

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2001 – 2003)**

KYRGYZ REPUBLIC

December 2000

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank for the Kyrgyz Republic covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by ADB between April and June 2000, in close consultation with the Government of the Kyrgyz Republic, and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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CURRENCY EQUIVALENTS

(as of 30 November 2000)

Currency Unit	—	Som
Som1.00	=	\$0.0203
\$1.00	=	Som49.3619

ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
ADTA	-	advisory technical assistance
CARs	-	Central Asian republics
CDF	-	Comprehensive Development Framework
COS	-	Country Operational Strategy
DANIDA	-	Danish International Development Agency
DMC	-	developing member country
EBRD	-	European Bank for Reconstruction and Development
ECD	-	Early Child Development
ESW	-	economic and sector work
FINSAC	-	Financial Sector Adjustment Credit
FSU	-	former Soviet Union
GDP	-	gross domestic product
HDI	-	Human Development Index
IDA	-	International Development Association
IMF	-	International Monetary Fund
IPF	-	indicative planning figure
NSPR	-	National Strategy for Poverty Reduction
OECF	-	Overseas Economic Cooperation Fund
OPEC	-	Organization of Petroleum Exporting Countries
PO	-	President's Office
PRC	-	People's Republic of China
RETA	-	regional technical assistance
TA	-	technical assistance
UNDP	-	United Nations Development Program
USAID	-	United States Agency for International Development

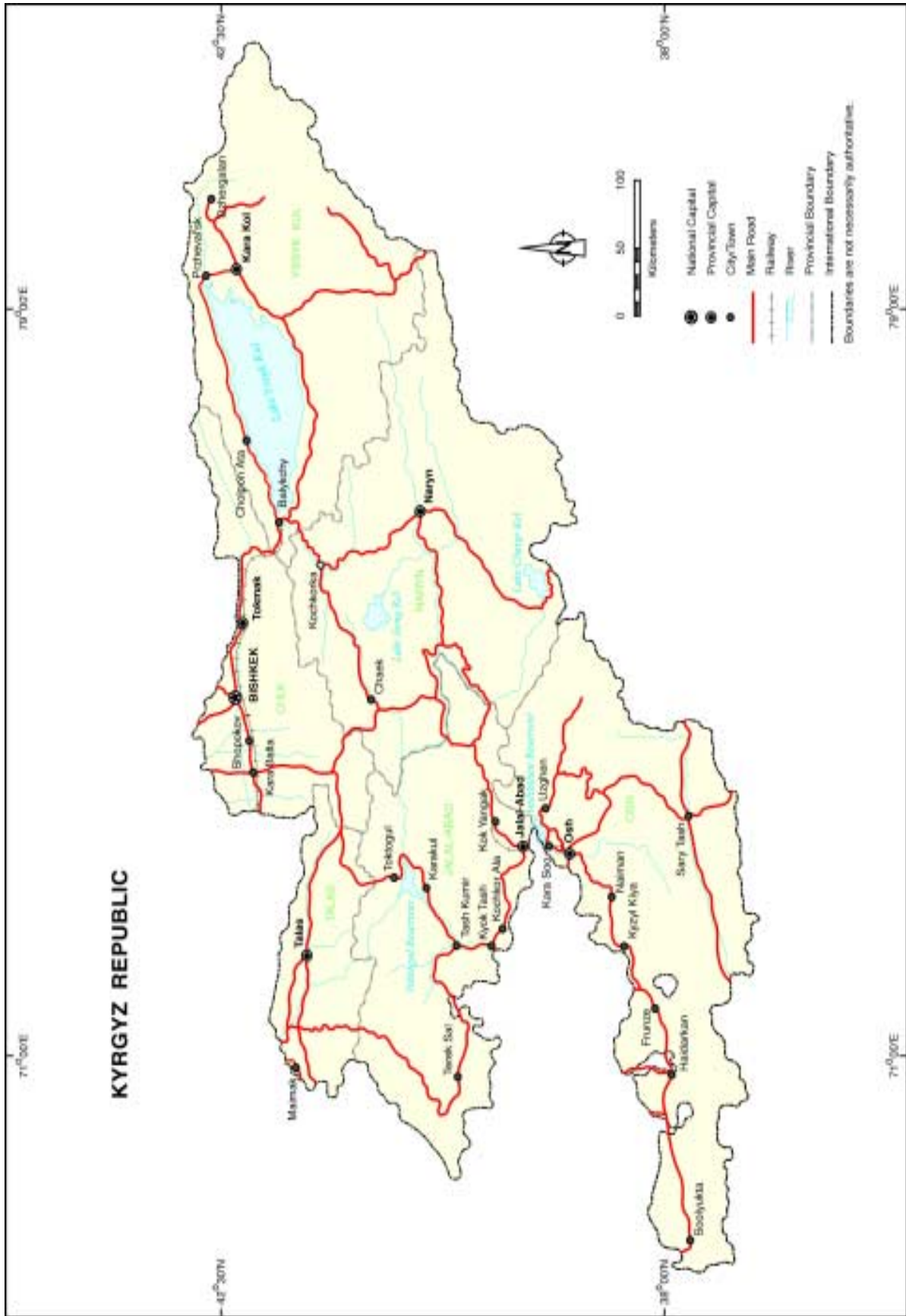
NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this Report, "\$" refers to US dollars.

**COUNTRY ASSISTANCE PLAN (2001-2003)
KYRGYZ REPUBLIC**

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KYRGYZ REPUBLIC

I. Country Performance Assessment

A. Economic Performance Assessment

1. The Kyrgyz economy experienced another difficult year in 1999 as the adverse impact of the Russian crisis of August 1998 continued to affect the economy. Preliminary data indicate that real GDP grew by 3.7 percent, higher than in 1998, owing to continued growth in agriculture that counterbalanced the persistent decline in the industrial sector. Inflation, however, accelerated to about 53 percent by year-end, more than double that of 1998 largely due to a depreciating som and increases in prices of grain and flour. The nominal exchange rate of the som depreciated by about 46 percent in 1999 against the dollar, and real interest rates hovered at about 15 percent towards year-end. During 1999, total external trade contracted by 22 percent as compared to 1998 with import decline outpacing export decline. As a result, the external trade deficit was reduced by almost 65 percent and the external current account deficit was about 16.3 percent of GDP as against 19.8 percent in 1998. Gross reserves increased to about 3.2 months cover of imports by year-end. Detailed economic performance indicators are shown in Appendix 1. The economic situation further improved in 2000 with GDP growing at 8.6 percent during the first seven months. Inflation over the first seven months was contained at 5.3 percent during which period food prices rose by 6.3 percent and fuel prices by 12.1 percent. Overall trade turnover fell by 1.2 percent during the same period. There was a marginal improvement in foreign exchange reserves.

2. The fiscal situation continued to be weak in 1999, as reflected in a cash deficit of 12 percent of GDP, higher than that of 1998. Monetary policy implementation was uneven, marked by large liquidity injections in the second and early third quarter, followed by a return to a tightened stance since third quarter of 1999. The Russian crisis weakened the banking sector considerably, and in April 1999 it was hit by a major financial fraud that substantially aggravated the situation. As a result, some of the largest banks were closed, with the five most affected banks representing about 60 percent of the banking system deposits. Despite restructuring and rescue efforts, indications are that the deterioration of the sector continues with the banking system continuing to post net losses. Meanwhile, military expenditure fell in real terms by 5.9 percent in 1998 despite a moderate GDP growth of 1.8 percent. The size of military spending was about 2.2 percent of GDP in 1998. Fiscal situation appears to be improving during 2000.

3. Structural reform made progress in some areas such as continued efforts in implementing the comprehensive pension reform, initiation of the privatization and restructuring of several large state-owned enterprises, and continued reform in the health sector. However, progress lagged in other areas including enterprise restructuring and further promotion of private sector development including enhancing legal and regulatory framework and its implementation.

4. The Government made major efforts to reach agreement with the International Monetary Fund (IMF) on reviving the second annual arrangement of the ESAF program which went off track in July due to failure to meet program targets. A set of prior actions was required and monthly targets towards year-end were set. With these conditions successfully met, the IMF Board approved the Poverty Reduction and Growth Facility (PRGF), the successor to ESAF program, on 9 February 2000. Under the new program the Government will strengthen its efforts in macro stabilization and deepen structural reforms. In particular, a significant fiscal adjustment is needed with primary surplus targeted at about 2 percent of GDP and fiscal deficit at about 7.5

percent of GDP for 2000. These targets are ambitious but necessary to restore fiscal balance and strengthen macrostability. Monetary policy will continue to be tight in order to contain inflation and further depreciation of the som. A key to restore public confidence in the som and domestic financial system is the restructuring of the banking sector. On 13 September 2000, the IMF's Board of Directors approved the July review of the Poverty Reduction Growth Facility (PRGF). The Government is determined to achieve the program's objectives for the rest of the year. In view of the favorable developments in the first half of 2000, growth projections for the year have been revised upwards to around 7 percent and inflation downwards to around 15 percent. The Government stands committed to deepening the reforms in the banking sector and to improving revenue performance. Current expenditures will be kept in line with program commitments and the Government intends to reduce significantly the size of the public investment program to conform to PRGF requirements. Managing its external debt will pose considerable problems to the country in the coming years and the IMF has identified the need to reduce borrowings. From 1 August, wages of civil servants have been increased by 20 percent on average. Public sector wages have not been raised since 1997. In tandem with the increase in wages, the Government has also increased pensions by 20 percent; further, pension arrears were reduced to Som 45.5 million by end-June (lower than the Som 75 million agreed to for this period under the PRGF). Despite these new expenditures, the programmed budget deficit will be maintained at Som 4.1 billion for the year (6.8 percent of GDP). The Government also intends to continue strengthening civil service reforms, reducing licensing requirements, raising energy prices and the reforms in the agriculture sector.

5. Structural weakness of the economy which underlined recent economic difficulties must be tackled through persistent structural reforms. Principally, the efficiency of public sector decision making must be improved. That includes a further reduction of the state's role in the economy and promoting private sector development, and expediting the process of enterprise restructuring. Complementing these efforts are the civil service reform, the raising of energy tariffs and a further enhancing of the legal and regulatory framework. The process of privatization and restructuring of large state-owned enterprises must be accelerated and external debt management must be improved.

6. Largely because of the sharp depreciation of the som by over 50 percent since August 1998, external public debt/GDP ratio increased from about 72 percent in 1998 to 115 percent in 1999, and the NPV of debt to exports rose to over 212 percent, an indication of heavy indebtedness. By the end 1999, the Kyrgyz Republic has accumulated about \$1.39 billion in external liabilities (over 100 percent of GDP) of which more than 40 percent is on non-concessional terms; a major portion of the latter falls due in the next five years. Some \$170 million of this is owed to the Russian Federation and \$40 million to Turkey with smaller amounts due to Pakistan and India. Most of the remainder of the non-concessional debt is for commercial loans related to the Kumtor gold mine. The Kyrgyz Republic's debt service is sloping downwards over time with the highest concentration of repayments (about 13 percent of GDP) over the next five years when they will be the most difficult to make. Successful negotiations for the rescheduling of the Russian Federation and other debt is required to ease the considerable strain on the budget.

7. Provided there is strict adherence to these reform measures, the medium-term outlook of the economy is favorable. Real GDP is likely to grow at 3-4 percent for the next few years until 2003 when growth accelerates to 4-5 percent. Inflation is expected to be cut by half in 2000 and further decline to about 5 percent by end 2003. The budget deficit is expected to decrease to 7.5 percent this year and steadily to about 3 percent by 2003. Regarding external balance, with the economic recovery of the Kyrgyz Republic's neighboring countries, the current account

deficit will be reduced further to about 13 percent of GDP this year and gradually to around 10 percent in 2003.

B. Poverty Assessment

8. Since independence, people in the Kyrgyz Republic have been confronted with (i) a serious deterioration of the social infrastructure, (ii) high growth of poverty, unemployment, and underemployment, (iii) a sharp reduction in the size and a change in the composition of income and social protection payments, (iv) a rapidly deteriorating social services provision, and (v) increasing social disintegration. In 1998, reflecting the severe difficulties faced by the economy, mainly as a result of the effects of the Russian crisis, the numbers of people living in poverty rose sharply to 54.9 % of the population (from 42.9 % in 1997). The Government now accords the highest priority to poverty reduction and has made this objective the centerpiece of its development priorities under the Comprehensive Development Framework (see para. 44). In view of the growing incidence of poverty in the country, and the importance now accorded by both the Government and the ADB in addressing this problem, a discussion on Poverty in the Kyrgyz Republic is presented in Appendix 7.

C. Assessment of Socio-Environmental Performance

1. Gender Issues

9. The Kyrgyz Republic formally provides protection against gender discrimination and the official status of women in the Kyrgyz society is relatively high. There is equal access to education and equality in the workplace. The Kyrgyz constitution guarantees equal rights to women and there are laws to uphold these rights. Education and employment levels remain high. Before independence, women had been actively involved in production and the social, cultural, and political fields. Women figured prominently in the workforce. However, a recent UNDP study¹ indicates that despite considerable efforts during Soviet times to raise the status of women in the Kyrgyz Republic, the major part of the employment of women in the national economy of that time appeared to be in low paid and non-prestigious spheres. Female employment was high in such areas as health and social services (82%), information-computing/secretarial services (80%), public catering (71%) and trade (69%). The study says that women in positions of responsibility were the exception rather than the rule. Nevertheless, prior to independence, substantial support for the social welfare of women through public assistance and social services was provided. However, with the breakdown of the social safety net and the erosion of social service provisions during transition, more families are dependent on the female's traditional role of ensuring survival for the young and old in need.

10. Women are the first to face the consequences of the closure of kindergartens, child care centers, and rural schools; the lack of medicine for their children; the unsustainable pensions of their parents; and the termination of service facilities like laundries and canteens, thereby affecting women's access to formally paid employment. In addition to the personal degradation caused by unemployment, loss of income, and transfers, and the reduced access to social and public services, women are experiencing difficulties with increasing child mortality rates, rising divorce rates, alcoholism, and men's migration. With the elimination of the quota system that prevailed under the former regime, there has been a sharp decline in women's representation in elected bodies, at both national and local levels, in decision-making processes in public and

¹ "1995-2000, From Beijing to New-York: Report on the Status of Women in the Kyrgyz Republic."

private sectors, in judicial bodies, and in government jobs. In general, the negative impacts of transition in the Kyrgyz Republic reflect the economic difficulties prevailing in the country. Nevertheless, there are circumstances where the economic difficulties have a more severe impact on women than men, especially with regard to their children's access to education and health, and in the labor market. On the other hand, transition has given women new opportunities especially in the bazaar, credit, and modern service economy. It is important to note that active support for women's advancement and gender equality at the national level began in 1995 following the Fourth World Conference on Women in Beijing. The latter has been a powerful stimulus in creating a national mechanism to promote women's advancement and gender equality.

2. Human Development

11. Comparatively high standards of human development were achieved before independence. The country's life expectancy and literacy rates are still near the top of the range of countries with a similar per capita income, and age-specific mortality is low, while showing no major gender discrimination. However, the severe economic difficulties and the rapid deterioration of social services and the social safety net since 1991 has had direct implications on the social situation of the people of the Kyrgyz Republic. The 1993 UNDP Human Development Report gave the Kyrgyz Republic a human development index (HDI) of 0.689 for 1990, ranking 83 out of 173 countries. The HDI based on the 1999 UNDP Report was 0.702, which represents a ranking of 97 out of 174 countries. Given the continuing socioeconomic difficulties, deterioration in the human development index may be expected.

12. The Government ratified the International Convention on Children's Rights in 1991, and the ILO Convention No.138 on the Minimum Age for Employment in 1992. Children under 14 years of age are prohibited by Kyrgyz law to work and 15-year-old children are only allowed to work minimum hours. Children between 16 to 18 years are allowed to work not more than 24 hours a week. However, the serious deterioration of living standards and mounting poverty since independence have had a severe impact on the vulnerable sections of society including on women and children. Unofficial estimates of homeless children living on the streets of the capital place the numbers at over 1,000. Although related statistics are not available there is anecdotal evidence that poverty can force families to use child labor in agriculture and other economic activities. The Kyrgyz Government is seriously concerned about such developments and has put the prevention of child labor high on its social agenda.

3. Environment

13. The Kyrgyz Republic is characterized by its harsh natural conditions and delicate ecosystems which require well-planned and protective management. The country has a highly varied topography with a rugged mountainous terrain; only 7 percent of its territory is cultivable. More than a third of the flow of water forming the Aral Sea basin comes from the Kyrgyz Republic. Major environmental problems in the country result from the salinization of land and the excessive use of toxic agrochemicals. Soil erosion caused by overgrazing, poor drainage management, forest overcutting, and lack of forest cover affect more than 50 percent of the country's arable pastures. Other major concerns are industrial pollution from mines and metallurgical plants, including those plants that process or store radioactive and industrial wastes. To address ecological problems, more efforts need to be directed to the implementation of the 1995 National Environmental Action Plan. Many agencies are involved in environmental monitoring and management. The ability of all agencies to function effectively, however, is limited owing to reduced budgets, outdated equipment, and scarce supplies. Strengthening

environmental monitoring and management capacity is one of the most important development requirements of today.

D. Governance

14. Since independence the Kyrgyz Republic has achieved considerable progress in improving governance as reflected in the substantial reforms in public sector management and in increasing degrees of accountability, participation, predictability, and transparency. Government accountability is being improved in several ways, including better public financial management and civil service reform. Improving the management of public finance aimed at restoring fiscal balance constitutes one of the main elements of the Government's macroeconomic stabilization program. Besides instituting fundamental tax reforms, the Government has been making strenuous efforts to further rationalize expenditures, to strengthen the tax collection and administration, and to improve its budget process. The Government is also actively downsizing the civil service. Major ministries were reorganized in late 1996 and agencies privatized or contracted out. Civil service reforms are underway to strengthen local government administration, streamline central government policymaking, and progressively withdraw from directing and allocating the factors of economic production. In 1999 the Government instituted a stringent drive for the collection of overdue loans from the budget or guaranteed by the Government.

15. Areas in which the Government has taken steps to improve participation include: (i) strengthening the responsibilities and capabilities of local governments to better target the decentralization of development reforms; and (ii) laying special emphasis on decentralized social services delivery and the management of communal/urban utilities divested from state enterprises. As it privatizes state farms and state industrial enterprises, the Government is further encouraging and expanding the role for the private sector and non-government organizations. In the areas of predictability and transparency the Government recognizes that with limited state resources the private sector has to be the main engine of growth. With this in mind the Government has since independence embarked on a far reaching program of legal reform to create an environment supportive of the private sector. It has sought and obtained the assistance of various donor sources in improving the legal framework in a number of key areas and sectors such as agriculture, infrastructure, education, health, pensions and other social services, finance and the promotion of the private sector in general. While these have given a powerful stimulus to the development of the private sector in the country which now accounts by far for the majority of production, there is still much to be done. The Government needs to pay close attention to deepening the measures already undertaken to improve corporate governance and enterprise reform. Greater attention also needs to be paid to improving information flows between the Government and the private sector, which is so essential for efficiency in market-based economies. There is a pressing need to reduce corruption, to improve law enforcement systems, and to reduce excessive state interventions in licensing and inspections. The Government is aware of the need to take strong measures in these areas and is committed to the task, and it has finalized a program that addresses some of these concerns. The Government has started a drive against corruption, and criminal proceedings have been initiated against 213 state officials accused of committing economic crimes in 1999.

E. Implementation Assessment

1. The Portfolio

16. ADB activities in the Kyrgyz Republic began in 1994. As of 31 March 2000, ADB had approved 15 loans for 12 projects totaling \$386.2 million, all from the Asian Development Fund (ADF). In addition, 35 technical assistance (TA) grants have been approved amounting to \$22.34 million. Three loans have been closed. Thirteen advisory technical assistance (ADTA) projects have been completed. As is to be expected in the case of a country that experienced such a severe decline in output since 1991, the major part of ADB's lending so far has been for projects aimed at fostering economic growth. Despite economic difficulties, fiscal constraints, and institutional weaknesses, ADB's portfolio in the Kyrgyz Republic is performing well and the implementation of approved loans and TAs is proceeding substantially on schedule, except for one project in the energy sector which has experienced difficulties (see para. 17). In the short period of time since its operations in the country began, ADB has emerged as a major source of development assistance to the Kyrgyz Republic. ADB has been requested by the Government to take the lead role in the education sector. ADB has also responded promptly to the Government's requests for supporting priority interventions in the areas of roads, rural finance, corporate governance and enterprise reform, and banking sector reform.

17. ADB, along with the World Bank, the Nordic Development Fund, and the Swiss Government, is implementing the Power and District Heating Rehabilitation Project to strengthen the district heating network in Bishkek and increase the availability of power for sale. There were delays in the implementation of the project, but of greater concern was weak financial performance by the national power utility, Kyrgyzenergo. As of the beginning of 1999, not all the loan covenants related to the improvement of Kyrgyzenergo's financial operations were complied with. A joint-mission from the World Bank, ADB and the European Bank for Reconstruction and Development (EBRD) helped the national power utility draw up an Action Plan in January 1999 to halt the deterioration of its financial operations and accelerate its institutional reform. Review of the Action Plan by the World Bank and the ADB in March 2000 indicates that considerable progress has been achieved. Collection of accounts receivable by Kyrgyzenergo have improved as have the utility's financial performance during 1999. Actions have been initiated (i) to review and increase tariff levels; and (ii) to restructure Kyrgyzenergo and privatize distribution. However there is still a need for close monitoring to ensure that Kyrgyzenergo's financial recovery is sustained and kept on track.

18. ADB's portfolio of projects in the Kyrgyz Republic is characterized by a significant proportion of policy-based lending (around 45 percent). It is, however, a young portfolio in which most projects are still in the early or middle stages of implementation. As such, their development impact is yet to be fully realized. A special assistance loan extended in 1994 and an agriculture sector program loan extended in 1995 have been fully disbursed. The former intervention helped stabilize the economy during a very difficult period in the country's history. The agriculture sector program was implemented substantially on schedule and has brought about significant changes in the transition of the sector to a market-based one (see para. 28). A ADB-supported corporate governance and enterprise reform program and an education sector development program were successfully completed and will bring far-reaching results in the concerned sectors. ADB-financed technical assistance has had considerable development impact in supporting capacity building, institution strengthening, regional cooperation, and improving the legal and regulatory framework in various sectors as well as creating the environment for private sector-led growth. In view of the Government's fiscal constraints, local

cost financing is expected to be an important feature of ADB operations in the country (see para. 50). Detailed portfolio performance indicators are given in Appendix 2.

2. Issues in Project Implementation

19. The following constraints are likely to limit the country's absorptive capacity: (i) the scarcity of counterpart funds for project-type investments (see para. 50); (ii) an administrative and implementation structure with weak institutional responsibilities and capacities for decentralized and social market-oriented planning; (iii) problems in formulating coherent development and sectoral policies both at the central as well as the decentralized level; (iv) lack of experience with policies and procedures of external donors; and (v) communication, cultural, and language barriers. Considerable emphasis will need to be placed on capacity building and on strengthening the Government machinery, particularly for the implementation of development projects. Capacity building and human resource development will need to be key components in all ADB investment projects and technical assistance. Recently, there have been delays in the Government's fulfilling conditions to make ADB loans effective. The Parliament's approval of individual loans is a part of the Government's internal requirements in this regard. ADB has been requesting the Government to take all necessary actions in time so that project implementation is not adversely affected. ADB's Kyrgyz operations have grown in complexity and size and a sizeable portfolio of ongoing projects has been built up. The Kyrgyz loan portfolio has the largest number of ongoing projects among the Central Asian republics (CARs), and accounts for 33 percent of the overall value and 43 percent of ongoing loans to the CARs. The effects of the Russian crisis are still working their way through the Kyrgyz economy and ADB's operations in the country will be faced with considerable challenges in the coming years. ADB's Kyrgyz Resident Mission which opened on 3 April 2000, is expected to be a significant support for operations in the country and will help facilitate project implementation.

II. Country Operational Strategy

A. The COS

20. ADB's country operational strategy (COS) for the Kyrgyz Republic was finalized in December 1996 to replace an earlier interim operational strategy. The primary objectives of the COS are to (i) support the Government's reform activities and strengthen its development management through encouraging institutional change; strengthening institutional capacity, and improving the provision of public services; (ii) encourage the creation of a new structure for output and capacity by the private sector through investment and job creation; and (iii) enhance the long-term potential of the country by investing in physical infrastructure and human development as well as selective interventions to protect and rehabilitate the environment.

B. Progress in Implementation

21. Implementation of the COS has been carefully designed to maximize the impact of ADB's limited resources and to complement the extensive assistance programs of other funding agencies. Thus, ADB activities during 2001-2003 will concentrate on four strategic areas: (i) improvement in the provision of public services, particularly those provided by local governments; (ii) agriculture, including rural finance; (iii) human development; and (iv) infrastructure, especially rehabilitation projects to preserve the economic utility of the past investment in the roads sector. In the initial years, ADB operations in the Kyrgyz Republic were focused principally on restoring economic growth. By 1998, there were signs of sustainable economic recovery. At the same time poverty and unemployment and a general deterioration of

the quality of life for a majority of the people were becoming increasingly apparent. The assistance programs prepared since 1998 took into consideration the need for ADB operations to address these growing social concerns. This was particularly true of this year's country programming exercise, which was conducted in February 2000. Poverty reduction was declared by the Government to be of paramount importance in its development priorities identified under the Comprehensive Development Framework (see para. 44). This was a welcome step particularly because of the ADB's own overarching emphasis on poverty reduction. Reflecting this common approach, the Government and the ADB reached agreement on a lending program for 2000-2003 in which at least one project each year is classified as a poverty/core poverty intervention and at least 40 percent of the lending each year is aimed at poverty reduction. In fact the proportion of such loans to total lending will increase to about 73 percent by 2003.

22. A Community-Based Infrastructure Services Sector Project (2000) will benefit about 730 rural communities with some 65 percent of the beneficiaries living below the poverty line. The project will improve water supply and sanitation and will support other essentially required investments in the targeted communities. The Early Child Development (ECD) project (2001) will assist the Government in developing an affordable package of community-based ECD services for the rural poor (see para. 33). In keeping with its priorities to support poverty alleviation in the less developed regions, projects like the Rural Development/Poverty Reduction (2002) and the Second Agriculture Area Development (2003) projects have been introduced into the program and will likely be located in the poorer and more remote oblasts. The Third Education Project (2003) is expected to see a continuation of ongoing ADB support for basic education and is likely to be designed as a poverty intervention with a focus on areas with a higher incidence of poverty.

C. Poverty Partnership Agreement

23. In keeping with the overarching importance accorded to poverty reduction, ADB has made significant changes in the operational program to ensure that a greater number of projects directly target poverty and is assisting the Government in drawing up a National Strategy for Poverty Reduction. At the request of the Government, a joint mission of the IMF, the World Bank and ADB visited the Kyrgyz Republic in February 2000 to launch the preparation of a National Strategy for Poverty Reduction (NSPR). The Government views the NSPR to be the center-piece of its CDF and sought the assistance of the above-mentioned institutions and other donors such as the UNDP in formulating the NSPR. To assist in the formulation of the NSPR, ADB is providing advisory technical assistance to support the studies agreed upon. The TA will help the Government to better understand the profile of the poor, and identify the obstacles and bottlenecks for effective poverty reduction. It will also support the Government in consultative and participatory processes, to ensure that the vision of poverty reduction addresses the demands of civil society and is shared by the country's population. The formulation of the NSPR is underway and is expected to be completed in the first quarter of 2001. It is expected that ADB will enter into a Partnership Agreement with the Government in accordance with ADB's poverty reduction mandate once the NSPR is finalized. The IMF and the WB will build their programs around the first three-year framework of the NSPR.

III. Sector Strategies

24. The effects of the Russian crisis are continuing to have an impact on the Kyrgyz economy. The Kyrgyz Republic has a good record of absorbing planned levels of ADB assistance and of providing budget counterpart funds in a timely manner. As stated earlier, the Government is facing severe budget constraints which are expected to prevail over the medium-

term. Nevertheless, the Government has recently assured ADB that the counterpart fund requirements of ongoing and planned ADB-financed projects would be met adequately. To ensure its counterpart funds, the Government has indicated that budget cuts would be made first for projects which suffer from poor implementation. ADB-funded technical assistance will support the Government's plans to prioritize the projects included in the public investment program; the Government also intends to limit future borrowings from non-concessional sources. ADB will closely track the actual provision of counterpart funds. If there are serious shortcomings in this regard or if the budget situation worsens for any unforeseen reason, then the future lending program may be scaled back.

25. In August 2000, armed combatants infiltrated into Batken province in the south of the Kyrgyz Republic from Tajikistan. Due to the resultant uncertain security in the southern provinces of the country, an area where ADB is active, mission travel was temporarily suspended. The United Nations has since provided clearance for travel in most areas. Until the security situation is fully settled, there is the risk that the Government's resources will be diverted, causing further difficulties to an already tight fiscal situation.

26. Another issue facing ADB operations in the Kyrgyz Republic is the risk that ADB-financed ADTAs could be affected adversely by the ongoing program of civil service reforms. The related government restructuring, organization of ministries, and downsizing of personnel was carried out in the past in an unstructured manner. Some of the major institutional and capacity building efforts supported by ADB-financed ADTAs have met with mixed success since significant numbers of concerned staff were shifted to other agencies, left for the private sector or do not continue in their present posts for other reasons. The responsibility for civil service reforms has been shifted in 1999 to the President's Office (PO). ADB has been able to reach understanding with PO to institute safeguards, which will minimize the risk of the impact and objectives of future ADTAs being affected by the process of civil service reforms.

27. The economic, legal, and regulatory framework inherited at independence in the Kyrgyz Republic emphasized administrative rather than market-determined and contractual relationships. These suppressed economic initiatives by individuals and enterprises and imposed constraints on private sector development. Across all sectors, policy and institutional reform and capacity building remain the highest priority and the critical element in spurring new productive investment and economic growth. Through advisory technical assistance and program and project lending, ADB proposes to support policy changes in the agriculture, education, road, power, and social sectors and for improving corporate governance.

A. Agriculture and Rural Development

28. In the agricultural sector, the key development issues challenging the Government are (i) the policy and institutional inefficiencies remaining from the inherited structure of agricultural production and organization; (ii) the extent of poverty, particularly in the rural areas; and (iii) the unsustainable use of natural resources. The Government has carried out a comprehensive program of reforms under ADB's Agriculture Sector Program Loan of 1995 which focused on policy and institutional efforts in land reform and natural resources management, restructuring and further improvement of the agricultural input supply system, maintenance of social protection, and capacity building of the sector's key institutions in managing the transitional process. Significant elements of capacity building and institutional strengthening have been and will continue to be a major feature of ADB's operations in the agriculture sector in the Kyrgyz Republic. The Government's efforts have yielded results with impressive growth in the agriculture sector since 1996 and even in the difficult period since the advent of the Russian

crisis. In addressing the above issues the Government is continuing its overall reform agenda to (i) create basic market institutions through establishment of clearly defined and enforceable property rights; (ii) promote development of competitive markets through privatization and restructuring of agricultural entities; and (iii) ensure the reform program proceeds with minimum social and environmental costs. These and assistance for capacity building, rural finance, and increasing agriculture productivity are identified in the COS as priority areas in ADB operations. ADB will consider further support to the Government's sector objectives and reform program through the Rural Development/Poverty Reduction and the Second Agriculture Area Development Projects.

B. Infrastructure

1. Energy

29. In the power sector, there is a critical need to rationalize the tariff levels for electricity and district heating since low tariffs have led to uneconomical consumption patterns and weak financial performance of the national power utility, Kyrgyzenergo. In the energy sector the COS aims at (i) encouraging fiscally responsible operations of SOEs; (ii) promoting the active involvement of the private sector in production and conservation; (iii) rationalizing, rehabilitating, and maintaining the infrastructure supply system; and (iv) reducing pollution as a result of sector activities. ADB has also carried out two regional studies that indicate the possibility of developing a transmission line between Naryn in the Kyrgyz Republic and Kashgar in Xinjiang Uygur Autonomous Region in the PRC. The proposed 220 kV transmission line would provide 150-200 GWh annually for the development of Kashgar region and provide export earnings to the Kyrgyz Republic without having to build new generating capacity. Provided satisfactory understandings are reached between the two sides on the tariff rates at which electricity would be sold, ADB would support the proposal for implementation.

2. Transport

30. ADB's operations in the transport sector in the Kyrgyz Republic focus on the road subsector. Provision of reliable road transport network and services will promote sustainable economic development, providing more employment opportunities and generating additional incomes in poor areas thus contributing to poverty reduction. In the road sector, the country operational strategy aims at (i) developing an efficient policy and regulatory framework; (ii) corporatizing/commercializing and, where appropriate, privatizing operations of state-owned enterprises; (iii) promoting competition and private sector participation in the provision and operations of road infrastructure facilities and services; (iv) improving road funding by improving tax and duties collection, developing a user-pay approach to roads funding, and removing of subsidy-induced distortions in pricing of transport networks; (v) rehabilitating and improving operations, maintenance, and safety standards of the transport networks; (vi) human resource development; (vii) improving environmental standards; and (viii) developing regional transport links. Future ADB assistance in the road sector will continue to bring about improvements in these areas as it has done through the First and Second Road Rehabilitation Projects. ADB support was extended in October 2000 for the rehabilitation of the regional road between Bishkek and Almaty and the improvement of cross-border procedures and regulations; in addition, assistance is planned in 2001 for the third and final phase of improving the Bishkek-Osh road.

3. Industry and Finance

31. The operational strategy eschews active involvement in industry with the exception of program-based lending to further basic policy reform. In making this decision, the relatively limited resources of ADB, the needs of the country, and the programs of other funding agencies have been taken into account. The strategy also says that as long as ADB does not become directly involved in private sector support projects, the scope for long-term ADB operations in industry and finance through loans to the public sector is limited. However, recent events have necessitated some re-alignments being made to this position. ADB-financed technical assistance associated with pension reform studied the development of capital and insurance markets to enhance financial markets development through greater financial intermediation, and promotion of a wider range of financial instruments. These studies identified serious weaknesses in the financial sector and an unfinished reform agenda. While a World Bank-financed structural adjustment credit (FINSAC) initiated a comprehensive reform agenda for the Kyrgyz banking sector, the Russian crisis brought to light new areas to be strengthened. ADB has coordinated closely with the World Bank and the EBRD to ensure that there is full understanding and agreement for ADB to build upon the work done under the FINSAC. The World Bank and the EBRD has supported fully ADB's initiative in this matter and the former has clarified that it is not planning a FINSAC II. Accordingly, ADB extended support for a Financial Intermediation and Resource Mobilization Program Loan in 1999, the key objective of which is to improve the efficiency of financial intermediation by promoting a sound, well-functioning, and resilient banking system, and enhancing the role of capital markets. Assistance has been sought from ADB for a second phase of corporate governance and enterprise reform program loan which will concentrate on: (a) strengthening the legal and regulatory framework for corporate governance and bankruptcy procedures; (b) support for post privatization initiatives to facilitate enterprise restructuring; and (c) strengthening the industrial and competition policy environment, supporting accounting reforms, and streamlining government policy and legal interventions in business activities.

C. Social Infrastructure and Environment

1. Social Infrastructure

32. The education sector needs reorientation and restructuring in order to meet the new requirements of an emerging market economy and to function in a more effective and efficient way. An education sector master plan formulated with the assistance of ADB formed the basis for a wide-ranging education sector development program (ESDP) financed by ADB in 1997. The ESDP aims at enhancing overall sector efficiency and sustainability by introducing income generation and cost recovery mechanisms, encouraging private education, rationalizing staffing, strengthening planning and management capacities, and developing school based finance management. In the basic education sub-sector, educational quality issues are addressed by the ESDP that supports the development of new curricula and textbooks, teacher education, and school facilities and equipment improvement. The focus of ADB assistance will gradually shift to post-basic education with the preparation of a skills and entrepreneurship development project during the current year. Through its technical assistance program and planned support for a Third Education Project, ADB will continue supporting the Government's effort to shape its educational reforms and strengthen its educational administration.

33. The COS recognizes that reforms are needed to reorient the social security system and the delivery of social services to become more efficient, equitable, and sustainable. Emphasis needs to be placed on reducing poverty and unemployment, supporting decentralized social

policy development, and better targeting the vulnerable groups. As stated in para. 22, the project mix for the years 2000-2003 indicates a greater focus on social concerns, with increased attention to reducing poverty and improving the quality of life. The difficulties experienced by the economy have resulted in seriously deteriorating health and nutrition status of mothers and small children. In this regard, the proposed Community-based Early Child Development Project, which is programmed for 2001, requires special mention. This core poverty intervention will focus on mothers and children under eight and entails an integrated set of service-delivery packages with development, and not mere survival, as the desired outcome.

2. Environment

34. The operational strategy for the Kyrgyz Republic states the importance of sound management of natural resources and protection of the environment as an important element for sustainable growth. It envisages, however, ADB assistance in this regard to be focused more on addressing environmental concerns related to the projects that ADB supports in sectors such as agriculture and infrastructure. ADB extended technical assistance in December 1997 to strengthen the Government's capacity for environmental monitoring and management and will follow this up in the current year with further technical assistance in this area. ADB assistance is planned in 2003 for a project that will address the long-standing problem of radioactive and other hazardous tailings from several abandoned uranium mines and processing facilities at different locations in the country. The processing of the project is conditional on the requirement that all uranium processing facilities in the country be permanently closed down.

D. Governance Dimensions of ADB Operations

35. ADB operations in the Kyrgyz Republic have focused on supporting the transition from the former central planning structures toward rapidly building institutions based on market economy principles. ADB TA and lending operations in the agriculture, energy, road transport, and social sectors have incorporated a substantial program of institution building. ADB assistance has been provided to support strengthening of economic policy making and monitoring capabilities in key government agencies. Besides improving the organizational structure of the agencies, the assistance provides for strengthening their capacity to analyze economic issues, make appropriate policy prescriptions, and monitor the progress and impact of policy reforms.

36. A key area of ADB assistance is support for corporate governance and enterprise reform, which is designed to reform the policy and legal environment, to strengthen the competitiveness of public and private enterprises, and improve their management. Major components are development of a model company charter for medium and large enterprises, assistance in expediting the liquidation and restructuring of nonviable enterprises, and increased transparency and greater stakeholder commitment of the restructuring process through public information and education. In addition, state-owned and private enterprises have been cut off from subsidized loans from the budget and now must access credit provided by commercial banks, without government guarantee.

37. In the roads sector, ADB operations have supported market liberalization by providing for increased competition between the public and private sectors. In the energy sector, ADB assistance has been provided to enhance cost recovery by strengthening the capacity of concerned agencies to prepare cost-based tariffs for electricity and district heating. A financial sector program supported by the ADB will improve governance by supporting the development of a resilient, well functioning, and properly regulated and supervised financial sector. The

program also aims at bringing about increased transparency and a greater role for market forces in the banking sector. In the education sector, ADB assistance has supported (i) developing an education and training master plan to better align policy and planning with the needs of the emerging market economy; and (ii) efficiency improvements and cost recovery.

38. Other capacity-building assistance has been provided to water users associations and for environmental management, while the pipeline proposes further assistance in agriculture, education, and roads. ADB has an ongoing program of in-country workshops on procurement and disbursement procedures in order to familiarize government officials with best practices in transparent and efficient project implementation. To facilitate widespread dissemination, ADB's guidelines on procurement and consultant selection have been translated into Russian as has the anti-corruption policy. Officials from the Kyrgyz Republic have participated in an ADB workshop on improving taxation systems and in a program of regional TA for Central Asian economies in transition designed to build capacity in project accounting, improve macroeconomic analysis for key policy makers, strengthen rural finance, and improve economic analysis of projects.

E. Gender Dimensions of ADB Operations

39. When the Kyrgyz Republic was part of the Soviet Union, inroads had been made in equal opportunity for female participation in the labor force. This was supported by guaranteed equal access to education, a complete childcare system, and the availability of extraordinary maternity and prenatal benefits and care facilities. With independence, the cost of maintaining the extensive social care system became untenable and led to erosion of some institutions that supported gender equality. Through an increasing number of projects aimed at poverty reduction and improving the living standards of the poor, ADB will mitigate some of negative impacts on women of economic transition. The ongoing ADB-financed Social Services Delivery and Finance Project is assisting central and local governments to rationalize the costs and delivery of social services. To address the increasing incidence of poverty and unemployment accompanying transition, ADB has developed a project on Skills and Entrepreneurship Development. This project will focus on formal education and training, non-formal skills development, and entrepreneurship supported by the nascent private sector; the active participation of women is expected to be a special feature of project design. A Community-Based Infrastructure Services Sector Project, which was approved in 2000, will particularly benefit women and children from water supply improvements since collection and storage of water is mainly their responsibility. Women's role in child care will be made easier through better health of children expected from a safe, portable, piped water supply. Under the project, women's organizations will be involved in leadership development and for regular participation in local governments, water user councils, and water sewage agencies. At the sector level, ADB conducted a study on the impact of transition on women titled Women and Gender Relations: The Kyrgyz Republic in Transition. The report provides ADB with gender-related interventions in specific sectors with implications for future ADB programming and project activities.

F. Private Sector Development

40. To date, ADB has not undertaken any direct private sector operations in CARs because of an earlier arrangement between ADB and the EBRD that there would be a division of labor between the two institutions such that private sector operations would be the responsibility of the latter. However, it is now felt by all parties that ADB has a relevant role to play in direct support to the private sector. Consequently, in consultation with the governments of the CARs and the EBRD, ADB prepared a Private Sector Strategy for Central Asia, which was circulated

to the Board of Directors in March 1998. The strategy proposes that ADB respond to the region's needs by (i) focusing on private sector operations that would be directly complementary to public sector programs; (ii) developing programs in those sectors that can have a direct impact on reducing the costs of transition, particularly in the social sectors; and (iii) seeking the maximum involvement of other investors or participants. The Strategy recognizes that, given the existing programs of ADB and other funding agencies, there are likely opportunities for ADB to provide direct assistance to the private sector in (i) the financial sector, especially to encourage good corporate governance; (ii) infrastructure, especially in rehabilitation and operation projects; (iii) the company towns facing difficulties; (iv) agriculture to encourage farm restructuring; (v) small- and medium-scale enterprise assistance; and (vi) social infrastructure to help create private sector service providers. The Government has shown a keen interest in the Strategy and has requested that ADB commence private sector operations in the country at an early date. Accordingly, Private Sector Group staff visited the Kyrgyz Republic and are currently examining certain possibilities of private sector assistance.

IV. Regional Cooperation

41. ADB will actively support subregional cooperation in Central Asia. The four ADB members in the region (the Kyrgyz Republic, Kazakhstan, Tajikistan, and Uzbekistan) share a common institutional history and face similar policy and reform challenges. Moreover, the infrastructure inherited upon independence was designed to meet the needs of the former Soviet Union, not the requirements of the present independent countries.

42. In response to strong requests from the governments, ADB assistance has been provided to help resolve cross-border and subregional issues. Under a regional technical assistance (RETA) approved in 1997, ADB has supported subregional cooperation among the Kyrgyz Republic, Kazakhstan, Uzbekistan, and the Xinjiang Uygur Autonomous Region of the PRC in the areas of energy, transport, and trade and payments systems. During a series of workshops, high-priority policy reforms and investments were identified. Under the second phase of the initiative, for which additional RETA support was approved by ADB in December 1998: (i) the dialogue will be intensified to support policy reform and sector analysis; (ii) active private sector involvement will be sought; (iii) steps will be taken to improve the institutional capacity of public agencies involved and to enhance the legal and regulatory framework; (iv) assistance will be provided to implement priority regional infrastructure investments; and (v) the inclusion of Tajikistan in these activities will be examined. ADB's support for regional economic cooperation has resulted in support in 2000 for the rehabilitation of the strategic road link between Bishkek and Almaty. Other loan projects that could result from the second-phase RETA study are further support of (i) selected road and other transport links between the cited countries; and (ii) subsectors such as intraregional energy trade. Under the ADB-financed RETA: Rural Financial Systems Workshops in Central Asia, a workshop was held which aimed at contributing to capacity building for developing a sustainable rural financial system by gaining better insights on the role of rural finance, by exposing policy makers to best international practices, and by learning from rural finance experiences in the region. A planned RETA on subregional cooperation in managing education reforms will cover the Kyrgyz Republic, Kazakhstan, Uzbekistan, and Tajikistan, as well as Mongolia and Azerbaijan. It will provide the governments and their external partners an opportunity to take stock of reform experiences and promote educational policy dialogue.

V. Donor Activities and Aid Coordination

43. Within the framework of the Consultative Group, the International Monetary Fund (IMF) and the World Bank play a lead role in mobilizing support in the foreign donor community for the transition of the Kyrgyz Republic to a market economy. In 1993, the IMF provided support through a Standby Arrangement and also made resources available under the Systemic Transformation Facility. IMF efforts have continued since July 1994 with a three-year ESAF, which was completed last year. A second three-year ESAF arrangement was approved by the Fund on 29 June 1998; as stated in para. 5 a PRGF was approved in February 2000. The World Bank has concentrated on supporting structural reforms, focusing particularly on enterprise and banking reform and agriculture. Its Agriculture Privatization and Enterprise Adjustment Credit supported reforms in land titling and farm restructuring. The World Bank also supports projects in social protection, labor market transformation, and energy. There is an informal understanding between the World Bank and ADB regarding the social sectors that the former will focus on assisting the health sector and ADB on the education sector. However, recently the World Bank has expressed an interest in reviewing this understanding. Discussions will be initiated between the two sides and the ADB will reassess the division of responsibilities and decide whether to continue or modify these arrangements as appropriate. The EBRD has focused on promoting private sector activities through equity participation and loans for mining and agro-processing enterprises and a line of credit for small and medium enterprises. It has provided technical assistance in such sectors as hydropower, agriculture, telecommunications, and tourism. The United States has provided TA programs to support privatization and economic restructuring. Financial and technical assistance has also been provided by the United Nations Development Program, Japan, Denmark, European Union, Germany, the Netherlands, the United Kingdom, Pakistan, Switzerland, and Turkey.

44. Aid coordination takes place through (i) regular contact between ADB's Kyrgyz Resident Mission and visiting staff with the representative offices of donors at Bishkek; and (ii) the annual Consultative Group Meetings chaired by the World Bank. In addition, UNDP convenes local donor coordination meetings every month. There is very close coordination between ADB and the representative offices of the major donors to the country such as the World Bank, the IMF, EBRD, USAID, and the UNDP. Excellent relations exist with these organizations and there is generally a free exchange of operational information and documents. A summary of overall external assistance to the Kyrgyz Republic is given in Appendix 3. The Kyrgyz Republic is one of the pilot countries selected under the Comprehensive Development Framework (CDF) initiative proposed by the World Bank. In the inaugural Workshop held in Bishkek in July 1999, the foundation of the Kyrgyz CDF for 2000-2010 was enunciated by President Akayev. It was stated that the CDF requires a concerted effort from all parties, including the legislative and executive branches of the Government, civil society, private sector, and the international community. This joint effort must be aimed at designing the best path towards common objectives, such as reducing poverty to one third, doubling per capita income, improving living conditions, introducing an effective governance as well as creating the necessary conditions for sustainable economic growth. In the CDF, macroeconomic and financial aspects will be given due consideration, particularly in the short-term, since economic stability is essential for successful development. The three main thrusts of the CDF are identified as (i) poverty alleviation and social protection; (ii) sustainable economic growth; and (iii) good governance, legal and judicial reform. Workshops to be conducted from February to December 2000 will help firm up the details of the Government's policies and priorities in these areas. As a major donor to the country, ADB has been participating in the CDF exercise.

VI. Cofinancing and Catalyzing External Resources

45. Cofinancing has been an important feature of ADB operations in the Kyrgyz Republic. Of the 12 projects financed by ADB (with loans amounting to \$386.2 million) five have involved cofinancing from sources such as IDA, DANIDA, Switzerland, OECF, OPEC Fund, and the Nordic Development Fund amounting to \$110.28 million equivalent. ADB will continue to explore avenues of mobilizing cofinancing in conjunction with the lending programs for 2001-2003. In particular, a number of high-priority project proposals, such as investments in power and transport infrastructure, involve large amounts of funding. ADB and the Government have agreed to examine cofinancing opportunities with key donors for such projects. However, the Kyrgyz Republic is implementing an economic stabilization program with the assistance of the IMF which envisages no nonconcessional borrowing including Government guarantees for such loans. ADB cofinancing operations will focus therefore on official cofinancing in accordance with the PRGF program. Given the policy on nonconcessional borrowing including Government guarantees, there do not appear to be prospects for export credit financing and commercial financing.

VII. ADB's Operational Program

A. The Proposed Program

46. ADB's operations are proceeding well and the Government takes a keen interest in implementing projects on time. Its determination to take difficult policy decisions particularly relating to sectoral adjustments can be seen from ADB-assisted interventions in the road, power, agriculture, finance, and education sectors and for improving corporate governance. Both the Government and ADB can look back with some satisfaction to the operations that have grown from one loan each of \$40 million in 1994 and 1995 to three loans amounting to \$72 million in 1999. Lending levels to the Kyrgyz Republic will depend principally on (i) ADF availability; (ii) the Government's adherence to the macroeconomic stabilization and structural reform program; (iii) the satisfactory performance of the ongoing projects in the Kyrgyz portfolio; and (iv) the availability of counterpart funds. Due to ADB's ADF resource constraints since 1998, the annual lending indicative planning figure (IPF) for the Kyrgyz Republic was reduced from \$80 million to \$70 million. In view of the Kyrgyz Republic's excellent track record in carrying out reforms and in implementing ADB-financed projects, the cut in the annual lending IPF was less than in some other ADF-recipient DMCs. As may be seen from the operational program for 2000-2003 the requirements for ADB financing some times exceed the annual lending IPF of \$70 million. Adjustments would have to be made each year to fit the lending program within the ADF resources available. Further, the country's debt problems and budget constraints will be carefully assessed in deciding future lending programs.

47. The proposed loan and TA pipeline for 2000-2003 is summarized in Table 1. The details are in Appendix 4. Project profiles for firm 2001 loans are attached as Appendix 6.

B. Strengthened Role of ADB's Resident Mission

48. Following the approval of the new Resident Mission policy, ADB is reinforcing the capacity of its Kyrgyz Resident Mission (KYRM) to further strengthen its operations in the country. KYRM started functioning in Bishkek from 2 April 2000. The number of KYRM staff was increased and the office facilities have improved significantly. During 2001-2003, KARM will be provided with sufficient qualified staff and infrastructure to achieve its expanded functions. These functions include (i) government, civil society, and private sector relations; (ii) policy

dialogue and support; (iii) economic and sector work and country reporting; (iv) aid coordination; and (v) external relations and information dissemination.

Table 1: Lending and Technical Assistance Program, 2000-2003

A. Public Sector Lending Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program (ADF)	3	72.0	3	66.0	2	70.0	3	90.0	3	75.0

B. Technical Assistance Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	6	2,922.5	8	4925.0	5	3300.0	5	3,200.0	6	3,900.0

^a Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

VIII. Economic and Sector Work Program

49. The proposed economic and sector work (ESW) is focused on assisting the Government in developing and implementing policy and institutional reforms in the education, financial, road, power, and social sectors. Cross-cutting issues such as environmental management will also be analyzed. The second phase of the regional economic technical assistance for the governments of the Kyrgyz Republic, Kazakhstan, the People's Republic of China, and Uzbekistan (see para. 41) will also constitute an important item of ESW during the current year. However an item of ESW that requires special mention is assistance to the Government in formulating a National Poverty Reduction Strategy NSPR (see para. 23). Studies supported by the ADB for this purpose will assist the Government to (i) better understand the profile of the poor; and (ii) identify obstacles and bottlenecks for effective poverty reduction. It will also support the Government in consultative and participatory processes to ensure that the vision of poverty reduction addresses civil society demands and is shared by the population of the country. Another important item of ESW arising out of consultations to enhance collaboration among MDBs is for ADB to work together with the World Bank and EBRD in developing a governance strategy for the Kyrgyz Republic.

IX. Local Cost Financing

50. The adverse effects of the Russian crisis and the consequential downturn in the Kyrgyz economy have resulted in an acutely constrained budget situation. The growing debt service burden will put further pressures on the budget because in the period until 2005 a significant portion of all non-concessional debt (equivalent to over 40 percent of the total) will need to be repaid. Further, there are inherent weaknesses in the tax administration and budget systems of the Government. These are being addressed with the help of the IMF and other agencies but the results will only be apparent over the medium term. The focus of the Government has therefore been on reducing public expenditure, which has resulted in a serious limitation of funds available for agriculture, social sector needs, and public infrastructure. In view of these factors, ADB will finance up to 80 percent of total project costs, including the provision of local cost financing. To date, ADB financing has been limited to 30-58 percent of the total cost of individual projects, including a relatively modest amount of local cost. This is largely because of the availability of cofinancing for the concerned projects.

KYRGYZ REPUBLIC
COUNTRY PERFORMANCE INDICATORS

Item	1995	1996	1997	1998	1999
ECONOMIC INDICATORS					
A. Income and Growth					
1. GNP per capita (\$, current) ^a	500.0	550.0	480.0	380.0	—
2. GDP Growth (% , constant prices)	(5.4)	7.1	10.1	2.1	3.7
a. Agriculture and Forestry	(2.0)	15.2	12.3	4.1	8.7
b. Industry and Construction	(12.3)	2.6	19.8	(6.6)	(1.7)
c. Services	(4.4)	(0.2)	0.6	4.5	1.7
B. Money and Inflation					
	(annual percent change)				
1. Consumer Prices (annual average)	43.5	31.9	23.5	8.2	35.9
2. Consumer Prices (end of period)	31.9	35.0	14.7	18.3	39.9
3. Broad Money (M2)	77.8	22.9	25.4	17.2	33.9
C. Government Finance					
	(percent of GDP)				
1. Revenue (including grants)	16.7	16.0	16.2	18.0	17.8
2. Total Expenditure	33.2	25.2	25.3	28.8	30.6
3. Accrual Surplus (+) / Deficit (-) ^b	(16.4)	(9.4)	(9.2)	(9.5)	(12.0)
4. Overall (cash) Surplus (+) / Deficit (-) ^b	(16.5)	(9.2)	(9.1)	(10.8)	(12.8)
D. Balance of Payments					
1. Trade Balance (% of GDP)	(12.0)	(13.8)	(0.9)	(10.5)	(6.8)
2. Current Account Balance (% of GDP)	(16.2)	(23.2)	(7.9)	(19.8)	(16.3)
3. Export (\$) growth (annual percent change)	20.3	29.8	18.8	(7.3)	(20.9)
4. Import (\$) growth (annual percent change)	24.6	33.7	(17.5)	17.0	(27.6)
E. External Payments Indicators					
1. Official Reserves (\$ million, end-period)	115.0	110.0	142.0	130.0	184.0
(months of Imports) ^d	1.3	1.6	1.8	2.2	3.2
2. External Debt Service (% of exports) ^c	17.8	8.5	5.7	7.0	8.3
3. External Debt (% of GDP)	41.3	53.0	54.8	97.5	128.8
Memorandum Items:					
GDP (million soms, current prices)	16,145	23,399	30,686	34,181	48,744
Exchange Rate (som per \$, annual average)	10.8	12.8	17.4	20.8	39.0
Population (million)	4.5	4.6	4.7	4.7	4.8

— = Not available; GNP = Gross National Product; GDP = Gross Domestic Product.

^a World Bank estimates, using Atlas methodology based on a three-year average of inflation-adjusted exchange rates. The estimate is heavily biased by the use of the official ruble-dollar exchange rate in pre-independence years.

^b The fiscal accounts now include the foreign financed public investment program (PIP); and privatization revenues were reclassified from capital revenue to domestic financing. As a result, the measured deficits differ from previous reports.

^c External debt includes public and publicly-guaranteed debt.

^d Excludes NBKR Pledges to secure government guaranteed debt and blocked deposits.

Sources: National Statistical Committee, National Bank of the Kyrgyz Republic, World Bank, and International Monetary Fund.

KYRGYZ REPUBLIC
COUNTRY PERFORMANCE INDICATORS

Item	1985	1990	Latest Year
POPULATION INDICATORS			
Total Population (millions)	4.0	4.3	4.8 (1999)
Rural Population (percent)	-	61.9	65.0 (1997)
Annual Population Growth Rate (% change over the previous year)	2.4	1.9	1.5 (1999)
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	3.9	3.7 (1992)	3.3 (1995)
Maternal Mortality Rate (per hundred thousand live births)	42.8	44.0 (1993)	44.0 (1995)
Infant Mortality Rate (below 1 year; per '000 live births)	37.8	31.3 (1993)	35.0 (1995)
Life Expectancy at Birth (years)	68.5	68.0 (1993)	66.9 (1997)
Female	69.8	72.7 (1993)	71.0 (1997)
Male	65.6	64.6 (1993)	62.3 (1997)
Adult Literacy (%)	90.5	95.2 (1991)	95.1 (1997)
Primary School Enrollment (% of schoolage population)	123.0	112.0	110.0 (1994)
Female	123.0	112.0	111.0 (1994)
Secondary School Enrollment (% of schoolage population)	110.0	101.0	86.0 (1994)
Female	108.0	102.0	89.0 (1994)
Child Malnutrition (% of under age 5)	-	7.0 (1993)	9.3 (1996)
Percent of households below the poverty line	-	39.7 (1993)	49.2 (1996)
Income Ratio of Highest 20% to Lowest 20%	-	5.7 (1993)	6.7 (1995)
Population with Access to Safe Water (%)	-	-	-
Population with Access to Sanitation (%)	-	-	53.0 (1993)
Public Education Expenditure as % of GDP	-	8.2	5.6 (1995)
Public Health Expenditure as % of GDP	-	3.9	3.4 (1995)
Human Development Index	-	0.689	0.702 (1997)
Human Development Ranking	-	83	97 (1997)
ENVIRONMENTAL INDICATORS			
Forestry			
Total Forest Area (thousand hectares)	-	730 (1990)	730 (1995)
Annual deforestation	-	-	-
Biodiversity			
Nationally protected area			
Area (thousand hectares)	-	-	688 (1997)
Number	-	-	31 (1997)
As % of land area	-	-	3.6 (1997)
Biosphere reserves			
Area (thousand hectares)	-	-	71 (1997)
Number	-	-	1 (1997)
World Heritage sites (number)			
Area (thousand hectares)	-	-	-
Number	-	-	-
Wetlands of international importance			
Area (thousand hectares)	-	-	630 (1997)
Number	-	-	1 (1997)
Land Use (thousand hectares)			
Cropland	-	-	1,387 (1992-94)
Permanent pasture	-	-	8,900 (1992-94)
Global Environmental Problems			
Total CO ₂ emissions (thousand metric tons)	-	-	5,463 (1995)
Per capita CO ₂ emissions (metric tons)	-	-	1.2 (1995)

- = not available; GDP = Gross Domestic Product; CO₂ = carbon dioxide.

Source: National Statistical Committee, World Bank, UNDP, WRI.

KYRGYZ REPUBLIC
PORTFOLIO PERFORMANCE

Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1999)

A. Project Portfolio	Net Loan Amount \$ million %		Rating (No.) ^a										
			Total		Implementation Progress				Development Objectives				
			No.	%	HS	S	PS	U	HS	S	PS	U	
Agriculture and Natural Resources	48.3	18.4	2	20.0	-	2	-	-	-	-	2	-	-
Energy	27.9	10.6	1	10.0	-	-	1	-	-	-	1	-	-
Finance and Industry	35.5	13.5	1	10.0	-	1	-	-	-	-	1	-	-
Social Infrastructure	42.9	16.3	2	20.0	-	2	-	-	-	-	2	-	-
Transport and Communications	98.6	37.6	2	20.0	-	2	-	-	-	-	2	-	-
Others/Multisector	9.1	3.5	2	20.0	1	1	-	-	-	-	2	-	-
Total	262.4	100.0	10	100.0	1	8	1	0	0	0	10	0	0

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	-	225.46	225.46
(2) Disbursed amount (\$ mn, cumulative, active loans only)	-	118.33	118.33
(3) Percentage disbursed [(2)/(1)] (%)	-	52.49	52.49
(4) Disbursements (\$mn, active loans only, latest year)	-	79.60	79.60
(5) Disbursement ratio (%) ^b	-	41.49	41.49
C. Net Transfer of Resources (\$ million)	OCR	ADF	Total
Net transfer in 1995	-	33.94	33.94
Net transfer in 1996	-	25.80	25.80
Net transfer in 1997	-	51.24	51.24
Net transfer in 1998	-	42.10	42.10
Net transfer in 1999	-	77.82	77.82
Total	-	230.89	230.89

D. Post-Evaluated Projects (By Year of Approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999			
	No.	%	No.	%	No.	%	No.	%		
1. Postevaluation Rating										
Rated Generally Successful (GS)	-	-	-	-	1	50.0	1	50.0		
Rated Partly Successful (PS)	-	-	-	-	1	50.0	1	50.0		
Rated Unsuccessful (US)	-	-	-	-	-	-	-	-		
No Rating	-	-	-	-	-	-	-	-		
Total	-	-	-	-	2	100.0	2	100.0		
2. Postevaluation Rating by Sector (1968-1999)	GS		PS		US		NR		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	-	-	1	100.0	-	-	-	-	1	50.0
Energy	-	-	-	-	-	-	-	-	-	-
Finance and Industry	-	-	-	-	-	-	-	-	-	-
Social Infrastructure	-	-	-	-	-	-	-	-	-	-
Transport and Communications	-	-	-	-	-	-	-	-	-	-
Others/Multisector	1	100.0	-	-	-	-	-	-	1	50.0
Total	1	100.0	1	100.0	0	0.0	0	0.0	2	100.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

KYRGYZ REPUBLIC
PORTFOLIO PERFORMANCE

Table 2 : Status of Project Implementation
Public Sector Projects Only
(as of 31 December 1999)

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum. Contract Awards (\$ million)	Cumulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR	ADF			Original	Revised				Implementation Progress	Development Objective
		(\$ million)				(mm/yy)						
AGR	Rural Financial Institutions Project	-	12.35	Aug-97	Apr-98	Mar-05	-	19	0.79	1.29	S	S
AGR	Agriculture Area Development	-	35.93	Dec-99	pending	Jan-07	-	-	-	-	S	S
ENE	Power and District Heating Rehabilitation Project	-	27.90	Jun-96	Apr-97	Jun-00	-	28	27.39	24.87	PS	S
SOC	Education Sector Development Program	-	19.00	Sep-97	Mar-98	Dec-99	-	-	19.00	19.00	S	S
SOC	Education Sector Development Project	-	13.85	Sep-97	Mar-98	Jun-03	-	10	2.33	1.68	S	S
SOC	Social Services Delivery and Finance Project	-	10.02	Nov-98	Jul-99	Jun-04	-	-	-	-	S	S
I&F	Financial Intermediation and Resource Mobilization Program	-	34.56	Dec-99	Dec-99	Sep-01	-	-	17.25	17.25	S	S
I&F	Commercial Bank Audit	-	0.99	Dec-99	pending	Jan-01	-	-	-	-	S	S
T&C	Road Rehabilitation Project	-	47.05	Jun-96	Sep-96	Apr-00	-	80	44.14	40.03	S	S
T&C	Second Road Rehabilitation Project	-	51.59	Sep-98	Mar-99	Apr-02	-	20	40.85	10.93	S	S
OTH	Capacity Building in Corporate Governance & Insolvency Project	-	3.96	Sep-97	Dec-97	Jun-01	-	55	2.41	2.02	HS	S
OTH	Flood Emergency Rehabilitation Project	-	5.18	Sep-98	Nov-98	Apr-01	-	34	0.84	1.26	S	S
	Total	0.00	262.37						154.99	118.33		

^a Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

SOC: Social Infrastructure

I&F: Industry and Finance

T&C: Transport and Communications

OTH: Multisector/Others

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

KYRGYZ REPUBLIC
OVERALL EXTERNAL ASSISTANCE

External Source (in \$ million)	Past 5 Years (annual average)		1999 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
A. Multilateral Assistance				
ADB	68.44	3.75	72.00	2.92
EBRD	19.84	0.52	6.00	0.00
EU	6.35	13.72	9.95	1.63
IDB	6.57	0.23	0.00	0.00
IFAD	2.30	0.00	0.00	0.00
Nordic Fund	1.12	0.00	0.00	0.00
OPEC	1.71	0.00	3.58	0.00
UNDP	0.00	3.47	0.00	3.06
World Bank	65.69	4.56	46.50	2.03
Subtotal	172.02	26.25	138.03	9.64
B. Bilateral Assistance				
China	3.83	0.28	1.15	1.40
Denmark	1.96	1.96	0.00	0.00
Finland	0.00	0.50	0.00	0.00
France	0.87	0.00	0.00	0.00
Great Britain	0.00	0.48	0.00	0.00
Germany	9.61	5.01	28.63	1.40
India	1.00	0.00	0.00	0.00
Japan	40.56	11.66	33.50	10.88
Korea	2.40	0.00	0.00	0.00
Kuwait	3.78	0.00	0.00	0.00
Netherlands	0.53	0.23	2.63	0.00
Norway	0.00	0.12	0.00	0.00
Pakistan	1.60	0.00	0.00	0.00
Switzerland	8.09	2.88	1.35	3.12
Turkey	7.08	0.00	7.08	0.00
USAID	0.00	21.57	0.00	21.57
Subtotal	81.31	44.69	74.34	38.37
Total	253.33	70.94	212.37	48.02

Source: Goscominvest

KYRGYZ REPUBLIC
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Poverty Classification ^{a*}	Crosscutting Operational Priority ^{b*}	Responsible Division	Year of PPTA	PROJECT COST (\$ million)					
					TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2001 LOAN PIPELINE										
Social Infrastructure										
1. Community-Based Early Child Development	CPI	HD	AEEH	2000	TBD	-	30.0	30.0	TBD	TBD
<i>Subtotal</i>					TBD	0.0	30.0	30.0	TBD	TBD
Transport and Communications										
1. Third Road Rehabilitation	ODI	GG	IETC	1999	TBD	-	40.0	40.0	TBD	TBD
<i>Subtotal</i>					TBD	0.0	40.0	40.0	TBD	TBD
Total					TBD	0.0	70.0	70.0	TBD	TBD
2002 LOAN PIPELINE										
Agriculture and Natural Resources										
1. Rural Development/Poverty Reduction	CPI	HD	AEAR	2001	TBD	-	40.0	40.0	TBD	TBD
<i>Subtotal</i>					TBD	0.0	40.0	40.0	TBD	TBD
Others										
1. Corporate Governance and Enterprise Reform Program II	ODI	PSD	IEFI	2001	TBD	-	30.0	30.0	TBD	TBD
<i>Subtotal</i>					TBD	0.0	30.0	30.0	TBD	TBD
Energy										
1. Sub-regional Power Transmission Line	ODI	RC/GG	IEEN	-	TBD	-	20.0	20.0	TBD	TBD
<i>Subtotal</i>					TBD	0.0	20.0	20.0	TBD	TBD
Total					TBD	0.0	90.0	90.0	TBD	TBD
2003 LOAN PIPELINE										
Agriculture and Natural Resources										
1. Second Agriculture Area Development	PI	HD	AEAR	2002	TBD	-	30.0	30.0	TBD	TBD
<i>Subtotal</i>					TBD	0.0	30.0	30.0	TBD	TBD
Social Infrastructure										
1. Third Education	PI	HD	AEEH	2002	TBD	-	25.0	25.0	TBD	TBD
<i>Subtotal</i>					TBD	0.0	25.0	25.0	TBD	TBD
Others										
1. Environment Improvement	ODI	ENV	IEEN	2002	TBD	-	20.0	20.0	TBD	TBD
<i>Subtotal</i>					TBD	0.0	20.0	20.0	TBD	TBD
Total					TBD	0.0	75.0	75.0	TBD	TBD

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development;

PSD = Private Sector Development; and RC = Regional Cooperation.

TBD = to be determined.

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

KYRGYZ REPUBLIC
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2003

Sector/Project Name		Responsible Division	Type of TA	Amount (\$'000)		
				Bank	Others	Total
2000 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1	Capacity Building Program for the Min. of Agr. & Water Resources	AEAR	AD	585.0	-	585.0
	Subtotal			585.0	0.0	585.0
Transport and Communications						
1	Improvement of Road sector Efficiency (JSF)	IETC	AD	440.0	-	440.0
	Subtotal			440.0	0.0	440.0
Social Infrastructure						
1	Community-Based Early Child Development	AEEH	PP	700.0	-	700.0
2	Institutional Strengthening for Community-Based Infrastructure Services	AEWU	AD	650.0	-	650.0
3	Strengthening Skills and Entrepreneurship Development	AEEH	AD	600.0	-	600.0
	Subtotal			1950.0	0.0	1950.0
Others						
1	Environment Monitoring and Management Capacity Building II	ENVD	AD	650.0	-	650.0
2	Poverty Reduction Study	PE3	AD	600.0	-	600.0
3	Corporate Governance and Enterprise Reform Program II	IEFI	PP	700.0	-	700.0
	Subtotal			1950.0	0.0	1950.0
	Total			4925.0	0.0	4925.0
2001 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1	Rural Development/Poverty Reduction	AEAR	PP	700.0	-	700.0
	Subtotal			700.0	0.0	700.0
Transport and Communications						
1	Institutional Support in the Transport Sector ^a	IETC	AD	650.0	0.0	650.0
	Subtotal			650.0	0.0	650.0
Social Infrastructure						
1	Institutional Support for Early Childhood Development ^a	AEEH	AD	650.0	-	650.0
	Subtotal			650.0	0.0	650.0
Others						
1	Support for Public Sector Reforms	PE3	AD	700.0	-	700.0
2	Strengthening Project Monitoring and Aid Coordination (Phase II)	PE3	AD	600.0	-	600.0
	Subtotal			1,300.0	0.0	1,300.0
	Total			3300.0	0.0	3300.0
2002 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1	Capacity Building for Rural Development/Poverty Reduction ^a	AEAR	AD	650.0	-	650.0
2	Second Agriculture Area Development	AEAR	PP	650.0	-	650.0
	Subtotal			1,300.0	0.0	1,300.0
Social Infrastructure						
1	Third Education	AEEH	PP	650.0	-	650.0
	Subtotal			650.0	0.0	650.0
Others						
1	Environment Improvement Project	IEEN	PP	550.0	-	550.0
2	Corporate Governance and Enterprise Reform Program II ^a	IEFI	AD	700.0	-	700.0
	Subtotal			1,250.0	0.0	1,250.0
	Total			3200.0	0.0	3200.0
2003 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1	Livelihood/Microcredit Project	AEAR	PP	650.0	-	650.0
2	Second Agriculture Area Development ^a	AEAR	AD	700.0	-	700.0
	Subtotal			1,350.0	0.0	1,350.0
Social Infrastructure						
1	Institutional Support for Education ^a	AEEH	AD	650.0	-	650.0
	Subtotal			650.0	0.0	650.0
Transport and Communications						
1	Fourth Road Rehabilitation	IETC	PP	700.0	-	700.0
	Subtotal			700.0	0.0	700.0
Others						
1	Environment Improvement Institutional Strengthening ^a	IEEN	AD	600.0	-	600.0
2	Power Distribution in Poverty Areas	IEEN	PP	600.0	-	600.0
	Subtotal			1,200.0	0.0	1,200.0
	Total			3900.0	0.0	3900.0

^a Piggy-backed to a loan.

KYRGYZ REPUBLIC
LENDING PROGRAM, 2001-2003
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR

Classification	2001 (Firm)		2002-2003	
	No.	% ^a	No.	% ^a
I. By Poverty Classification *				
A. Core Poverty Intervention	1	50.0	1	16.7
B. Poverty Intervention	-	-	2	33.3
C. Other Development Interventions	1	50.0	3	50.0
Total	2	100.0	6	100.0
II. By Crosscutting Operational Priority *				
A. Environment	-	0.0	1	16.7
B. Gender and Development	-	0.0	-	0.0
C. Good Governance	1	50.0	-	0.0
D. Human Development	1	50.0	3	50.0
E. Private Sector Development	-	0.0	1	16.7
F. Regional Cooperation	-	0.0	1	16.7
Total	2	100.0	6	100.0
III. By Sector				
A. Agriculture and Natural Resources	-	0.0	2	33.3
B. Energy	-	0.0	1	16.7
C. Finance and Industry	-	0.0	-	0.0
D. Social Infrastructure	1	50.0	1	16.7
E. Transport and Communications	1	50.0	-	0.0
F. Others/Multisector	-	0.0	2	33.3
Total	2	100.0	6	100.0

^a rounded off.

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

KYRGYZ REPUBLIC

PROJECT PROFILE				
1. Project Name: Community-Based Early Childhood Development		2. Sector/Subsector: Social Infrastructure/Human Development		
3. Poverty Classification: ^{a *} CPI		4. Crosscutting Operational Priority: ^{b*} HD		
5. Rationale and Objectives: The Project will support the development of a national Early Childhood Development (ECD) program to improve the health, nutritional, educational and psycho-social development of children up to age eight.		6. Beneficiary Participation/Consultation Needs: To be determined during PPTA.		
7. Scope: The investment project will include the following three concepts: (1) integrated child care and development which includes tailored services for each oblast: (a) maternal and child health/nutrition, including attention to improved infant feeding practices and providing complementary foods based on strict selection criteria and psychosocial care and (b) home-based ECE supported by child development resource centers, to maintain health and nutrition status. (2) support systems which includes (a) decentralized planning, management and information systems; (b) communications and social mobilization; and (c) training and human resources development ; and capacity building and sustainability which includes (a) capacity building in the President's Office and in the selected oblast administrations; (b) pilot testing of investment project interventions under components 1 and 2 in a suitable site in parallel with the preparation of the ECD project; (c) program innovation and policy development; and (d) monitoring and evaluation.				
8. Estimated Cost and Financing Plan (\$ m) (a) TA Amount : \$ 0.7 m Source: JSF (b) Loan Project cost : \$ 30.0 m				Remarks:
Financing (Source)	FC	LC	Total	
Bank	TBD	TBD	30.00	
Cofinancing	TBD	TBD	TBD	
Borrower	TBD	TBD	TBD	
Total	TBD	TBD	TBD	
9. Estimated Benefits and Beneficiary Groups: The Project will target severely and moderately malnourished children in priority areas where high prevalence of child malnutrition parallels severe incidence of poverty. The Project will endeavor to raise the nutritional status, psycho-social skills and educability of underprivileged children up to age eight to improve educational achievement, while sustaining the gains in child health through immunization and infectious disease control programs.				
10. Executing Agency: TBD		11. Project Implementation Period: Start: TBD End: TBD		
12. Environment Category: TBD		13. Processing Year: TA : 1999 Loan: 2001		

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance;
HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation.

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

KYRGYZ REPUBLIC

PROJECT PROFILE				
1. Project Name: Third Road Rehabilitation		2. Sector/Subsector: Transport & Communications/ Roads & Road Transport		
3. Poverty Classification: ^{a *} ODI		4. Crosscutting Operational Priority: ^{b *} GG		
5. Rationale: The Project comprises the third and final phase of a rehabilitation program for the Bishkek-Osh road. The first two projects are rehabilitating 345 km of the central, mountainous sections of the road which have deteriorated quite severely and have the worst safety conditions. The proposed Project will rehabilitate the remaining sections of the road from the origin at Bishkek to km 81 in Chui oblast and from km 426 to km 620 in Osh and Jalal-Abad oblasts. Rehabilitating the remaining sections of the Bishkek-Osh road as well as the feeder roads that connect nearby towns and villages will contribute to poverty reduction in the project area, as well as the country as a whole.		6. Beneficiary Participation/Consultation Needs: To be determined during PPTA.		
7. Objectives and Scope: The goal of the Project is to promote economic growth and poverty reduction in the areas covered by the Bishkek-Osh road. The purpose of the Project is to improve the access of the poor to urban markets and the mainstream economy, improve the efficiency and quality of road maintenance, improve road safety in the project corridor, and assist the Government in developing the road sector through institutional strengthening and policy reform.				
8. Estimated Cost and Financing Plan (\$)				Remarks: Cofinancing will be sought during loan processing.
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
Bank	TBD	TBD	40.00	
Cofinancing	TBD	TBD	TBD	
Borrower	TBD	TBD	TBD	
Total	TBD	TBD	TBD	
9. Estimated Benefits and Beneficiary Groups: To be determined during the PPTA.				
10. Executing Agency: Ministry of Transport and Communications			11. Project Implementation Period: Start: 2002 End: 2006	
12. Environment Category: TBD			13. Processing Year: 2001	

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation.

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

POVERTY IN THE KYRGYZ REPUBLIC

1. Following its independence in 1991 from the former Soviet Union, of which it was one of the poorest republics, the Kyrgyz Republic experienced a period of severe economic difficulties accompanied by a steep decline in output and in standards of living. Economic recovery began in 1996- 1997 but the gains were offset by the effects of the Russian crisis which has taken a severe toll. Mainly as a result of this phenomenon, the incidence of poverty rose sharply in 1998. This write-up seeks to provide an overview of poverty in the country and to identify its levels and distribution as well as some of the characteristics of the poor.

2. There are two poverty lines used in the measurement of poverty in the Kyrgyz Republic. The first or the food poverty line, measures extreme poverty and is set at the level of consumption below which, even if all resources were devoted to food, the minimum caloric need could not be met. The other, or the general poverty line, represents a minimum level of consumption taking into account both food and non-food necessities. ¹For 1997, the value of the extreme poverty line was fixed at 2439 Som and the general poverty line at 4647 Som per capita per annum. For 1998 these were revised to 2595 Som and 4309 Som, respectively. The Government estimates indicate that the numbers of the poor increased from 42.9 percent of the population in 1997 to 54.9 percent in 1998. **Table 1**, which shows recent poverty statistics may kindly be seen.

Table 1: Urban and Rural poverty 1996-1998, as a percentage of total population²

	Poor			Extreme poor		
	Urban	Rural	Total	Urban	Rural	Total
1996	30.3	49.6	43.5	10.3	23.3	19.1
1997	22.2	55.3	42.9	4.9	20.7	14.8
1998	42.2	62.4	54.9	18.3	25.8	23.0

3. As may be seen there was a decline in 1997 in the numbers of people living in poverty and extreme poverty but this was reversed by the economic difficulties experienced in 1998. Poverty is still basically a rural phenomenon with some 62.4 percent of the poor living in rural areas. What is interesting to note is that, though poverty increased substantially in 1998, recession hit mostly in industry, construction and transport. Poverty consequently rose sharply in urban areas and the gap between urban and rural areas decreased. **Table 2** gives the details of poverty in 1997 and 1998 in the various oblasts.

¹ Poverty levels for 1996-1998 have been recalculated by the Government recently taking into account inflation and revisions to the cost of a food basket that provides daily caloric requirements and reflects the actual dietary patterns of the population.

² Source: the National Statistical Committee.

Table 2: Poverty by oblasts in 1997-1998, as a percentage total population³

	Poor		Extreme Poor	
	1997	1998	1997	1998
Bishkek	3.5	20.9	0.8	6.5
Issyk-Kul	57.5	58.1	23.8	16.5
Djalal-Abad	65.4	65.2	30.6	29.3
Naryn	87.1	83.0	58.6	42.6
Osh	51.5	70.1	10.1	31.3
Talas	57.8	77.0	23.0	48.8
Chui	21.3	31.1	3.5	8.1

4. About 58 percent of total consumption of all poor households is for food with a fifth of food consumption coming from home production. The introduction of cost recovery in publicly provided services has resulted in an increased share of consumption going to these areas e.g. in 1998 expenditures for education and utilities represented about 11 percent of the total consumption of the poor. Poor households tend to be larger and the household composition of poverty groups show the difference in size between poor and non poor households is because of a larger numbers of children. On average poor households have also one more adult member (see **Table 3**).

Table 3: Composition of the household and dependency ratio, 1998³

	Children	Adults	Elderly	Household size	Dependency ratio ^a
Extreme poor	2.93	3.7	0.48	7.11	3.23
All Poor	2.49	3.26	0.47	6.22	2.96
Non poor	1.05	2.27	0.43	3.75	2.70
Total	1.74	2.74	0.45	4.92	2.85

^a Since in many households there are not employed members, the dependency ratio is calculated dividing group's population by the number of its employed people.

5. Other characteristics of poverty in the country are (i) the education of the household head is strongly linked to poverty; (ii) female headed households are less likely to be poor; and (iii) Kyrgyz headed households are poorer than those headed by other ethnic groups such as Russian, Ukrainians and Uzbeks.

6. The economic difficulties arising mainly from the effects of the Russian crises have resulted in labor force participation declining from 65.2% in 1997 to 60 percent in 1998. The unemployment rate increased during this period from 7.3% to 7.8%. Surprisingly, the unemployment rate is found to be lower among the poor (5.9%) than among the non-poor (10.4%). However, the probable explanation for this is that the poor are more willing to take seasonal and ad-hoc difficult jobs which tend to keep them technically out of the definition of

³ Source: the National Statistical Committee

unemployed (to qualify for which a person needs to be without a job throughout the year and to declare that he or she has actively sought employment during that period). Underemployment and not just unemployment, appears to be an increasingly important explanation of poverty. In 1998 in areas where poverty increased by higher rates there was a serious reduction of labor force participation. Changes in female labor patterns are also emerging. The labor force participation rates for women is further from 1993 levels than the male rate is. Women have lower unemployment rates than men (7% vs. 7.5% in 1997), but this hides the fact that in the same year poor women had higher unemployment rates than poor men (5.4% vs. 5.3%).

7. There has been a serious deterioration in social infrastructure since independence and the provision of such services is seriously deficient in rural areas and in many parts of the urban areas. Only about 27 percent of the population is served by house water and sanitation. About 40 percent receive water from public stand pipes or water tankers. About one third have no public water service at all. Reportedly, about 70% percent of the estimated 1770 villages have no functioning water system at all. Only about 26% percent of the population have access to a water sewer system and this is largely in the bigger cities. The poor state of water and sanitation service results in many negative consequences for the people and the economy. Poor service is responsible for (i) deteriorating public health and increased expenditures in that area; and (ii) consumers incurring significant time costs and inconvenience. Centralized systems of heat, water and gas are practically exclusive to urban areas. The greater reliance on centralized services by the non-poor result in them disproportionately benefiting from the subsidies for these services. Electricity is the only universally provided service but here also there are marked differences in the quality of the services received between the poor and the non-poor, and urban and rural areas.

8. There is diversification in terms of income-generating activities in the rural parts of the country. Less than half of all rural households rely solely on own farm activities and people were also engaged in agricultural and non-agricultural wage labor. Reliance on agriculture wage earnings, however, is associated with greater poverty. Subsistence farming is a major characteristic of agriculture in rural areas more than a third of all persons growing crops doing so for home consumption. Consistent patterns relating types of agriculture to poverty are hard to identify owing to too many recent changes and reforms in the agricultural sector. Further investigative studies are necessary to establish clearly what activities are profitable, what are the principal remaining impediments to growth, and how household characteristics affect this. Some trends, however, have emerged from the analysis to date though even these would require further study. It would appear for example that (i) the non-poor are more likely to diversify among different agricultural activities, whereas the poor tend to only grow crops; and (ii) in rural areas a key differentiating factor between the poor and non-poor is the value of livestock owned by the household.

9. The problem of poverty requires a number of approaches. Economic growth of course is the principal solution to addressing poverty in the Kyrgyz Republic. In the short run, however well targeted social assistance programs will be needed to keep people out of extreme poverty. Further studies are necessary to better understand the profile of the poor and to identify obstacles and bottlenecks for effective poverty reduction. The ADB together with the IMF, the World Bank and the UNDP will work to complete these tasks and will assist the Government in 2000 in preparing a National Strategy for Poverty Reduction (NSPR). The NSPR will be linked to macroeconomic and budget realities and will when completed identify the structural and social policies necessary for achieving specific medium and long term goals for growth and poverty reduction.