

**ASIAN DEVELOPMENT BANK**

**TAR:KGZ 35263**

**TECHNICAL ASSISTANCE**

**TO THE**

**KYRGYZ REPUBLIC**

**FOR**

**STRENGTHENING CAPACITY**

**IN THE OFFICE OF THE PRESIDENT, PHASE TWO**

**April 2002**

## **CURRENCY EQUIVALENTS**

(as of 1 April 2002)

Currency Unit	–	Som
Som1.00	=	\$0.02
\$1.00	=	Som47.6924

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CDF	–	Comprehensive Development Framework
EPD	–	Economic Policy Department of the Office of the President
PRGF	–	Poverty Reduction and Growth Facility
TA	–	technical assistance

## **NOTES**

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

## I. INTRODUCTION

1. In August 1999, the Asian Development Bank (ADB) provided technical assistance (TA) to strengthen capacity in the Economic Policy Department (EPD) of the Office of President.<sup>1</sup> Following the completion of the TA in October 2001, the Government asked ADB to provide a second phase TA. The TA completion report assessed the first phase TA to be “successful.”<sup>2</sup> Its output has proved highly useful in monitoring economic developments and providing advice to the President and EPD’s senior management. The second phase TA would build upon these foundations. An ADB TA fact-finding mission carried out detailed discussions in October-November 2001 with concerned officials of EPD and the Government and reached understandings on the objectives and scope of the phase two TA, and its terms of reference, implementation arrangements and cost estimates.<sup>3</sup> The TA framework is at Appendix 1.

## II. BACKGROUND

2. EPD is one of the most important agencies in the country as it provides the President with information, analysis, and advice on economic policy, and prepares proposals on economic issues. It assists the President in controlling and monitoring (i) the economic activities of the Government and other agencies; and (ii) the implementation of laws, presidential decrees, resolutions, and directives on economic issues. It also participates in decision making pertaining to personnel of key state economic and financial agencies. EPD has limited analytical and policy formulation capacity, particularly for monetary and fiscal policy. Consequently, in September 1998, the Government requested advisory TA from ADB to strengthen capacity in EPD. Following detailed discussions with EPD, ADB approved TA for this purpose on 30 August 1999.

3. To strengthen EPD’s capacity, the scope of the phase 1 TA covered three main areas: developing effective and systematic monitoring of macroeconomic developments and reforms, providing policy advice to the President on economic matters, and improving coordination mechanisms for key government agencies involved in economic management. In the first of these areas, the TA sought to meet EPD’s requirements by identifying a subset of macroeconomic indicators with an emphasis on the particular requirements of the Kyrgyz economy and its reform program. A computer-based reporting system consisting of the selective macro indicators was to be established. EPD staff was to be trained to systematically evaluate reports for effective monitoring, and to make appropriate and timely proposals to the President regarding macroeconomic matters. In the second area, the skills of concerned EPD staff for providing policy advice on major economic issues were to be upgraded through on-the-job training by the TA consultants. Particular emphases was to be placed on (i) developing fiscal, monetary, and external policy, and debt management; and (ii) providing policy advice on and assessing the impact of the Government’s ongoing program of macroeconomic stabilization and structural reforms. Finally, the TA sought to assist EPD in identifying the major impediments to effective coordination of the key economic agencies, in systemizing and establishing improved coordination mechanisms both between it and the concerned agencies and between the agencies themselves.

4. The phase 1 TA met most of the purposes envisaged and resulted in considerable benefits for EPD: (i) existing economic reporting systems were examined and analyzed,

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<sup>1</sup> TA 2349-KGZ: *Strengthening Capacity in the Office of the President*, for \$335,000, approved on 30 August 1999.

<sup>2</sup> IN.254-01-KGZ: *Strengthening Capacity in the Office of the President*, November 2001.

<sup>3</sup> The TA was first listed in *ADB Business Opportunities* (Internet edition) on 12 November 2001.

deficiencies identified; (ii) a set of macroeconomic indicators focusing on monetary and fiscal aspects was developed; (iii) a computerized database system using these indicators was set up in EPD; (iv) EPD staff were trained on the composition, maintenance, and interpretation of the database; (v) general macroeconomic training needed to comprehend the data and undertake meaningful analysis was provided; (vi) a reporting system from key economic agencies to keep the database current was established; (vii) a system for preparing economic reports for briefing the President and senior EPD and Government staff was instituted; (viii) advice was provided to EPD staff on a wide range of issues that were examined for the President's attention; and (ix) on-the-job training was provided to EPD staff to prepare policy proposals and monitor progress and impact of the Government's reform program.

5. However, some of the benefits of the training under the TA were affected by the frequent turnover of EPD staff. This was a particular focus during the processing of the phase two TA, and the Government has committed to preventing this happening in the future to the extent possible. One of the original thrusts of the first phase TA, namely, improving coordination with and between key economic agencies, was not undertaken as it proved to be an issue of wider scope than could be tackled under the TA. Agency coordination is one of the major goals to be achieved under the Comprehensive Development Framework (CDF) (para. 7). The CDF secretariat, under the aegis of EPD, is implementing the CDF and has improved coordination between key public agencies. The first phase TA did achieve a number of strategic and important outputs that were originally not anticipated. A number of major policy statements were prepared for delivery by the President in the context of formulating the CDF. Another major contribution was the key role played by the economic adviser in the editing and finalizing the CDF document during April and May 2001. These inputs were highly valued by the Government and contributed significantly to ensuring the logic, structure, and content of the CDF document.

6. Since 1993, with the assistance of the International Monetary Fund, the Kyrgyz Republic has been implementing programs of macroeconomic stabilization and structural reforms aimed at the transition to a market-based economy. In recent years, these reforms have been supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) approved in 1998. A new PRGF is expected to be in place by the end of 2001. Over the years, the Government has made significant strides in macroeconomic stabilization. However, slippages, particularly in fiscal policy, have led to noncompliance with key budgetary and monetary policy targets. So too, as regards structural reforms, while impressive progress has been made, much work remains in the areas of privatizing large strategic enterprises, developing the property tax system, and streamlining the public investment program. Adherence to the PRGF program is of paramount importance to the Kyrgyz economy, particularly as a key factor in attracting foreign direct investments and external assistance to the country. EPD's capacity to monitor the progress of and to provide timely implementation of the PRGF needs to be augmented.

7. The Government began formulation of the CDF in 1999: this was completed in mid-2001. The CDF represents a holistic strategy of social and economic development for the Kyrgyz Republic until 2010.<sup>4</sup> The CDF was formulated in close consultation with all sections of civil society and the international community. The CDF has three major themes to achieve its central goal of poverty reduction: (i) effective and transparent state governance, (ii) a fair and secure society, and (iii) sustainable economic growth and development. The Government considers the CDF document as its blueprint for future development. EPD will need to monitor

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<sup>4</sup> An interim National Poverty Reduction Strategy was initiated simultaneously and represents the CDF's activities during the first three years of implementation.

the successful implementation of the CDF and provide effective advice to the President and EPD management regarding its implementation.

### III. THE TECHNICAL ASSISTANCE

#### A. Objective

8. The objective of the phase two TA is to strengthen EPD's capacity to track economic developments and manage economic policy, focusing particularly on the requirements of (i) the ongoing macroeconomic stabilization and structural reform program, and (ii) implementation of the CDF strategy.

#### B. Scope

9. Effective monitoring will enable EPD to fulfill its duty to identify, in a timely manner, current trends and potential problems in the country's macroeconomic development and progress in implementing the CDF. The TA will address this need by reviewing and updating the computerized economic and social database created under the phase one TA with particular emphasis on the current requirements. EPD staff will be trained to systematically evaluate reports for effective monitoring and make appropriate and timely proposals for the consideration of the President and EPD management.

10. The skills of concerned EPD staff in providing policy advice on major economic issues will be upgraded through training, including on-the-job training, by the TA consultants. Particular importance will be placed on fiscal, monetary, and external policy, and debt and budget management.

#### C. Cost Estimates

11. The total cost of the TA is estimated at \$590,000 equivalent, of which \$432,000 is the foreign exchange cost and \$158,000 equivalent the local currency cost. ADB will provide \$500,000 equivalent to cover the entire foreign exchange cost of \$432,000 and \$68,000 equivalent of local currency cost. The TA will be financed by ADB on a grant basis from the ADB-funded TA program. The Government will finance the remaining local currency costs of \$90,000 equivalent through the provision of office space, staff support, and other items. Detailed cost estimates are in Appendix 2.

#### D. Implementation Arrangements

12. EPD will be the Executing Agency. EPD indicated that it will accord the same priority and attention to details in TA implementation (as was done during phase one) because of the importance and strategic nature of the TA. The TA will be implemented over 19 months and is expected to be completed by 30 November 2003. Sixteen person-months of service will be provided by an international consultant (economic adviser) and 38 person-months of service by two domestic consultants in the areas of fiscal and monetary management (the outline Terms of reference are in Appendix 3). The economic adviser and the domestic consultants will be recruited on an individual basis in accordance with ADB's *Guidelines on the Use of Consultants*. Any procurement under this TA will be carried out in accordance with ADB's *Guidelines for Procurement*."

13. The economic adviser will provide an inception report to EPD and ADB within one month of commencing services. This report will make an initial assessment of work and prepare a realistic TA implementation plan detailing the economic adviser's and other consultant's responsibilities. Subsequent to the inception report, the economic adviser will submit to EPD and ADB reports detailing TA progress at three-month intervals. The last such report will be completed as the final report of the economic adviser, and will provide a comprehensive description of the TA outcome and a detailed assessment of the results achieved in meeting its objectives. Close coordination with the work of the CDF secretariat is envisaged under the TA to ensure complementarity of efforts and prevent duplication with future TA from other external financiers to support the work of the secretariat.

#### **IV. THE PRESIDENT'S DECISION**

14. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Kyrgyz Republic in an amount not exceeding the equivalent of \$500,000 for the purpose of Strengthening Capacity in the Office of the President, Phase Two, and hereby reports such action to the Board.

### TECHNICAL ASSISTANCE FRAMEWORK

<b>Design Summary</b>	<b>Performance Indicators/Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<p><b>Goal</b> To strengthen the capacity of the Economic Policy Department (EPD) to advise the President and its senior management on economic policy and management</p>	<p>EPD effectively performs its roles and is able to provide quality advice on key economic issues and developments particularly those relating to the PRGF and CDF</p>	<p>Project review missions, inception and technical assistance (TA) progress reports</p>	<p>EPD allocates appropriate counterpart staff to work with and be trained by the consultants</p>
<p><b>Purpose</b> To improve the information base and the quality and usefulness of advice and reports to the President and senior EPD management</p>	<p>In addition to maintaining a computerized economic and social database, and timely reporting, EPD staff will monitor continued compliance with PRGF conditions which is critical for macroeconomic stability. EDP will also ensure adherence to the poverty reduction, governance, and social development objectives of the CDF.</p>	<p>Periodic TA progress reports as discussed and agreed at the time of inception.  Project review missions</p>	<p>EPD has resources to continue to undertake role and functions effectively  Staff trained under the TA remain within EPD</p>
<p><b>Components/ Outputs</b> 1. The computer-based monitoring and reporting system is updated operated and maintained by local staff  2. Policy Advice  3. Staff trained in effective monitoring and given advice on economic policy issues particularly as regards</p>	<p>Monthly economic updates. Monthly statistical updates with data relevant for policy making and monitoring PRGF targets.  Quarterly economic reviews and policy impact assessments. Annual economic review.  Policy briefs prepared and advice rendered as required by the Office of the President  Training of EPD staff in  <ul style="list-style-type: none"> <li>• Fiscal monetary, budget and debt management;</li> <li>• Providing assessment</li> </ul> </p>	<p>Monitoring and evaluation of s of the monthly, quarterly and annual economic reports  TA progress reports TA final report  Periodic feedback from the Government  Project review missions, TA progress reports TA final report</p>	<p>Training is effective in enabling local staff to improve the quality of advice and reporting</p>

(Reference in text: page 1, para. 1)

the requirements of the PRGF and CDF	of the impact of macro stabilization and sectoral reforms		
<b>Activities</b> 1.1 Monitoring and reporting system updated 1.2 System tested 1.3 Training of staff  2.1 Needs of staff on macroeconomic management assessed 2.2 Training of staff 2.3 Staff training evaluated	An efficient and functional reporting system  EPD staff's capacity for macroeconomic management improved	Project review missions, TA progress reports  Project review, TA reports	EPD staff continue in their jobs and transfers are kept to a minimum  EPD staff continue in their jobs and transfers are kept to a minimum

**COST ESTIMATES AND FINANCING PLAN**  
(\$)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants (16 person-months)	357,000	0	357,000
ii. Domestic Consultants (38 person-months)	0	30,000	30,000
b. International and Local Travel	15,000	3,000	18,000
2. Office Equipment and Supplies	0	7,000	7,000
3. Training, Seminars, and Conferences (in-country)	0	5,000	5,000
4. Miscellaneous Administration and Support Costs	0	23,000	23,000
5. Contingencies	60,000	0	60,000
<b>Subtotal (A)</b>	<b>432,000</b>	<b>68,000</b>	<b>500,000</b>
<b>B. Government Financing</b>			
1. Office Support	0	40,000	40,000
2. Counterpart Staff	0	25,000	25,000
3. Communications (local)	0	5,000	5,000
3. Miscellaneous Administration and Support Costs	0	20,000	20,000
<b>Subtotal (B)</b>	<b>0</b>	<b>90,000</b>	<b>90,000</b>
<b>Total</b>	<b>432,000</b>	<b>158,000</b>	<b>590,000</b>

<sup>a</sup> Funded from the Asian Development Bank technical assistance program.  
Source: Staff estimates.

(Reference in text: page 3, para. 11)

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The consultants will work to improve the capacity of the Economic Policy Department (EPD) in tracking economic developments and in managing economic policy with particular focus on the requirements of (i) the ongoing macroeconomic stabilization and structural reform program; and (ii) the implementation of the Comprehensive Development Framework (CDF) strategy. The economic adviser will be fielded in two work assignments of 10 and 6 months, respectively. The economic adviser should have excellent qualifications in economics with specialization in macroeconomics, and have experience in providing similar high-level advisory services in developing countries. Experience in Commonwealth of Independent States countries and knowledge of Russian will be useful. The two domestic consultants should have a good knowledge of English.

### **A. Economic Adviser (International: 16 Person-months)**

2. Responsibilities will include the following:

- (i) Examine EPD's existing organization, workload, and reporting systems to assess needs for upgrading.
- (ii) Review the economic and social database created under the first phase TA and present proposals required to update the database and bring it in line with current needs in EPD.
- (iii) After obtaining approval of EPD of the proposals from (ii), design and take the action necessary.
- (iv) Conduct training sessions on economic conditions reporting and prognosis, applying the information collected in the database.
- (v) Conduct training sessions for EPD staff on the principles of macroeconomics as applied in the design and application of monetary and fiscal policy.
- (vi) Assist EPD management and staff with the preparation of advice to the President on economic matters covering all aspects of the PRGF with particular focus on management of budget, debt, public expenditure, public investment and revenue, coordination of external assistance.
- (vii) Assist and guide EPD staff in preparing periodic (quarterly at least) economic reviews for briefing the President and other senior members of Government. Such reviews should include updates on progress of meeting PRGF and CDF goals, and recommend remedial actions as needed.
- (viii) Train EPD staff in the requirements of (vi) and (vii). For all training under the TA, the economic adviser should arrange and conduct training seminars and conferences as necessary and prepare training manuals/materials that could be used by EPD staff.
- (ix) Engage in discussions with the head of EPD and other senior officials in the Government to determine the nature of economic policy formulation processes in

(Reference in text: page 3, para. 12)

the Kyrgyz Republic and how these might be structured and improved for the future.

- (x) Assess capacity in EPD after the phase one TA, and identify measures to make EPD self-sufficient over the duration of the TA. Assess in the final report of the TA how far EPD has come toward this goal, and what, if any, remains to be accomplished.
- (xi) Carry out any other items of work as required by EPD and the Asian Development Bank.

**B. Monetary Management and Fiscal Management Experts (2 domestic: 19 person-months each)**

3. The domestic consultants will:
  - (i) assist the economic adviser in carrying out the tasks described in section A, and;
  - (ii) advise and train EPD staff in various aspects of macroeconomic management.