



Validation Report

Reference Number: PVR-423
Project Numbers: 41544-022, 41544-082, 41544-084
Grant Numbers: 0120, 0319, and 0393
October 2015

Kyrgyz Republic: Investment Climate Improvement Program

Independent Evaluation Department
Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CIB	–	Credit Information Bureau
DMF	–	design and monitoring framework
GDP	–	gross domestic product
NBKR	–	National Bank of the Kyrgyz Republic
NPSDC	–	National Professional Skills Development Council
PDSF	–	Project Development Support Facility
PPP	–	public–private partnership
SWFT	–	single window for pre-customs clearance of foreign trade
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars.

Key Words

access to finance, adb, business regulation reforms, enhanced private sector participation, enhancing workers' skills, investment climate improvement, kyrgyz republic, public–private partnerships, validation

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PROGRAM BASIC DATA

Program Number:	41544-022/082/084	PCR Circulation Date:	March 2015	
Loan Number:	0120, 0319, 0393	PCR Validation Date:	Oct 2015	
Program Name:	Investment Climate Improvement Program			
Country:	Kyrgyz Republic		Approved (\$ million)	Actual (\$ million)
Sector:	Multisector (PSM)	Total Program Costs:	52.5	54.5
ADB Financing: (\$ million)	ADF: 0120 (12.5) 0319 (20.0) 0393 (22.0)	Loan:		
		Subprogram 1 (0120)	12.5	12.5
		Subprogram 2 (0319)	20.0	20.0
		Subprogram 3 (0393)	22.0	22.0
		Borrower:	0.0	0.0
	OCR: 0.00	Beneficiaries:	0.0	0.0
		Others:	0.0	0.0
Cofinancier:		Total Cofinancing:	0.0	0.0
Approval Date:		Effectiveness Date:		
0120	3 Nov 2008	0120	24 Dec 2008	18 Dec 2008
0319	26 Nov 2012	0319	26 Dec 2012	5 Dec 2012
0393	19 Jun 2014	0393	17 Sep 2014	10 Jul 2014
Signing Date:		Closing Date:		
0120	24 Nov 2008	0120	31 Dec 2009	31 Dec 2009
0319	26 Nov 2012	0319	31 Dec 2012	31 Dec 2012
0393	19 Jun 2014	0393	31 Dec 2014	31 Dec 2014
Program Officers:	0120 S. Shrestha	Location: ADB headquarters	From Nov 2008	To Dec 2009
	0319 J.A. Tan III J.F. Conrad	ADB headquarters ADB headquarters	Dec 2010 Oct 2011	Oct 2011 Dec 2012
	0393 J. F. Conrad R. Barreto	ADB headquarters ADB headquarters	Feb 2013 Apr 2013	Apr 2013 Dec 2014
Initial Reviewers:	C. Dingcong, Consultant M. J. Dimayuga, Senior Evaluation Officer, IED1	Peer Reviewer:	A. Perdana, Evaluation Specialist, IED1	
Quality Reviewer:	F. Ahmed, Lead Evaluation Specialist, IED1	Director:	W. Kolkma, IED1	

ADB = Asian Development Bank; ADF = Asian Development Fund; IED1 = Independent Evaluation Department, Division 1; OCR = ordinary capital resources; PCR = project completion report, PSM = public sector management.

I. PROGRAM DESCRIPTION

A. Rationale

1. During 2003–2007, the growth of the Kyrgyz Republic was modest and volatile with gross domestic product (GDP) averaging 5%. Approximately 35% of the population lived below the poverty line. With a population of just over 5 million, the domestic market was very small and the potential for economies of scale in industrial production was limited. The country's geographic location and inadequate physical infrastructure constrained integration with the

global market. Gold and hydropower were the two major natural resources. However, gold reserves were being depleted,¹ and the potential for hydropower exports has not been fully tapped.

2. The long-term development of the Kyrgyz Republic depended on a more diversified economy and a more vibrant private sector. However, high costs of doing business, limited access to finance for capital investment, and infrastructure bottlenecks characterized by low private and public investment in infrastructure constrained the development of the private sector. To help the government meet this challenge, a comprehensive approach covering policy and institutional reform and capacity building was required.

3. The Investment Climate Improvement Program² was formulated to help create the conditions for sustainable economic growth and employment-generating investments. Three single-tranche subprograms comprised the program, which included policy reforms on business regulation, access to finance, enhancing workers' skills, and public-private partnerships (PPP). These reforms were expected to improve the business environment and investment climate. Subprogram 1 included a policy-based grant, a project grant supporting the development of information technology systems for effective implementation of reforms, and a technical assistance (TA) grant to help prepare subprogram 2.³ Subprogram 2 built on the achievements of subprogram 1, and consisted of a policy-based grant and a TA grant to support the implementation of subprogram 3.⁴ Subprogram 3 ended the program cluster by completing the key reforms needed to improve growth prospects and job opportunities.

B. Expected Impact

4. The expected impact of the program was sustainable economic growth and job creation. The indicators specified in the design and monitoring framework (DMF) were GDP growth and reduction in unemployment. Table 1 summarizes the targets of each indicator.

Table 1: Impact Indicators

Subprogram	GDP Growth Target	Unemployment Target
1	7% per annum on average during 2008–2013 from 5% during 2003–2007	5% in 2013 from 8% in 2007
2	5% per annum on average during 2013–2016 from 3.3% during 2005–2010	6% (both female and male) in 2016 from 8% in 2008 (9.4% female, 7.3% male)
3	5% per annum on average during 2014–2018 from 3.2% during 2008–2012	Below 7% (both female and male) in 2018 from 8.4% in 2012 (9.5% female; 7.7% male)

GDP = gross domestic product.

Source: ADB. 2015. *Completion Report: Investment Climate Improvement Program in the Kyrgyz Republic*. Manila.

¹ At that time of program formulation, gold reserves were assessed as being depleted with no significant discoveries yet made. The 2015 technical report of Centerra Gold Inc. indicated that while mining continues in the Kumtor Mine, proven and probable gold reserves have declined by 1.6 million ounces from 2013 to 2014.

² ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Grant for Subprogram 1, and Grant Assistance to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

³ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Policy-Based Grant for Subprogram 2 and Technical Assistance Grant to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

⁴ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant for Subprogram 3 to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

C. Objectives or Expected Outcome

5. The envisaged outcome of the program was improved investment climate and business environment. To measure the outcome, there were eight indicators, four of which were specific to subprogram 1:⁵ (i) gross fixed capital formation of the private sector to increase to 23% of GDP in 2015 (baseline at an average of 13.5% of GDP in 2003–2007 and 21.1% of GDP in 2007–2011); (ii) lending to the private sector increased to 15% of GDP in 2015 (2008–2011 baseline at an average of 12.5% of GDP); (iii) the number of female entrepreneurs increased to 75,000 (2011 baseline at 64,290); (iv) female enrollment in technology-based nontraditional vocational training programs increased by 20% in 2015 (2013 baseline at 124); (v) the size of the informal economy declines from 53% in 2007 to a maximum of 30% in 2012 (subprogram 1); (vi) time to register a business is reduced from 21 days in 2007 to 3 days in 2012 (subprogram 1); (vii) the number of pre-customs clearance documents reduced from 12 in 2007 to 1 in 2012, and clearance time reduced from 25 days in 2007 to 5 days in 2012 (subprogram 1); and (viii) the coverage of the Credit Information Bureau (CIB) increases from 1.6% of the population in 2007 to at least the regional average of 15.4% by 2012 (subprogram 1).

D. Outputs

6. The program envisaged four outputs: (i) reduced cost of regulatory compliance, (ii) improved access to finance, (iii) enhanced workers skills,⁶ and (iv) PPPs facilitated. Table 2 summarizes the expected outputs and their corresponding key policy actions.

Table 2: Outputs and Policy Actions

Output Indicators	Key Policy Actions		
	Subprogram 1	Subprogram 2	Subprogram 3
Output 1: Cost of regulatory compliance reduced			
Number of licenses and permits reduced from 347 to fewer than 200 by 2014.	Legal and institutional framework for one-stop business registration bureau adopted.	Piloting of one-stop shop completed. Registration requirements reduced.	Rollout of one-stop shop in all provinces completed. All dormant companies deregistered.
	Legal, regulatory, and institutional basis for regulatory impact assessment (RIA) for businesses established.	Implementation of RIA initiated. Licensing requirements reduced based on RIA and risk-based inspections institutionalized. Recourse mechanisms to deter violations of licensing and inspection rules strengthened.	Full review of RIA processes completed and necessary improvements made. Reduction of licensing requirements and simplification of the legal framework into a single law.
At least 5,000		Implement pilot	Options for electronic tax filing

⁵ Indicators 5–8 were specific to subprogram 1.

⁶ The original program design did not include reforms for enhancing workers' skills. These were introduced in subprograms 2 and 3 as workers' skills were identified as emerging binding constraints in the development of the private sector.

Output Indicators	Key Policy Actions		
	Subprogram 1	Subprogram 2	Subprogram 3
taxpayers (including at least 50% women) use electronic filing by December 2014 (baseline: zero usage before 2010)		initiatives to reduce tax compliance costs and informal payments to tax officials.	payments and the no-contact policy expanded to all regions.
Pre-customs clearance time for imports reduced from 25 days in 2009 to 10 days by 2014; and for exports, from 23 days in 2009 to 10 days by 2014	Institutional framework for pre-customs single window adopted.	Automation of pre-customs clearing developed.	Operation of pre-customs single-window system initiated.
Output 2: Access to finance improved			
Enforcement period for arbitral awards shortened to 6 months in 2014 (2010 baseline: 8 months)	Draft amendments to the Law on Pledges and other relevant legislation to introduce new procedures to improve extra-judicial enforcement of execution of pledges.	Steps taken to enable accelerated court enforcement of arbitral awards to reduce costs associated with lending and foreclosure.	Amendments to the Civil Procedures Code enacted to enable accelerated court enforcement of arbitral awards.
Number of financial leasing transactions increased to more than 400 in 2014 (2008–2012 baseline: average of 172 per year), of which 50% are for women	Submission to Parliament of amendments to the Tax Code to remove tax-related impediments to leasing development.	Amendments to the Tax Code enacted to remove tax-related impediments to leasing development.	
At least two financial institutions providing microfinance tailored to women's needs are able to collect deposits (by December 2014).	Legal framework for credit information system (CIS) initiated.	Appropriate legal, regulatory, and institutional framework for CIS identified. Necessary measures taken to increase the availability of financial services, particularly for women.	Effective credit information-sharing mechanisms established. Strengthen the National Bank of the Kyrgyz Republic's risk-based supervision of microfinance organizations.
Output 3: Workers' Skills Enhanced			
At least 5,000 students (of whom at least 50% are women) enroll in modern competency-based training (CBT) for 18 key		National Professional Skills Development Council established. Improved quality of and demand for technical and vocational education and training	Sector skills development councils established Introduction of a modern CBT for 18 occupations.

Output Indicators	Key Policy Actions		
	Subprogram 1	Subprogram 2	Subprogram 3
occupations by December 2014		(TVET) by piloting CBT, initiating the rollout of the CBT methodology, and adopting the technical qualification framework for 18 occupations.	
Output 4: Public-private partnerships facilitated			
Project development support facility approved by government by December 2014	Policy and institutional reform to PPP initiated. Risk management unit established.	Legal framework for PPP adopted. Institutional strengthening of PPP unit, risk management unit, and PPP focal points in sector ministries.	Pilot PPP projects prepared and contracts signed. Appropriate project development financing facility established.

Source: ADB. 2015. *Completion Report: Investment Climate Improvement Program in the Kyrgyz Republic*. Manila.

E. Provision of Inputs

7. The Asian Development Bank (ADB) provided a \$12.5 million program grant for subprogram 1 together with a \$2.9 million project grant, and a \$600,000 preparatory TA grant to prepare for subprogram 2. For subprogram 2, ADB provided a \$20.0 million program grant together with a \$700,000 TA grant to support the implementation of subprogram 3. For subprogram 3, ADB approved a program grant of \$22.0 million. The three single-tranche grants were disbursed after the effectiveness of each of the three subprograms.

8. The first TA was a project preparatory TA to support the design and implementation of subprogram 2.⁷ The second TA was a capacity-development TA to support the government in implementing policy actions under subprogram 3. The TA completion report assessed the second TA *successful* in that its contribution to the preparation of subprogram 3 was substantial and its achievements went beyond what it was originally designed to do.⁸ The TA activities and outputs were of good quality and were delivered on time. The government appreciated the TA and the advice provided by the international consultants.

F. Implementation Arrangements

9. The Ministry of Economy was the executing agency and was responsible for the overall program, including coordination with agencies responsible for implementing the policy actions. The implementing agencies were the Ministry of Economy, the Ministry of Justice, the State Customs Service, the State Tax Service, the National Bank of the Kyrgyz Republic (NBKR), the Agency for Vocational Educational, the Deposit Protection Agency, and the state enterprise Single Window Center on Foreign Trade. The envisaged high-level steering committee was not realized because the government preferred to use the established coordination mechanisms to discuss and monitor the implementation of specific policy actions.

⁷ Project preparatory TA projects do not require preparation of completion reports and, hence, are not rated.

⁸ There were additional activities that were not included in the envisaged design such as the financing of the 3-day tour by NBKR staff, the leasing workshops, and a policy paper on a deposit insurance scheme for microfinance organizations.

These mechanisms included the cabinet of ministers and the Macroeconomic and Investment Policy Coordination Council. The implementation arrangements were adequate in achieving the policy actions.

10. The implementation period was estimated to run from October 2007 to December 2011. However, the program was completed in December 2014. The implementation of the program took longer than expected mainly because of the 2010 revolution, resistance to reforms that needed extensive dialogue,⁹ and the technical challenges in implementing the PPP component. Implementation of policy actions during subprograms 1 and 3 was satisfactory. The implementation of subprogram 2 was affected by frequent changes in the cabinet and senior officials, except for key staff members of the Ministry of Economy who remained in place throughout program implementation. Nonetheless, the conditions for grant effectiveness of all subprograms were swiftly met.

11. The covenant on the submission of regular reports to the ADB program steering committee was not complied with. The government did not share progress reports regularly and the void was partially filled with information provided by the Ministry of Economy and the implementing agency at ADB's requests. The covenants that were not complied with or partially complied with in the three subprograms mainly related to the implementation arrangements. These included the program committee and working group that were not established because the government preferred to use its existing mechanisms to monitor implementation (para. 9).¹⁰

12. The cluster program had no impact on the environment or indigenous peoples, and did not entail any involuntary resettlement. It was classified as category C.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

13. The project completion report (PCR) rated the program *relevant*. The program was consistent with ADB's country partnership strategies for 2007–2010 and 2013–2017,¹¹ which supported economic growth and poverty reduction through private sector development. It was aligned with the government's National Sustainable Development Strategy for 2007–2010¹² and 2013–2017,¹³ which envisioned robust economic growth to attract investors.

14. The design of the program benefited from a comprehensive private sector study that covered the overall legal, regulatory, policy, and institutional aspects, as well as sector-specific constraints.¹⁴ The high costs of doing business, limited access to finance for capital investment, the lack of workers' skills, and infrastructure bottlenecks characterized by low private and public

⁹ Extended dialogue was needed regarding the implementation of the single window for foreign trade clearance, the elimination of unnecessary licenses, and the acceleration of court enforcement of arbitral awards.

¹⁰ The impact of partial or noncompliance with the covenants particularly for subprograms 2 and 3 were irrelevant because the grant agreement was signed after program implementation.

¹¹ ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila.

¹² The joint country support strategy was prepared by ADB together with the Department for International Development of the United Kingdom, Swiss Cooperation, United Nations agencies, and the World Bank Group.

¹³ National Council for Sustainable Development of the Kyrgyz Republic. 2013. *National Sustainable Development Strategy for the Kyrgyz Republic for the period 2013-2017*. Bishkek.

¹⁴ ADB. 2007. *Private Sector Development in the Kyrgyz Republic: Issues and Options*. Report prepared under Technical Assistance to the Kyrgyz Republic for Support to the Development and Implementation of the National Poverty Reduction Strategy II. Manila.

investment in infrastructure were adequately addressed in the design. The addition of policy reforms for enhancing workers' skills in subprograms 2 and 3 was appropriate in that the lack of skilled workers was emerging as a binding constraint to private sector development (report and recommendation of the President, Subprogram 2, para. 17). The program cluster design was appropriate in supporting the government's agenda as a foundation for sustained growth. The choice of budget support was timely given the fiscal pressures the country was facing during the 2007–2008 global financial crisis. The policy-based program, particularly the incentive provided by the budget support, helped the government implement policy reforms to improve the business environment and investment climate. Adequate measures were taken to mitigate risks and the delays caused by the 2010 revolution could not have been anticipated. This validation assesses the cluster program *relevant*.

B. Effectiveness in Achieving Program Outcomes and Outputs

15. The PCR rated the program *effective* in achieving the intended outcome. Financial intermediation expanded; credit to the private sector reached an all-time high of 16.3% of GDP, exceeding the target of 15.0%. In the same year, CIB's coverage increased to 32.1% of the adult population from 1.6% in 2007, exceeding the target of 15.4%. During 2008–2013, private investment (gross fixed capital formation) to GDP rose to an average of 21.1% from 13.5% in 2003–2007. With the increasing trend in investment and the improvements in the business environment achieved under the program, the private-investment-to-GDP target of 23% by 2015 will likely be met. The number of female entrepreneurs reached 87,125 in 2013, higher than the targeted 75,000 female entrepreneurs. The size of the informal economy declined from 53.0% in 2007 to 39.0% in 2011, which partly achieved the target of 30.0%. The targets, reduction in the number of pre-customs clearance documents from 12 to 1 and reduction in clearance time from 25 days to 5 days, were not met. In 2013, 9 documents for a typical export transaction were still required and 11 for an import transaction. Customs clearance and inspections for export transactions took 3 days while import transactions took 11 days.

16. The policy actions in all three subprograms were achieved. The actions taken for output 1 helped reduce the cost of doing business by cutting the regulatory burden on businesses. The new registration system has been implemented in one-stop shops in all seven regions and in the cities of Bishkek and Osh, reducing the time to register a business from 21 days to an average of 4 days. To simplify business licensing, requirements were reduced based on regulatory impact assessment results, and risk-based inspections were institutionalized. The Law on Licensing enacted on 19 October 2013 reduced the number of licenses and permits for 98 types of activities and consolidated them in a single law. The electronic tax filing and payment system was established and the no-contact policy expanded to all regions, easing the burden on declaring and paying taxes. The single window for pre-customs clearance of foreign trade (SWFT) started operations with a service center in Bishkek but not in other parts of the country.

17. The actions under output 2 achieved the envisaged improvement with respect to access to finance. The 2013 amendments to the Civil Procedures Code accelerating the state courts' enforcement of arbitral awards are expected to reduce the average court enforcement period from 16 to 8 months. This should reduce lending costs given that 75.0% of arbitration cases involve loan transactions. The leasing market has begun to benefit from the revisions of the tax code with the average volume of leasing transactions increasing from an average of \$2.3 million during 2008–2011 to \$10.0 million during 2012–2013. With regard to the number of financial leasing transactions, the output target of more than 400 was achieved with 632 leasing transactions recorded in 2013. The reforms to improve access to credit information increased the number of credit reports shared between credit institutions to an average of about 1.3 million

during 2012–2013, against an average of 371,000 during 2008 to 2011. To support prudent microfinance development, risk-based supervision of microfinance organizations and consumer protection were strengthened. The output target of at least two financial institutions providing microfinance tailored to women’s needs that are able to collect deposits, was achieved. The NBKR awarded a full banking license to a microfinance in 2012 and pre-approved another in 2014. These institutions provided microfinance services, including deposits, to women.

18. In output 3, the actions taken under the program strengthened the institutional framework for workforce skills and made it more demand-driven by establishing the National Professional Skills Development Council (NPSDC) and seven sector skill development councils.¹⁵ The Agency for Vocational Education adopted a qualification framework for technical and vocational education for 18 occupations. In 2013, more than 14,000 students in primary and vocational schools received competency-based training, exceeding the target of at least 5,000 students.

19. In output 4, the policy actions helped improve the enabling environment for PPPs and develop a PPP project pipeline. The PPP Law was enacted on 24 February 2012 and relevant laws and regulations were amended to align them with the new law. The government adopted a risk management policy, standard development and tender procedures for PPP projects, and established a risk management unit for PPPs. In March 2014, the envisaged Project Development Support Facility (PDSF) was established to finance the development of potential PPP projects. Under subprogram 3, 21 PPP project proposals were identified by three line agencies and the city of Bishkek.

20. The cluster program achieved the envisaged outcome of improved investment climate and business environment. Private investments and lending to the private sector have increased, and the coverage of the CIB was expanded. The number of women entrepreneurs increased during program implementation. The number of pre-customs clearance documents and documents for export and import transactions was reduced, although the targets were not met. The policy actions of the three subprograms were achieved. This validation assesses the cluster program *effective*.

C. Efficiency of Resource Use in Achieving Outcomes and Outputs

21. The PCR rated the program *efficient*. Implementation took longer than expected, mainly because of external and unforeseen factors (para. 10). Nonetheless, the policy actions were achieved despite the fiscal pressures and capacity constraints faced by the government. Business registration, licensing, tax filing, and payment were made more efficient, reducing the cost of business. The actions taken to improve access to finance, particularly the accelerated court enforcement of arbitral awards and reforms on access to credit information, should reduce lending costs. This validation assesses the program *efficient*.

D. Preliminary Assessment of Sustainability

22. The PCR rated the program *likely sustainable*. The policy actions have been set in place and the new institutions will continue to improve the investment climate and business environment. The government has committed to provide budget support to these new institutions, although the SWFT and the NPSDC would still require financing from development partners. The new Constitution, while not directly related to the program, has established new

¹⁵ The sectors covered were agriculture and agro-processing, construction, energy, mining, restaurants and hotels, textiles and garments, and tourism.

checks and balances in the political system, which will make it difficult to introduce harmful measures to businesses. Further, the number of business associations has risen significantly since 2008, indicating increased private sector participation in economic growth. This validation assesses the program *likely sustainable*.

E. Institutional Development

23. The PCR highlighted the institutional capacity built under the program. New agencies were established to improve the investment and business environment. New units were introduced at the Ministry of Economy to coordinate regulatory impact assessment, and at the Ministry of Finance to monitor and evaluate fiscal risks. Further, the PDSF, the NPSDC, and seven sector councils were established, and the SWFT was operationalized. The business processes of government agencies, such as that of the Ministry of Justice, the NBKR, the State Customs Service, and the State Tax Service, were streamlined. New laws were enacted and existing ones amended to create an enabling environment for businesses. These included the Law on Licensing, the Civil Procedures Code, and the PPP law. This validation assesses the institutional development of the program *significant*.

F. Impact

24. The PCR expressed the difficulty in assessing program impact, citing significant negative exogenous factors, particularly those caused by the global financial crisis and the 2010 Revolution during implementation. As gleaned from the country's performance during 2005–2013, economic growth was highly volatile and employment rate relatively constant.¹⁶ The average real GDP growth during 2008–2013 was 4.5%, less than the targeted 7.0% growth for the same period. In 2013, unemployment rate was 8.3% vis-à-vis the target of 5.0%. This validation assesses the program impact *moderate*. It should be noted, however, that sustaining growth and creating jobs take time and, impact therefore, should be judged over the longer term.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

25. The PCR rated the government's performance *satisfactory*. The conditions for grant effectiveness were promptly met. The policy actions were achieved even though there was natural resistance to change and need for extensive dialogue (footnote 9). Despite the frequent changes in the cabinet and senior officials, key staff at the Ministry of Economy remained in place throughout program implementation (para. 10). However, implementation could have been more effective had government staff been assigned to implement the program full time. The Ministry of Economy did not have funding to support full-time staff for the PPP program. Rotation of technical staff in ministries involved in PPPs was high. To address these issues, the government in September 2014 transferred the PPP promotion function to the newly established Investment Promotion Agency. Overall, this validation views the performance of the government *satisfactory*.

¹⁶ The figure in page 13 of the PCR shows the dynamics of GDP and employment during 2005–2013.

B. Performance of the Asian Development Bank

26. The PCR rated the performance of ADB *satisfactory*. ADB provided adequate support to the government in implementing the program. Review missions were regularly fielded during 2007–2014. No major disagreements occurred during implementation and ADB demonstrated flexibility in extending time lines and adjusting policy actions to achieve the intended outcome. This validation views the performance of ADB *satisfactory*.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

27. The PCR and this validation concurred on the ratings of the four criteria of relevance, effectiveness, efficiency, and sustainability. Both the PCR and this validation rated the program *successful* (Table 3). The program was *relevant* in that the policy actions appropriately addressed the constraints to improving the business environment. The choice of budget support was timely in view of the fiscal pressures on the government because of the global financial crisis. The program was *effective* in achieving the envisaged outcome of improved investment climate and business environment. The policy actions of the three subprograms were achieved and private investments increased. The program was *efficient*. The policy actions were achieved despite the fiscal pressures and capacity constraints on the government. Business processes were more efficient, reducing the cost of business. The program is *likely sustainable* on account of the policy actions that are in place, the new institutions established, and the new laws enacted and amended to improve business environment. Overall, this validation concludes that ADB interventions were timely and, based on evidence presented, contributed to achieving the outcome.

Table 3: Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance:	Relevant	Relevant	
Effectiveness in achieving outcome:	Effective	Effective	
Efficiency in achieving outcome and outputs:	Efficient	Efficient	
Preliminary assessment of sustainability:	Likely sustainable	Likely sustainable	
Overall assessment:	Successful	Successful	
Institutional development:	Not rated	Significant	Refer to para. 23.
Impact:	Not rated	Moderate	Refer to para. 24.
Borrower and executing agency:	Satisfactory	Satisfactory	
Performance of ADB:	Satisfactory	Satisfactory	
Quality of PCR:		Satisfactory	Refer to para. 32.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.

Source: ADB Independent Evaluation Department

B. Lessons

28. The lessons presented in the PCR and summarized in this validation are suitable. First, implementation of institutional reforms is more effective and efficient when there is a detailed

blueprint with measurable indicators, and implementation arrangements are in place. Second, to attract investments, Kyrgyz Republic firms should also strengthen their productive capabilities and improve their competitiveness. Third, the significant changes in the methodology of the 2015 *Doing Business* report have negatively affected the Kyrgyz Republic's overall position in the ranking, making it difficult to measure achievements against the program's initial target.¹⁷ However, this validation notes that the *Global Competitiveness Report* can provide a good alternative source of information on the country's overall competitiveness. And last, the PCR indicated that the report's usefulness lies more in monitoring the country's performance over time rather than measuring progress against other economies. This validation adds the lesson that extensive dialogue is needed, particularly for reforms that meet resistance, to facilitate better cooperation and implementation.

C. Recommendations for Follow-Up

29. The recommendations presented in the PCR are sound and appropriate. ADB and the government should continue monitoring and supporting the activities of the NPSDC and the seven sector councils. ADB should also continue monitoring the use of the PDSF. The fee structure charged by entities participating in the SWFT needs to be revised to reduce the burden to traders and enable them to make payments electronically. ADB should continue helping improve the business environment, including that of the informal sector. Further policy reforms should promote coordination within strategic value chains through greater use of domestic skilled labor and locally produced inputs. Policy actions that have already been implemented should not be included for monitoring in covenants of loan agreements.

30. ADB should continue exploring measures to increase synergies with other developing member countries in implementing policy-based loans. It should promote similar types of programmatic support in other developing member countries with similar circumstances and strong ownership of private sector development.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

31. The program design envisaged the formation of a program working group that would establish a performance monitoring and evaluation system. The envisaged program working group was not realized because the government preferred to use existing mechanisms to discuss and monitor the implementation of policy actions (paras. 9 and 11). The PCR did not discuss further how the established mechanisms worked and what specific tasks were undertaken.

B. Comments on Project Completion Report Quality

32. This validation rates the PCR quality *satisfactory*. The report was well written, clear, and concise. The ratings were adequately substantiated with evidence. The discussion on the program outputs was informative. However, it would have been better if the actual performance of output indicators as presented in the DMF was also discussed. Further, to the extent possible, the PCR would have benefited from more use of data and statistics in addition

¹⁷ The 2015 *Doing Business* report is not directly comparable with previous editions since the World Bank revised its methodology. These revisions have negatively affected the Kyrgyz Republic's ranking from 68th in the 2013 report to 102nd in the 2015 report.

to qualitative evidence. The lessons were drawn from the findings and the recommendations were sound. The presentation in Appendix 1 of the achievements based on the DMF could have been clearer had the targets and actual performance been presented by subprogram. The results of the policy actions presented in Appendix 2 were informative. The status of compliance with grant covenants shown in Appendix 3 was useful. Finally, a more comprehensive discussion about the role of other development partners would have been useful to indicate the consensus for the changes and to better delineate ADB's direct contribution to the outcome achievements.

C. Data Sources for Validation

33. This validation used the following sources: the PCR; the reports and recommendations of the President for subprogram 1, subprogram 2, and subprogram 3; and loan review mission reports on all subprograms.

D. Recommendation for Independent Evaluation Department Follow-Up

34. None.