

**RISK ASSESSMENT AND RISK MANAGEMENT PLAN**

<b>Risk Description</b>	<b>Rating</b>	<b>Mitigation Measures</b>	<b>Responsibility</b>
<p><b>Macroeconomic</b> Lower growth in the Russian Federation, which is a systemic partner economy, and still uncertain benefits of accession to the EEU increases vulnerability of the Kyrgyz export and investment sectors and delays reforms.</p>	Medium	The government is increasing efforts to diversify the economy, including in terms of exports, trading partners, FDI and investors. Development partners coordination will help ensure consistency in reform advice and support through targeted interventions. ADB is providing policy-based program support and attached TA, <sup>a</sup> including for implementing technical requirements of the EU's Generalized System of Preferences Plus trade privilege (previously acquired under the ADB program).	ADB and the executing agency
<p><b>Political economy</b> Frequent changes in government leadership undermine support for agreed reforms or result in changes in the reform agenda.</p>	High	Agreed reforms are geared towards economic growth driven by private sector development, including through export and FDI diversification, which is a development plank shared by all parties. The reforms are embedded in the National Sustainable Development Strategy (2013–2017), which specifies Parliament's commitment to private sector development <sup>b</sup> The October 2017 presidential election is unlikely to derail agreed reforms.	ADB and the executing agency
<p><b>Public Financial Management</b> PFM systems are weak, affecting transparency and accountability in economic management and public service delivery.</p>	High	PFM systems are being improved. Starting January 1 2017, the Central Treasury is a direct participant in the interbank payment system, with the UTA functioning as a centralized account of the budgets of the budgetary system of the Kyrgyz Republic. Integration of the public procurement web portal with the automated information system <i>Kazna</i>	The executing agency and MOF

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		<p><i>Budzhel</i> has been completed (January 2017). These reforms have helped: (i) in reducing the scope for corruption through significant automation of public procurement, and (ii) in ensuring budgetary obligations do not exceed the appropriations provided for the current fiscal year.</p>	
<p>PFM implementation capacity is limited.</p>	<p>High</p>	<p>Since 2011, PFM implementation capacity building through development partner interventions is increasing PFM effectiveness, efficiency, and accountability by improving the budget process; internal audit and disclosure; and institutional, human, and project management capacity.</p>	<p>ADB, the executing agency and MOF</p>
<p>Weak sector-level public investment planning and management results in a weak strategic basis for capital spending, including inadequate risk management for PPPs.</p>	<p>High</p>	<p>Through the proposed program and attached TA (footnote a), ADB is helping health and transport ministries and the Bishkek City Development Agency prepare sector strategies, with multiyear investment plans that include PPPs. Guidelines (including on contingent liabilities) and budget limits to ensure prudent management of fiscal risks arising from PPPs have been approved by MOF.</p>	<p>ADB, the executing agency and MOF</p>
<p><b>Procurement</b> Weak internal rules and entrenched public procurement practices carry significant risk of fraud and abuse of funds.</p>	<p>High</p>	<p>ADB supported the development and deployment of the electronic of government procurement system, in line with international standards. The new Law on Government Procurement, based on standard norms of UNCITRAL, has been adopted. Since May 2015, all state organizations use e-procurement. The</p>	<p>The executing agency and MOF</p>

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		government will make adequate budget allocations (starting in 2017) to ensure sustainability of the e-procurement system	
<p><b>Corruption</b> Public investment could be deterred through weak implementation of laws; corruption, particularly in agencies that have revenue raising and regulation powers; and fear of nationalization and expropriation, including breach of contractual obligations without fair compensation.<sup>c</sup></p>	High	Several tax and administrative reforms have reduced the discretionary power of tax inspectors. ADB's support for the government initiative to support cashless payments and mobile financial services is helping improve the traceability and accountability of transactions. E-procurement has been mainstreamed in all public organizations. A transparent mechanism for out-of-court settlement of investment grievances is being institutionalized.	ADB and the executing agency
<p><b>Education</b> Weak sector governance and lack of coordination may cause system inefficiency.</p>	High	ADB will support strengthening of the new National Skills Development Council, and improved coordination of vocational education planning, implementation, and monitoring.	ADB and the executing agency

ADB = Asian Development Bank, EEU = Eurasian Economic Union, EU = European Union, FDI = foreign direct investment, FMIS = financial management information system, MOF = Ministry of Finance, PFM = public financial management, PPP = public-private partnerships, TA = technical assistance, UTA = Unified Treasury Account.

<sup>a</sup> ADB. Kyrgyz Republic. [Second Investment Climate Improvement Program](#) (project preparatory technical assistance approved for \$600,000 in 2014; supplemented with \$500,000 in March 2016).

<sup>b</sup> Government of the Kyrgyz Republic. 2013. *National Sustainable Development Strategy, 2013–2017*. Bishkek.

<sup>c</sup> The Times of Central Asia. 2017. Kyrgyzstan and Centerra Reach Settlement Concerning Kumtor Gold Project. 11 September. <https://www.timesca.com/index.php/news/18613-kyrgyzstan-and-centerra-reach-settlement-concerning-kumtor-gold-project>. On 11 September 2017, Centerra Gold Inc., the Canadian-based gold mining company operating Kyrgyzstan's Kumtor gold mine, entered a settlement agreement with the government that provides for full and final resolution of all existing arbitral and environmental claims, disputes, proceedings and court orders.

Source: Asian Development Bank.