

Asian Development Bank & Kyrgyz Republic

FACT SHEET

Table 1. Kyrgyz Republic: Development Indicators

Non-MDG	
Population in millions	5.26 (2008)
Annual population growth rate (%)	0.9 (2006–2008)
Adult literacy rate (%)	99.3 (2007)
Percent of population in urban areas	36.1 (2007)
MDG	
Percent of population living on less than \$1.25 a day	21.8 (2004)
Percent of population living below the national poverty line	39.9 (2006)
Under-5 mortality rate per 1,000 live births	38 (2007)
Percent of population using an improved drinking water source	89 (2006)

MDG = Millennium Development Goal.

Sources: ADB, 2009. *Basic Statistics 2009*. Manila.
UNESCO, 2009. Institute for Statistics Data Centre.
World Bank, 2009. World Development Indicators Online.

The Kyrgyz economy is facing significant external and domestic shocks, including high food and energy prices, energy shortages, natural disasters, and the downturn in the economies of neighboring Kazakhstan and the Russian Federation. Growth, excluding gold production, is expected to slow to 5.4% in 2008 and further to 1% in 2009 from 9.0% in 2007. Driven by higher international food and fuel prices, consumer price inflation soared to 25%. These external shocks threaten to erode considerable progress achieved over the past decade by reducing incomes and employment opportunities. Continued prudence in macroeconomic management will be critical to address macroeconomic imbalances in the near term. Structural reforms, including in the energy sector, are needed to support growth over the medium term.

Good progress was made in improving the business environment, which led to a jump in the country's ranking in the World Bank Group's Doing Business survey 2009 from 68 to 99 in 2008. The Kyrgyz Republic improved investor perceptions by amending a law to allow minority investors to take legal actions as shareholders. A one-stop shop has been established to ease business registration. The pledge law and the Civil Code have been amended to allow for extrajudicial enforcement of creditor rights. The Civil Code has also been amended to allow sharing borrower information with third parties, including credit bureaus.

In 2008, the Government further intensified efforts to reduce hindrances to open trade and introduced changes in legislation aimed at streamlining import–export procedures. In June 2008, authorities adopted a single electronic window for exporters. In the area of public finance management, a treasury modernization program was launched and the adoption of a new charter of accounts will contribute to improved fiscal accounting and reporting. A new internal audit law governing internal audits of government agencies and institutions establishes a framework for conducting audits in line with international best practice. There are significant changes introduced to the tax system with the adoption of the new tax code in 2008. In the financial sector, the Parliament has finally approved a concept of privatization of the Aiyl Bank, the largest non-bank financial institution, and the privatization concept will see 67% of its shares sold through open tender. The Parliament also approved the introduction of a deposit insurance scheme, which will come into effect in 2010.

Structural reforms could be advanced further in other key areas, such as the energy sector, pension system, trade facilitation and customs administration, and property rights. Rule-based governance is a big issue. Transparency International's 2008 Corruption Perception Index (CPI) demonstrates that corruption remains a challenge in the country, and the Kyrgyz Republic's CPI score deteriorated from 2.1 in 2007 to 1.8 in 2008.

The Government has just recently revised its Country Development Strategy to cover the period from 2008 to 2011, and also to address recent economic developments.

Relationship with ADB

Since joining the Asian Development Bank (ADB) in 1994, the Kyrgyz Republic has received loans worth \$603.5 million and Asian Development Fund (ADF) grants worth \$134 million, plus technical assistance (TA) grants worth \$40.951 million.

The country received seven Japan Fund for Poverty Reduction (JFPR) grants amounting to \$7 million. The Kyrgyz Republic is the 20th largest borrower.

ADB's first operational strategy was prepared in 1996 to support government reforms; encourage private sector-led growth; and stimulate investment in infrastructure, human resources, and the environment.

It provided selective support for agriculture, basic public services, human resource development (especially education), and for energy and roads. The scope was widened to give priority to poverty reduction and include assistance to the financial sector.

The establishment of the ADB Resident Mission in the Kyrgyz Republic, in April 2000, significantly enhanced policy dialogue, programming, and project implementation.

ADB's annual lending started at \$40 million in 1994 and reached a peak of \$89.2 million in 1997. Thereafter, lending declined as the Government's debt reduction strategy limited the size of its externally funded Public Investment Program to about 3% of gross domestic product (GDP).

The Kyrgyz Republic received up to 50% of its ADF funding as grant during 2005–2006. In January 2007, following the adoption of the new ADF grant framework, the country received 100% grant assistance. Beginning in 2009, and reflecting its improved debt sustainability, the country is expected to return to the 50% grant assistance formula for ADF assistance. The country's ADF IX allocation

Table 2. Kyrgyz Republic: Economic Indicators, 2004–2008

Economic Indicator	2004	2005	2006	2007	2008
Per capita GNI, Atlas method (\$)	400	450	500	590	...
GDP growth (% change per year)	7.0	-0.2	3.1	8.5	7.6
CPI (% change per year)	4.1	4.4	5.6	10.2	24.5
Unemployment rate (%)	8.5	8.1	8.3	8.2	...
Fiscal balance (% of GDP)	-4.5	-3.4	-2.5	-0.8	-1.9
Export growth (% change per year)	24.2	-6.3	31.9	47.6	39.0
Import growth (% change per year)	25.0	22.3	62.1	47.0	38.4
Current account balance (% of GDP)	1.3	-1.6	-10.1	-6.0	-10.5
External debt (% of GNI)	100.1	85.0	84.3	69.7	...

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2009. *Asian Development Outlook 2009*. Manila.
ADB staff estimates.
World Bank. 2009. World Development Indicators Online.

Table 3. Kyrgyz Republic: 2008 Loan, TA, and Grant Approvals (\$ million)

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
–	–	1.3	67.9	69.2

– = nil.

Cumulative Lending (as of 31 Dec 2008) : \$603.5 million
Cumulative Disbursements (as of 31 Dec 2008) : \$552.2 million

for 2008 is \$35.4 million. In addition, \$30.0 million from loan savings and cancellations was provided for supplementary financing for the Community-Based Infrastructure Services Sector Project. The 2009 and 2010 allocation will come from ADF X, with an indicative figure of \$120.8 million comprising \$53.7 million in grants and \$67.1 million in loans. The preliminary allocation for 2011 is estimated at about \$60 million, the same annual allocation for 2009 and 2010.

ADB country partnership strategy for the Kyrgyz Republic is presented in the joint country support strategy¹ (JCSS) for 2007–2010 approved in October 2007. The JCSS was prepared in cooperation with four development partners—the Swiss Cooperation, the United Kingdom's Department for International Development, the United Nations agencies, and the World Bank Group. Two other development partners—the European Commission and the Government of Germany—joined the JCSS in December 2007. The Country Operations Business Plan for 2009–2011, approved in January 2009, is broadly in line with the JCSS priorities, with some adjustments in the lending and nonlending program to reflect the impact of the ongoing global financial and economic crises and the Government's latest economic policy to address the country's short- and long-term development challenges.²

Table 4. Kyrgyz Republic: Cumulative ADB Lending as of 31 December 2008

Sector	Loans (no.)	Amount (\$ million)	% ^a
Agriculture and Natural Resources	3	91.00	15.08
Education	2	32.70	5.42
Energy	1	30.00	4.97
Finance	4	64.00	10.60
Health, Nutrition, and Social Protection	1	10.50	1.74
Industry and Trade	2	22.50	3.73
Law, Economic Management, and Public Policy	3	79.00	13.09
Multisector	5	96.00	15.91
Transport and Communications	5	177.80	29.46
Total	26	603.50	100.00

^a Total may not add up because of rounding.

Table 5. Kyrgyz Republic: Project Success Rates

By Sector	Percentage ^a	No. of Rated Projects/Programs
Agriculture and Natural Resources	100.0	1
Education	100.0	1
Energy	100.0	1
Finance	50.0	2
Industry and Trade	100.0	1
Law, Economic Management, and Public Policy	66.7	3
Multisector	100.0	4
Transport and Communications	100.0	4
Total	88.2	17
By Year of Approval		
1990s	83.3	12
2000s	100.0	5

^a Based on aggregate results of project/program completion reports (PCRs), PCR validation reports (PCRVRs), and project/program evaluation reports (PPERs) using PCRVR or PPER ratings in all cases where PCR and PCRVR/PPER ratings are available.

Sources: PCRs, PCRVRs, and PPERs containing a rating circulated as of 31 December 2008.

¹ ADB. 2007. *Joint Country Support Strategy (2007–2010): Kyrgyz Republic*. Manila.

² President Kurmanbek Bakiev's Address to the Nation delivered on 10 January 2008 in Bishkek.

The JCSS for 2007–2010 can be found at www.adb.org/Documents/CSPs/KGZ/default.asp.

Impact of Assistance

The transport and communications sector, particularly roads, plays a crucial role for the landlocked Kyrgyz Republic by ensuring cost-effective access to regional and domestic markets, generating employment, and providing services. The sector continues to receive the largest share of ADB assistance. ADB provided three loans totaling \$140 million for rehabilitating the Bishkek–Osh road, the country’s major transport corridor and a part of the transnational road network linking Central Asian countries, People’s Republic of China (PRC), and the Russian Federation. The road connects two major centers of economic activity and population which, together, account for more than half the country’s GDP and 80% of its industrial enterprises. A \$5 million project for rehabilitating the Kyrgyz Republic segment of the regional Almaty–Bishkek road has also been completed. Improvements to the Osh–Sarytash–Irkeshdam road—which links the Fergana Valley with the booming markets of the PRC—is being implemented with a \$32.8 million loan. In 2007, ADB also provided a \$25.6 million ADF grant to rehabilitate a 142-kilometer road from Sarytash to the Kyrgyz–Tajik border. This section is part of the PRC–Kyrgyz Republic–Tajikistan road corridor and a key transport corridor. In

2008, ADB extended \$20 million ADF grant to upgrade a 39-kilometer section of the Bishkek–Torugart Road linking the Kyrgyz Republic with the PRC and other Central Asian countries. The funds will also be used to improve outdated, unwieldy border-crossing facilities at the Torugart border that slow journey times and create a major drag on cross-country trade. Counterpart financing of \$10.3 million is being provided by the Government of the Kyrgyz Republic. Improving the road will reduce border-crossing time and transport costs, boost access to markets and social services, develop tourism, and generate employment opportunities. It will substantially reduce existing obstructions to trade and foster closer regional economic cooperation.

Cooperation in transport and trade facilitation through an integrated transport and customs system is a cornerstone of the Central Asia Regional Economic Cooperation (CAREC) program initiated by ADB. Under CAREC, the country has benefited from the adoption of a new Customs Code in 2004, single-window practices, and regional transit development. The program also includes an ongoing regional land management initiative, regional business development opportunities, and knowledge and expertise products. The country is also involved in the CAREC transport and trade facilitation strategy, which will develop six priority transport and trade corridors in the participating countries. In November 2008, a number of important documents, such as the Action Plan for Transport and Trade Facilitation Strategy, the Trade Policy Strategic Action Plan, the Strategy for Regional Cooperation in the Energy Sector, and the CAREC Institute Work Plan for 2009–2011, were endorsed.

Assistance to the social sector included projects to improve basic education, primary and secondary health care, early childhood development, preschool programs, and childcare practice at home and in the community. A \$10 million ADF grant was provided for the Vocational Education and Skills Development Project—the first intervention in the vocational education sector. Reforming the current Primary Vocational Education system to become demand-driven and efficient will assist the Government in complementing the transition of the education system from the Soviet model to a system that is responsive to the requirements of a market-based economy, with consistent, internationally accepted education standards.

ADB has helped implement a program to improve the policy, regulatory, and institutional capacity of the banking sector. It has also helped the Government implement reforms to improve corporate governance and regulations. The Kyrgyz Republic’s drive to achieve higher and broad-based economic growth is being supported by ADB’s new program to improve the business and investment environment. ADB’s Investment Climate Improvement Program includes three subprograms. The first subprogram grant of \$15.4 million was received

Table 6. Kyrgyz Republic: Portfolio Performance Quality Indicators for Sovereign Lending, 2007–2008

Number of Ongoing Loans (as of 31 Dec 2008)		
	2007 (\$ million)	2008 (\$ million)
Contract Awards/Commitments	41.7	9.6
Disbursements	29.8	27.1
Loans at Risk (%)	–	28.6

– = nil.

Table 7. Cumulative Nonsovereign Operations Portfolio Distribution by Top Countries, 1983–2008^{a,b}

Country	No. of Projects	Total ADB Approvals (\$ million)
India	37	2,268
People’s Republic of China	21	1,694
Indonesia	15	879
Philippines	28	768
Pakistan	27	721
Kazakhstan	5	550
Thailand	10	319
Viet Nam	8	305
Sri Lanka	13	280
Bangladesh	8	242
Afghanistan	6	208
Lao People’s Democratic Republic	1	100
Other DMCs	13	87
Azerbaijan	4	66
Nepal	4	59
Regional	36	930

DMC = developing member country.

^a Includes nonsovereign projects processed by the Private Sector Operations Department and various regional operations departments of ADB. Regional operations departments started nonsovereign operations in 2007.

^b Net of facilities cancelled in full before signing.

Source: Private Sector Operations Department.

Table 8. Kyrgyz Republic: Contractors/suppliers involved in ADB loan projects, 1 January 2004–31 December 2008

Contractor/Supplier	Sector	Contract Amount (\$ million)
Ltd. KVT	Agriculture and Natural Resources	2.77
Dormashkomplekt, Ltd.	Transport and Communications	1.99
Gradien, Ltd.	Multisector	1.78
KVT, Ltd.	Multisector	1.65
Bior-KGSS Consortium	Transport and Communications	1.45
Stroitel	Multisector	1.42
Rodnik, Ltd.	Agriculture and Natural Resources	1.23
Jumgasuukurulush	Multisector	1.22
Dorservice	Agriculture and Natural Resources	1.22
Chuisokoe USM	Agriculture and Natural Resources	1.16

in 2008. Indicative grant amounts for subprogram 2 and subprogram 3 planned in the next 2–3 years are \$20 million each. The program will focus on reforms that will reduce entry and exit barriers and compliance costs for businesses. The program will also create a clear legal and regulatory framework for public–private partnerships in infrastructure.

ADB has provided \$96 million in agriculture assistance (including one program loan, two project loans, and one grant) and a JFPR grant for \$1 million, along with project preparatory and advisory technical assistance. In 2008, an ADF grant of \$30 million was provided to ensure completion of the Community-Based Infrastructure Sector project that will provide cleaner drinking water and better sanitation services to 1.5 million people in the provinces of Chui, Jalal-Abad, Osh, and Batken.

In 2008, ADB's program included three ADF grants amounting to \$65.4 million:

- (i) a \$15.4 million program grant for improving the investment climate,
- (ii) a \$20 million grant as part of the CAREC Transport Corridor, and
- (iii) a \$30 million grant for the Community-Based Infrastructure Services Sector supplementary financing project.

Two TA projects amounting to \$1.3 million were approved in 2008 and will provide institutional support for investment climate program.

Future Directions

ADB's Country Operations Business Plan for 2009–2011 is in line with the Country Development Strategy and is broadly in line with the JCSS priorities, with some adjustments in the lending and nonlending program to reflect the impact of the ongoing global financial and economic crises and the Government's latest economic policy to address the country's short- and long-term development challenges.

The strategic thrust of the program for 2008–2011 is to support both soft and hard public infrastructure, which will contribute to creating a favorable environment for sustainable growth led by the private sector, thereby generating more jobs and income. Specifically, ADB will continue to support the following:

- (i) Roads and transport to promote inclusive growth and regional cooperation. The focus will continue to be on rehabilitating key road and transport networks that have regional and national strategic importance.

Table 9. Kyrgyz Republic: Top consultants (individual consultants and consulting firms) involved in ADB loan projects, 1 January 2004–31 December 2008

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants from Kyrgyz Republic*	167	1.64
Dolboor	2	0.45
OJSS Design Institute Kyrgyzgiprostroj	2	0.42
Musai, Ltd.	3	0.29
Kyrgyzkommunproject	3	0.19
Kyrgyzpromproject	2	0.16
Marka Audit Bishkek, Ltd.	13	0.16
Design Institute Kyrgyzdortransproject	1	0.12
JSC Kyrgyzsuudolboor	5	0.11
Idice Audit, Ltd.	1	0.10

* Consultant may have one or more contracts within the period covered.

- (ii) Urban infrastructure and services to promote major growth centers. The majority of business and economic activities are concentrated in urban centers, led by the cities of Bishkek and Osh, and the potential center in the Lake Issyk-Kul area. Dilapidated public infrastructure is a key constraint to sustainable growth and environmental sustainability in these centers.
- (iii) Economic and financial sector reforms to improve the investment climate and business environment. Impediments to investment and doing business are key bottlenecks to private sector development and growth.

Given the continuing financial and fiscal pressure expected in 2009 due to financial and economic crises, the Government may have short-term needs for budget support. Starting in November 2008, the Government has been in consultation with its development partners on this subject. ADB is working closely with other development partners in assessing such needs and developing appropriate strategies and measures.

Regionally, ADB is likely to continue fostering cooperation among the Central Asian republics, Afghanistan, Azerbaijan, PRC, Mongolia, Pakistan, and the Russian Federation. Trade, transport, and energy have been identified as priority areas for support.

The selection of ADB interventions is guided by the Government's priorities, performance of the portfolio, the institutional framework, and the activities of other development partners in the country.

Operational Challenges

The small, open economy of the Kyrgyz Republic faces considerable challenges posed by the ongoing global financial and economic crises. The sharp slowdown of the economies of the Russian Federation and Kazakhstan, in particular, has impacted negatively on the Kyrgyz economy through trade, investment, the financial sector, and lower demand for labor. These negative effects are expected to continue into 2009 and beyond. Also, the recent increase in international food prices showed that food security is an issue for the Kyrgyz Republic, which is a net importer of food. Internally, the long-standing water–energy problem resulting from a lack of investment and poor management has further aggravated the weakened economy.

The significant challenge facing the Government is minimizing the damage done by the global financial crisis and the economic slowdown, including losses in jobs and income, and the erosion of impressive poverty reduction achieved over the past few years. This will not be easy, especially given the considerable pressure on public financial resources in a weakening economy.

Over time, however, the Government recognizes that sustainable inclusive growth is not only the key to raising people's living standards

Table 10. Kyrgyz Republic: Top consultants (individual consultants and consulting firm) involved in ADB technical assistance projects, 1 January 2004–31 December 2008

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants from Kyrgyz Republic*	100	1.03
Institute of Land Use Planning (Kyrgyz)	1	0.08

* Consultant may have one or more contracts within the period covered.

and poverty reduction, but also to building the economy's resilience to external and internal shocks. The Government has recently reaffirmed its focus on long-term economic growth despite urgent short-term economic difficulties. In this respect, further structural reforms in the energy and other sectors, along with continued efforts to improve the investment and business environment will play an essential role in spurring and sustaining private sector-led growth.

Partnership

The Kyrgyz Republic was selected as one of the pilot countries during the February 2003 Rome Conference on Harmonization. Since then, key development partners have learned to better coordinate and harmonize procurement procedures, oversee financial management and monitoring, share project implementation units, and conduct joint country portfolio reviews. The JCSS for the Kyrgyz Republic was one of the best examples of cooperation.

ADB cooperates extensively with civil society organizations in the Kyrgyz Republic to strengthen the effectiveness, quality, and sustainability of the services it provides. ADB solicited and incorporated the views of a cross-section of civil society organizations on the Government's performance in the areas of social development, gender equity, governance, and structural economic policies in the process of preparing the 2008 Country Performance Assessment. ADB's Kyrgyz Republic Resident Mission (KYRM) continues to establish stronger links with local civil society groups by organizing project site tours that demonstrate ADB's development initiatives in the country.

Cofinancing and Procurement

Cofinancing operations enable ADB's financing partners—government or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing ADB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products.

In 2008, the Global Environment Facility provided \$2.5 million grant cofinancing for the Southern Agriculture Area Development project.

As of year-end 2008, cumulative direct value-added cofinancing for the Kyrgyz Republic amounted to \$51.2 million for four investment projects, and \$2.3 million for five TA projects.

A summary of projects with cofinancing from 1 January 2004 to 31 December 2008 is available at www.adb.org/Documents/Fact_Sheets/Kyrgyz/cofinancing.asp.

As of 31 December 2008, 10,330 consultant contracts were awarded under ADB loan projects worth \$4.17 billion, of which 356 contracts were awarded to consultants from the Kyrgyz Republic worth \$8.59 million.

From 1 January 1985 to 31 December 2008, 18,104 consultant contracts were awarded under ADB TA projects worth \$2.33 billion, of which 151 contracts were awarded to consultants from the Kyrgyz Republic worth \$1.50 million.

A summary of procurement contracts awarded to companies and consultants from the Kyrgyz Republic for goods and works, and consulting services can be found at www.adb.org/Documents/Fact_Sheets/Kyrgyz/procurement.asp.

About the Kyrgyz Republic and ADB

The Kyrgyz Republic is the 23rd largest shareholder among regional members and the 31st largest overall.

ADB Membership

Joined	1994
Shares held	10,582 (0.30%)
Votes	23,814 (0.54%)

Ceppie K. Sumadilaga is the Executive Director and **CJ (Stan) Vandersyp** is the Alternate Executive Director representing the Kyrgyz Republic on the ADB Board of Directors.

Lan Wu is the ADB Country Director for the Kyrgyz Republic. The Kyrgyz Republic Resident Mission (KYRM) was opened in 2000 and provides the primary operational link between ADB and the government, private sector, and civil-society stakeholders in its activities. KYRM engages in policy dialogue and acts as a knowledge base on development issues in the Kyrgyz Republic.

The Kyrgyz Republic government agency handling ADB affairs is the Ministry of Finance.

About the Asian Development Bank

ADB is a multilateral development bank owned by 67 members, 48 from the region and 19 from other parts of the world. ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance (TA). In 2008, lending volume was \$10.49 billion (86 projects), with TA at \$274.5 million (299 projects) and grant-financed projects at \$811.4 million (49 projects). This also generated \$1.65 billion in direct value-added cofinancing from financing partnerships operations. Over the last 5 years (2004–2008), ADB's annual lending volume averaged \$7.70 billion, with TA averaging \$231.5 million and grant-financed projects \$655.1 million. As of 31 December 2008, the cumulative totals were \$143.53 billion in loans for 2,147 projects in 41 countries, \$4.08 billion for 263 grant projects, and \$3.55 billion for 6,599 TA projects.

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www.adb.org

Country website
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Asian Development Outlook
www.adb.org/Documents/Books/ADO/2009/KGZ.pdf

Annual Report
www.adb.org/Documents/reports/annual_report/2008/