



# Country Operations Business Plan

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June 2011

Kyrgyz Republic  
2011–2012

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 1 May 2011)

Currency Unit	–	som (Som)
Som1.00	=	\$0.0213782
\$1.00	=	Som46.7766

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAREC	–	Central Asia Regional Economic Cooperation
COBP	–	country operations business plan
CSP	–	country strategy and program
JCSS	–	joint country support strategy
TA	–	technical assistance

## NOTE

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

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

1. The country strategy and program of the Asian Development Bank (ADB) for the Kyrgyz Republic is presented in the joint country support strategy (JCSS) 2007–2010.<sup>1</sup> The JCSS supports the government development agenda, articulated in the country development strategy for 2007–2010<sup>2</sup> and its subsequent revision for 2009–2011,<sup>3</sup> the objectives of which include robust and sustainable economic growth and the attainment of poverty reduction and the Millennium Development Goals. This country operations business plan (COBP) 2011–2012 updates the country strategy and program 2007–2010 to better help the country address challenges that arose after political disturbances in April 2010 and a conflict in June 2010,<sup>4</sup> while maintaining consistency with the priorities set out in ADB's Strategy 2020.<sup>5</sup> The new medium-term country development strategy is being prepared, and a new ADB country partnership strategy will be developed in early 2012.<sup>6</sup>

2. The strategic thrust of the program for 2011–2012 continues support to public infrastructure and institutional reforms, which will contribute to creating a favorable environment for sustainable growth with broader private sector participation, thereby generating more jobs and income. ADB will continue to support: (i) transport, (ii) water supply and other municipal infrastructure and services, (iii) energy, and (iv) public sector management. ADB may, on the request of the Government of the Kyrgyz Republic, consider support to address the deteriorating education system. The system fails to equip a large proportion of the youth population for productive employment in the market economy, which is considered a cause of instability. The COBP is based on agreements reached with the government during the country programming mission.

## II. INDICATIVE RESOURCE PARAMETERS

3. The Kyrgyz Republic is eligible for resources from the Asia Development Fund (ADF). Following the 2008 country performance assessment (under the revised performance-based allocation policy),<sup>7</sup> the Kyrgyz Republic received an indicative 2009–2010 ADF allocation of \$120.8 million.<sup>8</sup> The actual approval for 2009–2010 was \$264.8 million. Based on the results of the 2010 country performance assessment, the Kyrgyz Republic received an indicative ADF allocation of \$88.6 million for 2011–2012, comprising \$39.4 million in grants and \$49.2 million in loans. ADB's operation will continue a strong focus on regional cooperation activities through support for the Central Asia Regional Economic Cooperation (CAREC) program. ADB's private sector operations may include trade finance and financing of banks for activities with a high

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<sup>1</sup> ADB. 2007. *Joint Country Support Strategy: Kyrgyz Republic, 2007–2010*. Manila. The JCSS was prepared in cooperation with the Swiss Cooperation, the Department for International Development of the United Kingdom, the United Nations agencies, and the World Bank Group. The European Commission, the Government of Germany, and the International Monetary Fund joined the JCSS later in 2007–2008.

<sup>2</sup> Kyrgyz Republic. 2007. *Country Development Strategy (2007–2010)*. Bishkek.

<sup>3</sup> Kyrgyz Republic. 2009. *Country Development Strategy (2009–2011)*. Bishkek.

<sup>4</sup> ADB, International Monetary Fund, and World Bank. 2010. *Kyrgyz Republic Joint Economic Assessment: Reconciliation, Recovery and Reconstruction*. Bishkek.

<sup>5</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

<sup>6</sup> This COBP covers only a two-year period because a new country partnership strategy will be prepared in 2012.

<sup>7</sup> ADB. 2004. *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of Asian Development Fund Resources*. Manila.

<sup>8</sup> The ADF allocations are based on the ADF X resource envelope as agreed by donors and estimated by ADB, which may be affected by movements in the exchange rates, the actual timing of ADF contributions from donors, changes in ADB membership, and results from subsequent country performance assessment exercises.

potential development impact. ADB may also consider financing experienced investors in private infrastructure and the manufacturing and processing sectors.

### III. SUMMARY OF CHANGES TO LENDING, GRANT, AND NONLENDING PROGRAMS

4. The 2011–2012 program retains the focus on the core areas in the COBP 2009–2011,<sup>9</sup> with some modifications for better alignment with the country's new political and economic circumstances and ADB resource parameters. The updated country partnership strategy results framework in Appendix 1 reflects these adjustments. The changes in the lending and grant program from COBP 2009–2011, by sector, are as follows:

- (i) **Energy.** This sector is introduced as a new strategic area of ADB operations in the country. The Power Sector Improvement Project was approved in 2010.<sup>10</sup> For 2012, \$45 million (including a proposed \$30 million from the regional ADF allocation) is allocated for the Power Sector Rehabilitation Project.
- (ii) **Public sector management.** Implementation of the Investment Climate Improvement Program cluster has experienced delays, and subprogram 2 (originally scheduled for 2010) was reprogrammed for 2012.
- (iii) **Transport.** The funding for the CAREC Transport Corridor 1 (Bishkek–Torugart) Project is provided in 2009–2011 in two phases, instead of the originally planned three phases. The overall financing has increased to \$135 million from the originally planned \$110 million due to the increased estimated costs of civil works. The supplementary loan of \$23 million for the CAREC Regional Road Corridor Improvement Project was approved in 2010 to finance modifications to the road improvement component of the approved project.<sup>11</sup>
- (iv) **Water supply and other municipal infrastructure and services.** A loan and grant totaling \$100 million for the Emergency Assistance for Recovery and Reconstruction was approved in 2010.<sup>12</sup> The assistance will cover some of the activities that were to be implemented under the Improving Public Infrastructure to Support Growth in Bishkek and Osh Project planned for 2011, and rebuilding housing damaged during political events in 2010. For 2012, \$20 million is tentatively allocated for supplementary financing for the Issyk-Kul Sustainable Development Project to support the second phase of the project focusing on water treatment facilities.

5. The nonlending program for 2011–2012 has been adjusted to reflect changes in the lending and grant program. The technical assistance (TA) program includes: (i) policy and advisory TA for development of road maps in education and urban services, (ii) capacity development for sound and expeditious implementation of ADB support to improve the investment climate, (iii) timely support to the new government in economic policy and management, and (iv) project preparatory TA for preparation of the road rehabilitation project. The updated lending and nonlending programs for 2010 are in Appendix 3.

<sup>9</sup> ADB. 2009. *Country Operations Business Plan: Kyrgyz Republic, 2009–2011*. Manila.

<sup>10</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Kyrgyz Republic for the Power Sector Improvement Project*. Manila.

<sup>11</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kyrgyz Republic for the CAREC Regional Road Corridor Improvement Project*. Manila.

<sup>12</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Kyrgyz Republic for the Emergency Assistance for Recovery and Reconstruction*. Manila.

**UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK**  
(Board endorsement of the CPS: 2007; COBP: January 2009)

Country Development Goals				Changes from Last COBP
The strategic development goal for 2010–2012 is improvement of quality of life by improving of quality of economic growth, management and environment.				This COBP adds energy to the sectors selected for ADB support.
Sectors Selected by ADB				Changes from Last COBP
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities	
<b>1. Transport (Strategy 2020 Core Area 1: Infrastructure; and Core Area 3: Regional Cooperation and Integration)</b>				
Improve access to markets, employment opportunities, and social services through better road infrastructure and trade facilitation in the region	<p>Improved transport infrastructure and management that provide better access to local and regional markets</p> <p>Indicators: Beneficiaries from rehabilitated roads (2.3 million by 2015) Key regional corridors rehabilitated by 2014 Transport, and information and communication technology master plan developed by 2012 Kyrgyz Republic–People’s Republic of China trade increases from 540,174 tons in 2007 to 3,000,000 tons in 2015 Tajikistan–Kyrgyz Republic trade increases from 27,236 tons in 2006 to 250,000 tons in 2015</p>	<p>(i) Rehabilitation of key transport corridors that provide access to international and local markets, (ii) improvement of road maintenance, (iii) formulation of the transport sector master plan, and (iv) improvement of road safety.</p> <p>Current loan and grant portfolio: CAREC Regional Road Corridor Improvement Project (2007) CAREC Transport Corridor 1 (Bishkek–Torugart Road) Project 1 (2008) and Project 2 (2009)</p>	<p>\$61 million for 2011–2012, of which ENV – 0% RCI – 100% GEN+EGM – 0% PSD – 0%</p> <p>\$118.6 million from 2007 to 2010, 34% of total CPS envelope, of which ENV – 0% RCI – 100% GEN+EGM – 0% PSD – 41%</p>	Key outcomes have not been changed significantly from the previous COBP. Indicators have been updated. The following sector outcomes were dropped: private sector involvement in road operation and maintenance; better policy vision for transport, and information and communication technology; improved road maintenance funding and management mechanisms; and better management of transport.
<b>2. Energy (Strategy 2020 Core Area 1: Infrastructure)</b>				
Enable the sector to play its role in underpinning strong economic growth by	<p>Improved energy sector performance</p> <p>Indicators:</p>	<p>(i) Increase in the transparency of wholesale electricity transactions (a) between power companies, and (b) in the regional power</p>	<p>\$45 million for 2011–2012, of which ENV – 0% RCI – 100%</p>	This is a new strategic focus of ADB operations in the country.

Sectors Selected by ADB				Changes from Last COBP
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities	
providing a reliable, sustainable, long-term energy supply and implementing energy sector reforms	Quasi-fiscal deficit reduced from 4.9% of GDP in 2007 to 2.4% of GDP in 2011 Collection rate increased from 86% in 2007 to 97% in 2011 Distribution loss reduced from 26% in 2009 to 15% in 2012	trade, (ii) rehabilitation of substations and the communication system, (iii) advisory service on the wholesale electricity transaction settlement mechanism, (iv) enhancement of corporate governance of power utilities, (v) introduction of billing and collection system, and (vi) rehabilitation of hydropower plants.  Current loan and grant portfolio: Power Sector Improvement Project (2010)	GEN+EGM – 0% PSD – 0%  \$44.8 million from 2007 to 2010, 13% of total CPS envelope, of which ENV – 0% RCI – 100% GEN+EGM – 0% PSD – 0%	
<b>3. Water Supply and Other Municipal Infrastructure and Services (Strategy 2020 Core Area 1: Infrastructure)</b>				
Improve water supply, wastewater services and solid waste management in rural and urban areas.  Undertake environmentally responsible economic development around the Issyk-Kul Lake area	Provision of safe, adequate, and efficient rural water supply and sanitation services Rehabilitated critical urban public infrastructure and improved urban basic services  Indicators: Access to safe water increased from 32% to 100% in project villages by 2013 Incidence of waterborne diseases reduced in project communities from 30% in 2008 to 5% by 2013 Access to safe sanitation in Karakol, Cholpon-Ata, and Balykchi increased from 43,000 people in 2010 to 68,000 people by 2015 Municipal solid waste collection in Karakol, Cholpon-Ata, and Balykchi increased from 61,500 in 2010 to 133,500 persons in 2015 At least 20 water intake and treatment systems and 10 km of water transmission	(i) Rehabilitation of rural and urban water supply, sanitation, and solid waste management facilities; and (ii) improvement of sustainability, operation and maintenance, service delivery, financial management and sanitation, and hygiene practices.  Current loan and grant portfolio: Community-Based Infrastructure Services Sector Project (Supplementary) (2008)  Issyk-Kul Sustainable Development Project (2009)  Emergency Assistance for Recovery and Reconstruction (2010)	\$20 million for 2011–2012, of which ENV – 100% RCI – 0% GEN+EGM – 100% PSD – 0%  \$120.0 million from 2007 to 2010, 34% of total CPS envelope, of which ENV – 75% RCI – 0% GEN+EGM – 100% PSD – 0%	Key sector objectives and outcomes have been reformulated from the agriculture and natural resources sector in the previous COBP. All agriculture sector outcomes were dropped. The indicators have been updated.

Sectors Selected by ADB				Changes from Last COBP
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities	
	lines are rehabilitated by 2013 in Osh and Jalal-Abad 70% of women's groups in rehabilitated districts of Osh and Jalal-Abad are trained on hygiene and sanitation by 2013			
<b>4. Public Sector Management (Strategy 2020 Other Areas of Operations)</b>				
Increase attractiveness of investment	<p>Improved (i) tax and customs regime and administration; and (ii) investment climate and business environment.</p> <p>Indicators: By 2012, incidents of smuggling and customs declaration irregularities reduced and revenue collection increased by 25% from 2003 baseline of \$114 million</p> <p>State tax revenues increased from 14.6% of GDP in 2005 to 16% of GDP in 2012</p> <p>Private sector investment increased from 17% of GDP in 2007 to 25% in 2012; the informal economy declined from 53% of GDP in 2007 to a maximum of 30% in 2012</p> <p>Kyrgyz Republic's ranking in the World Bank's Doing Business report improved from 94 in 2007 to at least 40 in 2012</p>	<p>(i) Improvement of tax and customs regime and administration; and</p> <p>(ii) improvement of business environment and investment climate.</p> <p>Current loan and grant portfolio: Regional Customs Modernization and Infrastructure Development Project (2004)</p> <p>Tax Administration Reform and Modernization Project (2007)</p> <p>Investment Climate Improvement System Support Project (2008)</p>	<p>\$40 million for 2011–2012, of which: ENV – 0% RCI – 0% GEN+EGM – 50% PSD – 50%</p> <p>\$65.4 million from 2007 to 2010, 19% of total CPS envelope, of which ENV – 0% RCI – 0% GEN+EGM – 61% PSD – 24%</p>	<p>Key sector outcomes have not changed significantly from thematic outcomes for support for policy and institutional foundations of private sector development. The indicators have been updated. The following sector outcomes were dropped: investment-to-GDP ratio increased; higher FDI; financial sector more sound and efficient; economic structure more diversified; productivity and international competitiveness of Kyrgyz Republic businesses increased; procedures for licensing, permits, and business operations streamlined.</p>

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, CPS = country partnership strategy, COBP= country operations business plan, EGM = effective gender mainstreaming, ENV = environmental sustainability, FDI = foreign direct investment, GEN = gender equity, GDP = gross domestic product, km = kilometer, PSD = private sector development, RCI = regional cooperation and integration.

Sources: Asian Development Bank and the Government of the Kyrgyz Republic.



## INDICATIVE ASSISTANCE PIPELINE

Table A2.1: Indicative Assistance Pipeline for Lending and Grant Products, 2011–2012

Project/Program Name	Sector	Targeting Classification	Primary Theme	Division	Year of PPTA	Cost (\$ million)						
						Total	ADB			Gov't	Co-finance	
							OCR	ADF				
							Loans	Grants	Total			
<b>2011 Firm</b>												
CAREC Transport Corridor 1 (Bishkek–Torugart Road) Project 3	Transport and ICT	GI	RCI	CWTC		70.00	0.00	55.00	0.00	55.00	15.00	0.00
<b>Total 2011 Firm</b>						<b>70.00</b>	<b>0.00</b>	<b>55.00</b>	<b>0.00</b>	<b>55.00</b>	<b>15.00</b>	<b>0.00</b>
<b>2012 Firm</b>												
Power Sector Rehabilitation Project	Energy	GI	GRO	CWEN	2010	56.00	0.00	15.00	30.00	45.00 <sup>a</sup>	11.00	0.00
Investment Climate Improvement Program, Subprogram 2	Public sector management	GI	GRO	CWPF		20.00	0.00	0.00	20.00	20.00	0.00	0.00
<b>Total 2012 Firm</b>						<b>76.00</b>	<b>0.00</b>	<b>15.00</b>	<b>50.00</b>	<b>65.00<sup>a</sup></b>	<b>11.00</b>	<b>0.00</b>
<b>2012 Standby</b>												
Education SDP	Education	GI	SOD	CWPF		tbd	0.00	5.00	15.00	20.00	tbd	tbd
Issyk-Kul Sustainable Development Project (Supplementary)	Water supply and other municipal infrastructure and services	GI	ENV	CWUW		tbd	0.00	10.00	10.00	20.00	tbd	tbd
CAREC Transport and Trade Facilitation Project	Multisector	GI	RCI	CWTC	2010	tbd	0.00	3.00	3.00	6.00 <sup>b</sup>	tbd	tbd
<b>Total 2012 Standby</b>						<b>tbd</b>	<b>0.00</b>	<b>18.00</b>	<b>28.00</b>	<b>46.00<sup>b</sup></b>	<b>tbd</b>	<b>tbd</b>
<b>Total 2011–2012</b>						<b>tbd</b>	<b>0.00</b>	<b>88.00</b>	<b>78.00</b>	<b>166.00</b>	<b>tbd</b>	<b>tbd</b>

ADB = Asian Development Bank; ADF = Asian Development Fund; CAREC = Central Asia Regional Economic Cooperation; CWEN = Central and West Asia Energy Division; CWPF = Central and West Asia Public Management, Financial Sector, and Trade Division; CWTC = Central and West Asia Transport and Communications Division; CWUW = Central and West Asia Urban Development and Water Division; ENV = environmental sustainability; GI = general intervention; Gov't = government; GRO = economic growth; ICT = information and communication technology; OCR = ordinary capital resources; PPTA = project preparatory technical assistance; PSD = private sector development; RCI = regional cooperation and integration; SDP = sector development program; SOD = social development; tbd = to be determined.

<sup>a</sup> Includes regional allocation of \$30 million (\$15 million grant and \$15 million loan) that is subject to further approval.

<sup>b</sup> Includes regional allocation of \$4 million (\$2 million grant and \$2 million loan) that is subject to further approval.

Source: Asian Development Bank estimates.

**Table A2.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2011–2012**

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2011 Firm</b>								
Support to Economic Policy and Management	Public sector management	CWPF	PATA	TASF	500.00		0.00	500.00
Improving the Education Sector	Public sector management	CWPF	PATA	TASF	225.00		0.00	225.00
Road Rehabilitation Project	Transport and ICT	CWTC	PPTA	TASF	1,500.00		0.00	1,500.00
<b>Total 2011</b>					<b>2,225.00</b>		<b>0.00</b>	<b>2,225.00</b>
<b>2012</b>								
Support to Investment Climate Improvement Program	Public sector management	CWPF	CDTA	TASF	800.00		0.00	800.00
Urban Sector Development Strategy	Multisector	CWUW	PATA	TASF	1,500.00		0.00	1,500.00
<b>Total 2012</b>					<b>2,300.00</b>		<b>0.00</b>	<b>2,300.00</b>

ADB = Asian Development Bank; CDTA = capacity development technical assistance; CWPF = Central and West Asia Public Management, Financial Sector, and Trade Division; CWUW = Central and West Asia Urban Development and Water Division; ICT = information and communication technology; PATA = policy and advisory technical assistance; PPTA = project preparatory technical assistance; TASF = Technical Assistance Special Fund.  
Source: Asian Development Bank estimates.

## ASSISTANCE PROGRAM FOR 2010

Table A3.1: Assistance Pipeline for Lending and Grant Products, 2010

Project/Program Name	Sector	Targeting Classification	Primary Theme	Division	Year of PPTA	Cost (\$ million)						
						Total	OCR	ADB		Total	Gov't	Co-finance
								Loans	Grants			
<b>2010</b>												
CAREC Regional Road Corridor Improvement (Supplementary)	Transport and ICT	GI	RCI	CWTC		32.00	0.00	23.00	0.00	23.00	9.00	0.00
Emergency Assistance for Recovery and Reconstruction	Multisector	GI	GRO	CWPF		110.00	0.00	48.50	51.50	100.00	10.00	0.00
Power Sector Improvement Project	Energy	GI	GRO	CWEN	2009	56.00	0.00	16.70	28.10	44.80	11.20	0.00
<b>Total</b>						<b>198.00</b>	<b>0.00</b>	<b>88.20</b>	<b>79.60</b>	<b>167.80</b>	<b>30.20</b>	<b>0.00</b>

ADB = Asian Development Bank; ADF = Asian Development Fund; CAREC = Central Asia Regional Economic Cooperation; CWEN = Central and West Asia Energy Division; CWPF = Central and West Asia Public Management, Financial Sector, and Trade Division; CWTC = Central and West Asia Transport and Communications Division; GI = general intervention; Gov't = government; GRO = economic growth; ICT = information and communication technology; RCI = regional cooperation and integration; OCR = ordinary capital resources; PPTA = project preparatory technical assistance.

Source: Asian Development Bank estimates.

**Table A3.2: Assistance Pipeline for Nonlending Products and Services, 2010**

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2010</b>								
Power Sector Rehabilitation Project	<b>Energy</b>	CWEN	PPTA	TASF	1,000.00		0.00	1,000.00
<b>Total</b>					<b>1,000.00</b>		<b>0.00</b>	<b>1,000.00</b>

ADB = Asian Development Bank, CWEN = Central and West Asia Energy Division, PPTA = project preparatory technical assistance, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank estimates.