



Country Partnership Strategy

August 2007

Kyrgyz Republic

Joint Country Support Strategy 2007–2010

This Joint Country Support Strategy was prepared by the Asian Development Bank, Swiss Cooperation, United Kingdom Department for International Development, United Nations Agencies, and World Bank Group.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 5 July 2007)

Currency Unit	=	Som (S)
\$1.00	=	S 37.7
S 1.00	=	\$0.03

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AIDS	–	acquired immune deficiency syndrome
APR	–	annual progress review
ASP	–	Agriculture Sector Program
ASSP	–	Agricultural Services Support Project
BEEPS	–	Business Environment and Enterprise Performance Survey
BEIC	–	business environment and investment climate
CACILM	–	Central Asia Countries Initiative in Land Management
CAREC	–	Central Asia Regional Economic Cooperation
CDF	–	comprehensive development framework
CDM	–	clean development mechanism
CDS	–	country development strategy
CIS	–	Commonwealth of Independent States
CPA	–	country performance assessment
CPS	–	country partnership strategy
CSP	–	country strategy and program
DFID	–	UK Department for International Development
EA	–	Executive Agency
EITI	–	Extractive Industries Transparency Initiative
ENRM	–	environmental and natural resources management
ESW	–	economic and sector work
EurAsEC	–	Eurasian Economic Community
FDI	–	foreign direct investment
FSAP	–	Financial Sector Assessment Program
GDP	–	gross domestic product
GEF	–	Global Environment Facility
HIPC	–	heavily indebted poor countries
IDA	–	International Development Association
IFI	–	international financial institution
IMF	–	International Monetary Fund
IMR	–	infant mortality
IOM	–	International Organization for Migration
IsDB	–	Islamic Development Bank
JCSS	–	Joint Country Support Strategy
JFPR	–	Japan Fund for Poverty Reduction
KfW	–	Kreditanstalt für Wiederaufbau
KYRM	–	Kyrgyz Resident Mission
MAWRPI	–	Ministry of Agriculture, Water Resources, and Processing Industry
MDGs	–	Millennium Development Goals

MDRI	–	Multilateral Debt Relief Initiative
MMR	–	maternal mortality rate
MOF		Ministry of Finance
MTBF	–	medium-term budget framework
NBKR	–	National Bank of the Kyrgyz Republic
NGO	–	nongovernment organization
NPRS	–	national poverty reduction strategy
NPV	–	net present value
OECD	–	Organization for Economic Cooperation and Development
OED	–	Operations Evaluation Department
PBA	–	Performance-based allocation
PEFA	–	Public Expenditure and Financial Accountability program
PER	–	public expenditure review
PFM	–	public financial management
PIP	–	Public Investment Program
PIU	–	project implementation unit
PRC	–	People's Republic of China
PSD	–	private sector development
PSO	–	private sector operations
RETA	–	regional technical assistance
SCO	–	Shanghai Cooperation Organization
SME	–	small and medium-sized enterprise
SOE	–	state-owned enterprise
SWAp	–	sector-wide approach
TA	–	technical assistance
TB	–	tuberculosis
TICI	–	Transparency International corruption index
TVET	–	technical and vocational education and training
UMB	–	unified monthly benefit
UN	–	United Nations Organization
UNDP	–	United Nations Development Programme
U5MR	–	Under-5 years child mortality rate
WB	–	World Bank
WBG	–	World Bank Group
WUA	–	water users' association

NOTES

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

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- B. Technical Note on Country Cost-Sharing Arrangements

EXECUTIVE SUMMARY

Development Context Sixteen years after breaking away from the Soviet system, the Kyrgyz Republic is still in the process of building the State. The political environment is turbulent, marked by the 2005 March revolution and subsequent instability, with ongoing disputes for power within and between the Government, Parliament, and civil society. In this complex political environment, identifying appropriate reforms and reaching a consensus on their implementation is difficult. The existence of a vibrant civil society, and active political debate and participation will assist the process of consolidation of the State. Political stability and the sustainability of the current government will depend on making urgent and visible improvements in economic and social conditions, as well as clear results in attacking corruption, that meet the expectations of the population. In addition, consolidating basic market reforms already carried out, together with dynamic regional growth would provide opportunities for accelerating growth.

The Kyrgyz Republic, a landlocked mountainous country, faces formidable geographic barriers to its goal of obtaining a high, sustained rate of economic growth. Its isolation is a significant barrier to international trade and transport, which is further hampered by inadequate physical infrastructure and protectionist policies in neighboring countries. In addition, poor governance and low institutional and technical capacity have limited the implementation of reforms in many areas. Despite a sound record of macroeconomic performance in recent years, economic growth has been modest and volatile; a large burden of external debt has been accumulated and integration into global production and trade remains limited.

Poverty remains high although extreme poverty is moderate. About 43% of the population lives below the poverty line and 11% in extreme poverty. Almost three quarters of the poor and extremely poor live in rural areas.

Government Development Strategy The Government's Country Development Strategy 2007–2010 (CDS) approved in May 2007 focuses on four strategic pillars—economic development, governance and transparency in public administration, human development, and environmental sustainability—and builds on the strategy laid out in the National Poverty Reduction Strategy 2003–2005.

The CDS was prepared in a participatory manner, building on extensive consultations with a broad range of stakeholders, including representatives from Parliament, the private sector, and civil society organizations.

Joint Country Support Strategy This Joint Country Support Strategy 2007–2010 (JCSS) was prepared by the Asian Development Bank (ADB), Swiss Cooperation, United Kingdom Department for International Development, United Nations Agencies, and World Bank Group and is closely aligned with the Government's development goals. While recognizing that some CDS targets are overly ambitious, the JCSS partners share the well-placed emphasis of the CDS on labor productivity, competitiveness, and improved governance to:

- improve economic management consistent with strong and sustained pro-

- poor growth;
- reduce corruption, improve governance, and achieve effective public administration;
- build sustainable human and social capital through improved health and education outcomes; and
- ensure environmental sustainability and natural resource management.

ADB's Priority Sectors and Themes

Sectors:

- Agriculture and natural resources
- Education, including early childhood development
- Roads subsector (transport and communication sector)

Themes:

- Environmental sustainability
- Private sector development
- Regional cooperation

Financing Envelope (2007–2010)

The total Asian Development Fund allocation for the JCSS period (2007–2010) is estimated at \$117–128 mln, the final amount depending on the Country Performance Assessment scores, overall resource availability, and the proportion of the grant element.

Partnership Arrangements

The close collaboration during JCSS preparation among the development partners in general, and the five core agencies in particular, will continue during the JCSS implementation period, both in revising and updating the programs, and in monitoring and evaluating them.

Risks and Mitigation Actions

- **Political risks** can be mitigated by opening a dialogue with the Government, providing capacity building, helping improve governance, and raising awareness of the JCSS among various stakeholders.
- **Institutional and operational risks** can be mitigated by ongoing and proposed interventions and building on successes in specific areas.
- **Exogenous risks** could be managed by enhancing regional cooperation in areas of economics, trade, transit, environment, health, and security; and providing prompt assistance in cases of emergencies.

PART I: KYRGYZ REPUBLIC JOINT COUNTRY SUPPORT STRATEGY

I. INTRODUCTION

1. The Joint Country Support Strategy (JCSS) for the Kyrgyz Republic presents a core strategy of five development partners to support the Government's development agenda for the period 2007–2010. The strategy is a joint effort of the Asian Development Bank (ADB), Swiss Cooperation (SC), United Kingdom Department for International Development (DFID), United Nations Agencies, and World Bank Group (WBG).

2. The JCSS is a medium-term framework for managing cooperation between the Government of the Kyrgyz Republic and development partners to achieve national development and poverty reduction goals. It has been formulated in the spirit of national and international commitments and initiatives on aid effectiveness, particularly the Rome Declaration on Aid Harmonization and the Paris Declaration on Aid Effectiveness. Its objectives are to: align partners' support with the goals of the Kyrgyz Republic's Country Development Strategy 2007–2010 (CDS); present the underpinnings of the group's support; reduce transaction costs; and ensure a coherent, well-coordinated response to support the implementation of the CDS.

3. The JCSS is results-oriented, with a monitoring and evaluation framework derived from the CDS. The reform agenda in the JCSS draws on the authorities' own stated commitments, explicitly articulated in the CDS, which will be supported by development partner engagement, policy dialogue, financial assistance, and analytical work. The JCSS broadly outlines the ways in which partners will support the Government's efforts to achieve the CDS outcome targets.

II. POLITICAL AND ECONOMIC CONTEXT

A. The Political Context

4. From October 1990 to March 2005, the Kyrgyz Republic had 11 governments.¹ The frequent changes in personnel at the political level contributed to insufficient capacity in implementing policies and reforms. At the same time, the Kyrgyz authorities were more open to economic reform than were others in the region.

5. During the period 1990 to 2005, the Kyrgyz Republic made considerable progress in its transition to a market-based economy. The economy began to recover from the breakup of the Soviet Union in 1990, an event that was associated with severe declines in output, high inflation, and breakdown of the supply chains. The macroeconomic situation was stabilized and economic reforms laid the ground for a transfer of land and other assets to private ownership and generated private sector-led growth since the mid-1990s.

6. Progress in the reforms was mixed. In some areas, significant reforms were carried out during the mid-1990s. These successes, together with a willingness of the Government to engage in dialogue in most reform areas, probably encouraged development partners to overestimate the depth of reforms and contributed to an overambitious reform agenda on their part. The Government meanwhile was readily accepting all partner-suggested reforms—even those that it was neither able nor committed to implement—so as to maintain external financial flows. The result was that, while some real economic reforms were carried out, many reforms remained on paper either as policy statements or as legislation, and were not implemented,

¹ In that time, there had been 10 prime ministers, and the average duration of the cabinet was just over a year.

were unfinished, or would be undermined by ad hoc policy interventions, given the weak ownership of the reforms.

7. The generally unexpected and so-called Tulip Revolution of March 2005, when President Akaev lost power, was triggered by public dissatisfaction with the February 2005 elections. Underlying dissatisfaction with the absence of tangible impact from economic reforms, poor governance, corruption and increasing nepotism, were probably also significant. The revolution itself had nationalist connotations that have since been manifested in a growing distrust of the international community. Some aid agencies were perceived as having been too close to the old regime and, implicitly, as having fueled corruption without achieving significant development.

8. The revolution also set in motion a process of more open political conflicts between the Presidency, Government, and Parliament, and within these institutions, with the active participation of civil society. There has been some change of personalities in many government positions and some important gains in political freedoms have been made; however, the initial effect of the revolution was to worsen the governance environment. The country's assets are in demand among various interest groups, and there have been several disputes over property rights. In many instances, the consequences have been violent.

9. Since April 2006, there have been large rallies and demonstrations in which protesters have demanded implementation of promised reforms and expressed general resentment against ineffective policy, corruption, and growing criminality. These protests culminated in the implementation of delayed constitutional reforms in November 2006. The new constitution transferred some of the President's powers to Parliament; however, amendments that restored the presidential powers were reintroduced by his supporters in Parliament and passed in December 2006.

10. The combination of resurgent nationalism and civil society's concerns were important elements in the Government's decision in February 2007 not to seek assistance under the Heavily Indebted Poor Countries (HIPC) debt relief initiative. The decision indicated a more cautious and skeptical attitude to engagement with aid agencies, particularly as regards wide-reaching policy reforms.

11. Constitutional debates are ongoing, where other leading opposition movements in the country are demanding that the authorities undertake constitutional reform (with reinstatement of the spirit of the November 2006 Constitution) and early presidential elections. Large protests were organized to this effect in April 2007. The President and his Government, led by opposition representative Almazbek Atambaev, reestablished control, but the direction of future constitutional reform is still unclear.

12. The Kyrgyz Republic is still in the process of building the State. In this complex political environment, identifying appropriate reforms and, importantly, building consensus on them will be difficult. Nevertheless, support for change is already embedded in a number of areas. The existence of a vibrant civil society, which is the most robust in the Central Asian region, will assist the process of consolidation of the State. Political stability and the sustainability of the current Government will depend on making urgent and visible improvements in economic and social conditions, as well as clear results in attacking corruption, that meet the expectations of the population.

13. The Government's new CDS was endorsed by the National Development Council and launched by Presidential decree on 16 May 2007. The document attributes the limited pace of economic development and the skewed distribution of wealth to the unfinished development agenda (including delays in privatizing state enterprises that are deemed to be of strategic importance, fostering energy sector efficiency and forging a friendly business climate conducive to private sector growth), which was undermined by weak governance. The challenge for the new Government will be to provide a coherent framework to implement this development agenda; for the aid agencies, it will be to ensure that their support is effective in improving the economic and social conditions of the population.

B. Economic Developments

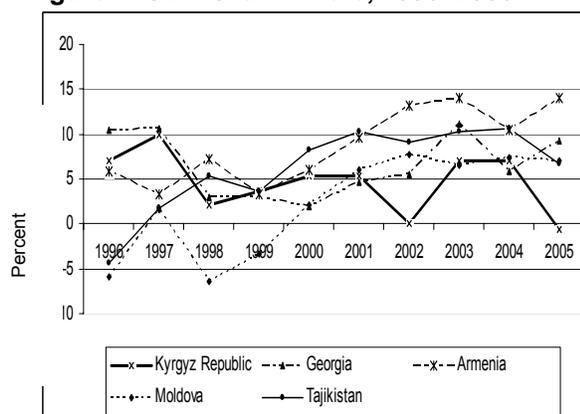
14. Despite a sound record of macroeconomic performance in recent years, economic growth has been modest and volatile; a large burden of external debt has been accumulated and integration into global production and trade remains limited. These outcomes reflect the pattern in economic reforms. Although in 1994–1998 the Kyrgyz Republic had been among the fastest reformers among the Commonwealth of Independent States (CIS) economies, the period between 1999 and 2006 witnessed reversal and stagnation in reform efforts. The paragraphs that follow present an assessment of the Kyrgyz Republic's growth performance since independence.

15. Few economies face initial conditions as challenging as those in the Kyrgyz Republic: a small population (just over 5 million) and one of the least accessible locations in the world. Its isolation is a significant barrier to international trade and transport, which is further hampered by inadequate physical infrastructure and protectionist policies in neighboring countries. Only about 7% of the country's land is arable. The two major natural resources are hydropower and gold. Known gold reserves are being depleted and, without new discoveries, they will be close to exhaustion within a decade. The output of hydropower has been constrained by depletion of assets that has taken place over the past 15 years.

16. Against this background, the trajectory of Kyrgyz output since transition is similar to that of the other small, resource-poor CIS countries (Figure 1). After an initial decline, real gross domestic product (GDP) started to recover in 1996 and reached 80% of its pretransition level by 2005. The initial output shock in the Kyrgyz Republic (50%) was less severe than that in other small resource-poor CIS countries² (where it was more than 60%).

17. Output growth was rapid only during the first years of adjustment. Subsequently modest growth was accompanied by high volatility. The Kyrgyz Republic grew at an annual rate of 4.7% during 1996–2005 (at less than 4% in 2000–2005). This growth rate was lower than that in similar CIS countries (i.e., 6–7% over the whole period and above 8% since 2000). There have been three major decelerations in 1998, 2002, and 2005 due

Figure 1. GDP Growth Rate, 1996–2006



Source: World Bank, ECA Regional Tables.

² The data refers to an average for Armenia, Georgia, Kyrgyz Republic, Moldova and Tajikistan.

to various exogenous shocks, including the 1998 regional financial crisis, the 2002 drop in gold production, and the 2005 political events.

18. Services, gold, and agriculture have been the main drivers of economic growth in the Kyrgyz Republic over the past decade. Growth relied primarily on agriculture in the 1990s (above 9% in 1996–1999) supplemented by the initiation of gold production (Table 1). After 2000, growth was dominated by services (driven by a growth of aggregate demand fueled by remittances) at 6.9% compared with 1.9% from 1996 to 1999. For the same reason, construction has also been growing strongly since 2000, at an average of over 10% annually. In contrast, the high agricultural growth rates of the 1990s declined to just 2.5% since 2000. While gold still contributes significantly to the balance of payments, it has had a negative overall impact on growth rates since 2000.

Table 1: GDP Growth Rates and Structure

	1991–1995	1996–1999	2000–2006
GDP (growth rate, %)	-12.5	5.7	3.9
Agriculture	-5.9	9.6	2.5
Construction	-12.4	-11.7	10.6
Gold ¹	0.0	10.6	-3.9
Power	NA	-1.9	1.1
Manufacturing and non-gold mining	-21.1	0.2	1.4
Services	-10.3	1.9	6.9
Non-gold GDP (growth rate,%) ²	-12.5	4.2	4.7

Source: National Statistical Committee, staff calculations

¹ Gold growth rate refers to 1998/99 only. Gold output was zero in 1996 and increased to 6.4% of GDP in 1997.

² Gold production was disrupted in 2002 and declined in 2005.

19. This growth pattern mirrors progress in the following economic reforms during the early years of transition: (i) tight monetary policy and reduction of inflation; (ii) public finance reforms including termination of direct budget subsidies; (iii) land reform and transfer of two thirds of all land to private ownership; (iv) privatization of small and medium-sized enterprises; (v) establishment of a two-tier banking system; (vi) initial tax, customs, and licensing reforms; (vii) trade liberalization; and (viii) World Trade Organization membership in 1998.

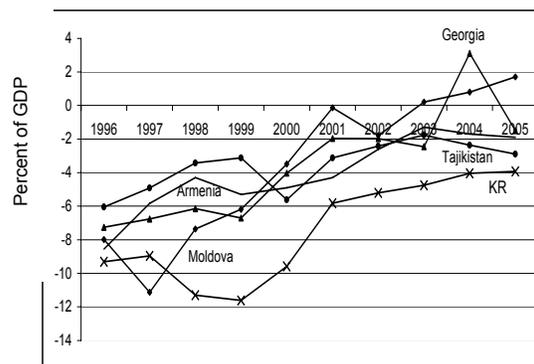
20. The initial period of growth and reforms was interrupted by the regional financial crisis of 1998, which had a disproportionate impact on the Kyrgyz Republic. This was partly due to the Kyrgyz Republic's close economic linkages with Russia and the most liberal trade regime in the CIS, but also to low capacity for coherent and timely policy responses.³ From 1998, macroeconomic stabilization was renewed. However, weak institutions for implementing economic policy undermined the ability of the State to deepen structural economic reforms. Fiscal reforms were slower than in other CIS countries, which stabilized their fiscal accounts by 2000 while undertaking second-generation reforms. The Kyrgyz Republic continued to run fiscal deficits of around 10% throughout the late 1990s. Even in 2001 when the Kyrgyz fiscal accounts

³ An example of this is the 1999 imposition of a 100% tax on wheat and flour exports—so that the government could replenish its own reserves at lower price—which stopped wheat exports at a time when the som had recently depreciated, making Kyrgyz goods highly competitive in regional markets.

strengthened due to increased tax collection, its fiscal position remained weak compared with that of the other CIS comparators (Figure 2).

21. Lower than expected growth and delayed fiscal adjustment resulted in longer and heavier reliance on foreign credits than in other CIS countries. The debt burden is high at over 70% of GDP in nominal terms in 2006 even after significant debt relief through two consecutive Paris Club restructurings. In 2005 the net present value (NPV) of debt to government revenues was 304%, making the Kyrgyz Republic eligible to seek debt relief under the HIPC, but strong revenue performance in 2006 reduced debt ratios to below those required for HIPC eligibility. About 13% of government revenue was required for debt service in 2006, and even without HIPC and Multilateral Debt Relief Initiative (MDRI) debt relief, this will decline to around 10% in 2010. But had the Government decided to participate in the HIPC initiative, this would have been cut to about 4% of revenues by 2010.

Figure 2: Fiscal Performance in CIS 5, 1996–2005



22. Some reforms were partial and remain unfinished. Relative prices in nontradable goods, particularly utilities, remain suppressed, hampering the gradual transformation of these sectors into profitable entities that generate savings and attract investments. Unlike in some other CIS countries, market signals continue to be distorted in the Kyrgyz Republic and resources are therefore only partially reallocated to sectors with the highest potential returns, further hampering diversification of the economy.

23. In addition, the blurred distinction between public and private sector activity, poorly defined property rights in practice, and the absence of effective mechanisms for conflict resolution through the judicial system both inhibit investment and contribute to pervasive corruption. According to official estimates, the private sector now accounts for 75% of GDP and 80% of employment. However, the amount of quasi-public activities remains large, and many “private” businesses are linked to senior officials, thus creating a large informal public sector from which officials derive rent.⁴

24. The above fuels interference by public officials in the economy. There are numerous mechanisms for this including arbitrary decisions, multiple inspection, discretionary issue of licenses, delays in issuing permits and documents, and even direct manipulation of prices of inputs and outputs. The private sector response is to operate informally. Responsiveness of the private sector to changes in formal policies, including tax cuts, is therefore small. It is estimated that about 53% of output is produced in the shadow economy.

25. Institutional weaknesses and widespread corruption in the public sector also diminished the ability and incentives of the public administration to act in the public interest and respond to the needs of the emerging private sector. This was the case in agriculture, where despite the liberalization of market and prices and an initial strong supply response to reforms, the absence of supplementary services and market access, and shortsighted trade policies became a

⁴ ADB. March 2007. *Private Sector Development in the Kyrgyz Republic: Issues and Options*.

constraint to further growth and diversification, once the domestic market was saturated. In addition, the agriculture sector experienced a decline in its terms of trade, similar to other transition economies. In the absence of alternative sources of growth and employment in the economy, agriculture absorbed surplus labor released from other sectors and remained a low-productivity activity.

26. In contrast to similar CIS countries, which adopted more liberal price and market policies and more rapid fiscal adjustment, gross domestic savings remained low, while foreign savings had to be gradually curtailed due to the growing indebtedness as a result of low savings. The slow pace of reform, particularly in the budget and public enterprise sector, is an important factor in both reducing corporate savings directly and reducing investment. Even the recent growth in remittances⁵ (which estimates suggest may amount to at least 19% of GDP), was insufficient to guarantee an adequate level of gross national savings, as the remittances have mostly been channeled to consumption. As a result, investment remains at only 20% of GDP and foreign direct investment (FDI) has been channeled almost exclusively into gold mining that, by its nature was less affected by market distortions.

27. The Kyrgyz Republic's close proximity to three fast-growing countries (People's Republic of China (PRC), Kazakhstan, and Russia) has provided an opportunity for the expansion of exports. Even after a decade and a half transition, production in the Kyrgyz Republic is mostly concentrated in non-manufacturing groups: primary agricultural goods (cotton, tobacco, hides, and skins), electric power, and gold. However, due to the above constraints, Kyrgyz' export supply has not adapted well to the shifting demand in these markets for increasingly sophisticated and high-quality food products and manufactures. Instead, a steady and growing flow of migrants has led to significant remittance flow into the Kyrgyz economy, mainly from Russia and Kazakhstan.

C. Poverty and Inequality

28. Poverty remains high in the Kyrgyz Republic although extreme poverty is moderate. According to official government data for 2005, on the basis of consumption per capita, an estimated 43% of the population lived below the poverty line and 11% were in extreme poverty. The national poverty line is chosen on the basis of the food and nonfood consumption pattern of the lower income group of the Kyrgyz population, and not on international poverty lines. The unit of observation for poverty statistics is the individual. Almost three quarters of the poor and extremely poor live in rural areas due not only to the higher proportion of the population living in this sector but also to the higher prevalence of poverty: 51% of the rural population lived in poverty compared with 30% of the urban population. The incidence of poverty is over 50% in five out of the eight oblasts (Batken, Naryn, Osh, Jalal-Abad, and Issyk-Kul), both in the northern and southern parts of the country. Poverty and low incomes are prevalent in those areas where geography (i.e., mountains), poor infrastructure, and cross-border issues constrain access to markets. A large number of the poor live in rural Osh and Jalal-Abad, which are the most populous oblasts. Bishkek has the lowest poverty rates estimated at 11%.

29. Economic growth has resulted in falling poverty over the last half-decade. In 2000 according to official government estimates, poverty affected 63% of the population and over the next 5 years fell by a remarkable 20 percentage points; however, that finding may in part be a reflection of a change in surveys. Even over the last 3 years, for which comparable data are

⁵ According to the International Organization for Migration (IOM), some 300,000 migrant workers from the Kyrgyz Republic work in the Russian Federation; the number for Kazakhstan is 50,000 (unofficial estimates are higher, at 400,000–700,000 in the Russian Federation, and 70,000 in Kazakhstan).

available, poverty responded strongly to economic growth: for every 1% increase in GDP per capita during 2003–2005, extreme poverty fell by 5% and overall poverty fell by 2%. The reduction in poverty has also been assisted by the decline in the real prices of utilities, which continue to be heavily subsidized and are far below their cost recovery levels. Much of the decline in poverty stems primarily from the fall in extreme poverty, especially in rural areas. Moderate poverty (the difference between overall poverty and extreme poverty) declined marginally from 33% to 32% and largely due to a decrease in urban moderate poverty rates.

30. Concurrent with changes in poverty, inequality fell slightly during 2000–2005. Official estimates of the Gini coefficient show a decline from 0.30 to 0.28 during this period. Inequality levels in the Kyrgyz Republic remain lower than in other countries of the Europe and Central Asia, reflecting the welfare system of large social direct and indirect transfers. Direct expenditure on social protection has been high but declining—20% of GDP in 1995 and 12% in 2001 and was topped up with indirect subsidies through utility prices estimated at 7–8% of GDP. Inequality in urban areas has seen the greatest improvement in this period although the sources of improvement require further analysis. This phenomenon may be driven by the greater employment opportunities available in the services sectors, greater access to subsidized utilities in the urban areas, or may be due to the higher remittance income that has helped raise incomes among the lower quintiles.

31. Both off-farm and on-farm income have been important to the reduction in rural poverty. Agriculture grew by an annual average of 2.6% during 2000–2005. The rural sector harbors many of the Kyrgyz Republic's poor who depend on their farm production for both their own household consumption and income. Furthermore, in the early years of this decade, income from household production, livestock, and property sales was an important source of income for the rural population, especially for those in the lower quintiles. However, over time, earned income from labor or entrepreneurial activity has significantly increased in importance for the rural population and now comprises three quarters of total income, indicating the growing importance of off-farm income in rural areas.

32. Poor domestic labor market outcomes linked to low output growth and little economic diversification have hindered a faster reduction in poverty and led to greater out-migration. Low wages, underemployment, and outright unemployment are important factors explaining poverty in the Kyrgyz Republic. Almost half of the employed work in the informal sector—agriculture and services—where productivity and wages are low. Furthermore, a large percentage of the population in the lower quintiles suffer from underemployment, which prevents them from increasing total income. Thus, it is not surprising that more able-bodied workers are leaving the Kyrgyz Republic to work abroad, with the result that remittance income is becoming an important source of income for those remaining behind.

33. Despite important gains in reducing poverty and inequality, the rate of improvement is likely to decelerate unless the economy can begin to create better, higher productivity, jobs. The Kyrgyz Republic's growth has been too low for a country that must still achieve large gains before reducing the income gap with its neighboring countries. Without sustainable growth in wages and employment, the population will be held hostage to an environment of relatively low-productivity jobs, thus constraining their future welfare.

D. Progress Towards Achieving the Millennium Development Goals (MDGs)

34. The Kyrgyz Republic has a mixed track record in its progress toward achieving the national MDGs (Table 2). It is unlikely that many of the MDG targets will be reached by 2015 if

the country continues along its current path. The country can potentially achieve its targets on poverty reduction, universal enrollment in primary education and literacy, and ensuring environmental sustainability, but is a long way from achieving its targets on child mortality, maternal health, and combating HIV/AIDS, TB, and other infectious diseases and in providing safe drinking water. Problems of malnutrition and underconsumption persist, especially among rural children and women. In addition, considerable effort will be needed to achieve gender equality at the post-education level. Making sustainable progress toward MDGs will require the development and implementation of a concrete plan of action and targeted investments in priority areas.

35. Enrollment rates in basic education are almost 95%, and the literacy rate is 99%. The 2003 household survey data show some disparity in the enrollment rates of school-age children (age 7–15 years) by household welfare, ranging from 88% for the poorest quintile to 94% for the richest quintile. However, over the past 5 years, the enrollment rate has been declining, coupled with the declining and uneven quality of education and a lack of qualified teachers in rural areas. The inability to provide good textbooks continues to be a pressing issue, as is the maintenance and development of school infrastructure. Their lack of access to quality education and opportunities for sustainable employment makes the youth one of the most vulnerable groups.

36. Health care reform in the Kyrgyz Republic has been ongoing for 10 years within the framework of the Manas National Health Care Reforms (1996–2005). The implementation of Manas I resulted in the development of an internationally recognized primary health care reform model with the following building blocks: increasing the focus on primary health care and family medicine, restructuring service delivery, and introducing a new health care financing model. Public health care facilities are now available throughout the country; although access of the poor to general medical services remains a significant issue due to high out-of-pocket costs.

37. There has been a general improvement in health outcome indicators such as infant (IMR), child (U5MR), and maternal (MMR) mortality. The variation of the IMR and U5MR since 2004 can be explained by methodological changes in calculating the mortality rates, with a move to internationally comparable methods. Additionally, the data for these indicators are extremely volatile from year to year: for example, the MMR reached 61 in 2005 and improved to 44 in 2006. Further, health statistics can often take several years to show improvements in response to reforms; and negative variations may reflect the underfunding in previous years. Ensuring universal access to qualified obstetrics and childbirth services is still a problem, especially in rural areas, as is access to preschool institutions and programs.

38. The country has integrated national systems for combating HIV/AIDS, TB, and other infectious diseases (including under the “Three Ones Principle” of the UN). Progress in reducing TB prevalence and slowing the rate of progress of the HIV and AIDS epidemic over recent years is encouraging. Problems remain, particularly in prisons; and effective implementation of national strategies, together with continued aid agency support, will be needed to meet the MDGs. Porous borders and increased drug trafficking increase the susceptibility of the country to HIV/AIDs, TB, and other infectious diseases.

Table 2: Progress toward the MDGs^a

Goals	Indicators	1996	2004	Target in 2015	Performance
Radical reduction of extreme poverty	Extreme poverty level (% of population)	19.1	8.5	6.7	On track
	Percentage of population living on less than \$2 a day (PPP)	39.9	30.4	19.5	On track
	Percentage of undernourished population (<2,100 kcal/day)	57 (1998)	48.2	27.7	Likely
Achieve universal primary education	Level of literacy of 15–24 years old (% of population)	99.5 (1999)	99.5	100	Likely
	Percentage of children in school, out of all school-age children	91.6 (1990)	94.9	100	Likely
Promote gender equality and empower women	Percentage of women in higher education institutions	51.2 (1990)	55.3	50	On track
	Percentage of women in economically active population	46.5	44.1	50	Unlikely
	Percentage of women in Parliament	6.7 (2001)	0	>30	Unlikely
	Ratio of women's salaries to men's salaries (%)	73	66.6	100	Unlikely
Reduce child mortality	Infant mortality rate per 1,000 births	30	25.7	8.5	Unlikely
	Under-five mortality per 1,000 births	41.3	31.8	10.4	Unlikely
Improve maternal health	Coefficient of maternal mortality (per 100,000 live births)	62.9	45	15.7	Likely
	Children delivered by qualified medical personnel (%)	98.9	98.2	100	Unlikely
	TB incidence/mortality per 100,000 people	52.1/6.7	129.2/15.9	52/7	Unlikely
	Brucellosis incidence per 100,000 people	12.8	43.9	12.8	Unlikely
	Number of people 15–24 years old infected with HIV	1 (1987)	32		
Ensure environmental sustainability	Forested areas as percentage of total area in country	4.75	4.32	>4.75	Unlikely
	Percentage of protected areas	0.2	2.2	>1.9	Likely
	Emissions of carbonic acid gas	6.2		<2.4	On track
	Greenhouse gas emissions (CO ₂ equivalent tons per capita)	7.7		<3.1	On track
	Emissions of ozone-destructive elements (tons)	118 (1991)	30		On track
	Percentage of population with access to clean potable water	81.3	81.5	90	Unlikely
	Percentage of population with access to safe sanitation	24	25.9	40	Unlikely
Develop a global partnership for development	Number of phones (including mobile) per 1,000 people	78	134	250	Likely
	Number of personal computers per 1,000 people	0.03	1.6	20	Unlikely
	Percentage of internet users	0.01	3.0	13	Likely
Enhance governance efficiency and democracy	Governance effectiveness (points) ^b	-0.28	-0.83	<0.5	Unlikely
	Regulatory quality (points)	-0.72	-0.06	<1	Likely
	Local democratic governance (points) ^c		5.75	>3.5	
	Control of corruption (points)	-0.79	-0.92	>0.5	Unlikely
	Civil freedoms (points)		4	<2.4	
	Democratic freedoms (points)		5	<3	

Source: UNDP

CO₂ = carbon dioxide, HIV = human immunodeficiency virus, kcal = kilo calories, MDG = Millennium Development Goals, PPP = purchase power parity, TB = tuberculosis^a Estimated by UNDP Kyrgyz Republic based on the technical note to the MDG Report for Europe and the CIS^b On a scale of -2.5 (the lowest point) to 2.5 (the highest point)^c On a scale of 1 (highest degree of democratic development) to 7 (the lowest level)

39. The Kyrgyz Republic can potentially reach the MDG targets for environmental sustainability. Progress on this front, however, has been very slow, due largely to lack of political will and commitment to institutionalize and effectively implement measures for protecting the environment. Achieving the MDG targets on providing access to potable water and sewage facilities is an important area that needs effective policy measures and increased financial investments.

40. Gender equity has been maintained in the education system with adequate female participation at all levels of education. However, achieving gender equality remains a serious issue at post-educational level; in fact, the Kyrgyz Republic has experienced an increased deepening of gender inequality since the fall of the Soviet Union. Women constitute 54% of the unemployed, and their wages make up 66% of those of men. Also, there has been a drastic decline in women's participation in decision-making processes and politics. Currently, there are no women members in Parliament or in the national Government, and only very few women at the ministerial level.

41. Progress toward achieving the MDG targets for global partnership for development is mixed. The country has shown considerable progress in the area of information and communication and will most likely achieve the targets.

E. Governance and Corruption

42. As a result of weak capacity and poorly defined institutional responsibilities, mechanisms to resolve conflicts over policy are underdeveloped and the ability of the Government to effectively enforce policies and laws is limited. Within the civil service, extensive patronage networks and low pay have made it difficult to establish a professional merit-based civil service. Moreover, since the March 2005 revolution, in many institutions technocrats have been displaced by administratively inexperienced officials, and thus public administration has been weakened. Only recently has the importance of a merit-based civil service been recognized; steps have been taken to implement reforms for the competitive selection of civil servants.

43. Many potential benefits of a market economy have not been realized as businesses are subject to numerous inspections and requirements (Box 1), often with different agencies inspecting the same aspect of the business. Tax regulations are numerous, inconsistent, and constantly being amended. Inconsistencies in the tax code create opportunities for rent-seeking behavior by tax inspectors, auditors, and tax police. Political instability has also contributed to rent seeking through the redistribution of assets held by officials of the previous regime. In addition to endemic administrative corruption, there is widespread rent extraction through key state-owned enterprises, particularly in the mining, energy, and communications sectors, which undoubtedly creates strong interests opposed to reforms. Problems with governance and corruption have been exacerbated since the 2005 revolution.

44. According to the 2005 Business Environment and Enterprise Performance Survey (BEEPS), 59% of businesses cited corruption as a significant obstacle to doing business. This figure is the highest in the region and indicates a worsening after the 2002 survey. The country was also ranked as 142 out of 163 countries on the 2006 Transparency International corruption index. Corruption covers a wide range of activities. In the provision of education and health services corruption has a corrosive effect and affects service delivery. The new Government has supported calls for a stronger line against corruption at all levels of government, but has not yet implemented any new policies.

Box 1: Doing Business in the Kyrgyz Republic

Business rankings for the Kyrgyz Republic reflect its relatively advanced legal framework but weak enforcement. The World Bank's doing-business indicators, based mainly on an assessment of the formal legal and regulatory framework; rank the Kyrgyz Republic slightly below the average for the world, above most CIS countries in terms of ease of doing business. While the World Bank's *Doing Business Report 2007* rates the Kyrgyz economy as a relatively easy place to do business, the World Bank/EBRD BEEPS suggest a deterioration of governance.

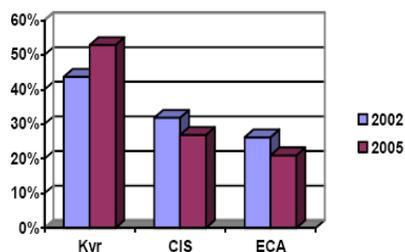
Ease of...	2006 rank	2005 rank	Change in rank
Doing Business	90	104	+14
Starting a Business	41	34	-7
Dealing with Licenses	143	138	-5
Employing Workers	63	64	+1
Registering Property	31	54	+23
Getting Credit	65	96	+31
Protecting Investors	33	33	0
Paying Taxes	150	152	+2
Trading across Borders	173	171	-2
Enforcing Contracts	38	37	-1
Closing a Business	127	129	+2

Note: 2005 rankings have been recalculated to reflect changes to the 2006 methodology and the addition of 20 new countries.

The 2005 BEEPS rated the Kyrgyz Republic highest in frequency of bribes, second-highest (to Azerbaijan) in the level of the bribe tax, and second-highest (to Albania) in the extent to which corruption is a problem for business. Moreover, two of three indicators— frequency of bribes and extent to which firms see corruption as a problem for business—increased from 2002 to 2005, in contrast to the trends in most of the countries in the region.

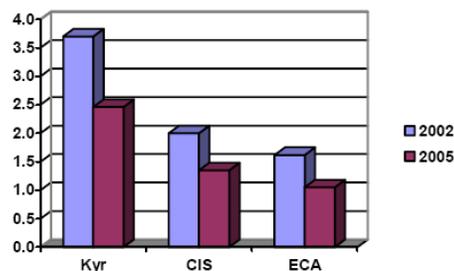
Bribe Frequency

Percent of firms saying unofficial payments are frequent



Bribe Tax

Bribes as a share of annual sales



Source: World Bank/EBRD *Business Environment and Enterprise Performance Survey 2005*. World Bank *Doing Business 2007*.

CIS = Commonwealth of the Independent States, EBRD = European Bank for Reconstruction and Development, BEEPS = Business Environment and Enterprise Performance Survey

45. Despite the problems described, the Kyrgyz Republic does have relatively liberal legislation in many areas, low formal government interventions, and a formally deregulated business environment. This environment has created a basis for a steadily developing business

community that, in turn, has helped stimulate a buoyant civil society, opening the way for increased voice and accountability. Following the March 2005 revolution, civil society has consistently called on the authorities to fulfill their commitments to fight corruption and organized crime, and the authorities have in turn engaged in active dialogue with civil society. The mass media is freer now, and an environment of active political debate prevails.

46. Numerous initiatives, focusing largely on legal frameworks, have been undertaken in recent years. Among them are the adoption of an anticorruption law, establishment of councils on good governance (in 2003 and 2004) to advise on the anticorruption policy, legal reform to improve the business environment, establishment of an anticorruption commission in 2005, and a law on the declaration of income and assets of high state officials. However, relatively little attention has been paid to implementation, capacity building, and upgrading of managerial skills. Practical enforcement and implementation have been slow and, in practice, have not yet had significant impact.

47. Implementation of the Extractive Industries Transparency Initiative (EITI), to which the Kyrgyz Republic signed on in July 2004, is a potentially important measure. However, overly ambitious commitments combined with a lack of capacity have implied only partial compliance with the EITI. Nevertheless, the authorities have renewed their commitment to the EITI in the CDS and are receiving technical assistance in its implementation.

III. THE COUNTRY DEVELOPMENT STRATEGY 2007–2010

A. CDS Development Visions and Priorities⁶

48. The CDS for 2007–2010, prepared by Kyrgyz authorities, builds on the policy experience from the National Poverty Reduction Strategy (NPRS). The CDS is anchored on four pillars—growth-oriented economic development and improving the business environment, governance and transparency in public administration, human resource development, and environmental sustainability and natural resources management.

49. The CDS was prepared in a participatory manner, building on extensive consultations with a broad range of stakeholders, including representatives from Parliament, the private sector, and civil society organizations.⁷ The JCSS development partners have likewise provided comments on the earlier versions of the CDS, but the vision and the spirit of the document remain as those of the authorities. While recognizing that some CDS targets are overly ambitious, and/or in need of further justification, the JCSS partners share the well-placed emphasis of the CDS on labor productivity, competitiveness, and governance improvement in achieving these targets.⁸

⁶ Government of the Kyrgyz Republic. 2006. *Country Development Strategy, 2007-2010*.

⁷ The government launched the CDS preparation process in January 2006, and set up a working group comprising representatives from these various groups with an explicit mandate to update and extend the poverty strategy to 2010. The mandate involved drafting a poverty reduction strategy that reflects the renewed aspirations of the populace in the aftermath of the March 2005 Tulip Revolution. During the preparation process, the working group consulted development partners and representatives of IFIs and completed a final draft of the CDS in December 2006 incorporating comments from a preliminary review by the IFIs.

⁸ A detailed assessment of the CDS, shared by the JCSS partners, is provided in the IMF-IDA Joint Staff Advisory Note (April 2007).

B. Growth-Oriented Development

50. The CDS focuses on consolidating the macroeconomic stability attained during implementation of the NPRS, to foster further growth and poverty reduction. Continued fiscal prudence should support long-term growth and help maintain macroeconomic stability. The primary deficit of the general government is expected to decline to an average of 2.75% of GDP during 2007–2010, reflecting continued improvements in revenue mobilization and streamlining of expenditures. Success in improving the legal infrastructure and tax administration would yield higher tax revenues in support of the projected fiscal path. At the same time, fiscal savings will be sought through enhanced budget management and prioritization of spending. The CDS also identifies improving public financial management (through tax reforms and prudent expenditure management including better targeting of social spending) and improving governance as crucial for establishing a stable and transparent environment that is conducive to private investment.

51. The authorities are also committed to contain inflation in the low single digits and enhance financial intermediation. Inflation, which bottomed out at 2.2% in 2002, averaged 4.2% in 2003–2006 and is expected to stabilize at around 4% in the long term. At the same time, the National Bank of the Kyrgyz Republic (NBKR) plans to enhance the effectiveness of the payment system, champion legislative amendments to strengthen the legal foundations (including for collateral use and recovery in the case of default) for risk-taking, and step up bank supervision.

52. The CDS underscores the need to diversify the economy, given the recent swings in productivity and growth stemming from performance variations in a single dominant industry—mining.⁹ To achieve significant reductions in poverty, the CDS focuses reform efforts on sectors and industries that can provide the maximum cumulative contributions to GDP growth. The CDS envisages a target economic growth rate of 8% in 2007–2008 and 8.5–9% in 2009–2010. Nonetheless, it will be important to identify the right combination and sequencing of policies for attaining the required economic diversification; general improvements in the business environment could help in this direction. The focus will be on improving labor productivity, diversifying the economic base, pursuing a liberal trade policy, and accelerating growth in key sectors described in the succeeding paragraphs.

53. The CDS places a very high priority on the energy sector as an engine of growth, and broadly identifies the necessary policy and investment measures for further development of the sector. The objectives are to (i) deliver a reliable, sustainable, long-term energy supply, while strengthening the sector's financial situation by reaching cost recovery tariffs by 2010; (ii) enable the sector to play its role in underpinning strong economic growth; and (iii) ensure that the poor have the resources to pay for the energy required to satisfy basic needs. The Government will also foster private sector participation in the energy sector. The cabinet has established the Ministry of Industry, Energy and Fuel, which will be responsible for energy policy. Some decisions, such as a medium-term tariff policy, measures to improve financial discipline and improve corporate governance and transparency, have been taken recently, which shows a renewed commitment.

⁹ The CDS envisages the following measures for promoting diversification of the economy: measures directed at promoting exports, including those of the agricultural processing enterprises and services industry; better understanding of the countries' comparative advantages; proper regulation of the foreign investments process; reducing production and transaction costs and facilitating access to foreign markets for locally produced goods and services; improving customs-tariff policy and participation of the Kyrgyz Republic in the formation of the single customs tariff of Eurasian Economic Community (EurAsEC).

54. The CDS places a high emphasis on private sector participation. However, implementation of the chosen policies and measures—which are not new—remains a concern, especially given the lack of a legal framework, political consensus on private sector participation, etc. The desired investment levels are too high at \$3.5 billion for the energy sector alone, and the country would be extremely fortunate to mobilize perhaps a tenth of such an amount.

55. To enable the mining sector to play its rightful role in spurring strong economic growth, the Government is committed to creating a suitable legal and regulatory environment that provides security of *tenure* through an efficient licensing system for local and external investors. The CDS proposes new legislation that will create in the sector transparency in the award of concessions as well as the regulation and supervision thereof and the adoption of a fiscal regime consistent with international norms. Publishing audited financial reports of state revenues originating from the mining sector in accordance with the country's obligations under the EITI will lend credibility to the Government's stated commitments.

56. The CDS focuses on agriculture as a key sector for output and employment. The Government is committed to completion of land reform and new legislation supporting the development of the agroprocessing industry. Irrigation is a critical input for profitable and market-oriented agricultural production, but is dealt with very briefly in the CDS. In addition, specific proposals in the document bear no apparent relevance to its underlying goals and do not take into account the institutional weaknesses and lack of the resources needed to implement them.

C. Improving Governance and the Business Environment

57. The CDS places improving governance high on the agenda, and emphasizes fighting and reducing corruption in particular. It recognizes that a principal constraint on economic development is corruption. Government ineffectiveness and poor performance in delivering basic social services will be tackled through political reform, deregulation of the economy, effective public administration, and legal reform. A key element is the creation of an impartial and effective judicial system. The CDS envisages moving away from authoritarian approaches in public governance and a transition to a genuinely democratic management model in partnership with civil society. Fiscal decentralization will be pursued actively by giving local communities greater authority over spending priorities and strengthening their budgets so that poverty reduction can be achieved more effectively on the ground.

58. Policies and actions will focus on creating a favorable business environment that supports private sector development and an investment climate that will attract foreign investment. Reforming the tax system, including lowering taxes, increasing the tax-to-GDP ratio, improving tax administration to minimize harassment of taxpayers and boost compliance, and improving the efficiency of customs administration will be priorities. In addition, continued effective financial sector supervision to forestall risks and boost financial intermediation would be necessary to underpin improvements in the business climate. The authorities plan to use the Public Investment Program (PIP) as a key vehicle to channel resources to the infrastructure that will help in developing the agriculture, industry and social sectors.

59. The CDS recognizes the importance of public administration and civil service reforms and the necessity of building an effective and professional Government to ensure a favorable environment for private sector development and economic growth. The document includes a range of activities, such as optimization of the Government's structure based on functional

reviews, cadre rightsizing, and strengthening the capacity of civil servants. The Government has conducted such horizontal functional reviews of all ministries and agencies in the past with some support from aid agencies, but failed to implement the most critical recommendations of the reviews.

D. Human Resources Development

60. The CDS recognizes that the future of the Kyrgyz Republic is dependent on the quality of its labor force and the well-being of its population. Human and social development priorities in the CDS include access to increased and affordable education and health services; favorable living conditions with access to water, sanitation, and basic social services; and social protection for vulnerable groups in the population. However, the authorities will need to translate these rather broad policy statements into a set of time-bound actions with adequate allocation of resources in the annual budgets, with a clear and appropriate pro-poor focus.

61. The CDS summarizes key issues facing the health sector and how the Government's new comprehensive Manas program, the Manas Taalimi, will address this during the CDS period. The country has shown strong performance on health reform over the past 10 years, and the Government is committed to continued good performance on budget planning and execution that will broaden and deepen the efforts to address the remaining issues in this sector, including achieving the health-related MDGs. The Government is also committed to continue the upward trend in overall financing for the sector to compensate for the declines from 2000 to 2004.

62. The CDS lays out a series of important tasks facing the education sector. It identifies providing access to and improving the quality of basic secondary education, as well as making available good textbooks and appropriate school infrastructure. The Government intends to bolster targeted support for children from vulnerable households, and gradually increase financing for primary/secondary education, while introducing a capitation financing model that incorporates minimum standards. The Government is committed to raising expenditure on education from 4.9% of GDP in 2005 to 5.5% by 2010.

63. The CDS correctly identifies poor targeting as one of the main problems in the social assistance system. Consistent with good international practice, the Kyrgyz Republic had implemented a system to identify low-income households—the Unified Monthly Benefit (UMB)—and provide guaranteed minimum income to 534,000 persons (10.4% of the population) in 2005. An improved UMB methodology has been submitted for parliamentary approval, and its implementation would improve targeting and reduce beneficiaries by at least 15%, using the savings to increase benefits.

64. The analysis of environment sustainability in the CDS—the fourth pillar— identifies many issues including the risks of natural disasters from earthquakes, mudslides, and avalanches (the latter two linked to the problem of deforestation) and the threats to health from uranium tailing and other hazardous wastes. A key government priority is the appropriate management of natural resources. However, the links to economic and social development are less well articulated.

E. Results of and Lessons Learned from NPRS Implementation

65. The CDS builds on the results achieved during the implementation of the NPRS. Solid results were achieved in poverty reduction, as described in the section on poverty and

inequality. The Government's record on improving governance has been weaker than what was hoped for. Measures to increase efficiency, transparency, and fiduciary controls in the public sector have proceeded reasonably well at the technical level, but commitment to drive through core policy reforms—particularly with respect to corruption and civil service reform—has decreased considerably.

66. Two key lessons became apparent during the second review¹⁰ of NPRS implementation: (i) the need for sound resource planning and mobilization, and (ii) the need for an effective monitoring mechanism. The NPRS and the policies to implement it were not linked strongly enough to the state budget and resource planning. Government and aid agencies also need to become more outcome focused by adopting a common monitoring framework, and link sector reforms and investment operations much more closely with the national budget process.

67. The reform agenda, particularly with respect to energy, the civil service, and the business environment, was too complex and overly ambitious in an environment of limited political will. Implementation in most sectors has been weak; however, there have been good results in health and social protection, community-managed development, land registration, and irrigation. Significant improvements in aid coordination notwithstanding, projects and programs are being spread across too many areas, adversely affecting implementation capacity. Greater government ownership, along with better cross-sectoral diagnosis in such areas as investment climate, improved service provision, and public sector transparency, is crucial.

68. This experience suggests that the most useful interventions will be those that support basic reforms rather than second- or third-generation reforms where institutional capacity has not yet been developed. Thus, greater selectivity is called for, both in the areas of engagement and choice of aid agency programs, so as not to place a heavy burden on the Government. It is also important that institutional arrangements such as the establishment of project implementation units (PIUs) or policy units staffed by consultants be carefully examined before interventions are agreed upon with the Government.

F. Monitoring and Evaluating Progress of the CDS

69. In identifying approaches for mitigating poverty and social deprivation, the CDS sets up benchmarks consistent with the MDGs. The CDS has enhanced the mechanisms for monitoring and evaluating progress, although these are still not fully articulated; the strategy includes plans to involve civil society and development partners in evaluating progress during implementation.

70. Monitoring indicators for the CDS concentrate largely on macroeconomic outcomes, governance, and business environment outcomes. In addition, monitoring targets in some of the production sectors, such as agriculture and energy, will assist in implementing the CDS. The CDS also proposes monitoring of the strategy both through official channels and by civil society.

IV. DEVELOPMENT CHALLENGES AND OPPORTUNITIES

71. From the analysis in the preceding sections, a number of key challenges that need to be addressed and overcome emerge. First, shoring up political commitment and country ownership of the reform agenda will be crucial. Second, capacity—resources, and technical and implementation capacity—will need to be developed. Third, prioritizing and sequencing the implementation of the reform agenda will have to be worked out in each of the priority areas

¹⁰ Government of the Kyrgyz Republic. 2006. *Second Review of NPRS Implementation*. Bishkek.

identified by the Government. The following paragraphs outline in greater detail specific challenges that the Government faces and will have to address in implementing the CDS.

A. Supporting Growth over the Long Term

72. A key macroeconomic challenge for the Government is to overcome the remaining structural weaknesses of the economy and to move toward sustained output growth. The Government is committed to reduce the general government primary deficit to an average of 2.7% of GDP during 2007–2010, reflecting continued improvements in revenue mobilization and streamlining of expenditures. During the JCSS period, assuming the reforms outlined in the CDS are implemented, growth is expected to average 5% supported mainly by the recovery of the gold sector and continued growth in services. Growth in external aggregate demand fueled by continued benign economic conditions in neighboring Russia, Kazakhstan, and the PRC would help maintain export growth and the flow of remittances. Acceleration of export growth should help reduce the external current account deficit.¹¹

73. The debt sustainability analysis suggests that debt ratios are likely to improve over time. However, improvement will take place gradually, despite the Government's decision not to seek HIPC debt relief, assuming that macroeconomic targets can be maintained and that structural reforms facilitate the growth of GDP and government revenues. It is estimated that using data for the end of 2006, the net present value (NPV) of debt-to-government revenues had already declined to 240% (below the HIPC eligibility threshold). Nevertheless, the debt outlook remains highly vulnerable to exogenous shocks or reversal of prudent macroeconomic policies.

74. In the event of strong implementation of structural reforms, it is possible that high productivity growth—stemming from improvements in resource efficiency that result from correcting relative price distortions and improvements in the business climate—will provide additional stimulus to output growth and non-gold exports. Reforms that are envisaged to promote diversification and boost long-term competitiveness include (i) developing the necessary infrastructure to support private sector activity, particularly in the area of trade and agriculture; (ii) reducing the regulatory burden on the private sector; and (iii) strengthening the judiciary and championing legislative amendments to strengthen the rule of law and property rights.

75. The Kyrgyz Republic can further extend its growth potential over the medium term if it revitalizes reforms in the key growth-generating sectors. Agriculture remains the strongest component of the Kyrgyz Republic's economy and should remain an important focus area for the future. It is also the most important sector because of its essential role in providing employment, food security, and consumer price stability. Since 1996, the sector has been characterized by a reduction in subsistence food orientation and the emergence of commercially oriented peasant farms. These small family farms have been the engine of agricultural growth. In a supportive policy and public investment environment, their contribution could increase further.

76. There is considerable but largely unexploited potential for the development of agribusinesses in food, cash crops, and horticultural processing, and in inputs for light industry. It will require diversification toward high value-added production and a wider range of better

¹¹ The current account deficit has recently increased considerably. While imports increased rapidly and gold exports somewhat declined, the current account deterioration may partly reflect a revision in the statistical series on shuttle trade, which is mirrored by a large increase in net financial capital inflows, including errors and omissions. Also, recorded remittances may be underestimated.

quality processed products. The Government has outlined various policies for promoting agricultural development, including measures to strengthen private property rights in land ownership and facilitate the sale and use of land as collateral. Irrigation services and water resource management will likely be decentralized to local users and privatized. Experience suggests that farmers and local communities are willing and capable of assuming responsibility for many aspects of local development. The growing role of water users' associations (WUAs) in irrigation and the response of farmers to opportunities provided by the formation of service cooperatives are further evidence of that willingness and capacity. Recent sector studies¹² have underscored the importance of a vigorous development of the nonfarm rural economy.

77. Major reforms are still needed in the utility sector to put it on a sound financial footing. The Kyrgyz Republic has considerable energy resources. Its hydroelectric resources are of the order of 26,000 megawatts (MW) of which only about 10% is exploited. It has coal reserves in the order of 1.2 billion tons. In addition, the country has a developed electricity transmission and distribution system that has ensured that 100% of the population has access to electricity. Premised upon progress in implementing the Government's energy sector reforms, it may attract FDI to finance construction of new hydroelectric stations and transmission lines to potential export markets in South Asia. The first step in tapping this potential will be to undertake financial and technical rehabilitation of the domestic electricity sector to restore its viability. The energy companies have accumulated a huge amount of debt—leading to a quasi-fiscal deficit amounting to 7.6% of GDP in 2005—that needs to be resolved. Actions to reduce losses both financial and technical, and improve cash collections—through a combination of policy and investment measures—will be necessary to attract the considerable financing that large projects will require. Critical actions in the CDS period that focus on financial rehabilitation of the sector could lay the foundation for longer term growth.

78. To take better advantage of the potential of the country's mineral resources, reform needs to continue in the mining sector. The CDS identifies the mining sector as another potential area for supporting long-term growth if FDI can be attracted to exploit new gold deposits (e.g., at Jerui), rare earth minerals, and subsurface resources. The development of a robust mining industry is perceived as key to economic development and the social welfare of the population in mountainous areas. The task (which is a difficult one) is to enact new legislation and adopt a fiscal regime consistent with international norms.¹³ Publishing audited financial reports of state revenues originating from the mining sector in accordance with the country's obligations under the EITI will lend credibility to the Government's stated commitments.

79. Continued improvements to the lending environment that expands access to finance are necessary, as the level of financial intermediation remains low. The Government needs to design and implement a comprehensive financial sector policy and institutional reform that focus on the following priorities, among others: (i) strengthening the financial sector supervisory framework, (ii) adoption of international standards of governance for financial intermediaries as well as full disclosure of beneficial ownership, (iii) strengthening deposit-taking institutions by increasing minimum capital requirements, (iv) weaning microcredit institutions away from a reliance on concessional funding toward market-based funding, (v) developing access to

¹² Government of the Kyrgyz Republic. 2006. *Agricultural Sector Strategy*. Bishkek (prepared with ADB assistance); World Bank. 2004. *Agricultural Policy Update*, and 2007. *Livestock Review: Embracing the New Challenges*.

¹³ Recent hearings and approval on first reading by Parliament of the draft law on the gold mining sector have raised concerns from the business community over the risks of expropriation and feasibility of future investments in the mining sector. These concerns were expressed by the business community to the authorities in April 2007.

alternative financing instruments for small and medium-sized enterprises (SMEs) including equity markets, (vi) reforming the legal and regulatory framework for insurance, and (vii) supporting a voluntary funded pension pillar.

80. A critical path to achieve rapid growth is to deepen and diversify the financial sector and improve access to credit. As of June 2006, there were only 232,900 bank accounts for a population of 5.1 million people. The assets of banks and nonbank credit institutions were 22% and 4% of GDP, respectively, in 2005. The turnover in the payment system is low, at 1.45 times GDP in 2005, compared with 5 times GDP in middle-income countries and a turnover equivalent to GDP every 3 to 5 days in high-income industrialized economies (Table 3).

Table 3: Summary Financial Sector Statistics for Selected Transition Economies^a

Country	No. of Banks	Interest Spread ^b %	NPLs ^c (% of total loans)	No. of Credit Unions	% of GDP				
					Broad Money	Bank Assets	Bank Deposits	Insurance Premium	Equity Market Cap.
Kyrgyz Republic	19	22.6	7.0	306	18	19	8.6	0.2	1.5
Armenia	20	14.0	7.2	—	15	19	6.0	0.4	0.8
Azerbaijan	42	8.9	8.2	28	18	18	12.0	0.8	0.1
Kazakhstan	35	9.0	13.1	52	21	49	30.0	0.7	7.5
Mongolia	17	11.2	11.0	570	47	61	39.0	0.5	1.4
Uzbekistan	33	3.5	1.5	—	9.3	37.8	2.1	0.3	4.4

GDP = gross domestic product, No. = number, NPL = nonperforming loan.

^a Data in Table 3 is for 2003 or 2004, depending on availability.

^b Difference between average lending rate and average deposit rate, as published in *International Financial Statistics*.

^c Official figures from national banking sector supervisory bodies. Independent estimates for Uzbekistan are much higher.

^d Calculated as the total capitalization of the most actively traded companies listed at the stock exchange.

Sources: National Authorities, International Monetary Fund (IMF) *International Financial Statistics*, Financial Sector Stability Assessments, Article IV Consultation Reports, and European Bank for Reconstruction and Development (EBRD) Transition Report 2004.

81. Effective measures must be taken to properly maintain with limited resources the road network in the Kyrgyz Republic (Table 4). Due to fiscal constraints, funding for road maintenance has been inadequate since 1991. Consequently, only 11% of the current network is in good condition, while 51% is in poor to very poor condition,¹⁴ requiring immediate strengthening or rehabilitation. Under the present maintenance funding regime, the road network will continue to deteriorate, resulting in significant increases in vehicle operating costs and travel time.

82. The priority actions in the transport sector should include broadening financial resources, prioritizing the road network, and introducing preventive maintenance management.¹⁵ Active participation in the Central Asia Regional Economic Cooperation (CAREC) program and other regional cooperation initiatives such as the Shanghai Cooperation Organization (SCO) will be necessary. Priority needs to be given to (i) improving regional transport corridors; (ii) improving border facilities; (iii) harmonizing and simplifying cross-border transport regulations, procedures,

¹⁴ World Bank. 2005. *Core Road Network Survey and Strategic Economic Analysis* (unpublished).

¹⁵ Government of the Kyrgyz Republic. Draft March 2007. *Roads Sector Strategy* (prepared with ADB assistance).

and documentation; and (iv) building transparency and the capacity and transparency of border officials.¹⁶

Table 4: Annual Funding Requirements for Road Maintenance

Type	Total Cost (\$'000)	Unit Cost (\$/km)
Routine maintenance on primary roads (5,697 km)	3,850	680
Routine maintenance on intermediary roads (5,093 km)	2,470	485
Routine maintenance on local roads (8,059 km)	403	50
Emergency repair	2,000	Not available
Design and administration (10%)	870	
Total	9,593	510

Source: ADB. 2005. *Technical Assistance to the Kyrgyz Republic for Institutional Support in the Transport Sector*. Manila.

B. Building a Transparent and Reliable Institutional Framework

83. Dealing with poor governance (and corruption) will be fundamental to achieve sustainable growth in the Kyrgyz economy. Two critical challenges that have to be addressed in moving the growth agenda forward will be developing a coherent policy-making framework, and—perhaps more importantly in the short to medium term—addressing issues of property rights and rent-seeking that inhibit investment and output growth.

84. To improve government effectiveness, establishing mechanisms at the center of Government to resolve conflicts over policy is essential so that, while there may be divergent opinions, coherent policy formation is still made possible. Mechanisms also need to be put in place for translating government policy choices into law, and to ensure that the laws and regulations are relatively unambiguous and noncontradictory, and that the state has more effective mechanisms for implementing them.

85. Since independence, the Government has struggled with vested interests, particularly those of high-ranking officials who systematically undermined ownership of reforms. Public administration reform that threatened the power patronage and rent-seeking of senior officials was systematically opposed and manipulated. Similarly, reforms in the energy sector were also undermined and opposed by officials. To fight and reduce corruption, the Government needs to begin to confront these entrenched interests, and eliminate the ambiguities and arbitrary powers delegated to officials. It also needs to effectively separate economic and political interests of the many senior officials in some key sectors of the economy, particularly power generation, banking, gold mining, and transport and communications. In this respect, transparency in these sectors will be fundamental, but will have little impact unless there is strong political will to oppose vested interests and ensure that individual ministers, members of Parliament, and other high-ranking officials are no longer able to oppose changes that threaten their own business interests.

86. One of the key tasks going forward is ensuring transparency and accountability of the civil service. The Government has begun to implement the legal framework for competitive and merit-based appointments to the civil service. An important task will be to ensure that due process is followed in all appointments and dismissals. Another important step in promoting

¹⁶ ADB. 2005. *Central Asia Regional Economic Cooperation Strategy and Program Update 2006-2008*.

accountability will be publishing in the mass media declarations of the income and assets of high-level state officials.

87. Resolving many of the difficulties of budget execution will reduce rent-seeking opportunities and corruption. While the medium-term budgetary framework (MTBF) has been partially successful in meeting priority needs, the Government is planning to improve budget execution through its Public Financial Management Action Plan. It is also updating the budget classification and including a more precise definition of poverty-related expenditure in line with the CDS. In addition it is introducing sector-level MTBFs in five ministries—health, education, agriculture, labor and social protection, and transport—to facilitate alignment of budget allocation with sector priorities.

88. One of the key problems identified in all aspects of institutional reforms and governance is the so-called implementation gap. The Government is taking some action to address this important issue, with a limited civil service reform program focusing on merit-based appointments and promotions. There have also been some attempts to take forward the recommendations of a series of functional reviews; however, the outcomes have been patchy.

89. A sustained effort to create a more conducive business environment and eliminate key governance shortcomings that hamper domestic and foreign investment is crucial.¹⁷ Regulations that have emanated from different ministries and agencies need to be rationalized. Recent assessments by development partners have highlighted a number of priority measures,¹⁸ including lowering administrative barriers (taxation and inspections), enforcing creditor and property rights, modernizing the customs regime (reducing clearance and other border delays), reducing and rationalizing the licensing and permits regime, and targeting investments in infrastructure that promote trade and development. It has been estimated that lowering trade barriers and costs by 50% would increase GDP by an estimated 55% over 10 years.¹⁹

90. The legal inconsistencies that undermine the regulatory reform process in the Kyrgyz Republic need to be addressed. In many instances, the regulatory and legal changes contradict existing legislation without specifically stating the hierarchy of legal and normative acts (Figure 3). The entry mechanisms for enterprises are not particularly cumbersome, but existing and running businesses often face difficulties from licensing requirements (Figure 4) and inspections, excessive regulation, and overlapping functions of ministries and enforcement agencies. All these inconsistencies and requirements allow opportunities for corruption.

Figure 3.

Regulatory Policies as a Problem in Doing Business
Percent of firms indicating uncertainty about regulatory policies as a problem in doing business

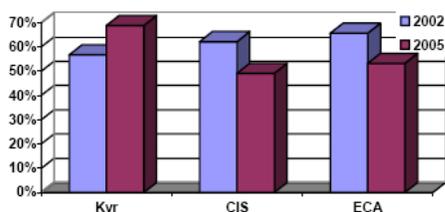
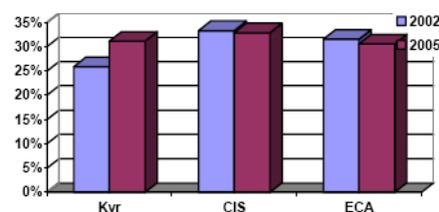


Figure 4.

Business Licenses as a Problem in Doing Business
Percent of firms indicating business licensing and permits as a problem in doing business



¹⁷ ADB. March 2007. *Private Sector Development: Issues and Options*.

¹⁸ World Bank. June 2004. *Kyrgyz Republic Country Economic Memorandum: An Integrated Strategy for Growth and Trade*.

¹⁹ UNDP. *Central Asia Human Development Report 2005*.

91. Legal and judicial reform targeted at better contract enforcement and the institutional strengthening of agencies and professional services will ensure predictability, efficiency, and transparency of law enforcement. Currently, reform of the judicial system is not high on the political agenda, despite wide and deep criticism of the system. Such reform should include (i) improving court infrastructure and court management and administration; (ii) facilitating the timely disclosure and publication of court decisions; (iii) building the capacity of judges and the legal profession; and (iv) supporting enforcement services (police, tax, and customs administration, etc.). While overall legal and judicial reform will take a number of years, a system of alternative dispute resolution should be adopted to allow for impartial, fair, and rapid resolution of commercial disputes, which would support a more rapid growth of the private sector.

92. A more coordinated cross-sector approach that increases the scope of potential interventions to support private sector development is needed. Private sector development depends as much on contract enforcement (an effective judiciary) as on enterprise access to reliable physical infrastructure (roads, efficient energy supply) and transparent and efficient administrative services (customs and border administration). With better logistical and higher value-added service infrastructure (financial services, processing and packaging, etc.), higher revenues could be generated from current and future trade and transit flows. Strengthened regional trade cooperation could expand access to regional or new markets.

C. Improving Public Service Delivery

93. The Kyrgyz Republic is currently off-track on achieving the health-related MDGs, and several important issues remain to be addressed during implementation of Manas Taalimi in the CDS period. The importance of addressing human resource constraints in the health sector, including internal and external migration of health workers, rural-urban imbalances in health worker availability, and the declining quality of medical education cannot be understated. Ongoing attention will also be required to ensure fiscal balance in the government's commitments under the State Guaranteed Benefit Program; this can be done by avoiding ad hoc, fiscally unsupportable decisions to expand entitlements without ensuring the availability of additional resources to cover them.

94. Clearly, greater progress needs to be made on poverty-related health issues. In addition there are regional disparities across the country in service utilization and access to affordable medicines, exacerbated by the increase in out-of-pocket expenses as a share of household resources (from 4.7% to 7% per capita in 2001–2004). Under the health sector-wide approach (SWAp), the authorities are committed to increase national budget allocations to the health sector gradually from 2.5% of GDP in 2006 to 2.75% in 2007 and 3.5% by 2010.

95. The Kyrgyz Republic is on track to achieve the MDGs in education. However, several hurdles remain, including limited financing for education, inefficiencies in the use of resources, and the decline in the quality of education at all levels and in the enrollment in upper secondary education. A key priority will be to target poor, rural, and disadvantaged schoolchildren to ensure universal access to quality education. Expanding a network of alternative preschools is an important measure for increasing access to preschool programs. The possibility of a SWAp for the education sector is being seriously considered.

96. Curriculum modernization is a precondition for improving the quality of education. The development and implementation of a revised curriculum require a new generation of textbooks and learning materials. The shortage of teachers in rural schools, the aging of the teaching

corps, the inability of the system to provide adequate in-service training, the use of outdated teaching techniques and learning assessments, and the limited use of information and communication technologies are some of the constraints that need to be addressed to improve the quality of education.

97. Early reforms in the social protection system included the introduction of a notionally defined contribution pension system, monetization of privileges and moderate changes to the main poverty benefit—an UMB Scheme. The Government is making serious efforts to improve the system and its administration to improve targeting, but much work remains. Taking a comprehensive view of social protection that links multiple areas rather than addressing them in fragmented fashion (i.e., avoiding separate social protection mechanism for different sectors such as energy) will be central to any approach. Strengthening the capacity of implementing agencies—the Ministry of Labor and Social Protection for social assistance programs and the Social Fund for pensions—will be important to have real impact on the ground.

98. Due to population aging, an increasing dependency burden poses serious long-term sustainability issues for the pension system in the absence of remedial measures. Moreover, the current system is financed by a high payroll tax, which the authorities plan to continue reducing gradually to stimulate employment. The Government intends to develop a reform program consistent with fiscal sustainability, mobilization of private savings, and long-term growth, with technical assistance from the World Bank, based on a comprehensive assessment of alternative options: for example, strengthening the link between contributions and benefits, introducing a funded and transparently managed pension pillar, or greater flexibility in retirement ages with appropriate adjustments in benefits or contributions.

D. Strengthening Regional Cooperation²⁰

99. Increased cooperation among the Central Asian republics stands to produce big gains for the people of the region. The benefits from reducing trade costs, increasing remittances from migrant workers, and more efficient use of water and energy resources could generate a regional economy twice as large and well-off 10 years from now. The price of noncooperation could also be large, a heavy toll extracted from the spread of disease, lost economic opportunities, natural disasters and environmental destruction, as well as conflict and insecurity. Both costs and benefits will be felt most by the region's poorer populations.

100. The Kyrgyz Republic is an active member of a number of regional organizations, including the Eurasian Economic Community (EurAsEC), the SCO, and the CIS. It is also an active member of the CAREC program led by ADB and supported by other multilateral institutions.²¹

101. Since 1991, the country has been developing extensive economic and trade relations with its neighbors and the Russian Federation. Exports to Kazakhstan, Russia, Uzbekistan, and the PRC account for almost half of total exports and just under 15% of GDP, mainly in the form of construction materials, textiles, agricultural products, and energy (electricity). Facilitation of trade and transit, and the establishment of effective transport and energy networks are the main focus of the country's regional economic policy. While opportunities for quick "win-win"

²⁰ UNDP. 2005. *Central Asia Human Development Report*.

²¹ CAREC, an initiative to encourage economic cooperation in Central Asia, has Afghanistan, Azerbaijan, the PRC, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan as participating countries. It is supported by ADB, EBRD, International Monetary Fund (IMF), Islamic Development Bank, UNDP, and World Bank. Begun in 1997, the program has so far focused on regional initiatives in transport, energy, trade facilitation, and trade policy.

situations appear to be relatively few, concerted efforts to prioritize and exploit them can yield good results. Perhaps the greatest prospects for quick win-win initiatives at the regional level appear to be in electricity trade.²² Successful exploitation of such opportunities for bilateral trade will build a track record of cooperation and momentum for larger scale initiatives. There are also possibilities for one or more “bold stroke” projects with large benefits for a number of countries and significant private sector participation.²³

102. Strengthened relations within the region help create a positive investment climate and facilitate trade, tourism, business enterprise, and other developments essential for creating productive employment and reducing poverty. Despite the Kyrgyz Republic’s own liberal trade policy, difficulties with border crossing, customs clearance, and unofficial charges make trade with neighboring countries—and transit trade to more distant markets—difficult, and undermine the competitiveness of Kyrgyz products (Box 2).

Box 2: Transport Corridor Performance Measurement

The performance measurement methodology for road corridors is based on the principles of the Bank-developed trade and transport facilitation methodology applied in southeastern Europe (TTFSE). For the purposes of corridor measurements, the measured corridor had to be considered in its totality and the pilot sites comprising that corridor were to include all border, inland, and roadside checkpoints where any processing was taking place.

A performance measurement pilot was designed, and the methodology was particularly tailored for road corridors in Central Asia. It was tested with the active participation of local counterparts, including the private sector, in March 2006, on the pilot corridor Bishkek (KGZ)–Almaty (KAZ)–Petrovavlovsk (KAZ/RUS border). After adjusting the methodology, the approach was expanded and measurements carried out in April 2006 on two other major road corridors involving PRC–Kazakhstan–Kyrgyz Republic: Khorgos–Almaty–Bishkek–Osh and Khorgos–Almaty–Chymkent–Saryagash.

The main findings of the pilot exercise are as follows:

- The longest customs processing time recorded at the border crossing: 27 hours
- Noncustoms processing time at the border crossing: 5.2 hours
- Total number of inspections: 665 times for 112 vehicles
- Transport inspection: 149 times
- Road police: 256 times
- Customs: 144 times
- Ecological inspection: 33 times
- Others: 83 times
- Total payments made along the corridor: \$153 official and \$2,018 unofficial
- Average duration of each roadside check: 24 min
- Average payment at roadside check: \$14 official and \$114 unofficial

Source: World Bank. 2006. *Trade and Transport Facilitation in Central Asia: Transit Corridors Performance Measurement*.

103. The country’s economic dependence on imports of oil and gas from Kazakhstan and Uzbekistan further underscores the importance of effective regional economic cooperation. Similarly, the need for cooperation in the use of the region’s transboundary water resources is important so that the Kyrgyz Republic can receive adequate compensation for the operation and

²² World Bank. 2006. *Economic Cooperation in the Wider Central Asia Region*. Working paper no. 75.

²³ The Urumqi Declaration, adopted by Afghanistan, Azerbaijan, PRC, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan at CAREC’s 5th Ministerial Meeting in October 2006.

maintenance of water storage services and to mitigate the risks of regional environmental disasters such as the receding of the Aral Sea's shores.

104. The rapid spread of tuberculosis and HIV/AIDS, and the impending threat from other communicable diseases such as avian flu, can be more effectively countered through cooperation across the region. The UNDP concluded in a recent report²⁴ that the increase in communicable diseases in Central Asia represents one of the most critical health problems facing the countries. Given that the target date for achieving the MDGs is set for 2015, it is likely that the Central Asia region will not be in a position to meet the health targets unless effective approaches are adopted soon.²⁵ A further point of tension, associated with intravenous drug use and HIV/AIDS, is the increasing flow of drugs from Afghanistan.

E. Implementation Challenges and Strategic Choices

105. Given the fractured politics and weak country ownership, efforts should be made to build consensus for reforms through extensive dialogue and broad consultation. Given the current capacity and institutional constraints, the proposed reforms will have to be modest and sequential, focusing on step-by-step improvement over a long period of time with a focus on tangible results. For effective implementation of the CDS, the Government faces some key strategic choices that are outlined in the following sections.

106. Policies that have a visible impact as perceived by beneficiaries are more likely to generate broad public support for reforms. Skepticism towards the Government and development partners highlight the importance of engaging with and supporting non-government stakeholders to build a greater demand for reforms. The key will be to initiate sustainable reform processes that will provide a catalyst for broader reforms, and build champions for them among the public.

107. For each of the four pillars of the CDS, the Government will have to identify the most pressing needs and make strategic choices that build on the lessons learned and experience acquired from implementing the NPRS.

- To achieve sustainable economic growth over the long term, two overarching challenges will have to be addressed: debt sustainability and economic diversification. On the first challenge, any economic program will have to address the issue of the sources of financing development, whether through a tighter fiscal stance, measures to encourage domestic savings, or the search for alternative sources of external finance. The second strategic choice is between an approach that confronts vested interests, introduces clear boundaries between the public and private sectors, promotes transparent market price setting, and enforces property rights; or one that favors vested interests of those linked to the power structures at the expense of wider economic development.
- Two analyses—one by the International Crisis Group²⁶ and the other sponsored by DfID—underscore that the Kyrgyz Republic has been subjected to a progressive fragmentation of authority, characterized by regional rivalries and a blurring of the boundaries between criminal, economic, and political life. The continuing turbulence in the aftermath of the Tulip Revolution has brought these realities to the surface. Under

²⁴ UNDP. 2005. *Central Asia Human Development Report. Bringing down barriers: regional cooperation for human development and security.*

²⁵ World Bank, June 2004, *Millennium Development Goals for Health in Europe and Central Asia.* Working Paper no. 33; World Bank. *Millennium Development Goals. 2005: Progress and Prospects in Europe and Central Asia,*

²⁶ International Crisis Group. 2006. *Kyrgyzstan on the Edge.* Asia Briefing no. 55, November 9.

these conditions, far-reaching governance reforms are neither feasible nor likely to show results in the time horizon of the CDS. The urgent need is for actions capable of contributing rapidly to greater perceived legitimacy of state institutions.

- There is an urgent need to stem the deterioration in key infrastructure and social services that will reduce non-income dimensions of poverty. Systemic reform is critical, particularly in improving service delivery for making progress on those social development indicators that are crucial to sustaining economic development in the Kyrgyz Republic: health, education, and social protection.

V. THE JOINT COUNTRY SUPPORT STRATEGY

A. The Strategic Framework

108. The JCSS assistance is closely aligned with the Government's development goals. JCSS partners will continue to assist the Government to translate the CDS into clear priorities within a credible medium-term expenditure framework and annual budget. Development partners will strive to enhance country ownership and capacity. All analytic and lending support will be scrutinized to assess how it achieves the goal of greater ownership, if it can be produced jointly, or how others' work can be leveraged.

109. One area with considerable potential for enhancing aid effectiveness through better cooperation is the harmonization of fiduciary requirements, e.g., common procurement arrangements, documents, and procedures, along with common accounting, reporting and auditing arrangements. Establishing project implementation units to manage fiduciary arrangements and secretariats of paid consultants within government structures to develop and implement policies has failed to build sustainable capacity within the administration, while attracting away the most potentially capable officials. Further, country systems will be used to the extent possible and partners will work to build and strengthen country capacity.

110. The JCSS partners will channel their assistance through pooled financing arrangements where favorable policy frameworks are in place. Project aid will be used to support capacity building and institutional strengthening, community-driven initiatives, and for infrastructure investments. All project aid, except that channeled through nongovernment organizations (NGOs) and UN agencies, will be recorded explicitly on the budget.

111. In a small country with heavy development partner presence, "business as usual" puts a strain on the limited resources available. Some partners might consider reducing their presence in some sectors, or become silent partners, i.e., continue to provide resources but give the leadership to another partner, within an agreed-upon aid framework. The Government has signaled its desire to do this; a good start has been made in the health SWAp, with on-budget financing from five partners. All JCSS partners will be proactive across the entire aid community to encourage further selectivity and harmonization. Furthermore, the five JCSS partners will encourage other aid agencies to join the joint strategy process.

112. The JCSS partners will continue to support policy analysis and engage in dialogue to help the Government prioritize expenditures and reform policies to more rapidly achieve CDS goals. The mix of instruments to be used will include straightforward repeater projects and other investments, supported with targeted technical assistance and analytical services. The JCSS partners will adapt the level and nature of support in response to emerging national developments and needs, taking a flexible approach to providing assistance. The adjustments

will be made in consultation with the Government and other partners. An annual JCSS review process will provide the opportunity to identify and agree on any changes.

113. All projects will include components to strengthen governance, transparency, and accountability. In practical terms this could mean that sector projects could only go forward after an analysis of the implications for overall governance (including fiduciary risk) has been made and shown to be positive—in addition to the analysis of the other benefits of the project. Using a governance lens approach also requires that development partners be willing to say no to requests for assistance that may undermine overall governance. This also extends to supporting reforms for which the foundations are not in place; partners should hold back if there are no clear signals indicating government ownership of reform, and seek to scale up where strong support and a positive track record is evident.

114. The public and contentious debate over HIPC within the country highlights the need for developing an information dissemination and communications effort that will improve the credibility of the Government and the international partners. Skepticism about a reform process that has little legitimacy among the broader public will reduce the chances of success and for building ownership of the reform agenda. This approach might mean going beyond the consultation process with civil society to a more sustained and long-term communication effort, including more effective working with the national media, and with communication units within the Government.

B. Program Focus

115. The JCSS partners will focus their programs on four areas identified in the CDS as especially important for achieving the overarching goals. These are

- improving economic management consistent with strong and sustained pro-poor growth: strengthening the budget process and crosscutting reforms in public financial management, and aligning financial management with government priorities;
- reducing corruption, improving governance, and ensuring effective public administration; deregulating the economy, increasing transparency, improving the capacity of the civil service and public administration, and legal reform;
- building sustainable human and social capital through improved health and education outcomes, including access to and improving the quality of health, education, and social protection services; and
- ensuring environmental sustainability and natural resource management.

1. Improving Economic Management Consistent with Strong and Sustained Pro-Poor Growth

116. The JCSS partners will provide financial and analytical support aimed at improving budget and public financial management, ensuring debt sustainability, and developing a robust financial system. They will continue to support a range of core diagnostic work to improve fiscal sustainability, including public expenditure reviews, fiduciary assessments, and expenditure-tracking surveys. Such support will extend to strengthening the financial system, and improve access to finance for small and medium-sized enterprises and achieve modernization of the payments system.

117. The JCSS will support the adoption and implementation of a new tax code that removes ambiguities and contradictions and fosters a business-friendly regulatory environment. The JCSS partners will support the Government to implement legislation aimed at reducing the number of technical regulations and mandatory standards and introduce limits on the number and duration of inspections. Streamlining licensing and permit procedures and introducing mechanisms for reviewing new regulations will also be necessary. These actions will be conducive to promoting increased private sector activity.

118. The JCSS partners will support the implementation of the agriculture sector strategy and the development of rural auxiliary services. Programs will improve livestock productivity, enhance marketing systems, and improve land registration. Programs will also support the development of an agroprocessing industry for exports, including higher value-added products. Emphasis will be placed on sustainable use of water resources and soil quality. To promote rural development more broadly, the JCSS partners will support sector reforms and investments in rural roads, and measures to improve access to rural credit.

119. The JCSS will support the creation of transparent tariff structures, an improved legal and regulatory framework, good corporate governance, and financing arrangements consistent with cost recovery that will help attract private capital into the energy and mining sectors. The JCSS partners will provide analytical and advisory support; however, it should be recognized that political commitment and support across the Government will be necessary for sustained progress.

120. The JCSS partners will continue to provide financial and technical support to the transport sector that will facilitate trade and transit. The support includes the preparation of a transport sector strategy—with a focus on the roads subsector—that takes into account operations and maintenance needs, the prioritization of a road network that improves transport corridors, strengthening regional transport linkages, and a reform program for road maintenance systems and practices. Support will be provided for creating infrastructure that reduces the cost of doing business, and links the various regions of the country to the broader economy. Investment and policy advice to improve transport corridors that will allow access to markets and improve cross-border trade will also form part of JCSS support. The JCSS partners may provide assistance in developing the framework for public-private partnerships to support infrastructure development.

121. The JCSS partners will continue to provide financial and technical support to strengthen the financial sector. Technical assistance will focus on governance, risk management, as well as new financial products such as housing finance and insurance. Support will also be given to increase microlending activities, particularly in the rural areas.

2. Improving Governance, Implementing Effective Public Administration, and Reducing Corruption

122. The JCSS support for good governance will focus on dialogue with the Government and assistance to build and strengthen the capacity of institutions critical to achieving the CDS outcomes. The central pillar of JCSS support for governance is not an ambitious reform agenda, but rather a rapid, bottom-up push for development results. The Government should be seen to be delivering visible benefits to citizens, including civil society, Parliament, the media, and local government, in ways that are seen to be transparent and fair. Some programs will also focus on increasing voice—including that of women, in particular—and accountability.

123. The JCSS financial support will contribute to the strengthening of public financial management (PFM), procurement, and accounting. Strengthened PFM and reduced corruption are critical for the development of the Kyrgyz Republic. The JCSS partners will support implementation of the National PFM Action Plan, with a focus on budget reform. The JCSS will also support fiduciary and budget efficiency/tracking analyses, and work on increasing public demand for better management and use of budget funds.

124. The JCSS partners will support the Government in undertaking comprehensive judicial reform, a crucial underpinning and foundation for successful development. Support will be provided for programs that build the capacity of judges (including on human rights), the development of an effective pretrial supervision process, and the overall strengthening of the courts system. Support may also be provided to develop an alternative dispute resolution mechanism to support a more rapid growth of the private sector.

125. The JCSS partners will support improvements in the business environment and investment climate, which would alleviate constraints on market mechanisms, improve the efficiency of allocation of resources, and facilitate private sector investments in profitable sectors. Building the capacity of authorities in economic policy formulation and implementation will be critical for pursuing an open development policy. The JCSS partners will support the Kyrgyz Republic's efforts to fully implement its commitments to the provisions of the EITI. Greater transparency in the mining sector and in the management of prospective mining areas are preconditions for a more mature and environmentally responsible approach to exploration and mining activities.

3. Building Sustainable Human and Social Capital

126. In education, the JCSS partners will support the preparation of the Government's national human resource strategy that seeks to link labor market needs to education and training. Other instruments of support will include investments in preschool, primary, and secondary education that improve access, quality, and learning outcomes for all, including the poor and vulnerable groups in the population, particularly in rural areas. A study focusing on the Government's priority of introducing a 12-year system will be undertaken under ADB's second education project.

127. If appropriate, the JCSS partners will work toward developing a SWAp in the education sector that will improve financing of education through a different approach in allocating resources to schools, teachers' salaries, and teacher training. In addition, support will be provided to better target poor, rural, and disadvantaged students to ensure universal access to quality education. The JCSS support will seek to improve internal efficiency in the utilization of limited resources, and link all interventions to results on the ground.

128. JCSS partners will support Manas Taalimi, a 5-year program that covers the JCSS period and reinforces the directions, achievements, and results of Manas I—focus on population involvement in health issues and increased emphasis on social mobilization to empower communities to resolve health needs at the local level. Emphasis in the ongoing health SWAp is also on reorienting the public health system and simultaneously strengthening and integrating priority programs such as those for TB, reproductive health, child health, and HIV and AIDS, to achieve better health outcomes.

129. Support will be provided to strengthen the role of the Ministry of Health in health policy formulation, intersector cooperation, and aid coordination, given the Government's commitment to increasing the national budget allocation to the health sector from 10.6% in 2006 to an optimal 13% in 2010, and to 100% execution of the budget allocation. Five development partners, including three from the JCSS group, are committed to providing on-budget funds till 2010 to meet the financing gap for successful implementation of Manas Taalimi.

130. Technical assistance and policy dialogue support will be provided for comprehensive pension reform and the implementation of the Children's Code. The JCSS partners intend to support the development of a pension reform strategy consistent with fiscal sustainability, the mobilization of private savings, and long-term growth, based on a comprehensive assessment of alternative options including, for example, greater flexibility in retirement age, with appropriate adjustments in benefits or contributions. Other key reforms that will be supported include (i) developing satisfactory legislation and implementation of parametric changes in the pay-as-you-go system, (ii) adopting and implementing a phasing-in action plan for any pension pillar, (iii) strengthening pension administration and financial management, and (iv) reviewing the pension policy.

131. Support to social assistance reforms—through technical assistance and sector work—will help develop a more effective and simpler benefit structure for improving the presently low living standards among the poorest households, without undermining incentives for self-sufficiency. The support will include defining a more carefully differentiated set of eligibility conditions and building an administrative system for delivering benefits to eligible households.

4. Ensuring Environmental Sustainability and Natural Resources Management

132. The JCSS will support more effective disaster risk management, where the priority lies in creating adequate environmental safeguards. JCSS partners will support efforts to help policy makers—including the entire Government more broadly—to take environment-oriented concerns into consideration in key budget policies and processes.

133. The JCSS will support new initiatives in energy conservation and renewable power provision, which present promising opportunities in rural areas. Such support, however, will be provided without any loss in the urgency of further reforms in the energy sector: the development of renewable energy cannot be a substitute for weak management of the existing system in the electricity sector. The JCSS will also support efforts to utilize clean development mechanisms (CDM) to secure grant funding for energy efficiency and carbon sequestration activities.

134. JCSS partners envisage further support to irrigation modernization that goes beyond physical infrastructure (including drainage) remodeling and extends to modern methods of managing and paying for irrigation supplies. The partners will support continued investment in those areas of water management—including transboundary water management—where the policy and institutional framework is well-defined (irrigation rehabilitation, rural water and sanitation) and will support further development of a coherent framework built around the concept of integrated water resource management.

135. The development of local capacity for environmental and natural resources management (ENRM) and related activities (such as rural finance, agroprocessing, rural extension, etc.) has rightly attracted large and diverse external support. Capacity building needs to remain close to the center of external assistance—including that from the JCSS partners—during the period of

the CDS. The detailed structure and evolution of that assistance is best left to individual aid agencies and their government and civil society partners.

C. Monitoring and Evaluation

136. The JCSS partners and the Government will regularly monitor and evaluate their performance relative to actions, indicators, and targets outlined in the JCSS matrix so as to assess their progress toward achieving CDS goals. Monitoring and evaluation will take the form of a joint annual review of the CDS and indicators could include, for example, increased sector coverage of joint analytical work and building on the SWAp approach, and extending coverage to other sectors. To the extent possible, the review will use existing government processes as the main avenues for detailed discussion and dialogue, and for generating information. These include the CDS monitoring and evaluation framework, the national budget, the MTBF and public expenditure reviews (PERs).

137. The annual report will bring together the results—including progress, remaining challenges, and the way forward—and will be made available in a timely fashion to all stakeholders. The monitoring indicators chosen will also reflect the internationally accepted Paris Declaration indicators adapted to the context of the Kyrgyz Republic. This will facilitate debate, discussion, and public accountability. A joint midterm review will be undertaken during the JCSS period.

D. Financial Scenarios

138. Approximately \$80 million per annum will be available from the JCSS partners; there will be a mix of instruments including budget support (possibly in the form of development program grants), and an investment program with a mix of straightforward repeater projects and other “simple” investments along with more complex policy-oriented projects, supported with targeted technical assistance and analytical services. Should the Kyrgyz Republic successfully undertake rapid reforms (significantly addressing governance and business climate issues, etc.) consideration would be given—consistent with the performance-based allocation (PBA) methodology of the WBG and ADB—to increasing International Development Association and Asian Development Fund allocations and the greater use of budget support instruments.

139. Joint policy dialogue on structural reforms between the aid community and the Government has generally been good and is improving. Opportunities for JCSS development partners to engage in dialogue occur around projects and programs and include subsector and sector dialogue (where progress has been greater) and dialogue on major structural reforms (where there has been less progress to date).

E. Risk Mitigation

140. Various factors may put the implementation of the JCSS at risk. The significant risks can be categorized as political, institutional and operational, and risks from exogenous shocks. The risks and their mitigation mechanisms are summarized in the paragraphs that follow.

1. Political Risks

141. Continuing political instability (including possible changes in the political leadership) and upheaval and other adverse events may hinder the Government’s commitment to implement the reforms supported by the JCSS. The existence of vested interests in key sectors may also block

reforms. In addition, a significant risk is that the authorities may move away from a market-based approach to economic policy to a more interventionist approach. Skepticism with regard to IFIs may also result in the Kyrgyz Republic turning to nontraditional development partners, thus rendering the support of the JCSS irrelevant and ineffective.

142. Political risks can be mitigated by

- starting a dialogue with the different branches of power on the obstacles to implementing the reform agenda of the CDS; when requested, providing capacity building to help the Government to build mechanisms to resolve conflicts over policy;
- helping improve governance and accountability; building on lessons from past experience and embedding governance elements into programs;
- helping the Government and civil society build broader and deeper ownership of the reforms through transparent and wide consultations;
- raising awareness of the JCSS among parliamentarians and civil society and listening to their concerns on the reform process; and
- implementing an effective communication strategy for JCSS partners, and for the wider aid community.

2. Institutional and Operational Risks

143. Lack of implementation capacity may undermine the impact of the JCSS. Implementing it requires substantial changes in behavior at all levels of government, and at the individual, organizational, and institutional levels. Limited economic resources may similarly impact the implementation of reforms.

144. These risks can be mitigated by ongoing and proposed interventions and building on successes generated in specific areas, including

- supporting the Government in retaining qualified personnel and meritocracy; the JCSS will help the Government build on measures already taken to develop a professional and effective civil service;
- stemming migration of qualified labor by supporting private sector development; this includes support for small and medium-sized enterprises in the rural areas;
- developing interventions that support economic diversification; and
- supporting regional cooperation initiatives in trade, transit, economic development, and security.

3. Exogenous Shocks

145. External economic, political, and social factors pose additional risks to the development process. Political and religious turmoil in neighboring countries can threaten stability, and crises stemming from them could spill over into the Kyrgyz Republic. Limited regional cooperation in managing key natural resources could also jeopardize economic and political stability. A major macroeconomic shock due to a drop in gold production or a fall in GDP due to political instability might generate a renewed threat of debt unsustainability and emergency funding requirements.

146. Given its size compared with that of its neighbors, the Kyrgyz Republic's ability to manage the risks of exogenous shocks is limited. Nevertheless, these risks can be managed to some degree by

- JCSS support for regional cooperation initiatives, and enabling the country to gain leverage in existing regional forums such as CAREC, EurAsEC, SCO, etc.;
- development partner investments and support through regional programs, including on sustainable environmental management; there are also regional health and security initiatives that could be leveraged;
- financial support from development partners in the event of emergencies when shocks occur in trade or as natural disasters; and
- support for regional infrastructure initiatives to facilitate trade and transit could facilitate greater regional and economic cooperation.

JCSS RESULTS FRAMEWORK FOR THE KYRGYZ REPUBLIC

Country-Level Development Goals		Outcomes Influenced by the JCSS		JCSS Interventions
CDS Outcomes and Indicators (2007–2010)	Challenges and Constraints	Results of Planned CDS Reforms	Selected Performance Indicators	
Goal 1. Economic management consistent with strong and sustained pro-poor growth				
Broad-based and rapid growth, faster poverty reduction	<ul style="list-style-type: none"> • Limited natural resources • Inaccessible geographic location • Small national market • Unsustainable debt level • Low diversification of the economy • Underdeveloped capital markets 	<ul style="list-style-type: none"> • Improved business environment and climate for investment • Increased investment-to-GDP ratio • Strengthened banking system, greater financial intermediation, greater access to finance • An improved tax and customs regime 	<ul style="list-style-type: none"> • GDP growth up to 7.3%, GDP per capita to \$770 • Unemployment down from 9.3% to 4.5% by 2010 • Poverty head count down to 31% • All state and municipal salaries paid electronically through banks • Kyrgyz Agriculture Financial Corp. (KAFC) privatized • Reduced costs imposed by regulation, as measured by surveys 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • JCSS policy dialogue, budget support, program and project support for public financial management, selective TA for banking and capital markets development <p>Analytical work</p> <ul style="list-style-type: none"> • Poverty assessment • Joint programmatic CEM • Private sector assessment • Financial sector accountability assessment • Corporate governance ROSC • BEEPS and IC surveys <p>Other development partners USAID, IMF, EBRD</p>
Goal 1.1 Financial rehabilitation, and a balanced and comprehensive development of the energy sector				
Provision of reliable electricity to consumers that enhances potential for economic growth <ul style="list-style-type: none"> • Improved collections • Loss/theft reduction 	<ul style="list-style-type: none"> • Large investment needs with deteriorated assets • Electricity tariffs well below cost • Significant losses and theft, weak tariff collection • Low energy efficiency 	<ul style="list-style-type: none"> • Financially, technically rehabilitated energy sector that provides reliable energy to consumers • Energy sector growth at 2.5% per year • Quasi-fiscal deficit (QFD) reduced (from 6.5% to 1.9% of GDP) • More investments in sector, including FDI 	<ul style="list-style-type: none"> • Tariffs increased to full cost recovery, excluding cross-subsidization • Improved tariff collections to 93% by 2010 • Analysis of the feasibility of expanded hydropower production and export completed • Improvements in loss reduction • Progress made in concession management and privatization of distribution companies 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • Technical assistance support to achieve financial sustainability <p>Analytical work</p> <ul style="list-style-type: none"> • Sector development strategy • Heat strategy study • Social protection scheme for energy sector • Regional initiative on water-energy nexus • Exploiting carbon finance opportunities <p>Other development partners</p>

Country-Level Development Goals		Outcomes Influenced by the JCSS		JCSS Interventions
CDS Outcomes and Indicators (2007–2010)	Challenges and Constraints	Results of Planned CDS Reforms	Selected Performance Indicators	
				EC, KfW, IMF, EBRD
Goal 1.2 A better transport infrastructure that provides access to local and regional markets				
A road transport network that enhances access to markets and facilitates trade and transport in the CA region	<ul style="list-style-type: none"> • Large investment needs • Deterioration of the road network, limited funding of operation and maintenance • Deteriorated urban public transport services • Barriers to cross-border transport links 	<ul style="list-style-type: none"> • Rehabilitation of strategic road network • Sustaining and increasing funding available for maintenance and operations 	<ul style="list-style-type: none"> • Reconstruction of 85% of strategic roads • Construction and rehabilitation of strategic corridors • Construction and rehabilitation of priority roads of local importance 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • Investments, policy advice to improve transport corridors, access to markets, cross-border trade <p>Analytical work</p> <ul style="list-style-type: none"> • CA regional sector strategy • Roads subsector strategy • Regional cooperation in transport and trade facilitation <p>Other development partners EC, IsDB, Japan, GTZ</p>
Goal 1.3 Accelerated mining sector development through market mechanisms and by putting new deposits in operation				
Investments for bringing new mineral deposits online <ul style="list-style-type: none"> • Steady and solid sector contribution to GDP 	<ul style="list-style-type: none"> • Large investment needs • Deteriorating support infrastructure of roads, power supply • Dominance of state enterprises with preferential treatment • Lack of transparency in licensing • Weak political will for reform 	<ul style="list-style-type: none"> • Transparent and simplified process for the award and cancellation of licenses • Institutional reform including privatization of non-state activities 	<ul style="list-style-type: none"> • New mining law enacted and implemented • Enhanced transparency in the sector, including the use of resources and licensing process • Modernization of information infrastructure • Full compliance with obligations under the EITI 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • TA for mining sector reform • EITI implementation <p>Analytical work</p> <ul style="list-style-type: none"> • Policy dialogue <p>Other development partners EBRD, IMF</p>
Goal 1.4 Increased productivity in agriculture, and strengthened market mechanisms in production and processing				
Improved growth and productivity (4% per year) growth creating a competitive food processing industry	<ul style="list-style-type: none"> • Large investment needs • Insufficient investment in irrigation and drainage systems, limited cost recovery of services • Limited diversification 	<ul style="list-style-type: none"> • Creating an agribusiness industry • Greater access to financial resources • Water resources management improved 	<ul style="list-style-type: none"> • Minimum economic-size farms, agricultural businesses, and cooperatives developed • Food market deregulated • Progress toward privatizing seed and breeding farms 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • Investment for improved farm productivity, land and water use, rural extension services <p>Analytical work</p> <ul style="list-style-type: none"> • TA for strategy development

Country-Level Development Goals		Outcomes Influenced by the JCSS		JCSS Interventions
CDS Outcomes and Indicators (2007–2010)	Challenges and Constraints	Results of Planned CDS Reforms	Selected Performance Indicators	
	<ul style="list-style-type: none"> Limited access to rural finance 	<ul style="list-style-type: none"> Rural auxiliary services developed 	<ul style="list-style-type: none"> Improved capacity of Ministry to make better public policy 	<ul style="list-style-type: none"> Ministry capacity development Other development partners USAID, GTZ, EC
Goal 1.5 Creation of a competitive tourism sector				
Development of the Kyrgyz Republic into a successful and desired tourist destination	<ul style="list-style-type: none"> Significant investment needs Poor public infrastructure Risks of political and regional instability Low private sector investment in the sector Poor land use 	<ul style="list-style-type: none"> Increase in the number of tourists to the country year after year 	<ul style="list-style-type: none"> Comprehensive tourism promotion strategy Tourism infrastructure improved with privatization development 	Financing/Projects <ul style="list-style-type: none"> Limited support for development of the tourism sector at present Development partner engagement in infrastructure development, roads and generalized services improvement
Goal 2: Improving governance, reducing corruption, and improving public administration				
Goal 2.1 Strengthening state effectiveness				
Creation of an effective and well-functioning state	<ul style="list-style-type: none"> Policy-making structures of the Government weak and fragmented Lack of policy implementation capacity Incomplete constitutional reform 	<ul style="list-style-type: none"> Clearly defined roles, functions accountability between the President, Government, and Parliament A better functioning and more transparent legislative process in Parliament 	<ul style="list-style-type: none"> Greater and more coherent voice for civil society in reform process Increased capacity of women to participate in Government and the political process Reform of election process and electoral law Independent functional reviews of governance and political reform 	Financing/Projects Strengthening the capacity of of Parliament, civil society, media, local government, and women to participate, increasing voice and accountability Other development partners USAID, EC, OSCE, German Government

Country-Level Development Goals		Outcomes Influenced by the JCSS		JCSS Interventions
CDS Outcomes and Indicators (2007–2010)	Challenges and Constraints	Results of Planned CDS Reforms	Selected Performance Indicators	
Goal 2.2 Deregulation of the economy				
Improving the business environment and investment climate	<ul style="list-style-type: none"> • Onerous licensing and inspection regime • Unclear mandates and functions of government agencies • Pervasive role of the state in the economy • Inefficient market mechanisms, tax and customs administration • Limited potential for economies of scale 	<ul style="list-style-type: none"> • More business and trade activity, higher tax and customs collections • National procedures on permits and licensing harmonized with international standards • Reduced opportunities for rent seeking, corruption • Increase in economic diversification 	<ul style="list-style-type: none"> • Improvements in business environment quality evidenced by surveys • New law on normative acts that defines hierarchy of legislation and a simple transparent process for developing legislation • Reduction in the number of regulating agencies 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • Investments and policy dialogue for creating transparency, accountability, and a competitive private sector <p>Analytical work</p> <ul style="list-style-type: none"> • Study on shadow economy • Private sector assessment • IBC survey, BEEPS • <i>Doing Business</i> report <p>Other development partners EC, EBRD, USAID</p>
Goal 2.3 Governance reform: Increasing transparency and reducing corruption				
Reducing administrative corruption, promoting greater transparency in public financial management	<ul style="list-style-type: none"> • Corruption perception index 2005 ranks country as 130th out of 159 countries • Accountability and rules-based decision making not fully developed or implemented • System of privileged access, high potential for rent seeking and state capture 	<ul style="list-style-type: none"> • Improved budget formulation and implementation, and program-based budgeting • Improved budget preparation, execution, and monitoring • Fiscal decentralization • Institutionalized consultation with civil society on key areas of governance • Internal audit systems in procurement 	<ul style="list-style-type: none"> • Regular publication of reports on corrupt institutions and individuals and actions taken to sanction them • Regular publication of the declaration of income and assets of high-level state officials • Progress on anticorruption plan monitored and made public 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • Policy dialogue and budget support for better tracking and monitoring of public expenditures; PFM • Treasury modernization • Support for capacity building • Support for implementation of key elements of anticorruption action plan <p>Analytical work /TA</p> <ul style="list-style-type: none"> • PPER • PEFA • CFAA and CPAR <p>Other development partners OSCE, USAID, EC, SIDA</p>

Country-Level Development Goals		Outcomes Influenced by the JCSS		JCSS Interventions
CDS Outcomes and Indicators (2007–2010)	Challenges and Constraints	Results of Planned CDS Reforms	Selected Performance Indicators	
Goal 2.4 Improving the capacity of civil servants and public administration				
<p>Improving state capacity and a professional civil service</p> <ul style="list-style-type: none"> • Better use of public resources • More efficient public administration 	<ul style="list-style-type: none"> • Politization of the civil service • Pervasive rent seeking in the public sector • Absence of appropriate civil service pay structure • Lack of continuity in public service 	<ul style="list-style-type: none"> • Reform pilots in one or more ministries under national leadership • Competitive selection process for civil servants and merit-based salary structure for the civil service established 	<ul style="list-style-type: none"> • Regulations to reduce corruption in the civil service, retrenchment and remuneration plans • Greater participation of women at senior levels of civil service, greater gender neutrality in civil service appointments 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • Investments and policy dialogue to create a well-qualified and effective civil service cadre <p>Analytical work</p> <ul style="list-style-type: none"> • Functional reviews of central Government, state agencies • Review of salary structure to attract and retain talent, create a professional civil service
Goal 2.5 Legal reform: Creating an independent and effective judiciary and judicial system				
<p>Creating an independent and impartial judiciary</p> <ul style="list-style-type: none"> • An effective court system 	<ul style="list-style-type: none"> • Low professional competence • Capture of the judicial system by political and criminal forces • High corruption pervades the judicial system and law enforcement 	<ul style="list-style-type: none"> • Greater access to justice for vulnerable groups • Improvement in case management systems • Comprehensive national judicial reform program • Body of judicial precedents 	<ul style="list-style-type: none"> • Council of judges created • Improved court infrastructure, including physical facilities 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • Comprehensive judicial reform project that includes programs for capacity building of judges, including on human rights, and development of effective pretrial supervision process <p>Other development partners US, EBRD</p>

Country-Level Development Goals		Outcomes Influenced by the JCSS		JCSS Interventions
CDS Outcomes and Indicators (2007–2010)	Challenges and Constraints	Results of Planned CDS Reforms	Selected Performance Indicators	
Goal 3: Human and social development: Building sustainable human and social capital				
Goal 3.1 Ensuring access to and improving the quality of basic and secondary education				
<p>Improving education outcomes, good progress toward achieving MDGs</p> <ul style="list-style-type: none"> MDG targets as indicators 	<ul style="list-style-type: none"> Limited financing of the education sector, inefficient use of resources Declining quality at all levels Declining enrollment and attendance from pre-school to upper secondary education Low salaries for education staff 	<ul style="list-style-type: none"> Improved access to basic education, particularly for children from vulnerable households Improving attendance rates, learning outcomes Better financing model 	<ul style="list-style-type: none"> Curriculum modernization and reform In-service training for teachers Learning assessments Greater availability of textbooks, computer labs, IT facilities Feasibility study of 12-year system completed 	<p>Financing/Projects</p> <ul style="list-style-type: none"> Investments in primary and secondary education to improve access and quality, and better learning outcomes <p>Analytical work</p> <ul style="list-style-type: none"> TA to move toward a SWAp Public expenditure review TA in monitoring and evaluation <p>Other development partners</p> <ul style="list-style-type: none"> Multiagency fast-track initiative in education
Goal 3.2 Ensuring access to and improving the quality of health care services				
<p>Improvements in health and living standards, particularly in maternal and child health outcomes</p> <ul style="list-style-type: none"> MDG goals as indicators 	<ul style="list-style-type: none"> Low budget allocation for health Informal payments a financial burden on households Inadequate access to and quality of health services delivery, especially for poor people in rural areas Lack of qualified health professionals, particularly in rural areas, and human resource migration 	<ul style="list-style-type: none"> Continuing upward trend in health financing Affordable health care system for vulnerable population Strengthened capacity and role of Ministry of Health in policy formulation Regional cooperation to reduce uncontrolled migration and risks of HIV epidemic, drug trade 	<ul style="list-style-type: none"> 100% budget execution Reduction in informal payments Public health programs (including nutrition) effectively integrated within Manas Taalimi (DOTS for TB, HIV/AIDS) 	

Country-Level Development Goals		Outcomes Influenced by the JCSS		JCSS Interventions
CDS Outcomes and Indicators (2007–2010)	Challenges and Constraints	Results of Planned CDS Reforms	Selected Performance Indicators	
Goal 3.3 Improving the effectiveness and efficiency of social assistance and pension schemes				
<p>A fiscally sustainable, better-targeted, well-financed social protection program that meets the needs of the most vulnerable people</p>	<ul style="list-style-type: none"> • Lack of leadership, policy coherence • Weak social security/welfare legislation • Declining funding, poor targeting • Growing child poverty and number of institutionalized children left behind due to labor migration 	<ul style="list-style-type: none"> • Strengthened capacity and role for Ministry of Labor and Social Protection in policy formulation and implementation • Gradual increase of the guaranteed minimum level of consumption (GMLC) to the poverty line 	<ul style="list-style-type: none"> • Phasing strategy for funded pension pillar • Decentralization of social services • Implementation of the Kyrgyz Republic Children’s Code and development of secondary legislation • Special measures on protection of disabled children and the socially vulnerable 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • TA and policy dialogue on pension system reform and implementation of the Children’s Code. Other interventions link to the wider social assistance reform agenda, e.g., PSIA for energy sector reform. <p>Analytical reform</p> <ul style="list-style-type: none"> • Household expenditure and user surveys that track access to the health system • Review of pension reform options <p>Other development partners EC</p>
Goal 3.4 Ensuring the guaranteed provision of and access to key public services				
<p>Improving the maintenance, management and delivery of public services</p> <ul style="list-style-type: none"> • MDG targets related to water and sanitation 	<ul style="list-style-type: none"> • Poorly financed, degraded social infrastructure • Unclear delineation of responsibilities for services provision between national and local levels 	<ul style="list-style-type: none"> • Public-private partnerships to deliver key social infrastructure services • Sustainable community-based water management practices • Upgraded rural public infrastructure 	<ul style="list-style-type: none"> • Improved maintenance and operations • Improved access to public services for vulnerable groups • Community-based infrastructure management system • Well-developed municipal waste management system, including public-private partnerships 	<p>Financing/Projects</p> <ul style="list-style-type: none"> • Investment projects and policy dialogue to improve quality of and access to safe drinking water • Projects for environmentally sustainable wastewater management <p>Analytical work</p> <ul style="list-style-type: none"> • Public expenditure review <p>Other development partners KfW, USAID, EBRD</p>

Country-Level Development Goals		Outcomes Influenced by the JCSS		JCSS Interventions
CDS Outcomes and Indicators (2007–2010)	Challenges and Constraints	Results of Planned CDS Reforms	Selected Performance Indicators	
Goal 4: Environmental Sustainability				
Improving environmental and natural resources management, reducing risks of disasters <ul style="list-style-type: none"> • MDG Environment Indicators 	<ul style="list-style-type: none"> • Inadequate disaster preparedness and prevention • Habitat degradation and land conversion • Poor disposal of hazardous, toxic waste • Hazard risks from mine tailings 	<ul style="list-style-type: none"> • Improved and sustainable use of natural resources by local communities • Integrated water resources management • Expansion to protected territories 	<ul style="list-style-type: none"> • Integration of sustainable land management practices • Energy efficiency and energy conservation initiatives, including renewable energy 	Financing/Projects <ul style="list-style-type: none"> • Investment projects in natural resource management and mitigating past environmental damage, such as reforestation, forestry management, land use planning and restoration • Investments and policy dialogue for better preparedness for disasters both natural and man-made Other development partners EC

AIDS = Acquired Immune Deficiency System, BEEPS = Business Environment and Enterprise Performance Survey, CA = Central Asia, CDS = Country Development Strategy, CEM = Country Economic Memorandum, CFAA = Country Financial Accountability Assessment, CPAR = Country Procurement Assessment Report, DOTS = Directly Observed Treatment, EBRD = European Bank for Reconstruction and Development, EC = European Commission, EITI = Extractive Industries Transparency International, FDI = foreign direct investment, GDP = gross domestic product, GMLC = guaranteed minimum level of consumption, GTZ = German Technical Cooperation, HIV = Human immunodeficiency virus, IBC = Investment Business Council, IC = Investment Council, IMF = International Monetary Fund, IT = information technologies, IsDB = Islamic Development Bank, JCSS = Joint Country Support Strategy, KAFC = Kyrgyz Agricultural Finance Corporation, KfW = Kreditanstalt für Wiederaufbau, MDG = Millennium Development Goals, OSCE = The Organization for Security and Co-operation in Europe, PEFA = Public Expenditure and Financial Accountability program, PFM = public finance management, PPER = Programmatic Public Expenditure Review, QFD = quasi-fiscal deficit, ROSC = Report on the Observance of Standards and Codes, SIDA = Swedish International Development Cooperation Agency, SWAp = Sector Wide Approach, TA = technical assistance, TB = tuberculosis, US = United States, USAID = United States Agency for International Development.

JCSS DEVELOPMENT ISSUES AND CONSTRAINTS

Risks and vulnerabilities	JCSS partners' actions to mitigate risks
<p>Risk: Weak capacity and limited economic resources slow the growth potential</p>	
<ul style="list-style-type: none"> • Limited diversification and high dependence on few sectors may limit growth potential • Weak regional cooperation impedes economic development opportunities • Inefficient state-owned enterprises reduce the growth potential • Low competitiveness, and weak investment and business environment reduce economic growth potential • There is no enabling environment for SME development • Continued out-migration of qualified professionals weakens labor force/markets <p>Risk: HIGH</p>	<ul style="list-style-type: none"> • Develop joint interventions to support economic diversification • Support regional cooperation initiatives in trade, transit, and economic development Support new mechanisms for accountability and transparency in SOE operations • Support policies to remove barriers to effective competition and the implementation of Law on Competition • Support micro and SME organizations in the rural areas (greater access to finance) • Support the Government in retaining qualified professionals by supporting private sector development <p>Impact: HIGH</p>
<p>Risk: Poor governance and political uncertainty hinder achievement of development objectives</p>	
<ul style="list-style-type: none"> • Political stalemate and continuing power struggle creates a gap in the country's leadership and management • Continued high staff turnover in the public sector weakens institutional capacity • Lack of political commitment to reduce corruption undermines the reform process • Vulnerability to organized crime and terrorism increases the fragility of political stability • Lack of clarity in decision making, roles and responsibilities among the branches of power reduce the effectiveness of governance; • Persisting gender inequality in decision making may hinder equitable development • Disconnect between the state and civil society further contributes to political instability • Law enforcement and justice system does not uphold human rights principles • Lack of a long-term vision for development fosters haphazard decision making 	<ul style="list-style-type: none"> • Help build consensus among branches of power and develop incentives to speed up the reform process • Support capacity-building and professional development of Parliament and civil servants • Support initiatives (strengthen tax and customs administration, improve monitoring capacity of civil society) to reduce corruption • Enable civil society to be in a stronger position to coherently voice demands for reforms • Support the establishment of clear roles and functions at all levels of the Government • Build up capacity of women to participate in government and decision-making processes • Help create space for a meaningful policy dialogue between civil society and the Government • Advise and advocate civil society and the Government on human rights obligations • Support national and local governments and communities in peace-building, conflict-sensitive approaches to development

Risks and vulnerabilities	JCSS partners' actions to mitigate risks
<ul style="list-style-type: none"> • Growing regional divide within the country may endanger unity • Slow progress to completing constitutional reforms may damage people's trust in the new Government <p>Risk: HIGH</p>	<ul style="list-style-type: none"> • Support the creation of a long-term development strategy/vision for the Government <p>Impact: MEDIUM</p>
<p>Risk: Inadequate access to and quality of basic public services (education, health, basic infrastructure) slows progress toward the achievement of the Millennium Development Goals</p>	
<ul style="list-style-type: none"> • Weak access of the poor, especially in rural areas, to quality public services (health, education, and basic infrastructure) negatively affect the well-being of citizens; • Low capacity of public servants lower the effectiveness of public service delivery; • An increasing trend in labor migration may increase social instability and health risks; • A negative shift in migration policy in Kazakhstan and Russia may adversely affect the welfare of the Kyrgyz population; • Regional developmental differences are overlooked by policy makers and development partners, leading to ineffective support to public service delivery; • Poor management (especially of land and water) reduces the quantity and quality of natural resources, increasing the potential for conflict (including inter-ethnic) over resources; <p>Risk: MEDIUM</p>	<ul style="list-style-type: none"> • Help the Government and communities identify the needs (in terms of both policy and resources) for scaling up progress toward the MDGs and support the Government in formulating MDG-sensitive budgets; • Support reallocation of aid to MDG priorities, and provide targeted support to high-impact interventions in the areas of health, education, gender equality, environment, and basic infrastructure; • Develop a national human resource development strategy linking labor market needs to training opportunities; • Support development of modern professional training and vocational education programs, focusing on professions in “demand”; • Help the Government and communities develop preventive measures to mitigate negative social effects of labor migration; • Jointly support the regional development approaches to effectively address the unique needs of regions; • Develop joint programs/interventions in the areas of sustainable natural resource (land, water, and waste) management <p>Impact: HIGH</p>
<p>Risk: External economic, political, and social factors pose additional risks to development</p>	
<ul style="list-style-type: none"> • Political and religious radicalism in the neighboring countries will negatively influence stability; • Crises in political and social spheres in the neighboring countries may have a negative spillover effect on the Kyrgyz Republic; • Low capacity for regional cooperation in management of key natural resources will jeopardize economic and political stability in the Kyrgyz Republic, especially as regards the use of natural resources (oil, gas and water); • Fluctuations in the global terms of trade may negatively impact the 	<ul style="list-style-type: none"> • JCSS partners will support regional peace-building initiatives; • JCSS partners will invest in regional programs on sustainable environmental management; • Development partners will collectively provide emergency funds/support when shocks occur in global terms of trade, and in climate change; • Support regional infrastructure initiatives (roads, etc.) to facilitate trade and transit and economic and social cooperation

Risks and vulnerabilities	JCSS partners' actions to mitigate risks
<p>Kyrgyz Republic's export-oriented industry;</p> <ul style="list-style-type: none"> • Climate change may reduce agriculture sector productivity and create additional obstacles to the development process <p><i>Risk: HIGH</i></p>	<p><i>Impact: LOW</i></p>
<p>Risk: Uncertainty and vulnerability in human rights and the human security situation will further undermine political stability and long-term sustainability</p>	
<ul style="list-style-type: none"> • Weak capacity of civil society to monitor and enforce human rights and other international obligations slows the democratization/reform process; • Lack of institutional structure responsible for human rights and anti-corruption reduces the Government's ability to implement human rights obligations; • Underdeveloped space for civil society involvement in decision making increases political instability; • Lack of a national coordination mechanism to effectively address human security concerns increases the country's vulnerability to natural and human-made disasters within the country and in Central Asia; • Porous borders with neighboring countries and ineffective border control increase the risk of the Kyrgyz Republic becoming a major drug transit route; • Poor regional cooperation on human security issues may increase the risk of spread of infectious diseases, including HIV/AIDS; • Growing risk of religious and other forms of terrorism in the region and worldwide can easily tip the fragile stability in the country and the region; • The country's poor institutional capacity to effectively prevent and manage natural disasters may increase vulnerability to disasters; • Environmental time bombs such as uranium waste and other unmanaged hazardous waste increase risks to health and security; • Social protection measures are not properly targeted and supported, and therefore do not reach the vulnerable groups (poor families with children, etc. in need); • Lack of conflict-sensitive approach to development (on the part of 	<ul style="list-style-type: none"> • JCSS partners will build the capacity of civil society to professionally engage in monitoring, decision making, and implementation of human rights policy and activities; • Support the Government in building an institutional structure for addressing human rights issues; • Support the Government in strengthening coordination mechanisms for disaster risk reduction measures; • JCSS partners will jointly develop and implement contingency plans; • JCSS partners will jointly support the Government in improving regional cooperation measures on border improvement, drugs control, and trade and transit; • Facilitate regional collaboration on reducing risks to human security, including HIV/AIDS, counter-terrorism, etc.; • JCSS partners will support the Government and communities in measures to prevent and manage disasters nationwide and locally; • Collectively support waste management (hazardous, industrial, and household) measures; • Help the Government develop a better targeted and effective social protection system; • JCSS partners collectively monitor the country's progress toward upholding human rights, including prompt feedback on human rights violations that may occur (e.g., to refugees, labor migrants, vulnerable groups); • JCSS partners support the Government and civil society in mainstreaming conflict prevention into policies and strategies at national and local levels

Risks and vulnerabilities	JCSS partners' actions to mitigate risks
<p>both aid agencies and the Government), and weak capacity of the Government to carry out peace-building initiatives may worsen existing conflicts (inter-ethnic, among power structures, etc)</p> <p><i>Risk: MEDIUM</i></p>	<p><i>Impact: MEDIUM</i></p>
<i>Risks and vulnerabilities</i>	<i>JCSS partners' actions to mitigate risks</i>
Risk: Failure to effectively implement CDS will reduce the effectiveness of aid coordination	
<ul style="list-style-type: none"> • Inadequate implementing measures by all partners will hamper development progress; • Non-alignment of CDS priorities with the medium-term and annual budgets will reduce the effectiveness of CDS and JCSS implementation; • Inadequate harmonization and coordination of external assistance for achieving country priorities will negatively impact effectiveness of aid; • Weak monitoring of CDS indicators will weaken the achievement of CDS goals; • Citizens of the Kyrgyz Republic are not familiar with the development priorities outlined in the CDS, and thus may not support the realization of CDS; • National priorities may not be aligned with regional and local needs; <p><i>Risk: MEDIUM</i></p>	<ul style="list-style-type: none"> • JCSS partners support realization of CDS priorities through, among others, budget support and increasing grant allocations; • JCSS partners will support monitoring and evaluation of CDS and JCSS; • JCSS partners will work toward increased joint programming to improve aid effectiveness and utilization of limited resources; • JCSS partners will ensure wider consultations with other aid agencies in harmonizing aid in support of country priorities; • Support measures to increase public awareness of CDS and JCSS; • Address regional and local specifics (beneficiaries, local communities) when developing programs <p><i>Impact: MEDIUM</i></p>

PART II: ASIAN DEVELOPMENT BANK ASSISTANCE PROGRAM

I. INTRODUCTION

1. The Joint Country Support Strategy (JCSS) is a core strategy of five development partners in support of the Kyrgyz Republic's development agenda, articulated in the Government's Country Development Strategy for 2007–2010 (CDS). Part I of the JCSS presented a joint assessment of the political and economic context, the CDS, and the JCSS framework. Part II describes the Asian Development Bank's (ADB) strategic focus within the JCSS framework and the proposed program for the 2007–2010 period. The JCSS process formulation is summarized in Appendix 1.

2. Since the last Country Strategy and Program (CSP) 2004–2006, ADB has introduced new policies to make its operations more relevant, responsive, and results-oriented. The new policies have been incorporated in the current strategy. They are (i) managing for development results (MfDR) mainstreamed in ADB's operations; (ii) the Innovation and Efficiency Initiative (IEI), which introduced a number of new financial instruments and modalities to respond better and faster to ADB's developing member countries (DMC) clients needs; and (iii) ADB's Medium-Term Strategy II (2006–2008) approved in March 2006, which clarified strategic priorities for ADB's operations.¹

II. THE ASIAN DEVELOPMENT BANK'S DEVELOPMENT EXPERIENCE

A. Self-Assessment of Recent ADB Assistance to the Kyrgyz Republic

3. ADB's country team conducted a rapid strategic self-assessment of recent ADB activities in the country, namely during the period 2002–2006, to provide input to the JCSS. The assessment was based on various evaluation reports prepared by the Operations Evaluation Department (OED) of ADB, project performance and audit reports, midterm review reports, country portfolio review reports, project completion reports; and interviews with current and former government officials, nongovernment organizations (NGOs), civic groups, ADB staff, agencies implementing ADB-financed projects, and development partners. A summary of the self-assessment report is in Appendix 2, and the full report is in a supplementary appendix. The self-assessment also presents information on sectoral evolution of ADB assistance to the country.

4. ADB has been the second largest development partner for the Kyrgyz Republic, with 26 loans and four grants for project financing and 66 technical assistance (TA) grants. The country also received seven Japan Fund for Poverty Reduction (JFPR) grants. ADB has been the single largest funding agency in the road transport, education, and financial sectors; and the second largest in agriculture and rural development.

5. ADB's assistance programs were designed to support the Government's development objectives and strategy, and the overall objective of the latest CSP was to reduce poverty. The geographical focus of the CSP was on the poorer areas. The sector and thematic foci have been in line with those of the National Poverty Reduction Strategy (NPRS).

¹ These are (i) catalyzing investment, (ii) strengthening inclusiveness, (iii) promoting regional cooperation and integration, (iv) managing the environment, and (v) improving governance and containing corruption.

6. Declining Asian Development Fund (ADF) allocations to the Kyrgyz Republic required a more focused program than in the past to remain effective. The 2003 CSP proposed to be selective and focused on private sector-led operations in agriculture and financial sector development as well as strategic investments in regional road links and in trade facilitation to reduce barriers. It also retained selective support for human development to address declining public investment in the social sectors. In the social sectors, ADB expanded into early childhood development, a multisectoral area that seems to have been overlooked in various interventions in the social sectors (e.g., health, nutrition) of other development partners.

7. Overall, the assessment of ADB activities in the Kyrgyz Republic during 2002–2006 has been favorable. ADB's strategy, program, and most of the operations were highly relevant and coherent. Many interviewed government officials and other stakeholders pointed out the visible and lasting results of ADB projects (e.g., Bishkek-Osh and Bishkek-Almaty roads) and positive outcomes (e.g., Agriculture Area Development Project with increased farm incomes and rural welfare). Most government counterparts commented favorably on flexibility and responsiveness with an "Asian way" of doing business, and the ease of communication with ADB staff. The other side of the same coin, however, was reflected in comments by other government officials and NGOs that ADB, at times, had been too soft with project conditionality and too accommodating during implementation where commentators felt that, if ADB staff had drawn the line, execution problems could have been avoided (e.g., Community-Based Infrastructure Services Sector Project).

8. The role that ADB has played in promoting regional cooperation and development through the Central Asia Regional Economic Cooperation (CAREC) program has been highlighted by Kyrgyz Government officials as one of the key achievements of ADB.

9. Implementation of the loan and TA portfolio is considered, by and large, satisfactory during the 2002–2006 period. A widely shared view is that ADB projects have been effective and ADB's operations were highly relevant and coherent. The 2006 OED Annual Evaluation Review concluded that, based on end-2006 data, the success rate of Kyrgyz Republic projects and programs was 92% of the rated operations, which is the highest among ADB DMCs. It is partly because the bulk of the portfolio consists of infrastructure projects, which generally have higher success rate. This should, however, not overshadow the strong sense of ownership of the Government and executing agencies, and diligent administration by ADB. Also, of the 11 projects under implementation at end-2006, only one was rated partly satisfactory. There are, however, a number of implementation issues that need to be resolved, such as delays in loan effectiveness and the low frequency of portfolio supervision. These, and other implementation issues, are addressed during the Joint Country Portfolio Review (JCPR), an exercise undertaken by ADB, Islamic Development Bank (IsDB), Kreditanstalt für Wiederaufbau (KfW), and World Bank (WB) since 2004.

B. Portfolio Performance and Status

10. The country has received 26 loans and 4 grants for project financing, for a total amount of \$644 million equivalent (as of 30 June 2007). All loans were provided on concessional terms from the ADF. The two largest sectors receiving ADB assistance were road transport and communications (about 27.6%); and law, economic management, and public policy (15%) (Table 1). ADB's annual investment levels averaged \$57 million during 1994–2004 and fell down to \$31 million during 2005–2006.

11. ADB has also provided 66 TA projects amounting to about \$38.7 million. Of these, 19 are project preparatory TAs amounting to \$12.7 million, and the remaining 47 TAs for \$26 million are advisory TAs for capacity building, policy formulation, institutional strengthening, and training. The country also received seven JFPR grants amounting to \$7 million. Four loan, one ADF grant, two TAs, and three JFPR grant projects are administered by the ADB Resident Mission in the Kyrgyz Republic (KYRM).

Table 1. Cumulative ADB Assistance (Loans and Grants as of 30 June 2007)

Sector	Projects approved	\$ million	% Share
Transport and Communications	5	177.8	27.6
Agriculture and Natural Resources	4	96.0	14.9
Finance	4	64.0	9.9
Health, Nutrition, and Social Protection	1	10.5	1.6
Education	4	58.2	9.0
Energy	1	30.0	4.7
Industry and Trade	1	15.0	2.3
Law, Economic Management, and Public Policy	5	96.5	15.0
Multisector	5	96.0	14.9
Total	30	644.0	100.0

12. As of 30 June 2007, nine loans for an approved amount of about \$188 million and one ADF grant for an approved amount of \$15.5 million are ongoing, while one loan and three ADF grants are awaiting effectivity (Appendix 3). The performance of ADB's portfolio as of 30 June 2007 was generally satisfactory, with only one loan rated at risk.²

13. The disbursement performance improved significantly during the recent past, with disbursements in 2006 reaching \$43 million, or 110.3% of the target. The disbursement ratio in 2006 was 32.6%, which is substantially higher than the ADB-wide average of 23.4%. Implementation delays in two large road projects³ prevented the Government from achieving an even higher ratio. As of 30 June 2007, cumulative disbursements to the Kyrgyz Republic reached \$508 million, or 84.0% of the total net loan amount (\$606 million). As of the same date, disbursements for active loans reached \$133 million, or 58% of total net loan amount (\$230 million).

14. The overall portfolio performance is satisfactory, with a marginal shortfall in procurement. The Government and executing agencies (EAs) strengthened their focus on achieving the development impact of the country portfolio. This includes substantial progress in developing sound sector strategies and preparing sector results matrixes during the review period. The latter enabled the Government and international financial institutions (IFIs) to rationally discuss the focus and magnitude of the portfolio contribution towards achieving the country's development objectives at the sector level. Notable progress was observed in strengthening the Government's focus on capacity building for community-based organizations in several projects. At the same time, the following areas continue to generate serious concerns:

² ADB. 2000. *Loan 1775-KGZ (SF): Loan to the Kyrgyz Republic for Almaty-Bishkek Regional Road Rehabilitation*. Manila. The project is rated at risk due to delays in implementation.

³ ADB. 2000. *Loan 1775-KGZ (SF): Loan to the Kyrgyz Republic for Almaty-Bishkek Regional Road Rehabilitation*. Manila, and ADB. 2004. *Loan 2106-KGZ (SF): Southern Transport Corridor Road Rehabilitation*. Manila

- (i) delays in implementing sector reforms, which may adversely affect achieving and sustaining the development impacts of individual projects;
- (ii) growing delays in project start-up and implementation, leading to erosion of project benefits; and
- (iii) lack of progress in improving the project implementation environment, particularly with regard to excessive inspections by the Chamber of Accounts, and resolving discrepancies in taxation of project inputs and international consultants.

15. The cited JCPRs have been useful for the Government to focus attention on systemic implementation issues. They also provided a basis for developing a results-based management approach to portfolio management and a forum for cross-fertilization of ideas and solutions. Lately, regular JCPRs, together with follow-up meetings, have helped improve portfolio performance.

C. Lessons Learned

16. Experience and lessons learned from previous ADB operations, which guided JCSS formulation and identification of ADB's forthcoming program, include the following.

- (i) Declining ADF allocations require a more focused program to remain effective, concentrating on sectors of a good track record and ADB's comparative advantage.
- (ii) Despite the existence of a multitude of complex strategic development frameworks (Comprehensive Development Framework [CDF], NPRS, Millennium Development Goals [MDG]), the Kyrgyz Republic lacked well-defined sector strategies, political consensus, and the will to implement them. It is crucial that comprehensive strategies, including the CDS, Medium-Term Budget Framework (MTBF), and capacity building plans, are developed in a participatory manner in the sectors where they play a primary role. Assistance should be limited to capacity building and advisory TAs until a clear strategy and consensus are developed.
- (iii) Design of new projects should include an outreach component to better explain the project objectives, expected outcomes, and benefits to the public at large as well as potential beneficiaries of the project. Most of the questions and concerns of NGOs about ADB projects stem from lack of information or misinformation, and the outreach effort built in into the project design could go a long way to get the reliable information out.
- (iv) To ensure that project-level interventions achieve their development objectives and produce the expected outcomes, project conditionalities can be used more effectively to address issues in sector policy frameworks than has been the case in the past.
- (v) There is a strong case for delegating project administration and supervision to the resident mission provided adequate resources are assured. There is a major difference in terms of response time and rapid follow-up between projects administered from Manila and those administered by KYRM.
- (vi) Strong ownership by the Government and the executing agencies, and diligent administration by ADB are key to successful portfolio performance.
- (vii) Regular JCPRs, together with follow-up meetings, have helped improve portfolio performance (for example, provision of counterpart funds has significantly improved during the last 2 years).

- (viii) One of the factors that contributed to the favorable assessment of ADB's performance is the fact that the program focused on project lending and technical assistance as opposed to adjustment operations. It is, therefore, recommended that ADB's program continue to focus on projects during the JCSS period when political uncertainty is expected to continue.
- (ix) A more active stance for cofinancing is being adopted for the 2007–2010 program.
- (x) Implementation of multisector projects should be entrusted to line ministries rather than the President or Prime Minister administrations, which are more focused on policy making and not geared for implementation.

III. ADB'S STRATEGIC DIRECTIONS WITHIN THE JCSS FRAMEWORK

17. ADB's operations in the Kyrgyz Republic for 2007–2010 will aim at contributing to robust and sustainable economic growth, and attaining poverty reduction and other MDGs. Several factors determined the strategic focus of ADB operations for the 2007–2010 period and the selection of the sectors to support. The factors included (i) the JCSS priorities fully aligned with the Government's CDS; (ii) the binding constraints on economic growth, including natural constraints,⁴ infrastructure constraints, weak business environment and investment climate; and poor governance; (iii) the ADF financing resources available for the Kyrgyz Republic, and the need to balance the focus and selectivity of operations while addressing the country's development challenges; (iv) lessons from ADB's experience in the country; and (v) ADB's comparative advantages vis-à-vis other development partners.

18. In line with the CDS, the JCSS envisages the following four priority areas: (i) promoting economic management consistent with strong and sustained pro-poor growth; (ii) improving governance, promoting effective public administration, and reducing corruption; (iii) building sustainable human and social capital; and (iv) ensuring environmental sustainability and natural resources management.

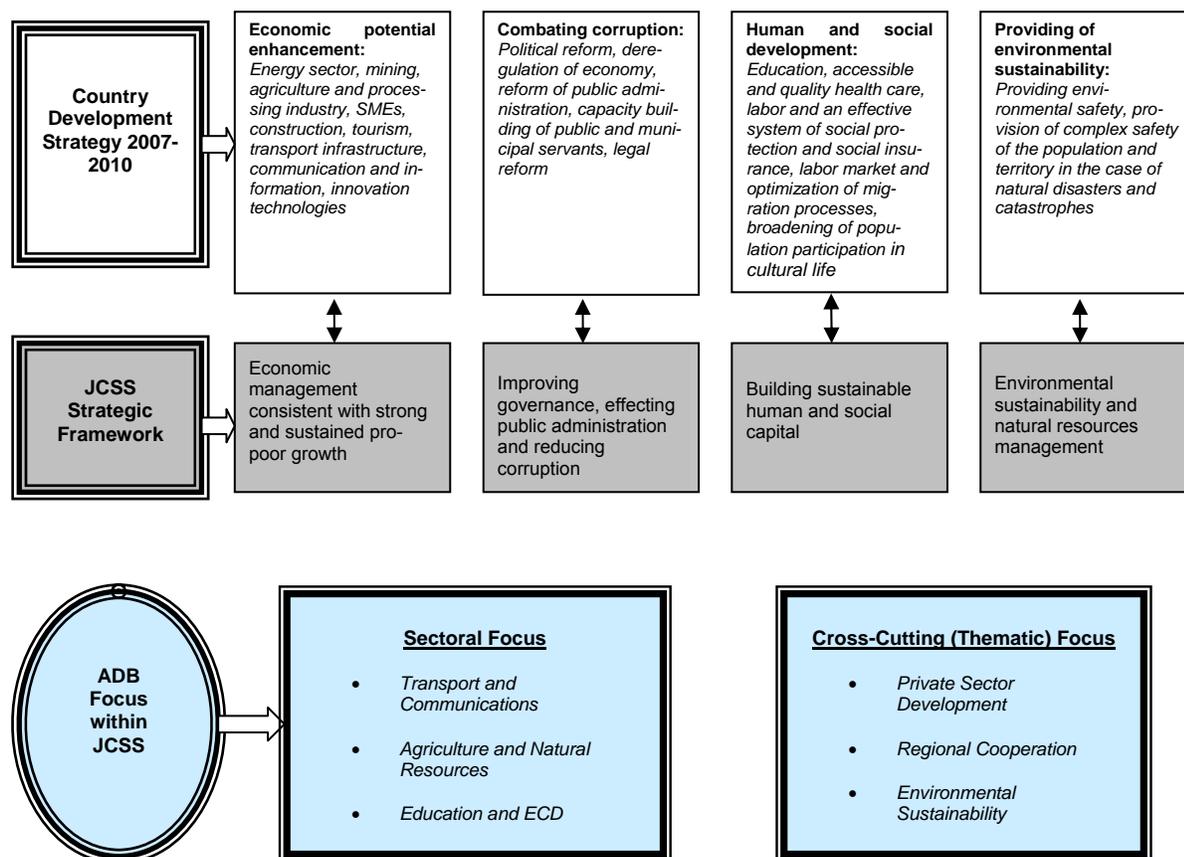
19. The limited ADF resources available for the Kyrgyz Republic require that its operations be strategically and selectively focused on a few priority areas and where ADB's interventions can yield clear and concrete outcomes. From the sectoral point of view, it is proposed that ADB's operations financed from the ADF core country allocation focus on consolidating and extending reforms in sectors that have direct and important cumulative contribution to GDP growth and diversification, poverty reduction, and human development. These are: road transport and communications; agriculture and natural resources; and education sectors, in which ADB has established a successful track record and demonstrated tangible benefits to stakeholders. Further involvement in these sectors reflects continuity from the previous CSP 2004–2006.

20. Several strong crosscutting themes are emerging throughout the proposed program. ADB operations would aim at improving overall governance, and facilitating an enabling environment for private sector development (PSD), to lay the foundation for second- and third-generation reforms. Given the country's natural constraints (a landlocked country remote from ports, small population and market, and poor natural resource endowment), regional connectivity and cooperation are of utmost importance to national development. The proposed ADB interventions thus have a strong focus on regional connectivity and regional economic activities. Ensuring environmentally sustainable economic development is another important

⁴ These are described in Part I, para. 15.

theme of the proposed program. The linkages among the CDS priorities, the JCSS pillars, and ADB's focus are demonstrated in Figure 1. The relevant sector and thematic road maps are in Appendix 4. The proposed program is summarized in Appendix 5.

Figure 1. Linkage between the CDS, the JCSS, and the ADB Program



A. Sector Focus

21. The transport and communications sector, particular the roads subsector, plays a crucial role for a landlocked country's economic growth by ensuring cost-effective access to regional and domestic markets, generating employment opportunities, and providing services. The proposed road projects—the PRC-KGZ-TAJ Regional Road Corridor Improvement Project and the Bishkek-Torugart Road Project—will facilitate trade and traffic among the People's Republic of China (PRC), Kyrgyz Republic, Tajikistan, and potentially Afghanistan and Turkmenistan, by rehabilitating the regional corridors and facilitating cross-border agreements. Importantly, ADB operations will also support the Government in establishing a sustainable road maintenance program, introducing necessary changes in funding institutional, contractual, and regulatory mechanisms, including involvement of the private sector in road maintenance and user-funded maintenance mechanisms. The Government recently approved a roads subsector strategy, which envisages the above sector reforms, and expressed appreciation for ADB's support to the sector reforms. Development of a comprehensive Transport and Communications Strategy (including communications in a general sense, potentially telecommunications and e-

Government, and other transport subsectors like toll roads, aviation, and rail transportation), is envisaged during the JCSS period. ADB is currently undertaking a regional Transport Sector Strategy Study, which reviews the trade flows along the PRC-KGZ-UZB railway corridor proposed by the Government.

22. In the agriculture and natural resources sector, ADB interventions will continue aiming at increasing farm and land productivity on a sustainable basis, using an area development approach in Issyk-Kul, Naryn, and Talas oblasts, which were not covered under the previous agriculture project. Importantly, the new operations will focus more on commercialization of agriculture, diversification of agricultural production, and promotion of exports. Improved incentives for market-oriented agriculture will facilitate a stronger private sector involvement in agricultural marketing and processing. This approach was put forward by the Government, in line with the recently-prepared Agriculture Sector Strategy, and a specific suggestion was made to use the agriculture sector as a pilot component in the proposed Support to Business Environment and Investment Climate Project (para 28). The Government also requested that the commercialization approach be embedded in the new Agricultural Land Improvement Project in the three northern oblasts. The Government supported the proposed regional technical assistance (RETA) on facilitating agricultural trade among the Central Asian countries, PRC, Russia, and other countries in the region. ADB will also continue policy and advisory work in the agriculture sector.

23. International experience shows that investment in human capital is crucial to national economic development. This is particularly important in the Kyrgyz Republic where its relatively poor natural resource endowment means that the country's main resource is its human capital. The country's imperative to achieve high levels of productivity and international competitiveness to ensure successful export-led growth also means that it needs to develop a competitive edge in higher value-added, technology-intensive exports based on an innovative and knowledge-based economy with a highly developed human capital. ADB will continue involvement in the education sector, through ongoing and new operations in early childhood development, basic education, and vocational education and skills training.

24. An important study of the transition to the 12-year education program is being undertaken in the ongoing Second Education Project. With increasing involvement of other development partners in the education sector (namely, United Nations Children's Fund and the World Bank), and given the completion of a proper national education strategy (currently being prepared by the Government) and improved institutional capacity in the sector, a possibility of applying a Sector-Wide Approach (SWAp) funding mechanism is being considered for education.

B. Cross-cutting (Thematic) Focus

25. **Regional Cooperation.** As mentioned earlier, although ongoing and proposed ADB projects are sector-specific, many of them have a strong regional dimension. Cooperation in transport and trade facilitation by developing an integrated and efficient transport system and customs services is a cornerstone of the CAREC program. The CAREC program includes activities in the energy sector, which will benefit the Kyrgyz Republic in a number of ways: (i) with Kyrgyz Republic's abundant hydropower potential, ADB is supporting the Government's policy and efforts in promoting the export of its hydropower through the Central Asia-South Asia Regional Electricity Market Initiative; (ii) the proposed Regional Gas Transmission and Distribution Enhancement Project will provide the required investments and support institutional reforms for ensuring reliable gas transmission and distribution to consumers in the region; and

(iii) the Kyrgyz Republic is an active participant in the CAREC Members Electricity Regulators' Forum. Other CAREC activities relevant for the Kyrgyz Republic include the ongoing regional land management initiative,⁵ regional business development opportunities, and knowledge and expertise products.

26. **Supporting Policy and Institutional Foundations for Private Sector Development.**

Private sector investment, including foreign direct investment, is critical to achieving the ambitious targets for economic growth envisaged in the CDS. With the current borrowing constraints on public sector investments, the country does not have other alternatives for boosting investment and economic growth and hence for improving the living conditions of its citizens.

27. Therefore, it is necessary to strengthen institutional capacity and lay foundation for a vibrant PSD. ADB's activities under this approach will comprise three interventions: (i) direct support for improving the business environment and investment climate; (ii) strengthen the new Government's capacity and capability for developing and implementing a market-oriented, open, and private sector-led economic development policy; and (iii) initiating ADB's own private sector operations (PSO) in the country. These interventions are crucial to raising the levels of productivity and international competitiveness. The activities fall under the first and second JCSS priority areas, i.e., support for economic management and growth, and for governance.

28. Under the first intervention, ADB will support the Government in improving public revenue collection, governance, and transparency; and reducing corruption in the area of customs and tax administration.⁶ The proposed Support for the BEIC Project will aim at streamlining procedures for registration, licensing, and compliance of private businesses; lowering administrative barriers for businesses; and enforcing property and creditor rights. The project may support the establishment and implementation of a "single window/one-stop shop" for investors, based on the findings of, and with a possible collaboration with the German agency for technical assistance GTZ.⁷ It is proposed that these cross-sector, systemic activities for PSD be piloted under the Project's second component in certain areas (for example, in the agriculture sector, for developing agribusiness and agroprocessing, diversification, and promotion of export of agricultural goods). The proposed Project will coordinate closely with other development partners' initiatives, and with the activities of the International Business Council, the recently-established Investment Council under the President of the Kyrgyz Republic, and other relevant business associations.

29. The proposed Issyk-Kul Sustainable Development Project (para. 35) will establish the institutional framework for the development of the main ecological asset of the country, the Issyk-Kul Lake, with the view of creating a sound BEIC for attracting private sector investment, facilitating the economic development in the region, and enhancing the tourism potential. The project is expected to pilot public-private partnership in the Kyrgyz Republic and demonstrate the viability of the approach.

30. Recognizing the importance of the financial sector for PSD and PSOs, ADB has been providing assistance to implement a program to improve the policy, regulatory, and institutional capacity in the banking sector. ADB will continue enforcing banking legislation and regulation,

⁵ Central Asia Countries Initiative in Land Management (CACILM).

⁶ The ongoing ADB. 2004. *Loan 2113-KGZ (SF): Regional Customs Modernization and Infrastructure Development Project*. Manila, and the recently approved ADB. 2007. *Grant 0077-KGZ (SF): Tax Administration Reform and Modernization Project*. Manila.

⁷ GTZ. *Reducing Administrative Barriers for Trade in the Kyrgyz Republic Project*.

and strengthening the supervision of the securities market to improve market transparency, protect investors, and remove policy distortions, through the ongoing loan and a TA.⁸ Involvement of ADB's PSO in the banking sector is also being considered. The remaining reform agenda in the financial sector will be reviewed upon completion of the ongoing banking and capital markets development program, and activities of other IFIs such as IMF and the WB, toward the end of the JCSS period.⁹

31. The second set of interventions addresses an urgent and imminent need to strengthen the new Government's capacity and capability for developing and implementing a market-oriented, open, and private sector-led economic development policy. With the exception of several groups of highly competent staff dealing with debt management issues and fiscal and monetary policies in the MOF and the NBKR, there is a general lack of properly trained economists in key government bodies. A proposed sizable TA will support building and developing economic policy and economic management expertise. In addition, it will counter a tendency among some members of the Government and Parliament to advocate populist ideas for a highly centralized, authoritarian model of development, rather than competitive markets and private sector activities. The TA will also support facilitation of discussions, sharing of information, and exchange of experiences and ideas among high- and working-level government officials in the Kyrgyz Republic and other relevant countries. ADB will coordinate with other JCSS partners and other agencies in creating, developing, and maintaining the economic policy and management expertise. Sustainable mechanisms to develop and retain trained personnel will be discussed with the authorities and partner agencies, and receive particular attention.

32. While it is essential to ensure fundamentally sound basic economic policies and management and to lay the foundation for next-generation reforms, it is equally important to respond to the Government's specific policy requests and need for advices in a timely fashion. It is difficult—and unwise—to determine in advance the specific policy and institutional issues that would be demanded by the Government, especially in the light of the current political situation. Nevertheless, it is important that ADB be able and prepared to respond to Government needs in a timely and effective fashion. The second part of the proposed TA will provide an innovative modality in the form of rapid-response financial resources that could be used flexibly to meet emerging requirements.

33. Finally, the third set of interventions involves initiating ADB's own PSO in the country. Although the Private Sector Framework Agreement was ratified by Parliament in May 2004, no PSO have been initiated so far. Also, despite there are formidable challenges for initiating ADB's PSO in the country, ADB's activities in the Kyrgyz Republic need to support commercial operations, without government guarantees. At the moment, cautious efforts are being undertaken to study possibilities of PSO in the telecommunications and banking sectors. Opportunities also exist in agribusiness, transport, energy, waste management, and waste-to-energy activities. Also, the use of ADB's other private sector modalities, such as political and partial credit guarantees, could be considered during the JCSS period.

34. **Environmental Sustainability.** There is a critical need to embark on the path of dynamic, intensive economic development, but without inflicting environmental damage and

⁸ The ongoing ADB. 2005. *Loan 2224-KGZ (SF): Banking Sector and Capital Market Development Program*. Manila, and the associated ADB. 2005. *Technical Assistance to the Kyrgyz Republic on Supporting Banking Sector and Capital Market Development*. Manila.

⁹ A TA for the financial sector is tentatively programmed for 2010, sequencing the operations in the financial sector and bridging ADB activities for the next period.

while preserving the country's pristine environment. Ensuring environmentally sustainable economic development is an important theme of the proposed ADB program for 2007–2010. Sustainable land management will be addressed by several ongoing and new country and regional agriculture projects, including the Central Asia Countries Initiative in Land Management (CACILM) and the agriculture area development project.

35. The Kyrgyz Republic possesses unique natural resources, from picturesque mountain ranges to the gem of Central Asia, Issyk-Kul Lake. The recently observed and anticipated rapid growth of resorts and facilities in the Issyk-Kul area, coupled with poorly designed water supply and wastewater facilities and other essential infrastructure, and lack of land zoning practices may spoil the delicate environmental balance, leading to irreversible damage. The underdeveloped infrastructure and, importantly, the nontransparent institutional and legal procedures and an obscure business environment put additional costs on the private sector, and thus impede investments and efficient economic development. In such a scenario, Issyk-Kul Lake may end up being another human-made disaster. The proposed Issyk-Kul Sustainable Development Project will address the environmental and institutional issues around Issyk-Kul Lake development and facilitate promotion of sustainable tourism. There is an overwhelming support for the project concept from the Government, the representatives of civil society, and the private sector.

C. Results-Based Outcomes

36. The impact of ADB operations in 2007–2010 will be determined by both the ongoing portfolio (the projects already approved by ADB Board, but whose implementation falls during the JCSS period; see Appendix 3),¹⁰ and the proposed pipeline of operations (Appendix 5). The results framework outlining the intended outcomes contributed by ADB operations and the proposed tracking indicators are in Appendix 6.

IV. FINANCING FRAMEWORK AND INSTRUMENTS

A. Financing Framework

37. The Kyrgyz Republic is expected to continue its ADF borrower status over the JCSS period. Since 2002, the Kyrgyz Republic has been receiving performance-based allocation determined by ADB's country performance assessment (CPA). Since 2005, up to 50% of ADF resources are being provided to the Kyrgyz Republic as grant.

38. Currently, the total country ADF allocation for the JCSS period is estimated at \$117 million–\$128 million, the final amount depending on the 2007 and 2008 CPA scores; overall resource availability (the period 2009–2010 falls under the ADF-X replenishment); and the proportion of the grant element.¹¹ The investment program for the JCSS period will, therefore, be subject to annual review and update, and confirmation with the Government and JCSS partners, through the indicative rolling Country Operations Business Plans.

¹⁰ The ongoing portfolio during the 2007–2010 period is estimated at \$230 million–\$240 million.

¹¹ ADB is in the process of revising the framework for ADF grants. Approval of the new framework, which links grant eligibility to a country's debt situation, is still pending. Should the Kyrgyz Republic become eligible for 100% grant, it is estimated that the total biennial allocation for 2007–2008 may decrease to \$44 million from the current allocation of \$55 million. At the moment, a tentative allocation for the 2009–2010 biennial period is determined at \$73 million. Submission of ADF grant projects for Board consideration prior to approval of the revised grant framework will be on a conditional basis. Should ADB's Board approve such projects, the grant agreement will not be signed until the revised grant framework is approved.

39. Due to the restrictions on public borrowing (a ceiling on the Public Investment Program (PIP) of 3% of GDP, and all public borrowing satisfying the minimum grant element of 45%), there are limitations in the country's borrowing from ADB's nonconcessionary ordinary capital resources. The overall scarcity of funds necessitates (i) identification and use of cofinancing opportunities, and (ii) access to additional grant and/or concessional funds, such as regional funds; JFPR, Korea's Fund for E-Asia, Water Fund; and bilateral funds.¹²

B. Country Cost-Sharing Arrangements

40. The proposed country cost-sharing arrangements and other financing parameters were discussed and confirmed with the Government. The proposal is to establish a country ceiling of up to 99% for ADB's project portfolio.¹³ While the country cost-sharing proposal includes flexibility in financing taxes and duties, the project teams will be encouraged to arrange project financing without ADB funding of local taxes if they constitute an excessively large share of the project cost, and to assess the specific conditions of the project such as counterpart ownership, sustainability, and affordability. The country cost-sharing arrangements are summarized in Appendix 7, and full assessment is in a supplementary appendix.

C. Modalities, Governance, and Portfolio Management

41. The modalities of the proposed ADB operations will be TA resources, ADF project loans and grants,¹⁴ and continuing engagement in policy dialogue. Due to the decreasing ADF core country allocations, efforts will be made to access other sources of grant or concessional funding.

42. Given the importance of improving the governance situation for the country's PSD and overall economic development, "governance lens" will be embedded into each operation, with the view of improving sector institutional arrangements and advancing relevant policy dialogue. The project executing and implementing agencies, and ADB project officers will be encouraged to address the so-called "implementation gap," by designing and implementing projects that will focus on implementing the agreed-upon policy actions to enhance transparency, efficiency, and competition, and overall governance in the particular sectors of operations. In this respect, adopting and implementing improved fiduciary requirements, including those for procurement practices, will receive particular attention during the JCSS period.

43. In line with the self-assessment of past ADB operations in the country, supervision of the project portfolio will be strengthened, including more frequent project review missions and enhanced monitoring of projects from the point of view of developmental outcomes and results. Decentralization of portfolio management to the KYRM has proved to reduce the response time and improve project implementation, particularly of problematic projects. Further delegation of portfolio management to the KYRM should be undertaken but only with the corresponding appropriate resources mix. In addition, in accordance with aid harmonization practices, lowering transaction costs of portfolio management, including possible merger of project implementation

¹² One example of the impact of the decreasing country allocations is the need to address rural water supply constraints. Building on experience with previous ADB- and WB- and DFID-funded projects, the rationale for the continuing engagement of ADB in rural water supply operations is strong. However, the limited core ADF country funds and the need for selectivity and focus of the operations necessitate efforts to access other grant funds to address the remaining rural water supply needs.

¹³ For country cost-sharing purposes, projects financed with ADF grant funds will be counted as part of the loan portfolio.

¹⁴ A new multitranches financing facility could be considered for the roads sector project (Bishkek-Torugart).

units, will be pursued. Country portfolio indicators are discussed in Appendix 8, while the 2006 country performance assessment ratings are in Appendix 9.

44. An effective and well-targeted public communication policy and outreach activities will receive proper attention during the JCSS period. New operations will be encouraged to include an effective communication program during the preparation and implementation phases, directed at building partnership with the authorities and key stakeholders. Such interventions will foster ownership of and accountability for the operations by reaching out to the communities at large including members of Parliament, civil society, business associations, and the media. The programs will focus on results-based developmental outcomes of ADB operations in the country, their impact on people, as well as on wider dissemination of the outcomes of the economic, sector, and thematic work. ADB will continue facilitating cooperation between government, civil society organizations, and the private sector.

V. RISKS AND PERFORMANCE MONITORING AND EVALUATION

45. The risks in implementing the JCSS and the mechanism to mitigate them are described in JCSS Part I (para. 140-146). They are political risks, institutional and operational risks, and risks from exogenous factors. There are no risks related specifically to ADB operations.

46. Monitoring and evaluation of the ADB program, as well as of JCSS, will be aligned to the extent possible with the Government's monitoring and evaluation of the CDS and other reforms. A comprehensive system of CDS monitoring and evaluation indicators was prepared with ADB assistance, and is currently being institutionalized by the Ministry of Economic Development and Trade, the National Statistical Committee, and at the regional level. Engagement of independent stakeholders, such as civil society, for CDS monitoring and evaluation purposes and a potential contracting out of this exercise are being considered by the authorities. During annual reviews, the Government and JCSS partners will review progress, the remaining challenges, and the way forward toward achieving the CDS and JCSS goals. The indicators used will also reflect the internationally accepted Paris Declaration indicators adapted in the context of the Kyrgyz Republic. A joint midterm review will be undertaken by the participating development partners during the JCSS period.

47. In addition to participating in the implementation reviews of the CDS and the JCSS, ADB will strengthen the results-oriented management of the portfolio in line with the results-based framework outlined in Appendix 6. The framework demonstrates a broad link between selected CDS outcomes and indicators, and ADB contributions to the country and the JCSS planned outcomes.

VI. CONCLUSION

48. The Kyrgyz Republic is at the crossroads of its history. To achieve vibrant economic growth and progress toward the MDGs, the Government's commitment and will to implement the announced reform agenda are critical. The JCSS partners, including ADB, will support the Government in implementing the CDS, and will contribute to enhancing the economic potential of the country and overcoming existing developmental challenges.

SUMMARY OF THE JCSS FORMULATION PROCESS

1. The Joint Country Support Strategy (JCSS) is formulated in the spirit of national and international commitments and initiatives on aid effectiveness, including the Rome Declaration on Aid Harmonization and the Paris Declaration on Aid Effectiveness, for which the Kyrgyz Republic is one of the pilot countries. The JCSS will ensure a coherent and well-coordinated response to support implementation of the Country Development Strategy (CDS) and the Millennium Development Goals (MDGs); draw upon each partner's comparative advantage in providing expertise and assistance; and help reduce transaction costs. It is results-oriented, with a monitoring and evaluation framework derived from the CDS.

2. Although the Asian Development Bank (ADB) has been previously involved in harmonizing efforts with development partners in preparing country strategies (for example, in Bangladesh, Viet Nam, and Cambodia), the Kyrgyz Republic JCSS is the first case of a joint country strategy prepared with several partners and to be presented to the ADB Board as such.

3. The JCSS process started with a brainstorming retreat in September 2005 that brought together all multilateral and bilateral international financial institutions (IFIs) in the country and senior government officials. Five agencies—ADB, United Kingdom's Department for International Development (DFID), Swiss Cooperation, United Nations Agencies, and the World Bank Group (WBG)—decided to prepare the JCSS as core members, while other IFIs opted to participate as associate members. To jump-start the process, (i) the core members got clearances from their headquarters; (ii) a working group involving staff of the core group members was set up to facilitate working-level coordination, and a steering committee consisting of the core group IFIs, jointly chaired by ADB and the WBG, was set up to monitor progress; (iii) it was decided that the aid coordination unit¹ would act as secretariat; and (iv) the sectoral and thematic area working groups (WGs) were formulated and their responsibilities and leaderships assigned.

4. The WGs were formulated for six sectors (agriculture, infrastructure and energy, transport, banking and finance, education, health and social protection); and eight thematic areas (economic growth analysis, poverty analysis, gender assessment, governance assessment, environment assessment, private sector assessment, regional cooperation, and building a just society). The WGs prepared an inventory of the recently completed studies and reports and produced preliminary sector and thematic reports on the current situation, sector analysis, and opportunities for IFIs' support.

5. ADB led three sectoral WGs (transport, banking and finance, and education) and three thematic WGs (gender, private sector development, and regional cooperation), and extensively supported the environment WG led by the United Nations Development Programme (UNDP). ADB also undertook a Private Sector Assessment Update (PSAU) and Natural Resources Sector Study, and provided support to the Government for developing (i) a roads subsector strategy, (ii) a monitoring and evaluation system for the CDS (both activities under a TA to help the Government prepare the CDS);² and (iii) an agriculture sector strategy (under a separate TA).³ Other studies, such as a self-assessment of recent ADB activities in the Kyrgyz Republic,

¹ The Donor Coordination Council is a permanent body of the aid community in the Kyrgyz Republic. It meets every month to discuss political, economic, and social developments and other relevant issues; has a full-time position of a donor coordinator; and maintains a website.

² ADB. 2005. *Technical Assistance for Support to Development and Implementation of National Poverty Reduction Strategy-II*.

³ ADB. 2004. *Technical Assistance for Agriculture Policy Formulation*.

and the technical study on the proposed country cost-sharing arrangements, were undertaken by the country team.

6. Due to political instability throughout the 2006–2007 period and changes in the Government, the work on the CDS, and hence the JCSS, slowed down. The main concern was the degree of the Government's commitment and ownership in addressing development priorities and economic issues. In addition, the highly politicized discussion on participation in the Heavily Indebted Poor Countries (HIPC) Initiative consumed significant Government resources.⁴ Nevertheless, the sectoral and thematic work on the JCSS continued, with the second JCSS extended brainstorming session held in March 2006, and a series of public consultations with the then-Government, nongovernment organizations, the private sector, and the media during the summer-fall 2006.

7. The Government that was formed in late March 2007 reviewed the CDS and approved it in April 2007 after incorporating changes in the government structure and those resulting from the decision not to avail of the debt relief under the HIPC Initiative. The President approved the CDS in May 2007. The Government presented the CDS priorities to the aid community at the Development Forum (previously called a Consultative Group meeting) held on 31 May 2007 in Bishkek.

8. The JCSS partners continued consultations with various stakeholders on the JCSS strategic focus and the proposed programs, and completed drafting the common Part I and the ADB- and WB-specific Parts II in May–June 2007. Several rounds of internal ADB consultations, including the Initiating Meeting, the Informal Board Seminar, and the Management Review Meeting, took place in April–July 2007. The Country Program Formulation Mission in June 2007 confirmed with the Government and other stakeholders the proposed strategic focus of ADB within the JCSS and the proposed program of operations.

⁴ In February 2007 the Government decided not to pursue debt relief under the HIPC Initiative.

SUMMARY OF THE SELF-ASSESSMENT REPORT¹

1. A self-assessment of the country strategy and programs (CSPs) 2002–2004 and 2004–2006 was conducted by the Asian Development Bank (ADB) country team to provide input to the Joint Country Support Strategy 2007–2010 (JCSS)². The assessment was based on various evaluation reports prepared by the Operations Evaluation Department (OED) of ADB, project performance and audit reports, midterm review reports, country portfolio review reports, project completion reports; and interviews with the current and former government officials, nongovernment organizations (NGO), civil society groups, ADB staff, agencies implementing ADB-financed projects, and development partners.

2. ADB has been the second largest development partner for the Kyrgyz Republic with 26 loans and 4 grants for project financing (totaling \$644 million) and 66 technical assistance (TA) grants (totaling \$38.7 million). The country also received seven Japan Fund for Poverty Reduction (JFPR) grants amounting to \$7 million. ADB has been the single largest aid agency in the transport, education, and financial sectors; and the second largest in agriculture and rural development.

3. ADB's assistance programs were designed to support the Government's development objectives and strategy, and the overall objective of the last CSP was to reduce poverty. The geographical focus of the CSP was on the poorer areas. The sectoral and thematic foci have been in line with those of the National Poverty Reduction Strategy (NPRS). Table A2.1 summarizes the evolution of ADB sectoral focus in the Kyrgyz Republic.

4. Declining ADF allocations to the Kyrgyz Republic during the period under review required that a program be more focused than in the past to remain effective. The last CSP proposed to be selective and focused on private sector-led operations in agriculture and financial sector development as well as strategic investments in regional road links and in trade facilitation to reduce barriers. It also retained selective support for human development to address declining public investment in the social sectors. In the social sectors, ADB expanded into early childhood development, a multisector area that seems to have been overlooked in interventions in the social sectors (e.g. health, nutrition) of other development partners.

5. Regional cooperation is critical for the landlocked Kyrgyz Republic. Under the Central Asia Regional Economic Cooperation (CAREC) program initiated by ADB, the country has benefited from development of an integrated and efficient transport network, adoption of a new Customs Code in 2004, information technology for automated customs services, data exchanges, risk management and postclearance audit, joint customs control and single-window practices, and regional transit development. Also, the Kyrgyz Republic and Tajikistan are developing a unified automated information system, and customs border-post infrastructure. Support has also been given to Kazakhstan and the Kyrgyz Republic to pilot-test joint customs control. Under CAREC, the Kyrgyz Republic has also signed bilateral agreements with Kazakhstan and Tajikistan. Progress in collaboration in water and power has, however, been slow.

6. Overall portfolio performance has been satisfactory, although there have been some cases of poor portfolio performance like start-up delays, e.g., delays in fielding consultants, inadequate attention in prequalifying contractors, which resulted in poor performance and

¹ The full report is in a supplementary appendix.

² ADB. 19 April 2007. *Self-Evaluation of the Asian Development Bank Activities in the Kyrgyz Republic, 2002–2006*.

ultimately termination of the contracts; nonfunctional project steering committees; and inadequate project administration. Also, successive TAs for building the capacity of the Ministry of Agriculture, Water Resources and Processing Industry have produced limited or no lasting results. Such implementation issues have limited the efficiency of the program.

7. Lately, regular joint country portfolio reviews, together with follow-up meetings, have helped improve portfolio performance. For example, provision of counterpart funds has significantly improved during the last 2 years.

8. Overall, the assessment of ADB's activities in the Kyrgyz Republic during the 2002–2006 period has been favorable. Many government officials described ADB as “the most favorite donor”, demonstrating flexibility and responsiveness with an “Asian way” of doing business. They also pointed out to the visible and lasting results of ADB projects (e.g., Bishkek-Osh road) and positive outcomes (e.g., Agriculture Area Development Project) of increased farm incomes and rural welfare. Kyrgyz government officials have highlighted the role that ADB has played in promoting regional cooperation and development through CAREC and regional projects as one of the key achievements of ADB. Some government officials and nongovernment organizations, however, pointed out that ADB, at times, had been too soft with project conditionality and too accommodating during implementation.

9. A widely shared view is that ADB projects have been effective, perhaps with the exception of the Community-Based Infrastructure Development Project. Overall, ADB's strategy, program, and most of the operations were highly relevant and coherent. The 2006 OED Annual Evaluation Review concluded that based on end-2006 data, the success rate of Kyrgyz Republic projects and programs was 92% of the rated operations, which is the highest among ADB developing member countries.

10. Lessons learned that should guide the JCSS include the following: (i) the further declining ADF allocations require a more focused approach in fewer sectors where ADB has comparative advantage, with more allocation to projects and supporting technical assistance; (ii) the capacity of government institutions should be built in developing strategies in a participatory manner in sectors that play a primary role; (iii) more efforts need to be made to mobilize cofinancing resources, particularly from some larger bilateral agencies; (iv) more resources need to be allocated for TA and projects administration to get better outputs; (v) implementation of multisector projects should be entrusted to line ministries rather than to President or Prime Minister administrations, which are more focused on policy making and not geared for implementation; (vi) the implementation of similar projects should be entrusted to joint project implementation units whenever feasible and practical; (vii) more project administration responsibilities need to be delegated to the resident mission and the required additional resources provided; (viii) the design of new projects should include allocation of resources for outreach activities; and (ix) a strong sense of ownership by the Government and executing agencies, and diligent administration by ADB are key to successful portfolio performance.

:Table A2.1: Evolution of ADB Sectoral Focus in the Kyrgyz Republic

Sector Focus	1994–1999 (Interim Country Operations Strategy)	2000–2003 (CAPs)	2004–2006 (CSP, CSPUs)	2007–2010 (Proposed JCSS)
Agriculture and Natural Resources	<ul style="list-style-type: none"> - Agriculture - Water resources management - Institutional strengthening and capacity building 	<ul style="list-style-type: none"> - Agriculture area development - Irrigation - Water resources management - Institutional strengthening and capacity building 	<ul style="list-style-type: none"> - Agriculture area development - Irrigation - Rural development - Policy formulation and institutional reforms 	<ul style="list-style-type: none"> - Agricultural land improvement - Support for agribusiness and agricultural export promotion
Emergency Assistance	<ul style="list-style-type: none"> - Flood emergency rehabilitation (investment) 	<ul style="list-style-type: none"> - Emergency rehabilitation (investment) 	<ul style="list-style-type: none"> - Reducing vulnerability of the poor to natural disasters 	
Infrastructure: Transport and Communications	<ul style="list-style-type: none"> - Regional road networks rehabilitation - Sector policy and institutional strengthening 	<ul style="list-style-type: none"> - Regional road networks rehabilitation - Improvement of road sector efficiency 	<ul style="list-style-type: none"> - Regional road networks rehabilitation - Capacity building for road planning 	<ul style="list-style-type: none"> - Regional road network rehabilitation - Improved road maintenance funding and management mechanism - Private sector involvement in road operations and maintenance - Transport and communications sector strategy - Regional railway development study
Infrastructure: Energy	<ul style="list-style-type: none"> - Power and district heating rehabilitation - Revaluation and tariff study for Kyrgyz National Energy Holding Company 			<ul style="list-style-type: none"> - Regional gas transmission improvement in CARs - Support to Central Asia-South Asia Regional Electricity Market Project - Establishing CAREC members electricity regulatory reform
Education	<ul style="list-style-type: none"> - Institutional support for education sector - Support for basic education 	<ul style="list-style-type: none"> - Support for basic education - Support for early childhood development and institution building 	<ul style="list-style-type: none"> - Support for basic education - Support for vocational education and skills development 	<ul style="list-style-type: none"> - Support for early childhood development - Education SWAp
Health, Nutrition, Social Protection	<ul style="list-style-type: none"> - Social services delivery and finance 	<ul style="list-style-type: none"> - Improving nutrition of poor mothers and children 	<ul style="list-style-type: none"> - Food fortification - Reducing neonatal mortality 	<ul style="list-style-type: none"> - Support for early childhood development
Finance, Law and Public Sector Management	<ul style="list-style-type: none"> - Corporate governance reforms - Financial sector reforms - Commercial bank audits - Support to economic policy and institution building - Support to the NPRS 	<ul style="list-style-type: none"> - Corporate governance reforms - Support to rural finance - Support to economic policy and capacity building 	<ul style="list-style-type: none"> - Banking sector and capital market development - Support to NPRS II and its monitoring 	<ul style="list-style-type: none"> - Tax administration reform and modernization - Support to business environment and investment climate - Support to economic policy and management - Financial markets development - Issyk-Kul sustainable development

ONGOING PORTFOLIO DURING THE JCSS PERIOD

Table A3.1: Ongoing Loans and Grant Projects

Item	Loan No	Title	Year		Years of Implementation						
			Approval	Closing	2007	2008	2009	2010	2011	2012	2013
A. Ongoing Loans											
1.	1726	Agriculture Area Development	Dec 99	Jun 09							
2.	1775	Almaty – Bishkek Regional Road Rehabilitation	Oct 00	Dec 07							
3.	1742	Community-Based Infrastructure Services Sector	Jun 00	Dec 08							
4.	1853	Third Road Rehabilitation	Oct 01	Jul 07							
5.	2007	Community Based Early Childhood Development	Sep 03	Jun 09							
6.	2045	Emergency Rehabilitation	Dec 03	Sep 07							
7.	2106	Southern Transport Corridor Road Rehabilitation	Nov 04	Mar 09							
8.	2113	Regional Customs Modernization and Infrastructure Development	Nov 04	Jun 10							
9.	2224	Banking Sector and Capital Market Development	Dec 05	Jun 09							
10.	2314	Southern Agriculture Area Development Project (Loan \$15 million and Grant \$5 million)	Jan 07	Dec 13							
B. ADF Grants											
1.	0020	Second Education Project (ADF grant)	Oct 05	Dec 10							
2.	0073	Southern Agriculture Area Development Project (Loan \$15 million and Grant \$5 million)	Jan 07	Dec 13							

Item	Loan No	Title	Year		Years of Implementation						
			Approval	Closing	2007	2008	2009	2010	2011	2012	2013
3.	0074	Vocational Education and Skills Development	Jan 07	Sep 11							
4.	0077	Tax Administration Reform and Modernization	Jun 07	Mar 12							
C. JFPR Grants											
1.	9052-REG	Sustainable Food Fortification for Central Asia and Mongolia	Jul 04	May 07							
2.	9055	Reducing Vulnerability of the Poor to Natural Disasters	Sep 04	Aug 08							
3.	9056	Reducing Neonatal Mortality	Sep 04	Oct 08							
4.	9059	Rural Livelihood Development Project	Dec 04	Oct 08							
5.	9104	Improving Livelihoods of Rural Women through Development of Handicrafts Industry	Jan 07	May 10							
6.	9108	Improving Access to Quality Basic Education for Children with Special Needs	May 07	Sep 11							

Item	Loan No	Title	Amount (\$ million)	Date of			Closing Date		EA	Sector
				Approval	Signing	Effectiveness	Original	Current		
A. Ongoing Loans			203.3							
1.	1726	Agriculture Area Development	36.0	20 Dec 99	16 May 00	01 Sep 00	31 Jan 07	30 Jun 09	MAWRPI	Agriculture and Natural Resources
2.	1775	Almaty – Bishkek Regional Road Rehabilitation	5.0	31 Oct 00	31 May 01	31 May 02	30 Jun 04	31 Dec 07	MOTC	Transport and Communications
3.	1742	Community Based Infrastructure Services Sector	36.0	08 Jun 00	01 Sep 00	28 Nov 00	31 Dec 06	31 Dec 08	MAWRPI	Multisector
4.	1853	Third Road Rehabilitation	40.0	31 Oct 01	29 Apr 02	12 Sep 02	30 Apr 05	30 Jul 07	MOTC	Transport and Communications
5.	2007	Community Based Early Childhood Development	10.5	29 Sep 03	14 Jan 04	10 Mar 04	30 Jun 09	30 Jun 09	Administration of the President	Health, Nutrition, and Social Protection

Item	Loan No	Title	Amount (\$ million)	Date of			Closing Date		EA	Sector
				Approval	Signing	Effectiveness	Original	Current		
6.	2045	Emergency Rehabilitation Project	5.0	11 Dec 03	12 Feb 04	24 Jun 04	30 Sep 07	30 Sep 07	MES	Multisector
7.	2106	Southern Transport Corridor Road Rehabilitation Project	32.8	23 Nov 04	21 Feb 05	28 Jul 05	31 Mar 09	31 Mar 09	MOTC	Transport and Communications
8.	2113	Regional Customs Modernization and Infrastructure Development Project	7.5	26 Nov 04	24 Feb 05	23 Feb 06	30 Jun 10	30 Jun 10	MOF	Industry and Trade
9.	2224	Banking Sector and Capital Market Development Program	15.5	20 Dec 05	23 May 06	31 Aug 06	30 Jun 09	30 Jun 09	MOF	Finance
10.	2314	Southern Agriculture Area Development Project (Loan \$15 million and Grant \$5 million)	15.0	31 May 07	29 Jan 07	31 May 07	31 Dec 13	31 Dec 13	MAWRPI	Agriculture and Natural Resources
B. ADF Grants			40.5							
1.	0020	Second Education Project (ADF grant)	15.5	27 Oct 05	05 Nov 05	06 Apr 06	31 Dec 10	31 Dec 10	MOES	Education
2.	0073	Southern Agriculture Area Development Project (Loan \$15 million and Grant \$5 million)	5.0	29 Jan 07	31 May 07		31 Dec 13	31 Dec 13	MAWRPI	Agriculture and Natural Resources
3.	0074	Vocational Education and Skills Development	10.0	29 Jan 07			30 Sep 11	30 Sep 11	MOES	Education
4.	0077	Tax Administration Reform and Modernization	10.0	14 Jun 07	7 Aug 07		31 Mar 12	31 Mar 12	Office of the Prime Minister	Finance
C. JFPR Grants			6.3							
1.	9052 REG	Sustainable Food Fortification for Central	0.3	22 Jul 04	21 Feb 05	21 Feb 05	31 Aug 06	31 May 07	MOH	Health, Nutrition, and Social

Item	Loan No	Title	Amount (\$ million)	Date of			Closing Date		EA	Sector
				Approval	Signing	Effectiveness	Original	Current		
		Asia and Mongolia								Protection
2.	9055	Reducing Vulnerability of the Poor to Natural Disasters	1.0	08 Sep 04	14 Jan 05	14 Jan 05	14 Jan 07	14 Aug 08	MES	Multisector
3.	9056	Reducing Neonatal Mortality	1.0	08 Sep 04	14 Jan 05	14 Jan 05	31 Oct 08	31 oct 08	MOH	Health, Nutrition, and Social Protection
4.	9059	Rural Livelihood Development Project	1.0	15 Dec 04	02 May 05	02 May 05	01 May 08	01 Oct 08	ARIS	Agriculture and Natural Resources
5.	9104	Improving Livelihoods of Rural Women through Development of Handicrafts Industry	2.0	17 Jan 07	31 May 07	31 May 07	31 May 10	31 May 10	SAT	Industry and Trade
6.	9108	Improving Access to Quality Basic Education for Children with Special Needs	1.0	28 May 07			Sep 11	Sep 11	MOES	Education

ADF = Asian Development Fund, ARIS = Community Development and Investment Agency, EA = Executing Agency, JFPR = Japan Fund for Poverty Reduction, MAWRPI = Ministry of Agriculture, Water Resources and Processing Industry, MES = Ministry of Emergency Situations, MOES = Ministry of Education and Science, MOF = Ministry of Finance, MOH = Ministry of Healthcare, MOTC = Ministry of Transport and Communications, SAT = State Agency on Tourism.
Source: Asian Development Bank Data Source.

Table A3.2: Ongoing TAs

Item	TA No	Title	Year		Years of Implementation				
			Approval	Closing	2007	2008	2009		
Ongoing TAs									
1.	4187	Institutional Strengthening for Community Based Early Childhood Development	Sep 03	Aug 07					
2.	4405	The Study on Pricing Systems and Cost Recovery Mechanisms for Irrigation in the Kyrgyz Republic	Oct 04	Jun 07					
3.	4408	Study on the Impact of Land Reform on Agriculture, Poverty, and Environment and the Prospects for Sustainable Rural Development	Oct 04	May 07					
4.	4409	Agricultural Policy Formulation	Oct 04	May 07					
5.	4444	Improving Road maintenance and Strengthening the Transport Corridor Management Department	Nov 04	Aug 07					
6.	4445	Awareness and Prevention of HIV/AIDS, Sexually Transmitted Infections, and Human Trafficking	Nov 04	Jun 08					
7.	4450	Capacity Building and Institutional Strengthening for the Customs Modernization and Infrastructure Development	Nov 04	Dec 07					
8.	4685	Preparing the Reform and Modernization of Revenue Administration	Nov 05	Apr 07					
9.	4705	Support to the development and Implementation of the national poverty reduction strategy II (NPRS II)	Nov 05	Jan 08					
10.	4747	Supporting Banking Sector and Capital Market Development	Dec 05	Dec 07					
11.	4797	Community Based Early Childhood Development Phase II	Jun 06	Jun 07					
12.	4801	Development of a Monitoring and Evaluation System at Oblast Level	Jun 06	May 08					
13.	4924	Agricultural Land Improvement	Mar 07	Feb 08					
14.	4940	Business Process Reengineering and Change Management for Tax Administration	Jun 07	Dec 09					
15.	4941	Institutional Strengthening and Capacity Building for Tax Administration Reform	Jun 07	Dec 09					

Item	Source of Financing	TA No	Title	Type	Amount (\$)	Date of		EA	Date of delegation to KYRM
						Approval	Completion		
Ongoing TAs					6,630,000				
1.	JSF	4187	Institutional Strengthening for Community Based Early Childhood Development	A&O	500,000	29 Sep 03	31 Aug 07	Administration of the President	
2.	PRF	4405	The Study on Pricing Systems and Cost Recovery Mechanisms for Irrigation in the Kyrgyz Republic	A&O	300,000	11 Oct 04	30 Jun 07	MAWRPI	
3.	PRF	4408	Study on the Impact of Land Reform on Agriculture, Poverty, and Environment and the Prospects for Sustainable Rural Development	A&O	530,000	12 Oct 04	31 May 07	MAWRPI	
4.	TASF	4409	Agricultural Policy Formulation	A&O	600,000	12 Oct 04	31 May 07	MAWRPI	
5.	JSF	4444	Improving Road maintenance and Strengthening the Transport Corridor Management Department	A&O	800,000	23 Nov 04	20 Aug 07	MOTC	
6.	JSF	4445	Awareness and Prevention of HIV/AIDS, Sexually Transmitted Infections, and Human Trafficking	A&O	500,000	23 Nov 04	30 Jun 08	MOH	
7.	JSF	4450	Capacity Building and Institutional Strengthening for the Customs Modernization and Infrastructure Development Project	A&O	500,000	26 Nov 04	31 Dec 07	MOF	
8.	TASF	4685	Preparing the Reform and Modernization of Revenue Administration	PP	500,000	03 Nov 05	10 Apr 07	State Committee for Taxes and Collection	
9.	TASF	4705	Support to the Development and Implementation of the National Poverty Reduction Strategy II (NPRS II)	A&O	400,000	29 Nov 05	11 Jan 08	Administration of the President	20 Dec 05
10.	JSF	4747	Supporting Banking Sector and Capital Market Development	A&O	600,000	20 Dec 05	31 Dec 07	MOF	
11.	JSF	4797	Community Based Early Childhood Development Phase II	PP	400,000	07 Jun 06	15 Jun 07	Administration of the President	
12.	CFMDR	4801	Development of a Monitoring and Evaluation System at Oblast Level	A&O	300,000	16 Jun 06	31 May 08	Administration of the President	16 Jun 06

Item	Source of Financing	TA No	Title	Type	Amount (\$)	Date of		EA	Date of delegation to KYRM
						Approval	Completion		
13.	TASF	4924	Agriculture Land Improvement	PP	700,000	23 Mar 07	29 Feb 08	MAWRPI	
14.	TASF	4940	Business Process Reengineering and Change Management for Tax Administration	A&O	500,000	14 Jun 07	31 Dec 09	State Committee for Taxes and Collection	
15.	JSF	4941	Institutional Strengthening and Capacity Building for Tax Administration Reform	A&O	500,000	14 Jun 07	31 Dec 09		

ADF = Asian Development Fund, A&O = Advisory and Operational, CFMDR = Cooperation Fund in Support of Managing for Development Results, EA = Executing Agency, JSF = Japan Special Fund, MAWRPI = Ministry of Agriculture, Water Resources and Processing Industry, MOF = Ministry of Finance, MOH = Ministry of Healthcare, MOTC = Ministry of Transport and Communications, PP = Project Preparatory, PRF = Poverty Reduction Fund, TA = technical assistance, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank Data Source.

Table A3.3: Ongoing RETAs

Item	RETA No	Title	Year		Years of Implementation		
			Approval	Closing	2007	2008	2009
Ongoing RETAs							
1.	6043	Promoting Good Governance in East and Central Asia	09 Aug 02	30 Jun 07			
2.	6108	Emergency Regional Support to Address the Outbreak of SARS	23 May 03	31 Dec 07			
3.	6136	Eight Agriculture and Natural Resources Research and International Agricultural Research Center	11 Nov 03	31 Jan 07			
4.	6150	Poverty Environment Program	16 Dec 03	31 Mar 08			
5.	6155	Capacity Building in Environmental and Information Management Systems in Central Asia (Financed by the Government of Finland)	18 Dec 03	30 Jun 07			
6.	6158	Capacity Building for Regional Cooperation in Central Asia	18 Dec. 03	01 Aug 07			
7.	6163	Improved Management of Shared Water Resources in Central Asia	19 Dec 03	31 Dec 07			
8.	6176	Building Capacity for Participatory Approaches in ADB Operations	14 Jul 04	29 Jun 07			
9.	6199	Greater Silk Road Initiatives 2005	18 Nov 04	30 Sep 07			
10.	6203	Trade Facilitation and Customs Cooperation Program, Phase II	02 Dec 04	31 Dec 07			
11.	6223	Formulating and Implementing an Intergovernmental Agreement of the Shanghai Cooperation Organization Member States on the Facilitation of Internal Road Transport	23 Dec 04	31 Dec 07			
12.	6249	Enhancing Financial Disclosure Standards in Transition Economies	08 Aug 05	20 Dec 07			
13.	6256	Results Focused Project Design and Management	09 Sep 05	30 Sep 08			
14.	6267	Establishment of the CAREC Member's Electricity Regulatory Forum	03 Nov 05	31 Aug 07			

Item	RETA No	Title	Year		Years of Implementation		
			Approval	Closing	2007	2008	2009
15.	6272	Greater Silk Road Initiatives 2006	24 Nov.05	30 Jun 07			
16.	6288	Capacity Building for Regional Cooperation in Central Asia	16 Dec 05	31 Mar 08			
17.	6294	Facilitation of Transport Cooperation among Central Asia Regional Economic Cooperation (CAREC) Countries (Phase 1)	21 Dec 05	31 Dec 07			
18.	6299	Subregional Economic Cooperation in South and Central Asia (SECSCA) II	03 Jan 06	31 Dec 07			
19.	6308	Scaling Up of the Social Protection Index for Committed Poverty Reduction	06 Mar 06	30 Nov 07			
20.	6309	Maintenance of Regional Road Transport Corridors Project	09 Mar 06	31 May 07			
21.	6313	Prevention and Control of Avian Influenza in Asia and the Pacific	14 Mar 06	28 Feb 09			
22.	6315	Regional Technical Assistance for Remittance and Poverty in Central Asia and South Caucasus	07 Apr 06	31 Mar 08			
23.	6347	Central Asia Regional Economic Cooperation: Transport Sector Strategy Study	12 Oct 06	31 Dec 07			
24.	6275	Subregional Cooperation for Information and Communications Technology in Basic Education	02 Dec 05	27 Nov 07			
25.	6339	Partnership on Persistent Organic Pollutants Pesticides Management for Agricultural Production in Central Asian Countries (Financed by the Government of the People's Republic of China)	01 Jan 06	31 Dec 07			
26.	6357	Central Asian Countries Initiative for Land Management (CACILM)	24 Nov 06	30 Sep 09			
27.	6375	Capacity Building for Regional Cooperation in CAREC Participating Countries, Phase I	18 Dec 06	31 Jun 08			
28.	6383	Preparing the Central Asia South Asia Regional Electricity Market Project	01 Jan 07	31 Jul 08			
29.	6387	Energy Sector Development and Strategy 2007	09 Mar 07	30 Jun 08			
30.	6389	CAREC Members Electricity Regulators Forum (CMERF)	26 Mar 07	01 Jul 08			

Item	RETA No	Title	Amount				Date of	
			ADB	Gov	Other	Total	Approval	Completion
Ongoing RETAs								
1.	6043	Promoting Good Governance in East and Central Asia	595,000	0	0	595,000	09 Aug 02	30 Jun 07
2.	6108	Emergency Regional Support to Address the Outbreak of SARS	2,000,000	0	3,000,000	5,000,000	23 May 03	31 Dec 07
3.	6136	Eight Agriculture and Natural Resources Research and International Agricultural Research Center	3,000,000	1,982,000	3,408,000	8,390,000	11 Nov 03	31 Jan 07
4.	6150	Poverty Environment Program	500,000		3,420,000	3,920,000	16 Dec 03	31 Mar 08
5.	6155	Capacity Building in Environmental and Information Management Systems in Central Asia (Financed by the Government of Finland)	0	200,000	800,000	1,000,000	18 Dec 03	30 Jun 07
6.	6158	Capacity Building for Regional Cooperation in Central Asia	950,000	50,000	0	1,000,000	18 Dec. 03	01 Aug 07
7.	6163	Improved Management of Shared Water Resources in Central Asia	700,000	150,000	0	850,000	19 Dec 03	31 Dec 07
8.	6176	Building Capacity for Participatory Approaches in ADB Operations	0	0	600,000	600,000	14 Jul 04	29 Jun 07
9.	6199	Greater Silk Road Initiatives 2005	900,000	100,000	0	1,000,000	18 Nov 04	30 Sep 07
10.	6203	Trade Facilitation and Customs Cooperation Program, Phase II	900,000	220,000		1,120,000	02 Dec 04	31 Dec 07
11.	6223	Formulating and Implementing an Intergovernmental Agreement of the Shanghai Cooperation Organization Member States on the Facilitation of Internal Road Transport	500,000	50,000	980,000	1,530,000	23 Dec 04	31 Dec 07
12.	6249	Enhancing Financial Disclosure Standards in Transition Economies	500,000	0	0	500,000	08 Aug 05	20 Dec 07
13.	6256	Results Focused Project Design and Management	850,000	100,000	0	950,000	09 Sep 05	30 Sep 08
14.	6267	Establishment of the CAREC Member's Electricity Regulatory Forum	500,000	100,000	0	600,000	03 Nov 05	31 Aug 07
15.	6272	Greater Silk Road Initiatives 2006	985,000	65,000	0	1,050,000	24 Nov 05	30 Jun 07
16.	6288	Capacity Building for Regional Cooperation in Central Asia	400,000	50,000	0	450,000	16 Dec 05	31 Mar 08
17.	6294	Facilitation of Transport Cooperation among Central Asia Regional Economic Cooperation (CAREC) Countries (Phase 1)	650,000	0	0	650,000	21 Dec 05	31 Dec 07
18.	6299	Subregional Economic Cooperation in South and Central Asia (SECSCA) II	950,000	0	0	950,000	03 Jan 06	31 Dec 07

Item	RETA No	Title	Amount				Date of	
			ADB	Gov	Other	Total	Approval	Completion
19.	6308	Scaling Up of the Social Protection Index for Committed Poverty Reduction	900,000	0	0	900,000	06 Mar 06	30 Nov 07
20.	6309	Maintenance of Regional Road Transport Corridors Project	500,000	0	0	500,000	09 Mar 06	31 May 07
21.	6313	Prevention and Control of Avian Influenza in Asia and the Pacific	13,000,000	0	0	13,000,000	14 Mar 06	28 Feb 09
22.	6315	Regional Technical Assistance for Remittance and Poverty in Central Asia and South Caucasus	300,000	0	1,000,000	1,300,000	07 Apr 06	31 Mar 08
23.	6347	Central Asia Regional Economic Cooperation: Transport Sector Strategy Study	950,000	0	0	950,000	12 Oct 06	31 Dec 07
24.	6275	Subregional Cooperation for Information and Communications Technology in Basic Education	600,000	200,000	100,000	900,000	02 Dec 05	27 Nov 07
25.	6339	Partnership on Persistent Organic Pollutants Pesticides Management for Agricultural Production in Central Asian Countries (Financed by the Government of the People's Republic of China)	0	400,000	90,000	490,000	01 Jan 06	31 Dec 07
26.	6357	Central Asian Countries Initiative for Land Management (CACILM)	800,000		3,225,000	4,025,000	24 Nov 06	30 Sep 09
27.	6375	Capacity Building for Regional Cooperation in CAREC Participating Countries, Phase I	490,000	500,000		990,000	18 Dec 06	31 Jun 08
28.	6383	Preparing the Central Asia South Asia Regional Electricity Market Project	3,000,000	337,000	0	3,337,000	01 Jan 07	31 Jul 08
29.	6387	Energy Sector Development and Strategy 2007	400,000	0	0	400,000	09 Mar 07	30 Jun 08
30.	6389	CAREC Members Electricity Regulators Forum (CMERF)	500,000	0	0	500,000	26 Mar 07	01 Jul 08
		Total	36,320,000			57,447,000		

A&O = Advisory and Operational, CACILM = Central Asian Countries Initiative for Land Management, CAREC = Central Asia Regional Economic Cooperation, CMERF = CAREC Members Electricity Regulators Forum, RETA = Regional Technical Assistance, SARS = Severe Acute Respiratory Syndrome, SECSCA = Subregional Economic Cooperation in South and Central Asia.

SUMMARY RELEVANT SECTOR AND THEME ROAD MAPS

I. SECTORS

A. Road Subsector (Transport and Communications Sector)

1. Current Situation

1. The Kyrgyz Republic is a mountainous, landlocked country. Road transport dominates the transport system, accounting for about 94% of freight tonnage movements and almost all passenger traffic (excluding intra-urban). As with most other republics of the former Soviet Union, the economic crisis stemming from the breakup of the Union resulted in a decline in economic activity and disrupted customary trading patterns. The demand for transport has fallen dramatically since independence. In 2001, freight turnover (measured in ton-kilometers) was only 20% of its 1990 levels and passenger turnover was 57% of its previous level. The lowest levels were reached in 1995 when the volumes of freight in ton-km and passenger movement were only 14% and 33% of their respective 1990 levels, reflecting a sharp decline in real incomes and output. Demand grew in 1996 and 1997, but freight again decreased following the 1998 financial crisis. Passenger transport has been growing at about 6% annually since 1997.

2. The road network in the Kyrgyz Republic covers all seven provinces (oblasts), and provides connections to remote communities and links to the neighboring countries. The road network plays an important role in the Kyrgyz Republic's economic development as it serves about 95% of passenger and freight traffic. The total length of roads is 34,000 km: 18,810 km of public roads and 15,910 km of urban, rural, agricultural, industrial, and other roads. International roads cover 4,163 km; national roads, 5,678 km; and local roads, 8,969 km. Paved public roads cover 7,228 km, including 11 km of cement-concrete road, 4,969 km of asphalt road, and 2,248 km of gravel road. The total length of macadam roads is 9,961 km and unpaved roads, 1,621 km. The total length of eight key regional transport corridors is 2,242 km.¹

3. About 18,900 km of roads are under the Ministry of Transport and Communications (MOTC): 9,900 km of state roads and 9,000 km of local roads. About 40% of the roads are sealed, including some with gravel mixed with bitumen binder. Over 50% are gravel and less than 10% are earth roads. Since most of the roads were designed for higher traffic capacity and are underutilized, the existing basic transport infrastructure is adequate for the level of economic activity that is likely to occur in the medium term. Consequently, the primary concern is not expansion or major upgrading of the transport system, but proper maintenance and rehabilitation to preserve the existing network. Roads at all levels are deteriorating; over 60% now require periodic maintenance or rehabilitation. About 15,000 km of roads, mainly rural and farm roads, are outside MOTC's jurisdiction. Most were formerly the responsibility of the state and collective farms. The responsibility for maintaining rural and farm roads is now with the district administrations, following the breakup of the state and collective farm system.

2. Key Issues

4. Major constraints and challenges to the transport sector include the following: the country is situated in mountainous and landlocked landscape, suffers from frequent climatic calamities, operates the sector inefficiently with little maintenance, and faces severe shortage in

¹ These include: Bishkek – Osh (672 km); Bishkek – Georgievka (16 km); Bishkek – Chaldovar (Kara-Balta-Chaldovar road section, 31 km); Bishkek – Naryn – Torugart (539 km); Taraz – Talaz – Suusamyр (199 km); Osh – Sary-Tash – Irkeshtam (258 km); Osh – Isfana (385 km); and Sary-Tash – Karymyk (142 km).

capital investments. At the same time, the country is confronted with a growing demand for regional access and trade, and is located strategically to serve the transit needs of its fast-growing neighbors, such as Kazakhstan and the People's Republic of China (PRC). Key challenges that the country needs to overcome to fully realize its aspirations as a conduit of regional trade are (i) removing barriers to regional trade and cooperation, (ii) building efficient and integrated transport systems, and (iii) removing the backlog in sector financing and capital investment. As the country's transport sector is dominated by road transport, the above challenges are all directly linked to the transport sector.

5. The road network is deteriorating, mainly due to inadequate maintenance funding. A survey in 2005 indicated that about 502 out of 2,231 km of surveyed roads were in good condition, 133 km satisfactory, 250 km unsatisfactory, and 1,346 km in very poor condition. The survey found that the country has lost about 1,000 km of asphalt pavement over the last 5 years. The sector management structure and operational systems remain mostly unchanged from Soviet times, with limited incentives for effective operation and maintenance of assets.

6. An efficient and integrated transport system is the objective of the Kyrgyz Republic, which is reflected in the transport sector policy paper. This objective is also pursued under the CAREC regional transport sector strategy that is being developed with ADB support.² Issues that limit the country's transport efficiency include (i) weak strategies and regulations; (ii) poor condition of roads and inadequate maintenance; (iii) inadequate planning, management and operating tools; and (iv) limited institutional capacity and human resource constraints.

3. The Government's Strategy

7. The Government's transport strategy and plans are included in the Transport and Road Sector Policy Statement and the Roads Subsector Strategy, prepared under two TAs.³ The Government's overall objectives for transport include (i) adequately maintaining transport infrastructure to support the country's economic growth; (ii) privatizing transport operations and promoting competition among operators, while addressing safety and environmental concerns; and (iii) increasing cost recovery from users of the transport infrastructure. To achieve these objectives, the Government's strategy includes (i) increasing the financial provision for rehabilitating and maintaining the road network; (ii) consolidating road sector responsibilities under MOTC; (iii) promoting private sector participation in road maintenance; (iv) completing the privatization of road transport operations and dismantling licensing controls, which hinder competition; (v) promoting, in collaboration with neighboring countries, rail transport as the most efficient mean of transporting bulk loads over long distances; (vi) privatizing lake shipping services; (vii) promoting civil aviation infrastructure and supporting services that encourage foreign and local airline operations; and (viii) increasing road sector revenues through appropriate pricing and taxation.

8. Specifically, the roads subsector strategy aims to contribute to sustainable economic growth by ensuring low-cost quality access of goods, labor, and social services to regional and local markets. The strategy prioritizes the improvement and maintenance of 5,400 km of the core road network. The core network includes all the above internal transport corridors and core national roads. The strategy aims at achieving the following outputs by 2010:

² ADB. 2006. *Technical Assistance for the Central Asia Regional Economic Cooperation: Transport Sector Strategy Study*. Manila.

³ ADB. 2001. *Technical Assistance to the Kyrgyz Republic for Institutional Support in the Transport Sector*, and ADB. 2005. *Technical Assistance to the Kyrgyz Republic for Support to Development and Implementation of National Poverty Reduction Strategy-II*. Manila.

- (i) improved condition of 75% of regional corridors and 100% of the core national road network;
- (ii) ensured transport independence (construction of detour roads to avoid multiple border crossings around inserts and enclaves of neighboring countries);
- (iii) enhanced maintenance of the core network through private sector participation in maintaining 40% of the core road network;
- (iv) improved road financing system with fixed expenditure level per kilometer and increased collection of user charges;
- (v) institutional reforms of the road sector management system, where MOTC will focus on sector policy, strategy, regulatory functions, and act as a client organization to procure works from the private sector and supervise their quality;
- (vi) involvement of local communities in maintaining 5,000 km of local roads;
- (vii) improved road safety to decrease traffic accidents from 22 to 17 cases per 1,000 vehicles; and
- (viii) developing an enabling environment for international traffic.

4. ADB Sector Experience

9. The Asian Development Bank (ADB) has been involved in the Kyrgyz roads subsector since 1996, implementing three projects for the rehabilitation of the Bishkek-Osh road, one for the Bishkek-Almaty road, and one for the Osh-Sary-Tash-Irkeshtam road for a total of \$180 million. ADB's involvement in the road sector has been guided by its sector strategy and been instrumental in improving the policy and regulatory framework, providing institutional strengthening for MOTC and other sector institutions, preparing a road maintenance plan, and mobilizing additional resources from other agencies. ADB is playing a leading role in providing policy advice, capacity building, and capital financing for the Kyrgyz road sector through loan and advisory technical assistance (TA). It has focused on transport regulation; financing of the road sector, particularly road maintenance; and road safety. In conjunction with the policy dialogue under the Second Road Rehabilitation Project and following the passage of Law No. 8 on Transport and issuance of Decree No. 419 in 1998, MOTC was restructured to improve its efficiency. In 1998, the Directorate General for Rehabilitation and Maintenance of the Bishkek-Osh road was integrated into the Department of Roads. The Government transferred responsibilities for developing road design and construction standards from the Ministry of Architecture and Construction to MOTC, and in 1999 the Ministry of Internal Affairs and MOTC agreed to jointly administer the functions of road safety and traffic management, while leaving the responsibility for inspection with the Ministry of Internal Affairs. To determine the broad expenditure priorities in accordance with road traffic, road conditions, and possible types of intervention, ADB is assisting MOTC, through the institutional strengthening TA, to review the existing planning and budgeting practices for road maintenance, and to prepare preliminary estimates of rehabilitation and maintenance needs for the national road network, including the Bishkek-Osh road. The TA, Policy Support in the Transport Sector, made recommendations for improving financial management in MOTC. The Government has agreed to implement the recommendations, but progress on this has been slow.

10. ADB is addressing issues affecting competitiveness of the market for passenger and freight transport services through policy dialogue and provision of TA. The advisory TA for institutional strengthening included a component to analyze the markets for transport services and give recommendations to improve the competitiveness of the markets to maximize the

poverty reduction impact of the Third Road Rehabilitation Project. The Government has agreed to implement the regulatory changes recommended by the TA to improve the competitiveness of the markets for transport services to ensure that project benefits are passed on to the poor.

11. ADB has also been working with MOTC to improve the methods used for road maintenance. Under the Second Road Rehabilitation Project, a maintenance manual was prepared, and a training program for maintenance personnel was implemented. Maintenance equipment for the Bishkek-Osh road was purchased through the cofinanced portion of the First Road Rehabilitation Project. While the Government wants to retain the local maintenance units as part of MOTC, it has undertaken measures, with ADB assistance, to contract out road maintenance activities. Under the Second Road Rehabilitation Project, the Government has invited bids from local contractors to undertake routine maintenance on a section of the Bishkek-Osh road. Under the Third Road Rehabilitation Project, MOTC has invited bids from contractors for routine maintenance on all sections of the Bishkek-Osh road. Policy dialogue in ADB's early projects focused on maintaining national roads. Under the Third Road Rehabilitation Project, maintenance was extended to secondary roads as well.

12. A draft roads subsector development framework, including the intended sector impacts and outcomes, is described in Table A4.1, and is being finalized.

5. Intended Sector Outcomes and Key Outputs Supported by ADB

13. ADB will continue assisting the Government in ensuring cost-effective access to regional and domestic markets, generating employment opportunities, and providing services. The proposed road projects—the PRC-KGZ-TAJ Regional Road Corridor Improvement Project and the Bishkek-Torugart Road Project—will facilitate trade and traffic among the People's Republic of China (PRC), Kyrgyz Republic, Tajikistan, and potentially Afghanistan and Turkmenistan, by rehabilitating the regional corridors and facilitating cross-border agreements. Importantly, ADB operations will also support the Government in establishing a sustainable road maintenance program, introducing necessary changes in funding institutional, contractual, and regulatory mechanisms, including involvement of the private sector in road maintenance and user-funded maintenance mechanisms. The Government recently approved a roads subsector strategy, which envisages the above sector reforms, and expressed appreciation for ADB's support to the sector reforms. Development of a comprehensive Transport and Communications Strategy (including communications in a general sense, potentially telecommunications and e-Government, and other transport subsectors like toll roads, aviation, and rail transportation), is envisaged during the JCSS period. ADB is currently undertaking a regional Transport Sector Strategy Study, which reviews the trade flows along the PRC-KGZ-UZB railway corridor proposed by the Government.

14. The key outcomes for ADB's support will include: (i) improved transport infrastructure that provides better access to local and regional markets; (ii) improved road maintenance funding and management mechanisms; (iii) increased private sector participation in road operations and maintenance; (iv) better policy vision for the transport and communications sector; (v) improved road safety.

6. Monitoring Mechanisms

15. Progress in achieving the outcomes and outputs of this sector roadmap will be monitored through: (i) JCSS reviews; (ii) Joint Country Portfolio Reviews; (iii) project review missions; and (iv) project performance management systems.

Table A4.1: Sector Results Framework—Road SubSector

Relevant JCSS Outcomes		Sector Level Outputs		ADB Assistance	Risks
JCSS Outcomes relevant to the Sector	Key Opportunities and Constraints	Subsector Outcomes/Key Sector Outputs	Sector Milestone/Tracking Indicators/Interim Indicators		
Improved access to markets, employment opportunities, and social services through better road infrastructure and trade facilitation in the region	<p>Limited financial resources to improve and maintain road network</p> <p>Physical and soft barriers to cross-border transport links with neighboring countries</p> <p>Deterioration of the road network</p>	<p>Improved transport infrastructure that provides better access to local and regional markets</p> <p>Improved road maintenance funding and management mechanism</p> <p>Private sector involvement in road operations and maintenance</p> <p>Better policy vision for the transport and communication sector</p> <p>Better management of the transport sector</p> <p>Road safety standards improved and enforced</p>	<p>- Key regional corridors rehabilitated by 2010 (Bishkek-Georgievka 16km; Bishkek-Osh 672km; Osh-Irkeshtram 230km (89%); Bishkek-Naryn-Torugart 200 km (37%))</p> <p>- Share of regional road corridors meeting operational standards increased from 55% in 2006 to 75% by end 2010</p> <p>- Improved operational standards of core national road network from 32% in 2006 to 100% by end-2010</p> <p>- Traffic density, cargo volume, passenger transportation indicators</p> <p>- National road network prioritized and re-classified to match the maintenance needs</p> <p>- Increased maintenance cost financed out of tolls from 10% in 2006 to 32% in 2010</p> <p>- Increased road network maintained by private sector contractors from 6% in 2006 to 30% in 2010</p> <p>- Community-based maintenance practices for rural roads introduced and strengthened</p> <p>- Transport and Communications Sector Strategy developed by MOTC with ADB assistance</p> <p>- MOTC structure to focus on sector policy, regulatory, procurement, supervision, and quality ensuring functions</p> <p>- Road safety standards improved</p>	<p>Ongoing:</p> <p>Rehabilitation of key regional corridors:</p> <ul style="list-style-type: none"> - Bishkek-Osh road fully rehabilitated in three phases (1996–2007) - Almaty-Bishkek Regional Road-Rehabilitation Project (2000–2007) - Southern Transport Corridor Road Rehabilitation Project (2004– 2009) <p>TAs:</p> <p>Assistance in roads subsector strategy formulation</p> <p>RETA Transport Sector Strategy in Central Asian Countries</p> <p>ADB has provided assistance for</p> <ul style="list-style-type: none"> - setting expenditure level for road maintenance in the annual state budget; - setting pilot maintenance contracts with private sector; - developing regulations for community participation in road maintenance; - establishing the national secretariat on road safety; - developing recommendations on MOTC restructuring; - introducing international design standards. <p>Proposed:</p> <ul style="list-style-type: none"> - RC-KGZ-TAJ Regional Road Corridor Improvement Project (2007); - Bishkek-Torugart Rehabilitation Project (2008); 	<p>Reforms ownership and commitment</p> <p>Political issues Deteriorated growth dynamics/adverse shocks in neighboring countries impede regional economic cooperation</p> <p>Implementation delays due to (i) poor construction quality, (ii) weak technical and managerial expertise, (iii) inadequate provision of counterpart funds</p> <p>Lower than projected traffic, especially for international generated traffic arising from increased trade.</p>

Relevant JCSS Outcomes		Sector Level Outputs		ADB Assistance	Risks
JCSS Outcomes relevant to the Sector	Key Opportunities and Constraints	Subsector Outcomes/Key Sector Outputs	Sector Milestone/Tracking Indicators/Interim Indicators		
			and enforced (traffic accidents decreased from 22 incidents to 17 incident per 1,000 cars a year in 2010)	- TA for KGZ Transport and Communications Strategy Development (2009).	

B. Education and Early Childhood Development Sector

1. Issues and Challenges in the Education Sector

16. Ensuring access to basic education is a key intervention for poverty reduction. The findings of a household budget survey⁴ show an inverse correlation between schooling and the prevalence of poverty. For example, in the Kyrgyz Republic the gross enrollment rate for school-age children is higher in richer households, ranging from 88% for the poorest quintile to 94% for the richest quintile. The findings also confirm that personal income is associated with educational attainment. Regressed data from the 1998 Kyrgyz Poverty Monitoring Survey⁵ showed that completion of secondary schooling was associated with 12% higher earnings than those with lower level of education. Estimation of the returns to education based on income data from the 2001 household budget survey suggests that education is an important instrument for poverty reduction.

17. Economic transition has had major implications for the education system in the Kyrgyz Republic. Key education indicators have deteriorated. For example, enrollments in primary and secondary education had declined sharply from almost universal coverage to 88.4% by 1999. Dropouts increased from almost zero in 1985 to 6,100 by 1995.⁶ The enrollment in primary education improved from 97.2% in 2000 to 99.3% by 2004. However, it dropped to 92.9% in 2005. School achievements have also deteriorated. The student learning achievement (correct answers on national tests) dropped in literacy to 59.1%, in mathematics to 81.4%, and in life skills to 75.0% in 2001. The widening poverty gap put children from rural areas in a significantly disadvantageous position in terms of access to basic education and its quality. The surveys indicate that many enrolled students in poor, remote, and mountainous areas do not attend school for extended periods,⁷ showing the lowest test performance results among students in rural areas.⁸

18. The Government appears to have strong political commitment to quality and accessible education. In 2006 educational expenditure was 4.9% of GDP, and an increase of sector financing is projected up to 5.6% of GDP by 2010. While the share of education expenditure is the largest item in the national budget (22% in 2005), in real terms, public expenditure on education has dramatically declined due to low GDP and the small public sector. Recent data indicate that parental contributions comprise 9% of recurrent expenditure in preschool education, and around 6% in general secondary education. These official figures do not reflect informal contributions, which may be significant. In vocational and higher education, the share of user contributions is higher (at 34% and 59%, respectively).⁹ The Government has undertaken several initiatives to transform the education system from the Soviet model to a modern demand-driven system consistent with internationally accepted education standards and labor market needs. These initiatives have led to a number of achievements: strengthened capacity of local governments to manage schools, establishment of user fees, introduction of external assessment as the basis for university admissions, strengthened student assessment to monitor results and improve accountability, introduction of performance incentives for teachers,

⁴ World Bank. 2003. *Kyrgyz Republic: Enhancing Pro-Poor Growth* Report. Washington, DC.

⁵ World Bank. 2001. *Poverty in the 1990s in the Kyrgyz Republic*. Washington, DC.

⁶ Ministry of Education and Science of the Kyrgyz Republic. 2006. *Education Development Strategy 2006-2010*. Bishkek.

⁷ UNICEF and Center for Public Opinion Studies and Forecast. 2003. *Monitoring of Learning Achievement II (8 Grade)*. Bishkek.

⁸ UNESCO. 2001. *Monitoring and Learning Achievement Survey*. Bishkek.

⁹ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Asian Development Fund Grant to the Kyrgyz Republic for the Second Education Project*. Manila.

improvement of textbook content, and encouragement for the private provision of education. Despite the achievements, however, a general education system responsive to the needs of a modern market-oriented economy remains a challenge. Many graduates lack practical skills and up-to-date knowledge; graduates who have found employment have had to undergo additional training provided by their employers. The quality and relevance of the education sector suffers from the weak interaction with the private sector and the lack of systematic labor market research. The majority of training programs are largely supply-driven and often based on allocated budgets and available staff rather than on market demand.

19. **Primary and General Secondary Education.** Although the Kyrgyz Constitution stipulates free basic education (grades 1–9) to all children, the quality of basic education is deteriorating. The shortage of teachers in rural schools, aging of the teaching corps, inability of the education system to provide adequate in-service training, outdated teaching techniques and learning assessment, and limited use of information and communication technologies (ICT) are key constraints to improving the quality of education and providing knowledge and skills to meet the demands of a market economy. Rural schools are in the worst conditions, with facilities severely dilapidated and the communities unable to afford contributions for their rehabilitation. Most schools lack proper learning materials and equipment; school attendance in rural poor areas is low. Teachers' salaries are low, with adverse effects on teacher morale and motivation. It is difficult to attract young teachers, particularly to schools in rural areas. In addition, the Government considers introducing a 12-year education system, which required a thorough analysis of, among others, curriculum development and financing implications. The Government also encouraged private provision of education at all levels and promoted principles of cost sharing, and increased community participation. However, with only a few private training providers engaged in basic education, and in the absence of an updated curriculum and educational standards and adequate learning assessment, competition in the education system is inadequate. As a result, the quality of private sector services is generally poor. Due to the low capacity of private publishers, private sector involvement in providing textbooks is also very limited.

20. The Government's first step in addressing the shortage of teachers in rural areas and improving education quality was to introduce rural teacher fellowships in 2004, which provide special incentives for young and qualified teachers to work in remote areas for 3 years. In addition, in 2006, the Government increased teachers' wages by 20–50%. Also, the authorities adopted a Decree on Nutrition in Secondary Schools in 2006, providing free meals in primary schools, which led to a significant increase in student enrollment at the primary education level in rural areas. However, the stated priority of the Government to focus on rural education and address the existing imbalances among urban and rural schools remains a challenge.

21. **Early Childhood Development.** There is a short supply of early childhood education services in the Kyrgyz Republic. The number of preschool organizations dropped from 1,696 in 1990 to 456 in 2005. Only one third of all kindergartens are located in rural areas. Less than 7% of preschool-age children have access to preschool programs. Even for those with access, the service provided is often of poor quality, and/or unaffordable to poor families because of fees and the long distances involved.

22. **Primary Vocational Education (PVE).** While there is a growing need for skilled workers in the labor market, graduates from vocational schools have difficulty finding jobs because they lack employable skills. In addition, most adults, particularly the poor in rural areas, lack access to skills training that enhances their earning capacity. One of the critical constraints to providing relevant PVE in the Kyrgyz Republic relates to a significant mismatch between the skills supply

and the labor market demand. This mismatch leads to deficiencies in the availability of skilled labor, and inefficient use of the labor force. The economic consequences of these deficiencies are unemployment, lagging competitiveness, insufficient innovation, and low productivity. Young people account for 53% of all unemployed.¹⁰ To enhance employment opportunities and promote economic growth, the Government has initiated a reform of the PVE system. However, a comprehensive vocational education and skills development policy, particularly to address training and retraining needs of adults, linked to the national human resource development plan and the present and future labor market needs, is not in place. Some short-term training programs are offered by public training institutions and a few private providers, located mainly in urban areas. Currently, no skills development strategy is in place to address the training and retraining needs of adults. In addition, the PVE system faces challenges such as (i) improving the quality and relevance of training courses, (ii) enhancing practical training and hands-on experience for students, (iii) improving the learning and teaching environment in schools, (iv) strengthening linkages to the labor market, (v) proper use of facilities and efficient staff deployment, and (vi) efficient management of schools.

23. Thus, the education system overall requires considerable investment to improve its quality, access, and relevance. The main challenges in early childhood development, primary and general secondary (basic) education, and PVE sectors include

- (i) increasing access to preschool programs and assuring universal access to basic education;
- (ii) improving the quality and relevance of education services by updating education standards and the curriculum, improving textbooks and learning materials, enhancing teacher training, and improving monitoring of learning achievements;
- (iii) increasing education financing to ensure rehabilitation and maintenance of education infrastructure and sufficient material and equipment supply, and increasing teachers' salary and/or other incentives; and
- (iv) strengthening governance and management by rigorous budget and investment planning and execution, improved school management, and community participation.

2. Government's Sector Policy and Planning Framework

24. Human resource development was identified as a priority in the Comprehensive Development Framework of the Kyrgyz Republic to 2010. In the recently approved Country Development Strategy for 2007–2010 (CDS), the education sector is one of the priority areas of development. The Government's goal is to establish a relevant education system, which provides universal access to quality education to all children and young people of the country, and is appropriate to the country's needs and the changing global context. In line with that goal, the Government has developed a policy framework to ensure democratic education and remove inefficiencies in public administration. Specifically, the Government adopted a number of basic principles—democratization, accessibility of high-quality education, decentralization, international quality standards, openness and mobility, and trust—in its Education Development Concept for the year 2010¹¹ and other policy documents.¹²

¹⁰ IMF. 2004. *Country Report 04/200: Kyrgyz Republic – Poverty Reduction Strategy Paper Annual Progress Report*. Washington, DC.

¹¹ Ministry of Education and Culture of the Kyrgyz Republic. 2002. *The National Education Development Concept to the Year 2010*. Bishkek.

¹² The Law on Education was adopted in 2003. The National Action Plan on Education for All was adopted in 2001.

25. The education sector is identified as one of the four priority sectors, with health, social protection, and agriculture, in the Medium-Term Budget Framework (MTBF) for 2005–2007. The major thrusts of the MTBF for education are (i) ensuring targeted support for children from socially vulnerable groups, (ii) exempting children from poor families from paying textbook rental fees, (iii) repairing secondary educational institutions and equipping schools with furniture, (iv) using ICT in the educational process and providing computer equipment to secondary schools, (v) improving the educational standards of preschool and general secondary education, and (vi) developing a unified national examination system for secondary school graduates. However, while responsibility for public education has been transferred to local governments, these have limited financial resources, mainly allocated for funding utilities and maintenance expenses. National testing systems do not enjoy credibility, and parents and students are increasingly using an autonomous testing system ACCELS. On the other hand, some other reforms have proven effective, including formation of school committees and involving them in decision making in schools.

26. The Education Development Strategy, which was approved in 2006, sets out measures to ensure access to primary and secondary education. As part of a comprehensive early childhood development (ECD) strategy, the Government approved in 2004 a preschool education development concept to streamline different modalities of preschool education and adopted in 2007 the new preschool educational standards, which officially recognized alternative preschools. The Government is planning to develop a new preschool education law that specifies financing arrangements for preschool education institutions.

3. Government's Institutional Arrangements and Capacity in the Sector

27. The Ministry of Education and Science (MOES, previously Ministry of Education [MOE]) is responsible for education policy and its implementation, education strategy and standards development, ensuring the right to education and equal development between regions, introduction of innovative practices, training and upgrading of skills of teachers, statistical monitoring, and external assistance coordination. It also administers national institutions (some vocational and specialized secondary schools and colleges, as well as higher education institutions), and determines expenditure items for education.

28. MOE's institutional capacity was strengthened under the Education Sector Development Program (ESDP),¹³ which supported (i) rationalizing MOE staff and providing retraining to those laid off, (ii) strengthening the policy and planning unit at MOE, and (iii) establishing an education management information system for monitoring and evaluation. However, the system is not fully operational due to lack of funding; the statistics and monitoring system does not provide adequate and timely information for planning and decision making in education. To improve national policy and strategy making and operational planning, a new unit was created at MOES, which capacity is also being supported by the World Bank's Rural Education Project.¹⁴ In addition, MOES is consolidating and coordinating the activities of international agencies for efficient use of the assistance provided for the sector through the International Advisory Council on Education. The Council was established in 2003 at the initiative of the Ministry to allow partner institutions to exchange views and experiences, jointly prepare an education development policy, and implement projects, thus enhancing accessibility, effectiveness, and quality of education.

¹³ ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Education Sector Development Program*. Manila.

¹⁴ World Bank. 2004. *Project Appraisal Document on a Proposed Grant in the Amount of SDR 10.1 million to the Kyrgyz Republic for a Rural Education Project*. Washington, DC.

29. Recognizing the need for an adequate legal and administrative framework for smooth implementation of the PVE reform, the Government established an independent Agency on Vocational Education in 2007, responsible for administering the PVE sector and managing its assets.

4. ADB Sector Experience

30. ADB is a major development partner in the education sector since the mid-1990s; assistance has focused on halting severe deterioration in physical infrastructure of education facilities, and on sustaining the quality of education services and coverage, focusing on rural areas. A TA¹⁵ was first provided to design an education and training master plan, which also laid the basis for preparing an education development project. The ESDP and the Social Service Delivery and Finance Project¹⁶ helped the Government (i) improve sector management and policy planning, (ii) rationalize MOE's structure and staffing, (iii) develop the policy framework for private sector participation in textbooks production, and (iv) develop a social assistance mechanism to facilitate enrollment of children from poor families in basic and early childhood education. Key investment activities under those projects focused on improving the quality of basic education through (i) a curriculum and textbook reform, (ii) teacher development, (iii) improvement of education delivery, and (iv) capacity building and resource mobilization.

31. ADB's experience in financing education projects highlights the importance of continuity of Government policies and of support to its capacity development, particularly on results-based management, which is crucial in ensuring the success of education reforms. It also shows that the falling central level financing of education imposed a financial burden on local governments and contributions from communities and parents, which led to inequality in access to education services and the deteriorating quality of education. The international financial institutions' (IFI) joint portfolio reviews¹⁷ have highlighted the importance of staff continuity to ensure sustainable capacity building to implement initiatives at the central and local levels. Insufficient funding of recurrent costs of the assets created by IFIs-funded projects also continues to hinder their sustainability. For example, a textbook rental scheme introduced for sustained access to and affordability of textbooks was recently abolished. Now the sustainability of the textbooks supply is in question. Experience also shows that stronger aid coordination, information sharing, and harmonization of activities and implementation are required to achieve significant results in the sector reforms.

5. Role of Other International Financial Institutions in Sector Development

32. Complementing ADB's support to the education sector, the World Bank provided a grant of \$15.5 million in 2004 to support rural basic education by (i) improving teacher incentives, including the development of a performance-based promotion system and support to fellowships to attract new teachers; (ii) providing school grants for improved learning in the pilot oblasts of Issyk-Kul and Talas; (iii) revising the textbook rental scheme and reprinting textbooks and learning materials to cover the immediate needs of primary and lower secondary schools; and (iv) developing sample-based national student assessment (footnote 11). The Organization of Petroleum Exporting Countries' (OPEC) Fund supported initial improvements of general education services. The United States Agency for International Development (USAID) supports

¹⁵ ADB. 1995. *Technical Assistance to the Kyrgyz Republic for the Education Development Project*. Manila.

¹⁶ ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for Social Service Delivery and Finance Project*. Manila.

¹⁷ ADB, Islamic Development Bank, KfW, World Bank. 2007. *2006 Joint Country Portfolio Review*. Bishkek.

legal reforms, capacity building, improvement of selected curriculum areas, teacher training, and community participation in rural basic education. Soros Foundation supports teacher training and learning development and overseas scholarships. The United Nations Children's Fund (UNICEF) provides assistance in capacity development of local administrators and policy development in general education. The United Nations Educational, Scientific and Cultural Organization (UNESCO) promotes the Education for All strategy. Save the Children Fund supports non-formal education for poor children.

33. Based on Education Sector Development for 2007–2010, prepared in 2006, a multidonor "Education for All Fast-Track Initiative" (EFA-FTI) was approved for the Kyrgyz Republic to support the education goals set out in the CDS. It covers (i) ECD, (ii) education standards and textbook improvement, (iii) human resource development at preschool and school levels, and (iv) improvement of school infrastructure in Batken, Chui, and Naryn oblasts.

34. Helvetas and GTZ are major development partners in vocational education; Helvetas has been active in agricultural training, and supports selected primary vocational schools in rural areas. Helvetas has developed a large number of excellent training materials, and provides training for teachers, instructors, and school principals on modern teaching methods and entrepreneurial management approaches. GTZ focuses on curriculum development for selected trades, supports the establishment of a national policy framework for Vocational Education and Skills Development (VESD), and promotes training and retraining opportunities for adults. In addition, the International Labor Organization has developed an entrepreneurial training package that has been piloted at some primary vocational schools.

6. Intended Sector Outcomes and Key Outputs Supported by ADB

35. ADB's assistance in the JCSS period will continue to help the Government achieve (i) increased access to preschool programs, (ii) improved access to and quality of basic education, and (iii) relevance of the technical and vocational education and skills training system to labor market needs.

36. The Second Education Project (SEP)¹⁸ aims to increase enrollment rates in basic education to 99.8% and in upper secondary education to 76%, and learning performance by at least 10% by 2010. This will be achieved by (i) modernizing the curriculum, learning aids, and the learning assessment methods; (ii) strengthening in-service teacher training and financial incentives, particularly for teachers in rural areas; and (iii) improving the learning environment in rural areas by rehabilitating school facilities and providing equipment and learning aids to 90 priority schools. A study focusing on the government's priority of introducing a 12-year system will also be undertaken under the SEP. In addition, a recently approved JFPR project¹⁹ will address the educational requirements of children with special needs, bringing them into mainstream activities, and thus making them active members of society. A regional TA for Information and ICT in Basic Education will increase the effectiveness of investments in ICT in basic education in the participating developing member countries (DMC), including the Kyrgyz Republic.

¹⁸ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Asian Development Fund Grant to the Kyrgyz Republic for the Second Education Project*. Manila.

¹⁹ ADB. 2007. *Grant Assistance Report: Improving Access to Quality Basic Education for Children with Special Needs*. Manila.

37. The ongoing Community-Based Early Childhood Development (CBECD) Project²⁰ aims at improving physical and psychosocial development of children between birth and 8 years of age. The project is helping the Government and the community establish alternative models of preschool organizations, improve the existing state kindergartens, and improve child care practice at home. The project would lead to a reduced infant mortality rate (IMR) and under-five mortality rate (U5MR), both being important MDG targets. The project is also directed at establishing a sustainable funding mechanism for immunizing children, so that it would not depend on short-term external financing. The support extended to ECD aims to achieve, by 2010, 50% children coverage by preschools in the project areas. The Government requested ADB to support a second CBECD project to expand the coverage of ECD activities. The second CBECD is under preparation.

38. The VESD Project, approved in January 2007, will assist the Government to address labor market inefficiencies by (i) creating flexible mechanisms with active industry participation to regularly adapt training programs to new business circumstances, (ii) preparing graduates able to adjust to changing demands in the labor market quickly, and (iii) consolidating the current PVE system, which would include developing a national policy framework for vocational education and skills development linking PVE, secondary vocational education, and private training provision. A consolidated and modernized PVE system will improve utilization of facilities and ensure a more efficient deployment of staff. The reorganized PVE schools with more efficient staff structures will be more flexible to respond to the changing demands of the labor market. The VESD Project will, in particular, promote an entrepreneurial approach to managing schools and program delivery so as to (i) increase income generation through marketing of short-term skills training courses, provision of services, and production of basic goods; and (ii) provide for students an environment that will demonstrate the principles of entrepreneurship.

7. Links to JCSS Outcomes and Other Sectors/Thematic Areas

39. The JCSS focuses on promotion of private sector-led economic growth and human resource development. ADB assistance to the education sector in the Kyrgyz Republic feeds into these strategies by focusing on (i) increasing access to preschool and primary and general secondary education, and enhancing education quality; and (ii) reforming the PVE system and increasing skills training opportunities for adults and out-of-school youth. The education sector projects/programs are consistent with the education sector strategy, and fully aligned with the Government's Country Development Strategy. They are also consistent with ADB's Education Policy, which underscores the need for long-term commitment in the sector to ensure that interventions are sustainable in the long term.

8. Indicative Areas for Interventions and a Monitoring Mechanism

40. Lack of access to preschool programs has significantly affected child development in general and children's readiness for school in particular. Due to budget constraints, the Government is unlikely to increase the number of state kindergartens. Thus, to improve access to preschool programs, it is most important to increase the number of alternative preschool programs. This task requires the development of legal and regulatory frameworks and appropriate financing mechanisms. Given ADB's successful involvement in ECD, it is proposed that ADB extend the coverage of ECD activities under the proposed second CBECD Project.

²⁰ ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Community-Based Early Childhood Development Project*. Manila.

41. While ADB has been a leading agency in the education sector, with EFA-FTI and WB's recent involvement, and several others indicating interest in supporting the sector, a move toward a Sector-Wide Approach (SWAp) may be appropriate to formulate a more sustainable, results-based intervention in the sector and promote the efficient use of resources through a different approach in allocating resources to schools, teachers' salaries and teacher training, and an equitable sharing of expenditures between central and local governments. A new project, therefore, is proposed for 2010 to address the remaining hurdles for improving access to and quality of basic education, particularly for poor and disadvantaged children, including the sector's internal efficiency in the utilization of limited resources and promoting private sector participation and public-private partnerships. Different funding modalities for the proposed project, which may include pooling funds to support implementation of an agreed-upon program, could be assessed during the JCSS period. Additional resources, including grant funds, could be explored for developing an adequate learning environment at the school level and for an ICT-based curriculum and education standards.

42. Progress in achieving the outcomes and outputs of this sector road map will be assessed through (i) project review missions; (ii) project performance management systems; and (iii) JCSS reviews, based on the data provided by the National Statistics Committee and the Government's agencies.

Table A4.2: Sector Results Framework—Education and Early Childhood Development

Relevant JCSS Outcomes		Sector Level Outputs		ADB Assistance	Risks and Assumptions
JCSS Outcomes relevant to the Sector	Key Opportunities and Constraints	Subsector Outcomes/Key Sector Outputs	Sector Milestone/Tracking Indicators/Interim Indicators		
Ensured access to and improved quality of the preschool, primary and general secondary, and primary vocational education (PVE)	<p>Early childhood development (ECD) and primary and general secondary education:</p> <ul style="list-style-type: none"> - increasing access to preschool programs and assuring universal access to basic education - improving quality and relevance of education services by updating education standards and curriculum, improving textbooks and learning materials, enhancing teacher training, and improving monitoring of learning achievements - increasing education financing to ensure rehabilitation and maintenance of education infrastructure, sufficient material and equipment supply, and increasing teachers' salary and/or other incentives - strengthening governance and management by rigorous budget and investment planning and execution, improved school management, and community participation <p>PVE:</p> <ul style="list-style-type: none"> - improving quality and 	<p>ECD and primary and general secondary education:</p> <p>Improved access to primary and general secondary and preschool education, particularly for children in rural areas</p> <p>Improved quality of preschool and primary and general secondary education (including curriculum modernization and reform and improving learning outcomes)</p> <p>Improved policy and management of the education sector</p> <p>Enhanced teachers' capacity, teaching quality, and incentives</p> <p>PVE:</p> <p>PVE system consolidated and modernized</p> <p>Improved teaching and learning environment in primary vocational schools</p> <p>Curriculum and teaching and learning materials developed</p>	<p>ECD and basic secondary education:</p> <ul style="list-style-type: none"> - Enrollment rate in primary and secondary education increased to 99% in 2010 (including children with special needs) - Student learning achievement (performance on national examinations) improved by 10% by 2010 - At least 20% of children enter primary school after preschool (vs. those without any kind of preschool) - Expanded coverage by preschool program (annual average 10% increase of children of preschool age during 2007–2010) - Physical and learning environment favorable (90 schools rehabilitated) and inclusive with strong community participation - Improved education content and teaching technologies and practices (new curriculum and new textbooks available by 2008) - Enhanced teachers' capacity and teaching quality and incentive (annual teacher supply index, number of teacher's trained) - Improved access of children to and quality of basic child health and nutrition services; preschools run by the state, or based on communities or home - Improved capacity of communities to plan and manage child development. <p>Primary vocational education:</p> <ul style="list-style-type: none"> - Enrollments in primary vocational schools increased by 15% in 2012 - Enrollment of females increased to 45% - Participation of adults and out-of school youth in short skills training courses increased to 6,000 participants in 2012 - Improved access for physically disabled in 20 rehabilitated PVE schools by 2010 	<p>Ongoing</p> <p>ADF Loan 2007-KGZ: Community-Based Early Childhood Development Project (2004–2008)</p> <p>ADF Grant 0020-KGZ: Second Education Project (2005–2010)</p> <p>ADF Grant 0074-KGZ: Vocational Education and Skills Development Project</p> <p>JFPR9108: Improving Access to Quality Basic Education for Children with Special Needs</p> <p>Planned</p> <p>Second Community-Based Early Childhood Development</p>	<p>Risks:</p> <ul style="list-style-type: none"> - Low-level capacity of public servants and weak management in the education sector - Sector policy risk related to resistance from decision makers to pursue policy and legislative changes - Financial sustainability risk of national and local government to provide financing for adequate O&M during project implementation and completion; and inefficient use of resources <p>Assumption:</p> <ul style="list-style-type: none"> - Steady economic growth creates new job and income-earning opportunities in the formal and informal sector.

Relevant JCSS Outcomes		Sector Level Outputs		ADB Assistance	Risks and Assumptions
JCSS Outcomes relevant to the Sector	Key Opportunities and Constraints	Subsector Outcomes/Key Sector Outputs	Sector Milestone/Tracking Indicators/Interim Indicators		
	relevance of training courses <ul style="list-style-type: none"> - enhancing practical training and hands-on experience for students - improving learning and teaching environment in schools - strengthening linkages to the labor market; - proper utilization of facilities and efficient staff deployment - efficient management of schools 	Human resources developed	<ul style="list-style-type: none"> - PVE schools consolidated/merged by 12/2010 and new assets management system in place by 2008 - A new certification system established by 2010 - A system to regularly revise and update curriculum modules and training material is established and new curriculum modules active industry participation and new training materials are introduced by 2008 - 200 training workshops rehabilitated and equipped and 20 dormitories rehabilitated by 2010 - 200 school principals, deputies, and administrators and 1,300 instructors trained by 2010 	Project (2007) Education SWAp (2010) [tbd]	

ADB = Asian Development Bank, ADF = Asian Development Fund, ECD = early childhood development, JCSS = Joint Country Support Strategy, JFPR = Japan Fund for Poverty Reduction, KGZ = Kyrgyz Republic, O&M = operation and maintenance, PVE = primary vocational education, SWAp = Sector-wide Approach, tbd = to be decided.

C. Agriculture and Natural Resources Sector

1. Sector Situation and Key Issues in the Sector

43. The agriculture sector is extremely important to the economy. It accounts for more than 33% of GDP (average for 2000–2004), 50% of employment (75% in rural areas), and 11% of exports. Of the total land area of 19.6 million hectares (ha), pastureland accounts for the largest area, 47%. Only about 7% of the country is arable land, of which about 80% is irrigated.

44. Agricultural growth rates display a decelerating trend, with the annual average growth rate falling from about 10% in 1996–1999 to about 3% in 2000–2005. Since 1996, agricultural growth has increasingly been driven by private small farm production. Between 1996 and 2004, average yields increased substantially: 61% for vegetables, 24% for grains, 13% for cotton, and 8% for milk. During the same period, gross output increased by 55% for vegetables, 8% for grains, 95% for cotton, and 34% for milk. The share of production from state farms declined from 22% in 1995 to 6% in 2004. With the emergence of more commercially oriented small private farms since 1999, the share of production from household plots declined from 65% in 1995 to 40% in 2004.

45. The sector continues to experience substantial adjustments in its transition to a market-oriented economy. Despite its importance to the economy and recent growth, agriculture continues to underperform, as many farms and agroprocessing facilities are not operating efficiently, are not profitable, and in some cases are not financially viable. The crop, livestock, and agro-industry subsectors continue to experience substantial adjustments, partly in response to ongoing reforms in the sector. The main problems to be addressed are low productivity of land and low profitability of agriculture. The key constraints continue to be as follows: (i) the absence of a viable land market, and poor management of pasturelands and the Land Reallocation Fund directly inhibit the productivity and effective use of these lands; (ii) while agricultural inputs and services are largely in private sector hands, the market mechanism is not functioning effectively, and further capacity development is needed to provide effective services; (iii) there is limited value-added to agricultural production because processing units face difficulties in securing a consistent quantity and quality of raw materials, contractual arrangements being weak; and collection, storage, and cooling facilities being in poor condition; (iv) machinery for small farms needs repair and is inappropriate; (v) while the Rural Advisory Service is well established and has a national network, the quality of services varies between oblasts, and outreach is low at around 25% of all villages and 6% of farmers within each village; (vi) the research institutes lack clear research strategies and the resources to implement them, and farmers and the extension services perceive research to be irrelevant to farmers' needs, and the link between research and extension is weak; (vii) irrigation and drainage infrastructure is in need of rehabilitation and water management needs to be improved principally through the water user associations; and (viii) access to and availability of microfinance and rural finance, especially for investment finance, are limited.

46. Raising the level of commercialization and diversification of agriculture continues to be a major challenge. This is necessary to meet domestic demand and to improve the country's export competitiveness. The noted constraints need to be addressed in a systematic and holistic manner to support the commercialization of farm production, increase value-added through better marketing and agroprocessing, and access and maintain export opportunities.

2. Government's Sector Policy and Planning Framework

47. The development of the agriculture sector was guided in the past by the Comprehensive Development Framework (to 2010), the National Poverty Reduction Strategy for 2003–2005, and the Agrarian Policy Concept of the Kyrgyz Republic to 2010. Currently, the Government's policy and planning framework for agriculture is incorporated in the Country Development Strategy (2007–2010) and more specifically, in the Agriculture Development Strategy (2007–2015).²¹ Further guidance is provided in various presidential decrees and addresses to the nation.

48. The CDS emphasizes the development of the agriculture sector through more vigorous marketing of agricultural produce and processed products to increase the incomes of farmers while maintaining a healthy environment. In supporting this overall objective, the Agriculture Development Strategy sees the growth of the sector as a move away from its current orientation on food self-sufficiency toward a more diversified and profitable market-driven agricultural production. This will require greater economic diversification and a shift away from the current pattern of resource use and input-based growth toward higher productivity based on increased application of agricultural knowledge and science-based technologies and innovations in private enterprises and government agencies. The Agriculture Development Strategy focuses on the following eight components: public sector services; agroprocessing and marketing; land market development; water resources management; training, research and development; trade and tax policy; rural finance; and rural development to ensure an integrated rural sector with prosperous communities.

3. Institutional Arrangements and Capacity in the Sector

49. The Ministry of Agriculture, Water Resources, and Processing Industry (MAWRPI) is responsible for overall policy, regulation, and support for the development of the agriculture sector. In addition, MAWRPI is represented at both regional and district levels in addition to each region having independent responsibility for certain activities. During the transition, MAWRPI has undergone continuous restructuring and some rationalization of regional and district responsibilities. However, over time as it endeavors to move to a market-oriented agriculture system, its capacity has been substantially reduced and its ability to carry out effective policy and regulatory functions limited. Nevertheless, these roles are improving despite severe budget limitations.

4. ADB Sector Experience

50. ADB has provided 1 program loan and 2 project loans in the amount of \$96 million, 1 Japan Fund for Poverty Reduction Project for \$1 million, and 11 TAs, including 3 project preparatory TAs (PPTA) amounting to \$2.3 million and 8 advisory TAs (ADTA) in the amount of \$5.4 million. The Agriculture Sector Program (ASP) was implemented from 1995 to 1997 to facilitate the transition of the agriculture sector to a competitive market-based system. The project performance audit report in October 2002 rated ASP successful.

51. The Agriculture Area Development Project (AADP) was approved in 1999 and is still under implementation. The outcome is to increase productivity and profitability on selected farms to increase the incomes of farmers in Chui region. It includes farm development to assist

²¹ The Agriculture Development Strategy is being prepared by the Government with ADB assistance under the TA 4409-KGZ: Agriculture Policy Formulation.

farms and businesses to operate as commercially viable enterprises; a credit line of \$10 million to provide access to investment finance; and rehabilitation of essential off-farm and on-farm infrastructure to ensure the effective functioning of irrigation systems through water user associations (WUA) (being coordinated with the World Bank On-Farm Irrigation Project); and supports the establishment of agribusiness enterprises for input supply, marketing, processing, and other services. A recent impact assessment of AADP has shown the Project's high level of success in 42 villages across the eight districts of Chui region. In four farm areas the average financial gross margin is \$215 per ha, average economic net present value is \$483 per ha, and average economic internal rate of return is 26%. This overall result stemmed from several factors: (i) reclamation of some irrigated land; (ii) a shift in cropping patterns from low-value crops (e.g., nonirrigated wheat) to higher value crops (lucerne, root crops, vegetables, safflower, sunflower, and maize); (iii) improved crop yields (e.g., winter irrigated wheat of 30–60%, irrigated cabbage 40%, maize 70–90%, and lucerne 28–55%); and (iv) increased livestock output resulting primarily from purchases of livestock financed by the former Kyrgyz Agriculture Finance Corporation, now AiyBank. These results are due to the combination of drainage and irrigation rehabilitation, training through advisory services, and improved machinery services facilitated under the enterprise development component.

52. The additional key results from the AADP include (i) training of over 17,000 farmers and 240 farmer group leaders; (ii) establishment of 2 short courses in agricultural extension and farm planning in the main curriculum of the Agrarian University; (iii) rehabilitation of over 50,000 ha of irrigation and alleviation of flooding in 8 villages, saving over 1,600 homes; (iv) establishment of 59 fruit and vegetable marketing groups and 13 milk marketing groups involving contracts for fruits, vegetables, and milk; (v) collaboration with other aid agencies to establish a new brand name "Taste of the Sun" and through development of an agreement to supply a major food market chain "Narodny" in Bishkek; (vi) assistance to 48 enterprises to complete business plans and follow-up support, including miniprocessing, machinery contracting and repair, and spare parts distribution; (vii) utilization of the credit line of \$8.7 million for 5,168 loans, principally for livestock, with a loan recovery of 99.7%; (viii) strong contractual and noncontractual partnerships with several private companies for training and advisory services; with the World Bank On-farm Irrigation Project for WUA development; with three USAID-funded projects: Legal Infrastructure for a Market Economy, Kyrgyz Land Reform Project, and Legal Assistance to Rural Citizens Project (with Helvetas) to support legal aspects of farm development; and some cooperation has been initiated with GTZ on cooperative development and the International Center for Agricultural Research in the Dry Areas (ICARDA) on soil and land management.

53. The AADP's area development approach has been applied to the Southern Agriculture Area Development Project (SAADP), approved in January 2007, covering the three regions of Batken, Jalal-Abad, and Osh. The SAADP seeks to adapt the overall concept and approach of the AADP, but more investments in developing agribusinesses, promoting marketing, and diversifying participating financial institutions and the addition of a component to address pasture and orchard management are expected to lead to an even more successful area development project in the south.

54. All three PPTAs have resulted in approved loans. The eight ADTAs have assisted the Government with its initial reform program in agriculture; developing the legal framework, and demonstrating the modalities to form and strengthen WUAs; three TAs have directly supported the MAWRPI with the establishment of an aid coordination unit, initiated an agriculture sector investment program, and recently facilitating the development of an agriculture sector strategy to 2015; supported decentralization as part of the AADP, in providing direct assistance to the

Chui Region Administration in the planning and management of agriculture in the region; and two ADTAs have supported economic sector work in undertaking studies of irrigation pricing and cost recovery mechanisms for irrigation, and the impact of land reform on agriculture, poverty reduction, and environment. Of five completed ADTAs, three have been successful, one is partially successful, and one is unsuccessful. Some TAs have initiated additional support from other agencies including the World Bank for WUA development, and the Swiss Agency for Development and Cooperation (SDC) for the establishment of a policy support project in MAWRPI.

5. Role of Other Development Partners in the Sector

55. Development assistance to agriculture and related areas is diverse in size, focus, scope, and location. A large number of aid-supported activities focus on the southern regions. Projects range from small pilot activities in selected rayons (districts) to large, nationwide programs. The programs address all constraints to agricultural development, but to varying degrees and with varying levels of coordination

56. The key areas of assistance from ADB and other aid agencies include agricultural strategy formulation and policy development (ADB, SDC, and World Bank); budgetary support (the European Union Food Security Program); farm privatization and land reform (World Bank, USAID, SDC, United Kingdom Department for International Development [DfID], and ADB); rural financial institution development (World Bank, ADB, German development cooperation through GTZ] and the Raiffeisen Foundation for Development Cooperatives, USAID, Mercy Corp, and International Finance Corporation); agricultural advisory services (World Bank, SDC, GTZ, and USAID); input supply (Swedish International Development Agency and World Bank); agribusiness development (USAID, SDC, World Bank, and Japan International Cooperation Agency); cooperative development (GTZ and Raiffeisen Foundation for Development Cooperatives); rehabilitation of drainage and irrigation (World Bank, ADB, USAID, European Union, United Nations Development Programme, Aga Khan Foundation, and Mercy Corp); and rural infrastructure (ADB, World Bank, and DfID).

57. A number of entities have provided external technical assistance to the Kyrgyz Republic. In addition to ADB's assistance above, the SDC undertook a policy support project; the European Union Technical Assistance for Commonwealth of Independent States provided support for the strategy plan for the agriculture and food sector, which started in 1994, and the Regional Agricultural Reform Project, which started in 1996; the European Union Food Security Program, which finances the entire MAWRPI budget except for salaries through conditional budgetary support, has initiated a series of reorganizations and downsizing of MAWRPI since the start of the program in 1997; and the World Bank has had a major influence on agricultural strategy and policy through its agriculture sector projects and published reports on agriculture sector reviews, strategy, and policy.

6. Intended Sector Outcomes and Key Outputs Supported by ADB

58. ADB's assistance overall will continue to focus on increasing agricultural land and labor productivity, value added, and profitability within a sustainable environmental framework. The key outcomes for ADB's support will include increased land and labor productivity, development of private sector agribusiness support services and marketing and processing facilities, increased domestic and export competitiveness, improved integrated land and water management, and improved agriculture policy and management. These outcomes are

interrelated and it is essential to ensure the following related outputs are implemented in a holistic and integrated manner.

59. Increased land and labor productivity will result from continued support for the rehabilitation of drainage and irrigation infrastructure, improved advisory services, increased adoption of improved farming techniques, and increased farm investment. Increased domestic and export competitiveness will be supported by increased commercialization and diversification of agricultural production and products for domestic and exports markets; improved infrastructure, marketing and processing facilities; and increased private sector investment. The development of agribusiness support services and marketing and processing facilities will stem from improvements in the business environment, increased investment funding, and improved market infrastructure. Improved integrated land and water management will result from the rehabilitation of drainage and irrigation infrastructure, increased and improved management by WUAs; and improved pastureland management. Improved agriculture policy and management will be dependent on the successful implementation of Phase I of the Agriculture Development Strategy.

7. Links to JCSS Outcomes and Other Sectors/Thematic Areas

60. ADB's support to agriculture is primarily in line with the CDS pillars of enhancing economic potential and providing environmental sustainability. Accordingly, ADB's activities support the JCSS strategic framework in the areas of economic management consistent with strong and sustainable pro-poor growth and environmental sustainability and natural resources management. The proposed support is consistent with ADB's country strategy of direct support to the agriculture and natural resources sector and incorporates aspects of the three cross-cutting themes of private sector development, environmental sustainability, and regional cooperation.

8. Indicative Areas for Interventions

61. ADB interventions will continue aiming at increasing productivity, value added, and profitability of agriculture on a sustainable environmental basis. They will follow the area development approach of AADP, which applied a new holistic approach of integrated interventions within specified geographical areas, closely coordinating and cooperating with local institutions/organizations and other development partner projects, to address the many key constraints. The same area development approach has been applied to the SAADP (para. 50), covering the three regions of Batken, Jalal-Abad, and Osh, which will commence in 2007.

62. In addition to these two ongoing projects, a new Agricultural Land Improvement Project (ALIP), also adapting the area development approach, will focus on the Issyk-Kul, Naryn, and Talas regions. SAADP and ALIP will focus more on the commercialization of agriculture, diversification of agricultural production, and promotion of exports, as well as on addressing key constraints to agriculture production and natural resources management. Improved incentives for market-oriented agriculture will facilitate a stronger private sector involvement in agricultural marketing and processing. In addition, consideration will be given to using the agriculture sector as a pilot component in the proposed Support to Business Environment and Investment Climate Project.

63. The agriculture sector will also support regional cooperation through continuing support for the Central Asian Countries Initiative for Land Management (CACILM). Under this program the Global Environment Facility (GEF) has in principle agreed to provide \$2.5 million for

SAADP. In addition, a regional TA (RETA) on facilitating marketing and agricultural trade among the Central Asian countries, PRC, Russia, and other countries is proposed, to support export competitiveness in the Central Asian countries.

9. Monitoring Mechanisms

64. The monitoring of performance will relate to the results-based framework, but will require attention at three levels. Project and TA monitoring will be carried out through regular loan and TA reviews and reported through the project performance reports and TA reports. It will be important for the objectives (impacts and outcomes) of loans and TAs to fit into the output and outcome indicators of the "road map." The second level of monitoring is at sector level and the achievement of the overall objective of increased farm and rural enterprise productivity and profitability and related indicators of private sector development (including cost recovery, employment, and efficiency indicators) and reduced environmental damage. This level of monitoring will be based on project and TA reviews and sector agency statistics. The final level of monitoring relates to the contribution of the agriculture sector to the economy (economic growth) and poverty reduction. This will be based on national statistics. Table A4.3 outlines the agriculture and natural resources sector results framework.

Table A4.3: Sector Results Framework—Agriculture and Natural Resources

Relevant CPS Outcomes		Sector-Level Outputs			
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcome/Key Sector Outputs	Sector Milestone/Tracking Indicators/Interim Indicators	ADB Assistance	Risk
<p>Increased productivity in agriculture</p> <p>Strengthened market mechanisms in agricultural production and processing</p> <p>Creating a competitive food processing industry</p> <p>Enhanced productivity and connectivity in agriculture and natural resources use</p>	<p>Increase the productivity of arable land and pastureland</p> <p>Support private sector development to improve the market mechanism for agricultural inputs and services</p> <p>Increase the value added to agriculture in expanded agricultural market and processing facilities</p> <p>Improve and expand the availability of machinery appropriate to the farm structure</p> <p>Expand the level of competitiveness domestically and internationally for agriculture products</p> <p>Improve the focus and relevance of agriculture research and links to extension for knowledge dissemination</p> <p>Support the outreach expansion of advisory services</p> <p>Increase the rehabilitation of drainage and irrigation infrastructure</p> <p>Improve the management of water and land resources</p>	<p>Increased land and labor productivity</p> <p>Development of private sector agribusiness support services and marketing and processing facilities</p> <p>Increased domestic and export competitiveness</p> <p>Improved integrated land and water management</p>	<p>Average annual growth of 4.5% during 2007–2010</p> <p>Increased farmers' incomes (average annual growth of 7% during 2007–2010)</p> <p>Rural auxiliary services developed</p> <p>Share of agroprocessing in agriculture sector increased by 25% by 2010</p> <p>Increased share of SMEs in agro-processing by 40% by 2010</p> <p>Growth of agriculture export by 15% of agricultural output by 2010</p> <p>At least 435,000 ha drainage and irrigation infrastructure rehabilitated</p> <p>Decreased salinity and water-logged areas decreased by 5%</p> <p>Improved efficiency of pasture-land use</p> <p>Increased effectiveness of</p>	<p>Ongoing:</p> <p>Agriculture Area Development Project (1999–2007)</p> <p>Southern Agriculture Area Development Project (2007–2013)</p> <p>Regional CACILM Project</p> <p>TAs:</p> <p>Agriculture Strategy Formulation</p> <p>Impact of Land Reform on Agriculture, Poverty, and Environment</p> <p>Study on Pricing System and Cost Recovery Mechanisms for Irrigation</p> <p>Proposed:</p> <p>Agriculture Land Improvement Project</p> <p>Support for Business Environment and Investment Climate (pilot agriculture component)</p> <p>RETA on Agriculture Marketing and Trade</p>	<p>Weak institutional capacity in MAWRPI to lead reform and perform regulatory and support functions effectively</p> <p>Frequent changes in policy and legislative framework</p> <p>Legal status of farms not clarified</p> <p>Political issues Deteriorated growth dynamics/adverse shocks in neighboring countries impede regional economic cooperation</p> <p>Weak cost recovery for on-farm O&M and investment rehabilitation</p> <p>Lack of knowledge and operational management experience with farming and business enterprises</p>

Relevant CPS Outcomes		Sector-Level Outputs			
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcome/Key Sector Outputs	Sector Milestone/Tracking Indicators/Interim Indicators	ADB Assistance	Risk
			WUAs in water management, including increased cost recovery and operation and maintenance expenditure	Issyk-Kul Sustainable Development Project	Lack of market access

CACILM = Central Asia Countries Initiative in Land Management, CPS = Country Partnership Strategy, MAWRPI = Ministry of Agriculture, Water Resources and Processing Industry, O&M = operations and maintenance, RETA – regional technical assistance, SMEs = small and medium enterprises, TA = technical assistance, WUAs = water users associations.

II. THEMATIC ROAD MAPS

A. Private Sector Development

1. Summary Situation Analysis

65. The private sector in the Kyrgyz economy now accounts for 75% or more of GDP and about 80% of national employment. The agriculture and services sectors are overwhelmingly private. The private sector accounts for over 90% of output in agriculture and in key service subsectors such as trade, repairs, hotels, and restaurants. The financial sector is now also almost entirely private. But the state sector remains significant in industry and dominant in infrastructure due to repeated delays in implementing plans for their privatization. Almost all infrastructure remains fully or majority state-owned, with the “big four” state-owned infrastructure enterprises (Kyrgyz Telecom, Kyrgyz Energy, Kyrgyz Gaz, and Kyrgyz Airline) together reportedly accounting for 80% of the country’s total capital stock. Almost all mines (except for a few in gold mining) remain owned or controlled by the state. Numerous state-owned enterprises (SOE) regarded as strategic and defined using outdated Soviet-era concepts are still exempted from privatization. The size, role, and impact of the state sector in the national economy are greater than suggested by its 25% share of GDP. Aside from production of goods and services in SOEs, a large “informal and extra-legal state economy” operates through the country governance and public administration apparatus where extensive rent-seeking and corruption occur. Part of this apparatus in a sense has been hijacked by some politicians and poorly paid civil servants, and transformed into an effective stealthy state economic subsector for private and illegal gains. This stealthy but sizable state economic subsector, with an excessive regulatory regime used and abused for rent-seeking, official corruption, and political patronage, somewhat crowds out the private sector and distorts the functioning of the market mechanism.

66. The sector of small and medium-sized enterprises (SME), which is almost entirely private, grew dramatically in number by 160.5% between 2000 and 2005. The increase was due almost entirely to growth in the number of individual entrepreneurs and farms. There is a trend toward an increasingly smaller scale of operations, compelled by an adverse business environment that becomes worse as the size of economic entities increases. The SME sector’s share of GDP grew only very slightly from about 43% in 2000 to 43.6% in 2005. Excluding farms, SMEs accounted for the major share of sectoral output in agriculture and services, but for only a small share in industry and communications, reflecting the dominance in these sectors of large enterprises that are mainly state-owned. Despite its not insignificant contribution to output, the sector (excluding farms) accounted for only a relatively small share of national employment at 12.6% of total employment. A recent UNDP study estimates the informal sector’s output at 45% of GDP. Among the study’s findings were that most enterprises in the formal sector conceal and underreport part of their actual volume of economic activities, incomes, and wage bill to avoid punitive taxes and social fund contributions, and to escape from an excessive state regulatory regime that is increasingly an obstacle to business as the size and scale of operations increase. Official corruption, together with tight inspections and supervision by the state, were key factors compelling enterprises to engage in informal activities and to remain small.

2. Key Development Issues and Challenges

67. The fundamental problem in private sector development in the Kyrgyz Republic is a dysfunctional market mechanism, due primarily to excessive state intervention and shortcomings in public administration, which is manifested in a poor business environment and

investment climate. This is the fundamental first-order constraint to private sector development generic to all sectors and spheres of the national economy. Some other constraints, such as lack of finance, infrastructure weaknesses, and poor management and marketing skills, are also generic to the national economy while others are specific to sectors, such as irrigation and water resources in agriculture. But these are basically second- and third-order problems whose resolution cannot be substantively achieved without an improvement in the business climate.

68. Private firms operate within a business and investment climate that is not just poor, but is hostile and adverse to entrepreneurship. Although basic market-based economic and legal institutions have been established²² (albeit often in a formal rather than in a substantive manner), a Soviet-era system of administrative micromanagement and economic controls has been retained and public administration is weak. In reality the plethora of extensive state regulations and controls results in little effective enforcement of standards because they are mainly used for rent seeking and corrupt practices that allow firms to evade regulations. The result is that business often operates in a more or less effectively wild environment.

69. The Economic Forum on Removing Barriers to Business held in May 2006 in Bishkek highlighted the main obstacles to business as (i) excessive and extreme government interference in business activities; (ii) an excessively large corpus of laws, regulations, and rules; (iii) a growing multiplicity of regulatory bodies, with an unjustified growth in their functions and powers; (iv) growth in the number of inspections, leading to the subordination of laws to secret rules and private arrangements; (v) high cost of market entry due to cumbersome registration procedures and processes, resulting in growth of rent seeking and the informal economy as well as weakening market competition; and (vi) extensive infringements of private property rights. The priorities for Government action according to the Kyrgyz business community include reform of the tax system and reduction in tax rates, eradication of official corruption and bribery, reduction in number of business permits required, greater availability of cheaper finance, and reduction in number of inspections. Among businesses engaged in exports, the priorities are simplified customs and transit controls, easier access to foreign markets, and timely and reliable reimbursement of value-added tax for exports.

3. Government's Sector Strategy

70. The Government's vision of the medium- and long-term economic perspectives of the Kyrgyz Republic is 8% annual gross domestic product growth led by private investments (domestic and foreign) in the four priority sectors of energy, communications (transport), agriculture, and mining.²³ The CDS also puts a high emphasis on private sector development. Private sector development and increased private and foreign investments, in particular, are to be facilitated by "radical" improvements in the investment climate and business environment, and further structural reforms in a wide range of areas. These include deepening reforms in the financial sector to mobilize domestic savings and increase intermediation, in the tax and customs administration system to lighten the tax burden and reduce the shadow or informal economy, in public expenditure policy to link Government spending with priority development programs (with the Public Investment Program (PIP) focused on investments in industrial,

²² Compared with other countries in the region, the entry mechanism for firms in the Kyrgyz Republic is relatively favorable. Registration of new businesses as well as licensing requirements are also relatively easy as compared with the regional average (World Bank, *Doing Business 2007*). Overall, the country ranks moderately (90th out of 175 countries) in this survey, slightly below the average for the world, above most CIS countries in terms of ease of doing business, and the second best in Central Asia, largely due to relatively good performance in the formal legal framework.

²³ Address to the nation by President Bakiev, delivered on 28 September 2006.

agricultural, and social infrastructure); in countering corruption by reducing the scope of state intervention in market mechanisms and achieving greater transparency; in improving the legal environment; and in public governance and decentralization, which would give greater powers to local authorities and strengthen local budgets. Measures to improve the investment climate would aim to address the key weaknesses of concern to businesses (in order of importance): (i) poor quality of tax administration; (ii) uncertainty and unpredictability of economic policy due to frequent changes; (iii) high levels of corruption; (iv) high cost of finance; (v) macroeconomic instability; (vi) cumbersome customs and foreign trade regulation; (vii) crime and lack of law and order; (viii) low quality of labor; (ix) difficulties in accessing finance; and (x) the judicial system and conflict resolution. Remedial and other measures are expected to enable the Kyrgyz Republic to create a friendly business climate conducive to private sector growth.

71. The authorities recognize the extent of the problem and have undertaken a number of steps to improve the business environment and investment climate. The Government adopted a bill limiting the number of agencies with regulation rights and improving the quality of business inspections. The Ministry of Economic Development and Trade (a new ministry responsible for private sector development policy among other things) is introducing a monitoring system for inspections and a database for determining the number and purposes of inspections by different agencies. The Technical Regulation Law was revised and adopted in 2004, and its enforcement started in 2005. In addition, the adoption of a new Tax Code is believed to make the environment more conducive for businesses.

4. Proposed ADB Role in the Sector

72. Private sector investment, including foreign direct investment, is critical to achieving the ambitious targets for economic growth envisaged in the CDS. With the current borrowing constraints on public sector investments, the country does not have other alternatives for boosting investment and economic growth, and hence, improving the living conditions of its citizens.

73. It is necessary to strengthen institutional capacity and to lay the foundation for a vibrant private sector development. ADB's activities for supporting the policy and institutional environment will follow three directions: (i) provide direct support for improving business environment and investment climate; (ii) strengthen the new Government's capacity and capability for developing and implementing a market-oriented, open, and private sector-led economic development policy; and (iii) initiate ADB's own private sector operations in the country. These interventions are crucial to raising the levels of productivity and international competitiveness. They are described in more detail in the main text of JCSS Part II.

B. Regional Cooperation

1. Background and Key Issues in Regional Cooperation

74. The Kyrgyz Republic, located in the heart of Central Asia, is surrounded by Kazakhstan, Uzbekistan, Tajikistan, and PRC. It is one of the countries of the Great Silk Road, and together with Uzbekistan and Tajikistan, shares the Fergana Valley.

75. As a small, landlocked country, good political and economic relations with its neighbors are vital for the Kyrgyz Republic. However, a combination of internal and external impediments to trade and a sensitive geopolitical context has impeded the country's development and frustrated full transition to a more diversified, market-based economy. The benefits of

membership in the World Trade Organization have been undermined to some extent by these factors. Regional cooperation with neighboring countries, including those beyond its borders, notably Afghanistan, Pakistan, and the Russian Federation, is critical to resolving many of the impediments to growth of the economy. Strengthened relations within the region will help create a positive investment climate, and facilitate trade, tourism, business enterprise, and other developments essential for creating productive employment and reducing poverty. In turn, the Kyrgyz Republic's partnership in this endeavor will encourage domestic reforms, themselves a means for improving the performance of the economy and the livelihood of the people. In short, regional cooperation is fundamental to achieving the poverty reduction goals of the country.

76. The republic's intricate geography, its economic dependence on export of hydropower resources, and its lack of oil and gas in contrast to Kazakhstan and Uzbekistan, yet further underscore the importance of effective regional economic cooperation. Further, access to markets in and outside the region frequently requires transborder access.

77. The Kyrgyz Republic is an active member of the following regional organizations: the Eurasian Economic Community (EurAsEC), Shanghai Cooperation Organization (SCO), Organization for Economic Cooperation, Commonwealth of Independent States (CIS), and CAREC. A wide range of issues are addressed in these forums, including regional security, trade and transport facilitation, the water/energy nexus, migrant worker issues, environmental protection and disaster preparedness, and drug trafficking. The countries of the region, including the Kyrgyz Republic, have yet to realize full benefits from the numerous regional agreements aimed at increasing regional cooperation and economic integration.

78. **Trade Facilitation.** Since independence in 1991, the country has been developing extensive economic and trade relations with its neighbors and the Russian Federation. The Russian Federation, Kazakhstan, Uzbekistan, and PRC are the main destinations for Kyrgyz exports and sources of imports. In 2006, almost 50% of Kyrgyz exports were to these countries, mainly in the form of construction materials, textiles, agriculture and food products, and energy (electricity). In recognition of the importance of trade (exports accounted for 28% of GDP in 2006), the main focus of the country's regional economic policy is facilitation of trade and transit, and the establishment of effective transport and energy networks.

79. Although the Kyrgyz Republic has a liberal trade policy, difficulties with border crossing, customs clearance, and unofficial charges make trade with neighboring countries and transit trade to more distant markets difficult, and undermine the competitiveness of Kyrgyz exports. To alleviate the impediments associated with border crossing and facilitate trade and transit, the Kyrgyz Republic and Kazakhstan decided to establish joint "one-stop shop" border posts Akjol and Aktilek, which will combine customs, border, and transport authorities of both countries in one border post.

80. Bilateral and transit trade barriers, both official and unofficial, seriously impact the country's export potential, both regionally and with global markets. Creation of a favorable trade regime in the region is vital. Priorities include simplification of the cross-border transit of goods and services, and unification and simplification of customs legislation and procedures.

81. **Transport Network.**²⁴ The Kyrgyz Republic has a relatively poor transport network, reflecting lack of maintenance and lack of efficient connections to major transport corridors. In the north of the country, Kyrgyz goods are transported by trucks and railway through the

²⁴ See also a Roads Subsector road map (A4.1) in this Appendix.

territory of Kazakhstan and further to other CIS countries. In the south, exporters use the Bishkek-Torugart or Osh-Sary-Tash-Irkeshtam roads to reach the Chinese border. Rehabilitation and upgrading of the Bishkek-Almaty highway is nearing completion, while southern roads to the PRC require significant upgrading as they are not suitable for heavy trucks. To more effectively link the country with the major southern markets, the Kyrgyz Republic considers upgrading of the Osh-Sary-Tash-Irkeshtam and Bishkek-Torugart roads, and construction of Uzbekistan-Kyrgyz Republic-PRC railway as priority projects .

82. Better maintenance of the railway and road systems is urgently needed. In addition, if affordable, development of and linkage to international transport corridors (both road and rail) should be one of the key objectives of the Government.

83. **Energy and Water Sharing.** The energy sector is one of the most important sectors of the Kyrgyz economy, as there is substantial potential to increase exports of hydroelectricity to markets within and outside the Central Asian region. According to estimates, the country is currently harnessing only 10% of its hydroelectric potential. In addition, it has a fairly well-developed electricity transmission and distribution network, access to electricity is almost complete within the country, and the transmission and distribution system regionally is extensive. However, depreciation of assets due to tariff and collection problems, poor maintenance, and management weaknesses affect both domestic and external development opportunities. Despite its vast hydroelectricity potential and developed energy infrastructure, the country is still very dependent on imported fossil fuel for domestic heat generation. Traditionally, coal, gasoline, and kerosene have been imported from Kazakhstan and natural gas from Uzbekistan, in exchange for summer supplies of hydroelectricity associated with releases of water for irrigation purposes in downstream Kazakhstan and Uzbekistan.

84. Effective transboundary cooperation in water resources between the upstream Kyrgyz Republic and downstream Uzbekistan and Kazakhstan requires intensive negotiations to convince the latter to provide adequate compensation for operation and maintenance of water services provided by the Kyrgyz Republic. The attempts to divide the responsibilities for maintenance of water facilities on Chui and Talas rivers, which are located in the Kyrgyz Republic and supply irrigation water to neighboring Kazakhstan, resulted in the signing of a bilateral agreement by which Kazakhstan provided financing for maintenance costs. Nevertheless, analytical and advisory assistance from IFIs in facilitating bilateral negotiations and estimating the amount of compensation for maintaining and operating the shared water facilities is required.

85. The main focus of the country's regional energy policy is promotion of electricity exports and provision of adequate supplies of natural gas and coal from Uzbekistan and Kazakhstan. To attract private investment in the hydropower sector, the Kyrgyz Republic must strengthen the performance of the energy sector. Reforms include setting tariffs to more effectively cover the costs of generation, transmission, and distribution; and greatly improving collection rates.

86. **Labor Migration.** According to the International Organization for Migration, some 300,000 and 50,000 migrant workers from the Kyrgyz Republic are employed in the Russian Federation and in Kazakhstan, respectively (according to mass media reports, the numbers are much higher (400,000–700,000 in the Russian Federation and 70,000 in Kazakhstan). Estimates suggest that remittances from the migrant workers to the Kyrgyz Republic may amount to about 20% of GDP; this is clearly a very important source of income for the country.

87. Protection of the rights and interests of migrant workers is critical and subject to current bilateral negotiations with Kazakhstan and the Russian Federation. The transfer of remittances safely back to the country (through the banking sector) must also be improved, so that remittances increasingly become a part of the formal economy and can be used for productive and investment purposes.

88. **Environment Preservation.** Soviet military activity left deposits of uranium tailings in the Kyrgyz Republic. The tailings are stored in very poor conditions and are sensitive to landslides, floods, and other natural disasters. To store the tailings more securely, the Kyrgyz Republic must address this issue jointly with other Central Asian states. Better protection of the environment will have many benefits, including development of ecotourism.

89. The Kyrgyz Republic possesses unique natural resources, from picturesque mountain ranges to the gem of Central Asia, Issyk-Kul Lake. With the political situation gradually stabilizing, the year 2006 saw a record number of tourists, estimated at around 1.1 million. Of those, foreign tourists were estimated to be about 80%, most of them from neighboring Kazakhstan, the Russian Federation, and Uzbekistan. The supply response to the increased tourism demand is notable, with active construction, big and small resorts sprawling around the lake, and skyrocketing land prices. In addition, it is anticipated that the construction of the Almaty–Issyk-Kul Lake direct road—a project currently being considered by Kyrgyz and Kazakh authorities and the private sector—would cut travel time from the current 7–8 hours to about 3 hours, and would result in an increased flow of tourists. This would bring more opportunities for economic development,²⁵ but will also result in a heavier burden on the local infrastructure and the environment. There is a critical need to embark on the path of a dynamic, intensive economic development, but without inflicting environmental damage and while preserving the country’s pristine environment.

2. ADB in Regional Cooperation

90. ADB has been playing a lead role in promoting regional cooperation in the Central Asian Republics, Azerbaijan, Mongolia, and the Xinjiang-Uygur Autonomous Region of the PRC through the CAREC Program.²⁶ To date, the Program has focused on financing infrastructure projects and improving the region’s policy environment in the priority areas of transport, trade (policy and facilitation), and energy.

91. The Kyrgyz Republic is an active member of the CAREC Program. A number of regional projects and initiatives in the transport and energy sectors, and trade facilitation are being implemented in the Kyrgyz Republic under the Program. The Kyrgyz Republic also receives capacity-building support for regional cooperation under CAREC.

92. Regional operations involving the Kyrgyz Republic under the CAREC Program for 2007–2010, include Regional Road Corridor Improvement Project, Bishkek-Torugart Road Rehabilitation Project, Regional Gas Transmission Improvement in CARs, and RETA for Central Asia-South Asia Regional Electricity Market (CASAREM). The country is involved in the CAREC

²⁵ Tourism, especially around Issyk-Kul Lake, is considered one of the engines for local and national economic growth, and one of the channels through which economic gains from the surrounding booming economies could spill over to the Kyrgyz Republic.

²⁶ CAREC is an initiative launched by ADB in 1997 to encourage economic cooperation in Central Asia. It includes Afghanistan, Azerbaijan, PRC, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan as participating countries, and is supported by other IFIs such as EBRD, IMF, Islamic Development Bank, UNDP, and World Bank.

Members Electricity Regulators' Forum (CMERF) that aims to support regional electricity trade in the Central Asia region. The regional strategies for the transport and energy sectors, and trade for CAREC countries with involvement of the Kyrgyz Republic are being prepared. The prospectus for the CAREC Institute to coordinate research, training, and dialogue activities in regional cooperation processes is being prepared with inputs of CAREC officials, including the Kyrgyz Republic. Other relevant CAREC activities include CACILM and knowledge and expertise products. The proposed Issyk-Kul Sustainable Development Project will address the environmental and institutional issues around Issyk-Kul Lake development and promotion of sustainable tourism.

C. Environmental Sustainability

1. Sector Status, Key Development Issues, and Strategic Directions

93. Table 4.4 presents main sector issues and identifies the directions recommended for ADB and other development partners supporting environment and natural resource management (ENRM) in the Kyrgyz Republic under the JCSS.²⁷

Table A4.4: Sector Issues and Strategic Directions—Environmental Sustainability

Sector Status and Issues	Strategic Directions
Sustainable Land Management	
<p>Land degradation continues and agriculture development still fragile. Opportunities exist further to improve incentives for investments in long-term productivity of land resources.</p> <p>Leasing and collaborative management of state-owned lands increasingly practiced. New approaches to managing state reserve land emerging. Land reform well under way, new agriculture strategy being finalized.</p>	<p>Promote further evolution of pastureland and forestland management, remove remaining policy and legal impediments, and spread good practices. In agriculture, facilitate consolidation, continue to improve policy environment for agroprocessing.</p>
Water Resource Management	
<p>Water managed in a non-integrated fashion (irrigation, drinking water supply, sanitation). Opportunities to build on advances in rural water supply and sanitation (RWSS).</p> <p>RWSS being rehabilitated. RWSS long-term strategy being finalized. Irrigation rehabilitation continues and water users associations (WUA) are being established.</p>	<p>Support irrigation rehabilitation, sustainable irrigation development, deepening of WUA functions. Promote basin-wide management of water resources. Introduce the most relevant of outside experience in integrated water resource management (IWRM).</p>
Transboundary Water and ENRM	
<p>Division of efforts between national and transboundary ENRM activities lacks clarity and contribute to institutional proliferation and cost.</p> <p>Active aid agency participation in transboundary initiatives in water management, Chui-Talas bilateral accord^a, some progress on transboundary aspects of mining waste (Mailuu Suu), increasing attention to emerging issues such as animal health.</p>	<p>Water management should remain the core of transboundary ENRM, but related institutional arrangements need to be simplified. Possible deadlock on water management issues should not derail other transboundary initiatives.</p>

^a With the help of an ADB Regional Technical Assistance the governments of the Kyrgyz Republic and Kazakhstan established a joint water commission to implement the accord.

²⁷ ADB. 2007. *Draft Natural Resource Sector Study for the Kyrgyz Republic*.

Sector Status and Issues	Strategic Directions
Environmental Safeguards for Mining and Resource-Related Industries	
Insufficient environmental safeguards in otherwise promising activities (mining, tourism, agroprocessing, energy development).	Continue to support transparency in mining and adopt tighter environmental safeguards in the key income-generating sectors.
Biodiversity and Protected Area Management	
<p>Pressures on biological resources through habitat conversion, deforestation, uncontrolled hunting, etc. Opportunities to further improve the protected areas and build on recent initiatives in nature conservation.</p> <p>West Tian Shan Biodiversity Reserve, Issyk-Kul Biosphere created, some progress on other components of Protected Area System. Biodiversity Conservation Strategy now almost a decade old.</p>	Encourage opening to diverse international support (Global Environment Facility, international NGOs, and others) for biodiversity conservation while giving attention to the management of ecosystems in adjoining zones and protection of ecosystems and landscapes.
Renewable Energy and Energy Efficiency	
<p>Energy inefficiency and weak decentralized power supply. Energy underpricing discourages search for efficiency. Constituency for energy reforms remains small. Many lessons for improvement available abroad.</p> <p>Numerous small-scale renewable energy initiatives undertaken (especially hydro- and biogas). Energy sector reform started, but in need of re-invigoration.</p>	Continue to promote decentralized renewable energy, support a broad drive for energy efficiency, continue energy sector reform, work for better links to UN Framework Convention on Climate Change (UNFCCC). Support public awareness programs.
Disaster Risk Management	
<p>Disaster risks high and new threats appearing (avian flu, etc.). Need to better integrate disaster management into the economic mainstream.</p> <p>Some of the most urgent risks (e.g., Mailuu-Suu) partly addressed, disaster preparedness framework evolving.</p>	Help integrate disaster preparedness into selected economic activities, combat land degradation and deforestation, support selective mining waste decontamination, build on a good start to animal health issues
Issyk-Kul Lake Area	
The recently observed and anticipated growth of resorts and facilities in the Issyk-Kul Lake area, coupled with poorly designed water supply and waste- water facilities and other essential infrastructure, and lack of land zoning practices may spoil the delicate environmental balance, leading to irreversible damage. In such a scenario, Issyk-Kul Lake may end up being another human-made disaster.	Systemic, well-structured, and carefully articulated development plan, and suitable institutional, legal, and administrative arrangements are required, as well as massive investment to address infrastructure needs, with the involvement of the private sector.
Capacity Building – General	
Capacity to work for better and safer environment with a strong national sense of ownership undermined at the central level by salary-related loss of trained staff and competition by aid agencies and the private sector.	Continue to promote capacity building in ENRM at the local level. Encourage rotation of government staff between government and nongovernment positions. Work toward shared knowledge about “who does what and how” in capacity building.

Sector Status and Issues	Strategic Directions
Capacity Building - Institutional and Policy Development	
<p>The role of the post-2005 environmental regulator State Agency for Environmental Protection and Forestry is uncertain. Mechanisms of integrating environmental concerns into decision making are ad hoc and inadequate. Poorly coordinated strategy formulation.</p> <p>Reporting to international environmental conventions has become more complete, cross-sectoral approach toward land degradation given a boost under CACILM, new concept of environmental security is under preparation.</p>	<p>Act on the notion that ENRM typically cuts across sectors and support suitable institutional adjustments. Help limit duplication in global environmental reporting, ensure that all key sectoral strategies (agriculture, WSS, energy, etc.) become also tools of environmental progress. Work toward greater internal consistency of policy documents in key national and resource management “clusters”.</p>
Capacity Building - Information Systems and Monitoring	
<p>Approach to ENRM information and monitoring often lacks purpose and accountability.</p> <p>Improvements achieved in some areas (e.g., agriculture, poverty) and modest consolidation has taken place in environmental information management.</p>	<p>Give the State Agency for Environmental Protection and Forestry and other agencies an opportunity to digest recent technical assistance and formulate priority areas for improved data collection and results-based reporting. Work toward setting up true management information systems, based on clear statement of management objectives.</p>

2. Legal Framework²⁸

94. The basic principles of natural resources and environmental management are laid down in the Constitution of the Kyrgyz Republic, according to which the citizens of the country have rights of access to the primary sources of life (clean air, water, land, and other resources). At the same time, according to the Constitution, the main resources—land, water and subsoil—are common property of the people and belong to the state. Based on these principles, a legal basis has been developed in the Kyrgyz Republic, which ensures the current management of natural resources and the environment, and regulates legal relations between natural resource users and the state. Current legislation regulates the protection and use of all types of resources: land, water, air, biodiversity, and mineral resources; and ensures procedures and mechanisms for their management, such as basic norms and rules for using resources, including norms and rules for making payments charged for natural resources use and environmental pollution, environmental monitoring, impact assessment, environmental standards, environmental expertise, etc.

95. Analysis of the legislation shows that (i) most legislation is in the nature of a framework that necessitates procedures and mechanisms for enforcement to be specified via by-laws; the latter are in turn weak often ineffective, with their content contradicting other legal norms; and (ii) considerable parts of the legislation still refer to approaches and methods of centralized command-administrative management of the economy and public activities, and do not take into account the conditions of a market economy and the requirements of international standards in the implementation of and compliance with commitments in natural resources and environmental management.

3. Institutional Arrangements and Government Priorities

96. After the 2005 government reorganization, the key government bodies from the environment and natural resource management point of view at the central level are the

²⁸ UNDP. 2007. *Kyrgyzstan: Environment and Natural Resources for Sustainable Development*. Bishkek.

ministries of Agriculture, Water Resources and Processing Industry, Emergency Situations, Health, State Agencies for the Registration of Real Estate (commonly referred to as Gosregister, under the office of the President), Environmental Protection and Forestry, and Geology and Mineral Resources, together with their numerous associated institutions or subordinated departments.

97. The State Agency on Environmental Protection and Forestry under the Government is a leading state environmental agency responsible for state policy and coordination of other state bodies' activities on environment issues.

98. To date, the basis of the institutional structure for implementing the objectives of natural resources management and environmental protection has been broadly formed in the Kyrgyz Republic. There is a very strong sector of NGOs actively participating and sometimes leading in solving environmental problems in the country. In recent times, the expertise and scientific knowledge of that sector have become recognized and used by policy makers, although not fully.

99. The policy and approaches of the state in achieving natural resources and environmental management objectives are set in country development strategies and programs. The CDS for the period 2007–2010, prepared by Kyrgyz authorities, is anchored on four pillars: (i) growth-oriented economic development and improving the business environment, (ii) governance and transparency in public administration, (iii) human resource development, and (iv) environmental sustainability and natural resources management. Analysis of environment sustainability in the CDS identifies many issues, including the risks of natural disasters from earthquakes, mudslides, and avalanches; the threats to health from uranium tailing and other hazardous wastes; and the need for Issyk-Kul Lake protection. A key government priority is the appropriate management of natural resources, while a key country goal is to ensure ecological security as a basis for the sustainable development of the country.

4. Proposed ADB Role in the Sector

100. Ensuring environmentally sustainable economic development is an important theme of the proposed ADB program for 2007–2010. There is a critical need to embark on the path of dynamic, intensive economic development, but without inflicting environmental damage and while preserving the country's pristine environment. Sustainable land management will be addressed by several country and regional agriculture projects, including the CACILM and the agriculture area development projects.

101. The Kyrgyz Republic possesses unique natural resources, from picturesque mountain ranges to the gem of Central Asia, Issyk-Kul Lake. The recently observed rapid growth of resorts and facilities in the Issyk-Kul area, coupled with poorly designed water supply and waste water facilities and other essential infrastructure, and lack of land zoning practices may spoil the delicate environmental balance, leading to irreversible damage. The underdeveloped infrastructure and, importantly, the nontransparent institutional and legal procedures and an obscure business environment, put additional costs on the private sector, and thus impede investments and efficient economic development. In such a scenario, Issyk-Kul Lake may end up being another human-made disaster. The proposed Issyk-Kul Sustainable Development Project will address the environmental and institutional issues around Issyk-Kul Lake development and promotion of sustainable tourism. There is overwhelming support for the project concept from the Government, representatives of civil society, and the private sector.

INDICATIVE ASSISTANCE PIPELINE

Table A5.1: Indicative Assistance Pipeline for Lending Products and Services, 2007–2010^a

Sources of Funding (\$ million)											
Year / Assistance Name	Sector	Thematic Priority	Division	ADB Funding					Others		
				ADF Country Allocation			Regional	ADB	Government	Co-financing	
				Loans	Grants	Total					Total
2007											
Tax Administration Reform and Modernization Project [approved]	LEMPP	PSD	CWGF		10.0	10.0		10.0	2.5		
Regional Road Corridor Improvement Project (KGZ-TAJ-PRC)	Transport and Communications	RC, SEG, PSD	CWID	10.0		10.0	15.0	25.0	18.0		72.0
Community-Based Early Childhood Development Project Phase II	Education and ECD	ISD	CWSS		11.0	11.0		11.0			
Total				10.0	21.0	31.0	15.0	46.0	20.5		72.0
2008											
Bishkek-Torugart Road Project	Transport and Communications	RC, SEG, PSD	CWID	8.0		8.0	22.0	30.0			
Regional Gas Transmission Project	Energy	RC, PSD, SEG	CWID				20.0	20.0			
Agricultural Land Improvement Project	Agriculture and NR	PSD, SEG, ES	CWAE	10.0	6.0	16.0		16.0			
Community-Based ECD Project Phase II [stand-by]	Education and ECD	ISD	CWSS		[11.0]	[11.0]					
Total				18.0	6.0	24.0	42.0	66.0			

^a Currently, up to 50% of the ADF allocation is provided as grant. The indicative amounts are based on the current biennial (2007–2008) allocation of \$55 million. Should the Kyrgyz Republic become eligible for 100% grant, the total allocation will decrease. Allocations for 2009–2010 will be defined with the conclusion of the ADF X replenishment, and will be subject to the PBA policy and principles.

Year / Assistance Name	Sector	Thematic Priority	Division	Sources of Funding (\$ million)					
				ADB Funding			Others		
				ADF Country Allocation		Regional	ADB	Government	Co-financing
				Loans	Grants	Total	Total		
2009									
Support to Business Environment and Investment Climate		PSD	CWGF/ KYRM	10.0	10.0		10.0		
Issyk-Kul Sustainable Development Project		PSD, ES	CWSS/ KYRM	30.0	30.0		30.0		
Total				40.0	40.0		40.0		
2010									
Education SWAp	Education	ISD	CWSS	10.0	10.0		10.0		
Total				10.0	10.0		10.0		

CB = capacity building, CWSS = Social Sectors Division, Central and West Asia Department, CWGF = Governance, Finance, and Trade Division, Central and West Asia Department, CWID = Infrastructure Division, Central and West Asia Department, ES = environmental sustainability, ISD = Inclusive Social Development, KGZ = Kyrgyz Republic, KYRM = Asian Development Kyrgyz Bank Resident Mission, LEMPP = law, economic management, and public policy, NR = natural resources, PRC = People's Republic of China, PSD = private sector development, RC = regional cooperation, SEG = sustainable economic growth, TAJ = Republic of Tajikistan.

Source: Asian Development Bank Source Data.

Table A5.2: Indicative Assistance Pipeline for Non-lending Products and Services, 2007–2010

Year/Assistance Name	Sector	Thematic Priority	Division	Amount (\$'000)	Source
2007					
PPTA Agricultural Land Improvement Project [approved]	Agriculture and NR		CWAE	700.0	JSF
ADTA Institutional Strengthening and Capacity Building for Tax Administration Reform [approved]	LEMPP	PSD, SEG	CWGF	500.0	TASF
ADTA Business Process Reengineering and Change Management for Tax Administration Modernization [approved]	LEMPP	PSD, SEG	CWGF	500.0	E-Fund (Korea)
SSTA Bishkek-Torugart Road	Transport and Communications	RC, PSD	CWID	400.0	JSF
SSTA Valuation for KyrgyzGas Restructuring	Energy	PSD, RC	CWID	150.0	TASF
Total				2,250.0	
2008					
PPTA Issyk-Kul Sustainable Development Project	Multisector	PSD, ES	CWSS/KYRM	700.0	JSF
ADTA Support to Economic Policy and Management	LEMPP	PSD, CB, SEG	CWGF/KYRM	1,000.0	TASF
PPTA Support to Support to Business Environment and Investment Climate	LEMPP	PSD	CWGF/KYRM	500.0	JSF
Total				2,200.0	
2009					
SSTA Preparation for Education SWAp	Education	ISD	CWSS	400.0	TASF
ADTA Transport and Communications Sector Strategy	Transport and Communications	PSD, SEG	CWID	800.0	JSF
ADTA Enhancing PPP		PSD	TBD	700.0	TBD
Total				1,900.0	
2010					
Financial Markets Development	Finance	PSD, SEG	CWGF	500.0	TASF
Capacity Building	TBD	TBD	TBD	1,000.0	TBD
PPTA (for 2011-12 investment program)	TBD	TBD	TBD	600.0	TBD
Total				2,100.0	

ADTA = advisory technical assistance, CB = capacity building, CWAE = Agriculture, Environment, and Natural Resources Division, Central and West Asia Department, CWSS = Social Sectors Division, Central and West Asia Department, CWGF = Governance, Finance, and Trade Division, Central and West Asia Department, CWID = Infrastructure Division, Central and West Asia Department, CWOC = Country Coordination and Regional Cooperation Division, Central and West Asia Department, ES = environmental sustainability, ISD = Inclusive Social Development, JSF = Japan Special Fund, KGZ = Kyrgyz Republic, KYRM = Asian Development Bank Kyrgyz Resident Mission, LEMPP = law, economic management, and public policy, NR = natural resources, PPTA = project preparatory technical assistance, PRC = People's Republic of China, PSD = private sector development, RC = regional cooperation, SEG = sustainable economic growth, SSTA = small-scale technical assistance, SWAp = Sector-wide Approach, TAJ = Republic of Tajikistan, TASF = Technical Assistance Special Fund, TBD = to be determined.

Source: Asian Development Bank Source Data.

Table A5.3: Summary Information on Proposed Lending Products and Services for 2007

Project Name	Description
Community-Based Early Childhood Development Project Phase II	<p>Goal The Project will improve the health, nutrition, and psychosocial development of children up to 8 years of age.</p> <p>Major Components</p> <ul style="list-style-type: none"> • Child health component (likely to be nationwide) • Early child education component (nationwide and in selected districts) • Capacity building including the Village Initiative Fund <p>Expected Outputs</p> <ol style="list-style-type: none"> (i) Universal coverage of integrated management of childhood illness principles at FAPs; (ii) 100% increase in the number of children who attend preschool programs. <p>Expected Outcomes</p> <ul style="list-style-type: none"> • 20% reduction of child mortality rate; • 30% increase in grade one students that have acceptable basic literacy, numeracy, and life skills for the age.
Regional Road Corridor Improvement Project (KGZ-TAJ-PRC)	<p>Goal The Project will contribute to reducing transport costs and fostering regional trade and cooperation among the Kyrgyz Republic, PRC, Tajikistan, and other CARs.</p> <p>Major Components</p> <ul style="list-style-type: none"> • Road improvement • Outsourcing maintenance • Border infrastructure improvement and agreement <p>Expected Outputs</p> <ol style="list-style-type: none"> (i) Improved 270 km of the two-lane road from Sary-Tash in Kyrgyz Republic to Nimich in Tajikistan (about 150 km from Sary-Tash to the Kyrgyz-Tajik border and about 120 km from Kyrgyz-Tajik border to Nimich); (ii) Improved infrastructure and facilities at the Kyrgyz-PRC border crossing (Irkeshtam) and the Kyrgyz-Tajik border crossing (Karamik); (iii) Increased sustainability and capacity of the road subsector through outsourcing of maintenance operations in the Kyrgyz Republic and Tajikistan to the private sector; and (iv) Cross-border agreement among the Kyrgyz Republic, Tajikistan, and PRC. <p>Expected Outcomes Increased regional traffic and trade, and improved access to regional markets and social services for the people living along the corridor.</p>

ADB OPERATIONS RESULTS FRAMEWORK

Selected Country Development Goals / Outcomes influenced by the JCSS	ADB Operations		ADB's Intervention	Risks
	Outcomes contributed by ADB operations	Milestones/ Key tracking indicators		
Roads Subsector (Transport and Communications Sector)				
Improved access to markets, employment opportunities, and social services through better road infrastructure and trade facilitation in the region	Improved transport infrastructure that provides better access to local and regional markets	<p>Key regional corridors rehabilitated by 2010 (Bishkek-Georgievka 16 km; Bishkek-Osh 672 km; Osh-Irkeshtam 230 km (89%); Bishkek-Naryn-Torugart 200 km (37%))</p> <p>Share of regional road corridors (2,242 km) meeting operational standards from 55% in 2006 to 75% by end- 2010</p> <p>Improved operational standards of core national road network (5,500 km) from 32% in 2006 to 90% by end-2010</p> <p>Traffic density, cargo volume, passenger transportation indicators</p>	<p>Ongoing:</p> <p>Rehabilitation of key regional corridors:</p> <ul style="list-style-type: none"> • Bishkek-Osh road fully rehabilitated in three phases (1996–2007) • Almaty-Bishkek Regional Road-Rehabilitation Project (2000–2007) • Southern Transport Corridor Road Rehabilitation Project (2004–2009) <p>TAs:</p> <p>Assistance in roads subsector strategy formulation</p> <p>RETA Transport Sector Strategy in Central Asian Countries</p> <p>ADB provided assistance for</p> <ul style="list-style-type: none"> • setting expenditure level for road maintenance in the annual state budget; • setting pilot maintenance contracts with the private sector; • developing regulations for community participation in road maintenance; • establishing the national secretariat on road safety; • developing recommendations on MOTC restructuring; and • introducing international design standards. <p>Proposed:</p>	<p>Reforms ownership and commitment</p> <p>Limited financial resources to improve and maintain road network</p> <p>Political issues Deteriorated growth dynamics/adverse shocks in neighboring countries impede regional economic cooperation</p> <p>Physical and soft barriers to cross-border transport links with neighboring countries</p> <p>Implementation delays due to (i) poor construction quality, (ii) weak technical and managerial expertise, (iii) inadequate provision of counterpart funds</p> <p>Lower than projected traffic, especially international generated traffic arising from increased trade</p>
	Improved road maintenance funding and management mechanism	<p>National road network is prioritized and re-classified to match maintenance needs</p> <p>Increased maintenance cost financed out of tolls from 10% in 2006 to 32% in 2010</p> <p>Road network maintenance by private sector contractors from 6% in 2006 to 30% in 2010</p> <p>Community-based maintenance practices for rural roads introduced and strengthened</p>		
	Private sector involvement in road operations and maintenance			
	Better policy vision for the transport and communications sector			
	Better management of the	Transport and Communications Sector Strategy developed by MOTC with ADB assistance		

Selected Country Development Goals / Outcomes influenced by the JCSS	ADB Operations		ADB's Intervention	Risks
	Outcomes contributed by ADB operations	Milestones/ Key tracking indicators		
	transport sector Road safety standards are improved and enforced	MOTC structure to focus on sector policy, regulatory, procurement, supervision and quality ensuring functions Road safety standards are improved and enforced (traffic accidents decreased from 22 to 17 incidents per 1,000 cars a year in 2010)	PRC-KGZ-TAJ Regional Road Corridor Improvement Project (2007) Bishkek-Torugart Rehabilitation Project (2008) TA for KGZ Transport and Communications Strategy Development (2009)	
Education and Early Childhood Development Sector				
Ensured access to and improved quality of preschool, primary and general secondary education, and primary vocational education (PVE) (MDGs as indicators: - level of literacy 15–24 years old (% of population); - percentage of children in school of all school-age children).	Early Childhood Development (ECD) and primary and general secondary education: Improved access to primary and general secondary and preschool education, particularly for children in rural areas Improved quality of preschool and primary and general secondary education (including curriculum modernization and reform and improving learning outcomes) Improved policy and management in the education sector Enhanced teachers' capacity, teaching quality, and incentives	ECD and basic secondary education: - Enrollment rate in primary and secondary education increased from 93% in 2006 to 99% in 2010, including children with special needs, - Student learning achievement (performance on national examinations) improved by 10% by 2010; - At least 20% of children enter primary school after preschool (vs those without any kind of preschool) - Expanded coverage of preschool program (annual 10% increase during 2007–2010); - Physical and learning environment favorable (90 schools rehabilitated) and inclusive with strong community participation - New curriculum and new textbooks and learning materials available by 2008 - Policy study on introduction of 12-year system conducted - Enhanced teachers' capacity and teaching quality and incentive (annual teacher supply index, number of	Ongoing: ADF Grant 0020-KGZ: Second Education Project (2005–2010): ADF Loan 2007-KGZ: Community-Based Early Childhood Development Project (2004–2008) JFPR 9108: Improving Access to Quality Basic Education for Children with Special Needs (2007–2010) ADF Grant 0074-KGZ: Vocational Education and Skills Development Project Proposed: Second Community-Based Early Childhood Development Project Phase (2007) Education SWAp (2010)	Risks: Low-level capacity of public servants and weak management in the education sector Sector policy risk related to resistance from decision makers to pursue policy and legislative changes Financial sustainability risk of national and local government to provide financing for adequate O&M during the project implementation and completion; and inefficient use of resources Assumption: Steady economic growth creates new job and income earning

Selected Country Development Goals / Outcomes influenced by the JCSS	ADB Operations		ADB's Intervention	Risks
	Outcomes contributed by ADB operations	Milestones/ Key tracking indicators		
	<p>PVE</p> <p>PVE system consolidated and modernized</p> <p>Improved teaching and learning environment in primary vocational schools</p> <p>Curriculum, and teaching and learning materials developed</p> <p>Human resources developed</p>	<p>teacher's trained and given incentives)</p> <ul style="list-style-type: none"> - Improved access of children to and quality of basic child health and nutrition services; preschools run by the state, or based in communities or homes - Improved capacity of communities to plan and manage child development <p>PVE:</p> <ul style="list-style-type: none"> - Enrollments in primary vocational schools increased by 15% and enrollment of females increased to 45% in 2012 - Participation of adults and out-of school youth in short skills training courses increased to 6,000 participants in 2012 - Employers actively involved in skill identification and course development - Improved access for physically disabled in 20 rehabilitated PVE schools by 2010 - PVE schools consolidated/merged by 12/2010 and new assets management system in place by 2008 - A new certification system established by 2010 - 200 training workshops rehabilitated and equipped and 20 dormitories rehabilitated by 2010 - A new curriculum and training materials introduced by 2008 - School staff and instructors trained by 2010 		<p>opportunities in the formal and informal sector.</p>

Selected Country Development Goals / Outcomes influenced by the JCSS	ADB Operations		ADB's Intervention	Risks
	Outcomes contributed by ADB operations	Milestones/ Key tracking indicators		
Agriculture and Natural Resources Sector				
<p>Increased productivity in agriculture</p> <p>Strengthened market mechanisms in agricultural production and processing</p> <p>Creation of a competitive food processing industry</p> <p>Enhanced productivity and connectivity in agriculture and natural resources use</p>	<p>Increased land and labor productivity</p> <p>Development of private sector agribusiness support services and marketing and processing facilities</p> <p>Increased domestic and export competitiveness</p> <p>Improved integrated land and water management</p>	<p>Average annual growth of 4.5% during 2007–2010*</p> <p>Increased farmers' incomes (average annual growth of 7% during 2007–2010)*</p> <p>Rural auxiliary services developed</p> <p>Share of agro processing in agriculture sector increased by 25% by 2010*</p> <p>Increased share of SME in agroprocessing by 40% by 2010*</p> <p>Growth of agriculture export by 15% of agricultural output by 2010*</p> <p>At least 435,000 ha drainage and irrigation infrastructure rehabilitated by 2010*</p> <p>Decreased salinity and waterlogged areas decreased by 5%</p> <p>Improved efficiency of pastureland use</p>	<p>Ongoing:</p> <p>Agriculture Area Development Project (1999–2007)</p> <p>Southern Agriculture Area Development Project (2007–2013)</p> <p>Regional CACILM Project</p> <p>TAs:</p> <p>Agriculture Strategy Formulation</p> <p>Impact of Land Reform on Agriculture, Poverty, and Environment</p> <p>Study on Pricing System and Cost Recovery Mechanisms for Irrigation</p> <p>Proposed:</p> <p>Agriculture Land Improvement Project</p> <p>Support for Business Environment and Investment Climate (pilot agriculture component)</p> <p>RETA on Agriculture Marketing and Trade</p> <p>Issyk-Kul Sustainable Development Project</p>	<p>Weak institutional capacity in MAWRPI to lead reform and perform regulatory and support functions effectively</p> <p>Frequent changes in policy and legislative framework</p> <p>Legal status of farms not clarified</p> <p>Political issues</p> <p>Deteriorated growth dynamics/adverse shocks in neighboring countries impede regional economic cooperation</p> <p>Weak cost recovery for on-farm O&M and investment rehabilitation</p> <p>Lack of knowledge and operational management experience with farming and business enterprises</p> <p>Lack of market access</p>

* From Table A4.3.

Selected Country Development Goals / Outcomes influenced by the JCSS	ADB Operations		ADB's Intervention	Risks
	Outcomes contributed by ADB operations	Milestones/ Key tracking indicators		
	Improved agriculture policy and management Environmentally responsible economic development around the Issyk-Kul Lake area [also see Environmental Sustainability section]	Increased effectiveness of WUAs in water management, including increased cost recovery and operation and maintenance expenditure Better capacity of the MAWRPI for agriculture public policy		
Thematic: Regional Cooperation				
Economic growth and export diversification through promotion of regional cooperation	Improved transport connectivity in the region Improved infrastructure for trade facilitation (customs) Enhanced opportunities for energy trade Regional sustainable tourism opportunities enhanced Policy-making capacity improved	Share of regional road corridors meeting operational standards increased from 55% in 2006 to 75% by 2010 Agreements on electronic data exchange reached between KGZ and UZB Border posts infrastructure rehabilitated Risks-based customs control systems adopted by 2008 Better understanding of regional electricity trade issues [Transmission capacity increased] Gas transmission capacity increased Number of tourists from neighboring countries; public revenues from tourism; environmental sustainability	Ongoing: Regional Customs Modernization and Infrastructure Development Project (KGZ and TAJ) Third Road Rehabilitation (2001–2007) Central Asian Countries Initiative for Land Management (CACILM) RETA Transport Sector Strategy in Central Asia RETA Support to Central Asia-South Asia Regional Electricity Market (CASAREM) CAREC Members Electricity Regulations Forum (CMERF) RETA on Remittances CAREC Institute	Deterioration in relationship with neighboring countries Deteriorated growth dynamics/adverse shocks in neighboring countries Political issues impede regional economic cooperation Nationalistic and separatist policy making prevails

Selected Country Development Goals / Outcomes influenced by the JCSS	ADB Operations		ADB's Intervention	Risks
	Outcomes contributed by ADB operations	Milestones/ Key tracking indicators		
		<p>Regional strategies for transport and energy sectors, and trade developed and adopted</p> <p>Better understanding of policy issues in overall transport and communications sector</p> <p>Number of officials trained</p> <p>CAREC Institute research and outreach program</p>	<p>Proposed:</p> <p>PRC-KGZ-TJ Regional Road Corridor Improvement Project (2007)</p> <p>Regional Gas Transmission (2008)</p> <p>Bishkek-Torugart Road Project (2008)</p> <p>RETA Agricultural Trade and Market Development in Central and East Asia</p> <p>Policy Reforms in the Transport Sector in Central Asia</p>	
Thematic: Support for Policy and Institutional Foundations of Private Sector Development				
Improved business environment and investment climate	<p>Higher productivity and international competitiveness of Kyrgyz businesses; better potential for economies of scale</p> <p>Higher investment-to-GDP ratio; higher FDI</p> <p>More diversified economic structure</p> <p>An improved tax and customs regime and administration</p> <p>More sound and efficient financial sector, greater access to finance</p>	<p>Surveys <i>Doing Business</i>, <i>BEEPS</i></p> <p>Macro indicators</p> <p>Macro indicators</p> <p>Unified automated information system developed; border post infrastructure rehabilitated; border interagency cooperation improved</p> <p>Tax revenue collection increased</p> <p>SCTC reorganized, ICT upgraded, capacity of SCTC staff improved</p>	<p>Ongoing:</p> <p>Regional Customs Modernization and Infrastructure Development Project (2004–2010)</p> <p>Tax Administration Reform and Modernization (2007)</p> <p>Banking Sector and Capital Market Development Program (2005–2009)</p> <p>Proposed:</p> <p>Support to Business Environment and Investment Climate</p> <p>Issyk-Kul Area Development Project</p> <p>Agricultural Land Improvement Project</p>	<p>Political instability</p> <p>Weak political commitment to the reform process and change management</p> <p>Delays in enacting legislation</p> <p>Vested interests hinder the reform process</p> <p>Economy caught in a “low equilibrium trap”</p>

Selected Country Development Goals / Outcomes influenced by the JCSS	ADB Operations		ADB's Intervention	Risks
	Outcomes contributed by ADB operations	Milestones/ Key tracking indicators		
	<p>Streamlined procedures for licensing, permits, and business operations</p> <p>Support enforcement of business-related regulation, address the implementation gap</p> <p>Initiate Public-Private Partnership</p>	<p>Financial soundness and intermediation indicators (private sector credit to GDP, M2 to GDP, capital adequacy ratios)</p> <p>Strengthened banking supervision and capital market regulations, nonbank financial regulation</p> <p>Support to "single window/one-stop shop" system</p> <p>Reduction transactions costs for export-import operations</p> <p>Simplified process for agricultural business registration and operations</p> <p>Policy support on restructuring, corporatization, or privatization of state-owned enterprises</p> <p>Demonstration project with institutional component for sustainable private sector investments at Issyk-Kul Lake area</p>		
Strengthened Government's capacity and capability for developing and implementing a market-oriented, private sector-led and open economic development policy	Government formulates and conducts an open, outward-oriented, and private sector-led economic development policy	<p>Strengthened capacity in economic policy making and economic management in President's Administration, Prime Minister's Office, and Parliament, and in selected key ministries (MOEDT, MOTC, MOES, Energy)</p> <p>Better capacity and capability in formulating and implementing market-based industrial and trade policy</p>	<p>Ongoing:</p> <p>ADTA Support to the development and Implementation of National Poverty Reduction Strategy II (NPRS II)</p> <p>ADTA: Development of a Monitoring and Evaluation System at Oblast Level</p> <p>Support to BEIC</p>	<p>Political instability and weak political commitment and ownership of the reform process</p> <p>Politically-controlled appointments of public servants</p>

Selected Country Development Goals / Outcomes influenced by the JCSS	ADB Operations		ADB's Intervention	Risks
	Outcomes contributed by ADB operations	Milestones/ Key tracking indicators		
	Improved statistical capacity for policy formulation, monitoring and evaluation of CDS	<p>Address implementation gap</p> <p>Facilitate links between the authorities and the think tanks, consultancy industry, private sector and civil society</p> <p>Monitoring and evaluation of the CDS indicators</p>	<p>Proposed: ADTA Capacity Building for Economic Policy and Management</p> <p>RETA on Statistical Capacity Building</p>	<p>Capacity constraints both managerial and technical</p> <p>Inadequate financing</p> <p>High staff turnover</p>
ADB's private sector operations initiated	<p>Address development needs without increasing public sector debt</p> <p>Enhancing efficiency and competitiveness of Kyrgyz business</p> <p>Better diversification of the economy</p>	<p>Debt and equity operations</p> <p>Explore the use of political and credit guarantees</p>	<p>Potential sectors: telecommunications, banking, energy</p> <p>Other opportunities to be identified</p>	<p>Political instability</p> <p>Delays in enacting legislation, its inconsistencies with other laws and best international practice</p> <p>Limited PSOD resources</p>

Selected Country Development Goals / Outcomes influenced by the JCSS	ADB Operations		ADB's Intervention	Risks
	Outcomes contributed by ADB operations	Milestones/ Key tracking indicators		
Thematic: Environmental Sustainability				
Ensure environmentally sound and sustainable economic development and natural resources management	<p>Integration of sustainable land management into economic development planning</p> <p>Adoption of sustainable land and water management practices on the ground</p> <p>Environmentally sustainable tourism development</p> <p>Reduction in vulnerability of poor to natural disasters</p> <p>Reduction of greenhouse gas emissions into the atmosphere</p> <p>Better national capacity in environmental and natural resources management</p>	<p>Land productivity increases</p> <p>Area of land affected by salinity and waterlogging decrease</p> <p>Increased carbon sequestration</p> <p>Area improvement in environmental quality indicators (e.g. air, water, solid waste)</p> <p>Improved disaster preparedness plans by local communities and improved mitigation responses by all levels of government</p> <p>Designated national authority for carbon trading operational</p> <p>CDM facility for gas emission (Regional Gas Transmission Project)</p> <p>Increased numbers of staff, operating budgets, and programs</p>	<p>Ongoing:</p> <p>Agriculture Area Development Project (1999–2007)</p> <p>Southern Agriculture Area Development Project (2007–2013)</p> <p>Regional CACILM Project</p> <p>JFPR Reducing Vulnerability of the Poor to Natural Disasters</p> <p>TAs:</p> <p>Agriculture Strategy Formulation</p> <p>Impact of Land Reform on Poverty</p> <p>Study on Pricing System in Irrigation</p> <p>Proposed:</p> <p>Issyk-Kul Sustainable Development Project</p> <p>Agriculture Land Improvement Project</p> <p>Regional Gas Transmission Project</p>	<p>Weak capacity and commitment to enforce legislation</p> <p>Weak public administration hampers crosscutting environmental concerns</p> <p>Delays in enacting appropriate legislation</p> <p>Vested interests oppose the reforms and enforcement of environmental safeguards</p>

COUNTRY COST-SHARING CEILING AND OTHER FINANCING PARAMETERS, 2007–2010^a

Item	Parameter	Remarks/Explanation
Country cost-sharing ceiling for the portfolio of loans^b over the period of the CPS, 2007–2010	Up to 99%	Based on macroeconomic assessment (including debt sustainability analysis), harmonization principles, and other factors, the country cost-sharing ceiling is proposed at up to 99%. Cost sharing for individual projects will be determined on the basis of its nature and design, cost structure, cofinancing by other development partners, and the ability of project beneficiaries to contribute, while ensuring ownership of the project.
Country cost sharing ceiling for TA and other grants^c over the period of the CPS, 2007–2010	Up to 99%	This will also allow implementing a unified cost-sharing practice for all ADB operations in the country and would bring TA financing more in line with those of other development partners.
Cost sharing ceilings for specific sectors	None	Sector-specific variations have not been proposed.
Recurrent cost financing^d	No country limits	Consideration to be given to issues of sustainability in the particular sectors and individual projects. Individual projects will make the case on the basis of demonstrated sustainability of the project and expected budgetary outlays to finance project-related recurrent costs.
Taxes and duties	None	<p>The tax and duty structure in the Kyrgyz Republic is considered reasonable, and there are no taxes or duties specifically targeted at ADB projects. Reforms have been implemented to simplify the tax structure, and improve the efficiency of the tax administration system.</p> <p>In line with ADB's Charter, consultants or other experts engaged by ADB for TA or as staff consultants are exempt from Government taxes. The consultants and contractors that are engaged by the Government under projects financed by ADB's loans and/or ADF grants are not entitled to tax exemption under the Charter. Contractors are advised to reflect applicable taxes in cost estimates when submitting bids, thus effectively transferring the burden to ADB or other cofinanciers.</p> <p>While the country cost-sharing proposal includes flexibility in financing taxes and duties, the project teams will be encouraged to arrange project financing without ADB funding of local taxes if they constitute an excessively large share of the project cost, and to assess the specific conditions of the project such as counterpart ownership, sustainability, and affordability.</p>

Note: Full Technical Note is in a supplementary appendix and is available upon request.
CPS=Country Partnership Strategy (in KGZ case, the JCSS)

^a Country cost-sharing ceilings are financing parameters that indicate the maximum share of costs ADB will finance with respect to an aggregate portfolio of projects in a developing member country (DMC), over the country partnership strategy period for that DMC. ADB policy on cost sharing is governed by the paper ADB. 2005. *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila.

^b Projects financed with ADF grant funds will be counted as part of the loan portfolio.

^c The country cost-sharing ceiling for TA and other grants will exclude projects that are ADF grant-financed.

^d Under the new policy, recurrent costs of the borrower continue to be eligible for ADB financing. These are costs that need to be regularly or periodically incurred, and could include salaries and operating costs. However, only recurrent costs during the implementation phase of projects will be eligible, and only up to an amount that would be in line with sound banking principles.

COUNTRY AND PORTFOLIO INDICATORS
Table A8.1: Progress toward the Millennium Development Goals and Targets

Goals and Targets	Country Status
Goal 1: Eradicate Extreme Poverty and Hunger	
<p>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1/day.</p> <p>– On track</p>	<p>Economic growth has resulted in significant reduction in poverty^a over the last half-decade. Poverty fell from 62.6% in 2000 to 43.1% in 2005 (whereas extreme poverty fell from 32.9% to 11.1% during the same period). However, this may in part be a reflection of a change in surveys. CDS 2007–2010 aims to reduce poverty to 29.8% by 2010.</p>
<p>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.</p> <p>– Likely to be achieved</p>	<p>There is no specific target for reducing nutrition-based poverty (although it should also be reduced through broad-based income poverty reduction and better targeting of social protection measures as envisaged in CDS 2007–2010). Percentage of undernourished population (below 2,100 kcal/day) fell to 48.2% in 2004 from 57% in 1998.</p>
Goal 2: Achieve Universal Primary Education	
<p>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.</p> <p>– Likely to be achieved</p>	<p>Survey and registration data show a decline in basic education enrollments, although they are still high. In 2005, primary school enrollment was 92.9%, and secondary school enrollment (grades 1–11) 89.9%. However, the decline in the quality of education is a concern. CDS 2007–2010 envisages increasing primary school enrollment to 100% and secondary school enrollment to 99.5% by 2010.</p>
Goal 3: Promote Gender Equality and Empower Women	
<p>Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.</p> <p>– On track</p>	<p>There is no significant gender disparity in enrollment at all levels of education. However, achieving gender equality remains a serious issue at posteducational level. Women constitute 54% of the unemployed, and their wages make up 66% of those of men. Also, there has been a drastic decline in women's participation in decision-making processes and politics.</p>
Goal 4: Reduce Child Mortality	
<p>Target 5: Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate.</p> <p>– Unlikely to be achieved</p>	<p>CDS 2007–2010 aims to reduce the child mortality rate from 29.7 in 2005 to 36.9 (per 1,000 births) in 2010. Increase in child mortality is also explained by methodological changes to the calculation of the mortality rates – there has been a move to internationally comparable methods of calculation in 2004.</p>
Goal 5: Improve Maternal Health	
<p>Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio (MMR).</p> <p>– Likely to be achieved</p>	<p>The MMR has fluctuated considerably. It was 31.5 (per 100,000 live births) in 1996. It peaked at 62.7 in 1997 and declined thereafter until 2001 and increased again to 58.4 in 2002. The MMR increased to 61.0 in 2005 and improved to 53.0 in 2006. CDS 2007–2010 aims to reduce the MMR to 40.0 by 2010.</p>

<p>Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases</p>	<p>There were 1,083 officially reported HIV/AIDS cases as of 1 January 2007. In 2006 newly registered HIV/AIDS cases amounted to 244. Drug abuse is considered the main reason for the increase in incidence. HIV/AIDS is becoming a concern. CDS 2007–2010 targets to limit the annual growth rate of spread of this disease by 20%.</p>
<p>Target 7: Halt by 2015 and begin to reverse the spread of HIV/AIDS.</p> <p>– On track</p>	<p>Incidence of malaria was low (0.1/100,000 in 1999) but increased to 9.2/100,000 in 2003 and decreased to 6.1/100,000 in 2006. It is not a major public health concern although it requires enhanced vigilance. Tuberculosis is becoming an increasingly serious health problem. Its incidence^b has more than tripled over the past 10 years; it grew from 52.1 per 100,000 in 1990 to 127.3 per 100,000 in 2001, but fell to 110.9 per 100,000 in 2006. The incidence of waterborne diseases such as gastrointestinal diseases, viral hepatitis, and typhoid is high and increasing. Iodine and iron deficiency are high and have increased. CDS 2007–2010 aims to reduce mortality from tuberculosis from 15.5 per 100,000 in 2005 to 14.0 in 2010.</p>
<p>Target 8: Halt by 2015 and begin to reverse the incidence of malaria and other major diseases (tuberculosis)</p> <p>– Unlikely to be achieved</p>	
<p>Goal 7: Ensure Environmental Sustainability</p>	<p>Environmental legislation is fairly comprehensive and substantially different from old Soviet legislation, but its enforcement is weak because of low staff morale, poor public sector governance, and eroding skills. Environmentally damaging subsidies exist in the energy sector. Quasi-fiscal deficit in the energy sector is 5.4% of GDP in 2006 (using old cost recovery methodology) from 12% in 2002. Collection rates on heating and electric tariffs are low; service theft is common and tolerated by utilities. Forest cover was depleted marginally from 4.75% in 1990 to 4.23% in 2005. The CDS aims to reduce QFD to 1.9% of GDP by 2010 and increase forest cover to 6% by 2010.</p>
<p>Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.</p> <p>– On track</p>	<p>Access to safe drinking water was 98.9% in urban areas and 76.0% in rural areas in 2005. The Government plans to substantially improve access to clean water in rural areas. ADB and the World Bank are assisting the Government in this effort by supporting a nationwide program of water supply.</p>
<p>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.</p> <p>– Unlikely to be achieved</p>	<p>65% of families had dwelling space of less than 5 square meters (m²) per family member in 2005. The average dwelling space per person was 12.4 m² in 2005. The Government plans to reduce this inequality and increase the average dwelling space per capita to 14.2 m² by 2010. There is no specific target for reducing inequality in dwelling space in CDS 2007–2010.</p>
<p>Target 11: By 2020, achieve a significant improvement in the lives of at least 100 million slum dwellers.</p> <p>– On track</p>	

ADB = Asian Development Bank, CDF = Comprehensive Development Framework, CDS= Country Development Strategy. Please include other abbreviations found in this table.

^a Since 2003, the National Statistics Committee uses only consumption base for officially reporting the poverty indicators.

Sources: Comprehensive Development Framework, Country Development Strategy 2007–2010, United Nations Development Programme, National Statistics Committee

Table A8.2: Country Economic Indicators

Item	Fiscal Year					
	2001	2002	2003	2004	2005	2006
A. Income and Growth						
1. GDP per capita (\$, current)	308.3	322.1	380.9	434.3	478.2	542.6
2. GDP growth (% , in constant prices)	5.3	0.0	7.0	7.0	(0.2)	2.7
Agriculture	7.3	3.1	3.2	4.1	(4.2)	1.5
Industry (including construction)	5.2	(9.0)	12.7	3.0	(9.8)	(7.4)
Services	3.3	4.2	7.3	11.9	8.4	8.4
B. Saving and Investment (current and market prices)						
1. Gross domestic investment (as % of GDP)	19.6	20.3	20.5	20.8	21.6	23.4*
2. Gross domestic saving (as % of GDP)	18.1	16.8	16.4	17.4	19.3	15.8*
C. Money and Prices						
1. Consumer price index (% p.a., average of period)	6.9	2.0	3.0	4.0	4.4	5.6
2. Broad money supply growth (% change, end of period)	11.3	34.1	33.5	32.0	9.9	51.6
D. Government Finance						
1. General government expenditure (% of GDP)	22.2	24.2	23.8	23.3	24.7	26.6*
2. General government revenue (% of GDP)	17.0	19.1	18.7	27.7	28.4	28.8*
3. Overall budget balance (% of GDP)	(5.2)	(5.1)	(5.2)	(4.4)	(3.7)	(2.3)*
E. Balance of Payments						
1. Merchandise trade balance (% of GDP)	2.0	(4.6)	(6.9)	(7.7)	(17.0)	(34.5)
2. Current account balance (% of GDP)	(1.2)	(3.0)	(4.4)	(3.4)	(8.3)	(23.6)
3. Merchandise export (\$) growth (annual % change)	(6.0)	3.7	18.5	24.2	(6.3)	18.0
4. Merchandise import (\$) growth (annual % change)	(11.4)	27.2	26.6	25.0	22.3	62.1
F. External Payments Indicators						
1. Gross official reserves (including gold, \$million)	285.2	316.7	389.0	565.2	612.4	817.14
weeks of current year's imports of goods and services	25.8	22.9	22.9	26.1	22.8	18.9
2. Total external debt service (% of exports of goods and services)	30.6	20.0	18.2	17.8	12.6	7.5
3. Total external debt (% of GDP)	110.0	114.9	102.5	95.4	81.4	77.5
G. Memorandum Items						
1. GDP (current prices, Som million)	73,883	75,367	83,872	94,351	100,899	113,176
2. Exchange Rate (Som per \$, annual average)	48.5	46.9	43.7	42.7	41.0	40.2
3. Population (million)	4.95	5.0	5.04	5.09	5.1	5.19

— = not available, () = negative, GDP = gross domestic product, p.a. = per annum, * = preliminary.
 Sources: International Monetary Fund, National Bank of the Kyrgyz Republic, National Statistics Committee, and Ministry of Finance of the Kyrgyz Republic.

Table A.8.3: Country Poverty and Social Indicators

Item	Period				
	1985	1995		Latest Year	
A. Population Indicators					
1. Total population (million)	4.0	4.6	(1995)	5.19	(2006)
2. Annual population growth rate (% change)	1.9	1.5	(1995)	0.9	(2006)
B. Social Indicators					
1. Total fertility rate (births/woman)	4.2	3.1	(1995)	2.53	(2005)
2. Maternal mortality ratio (per 100,000 live births)	42.8	44.3	(1995)	53.0	(2006)
3. Infant mortality rate (below 1 year; per '000 live births)	37.8	28.1	(1995)	29.2	(2006)
4. Life expectancy at birth (years)	67.9	65.9	(1995)	67.7	(2006)
a. Female	71.1	70.4	(1995)	72.1	(2006)
b. Male	64.1	61.4	(1995)	63.5	(2006)
5. Adult literacy (%)	99.8	97.3	(1995)	98.7	(2006)
6. Primary school enrollment (%)	123.0	103.6	(1995)	92.9	(2005)
7. Secondary school enrollment (%)	110.0	89.2	(1996)	89.9	(2005)
8. Child malnutrition (% below age 6)	—	7.2	(1996)	5.6	(2005)
9. Population below poverty line (national ^a , %)	—	62.6	(2000)	43.1	(2005)
10. Population with access to safe water (%) ^b	—	81.3	(1996)	84.4	(2005)
11. Population with access to sanitation (%) ^b	—	24.4	(1996)	23.9	(2005)
12. Public education expenditure as % of GDP	—	6.6	(1995)	5.6	(2006*)
13. Human development index	—	0.676	(1995)	0.705	(2004)
a. Rank	—	83	(1995)	110	(2004)
14. Gender-related development index	—	0.654	(1995)	0.701	(2004)
a. Rank	—	—	—	83	(2004)
C. Poverty Indicators					
1. Poverty incidence	—	62.6	(2000)	43.1	(2005)
2. Percent of poor to total population					
a. Batken oblast	—	68.9	(2000)	59.1	(2005)
b. Jalal-Abad oblast	—	76.5	(2000)	55.9	(2005)
c. Issyk-Kul oblast	—	70.9	(2000)	51.5	(2005)
d. Naryn oblast	—	90.9	(2000)	51.2	(2005)
e. Osh oblast	—	70.7	(2000)	55.9	(2005)
f. Talas oblast	—	80.8	(2000)	44.4	(2005)
g. Chui oblast	—	34.6	(2000)	22.0	(2005)
3. Poverty gap	—	21.6	(2000)	10.5	(2005)
4. Poverty severity index	—	9.5	(2000)	3.6	(2005)
5. Inequality (Gini index)	—	0.449	(2000)	0.433	(2005)
6. Human poverty index	—	8.4	(2000)	8.7	(2004)

— = not available, * = preliminary, GDP = gross domestic product.

^a Before 2003 NSC used the expenditure methodology to calculate poverty levels. Since 2003, NSC uses only consumption base for officially reporting the poverty indicators.

^b Based on household surveys.

Sources: International Monetary Fund, National Statistics Committee, United Nations Development Programme, World Bank, and International Monetary Fund.

Table A8.4: Country Environment Indicators

Item	1995	Latest Year	
A. Energy Efficiency of Emissions			
1. GDP/unit of energy use (PPP\$/kgoe)	2.3	3.2	(2004)
2. Traditional fuel use (% of total energy use)	—	—	—
3. Carbon dioxide emissions			
a. Thousand metric tons	5.463	5.092	(2003)
b. Metric tons per capita	1.2	1.0	(2003)
B. Water Pollution: Water and Sanitation			
1. % Urban population with access to safe water	92.8 (1999)	98.9	(2005)
2. % Rural population with access to safe water	74.5 (1999)	76.0	(2005)
3. % Urban population with access to sanitation	60.0 (1990)	53.1	(2005)
C. Land Use and Deforestation			
1. Forest area (thousand hectares) ^a	730.0	845.6	(2006)
2. Average annual deforestation			
a. % change	—	—	—
3. Rural population density (people/km square of arable land)	—	255.0	(2005)
4. Arable land (% of total land)	6.9 (1993)	6.6	(2005)
5. Permanent cropland (% of total land)	—	5.3	(2005)
D. Biodiversity and Protected Area			
1. Nationally protected area			
a. Area (thousand hectares)	688.0 (1997)	680.2	(2005)
b. % of total land	3.4	3.4	(2005)
2. Mammals (number of threatened species)	13	12	(2004)
3. Birds (number of threatened species)	33	30	(2004)
4. Higher plants (number of threatened species)	—	54	(2004)
5. Reptiles (number of threatened species)	3	4	(2004)
6. Amphibians (number of threatened species)	0	3	(2004)
E. Urban Areas			
1. Urban population			
a. Million	1.591	1.808	(2006)
b. % of total population	35.0	35.1	(2006)
2. Per capita water use (liters/day)	—	67.8	(2006)
3. Wastewater treated (%)	—	99.5	(2006)
4. Solid waste generated per capita (liters/day)	—	0.82	(2006)

— = not available, GDP = gross domestic product, kg = kilogram, kgoe = kilograms of oil equivalent, km = kilometer, PPP = purchasing power parity.

^a Forest area is calculated every 5 years (2005 data).

^b Number of threatened species is derived from the latest edition of the Red Book (1985) as of 1995.

Sources: National Statistics Committee, World Bank, and United Nations Development Programme.

Table A8.5: Development Coordination Matrix

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
<p>Agriculture</p> <ul style="list-style-type: none"> ▪ Support to the Government in developing sector policies, strategies, and institutional reform ▪ Capacity development and institutional strengthening in the agriculture sector ▪ Rehabilitation of irrigation and drainage infrastructure ▪ Agricultural production improvement ▪ Development of private sector agribusiness support services and marketing and processing facilities ▪ Facilitation of agricultural trade among the countries in the region (RETA) ▪ Rural water supply and sanitation improvement 	<p>Switzerland: Integrated water resource management support; agricultural trade promotion; promotion of farming and trade of organic products; establishment, implementation, and improvement of rural advisory services (with World Bank); forestry support; Karakol water supply support; land registration and mapping.</p> <p>World Bank: Facilitate stronger private sector involvement in the sector; land and real estate registration; agricultural support services improvement; livestock development; water management improvement; rural water supply rehabilitation and maintenance; agribusiness processing and marketing support; land use planning and management improvement; developed input markets and regulatory framework; supported the Government in policy reforms and institutional development.</p> <p>EU-TACIS: Long-term food security promotion; agricultural productivity improvement; agribusiness-oriented training; capacity building.</p> <p>GTZ: Promotion of commodity and services cooperatives; supported rural self-help institutions in Osh and Jalal-Abad.</p> <p>Japan: Study on effective management of agriculture and processing industry; various surveys; supported procurement of agricultural equipment.</p> <p>USAID: Water resources management improvement; supports a regional Kyrgyz agro-input market sector in the south; support to water users' associations; agribusiness development.</p> <p>EBRD: Supported private sector supply of essential farm inputs, equipment, storage facilities, and extension services for farmers.</p> <p>DFID: Rural water supply and sanitation improvement; village investment program; in cooperation with the World Bank water supply program, strengthens the Government's policy-making, monitoring, and regulatory capacity in water supply and sanitation; facilitates preparation and implementation of drinking water supply projects using a community-based approach.</p> <p>JICA: Training courses in Japan to promote agricultural cooperatives and water user associations; development of a Master Plan for effective management in agriculture and processing industry; technology transfer and equipment supply for water quality monitoring.</p> <p>KfW: Cofinanced the World Bank's Village Investment Project I, II.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Transport and Communications	
<ul style="list-style-type: none"> ▪ Supported the Government in developing sector policies and regulatory framework in transport sector ▪ Rehabilitation and reconstruction of strategic roads ▪ Support to the development of Roads Subsector Strategy ▪ Rehabilitation of regional corridors and facilitation of cross-border agreements 	<p>World Bank: Helped rehabilitate roads in selected urban areas; national road network maintenance and rehabilitation (planned); Regional Trade and Transport Facilitation Study (ongoing); road budget planning and management (ongoing). In communications sector: promotes comprehensive reforms and commercialization of the sector and development of a regulatory framework and institutional capacity.</p> <p>IsDB: Cofinanced Bishkek–Osh road rehabilitation with ADB; plans to rehabilitate the Taras–Talas–Suusamyр road.</p> <p>EU-TACIS: Supports the reform in public transport and improvement of regional transport networks by supporting regional studies and pilot activities in Issyk–Kul.</p> <p>JBIC: Helped rehabilitate Manas airport and cofinanced Bishkek–Osh road rehabilitation with ADB.</p> <p>Japan: Equipment supply for road maintenance in Naryn oblast; supplied broadcasting equipment for National TV & Radio Broadcasting Corporation.</p> <p>EBRD: Supports development and implementation of an effective legal and regulatory framework for access to the telecommunication services in rural and remote areas of the country.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Energy	
<ul style="list-style-type: none"> ▪ Power and district heating rehabilitation (completed); ▪ Various regional energy-related activities under the CAREC program (CASAREM, CAREC Members Electricity Regulators Forum), conducts various studies ▪ Regional Gas Transmission Improvement (planned) 	<p>World Bank: Promotes comprehensive reforms in the electricity sector; policy advice and capacity building; power and district heating rehabilitation (ongoing). Planned analytical support: support to the Government to develop sector strategy, a heating strategy study, assessment and encouragement of regional energy collaboration, assessment of the feasibility of carbon finance opportunities (on-going). Supported restructuring of the largest power distribution company and rehabilitation of the Bishkek thermal power station.</p> <p>EBRD: Supported upgrading the electricity transmission network in Issyk-Kul; planned rehabilitation of gas transmission from Bishkek to Tokmok;</p> <p>USAID: Supports sector reforms to improve sector's financial health, sustainability, and transparency. Financed several demonstration projects at hospitals and schools by introducing efficient heating systems. Helped construct a small hydroelectric power plant with community participation.</p> <p>KfW: Helps electricity distribution companies reduce technical and commercial electricity losses. Plans a project to help prepare the concession of Severelectro (with the World Bank and SDC). Precondition for the project is the increase of tariffs. Helps to strengthen the local electricity network Bishkek.</p> <p>Denmark: Energy conservation. Helped rehabilitate electric power and central heating systems.</p> <p>IsDB: Rural electrification (Alai–Batken, Batken–Kara-Bulak).</p> <p>Kuwait Development Fund: Construction of a transformation substation in Batken.</p> <p>Nordic Development Fund: Helped rehabilitate the central heating system.</p> <p>Switzerland: Energy conservation. Helped rehabilitate power distribution systems. Supported a project for reliable electricity and heating energy supply in Naryn. Helps electricity distribution companies reduce technical and commercial electricity losses.</p> <p>DFID: Promotes reforms in the electricity sector with emphasis on tariff reforms and regulation of power utilities.</p> <p>UNDP: Development of renewable energy resources in Issyk-Kul and Naryn. Launched 6 pilot micro-hydropower stations in Issyk-Kul.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Financial Sector	
<ul style="list-style-type: none"> ▪ Supported the development of regulatory and supervisory framework to stabilize the financial sector following the Russian financial crisis ▪ Supports microfinance development ▪ Supports banking sector and capital market development program 	<p>IMF: Financial system soundness; macroeconomic stability; capacity building.</p> <p>World Bank: Promotes reforms in the financial sector; supports payments and banking system modernization; strengthens rural finance; microfinance support; capacity building; policy advice.</p> <p>EBRD: Equity investments in local banks. Supports the development of the financial sector and microfinance.</p> <p>USAID: Development and implementation of bank supervision system. Assisted reforms in accounting standards and practice by designing and administering a CIPA program in Russian. Supports microfinance development.</p> <p>EU-TACIS: Supports creation and regulation of new nonbanking financial institutions.</p> <p>KfW: Supported the banking system and promoted SME development through equity loans (Kyrgyz Investment and Credit Bank), loans to SMEs, and technical assistance for implementing bank.</p> <p>GTZ: Provided TA for ADB's Rural Finance Institutions Project to support credit unions and to provide the rural population with access to financial services.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Education	
<ul style="list-style-type: none"> ▪ Improved schools infrastructure ▪ Provided policy advice and capacity building ▪ Financed new curricula and textbooks, teacher education, and school facilities and equipment improvement ▪ Support of early childhood development, primary and general secondary and primary vocational education ▪ Feasibility study of introducing a 12-year system (planned); ▪ Support of education for the children with special needs ▪ Participation in a multi-donor <i>Education For All Fast Track Initiative</i> (EFA-FTI) along with other donors (USAID, UNICEF, UNESCO and WB) ▪ Participation in <i>Basic Education SWAp</i> is planned for 2010 	<p>World Bank: Supports rural education. It finances new textbooks and learning materials for primary and secondary schools throughout the country. Improving the performance management system for teachers in two pilot oblasts—Issyk-Kul and Talas.</p> <p>OPEC Fund: Cofinanced the education sector with ADB, focusing on basic education.</p> <p>USAID: Strengthens institutional, management, and technical capacity at all levels of the educational system; increases parent and community involvement in schools; school infrastructure improvement. Supports the Kyrgyz national testing initiative.</p> <p>Japan: Provides various trainings (business and IT) in the Kyrgyz Republic and in Japan. Provides 2-years Master Program for civil servants in universities of Japan.</p> <p>Soros Foundation: Supports school development, teacher training, learning material development, capacity building, and overseas scholarships.</p> <p>GTZ: Supports the vocational education by providing training in new professions, consultancy, training materials, and textbooks. Helps establish a vocational training network so training institutions can offer demand-oriented training and retraining for jobless people.</p> <p>UNICEF: Supports capacity building of local administrations, school development, policy formulation.</p> <p>EU-TACIS: Supports reforms in the higher education system.</p> <p>UNESCO: Promotes the Education for All strategy.</p> <p>Save the Children Fund (UK): Promotes education, including nonformal education, for poor children.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
<p data-bbox="296 240 373 261">Health</p> <ul style="list-style-type: none"> <li data-bbox="201 302 621 516">▪ ADB has not supported a stand-alone health project in the Kyrgyz Republic. However, ADB has rehabilitated basic health facilities under the Social Services and Finance project and health components feature in an ongoing Early Childhood Development project (I and II) <li data-bbox="201 548 621 626">▪ A regional initiative financed by the Japanese Fund for Poverty Reduction is reducing iron and iodine deficiency 	<p data-bbox="642 302 1896 380">World Bank: Policy advice, intuitional strengthening, capacity building, promotes reforms in national health care system, implementing health SWAp in cooperation with DFID, KfW, Sida. Supports avian influenza control and human pandemic preparedness and response project.</p> <p data-bbox="642 412 1896 516">USAID: Supports health reforms. Implementing primary health care and maternal and child health programs. Helps control and prevent TB and HIV/AIDS. Developing a sentinel surveillance system for hepatitis in some regions. Strengthens quality of medical education and training, and advanced nursing education and nursing associations. Has institutionalized family medicine retraining and continuing medical education.</p> <p data-bbox="642 548 1896 626">KfW: Supports TB Control Programs I and II (phase III will start in 2007). Supports living conditions and food quality of TB patients in prisons. Supports maternal and child health programs and medical emergency system improvement project. Supports a project to prevent HIV/AIDS spread. Capacity building.</p> <p data-bbox="642 659 1896 711">Switzerland: Supports a project to improve access to health services in remote and poor areas; and a project for prevention of HIV/AIDS and STI.</p> <p data-bbox="642 743 1896 847">DFID: Strengthens the health sector through improved health policy, evaluation, and human resource development. Establishes a sustainable process for monitoring the effects of health reforms on service delivery, access, and quality. Supports the national program combating HIV/AIDS, focusing on reducing harm among vulnerable groups as part of a regional program.</p> <p data-bbox="642 880 1514 901">UNICEF: Improves nutrition of poor families by enriching flour and salt with iodine.</p> <p data-bbox="642 933 1896 985">Japan: Provides medical equipment for maternity centers in Bishkek, Talas, Osh, Naryn, and Issyk-Kul, and in children's hospitals.</p> <p data-bbox="642 1018 1402 1039">EU-TACIS: Supports HIV/AIDS and STI control and prevention policies.</p> <p data-bbox="642 1071 1896 1149">UNDP: Helps the Government coordinate national multisectoral approach to HIV/AIDS, involving policy advice, capacity building, and advocacy and communication through the Unit on Coordination and Monitoring in HIV/AIDS under the Prime Minister's Office.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
<p data-bbox="296 240 617 264">Private Sector Development</p> <ul style="list-style-type: none"> <li data-bbox="201 302 617 407">▪ Program support for Corporate Governance and Enterprise Reform (I, II) has helped lay the foundation for private sector development <li data-bbox="201 440 617 488">▪ Supported private sector assessment study <li data-bbox="201 521 617 570">▪ Direct support for improving business environment and investment climate <li data-bbox="201 602 617 740">▪ Strengthen the new Government's capacity and capability for developing and implementing a market-oriented, open, and private sector-led economic development policy <li data-bbox="201 773 617 821">▪ Initiation of ADB's own private sector operations in the country 	<p data-bbox="642 302 1896 407">World Bank/IFC: Encourages private sector development through policies, analytical support and institutional strengthening. Supports renovation of Altyn Ajydar, the first domestic manufacturer of plastic packaging. Supports the transformation of Bai-Tushum from its present not-for-profit status into a more sustainable, commercially oriented, deposit taking institution. Supports project aimed at reducing technical barriers for entrepreneurship and trade.</p> <p data-bbox="642 440 1896 521">EBRD: Invests in promising local companies, provides medium-term debt financing to private enterprises. Supports microlending. Promotes policy dialogue between the private sector and Government authorities to encourage institutional reforms through support of Investment Council.</p> <p data-bbox="642 553 1896 634">GTZ: Supports SMEs by strengthening business associations, other service providers, and governmental institutions. Supports efforts of government agencies to improve the business climate. Supports the establishment of self-help institutions of farmers, such as cooperatives and credit unions.</p> <p data-bbox="642 667 1896 748">USAID: Provides SMEs with business and advisory services. Creates a legal, regulatory, tax, and investment environment to support private enterprises and land market development. Provides advice and microfinance through commercial banks and microfinance institutions. Supports development of a new tax code.</p> <p data-bbox="642 781 1896 878">Switzerland: Promotes private sector development by providing low-interest credit, training, and advisory services to SME promoters. Provides equity financing to promising private enterprises. Helps SMEs address business policy, business legislation, and regulatory issues with the Government and Parliament. Through the Business Advisory Services program, provides SMEs with qualified business consultants for highly focused advisory projects.</p> <p data-bbox="642 911 1896 1008">UNDP: Encourages SMEs by addressing licensing, taxation, and other controls that act as disincentives. Within the framework of the Global Compact, UNDP facilitates the establishment of a forum for dialogue between the private sector, Government, and civil society for public-private partnership to support the CDF, the CDS, and the national MDGs. Promotes microfinance development. A study on shadow economy is completed.</p> <p data-bbox="642 1040 1896 1073">EU-TACIS: Supports SMEs in Naryn and Talas and helps regional authorities improve the local business environment.</p> <p data-bbox="642 1105 1896 1154">JICA: Supports entrepreneurs by providing business courses (mini-MBA) at the Kyrgyz Republic–Japan Center for Human Development. Provides training courses in Japan for business associations.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Poverty Reduction	
<ul style="list-style-type: none"> ▪ Provided TA to help develop the NPRS-I ▪ Assessed the impact of improved governance on poverty ▪ Provided two TAs to help develop CDS and strengthen the Government's capacity for results-based monitoring of the implementation of the CDS at oblast level ▪ Provided small grants to NGOs to directly finance pilot poverty reduction interventions 	<p>World Bank: The new Village Investment Project supports income- and job-creating investments in village infrastructure and in group-owned small enterprises; supported improvement of the Government's capacity to monitor poverty; carried out focused analytical work and provided advisory services.</p> <p>IMF: Integrates poverty reduction concerns with macroeconomic stability and good governance.</p> <p>UNDP: Assisted with preparation of the CDS, and a mechanism to monitor the achievement of the CDF, CDS, and national MDGs; support to achieve the local MDGs; supported to implement oblast poverty reduction strategies; helped create jobs for the poorest rural and urban communities; helped to develop infrastructure in Batken oblast.</p> <p>EU-TACIS: The Development and Cooperation Instrument (DCI) will replace TACIS as the main community assistance instrument to the Central Asia as of beginning of 2007.</p> <p>GTZ: Integrates poor farmers of Osh and Jalal-Abad into economic activity; builds up Government, local Government, and community capacities in Batken to enhance food security, promote regional cooperation, and lower the conflict potential.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Trade Promotion	
<ul style="list-style-type: none"> ▪ Supports trade promotion through regional CAREC projects such as <ul style="list-style-type: none"> (i) Regional Trade Facilitation and Customs Cooperation Program, (ii) Regional Customs Modernization and Infrastructure Development Project ▪ Facilitates trade by rehabilitating strategic roads and providing analytical work 	<p>EBRD: Facilitates foreign trade through trade financing.</p> <p>World Bank: Removing obstacles to trade and entrepreneurship.</p> <p>GTZ: Removing barriers to trade; streamlining export and import operations.</p> <p>USAID: Supports legal and regulatory environment reforms to improve transparency. Supports customs reforms and strengthening of border posts to prevent illegal drug and arms trafficking. Provides post-WTO accession support to ensure greater compliance with WTO and improved trade policies. Promotes a regional trade network.</p> <p>Switzerland: Helps promote regional trade through sustainable expansion and diversification of exports and tackling export problems. Supports improvement of the quality of the human capital working on WTO issues in the private sector, in the Government, and in academia.</p> <p>EU-TACIS: Supports customs reforms.</p>
Environment	
<ul style="list-style-type: none"> ▪ ADB has given continued support for strengthening environmental management through a number of TAs ▪ Supports the regional Central Asian Countries Initiative for Land Management (CACILM) to address land degradation and support sustainable land management ▪ Conducted a natural resources sector study ▪ Supports project aimed at reducing vulnerability of the poor to natural disasters <ul style="list-style-type: none"> ▪ Issyk-Kul sustainable development project (planned) 	<p>World Bank: Launched a natural disaster mitigation project in 2004 to develop a program to address key natural and environmental risks, including the impact of uranium tailings stored in Mailuu-Suu.</p> <p>Switzerland: Improves management of forest resources by involving local communities. Builds capacity in forestry management. Introduces appropriate resource management and conservation in mountain areas.</p> <p>Germany (GTZ): Promotes the Issyk-Kul biosphere reservoir.</p> <p>EBRD: Launched a biodiversity project to help protect the endangered snow leopard together with IFC and Kumtor Gold.</p> <p>EU-TACIS: Supports forest conservation.</p> <p>UNDP: Capacity building and analytical work. Improves environmental management, conservation policies and practices, by introducing new energy-efficient technologies and using alternative and renewable energy. Promotes sustainable land management system and develops local biodiversity management plans. Helps the Government explore innovative tools for global environmental issues. Supports project on reducing vulnerability to natural disasters.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
<p>Governance</p> <ul style="list-style-type: none"> ▪ Has provided support to improve governance, including in fiscal management; the financial sector; and legal, judicial, and enterprise reform, and corporate governance ▪ Assisted public investment management and aid coordination and monitoring ▪ Helped improve commercial bank audits, and introduced international accounting, auditing, and valuation standards, to improve transparency and predictability in economic activities ▪ Supports improvement of governance and transparency of customs and tax revenue administration ▪ Plans to enhance capacity of the State Tax Agency for an effective, modernized, and efficient tax administration 	<p>World Bank: Improves public resource management capability of the Government. Promotes tax reforms and improves public expenditure management. Governance reform will be embedded in specific investment operations, including consideration for capacity enhancement and institutional strengthening in public sector counterparts.</p> <p>USAID: Promotes decentralization and good governance at all levels. Provides TA for election administration and to Parliament to increase transparency. Helps improve legal education. Capacity building. Strengthens political processes and institutions, civic organizations, media, human rights defense, local governance and supports anti-trafficking and conflict mitigation.</p> <p>UNDP: Helps develop national strategies and policies for more effective state restructuring, including public administration reform, decentralization and capacity building for local self-governance, particularly at the oblast and local council levels. Helps local authorities and communities prevent conflict.</p> <p>DFID: Strengthens the capacity of the Kyrgyz National Statistical Committee and other key players in the statistical system to produce and disseminate high-quality social statistics with a sound methodological basis. Enhances national public financial management (under cooperation with the World Bank's Governance Structural Adjustment Credit (GSAC)).</p> <p>EU-TACIS: Supports civil service reform by improving legislation and regulation. Promotes human rights, penal reform and prisoner's rights, democracy, good governance, media freedom, rule of law and security structures as well as conflict prevention.</p> <p>GTZ: Supports the National Statistical Committee in agricultural census and rationalizing agricultural statistical data. Supports legal reform, with a regional program for transition countries.</p> <p>JICA: Helped build capacity of the National Agency for Civil Servants in civil service reform. Fosters communities empowerment in Issyk-Kul oblast.</p> <p>Switzerland: Project for Legal Assistance to Rural Citizens helps rural people nationwide enforce their agricultural rights, with emphasis on the Land Law, and promotes the rural legal culture. Helps to strengthen capacity of GosRegistr. Together with other development partners promotes aid coordination via Donor Coordination Council.</p>

ADB Strategy/Activities	Other Development Partners' Strategy/Activities
<p data-bbox="296 224 548 248">Regional Cooperation</p> <ul style="list-style-type: none"> <li data-bbox="201 280 621 467">▪ Promotes regional cooperation through CAREC Program (a number of regional projects and initiatives in transport and energy sectors, trade facilitation and land management are being implemented in the Kyrgyz Republic) <li data-bbox="201 500 621 573">▪ The Kyrgyz Republic also receives substantial knowledge and expertise products under CAREC 	<p data-bbox="642 280 1896 362">World Bank: Conducts various studies (on trade and transport facilitation, etc.). Supports the Water and Environment Management in Aral Sea and Central Asia Biodiversity Project. Provides regional support to fight HIV/AIDS and TB. Launched a Central Asia knowledge-sharing initiative.</p> <p data-bbox="642 394 1896 475">USAID: Launched the Enterprise Development Project, focusing on the creation of an internet-based regional trade network. Assists in regional water management in Syrdarya Basin. Engaged in a regional transboundary energy/ water program.</p> <p data-bbox="642 508 1896 638">UNDP: Supports two regional programs: Border Management in Central Asia Program, and the Central Asia Drug Action Program, which are improving the conditions for the legal transit of goods and people around the five countries and beyond, as well as setting up filters for illegal trafficking of drugs and people. Actively participates in regional environmental initiatives, specifically in conservation of mountain ecosystems and prevention of region-wide environmental degradation, such as uranium pollution in Mailuu-Suu. Engaged in the Silk Road Regional Program.</p> <p data-bbox="642 638 1896 719">UNESCAP/UNECE: Supported the regional project working groups on transport, water and energy, and economic cooperation in Central Asia. Helped prepare diagnostic studies and the regional strategy on water and energy cooperation.</p> <p data-bbox="642 751 1896 914">EU-TACIS: Assists the Harmonization of Border Crossing Procedures Project and the pilot project for the Central Asian road border crossing through Transport Corridor Europe Caucasus Asia (TRACECA). Supports rural development and cross-border cooperation in Fergana Valley. Supported water resource management, focusing on interstate water agreements and the development of a regional water and land information system. Supports environmental protection in Central Asia through the Regional Environmental Program. Developed the Central Asia Drug Action Program.</p> <p data-bbox="642 946 1896 1044">Switzerland: Supports regional trade and improving management of water resources in Fergana Valley to better use water and allocate it among Uzbekistan, Tajikistan, and the Kyrgyz Republic. Finances the Central Asian Mountain Program, which aims to encourage the local people to use mountain resources in a multifunctional and sustainable manner.</p> <p data-bbox="642 1076 1896 1133">KfW: Supports regional activities for capacity building, training, and improvement of professional skills complementing the TB control programs.</p> <p data-bbox="642 1166 1896 1239">GTZ: Strengthens the capacity of the government and other institutions in Kyrgyzstan, Kazakhstan, and Uzbekistan to remove regional trade barriers. Supports regional cooperation on combat of desertification, on vocational training, and on legal reform.</p>

ADB = Asian Development Bank, JCSS = Joint Country Support Strategy, DFID = UK Department for International Development, EBRD=European Bank for Reconstruction and Development, EU-TACIS = European Union-Technical Assistance to Commonwealth of Independent States, HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome; IMF = International Monetary Fund, IsDB = Islamic Development Bank, JBIC = Japan Bank for International Cooperation, JICA = Japan International Cooperation Agency, KfW = Kreditanstalt für Wiederaufbau, OPEC = Organization of Petroleum Exporting Countries, TA = technical assistance, UNDP = United Nations Development Programme, USAID = United States Agency for International Development.

Sources: International financial institutions concerned

Table A8.6: Portfolio Indicators—Portfolio Amounts and Ratings
(public sector loans, as of 31 December 2006)

Sector	Net Loan Amount		Total		Rating ^a									Potential Problem ^b		AT Risk ^c		
	(\$ million)	(%)	(no.)	(%)	Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory			(no.)	(%)	(no.)	(%)	
					(no.)	(%)	(no.)	(%)	(no.)	(%)	(no.)	(no.)	(%)					
Agriculture and Natural Resources	38.3	17.9	1	10.0	0	0	1	100.0	0	0	0	0	0	0	0	0	0	0
Education	0	0	0	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Energy	0	0	0	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Finance	26.2	12.2	2	20.0	0	0	2	100.0	0	0	0	0	0	0	0	0	0	0
Health, Nutrition, and Social Protection	11.3	5.3	1	10.0	0	0	1	100.0	0	0	0	0	0	0	0	0	0	0
Industry and Trade	7.7	3.6	1	10.0	0	0	1	100.0	0	0	0	0	0	0	0	0	0	0
Law, Economic Management, and Public Sector	0	0	0	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multisector	44.6	20.8	2	20.0	0	0	2	100.0	0	0	0	0	0	0	0	0	0	0
Transport and Communications	86.2	40.2	3	30.0	0	0	2	66.7	1	33.3	0	0	0	0	0	0	1	33.3
Water Supply, Sanitation, and Waste Management	0	0	0	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	214.2	100.0	10	100.0	0	0	9	90.0	1	10.0	0	0	0	0	0	0	1	10

no. = number.

^a One rating for implementation progress and development objectives, based on the lower rating of either.

^b Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is "at risk" if it is rated partly satisfactory, unsatisfactory, or a potential problem.

Source: Asian Development Bank estimates.

Table A8.7: Portfolio Indicators—Disbursements and Net Transfers of Resources
(Public sector loans, as of 31 December 2006)

Disbursements and Transfers	OCR	ADF	Total
Disbursements ^a			
Total Funds Available for Withdrawal (\$ million)	0	589.9	589.9
Disbursed Amount (\$ million, cumulative)	0	495.2	495.2
Percentage Disbursed (disbursed amount/total available)	0	83.9	83.9
Disbursements (\$ million, latest year)	0	122.9	122.9
Disbursement Ratio (%) ^b	0	32.6	32.6
Net Transfer of Resources (\$ million), in year			
2000	0	19.0	19.0
2001	0	55.8	55.8
2002	0	24.2	24.2
2003	0	22.2	22.2
2004	0	50.4	50.4
2005	0	25.1	25.1
2006	0	35.8	35.8

ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Includes ongoing loans and loans disbursed as of 31 December 2006.

^b Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

Source: Asian Development Bank estimates.

PORTFOLIO IMPLEMENTATION STATUS

Table A8.8: Portfolio Implementation Status
(public sector loans, as of 30 June 2007)

Sector	Loan No.	Title	Cumulative Contracts/ Commitments (\$ million)	Cumulative Disbursements (\$ million)	Rating		Potential Problem ^a	At Risk ^b
					IP	IO		
AG	1726	Agriculture Area Development	32.1	25.2	S	S	No	No
HL	2007	Community Based Early Childhood Development	4.8	3.9	S	S	No	No
IN	2113	Regional Customs Modernization and Infrastructure Development Project	0.2	0.5	S	S	No	No
TC	1775	Almaty–Bishkek Regional Road Rehabilitation Project	4.8	4.6	PS	S	No	Yes
TC	1853	Third Road Rehabilitation	40.9	40.6	S	S	No	No
TC	2106	Southern Transport Corridor Road Rehabilitation Project	22.1	3.2	S	S	No	No
MS	1742	Community-Based Infrastructure Services Sector Project	36.2	32.5	S	S	No	No
MS	2045	Emergency Rehabilitation Project	4.3	4.3	S	S	No	No
FI	2224	Banking Sector and Capital Market Development Program	8.0	8.0	S	S	No	No
			153.4	122.8				

– = not applicable, ADF = Asian Development Fund, AG = agriculture and natural resources, DO = development objectives, FI = finance, HS = highly satisfactory, IN = industry and nonfuel minerals, IP = implementation progress, MS = multisector, no. = number, OCR = ordinary capital resources, OTH = others, PS = partly satisfactory, S = satisfactory, SOC = social infrastructure, TC = transport and communications, U = unsatisfactory.

^a "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^b A loan is considered "at risk" if it is rated as "PS" or "U" in either implementation progress or development objectives, or if it is a potential problem loan.

Sources: Asian Development Bank estimates.

Table A8.9: Portfolio Indicators—Evaluation Rating by Sector
(1996–2006)

Sector	Highly Successful		Partly Successful		Unsuccessful		No. of Rating		Total			
	No.	%	No.	%	No.	%	No.	%	No.	%		
Agriculture and Natural Resources	0	0	1	100.0	0	0	0	0	0	0	1	100.0
Education	0	0	0	0	0	0	0	0	0	0	0	0
Energy	0	0	0	0	0	0	0	0	0	0	0	0
Finance	0	0	0	0	0	0	0	0	0	0	0	0
Health, Nutrition, and Social Protection	0	0	0	0	0	0	0	0	0	0	0	0
Industry and Trade	0	0	0	0	0	0	0	0	0	0	0	0
Law, Economic Management, and Public Policy	0	0	0	0	1	100.0	0	0	0	0	1	100.0
Multisector	0	0	1	100.0	0	0	0	0	0	0	1	100.0
Transport and Communications	0	0	0	0	0	0	0	0	0	0	0	0
Water Supply, Sanitation, and Waste Management	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0.0	2	66.7	1	33.3	0	0.0	0	0.0	3	100.0

-- = not applicable, no. = number.

Source: Asian Development Bank project (program) audit reports.

COUNTRY PERFORMANCE ASSESSMENT RATINGS, 2006

Criteria	Score
A. Economic Management	
1. Macroeconomic Management	4.0
2. Fiscal Policy	3.5
3. Debt Policy	3.5
Cluster Average	3.7
B. Structural Policies	
1. Trade	5.0
2. Financial Sector	3.5
3. Business Regulatory Environment	3.0
Cluster Average	3.8
C. Social Inclusion and/or Equity	
1. Gender Equality	4.5
2. Equity of Public Resource Use	3.5
3. Building Human Resources	3.5
4. Social Protection and Labor	3.5
5. Policies and Institutions for Environmental Sustainability	3.5
Cluster Average	3.7
Policy and Institutional Average ((A+B+C)/3)	3.7
D. Public Sector Management and Institutions	
1. Property Rights and Rules-Based Governance	2.5
2. Quality of Budgetary and Financial Management	3.5
3. Efficiency of Revenue Mobilization	3.5
4. Quality of Public Administration	2.5
5. Transparency, Accountability, and Corruption	2.5
Cluster Average	2.9
6. Portfolio	4.5

Sources: Asian Development Bank staff, Country Performance Assessment 2006 documents.