

COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE

Table A1.1: Country Economic Indicators

Item	Fiscal Year						
	1996	1997	1998	1999	2000	2001	2002
A. Income and Growth							
1. GDP per Capita (\$, current)	392.2	375.7	341.3	257.0	279.1	308.4	321.6
2. GDP Growth (% , in constant prices)	7.1	9.9	2.1	3.7	5.4	5.3	(0.5)
Agriculture	15.2	12.3	2.9	8.2	2.6	7.3	3.3
Industry	2.6	19.8	(1.8)	(3.8)	8.9	5.2	(11.2)
Services	(0.2)	0.6	3.9	3.4	5.8	3.3	4.2
B. Saving and Investment (current and market prices)							
1. Gross domestic investment (as % of GDP)	25.2	21.7	15.4	18.0	20.0	18.0	17.0
2. Gross domestic saving (as % of GDP)	(0.6)	14.3	(8.2)	1.2	14.4	16.8	16.0
C. Money and Prices							
1. Consumer Price Index (% pa, average of period)	32.0	23.4	10.5	35.9	18.7	6.9	2.0
2. Broad money supply growth (% change, end of period)	21.3	25.4	17.2	33.9	12.1	11.3	34.1
D. Government Finance							
1. Central government expenditure (% of GDP)	25.2	25.3	28.8	30.4	24.9	22.8	25.6
2. Central government revenue (% of GDP)	15.9	16.2	18.0	17.7	15.1	17.0	19.2
3. Overall budget balance (% of GDP)	(9.5)	(9.2)	(9.5)	(11.9)	(9.2)	(5.0)	(5.9)
E. Balance of Payments							
1. Merchandise Trade Balance (% of GDP)	(13.8)	(0.9)	(13.4)	(7.1)	0.3	2.6	(3.4)
2. Current Account Balance (% of GDP)	(23.2)	(7.8)	(22.2)	(14.4)	(5.6)	(1.3)	(2.0)
3. Merchandise Export (\$) Growth (annual % change)	29.9	18.8	(15.2)	(13.5)	10.4	(6.0)	3.7
4. Merchandise Import (\$) Growth (annual % change)	47.5	(17.5)	17.0	(27.1)	(8.0)	(13.1)	25.4
F. External Payments Indicators							
1. Gross Official Reserves (including gold, \$million)	122.7	193.9	188.63	248.79	261.14	285.2	297.7
weeks of current year's imports of goods and services	6.2	12.3	10.5	18.3	20.7	26.2	22.4
2. External Debt Service (% of exports of goods and services)	15.5	12.0	21.8	26.0	28.1	30.8	20.7
3. Total External Debt (% of GDP)	63.0	76.3	90.3	131.7	124.3	110.0	110.8
G. Memorandum Items							
1. GDP (current prices, million som)	23399.3	30685.7	34181.4	48744.0	65357.9	73883.2	75240.4
2. Exchange Rate (Som per \$, annual average)	12.8	17.3	20.8	39.0	47.7	48.4	46.9
3. Population (million)	4.7	4.7	4.8	4.9	4.9	4.9	5.0

GDP = gross domestic product.

Source: National Statistics Committee, National Bank of the Kyrgyz Republic.

Table A1.2: Country Poverty and Social Indicators

Item	Period			
	1985	1995		Latest Year
A. Population Indicators				
1. Total Population (millions)	4.0	4.6	(1995)	5.0 (2002)
2. Annual Population Growth Rate (% change)	1.9	1.5	(1995)	0.8 (2002)
B. Social Indicators				
1. Total Fertility Rate (births/woman)	4.2	3.1	(1995)	2.5 (2002)
2. Maternal Mortality Rate (per 100,000 live births)	42.8	44.3	(1995)	53.5 (2002)
3. Infant Mortality Rate (below 1 year; per '000 live births)	41.9	28.1	(1995)	21.2 (2002)
4. Life Expectancy at Birth (years)	67.9	65.9	(1995)	68.1 (2002)
Female	71.1	70.4	(1995)	72.1 (2002)
Male	64.1	61.4	(1995)	64.4 (2002)
5. Adult Literacy (%)	99.8	97.3	(1995)	98.7 (2002)
6. Primary School Enrollment (%)	123.0	103.6	(1995)	96.8 (2002)
7. Secondary School Enrollment (%)	110.0	69.9	(1995)	68.5 (2002)
8. Child Malnutrition (% below age 5)	–	9.3	(1996)	12.4 (2002)
9. Population Below Poverty Line (International, %)	–	43.5	(1996)	44.4 (2002)
10. Population with Access to Safe Water (%)	–	81.8	(1995)	83.8 (2002)
11. Population with Access to Sanitation (%)	–	99.2	(1995)	98.8 (1999)
12. Public Education Expenditure as % of GDP	–	3.9	(1995)	2.0 (2002)
13. Human Development Index	–	0.676	(1995)	0.723 (2002)
Rank	–	83.0	(1993)	102.0 (2002)
14. Gender-Related Development Index	–	0.685	(1995)	0.717 (2001)
Rank				
C. Poverty Indicators				
1. Poverty Incidence	–	–		44.4 (2002)
2. Percent of Poor to Total Population	–	–		
Batken Oblast	–	–		45.5 (2002)
Jalal-Abad Oblast	–	–		54.9 (2002)
Issyk-Kul Oblast	–	–		44.1 (2002)
Naryn Oblast	–	–		67.8 (2002)
Osh Oblast	–	–		52.4 (2002)
Talas Oblast	–	–		56.2 (2002)
Chui Oblast	–	–		23.1 (2002)
3. Poverty Gap	–	15.90	(1996)	13.20 (2002)
4. Poverty Severity Index	–	7.90	(1996)	5.60 (2002)
5. Inequality (L Index)	–	–		0.33 (2002)
6. Human Poverty Index	–	–		–
Rank				

– = not available; GDP = gross domestic product.

Sources: National Statistics Committee, United Nations Development Programme, World Bank.

Table A1.3: Country Environment Indicators

Item	1985	Latest Year	
A. Energy Efficiency of Emissions			
1. GDP/Unit of Energy Use (PPP\$/kgoe)		4.00	(1998)
2. Traditional Fuel Use (% of total energy use)	–	–	
3. Carbon Dioxide Emissions			
Tons	–	4,700,000	(1999)
Tons per capita	–	1.0	(1999)
B. Water Pollution: Water and Sanitation			
1. % Urban Population with Access to Safe Water	–	98.0	(2000)
2. % Rural Population with Access to Safe Water	–	66.0	(2000)
3. % Urban Population with Access to Sanitation	–	59.4	(2002)
C. Land Use and Deforestation			
1. Forest Area (thousand hectares)	1098.6	1056.8	(2002)
2. Average Annual Deforestation			
% change	–	(2.60)	(2000)
3. Rural Population Density (people/km ² of arable land)	185	248	(2002)
4. Arable Land (% of total land)	6.9	6.5	(2002)
5. Permanent Cropland (% of total land)	6.6	5.5	(2002)
D. Biodiversity and Protected Area			
1. Nationally Protected Area			
Area (thousand hectares)	–	329.1	(1999)
% of total land	–	1.7	(1999)
2. Mammals (number of threatened species)	–	13.00	(2001)
3. Birds (number of threatened species)	–	31.00	(2001)
4. Higher Plants (number of threatened species)	–	64.00	(2001)
5. Reptiles (number of threatened species)	–	3.00	(2001)
6. Amphibians (number of threatened species)	–	3.00	(2000)
E. Urban Areas			
1. Urban Population			
Million	–	1.73	(2002)
% of total population	–	34.70	(2002)
2. Per Capita Water Use (liters/day)	–	153	(2002)
3. Wastewater treated (%)	–	98.6	(2002)
4. Solid Waste Generated Per Capita (kg/day)	–	195.00	(1997)

– = not available, GDP = gross domestic product, CO₂ = carbon dioxide, kg = kilogram, kgoe = kilograms of oil equivalent, km² = square kilometer, PPP = purchasing power parity
Sources: National Statistics Committee; State Forestry Service; Institute for Strategic and Regional Studies; and World Resources Institute.

Table A1.4: Progress Toward the Millennium Development Goals and Targets

Goals and Targets	Country Status
<p>Goal 1: Eradicate Extreme Poverty and Hunger</p> <p>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1/day.</p> <p>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.</p>	<p>The Comprehensive Development Framework 2010 aims to reduce the level of income poverty from 52.3% in 2000 to 26.5% in 2010. The NPRS sets an interim target of 38.9% for 2005. The incidence of income poverty fell to 44.4% in 2002.</p> <p>There is no specific target for reducing nutrition-based poverty (although it should also be reduced through broad-based income poverty reduction and better targeting of social protection measures as envisaged in the NPRS). Nutrition-based extreme poverty was 13.5% in 2001 compared to 23% in 1999.</p>
<p>Goal 2: Achieve Universal Primary Education</p> <p>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.</p>	<p>Survey and registration data show a decline in basic education enrollments, although they are still high (about 89.5% in 1999), a Soviet legacy. The NPRS envisages increasing the enrollment rate to 97% by 2005.</p>
<p>Goal 3: Promote Gender Equality and Empower Women</p> <p>Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.</p>	<p>There is no significant gender disparity in enrollments at primary level. Enrollments are higher for girls in secondary and higher education.</p>
<p>Goal 4: Reduce Child Mortality</p> <p>Target 5: Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate.</p>	<p>NPRS aims to reduce the child mortality rate from 35.5 in 1999 to 28 in 2005. The infant mortality rate has declined from 22.7 deaths per 1,000 live births in 1999 to 21.7 in 2001.</p>
<p>Goal 5: Improve Maternal Health</p> <p>Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio (MMR).</p>	<p>The MMR has shown considerable fluctuation since 1996 when it registered a low of 31.5 (per 100,000 live births). It reached a peak of 62.7 in 1997 and declined thereafter until 2001 again to increase to 53.5 in 2002. The recent increase is attributable to closer monitoring. NPRS aims to reduce the MMR to 40 by 2005.</p>
<p>Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases</p> <p>Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.</p> <p>Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.</p>	<p>There were 200 officially reported cases in 2002 (up from 1 case reported in 1996). Drug abuse is considered to be the main reason for the increase in incidence.</p> <p>Incidence of malaria is low (0.1/100,000 in 1999) and is not a major concern. Tuberculosis is becoming an increasingly serious health problem. Its incidence has more than doubled over the past 10 years</p>

Goals and Targets	Country Status
	<p>(52.1/100,000 in 1990 to 127.3 per 100.000 in 2001). The incidence of waterborne diseases such as gastrointestinal diseases, viral hepatitis, and typhoid is high and increasing. Iodine and iron deficiency are high and have increased.</p> <p>The NPRS did not set specific disease control targets but aims to reduce mortality from infectious diseases from 32.9 per 100,000 in 1999 to 25 in 2005.</p>
Goal 7: Ensure Environmental Sustainability	
<p>Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.</p>	<p>The CDF aims to improve the legal framework for environmental management. It also proposes to develop decentralized approaches for management of mountainous ecology.</p>
<p>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.</p>	<p>Access to drinking water through piped supply is 90.2% in urban areas and 19% in rural areas in 2000. The Government plans to substantially improve access to clean water in rural areas. ADB and the World Bank are assisting the Government in this effort by supporting a nation-wide program of water supply.</p>
<p>Target 11: By 2020, achieve a significant improvement in the lives of at least 100 million slum dwellers.</p>	<p>Sixty-five percent of families have dwelling space of less than 5 square meters per family member. The Government plans to reduce this inequality and increase the average dwelling space per capita to 14.2 square meters by 2010.</p>

ADB = Asian Development Bank, CDF = Comprehensive Development Framework, NPRS = National Poverty Reduction Strategy.

Sources: National Poverty Reduction Strategy, United Nations Development Programme.

Table A1.5: Portfolio Implementation Status
(public sector loans, as of 31 March 2003)

No.	Sector	Loan No.	Seg	Title	Net Loan Amount		Approval Date	Effective Date	Closing Date		Progress (% complete)
					OCR (\$ million)	ADF (\$ million)			Original (dd/mm/yy)	Revised (dd/mm/yy)	
1	AGR	1529		Rural Financial Institutions	-	9.7	21/Aug/97	30/Apr/98	31/Mar/05	-	45.3%
2	OTH	1547		Capacity Building in Corporate Governance & Insolvency Procedure	-	3.9	25/Sep/97	9/Dec/97	30/Jun/01	31/Dec/03	80.8%
3	SOC	1555		Education Sector Development	-	13.5	29/Sep/97	20/Mar/98	30/Jun/03	-	37.8%
4	T&C	1630		Second Road Rehab	-	49.4	10/Sep/98	10/Mar/99	30/Apr/02	30/Oct/03	91.9%
5	OTH	1633		Flood Emergency Rehabilitation	-	4.9	24/Sep/98	26/Nov/98	30/Apr/01	15/Aug/02	99.6%
6	MUL	1645		Social Services and Delivery	-	9.7	27/Nov/98	28/Jul/99	30/Jun/04	-	49.3%
7	AGR	1726		Agriculture Area Development	-	35.3	20/Dec/99	1/Sep/00	31/Jan/07	-	8.3%
8	SOC	1742		Community-Based Infrastructure Services Sector	-	36.8	8/Jun/00	28/Nov/00	31/Dec/06	-	14.3%
9	T&C	1775		Almaty-Bishkek Regional Road Rehabilitation	-	5.2	31/Oct/00	31/May/02	30/Jun/04	-	2.1%
10	T&C	1853		Third Road Rehabilitation	-	43.0	31/Oct/01	12/Sep/02	30/Apr/05	-	0.0%
11	FIN	1860		Corporate Governance & Enterprise Reform Program – Phase II	-	35.9	22/Nov/01	7/Dec/01	31/Dec/04	-	48.0%
12	OTH	1926		Regional Trade Facilitation and Customs Cooperation Program-KGZ	-	15.2	29/Oct/02	20/Dec/02	31/Dec/04	-	49.0%
Total					-	262.5					

ADF = Asian Development Fund, AGR = agriculture and natural resources, ENE = energy, FIN = finance, IND = industry and nonfuel minerals, MUL = multisector, no. = number, OCR = ordinary capital resources, OTH = other, Seg = segment (pertaining to loans with more than one withdrawal authority), SOC = social infrastructure, T&C = transport and communications.

Source: Asian Development Bank

No.	Sector	Loan No.	Seg	Title	Cumulative Contracts/ Commitments (\$ million)	Cumulative Disbursements (\$ million)	Rating		Potential Problem ^a	At Risk ^b
							IP	DO		
1	AGR	1529		Rural Financial Institutions	3.9	4.4	S	S	No	No
2	OTH	1547		Capacity Building in Corporate Governance & Insolvency Procedure	3.3	3.1	S	S	No	No
3	SOC	1555		Education Sector Development	5.7	5.0	S	S	No	No
4	T&C	1630		Second Road Rehab	45.3	44.3	S	S	No	No
5	OTH	1633		Flood Emergency Rehabilitation	4.9	4.9	S	S	No	No
6	MUL	1645		Social Services and Delivery	5.1	4.6	S	S	No	No
7	AGR	1726		Agriculture Area Development	3.7	2.6	S	S	No	No
8	SOC	1742		Community-Based Infrastructure Services Sector	9.1	4.9	S	S	No	No
9	T&C	1775		Almaty-Bishkek Regional Road Rehabilitation	0.4	0.1	S	S	No	No
10	T&C	1853		Third Road Rehabilitation	0.0	0.0	S	S	No	No
11	FIN	1860		Corporate Governance & Enterprise Reform Program – Phase II	17.3	17.3	S	S	No	No
12	OTH	1926		Regional Trade Facilitation and Customs Cooperation Program-KGZ	7.6	7.6	S	S	No	No
TOTAL					106.4	98.9				

^a "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^b A loan is considered "at risk" if it is rated as "PS" or "U" in either implementation progress or development objectives, or if it is a potential problem loan.

Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings
(public sector loans, as of 31 March 2003)

Sector	Net Loan Amount		Rating ^a													
			Total		Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		Potential Problem ^b		At Risk ^c	
	\$ million	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	(%)
Agriculture and Natural Resources	45.0	17.2	2	16.7	-	-	2	100.0	-	-	-	-	-	-	-	-
Energy	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance	35.9	13.7	1	8.3	-	-	1	100.0	-	-	-	-	-	-	-	-
Industry and Nonfuel Minerals	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multisector	9.7	3.7	1	8.3	-	-	1	100.0	-	-	-	-	-	-	-	-
Others	24.0	9.1	3	25.0	-	-	3	100.0	-	-	-	-	-	-	-	-
Social Infrastructure	50.3	19.2	2	16.7	-	-	2	100.0	-	-	-	-	-	-	-	-
Transport and Communications	97.6	37.2	3	25.0	-	-	3	100.0	-	-	-	-	-	-	-	-
Total	262.5	100.0	12	100.0	-	-	12	100.0	-	-	-	-	-	-	-	-

No. = number.

^a One rating for implementation progress and development objectives, based on the lower rating of either.

^b Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is "at risk" if it is rated as partly satisfactory, as unsatisfactory, or as a potential problem.

Source: Asian Development Bank estimates.

Table A1.7: Portfolio Indicators—Evaluation Rating by Sector
(1996–2002)

Sector	Highly Successful		Successful		Partly Successful		Unsuccessful		No Rating		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	0	0.0	1	100	0	0	0	0	0	0	1	100
Energy	0	0.0	0	0	0	0	0	0	0	0	0	0
Finance	0	0.0	0	0	0	0	0	0	0	0	0	0
Industry and Nonfuel Minerals	0	0.0	0	0	0	0	0	0	0	0	0	0
Multisector	0	0.0	0	0	0	0	0	0	0	0	0	0
Others	0	0.0	0	0	0	0	0	0	0	0	0	0
Social Infrastructure	0	0.0	0	0	0	0	0	0	0	0	0	0
Transport and Communications	0	0.0	0	0	0	0	0	0	0	0	0	0
Total	0	0.0	1	100	0	0	0	0	0	0	1	100

Source: Asian Development Bank project (program) audit reports.

Table A1.8: Portfolio Indicators—Disbursements and Net Transfers of Resources
(public sector loans, as of 31 December 2002)

Disbursements and Transfers	OCR	ADF	Total
Disbursements^a			
Total Funds Available for Withdrawal (\$ million)	-	290.1	290.1
Disbursed Amount (\$ million, cumulative)	-	126.3	126.3
Percentage Disbursed (disbursed amount/total available)	-	43.6	43.6
Disbursements (\$ million, latest year)	-	27.2	27.2
Disbursement Ratio (%) ^b	-	15.2	15.2
Net Transfer of Resources (\$ million)			
1998	-	42.1	42.1
1999	-	77.8	77.8
2000	-	19.0	19.0
2001	-	55.8	55.8
2002	-	24.2	24.2

ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Includes all loans with disbursements in 2002.

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

Source: Asian Development Bank estimates.

Table A1.9: Lending Scenarios and Performance Triggers

Low Case	Base Case	High Case
The IMF-supported PRGF program is off track	Adequate adherence to the performance targets set under the PRGF and ensuring that the program is on track.	Macroeconomic performance exceeding IMF forecasts with respect to inflation and growth.
Noncompliance with the debt reduction strategy	Compliance with the requirements of the debt reduction policy.	
Poor progress in accomplishing selected NPRS targets	Significant progress in meeting selected NPRS targets, i.e., incidence of poverty, and access to primary school education, child mortality, and population with access to safe drinking water.	
Failure to accomplish prioritization of PIP	Satisfactory reduction in the gap between the financing requirements of the ongoing PIP projects and the disbursement limits set under the PRGF through spring cleaning and restructuring of projects	
The corporate governance and enterprise reforms and customs reform programs are off-track	Successful carrying out of reforms as envisaged under the ongoing ADB-supported corporate governance and enterprise reforms and customs reforms programs. Significant progress in the financial sector reforms with special emphasis on those dealing with banking supervision and regulatory framework as agreed under the PRGF.	Accomplishment of more progress in structural reforms in these areas than envisaged.
Failure to comply with the CPRM Action Plan	Substantial compliance with the Action Plan agreed during CPRM.	

CPRM = Country Program Review Mission, IMF = International Monetary Fund, PRGF = Poverty Reduction and Growth Facility, NPRS = National Poverty Reduction Strategy, PIP = Public Investment Program.

Note: The base case assumes steady progress in key macro and sector reform issues, achievement of selected NPRS targets, prioritization of the PIP without which ongoing as well as future projects will be jeopardized, and compliance with the Action Plan finalized during CPRM. A decisive slow down in reforms and deteriorating performance in the other areas identified above will lead to a low case scenario. Improved macro economic performance over and beyond IMF forecasts and greater progress in financial sector, customs, and corporate governance reforms than presently envisaged would qualify the country for the high case scenario. However, in such an eventuality, the actual raising of lending levels will be subject to the Government's capacity to actually borrow more taking into account debt and budget considerations.

Table A1.10: Assistance Pipeline for Lending Products, 2004–2006

Sector Proj / Prog Name	Poverty Classifi- cation	Thematic Priority	Division	Year of PPTA	Total (\$ million)	Cost (\$ mn)				
						ADB			Gov't	Cofi- nancing
						OCR	ADF	Total		
2004 Firm Loans										
Transport and Communications										
Southern Transport Corridor Road (Osh-Sary Tash-Irkeshtam) Project, Phase I	OTH	REG/ECO	ECTC	2001	31.25	–	25.00	25.00	6.25	0.00
Subtotal					31.25	0.00	25.00	25.00	6.25	0.00
Other										
Regional Customs Investment Project	OTH	REG/ECO	ECGF	2002	6.25	–	5.00	5.00	1.25	0.00
Subtotal					6.25		5.00	5.00	1.25	
Total					37.50	0.00	30.00	30.00	7.50	
2004 Stand by Loans										
Social Infrastructure										
Third Education	PI	HD	ECSS	2003	12.50	–	10.00	10.00	2.50	0.00
Subtotal					12.50	–	10.00	10.00	2.50	0.00
2005 Firm Loans										
Social Infrastructure										
Third Education	PI	HD	ECSS	2003	12.50	–	10.00	10.00	2.50	0.00
Subtotal					12.50	–	10.00	10.00	2.50	0.00
Finance										
Financial Sector Program II	OTH	ECO	ECGF	2003	20.00	–	20.00	20.00		0.00
Subtotal					20.00		20.00	20.00		0.00
Total					32.50	0.00	30.00	30.00	2.50	
2006 Loans										
Agriculture and Natural Resources										
Second Agriculture Area Development Rural Development Project	PI	ECO	ECAE	2004	25.00	0.00	20.00	20.00	5.00	0.00
	PI	ECO	ECAE	2005	12.50	0.00	10.00	10.00	2.50	0.00
Subtotal					37.50	0.00	30.00	30.00	7.50	0.00
Total					37.50	0.00	30.00	30.00	7.50	0.00

ADB = Asian Development Bank, ADF = Asian Development Fund, ECAE = Agriculture, Environment and Natural Resources Division, ECGF = Governance, Finance & Trade Division, ECSS = Social Sectors Division, ECO = economic growth, ECTC = Transport and Communications Division, HD = human development, OCR = ordinary capital resources, OTH = other, PI = poverty intervention, REG = regional cooperation.

Table A1.11: Assistance Pipeline for Nonlending Products and Services, 2004–2006^a

Sector Assistance Name	Responsible Division	Assistance Type	Amount (\$ '000)		Total
			ADB	Others	
2004					
Agriculture and Natural Resources					
1. Agricultural Strategy Formulation	ECAE	AD	600.0	0.0	600.0
2. Second Agriculture Area Development	ECAE	PP	800.0	0.0	800.0
Subtotal			1,400.0	0.0	1,400.0
Transport					
1. Capacity Building for Regional Road ^b Planning	ECTC	AD	600.0	0.0	600.0
Subtotal			600.0	0.0	600.0
Total			2,000.0	0.0	2,000.0
2005					
Agriculture and Natural Resources					
1. Rural Development Project	ECAE	PP	500.0	0.0	500.0
Subtotal			500.0	0.0	500.0
Social Infrastructure					
1. Strengthening Basic Education in Rural Areas ^b	ECSS	AD	600.0	0.0	600.0
Subtotal			600.0	0.0	600.0
Others					
1. Financial Sector Governance ^b	ECGF	AD	800.0	0.0	800.0
2. Enforcement of Financial and Private sector legislation	ECGF	AD	600.0	0.0	600.0
Subtotal			1,400.0	0.0	1,400.0
Total			2,500.0	0.0	2,500.0

ADB = Asian Development Bank, ECAE = Agriculture, Environment and Natural Resources Division, ECGF = Governance, Finance & Trade Division, ECSS = Social Sectors Division, ECTC = Transport and Communications Division, AD = advisory, PP = project preparatory.

^a Provisionally included in this list and subject to further discussions with the Government.

^b Attached to a loan.

Table A1.11: Assistance Pipeline for Nonlending Products and Services, 2004–2006 (*continued*)

Sector Assistance Name	Responsible Division	Assistance Type	Amount (\$ '000)		Total
			ADB	Others	
2006					
Agriculture and Natural Resources					
1. Strengthening Local Level Capacity in Agriculture ^b	ECAE	AD	700.0	0.0	700.0
Subtotal			700.0	0.0	700.0
Social Infrastructure					
1. Early Childhood Development II	ECSS	PP	600.0	0.0	600.0
Subtotal			600.0	0.0	600.0
Others					
1. Rural Development Project ^b	ECAE	AD	700.0	0.0	700.0
Subtotal			700.0	0.0	700.0
Total			2,000.0	0.0	2,000.0

ADB = Asian Development Bank, ECAE = Agriculture, Environment and Natural Resources Division, ECSS = Social Sectors Division, AD = advisory, PP = project preparatory.

^a Provisionally included in this list and subject to further discussions with the Government.

^b Attached to a loan.

Table A1.12: Development Coordination Matrix

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Agriculture	<p>The Asian Development Bank (ADB) has supported policy and institutional reforms in agriculture aimed at land reform and natural resources management, sector restructuring, and improvement of the agricultural input supply system, improved cost recovery in irrigation, provision of credit, and capacity building of the sector's key institutions. ADB has also supported investments for rehabilitating irrigation and setting up viable credit unions in rural areas. Under the new country strategy and program (CSP), ADB will continue to assist the Government in implementing policy and institutional reforms and through area focused investments aimed at increasing agriculture productivity.</p>	<p>World Bank: The main objective of the strategy is to promote a greater private sector role in the agriculture sector, and assist in policy reforms and institutional development. The World Bank has provided support to implement agrarian reform and farm restructuring, develop input markets, develop a regulatory framework, establish an agriculture market information system, enhance the institutional capacity of the Ministry of Agriculture, develop credit irrigation facilities, and assist in animal husbandry. In 2004–2006, the World Bank is expected to extend support for addressing critical irrigation infrastructure needs and for establishing new and efficient marketing channels.</p> <p>EBRD: Supported private sector supply of essential farm inputs, equipment, storage facilities, and extension services for farmers.</p> <p>Switzerland: Support the establishment, implementation, and continued improvement of the newly formed countrywide rural advisory and development services. Focuses on development in mountainous areas, land registration, and mapping. Improves management of water resources in Fergana Valley. Achieve better allocation and utilization of water regionally between the three countries in the valley (Uzbekistan, Tajikistan, and Kyrgyz Republic).</p> <p>DFID: Improve the legal, social, and institutional framework for equitable and transparent private ownership of land. Develop a demand-driven and sustainable rural advisory and development service to help farmers manage their land and labor resources effectively. Create sustainable income-generating activities in livestock-producing communities in less developed areas.</p> <p>USAID: Improve management of water resources.</p>
Water Supply	<p>ADB extended assistance to community-based infrastructure service project, the</p>	<p>World Bank: Improve access to potable water and sanitation in rural areas (in oblasts not covered by the ADB-supported water</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
	<p>principal component of which is improving drinking water supply in four oblasts, namely Chui, Jalal-Abad, Osh, and Batken. The project covers 800 villages and several towns. It complements a World Bank supported project which covers the remaining areas of the country.</p>	<p>supply and sanitation project) with participation of communities in their creation, rehabilitation, and maintenance.</p> <p>DFID: Strengthen the Government's policy making, monitoring, and regulatory capacity in water supply and sanitation sectors.</p>
Energy	<p>ADB extended assistance in 1996 for a power and district heating rehabilitation project. Support to the energy sector is not envisaged under the proposed CSP.</p>	<p>World Bank: Promote comprehensive reforms in the energy sector with special focus on electricity. Promotion of market reforms and strengthening of regulatory and institutional capacity. Provide assistance for restructuring the largest power distribution company. Rehabilitation of the Bishkek thermal power station. In 2004–2006, the World Bank is expected to extend \$15 million in support to the energy sector for energy distribution.</p> <p>EBRD: Provided assistance to upgrade the electricity transmission network in Issyk-Kul.</p> <p>USAID: Promotion of energy conservation through public participation. Assisted in introducing efficient heating systems. Development of mini-hydroelectric power with private sector participation.</p> <p>Germany: Rehabilitation of small hydroelectric projects. In 2004–2006, assistance of €12.78 million is planned for the Chakan hydropower station, and €13.3 million for increasing the capacity of the Bishkek power supply network.</p> <p>Denmark: Energy conservation. Provided assistance for rehabilitating electric power and central heating systems.</p> <p>IsDB: Rural electrification. Transmission line of 220kv, Aly-Batken. During 2004–2006, assistance of \$10 million is programmed for the second phase of the Batken-Karabulak power transmission line.</p> <p>Kuwait Development Fund: Construction of a transformation substation in Batken region.</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
		<p>Nordic Development Fund: Assisted in rehabilitation of central heating system.</p> <p>Switzerland: Energy conservation. Provided assistance for rehabilitation of power distribution systems. Provision of reliable electricity supply in Naryn oblast</p> <p>DFID: Promotion of reforms in the electricity sector with emphasis on tariff reforms and regulation of power utilities.</p>
Transport	<p>ADB operations in transport have been concentrated in the road sector where it plays a lead role. It has helped develop an efficient policy and regulatory framework, improve road funding, enhance safety standards, address the needs of maintenance of the road network, and privatize several state-owned enterprises in the sector. ADB has extended support to the strategic and vital Bishkek-Osh Road Rehabilitation Project. ADB has taken a lead role in supporting regional road links and has extended support for the Almaty-Bishkek Road Rehabilitation Project. During the proposed CSP period, ADB's support will focus on improving the regional road which links Uzbekistan to PRC through the southern part of the country.</p>	<p>World Bank: Promotion of efficient transport system in urban areas. Provided assistance for rehabilitation of roads in selected urban areas.</p> <p>IsDB: Cofinanced Bishkek-Osh road rehabilitation with ADB. During 2003–2006, IsDB is expected to extend \$10 million for the reconstruction of Osh airport and \$9.5 million for the rehabilitation of the Taras-Talas-Suusamur road.</p> <p>EU-Tacis: Improved regional transport networks. Provided assistance in Issyk-Kul region</p> <p>Japan: Modernized transport infrastructure to promote growth. Provided assistance to rehabilitate Manas airport and cofinanced Bishkek-Osh road rehabilitation with ADB. During 2004–2006, assistance of \$20 million is expected for the second phase rehabilitation of Manas airport.</p>
Communication	<p>ADB has not extended assistance to his sector; this is expected to continue under proposed CSP.</p>	<p>World Bank: Promote comprehensive reforms in the sector. Commercialize communication activities, and develop regulatory framework and institutional capacity.</p> <p>EBRD: Modernize the telecommunication system.</p>
Education	<p>ADB plays a lead role in basic education and has supported policies that have encouraged private education, improved financial sustainability as well as strengthening and planning and management capacities. It has</p>	<p>World Bank: The World Bank will be supporting the education sector in the country for the first time during 2004–2006 when it proposes to extend a grant of \$15 million for a rural education project. This will focus on the rural communities in the poorest provinces and cover needs for teacher training and textbooks.</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
	<p>financed new curricula and textbooks, teacher education, and school facilities and equipment improvement. Future support will aim at ensuring the sector's financial viability and ability to sustainably provide school places for all. Education content and teaching methodology also require further modernization. Priority investments and policy and institutional reforms will be identified under a study to be financed by ADB and is expected to provide a blueprint for investments by other external agencies such as the World Bank and USAID.</p>	<p>OPEC Fund: Cofinanced the education sector with ADB with a focus on basic education.</p> <p>USAID: Support for legal reform, capacity building, and democracy education.</p> <p>Soros Foundation: School development, teacher training, learning material development, capacity building, and overseas scholarships.</p> <p>UNICEF: Capacity building of local administrations, school development, policy formulation.</p> <p>UNESCO: Promotion of the Education for All strategy.</p> <p>Save the Children Fund (UK): Promotion of education, including nonformal education, for children from poor families.</p>
Health	<p>ADB has not extended support for a stand-alone health project. However, health components feature in an ongoing social services delivery and finance project and an early childhood development project for which assistance was approved in 2003. This policy is expected to continue under the new CSP.</p>	<p>World Bank: Improve performance and long-term financial viability of the health system. Enhance access to health care through better distribution of services. Improve responsiveness and efficiency of the health system. During 2004–2006 the World Bank is expected to extend a \$15 million grant for health and social protection.</p> <p>USAID: Implement cost-effective primary health care. Develop a sentinel surveillance system for hepatitis in some regions.</p> <p>Germany: Promote maternal and child health care. Prevent infectious diseases, in particular tuberculosis.</p> <p>Switzerland: Improve the health status of the population in remote and poor areas by securing access to health services through supporting the Government's health sector reforms; support to the health sector is expected to continue in 2004–2006.</p> <p>DFID: Strengthen the health sector through improved health policy and evaluation. Establish a sustainable process for monitoring the effects of health reforms on service delivery, access, and quality. Improve hygiene, sanitation, and water-related practices at</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
		<p>individual, family, and institutional levels in some poor areas; assistance in 2003–2006 is expected for combating HIV/AIDS.</p> <p>UNICEF: Improve nutrition in poor families by enriching flour and salt with iodine.</p> <p>Japan: Provision of medical equipment for maternity centers of Bishkek, Talas, Naryn, and Issyk-Kul</p>
Social Protection		<p>World Bank: Develop a mechanism to monitor the labor market and strengthen the capacity of the employment service, improve benefit delivery, organize adult retraining, and accelerate the redeployment of unemployed workers. Support pension reforms.</p>
Private Sector Development	<p>ADB's program support in two phases for corporate governance and enterprise form has helped lay an important foundation for private sector development in the country. The first phase of the program aimed at promoting enterprise efficiency through corporate governance; imposing financial discipline on enterprises; promoting competition and strengthening the environment for foreign direct investment; strengthening the legal framework for legal insolvency; promoting transparency in financial accounting and reporting; and mitigating transition costs. The second phase program, which is ongoing, aims to enhance investment confidence by strengthening corporate financial and judicial governance and by taking steps to improve the efficiency and viability of the enterprise sector. Besides these two interventions, ADB-supported activities have consistently aimed at enhancing the role of the private sector in transport.</p>	<p>World Bank: Create an environment conducive for the promotion of private enterprise in the Kyrgyz Republic by promoting appropriate policies and institutional strengthening. Strengthen the capacity of commercial banking in project appraisal, financial risk management, and loan delivery. During 2003–2006, the World Bank is planning support for the financial sector and business development project; this will improve the payments system and increase the availability of bank accounts for the rural population. It will also support continued efforts to reduce bureaucratic barriers to enterprise growth, such as excessive licensing and inspections. Business environment reform will also be included in the Governance Structural Adjustment Credit planned over the period.</p> <p>EBRD: Support the private enterprises, in particular small and medium enterprises (SMEs), with financial resources. Invest in promising local companies to promote the private sector; provide medium-term debt financing to private-sector enterprises. During 2003–2006, EBRD support is envisaged for microenterprises and SMEs, and for facilitating the privatization of the remaining major state-owned enterprises.</p> <p>Germany Support SMEs with financial resources.</p> <p>USAID: Provide SMEs with resource materials and training. Create an appropriate legal environment and promote tax for private enterprise.</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
		<p>Switzerland: Promote private sector development by providing low interest credit, training, and advisory services to SME promoters. Support processing and marketing of agriculture and forest products to generate income in rural areas.</p> <p>UNDP: Create an enabling environment for SME development by addressing the issues of licensing, taxation, and other controls that act as disincentives.</p> <p>EU-Tacis: Support SMEs in food processing and ecotourism sectors. Assist regional authorities to improve the local business environment.</p>
Finance and Banking	<p>ADB's assistance has supported the development of the regulatory and supervisory framework that helped stabilize the financial sector following the Russian financial crisis. It also focused on restructuring and consolidating the banking sector. However, more remains to be done to improve financial intermediation, reduce the vulnerability of the banking system, strengthen the capital market, and develop the insurance sector; these will form the focus of ADB efforts during the new CSP period. ADB support to the sector is being coordinated closely with the World Bank and IMF.</p>	<p>World Bank: Promote reforms in the financial sector by creating a conducive policy, regulatory, and institutional environment. Strengthen and expand a sustainable rural financial system. Provided structural adjustment credit to promote financial sector reforms.</p> <p>EBRD: Equity investments in local banks. In 2003–2006, EBRD expects to continue to support the development of the financial sector.</p> <p>USAID: Training to leaders in the banking sector on aspects of bank management.</p> <p>EU-Tacis: Develop the nonbanking financial services sector including a market for agricultural mortgages.</p> <p>Germany: KfW credit of \$2.25 million equivalent is expected to be extended to the Kyrgyz Investment Credit Bank during 2004–2006.</p>
Trade Promotion	<p>Trade promotion constitutes one of the major thrusts of ADB support for regional cooperation in the CARs. ADB has extended assistance for a regional customs program aimed at facilitating trade and modernizing customs operations in the Kyrgyz Republic and strengthening cooperation with the</p>	<p>EBRD: Facilitate foreign trade through trade financing.</p> <p>USAID: Support for improving legal and regulatory environment to improve transparency. Support customs reforms.</p> <p>Switzerland: Support customs reforms and promotion of regional trade</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
	custom's authorities of neighboring countries. As a follow-up, further assistance is envisaged during the CSP period on financing essential investments needed for communications, computer networking, and border-post equipment.	EU-Tacis: Support customs reforms.
Tourism		EBRD: Investment in private sector tourism facilities, including hotels. Germany: Investment in private sector tourism facilities, including hotels.
Poverty Reduction	Poverty reduction has been a major objective of ADB operations in the country in recent years and is the overall objective of the CSP. ADB provided technical assistance to support the development of the NPRS; this study has produced 8 reports analyzing various aspects of poverty in the country covering (i) Community Development and Poverty Reduction; (ii) Survey of Coping Strategies for the Poor; (iii) Update Note on Gender and Poverty; (iv) Update Note on Children; (v) Small and Medium Enterprise Development; (vi) Fiscal Decentralization; (vii) Anti-Corruption Report; and (viii) Trade and Export Promotion Study. In addition to these studies, ADB has also carried out an assessment of the impact of improved governance on poverty.	World Bank: Similar importance as ADB's is given to poverty reduction. Provided support to improve the Government's capacity to monitor poverty. Carried out focused analytical work, and provided advisory services. Pipeline of projects for 2004–2006 aim at bringing about poverty reduction. A poverty reduction structural adjustment credit is envisaged over this period. IMF: Integrating poverty reduction concerns with macroeconomic stability and good governance. UNDP: Create community-based groups and provide them with microcredit.
Environment	ADB has given continued support for strengthening environmental management through three TAs and has also provided support for sustainable mountain development.	World Bank: A natural disaster mitigation project is planned by the World Bank in 2004–2006 to develop a program to address key natural and environmental risks, including the impact of uranium tailings stored in the Maili-Suu area. Switzerland: Improve management of forest resources by involving local communities. Capacity building in forestry management.
Governance	ADB has provided support to improve governance, including in fiscal management;	World Bank: Improve public resource management capability of the Government. Promote tax reforms and improve public expenditure

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
	<p>the financial sector; and the areas of legal, judicial, and enterprise reform and corporate governance. These measures are helping address some of the administrative bottlenecks and weaknesses in law enforcement and the judiciary that have compounded the problems facing private sector activity. ADB is also assisting public investment management and aid coordination and monitoring. In addition, ADB has assisted in improving commercial bank audits, and introducing international accounting, auditing, and valuation standards, to improve the need for transparency and predictability in economic activities. ADB continues to support the Government's efforts to reduce corruption.</p>	<p>management. During 2003–2006, support is envisaged to streamline regulation of the private sector and promote civil service reforms to improve public sector governance.</p> <p>USAID: Promote fiscal reforms, in particular, improve tax administration, and streamline the budgetary process and intergovernmental finances. Promote decentralization and good governance at all levels.</p> <p>UNDP: Promote civil service reforms. Support Parliament in the formulation of rules and procedures. Encourage decentralization by assisting in the formulation of enabling legal environment and developing administrative capacities.</p> <p>DFID: Strengthen the capacity of the Kyrgyz National Statistical Committee and other key players in the statistical system to produce and disseminate high-quality social statistics with a sound methodological basis.</p>

ADB = Asian Development Bank, CSP = country strategy and program, DFID = Department for International Development, European Bank for Reconstruction and Development, EU-Tacis = European Union-Technical Assistance to Commonwealth of Independent States, IMF = International Monetary Fund, IsDB = Islamic Development Bank, KfW = Kreditanstalt für Wiederaufbau, OPEC = Organization of Petroleum Exporting Countries, UNDP = United Nations Development Programme, USAID = United States Agency for International Development.

Sources: Funding agencies concerned, UNDP, Ministry of Finance.

COUNTRY STRATEGY AND PROGRAM FORMULATION

1. The process of country strategy and program (CSP) preparation started in October 2002. A decision was taken then to draw on the considerable stock of studies that were prepared for the Comprehensive Development Framework (CDF) and National Poverty Reduction Strategy (NPRS) exercises. The studies, prepared with the help of technical assistance (TA) from various agencies including the Asian Development Bank (ADB), covered a wide range of subjects relevant for the social and economic development of the Kyrgyz Republic. A particularly important decision in the formulation of the CSP was to rely on the World Bank's poverty assessment paper that was finalized in August 2002, instead of preparing a separate one for the CSP. It was decided, however, to prepare a Private Sector Assessment and an Environment Sector Assessment in support of the CSP. ADB's involvement as a major external agency to the country, particularly in areas such as the financial sector, road transport, education, agriculture, governance, and regional cooperation, has generated considerable material on key development requirements and challenges.

2. After October 2002, the need for a new operational strategy and the steps involved in its preparation were taken up with the Government by the Kyrgyz Resident Mission (KYRM) in several discussions. The Government agreed fully with the need for a new strategy, principally because of the significantly changed circumstances since 1996 when the previous strategy was prepared. A consultation mission from ADB held discussions on 1–7 March 2003 with representatives of the Government, other external funding agencies, and civil society, including the private sector and a large number of nongovernment organizations (NGOs). The Government endorsed the mission's assessment of the political, economic, and social situation and the key development challenges to be addressed over the medium term. One of the key agreements reached was that ADB would have to significantly reduce the size of its programs in the future because of the external debt situation and budget considerations.

3. Work on sector roadmaps progressed and preliminary findings were discussed among the country team members. The CSP initiating paper was prepared which presented the results of the assessments and analysis to date, the development challenges facing the country, and the possible directions of the new strategy. Thereafter, a CSP Initiating Mission visited the Kyrgyz Republic on 23–30 April 2003. The CSP initiating paper was discussed with the Government and with external funding agencies, private sector representatives, and NGOs. The Mission reached broad agreement with the Government on the directions and thrusts of the new operational strategy and areas of future support.

4. On 22 May 2003, the revised CSP initiating paper was presented to ADB Management for guidance on the proposed strategic directions and areas of future support of the CSP. Following this, the CSP Mission was fielded on 28 May–11 June 2003. The purpose of the Mission was to reach agreement with the Government on the new country operational strategy and to finalize ADB's 2004–2006 lending and TA program. The Mission held detailed discussions with senior officials of the Government, the Chairperson of the Supreme Court, the Ombudsperson, and representatives of Parliament, the international funding community, and NGOs. The agreements reached between the Government and the Mission were carefully scrutinized by the Cabinet of Ministers and were formally endorsed by a resolution. The CSP as it has now emerged was supported and well received by the stakeholders. Upon its return, the Mission drafted the CSP and submitted it for ADB Management review on 2 September 2002. Thereafter, the finalized draft was translated into Russian and sent to the Government for clearance.

5. As may be seen, the CSP exercise involved extensive consultations with all stakeholders, especially with the international funding community, NGOs, and the private sector.

COUNTRY SECTOR AND SUBSECTOR ROADMAPS

A. Agriculture and Rural Development

1. Overview

1. The Kyrgyz Republic remains predominantly an agricultural economy. Agriculture contributes nearly 40% of GDP, and accounts for 53% of total employment and about 11% of exports. An estimated 66% of the population live in rural areas and are dependent on agriculture for their livelihood; a significant portion of the rural population lives below the poverty line. Agricultural wages are about 50% of average monthly wages. While agriculture is contributing to the economy, and while substantial reforms have been introduced, the sector is still underperforming and could contribute more to reducing poverty in rural areas. Agricultural growth and improved productivity, coupled with the improved distribution of the benefits and improved rural services, are necessary to increase employment opportunities and reduce the incidence of poverty in rural areas.

2. Sector Needs and Challenges

2. Development of the agriculture sector is a major priority for the Kyrgyz Republic and is expected to continue to lead the recovery and future growth of the economy. The crop, livestock, and agro-industry subsectors continue to experience substantial adjustments, partly in response to the ongoing reforms in the agriculture sector. The sector reforms are continuing, and progress in their effective implementation has been variable across the oblasts.

3. The sector is underperforming, as many of the farms and agroprocessing facilities are not yet operating efficiently and are not yet financially viable. The key reasons for this underperformance include the following: (i) land reform and farm restructuring are resulting in marked differences in farm size, ownership structure, and farm management practices that are reflecting, to some extent, the need for security and subsistence on the part of farmers. Also, old management methods and operations are continuing on larger farms. Many of the farms remain unviable and nonprofitable; (ii) there is a severe shortage of inputs due to a lack of credit or funds to purchase them, lack of input availability, and adverse terms of trade between agricultural inputs and outputs; (iii) availability and access to export and domestic markets are constrained by informal barriers, lack of information on prices and demand, and inadequate distribution networks; (iv) research, advisory services, and statistical information are not presently designed to meet the needs of emerging smaller private farms; (v) there is limited availability of, and access to, financial services; (vi) state agencies for output procurement, input distribution, and supply of credit and support services have been abolished or privatized, but new institutions are slow to develop in the absence of finance, farm profitability, and the effective demand for inputs and services; (vii) farm production and productivity are constrained by irrigation systems that are in disrepair due to inadequate maintenance and rehabilitation, and that require adaptation to the newly emerging structure of varied farm organizations; (viii) land degradation is worsening through increasing water logging and salinization, unsustainable agricultural practices including farming of fragile sloping lands, and unsustainable stocking rates; (ix) rural infrastructure (comprising rural roads and the transport network), wholesale and rural markets, rural telecommunications, and social infrastructure are seriously inadequate and remain a major bottleneck to agriculture; (x) appropriate and responsive public sector institutions to support and serve private agriculture in a market-oriented system are lacking; and (xi) the population depends on subsistence agriculture and has limited access to social services.

The poor are less able to diversify agricultural activities, primarily because of limited resources to invest and because the opportunities for poor landowners to access agricultural wage labor have also declined.

3. Government Policy

4. The NPRS states that the agriculture sector is the most important sector for the continuation and acceleration of economic growth from the viewpoint of poverty reduction. This is because, on the one hand, it is the largest sector of the economy and, to a significant extent, leads many other sectors while, on the other hand, it provides much of the employment for the majority of the poor. The NPRS identifies the following priorities for ensuring sustainable growth for agriculture:

- (i) developing sustainable land markets;
- (ii) encouraging the development of agro-processing industries;
- (iii) increasing the area of irrigated farming by rehabilitation of irrigation networks;
- (iv) improving water resources management at the local level; and
- (v) encouraging private enterprises by providing technical advice, inputs, marketing, and other services to farms.

4. ADB Sector Experience

5. ADB's assistance to agriculture and rural development has had limited investment activity, with one program and one project loan. More focus has been given to capacity building in the Ministry of Agriculture, Water Resources and Processing Industry (MAWRPI). The first program loan supported the Government's initial reform program. The only investment loan was designed to provide a concentrated and coordinated focus on the key constraints at the farm level to bring together the ongoing and planned investment projects so as to enhance their effects to improve farm productivity and profitability. The capacity-building program has continued to work with MAWRPI during the Ministry's continual structural change and its reorientation of its roles and functions as it concentrates on key aspects of aid coordination and public investment programming and monitoring.

6. ADB has provided two loan projects¹ in the amount of \$76 million and six TAs including two PPTAs amounting to \$1.5 million and five ADTAs amounting to \$4.05 million.

7. The Agriculture Sector Program (ASP) was implemented from 1995 to 1997. The objective was to facilitate the transition of the agriculture sector to a competitive market-based system and included 36 policy measures covering six areas of reform: (i) land reform and farm restructuring, (ii) water rights management and user contribution in irrigation water use, (iii) markets of input supplies, (iv) social protection, (v) environmental protection, and (vi) institutional capacity building and restructuring of selected government agencies. While the program completion report in 1999 rated the ASP as partly successful, the project performance audit report (PPAR) in October 2002 rated the ASP as successful.

¹ ADB. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for Agriculture Sector Program*. Manila; and ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Agriculture Area Development Project*. Manila. Prior to the reorganization of ADB, Loan 1529-KGZ (ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Rural Financial Institutions Project*. Manila), was part of the agriculture and rural development portfolio. This has been transferred to ECGF and will be reported under the finance sector assessment.

8. The PPAR concluded that the scope of the ASP reforms was relevant, pragmatic, and consistent with the priorities of the Government, and that they were establishing a strong platform for market-based private agriculture. Overall, the PPAR states that the direction of reform has been consistently maintained, and that, with time, development initiatives beyond the ASP have strengthened and deepened the enabling environment for creating market institutions, increasing the competitiveness of markets, improving social and environmental protection, and rationalizing public sector support for agriculture. There had been no lasting reversal in the implementation of the ASP reforms.

9. The Agriculture Area Development Project (AADP) was approved in 1999 and is still under implementation. Its purpose is to increase productivity and profitability on selected farms with the goal of increasing the incomes of farmers in Chui oblast. This is the first large regional focused project and is being used as a pilot for possible adaptation in other regions. It includes (i) farm development to support the restructuring and registration of farms as legal enterprises and assist farms and businesses to operate as commercially viable enterprises; (ii) rehabilitation of essential off-farm and on-farm infrastructure, and ensuring the effective functioning of irrigation systems through water user associations (WUAs) (being coordinated with the World Bank-supported on-farm irrigation project); (iii) support for the establishment of agribusiness enterprises for input supply, marketing, and other services, including machinery hire, interested groups of farmers/entrepreneurs willing to form enterprises for input supply, marketing, and other services including machinery hire services; (iv) support for the development of market links through market studies of domestic and export markets for specific commodities; and (v) the establishment of linkages between farms, farmers' associations, and local processing facilities and traders in the local and export markets.

10. Among the ADTAs, the first and largest TA was associated with the ASP and aimed to assist the Government with its reform program. The second ADTA associated with the ASP was instrumental in developing the legal framework and in demonstrating the modalities to form and strengthen WUAs. The World Bank has subsequently further developed WUAs and the capacity of the Ministry. Two smaller TAs, one completed and the other ongoing, for MAWRPI helped establish an aid coordination unit, which was subsequently supported by the Swiss Agency for Development Cooperation (SDC) through their policy support project, and initiated an agriculture sector investment program. The ongoing TA is assisting MAWRPI with the further development of this investment program. The other ongoing TA is associated with Loan 1726 and is providing direct assistance to the Chui oblast administration in the planning and management of agriculture in the region.

11. The early TAs were implemented during the most difficult period of transition where policy reforms and organizational change were substantial and the economy was facing serious challenges. The latter TAs are endeavoring to consolidate introduced changes in MAWRPI and also support the Governments decentralization program.

5. Activities of Other Funding Agencies

12. The key agencies involved in agriculture include the World Bank, Department for International Development (DFID), European Union Food Security Program (EUFSP), SDC, and International Fund for Agriculture Development (IFAD).

13. The World Bank has provided support to policy reform through several structural adjustment credits. Investment activities include assistance for enterprise development,

livestock support services, and breeding for the development of the sheep industry through the sheep development project (now completed). The agricultural support services project is providing assistance with land and agrarian reform, farm advisory (extension), and development services, seed industry development, crop protection, and development of an agricultural market information system. Under the irrigation rehabilitation and on-farm irrigation projects, assistance is provided for water legislation (water code and law on WUAs), rehabilitation of irrigation and drainage and development of WUAs, and land and real estate registration. Under the on-farm irrigation project, WUAs are being established nationwide, also in cooperation with the ADB-supported Agriculture Area Development Project. The World Bank is currently preparing an agriculture modernization and marketing project and will undertake a natural disaster mitigation project to address key natural resources and environmental risks.

14. DFID is extending support to the livelihoods of livestock farmers focusing on livestock management and advisory services as part of the World Bank's agricultural support services project. DFID is also in a second phase of developing an effective third party arbitration mechanism for resolution of land and property disputes, including legislation and capacity-building activities. EUFSP, since 1996, has been providing assistance, primarily to MAWRPI on policy development, institutional development, budget planning, and execution and accountability. This includes the restructuring of MAWRPI, development of agricultural policy, and improved budgeting. SDC, through the Swiss Association for International Cooperation (Helvetas), is also supporting the development of policy formulation, related legislation, coordination of external assistance, and strengthening of staff skills. SDC and IFAD are supporting development of advisory services in cooperation with the World Bank. Other agriculture and related rural development activities are supported by the United Nations Development Programme, and the governments of Germany and Japan.

6. ADB's Sector Strategy

15. Agriculture remains a key sector of the economy and an important source of economic growth and means of reducing poverty in rural areas. Agriculture is a priority sector for both the Government and ADB. Agriculture needs to be developed with more environmentally sustainable practices. In addition, there are many constraints in (i) effectively implementing policy reforms; (ii) building the institutional capacity to support private sector farming and rural industries; and (iii) ensuring that input supply, infrastructure rehabilitation, production, finance, marketing, processing, research, and extension are made available.

16. ADB's overall objective in the sector is to increase farm and rural enterprise productivity and profitability. ADB will build on its experience and strengths and enhance its coordination and cooperation with other aid agencies and nongovernment organizations to address the constraints to the sustainable development of private farming and rural enterprise development. Increasing the productivity and profitability of farms and rural enterprises will increase employment opportunities, and enhance the potential for agroprocessing and market development. The Government has recognized the need for a more concentrated and coordinated focus on key constraints at the local administration and farm levels, to bring together and enhance the impact of ongoing and planned project investments, to address the remaining constraints, and to actively involve the private sector in providing key services. ADB will continue to adopt a regional- or area-focused approach, following the success of the Agriculture Area Development Project, to ensure the effective implementation of projects at the oblast level, and to identify the remaining constraints and opportunities not being directly addressed, such as restructuring and commercialization of selected farms, improved access to inputs and marketing, rural infrastructure rehabilitation, institutional development, and policy and

legal issues. The aim of all this is to provide a conducive environment for the functioning of a market-based agriculture system. At the same time, linkages between public sector investment and private sector initiatives in various business activities need to be established. An important element of this approach will be the development of strong institutional linkages and the capacity of local governments to undertake area-based or regional planning, and effectively implement their increasing responsibilities under the decentralization program.

7. Implementation Issues

17. In addition to the countrywide implementation issues, the key issues for agriculture and rural development include: (i) increased coordination and cooperation amongst external agencies in all aspects of policy development, institutional development, and investments; (ii) more effective implementation of current policies before embarking on new and more difficult reforms; (iii) ensuring that the capacity of the sector agencies are capable of implementing and sustaining the reforms and of undertaking project investments; and (iv) taking a longer-term horizon to implement capacity building investments and TA activities. More specifically for ADB's operations it will be important for ADB to ensure that: (i) TA, particularly international assistance, is appropriate and effectively supervised; (ii) sector agencies agree, adopt, and properly implement project and TA activities; (iii) ADB provides sufficient budget and staff resources for more effective supervision; (iv) sector agencies employ properly qualified local consultants, particularly project managers with fluent English in project management; and (v) sector agencies are strongly encouraged to implement the terms of the loan agreement, especially activities related to training and capacity building.

8. Performance Monitoring

18. Performance monitoring has to be at three levels. Project and TA monitoring will be carried out through regular loan and TA reviews and reported through the project performance reports and TA reports. It will be important for the objectives (goal and purpose) of loans and TAs to fit into the output and outcome indicators of the roadmap. The second level of monitoring is at the sector level and will track the achievement of the overall objective of increased farm and rural enterprise productivity and profitability and related indicators of private sector development (including cost recovery, employment, and efficiency indicators) and reduced environmental damage. This level of monitoring will be based on project and TA reviews and sector agency statistics. The final level of monitoring relates to the contribution of the agriculture sector to the economy (economic growth) and poverty reduction. This will be based on national statistics.

AGRICULTURE AND RURAL DEVELOPMENT ROADMAP

		Indicators			
		Current	2005	2010	
1. Sector Outcome					
	Rural poverty incidence (%)	51	45	30	
	Agriculture GDP growth (3-yr average %)	5	5	6	
	Agriculture GDP/total GDP (%)	34.9	34.2	33	
	Agricultural productivity index	100	115	125	
	Agriculture employment to nonfarm employment (% rural pop.)	53	52	50	
	Agriculture exports/total exports (%)	10	12	15	
	Agriculture terms of trade				
	Averages wages in agriculture (% average wages)	50	55	70	
2. Sector Outputs					
	Irrigation efficiency index	100	103	108	
	WUA coverage (% irrigated area)			100	
	WUA charges/O&M (%)	25	40	75	
	Water user charges collection efficiency (%)	75	85	100	
	Privatization agriculture land (area small farms to total cultivated area)				
	Productivity (yield) index	100	104	112	
	Land degradation				
3. Sector Issues/Constraints					
	(i) Changing farm size, ownership, structure and management;				
	(ii) limited supply and access to inputs (seeds, fertilizers, and pesticides);				
	(iii) limited availability and access to domestic and export markets for private farmers;				
	(iv) research, extension and information not appropriate for emerging small private farmers;				
	(v) limited access and availability to financial services;				
	(vi) new private institutions to provide agricultural support services slow to develop;				
	(vii) deteriorating drainage and irrigation infrastructure;				
	(viii) increasing land degradation through water logging and salinization and unsustainable agricultural practices;				
	(ix) rural infrastructure inadequate and deteriorating;				
	(x) absence of appropriate and responsive public sector agencies to support private agriculture; and				
	(xi) dependence on subsistence agriculture and limited access to social services.				
4. Actions/Milestones/Investments		Schedule	By Agency		
			ADB	Others/External	Govt
A. Policies/Legislations					
	Land and agrarian reform – land registration/arbitration			WB/DFID	X
	Irrigation – water code, Law on WUAs			WB	X
	Cost recovery	1999-2006	AADP	WB	X
		2006-2011	SADP	WB	X
	Local government planning	2006-2010	RDP		X
		2006-2007	TA SLLCA		X

4. Actions/Milestones/Investments (continued)	Schedule	By Agency		
		ADB	Others/External	Govt
B. Capacity Building and Institutional Development				
Land and agrarian reform – land registration/arbitration MAWRPI			WB/DFID	X
Restructuring, budgeting and public investment programming	2003-2004	TA 3439	EUFSP	X
Policy and strategy development	2004	TA ASF	SDC	X
Agricultural Support Services				
Private enterprise development (including cooperatives)			WB	X
Water User Associations	1999-2006	AADP	WB	X
Marketing			WB	X
Agroprocessing			IFC	X
Livelihood development	2006-2010	RDP	DFID	X
Natural resources and environment	2006-2010	RDP	WB	X
Local government and community development	2006-2010	RDP	DFID	X
	2006-2007	TA SLLCA		X
	2006-2007	TA RDP		X
C. Investment				
Land and agrarian reform – land registration/arbitration			WB/DFID	X
Irrigation and Drainage Rehabilitation	1999-2006	AADP	WB	X
	2006-2011	SAADP		X
Agricultural Support Services				X
Advisory services			WB/DFID/SDC/IFAD	X
Seed development			WB	X
Crop protection			WB	X
Private enterprise development (including cooperatives)	1999-2006	AADP	WB/IFC	X
	2006-2011	SAADP		X
Marketing	1999-2000	AADP	WB	X
	2006-2011	SAADP		X
Livelihood development	2006-2010	RDP		X
Natural resources and environment	2006-2010	RDP		X
Local government and community development	2006-2010	RDP	WB	X
	2006-2007	TA SLLCA	DFID	X
	2006-2007	TA RDP		X

AADP = Agriculture Area Development Project, ASF = Agricultural Strategy Formulation TA, DFID = Department of International Development, EUFSP = European Union Food Security Program, GDP = gross domestic product, IFAD = International Fund for Agricultural Development, IFC = International Finance Corporation, MAWRPI = Ministry of Agriculture, Water Resources and Processing Industry, O&M = operation and maintenance, RDP = Rural Development Project, SDC = Swiss Agency for Development Corporation, SAADP = Second Agriculture Area Development Project, SLLCA = Strengthening Local Level Capacity in Agriculture TA, TA = technical assistance, WB = World Bank, WUA = water users association.

B. Financial Sector

1. Background

19. The Kyrgyz Republic's financial sector has been transformed significantly since the transition to a market economy began. Over the last decade, measures have been taken to shift the banking system inherited from the former Soviet Union to a market orientation and to establish capital markets. However, macroeconomic difficulties, contagion from the Russian financial crisis, and slow progress in state-owned enterprise (SOE) restructuring impeded the financial sector's development. Although the basic legal, regulatory, and institutional framework has been established and the immediate effects of the Russian crisis have been overcome, the financial sector does not yet significantly contribute to the wider development goal. The sector is playing only a minor role in financial intermediation and resource mobilization and in instilling good governance norms in enterprises outside the financial sector.² However, in light of severe fiscal and external debt constraints, the domestic financial sector must play an increasing role in financing private sector-led growth in Kyrgyz Republic.

2. Sector Issues

a. Weak Regulatory and Supervisory Framework

20. Banking sector regulation and supervision have been substantially improved, but remaining gaps increase the sector's vulnerability and limit the confidence of the population and the interest of investors in banks. Most notable here are insufficient capacities of the regulator, the National Bank of Kyrgyz Republic (NBKR), to assess risks related to the operations of commercial banks, and the lack of proactive measures to establish adequate risk rating and risk management procedures within them. Regulatory guidelines are still lacking for market, interest rate, operational, country, or transfer risk assessment and management. In addition, NBKR faces serious difficulties in enforcing banking sector regulation. These difficulties seem to result from a combination of weaknesses in the court system and remaining shortcomings in banking sector legislation.

21. Regulation of securities markets and open joint-stock companies (JSCs) has been strengthened somewhat. However, the regulator, the State Commission for Securities Markets (SCSM), under the Government, has limited financial and operational autonomy, weak technical and professional capacity, and few remedial measures at its disposal. SCSM faces even more serious problems in enforcing regulations than NBKR. SCSM is clearly not capable of supervising the roughly 60 professional participants of the securities markets and about 400 JSCs whose stocks are traded. Insurance companies and pension funds are regulated by a department of the Ministry of Finance (MOF).

b. Inadequate Corporate Governance and Transparency

22. Corporate governance in commercial banks and JSCs does not yet reflect Organization for Economic Co-operation and Development (OECD) principles, due to weaknesses in legislation and regulation and lack of awareness for corporate governance issues in the country.

² Banking assets have never been above 13% of gross domestic product since transition. Equity and bond market capitalization has been a fraction of that. The financial deepening ratio of broad money (M2) to gross domestic product has also been below 13%.

All 20 commercial banks have converted to international accounting standards (IAS) and an increasing number of them are being audited in line with international standards of auditing (ISA). However, six out of the 22 listed companies and most open JSCs have yet to convert to IAS and ISA. Weak accounting and auditing standards in JSCs, together with weak corporate governance and opaque ownership structures, pose considerable challenges for (potential) creditors and investors and, therefore, have to be considered a major constraint to financial sector development. There is still a shortage of IAS-trained accountants. The Kyrgyz auditing profession is in its infancy, and audit firms are struggling to grow in size and to gain a professional reputation.

c. Weak Enforcement of Creditor Rights

23. The legal and institutional framework supporting creditor rights continues to be inadequate. In case of a borrower's payment difficulties, bank managers have strong incentives to extend maturities, settle for partial repayments, and roll over credits, rather than foreclose assets of insolvent enterprises through the court system, as enforcement procedures are slow, unreliable, and costly. Legislation and banking sector regulations also prevent banks from lending to insolvent enterprises that implement restructuring or reorganization plans agreed upon by creditors. As a consequence, the propensity of commercial banks to provide credit to the real sector is lower and loan maturities are shorter than they otherwise would be; to offset high regulatory risks, lenders have adopted a policy of fully securing all loans in nearly all corporate transactions, and the collateral taken is typically twice the loan value. Credit to the private sector amounted to 4.2% of GDP in 2002.

d. Lack of Banking Sector Consolidation

24. Most of the weakest banks have been eliminated, although one medium-sized problem bank remains and the credit quality of several bank portfolios appears poor. Consolidation, which is a prerequisite to pool a critical mass of resources for meaningful levels of intermediation, has only started. The number of banks has declined from 24 to 20 over the last 3 years, and financial intermediation ratios are still comparatively low. Banking sector assets amount to only 10.4% of GDP. One key problem is that NBKR is facing serious problems in enforcing prudential norms to prevent weak banks from continuing operations (para. 20). There are still two state-owned banks, Kairat Bank and Settlement and Savings Corporation, which together account for about 13% of total banking sector assets. Both banks operate as narrow banks with restrictions on lending. Their solvency and liquidity depend on the income from government securities, which makes them vulnerable. Settlement and Savings Corporation is the only bank with a branch network capable of providing banking and quasi-fiscal services throughout the country, particularly in rural areas.

e. Small Size of Capital Market and Lack of Regional Cooperation

25. Although the volume of issues of securities is increasing, the role of capital markets in mobilizing resources for private sector led growth and in improving financial disclosure and corporate governance practices in the enterprise sector is still small due to a combination of shortcomings. First, regulations of capital markets are still not adequate (para. 21). Second, privatization of viable enterprises through the stock exchange is lacking, without which development of healthy equity markets has proven difficult in many transition economies. Enterprises offered for privatization through the exchange have frequently not been sold due to insufficient information disclosure and lack of serious restructuring to attract investors. Third, there are no initiatives to substitute for the small size of the domestic capital market by regional

cooperation and integration. As a consequence, the market lacks a critical mass of activities to ensure sufficient interest from investors as well as companies seeking finance. The capitalization of the nine most traded JSCs together with the total amount of outstanding corporate bonds accounted for just 0.5% of GDP in 2002. Only a fraction of JSCs in the Kyrgyz Republic are willing and able to comply with listing requirements and enhanced corporate governance standards, which deters JSCs' entry into capital markets. Only 22 companies are listed on the Kyrgyz Stock Exchange (KSE). Shares of nonlisted companies are also traded at KSE as a result of a presidential decree in May 1999, which required all equity trading to go through KSE, without specifying listing as a precondition.

26. Trading in government securities, such as treasury bills, is taking place exclusively between Kyrgyz banks on trading platforms in NBKR. Secondary trading volumes are negligible. These factors have reduced the attractiveness of Kyrgyz government securities for investors, as a consequence of which the Ministry of Finance has been forced to offer higher yields for these securities. Even then, the market is not a significant source of funding for the Government. Most other forms of government domestic debt, including state-guaranteed debts taken over from insolvent companies, or debt generated to recapitalize insolvent banks, are not traded.

f. Underdeveloped Insurance Sector and Pension Funds

27. The insurance market in the Kyrgyz Republic is very small and at an early stage of development. There are 23 insurance companies with total assets equivalent to 0.2% of GDP, and life insurance is not developed. The insurance market is undercapitalized and most of the risk is reinsured abroad. Efforts are under way to introduce compulsory car insurance. The State Social Insurance Fund is the only government-owned pension fund; it covers contributions to both pension payments and other social security benefits. There is just one nongovernment pension fund, which covers some 600 pensioners. The Government is considering the introduction of a second pillar pension scheme, but without an effective supervisory function and a developed securities market, such a step would be risky.

g. Weaknesses of Credit Unions and Microfinance Institutions

28. Saving and credit unions (SCUs), now numbering nearly 350, and microfinance institutions (MFIs) are playing an increasingly important role by providing credit to micro- and small enterprises and to rural borrowers. SCUs and MFIs account for about 18% of total financial sector assets. However, most SCUs and MFIs are characterized by inexperienced management, poorly developed risk management and internal control, and complete reliance on external agency funding. None of these entities has a license to take deposits, due to risk concerns, although deposit taking appears a condition for sustainability of SCUs and MFIs in the medium to long run. NBKR is the supervisor, but lacks capacity and experience. Weaknesses in oversight and monitoring could well undermine the development of the SCUs and MFIs. The market share of MFIs is being eroded by competing institutions offering softer terms and conditions. In addition, fees associated with the mandatory registration of collateral prove burdensome for borrowers. Kyrgyz Agricultural Finance Corporation, as a state-owned financial institution providing credit to private farms and agribusinesses, is the largest agricultural lender in the country. The Corporation, which does not take deposits but manages loan funds provided by a variety of external agencies, including the World Bank and ADB, has yet to develop a credit culture and institutional vision for its own sustainable development.

h. Payment System Limitations

29. The payment system of the Kyrgyz Republic consists of a gross interbank settlement system and a net clearing system. The former processes financial market transactions and large and urgent interbank funds transfers, and handles an average of 80 payments a day, representing 4% of the volume and 67% of the value of interbank payments, respectively. It is a constraint to further financial sector development. The net clearing system, which is operated by an affiliate of the NBKR, handles all other interbank payments. This system has made some progress toward purely electronic clearing. However, card payment services are in their infancy. The main deficiencies of the current payment system are (i) heavy reliance on paper documents; (ii) lack of affordable, convenient payment services; (iii) inconsistencies in the legal framework that may be confusing to banks and the judiciary; and (iv) lack of documented plans and backup facilities for either system.

3. Required General Directions of Reform

30. Weaknesses in the judiciary and lack of good corporate governance and financial transparency in JSCs pose major impediments to financial sector development and need to be addressed together with financial sector reforms in a well-coordinated manner. A more efficient, effective, independent, and accountable judiciary is indispensable for better enforcing financial sector regulation as well as creditor and investor rights. Measures to improve corporate governance and financial transparency are a prerequisite to enhancing investor and creditor confidence in the enterprise sector. The strong link between financial sector and real sector development needs to be taken into account while designing reform programs and projects.

31. While the remaining reform agenda in the area of banking sector regulation, restructuring, and consolidation has to be addressed, potential positive correlations between banking sector development and capital market development should be utilized wherever possible. Commercial banks in the Kyrgyz Republic will find it easier to broaden their capital and asset base and generate profits when they can tap, and work in, domestic capital markets.

32. With regard to financial sector development in general, and capital market development in particular, the small size of the Kyrgyz Republic's economy has to be taken into account. Only regional cooperation complemented by domestic initiatives can generate the critical mass of activities necessary to attract sufficient supply and demand interest in the market. Consequently, the well-coordinated development of the banking sector and the capital market has to be increasingly placed into a regional development context.

4. Government' Strategy

33. In 2002, NBKR developed an overall banking sector reform strategy for 2003–05 guided by the Financial Sector Assessment Program of the International Monetary Fund (IMF) and the World Bank. The strategy foresees addressing the remaining regulatory gaps, resolution of remaining problem banks, measures to promote consolidation, and payment system reform. In addition, the Government has drafted several capital market development programs and plans with external agency support; such measures include establishing a trading platform for government securities and accelerating privatization of state-owned enterprises through the stock exchange.

34. The Government is committed to sustain its corporate governance reforms and is in the process of adopting a corporate governance development strategy with support from ADB. The

Comprehensive Development Framework envisages reforms of the entire system of law and order, and the president has established an independent Judicial Advisory Commission (JAC) with broad-based participation to formulate a strategy for judicial reform, supported by ADB. The initiative is driven by the understanding that much of the system needs to be changed by means of a coherent program over a realistic period of time.

5. ADB's Support in Implementing the Government's Strategy

35. ADB has supported financial sector development in the country through TA and the Financial Intermediation and Resource Mobilization (FIRM) Program (Loan 1723, approved in December 1999 in the amount of \$35 million equivalent), which was provided to continue the reforms launched under the World Bank's Financial Sector Adjustment Credit. FIRM focused on (i) strengthening banking sector oversight, (ii) stabilizing and restructuring the banking system after the Russian financial crisis, (iii) developing the government securities market, and (iv) facilitating the development of the equity market. ADB has also supported the development of rural financial institutions through TA and the Rural Financial Institutions Project (Loan 1529 in the amount of \$9.9 million, which became effective in 1998). Under the ongoing Corporate Governance and Enterprise Reform Program II (CGERP II, Loan 1860, approved in November 2001 in the amount of \$35 million equivalent) and attached TA 3779, ADB is supporting the Government in (i) introducing good corporate governance and international accounting and auditing standards in all commercial banks and JSCs listed at the stock exchange, (ii) strengthening the capacities of SCSM as supervisor of JSCs, and (iii) launching a major judicial reform and taking the first steps toward streamlining the court system, rendering judgments with finality, and establishing out of court arbitration procedures. No major external funding agency is currently planning to support the authorities in sustaining these reforms.

36. The Government has requested ADB to sustain its support for financial sector reforms and address the unfinished agenda of FIRM. TA 4069-KGZ: Financial Sector Reforms was approved in December 2002 in the amount of \$600,000 to further strengthen the institutions supervising and regulating the sector and to prepare a policy reform agenda for a second round of financial sector reforms, which will be supported by the Financial Sector Program II (FSP II) beginning in 2004/05. FSP II will rest on the progress made under CGERP II in the area of corporate governance, financial transparency, and judicial reforms, and reflect the need to coordinate financial and real sector reforms. The focus of FSP II will be on (i) improving the viability of commercial banks by establishing risk assessment and management procedures in the banking system, improving asset foreclosure and recovery mechanisms, and promoting financial restructuring of viable enterprises through the banking sector; (ii) promoting banking sector consolidation by strengthening licensing mechanisms for entry of sound institutions and management as well as orderly exit of weak banks in a speedy manner, and providing catalytic support for foreign participation in selected institutions; (iii) establishing a viable trading platform for government securities with the potential of being a significant source of funding for the Government; and (iv) developing the capital market by strengthening regulation and supervision, supporting the efficient privatization of state owned enterprises through the stock exchange, and promoting regional trading platforms to expand the investor-horizon for attracting investments to viable Kyrgyz enterprises. Measures to support the privatization of remaining state-owned banks and the reform of the payment system will only be part of FSP II if they are not included into the World Bank-supported Financial Sector and Business Development Project, which will be launched by end 2003.

37. **TA attached to FSP II** will be provided to support the Government and NBKR in reaching the program's objectives and continue capacity development in the area of risk management and securities market regulation, building on the results of TA 4069. Complementarily, *TA on Regional Financial Sector Development* will be provided in two phases (2003/04 and 2005/06) to support the authorities in identifying and taking necessary steps toward regional harmonization of financial sector regulation and supervision as well as regional capital markets cooperation and integration. Beginning in 2004, *TA on Enforcement of Financial and Private Sector Legislation* will support the authorities in sustaining their reforms of the judiciary.

38. In the area of SCUs and MFIs, ADB will be accommodating NBKR's capacity building needs in the area of regulation and supervision through *TA 4068* (approved in December 2002 in the amount of \$550,000). This TA will be complemented by a *TA 6078 on Regional Rural Financial Market Development* (approved in December 2002 in the amount on \$600,000), which will (i) support a regional study of the size and structure of rural financial activity, and (ii) give advice on efficient alternate approaches and modalities for developing sustainable rural financial systems that serve the requirements of small and micro borrowers. ADB will continue to closely coordinate with Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), which is also active in the area of SCUs.

FINANCIAL SECTOR ROADMAP

	5 years ago	Current	5 Years
1. Sector Outcomes			
Increased financial intermediation			
- Broad money (M2) as % of GDP	10.2	10.5	>20
- Banking sector assets as % of GDP	9.0	10.4	>25
- Capitalization of stock exchange as % of GDP*	n.a.	0.3	>5
- Outstanding corporate bonds as % of GDP	0	0.2	>4
2. Sector Outputs			
Improved financial sector			
Soundness and stability			
- Total capital of banks as % of total assets (CAR)	18.2	21.5	15
- Non performing bank loans as % of gross loans	6.0	11.0	<5
- Foreign-owned banking sector assets as percent of total	n.a.	44.6	>60
- Total number of commercial banks	20	20	<15
Efficiency			
- Private-owned banking sector assets as % of total	n.a.	84	100
- Interest rate spread (lending - deposit rate)	9.8	18.9	<5
- Money outside banks as % of deposits	200	167	<100
- Annual stock market turnover as % of capitalization	n.a.	405	
- Longest available bond maturity	n.a.	1 year	>6 years
- Longest available loan maturity for prime borrowers	3 years	3 years	>8 years
- Population per bank branch	33,000	33,800	

Access				
- Credit to the private sector as % of GDP	3.5	4.2	>10	
- Rural credit as % of total credit				
- Population with deposit accounts as % of total				
- Bank deposits as % of GDP	n.a.	4.8	>20	
- Number of companies listed at stock exchange	37	22	>40	
- Number of initial public offerings of stocks (equity)**	57	45		
- Number of corporate bond issues		4	>20	
* Calculated as the total value of the 9 most traded companies				
** Without privatization through the stock exchange				
3. Key Sector Issues/Constraints (up to ten issues prioritized according to importance)				
(i) Weak regulation and supervision of banks and open JSC, especially with regard to enforcement of regulation				
(ii) Banking sector consolidation has not started yet. Resolution of two banks has to be finalized				
(iii) Weak risk management and a high-risk environment for banking business				
(iv) Weak corporate governance and financial transparency in commercial banks and open JSCs				
(v) Weak enforcement of creditor rights				
(vi) Weak supervision and management of microfinance institutions and credit and savings unions				
(vii) Domination of the financial sector by banks, with lack of diversification of financial markets and instruments				
(viii) Lack of regional cooperation and integration to substitute for the small size of the national market				
(ix) Lack of payment system automatization and payment services				
4. Action/Milestones				
	Schedule	Govt.	ADB	Other
(i) Strengthening enforcement of regulation and banking sector consolidation	2003-2006	X	FSP II, TA4069, TA attached to FSP II	USAID
(ii) Resolution of remaining state-owned banks	2003 2003-2005	X		WB WB
(iii) Promoting efficient risk management	2003-2006	X	TA4069, TA attached to FSP II	USAID, IMF
(iv) Improving corporate governance and financial transparency	1999-2004 2004-2005	X	CGERP-II, TA3779 TA attached to FSP II	
(v) Facilitating the enforcement of creditor rights	1999-2004 2003-2004	X	CGERP-II, TA3779 TA4069	
(vi) Strengthening supervision and management of SCUs & MFIs	2003-2004	X	TA4068, RETA6078	GTZ, USAID
(vii) Promoting regional cooperation and integration	2003-2006	X	RETA Phase I and II	
(vii) Payment system reforms	2003-2005	X		WB IMF

ADB = Asian Development Bank, CGERP II = Corporate Governance and Enterprise Reform Program II, FSP = Financial Sector Program, Gov't. = Government, GTZ = Deutsche Gesellschaft für Technische Zusammenarbeit GmbH, IMF = International Monetary Fund, RETA = regional technical assistance, TA = technical assistance, USAID = United States Agency for International Development, WB = World Bank.

C. Road Subsector Roadmap

1. Background

39. The Kyrgyz Republic is a mountainous, landlocked country, and road transport dominates the country's transport sector. Road transport accounted for about 94% of freight tonnage movements and almost all passenger traffic (excluding intra-urban) in 2001. The railway network consists of separate branch lines that link the north of the country to the Kazakh rail system, and the south of the country to the Uzbek system, with no direct connection between the two links. Air transport accounts for less than 1% of passenger movements, mainly on routes between Bishkek and Osh. Water transport is confined to a few small vessels on Lake Issyk-Kul.

40. As with most other republics of the Former Soviet Union (FSU), the economic crisis stemming from the breakup of the FSU resulted in a decline in economic activity and disrupted customary trading patterns. The demand for transport has fallen dramatically since independence. In 2001, freight turnover (measured in ton-km) was only 20% of its 1990 level and passenger turnover was 57% of its previous level.³ The lowest levels were reached in 1995 when the volumes of freight in ton-km and passenger movements were only 14% and 33% of their respective 1990 levels, reflecting a sharp decline in real incomes and output. The demand grew in 1996 and 1997, but freight went down again following the 1998 Russian financial crisis. As of 2001 traffic levels were still lower than in 1997. Passenger transport has been growing at about 6% annually since 1997. As a result of the reduced demand, employment in the sector is still contracting. It was about 50,000 in 2000, versus 68,000 in 1996. The sector now accounts for only 2.8% of total employment in the country, versus 4.1% in 1996. In addition, the sector's contribution to GDP fell from 3.5% in 1996 to 2.4% in 2000. Since most of the roads were designed for higher traffic capacities and are underutilized, the existing basic transport infrastructure is adequate for the level of economic activity likely to occur in the medium term. Consequently, the primary concern is not expansion or major upgrading of the transport system, but proper maintenance and rehabilitation to preserve the existing network.

41. The road network in the Kyrgyz Republic covers all seven provinces (oblasts), and provides connections to far-flung communities and links to neighboring countries. There are about 18,900 km of roads under the jurisdiction of the Ministry of Transport and Communications (MOTC): 9,900 km of state roads and 9,000 km of local roads. About 40% of the roads are sealed, including some with gravel mixed with bitumen binder. Over 50% are gravel and less than 10% are earth roads. The coverage of the road network is generally adequate for the development needs of the country. Of primary concern is the deteriorating state of the roads at all levels: over 60% now require periodic maintenance or rehabilitation. There are 15,000 km of roads outside MOTC's jurisdiction, mainly rural and farm roads. Most were formerly the responsibility of state and collective farms. The responsibility for maintaining rural and farm roads is now with the local district administrations following the progressive breakup of the state and collective farming system.

42. The Automobile Roads Act gives the main responsibility for planning and administering road sector policies, programs, and projects to MOTC, which is responsible for policy making for and regulating, planning, and developing the transport and communications subsectors in the Kyrgyz Republic, including the road, railway, and aviation subsectors. The Department of Roads

³ World Bank. 2003. *Public Expenditure Review: Fiscal Policies for Growth and Poverty Reduction*. Vol. 2. Washington, DC.

(DOR) under MOTC is responsible for managing the road subsector. MOTC's seven regional road maintenance agencies (RRMAs), one in each province, plus the Bishkek-Osh Road Division are responsible for maintaining the state and local roads under MOTC's jurisdiction. The RRMAs and Bishkek-Osh Road Division are composed of 58 local maintenance units (LMUs) that carry out actual maintenance works. Other important agencies in the road sector are (i) KyrgyzIntrans, a holding agency for six freight transport companies and forwarding agencies engaged mainly in international trade; and (ii) technical agencies in various stages of divestment from MOTC's control, including the Road Design Institute (Kyrgyzdortransproect); and (iii) a small agency responsible for developing and testing new road construction techniques and equipment (Kyrgyztranstekhnika).

2. Sector Issues and Need for Reform

a. Road Transport Industry

43. Transport companies were controlled by a joint-stock holding company, Kyrgyz Auto Transport, until 1994, when Decree No. 61 abolished the company and transferred its functions to MOTC. Of the total 251 transport sector enterprises in the Kyrgyz Republic, 126 have been privatized, primarily through conversion to JSCs. Currently, 86 companies provide road transport services, and 74 of them have been privatized. The companies that have not been privatized comprise urban bus enterprises in major cities and some enterprises connected with state security. The transport companies employ about 25,000 people. Most of the freight and passenger transport companies operate at the provincial and district (raion) level, with a small number of national operators. As a result of measures that the Government introduced in 1994 to increase competition, most of the national and provincial holding companies and associations (which had continued to exercise control over the operations of individual transport companies) were abolished.

44. Through ownership and regulation, the Government continues to have a strong influence in the market for intercity passenger transport. The Government maintains large holdings in the JSCs operating transport services. Buses must travel designated routes and operate out of government-owned bus stations. Kyrgyz Transport Inspection, created in MOTC in 1994, issues transport licenses and regulates transport services. The market for freight transport services is more competitive than that for passenger transport. Freight transport customers are free to negotiate conditions of price and quality of service directly with the operators. Freight forwarders are encouraged to negotiate and arrange intermodal transport services, thus facilitating door-to-door transport arrangements, and to offer services directly themselves. However, the Government also plays a large role in freight transport, through its holdings in JSCs and through regulation. MOTC is responsible for monitoring and regulation, including licensing, inspection, and safety audits.

45. Increased competitiveness of the markets for transport services is necessary to improve transport services and ensure that the reductions in transport costs are passed on to transport users. The Government has made substantial efforts to privatize road construction and maintenance operations. All of the 29 road construction enterprises have been privatized. The uncertainty relating to DOR's road construction program has hindered development of the private road construction industry. However, the ongoing road rehabilitation projects supported by ADB have assisted in developing the privatized road construction enterprises through extensive subcontracting by the civil works contractors.

b. Financing of Road Maintenance

46. Financing for the road sector suffers from the overall fiscal constraints and is inadequate for the country's needs. With the assistance of an ADB-financed TA for institutional strengthening,⁴ the Government passed the Road Fund Act in 1998 and, as specified in the loan covenants for the Second Road Rehabilitation Project, is collecting road user charges prescribed under the act. According to the Road Fund Act, a portion of the road sector revenues should be put into a separate road fund account. The specific sources of revenue for the road fund are (i) 50% of the excise taxes on fuel, (ii) 100% of the 0.8% tax on enterprises, (iii) 100% of the tax on vehicle owners, (iv) 90% of vehicle registration fees, (v) charges for the use of toll roads and tunnels, (vi) charges for oversize and overweight vehicles, (vii) state budget allocations, and (viii) foreign loans and grants. In view of the severe fiscal problems faced by the Kyrgyz Republic, ADB waived a loan covenant requiring the establishment of a separate dedicated road fund account, although the collection of road user charges in accordance with the Road Fund Act is continuing. At present, MOF makes annual allocations for road maintenance and other road sector expenditures based on overall budget considerations. The allocations have been inadequate to meet the sector's needs. Total road sector revenues were Som656 million and Som614 million in 2000 and 2001, respectively, while the budget allocations for the road sector in these years, including counterpart funds for the PIP, were Som463 million and Som415 million.

47. Almost 90% of MOTC's budget goes to road maintenance. Expenditures for road maintenance increased from about \$3 million in 1999 and 2000 to \$4 million in 2001. The budget for 2002 was 10% lower. Because of the limited budget, road maintenance in recent years has covered only half of the network under MOTC's jurisdiction; more funds are given to main highways and key links such as the Bishkek-Osh road. This leaves the local roads virtually unattended, except in cases of emergency repairs after landslides, flooding, etc. Over the last 5 years, periodic maintenance and rehabilitation has been carried out on only some 250–300 km annually. This implies a 40-year cycle for the periodic maintenance of the 10,000 km of major roads, rather than the generally recommended 7–10 year cycle. It is estimated that the \$16 million per year is needed to adequately maintain the Kyrgyz Republic's road network (based on 1% of GDP).⁵

c. Regional Aspects/Trade

48. Regional dimensions and facilitation of trade are important aspects of the transport sector in the Kyrgyz Republic. As a landlocked country with a small market, the Kyrgyz Republic's future development is dependent on enhancing its access to regional markets and diversifying its exports. The long distances to ocean ports and large markets give even greater importance to developing an efficient transport sector. The transport routes in the FSU were oriented to the Russian Federation. As the importance of the Russian Federation's role as a trade partner for the Kyrgyz Republic declines, due to distance and other trading opportunities, it becomes vital to develop transport corridors to other markets and sources of supply. The transport corridor to the People's Republic of China (PRC) is a particularly prominent example. Trade barriers imposed by neighboring countries have had a considerable negative impact on the country's export activity. Improvement in the regional trade framework over the medium term

⁴ ADB. 1996. *Technical Assistance to the Kyrgyz Republic for Institutional Strengthening of the Road Sector*. Manila.

⁵ World Bank. 2003. *Public Expenditure Review: Fiscal Policies for Growth and Poverty Reduction*. Vol. 2. Washington, DC.

via increased demand from neighboring countries is essential to the country's future growth prospects. This is particularly critical to the expansion of value-added agricultural activities.

3. Government's Strategy

49. The Government's transport sector strategy and plans are included in the Transport and Road Sector Policy Statement prepared under the institutional strengthening TA. The Government's overall policy objectives for the transport sector include (i) adequately maintaining transport infrastructure to support the reform of the economy with very high priority given to improving key regional road links; (ii) privatizing transport operations and promoting competition among operators, while addressing safety and environmental concerns; and (iii) increasing cost recovery from the users of transport infrastructure. To achieve these objectives, the Government's strategy includes (i) increasing the financial provision for rehabilitating and maintaining the road network; (ii) consolidating road sector responsibilities under MOTC; (iii) promoting private sector participation in road maintenance; (iv) completing the privatization of road transport operations and dismantling of licensing controls, which hinder competition; (v) promoting, in collaboration with neighboring countries, rail transport as the most efficient means of transporting bulk loads over long distances; (vi) privatizing lake shipping services; (vii) promoting civil aviation infrastructure and supporting services that encourage foreign and local airline operations; and (viii) increasing road sector revenues through appropriate pricing and taxation.

4. ADB's Support in Implementing the Government's Strategy

50. ADB has been involved in the Kyrgyz road sector since 1996 implementing three projects for the rehabilitation of the Bishkek-Osh road, and one for the Bishkek-Almaty Road. ADB's involvement in the road sector has been guided by its sector strategy and has been instrumental in improving the policy and regulatory framework, institutional strengthening of MOTC and other sector institutions, preparing a road maintenance plan, and mobilizing additional resources from other agencies. ADB is playing a leading role in providing policy advice, capacity building, and capital financing for the Kyrgyz Republic's road sector, and has provided seven TA grants totaling \$4.2 million.

51. ADB has assisted MOTC in streamlining management of the road sector. In conjunction with the policy dialogue under the Second Road Rehabilitation Project⁶ and following the passage of Law No. 8 on Transport and issuance of Decree No. 419 in 1998, MOTC was restructured to improve its efficiency. As part of the restructuring, a government decree was issued in January 1999 requiring consolidation of the administration of transport-related activities. This resulted in a restructuring of responsibilities among the Ministry of Architecture and Construction, Ministry of Internal Affairs (MIA), and MOTC. In 1998, the Directorate General for Rehabilitation and Maintenance of the Bishkek-Osh road was integrated into DOR. The Government transferred responsibilities for developing road design and construction standards from the Ministry of Architecture and Construction to MOTC, and in 1999 MIA and MOTC agreed to jointly administer the functions of road safety and traffic management, while leaving the responsibility for vehicle inspection with MIA. To determine the broad expenditure priorities in accordance with road traffic, road conditions, and possible types of intervention, ADB assisted MOTC through the institutional strengthening TA in reviewing the existing planning and budgeting practices for road maintenance and in preparing preliminary estimates of

⁶ ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Second Road Rehabilitation Project*. Manila.

rehabilitation and maintenance needs for the national road network, including the Bishkek-Osh road. The TA on Policy Support in the Transport Sector⁷ gave recommendations for improving financial management in MOTC. The Government has agreed to implement the recommendations.

52. ADB is addressing issues affecting competitiveness of the market for passenger and freight transport services through policy dialogue and provision of TA. The ongoing TA 3757-KGZ: Institutional Support in the Transport Sector⁸ includes a component to analyze the markets for transport services and give recommendations to improve the competitiveness of the markets so as to maximize the poverty reduction impact of the Third Road Rehabilitation Project.⁹ The TA will also study the impact of the measures to increase competitiveness on the poorest part of the population, and any additional measures to ensure that the poorest are not negatively affected by regulatory changes or other proposed measures. The Government has agreed to implement the regulatory changes recommended by the TA for improving the competitiveness of the markets for transport services to ensure that the project benefits are passed on to the poor.

53. ADB has been intensively involved in policy dialogue to address the issue of inadequate financing of road maintenance. The Government agreed to loan covenants under the Third Road Rehabilitation Project mandating specific budget allocations for maintaining (i) the Bishkek-Osh road and (ii) all other roads under the jurisdiction of MOTC. MOF has established a separate budget item for maintaining the Bishkek-Osh road (to help ensure the sustainability of the investment in this road) and will allocate funding for maintaining the Bishkek-Osh road and other roads under MOTC administration in the amounts increasing to Som100 million and Som237 million, respectively, in 2005 (adjusted for the effects of inflation and depreciation). The amounts are sufficient for conducting routine maintenance on the rehabilitated sections of the Bishkek-Osh road and other MOTC roads and represent substantial increases over current levels.

54. Through its ongoing projects, ADB has been working with MOTC to improve the equipment and methods used for road maintenance. Under the Second Road Rehabilitation Project, a maintenance manual was prepared, and a training program for maintenance personnel was implemented. Maintenance equipment for the Bishkek-Osh road was purchased through the cofinanced portion of the first Road Rehabilitation Project.¹⁰ While the Government wants to retain the LMUs as part of MOTC, it has undertaken measures, with ADB assistance, to contract out road maintenance activities. Under the Second Road Rehabilitation Project, the Government has invited bids from local contractors to undertake routine maintenance on a section of the Bishkek-Osh road. Under the Third Road Rehabilitation Project, MOTC will invite bids from contractors for routine maintenance on all sections of the Bishkek-Osh road for which the construction contractor's warranty period has expired. Policy dialogue under ADB's early projects focused on maintaining national roads. However, the Third Road Rehabilitation Project, which is improving secondary roads along with sections of the Bishkek-Osh road, will extend improved road maintenance practices to secondary roads as well. TA 3757-KGZ is developing a system for maintaining secondary roads based on collaboration between the LMUs and local communities, which will help ensure that the poverty-reduction benefits of improving secondary

⁷ ADB. 1998. *Technical Assistance to the Kyrgyz Republic for Policy Support in the Transport Sector*. Manila.

⁸ ADB. 2001. *Technical Assistance to the Kyrgyz Republic for Institutional Support in the Transport Sector*. Manila.

⁹ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Third Road Rehabilitation Project*. Manila.

¹⁰ ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Road Rehabilitation Project*. Manila.

roads will be sustained. MOTC has agreed to ensure the maintenance of secondary roads rehabilitated under the Third Rehabilitation Project by preparing the LMUs assigned to the Project's secondary roads to operate the new maintenance system, including procuring appropriate maintenance equipment and enacting or modifying any necessary regulations.

55. ADB is also significantly involved in improving road safety in the Kyrgyz Republic, through the Second Road Rehabilitation Project and the Almaty-Bishkek Regional Road Rehabilitation Project.¹¹ The Second Road Rehabilitation Project prepared a time-bound road safety program to reduce the accident rate. Under the Almaty-Bishkek Project, the Government agreed to establish the National Road Safety Council (NRSC) with a full-time secretariat to coordinate road safety activities and involve the various stakeholders. The Government also agreed to update the Road Safety Act (RSA) for submission to Parliament. The RSA will include legislation concerning safe driving, safety audit of road designs, safety education, road safety publicity, vehicle safety standards, road safety research, and emergency assistance to accident victims. An advisory TA attached to the Almaty-Bishkek Project will help the Government establish the NRSC, update the RSA, prepare a Russian-language version of the Road Safety Guidelines prepared under an earlier TA,¹² and conduct road safety seminars to implement the Road Safety Guidelines.

56. ADB's transport sector strategy has supported the Government's ongoing economic transition to a market-driven economy by assisting in (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 providing and operating of road infrastructure facilities and services; (iv) improving road funding by improving tax and duties collection, developing a user-pays approach to road funding, and removing subsidy-induced distortions in pricing of transport services; (v) rehabilitating and improving operation, maintenance, and safety standards of the road network; (vi) developing human resources; and (vii) improving environmental standards. ADB will continue to support the transport sector in these areas during the proposed CSP period. However, due to the PIP constraints during this period, the strategy will focus mainly on support to improving the regional road linking Uzbekistan to PRC through the southern part of the Kyrgyz Republic. By addressing regional issues, the strategy will facilitate the development of trade and economic growth, thereby contributing to the reduction of poverty in the Kyrgyz Republic.

5. Implementation Performance

57. The implementation of ADB's road-subsector projects has proceeded satisfactorily, and the sector has been one of the best performing areas of ADB support. All of the three ongoing road projects have satisfactory project ratings, and the project completion report for the first Road Rehabilitation Project rated the project as successful. Issues regarding implementation performance include delays in implementation and timely provision of counterpart funds; the Government is addressing these issues.

¹¹ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Almaty-Bishkek Regional Road Rehabilitation Project*. Manila.

¹² ADB. 1995. *Regional Technical Assistance for Regional Initiatives in Road Safety*. Manila.

6. Other External agencies

58. The World Bank approved a \$22 million loan for the Urban Transport Project in August 2000 to rehabilitate urban roads in Bishkek, Jalal-Abad, and Osh. The Islamic Development Bank (IsDB) approved \$9 million in 1998 to rehabilitate the Jalal-Abad-Uzgen section of the Bishkek-Osh road and a short bypass, and grant assistance for a feasibility study of rehabilitating a section of the Bishkek-Naryn-Torugart road. ADB, JBIC, and IsDB have worked together in rehabilitating the Bishkek-Osh road.

7. Performance Indicators

59. The following performance indicators will be monitored to evaluate the impact of ADB's transport-sector projects:

- (i) traffic volume (vehicles/day by type of vehicles) and axle loads;
- (ii) vehicle operation costs;
- (iii) accident occurrence;
- (iv) transport costs;
- (v) ownership of vehicles;
- (vi) volume and type of transported goods;
- (vii) origin-destination;
- (viii) employment created in the projects;
- (ix) income, employment, and other social/poverty impacts in the project area; and
- (x) environmental impacts.

60. In addition, the performance of the road subsector as a whole will be monitored through the indicators shown in the following table.

TRANSPORT SECTOR ROADMAP

Item	Indicators			
	5 years ago	Current		In 5 years
A. Sector Outcomes and Outputs				
Average condition of road network		Good 5%	10%	
		Fair 5%	05	
		Poor/ 85%	80	
		Very poor		
Goods carried Road (million ton-km)	1,253	1,077 (2001)		1,130
Number of vehicles – total	270,274	306,700		
- cars	165,276	197,100		
- trucks	92,587	56,500		
- buses	12,411	13,200		
- others	NA	15,747		
Accidents				
- deaths on Bishkek-Osh road				
- accidents on Bishkek-Osh road				
Length of rehabilitated national roads, km		238		573
Length of rehabilitated secondary roads, km		0		125
Percentage of corporatized enterprises	All road construction, repair, and maintenance enterprises have been incorporated, except road maintenance units, which are under the regional road maintenance departments.			
Percentage of privatized enterprises				
Road Maintenance Expenditure (million som)	149 (1999)	265		337 (2005)
B. Sector Issues and Constraints				
Financing				
<ul style="list-style-type: none"> • Inadequate Financing of Road Maintenance • Regional Aspects/Trade • Level of Competition in Road Transport Industry 				
C. Actions, Milestones, and Investments				
	By Issue	Schedule	By Agency	
			Government	ADB
Third Road Rehabilitation Project	Rehabilitation Bishkek-Osh road	2002-2005	\$10 million	\$40 million
Southern Kyrgyz Corridor, road	Rehabilitation Phase I	2003-2006	TBD	\$20 million
Commercialization and privatization of road maintenance			Institution Building	ADTAs
Financing of road maintenance		2003-2006	MOF, MOTC	ADTA

ADB = Asian Development Bank, ADTA = advisory technical assistance, MOF= Ministry of Finance, MOTC = Ministry of Transportation and Communications, TBD = to be determined.

D. Education Sector

1. Background and Issues

61. **Structure and Enrollment:** The Kyrgyz Republic's education system comprises five principal levels of education patterned on the former Soviet system. Government statistics indicate that the gross enrollment ratio (GER) in preschool education is 14% and 97.5% for primary education in 1998, with virtually identical rates for boys and girls. Although the Ministry of Education and Culture (MOEC) only reports 2,500 children out of school in 2001, independent estimates suggest far higher figures.¹³

62. **Education Quality and Content:** Although there are no time-series data to track changing education quality, there is a widespread consensus that quality has deteriorated seriously over the past decade; 40% of respondent school children failed a literacy test in a recent UNESCO/UNICEF survey, for example. Principal reasons for the decline are to be found in the depleted stocks of textbooks and other educational materials, in the underpaid and demoralized teaching force, and in physical deterioration of schools. The increasing reliance on parental contributions to meet school needs also results in a more unequal distribution of quality schools. Large differences have emerged in teaching conditions and educational outcomes among oblasts and between urban and rural schools.

63. Transition has necessitated a fundamental reform of education. With fewer available resources, the Government reduced the duration of compulsory education to nine years, shifted much of the responsibility for financing public primary and secondary schooling to local governments and parents, and authorized schools to raise money from rental of facilities and other activities. Students were required to rent textbooks, which formerly had been provided free. The Government also encouraged the private provision of education at all levels, and instituted a system of contracted, fee-paying education within public universities and specialized upper secondary schools. The transition has also necessitated change in the content and delivery of education programs at all levels to provide an unbiased view of knowledge, and to develop students' capacities in critical thinking. Teaching methods and content need to be more flexible and more responsive to the needs of emerging labor markets. Programs needed to be expanded in social sciences, humanities, and other new areas demanded by the global economy—including business administration, economics, and foreign languages.

64. **Education Efficiency:** The Kyrgyz Republic maintains a very large number of schools and other education institutions (close to 3,000) and is planning to expand this network, despite being unable to finance even basic maintenance for existing facilities and despite the lack of growth in the school-age population. There has already been a widespread deterioration of schools, with many schools being forced to close over winter and high levels of wastage due to increasingly poor energy efficiency. Overall student-teacher ratios in the country remain very low as a result of the highly complex curriculum (with more than 18 subjects), the four official languages of instruction, and the absence of flexible teaching approaches such as multigrade teaching. The consequence of this effective overstaffing is that education budgets are dominated by staff remuneration and that teacher salaries remain very low at about \$17 monthly. Retaining and attracting staff have, therefore, become problematic and are a serious threat to education quality.

¹³ In Naryn oblast, for example, a study commissioned by USAID estimated that actual numbers of out-of-school children are 10 times as great as official figures indicate.

65. **Education Governance and Finance:** Under the Government's decentralization policy, local governments, in principle, manage primary and secondary schools and finance them from their own resources, although staff salaries are paid out of the national budget. Spending per student in higher education is over six times that for primary/secondary education, a remarkably high figure. Orphanages, boarding schools, specialized secondary schools, and higher education are managed by MOEC and financed under the national budget. Although financing allocations for primary and secondary are technically on a per student basis, it is effectively based on historical teacher salaries and benefits in each oblast, a result of adherence to a norm-based system of staff planning. Financing of salaries from the national budget means, however, that there is little incentive for local governments to reduce the numbers of teachers, the principal item of education expenditure. In addition, the current practice of setting maximum class sizes and teaching loads centrally by MOEC limits local governments' flexibility to improve efficiency by reconfiguring classes and schools.

2. The Government's Development Strategy

66. The key policy documents governing the goals and programs of the Kyrgyz education system include the Constitution and the Law on Education, which stipulate that basic education is compulsory and free, and that everybody has the right to receive such education in state institutions. They also allow for private education. The principal strategic documents are:

- (a) **Concept on Education Sector Development to 2010:** the Concept provides the main policy and strategic framework for education. Its key provisions include:
 - (i) Expansion of early childhood education: key provisions include expanding concerned institutions and curricular reform;
 - (ii) Transition to 12-year secondary education system: this reform aims to renew educational content and to create 'academic', 'vocational' and 'classical' programs depending on students' abilities. It follows similar reforms in the Russian Federation.
 - (iii) Strengthening education monitoring and quality: national testing systems are foreseen to replace the current school-level testing systems widely seen as unreliable and corrupt. It also includes a program for provision of learning materials, equipment, school computerization, and a rural school development program. It also envisages construction of up to 270 new schools.
 - (iv) Vocational education: a restoration of the vocational education system is planned through curricular reform, public awareness, improved financing.
 - (v) Higher education: reforms include promoting academic freedom, honesty, promoting creative thinking and improving scientific studies. This is to be achieved by curricular reform, improving teachers' qualifications and remuneration, and strengthening resources of higher education institutions.

67. Although the Concept provides an insight into internal development priorities its utility as a planning document is limited by the lack of data, expected outcomes, indicators and—most important—the fiscal impact of pursuing an expansionist education policy during a period of severe austerity. The other two major documents are:

- (b) **Education for All.** The Kyrgyz Republic has also been active in the Education for All program, in cooperation with UNESCO, UNICEF, UNDP, and the World Bank. MOEC's report on the program serves as the principal framework for primary and secondary education development.
- (c) **National Strategy for Poverty Reduction.** This acknowledges the crucial role of education as an instrument of poverty reduction, as well as economic growth. As it currently stands, however, the document does not provide clear operational guidance on priorities, and tradeoffs among what are, in the highly financially constrained current context, competing programs.

68. In May, 2002, the Government approved a proposal to further extend the duration of secondary education to 12 years by 2010, in line with reforms in the Russian Federation. But there are serious questions of feasibility and sustainability of this proposal. Because of the very large fixed costs involved in any further reconfiguration of the education system, the Government envisages external support for this transition and has earmarked this reform as one of the principal areas of activity for external agencies until 2010. Under MOEC's Education Concept the following role is foreseen for external agencies:

- (i) implementing pilot projects on transition to 12-year school system (2002 to 2006);
- (ii) textbook publishing (up to 30 titles yearly from 2002 to 2010); and
- (iii) creating a unified distance education system and developing information technologies in education and distance learning (2002 to 2010).

3. ADB Experience and Activities of Other Development Partners

69. ADB has been the principal source of external financing and TA to the education sector since the country's independence in 1991, having approved a total of \$57.7 million for three loans¹⁴ and \$3 million for four TA interventions.¹⁵ A further \$2.5 million was provided under a special assistance loan for the procurement of computers.¹⁶ Lending has covered most of the major subsectors including preschool education, primary and secondary education, primary vocational education, and higher education. Since 2001, the program has been focused more on activities in preschool, primary, and secondary education.

70. Other agencies active in the education sector have been GTZ, UNICEF, UNESCO and the Soros Foundation. The Islamic Development Bank and UNDP have also provided emergency support for school reconstruction in earthquake-affected areas. Recently USAID approved a regional Basic Education Reform Project with funding of \$12 million spread among the Central Asian republics. The World Bank has also started to process a rural education project for approval in 2005, which will be financed using International Development Association grant funds.

¹⁴ ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic on Education Sector Development Program*. Manila; and ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for Skills and Entrepreneurship Development*. Manila.

¹⁵ ADB. 1995. *Technical Assistance to the Kyrgyz Republic for Education and Training Master Plan*. Manila; ADB. 1997. *Technical Assistance to the Kyrgyz Republic for Strengthening Education Planning and Administration*. Manila; ADB. 1998. *Technical Assistance to the Kyrgyz Republic for Skills and Entrepreneurship Development*. Manila; and ADB. 2000. *Technical Assistance to the Kyrgyz Republic for Improving the Enabling Environment for Skills and Entrepreneurship Development*. Manila.

¹⁶ ADB. 1994. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for Special Assistance*. Manila.

4. ADB Strategy

71. In line with the Millennium Development Goals, the core of ADB's strategy is to work together with other development partners toward ensuring full access to basic education by 2015 for both boys and girls. ADB's strategy must also be to improve learning achievement as well as the relevance of educational content to the needs of the changing socioeconomic environment, including the labor market. However, these goals can only be achieved if the education sector is put on a firm financial footing to allow it to operate effectively. ADB strategy must, therefore, place high priority on ensuring the financial viability of the system. ADB strategy should also to make education a better tool for poverty reduction by better tackling key issues such as public health—including HIV/AIDS—as well as to raise awareness of issues such as human trafficking. Support will also be provided to allow the most disadvantaged groups to gain access to education, including children with disabilities, refugee children as well as children from the poorest families.

72. As levels of public and private financing available to education are unlikely to grow in pace with the sector's demands, a program of efficiency improvements will be essential to bring down the unit costs of education services and to allow improvements in quality and enrollment. Key areas for reform include school infrastructure and staff remuneration, both of which account for the bulk of public education expenditure. In focusing on these two critical areas, it will be essential both to release funds that can be used to finance other vital areas, including teacher training and educational materials, as well as to restore regular capital expenditures to shore up school infrastructure.

73. With regard to school infrastructure, substantial efficiencies can be gained through improved energy utilization given the usually poor energy efficiency of Soviet-era facilities. Improved maintenance can also substantially reduce downstream capital investment requirements. However, meeting the minimum capital investment requirements to prevent further deterioration for the network as a whole is not feasible in the foreseeable future and an urgent strategic decision is needed to identify priority investment areas based around a more consolidated and modernized educational infrastructure. Options for such "rationalization" include shared facilities for preschool and primary education or for secondary general and secondary vocational education. There is also major scope for consolidation between primary vocational and specialized secondary education facilities. Apart from yielding economic benefits, investments in improving school facilities will, of course, very much facilitate learning achievements and enrollment through allowing a stable learning environment.

74. ADB's strategy in matters regarding staff remuneration must aim to both increase levels of education sector staff salaries as well as to free up financing for other expenditure items. Given the lack of budgetary resources to enable increases in remuneration, reforms will be necessary to allow such increases to be made, including increasing pupil-teacher ratios to allow reduced staffing levels in the education sector as would wider use of multisubject and multigrade teaching. Reductions in staffing requirements could also be achieved through curriculum reform, but it should be recognized that options for substantial change are limited due to agreements with other Commonwealth of Independent States countries on mutual recognition of educational qualifications. This critical issue of staff remuneration is linked closely with education finance reform. Current education policy allows local governments little authority given the existence of Soviet-era norms, which specify for each level and type of course the minimum and maximum permissible class sizes and the minimum and maximum number of teaching hours per teacher, for example. In practice, most authorities lack the means for

realizing these norms. There is thus a fundamental disconnect between local governments' responsibilities for primary and secondary education, and their means of meeting these responsibilities. A preferred basis for central financing of education costs is through a differentiated capitation system of financing, which pays providers for education on the basis of the number of students enrolled in each type of program. As this is also a governance issue, the roles of central and local authorities need to be changed in order to align responsibilities and accountabilities for managing primary and secondary education. In effect this means a reform of the Soviet-era norms to allow more flexibility in the delivery of education services, as well as fundamental changes in education financing and in responsibilities for education decisions such as teacher recruitment and school consolidation. Part of ADB's strategy should, therefore, be to work with the Government and other development partners, especially the World Bank, to promote essential financing and governance reform.

75. Reform in the above areas will help increase funding available for other key educational inputs including textbooks and learning materials, educational equipment as well as for teacher training—all vital for improving educational quality. With regard to textbooks, ADB's strategy is to support efforts to improve provision of textbooks in all languages of instruction, but especially in Kyrgyz due to the relatively low availability of books in this language. ADB strategy is also to improve the quality of the content, methodology, and relevance of titles through continued support for curriculum reform and textbook development, including advice on liberalizing and modernizing the Kyrgyz Republic's educational publishing industry.

76. As tracking educational achievement is not possible on a system-wide basis at present, ADB will emphasize the importance of overhauling the country's (currently school-based) testing system, which is widely considered to be open to corruption as well as being highly subjective. ADB will work with the Government and other development partners to identify alternative approaches for assessing learning achievement, including the use of standardized national assessment methodology.

5. Implementation Issues and Monitoring

77. **Primary and Secondary Education.** Implementation experience in primary and secondary education under the Education Sector Development Program (ESDP) has been fairly satisfactory on the whole, although there have been sporadic problems with procurement and in implementing civil works. Activities under the ESDP investment project have been delayed due to MOEC's low implementation capacity, a situation exacerbated by frequent changes in ministerial and project management personnel, which have frustrated capacity building efforts and disrupted project activities. In addition, expenditure restrictions under the Public Investment Program have also limited the potential to accelerate ESDP activities. The Government's occasional resistance to utilize loan funds for project activities such as civil works and international training and consulting services has also prevented a comprehensive approach being adopted for ESDP implementation. More recently, the Government's policy to restrict the use of international consultants in grant-financed TAs has led to problems in processing new interventions.

78. **Primary Vocational Education.** Implementation experience in the vocational education subsector has been unsatisfactory. The validity of the loan approval period for the Skills and Entrepreneurship Development Project lapsed on 28 February 2002 after the Government failed to sign the Loan Agreement, due to new policies to restrict external borrowings and due to lack of consensus between key agencies on priorities for the Project's implementation.

EDUCATION SECTOR ROADMAP

	INDICATORS					
	5 years ago	Current	5-Yrs	10-Yrs	15-Yrs	
1. Sector Outcomes						
Literacy rate, adult female (% of females ages 15 and above)	95.5 (1989)		95.0	95.0	95.0	
Literacy rate, adult male (% of males ages 15 and above)	98.6 (1989)					
Literacy rate, adult total (% of people ages 15 and above)	97 (1989)		98	98	98	
Literacy rate, youth female (% of females ages 15–24)	99.7 (1989)		96.5	96.5	96.5	
Literacy rate, youth male (% of males ages 15–24)	99.7 (1989)		95.0	95.0	95.5	
Literacy rate, youth total (% of people ages 15–24)	99.7 (1989)		95.0	95.0	95.5	
Pupil-teacher ratio, primary	13.4	13.4	15.0	16.5	17	
Repetition rate, primary, (% of total enrollment)	0.5	0.5	0.5	0.5	0.5	
Primary teachers with required academic qualifications, male (%)	94.5	95.8	95.0	96.0	96.5	
Ratio of girls to boys in primary, secondary education (%)	49.0	49.0	49.5	50.0	50	
2. Sector Outputs						
Public spending on education, total (% of GDP)	5.4	3.5	4	4.5	5	
Net intake rate in grade 1 (% of official school-age population)	98.0					
Gross intake rate in grade 1, (%)	103.2					
Primary education, pupils	472,265.0					
Primary education, pupils (% female)	213,236.0					
School enrollment, preprimary (% net)	7.8	7.5	8.5	9.5	12	
School enrollment, primary (% gross)	104.1	101	101	102	104	
School enrollment, primary (% net)	94.6	93.5	93.5	94.5	96	
School enrollment, primary, female (% gross)	100	99	99	100	101.5	
School enrollment, primary, female (% net)	97.5	96.5	96.5	97.5	98	
School enrollment, primary, male (% gross)	96.3	95.5	95.5	96.5	97	
School enrollment, primary, male (% net)	93.8	92.5	92.5	93.5	94.5	
3. Sector Issues/Constraints						
	(i) Deficient information systems and analytical capacity prevent effective planning and implementation					
	(ii) Adherence to Soviet-era norms still provides basis for education planning—need to update framework					
	(iii) Extremely low teacher salaries, starting at just \$7 monthly; Government unable even to meet minimum recurrent costs for other items					
	(iv) Lack of testing/examination systems that can reliably gauge learning achievement					
	(v) Obsolete system for textbook development and provision—need for more private sector involvement and market liberalization					
	(vi) Deteriorating school infrastructure resulting in increasing pressures on school capacity					

4. Actions/Milestones/Investments (to address above)	By Issue	Schedule	By Agency	
			ADB	Others/ External
Development of an Education Management Information System and Capacity Building of key agencies for improved planning and management	Deficient information system and analytical capacity	1997 to 2004	L 1555-KGZ TA 2879-KGZ	UNICEF USAID
Development of new policy framework	Problems posed by adherence to Soviet-era norms	2003 +	PPTA planned	
Budget and public expenditure reform	Low teacher salaries, need to free up funds for other educational inputs	Ongoing	PPTA planned	World Bank
Development of national testing system	Lack of national time-series data on learning achievement	2004 +	PPTA planned	
Development of new generation of textbooks and liberalization of publishing industry	Shortage and low quality of textbooks	Ongoing	L 1555-KGZ PPTA planned	World Bank
Selective rehabilitation of key schools and rationalization of school facilities	Deteriorating school infrastructure	Ongoing	L 1555-KGZ PPTA planned	

ADB = Asian Development Bank, KGZ = Kyrgyz, L = loan, PPTA = project preparatory technical assistance, UNICEF = United Nations International Children's Fund, USAID = United States Agency for International Development.

GENDER AND DEVELOPMENT¹

1. Gender issues are an important part of poverty reduction programs because the impact of poverty affects men and women differently. Gender issues in the Kyrgyz Republic are less pronounced than in countries of similar income levels. The Kyrgyz Constitution guarantees gender equality and the official status of women in Kyrgyz society is relatively high. The United Nations Development Programme (UNDP) gender development index of 0.717 in 2001 is very close to the overall human development index (HDI) of 0.723, denoting a low level of gender imbalance. Gender equality has been substantially achieved in education, prevailing laws ensure a generally equitable land reform distribution system, and there has been progress in maternal and infant mortality in recent years. The Kyrgyz Republic is carrying out a gender equity and development policy. The Ayalzat National Program for Support of Women (1996–2000) took into account the basic provisions of the Platform of Actions adopted at the Fourth World United Nations Conference on Women (Beijing 1995). By 1999, it was one of the first 10 countries to meet the obligations arising from the Conference. Nevertheless, it has to be clearly recognized that the transition has had a negative impact on the social and economic life of women. The major areas of concern in this regard are examined in this paper.

2. Women's unemployment was virtually unknown in the former Soviet Union (FSU). Women participated in all sectors of the economy, with high participation rates particularly in health and education and in the textile and food industries. A quota system for the participation of women existed that allocated one third of all management and executive positions to women. At the same time, an extensive network of child-care centers and kindergartens supported women's participation in the workforce. Since independence, the quota system has been abandoned and labor force participation for women has decreased significantly. The participation rate in the workforce for women indicates a relative disadvantage of women in the Kyrgyz labor market. In 2000, 53.2% of women working age were in the labor force compared with 67.2% of men. Women are at least 1.5 times more likely to be unemployed in the Kyrgyz Republic than men because the sectors in which women tended to be employed have experienced greater retrenchment. Gaps also exist between the remuneration of men and women, with the latter's salary on average being only 67.6% of that of men. The National Poverty Reduction Strategy (NPRS) ascribes this to the fact that women are more prone to take on any kind of work and mainly occupy the lower positions in low-paying sectors, such as agriculture and the social sectors.

3. Women have less leisure time than men according to the National Statistical Committee's time-use survey in 2000² and they spend about twice as much time on unpaid and household work than men even when they have paid work. Women have reproductive and nurturing responsibilities in addition to work: for childbearing and child rearing, for growing and providing food for the household, and in caring for their families, including sick and elderly family members. The closure of kindergartens, schools, and child-care facilities since independence has increased the burden on women for child care, and restricted their ability to take on

¹ This report draws principally upon (i) ADB. 2000. Update Note on Gender and Poverty in Kyrgyzstan. Manila; (ii) National Poverty Reduction Strategy; (iii) UNDP. 1999. *From Beijing to New York, 1995–2000, Report on the Status of Women in the Kyrgyz Republic*. New York; and (iv) UNDP. 2000. *Gender and Governance in the Kyrgyz Republic*. New York. An update of the Gender Strategy Paper will be prepared through a regional technical assistance on Gender and Poverty Reduction Strategy in Central Asian Regions, the findings of which will be included in the country strategy and program update for 2004.

² National Statistical Committee. 1999. *Women and Men in the Kyrgyz Republic Statistical Collection*. National Statistical Committee. Bishkek.

employment. Attendance at kindergartens has been especially affected. In 1989, attendance was 31.3% of children of kindergarten age but this has dropped to just 14% now.

4. There has been a significant drop in women's representation since independence in national and local government, especially at the higher levels, thereby reducing women's participation in decision-making processes. The representation of women in the legislature has declined from 33% in the times of the FSU to 4% in 2000. Women hold only nine out of the 102 most senior public posts at national level and only two of the ministerial posts. Similarly, very few women hold posts of district governor and there are no women as provincial governors. There is a need to increase the number of women holding such jobs, as with fewer women making decisions for women, the issues that cause or contribute to women's poverty are less likely to be addressed adequately.

5. Women in the Kyrgyz Republic have the same or better education than men. Female students constitute 51% of the total and women outnumber men in higher and secondary special institutions. Education has given women the opportunity to take part in various economic activities and professions. Education levels among women open up more opportunities for business, accessing credit, and accumulating capital. The link between education and demographic behavior can be seen from the Kyrgyz context where a correlation exists between higher education levels among women and decreased fertility, increased age of marriage, smaller sized families, longer gaps between children, and increased use of contraceptives.

6. Poverty and the deterioration of the social safety net have led to a decline in the health of both men and women. While women typically live longer than men in most countries, the difference in the Kyrgyz Republic is noteworthy. The life expectancy of women was 72.1 years in 2002 compared to 64.4 years for men. However, inadequate nutrition and access to medical services along with an increased labor load have had a negative impact on the health of women. The incidence of anemia among pregnant women is estimated at 54.7% with some of the poorer provinces having rates of 70–90%. Normal births, i.e., without pathologies, are only 40.3% of the total. However, there have been significant advances in reducing maternal mortality, which in 2001 was 49.9 per 100,000 live births. This reduction can be attributed to health sector reforms and the modernization of obstetrics facilities that were undertaken with the support of external assistance, including from the World Bank and ADB. However, basic health indicators in the Kyrgyz Republic remain low compared even with other Central Asian republics (CARs). Though there have been decreases in infant mortality in recent years, the infant mortality rate and the under-5 child mortality rate is very high.

7. The difficult process of transition has had several other adverse effects on the health and condition of women in the country. The number of cases of tuberculosis among women has doubled in the past 5 years while the incidence of sexually transmitted diseases has increased fivefold. HIV infections have also increased sharply, with 173 of the reported cases being men and 16 women. Poverty and the deterioration of living conditions have also contributed to growing violence against women. About 30,000 women have turned to crisis shelters for assistance after being subjected to various forms of violence. However, there are only 10 crisis centers in the country and these are inadequate to meet the needs. The NPRS indicates that nearly 4,000 women annually become victims of sex trafficking. The NPRS also recognizes the following main issues that hinder the promotion of gender equity and affect women: (i) existing weaknesses in legislation and the inconsistency with gender equity and development, (ii) lack of financing needed for the implementation of a gender policy and associated national and sector programs, (iii) low awareness of gender issues among political representatives and public

officials, and (iv) lack of available financing and other resources needed for the support of self-employment and creation of individual small and medium businesses among women.

8. The need to actively support and implement a gender equity and development policy has received the support of the Government at the highest level. President Akaev heads a National Council on Affairs of Women and Gender Development. The President has approved a National Action Plan for Achievement of Gender Equity for 2002–2006 and a corresponding action matrix. The National Action Plan is a unique document since it envisages protection not only of the rights of women but also those of men. The following main priorities have been identified and defined:

- (i) Improvement of the institutional framework for the achievement of gender equity envisages rectifying weaknesses in legislation, greater consideration of gender issues in the formulation and implementation of projects and policy measures.
- (ii) Maintenance of gender balance envisages promotion of women's participation in all levels of decision making and filling 30% of political and public decision-making positions by women (the level recommended by the United Nations Commission on the Status of Women).
- (iii) Addressing gender considerations in the areas of labor, employment, and social protection; measures for poverty reduction; creation of a gender-balanced labor market; and improved social protection.
- (iv) Gender aspects in the health sector provision envisage increased accessibility of quality medical services, promotion of preventive programs, and healthy lifestyles.
- (v) Gender parity in education and culture includes addressing gender issues and overcoming traditional negative gender stereotypes.
- (vi) Reduction of all forms of violence against women includes comprehensive measures on prevention of gender violence in society, promotion of greater public awareness on the issue of violence, eradication of human trafficking, and protection of and support for the victims of human trafficking.

9. Gender issues have been carefully considered in the design of past ADB-supported projects and this will also be the case under the new CSP. The mainstreaming of gender considerations into ADB operations will constitute an important element of future activities. In agriculture projects, in particular, ADB should seek to ensure gender equity and provide equal opportunities to women. It is important that women be given the opportunity to (i) control their landholding irrespective of specific farming arrangements they may enter into; and (ii) to access credit equally. Women should have the opportunity to participate in project activities by joining the new groups/organizations, such as water users associations, that may be formed, and to undergo training and capacity building to carry out group functions efficiently.

CONCEPT PAPERS FOR LENDING PRODUCTS

This appendix contains the concept papers for projected lending products.

- (i) Table A5.1: Southern Transport Corridor Road (Osh-Sary Tash-Irkeshtam) Project, Phase I
- (ii) Table A5.2: Regional Customs Investment Project
- (iii) Table A5.3: Third Education
- (iv) Table A5.4: Financial Sector Program II
- (v) Table A5.5: Second Agriculture Area Development
- (vi) Table A5.6: Rural Development Project

**Table A5.1: Southern Transport Corridor Road (Osh –Sary Tash-Irkeshtam)
Project Phase I
Concept Paper**

Date: July 2003

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Project loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector development program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project preparatory</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Other than project preparatory</p> <p style="margin-left: 40px;"><input type="checkbox"/> Economic, thematic, and sector work</p> <p style="margin-left: 40px;"><input checked="" type="checkbox"/> Institutional development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other:</p>		
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the</p> <p style="margin-left: 40px;">Sector: Transport</p> <p style="margin-left: 40px;">Subsector: Roads</p> <p>b. For project preparatory and lending, classification</p> <p style="margin-left: 20px;"><input type="checkbox"/> Core poverty intervention</p> <p style="margin-left: 20px;"><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection </td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other:	<input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection
<input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other:	<input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input checked="" type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>		
<p>4. Responsible division/department: Transport and Communications Division, East and Central Asia Department</p>		
<p>5. Responsible ADB officer(s): J. Miller</p>		
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: The road through southern Kyrgyz Republic (from Osh to Irkeshtam via Sary Tash) linking the People's Republic of China (PRC) and Uzbekistan needs improvement to allow effective use of this international route. Increased trade and communication along this transport corridor would generate economic benefits in all three countries. The route is likely to have extraregional transport potential.</p> <p>b. Goal and purpose: To reduce poverty and increase regional trade and cooperation by rehabilitating the above mentioned stretch of the road linking Uzbekistan, the Kyrgyz Republic and the PRC.</p> <p>c. Components and outputs: The project will include civil works for rehabilitation, consulting services for project implementation, institutional strengthening and policy reform, and, possibly, purchase of equipment for road maintenance.</p>		

<p>d. Expected results and deliverables: Rehabilitation of the road. Improved road maintenance financing and practices.</p> <p>e. Social or environmental issues or concerns: None</p> <p>f. Plans for disseminating results/deliverables: To be determined.</p>										
<p>7. Proposed executing/implementing agencies: Ministry of Transport</p>										
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: Regional meetings will be held.</p>										
<p>9. Timetable for assistance design, processing, and implementation</p> <p>a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2003</p> <p>b. Expected date of submission for approval</p> <table> <tr> <td>Lending:</td> <td>2004</td> </tr> <tr> <td>Nonlending (project preparatory):</td> <td></td> </tr> <tr> <td>Nonlending (other than project preparatory):</td> <td>2004</td> </tr> </table> <p>c. Period and duration of assistance</p> <table> <tr> <td>Lending:</td> <td>2004–2009</td> </tr> <tr> <td>Nonlending:</td> <td></td> </tr> </table>	Lending:	2004	Nonlending (project preparatory):		Nonlending (other than project preparatory):	2004	Lending:	2004–2009	Nonlending:	
Lending:	2004									
Nonlending (project preparatory):										
Nonlending (other than project preparatory):	2004									
Lending:	2004–2009									
Nonlending:										
<p>10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending</p> <p><input type="checkbox"/> Ordinary capital resources:</p> <p><input checked="" type="checkbox"/> Asian Development Fund: \$25 million (Phase I)</p> <p><input type="checkbox"/> Other:</p> <p>If cofinancing is required indicate sources, and amount sought: If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):</p> <p>b. For nonlending</p> <p><input type="checkbox"/> No resources required, other than ADB staff</p> <p><input type="checkbox"/> ADB's administrative budget:</p> <p><input checked="" type="checkbox"/> Grant TA funds: \$600,000</p> <p>If cofinancing is required indicate sources, and amount sought: If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):</p>										

ADB = Asian Development Bank, CSP = country strategy and program, PRC = People's Republic of China, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A5.2: Regional Customs Investment Project
Concept Paper**

Date: July 2003

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p> <input checked="" type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input checked="" type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: trade and trade facilitation Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input checked="" type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input checked="" type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input checked="" type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input checked="" type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Governance, Finance & Trade Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): J. Liang</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Promotion of international trade is an integral part of ADB's pro-poor growth strategy for poverty reduction. Trade facilitation is more critical for developing member countries (DMCs) in Central Asia to enable them to overcome landlocked situations, broaden their production base, and access international markets. Among all the agencies involved in trade facilitation, customs administration stands out as the most important because of its dual function of trade facilitation and control of illicit trade. Customs administrations must observe good governance practices and maintain operational efficiency to carry out the dual function. Recognizing this, ADB launched a Regional Trade Facilitation and Customs Cooperation Program (RTFCCP) Loan on 29 October 2002 to</p> <p>(i) strengthen governance and transparency, and improve institutional capacity of customs administrations;</p> <p>(ii) strengthen the legal and regulatory framework for customs administrations in line with international standards and conventions;</p> <p>(iii) improve customs administrations' operational efficiency to facilitate trade and enhance to facilitate trade and</p>										

- enhance revenue collection; and
 (iv) develop an effective mechanism for cooperation among the region's customs administrations.

The proposed investment loan is an integral part of the RTFCCP.

- b. Goal and purpose:** The objective of the proposed investment loan will complement and reinforce ADB's program loan support and regional customs cooperation initiative by upgrading information technology (IT) and physical infrastructure. Specifically, the proposed loan will improve customs administration's operational efficiency, strengthen communication with all the border agencies and thus their capacity in revenue collection and anti-smuggling, and participate effectively in regional customs cooperation.
- c. Components and outputs:** Tentatively the proposed investment loan will finance the following components: (i) development of an open and integrated IT infrastructure to automate customs declaration, support modern customs practices such as risk management and post-entry audit, and improve coordination with all border agencies and thus their capacity in revenue collection and anti-smuggling; and (ii) limited physical infrastructure development in key border posts to complement IT infrastructure development. The components will be firmed up based on a needs assessment conducted under the PPTA.
- d. Expected results and deliverables:** The project will (i) promote growth and help integrate the country into the world economy by enhancing customs efficiency in trade facilitation, (ii) strengthen customs integrity by reducing the discretionary powers of the customs officers in the process of customs clearance, and (iii) expand the country's ability to participate in regional customs cooperation particularly in areas of transit and data and intelligence sharing.
- e. Social or environmental issues or concerns:** The IT component will help further streamline customs services and thus may have an impact on the overall staff strength including potential staff redeployment. Physical infrastructure development on customs posts is expected to be limited and no social and environmental issues (such as resettlement) are envisaged.
- f. Plans for disseminating results/deliverables:** Public consultation will be conducted with all the stakeholders and external agencies involved in customs modernization.

7. Proposed executing/implementing agencies: Customs Services Department, Ministry of Finance

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: Major stakeholders such as traders' associations will be consulted during the project design, and the proposed investment project is expected to strengthen the responsiveness of customs administration to the needs of stakeholders and private-public partnership in trade facilitation.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2004
- b. Expected date of submission for approval
 Lending: 2004
 Nonlending (project preparatory):
 Nonlending (other than project preparatory): 2004
- c. Period and duration of assistance
 Lending: 2004–2008
 Nonlending: 2004–2006

10. Financing Plan

- a. For lending
 Ordinary capital resources: \$
 Asian Development Fund: \$5 million
 Other:

If cofinancing is required indicate sources, and amount sought:
If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
 - No resources required, other than ADB staff
 - ADB's administrative budget:
 - Grant TA funds
 - Other:

If cofinancing is required indicate sources, and amount sought:
If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A5.3: Third Education
Concept Paper**

Date: July 2003

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p><input checked="" type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input checked="" type="checkbox"/> Project preparatory</p> <p><input checked="" type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input checked="" type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Education Subsector: Primary and secondary (basic) education</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input checked="" type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input checked="" type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input checked="" type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Social Sectors Division/East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): R. Schoellhammer</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Since independence, access to basic education and the learning attainment of pupils have fallen substantially, especially among poor children. Access to mainstream education for children with disabilities is also severely constrained. Investment in basic education is required to reorient, modernize, and liberalize the education sector in order to restore access for poor children, integrate children with disabilities in mainstream education, and improve educational quality and relevance to the needs of labor markets.</p> <p>b. Goal and purpose: The goal of the project, in cooperation with other development partners, is to support the achievement of Millennium Development Goals and to enhance quality, sustainability, and coverage of basic education services.</p> <p>c. Components and outputs: The project will include support for (i) capacity building of local education administrations for education management and finance; (ii) quality improvements including curriculum development (including information and communications technologies and languages education), teacher</p>										

training, and quality assurance systems; (iii) facilities development; (iv) liberalization of educational publishing, development of new titles with modernized content, and provision of learning materials; and (v) integration of children with disabilities in mainstream education.

d. Expected results and deliverables: The project will (i) increase the coverage of education services to poor children and will allow children with disabilities to be integrated into mainstream education; (ii) improve pupils' learning attainment, promote the private sector's role in delivering education services, and build the capacity of local administrations to plan, finance, and support sustainable delivery of services; and (iii) promote economic growth by making curricula more relevant to the needs of labor markets.

e. Social or environmental issues or concerns: None

f. Plans for disseminating results/deliverables: Coordination with agencies involved in education development and development partners will be maintained throughout project implementation. Best practices will be identified and lessons learned will be disseminated to relevant agencies and institutions.

7. Proposed executing/implementing agencies:

Ministry of Education and Culture (MEC)—Executing Agency;
Local education administrations—implementing agencies.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

The concept was developed after discussions with MEC, Ministry of Finance, Office of the President, and Office of the Prime Minister, as well as key development partners including Soros Foundation, UNICEF, and World Bank. A memorandum of understanding between ADB and the Government was signed on 20 May 2002 for the country programming mission, defining the framework for future assistance.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2003
- b. Expected date of submission for approval
- | | |
|--|----------|
| Lending: | 2005 |
| Nonlending (project preparatory): | 2005 |
| Nonlending (other than project preparatory): | QIV 2004 |
- c. Period and duration of assistance
- | | |
|-------------|-----------|
| Lending: | 5 years |
| Nonlending: | 18 months |

10. Financing Plan

- a. For lending
- Ordinary capital resources:
- Asian Development Fund: \$10 million
- Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
- No resources required, other than ADB staff
- ADB's administrative budget:
- Grant TA funds: \$600,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, ICT = information and communications technology, RCSP = regional cooperation strategy and program, TA = technical assistance, UNICEF = United Nations Children's Fund.

**Table A5.4: Financial Sector Program II
Concept Paper**

Date: July 2003

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input checked="" type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input checked="" type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input checked="" type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Financial Sector Subsector: Multisector</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Governance, Finance & Trade Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): J. Conrad</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: ADB has supported financial sector development in the country through TA, and the Financial Intermediation and Resource Mobilization (FIRM) Program (Loan 1723, approved in December 1999 in the amount of \$35 million equivalent). FIRM focused on (i) strengthening banking sector oversight, (ii) restructuring and consolidating the banking system, (iii) developing the Government's securities market, and (iv) facilitating the development of the equity market. ADB has also supported the development of rural financial institutions. A key lesson from FIRM is that progress in enterprise reforms is a precondition for significant progress in financial sector reforms. As a result of progress being made under the second phase of the Corporate Governance and Enterprise Reform Program (Loan 1860, approved in November 2001 in the amount of \$35 million equivalent), namely in introducing good corporate governance standards in joint-stock companies (JSCs), adopting international accounting and financial reporting standards, and restructuring selected large enterprises, the Government wishes to formulate measures to strengthen the financial sector by addressing the unfinished agenda of FIRM. TA 4069 KGZ: Financial Sector Reforms (in the amount of \$600,000) was</p>										

<p>approved in December 2002 to further strengthen the institutions supervising and regulating the financial sector and to prepare a policy reform agenda for this second round of financial sector reforms.</p> <p>b. Goal and purpose: The proposed program aims to improve the efficiency of financial intermediation and resource mobilization by further strengthening the financial sector regulatory framework, with a focus on effective risk management, and its enforcement, promoting the consolidation of the banking sector to pool a critical mass for meaningful levels of intermediation, and facilitating capital market development to quickly reach a critical level of trading volume to attract investors.</p> <p>c. Components and outputs: The program will focus on:</p> <ul style="list-style-type: none"> (i) improving the viability of commercial banks by establishing risk assessment and management procedures in the banking system that are in line with international best practices, improving asset foreclosure and recovery mechanisms, and promoting financial restructuring of viable enterprises through the banking sector; (ii) promoting banking sector consolidation by strengthening licensing mechanisms for entry of sound institutions and management as well as orderly exit of weak banks in a speedy manner, and providing catalytic support for foreign participation in selected institutions; (iii) establishing a viable trading platform for government securities with the potential of being a significant source of funding for the Government; and (iv) developing the capital market by supporting the efficient privatization of state owned enterprises through the stock exchange, and promote regional trading platforms to expand the investor-horizon for attracting investments to viable Kyrgyz enterprises. <p>d. Expected results and deliverables: The program is expected to lead to a smaller number of banks that would be resilient to endogenous and exogenous shocks and significantly contribute to financial intermediation, and a domestic capital market that is a significant source of funding for the Government and private enterprises.</p> <p>e. Social or environmental issues or concerns: Consolidation of the financial sector should not affect access to basic banking services; any retrenchments stemming from such measures or financial restructuring should have compensating measures.</p> <p>f. Plans for disseminating results/deliverables: Commercial banks, shareholders, and other stakeholders as well as the professional participants of the capital market will be consulted throughout the design and implementation phases.</p>
<p>7. Proposed executing/implementing agencies: National Bank of Kyrgyz Republic (NBKR), Office of the Prime Minister, Ministry of Finance, State Commission for Securities Markets.</p>
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The Government has taken an active part in conceptualizing the FIRM Program, and has sought ADB's support to move forward on the reform agenda.</p>
<p>9. Timetable for assistance design, processing, and implementation</p> <ul style="list-style-type: none"> a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2002 b. Expected date of submission for approval <ul style="list-style-type: none"> Lending: November 2004 Nonlending (project preparatory): Nonlending (other than project preparatory): c. Period and duration of assistance(s) <ul style="list-style-type: none"> Lending: November 2004-May 2007 Nonlending:
<p>10. Financing Plan</p> <ul style="list-style-type: none"> a. For lending <ul style="list-style-type: none"> <input type="checkbox"/> Ordinary capital resources: <input checked="" type="checkbox"/> Asian Development Fund: \$20 million

<input type="checkbox"/> Other: {specify}
b. For nonlending
<input type="checkbox"/> No resources required, other than ADB staff
<input type="checkbox"/> ADB's administrative budget:
<input checked="" type="checkbox"/> Grant TA funds: \$800,000

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A5.5: Second Agriculture Area Development
Concept Paper**

Date: July 2003

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p> <input checked="" type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Nonlending</p> <p> <input checked="" type="checkbox"/> Project preparatory</p> <p> <input type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input checked="" type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture and Natural Resources Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Agriculture, Environment and Natural Resources Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): J. Whittle</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy:</p> <p>Loan 1726: Agriculture Area Development Project is being implemented in Chui region and focuses on increasing farm productivity and profitability through farm development, rehabilitation of drainage and irrigation and the development of private sector market and input supply services. The development activities and lessons from this project will be adapted to the needs of other regions(s) in the southern part of the country.</p> <p>The project will support the CSP's goal of poverty reduction and focus on economic growth primarily through private sector led development. It will contribute directly to increasing agricultural and rural enterprise productivity/efficiency and profitability. As with the current loan 1726 linkages with ongoing and planned projects will be an integral element to achieving and sustaining the planned objectives.</p>										

b. Goal and purpose:

Goal: To increase the incomes of farmers.

Purpose: To increase on-farm and off-farm enterprise productivity and profitability.

c. Components and outputs:

The anticipated components are: farm restructuring/development; drainage and irrigation rehabilitation; and development of cooperatives and business enterprises for on-farm and off-farm services.

d. Expected results and deliverables:

Increased farm yields, improved profitability of farms, increased private enterprise provision of agriculture support services, and enhanced linkages to existing and new enterprises to support agricultural development.

e. Social or environmental issues or concerns:

These concerns will be identified when the specific location for the project is identified.

f. Plans for disseminating results/deliverables:

To be determined

7. Proposed executing/implementing agencies: Ministry of Agriculture, Water Resources, and Processing Industry, and oblast (region) administration(s)

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

It is proposed to undertake a longer term planning approach to ensure the maximum participation of both government agencies and potential beneficiaries, and other relevant stakeholders such as nongovernment organizations likely to be involved in implementation.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2006

b. Expected date of submission for approval
 Lending: 2006
 Nonlending (project preparatory): 2004
 Nonlending (other than project preparatory): 2006

c. Period and duration of assistance
 Lending: 2006–2012
 Nonlending: PPTA – 2004
 AOTA – 2006–2007

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
- Ordinary capital resources:
 - Asian Development Fund: \$20 million
 - Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
- No resources required, other than ADB staff
 - ADB's administrative budget:
 - Grant TA funds: \$700,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, AOTA = advisory and operational technical assistance, CSP = country strategy and program, PPTA = project preparatory technical assistance, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A5.6: Rural Development Project
Concept Paper**

Date: July 2003

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p> <input checked="" type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Nonlending</p> <p> <input checked="" type="checkbox"/> Project preparatory</p> <p> <input type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input checked="" type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture and Natural Resources Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Agriculture, Environment and Natural Resources Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): J. Whittle</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy:</p> <p>The project will support the CSP's and NPRS' goals of reducing poverty. It will focus on economic growth and aim to increase rural incomes. The project will be based on a regional planning and decentralized approach involving local governments and communities.</p> <p>b. Goal and purpose:</p> <p>Goal: To improve the livelihood of rural population in selected poverty areas. Purpose: To increase rural incomes and reduce poverty levels.</p>										

<p>c. Components and outputs:</p> <p>The project will be demand driven and is likely to include rural infrastructure, a livelihood program, agriculture development support and microfinance.</p> <p>d. Expected results and deliverables: The project is expected to have a significant impact on poverty in the rural areas where it is located and will also stimulate development in these places.</p> <p>e. Social or environmental issues or concerns: These concerns will be identified when the specific location for the project is identified.</p> <p>f. Plans for disseminating results/deliverables: To be determined.</p>
<p>7. Proposed executing/implementing agencies: Ministry of Agriculture, Water Resources, and Processing Industry, and oblast (region) administration(s)</p>
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:</p> <p>Significant participation of both government agencies and potential beneficiaries, and other relevant stakeholders such as nongovernment organizations is expected both in the design and implementation of the project.</p>
<p>9. Timetable for assistance design, processing, and implementation</p> <p>a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2006</p> <p>b. Expected date of submission for approval Lending: 2006 Nonlending (project preparatory): 2005 Nonlending (other than project preparatory): 2006</p> <p>c. Period and duration of assistance Lending: 2006–2012 Nonlending: PPTA – 2005 AOTA – 2006–2008</p>
<p>10. Financing Plan</p> <p>a. For lending <input type="checkbox"/> Ordinary capital resources: <input checked="" type="checkbox"/> Asian Development Fund: \$10 million <input type="checkbox"/> Other:</p> <p>If cofinancing is required indicate sources, and amount sought: If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):</p> <p>b. For nonlending <input type="checkbox"/> No resources required, other than ADB staff <input type="checkbox"/> ADB's administrative budget: <input checked="" type="checkbox"/> Grant TA funds: \$700,000</p> <p>If cofinancing is required indicate sources, and amount sought: If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):</p>

ADB = Asian Development Bank, AOTA = advisory and operational technical assistance, CSP = country strategy and program, NPRS = National Poverty Reduction Strategy, PPTA = project preparatory technical assistance, RCSP = regional cooperation strategy and program, TA = technical assistance.

CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES

This appendix contains the concept papers for projected nonlending products and services.

- (i) Table A6.1: Agricultural Strategy Formulation
- (ii) Table A6.2: Enforcement of Financial and Private Sector Legislation

**Table A6.1: Agricultural Strategy Formulation
Concept Paper**

Date: July 2003

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input type="checkbox"/> Other than project preparatory</p> <p> <input checked="" type="checkbox"/> Economic, thematic, and sector work</p> <p> <input type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture and Rural Development Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Agriculture, Environment, & Natural Resources Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): J. Whittle</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy:</p> <p>The project performance audit report on KGZ: Agriculture Sector Program Loan, in October 2002 rated the program loan as successful, following a rating of partly successful in the program completion report. The previous sector review was conducted in 1995 for the preparation of the Agriculture Sector Program Loan. ADB's involvements in the sector have included:</p> <p>Loan 1407-KGZ: Agriculture Sector Program Loan (completed);</p> <p>Loan 1726-KGZ: Agriculture Rehabilitation Project (Approved 1999 ongoing);</p> <p>Loan 1529-KGZ: Rural Financial Institutions Project (approved 1997, ongoing, now with Governance, Finance, & Trade Division);</p> <p>TA 2450-KGZ: Reorganization and Strengthening of the Ministry of Agriculture and Food (approved 1995, attached to Loan 1407, completed);</p> <p>TA 2451-KGZ: Building Capacity for the Formation and Management of Water User Associations (approved</p>										

1995, attached to Loan 1726, completed);
 TA 3035-KGZ: Capacity Building in the Ministry of Agriculture and Water Resources (approved 1998, completed);
 TA 3439-KGZ: Capacity Building in the Ministry of Agriculture and Water Resources, Phase II (approved May 2001, ongoing); and
 TA 3347-KGZ: Institutional Strengthening in Planning and Management of Agriculture Development (for Chui Region, approved 1999 attached to Loan 1726, ongoing).

ADB's lending assistance in agriculture is variable, with the next loans scheduled for 2006. Consequently, there has been a focus on capacity building, particularly in attempting to build the Ministry's capacity for public investment programming, monitoring and aid coordination. However, results have been slow in coming as the Ministry has diverse functions and responsibilities, and limited resources and staff to fulfill these responsibilities. Change to a market-oriented system has been slow.

The agriculture sector is key to the growth and poverty reduction objectives of the Government. The sector accounts for 35% of GDP, has had an average annual growth rate of 8.0% (1996–2001) compared with 5.6% for the economy as a whole. It employs about 53% of the workforce and accounts for about 12% of exports (2001).

The Kyrgyz Republic's development strategy is being driven by the Comprehensive Development Framework and the National Poverty Reduction Strategy. Given this vision and operational strategy, the current debt situation, the importance of agriculture to the economy, the constraints especially to capacity in MAWRPI, the involvement of other external agencies, particularly the World Bank in the sector, MAWRPI is seeking to review the progress of transition in agriculture/rural development and to identify future directions for development in terms of policy, legislation, institutional development, and a public investment program.

The TA will assist with the formulation of a policy and strategy, with more detailed roadmaps for key subsectors for future external assistance in agriculture and rural development. The TA will review the transition progress to date, facilitate multiple stakeholder discussions, review the current status of other external agency programs, and provide a clear policy and strategic direction for further assistance at subsector level.

b. Goal and purpose:

Goal: To strengthen MAWRPI's strategic planning, formulation and implementation of external agency supported activities in agriculture and rural development in a market-oriented environment.

Purpose: To prepare an appropriate policy and strategy to further the transition process in general and identify specific strategic interventions in policy, legislation, institutional development, and public investments for external assistance.

c. Components and outputs:

- (i) Assessment of agriculture and rural development performance; and
- (ii) Medium term action plans agreed for policy reform, institutional development and public investment.

d. Expected results and deliverables:

- (i) Initial assessment by consultants and stakeholder workshop proceedings, including economic performance, poverty and social impact, progress with formulation and implementation of the reform program, progress in institutional development (specifically the role of the Ministry and other government agencies), the contributions by respective external agencies, and key development challenges and opportunities.
- (ii) Agreed medium term strategy for policy reform, legislation, institutional development, and investment.
- (iii) Action plans (roadmaps) for policy reforms, legislation, institutional development, and investment.
- (iv) Specific concept papers for ADB's future assistance to agriculture and rural development.

e. Social or environmental issues or concerns:

Social and environmental concerns will be integrated into the overall assessment of the performance of the agriculture and rural development sector and in the preparation of the strategy and action plans.

f. Plans for disseminating results/deliverables:

Results of assessments and strategy development will be disseminated and discussed through stakeholder

workshops. The final report will be made available to government agencies and interested stakeholders.
<p>7. Proposed executing/implementing agencies:</p> <p>Ministry of Agriculture, Water Resources and Processing Industry</p>
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:</p> <p>Ministry of Finance and Ministry of Agriculture, Water Resources, and Processing industry have been consulted during the mission for the new CSP 2004–2008.</p>
<p>9. Timetable for assistance design, processing, and implementation</p> <p>a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2004</p> <p>b. Expected date of submission for approval</p> <p style="padding-left: 20px;">Lending:</p> <p style="padding-left: 40px;">Nonlending (project preparatory):</p> <p style="padding-left: 40px;">Nonlending (other than project preparatory): 2004</p> <p>c. Period and duration of assistance</p> <p style="padding-left: 20px;">Lending:</p> <p style="padding-left: 20px;">Nonlending: 2004</p>
<p>10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending</p> <p style="padding-left: 20px;"><input type="checkbox"/> Ordinary capital resources: \$</p> <p style="padding-left: 20px;"><input type="checkbox"/> Asian Development Fund: \$</p> <p style="padding-left: 20px;"><input type="checkbox"/> Other: \$</p> <p>b. For nonlending</p> <p style="padding-left: 20px;"><input type="checkbox"/> No resources required, other than ADB staff</p> <p style="padding-left: 20px;"><input type="checkbox"/> ADB's administrative budget</p> <p style="padding-left: 20px;"><input checked="" type="checkbox"/> Grant TA funds: \$600,000</p> <p style="padding-left: 20px;"><input type="checkbox"/> Other:</p>

ADB = Asian Development Bank, CSP = country strategy and program, MAWRPI = Ministry of Agriculture, Water Resources and Processing Industry, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A6.2: Enforcement of Financial and Private Sector Legislation
Concept Paper**

Date: 6 June 2003

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input checked="" type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input checked="" type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Financial Sector Subsector: Multisector</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Governance, Finance, and Trade Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): TBD</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy:</p> <p>Over the last decade, considerable progress has been made in creating the legal framework suitable for a market economy in Kyrgyz Republic. While there is still need for further improvement of some legal acts with regard to eliminating remaining contradictions and bringing them fully in line with international standards and best practices, enforcement of legislation through the judiciary appears a more serious problem at this juncture. Problems to enforce creditor and property rights through the court system make commercial banks extremely cautious in giving credits to their clients and potential investors reluctant in investing their funds into Kyrgyz companies. Likewise, regulators have found it very difficult to enforce prudential norms, financial transparency, and good corporate governance in companies in the financial and real sector of the economy. These phenomena are quite obviously a major constraint for private and financial sector development.</p>										

The Governance Assessment and the Private Sector Assessment undertaken by ADB under TA 3658 and RETA 6046 in a participatory manner to feed into CSP have identified major weaknesses in the Kyrgyz judiciary, which cause the difficulties in enforcing legislation and regulation, namely with regard to lack of independent and qualified judges, corruption, and structural and procedural shortcomings. This assessment is being confirmed by surveys of international agencies, as well as anecdotal evidence from the legal community and users of the judicial system.

The Comprehensive Development Framework for Kyrgyz Republic envisages reforms of the entire system of law and order. A Consultative Judicial Reform Group (CJRG) was established in 2001 as a high-level steering committee for judicial reforms. An independent Judicial Advisory Commission (JAC) was established with broad-based participation to formulate a strategy for judicial reform, supported by ADB under the Corporate Governance and Enterprise Reform Program II (CGERP-II) and related technical assistance projects, including TA 3779-KGZ: Strengthening Corporate Governance and Judicial Reforms. An in-depth diagnostic study of the legal and judicial sector will be finalized with ADB support under TA3779 by August 2003 to guide the authorities in improving the quality, transparency, and efficiency of the judicial system in line with the judicial reform measures outlined in the Comprehensive Development Framework. Preliminary findings of this study have already produced some insights on areas where timely support may yield the most significant gains, given that the reorganization of the court system has already been launched.

The Kyrgyz Government requested technical assistance during the CSPI Mission in May 2003 to support reforms that facilitate enforcement of legislation and regulation through the judiciary, based on the changes made to the Kyrgyz Constitution in February 2003 in line with conditionality of CGERP-II to streamline the court system, render judgments with finality, and establish out-of-court arbitration, and guided by the findings of the diagnostic assessment undertaken under TA 3779.

b. Goal and purpose: The primary objective of the proposed TA is to foster strong and dynamic economic growth with accelerated poverty reduction by facilitating the enforcement of financial and private sector legislation and regulation. The purpose is to increase confidence of the population and the business community in the judiciary by strengthening governance in the court system and supporting reforms that lead to increased efficiency and transparency.

c. Components and outputs: (i) Measures to address structural shortcomings in the judiciary and increase transparency, (ii) measures to improve independence and qualification of judges, and (iii) a policy reform agenda to further facilitate the enforcement of legislation and regulation through judicial reforms.

d. Expected results and deliverables: (i) Unification of higher courts and economic (*arbitrazh*) courts has taken place; (ii) all 75 courts linked through a computer network; (iii) court decisions generally available; (iv) reduced costs of legal proceedings; (v) extra judicial procedure for resolution of economic disputes established; (vi) a corps of judges familiar with specific areas like banking sector legislation and regulation, creditor rights, and mortgages; (vii) training materials, modules, and workshops; (viii) improved court funding and logistics; (ix) review of existing diagnostic assessments on weaknesses in the judiciary; (x) a time-bound action plan to address remaining weaknesses in the judiciary; and (xi) policy dialogue on judicial reforms.

e. Social or environmental issues or concerns: None

f. Plans for disseminating results/deliverables: Government agencies, other stakeholders, and NGOs will be consulted throughout the design and implementation phases. A workshop will contribute to disseminating the results of the TA.

7. Proposed executing/implementing agencies: Legal Department of Presidential Administration and the Supreme Court.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The Government has taken an active part in undertaking the Governance Assessment and the Diagnostic Assessment, based on which findings the TA will be implemented. The authorities have full ownership on the comprehensive judicial reforms they launched in 2001 and requested continued support from ADB in the areas reflected in the sections on components and outputs, and expected results and deliverables.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2003

- b. Expected date of submission for approval
 Lending:
 Nonlending (project preparatory):
 Nonlending (other than project preparatory): 2004
- c. Period and duration of assistance(s)
 Lending:
 Nonlending: 2004 – 2005

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
 Ordinary capital resources:
 Asian Development Fund:
 Other: {specify} \${amount}
- b. For nonlending
 No resources required, other than ADB staff
 ADB's administrative budget:
 Grant TA funds: \$600,000

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.