



Country Operations Business Plan

December 2014

Kyrgyz Republic
2015–2017

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 20 November 2014)

Currency unit	–	som (Som)
Som1.00	=	\$0.017
\$1.00	=	Som57.60

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	country partnership strategy

NOTE

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

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I. CONSISTENCY OF THE BUSINESS PLAN WITH THE COUNTRY PARTNERSHIP STRATEGY

1. The country partnership strategy (CPS), 2013–2017¹ of the Asian Development Bank (ADB) for the Kyrgyz Republic supports the National Sustainable Development Strategy, 2013–2017 approved by the President of the Kyrgyz Republic in January 2013.² The CPS and the government's strategies share a common goal of poverty reduction through inclusive economic growth. The strategic thrust of the country operations business plan, 2015–2017 is aligned with the CPS strategic objectives and priorities. ADB will continue to support the government in working to achieve inclusive economic growth by addressing key constraints to economic growth, improving the investment climate, and reducing disparities in access to economic opportunities. It will do this by helping reform legal and regulatory frameworks to improve the business environment, expand access to affordable finance across the country, improve the reliability of electricity supply, help people become more employable, maintain and enhance connectivity, and reduce the gaps between regions in levels of basic infrastructure and services.

II. INDICATIVE RESOURCE PARAMETERS

2. The Kyrgyz Republic is eligible for resources from the Asian Development Fund (ADF). The indicative ADF country allocation for 2015–2017 amounts to \$207 million. The final country allocation of ADF resources will be subject to available ADF commitment authority and the outcome of the country performance assessments. Cofinancing and funding from other sources, including the ADF subregional pool for projects, especially in energy and transport, will be actively sought. The nonlending program includes \$6.05 million of technical assistance grants for 2015–2017.

3. The private sector may access ADB's ordinary capital resources. ADB direct assistance for private sector projects may include lending to key sectors such as energy, transport and logistics, and finance.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

4. The results framework, attached to the CPS, 2013–2017, has no changes (Appendix 1). A description of the updated lending program for 2015–2017 (Appendix 2) and the program for 2014 (Appendix 3) follows.

5. **Public sector management for better investment climate.** In 2014, subprogram 3 of the Investment Climate Improvement Program completed a cycle of investment climate reforms, which started in 2008. A new cycle of policy-based support will be launched with the commencement of the Second Investment Climate Improvement Program, of which subprogram 1 and 2, each for \$20.0 million, are planned for 2015 and 2017. The program will support the government in reducing barriers to businesses, improving access to affordable financing, and promoting public–private partnerships.

6. **Energy.** The Power Sector Rehabilitation Project, Phase 2 for \$110.0 million in 2014 and phase 3 of \$64.0 million in 2016 will help complete the rehabilitation of the Toktogul Hydropower Plant, the country's largest generation asset of strategic importance. The Eurasian Development Bank has expressed interest in providing a preliminarily \$100.0 million as

¹ ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila.

² Government of the Kyrgyz Republic. 2013. *National Sustainable Development Strategy, 2013–2017*. Bishkek.

cofinancing for phase 2. The projects will (i) rehabilitate all four units of the Toktogul Hydropower Plant, (ii) implement a business processes improvement project for the Joint Stock Company Electric Power Plants, (iii) revalue all power system assets and assets of the Bishkek district heating company, and (iv) prepare a power system master plan and bankable due diligence report for the rehabilitation of the Uch Kurgan Hydropower Plant.

7. **Education and training.** For 2014, the \$22.0 million Strengthening Education System Sector Development Program is expected to improve the quality of curriculum and teaching and learning materials, the quality of teachers and in-service teacher training, and access to quality education. Under the program component of the sector development program, the government and ADB have agreed to implement a set of policy measures to support reforms to improve youth employability. ADB will continue supporting technical and vocational education and training through the Vocational Education and Skills Development Project, Phase 3 (\$20.0 million), which is included in 2017.

8. **Transport and logistics.** The 2014 program includes \$15.1 million to cover the cost overrun for the CAREC Transport Corridor 1 (Bishkek–Torugart) Project 3. The 2016 program includes \$49.5 million for the CAREC Corridor Maintenance and Rehabilitation Project; cofinancing of \$50.0 million is being sought, but is subject to the availability of funds. ADB will continue to support the government's plan to reform the road maintenance system, and will cooperate with the government in developing a comprehensive road asset management policy jointly with other development partners.

9. **Water supply and sanitation.** The Rural Water Supply and Sanitation Project (\$21.4 million) is included as a standby project in 2015. However, project processing is subject to the government's progress with water supply and sanitation sector reforms and demonstration of sufficient project implementation capacity in rural water supply and sanitation. The 2017 program includes the \$30.0 million Issyk–Kul Sustainable Development Project, Phase 2 to cover wastewater treatment plants in Balykchi, Cholpon–Ata, and Karakol, and a regional landfill that will cover all three towns.

10. The 2015–2017 nonlending program includes (i) capacity development technical assistance (CDTA) for Strengthening Government Capacity for Managing Development Projects in 2015, and implementation of the Second Investment Climate Improvement Program in 2016; (ii) a cluster CDTA for Monitoring of Impact of the Kyrgyz Republic's Accession to the Customs Union, of the total size of \$1.0 million, comprised of the three TA subprojects over 2015-2017; and (iii) project preparatory technical assistance for the Power Sector Rehabilitation Project in 2015; the CAREC Road Maintenance and Rehabilitation Project in 2015; the Vocational Education and Skills Development Project, Phase 3 in 2016; the Second Strengthening Education System Sector Development Program in 2017; and the Energy Sector Rehabilitation and Reform Project in 2017. For 2014, capacity development for Strengthening the Enabling Environment for Public–Private Partnerships, and project preparatory technical assistance for the Second Investment Climate Improvement Program, Subprogram 1 are included.

UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

(Board endorsement of the CPS: 2013; COBP: November 2014)

Country Development Goals				Changes from CPS or Last COBP
1. Strong and stable economic growth (average growth rate of real GDP to be above 5% for 2013–2017) 2. Job creation (350,000 additional jobs created during 2013–2017) 3. Poverty reduction in all regions (poverty rate to fall from 36.8% in 2011 to 25% by 2017, at the national poverty line, with a reduction in every province)				
Sectors Selected by ADB				Changes from CPS or Last COBP
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities	
1. Transport (Core Area 1: Infrastructure, 3: Regional integration)				
Enhanced connectivity and reduced regional imbalances and inequality	Increased, more efficient, and safer movement of people and goods Road traffic fatality rate decreased to 18 per 100,000 people in 2017 (2011 baseline: 19.2 per 100,000) International freight traffic increased to 345 AADT in 2017 (2011 baseline: 320 AADT)	International road and selected feeder road rehabilitation Road asset management system Road safety Cross-border facilitation	\$164.6 million in 2013–2017, 34.8% of total CPS envelope, and an additional \$60.0 million cofinancing, of which: ESG – 100% GEM – 0% PSD –0% RCI – 100% \$100.0 million, 21.2% of CPS envelope, of which: ESG – 100% GEM – 0% PSD –0% RCI – 100%	ADB's resource allocation increased from \$150.0 million to \$164.6 million
2. Energy (Core Area 1: Infrastructure, 3: Regional integration)				
Improved quality of energy supply	Improved electricity supply for domestic and international customers based on commercial tariffs: Domestic consumption increased to 8,500 GWh in 2019 (2010 baseline: 6,100 GWh) 10-year average of net exports by 2019 maintained at 2001–2010 average of 2,000 GWh/year	Transmission rehabilitation and wholesale metering Rehabilitation of an existing hydropower plant Improvement in distribution sector operations	\$174.0 million in 2013–2017, 36.8% of total CPS envelope, and additional \$100.0 million cofinancing, of which: ESG – 100% GEM – 0% PSD –0%	ADB's resource allocation increased from \$100.0 million to \$174.0 million

Sectors Selected by ADB				
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities	Changes from CPS or Last COBP
	Income to be distributed to generation, transmission, and distribution companies based on approved tariff by 2017 (2012 baseline: income is distributed based on short-term financial requirements)		RCI – 100%	
3. Education (Core Area 5: Education)				
Quality, results-oriented education system	<p>Modernized TVET infrastructure and improved quality of training relevant to labor market needs</p> <p>Percentage of employed graduates on the basis of contracts signed between PVSs and employer organizations increased to 30% in 2014 and 45% in 2020 (2011 baseline: 10%)</p> <p>Percentage of strengthened and modernized PVSs increased to 60% in 2014 and to 80% in 2020 (2011 baseline: 40%)</p> <p>Percentage of occupational standards that are developed in cooperation with employers increased for PVSs to 49% in 2014 and 60% in 2020 (2011 baseline: 12%, or 18 of 155), and for SVSs to 30% in 2014 and 60% in 2020 (2011 baseline: 2%)</p> <p>Quality of school education strengthened</p> <p>Annual coverage of teachers by in-service training courses increased to 20% in 2016 (2011 baseline: 8%)</p> <p>Net enrollment in grades 5–9 increased to 90% in 2016 and 95% in 2020 (2012 baseline: 84.8%)</p> <p>Percent of higher education institution graduates with a specialist diploma</p>	<p>Modernization of physical facilities</p> <p>Introduction of CBT methodology</p> <p>Skills development fund</p> <p>Curriculum development</p>	<p>\$42.0 million in 2013–2017, 8.9% of total CPS envelope, of which:</p> <p>ESG – 0%</p> <p>GEM – 100%</p> <p>PSD – 0%</p> <p>RCI – 0%</p> <p>\$22.0 million, 4.7% of CPS envelope, of which:</p> <p>ESG – 0%</p> <p>GEM – 100%</p> <p>PSD – 0%</p> <p>RCI – 0%</p>	<p>ADB's resource allocation increased from \$40.0 million to \$42.0 million</p>

Sectors Selected by ADB				
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities	Changes from CPS or Last COBP
	who gain employment at schools increased to 30% in 2015 and 50% in 2020 (2011 baseline: 19.3%)			
4. Multisector (Core Area Other: Public sector management and 4: Finance sector development)				
Appropriate environment to develop and improve private sector performance	<p>Improved business environment and investment climate</p> <p>Share of private investment in GDP increased to 20% in 2013–2017 (baseline: average of 17.6% in 2007–2010)</p> <p>Number of products exported with competitive advantage increased to 80 (average 2013–2017) (2011 baseline: 63)</p> <p>Number of access points for financial transactions in regions outside of Bishkek, Chui, and Issyk-Kul increased to 2,000 in 2017 (2012 baseline: 829)</p>	<p>Business environment and investment climate reforms</p> <p>Finance sector development</p>	<p>\$62.00 million in 2013–2017, 13.1% of total CPS envelope, and additional cofinancing of \$1.5 million, of which:</p> <p>ESG – 0%</p> <p>GEM – 97%</p> <p>PSD –100%</p> <p>RCI – 0%</p> <p>\$22.0 million, 4.7% of CPS envelope, of which:</p> <p>ESG – 0%</p> <p>GEM – 97%</p> <p>PSD –100%</p> <p>RCI – 0%</p>	ADB's resource allocation decreased from \$72.0 million to \$62.0 million
5. Water and Other Urban Infrastructure and Services (Core Area 1: Infrastructure)				
More people access improved water supply and sanitation services	<p>More people access improved water supply and sanitation</p> <p>Share of population using clean potable water increased to 92% by 2015 (2011 baseline: 91.5%)</p> <p>Share of population using sewerage increased to 40% by 2015 (2010 baseline: 26.4%)</p>	<p>Rehabilitation of rural and urban water supply, sanitation, and solid waste management facilities</p> <p>Improvement of sustainability, operation and maintenance, tariff policies, urban and rural governance</p>	<p>\$30.0 million in 2013–2017, 6.3% of total CPS envelope, of which:</p> <p>ESG – 100%</p> <p>GEM – 29%</p> <p>PSD –0%</p> <p>RCI – 0%</p>	ADB's resource allocation decreased from \$50.0 million to \$30.0 million.

AADT = annual average daily traffic, ADB = Asian Development Bank, CBT = competency-based training, CPS = country partnership strategy, COBP = country operations business plan, ESG = environmentally sustainable growth, GDP = gross domestic product, GEM = gender equity and mainstreaming, GWh = gigawatt-hour, PSD = private sector development, PVS = primary vocational school, RCI = regional integration, SVS = secondary vocational school, TVET = technical and vocational education and training.

Source: Asian Development Bank.

INDICATIVE ASSISTANCE PIPELINE
Table A2.1: Lending Products, 2015–2017

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA / PDA	Cost (\$ million)				
						Total	OCR	ADF ^a	Gov't	Co-finance
2015 Firm										
Second Investment Climate Improvement Program, Subprogram 1	PSM	GI	IEG, GCD, PSD, GEM	CWPF	2014	20.00	0.00	20.00	0.00	0.00
Total						20.00	0.00	20.00	0.00	0.00
2015 Standby										
Rural Water Supply and Sanitation Project	WUS	GI	ESG	CWUW	2014	21.40	0.00	21.40 ^b	0.00	0.00
Total						21.40	0.00	21.40	0.00	0.00
2016 Firm										
Power Sector Rehabilitation Project, Phase 3	ENE	GI	IEG, ESG, RCI, PAR	CWEN	2015	64.00	0.00	64.00	tbd	tbd
CAREC Corridor Maintenance and Rehabilitation Project	TRA	GI	IEG, ESG, RCI, PAR	CWTC	2015	99.48	0.00	49.48	tbd	50.00 ^c
Total						163.48	0.00	113.48	tbd	50.00
2016 Standby										
Issyk–Kul Sustainable Development Project, Phase 2	WUS	GI	ESG	CWUW		30.00	0.00	30.00	tbd	0.00
Total						30.00	0.00	30.00	tbd	0.00
2017 Firm										
Vocational Education and Skills Development Project, Phase 3	EDU	GI	IEG, GCD, GEM	CWPF	2016	20.00	0.00	20.00	tbd	0.00
Second Investment Climate Improvement Program, Subprogram 2	PSM	GI	IEG, GCD, PSD, GEM	CWPF		20.00	0.00	20.00	0.00	0.00
Issyk–Kul Sustainable Development Project, Phase 2	WUS	GI	ESG	CWUW		30.00	0.00	30.00	tbd	0.00
Total						70.00	0.00	70.00	tbd	0.00

ADB = Asian Development Bank; ADF = Asian Development Fund; CAREC = Central Asia Regional Economic Cooperation; CWEN = Energy Division; CWPF = Public Management, Financial Sector, and Trade Division; CWTC = Transport and Communications Division; CWUW = Urban Development and Water Division; EDU = education; ENE = energy; ESG = environmentally sustainable growth; GCD = governance and capacity development; GEM = gender equity and mainstreaming; GI = general intervention; Gov't = government; IEG = inclusive economic growth; OCR = ordinary capital resources; PAR = partnerships; PDA = project design advance; PPTA = project preparatory technical assistance; PSD = private sector development; RCI = regional integration; tbd = to be determined; TRA = transport; WUS = water supply and other urban infrastructure and services.

^a ADF grant share for 2015–2016 will be defined based on the 2014 ADB's debt distress risk assessment of the Kyrgyz Republic.

^b The project to be financed out of ADF savings allocation, subject to approval and pending government's progress with sector reform.

^c The cofinancing is subject to availability.

Source: Asian Development Bank estimates.

Table A2.2: Nonlending Products and Services, 2015–2017

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2015								
Power Sector Rehabilitation Project, Phase 3	ENE	CWEN	PPTA	TASF	750			750
CAREC Road Maintenance and Rehabilitation Project	TRA	CWTC	PPTA	TASF	1,000			1,000
Strengthening Government Capacity for Managing Development Projects	PSM	KYRM, CWPF	CDTA	TASF	600			600
Monitoring of Impact of the Kyrgyz Republic's Accession to the Customs Union (Subproject 1)	PSM	CWRC, KYRM	C-CDTA	TASF	500 ^a			500
Total					2,850			2,850
2016								
Vocational Education and Skills Development Project, Phase 3	EDU	CWPF	PPTA	TASF	700			700
Implementation Support for Second Investment Climate Improvement Program	PSM	CWPF	CDTA	TASF	500			500
Monitoring of Impact of the Kyrgyz Republic's Accession to the Customs Union (Subproject 2)	PSM	CWRC, KYRM	C-CDTA	TASF	250 ^a			250
Total					1,450			1,450
2017								
Second Strengthening Education System Sector Development Program	EDU	CWPF	PPTA	TASF	500			500
Energy Sector Rehabilitation and Reform Project	ENE	CWEN	PPTA	TASF	1,000			1,000
Monitoring of Impact of the Kyrgyz Republic's Accession to the Customs Union (Subproject 3)	PSM	CWRC, KYRM	C-CDTA	TASF	250 ^a			250
Total					1,750			1,750

ADB = Asian Development Bank; CAREC = Central Asia Regional Economic Cooperation; C-CDTA = cluster capacity development technical assistance; CDTA = capacity development technical assistance; CWEN = Energy Division; CWPF = Public Management, Financial Sector, and Trade Division; CWRC = Regional Cooperation and Operations Coordination Division; CWTC = Transport and Communications Division; EDU = education; ENE = energy; KYRM = Kyrgyz Republic Resident Mission; PPTA = project preparatory technical assistance; PSM = public sector management; TASF = Technical Assistance Special Fund; TRA = transport.

^a Cluster CDTA for \$1,000.00 is programmed for Monitoring of Impact of the Kyrgyz Republic's Accession to the Customs Union.

Source: Asian Development Bank estimates.

ASSISTANCE PROGRAM FOR THE CURRENT YEAR

Table A3.1: Lending Products, 2014

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/PDA	Cost (\$ million)						
						Total	OCR	ADB		Total	Gov't	Co-finance
								Loans	Grants			
2014 Firm												
Strengthening Education System Sector Development Program	EDU	GI	IEG, GCD, GEM	CWPF		22.00	0.00	0.00	22.00	22.00	0.00	0.00
Power Sector Rehabilitation Project, Phase 2	ENE	GI	IEG, ESG, RCI, PAR	CWEN		220.00	0.00	65.50	44.50	110.00 ^a	10.0	100.00 ^b
Investment Climate Improvement Program, Subprogram 3	PSM	GI	IEG, GCD, PSD, GEM	CWPF		22.00	0.00	0.00	22.00	22.00	0.00	0.00
Additional Financing for CAREC Transport Corridor 1 (Bishkek–Torugart) Project 3	TRA	GI	IEG, ESG, RCI, PAR	CWTC		15.10	0.00	10.80	4.30	15.10 ^c	tbd	0.00
Total						279.10	0.00	76.30	92.80	169.10	10.00	100.00

ADB = Asian Development Bank; ADF = Asian Development Fund; CAREC = Central Asia Regional Economic Cooperation; CWEN = Energy Division; CWPF = Public Management, Financial Sector, and Trade Division; CWTC = Transport and Communications Division; EDU = education; ENE = energy; ESG = environmentally sustainable growth; GCD = governance and capacity development; GEM = gender equity and mainstreaming; GI = general intervention; Gov't = government; IEG = inclusive economic growth; OCR = ordinary capital resources; PAR = partnerships; PDA = project design advance; PPTA = project preparatory technical assistance; PSD = private sector development; PSM = public sector management; RCI = regional integration; tbd = to be determined; TRA = transport.

^a Includes ADB subregional allocation of \$37.31 million (\$18.65 million for loans and \$18.65 million for grants) and ADF savings of \$38.00 million (\$19.00 million for loans and \$19.00 million for grants).

^b Preliminary allocation of \$100.00 million cofinancing from the Eurasian Development Bank.

^c Includes ADF savings of \$7.40 million (\$3.70 million for loans and \$3.70 million for grants).

Source: Asian Development Bank estimates.

Table A3.2: Nonlending Products and Services, 2014

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2014 Firm								
Second Investment Climate Improvement Program	PSM	CWPF	PPTA	TASF	600			600
Strengthening the Enabling Environment for Public–Private Partnerships	PSM	CWPF	CDTA	JFPR	1,000			1,000
Total					1,600			1,600
2014 Standby								
Strengthening Government Capacity for Managing Development Projects	PSM	KYRM, CWPF	CDTA	TASF	600			600
Total					600			600

ADB = Asian Development Bank; CDTA = capacity development technical assistance; CWPF = Public Management, Financial Sector, and Trade Division; CWUW = Urban Development and Water Division; JFPR = Japan Fund for Poverty Reduction; KYRM = Kyrgyz Republic Resident Mission; PPTA = project preparatory technical assistance; PSM = public sector management; TASF = Technical Assistance Special Fund; WUS = water supply and other urban infrastructure and services.

Source: Asian Development Bank estimates.