ASIAN DEVELOPMENT BANK

PPA:KGZ 29149

PROGRAM PERFORMANCE AUDIT REPORT

ON THE

CORPORATE GOVERNANCE AND

ENTERPRISE REFORM PROGRAM
(Loan 1546-KGZ[SF])

IN THE

KYRGYZ REPUBLIC

December 2003

CURRENCY EQUIVALENTS

Currency Unit = som (Som)

		At Appraisal (April 1997)	At Project Completion (March 2000)	At Operations Evaluation (August 2003)
Som1.00	=	$0.056	$0.021	$0.023
$1.00	=	Som17.83	Som47.53	Som42.99

ABBREVIATIONS

ADB	–	Asian Development Bank
AGM	–	annual general meeting
CDC	–	Corporate Development Center
CGERP	–	Corporate Governance and Enterprise Reform Program
EA	–	executing agency
FDI	–	foreign direct investment
GDP	–	gross domestic product
IAS	–	International Accounting Standards
JSC	–	joint-stock company
KAS	–	Kyrgyz Accounting Standards
MCC	–	model company charter
MOF	–	Ministry of Finance
OEM	–	Operations Evaluation Mission
PCR	–	program completion report
PMO	–	Prime Minister's Office
PPAR	–	program performance audit report
RRP	–	report and recommendation of the President
SDR	–	special drawing rights
SME	–	small and medium enterprise
SOE	–	state-owned enterprise
SPF	–	State Property Fund
USAID	–	United States Agency for International Development
TA	–	technical assistance

NOTES

In this report, "$" refers to US dollars.

Operations Evaluation Department, PE-639

CONTENTS

BASIC DATA
Corporate Governance and Enterprise Reform (Loan 1546-KGZ[SF])

Program Preparation/Institution Building

TA No.	TA Name	Type	No. of Person-Months	Amount ($'000)	Approval Date
2712	Preparation and Implementation of Guidelines on Best Practice in Corporate Governance	SSTA	2.5	100	13 December 1996
1547	Capacity Building in Corporate Governance	TA Loan	243	4,000	25 September 1997
2876	Strengthening the Economic Policy-Making and Monitoring Capabilities of the Prime Minister's Office	ADTA	21	800	25 September 1997

Key Program Data ($ million)	**As per ADB Loan Documents**	**Actual**
Total Program Cost	40.00	38.99
ADB Loan Amount/Utilization	40.00	38.99

Key Dates	**Expected**	**Actual**
Fact-Finding		6–20 Nov 1996
Appraisal		14–30 April 1997
Loan Negotiations		29–31 Jul 1997
Board Approval		25 Sep 1997
Loan Agreement		8 Dec 1997
Loan Effectiveness	9 Dec 1997	9 Dec 1997
First Tranche Release		17 Dec 1997
Second Tranche Release	1 May 1999	1 Jul 1999
Program Completion	9 Dec 2000	9 Dec 2000
Loan Closing	31 Dec 1999	26 Nov 1999
Months (effectiveness to completion)	36	36

Borrower Kyrgyz Republic

Executing Agency Department of Economic Sector Development, Prime Minister's Office

Type of Mission	No. of Missions	No. of Person-Days
Reconnaissance	1	21
Fact-Finding	1	63
Appraisal	1	89
Program Review	3	40
Program Completion	1	4
Operations Evaluation[1]	1	74

ADB = Asian Development Bank, ADTA = advisory technical assistance, SSTA = small-scale technical assistance, TA = technical assistance.

[1] The Mission comprised R. Keith Leonard (senior evaluation specialist/mission leader), Shyamadas Banerji (corporate governance and enterprise reform specialist/international consultant), and Roman Mogilevsky (enterprise specialist/domestic consultant).

EXECUTIVE SUMMARY

The Kyrgyz Republic became independent in August 1991 following the breakup of the Soviet Union. This was accompanied by very severe economic and social shocks, including a decline in gross domestic product of around 50% between 1990 and 1995 and a decline in industrial output of almost 70%. Fiscal transfers from Moscow came to an abrupt end. Social shocks occurred as a result of the economic decline, including cessation of the certainty of lifetime employment, and the disruption of many basic social services that had been provided by enterprises. A major program of macroeconomic reforms and structural adjustment followed, including the privatization of many state-owned enterprises (SOEs). During a first phase of privatization (1991–1993), about 4,700 small SOEs in trade and services were fully privatized through cash and voucher auctions to managers and workers. In a second phase, in 1994–1995, about 1,500 medium and large SOEs were corporatized as joint-stock companies (JSCs).

Key constraints to efficient JSC performance included the following: (i) the practice of awarding minority but sizable blocks of shares to existing management and workers had led to insider control by management and workers who lacked the skills in market economy management and who blocked disclosure of information to outside investors, (ii) a system of subsidies to enterprises was undermining financial discipline and acted as a constraint to efficiency, (iii) market competition was too weak to promote efficiency, and (iv) the overall legal framework and national accounting regulations were still being developed and were not being enforced.

The Government asked the Asian Development Bank (ADB) to provide support aimed at improving the performance of JSCs and the four major monopoly SOEs (Kyrgyz Energo and the corporatized Kyrgyz Telecoms, Kyrgyz Airlines, and Kyrgyz Gasmunaizat). In response, ADB staff prepared the Corporate Governance and Enterprise Reform Program (CGERP). As part of the preparatory process, a small-scale technical assistance (TA) developed guidelines on best practice in corporate governance and a model company charter. Two loans (a program loan for $40 million and a TA loan for $4 million) were approved from the Asian Development Fund along with a TA to strengthen the economic policy capability of the Prime Minister's Office.

Both loans had a classification of economic growth. The purpose of the CGERP was to improve the efficiency and performance of the enterprise sector—in particular the JSCs, so they could become competitive in an economy following market principles. Achievement of the purpose was expected to contribute to the goal of a sustained higher rate of economic growth and maintenance of consumption levels.

To address the identified constraints, the CGERP had six components: (i) promoting enterprise efficiency through improved corporate governance; (ii) imposing financial discipline on enterprises through the phasing out of budgetary support and better debt recovery; (iii) promoting domestic and international competition to strengthen the environment for foreign direct investment; (iv) strengthening the legal framework and judicial capacity for insolvency to facilitate the liquidation of nonviable enterprises; (v) promoting transparency in financial accounting and reporting; and (vi) mitigating the transition and social adjustment costs of enterprise restructuring.

The Department of Economic Sector Development of the Prime Minister's Office was the Executing Agency for the CGERP. The TA loan supported the establishment of a Corporate Development Center with the mandate of assisting enterprises in corporate governance,

management, marketing, and finance. This was the first such entity created in a transition economy of Central Asia.

The program loan was disbursed in two equal tranches. Nineteen actions in the policy matrix were undertaken prior to approval. There were seven conditions for release of the second tranche and 16 monitorable actions, which were required to be carried out during the program period.

In terms of relevance, the CGERP was consistent with the Government's overall reform agenda. On the other hand, it did not have a strong fit with ADB's country strategy in force at the time of approval. The areas covered by the CGERP did not feature among the four areas of strategic focus of ADB's country strategy. This does not necessarily mean it had a low relevance, however, a convincing justification for such a departure from strategy should have been made (but was not). Viewed as of late 2003, such a departure is not considered justified.

From a technical perspective, the preparation of the CGERP was thorough and the Report and Recommendation of the President made a convincing case as to why reforms in the enterprise sector and in corporate governance were very much needed—a rationale that remains valid today. However, the potential negative impact of important contextual factors was not sufficiently taken into account in the design, particularly that of poor governance in the public and financial sectors. Also, the assumption that a proportion of JSCs could be the main basis for growth of the enterprise sector has yet to be demonstrated—in fact, many have proven to be nonviable in an economy based on market principles. Consequently, outcomes and impacts have been slower to materialize than expected. Based on the above, the CGERP is assessed as relevant.

In terms of its efficacy, the CGERP was successful, or relatively so, in producing the following outputs: (i) codification of best practice on corporate governance (encapsulated in the model company charter); (ii) promotion of best practice in corporate governance (very successful); and (iii) strengthening of the legal framework for insolvency including training of judges and prosecutors. It was moderately successful in imposing greater financial discipline on enterprises and in supporting the work of others over the adoption of Kyrgyz Accounting Standards. It was less successful in the areas of extending enterprise reform to the four major SOEs (including further divestment), developing and delivering a management training program, promoting domestic and international competition, and strengthening the environment for foreign direct investment and mitigating social adjustment costs including providing training to workers in insolvent enterprises (little adjustment took place).

While many of the outputs were produced (and progress continues to be made in this regard with support provided by a second loan for corporate governance and enterprise reform), there are many obstacles in the way of achieving the CGERP's purpose. Consequently, the level of outcome attainment to date is limited. Clearly, reforms in the areas covered take longer to realize than was first envisaged. Also, the country suffered a severe exogenous shock during the course of program implementation (the Russian financial crisis of 1998). However, while this shock had a significant impact on enterprise performance, it is unlikely that the CGERP would have been efficacious even without the shock. On balance, the CGERP is assessed as less efficacious.

The assessment of efficiency is based on considerations of value for money, use of counterpart funds in terms of meeting adjustment costs (their intended use), and efficiency of process. With respect to the last point, tranche release conditions were met in a timely fashion.

However, the level of policy dialogue was inadequate, particularly in light of frequent changes in government and key personnel during the program period. The proposed program steering committee never met and the nominated Executing Agency played little role for most of the program period. In other words, high-level engagement and oversight were mostly absent. Tangible benefits are yet to be substantially realized, so value for money is, at present, assessed as low. Efficiency in the use of counterpart funds is also assessed as low as these were not used to fund the costs of adjustment (as specified in the Report and Recommendation of the President). In light of these findings, the CGERP is assessed as less efficient.

Sustainability of the results of the CGERP has been positively influenced by the second loan. On the one hand, the legal framework continues to be strengthened. The financial discipline on SOEs is being maintained in terms of no further budget loans and ongoing attention to debt recovery, but other weaknesses in financial discipline undermine the value of the gains made. On the other hand, there is only slow progress in the area of foreign direct investment promotion and the liquidation of insolvent or nonviable JSCs. The future of the Corporate Development Center is yet to be resolved. Training in management has been institutionalized but this is not the case for judicial training. Further divestment of SOEs has advanced slowly, but is poised for much greater progress if the telecoms company undergoes a partial sale to a foreign buyer. Sustainability of the achievements to date is assessed as likely.

The institutional development and other impacts are assessed as moderate. The CGERP made a moderate contribution to capacity building. However, there is little evidence of impacts (positive or negative) on poverty, gender, or the environment.

In light of the above assessments, the CGERP is rated as partly successful.

Three interrelated issues can be identified based on the experience of the CGERP. First, was the sequencing for the CGERP right within the overall reform program? Second, was it appropriate for ADB to fund the CGERP, even though it did not feature in the country strategy and, related to this, under what conditions should significant departures from country strategy be permitted? Third, should lending be used to support reforms where the context is not favorable and the risks are high?

On the first question, it is judged that the CGERP was somewhat "ahead of its time" in terms of sequencing. It is very hard to achieve positive results from improved corporate governance in the face of widespread corruption and poor performance in the public and financial sectors. Regarding the second question, this evaluation does not consider that the decision to lend for corporate governance and enterprise reform was the right choice strategically. In general, if strategy is to have meaning in terms of guiding resource allocation, decisions departures from strategy should only be allowed in exceptional circumstances based on a strong justification. No such justification was provided and nor is one evident now. With respect to the third question, TA rather than lending may have been more appropriate given the risks involved and the high likelihood that outcomes would only be achieved in the medium term. As the pace of reform picks up and the context improves, policy-based lending may become more appropriate.

I. BACKGROUND

A. Purpose of the Report

1. This program performance audit report (PPAR) assesses the performance of a policy-based loan in support of a Corporate Governance and Enterprise Reform Program (CGERP) in the Kyrgyz Republic,[1] a technical assistance (TA) loan for capacity building in corporate governance and insolvency procedures,[2] and a TA grant for strengthening the economic policy-making and monitoring capabilities of the Prime Minister's Office (PMO).[3]

B. The Setting

2. The Kyrgyz Republic is a small landlocked and mountainous country of less than 5 million people. It is remote from major markets and generally reliant on shipment across neighboring countries, which causes problems. It is not endowed with a wide variety of natural resources, although it has abundant water for hydroelectric generation as well as significant gold resources, which currently provide the main source of export receipts. The Kyrgyz Republic became independent in August 1991 following the breakup of the Soviet Union. This was accompanied by very severe economic and social shocks including a decline in gross domestic product (GDP) of around 50% between 1990 and 1995 and a decline in industrial output of almost 70%.[4] Fiscal transfers from Moscow came to an abrupt end. Social shocks occurred as a result of the economic decline, including cessation of the certainty of lifetime employment, and the disruption of many basic social services that had been provided by enterprises.

3. A major program of macroeconomic reforms and structural adjustment followed, including the privatization of many state-owned enterprises (SOEs). During a first phase of privatization (1991–1993), about 4,700 small SOEs in trade and services were fully privatized through cash and voucher auctions to managers and workers. In a second phase, from 1994 to 1995, about 1,500 medium and large SOEs were corporatized (Appendix 1, Table A1.9) as joint-stock companies (JSCs).[5] Insiders represented by managers and workers held an average 30% of the shares. Weak oversight led to significant financial abuse by managers. Shareholders had virtually no awareness of their rights or capacity to oversee the boards of directors and management (often the same people served on both).[6] The basic elements of corporate governance were completely absent (paras. 4 and 5). Also, there was no concept of efficient or market-oriented production largely because the industrial base of the country had been determined by its role in the Soviet production system. With the collapse of this system, the rationale for the existence of most of these enterprises no longer existed.

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[1] ADB. 1997. *Report and Recommendation of the President to the Board of Directors on Proposed Loan and a Technical Assistance Grant to the Kyrgyz Republic for Corporate Governance and Enterprise Reform Program.* Manila (Loan 1546-KGZ[SF] approved on 25 September 1997, for $40 million).

[2] TA Loan 1547-KGZ(SF): *Capacity Building in Corporate Governance and Insolvency Procedures*, for $4 million (see footnote 1 for document reference).

[3] TA 2876-KGZ: *Strengthening the Economic Policy-Making and Monitoring Capabilities of the Prime Minister's Office*, for $800,000 (see footnote 1 for document reference).

[4] The Kyrgyz Republic's role in the Soviet production system was fairly narrowly based—textiles, clothing, and leather goods accounted for 27% of industrial output; industrial engineering 25%; food processing 24%; electricity 4%; mining 4%; and others 16%.

[5] A JSC is a legal entity that runs a business to make a profit by raising funds through issuing shares. In a closed JSC, the shares circulate exclusively among participants or the members of another predetermined circle of persons. The number of shareholders in a closed JSC may not exceed 50. Shareholders in an open JSC may sell the shares belonging to them without the consent of other shareholders.

[6] In common with most transition economies in Central Asia, the Kyrgyz Republic adopted a dual-board system typical of the German system, with a supervisory board (of shareholders and others) and a management board.

C. Rationale

4. Clearly, there was an urgent need to reverse the substantial decline in economic activity. Stimulating enterprise activity was seen as an essential means to this end.[7] The Report and Recommendation of the President (RRP) identified a set of external and internal incentives (or constraints in their absence) to enterprise performance (footnote 1). It was recognized that the interplay of these external and internal factors—being corporate governance *broadly defined*—held the key to improving enterprise performance. The external incentives were identified as both economic (competition, desire to avoid bankruptcy, financial market discipline, and labor market competition) and legal (laws, regulations, and the judicial system). Specific external constraints to enterprise performance in the Kyrgyz Republic were identified as (i) the lack of financial discipline caused by subsidies and budget loans provided by the Government; (ii) a lack of competitive markets; (iii) inadequate legal framework governing insolvency; (iv) poor access to finance, skills, and technology; and (v) a lack of accounting standards.

5. Internal factors—corporate governance *narrowly defined*—were seen as those that allowed owners to govern how an enterprise is managed or operated in their best interests. The minimum set of factors was seen as comprising (i) effective monitoring by shareholders of management and enterprise performance through regular reporting and audit based on International Accounting Standards (IAS); (ii) a system of rewards and penalties to align managers' and owners' interests; and (iii) a clear and enforceable system of decision making including annual meetings and a clear definition of the rights and responsibilities of managers, owners, and stockholders.

6. The main internal and external constraints to effective corporate governance (and thereby enterprise performance) were identified as: (i) the voucher process of privatization had led to a system of widely dispersed small shareholders who were unable to monitor the performance of firms or influence their governance, (ii) the practice of awarding minority but sizable blocks of shares to existing management and workers had led to insider control by management and workers who lacked the skills in modern management and who blocked disclosure of information to outside investors, (iii) a system of subsidies to enterprises was undermining financial discipline and acted as a constraint to efficiency, (iv) market competition was too weak to promote efficiency, (v) the financial market was underdeveloped and there was a severe capital shortage, and (vi) the overall legal framework and national accounting regulations were still being developed and were not being enforced.

7. In light of this situation, the Kyrgyz Republic sought Asian Development Bank (ADB) support for policy reforms for improved corporate governance. In response, the CGERP loans and TA grant were approved. Although all enterprises were nominally targeted, the emphasis was very much on the JSCs and within these, the four major monopoly SOEs (Kyrgyz Energo and the corporatized Kyrgyz Telecoms, Kyrgyz Airlines, and Kyrgyz Gasmunaizat) and open JSCs (footnote 5), in view of their importance to employment and total productive sector assets. Collectively, these JSCs and SOEs from the Soviet era are known as the legacy enterprises.

D. Formulation

8. ADB staff prepared the CGERP without a preparatory TA although a small-scale TA was approved to develop guidelines on best practice in corporate governance and a corporate

[7] Enterprises were defined as "all enterprises, public or private, regardless of size, that offer services that would be provided by a commercially oriented corporate sector in a market economy."

governance handbook, including a model company charter (MCC).[8] A reconnaissance mission was carried out in October 1996, a fact-finding mission in November 1996, and an appraisal mission in April 1997—the latter two missions assisted by staff consultants drawn from the small-scale TA. This approach was an efficient and economical means of developing the CGERP.

E. Objectives and Scope

9. Both loans had a classification of economic growth. A program framework was included in the RRP. This framework and the main text of the RRP indicate that the objective (purpose) of the CGERP was to improve the efficiency and performance of the enterprise sector—in particular the JSCs—so this sector could become viable in an economy based on market principles. Achievement of the purpose was expected to contribute to the goal of a sustained higher rate of economic growth and maintenance of consumption levels.

10. The CGERP had six components: (i) promoting enterprise efficiency through improved corporate governance by (a) extending enterprise reforms to sectors dominated by government ownership (energy, gas, telecoms, and airlines); (b) requiring further divestment of these monopoly SOEs; (c) development, promotion, and provision of management training in best practice for corporate governance; and (d) development and implementation of legal instruments for improved corporate governance; (ii) imposing financial discipline on enterprises through the phasing out of budgetary support and better debt recovery; (iii) promoting domestic and international competition to strengthen the environment for foreign direct investment (FDI), including enactment of a new FDI law and creation of an agency to promote FDI; (iv) strengthening the legal framework and enforcing insolvency proceedings on bankrupt enterprises to facilitate their liquidation, including passage of a new bankruptcy law and strengthening of the *Arbitrazh* (commercial) court system;[9] (v) promotion of transparency in financial accounting and reporting; and (vi) mitigating the transition and social adjustment costs of enterprise restructuring.

F. Financing Arrangements

11. The program loan (Loan 1546) was disbursed in two equal tranches. Nineteen actions in the policy matrix were undertaken prior to approval. There were seven conditions for release of the second tranche and 16 monitorable actions (Appendix 2). The second tranche was slightly delayed (by 2 months) but the loan closed about 1 month ahead of schedule. The local currency proceeds were expected to provide budgetary support for meeting the costs of adjustment including a contribution at least $6.5 million to the Employment Fund (for payment of unemployment benefit and retraining [RRP, para. 115]).

G. Implementation Arrangements

12. The Department of Economic Sector Development of the PMO was the Executing Agency (EA) for the CGERP. The TA loan supported the establishment of a Corporate Development Center (CDC) in the Department, with the mandate of assisting enterprises in corporate governance, management, marketing, and finance. This was the first of its kind in a

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[8] ADB. 1996. *Technical Assistance to the Kyrgyz Republic for the Preparation and Implementation of Guidelines on Best Practice in Corporate Governance*. Manila (TA 2712-KGZ, approved on 13 December 1996, for $100,000).

[9] *Arbitrazh* courts were not bodies to facilitate arbitration. Rather, they were courts of law that had the responsibility for hearing cases involving legal entities such as JSCs, as opposed to individuals. Recently, the Arbitrazh and Supreme Courts have been merged.

transition economy in Central Asia. The TA loan (Loan 1547) is not yet closed having been extended to provide support to a second loan in support of corporate governance and enterprise reform.[10] The Ministry of Finance (MOF) administered the program loan proceeds, while CDC administered the TA loan. CDC coordinated the CGERP, in close cooperation with MOF, Ministry of Justice, State Property Fund (SPF), National Securities Commission, National Bank of the Kyrgyz Republic, and the *Arbitrazh* Court. A steering committee chaired by the Prime Minister, with representatives from these ministries and agencies, was envisaged to monitor progress on a quarterly basis but it apparently never met during the CGERP, although it reportedly became active during CGERP II.

H. Program Completion Report

13. A program completion report (PCR) for the program loan was circulated to the Board in December 2000.[11] The PCR rated the Program as generally successful.[12] The PCR noted that the immediate contribution of the CGERP on the fiscal side was to lower the level of new budget loans from around Som320 million in 1997 to zero in 2000. While the loan proceeds had been used for budget support (partially to help recover from the Russian financial crisis), the PCR expected that the CGERP would yield substantial economic benefits in the medium to long term from improved enterprise profits and investment. Overall, the PCR listed the main successes of the CGERP as (i) the development of a sound policy, legal, and regulatory framework for corporate governance and insolvency; (ii) improved capacity for good governance in enterprises and among members of the judiciary; (iii) an effective public information campaign; (iv) reduced dependency on budget loans; and (v) improved financial governance standards.

14. The PCR judged that the CGERP had been successful in meeting its stated objective of improving the performance and efficiency of the enterprise sector on the basis of its achievements in fulfilling the policy actions in the policy matrix. However, it recognized that a number of major problems had to be overcome before the CGERP could deliver its expected benefits. These included (i) the need for a vibrant real sector—this would require a concerted privatization and enterprise restructuring program; (ii) good financial sector governance, which it saw as fundamental to good corporate governance; (iii) overcoming the weakness of the judiciary as an institution; and (iv) the impossibility of good corporate governance reforms holding ground in the face of weak public sector governance.

15. In light of the lessons from the CGERP, the PCR proposed that reforms needed to be carried out in a sequenced manner, such that the preconditions for successful corporate governance reforms would be carried out first. It proposed the following sequence: (i) public sector management and civil service reforms, (ii) legal and regulatory reforms focusing on the

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[10] ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Second Phase of the Corporate Governance and Enterprise Reform Program*. Manila (Loan 1860-KGZ[SF], approved on 22 November 2001, for $35 million). The purpose of CGERP II was to produce enhanced investor confidence and improved efficiency of enterprises through strengthened corporate, financial, and judicial governance. To achieve this purpose, CGERP II aimed to (i) promote, strengthen, and implement good corporate governance through development of a policy, institutional, legal, and regulatory framework; (ii) introduce international accounting, auditing, and valuation standards; (iii) strengthen governance of commercial banks and the legal framework to protect creditors' rights; (iv) launch legal and judicial reforms to introduce arbitration as a mechanism for resolving commercial disputes, and streamline judicial processes and procedures; and (v) facilitate expedient resolution of weak enterprises.

[11] ADB. 2000. *Program Completion Report on the Corporate Governance and Enterprise Reform Program to the Kyrgyz Republic*. Manila (Loan 1546-KGZ[SF]).

[12] Based on ADB's previous three-category performance rating system of generally successful, partly successful, and unsuccessful.

judicial environment, (iii) strengthening of financial sector governance, (iv) development of alternatives to bank financing, (v) real sector reforms, and (vi) institutional capacity building for corporate governance. The implicit conclusion from this PCR lesson is that the CGERP was “ahead of its time” in terms of sequencing. Finally, the PCR concluded that it is important to have realistic expectations of what can be achieved when designing projects in corporate governance and enterprise restructuring.

I. Operations Evaluation

16. An Operations Evaluation Mission (OEM) visited the Kyrgyz Republic from 5 to 18 August 2003 to gather information for the PPAR. The OEM held discussions with staff of the EA and other concerned agencies of government and people in the enterprise sector, including those in the four major SOEs and the private sector. All available secondary data were collected (Appendix 1 contains a sample of this). Conclusions were developed on the basis of the evidence available. These were tested through a survey of 10 JSCs (with the chief operating officer in each case) and a review of information provided by the entities (supplemented in a few cases by information from other sources).[13] In deriving a performance rating, standard criteria and weights for the evaluation of project loans were used.[14]

II. IMPLEMENTATION PERFORMANCE

A. Effectiveness of Design

1. Consistency with Government and Asian Development Bank Strategy

17. The CGERP was consistent with the Government’s broad policy agenda of moving rapidly toward an economy based on market principles. The Government’s commitment to the specific reforms was contained in the policy letter that formed part of the RRP. At the time of the CGERP formulation, there were some influential “champions of reform” in the PMO. The Prime Minister himself became persuaded that such reforms were necessary. However, this high-level support and the influence of the PMO was disrupted with the resignation of the Prime Minister in March 1998 (4 months after loan effectiveness), the dismissal of the full Government (including the successor Prime Minister) in December 1998 following the severe impact of the Russian financial crisis of that year, and the death of the replacement Prime Minister in early 1999 (he was already a sick man on his appointment). Not surprisingly, these changes of government and Prime Minister, and the transfer of key staff, saw the influence of the PMO weaken. The role of the Department of Economic Sector Development as the EA effectively ceased early into the CGERP implementation and the CDC largely took over this role. The changes of government should have prompted special reviews and policy dialogue to ensure that the CGERP remained relevant to the policy agenda but this does not appear to have happened.

18. Assistance in the area covered by the CGERP did not feature in ADB’s country operational strategy in effect at the time of program formulation.[15] This recommended that ADB

[13] This survey does not claim to be representative of JSCs. Its purpose was to identify any significant deviation from the conclusions drawn from secondary data and interviews. None was found.

[14] Relevance (20%), efficacy (25%), efficiency (20%), sustainability (20%), and institutional development and other impacts (15%).

[15] ADB. 1996. *Kyrgyz Republic: Country Operational Strategy*. Manila.

direct its resources to a limited number of strategic areas.[16] That the CGERP did not feature in the country strategy does not mean that it was not relevant. Some flexibility must remain in strategy to adjust to emerging events—this is probably particularly important in a transition economy. Nonetheless, this lack of alignment with formal strategy prompted the OEM to seek a convincing justification from a strategic point of view for engagement in the area of enterprise reform and corporate governance. Such a justification was not provided at the time of approval, nor have subsequent events provided a strong justification. That the Government asked for ADB's involvement or that there was a clearly identified need for such reforms do not seem to be sufficient reason for departing from the stated strategy.

2. Adequacy of Program Preparation

19. ADB staff prepared the CGERP supported by staff consultants drawn from the small-scale TA (para. 8). This was a cost-efficient approach. Development of the manual on best practice in corporate governance and the MCC as part of the preparation process was a useful exercise in "action learning." Perhaps insufficient attention was paid to lessons learned from other experience—particularly from the experience of the World Bank's Public Enterprise Structural Adjustment Credit and of the United States Agency for International Development (USAID) in accounting and legal reform, although to be fair, such lessons may not have been particularly evident at the time of preparation. While political economy risks were identified, mitigation measures do not appear to have been adequately developed (para. 23). In other words, the potential for opposition to the reforms, the impacts of poor governance in the public sector, and poor performance of the financial sector may have been underestimated.

3. Coherence, Logic, Focus, and Sufficiency of the Program

20. The analysis of constraints and issues upon which the CGERP was based was comprehensive (RRP, paras. 29–54). Given this, the CGERP had a plausible cause and effect logic underpinning it (see also para. 22). While a holistic problem-tree analysis is absolutely essential for the design of a policy-based loan, the challenge is to develop a focused program that is capable of producing results as part of a prioritized and therefore properly sequenced series of reforms. While the five technical components of the CGERP (excluding the social impact mitigation component) could individually or collectively have contributed to improved enterprise performance (had assumptions held true and risks been avoided or successfully mitigated), they were perhaps too disparate to form a sufficiently focused program. In other words, in common with many policy-based loans, there was a tendency to go for a series of reforms across a broad front rather than for greater depth in fewer areas. There are advantages and disadvantages in both approaches. The broad approach recognizes that there are a number of interlinked necessary conditions that must be met for broad objectives to be met, whereas the focused approach aims to achieve results on a more limited front through ensuring that conditions are both necessary and sufficient.

21. The number of conditions was quite manageable and the number of second tranche release conditions commendably few in number (seven). On the other hand, some of the latter were not particularly challenging, though such measures were an important part of the reform program.[17] While the CGERP contained necessary and important reforms, the conclusion is that

[16] The strategic areas were (i) improvements in the provision of public services, including the provision of social services by local governments; (ii) agriculture, including rural finance; (iii) human resource development, especially education; and (iv) infrastructure, especially rehabilitation projects in the energy and road sectors.

[17] In particular, the second tranche release conditions of completion of (i) the public education and information campaign, (ii) the management development training program, and (iii) the judicial training program.

it was not sufficiently focused; that is, it may have lacked the depth required to produce tangible results in any one of its component areas because it had only a few conditions in each of them. This is no doubt a reason why CGERP II was considered necessary.

4. Identification of Assumptions and Risks

22. The CGERP reforms mainly targeted open JSCs and within these, the four monopoly SOEs. This was understandable given that these represented a very visible unresolved problem of significant social and economic consequence. The CGERP assumed that a proportion of the JSCs were potentially viable which, with improved corporate governance, could be helped to overcome their poor performance. The CGERP also clearly recognized that there were nonviable JSCs that needed to be liquidated so that their resources could be released for more productive purposes. Hence, the logical twin-track strategy of improved corporate governance and accounting standards for potentially viable JSCs, and improved institutional arrangements for insolvency (law and judicial process) for nonviable JSCs. The implicit assumption was that a significant number of JSCs fell into each group. It now appears that the great majority of the legacy enterprises are nonviable in an economy that follows market principles. Obviously, for this majority group, improved corporate governance would not solve their problems.

23. The major risk identified in the RRP was that "some groups may seek to undermine the content and timing of the reforms if they see themselves adversely affected" (RRP, para. 127). While workers of enterprises to be liquidated were one identified group of potential reform opponents, the RRP noted, "other [unspecified] groups that will have their powers reduced or subject to greater accountability could resist the implementation of the Program." As a mitigating response to this risk, the RRP suggested, "the risk of opposition to reforms will be mitigated by the Government's strong commitment to the Program, and activities under the loan will facilitate the understanding and cooperation of other stakeholders" (RRP, para. 128). In the event, there was strong opposition to various reform elements (notably to bankruptcy as a solution to insolvency and nonviability) in Parliament and in important parts of the bureaucracy in charge of implementing the reforms (notably SPF). The proposed mitigation measures (the Government's strong commitment) did not prove sufficient to overcome the resistance to change. Perhaps there was also an underappreciation of the likely impact of systemic issues such as corruption, poor public sector governance, and the poorly performing financial sector. This may have contributed to an overoptimistic view of what could be achieved. It also raises the question as to whether the timing of the CGERP within an overall reform program was right, an implicit question raised by the PCR (para. 15) and further discussed below (para. 80).

B. Policy Reform Measures[18]

1. Improved Corporate Governance

24. There were 16 actions (and 6 subactions) under this component. These actions were grouped in five areas: (i) extension of enterprise reform to the four monopoly SOEs (energy, gas, telecoms, and airlines); (ii) codification of best practice on corporate governance (in particular, the MCC); (iii) implementation of guidelines on corporate governance in the four major SOEs; (iv) enforcement of implementation of best practice in corporate governance in other JSCs; and (v) promotion of corporate governance principles to shareholders. Completion of a training program in management was a second tranche release condition.

[18] Appendix 2 provides details of second tranche release and other monitorable conditions, and an assessment of their status at PCR and OEM.

25. **Extending Enterprise Reforms to the Four Major SOEs**. The three actions in this area were all to be completed as a condition of loan approval. While the OEM can confirm that all were indeed carried out, the partial privatization of the four monopoly SOEs was only achieved to a limited extent. From 4% to 5% of the shares in each were sold to individuals in exchange for coupons, while employees and managers were given from 4% to 5% of shares free. The Social Fund was given 8% to 12% while the SPF retained the balance (78% to 84%). The hope was that the use of the privatization coupons would be channeled through investment funds, which could have played a stronger role in corporate governance in the enterprises concerned. There is no available evidence to show that this occurred. Enterprise reform continues in the major SOEs with assistance provided by other funding agencies.

26. **Codification of Best Practice in Corporate Governance**. Again, the four measures in this area were conditions for approval. The OEM confirms that all were carried out (using small-scale TA, footnote 8). The centerpiece was the drafting and adoption of the MCC. This and the corporate governance handbook provided the framework for the design of charters for individual companies covering such areas as functions and powers of the board of directors, selection of board members and management, details of board functions and procedures, accounting and financial disclosure, audit, bankruptcy and liquidation, shareholder rights and responsibilities, and procedures for annual general meetings (AGMs). Subsequently, this work and further input from CDC contributed to legislation on JSCs (Appendix 3 contains a chronology of key reform initiatives).

27. The MCC and handbook on corporate governance provided the basis for widespread adoption by JSCs of a charter embodying good governance principles. This is an important first step. However, as yet, this has not generally led to markedly changed behavior by managers of JSCs or stronger oversight of performance by supervisory boards and AGMs (see para. 29), although progress continues to be made.

28. **Adoption of Improved Corporate Governance by the Enterprise Sector**. Measures in this area were divided into two groups—improved corporate governance by the four major SOEs and enforcement of implementation among other JSCs. An AGM of each of the four SOEs approved a company charter based on the MCC. In all cases, these provided for separate boards of directors and management with no managers on the supervisory board. Beyond this, performance was mixed. For example, the adopted charters did not limit the number of government officials on supervisory boards, although moves to achieve this are to be implemented shortly. Also, the envisaged competitive recruitment of management board members or provision for representation of minority shareholders or consumers on supervisory boards is yet to take place (Appendix 4). The second area contained four subactions designed "to enforce corporate governance on all JSCs with more than 50 shareholders." The PCR reported that around 95% of the JSCs that were registered with the National Securities Commission had adopted the MCC and related corporate governance arrangements. The OEM was unable to confirm this, although it was probably correct in a formal sense.

29. Adoption of the MCC appears to have produced little change from the point of view of most managers or minority shareholders. For those enterprises where the Government retains a substantial or majority share, it was largely "business as usual." For those enterprises without a state shareholding, the board of directors appears to add little value in most cases. On the positive side, the conduct of AGMs is more prevalent and financial accounts are published in some cases. Of course, it is unrealistic to expect these measures by themselves to impact directly on enterprise performance. Nonetheless, changes in management behavior—as a result

of a clearer allocation of roles and responsibilities, and improved oversight and accountability—are a necessary precursor to enterprise performance improvements for viable enterprises.

30. **Promotion of Corporate Governance**. There were five actions in this area, including the establishment of the CDC, implementation of a public awareness program, and the development and delivery of a training program on corporate governance. The CDC is widely perceived as being successful in carrying out its role. The CDC was staffed by a mix of seconded staff and CDC experts (local consultants). The use of seconded staff was a good idea and generally they made valuable inputs, particularly in terms of development of legislation on JSCs and bankruptcy. International consultants provided under the TA loan (footnote 2) supported CDC operation. There was a delay of 9 months in the fielding of these consultants due to the time taken over recruitment. This caused some problem of integration with the work of local experts and seconded staff (which already had a dynamic of its own). The CDC was effective in its role of promoting the principles of good corporate governance, among enterprises, within government, and more widely in the community at large. This was undoubtedly one of the main successes of the CGERP, and represents no small achievement given the very low level of awareness about these issues and their relevance at the start of the program.

31. While the public awareness program was very successful, the management training on corporate governance was less so. Training programs were prepared and delivered to 1,500 participants. However, the international consultants did not have enough time to develop training programs customized to the needs of Kyrgyz enterprises. Also, the training was of short duration and probably insufficient to bring about any enhancement of competency. Many of the participants in the training were students or government officials, while enterprise participants appear to have been drawn from a limited number of entities. Given its nature, it would be unrealistic to expect the training to impact on managers' performance. Rather, it should be seen as a useful adjunct to the public awareness program. On the other hand, training in the principles of corporate governance has become institutionalized in several local training providers. This is a positive outcome.

2. Imposition of Financial Discipline on Enterprises

32. The main aim of the six conditions in this area was to phase out budgetary loans to enterprises, thereby forcing them to be more financially self-sustaining. A reduction of 50% in the annual amount of new budget loans to not more than Som160 million was a second tranche release condition.

33. The PCR reported that budget loans were reduced during the CGERP and then eliminated by 2000. Data show only minor new budget loans to enterprises in 2001 and 2002 (Appendix 1, Table A1.8). MOF is actively pursuing collection of outstanding loans and seeking to bankrupt insolvent borrowers, although strong opposition to bankruptcy as a solution to insolvency in other parts of the Government hampers progress. (Appendix 1, Table A1.11 provides time series data on the number of bankruptcy cases being pursued and resolved). Outstanding budgetary loans to enterprises totaled Som12 billion (around $285 million or 15% of GDP) as of mid-2003. The cessation of new budgetary loans (largely) and the active pursuit of repayment is a positive outcome of the CGERP.

34. However, in terms of achieving the objective of improved financial discipline on enterprises, the good work in eliminating budget loans has been undone to some extent by loose financial discipline in other areas. For example, the Government restructured a significant

amount of enterprise loans in arrears during 1998–2000 to avoid bankruptcies. These restructured loans were not reflected as new budgetary loans. Given this, it is unclear if the intent of the second tranche release condition was met. Also, the Government provided guarantees to SOEs that borrowed from financial institutions overseas, thereby creating off-budget contingent liabilities. These contingent liabilities are estimated at $50 million in 1999.[19] The Government also continued to subsidize some public enterprises, particularly utilities.[20] Further, since most JSCs in which the Government maintained a shareholding incurred substantial losses, the Government bore its share of these losses. Inter-enterprise arrears, barter transactions, and tax and Social Fund arrears further diluted financial discipline.

3. Promotion of Domestic and International Competition

35. There were six actions under this component—two as conditions for approval (liberalization of prices and removal of trade barriers), two requiring no changes to existing policies (no imposition of new quantitative restrictions and no new tariffs), and two conditions for reform measures (amendments to the Law on Foreign Investments and the establishment of a one-stop shop for the promotion of FDI).

36. With the adoption of a low and simplified tariff regime and abolition of quantitative restrictions, the Kyrgyz Republic has a liberal trade regime although the flat tariff of 10% used until 1998 was replaced in 1999 by a set of tariffs ranging from 0% to 50% (the top rate was decreased to 15% in 2003). The Kyrgyz Republic is the only Central Asian member of the World Trade Organization. Notwithstanding its progressive trade regime, the internal investment climate is riddled with administrative barriers, complex approval procedures, nontransparent taxation, and cumbersome inspection procedures, all of which are major impediments to enterprise efficiency and growth.[21] The environment for FDI is poor and foreign investors are highly critical of rules and procedures. The proposal to establish a one-stop shop to assist investors is still to be implemented.

4. Strengthening the Legal Framework for Insolvency

37. There were six actions under this component, including a second tranche condition (completion of the judicial training program). Other conditions were to enact a new law on insolvency and finalize general instructions for implementation of the law, nominate judges and fill two thirds of the vacancies for judges in the *Arbitrazh* Court, and develop and deliver a training program for the implementation of insolvency.

38. An amendment to the Bankruptcy Law was enacted as envisaged. Vacancies to the *Arbitrazh* Court have been filled and training in the procedures in insolvency was developed and delivered. Although the quality of the training delivered under this component appears to have

[19] These are real liabilities as illustrated by the failure of JSC Oremi to repay a loan from the Islamic Development Bank where the Government, as guarantor, had to repay the loan.

[20] Subsidies increased from Som153 million (0.5% of GDP) in 1997 to Som323 million (0.7% of GDP) in 1999, reaching Som737 million (1% of GDP) in 2002 (Appendix 1, Table A1.11).

[21] In 2002, the Center for Public Opinion Studies and Forecasts conducted a survey of about 3,200 enterprises—almost 75% of all respondents identified corruption in government agencies and the judiciary, unpredictability of laws, high taxes and levies, excessive inspections and permit requirements as the main problem areas impeding efficient functioning of business. A recently concluded survey by the United Nations Industrial Development Organization (August 2003) came to the conclusion that investors are very negative about the existing market and the investment climate in the Kyrgyz Republic. More than 80% of companies surveyed feel that Kyrgyz laws do not help attract FDI and 90% complained about too much state regulation and control.

been superior to the management training program, it was still of short duration.[22] Also, unlike the situation with the management training, it appears that no capacity was developed to ensure that training could be provided to new judges and prosecutors (and others who need this knowledge). Most agree that many other impediments remain to the efficient and impartial application of commercial law. Nonetheless, the training provided under this component was a success.

39. According to information from the SPF, the number of bankruptcy processes completed (Appendix 1, Tables A1.11 and A1.13) rose from 2 in 1997 to 73 in 2000 and further to 119 in 2002. Unfortunately, there is no information on the size of the enterprises where the bankruptcy process was completed but anecdotal evidence suggests mainly smaller enterprises. In light of this, one may conclude that progress toward bankruptcy of the target enterprises may have been modest.

40. Notwithstanding a rising trend in the number of bankruptcies settled, there is yet little evidence of significant improvements in the quality of justice, and transparency and efficiency of the judicial system. There is general agreement among private citizens, business executives, and government officials of widespread corruption in the judicial system, which prevents quick and equitable resolution of commercial disputes (footnote 21). The problem has been described as systemic and integral to institutional culture. Addressing this reality will require a major culture change.

5. Promotion of Transparency in Financial Reporting

41. There were four conditions under this component, including two conditions for loan approval and a second tranche release condition (that at least 80 enterprises adopt Kyrgyz Accounting Standards [KAS], based on IAS). Other conditions were to create a specialist unit for accounting standards in MOF, adopt KAS, and implement a program to assist 300 enterprises to adopt these standards. These conditions supported the work of USAID, which appreciated the support provided by the loan conditions.

42. The OEM could not verify if 80 JSC were assisted in adopting KAS. According to the State Commission on Standards in Financial Accounting and Audit (which replaced the specialist unit envisaged for MOF, thereby fulfilling this condition), only about 3% of JSCs (around 45) were following KAS by 2000. These conditions have now been superseded by the drive to ensure that the enterprise sector adopts full IAS in a phased program. Progress is being made in this area and the support provided by the CGERP was helpful.

6. Mitigation of the Social Costs of Adjustment

43. There were five actions (one with two subactions) in this component. One condition required the Government to allocate Som70 million (around $4 million) to the Employment Fund (Som30 million for training and Som40 million for unemployment benefits) with a further Som20 million to be transferred in each of the remaining 2 years. In the event, Som70 million was transferred to the Social Fund but, reportedly, no expenditures were made for training or unemployment benefits because few retrenchments took place. In fact, the figure for

[22] As the corporate law expert assigned to the CDC team (not the team providing the insolvency training) observed, “it is questionable whether the short seminars have any impact on the arbitration judges and whether [the training] should have been more detailed and developed. However, it is also true that arbitration judges appear to have little motivation for further seminars” (Second Interim Quarterly Report, December 1998 to March 1999).

unemployment actually fell in 1998, although this reflected changes in statistical reporting rather than an actual improvement in the labor market.

C. Program Management

1. Disbursement and Procurement

44. The first tranche release of $19.65 million was made on 17 December 1997 following loan effectiveness on 9 December 1997. The second tranche release was scheduled for 1 May 1999. It was slightly delayed to 1 July 1999 when $19.35 million was released. The SDR amount was disbursed in full with an equivalent amount of $39 million (the difference to the approved amount being attributable to a depreciation of the SDR against the dollar). Procurement was carried out in accordance with ADB's *Guidelines for Procurement*. A negative list was used to define the imports not allowed under the CGERP. There was no single contract/item that cost more than $5 million. No significant problems were encountered during liquidation of claims, imprest accounts, or disbursements.

2. Performance of the Asian Development Bank and the Executing Agency

45. By its nature, policy-based lending generally requires close support and supervision to ensure an effective policy dialogue between ADB and the Government. The context of an economy in transition with public institutions that are still developing their role in the new economy probably makes this even more important. There were three program review missions for a total of 40 person-days during the CGERP. While this may underestimate the support provided to the CGERP (with additional input possibly provided by other missions), this effort would seem to be much below the level and frequency of contact required, particularly in the context of the frequent changes of government (para. 17), each of which should probably have triggered a special review. The PCR mission of 4 days would seem to be very brief for a thorough evaluation of performance. Given this level of support and supervision, the performance of ADB is rated partly satisfactory.

46. The performance of the PMO was initially good but the frequent changes of Prime Minister starting from about 4 months into the CGERP meant that the nominated EA played little role thereafter. The responsibility for implementation effectively fell on the CDC, which was moved away from the PMO to a separate building, so further contributing to its isolation.[23] The program steering committee reportedly never met during the CGERP. This lack of high-level engagement and oversight was a significant deficiency. However, the CDC worked well and it received significant support, particularly from the National Bank of the Kyrgyz Republic. The performance of the Government is rated partly satisfactory.

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[23] The creation of stand-alone or partly autonomous entities for program implementation is increasingly being questioned by the development community. Disadvantages include: linkage is poor to other government agencies; capacity building in the implementation unit does not necessarily strengthen that of the parent ministry; selection and composition of TA through such units tend to reflect external agency, rather than government, preferences; and pay scales are typically beyond government scales causing resentment and distorting incentives. World Bank. 2003. *Toward Country Level Development: A Multi-Partner Evaluation of the Comprehensive Development Framework.* Washington, DC.

3. Effectiveness of Technical Assistance

a. TA Loan for Capacity Building in Corporate Governance and Insolvency Proceedings

47. A TA loan (footnote 2) was approved to support the CGERP. It had two broad areas of focus: (i) improved corporate governance with the CDC being the main vehicle for provision of support; and (ii) support for bankruptcy implementation, which was directed to the *Arbitrazh* Court and SPF. The services of international consultants were provided in two packages covering these two areas. Local consultants were recruited for both packages. The TA loan also covered the cost of court building rehabilitation and the provision of computers to the *Arbitrazh* Court as well as office equipment to the CDC.

48. The TA loan (footnote 2) has not been rated as it is still to be closed.[24] The sustainability of the CDC itself as an institution was addressed in the RRP (the options being its incorporation within a government department or its conversion to a consulting entity for sale to the private sector). Discussions on the future of the CDC continued during implementation. As things stand, this issue is still not resolved although a former head of the CDC and some of the staff have left and formed a private consulting company. This is a positive outcome.

b. TA 2876-KGZ: Strengthening the Economic Policy-Making and Monitoring Capabilities of the Prime Minister's Office

49. The objective of the TA (footnote 3) was to strengthen the capacity of the PMO to initiate, manage, monitor, and assess the impact of policy reforms, as reflected in its title. The TA was also expected to help the PMO coordinate and assess the impact of the CGERP. The objective was highly relevant and much needed. The terms of reference for the assignment called for the design and implementation of a quantitative economic model for analyzing the effect of various policy changes. The development of such a model was highly desirable, as it could have provided the means for exploring the impact of various policy options, thereby strengthening the resolve of key decision makers. Whether sufficient economic data were available at the time is unclear. In the event, work in this area did not proceed at the request of the PMO.

50. Rather, the macroeconomist was asked to provide advice on day-to-day priority policy issues.[25] The policy analysis and recommendations of the consultant were technically sound.[26] Despite this, the consultant reported that the uptake of his advice was low and in his reports he frequently noted a lack of engagement on the part of the PMO officials—doubtless not helped by the frequent changes in the government. The consultant was expected to present seminars as part of counterpart training but he reported these were not held due to a lack of interest. Thus, the objective of strengthening the capacity of the PMO was not achieved to any great extent.

[24] The very considerable extension does raise the question of whether greater expenditure of funds during the first loan period in support of the CGERP (as envisaged in the design) might have been a better alternative.

[25] These included topics such as tax administration; depreciation of the som; the reserve requirements policy of the National Bank of the Kyrgyz Republic to require banks to maintain reserves in som for dollar deposit liabilities; the impact of crude oil price trends on the trade balance; the adverse impact of the National Bank's policies on foreign borrowings; the adverse impact of the government policy to pay down domestic debt; failure of the financial system; and options for restructuring of enterprises.

[26] The original macroeconomist resigned shortly after taking up his position so this assessment refers to his successor. An international trade and industrial economic expert provided a short input but this appears to have been of less value.

51. The TA is rated partly successful.[27] The shift in focus from capacity building to day-to-day policy advice was regrettable, although this was outside the control of the consultant and probably ADB. The principal consultant provided good policy advice but the uptake appears to have been low as one assumes that the Government did not accept the advice provided. Little capacity building was achieved. Sustainability is judged unlikely. While the design decision to build policy capability in the PMO was appropriate at the time (given that it was the locus of the champions of reform), with the changes of government the power of this office to influence the policy agenda was diminished (its role became more one of coordination). Because of this, perhaps a decision should have been made to relocate the TA closer to the center of power. Despite the lack of the benefit to the Government, the TA provided useful analysis to ADB, which contributed to the formulation of CGERP II.

4. Compliance with Covenants

52. Compliance with covenants was mixed (Appendix 5). Most of the general covenants were fully or partly complied with. The covenants requiring the operation of a program steering committee and an evaluation of the benefits of the program after completion were not complied with. There was only limited compliance with the covenants to ensure that counterpart funds were used for budgetary support in connection with the reforms, and for coordination, and reporting by the EA, although the CDC stepped in and filled this role.

III. PROGRAM OUTCOMES

A. Achievement of Purpose

53. The purpose of the CGERP was to improve the efficiency and performance of the enterprise sector—in particular JSCs and the big four monopolies—so that they could become competitive in an economy adopting market principles. There is a lack of credible information on company performance in terms of profitability. However, various proxy measures are available. Capacity utilization rates for industrial enterprises have remained flat at 36% from CGERP commencement to the present (Appendix 1, Table A1.2). Excluding gold and electricity production, industrial output has barely shown any real growth, reflecting the major problems afflicting the legacy state enterprises and their inability to restore profitable operations. The share of industry in total gross fixed capital formation declined from 69% in 1997 to 16% in 2002 (Appendix 1, Table A1.3). The inflow of FDI has been volatile and the gross level, inclusive of loans, stood at $116 million in 2002. The net level was only $5 million. Foreign funds invested in JSC capital averaged $28 million over 1999–2002.

54. These official numbers most likely do not accurately reflect the overall performance of the industry sector as they may not capture the operations of the new small and medium enterprises (SMEs) that have been started in the past decade. The SME sector has grown dramatically in the past 5 years and much of the export growth in services and traditional industries (food products, garments, light machinery) has originated in this segment. The growth of the SME and agriculture sectors has also helped to absorb redundant labor from traditional industry and construction enterprises. However, the growth of this sector has greatly outpaced the speed at which legacy enterprises have been liquidated and their resources reallocated. Given this, the contribution of the CGERP to growth in the SME sector is likely to be modest.

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[27] Based on the four-category rating scale of highly successful, successful, partly successful, and unsuccessful.

55. The legacy SOEs remain an intractable problem despite privatization efforts and attempts at improvements in governance. There are around 1,684 JSCs (Appendix 1, Table A1.2). Industrial enterprises account for 535 of the total number. The number of JSCs with some government shareholding stood at 146 in 2002, of which the Government had a controlling interest in 92. A significant number of these JSCs are not viable, having lost their markets in the former Soviet Union. Most operate sporadically and engage in barter transactions. With antiquated machinery, no research and development or marketing capacity, inadequate working capital, and an ill-trained work force, their potential ability to function in a competitive market economy without subsidies is extremely low.

56. It is important to consider the counterfactual (i.e., the without-program scenario) when assessing the performance of the CGERP. The positive achievements in terms of outputs may not have occurred without the CGERP. However, the loan funds allowed the Government to put off hard decisions on the liquidation of nonviable enterprises. Another aspect of the counterfactual is what might have happened to socioeconomic indicators had the loan not taken place (this is assessed in para. 61).

57. An additional perspective on the achievement of purpose of the CGERP, and the sustainability of the reforms it promoted, is provided by the justification for CGERP II (footnote 10). The RRP for the second loan offered the view that "while there is a greater awareness of corporate governance issues now, poor corporate governance practices and weak operational and financial performance of enterprises, however, remain as endemic problems in the country, and affect the viability of large JSCs, and banks." Further, it noted that "the operational and financial performance of enterprises in the industry sector has been poor and a growing number of firms are on the verge of technical insolvency."

B. Sustainability

58. A number of the outputs of the CGERP are proving to be enduring. The MCC is firmly entrenched as a requirement. The legal framework continues to be worked on (law on JSCs and bankruptcy). However, the relative power of those in favor of and against the reforms means progress is uncertain. A current battle revolves around whether the Supreme Court should be able to rule on decisions reached under third party arbitration.[28] If it can, this would completely invalidate the whole purpose of such arbitration.

59. Progress continues to be made on the introduction of IAS (in place of KAS), driven by USAID. As previously noted, the coverage of governance issues in general management training has become institutionalized in the programs of the Bishkek Academy for Management (to name one institution). The CGERP can justifiably claim credit for this. Also, an awareness of the importance of corporate governance has been sustained, obviously influenced by CGERP II. Conversely, training in insolvency proceedings does not appear to have been institutionalized. Supported by other funding agencies, work continues on the four monopoly SOEs. Kyrgyz Telecoms is the closest to privatization while the focus in the energy sector is on unbundling operations into separate supply, transmission, and generation companies.

[28] That is, binding dispute resolution outside the judicial system.

IV. IMPACTS

A. Socioeconomic Impact

60. The trends in employment and wages are outlined below (para. 66). While employment in the industry sector declined throughout the program period and beyond, this cannot be attributed to the CGERP as few firms were liquidated. Rather, it reflects a gradual attrition from nonviable enterprises and/or the conversion of the actual unemployed into the officially unemployed. Therefore, the CGERP did not have any negative impact on employment.

61. Whether the CGERP may have produced some positive socioeconomic impacts, direct or indirect, is harder to determine. This requires an assessment of the counterfactual and what the pattern of government expenditure might have been without the counterpart funds injected by the CGERP. The Government advised the OEM that it utilized the counterpart funds to support education, health care, and social insurance and protection (Appendix 1, Table A1.8). To the extent that the counterpart funds did allow the Government to meet a financing gap in these areas, the CGERP could have produced some short-term positive socioeconomic impacts. However, these will not be sustained without the CGERP's purpose having been achieved and consequent increase in government revenue.

62. Gender issues were not mentioned in the RRP and no gender-disaggregated data are available (for example, on training participants). The OEM could not identify any positive or negative gender impacts arising from the CGERP.

B. Environmental Impact

63. No doubt a number of the Soviet-era legacy enterprises pose a serious environmental risk. Revitalization or bankruptcy of these enterprises could have been expected to speed up the process of resolving these environmental problems. However, such positive environmental impacts are yet to occur—though no negative environmental consequences were identified.

C. Progress Towards Goal Attainment

64. The goal of the CGERP was for a sustained higher rate of economic growth and maintenance of consumption levels.

65. The goal is yet to be achieved. Following 4 years of output contraction from 1992 to 1995, the Kyrgyz economy rebounded in 1996 and GDP growth peaked at 10% in 1997 after which the Russian financial crisis had a strong adverse impact on the economy with GDP growth declining to 2.1% in 1998 (Appendix 1, Table 1.1). Real annual GDP growth averaged 4.7% between 1998 and 2001 with only (i) agriculture and (ii) trade and catering exhibiting above average growth of 4.8% and 8.0%, respectively. On the other hand, industry (enterprises in this sector were a focus of the reforms) had an average rate of contraction of 0.4% over the same period. Industrial output is dominated by gold and electricity production, which together accounted for almost 64% of total industrial production in 1997. This share declined to 52% in 2002, primarily because of a steep fall in production at the Kumtor gold mine (as a result of a major landslide) and because of reduced demand for electricity in neighboring countries. This led to a contraction in GDP growth of 0.5% in 2002. The growth rates of other major industrial subsectors were also weak: food processing (0.3%) and machinery (3.0%), while light industry showed a contraction (0.1%)

66. According to available data, household consumption in constant price terms fell in 1996 and 1997, but increased strongly in 1998. It then fell modestly in 1999 and 2000 and recovered somewhat in the following 2 years. Broadly, household consumption was maintained. However, this does not indicate whether this was the case for workers in the industry sector. Employment data used as a proxy for consumption show that employment in industry and construction declined from 240,000 in 1996 to 185,000 in 2001 but the level increased to 195,000 in 2002 (Appendix 1, Table 1.7). Over the same period, employment in agriculture increased from 779,000 to 944,000, and trade and catering from 153,000 to 207,000. Employment in other sectors showed little movement. The official registered unemployment rate stayed mainly between 7% and 8%, apart from 1997 and 1998 when it was 5.7% and 5.9%, respectively. This decline cannot be attributed to the CGERP. Overall real wage growth was 4.1% over the period 1998 to 2002. For the industry sector it was below the average at 3.5%. On the other hand, trade and catering, and administration showed increases of 4.5% and 24.6%, respectively. Given the lack of demonstrable turnaround in the legacy enterprises (the target of the CGERP) it is hard to attribute any effect on consumption aside from the short-term stimulus provided by the injection of $40 million into the economy.

V. OVERALL ASSESSMENT

67. The overall rating of the CGERP (Loan 1546-KGZ[SF]) is partly successful based on an assessment of its relevance, efficacy, efficiency, sustainability, and institutional development and other impacts.[29] This compares to a rating of generally successful in the PCR.[30]

A. Relevance

68. The CGERP is assessed as relevant. It was consistent with the Government's broad reform strategy and the urgent need to reverse the economic decline. At approval, there were some influential champions of reform, particularly in the PMO. However, outside the PMO, ownership was more limited and less influential. In fact, in some key parts of the Government, there was direct opposition to the CGERP and the principles underlying it. Of course, this is not an unexpected situation, particularly in a transition economy. Frequent changes in government from early on in the program period, with consequent changes in senior officials, were accompanied by a dispersal of reform champions. This may have reduced relevance somewhat.

69. While having a good fit with the Government's broad strategy, the CGERP did not feature in ADB's country strategy at the time of approval. This strategy argued convincingly for ADB to concentrate its resources in four strategic areas, not including corporate governance and enterprise reform. Insufficient justification was provided for such a significant departure from strategy.

70. From a technical perspective, the preparation of the CGERP was thorough and the RRP made a convincing case as to why reforms in the enterprise sector and in corporate governance

[29] It is important to note that this PPAR only rates the CGERP and not CGERP II that followed (and is ongoing). This creates some problems of attribution that require evaluator judgment.

[30] The downgrading of the rating by the OEM is matched by the World Bank's rating of its Public Enterprise Structural Adjustment Credit, which covered much the same ground and preceded the CGERP. The Implementation Completion Report rated this as "highly satisfactory" while the World Bank's Operations Evaluation Department downgraded this to "marginally satisfactory" with the conclusion that "even highly satisfactory implementation is not the same as satisfactory efficacy in terms of development outcomes." Overall, the World Bank concluded, "the IDA [International Development Association] has been over-optimistic in its economic projections and in assuming that good covenant compliance meant good reform implementation" (World Bank. 2001. *Kyrgyz Republic: Country Assistance Evaluation*. Washington, DC. Available: http://www.worldbank.org).

were very much needed—a rationale that remains valid today. However, the assumption that a proportion of the JSCs could be the main basis for growth of the enterprise sector has yet to be demonstrated. In fact, many JSCs have proven to be nonviable in an economy adopting market principles. Also, the potential negative impact of important contextual factors was underestimated, in particular, corruption and rent seeking by the public sector and poor financial sector governance and performance. Given that these factors greatly limit the ability to achieve an impact from reforms in corporate governance, the prioritization accorded to the CGERP can be questioned. This is not to say that reforms in corporate governance should await resolution of these preconditions for success. However, TA rather than lending may have been a more appropriate option given the risks involved and high likelihood that outcomes would only be achieved in the medium term.

71. In terms of design integrity, the CGERP took a broad approach of targeting a number of necessary conditions across five component areas. Given the limited number of conditions in any one of these areas, there was a lack of sufficiency in the conditions. While holistic analysis of the problem is essential, evaluation findings generally show that a more focused approach that produces tangible and positive results is preferable to a broad approach as it can help to build the momentum for further reform. However, a more focused approach may not produce results if certain preconditions are not met. Within the context of the Kyrgyz Republic, it is now clear that enterprise reforms and improvements in corporate governance require a long-term commitment and that there is a high degree of interdependence with reforms in other areas.

B. Efficacy

72. The CGERP is assessed as less efficacious. It was successful or relatively so in producing the following outputs: (i) codification of best practice on corporate governance (encapsulated in the MCC); (ii) promotion of best practice in corporate governance; and (iii) strengthening of the legal framework for insolvency, including training of judges and prosecutors. It was moderately successful in imposing greater financial discipline on enterprises and in supporting the work of USAID on adoption of improved accounting standards (formerly KAS and now IAS). It was less successful in the areas of extending enterprise reform to SOEs (including further divestment), development and delivery of a management training program, promotion of domestic and international competition, strengthening the environment for FDI, and meeting the effects of social adjustment costs (including provision of training to workers in insolvent enterprises).

73. While many of the outputs were produced (and progress continues to be made in this area with support provided by CGERP II), there are many obstacles in the way of achieving the CGERP purpose, which is yet to be achieved, notwithstanding the second loan. Clearly, reforms in the areas covered take longer to realize than was first envisaged. Also, the country suffered a severe exogenous shock during the course of program implementation (the Russian financial crisis of 1998). However, while this had a significant impact on enterprise performance, it is unlikely that the CGERP would have been efficacious had it not occurred because of the effects of public sector corruption and a poorly performing financial sector.

C. Efficiency

74. The CGERP is assessed as less efficient. In reaching this conclusion, an assessment was first made of value for money, i.e., a comparison of outputs and outcomes in relation to the costs. The Kyrgyz Republic has incurred a debt of $44 million for CGERP and a further $35 million for CGERP II, or $15 per capita for the two loans. It is of course hard to value the

outputs but given that these will only confer benefits when they are translated into outcomes and impacts, and given the (as yet) limited achievement of the CGERP purpose, it is difficult to claim that benefits are in any way commensurate with the costs. The most tangible benefit was the elimination of new budgetary loans, which were around $18 million in 1997. However, loose financial discipline in other areas has greatly reduced the effectiveness of these measures. Overall, the value for money is assessed as low.

75. Second, the use of counterpart funds was assessed.[31] In the event, there were few adjustment costs as little adjustment took place. Given this, funds were not directed toward reform-related expenditure (e.g., downsizing/restructuring and worker retraining) or resolution of the problem of insolvent or nonviable JSCs. Also, the provision of general budgetary support reduced the need to impose financial discipline on enterprises thus allowing the Government to be lax in other areas while, nominally at least, eliminating new budget loans to enterprises. On the other hand, the counterpart funds may have allowed expenditure on social services to be maintained in the short term.

76. In terms of efficiency of process, tranche release conditions were met in a timely fashion, even if there were some quality deficiencies. The level of policy dialogue was inadequate, particularly in light of the frequent changes in government and key personnel. The proposed program steering committee never met so there was a lack of high-level oversight and support.

D. Sustainability

77. Sustainability of the achievements to date is rated as likely, helped of course by CGERP II. On the positive side, the legal framework continues to be strengthened. The financial discipline on SOEs is being maintained in terms of no further budget loans and ongoing attention to debt recovery, but other weaknesses in financial discipline undermine the value of the gains made. It would seem that there is much action on the part of the Government to encourage FDI, but major impediments remain and the perception exists in various quarters that little real progress is being made. Progress on liquidation of insolvent or nonviable JSCs is slow. Although there has been better performance in terms of bankruptcies and liquidations recently, the evidence seems to be that this mostly involves smaller enterprises. The institutionalization of the role of CDC (an *ad hoc* body created by the CGERP), if necessary, is yet to be resolved. Training in management has been institutionalized, but not judicial training. Progress in further divestment of SOEs has advanced slowly, but is poised to accelerate if the telecoms company undergoes a partial sale to a foreign buyer.

E. Institutional Development and Other Impacts

78. There were moderate institutional development and other impacts. The CGERP made a moderate contribution to capacity building through the seconded staff but there was limited strengthening of the PMO. Some former CDC experts have become private sector consultants and some of the knowledge transferred from the international consultants has been incorporated in the curricula of local training institutions. The associated TA grant had only a limited impact in terms of developing a policy analysis capacity within the Government. There is little evidence available on the impacts (positive or negative) of the CGERP on poverty, gender, or the environment. No attempt was made to monitor such impacts, which is a deficiency.

[31] The local currency proceeds were expected to provide budgetary support for meeting the costs of adjustment including a contribution at least $6.5 million to the Employment Fund (for payment of unemployment benefit and retraining (RRP, para. 115)

VI. CONCLUSIONS

A. Issues

79. The experience of CGERP suggests three interrelated issues that merit consideration. First, was the sequencing for the CGERP right within the overall reform program? Second, was it appropriate for ADB to fund the CGERP notwithstanding the fact that it did not feature in the country strategy and, related to this, under what conditions should significant departures from country strategy be permitted? Third, is lending or TA more appropriate when the context is unfavorable, outcomes uncertain and the risks high?

80. On the first question, the PCR also implicitly questioned the sequencing of the CGERP (para. 15). This evaluation does so as well and it concludes that the CGERP was somewhat “ahead of its time”. Obviously, reforms need not take place in a completely sequential manner. However, although financial sector reform has been ongoing for some time (supported by ADB among others), public sector reform is only now getting under way (supported by the World Bank among others). The general acknowledgment of a high level of corruption and rent seeking in the public sector militates against achieving both enterprise reform and improvements in corporate governance. For example, improvements in knowledge and processes within the court system are unlikely to produce positive outcomes in the face of a prevailing culture of corruption within the public service in general. This is not to say that nothing should have been done but that, perhaps, it should have been addressed in other ways (para. 82).

81. Regarding the second question, the CGERP did not feature among the four strategic areas of ADB’s country strategy in effect at the time of loan approval (para. 18). It is not the role of this evaluation to comment on the detail of the country strategy. However, the approach of concentrating ADB’s resources on a few key strategic areas was a sensible one given the size of the country and ADB’s assistance program, and the stage of development, including the level of capacity. At the very least, one would have expected a strong justification for such a significant departure from the approved strategy. This was not provided in the RRP or elsewhere and this evaluation does not consider that the decision to lend for corporate governance and enterprise reform was the right choice, either at the time or now. In general, if strategy is to have meaning in terms of guiding decision making on resource allocation, departures from strategy should only be allowed in exceptional circumstances and then only in light of a strong justification.

82. With respect to the third question, although there is general agreement that reforms are very much needed in the areas covered by the CGERP, there is also agreement that there are many difficulties in the way of achieving outcomes. In other words, benefits will take a long time to be realized. Also, the risk of not achieving benefits is high in a small country vulnerable to exogenous shocks. Given a situation where the pace of reform is expected to be slow, with the result that benefits may only be realized in the medium to longer term, and where the achievement of these may be vulnerable to a significant level of risk, a greater emphasis on TA rather than lending may be more appropriate. As the pace of reform picks up and risks become less, policy-based lending in the target areas may become more relevant.[32]

[32] This is also the conclusion of World Bank. 1998. *Assessing Aid: What Works, What Doesn’t, and Why.* Washington.

B. Lessons

83. Some of the more specific lessons to emerge from the evaluation of the CGERP are:

(i) A substantial majority of legacy JSCs appear to be nonviable in an economy based on market principles. Improvements to corporate governance in such enterprises are unlikely to contribute to resolving their plight. Bankruptcy and a disposal of the assets is probably the only solution.

(ii) Notwithstanding the apparent need for bankruptcy, there is considerable (and often understandable) opposition in the Government and bureaucracy to liquidation as a solution to enterprise failure. Overcoming this opposition is likely to be critical to making further progress. In other words, bankcruptcy must become a political feasible solution.

(iii) It is important to ensure a sufficient set of conditions (to the extent possible) for achieving intended results in order to have a greater chance of producing positive outcomes. This was not the case in the CGERP (although some realism is needed in this regard). For example, the elimination of budget loans to JSCs was an important step in imposing greater financial discipline on enterprises but the positive effect of this was undone because of loose financial discipline in other areas.

(iv) Reforms need to put a greater—or at least concurrent—emphasis on providing incentives for good corporate behavior rather than solely attempting to prevent and penalize poor behavior. They also need to minimize opportunities for discretionary decision making by civil servants as this also provides the opportunity for corruption and rent seeking.

(v) More attention needs to be placed on the political economy dimensions of reform *ex-ante* along with much closer monitoring of the likely consequences of shifts in political power and direction during program implementation and after. A change of government and movement of the champions of reform to less influential positions need to trigger a comprehensive review of a program loan. Supervision of program loans and the associated TA needs to be more constant, more focused on purpose achievement, and more cognizant of political economy dimensions.

(vi) The recognition of the need to build a policy capability within the Government concurrent with the CGERP was laudable. This should be a part of every policy-based loan where such capacity does not exist or is weak.[33] However, care needs to be taken to ensure that capacity is built in those departments with influence over the policy agenda.

[33] The argument being that policy analysis, formulation, monitoring, and evaluation are part of an ongoing process not bound by the beginning and end of an external agency-funded program. Therefore, it is important that ADB's policy-based lending contributes to governments' capacity to undertake these essential functions. A similar finding emerged from a recent World Bank evaluation of the comprehensive development framework, which concluded that funding agencies should integrate monitoring and evaluation activities into normal government (rather than funding agency) operations (see footnote 23 for document reference).

C. Follow-Up Action

84. Apart from reflecting on the issues and lessons raised above (paras. 89–93), there is one follow-up action proposed. This revolves around the need to overcome the blockage to bankruptcy as a solution to the problem of the nonviable legacy JSCs. Demonstrating some successes from liquidation may change the climate of opinion. Essentially, this would require working through two or three pilot cases in a way that would minimize the political risks, thereby delivering politically acceptable solutions.

Table 2: Proposed Follow-up Action

Action	Responsibility	Time Frame
The Government (with funding agency assistance as appropriate) should work through two or three pilot liquidations in a carefully planned manner with a view to minimizing the political costs (and therefore potential opposition). Based on the experience, refine the process and promote its wider use.	State Property Fund	18 months

BASIC ECONOMIC, SOCIAL, AND FINANCIAL DATA

Table A1.1: Macroeconomic Data

Item	1996	1997	1998	1999	2000	2001	2002	6 months 2003
Nominal GDP (Som million)	23,399	30,686	34,181	48,744	62,203	73,883	75,240	29,545
Real GDP growth rate (%)	7.1	9.9	2.1	3.7	5.0	5.3	(0.5)	2.9
Real gross value added growth rate by sector (%)								
Industry	3.9	39.7	5.3	(4.3)	6.0	5.4	(13.1)	—
Agriculture	15.2	12.3	2.9	8.2	2.7	7.3	3.3	—
Transportation	12.4	5.4	(3.1)	3.2	7.5	(4.4)	0.6	—
Communications	2.8	2.1	2.8	2.7	2.6	2.8	4.5	—
Construction	0.0	(17.0)	(27.7)	(2.0)	29.7	4.0	(0.1)	—
Trade and catering	2.3	7.7	9.5	3.9	11.4	7.0	8.2	—
Consumer price index inflation (%)	32.0	23.4	10.5	35.9	18.7	6.9	2.1	3.1
Nominal exchange rate (average for the period), Som/US$	13	17	21	39	48	48	47	45

— = not available, GDP = gross domestic product.

Source: National Statistical Committee.

Table A1.2: Industrial Statistics

Item	1996	1997	1998	1999	2000	2001	2002	6 months2003
Gross Industrial Output at Current Prices (Som million)								
Total	9,998	18,053	21,277	33,725	44,817	48,773	44,784	22,703
Gold production (Kumtor)	823	5,237	8,132	13,567	17,618	20,165	15,160	8,323
Electricity	2,110	2,378	2,056	4,391	7,065	7,147	7,996	5,285
Other industries	7,065	10,438	11,089	15,767	20,133	21,461	21,629	9,094
Food industry	2,423	2,907	3,843	4,988	6,466	6,380	6,811	—
Light industry	1,521	1,980	1,783	1,911	2,644	2,824	3,074	—
Machine building	870	1,106	1,290	1,676	1,962	2,518	2,484	—
Gross Industrial Output at 2002 Constant Prices (Som million)								
Total	32,766	45,774	48,200	46,127	48,895	51,535	44,784	—
Gold production (Kumtor)	4,018	15,610	19,138	18,047	19,437	22,566	15,160	—
Electricity	9,761	8,814	8,171	8,710	9,920	9,117	7,996	—
Other industries	18,987	21,350	20,891	19,370	19,538	19,852	21,629	—
Food industry	6,530	6,726	7,506	6,606	6,810	6,109	6,811	—
Light industry	3,579	3,096	2,108	2,260	2,382	2,735	3,074	—
Machine building	2,498	2,146	2,120	2,178	2,064	2,454	2,484	—
Real Growth of Industrial Output (%)								
Total	8.8	39.7	5.3	(4.3)	6.0	5.4	(13.1)	2.5
Gold production (Kumtor)	—	288.5	22.6	(5.7)	7.7	16.1	(32.8)	(10.2)
Electricity	—	(9.7)	(7.3)	6.6	13.9	(8.1)	(12.3)	15.8
Other industries	—	12.0	(2.0)	(7.0)	1.0	2.0	9.0	6.5
Food industry	—	3.0	11.6	(12.0)	3.1	(10.3)	11.5	12.2
Light industry	—	(13.5)	(31.9)	7.2	5.4	14.8	12.4	(15.4)
Machine building	—	(14.1)	(1.2)	2.7	(5.2)	18.9	1.2	(1.3)
Capacity Utilization								
Representative sample of industrial enterprises	—	—	—	—	—	34.0	36.0	33.0

— = not available.
Source: National Statistical Committee.

Table A1.3: Investment and Foreign Direct Investment Financing

Item	1996	1997	1998	1999	2000	2001	2002
Gross fixed capital formation (% of GDP)	22.4	12.4	12.9	15.7	18.0	16.8	17.2
Structure of investments into fixed capital (%)							
By sector							
Industry	80.0	69.3	33.5	36.8	42.2	16.5	16.1
Agriculture	1.0	1.4	2.8	3.6	3.7	4.0	4.0
Transportation and communications	5.0	12.0	22.8	32.0	32.2	34.2	21.7
Construction	0.9	0.5	1.3	1.9	0.7	3.9	7.9
Trade and catering	2.0	2.3	7.5	4.9	3.0	14.6	18.4
Other	11.1	14.5	32.1	20.7	18.3	26.7	31.9
By source of financing							
Government budget (excluding foreign)	3.5	4.3	5.9	5.5	7.2	7.9	9.3
Enterprises' retained profits	18.4	11.7	25.7	22.4	20.5	29.1	46.6
Foreign credit (PIP)	11.1	16.5	21.7	49.3	47.7	34.4	19.7
FDI	56.5	59.8	25.0	5.1	12.9	7.4	5.4
Savings of population and other	10.5	7.8	21.8	17.7	11.8	21.6	19.0
Foreign financed PIP (% of GDP)	3.2	3.1	1.0	9.4	7.1	4.4	4.8
Inflow of FDI ($ million)							
Total	153.1	86.3	136.3	108.6	89.6	90.1	115.7
By sector							
Industry	120.9	43.2	29.8	61.4	48.6	59.5	60.2
Trade and catering	28.1	14.7	31.8	8.4	5.9	12.4	13.1
Other sectors	4.1	28.4	74.7	38.7	35.1	18.2	42.4
By sector							
Capital of JSCs	152.6	40.3	76.1	28.5	34.1	23.1	26.1
Reinvested profits	0.2	0.4	7.6	3.9	7.8	12.8	9.0
Other capital (including long-term credits)	0.3	45.7	52.6	76.2	47.7	54.1	80.5
Net FDI ($ million)	46.8	83.0	109.2	44.4	(2.4)	5.0	4.8

FDI = foreign direct investment, GDP = gross domestic product, JSC = joint-stock company, PIP = public investment program.
Sources: National Statistics Commission, International Monetary Fund.

Table A1.4: Credits of Commercial Banks to Nonfinancial Firms
(end of period)

Item	1996	1997	1998	1999	2000	2001	2002
Som million	1,001	1,715	1,532	1,456	1,518	2,011	—
% of GDP	3.3	5.0	3.1	2.3	2.1	2.7	—
In national currency	476	480	448	457	654	847	—
Structure by period (%)							
0–3 months	15	10	7	17	18	14	—
3–6 months	59	26	39	32	34	13	—
6–12 months	15	25	35	29	35	39	—
>12 months	12	38	19	22	14	34	—
Structure by sector							—
Industry	6	5	11	14	20	9	—
Trade	69	55	50	44	45	66	—
Other	25	39	40	42	35	25	—
In foreign currency	525	1,236	1,084	998	863	1,164	—
Structure by period (%)							
0–3 months	11	9	15	23	13	16	—
3–6 months	59	36	30	27	26	17	—
6–12 months	13	19	18	24	33	41	—
>12 months	18	37	36	26	28	25	—
Structure by sector							—
Industry	6	8	15	15	20	26	—
Trade	65	64	52	51	45	46	—
Weighted average interest on credits in national currency (end of period)	—	42.5	54.8	50.1	28.0	24.8	—
Weighted average interest on credits in foreign currency (end of period)	—	26.5	33.3	31.4	19.5	18.3	—

— = not available, GDP = gross domestic product.
Source: National Statistical Committee.

Table A1.5: Enterprise Finance

Item	1996	1997	1998	1999	2000	2001	2002
Net Profit of All Enterprises							
Total (without agricultural and small enterprises)	—	—	—	—	3,055	2,412	—
Industry	—	—	—	—	2,154	1,743	—
Finance	—	—	—	—	562	424	—
Transportation and communications	—	—	—	—	190	158	—
Other	—	—	—	—	150	87	—
Losses of Loss-Making Enterprises (Som million)							
Total (without agricultural and small enterprises)	—	—	—	—	1,348	1,181	—
Industry	—	—	—	—	712	671	—
Finance	—	—	—	—	177	124	—
Transportation and communications	—	—	—	—	201	171	—
Other	—	—	—	—	258	215	—
Accounts Receivable (Som million)							
Total (without agricultural and small enterprises)	—	—	—	—	11,952	15,390	—
Industry	—	—	—	—	7,756	10,852	—
Finance	—	—	—	—	2,015	2,210	—
Transportation and communications	—	—	—	—	707	715	—
Other	—	—	—	—	330	365	—
Accounts Payable (Som million)							
Total (without agricultural and small enterprises)	—	—	—	—	11,941	16,142	—
Industry	—	—	—	—	1,472	1,351	—
Finance	—	—	—	—	2,531	3,747	—
Transportation and communications	—	—	—	—	1,320	1,989	—
Other	—	—	—	—	351	300	—

— = not available.
Source: National Statistical Committee.

Table A1.6: Foreign Trade Statistics

Item	1996	1997	1998	1999	2000	2001	2002	6 months 2003
Exports (FOB prices) ($ million)								
Goods								
Total	505	604	514	454	505	476	486	—
Gold	—	186	196	183	195	225	163	—
Electricity	74	83	26	52	80	47	22	—
Textile and garments	—	—	40	32	43	30	60	—
Machinery	—	—	47	28	33	29	27	—
Food, beverages, and tobacco	—	—	72	53	37	33	30	—
Other commodities	432	334	134	106	116	114	184	—
Services	—	45	63	65	62	80	138	—
Imports (CIF prices) ($ million)	838	709	842	600	555	467	587	—
Import tariff	—							
Maximum	10	10	10	50	20	20	18	15
Simple average	—	—	—	—	—	5	—	5

— = not available; CIF = cost, insurance, freight; FOB = free on board.

Sources: National Statistics Commission, International Monetary Fund.

Table A1.7: Labor Market and Wage Statistics

Item	1996	1997	1998	1999	2000	2001	2002
Employment (‘000 people)							
Total	1,652	1,689	1,705	1,764	1,768	1,787	1,814
Industry and construction	241	229	223	204	185	185	195
Agriculture	779	816	835	924	938	945	944
Trade and catering	153	180	180	184	188	194	207
Social sector (education, health, etc.)	244	239	239	241	242	240	236
Administration	41	37	38	37	39	33	46
Other	195	189	190	175	176	191	185
Unemployment (‘000 people)							
Total	140	103	106	137	144	149	156
Official registered	77	55	56	55	58	61	60
Unemployment rate (%)	8	6	6	7	8	8	8
Average wage, soms/month							
The whole economy	491	680	789	1,050	1,177	1,314	1,616
Industry	738	1,182	1,166	2,031	1,873	2,095	2,726
Agriculture	255	372	532	466	679	687	816
Trade and catering	343	529	439	818	870	910	1,283
Social sector (education and health)	331	398	499	610	673	776	887
Administration	692	909	1,102	1,217	1,645	2,225	5,311
Average wage real growth rate (%)							
The whole economy	—	12	5	(2)	(6)	4	21
Industry	—	30	(11)	28	(22)	5	28
Agriculture	—	18	30	(35)	23	(5)	16
Trade and catering	—	25	(25)	37	(10)	(2)	38
Social sector (education, health, etc.)	—	(3)	13	(10)	(7)	8	12
Administration	—	6	10	(19)	14	27	134

— = not available.
Source: National Statistical Committee.

Table A1.8: Government Budget Data

Item	1996	1997	1998	1999	2000	2001	2002
Tax collections (% of GDP)	13	13	14	12	12	12	14
Enterprise taxes (VAT on domestic production, profits tax, excise on domestic production, automobile road tax, emergency situation tax), % of GDP	—	—	—	—	—	5	5
Structure by sector (% of collections of these taxes)							
Electricity production	—	—	—	—	—	18	17
Gold production	—	—	—	—	—	5	4
Other industrial enterprises	—	—	—	—	—	38	40
Construction	—	—	—	—	—	6	3
Transportation and communications	—	—	—	—	—	16	17
Trade and catering	—	—	—	—	—	8	5
Other	—	—	—	—	—	10	13
Tax arrears (as of end of period) (Som million)							
Total	—	—	453	368	332	293	561
Personal income tax	—	—	19	21	20	45	30
Profits tax	—	—	47	36	41	56	13
VAT	—	—	240	191	164	162	134
Excises	—	—	19	15	11	10	5
Land tax	—	—	55	44	35	50	54
Other taxes	—	—	73	61	61	70	91
Revenues from tax arrears repayment	—	—	—	207	225	197	177
Expenditures of the government budget (without PIP)							
Total	5,202	6,696	7,298	9,042	11,285	12,257	15,190
Education	1,223	1,514	1,682	1,892	2,290	2,849	3,350
Health care	733	977	962	1,122	1,296	1,378	1,527
Social insurance and protection	885	1,055	981	1,198	1,114	1,417	2,340
General administration, defense	1,279	1,805	1,927	2,534	2,863	3,839	4,312
Housing and public utilities	298	280	374	469	667	800	1,131
Other	785	1,064	1,373	1,827	2,055	1,973	2,530

Continued on next page

Table A1.8—*Continued*

Item	1996	1997	1998	1999	2000	2001	2002
Use of funds of CGERP Phase I loan (Som million)							
Electricity production	—	265	78	779	—	—	—
Education	—	66	19	194	—	—	—
Health care	—	79	27	273	—	—	—
Social insurance and protection	—	119	31	313	—	—	—
Subsidies to public enterprises							
Som million	200	153	212	323	446	274	737
% of GDP	0.9	0.5	0.6	0.7	0.7	0.8	1.0
Budget loans to enterprises							
Gross	—	—	—	—	—	19	7
Net	—	—	—	—	—	(859)	(443)
Privatization proceeds							
Som million	116	22	84	118	154	299	130
% of GDP	0.5	0.1	0.2	0.2	0.2	0.4	0.2
Subsidies to the Social Fund	—	—	344	300	150	0	310
Transfers to the Employment Fund	0	0	0	1	0	0	0

— = not available, CGERP = corporate governance and enterprise reform program, GDP = gross domestic product, PIP = public investment program, VAT = value-added tax.

Sources: International Monetary Fund, Ministry of Finance.

Table A1.9: Privatization Data

Item	1996	1997	1998	1999	2000	2001	2002
Private sector share in GDP (%)	40	50	60	60	60	60	60
Number of privatized enterprises by sector (cumulative)							
Total	6,184	6,355	6,526	6,676	6,834	6,922	7,001
Industry	483	523	527	532	540	542	535
Consumer services	1,910	1,917	1,933	1,933	1,935	1,936	1,936
Nonproductive sphere	426	433	453	496	531	547	565
Trade and catering	1,867	1,882	1,891	1,896	1,905	1,913	1,914
Agriculture	358	358	359	362	367	368	379
Construction	413	418	420	425	429	430	430
Transport	141	159	163	165	167	167	172
Other branches	586	665	780	867	960	1,019	1,070
Number of privatized enterprises by method (cumulative)							
Conversion to JSC	1,502	1,618	165	1,669	1,681	1,684	—
Rented for subsequent purchase	96	98	106	113	125	127	—
Sale through commercial competition	1,157	1,162	1,192	1,197	1,197	1,203	—
Conversion to LLC	195	200	208	215	220	221	—
Sale to private parties and workers' collectives	2,779	2,817	2,882	2,985	3,089	3,163	—
Auctioned	455	460	487	497	513	515	—
Other	0	0	0	0	0	0	—
Percentage of enterprises privatized within each sector							
Total	—	—	—	—	—	70	—
Industry	—	—	—	—	—	88	—
Consumer services	—	—	—	—	—	100	—
Nonproductive sphere	—	—	—	—	—	45	—
Trade and catering	—	—	—	—	—	98	—
Agriculture	—	—	—	—	—	44	—
Construction	—	—	—	—	—	59	—
Transport	—	—	—	—	—	58	—
Other branches	—	—	—	—	—	46	—

— = not available, GDP = gross domestic product, JSC = joint-stock companies, LLC = limited liability company.
Sources: European Bank for Reconstruction and Development; National Statistics Commission; State Property Fund.

Table A1.10: Data on Joint-Stock Companies

Item	1996	1997	1998	1999	2000	2001	2002	6 months 2003
JSCs created on the basis of state enterprises (number at year end)	1,095	1,135	1,167	1,185	1,197	1,201	1,215	1,215
JSCs with Government as shareholder (number at year end)								
Total	90	107	117	126	132	133	146	146
Industry	39	48	48	50	52	53	62	62
Construction	19	20	20	21	22	22	23	23
Transportation	6	10	10	11	11	11	14	14
Trade and catering	4	4	4	4	4	4	4	4
Customer services	1	1	1	1	1	1	1	1
Other	21	24	34	39	42	42	42	42
JSCs where Government has control share holding (number at year end)								
Total	43	56	65	74	79	80	92	92
Industry	20	27	27	29	30	31	40	40
Construction	7	7	7	8	9	9	9	9
Transportation	3	7	7	8	8	8	11	11
Trade and catering	2	2	2	2	2	2	2	2
Customer services	0	0	0	0	0	0	0	0
Other	11	13	22	27	30	30	30	30

JSC = joint-stock company.

Source: State Property Fund.

Table A1.11: Bankruptcy Data

Item	1996	1997	1998	1999	2000	2001	2002	6 months 2003
Number of bankruptcy processes initiated (cumulative)	43	73	125	228	398	526	703	749
Bankruptcy processes initiated by: (cumulative)								
State property fund	—	4	22	46	52	53	55	94
Tax service	—	—	1	27	109	151	261	261
Social fund	—	—	1	11	56	72	83	83
Bankrupt enterprise itself	42	65	94	127	140	144	156	158
Banks and other financial Institutions	—	—	—	8	20	41	51	52
Other (private creditors)	1	4	7	9	21	65	97	101
Number of bankruptcy processes completed (cumulative)								
Total	—	2	17	35	108	204	323	382
Agricultural enterprises	—	—	—	—	—	—	—	43
Agribusiness	—	—	—	—	—	—	—	34
Production of construction materials	—	—	—	—	—	—	—	10
Construction	—	—	—	—	—	—	—	28
Light industry	—	—	—	—	—	—	—	18
Transportation	—	—	—	—	—	—	—	8
Machine building	—	—	—	—	—	—	—	3
Credit institutions	—	—	—	—	—	—	—	1
Trade	—	—	—	—	—	—	—	173
Other	—	—	—	—	—	—	—	64
Number of bankruptcy processes going on (at period end)								
Total	—	—	—	—	—	—	—	367
Agricultural enterprises	—	—	—	—	—	—	—	101
Agribusiness	—	—	—	—	—	—	—	44
Production of construction materials	—	—	—	—	—	—	—	7
Construction	—	—	—	—	—	—	—	30
Light industry	—	—	—	—	—	—	—	27
Transportation	—	—	—	—	—	—	—	5

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Table A1.11—*Continued.*

Item	1996	1997	1998	1999	2000	2001	2002	6 months 2003
Number of bankruptcy processes going on (at period end)*Continued*								
Machine building	—	—	—	—	—	—	—	8
Credit institutions	—	—	—	—	—	—	—	11
Trade	—	—	—	—	—	—	—	101
Other	—	—	—	—	—	—	—	33
Bankruptcy resolution by method:								
Liquidation	—	—	94	153	292	341	418	319
Rehabilitation	—	—	6	16	17	17	5	5
Restructuring	—	—	16	33	43	51	42	33
Off-court agreement	—	—	7	9	11	6	12	10
Accounts payable of bankrupt enterprises	—	—	—	—	—	—	—	8,941
Of this amount paid back to creditors	—	—	—	—	—	—	—	1,876

— = not available.

Source: State Property Fund.

Table A1.12: Securities Market Developments

Item	1996	1997	1998	1999	2000	2001	2002
Emission of shares (cumulative)							
Value (Som million)	854	12,220	14,375	15,208	17,676	20,429	23,380
Number of issues	602	1191	1355	1537	1718	1852	1935
Of them:							
First issue							
Value (Som million)	529	11,699	13,177	13,454	14,822	16,264	18,707
Number of JSCs	531	1,082	1,164	1,281	1,395	1463	1512
Second and subsequent issues							
Value (Som million)	325	520	1,198	1,753	2,855	4,165	4,673
Number of JSCs	71	109	191	256	323	389	423
Privatized JSCs							
Value (Som million)	597	11,393	12,749	13,077	14,646	15,357	15,903
Number of JSCs	482	997	1092	1,176	1,259	1,305	1,326
Newly created JSCs							
Value (Som million)	257	827	1,626	2,130	3,031	5,072	7,476
Number of JSCs	120	194	263	361	459	547	609
Emission of corporate bonds (cumulative)							
Value (Som million)	—	—	—	>1	>1	110	168
Number of JSCs	—	—	—	1	2	7	11
Value of traded stocks, Som million	6	17	46	247	1,089	903	1,104
Listed companies	—	—	—	—	—	—	443
Nonlisted companies	—	—	—	—	—	—	661
Number of transactions	1,570	1,126	2,519	2,614	10,798	6,552	3,112
Listed companies	—	—	—	—	—	—	1,190
Nonlisted companies	—	—	—	—	—	—	1,922
Emission of securities (without first issues of privatized JSCs and additional emissions related to revaluation of fixed assets) (Som million)	182	1,445	935	759	1,676	2,669	2,601

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Table A1.12—*Continued.*

Item	1996	1997	1998	1999	2000	2001	2002
Structure of the securities by sector (%)							
Industry	—	—	—	—	—	—	67
Finance	—	—	—	—	—	—	13
Transportation and communications	—	—	—	—	—	—	12
Other	—	—	—	—	—	—	8
Number of issuer listed on KSE	—	—	—	—	—	—	22
Foreign investments in Kyrgyz securities (cumulative) (Som million)	136	281	499	795	972	2,842	3,095
Number of checks by the NCSM	—	84	161	293	253	184	207
Number of complaints received by NCSM	50	52	103	157	150	184	113
Amount of damage revealed by the checks (Som million)	—	1	10	6	14	15	16
Structure of damage by type (%)							
Violation of securities legislation	—	—	—	—	0	19	5
Incorrect dividend payment	—	—	—	—	18	26	83
Nonpayment of due amounts to the Government budget	—	—	—	—	56	47	0
Illegal spending of shareholders' money	—	—	—	—	26	9	12
Enforcement measures (Som million)							
Dividends recovered and paid to shareholders	—	—	—	—	0.2	0.6	0.3
Amounts transferred to the government budget	—	—	—	—	0.2	0.1	0.0
Fines imposed	—	—	—	—	0.3	0.2	0.2

— = not available, JSC = joint-stock company, KSE = Kyrgyz Stock Exchange, NCSM = National Commission on the Securities Markets.

Source: State Commission for the Securities Market.

Table A1.13: Arbitration Court Statistics

Item	1996	1997	1998	1999	2000	2001	2002
Number of completed cases (cumulative)[a]	1,138	1,192	2,105	2,535	2,875	2,937	2,636
Number of settled cases	—	1,273	1,700	1,961	2,111	2,071	1,812
Suits satisfied	—	1,128	1,537	1,781	1,881	1,826	1,617
Court decisions disaffirmed by higher courts	—	—	138	223	269	288	235
As a result of appeals	—	—	40	80	140	139	114
As a result of supervision consideration	—	—	98	143	129	149	121
Number of cases considered with violation of stated time	—	47	76	79	38	91	56
Number of incomplete cases	—	203	178	429	438	395	309
Number of completed bankruptcy-related cases	—	28	50	168	330	281	353
Number of settled cases	—	14	32	106	217	160	211
Suits satisfied	—	7	24	88	197	146	187
Number of cases closed without a decision	—	6	18	38	73	70	72
Claims left without court consideration	—	7	—	24	40	50	69
Number of cases considered with violation of stated time	—	3	65	4	5	—	—
Number of incomplete bankruptcy-related cases	—	—	42	102	101	97	—

— = not available.

[a] Although these figures are cumulative prior years are sometimes subject to downward revision as it appears that the Supreme Court records a case as complete before expiration of the appeal period.

Source: Supreme Court.

I. COMPLIANCE WITH THE SECOND TRANCHE RELEASE CONDITIONS

Program Condition	Compliance at PCR Stage	Current Status of Compliance
A. Promote Enterprise Efficiency Through Improved Corporate Governance		
The Borrower shall have caused Kyrgyz Energo, Kyrgyz Telecoms, Kyrgyz Airlines, and Kyrgyz Gasmunaizat to complete implementation of corporate governance structures, including (i) company charters, (ii) appropriate supervisory and management structures, and (iii) monitoring and reporting requirements in compliance with the *Handbook on Best Practices in Corporate Governance*.	**Complied with.** All four enterprises have taken significant steps to strengthen corporate governance structures in accordance with the Handbook. Each has nonoverlapping memberships on the management and supervisory boards, which are elected at the annual general meeting of shareholders. All company charters are in line with the Model Charter, and have been approved by the shareholders at the annual general meeting and registered with the Ministry of Justice.	The new joint-stock company (JSC) law requires enterprises to replace directors who are public officials with independent directors to reduce government interference in management. This is in process. Nevertheless, companies have not made much progress in transparent financial reporting through adoption of International Accounting Standards (IAS) and having external independent auditors. Except for Kyrgyz Telecoms, no significant progress made toward privatization. The impact of the corporate governance (CG) reforms on enterprise performance so far is minimal, because of management resistance.
The Borrower, through its Corporate Development Center (CDC), shall have completed a public information and education campaign to disseminate the Handbook and explain to stakeholders the basic principles, content, structure, and practice of corporate governance.	**Complied with.** CDC has launched an effective public information and education campaign, published numerous articles and question-and-answer columns, televised programs on governance throughout the Kyrgyz Republic, and widely disseminated the Handbook. Several training workshops, seminars, and conferences have been designed by CDC for shareholders and enterprise and government officials on basic principles, content, structure, and practice of corporate governance as well as on management, marketing, and corporate finance.	CDC has completed an extensive public information campaign to educate small shareholders, and enterprise and government officials of CG principles and practices. This initial effort has been very effective but needs to be continued and refined to address the practical issues. A looming issue is the future role of CDC, particularly the balance between promotion of CG principles and enforcement of the legal and regulatory framework. Under CGERP II, CDC is involved in rating enterprises on adopting CG best practice and training. CDC should perhaps focus more narrowly on promoting CG best practice and related training and leave broader management training and enforcement to other more qualified private consultants and agencies.

Program Condition	Compliance at PCR Stage	Current Status of Compliance
The Borrower, through its CDC, shall have completed a training program for senior and middle-level executives of enterprises on (i) best practice in corporate governance, (ii) general management principles, and (iii) marketing and product development.	**Complied with.** Several executive training sessions have been designed and presented throughout the Kyrgyz Republic. About 47 seminars on management, finance, marketing, and corporate governance have been organized, attracting more than 1,400 senior and middle-level executives and other trainees from different regions. Around 60 small, medium, and large enterprises have received advisory support on various aspects of management and corporate finance.	Management training programs were provided as indicated, but their effectiveness is uncertain. Sustainability of such programs through CDC is questionable as there are more appropriate institutions to provide such training. Recently CDC selected three private agencies including the Bishkek Management Academy to provide management training to enterprises financed under CGERP II.
B. Impose Financial Discipline on Enterprises		
The Borrower in fiscal year 1998 shall have reduced budget loans to commercial enterprises to not more Som160 million.	**Complied with**. The 1998 budget had originally allocated Som90 million in loans to commercial enterprises, but only Som73.7 million was disbursed.	The Government has ceased making direct loans to enterprises from the budget. However, substantial arrears to the tax authorities, as well as nonpayment of utility charges and subsidies to the energy company reduce the financial discipline on enterprises.
C. Strengthen the Legal Framework for Insolvency and Ensure its Enforcement		
The Borrower shall, in accordance with training plans agreed with the Asian Development Bank (ADB) and consistent with the Borrower's General Instructions on Insolvency, have completed training for (i) judges of *arbitrazh* courts; (ii) other relevant court and government personnel; and (iii) valuers, receivers, liquidators, and other insolvency professionals in bankruptcy law, procedures, practices, and methods	**Complied with**. All 50 *arbitrazh* court judges in the country have received classroom training on corporate, financial, and insolvency concepts; valuation of assets; basic accounting techniques; and interpretation of corporate balance sheets. They were also taken on field visits to enterprises and to courts dealing with bankruptcy cases for practical training. Several State Property Fund valuers and liquidators, and a number of court and government personnel, have also been trained under the program. The training program was in accordance with the plans agreed with ADB and with the General Instructions on Insolvency.	*Arbitrazh* court judges as well as valuers, receivers, and special administrators of the Bankruptcy Law and procedures underwent training. However, the impact of this training appears to have been ineffective in speeding up bankruptcy due to the political opposition. The public has a poor perception of judges' ethics. The merger of the Supreme Court and *arbitrazh* courts has created considerable uncertainties for resolution of commercial disputes. Also it is unclear which judges will continue to function in the merged court system. Sustainability of the training imparted seems low.

Program Condition	Compliance at PCR Stage	Current Status of Compliance
D. Promote Transparency in Financial Accounting and Reporting to Ensure More Effective Monitoring and Control of Enterprises.		
The Borrower shall have assisted at least 80 of the enterprises to adopt new national accounting standards in accordance with international accounting standards.	**Complied with.** International Accounting Standards have been introduced in many small and medium enterprises under the Accounting Reform Project supported by the United States Agency for International Development. About 850 joint stock companies have converted to the new Kyrgyz Accounting Standards, which are based on International Accounting Standards, and over 3.000 individual accountants have been trained.	This covenant was not complied with. USAID's program of assistance aimed to develop Kyrgyz Accounting Standards (KAS) and training accountants in modern accounting methods. USAID also provided assistance to newly formed private enterprises in adopting KAS but not to SOEs. Thus even the four monopoly infrastructure SOEs did not move toward adopting KAS until much later. Energo and Telecoms made more progress than the other two monopolies because of World Bank loan covenants.
E. Mitigation		
The Borrower shall have made provision in the 1998 Government budget for at least Som70 million to be allocated to the Social Fund, of which at least Som30 million shall have been allocated for unemployment benefits and at least Som40 million for retraining employees affected by the transition to a market economy.	**Complied with.** The Ministry of Finance had initially allocated Som70 million in the 1998 budget as stipulated. However, a fall in unemployment levels, limited retrenchments, and a better collection of unemployment premiums in 1998 also made the budgetary transfer unnecessary as the Employment Fund was self-sufficient.	Nominally complied with, but failure to move aggressively in restructuring limited the use of counterpart funds in mitigating social costs. ADB should have earmarked funds more tightly to mitigating social costs, including restructuring of monopolies, separating enterprises from operating social facilities, etc. Mitigating social costs was largely unsuccessful.

II. COMPLIANCE WITH THE MONITORABLE CONDITIONS

Program Condition	Compliance at PCR Stage	Current Status of Compliance
A. Promote Enterprise Efficiency Through Improved Corporate Governance		
Kyrgyz Energo and the corporatized Kyrgyz Telecoms, Kyrgyz Airlines, and Kyrgyz Gasmunaizat to provide corporate statements to the Asian Development Bank (ADB) indicating areas of compliance with the company charter and identifying the remaining areas of noncompliance (October 1997). Kyrgyz Energo and the corporatized Kyrgyz Telecoms, Kyrgyz Airlines, and Kyrgyz Gasmunaizat to submit time-bound plans for instituting changes in their corporate structures and governance mechanisms so as to bring them into compliance with the Handbook (December 1997).	**Complied with.** The joint stock companies (JSCs) have provided corporate statements that comply with the Model Charter. Initially, the JSCs had overlapping memberships between their supervisory, executive, and management boards (through Presidential instructions) without ratification at the annual general meetings of shareholders. These problems have been fully rectified in the four JSCs. **Complied with.** JSCs submitted time-bound plans to ADB for formulating and implementing effective remedial actions to bring their corporate governance practices in line with international accepted standards. They have strengthened their internal audit systems and nominated separate supervisory and management boards for ratification by shareholders. The plans have been effectively implemented in the four JSCs.	All four monopolies are in compliance with the covenant. Kyrgyz Energy, Airline and Gas have been restructured and the new JSCs have adopted the MCC. However. Little or no progress was made in adopting Kyrgyz Accounting standards (KAS) until much later. Kyrgyz Gas continued to use Soviet accounting until recently. Kyrgyz Airline was faulted for negligent cost flow reporting and the President was removed recently. All four monopolies have only government officials as Board members who have little interest in strategic planning, financial profitability or taking up key issues with state regulators e.g. tariff rebalancing. Some interfere in day-to-day management. Minority shareholders are not represented on the Board. The latest JSC law amendment will replace government officials with "independent" Board members reporting to the State Property Fund (SPF). Adoption of new governance structures and laws do not seem to have effected any improvements in financial or operating performance, particularly in state-owned enterprises (SOEs).
In accordance with agreements with ADB regarding staffing and functions, establish the Corporate Development Center (CDC), an interdepartmental unit reporting to the Prime Minister's Office, to promote the implementation of best practice in corporate governance (December 1997).	**Complied with.** CDC was established in October 1997. Expedient Government action was a key factor in CDC's success in achieving the objectives of the Program. In addition to international and domestic consultants, a large number of staff have been seconded from other ministries (Ministry of Finance and Ministry of Justice) and agencies (National Bank, National Securities Commission, and the State Property Fund) to CDC. This significantly strengthened the capacity of CDC to	CDC was established with seconded staff from various ministries and supported by international and domestic consultants. However, numerous changes in prime ministers (a total of six) since 1997 diluted ownership of the program. Changes in taxation of CDC domestic consultants and inefficiencies in logistical support to international consultants coupled with lack of clear strategic objectives undermined the effectiveness of CDC. Its sustainability is less assured after completion

Program Condition	Compliance at PCR Stage	Current Status of Compliance
	handle multidisciplinary tasks cutting across corporate governance, management, finance, bankruptcy, and legal reforms.	of CGERP II, although there is a clear need for it to continue to provide assistance to the public on corporate governance.
Under CDC, and in consultation with ADB, initiate a public information and education campaign to disseminate the *Handbook on Best Practices in Corporate Governance* and explain the basic principles, content, structure, and practice of corporate governance. Train domestic consultants to carry out public information and education functions (January 1998).	**Complied with.** CDC has launched an effective public information and education campaign under the technical assistance loan. Following the initial "train-the-trainers" programs for the secondees and domestic experts, several teams were formed within CDC to focus on various areas of corporate governance and management to train enterprise and Government officials. An effective program was developed to disseminate internationally accepted corporate governance standards and practices to enterprises through lectures, conferences, and training programs.	CDC was effective in its public information campaigns to disseminate corporate governance concepts to the public at large and enterprise managers. It actively pursued adoption of corporate governance principles and advised individual shareholders on rights. Domestic trainers on corporate governance principles were trained. However, most trained staff have left CDC creating a gap in capacity. The training on corporate governance focused mainly on form and procedures and its impact on improving corporate strategy and performance in questionable CDCs. The legal department continues to advise shareholders on legal issues. Training in management was provided to enterprises by CDC staff and consultants. The effectiveness of the training in terms of direct impact in improving enterprise performance is ambiguous. Currently, CDC does not provide any training in management and has farmed out this task to three private institutions. The sustainability of its training role is rated unlikely.
Under CDC, and in consultation with ADB, initiate a training program in management and corporate governance principles for senior and middle-level executives of enterprises. Train trainers and develop training materials and manuals (July 1998).	**Complied with.** Three phases were designed. The first focused on training the trainers (i.e., domestic experts and secondees), and comprehensive training materials were prepared during this phase. The other two phases focused on training different levels of enterprise officials and other target groups.	
B. Impose Financial Discipline on Enterprises		
Government to provide ADB with reports detailing budgetary allocations, loans, and subsidies made to enterprises (throughout the Program).	**Complied with.** The Government has provided ADB with data and relevant information on transfers and loans made to the enterprise sector.	The Government no longer provides budgetary loans to enterprises and is actively pursuing recovery of arrears, including through bankruptcy proceedings. But enterprises continue to have large tax arrears and are delinquent in paying energy bills. Energy companies are subsidized and tariffs kept below economic levels. Finally, barter is still prevalent in inter-enterprise transactions, all of which dilutes financial discipline.
Reduce new budget loans to commercial enterprises to not more than Som80 million, i.e., by 50% of the previous year's value, Som160 million (December 1998).	**Complied with.** In the 1999 budget, the Government plans to provide only Som25 million in credits to commercial enterprises.	
Reduce budget loans to commercial enterprises by 50% of the previous years (throughout the Program).	**Complied with.** Recent trends indicate that the limits stipulated will be met by the Government. ADB will continue to monitor progress in this area.	

Program Condition	Compliance at PCR Stage	Current Status of Compliance
C. Promote Domestic and International Competition and Strengthen the Environment for Foreign Direct Investment.		
Ensure no new quantitative restrictions are imposed on international trade (throughout the Program).	**Complied with.** Considerable progress has been made on the trade policy front, as reflected by the admission to the World Trade Organization in October 1998, the first country to do so among the Commonwealth of Independent States. There have been no quantitative import restrictions imposed, with the exception of goods that do not comply with safety and health provisions (e.g., military arms, explosives, nuclear materials).	With the adoption of a low and simplified tariff regime and abolition of quantitative restrictions, Kyrgyz Republic has a liberal trade regime. Nevetheless, the maximum tariff of 10% adopted in 1998 was raised to 20% in 2000. Moreover, the internal investment climate is riddled with administrative barriers, complex approval procedures, nontransparent taxation, and cumbersome inspection procedures which are major impediments to enterprise efficiency and growth. The Government has set up a Special Presidential Secretariat to address these issues, which regularly publishes policy matrices, but progress has been slow. The environment for foreign direct investment is poor and foreign investors are highly critical of rules and procedures. The proposal to establish a one-stop shop to assist investors is still to be implemented.
No tariffs on imports to be raised except in accordance with World Trade Organization antidumping provisions (throughout the Program).	**Complied with.** A simplified tariff structure is followed, with a flat tariff rate of 10% on all imported goods, which is further reduced to 5% for goods originating from developing countries, while no tariff is imposed on goods imported from least developed countries. No other exemptions are allowed on tariff duties with effect from September 1998. Overall, the simplified tariff structure has led to a very transparent system with regard to external trade.	
D. Strengthen the Legal Framework for Insolvency and Ensure its Enforcement		
Fill at least 20 of the 31 judicial vacancies in *arbitrazh* courts (April 1998).	**Complied with.** As part of its overall efforts to strengthen the judiciary, the Government has filled all the vacancies that were identified at the time of the Program.	Filling of judicial vacancies and training of judges were undertaken as agreed. However, with the recent merger of the Supreme Court and *arbitrazh* courts, new judges have been appointed who lack training and computer skills. This could be a major impediment to expeditious dispute resolution in the short term.
In consultation with ADB, finalize General Instructions for Implementing Insolvency Procedures to conform with the revised Law on Bankruptcy (February 1998).	**Complied with.** The Government has closely coordinated with ADB in this regard. In 1992, the Government set up a working committee to prepare the Instructions, which were incorporated in the Law on Bankruptcy and approved in December 1998. While the complex nature of the general instructions led to some delays in the necessary amendments, this condition is now fully complied with.	General instructions for implementing the insolvency law were prepared and incorporated in amendments to the Bankruptcy Law, passed in April 2002. CSPFI is now coordinating all bankruptcy actions brought by various creditors, public and private, and ensuring that supporting financial analysis and legal documentation supporting the bankruptcy filing is satisfactory.

Program Condition	Compliance at PCR Stage	Current Status of Compliance
In accordance with the training plans to be agreed with ADB, and consistent with the finalized general instructions for implementing insolvency procedures, commence a training program for (i) judges in the *arbitrazh* courts; (ii) other relevant court and Government personnel; and (iii) valuers, receivers, liquidators, and other insolvency professionals (May 1998).	**Complied with.** The training program commenced in January 1999, immediately following the enactment of the new Law on Bankruptcy in December 1998, and has been smoothly implemented. The scope of the program has been expanded to provide training to all judges of the *arbitrazh* courts.	The merger of the Supreme Court and *arbitrazh* courts has created new uncertainties. New judges without adequate training are being appointed which are likely to be a problem in the short term. CSPFI licensed administrators need training on insolvency matters. Parliamentary approval of the required revisions to the Civil Procedure Code has yet to be given which prevents Administrators from carrying out their functions. While judicial training and education is important, political interference needs to be reduced in the functioning of the courts for effective and transparent judicial decisions.
E. Promote Transparency in Financial Accounting and Reporting to Ensure More Effective Monitoring and Control of Expenses		
Implement a program to assist 300 enterprises in adopting these standards (December 1997).	**Complied with.** The Ministry of Finance has established a department to develop and approve accounting methodology and standards, promulgate instructions, provide training, and license professional accounting and auditing activities, under a program supported by the United States Agency for International Development on accounting reforms.	The USAID program of developing Kyrgyz Accounting Standards and assistance to enterprises to adopt these standards focused on the private sector. No assistance was given to SOEs. The MOF department on Accounting that was established to set standards has since been spun off into a new agency for accounting and auditing standards setting and implementation. This agency is active in issuing International Accounting and Auditing Standards and detailed guidelines for their adoption. Overall, while the Borrower failed to meet the condition of assisting 80 enterprises comply with adopting KAS, the progress in adopting International Accounting Standards (IAS) is commendable.

Program Condition	Compliance at PCR Stage	Current Status of Compliance
F. Mitigate Transition Costs		
The Social Fund to introduce accounting and reporting systems in accordance with internationally accepted accounting standards (November 1997).	**Compliance under way.** The World Bank is providing technical assistance to the Social Fund in this are under its Social Sector Adjustment Credit, approved in December 1998.	The Social Fund has introduced transparent accounting and reporting but not IAS.
Provide budgetary allocation to the Social Fund for transfer to the Employment Fund of Som20 million for training and Som30 million for unemployment benefits (December 1998–1999).	**Complied with.** In the 1999 budget, Som20 million was allocated to cover unemployment benefits of Som150 per month for 6 months for each retrenched worker, and the associated retraining costs. The Government has assured ADB that any deficits faced by the Employment Fund due to acceleration in the enterprise-restructuring program will be compensated by additional transfers from the budget.	Nominally complied with as the Employment Fund has balanced its revenues and expenses from 1997–2002. However, a more aggressive use of the counterpart funds could have assisted many enterprises to restructure surplus labor and restore viability.

CHRONOLOGY OF KEY REFORM ELEMENTS

No.	Date	Steps Taken
1.	30 Apr 1997	Resolution No. 258–On Setting up a Steering Committee on Corporate Governance Reforms
2.	26 Jul 1997	Resolution No. 433–On Measures Concerning the Implementation of Corporate Governance Procedures [(i) Handbook on Best Practices in Corporate Governance in the Kyrgyz Republic, and (ii) Model Charter of a Joint-Stock Company [JSC] of Open Type)]
3.	14 Oct 1997	Resolution No. 589–Measures for Improvement of Industrial Policy and Deepening of Industrial Reforms
4.	27 Oct 1997	Resolution No. 625–Establishment of the Corporate Development Center (CDC)
5.	20 Apr 1998	Resolution No. 205–Industrial Protection and Trade (setting out the tasks for CDC)
6.	15 May 1998	Resolution No. 277–On Making Amendments to Law on Economic Partnerships and Companies, and the Civil Code (stipulating that there be no dual membership on the supervisory and management boards)
7.	5 Aug 1998	Resolution No. 521–Follow-up Measures on Resolution No. 589 (expanding the implementation of corporate governance reforms to training for senior management in effectively utilizing capital market opportunities)
8.	12 Aug 1998	Resolution No. 537–On the Program of the Government and the National Bank of the Kyrgyz Republic on Structural Transformation in the Economy
9.	22 Oct 1998	Presidential Decree No. 323–On Establishment of a Sustainable System of Corporate Governance in the Kyrgyz Republic
10.	2 Dec 1998	President approves Resolution No. 277, introducing Law No. 148 on Making Changes and Amendments to Some Legislative Acts of the Kyrgyz Republic
11.	30 Dec 1998	Resolution No. 865–On Approval of the Implementation of General Bankruptcy Procedures
12.	30 Dec 1998	Adoption of Law No. 160 on Bankruptcy
13.	18 Jan–9 Apr 1999	Training Program on Bankruptcy and Liquidation Procedures for 51 Liquidators (Special Administrators) of the State Property Fund
14.	8 Feb–23 Apr 1999	Training Program on Bankruptcy Law, General Procedures and Liquidation for all (55) Arbitrazh Court Judges
15.	12 Jan 2000	Resolution No. 5–Complex Program of Securities Market Development in the Kyrgyz Republic in 1999–2001
16.	3 Apr 2000	President's Decree No. 73–On Measures to Reform Accounting and Financial Reporting System in the Kyrgyz Republic (establishes State Commission on accounting standards and audit)
17.	1 Jun 2000	Resolution No. 312–On Introduction of Changes and Additions into the Resolution of the Government of the Kyrgyz Republic No. 625 from 27.10.1997 "On Creation of Corporate Development Center" (transfers CDC to the structure of the State Property Fund)
18.	27 Jul 2000	Resolution No. 459–On Introduction of Elements of Corporate Governance in Agricultural Entities (approves and recommends for use Model Charter of Agricultural Cooperative)
19.	18 Oct 2000	Resolution No. 625–On Pace of Reorganization and Privatization of JSCs "Kyrgyztelecom", "Kyrgyzenergo", "Kyrgyzgas", "National Airline", and “Kyrgyz Aba Joldoru"

No.	Date	Steps Taken
20.	31 Jan 2001	Resolution of the Legislative Chamber of Jogorku Kenesh No. 3 N 573-II–On Concept of Privatization of State Property in the Kyrgyz Republic in 2001–2003
21.	5 Feb 2001	Resolution of the Legislative Chamber of Jogorku Kenesh No. 3 N 573-II–On Concept of Privatization and Financial Model of Restructuring of the JSC National Airline "Kyrgyz Aba Joldoru"
22.	5 Apr 2001	Resolution No. 154–On Measures for Development of Corporate Governance (determines Prime Minister's Office as executive agency for ADB's Corporate Governance and Enterprise Reform Program, Phase II; returns CDC to the Prime Minister's Office structure)
23.	22 Sep 2001	Resolution No. 576–Program of Privatization of State Property in the Kyrgyz Republic in 2001–2003
24.	28 Sep 2001	Resolution No. 593–On International Accounting Standards in the Kyrgyz Republic (introduces these standards in the Kyrgyz Republic)
25.	11 Oct 2001	Resolution No. 628–On Introduction of Changes and Additions to Some Decisions of the Government of the Kyrgyz Republic (introduces contract relationships with the Government's representatives in boards of JSCs)
26.	27 Dec 2001	Resolution of the State Commission on Accounting Standards and Audit No. 12–On Approval of the List of Banks and Financial-Credit Institutions (JSCs subject to transition to the International Accounting Standards in 2002)
27.	31 Dec 2001	Resolution No. 844–Complex Program of Securities Market Development in the Kyrgyz Republic in 2002–2003
28.	2 Mar 2002	Law No. 31–On Privatization of State Property in the Kyrgyz Republic
29.	29 Apr 2002	Law No. 76–On Accounting
30.	17 Jun 2002	Law No. 103–On Introduction of Changes and Additions into the Law of the Kyrgyz Republic "On bankruptcy (insolvency)"
31.	30 Jul 2002	Law No. 134–On Audit Activities
32.	30 Jul 2002	Law No. 135–On Tertiary Courts in the Kyrgyz Republic
33.	3 Sep 2002	Resolution No. 603–On approval of the CDC's statute
34.	22 Nov 2002	Resolution No. 797–Program of Reorganization and Privatization of the Gas Sector in the Kyrgyz Republic
35.	30 Dec 2002	Resolution of the State Commission on Accounting Standards and Audit No. 38–On Approval of the List of JSCs Subject to Transition to the International Accounting Standards in 2003
36.	18 Feb 2003	Law No. 40–On New Redaction of the Constitution of the Kyrgyz Republic
37.	26 Mar 2003	Law No. 63–On Introduction of Changes in the Law of the Kyrgyz Republic "On Banks and Banking"
38.	27 Mar 2003	Law No. 64–On Joint-Stock Companies
39.	27 Mar 2003	Law No. 66–On Investments in the Kyrgyz Republic
40.	22 Apr 2003	Resolution No. 235–On International Audit Standards in the Kyrgyz Republic (introduces these standards in the Kyrgyz Republic)
41.	29 May 2003	Resolution No. 318–On Introduction of Changes and Additions to the Resolution No. 865 from 30 Dec 1998 "On Approval of Rules of Application of Bankruptcy Procedures" (strengthens responsibility of executive officers and board members of bankrupt JSCs)

ASIAN DEVELOPMENT BANK CHECKLIST OF COMPLIANCE BY MONOPOLIES TO THE MODEL COMPANY CHARTER

	Kyrgyz			
Factor	**Energy**	**Telecoms**	**Airline**	**Gas**
Charter approved by AGM	Dec 1998	Oct 1998	Oct 1998	Mar 1999
Charter registered in Ministry of Justice	Mar 1999	Dec 1998	Mar 1999	No
Two independent bodies	Yes	Yes	Yes	Yes
No managers in supervisory board	Yes	Yes	Yes	Yes
Appointments of two board members approved by AGM	Yes	Yes	Yes	Yes
Members of the supervisory board confirmed by AGM	Yes	Yes	Yes	Yes
Dual membership forbidden by law	Law	No	2 Dec 1998	Art. 1
No appointment without approval from AGM art. 148	Law	No	2 Dec 1998	Art. 55, 9B
Limit of Government officials in the supervisory board	No	No	No	No
Competitive recruitment of management board members	No	No	No	No
Monthly or quarterly report from the company to Parliament or SPF	SPF	SPF	SPF	SPF
Representation of minority shareholders or consumers	No	No	No	No
Financial statements available at CDC	Yes	No	No	No

AGM = annual general meeting, CDC = Corporate Development Center, SPF = State Property Fund.
Source: Hiley, John. 1999. *Capacity Building in Corporate Governance Case Study Methodology*. Manila. Corporate Development Centre of the Prime Minister's Office of the Kyrgyz Republic.

COMPLIANCE WITH LOAN COVENANTS

Reference	Covenant	Compliance at Program Completion Report Stage[1]	Current Status of Compliance
Loan Agreement (LA), Sec. 4.01(a)	1. The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, and corporate governance practices.		Partly complied with (see below).
LA, Sec. 4.01(b)	2. In carrying out the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 of this Loan Agreement		
	(Schedule 5)		
	Program Implementation and Other Matters		
	• Coordination and Administration		
	DESD, as the program Executing Agency, shall be responsible for the effective administration and disbursement of the proceeds of the loan.		
	To ensure effective coordination of program implementation, the Borrower shall establish, promptly after the effective date, a steering committee to oversee the implementation of the Program. The steering committee shall be chaired by the Prime Minister and its other members shall include the First Vice Prime Minister, the Minister of Finance, the Minister of Foreign Trade and Industry, the Minister of Justice, the Chairman of the Supreme Arbitrazh Court, the Chairman of the State Property Fund, the Chairman of the National Bank of the Kyrgyz Republic (NBKR), and the Chairman of the National Commission on the Securities Markets. The steering committee shall meet at least once every three months to ensure that the reforms under the Program are undertaken in line with the agreed timetable.		Not complied with. The steering committee never met.

[1]The program completion report did not report in detail on compliance with covenants.

Reference	Covenant	Compliance at Program Completion Report Stage[1]	Current Status of Compliance
	In addition to the steering committee, the Borr.ower shall, promptly after the effective date, cause a division to be formed within DESD for the day-to-day supervision of the Program's progress.		Initially complied with but the role of this effectively ceased 4 months after loan effectiveness with the resignation of the Prime Minister.
	The Borrower shall cause a Corporate Development Center (CDC) to be set up to promote the implementation of the guidelines contained in the *Handbook on Best Practice in Corporate Governance* by no later than 31 December 1997. The CDC shall be an inter-departmental unit reporting to the Prime Minister's Office.		Fully complied with.
	• Implementation of the policy letter The Borrower shall (a) ensure that the policies adopted and actions taken as described in the policy Letter prior to the date of this Loan Agreement continue in effect for the duration of the program period, and (b) promptly adopt the other policies and take the other actions included in the Program as specified in the policy letter, including the policy matrix, and ensure that such policies and actions continues in effect for the duration of the program period.		Complied with.
	• Counterpart Funds The Borrower shall ensure that the counter-part funds are used to provide budgetary support in connection with the implementation of policy reforms under the Program.		Partly complied with. Som70 million was transferred to the Social Fund as required but not used. The balance of the counterpart funds provided budgetary support but not in connection with implementation of policy reforms under the Program.

Reference	Covenant	Compliance at Program Completion Report Stage[1]	Current Status of Compliance
	• Social Fund		
	Without limiting the generality of paragraph above, the Borrower shall mitigate the social impact of the transition to a market economy by making adequate budgetary provision to the Government's Social Fund. In addition to the provision required to be made under the 1998 budget as a condition of Second Tranche release (para. 7 of Attachment 2 to Schedule 3 of this Loan Agreement [Conditions for Release of the Second Tranche]), the Borrower shall during fiscal years 1999 and 2000 provide budget funds to the Social Fund to cover the gap between its employment fund collections and revenues plus an additional Som20 million to mitigate the adverse social impact of the transition to a market economy. The Borrower shall provide the Asian Development Bank (ADB) on an annual basis during the program period with separate accounts for receipts on collections and budget subventions and payments made by the Borrower to the Social Fund on behalf of its Employment Fund.		Complied with but in the event there was no shortfall in the years concerned.
	• Policy Dialogue		
	(a) The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, the progress made in carrying out the policies and actions set out in the policy letter and in the formulation and implementation of new corporate governance and enterprise reform policies.		Partly complied with. Essentially, this role was filled by CDC rather than the Prime Minister's Office.

Reference	Covenant	Compliance at Program Completion Report Stage[1]	Current Status of Compliance
	(b) The Borrower shall promptly discuss with ADB problems and constraints encountered during implementation of the Program and appropriate measures to overcome or mitigate such problems and constraints.		Difficult to determine compliance. Role probably filled by CDC.
	(c) The Borrower shall keep ADB informed of policy discussions with other international and bilateral organizations and agencies that may affect the overall objectives and scope of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.		Difficult to determine compliance.
	• Benefit Monitoring and Evaluation		
	Before 31 December 1998, or such other date as the Borrower and ADB may agree, a review shall be carried out, and a report on the findings of such review submitted to ADB, concerning (a) the borrower's progress in implementing the policy reforms set out in the policy letter (including, in particular, the fulfillment of the conditions listed in Attachment 2 to Schedule 3 to this Loan Agreement [Conditions for Release of the Second Tranche]), and (b) the impact of these and earlier reforms on the development of the enterprise and other sectors of the economy. To facilitate this review, the program Executing Agency shall provide ADB with relevant information, in addition to the reports and information referred to in Section 4.05 of this Loan Agreement, in such detail as ADB may reasonably request. This review shall		Generally complied with except for the reports referred to in Section 4.05.

Reference	Covenant	Compliance at Program Completion Report Stage[1]	Current Status of Compliance
	form the basis for discussions between the Borrower and ADB on further measures that may be considered necessary or desirable to promote the continued reform of the enterprise sector.		
	The Borrower shall evaluate the benefits of the Program, after it has been completed, in accordance with a schedule and terms of reference to be mutually agreed upon by the Borrower and ADB.		Not complied with.
LA, Sec. 4.02	3. The Borrower shall make available, promptly as needed, the funds, facilities, services, and other resources which are required, in addition to the proceeds of the loan, for the carrying out of the Program.		Complied with although some delays and problems in making facilities and services available to the consultants.
LA, Sec. 4.03	4. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out the Program are conducted and coordinated in accordance with sound administrative policies and procedures.		Generally complied with although this role was probably filled by the CDC rather than the Prime Minister's Office as originally envisaged.
LA, Sec. 4.04(a)	5. The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the eligible items financed out of the proceeds of the loan and to record the progress of the Program.		Complied with.
LA, Sec. 4.04(b)	6. The Borrower shall enable the representatives of ADB to inspect any relevant records and documents referred to in paragraph (a) of this Section.		Complied with.
LA, Sec. 4.05	7. The Borrower shall furnish or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the loan, and the expenditure of the proceeds, and maintenance of the service thereof; (ii) the eligible Items financed out of the		Difficult to determine extent of compliance. The program completion report did not report in detail on compliance with covenants. Reports from Borrowers, if any were received,

Reference		Covenant	Compliance at Program Completion Report Stage[1]	Current Status of Compliance
		proceeds of the loan; (iii) the counterpart funds and the use thereof; (iv) the implementation of the Program, including the accomplishment of the targets, and carrying out of the actions set out in the policy letter and program matrix; (v) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters related to the purposes of the loan.		can't be found. Monitoring of reports and files might have been affected by several turnover of staff assigned to the program.
LA, Sec. 4.05(b)	8.	Without limiting the generality of the foregoing, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the policy letter and program matrix. Such reports shall be submitted in such form and detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and the proposed program of activities and expected progress during the following quarter.		Difficult to determine extent of compliance. The program completion report in detail on compliance with covenants. Reports from Borrowers, if any were received, cannot be found. Monitoring of reports and files might have been affected by several turnover of staff assigned to the program.
LA, Sec. 4.05(c)	9.	Promptly after the closing date for withdrawals from the loan account but in any event not later than 3 months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement, and the accomplishment of the purposes of the loan.		Difficult to determine extent of compliance. The program completion report in detail on compliance with covenants. Reports from Borrowers, if any were received, cannot be found. Monitoring of reports and files might have been affected by several turnover of staff assigned to the program.

Reference	Covenant	Compliance at Program Completion Report Stage[1]	Current Status of Compliance
LA, Sec. 4.06(a)	10. It is the mutual intention of the Borrower and ADB that no other external debt owed a creditor other than ADB shall have any priority over the loan by way of a lien on the assets of the Borrower. To that end, the Borrower undertakes (i) that, expect as ADB may otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien shall *ipso facto* equally and ratably secure the payment of the principal of, and service charge and any other charge on, the loan; and (ii) that the Borrower, in creating or permitting the creation of any such lien, shall make express provision to that effect.		Not applicable.
LA, Sec. 4.06(b)	11. The provisions of paragraph (a) of this section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than 1 year after its date.		Not applicable.
LA, Sec. 4.06(c)	12. The term “assets of the Borrower” as used in paragraph (a) of this section includes assets of any political subdivision or any agency of the Borrower and assets of any agency of such political subdivision, including NBKR and any other institution performing the functions of a central bank for the Borrower.		Not applicable.

DESD = Department of Economic Sector Development.