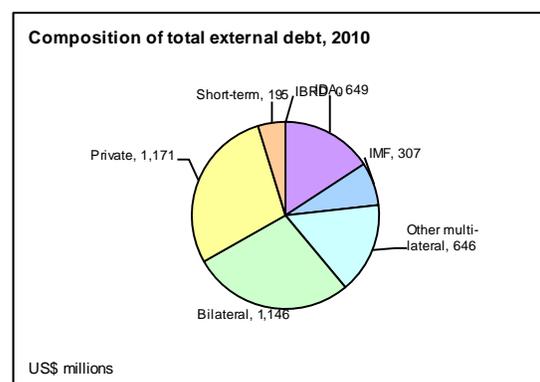
(% of GDP)

Current revenue (including grants)	18.5	31.6
Tax revenue	15.1	23.1
Current expenditure	20.8	30.9
Overall surplus/deficit	-9.6	-4.6
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

**External Debt and Resource Flows**

(US\$ millions)

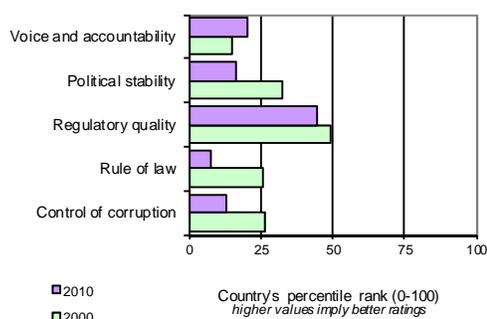
Total debt outstanding and disbursed	1,938	5,486
Total debt service	178	410
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	141.5	88.5
Total debt service (% of exports)	28.1	8.1
Foreign direct investment (net inflows)	-2	77
Portfolio equity (net inflows)	0	0



**Private Sector Development**      **2000**      **2010**

Time required to start a business (days)	-	10
Cost to start a business (% of GNI per capita)	-	3.5
Time required to register property (days)	-	5
Ranked as a major constraint to business (% of managers surveyed who agreed)	<b>2000</b>	<b>2010</b>
n.a.	..	33.7
n.a.	..	32.7
Stock market capitalization (% of GDP)	0.3	2.7
Bank capital to asset ratio (%)	..	..

**Governance indicators, 2000 and 2010**



Source: Kaufmann-Kraay-Mastruzzi, World Bank

**Technology and Infrastructure**      **2000**      **2010**

Paved roads (% of total)	91.1	..
Fixed line and mobile phone subscribers (per 100 people)	8	106
High technology exports (% of manufactured exports)	14.8	10

**Environment**

Agricultural land (% of land area)	56	55
Forest area (% of land area)	4.5	5.1
Terrestrial protected areas (% of land area)	6.9	6.9
Freshwater resources per capita (cu. meters)	9,808	9,093
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	0.92	12
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	3.1	3.7
Energy use per capita (kg of oil equivalent)	490	559

**World Bank Group portfolio**      **2000**      **2010**

(US\$ millions)

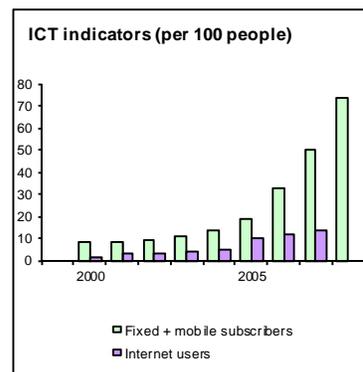
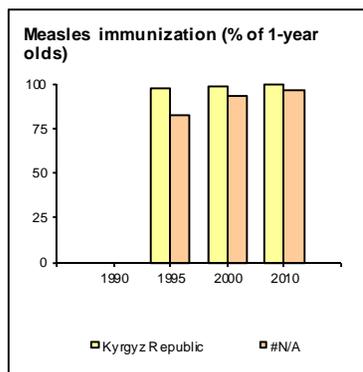
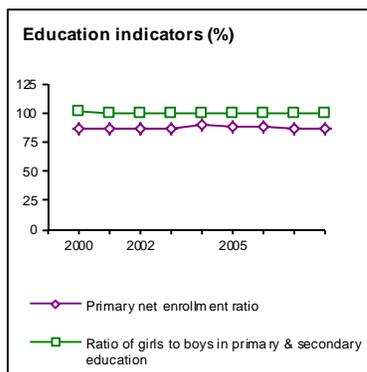
<b>IBRD</b>		
Total debt outstanding and disbursed	-	-
Disbursements	-	-
Principal repayments	-	-
Interest payments	-	-
<b>IDA</b>		
Total debt outstanding and disbursed	377	660
Disbursements	52	28
Total debt service	3	20
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	31	26
Disbursements for IFC own account	0	13
Portfolio sales, prepayments and repayments for IFC own account	5	4
<b>MIGA</b>		
Gross exposure	75	10
New guarantees	0	6

Note: Figures in italics are for years other than those specified. 2011 data are preliminary. .. indicates data are not available. - indicates observation is not applicable.

5/6/13

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Kyrgyz Republic			
	1990	1995	2000	2010
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$ 1.25 a day (PPP, % of population)	<2	18.6	34.0	6.2
Poverty headcount ratio at national poverty line (% of population)	..	..	..	33.7
Share of income or consumption to the poorest quintile (%)	10.6	2.5	8.4	7.7
Prevalence of malnutrition (% of children under 5)	..	8.2	..	2.7
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	..	92	86	88
Primary completion rate (% of relevant age group)	..	103	93	97
Secondary school enrollment (gross, %)	103	87	84	84
Youth literacy rate (% of people ages 15-24)	..	..	100	100
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	100	..	101	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	49	46	51
Proportion of seats held by women in national parliament (%)	..	1	2	23
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	70	58	47	31
Infant mortality rate (per 1,000 live births)	58	48	41	27
Measles immunization (proportion of one-year olds immunized, %)	94	97	98	97
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	73	98	82	71
Births attended by skilled health staff (% of total)	99	98	99	99
Contraceptive prevalence (% of women ages 15-49)	..	60	..	48
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	0.3
Incidence of tuberculosis (per 100,000 people)	92	168	249	128
Tuberculosis case detection rate (% all forms)	#N/A	#N/A	#N/A	#N/A
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	78	78	82	90
Access to improved sanitation facilities (% of population)	93	93	93	93
Forest area (% of land area)	4.4	..	4.5	5.1
Terrestrial protected areas (% of land area)	6.4	6.8	6.9	6.9
CO2 emissions (metric tons per capita)	2.4	1.0	0.9	1.2
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	15	2.4	3.1	3.7
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	7.2	7.8	7.7	9.0
Mobile phone subscribers (per 100 people)	0.0	0.0	0.2	96.8
Internet users (per 100 people)	0.0	..	1.1	19.6
Computer users (per 100 people)	#N/A	#N/A	#N/A	#N/A



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

**Kyrgyz Republic - Selected Indicators\* of Bank Portfolio  
Performance  
and Management  
As Of Date  
4/29/2013**

Indicator	2010	2011	2012	2013
<i><b>Portfolio Assessment</b></i>				
Number of Projects Under Implementation <sup>a</sup>	19	19	17	13
Average Implementation Period (years) <sup>b</sup>	3.8	4.5	5.1	4.9
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	21.1	17.6	30.8
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	28.4	10.5	15.2
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	21.1	17.6	30.8
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	28.4	10.5	15.2
Disbursement Ratio (%) <sup>e</sup>	30.2	55.2	33.3	31.3
<i><b>Portfolio Management</b></i>				
CPPR during the year (yes/no)	No	No	Yes	Yes
Supervision Resources (total US\$ million)		2.3	2.2	1.6
Average Supervision (US\$ T/project)	110	110	110	110

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	28	4
Proj Eval by OED by Amt (US\$ millions)	634.8	46.0
% of OED Projects Rated U or HU by Number	25.0	25.0
% of OED Projects Rated U or HU by Amt	16.0	6.4

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

## Kyrgyz Republic - IDA Program Summary

As Of Date  
4/29/2013

<b>Proposed IBRD/IDA Base-Case Lending Program <sup>a</sup></b>				
<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2013	DPO1	30.0		
	HEALTH & SP 2	16.5		
	Result	46.5		
2014	Programmatic DPO2	30.0		
	Result	30.0		
2015	Electricity Supply Accountability	15.0		
	Result	15.0		
	Overall Result	91.5		

## Kyrgyz Republic: IFC Investment Operations Program

	2010	2011	2012	2013*
<b><u>Original Commitments (US\$m)</u></b>				
IFC and Participants	10.0	9.8	10.6	0.9
IFC's Own Accounts only	10.0	9.8	10.6	0.9
<b><u>Original Commitments by Sector (%)- IFC Accounts only</u></b>				
Electric Power			5.7	
Finance & Insurance	100.0	74.4	94.3	0.9
Pulp & Paper		25.6		
<b>Total</b>	100.0	100.0	100.0	100.0
<b><u>Original Commitments by Investment Instrument (%) - IFC Accounts only</u></b>				
Equity		13.0		
Guarantee		0.0	0.0	
Loan	100.0	87.0	94.3	
Quasi loan			5.7	
Risk product				100.0
<b>Total</b>	100.0	100.0	100.0	100.0

\* as of May 31, 2013

## Kyrgyz Republic - Summary of Non-lending Services -

As Of Date 4/29/2013

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience<sup>a</sup></i>	<i>Objective<sup>b</sup></i>
<b>Recent completions</b>				
MTDS - Kyrgyz Republic	2012	53	G, D, B	KG
KYRGYZSTAN CONFLICT ANALYSIS /FILTER	2012	64	B	KG, PS
Gender Assessment	2012	27	B, D, G	KG, PD
FIRST: Kyrgyzstan NBFi Capacity Building Project	2012		G	KG
Russia Education Aid for Development	2012	25	G	KG
Kyrgyz: Corporate Financial Reporting	2012		G	KG
KG PSD Policy Dialogue	2012	82	G	KG
KG Financial Sector Monitoring	2012	68	B	KG
<b>Underway</b>				
Poverty Analysis Program	2013	293	G, B, D, PD	KG, PD
Programmatic Public Expenditure Review	2013	103	G, B, D, PD	KG, PS
Information Matters - Transparency & Accountability	2013	780	G	KG
Kyrgyz Republic: Mining Sector TA	2013	323	G	KG
KG: Prep. of a New Stat. Master Plan	2013	72	G	KG
TF Enhance. of TSA for better protection	2013		G	KG
AML/CFT TA to Kyrgyzstan	2013	43	G	KG
PSD Program	2013	217	G	KG
KG FSD Policy Dialogue	2013	18	G	KG
Kyrgyz Republic Conflict Filter TA	2013	31	G	KG
Public Sector Reform Roadmap	2013	27	G	KG
<b>Planned</b>				
China-Uzbekistan Railway assessment [continuation]	2014		G, B	KG
Measuring and Reducing Regulatory Uncertainty and Discretion for Female Entrepreneurs in Central Asia	2014		G, B, PD	KG, PD
Heating and Energy Efficiency Assessment [continuation]	2014		G, B, D	KG
Programmatic Poverty Studies [continuation]	2014		G, D, B, PD	KG, PD
Programmatic Public Expenditure Review [continuation]	2014		G, D, B, PD	KG, PD
Trade – Implications of Customs Union	2014		G, B	KG
KR Component of Regional Water Sanitation and Supply Study (SECO co-funding)	2014		G, B	KG
Agribusiness Challenges and Opportunities (joint with IFC)	2014		G, B, D	KG
KR Component of Regional Climate Change Study	2014		G, B, D	KG, PD
Energy Governance and Accountability	2014		G, B, D	KG, PS
Private Sector Development Action Plan [continuation]	2014		G	PS
High Level Human Development Review	2014		G, B	KG
Public Sector Action Plan [continuation]	2014		G	PS
Programmatic Poverty Studies [continuation]	2015		G, B, D, PD	KG, PD
Integrated management of agriculture, pasture, forest and water assets	2015		G, B	KG, PD
Strategy to raise factor productivity and promote diversification	2015		G	KG
Urban Planning & Development Study	2015		G, B, D	KG
Measurement of Informal Sector	2015		G, B	KG
Social protection – targeting and equity	2016		G	KG

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

## Kyrgyz Republic - Poverty and Social Development Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2005-11	Europe & Central Asia	Low-income
<b>POPULATION</b>					
Total population, mid-year (millions)	4.0	4.6	5.5	408.1	816.8
Growth rate (% annual average for period)	2.0	0.8	1.1	0.4	2.1
Urban population (% of population)	38.4	36.3	35.4	64.7	28.0
Total fertility rate (births per woman)	4.1	3.3	3.1	1.8	4.0
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	33.7		
Urban headcount index	..	..	23.6		
Rural headcount index	..	..	39.5		
<b>INCOME</b>					
GNI per capita (US\$)	..	360	900	7,734	571
Consumer price index (2005=100)	..	28	195	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	53.7	36.2		
Low est quintile (% of income or consumption)	..	2.5	6.8		
Highest quintile (% of income or consumption)	..	57.0	43.4		
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health (% of GDP)	..	4.0	3.9	3.9	2.2
Education (% of GDP)	..	6.2	5.8	4.5	4.2
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	88	93	80
Male	..	..	89	94	82
Female	..	..	88	93	78
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	78	90	96	65
Urban	..	98	99	99	86
Rural	..	66	85	91	57
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	..	97	97	94	77
DPT	..	93	96	92	79
Child malnutrition (% under 5 years)	..	..	3	1	23
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	65	66	70	71	59
Male	61	61	66	67	58
Female	69	70	74	75	60
<b>Mortality</b>					
Infant (per 1,000 live births)	69	48	27	18	63
Under 5 (per 1,000)	85	58	31	21	95
Adult (15-59)					
Male (per 1,000 population)	296	291	305	269	292
Female (per 1,000 population)	131	143	130	114	255
Maternal (modeled, per 100,000 live births)	..	98	71	32	410
Births attended by skilled health staff (%)	..	98	99	98	47

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

## Kyrgyz Republic - Key Economic Indicators

Indicator	Actual				Estimate			Projected		
	2007	2008	2009	2010	2011	2012	2013	2014	2015	
<b>National accounts (as % of GDP)</b>										
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100	100	100
Agriculture	31	27	21	19	19	20	20	20	20	20
Industry	19	24	27	29	31	26	28	30	33	33
Services	50	49	52	51	51	54	52	50	47	47
Total Consumption	105	110	97	103	102	122	108	103	101	101
Gross domestic fixed investment	25	27	29	28	24	24	26	26	26	26
Government investment	5	5	5	7	5	8	6	7	7	7
Private investment	20	22	24	21	19	17	19	19	19	19
Exports (GNFS) <sup>b</sup>	53	54	55	52	55	55	55	53	52	52
Imports (GNFS)	84	93	79	82	82	102	89	82	80	80
Gross domestic savings	-5	-10	3	-3	-2	-22	-8	-3	-1	-1
Gross national savings <sup>c</sup>	21	15	25	19	19	8	18	20	21	21
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	3799	5141	4691	4795	6199	6475	7277	8331	9127	9127
GNI per capita (US\$, Atlas method)	610	770	860	840	900	1040	1220	1370	1500	1500
Real annual growth rates (% , calculated from 95 prices)										
Gross domestic product at market prices	8.5	8.4	2.9	-0.5	6.0	-0.9	7.4	7.5	5.3	5.3
Gross Domestic Income	9.6	7.1	2.4	-1.1	6.9	-8.4	8.2	5.8	3.0	3.0
Real annual per capita growth rates (% , calculated from 95 prices)										
Gross domestic product at market prices	7.5	7.4	1.7	-1.7	4.7	-2.1	8.2	6.4	4.3	4.3
Total consumption	1.6	9.8	-12.9	0.8	6.8	2.9	2.2	1.9	0.9	0.9
Private consumption	1.8	11.6	-15.4	1.5	8.0	0.2	1.8	2.0	1.6	1.6
<b>Balance of Payments (US\$ )</b>										
Exports (GNFS) <sup>b</sup>	2011	3038	2694	2526	3387	3538	3996	4450	4774	4774
Merchandise FOB	1338	2141	1835	1833	2271	2290	2614	2990	3219	3219
Imports (GNFS) <sup>b</sup>	3206	4747	3682	3905	5099	6451	6446	6871	7273	7273
Merchandise FOB	2614	3754	2814	2981	3962	4967	4979	5293	5591	5591
Resource balance	-1196	-1709	-988	-1379	-1712	-2913	-2451	-2422	-2499	-2499
Net current transfers	1020	1477	1208	1391	1836	2062	2203	2295	2391	2391
Current account balance	-227	-437	30	-332	-406	-994	-583	-500	-511	-511
Net private foreign direct investment	208	265	190	438	694	372	280	396	421	421
Long-term loans (net)	50	35	283	81	208	263	461	345	291	291
Official	41	16	340	109	167	75	253	152	136	136
Private	9	19	-57	-28	41	187	208	193	155	155
Other capital (net, incl. errors & omissions)	297	240	-211	-84	-388	170	-50	-70	-70	-70
Change in reserves <sup>d</sup>	-327	-103	-291	-103	-107	189	-108	-171	-131	-131
<i>Memorandum items</i>										
Resource balance (% of GDP)	-31.5	-33.2	-21.1	-28.8	-27.6	-45.0	-33.7	-29.1	-27.4	-27.4
Real annual growth rates ( YR95 prices)										
Merchandise exports (FOB)	25.8	9.1	-1.1	-11.7	15.7	0.0	18.1	19.5	15.1	15.1
Primary	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	11.0	13.6	-19.4	-6.9	14.9	37.5	7.1	6.9	6.4	6.4

(Continued)

Indicator	Actual			Estimate			Projected		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>									
Current revenues	30.2	29.0	31.8	30.1	31.6	34.2	31.6	31.8	31.5
Current expenditures	26.4	26.6	30.5	31.0	30.9	32.4	30.8	29.3	28.3
Current account surplus (+) or deficit (-)	3.8	2.4	1.3	-0.8	0.7	1.8	0.8	2.4	3.2
Capital expenditure	4.8	5.2	5.1	5.8	5.5	7.5	6.4	6.8	7.2
Foreign financing	1.3	0.4	7.4	3.1	3.3	3.9	3.5	1.8	1.5
<b>Monetary indicators</b>									
M2/GDP	30.3	25.8	28.4	31.4	27.8	32.4	33.6	34.5	35.1
Growth of M2 (%)	33.3	12.6	17.9	21.1	14.9	23.8	18.6	17.6	13.6
Private sector credit growth / total credit growth (%)	141.3	104.3	-11.6	48.3	82.6	84.4	59.7	82.9	74.0
<b>Price indices (YR95 =100)</b>									
Merchandise export price index	185.0	271.3	235.0	265.9	284.7	287.1	277.5	265.6	248.4
Merchandise import price index	218.1	323.5	299.5	354.8	393.5	297.5	311.0	309.1	306.8
Merchandise terms of trade index	84.8	83.9	78.5	74.9	72.4	96.5	89.2	85.9	81.0
Real exchange rate (US\$/LCU) <sup>f</sup>	94.9	104.3	109.6	104.7	92.9	87.8	87.2	85.2	85.2
<b>Real interest rates</b>									
Consumer price index (% change)	10.2	24.5	6.8	8.0	16.6	2.8	8.6	7.2	6.6
GDP deflator (% change)	14.9	22.2	4.0	10.0	22.5	7.4	6.5	6.5	6.0

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated budgetary central government data.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

**Kyrgyz Republic**  
**IFC Committed and Disbursed Outstanding Investment Portfolio**  
 As of 5/31/2013  
 (In US\$ Millions)

<b>FY Approval</b>	<b>Company</b>	<b>Committed</b>					<b>Partici - pants</b>	<b>Disbursed Outstanding</b>					<b>Partici - pants</b>
		<b>Own Account</b>						<b>Own Account</b>					
		<b>Loan</b>	<b>Equity</b>	<b>**Quasi Equity</b>	<b>*GT/RM</b>	<b>Total</b>		<b>Loan</b>	<b>Equity</b>	<b>**Quasi Equity</b>	<b>*GT/RM</b>	<b>Total</b>	
2012/ 13	<u>CACI Hydro</u>	-	-	0.6	-	0.6	-	-	-	-	-	-	-
1997/ 99/ 2004/ 09/ 11/ 12	<u>Demir Kyrgyz Int</u>	-	0.6	-	-	0.6	-	-	0.6	-	-	-	0.6
2011/ 12	<u>Finca Kyrgyzstan</u>	7.7	-	-	0.8	8.5	-	7.7	-	-	0.7	8.4	-
2012	<u>Kompanion</u>	5.9	-	-	0.3	6.1	-	5.9	-	-	0.1	6.0	-
2007/ 11	<u>Magic Box</u>	2.7	-	-	-	2.7	-	1.7	-	-	-	1.7	-
2000/ 05/ 08	<u>SEF Altyn-Ajydar</u>	0.3	-	-	-	0.3	-	0.3	-	-	-	0.3	-
2001/ 05/ 07/ 09/ 11	<u>SEF KICB</u>	1.7	3.0	-	-	4.6	-	1.7	3.0	-	-	4.6	-
<b>Total Portfolio:</b>		<b>18.2</b>	<b>3.5</b>	<b>0.6</b>	<b>1.1</b>	<b>23.3</b>	-	<b>17.2</b>	<b>3.5</b>	<b>0</b>	<b>0.8</b>	<b>21.5</b>	-

\* Denotes Guarantee and Risk Management Products.

\*\* Quasi Equity includes both loan and equity types.

## Kyrgyz Republic - Operations Portfolio (IBRD/IDA and Grants)

As Of Date

4/29/2013

<b>Closed Projects</b>	<b>39</b>
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**IBRD/IDA** \*

Total Disbursed (Active)	205.47
of which has been repaid	0.00
Total Disbursed (Closed)	293.92
of which has been repaid	92.11
Total Disbursed (Active + Closed)	499.40
of which has been repaid	92.11
Total Undisbursed (Active)	123.28
Total Undisbursed (Closed)	0.74
Total Undisbursed (Active + Closed)	124.02

**Active Projects**

Project ID	Project Name	<u>Last PSR</u>		Fiscal Year	<u>Original Amount in US\$ Millions</u>					<u>Expected and Actual Disbursements<sup>a/</sup></u>		
		<u>DO</u>	<u>IP</u>		IBRD	IDA	GRANT	Cancel	Undisb.	Orig.	Frm Rev'd	
P104994	BISHKEK AND OSH URBAN INFRASTRUCTURE	S	MS	2008		27.8				15.3614	0.6570747	-0.80097
P108525	CAPACITY BLDG ECON MGT	MS	MS	2009		3				0.976504	1.0675545	
P123044	EMERGENCY RECOVERY	MS	MS	2011		70				11.17064		
P071063	GOV TA	MU	MU	2003		7.775				2.676204	1.6236852	1.623685
P084977	HEALTH & SOC PROT	MS	MS	2006		45				16.33547	-13.8666	2.266667
P125689	KG Financial Sector Development Project	MU	MU	2012		13				13.27651		
P107608	NATL. ROAD REHAB (Osh-Batken-Isfana)	S	S	2010		51				21.67124	10.885262	17.9686
P096409	OIP-2	MS	MS	2007		31				15.12624	0.3977174	-1.2141
P110267	RURAL WATER SUPPLY & SAN 2	MU	MU	2009		10				3.829249	2.7808181	
P108178	SECOND LAND & REAL ESTATE REGISTRATION	MS	MS	2009		5.85				0.116956	0.413152	0.294009
P113350	Sector Support for Education Reform	#	#	2013		16.5				16.39128		
P098949	VIP 2	S	MS	2007		27.2				4.326672	-9.056846	-1.05685
P088671	WATER MGMT IMPRVMT	U	MU	2006		19				2.023811	0.7358745	0.735875
	Overall Result					327.1				123.2822	-65.15677	19.81692
						25						