



# Country Partnership Strategy

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September 2018

## Kyrgyz Republic, 2018–2022 —Supporting Sustainable Growth, Inclusion, and Regional Cooperation

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 30 August 2018)

Currency unit	–	som (Som)
Som1.00	=	\$0.014
\$1.00	=	Som68.63

## **ABBREVIATIONS**

ABEC	–	Almaty-Bishkek Economic Corridor
ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	country partnership strategy
EEU	–	Eurasian Economic Union
GDP	–	gross domestic product
ICT	–	information and communication technology
IMF	–	International Monetary Fund
MW	–	megawatt
ODA	–	official development assistance
PPP	–	public–private partnerships
SDG	–	Sustainable Development Goal
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
TVET	–	technical and vocational education training

## **NOTE**

In this report, "\$" refers to United States dollars.

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## CONTENTS

	<b>Page</b>
COUNTRY AT A GLANCE	
I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT	1
II. COUNTRY DEVELOPMENT CONTEXT	2
III. COUNTRY STRATEGY FRAMEWORK	5
A. Lessons from Previous Strategy	5
B. National Development Strategy	6
C. Role of Development Partners	6
D. ADB's Strategic and Thematic Objectives and Public and Private Sector Operational Priorities	7
E. Priorities for Knowledge Support	12
IV. STRATEGY IMPLEMENTATION	12
A. Indicative Resource Parameters	12
B. Implementation Priorities	12
C. Monitoring of Results	13
D. Risks	13
APPENDIXES	
1. Country Partnership Strategy Results Framework	14
2. Country Knowledge Plan	16
3. List of Linked Documents	20

## COUNTRY AT A GLANCE

<b>Economic<sup>a</sup></b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
GDP (\$ billion, current)	7.3	7.5	6.7	6.6	7.2
GDP per capita (\$, current)	1295.2	1292.8	1132.8	1088.3	1166.6
GDP growth (% , in constant prices)	10.9	4.0	3.9	4.3	4.6
Agriculture	2.6	(0.5)	6.2	2.9	2.2
Industry	30.5	5.7	2.9	7.1	9.3
Services	4.7	4.6	3.7	3.4	2.6
Gross domestic investment (% of GDP)	33.9	27.1	29.2	31.4	...
Gross domestic saving (% of GDP)	(15.6)	11.1	18.3	21.4	...
Consumer price index (annual % change)	6.6	7.5	6.5	0.4	3.2
Liquidity (M2) (annual % change)	22.8	3.0	14.9	14.6	17.9
Overall fiscal surplus (deficit) (% of GDP)	(0.7)	(0.5)	(1.4)	(4.4)	(3.2)
Merchandise trade balance (% of GDP)	(37.9)	(37.6)	(33.6)	(31.4)	(30.8)
Current account balance (% of GDP)	(14.1)	(17.2)	(16.2)	(11.6)	(4.8)
External debt service (% of exports of goods and services)	20.3	26.9	42.4	38.2	36.6
External debt (% of GDP)	80.8	85.3	99.9	104.3	96.4

  

<b>Poverty and Social</b>	<b>2013</b>	<b>Latest</b>	
Population (million)	5.7	6.1	
Population growth (annual % change)	2.0	2.0	
Maternal mortality ratio (per 100,000 live births)	36.0	30.3	
Infant mortality rate (below 1 year/per 1,000 live births)	19.9	16.6	
Life expectancy at birth (years)	70.2	70.9	
Adult literacy (%)	99.2	99.2	
Primary school gross enrollment (%)	101.6	102.4	[2014]
Child malnutrition (% below 5 years old)	...	2.8	
Population below poverty line (%)	37	25.4	
Population with access to safe water (%)	89	89.9	
Population with access to sanitation (%)	28	30.2	

  

<b>Environment</b>	<b>2013</b>	<b>Latest</b>	
Carbon dioxide emissions (kt)	9,842.2	9,607.5	[2014]
Carbon dioxide emissions per capita (tons)	1.5	1.4	[2014]
Forest area (hectares)	653,000	637,000	[2015]
Urban population (% of total population)	33.6	33.7	[2017]

  

<b>ADB Portfolio (active loans and ADF grants)<sup>b</sup></b>	<b>As of 31 December 2017</b>
Total number of loans and ADF grants	28
Sovereign	27
Nonsovereign	1
Total loan and ADF grant amount (\$ million) <sup>c</sup>	717.6
Sovereign	707.6
Nonsovereign	10.0
Disbursements	
Disbursed amount (\$ million, 2017)	78.7
Disbursement ratio (%)	15.5

... = not available, ( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, kt = kiloton, M2 = broad money, OCR = ordinary capital resources.

<sup>a</sup> Fiscal year is from 1 January to 31 December.

<sup>b</sup> Covers ADF and OCR financing for projects and programs, including policy-based lending.

<sup>c</sup> Net of droppages and cancellation.

Sources: National Statistics Committee; National Bank of the Kyrgyz Republic; ADB. 2018. *Asian Development Outlook 2018*. Manila; World Bank. World Development Indicators Dataset.

## I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Key development challenges.** The Kyrgyz Republic's gross domestic product (GDP) per capita was \$1,167 in 2017, which was on the lower end of Central Asian countries. Economic growth averaged 5.5% over 2013–2017 but was subject to sharp fluctuations because of the narrow economic base, dominated by production and exports of gold. Non-gold industries have stagnated because of low competitiveness. With the economy unable to create an adequate number of jobs in the formal sector, remittances from migrant laborers working abroad have averaged 30% of GDP since 2011. Poverty remains high at 25.4% in 2016 based on the national poverty line and uneven across the country (74% of the poor live in rural areas and 60% reside in the south). Hydropower generation is a key growth driver for the country, but annual electricity exports have fallen by more than half since the 2007 levels because of water management issues and the disrepair of generation assets and transmission and distribution systems. Other key challenges are promoting private sector development, managing the adverse effects of climate change, and reducing disaster risks. As the country is landlocked, regional cooperation and integration is a priority that needs to be developed further.

2. **ADB strategic objectives and priorities.** The objectives of the Kyrgyz Republic's country partnership strategy (CPS), 2018–2022 are to support growth and economic diversification, improve access to public and social services, and leverage regional cooperation. To achieve broader-based growth, the Asian Development Bank (ADB) will continue catalytic infrastructure investments in the energy and transport sectors, sequence economic diversification through policy-based lending, and enable institutional reforms to raise efficiency in sectors of engagement. To improve access to public and social services, ADB will increase the employability of the labor force by widening access to skills development, increase water supply and sanitation in selected towns, and introduce demonstration projects in rural areas. ADB will support agricultural services, climate resilience, and disaster risk reduction focusing on water resources. Environmental sustainability will be pursued by tackling the impacts of climate change and building climate and disaster resilience. ADB will use the Central Asia Regional Economic Cooperation (CAREC) program to enable the Kyrgyz Republic to leverage regional initiatives, including opportunities arising from accession to the Eurasian Economic Union (EEU). ADB will provide support to improve governance, increase gender equality, and knowledge products to inform diversification efforts. Nonsovereign projects in agribusiness, energy, and telecommunication will be explored.

3. **Alignment with the government's development and ADB's strategic agendas.** The CPS is aligned with the country's medium-term approach (Unity, Trust and Creation 2018–2022) and ADB's Strategy 2030. The government's thrusts are growth with macroeconomic stability, improved connectivity with regional neighbors and markets, development of small and medium-sized enterprises (SMEs), and diversification of industry. Key national initiatives are the Taza Koom digital transformation program, development of regions, human capital development, and constructive regional cooperation. The strategic objectives of the CPS are aligned with the key thrust of ADB's Strategy 2030 for a country-focused and differentiated approach in this lower middle-income and landlocked country.

4. **ADB value addition.** ADB's planned support will identify and prioritize region-specific new growth drivers and facilitate institutional arrangements for promoting diversification. ADB's value-addition will be enhanced through CAREC by piloting support across multiple sectors in the lagging regions, such as Fergana valley in the south given Kyrgyz Republic's improving relations with Uzbekistan. ADB will assist with the national digital initiative by developing a road map and deploying sector applications of information and communication technologies (ICTs).

## II. COUNTRY DEVELOPMENT CONTEXT

5. **Moderate growth and narrow economic base.** Economic growth averaged 5.5% over 2013–2017, driven mainly by gold mining, private consumption (based on remittance inflows), and government expenditure.<sup>1</sup> However, growth has been highly volatile because of periodic fluctuations in industrial output dominated by the gold sector. Despite moderate and volatile growth, and stagnant non-gold industries, the structure of the economy has been changing. During 2000–2016, the share of agriculture declined from 36.6% to 14.4%, industry marginally increased from 25.8% (average over 2000–2004) to 27.7% (average over 2012–2016) and services expanded from 32.1% to 57.3% (footnote 1) with wholesale trade, retail trade, transport, and education as key segments.<sup>2</sup>

6. **Inadequate jobs in the formal sector.** The share of employment in agriculture fell from 53.1% in 2000 to 29.3% in 2015. Labor released from agriculture either emigrated to low-skilled jobs abroad or moved to informal jobs within the country. Agriculture retains a high proportion of self-employed workers (67% of all self-employed women and 53.8% men).<sup>3</sup> Although industry's share of employment doubled from 10.5% in 2000 to 20.9% in 2015, it has stagnated since 2007 when it first reached 20%. The employment share of manufacturing (within industry) fell from 8.3% in 2007 to 7.4% in 2015.<sup>4</sup> The share of employment in services grew from 36.5% in 2000 to 49.8% in 2015. A significant proportion of the economy works in the informal sector outside the government's control.<sup>5</sup> Female labor participation fell from 55.0% in 2000 to 49.4% in 2017 because of the gradual erosion of previous state support mechanisms. The male labor force participation rate has remained at about 75% since 2000.<sup>6</sup>

7. **Remittances from migrant workers.** Remittances, which accounted for 0.6% of GDP in 2000, rose to 12.7% in 2005 and averaged about 30% during 2011–2017.<sup>7</sup> Most migrant workers have completed the compulsory general secondary education in the Kyrgyz Republic and tend to take up semiskilled occupations abroad.<sup>8</sup> Kyrgyz Republic's accession to the EEU in August 2015 has lowered barriers to entry for migrant labor, easing the pressure from inadequate job creation in the country. Given the economy's dependency on remittances and its susceptibility to periodic exogenous shocks, upskilling migrant workers for higher-paying jobs, increasing understanding of international labor market needs, diversifying destinations for migrant workers, and reintegrating returnees better during economic downturns are crucial.

8. **Macroeconomic management challenges.** Fiscal consolidation remained a priority under the International Monetary Fund (IMF) 3-year (2015–2018) Extended Credit Facility program. Fiscal deficit averaged 2.0% of GDP in 2013–2017, financed mainly by official development assistance (ODA) and public borrowing. The government spends 14%–15% of GDP on education, health, and social security, but the effectiveness could be increased by improving

<sup>1</sup> ADB. 2017. *Key Indicators for Asia and the Pacific 2017*. Manila.

<sup>2</sup> According to official estimates, the Dordoi Market employs about 54,000 people and its annual trade turnover is \$4 billion, while the Kara Suu market employs more than 16,000 people and annual trade turnover is \$600 million.

<sup>3</sup> National Statistical Committee of the Kyrgyz Republic. 2017. *Women and Men in the Kyrgyz Republic, 2012–2016*. Bishkek.

<sup>4</sup> ADB. 2018. *Country Diagnostic Study for Kyrgyz Republic. Improving Growth Potential*. Manila.

<sup>5</sup> In 2015, formal enterprises accounted for 30% of total employment, individuals as employers about 25%, farm work 20%, and self-employment 18%. Most contracts are based on oral agreements or task-based. Fixed-term contracts have not increased. The unemployment rate is at 7.2%, but youth unemployment is 15.5%.

<sup>6</sup> International Monetary Fund. 2017. *Fourth and Fifth Reviews under Extended Credit Facility*. Washington, D.C.

<sup>7</sup> World Bank. 2018. *Migration and Remittances. Recent Developments and Outlook*. Washington, D.C.

<sup>8</sup> About 80% of migrant workers are in the Russian Federation, with the rest in Kazakhstan, Turkey, and the United Arab Emirates.

service delivery and targeting. The share of ODA was 34.2% of government expenditure during 2014–2016. Within this, the share of loans rose to about 50.0% during 2011–2014 from 30.8% during 2007–2010. The ratio of public and publicly guaranteed external debt to GDP was 56.0% in 2017, making the economy's debt servicing capacity vulnerable to future external and internal shocks. The balance of payments continues to be strained because of the narrow export base, the concentration of trade with a few countries, large trade deficits financed mainly by workers' remittances, and low foreign direct investment. The fragility of the external accounts can be gauged by the trade deficits, which have averaged about 35% of GDP annually in 2013–2017. The inflow of remittances has contained the current account deficits at 10%–15% of GDP. A managed floating exchange rate is being pursued. Foreign exchange reserves are estimated at \$2.2 billion, equivalent to about 4.4 months of import cover at the end of 2017.

**9. Poverty and inequality falling, but vulnerability remains high.** In 2016, 25.4% of the population lived below the national poverty line, with 74% of the poor living in rural areas and 60% residing in Jalal-Abad, Osh, and Batken regions in the south around Fergana valley.<sup>9</sup> However, acute poverty is low at 1.4% (2016).<sup>10</sup> Most of the poor live in households headed by men with incomplete general secondary education qualifications. The Gini coefficient fell from 0.310 in 2000 to 0.268 in 2016.<sup>11</sup> However, the density of population near the national poverty line is high, reflecting high vulnerability.<sup>12</sup> Despite social sector investments, the country is ranked 120 among 188 nations in human development indicators in the category of medium human development.

**10. Significant infrastructure investments needed.** Public investment in infrastructure is estimated to have risen from 4.8% of GDP in 2011 to 7.6% in 2015, but more is needed.<sup>13</sup> The energy sector, which depends on hydropower, is constrained by poorly maintained assets. Technology adoption has been slow, and the potential for other renewable energy like solar remains untapped. The sector depends on substantial direct and indirect subsidies, and tariff reforms have been slow. On connectivity, the government has focused on rehabilitating and maintaining two regional corridors—CAREC Corridor 1 (Bishkek–Torugart Road) and CAREC Corridor 3 (Bishkek–Osh Road)—given their strategic importance. Roads are affected by harsh winters and require sustained maintenance. Continued support is needed for institutional reforms related to road maintenance and road asset management systems with private participation. The lack of a regional integrated transport system and limited air connectivity pose challenges.

**11. Weak investment climate and limited incentives for firms to expand.** Foreign direct investment has stagnated at about 8% of GDP and is concentrated in mining. Preferential tax, financing, and regulatory treatment towards SMEs provides an incentive for domestic firms to remain small. This constrains their growth, adoption of new technologies, competitiveness, and export orientation. Kyrgyz Republic was ranked 77 of 190 countries in 2017 in the Doing Business survey.<sup>14</sup> The finance sector is small and total domestic credit to the private sector in 2017 was 23% of GDP. A conducive enabling environment needs to be created that facilitates domestic firms to become part of global and regional value chains.<sup>15</sup>

<sup>9</sup> Estimates based on official data. Batken, Jalal-Abad, and Naryn are the three regions with the highest poverty rates.

<sup>10</sup> Measured at \$1.90 purchasing power parity a day (2011 purchasing power parity).

<sup>11</sup> While the household expenditures did not grow in 2011–2016, the corresponding growth rate of household expenditures for the bottom 40% of the population was 0.6% during the same period.

<sup>12</sup> Kyrgyz Republic. 2017. *Population of Kyrgyz Republic in 2016*. Bishkek.

<sup>13</sup> The World Bank. 2016. *Systematic Country Diagnostic Concept Note*. Washington D.C.

<sup>14</sup> World Bank. 2018. *Doing Business 2018: Reforming to Create Jobs*. Washington, D.C.

<sup>15</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

12. **Education and health outcomes affected by suboptimal services.** The education system needs improvement, especially in skill creation that is aligned with market requirements, to enable workers to get higher-productivity jobs. The low skill level of the workforce and the weak technical and vocational education and training (TVET) system need further support and development. Although universal completion rates have been achieved for primary education and enrollment rates for general secondary education are satisfactory, the subsequent attrition rate is high. Enrollment for tertiary education was 47% (41% men, 53% women) in 2015.<sup>16</sup> Digital literacy also needs to be expanded as it will be a critical constraint in modernizing the economy. Health indicators vary spatially and across wealth index quintiles of households. For infant and under-5 mortality, in 2014, rural areas recorded 1.5 times more deaths per 1,000 live births compared with urban areas. The under-5 child mortality rate for the poorest wealth index quintile is twice that of the richest quintile.<sup>17</sup> The targeting of health facilities needs to be improved.

13. **Low access and poor service delivery of water supply and sanitation.** Implementing urban and rural development projects is fraught with challenges because of capacity constraints. About 40% of the rural population does not have access to safe drinking water. Water quality is also inadequate as 42% of rural water is untreated. The ability of the sector to self-finance expansion and improve water quality is limited by water loss and nonrevenue water. The sanitation situation is worse as access to centralized sewerage systems for the entire population is at about 30.2%, decreasing to 0.4% in the most populous Osh region.<sup>18</sup> The inadequate legal and regulatory framework, financial unsustainability because of low and varying tariffs, weak capacity of service providers, and inadequate incentives for staff are some of the main challenges that affect economic and financial sustainability of water supply and sanitation projects. The government estimates that water-related diseases cost the country \$70 million annually.

14. **Sizeable support needed for agriculture, natural resources management, climate adaptation, and disaster risk reduction.** Fragmented agriculture production and processing, limited post-harvest technologies, and an inadequate logistics networks hamper the sector's ability to compete in regional markets. The national agriculture policy has focused on raising productivity by improving irrigation infrastructure, developing agribusiness and value-chains, and institutionalizing cooperatives and rural financing. With the highest population growth rate in the region, the country is facing pressure arising from unequal access to water. The poor condition of irrigation infrastructure needs attention.<sup>19</sup> More than 90% of the country's territory is mountainous, half of it above 2,500 meters in elevation. Overgrazing and deforestation cause soil erosion and affect dryland agriculture. Climate change risks are expected to have an added negative impact. The country's water resources are most vulnerable and could account for more than half of economic losses in the absence of adaptation actions.<sup>20</sup> Disasters caused by natural hazards such as floods, mudflows, and earthquakes are frequent, costing 1.0%–1.5% of GDP annually.

15. **Weak institutions and governance impede inclusive growth.** Institutional weakness is an impediment to improving service delivery and making related sector entities financially viable. The country scores low in the Corruption Perceptions Index.<sup>21</sup> Public financial management has,

<sup>16</sup> World Bank. 2018. *Education Statistics. Country At A Glance–Kyrgyz Republic*. Washington, D.C.

<sup>17</sup> National Statistical Committee of the Kyrgyz Republic and United Nations Children's Fund. *Kyrgyzstan Multiple Indicator Cluster Survey 2014*. Bishkek.

<sup>18</sup> Government of the Kyrgyz Republic. 2018. *Development Program of the Kyrgyz Republic–Unity, Trust, Creation*. Bishkek.

<sup>19</sup> Government of the Kyrgyz Republic. 2017. *Climate Investment Program. Final Document*. Bishkek.

<sup>20</sup> Government of the Kyrgyz Republic. 2015. *Nationally Determined Contributions for UN Framework Convention on Climate Change*. Bishkek.

<sup>21</sup> Transparency International. 2018. *Corruption Perceptions Index 2017*. Berlin.

however, improved and the budget process has become more credible. A new procurement law was enacted in 2015 to introduce modern procurement methods and enhance disclosure. To minimize corruption, computerization is being increased and anticorruption measures adopted.

16. **Gender disparities persist.** Although the education system has achieved near gender parity in enrollment for general secondary levels, gender stereotyping persists in the choice of vocational training and university degrees. Gender gaps in the transition from school to work,<sup>22</sup> combined with the rise of conservative perceptions, lowered female labor force participation from 55.0% in 2000 to 49.4% in 2015, compared to 77.1% for males in 2015. The unemployment rate for women was 9.0% and 6.5% for men. The average wage for women was 75% of men's.<sup>23</sup> Despite adoption of mandatory quotas in the Election Code in 2007 and 2011, women's political representation in the national Parliament was 19.2% in 2017, below the mandated 30% threshold. About 25% of women 15–49 years old have experienced physical violence from their partners.<sup>24</sup>

17. **Accession to Eurasian Economic Union to facilitate greater regional integration.** The Kyrgyz Republic became the fifth member of the EEU in 2015. The EEU provides for the free movement of goods, services, capital, and people. The accession will potentially benefit the country by facilitating deeper integration with its neighbors, especially the Russian Federation, and in undertaking macroeconomic and structural reforms.<sup>25</sup> A gradual harmonization of the Kyrgyz Republic's regulatory legislation for financial markets is planned to strengthen financial integration with EEU. A Russia–Kyrgyz Development Fund was established to support the transition in adapting to the EEU norms.

18. **Leveraging national interests through regional cooperation.** The Kyrgyz Republic has proactively participated in multilateral and regional integration initiatives. The country is a founding member of the Commonwealth of Independent States and the Shanghai Cooperation Organization. It joined the World Trade Organization in 1998 and the EEU in 2015. The Kyrgyz Republic is one of the four founding members of CAREC and has benefited from regional infrastructure development. However, the potential benefits of deeper regional integration have not been fully realized. Policy makers of the Kyrgyz Republic need to identify how best to leverage regional cooperation programs and how to adopt policies that facilitate diversification and increase competitiveness to reap the benefits of access to larger markets. The renewal of ties with Uzbekistan is significant. In 2017, Uzbekistan was the Kyrgyz Republic's fourth-biggest export market and the sixth-largest source of imports.

### III. COUNTRY STRATEGY FRAMEWORK

#### A. Lessons from Previous Strategy

19. A CPS final review rated the ADB program in 2013–2017 *successful*. The review identified two lessons.<sup>26</sup> First, the identification and implementation of new growth drivers will require continued ADB support through multiple CPS cycles. Second, ADB's operations should remain focused on the bank's comparative advantages in addressing the critical challenges the country

<sup>22</sup> This is the duration or speed with which the youth make the transition from leaving formal education to entering the workforce, which was more than 3 months.

<sup>23</sup> National Statistical Committee. 2016. *Women and Men of Kyrgyz Republic: Gender Disaggregated Statistics, 2011–2015*. Bishkek.

<sup>24</sup> National Statistical Committee. 2013. *Kyrgyz Republic Demographic and Health Survey 2012*. Bishkek.

<sup>25</sup> The EEU has set targets to improve macroeconomic stability: a maximum fiscal deficit of 3% of GDP, public sector debt not exceeding 50% of GDP, and inflation not exceeding 5% compared with previous annual end-of-period level.

<sup>26</sup> ADB. 2018. *Country Partnership Final Review: Kyrgyz Republic, 2013–2017*. Manila.

faces. The CPS 2013–2017, in line with the then ADB corporate strategy, did not identify agriculture as a priority sector. However, ADB provided knowledge support for climate change, which was a thematic agenda of the CPS, through technical assistance.<sup>27</sup> Ongoing consultations with the government and civil society stakeholders reinforced the need for ADB support on climate change adaptation and disaster resilience in agriculture and water resources, given the disproportionate burden of these factors on rural livelihoods. Further, country analytical work on agribusiness and availability of resources under the new Disaster Risk Reduction Financing Facility offer ADB the opportunity to expand the scope of engagement in the sector through project financing, to modernize irrigation and protective infrastructure, improve agricultural land management practices, and enhance agricultural services and value chains.

20. The Independent Evaluation Department validated the CPS final review, rating the ADB program *successful* overall.<sup>28</sup> The validation proposed three recommendations. First, ADB should focus more on the sustainability of the program and support sector reforms through policy dialogue, technical assistance (TA), and/or policy-based loans. Second, ADB should continue to support investment climate reforms and simultaneously expand the portfolio of private sector investments and public–private partnerships (PPPs). Third, ADB should utilize its expertise in regional cooperation to help strengthen the government’s capacity to make the best use of existing and potential opportunities.

## **B. National Development Strategy**

21. The government is preparing the country’s long-term development strategy, which will aim to create a strong economy, ensure high quality of life, develop competitive human capital, and contribute to regional cooperation. The medium-term strategy for 2018–2022—Unity, Trust and Creation—has four priorities:<sup>29</sup> (i) raising the well-being of the nation by growth through macroeconomic stability, improving connectivity with regional markets, creating a conducive investment policy, and implementing a program for SMEs; (ii) developing agriculture and industry focusing on diversification, in addition to key sectors such as energy, transport, mining, tourism, textiles, and construction; (iii) enhancing human development outcomes and deepening unity among ethnic groups; and (iv) undertaking public administration reforms to improve service delivery. Gender parity, environment, and deployment of technologies are crosscutting priorities. Key national initiatives are (i) Taza Koom, an ICT program on digital transformation; (ii) development of regions, focusing on 20 urban growth nodes starting with 5–6 urban centers; (iii) human capital development; (iv) law enforcement reforms for safe cities; and (v) constructive regional cooperation and integration. Launched in April 2017, Taza Koom will link the government, businesses, and citizens to reduce corruption and increase transparency and growth.<sup>30</sup>

## **C. Role of Development Partners**

22. ODA accounted for 34.2% of government expenditure on average during 2014–2016. The People’s Republic of China is the country’s largest partner, aiding primarily in transport and

<sup>27</sup> ADB. 2012. Regional: Economics of Climate Change in Central Asia. <https://www.adb.org/projects/44068-012/main>

<sup>28</sup> Independent Evaluation Report. 2018. *Kyrgyz Republic: Country Partnership Strategy Final Review Validation 2013–2017*. Manila.

<sup>29</sup> Government of the Kyrgyz Republic. 2018. *Development Program of the Kyrgyz Republic—Unity, Trust, Creation*. Bishkek. [http://www.gov.kg/wp-content/uploads/2018/06/PR\\_07\\_06\\_18kyr.docx](http://www.gov.kg/wp-content/uploads/2018/06/PR_07_06_18kyr.docx)

<sup>30</sup> The goals of Taza Koom are to deploy digital infrastructure, create an enabling environment for ICTs, provide digital opportunities for all, ensure data and network security, and be the hub of the digital Silk Road. The mobile penetration rate in 2016 was 116%. Internet penetration, although only at 38%, is highest in the region after Kazakhstan.

energy sectors.<sup>31</sup> ADB has the largest program among multilateral institutions in the country. As of June 2018, ADB's ongoing portfolio consisted of 11 projects and 6 TA operations totaling \$617 million, primarily in transport, energy, and education. The country's development coordination council has 10 sectors, each chaired by an international financial institution. Key issues are discussed with the Prime Minister on a quarterly basis, while sector priorities, policy dialogue and project activities are prepared in close collaboration by the development partners.<sup>32</sup> The IMF's 3-year Extended Credit Facility program concluded in April 2018. The World Bank's program consists of 17 projects in nine sectors totaling \$304.5 million with water and energy accounting for 57%. German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit supports TVET, while KfW focuses on health, social protection, and energy efficiency with links to climate change. The priorities of the Japan International Cooperation Agency are agriculture, business promotion, and transport infrastructure to improve export competitiveness. The European Union uses budget support for rule of law, education, and integrated rural and sustainable development. Given the large share of ODA in government expenditures and the steady increase in the proportion of loans within it, the national debt management strategy approved in 2018 introduced a ceiling on external debt incurred from one creditor to not exceed 50% of the total and to ensure portfolio diversification. Development effectiveness of the ODA-supported programs needs greater attention. This includes economic and financial analyses, project implementation, and portfolio management.

#### D. ADB's Strategic and Thematic Objectives and Public and Private Sector Operational Priorities

23. ADB's strategic objectives in the CPS, 2018–2022 for the Kyrgyz Republic are to contribute to inclusive and sustainable growth and to improve human development and quality of life. ADB will enhance the government's efforts to (i) support growth and economic diversification, (ii) improve access to public and social services, and (iii) leverage regional cooperation and integration initiatives more effectively (Figure 1). ADB will support the country's long- and medium-term development plans in addressing the challenges in sustaining rapid inclusive growth that will create more productive jobs in the formal sectors of the economy, encourage diversification, and contribute to the reduction of poverty and vulnerabilities across regions.

**Figure 1: Three Pillars of ADB's Country Partnership Strategy, 2018–2022**

<b>Country Partnership Strategy Objectives:</b> Contribute to inclusive and sustainable growth, improved human development, and quality of life		
<b>Pillar 1: Support growth and economic diversification</b> 1. Catalytic infrastructure investments and reforms in energy and transport 2. Policy-based support on economic diversification with knowledge support 3. Promotion of private sector development	<b>Pillar 2: Improve access to public and social services</b> 1. Widened access to skills development 2. Improved water supply and sanitation for select urban and rural areas 3. Strengthened agricultural services, natural resources management, climate resilience, and disaster risk reduction	<b>Pillar 3: Leverage regional cooperation and integration</b> 1. Use CAREC for regional transport and energy projects. 2. Expand to new operational areas under CAREC Strategy 2030. 3. Pilot multisector approach for the south around Fergana Valley, neighboring Uzbekistan and Tajikistan.
<b>Crosscutting Priorities:</b> Governance and capacity development, gender and development, information and communication technology, environment, knowledge solutions, and portfolio management		

CAREC = Central Asia Regional Economic Cooperation.

Source: Asian Development Bank.

<sup>31</sup> National Institute of Strategic Studies. 2016. *2015–16 Knowledge Sharing Program with Kyrgyz Republic: Effective Utilization of Financial and Human Capital for Sustainable Development of the Kyrgyz Republic*. Bishkek.

<sup>32</sup> ADB cochairs the transport and energy sector working groups.

24. Given the wide-ranging needs of the country, ADB has targeted its approach to build upon its previous operations and evolving government priorities to support government's five-year development strategy. While the previous CPS focused on five sectors—energy, transport, education, public sector management, and water supply and sanitation—this CPS deepens the ongoing sectors of engagement and introduces a sixth area, which is to reengage in agriculture through project financing, to enable the ADB country program achieve greater inclusive, economic and environmentally sustainable growth. The objectives of the CPS are aligned with the thrust of ADB's Strategy 2030 for a country-focused and differentiated approach for this landlocked, lower middle-income economy. The ADB program will address the country's remaining poverty and reduce inequalities through assistance for job creation by promoting diversification, improving the quality of secondary education and TVET, and increasing water supply and sewerage services. Women's economic empowerment will be increased by encouraging women's entrepreneurship. ADB will scale up its engagement in helping the country tackle adverse effects of climate change and build climate and disaster resilience with a focus on water resources. To promote agriculture and food security, ADB will support to increase agriculture productivity in the lagging region of Fergana valley through a multisector approach. To strengthen governance and institutional capacity, ADB will also support the national ICT initiative during the CPS period in addition to improving sector governance—public financial management, procurement, safeguards—in areas of ADB engagement and institutional development. ADB will support the government's plans to address the Sustainable Development Goals (SDGs) including its implementation related to poverty, provision of clean water and sanitation, gender equality, education, and improvement in health and well-being. The government is currently adopting the SDG targets and indicators in its programs and results frameworks.

### **1. Support Growth and Economic Diversification**

25. ADB will use three pathways to help the Kyrgyz Republic achieve broader-based economic growth during the CPS period: (i) catalytic infrastructure investments in energy and transport, (ii) institutional reforms to raise sector efficiencies in energy and transport, and (iii) sequenced support for economic diversification through policy-based lending. Nonsovereign operations will also be explored and implemented. These operations will be complemented with knowledge support on new economic growth drivers, which ADB's country diagnostic study for the Kyrgyz Republic is identifying. ADB will work closely with the government in diversifying the country's economic base. For instance, development of agribusiness is important to meet the demand for agro-based products in neighboring countries, while the expansion of production will reduce rural unemployment and poverty. However, the country's ability to become part of regional and global value chains will determine whether these products become competitive.

26. **Catalytic infrastructure investments in energy and transport.** In energy, a key problem faced is the age of the hydropower generation assets, which is well past their economic life. ADB will rehabilitate major hydropower plants and continue focus on power generation and transmission during the CPS period, but also expand the scope to power distribution, off-grid generation, and high technologies to supplement winter heating for the population. The ongoing ADB program will rehabilitate the four generator and turbine units of Toktogul hydropower plant with installed generation capacity of 1,320 megawatts (MW). This plant produces about 40% of the country's electricity output and provides voltage and frequency regulation services to the Central Asian Power System. Increased supply beyond 2022 is pivotal to raise power exports from the summer surplus to Afghanistan and Pakistan through the Central Asia–South Asia power interconnection initiative. Export demand could grow up to 1,600 gigawatt-hours once this is commissioned. ADB is to also finance the rehabilitation of the Uch–Kurgan hydropower plant during the CPS period based on savings from the procurement process of the Toktogul

hydropower plant rehabilitation. ADB may provide TA, transaction advisory support, and financing for greenfield projects such as the Kambarata-1 hydropower plant with planned installed capacity of 1,900 MW. ADB's program will aim to have catalytic effects and create a business-friendly environment, making hydropower plant projects viable for eventual private sector participation.

27. In transport, ADB will continue to improve connectivity by strengthening the road network. Areas of support will cover CAREC transport corridors—CAREC Corridor 1 (Bishkek–Torugart Road), CAREC Corridor 3 (Bishkek–Osh Road), connector roads, and bypass roads—to link domestic markets with regional corridors. These efforts will be strengthened through the CAREC trade facilitation program to accelerate customs modernization and harmonize customs procedures with other countries in the region. Ongoing support for climate-proofing construction and operation and maintenance of roads to promote sustainability will be continued. In addition to supporting road transport, ADB engagement will be explored for airways and railways. Since upgrading rail systems requires significant resources, projects will be undertaken selectively.

28. **Institutional reforms to improve sector efficiencies.** In the energy sector, ADB will improve financial performance of sector entities through asset reevaluation of all companies, introduce reforms to strengthen business systems, and reduce commercial losses. Support will be provided for implementing a medium-term plan of setting tariffs at cost-recovery levels. ADB will help institutionalize the electricity settlement center, which has the mandate to distribute sector revenues and create public awareness on tariff reforms. Support will be provided for the energy sector master plan. New technology options will be explored. ADB will support the country's adoption of solar heating and explore options to bring in direct investments in solar heating, rooftop solar, and building efficiency. In the transport sector, ADB will improve the efficiency and quality of road maintenance, including through ongoing support to develop a road asset management system. To increase private sector involvement for road maintenance, ADB will pilot performance-based management contracts. ADB will assist in improving road safety management by developing a national road safety strategy with road safety audits, capacity development, and public awareness programs.

29. **Policy-based support on economic diversification.** ADB will provide policy-based support aimed at diversification and market-oriented reforms. This will build on areas assisted since 2008 under ADB's investment climate improvement programs like access to financial services, PPPs in infrastructure and services, trade and investment, and ease of doing business. ADB will increase focus on the development of regions based on their endowments and growth drivers. Free economic zones, if properly planned, executed, and managed, have the potential to increase productivity in the manufacturing sector and attract foreign investment and technology. ADB will also encourage clusters around existing free economic zones to increase specialization, improve coordination, and generate economies of scale for exports of targeted goods and services. Support will continue for finance sector development, which is key for SMEs.

30. **Promoting private sector operations.** ADB's private sector operations will complement public sector interventions to provide integrated solutions for infrastructure financing, thereby supporting diversification. Avenues will be explored for providing direct financing for viable projects and companies, and leveraging resources for attracting finance from alternative sources involving debt, equity, and third-party funds. ADB will review the country's legal and regulatory framework for project finance opportunities, particularly in power and small-scale hydropower plants. ADB will consider bankable corporate finance projects in telecommunication, ICT, and agribusiness. ADB will also consider funding financial institutions to support underserved segments, such as micro, small, and medium-sized enterprises. Private sector involvement in social sectors such as education and health will also be explored.

## 2. Improve Access to Public and Social Services

31. ADB will improve public and social services by enhancing the employability of the labor force through wider access to skills development. Assistance for improved water supply and sanitation in secondary towns and demonstration projects in rural areas will be provided. ADB will strengthen agricultural services, climate resilience, and disaster risk reduction and adaptation, focusing on water resources. The planned ADB program under this pillar will be guided by the government's efforts to improve the quality of life of citizens beyond the traditional growth nodes of Bishkek city and Chui region. On regional development, the government has made development of all regions and *oblasts* (provinces) a strategic priority.

32. **Widened access to skills development.** ADB, in collaboration with other development partners, will support to improve the employability of the labor force. ADB has supported skills development in the Kyrgyz Republic since 2008. The planned program will pursue skills development within a broader conceptual framework, helping strengthen students' pathways to higher-level skills and education. ADB will prioritize reforms in tertiary and higher education, including support for science, technology, and innovation that are important for the country to move to a knowledge-based economy. This may include support for teaching and learning of science, technology, engineering, and mathematics at the secondary level to help create a more solid basis for strengthening the capacity for science, technology, and innovation at universities. Skills development will also be part of supporting growth, because it has wider implications on initiatives such as digitalization, regional and economic corridors, and innovation. Priority will be given to developing policy options for integrating primary and secondary TVET, deploying an integrated education management information system, and institutionalizing centers of excellence.<sup>33</sup> The introduction of the competency-based training system is a key step in addressing the skills mismatch in labor markets. The ongoing general secondary education support will be continued.

33. **Improved water supply and sanitation.** Increasing access to clean drinking water and centralized sewerage system are CPS priorities. ADB will continue to help urban and rural areas improve sector governance, strengthen legal and regulatory frameworks, and update technical standards and norms because these are essential to improving health indicators. ADB will support rehabilitation of wastewater collection and treatment systems in the Issyk-Kul region as a second phase. Since 2009, ADB has supported improvements in environmental management and urban service delivery in three settlements.<sup>34</sup> Following background work to create a sustainable institutional model for rural water supply, ADB will reengage in rural water supply and sewerage through a demonstration project in the Naryn region, using innovative systems and potential cofinancing for scaling up the project. ADB will pilot an integrated and programmatic approach in the Naryn region. The planned approach will be to fast-track the economic potential of the Naryn region, which has comparative advantages in livestock, tourism, transport, and transit trade.

34. **Strengthened agricultural services, sustainable natural resources management, pollution control, and disaster risk reduction.** Degraded infrastructure, low productivity, poor access to markets, gaps in food security, and vulnerability to climate change are key challenges. ADB will strengthen agriculture productivity, improve aggregation of agricultural produce in modern wholesale markets, and enhance agriculture value chains. There is considerable potential

<sup>33</sup> In the Kyrgyz Republic, lyceums provide primary TVET to develop skilled workers, while colleges provide secondary TVET to develop middle-level specialists. Students who wish to enter primary or secondary TVET must complete grade 9. There are currently no pathways for students between the primary TVET and secondary TVET.

<sup>34</sup> The world's second-largest saline lake, the Issyk-Kul lake, is in this province. Excessive pressure on infrastructure is partly responsible for the lake's pollution, given that its drainage is inland or endorheic.

for SMEs to be part of regional value-chains in the agribusiness space. ADB will work on SME development in the agribusiness area through both national and regional forums and with the private sector. Assistance on climate change and disaster risk resilience will focus on water resources. It will combine structural interventions with capacity development, incorporating a systems or basin approach that addresses (i) upstream sources of risks such as those arising from mudflows and landslides and (ii) downstream outcomes on irrigation systems. The program will incorporate community-driven development approaches targeting vulnerable and poorer regions, and enhance the representation of women in water users associations. ADB will modernize flood control infrastructure in arable lands, improve agricultural productivity and land management practice, and enhance disaster-related data collection and analysis. Mainstreaming environmental principles in the national development agenda through green industry promotion, sustainable infrastructure development, and low-carbon development will be considered.

### 3. Leverage Regional Cooperation

35. ADB will implement actions through CAREC to enable the country to leverage competitive regional cooperation and integration initiatives more effectively. ADB will continue to support the implementation of the Almaty–Bishkek Economic Corridor (ABEC), which aims to shorten the economic distance between the two cities and surrounding areas to increase regional competitiveness. To achieve this, ABEC will support investments and reforms to reduce travel time; and create regional competitive markets for tourism services and horticulture trade, the latter by a focus on aggregating agricultural produce in modern wholesale markets to exploit export potential. ADB will assist in addressing regulatory and institutional issues in ABEC.

36. A multisector programmatic approach for ADB and CAREC investments, with a focus in Fergana valley in the southern zone, will be piloted to increase agricultural productivity and improve livelihoods. It will cover selected urban growth nodes in the region that will overlap with the 20 identified national urban centers and towns prioritized by the government’s regional development strategy. ADB will identify constraints and ways to develop export-oriented agriculture value chains in the region. It will assess the potential scope for improvements in production, processing, and exports. ADB will consider developing regulations to improve cross-border connectivity and links. It will support the government in maximizing the benefits of participating in the EEU. To promote the free movement of goods, ADB will assist in modernizing the sanitary and phytosanitary facilities in line with the EEU regulations. As planned in the CAREC 2030 strategy, ADB will continue to develop regional transport corridors, paying more attention to the sustainability of road infrastructure and increasing focus on road safety and road asset management.<sup>35</sup> Greater integration of energy markets will also be supported. ADB will continue support for the national single window development, improve border crossing points and customs harmonization, and implementation of the World Trade Organization trade facilitation agreement.

37. **Cross-cutting thematic areas.** ADB will support improvements in sector governance—public financial management, procurement, and safeguards—in addition to raising sector efficiencies (para. 28). For the Taza Koom ICT program, ADB will cover areas such as developing an actionable road map with milestones, strengthening the capacity of the implementing agency, and developing sector-specific ICT applications. These applications will be aligned with ADB support for skills development on digital technologies, and integrated ICT education platforms. ADB support for ICTs will contribute to improvements in service delivery, and transparency.<sup>36</sup> ADB will continue mainstreaming gender equality in its operations. ADB will promote women’s

<sup>35</sup> ADB. 2017. *CAREC 2030: Connecting the Region for Shared and Sustainable Development*. Manila.

<sup>36</sup> ADB. 2018. *Country Governance Risk Assessment Kyrgyz Republic*. Manila.

economic empowerment through policy reforms to support women’s entrepreneurship, especially in markets for products included in the EEU and the Generalized System of Preference Plus list, and improve financial inclusion. Women’s entry into traditionally male-dominated professions, like in science, technology, and engineering, will be supported through reforms in secondary, TVET, and higher education. ADB investments in urban and rural water supply, energy, and transport will ease women’s time poverty and offer opportunities to engage in studies, and income-generating activities. ADB investments will address safety and security issues in public transport.

#### **E. Priorities for Knowledge Support**

38. ADB will maximize the development impact by delivering operationally relevant knowledge products in close coordination with the government, other development partners, and national institutes. The identification of growth drivers for economic diversification will be prioritized. It will include the “how to” aspects of diversification. ADB will give special attention to identifying economic growth drivers that can become part of regional and global value chains and the policy actions that need to be taken to facilitate the process. CAREC recently completed two studies on free economic zones and industrial parks. The studies’ findings will be relevant for diversifying and facilitating integration of firms into regional value chains.<sup>37</sup> ADB will undertake policy dialogue in collaboration with other development partners and national institutes on governance, operation and maintenance of infrastructure, investment climate improvements, diversification, tariff reforms, service delivery, and gender mainstreaming. ADB’s Kyrgyz Resident Mission, led by its country director, will be the custodian of all ADB-supported knowledge work.

### **IV. STRATEGY IMPLEMENTATION**

#### **A. Indicative Resource Parameters**

39. The Kyrgyz Republic is a group A concessional assistance-only country with access to grants from the Asian Development Fund and concessional ordinary capital resources loans. The indicative Asian Development Fund grant and concessional ordinary capital resources loans available for commitment during 2018–2022 will approximately be \$641 million.<sup>38</sup> The Kyrgyz Republic is likely to remain at moderate risk of debt distress. Thus, the existing equal distribution of ADB support between loan and grants is likely to continue. ADB’s Private Sector Operations Department will seek opportunities in agribusiness, power, telecommunication, and ICT, complementing public sector financing. Six sectors are prioritized by the CPS. Planned sector allocations for 2018–2022 are energy (20%–25%); transport (20%–25%); agriculture, natural resources, and rural development (15%–20%); education (10%–15%); public sector management (10%–15%); and water supply and other municipal infrastructure and services (10%–15%). Indicative shares of modalities are project loans (64%), sector development programs (14%), results-based lending (12%), policy-based loans (9%) and likely financial intermediation loans. Technical assistance will total about \$9.7 million for 2018–2022 and also cover knowledge work, policy dialogue, and capacity development in project implementation.

#### **B. Implementation Priorities**

40. ADB will collaborate with the government to shorten delays between signing and effectiveness of projects. Efforts will be made to strengthen the procurement capacity of the

<sup>37</sup> CAREC. 2018. *Diagnostic Study and Strategic Framework for Free Economic Zones and Industrial Parks*. Manila.

<sup>38</sup> The approximate amount of resources is based on the indicative resources available for commitment for 2018-2021, and for 2022, a similar amount was assumed.

tender commissions through training on ADB procurement guidelines.<sup>39</sup> ADB will explore having members of the tender commissions and staff of the executing agency sign confidentiality agreements during bid evaluation. To improve project and portfolio management, guidelines (for preparation, implementation, monitoring, completion of externally financed projects, and reporting mechanism) for managing development projects and the handbook developed under ADB-financed TA will be finalized with training to staff of the executing and implementing agencies.<sup>40</sup> To improve contract management, focal persons in the executing and implementing agencies responsible for monitoring and managing contracts for each procurement will be identified and trained. ADB will study and deploy suitable new financing products approved by the ADB Board of Directors in 2018, such as the small expenditure financing facility and new project readiness financing facility. The ADB resident mission will be further strengthened to provide on-the-ground support on procurement, financial management, etc., by also bringing in capable national officers and forging partnerships with officials in nodal government ministries.

### C. Monitoring of Results

41. The CPS results framework (Appendix 1) aligns with the government's medium-term development strategy for 2018–2022. The reporting mechanism developed as part of the TA provided by ADB (footnote 40) linking the project implementing units, executing agencies, and the Ministry of Finance will be used. Sector and project results will be tracked annually during programming missions by ADB country team, in collaboration with executing and implementing agencies. The government is adapting SDGs and associated targets and indicators. This involves identifying the presence of related national indicators, formulating new indicators as needed, and determining the capacity building required based on technical and methodological needs.

### D. Risks

42. On public financial management, the budget process has improved, including through a new Budget Code that took effect in January 2017. However, it is still less predictable and lacks clear links to the medium-term budget framework. Accountability on spending and performance need improvement. ADB will provide capacity building to project counterparts, including executing and implementing agencies, in the budgeting of forward expenditure estimates for capital projects as part of loan processing. Fiscal consolidation, which remained a priority under IMF's program needs to be continued by the government, with also growth enhancing policies. The government has not yet deployed a fully functional financial management information system, although efforts are underway to complete this with its own funding. ADB will support the Ministry of Finance in assessing how the tracking of payment arrears can be facilitated through this new system.

43. On public procurement, while processes have improved since the last assessment by the World Bank in 2007, strategic procurement planning is lacking for high-risk and high-value procurements to ensure best value for money. Procurement entities lack the capacity for effective contract management.<sup>41</sup> Through its policy dialogue with the sector counterparts, ADB will discuss the possibilities of enhancing strategic procurement planning, and how to incorporate this into the country's procurement reforms. On anticorruption, ADB will help government formulate pathways for improvements through training on ADB's Anticorruption Policy (1998, as amended to date) (footnote 36).

<sup>39</sup> ADB. 2017. *Kyrgyz Republic: Enhanced Project Delivery Paper*. Manila.

<sup>40</sup> ADB. Kyrgyz Republic: Strengthening Government Capacity for Managing Development Projects. <https://www.adb.org/projects/48038-001/main>

<sup>41</sup> ADB. 2018. *Kyrgyz Republic Country and Sector Procurement Risk Assessment Report*. Manila.

## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Impact Indicators with which the CPS Is Aligned<sup>a</sup></b>				
1. 500,000 new jobs created by 2023 (2016 baseline: 2.3 million people employed) 2. Poverty level reduced to 20% by 2023 (2016 baseline: 25.4%) 3. Rural households with incomes below subsistence level reduced to 20%–23% by 2023 (2016 baseline: 29%) <sup>b</sup> 4. Life expectancy increased by 3 years by 2023 (2016 baseline: 71) <sup>c</sup>				
<b>CPS Objectives and Related Impacts</b>	<b>CPS Priority Areas</b>	<b>Key Outcomes that ADB Contributes to</b>	<b>Outcome Indicators</b>	<b>CPS Resources</b>
Support growth and economic diversification	Infrastructure investments in energy and transport	<p>Increased generation of electricity and its availability for industry, homes, and exports</p> <p>Improved transport connectivity and efficiency in border-crossing procedures</p>	<p>Domestic supply increased to 11,000 GWh by 2022 (2016 baseline: 9,000 GWh)</p> <p>10-year average of net electricity exports increased by 5% by 2022 (2016 baseline: 10-year average exports of 1,300 GWh)</p> <p>At least 10% of households in the Kyrgyz Republic have rooftop solar by 2022 (2016 baseline: 0)</p> <p>Travel time between Naryn and Osh reduced by 50% (11 hours) by 2022 (2015 baseline: 22 hours)</p> <p>Time to cross Karamyk border crossing point reduced by 50% (1.9 hours) by 2022 (2016 baseline: 3.7 hours)</p>	<p><b>Ongoing portfolio</b></p> <p>\$617 million ongoing as of June 2018 (11 projects, and 6 technical assistance grants).</p> <p><b>Sovereign Indicative Asian Development Fund</b> grant and concessional ordinary capital resources loan allocation during 2018–2022 is \$641 million.</p> <p><b>Technical assistance</b> \$9.7 million grants for technical assistance during 2018–2022.</p>
	Policy-based support on economic diversification	Enhanced investment climate and business environment	<p>Global ranking for ease of doing business improved to 50 or below by 2022 (2017 baseline: 77)</p> <p>Share of SMEs in the gross domestic product structure increased to 50%, of which 30% are headed by women, by 2023 (2016 baseline: 39%, of which 12.2% are headed by women)<sup>d</sup></p>	
	Institutional reforms to improve sector efficiencies	<p>Strengthened governance and institutional capacity in the energy and transport sectors</p> <p>Strengthened government capacity to implement the Taza Koom digital program</p>	<p>At least two performance-based road maintenance contracts awarded by 2022 (2017 baseline: 1)</p> <p>Financial audits and business operation assessments of 8 selected power and heat companies completed by 2022 (2017 baseline: 0).</p> <p>Formulation of road map for the Taza Koom national information and communication technologies initiative completed with interim milestones (2017 baseline: No road map)</p>	

CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Improve access to public and social services	Access to higher-level skills and tertiary education	Reduced skills mismatches in the labor market	Number of technical and vocational education and training students graduated per year increased by at least 15% by 2022 (2016 baseline: 25,700 students)  About 4,000 students, of which 30% are women, trained in priority occupations or specializations in centers of excellence (2017 baseline: 0)	
	Water supply and municipal infrastructure and services	Increased access to clean drinking water and centralized sewerage system	Population with access to safe sources of drinking water increased to 95% by 2022 at the national level (2016 baseline: 89.9%), including 82% in Osh oblast (2016 baseline: 76.4%)  Population with sustainable access to sewerage increased to 40% by 2022 at the national level (2016 baseline: 30.2%), including 25% in Naryn oblast (2016 baseline: 17%), and 50% in Issyk Kul oblast (2016 baseline: 30%)	
	Agriculture, Climate resilience and disaster risk reduction	Strengthened agricultural services, improved climate change adaptation and disaster resilience of infrastructure and livelihoods	Productivity of water withdrawn increased to 0.70 kg m <sup>-3</sup> for wheat and 0.70 kg m <sup>-3</sup> for corn in Chui, Osh, Jalal-Abad, and Batken oblasts by 2022 (2017 baseline: 0.64 kg m <sup>-3</sup> for wheat and 0.50 kg m <sup>-3</sup> for corn).  About 37,000 households and 18,000 ha agricultural land covered by 2022 through 575 disaster prevention and rehabilitation works projects completed annually by Emergency Response Centers (2015-2017 annual average baseline: 306 projects for 20,700 households and 10,700 ha).	
Leverage regional cooperation	Leverage regional cooperation and integration initiatives for national development priorities	Scaled-up support for economic corridor development under the CAREC program  Piloted innovative programmatic support in the Fergana Valley	At least one ADB regional investment project within the Almaty–Bishkek Economic Corridor framework and in CAREC 2030's areas of cooperation approved by 2022 (2017 baseline: 0)  Trade turnover of vegetables and fruits between the Kyrgyz Republic and Uzbekistan increased by 15% by 2022 (2016 baseline: \$85.3 million) <sup>e</sup>	

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, CPS = country partnership strategy, EEU = Eurasian Economic Union, GWh = gigawatt-hour, ha = hectare, kg m<sup>-3</sup> = kilogram per cubic meter.

<sup>a</sup> The indicators are aligned with the expected results in the Development Program of Kyrgyz Republic, 2018–2022.

<sup>b</sup> National Statistical Committee of the Kyrgyz Republic.

<sup>c</sup> World Bank data.

<sup>d</sup> Government of the Kyrgyz Republic, National Statistical Committee. 2017. *Report on Men and Women in the Kyrgyz Republic*. Bishkek.

<sup>e</sup> United Nations Conference on Trade and Development statistics.

Source. Asian Development Bank.

## COUNTRY KNOWLEDGE PLAN

### A. Knowledge Needs

1. At \$1,167, the 2017 gross domestic product per capita of the Kyrgyz Republic is on the lower end of Central Asian economies. Growth fluctuates because of the country's narrow economic base. Remittance inflows from migrant laborers in the Russian Federation and Kazakhstan averaged about 30% of gross domestic product during 2011–2017. The economy has been unable to create enough productive jobs; the informal sector may account for as much as 60% of the total number of employed. The poverty rate was 25.4% (or 1.55 million people) in 2016, with 74% of the poor living in rural areas and about 60% residing in the south. Foreign investment, an important source for introducing new technology and expanding the country's knowledge base, remains small.

2. The government, development partners, and other stakeholders recognize that weak institutions and governance impede inclusive growth. Knowledge is a key driver of change to achieve broader-based growth. The Kyrgyz Republic needs knowledge support to (i) identify growth drivers for economic diversification and cost-effective technology transfers that are suitable to the country and private sector development, (ii) build government capacity to implement policy reforms for improving governance and operation and maintenance of infrastructure, (iii) promote greater inclusion and environmental sustainability, and (iv) leverage regional cooperation and integration initiatives more effectively.

#### 1. Economic Diversification

3. **Policy-based support for economic diversification.** The Kyrgyz Republic needs to promote new economic growth drivers and diversify its economy. To achieve this, the country needs to acquire knowledge and expertise to (i) develop free economic zones, which have the potential to increase manufacturing productivity and attract foreign investment and technology; (ii) encourage clusters around existing free economic zones to increase specialization, improve coordination, and generate economies of scale for exports of targeted goods and services; and (iii) develop the finance sector, which is key for support to small and medium-sized enterprises.

4. Assistance for improving governance and operation and maintenance of infrastructure. In the energy sector, the government needs knowledge to (i) explore energy efficiency options using new technologies for improving the financial performance of sector entities; (ii) implement a medium-term plan for setting tariffs at cost-recovery levels, institutionalize the electricity settlement center, and develop the energy sector master plan; and (iii) promote new technology options through the use of renewable energy, including wind and solar energy. In transport, the government needs knowledge to (i) increase the efficiency and quality of road maintenance by piloting performance-based management contracts; (ii) develop a national road safety strategy with road safety audits, capacity development, and public awareness programs; and (iii) support climate-proofing construction and operation, and maintenance of road projects to ensure continued sustainability. Potential engagements for airways and railways will also need to be supported. For private sector development, knowledge is required to improve the legal and regulatory framework for project finance, particularly in power and small-scale hydropower plants.

#### 2. Access to Public and Social Services

5. **Widened access to skills development.** The government needs reforms in both tertiary and higher education, introducing technology and innovation, for the country to move to a

knowledge-based economy. Knowledge solutions are needed to introduce a competency-based training system in order to address skills mismatches in labor markets and uneven access to education. Knowledge is also needed to further improve general secondary education.

6. **Improved water supply and sanitation.** The government needs knowledge to develop a sustainable institutional model for rural water supply. This may require help to pilot demonstration projects with scaling-up options. Wider support will also be needed to roll-out a programmatic approach in the Naryn region to fast-track the region's economic potential.

7. **Strengthened agricultural services, sustainable natural resources management and pollution control, climate resilience, and disaster risk reduction.** The government is combining structural interventions with capacity development to improve agricultural and land management practices, enhance climate change resilience and disaster-related data collection and analysis. Knowledge solutions are needed to mainstream environmental sustainability by promoting green industry and developing sustainable infrastructure.

### 3. Regional Cooperation and Integration

8. Knowledge solutions are needed to support investments and reforms in order to reduce travel time; create a competitive regional market for health, education, and tourism services; and aggregate agricultural produce in modern wholesale markets to exploit export potential. Addressing regulatory and institutional issues to improve cross-border connectivity and modernizing sanitary and phytosanitary facilities are priority areas where support is needed.

9. **Other areas.** The government needs support for the Taza Koom digital transformation program, especially to develop an actionable road map and strengthen the capacity of the designated agency to oversee its implementation. Continuing efforts to improve gender equality outcomes based on the national action plan will be a priority. In addition, the government requires knowledge solutions to improve its overall project management capacity and economic policy formulation in order to maximize the benefits of membership in the Eurasian Economic Union.

### B. Scope of ADB's Planned Knowledge Operations

10. The strategic pathways of the country partnership strategy, 2018–2022 of the Asian Development Bank (ADB) for the Kyrgyz Republic are to assist the government's efforts to (i) support growth and economic diversification, (ii) improve access to public and social services, and (iii) leverage regional cooperation and integration initiatives. It addresses the challenges in sustaining rapid inclusive growth that will provide more productive jobs in the formal economy, encourage diversification, and reduce poverty and vulnerabilities across regions. ADB will achieve these objectives by simultaneously addressing thematic concerns while complementing financing with knowledge support.

11. ADB aims to expand the development impact of its operations by delivering knowledge products and services (KPS) and coordinating closely with the government and other development partners. During 2 decades of engagement in the Kyrgyz Republic, ADB has delivered KPS, either as part of projects or as stand-alone knowledge assistance.

#### 1. Support Growth and Economic Diversification

12. **Policy-based support for economic diversification.** ADB's knowledge assistance will be in the form of policy dialogue and technical assistance (TA) to help implement the reforms and

build on the previous investment climate improvements. One objective will be to further develop the private sector's role in economic growth and diversification through (i) a local-level focus on access to financial services, (ii) increased participation in infrastructure development and services delivery, and (iii) integration with global value chains. ADB will also expand support into facilitating free economic zones and encouraging cluster development, as well as developing the finance sector to encourage the development of small and medium-sized enterprises.

13. **Improving governance and operation and maintenance of infrastructure.** In the energy sector, knowledge solutions will support the government in improving the financial performance of sector entities through asset reevaluation of all companies, introducing reforms to strengthen business systems and reduce commercial losses, and implementing the energy sector master plan. New technology options will be explored through the use of renewable energy, including wind and solar energy. In the transport sector, ADB will pilot performance-based management contracts to increase private sector involvement in road maintenance. Knowledge solutions will also be provided to improve road safety management by developing a national road safety strategy with road safety audits, capacity development, and public awareness programs.

## 2. Improve Access to Public and Social Services

14. **Widened access to skills development.** ADB will provide knowledge support in the form of TA for promoting science, technology, and innovation in tertiary and higher education. ADB will also streamline innovative solutions for introducing a competency-based training system.

15. **Improved water supply and sanitation.** ADB will support a capacity building program for corporate knowledge training targeting *vodokanal* (water company) directors, engineers, and accountants. In addition, ADB will support a study prioritizing smaller-scale water utilities that have similar challenges to *vodokanals*. ADB will also provide knowledge and financing support for piloting an integrated and programmatic approach in the Naryn region.

16. **Strengthened agricultural services, sustainable natural resources management and pollution control, climate resilience, and disaster risk reduction.** Given the considerable potential for SMEs to be part of regional value-chains in the agribusiness space, ADB will work on SME development in the agribusiness area through both national and regional forums and with the private sector. ADB will support climate change and disaster risk resilience, focusing on water resources, through capacity development. ADB will provide knowledge solutions to modernize flood control infrastructure in arable lands, improve agricultural and land management practices, and enhance disaster-related data collection and analysis. ADB's assistance, through knowledge work will be undertaken in the form of stakeholder training, use of high-level technology, sector analysis, improvements in operation and maintenance, and policy dialogue.

## 3. Leverage Regional Cooperation and Integration

17. Knowledge support in the form of capacity development and TA will be provided to complement investments and reforms. This support will inform efforts to cover reduce travel time; create a competitive market for health, education, and tourism services; and aggregate agricultural produce in modern wholesale markets to exploit export potential.

18. **Other areas.** ADB will support the government in the Taza Koom digital transformation program by developing an actionable road map with milestones and estimating resources required to implement the program. ADB will continue providing knowledge support through TA to improve overall project management capacity and improve economic policy formulation and to

maximize the benefits of membership in the Eurasian Economic Union. The assistance will focus on capacity development, a training program, and public awareness campaign. ADB, through its investments and through Central Asia Regional Economic Cooperation (CAREC), will pilot multisector support with a focus in Fergana valley, to increase agricultural productivity and improve livelihoods. ADB will identify ways to develop agriculture value chains.

### C. Areas of Collaboration with Partners

19. **Government and local institutions.** ADB will leverage in-country advisory services and research capacity to create and disseminate KPS, especially through think tanks, academic institutions, business associations, civil society organizations, and training centers of various agencies. In the Kyrgyz Republic, few local think tanks and research centers deal with economic and financial issues—and their research and advisory capacity, including English language proficiency, is generally weak. Nevertheless, while ADB has regularly been in contact with local think tanks and research centers during CPS programming and project and program design, cooperation in knowledge operations can be expanded. As an indicative example, the Director of the National Institute for Strategic Studies of the Kyrgyz Republic served as the external peer reviewer for this CPS and provided insightful guidance to the ADB team during CPS preparation.

20. **Development partners.** Development partner coordination in the Kyrgyz Republic has been efficient. Ongoing consultations through the development partners coordination council, sector working groups, and collaboration on knowledge solutions will help avoid duplications and increase KPS effectiveness. ADB continues to support reforms for economic diversification, enhanced inclusion, environmental sustainability, and regional cooperation. It will also assist with private sector and procurement capacity development. The CAREC Institute and the ADB Institute will also support knowledge partnerships during the CPS period.

### D. Resource Allocation

21. ADB expects to provide about \$9.7 million to generate KPS for the Kyrgyz Republic during 2018–2022 through TA projects, grant and loan projects, staff consulting, and staff time. This amount excludes funds earmarked for meeting the country’s just-in-time knowledge needs.<sup>42</sup> The Kyrgyz Republic will also benefit from several bank-wide, CAREC-specific, and other regional KPS. Financing sources include ADB-dedicated funds, trust funds, cofinancing arrangements with other development partners, and cost sharing with the Government of the Kyrgyz Republic.

### E. Knowledge Competence or Expertise

22. The Kyrgyz Republic has relevant experience to share with other countries like the successful introduction of the e-procurement system, developed under an ADB-supported TA.<sup>43</sup> ADB will highlight successful projects and continue knowledge sharing through CAREC.

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<sup>42</sup> ADB. Regional: Strengthening Knowledge Management in Central Asia. <https://www.adb.org/projects/49045-001/main>. This Regional TA 8936 administered by the Central and West Asia Regional Department serves as a facility that provides financial and analytical support to member countries with just in time knowledge solutions on policy reforms and capacity development needs aligned with ADB operations.

<sup>43</sup> ADB. Kyrgyz Republic: Implementing the e-Procurement System. <https://www.adb.org/projects/46397-001/main>

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/CPS/?id=KGZ-2018>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Country Operations Business Plan