



**Development Partners  
Coordination Council**



**KYRGYZ REPUBLIC  
High Level Development Conference**

**July 10-11, 2013**

*Joint Conference Document*

*A Reform-Based Development Partnership,*

*2013 – 2017*

The Conference and its publications were prepared with financial support of the European Union



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### List of Acronyms

ACG	Arab Coordination Group
ACTED	Agency for Technical Cooperation and Development
ADB	Asian Development Bank
AFC	Agri-Food Corporation
ASW	State Agency for Social Welfare
AUB	Asia Universal Bank
BEEPS	Business Environment and Enterprise Performance survey
BPTC	Bishkek Passenger Transport Company
BTC	Bishkek Trolleybus Company
BTS	BishkekTeploSet
CADII	Central Agency for Development, Investments and Innovation
CAR	Capital Adequacy Ratio
CDS	Country Development Strategy
CHP	Central Heating Plant
CHPP	Combined Heating Power Plant
CIS	Commonwealth of Independent States
CoA	Chamber of Accounts
CT	Central Treasury
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EC	European Commission
FAO	Food and Agriculture Organization
FCSDCU	Financial Company for Support and Development of the Credit Unions
GDP	Gross Domestic Product
GMCL	Guaranteed Minimum Consumption Level
GMI	Guaranteed Minimum Income
GPO	General Prosecutor's Office
HPP	Hydroelectric power plant
IDB	Islamic Development Bank
IDPs	Internally Displaced Persons
IFC	International Finance Corporation
IFI	International Financial Institution
ILO	International Labor Organisation
IMF	International Monetary Fund
ISA	International Standards on Audit
JEA	Joint Economic Assessment
KDF	Kyrgyz Development Fund
KIHS	Kyrgyz Integrated Household Survey
LRF	Land Reallocation Fund
MB	Monthly Benefit
MDTF	Multi Donor Trust Fund
MER	Ministry of Economy
MFCs	Microfinancing Companies
MFOs	Microfinancing Organizations
MOA	Ministry of Agriculture and Melioration

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MOE	Ministry of Energy
MOF	Ministry of Finance
MoLYM	Ministry of Labor, Youth and Migration
MOTC	Ministry of Transport and Communications
MSB	Monthly Social Benefit
MTBF	Medium Term Budget Framework
NBKR	National Bank of the Kyrgyz Republic
NDB	Notionally-Defined Benefit
NDC	Notionally-Defined Contribution
NEP	National Energy Program
NGO	Non-Government Organizations
NPLs	Non-Performing Loans
OSCE	Organization for Security and Co-operation in Europe
PAR	Portfolio at risk
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIP	Public Investment Project
PRC	People's Republic of China
RC	Reinforced Concrete
RSDS	Road Sector Development Strategy
SAI	Supreme Audit Institution
SCS	State Customs Service
SEA	State Energy Agency
SECO	State Secretariat for Economic Affairs (Switzerland)
SIDA	Swedish International Development Agency
SMEs	Small and Medium Enterprises
SOEs	State Owned Enterprises
STS	State Tax Service
TA	Temporary Administration
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNOSAT	United Nations Institute for Training and Research (UNITAR) Operational Satellite Applications Program
URM	Unreinforced Masonry
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WFP	World Food program

## **Kyrgyz Republic High Level Development Conference, 10-11 July, 2013**

### **A Reform-Based Development Partnership, 2013-2017**

#### *1. The Joint Conference Document*

Three years after the political and economic turmoil of 2010, it is appropriate to reflect upon the Kyrgyz Republic's transition from post-crisis recovery to sustained development. In September 2012, therefore, the Government of the Kyrgyz Republic and its International Development Partners undertook to organize a High Level Development Conference in 2013 in order to review the achievements of 2010-2013 and to establish future priorities. The purpose of the conference is therefore for the Kyrgyz Republic and its International Development Partners jointly to confirm their commitment to the 2013-2017 National Sustainable Development Strategy (NSDS), to identify critical remaining policy and financing challenges, and to agree on key priorities for collaboration over the coming four years.

It is estimated that International Development Partners have resources of over US\$ 2 billion available for new projects for the Kyrgyz Republic over 2013-2017, which would contribute to disbursements of over US\$ 1.7 billion over the same period. However, turning these potential resources into successful projects and real improvements for ordinary people will require strong policies and efficient institutions.

The oversight of the Conference has been the responsibility of the *Consultative Council*, a standing body established in August 2012 and co-chaired by the Prime Minister and representatives of the Development Partners. The Consultative Council will in turn ensure the follow-up of the Conference's conclusions, including the realization of external financing projections, the establishment and monitoring of development indicators, the review of critical reform requirements and the implementation of priority projects.

The Government of the Kyrgyz Republic and the Development Partners Coordination Council (DPCC) are therefore pleased to present to all interested stakeholders this Joint Conference Document (JCD) on the development challenges, strategies and priorities for cooperation for the period of the National Sustainable Development Strategy. The preparation of the briefing was a fully collaborative exercise, and involved 18 Working Groups representing a wide range of government and state institutions and members of the DPCC.

The present Joint Conference Document may be seen as a progression from the Joint Economic Assessment presented to the High Level Donors Conference of July 27, 2010, at a time when the development trajectory of the Kyrgyz Republic was uncertain. The focus of the 2010 document was on the country's recovery needs over the immediate short-term timeframe, and addressed the urgent issues of physical reconstruction and social, fiscal and financial sector stability. The Joint Economic Assessment was the product of a World Bank-led group of international organizations and was produced under considerable urgency. In contrast, the Joint Conference Document of 2013 is based on the national policy framework of the NSDS, a paritary and inclusive consensus and a long term view of the development process.

This Joint Conference Document remains a working paper which represents, at a given point in time, an ongoing sectoral and thematic development dialogue. As such, the briefing's form and content sometimes reflect the uncertainties associated with a rapidly-changing economic, social and policy environment. Moreover, as the development context evolves so will the assessment of strategies and challenges. Nonetheless, the Joint Conference Document stands as an unprecedented policy statement, both for its breadth and for its inclusivity.

In conclusion, summing up the 18 sectoral and thematic working papers, it is clear that much has been achieved since 2010. The promise of the July 2010 Donors Conference – a development partnership based upon financing for reform – is being delivered. Moreover, the 2013-2017 National Sustainable Development Strategy provides a basis for the deepening of this partnership. The policy challenges are urgent and will require decisive political leadership. However, the key principle that such difficult reforms will receive the support of the international community is here unequivocally reaffirmed.

## *2. Core elements of the development policy consensus*

The Joint Conference Document highlights the key policies and reforms whose implementation, in the framework of the NSDS, will underpin the country's sustained development. Development Partners would support a resolute government reform program with significant financial and technical resources. It is estimated that new external development assistance projects, including both grants and concessional loans, could total approximately US\$ 2 billion over the timeframe of the National Sustainable Development Strategy, the four years to June 2017.

The maintenance of a stable macro-fiscal framework since the events of 2010 has been a notable achievement of the Kyrgyz Republic. It should not be forgotten that the political disturbances of 2010 came on the heels of the 2008-2009 global financial crisis, as a result of which declining remittances and financial sector deleveraging were already severely affecting aggregate demand in the Kyrgyz Republic. The countercyclical fiscal expansion of 2009 meant that the post-revolution governments inherited very little fiscal space with which to address the economic consequences of the 2010 events. It should also be noted that the Kyrgyz Republic was one of the countries most severely affected by the global food price shocks of 2011 and 2012, with food accounting for 60% of the consumption basket and around 12% of imports. In such circumstances, the maintenance of the national macro-fiscal program agreed with the Bretton Woods Institutions and the downward trend in core inflation from 13.3% in June 2011 to 10.7% in March 2013 (y-o-y, eop) represents a noteworthy achievement.

The NSDS' commitment to continuation of a prudent fiscal and monetary stance is a basic precondition for private sector growth and poverty reduction, the sustained delivery of public services and social stability. In recognition of the importance of macroeconomic management, Development Partners would continue to provide significant general budget support in the context of a prudent macro framework and robust reform program. It is estimated that such budgetary support could total up to US\$ 0.4 billion from July 2013 until June 2017.

The regional dimension of economic development will become a growing consideration in domestic policymaking and investment planning. According to the NSDS, the 2013-2017 periods will see the rehabilitation of international road links, major decisions on north-south and east-west railways, the strengthening of water resource management systems, Customs Union accession negotiations and the initiation of major power sector projects such as CASA-1000, the Upper Naryn Cascade and Kambar-Ata 1. As a small, market-oriented, open economy, the Kyrgyz Republic's active and positive engagement in multi-country dialogues around land transport, trade facilitation, energy and water, climate change, disaster risk management and narco-trafficking will be a critical determinant of economic growth.

The NSDS's growth model is based upon the establishment of a transparent, liberal and rules-based business environment in order to increase domestic and foreign private investment. Improved risk management in the financial sector will reduce intermediation costs and improve business's access to finance. The Government's Private Sector Development Action Plan will be the single unifying framework for the coordination and monitoring of future reforms and contributions of the International Development Partners.

Concerning the social sectors, the overall volume of public financing for health, education and social protection/pensions, at 3%, 6% and 10% of GDP respectively, is commensurate with or above regional norms. Structural reforms in the health and education sectors are refocusing budgetary resources towards primary-level services where the economic return and poverty impact are greatest. Sector-wide strategies and reform programs in health and education will continue to emphasize the decentralization of management and service provision.

The political turmoil and new parliamentary constitution of 2010 set in train a governance transformation in the Kyrgyz Republic which is still underway. The NSDS' commitments to democratic accountability, anti-corruption, transparency, reconciliation, the rule of law and public service efficiency have set a critical agenda for the coming four years. As the Joint Conference Document's sectorial and thematic notes demonstrate, steady and sustained improvements in governance and anti-corruption are not only ends in themselves, but would also underpin the NSDS's objectives of encouraging private sector investment, rationalizing public expenditure, building social cohesion and improving the population's access to quality public services. In this context, the Government's Public Sector Reform Roadmap (PSRR) is recognized as the key integrated framework for the coordination of public sector reforms and of International Development Partners' support.

### *3. Critical policy and financing challenges requiring attention*

Nonetheless, a reading of the Joint Conference Document highlights critical unresolved issues. The Government and International Development Partners will continue to discuss the way forward in these areas in the Consultative Council and sectoral Working Groups.

The poverty reduction gains of the 2003-2008 have halted and in some areas been reversed. The overall poverty rate has increased from 34 percent in 2010 to 38 percent in 2012, as a result of the 2010 violence and 2011-2012 food price increases. The deterioration has been most notable in urban areas, with an increase in headcount poverty from 8 percent to 21 percent in Bishkek, and the gap between rural and urban poverty rates narrowing from 16 percent to 4 percent.

Chronic fiscal pressures limit the Kyrgyz Republic's ability to maintain its infrastructure stock, let alone develop new investment or improve the quality of public services. Since 2008, public spending has risen sharply to 40 percent of GDP. Although the latest fiscal out-turns indicate that a deficit trajectory of 5.3 percent in 2013 and 2.6 percent by 2015 remains feasible, this is being achieved by the severe compression of non-staff recurrent expenditures, while capital investment is concentrated in a small number of large-scale projects. Radical structural reform of the public budget is therefore essential for the attainment of the NSDS's goals both in the productive and social sectors. In order to do so, the government urgently needs to equip itself with adequate tools of public financial management, including computerized systems, modern internal audit methodologies, transparent and competitive public procurement, and strategic budgeting.

More specifically, finance for the maintenance of key infrastructures such as water supply, sanitation, solid waste, irrigation, roads, and energy is entirely inadequate. As a result, donor funding for rehabilitation is substituting for national financing arrangements, which is clearly neither sustainable nor efficient. Meanwhile, potential private investors in these sectors require a firm political commitment to financial viability. A combination of anti-corruption measures, improved accountability and higher user charges is necessary in order to re-launch the development partnerships in these sectors.

As the NSDS mentions, understanding the implications of the Kyrgyz Republic's decision to join the Customs Union of Belarus, Kazakhstan and Russia will be a significant agenda item for the NSDS period. In addition to the possible non-compatibility of Customs Union membership with its World Trade

Organization commitments and the trade diversion effect, the Kyrgyz Republic must consider its impacts upon the significant portion of GDP and employment currently accruing from trade intermediation between China and the CIS, and from the garments trade. (These two sectors are particularly important for female entrepreneurs and employees.)

Although reforms have produced one of the region's most liberal regulatory environments for business on paper, corruption and weak capacity in public institutions mean that the actual regulatory burden remains huge. As a result, the growth and formalization of the private sector remain stunted. Moreover, uncertainty about the transparency and durability of public-private agreements discourages large-scale investment in sectors such as mining, energy and transport.

Reform of the electricity sector may be singled out as particularly urgent. Given the risk of breakdown of generation and transmission capacity due to underfinancing, implementation of the Medium Term Power Sector Development Strategy cannot be delayed. International Development Partners have significant volumes of financing lined up for such projects as CASA-1000, the Upper Naryn Cascade, Kambar-Ata 1, and the rehabilitation of Toktogul, energy efficiency and the modernization of Severelektro. However, in the absence of decisive political action on governance and financing, a breakdown of the network could have a catastrophic impact on poverty, human development, growth and employment.

Notwithstanding the reform achievements of the last decade, the Joint Conference Document highlights the massive challenges faced by health and education sectors. Non-staff expenditures, critical for service quality, are under constant pressure from the wage bill and weak financial management, while sector strategies commitment to decentralization, procurement reform and the focus on primary-level services is repeatedly questioned from within the system. The agreed sector development strategies must therefore be implemented resolutely in order for the government-donor partnership to be implemented productively. At the same time, consistent public communication of the evidential case for the sector reforms is essential.

Social transfers are a particular area where scope exists to improve the impact and sustainability of public expenditure. Household survey data reveal weak targeting of the Ministry of Social Protection's budget on the poor and vulnerable, with 78 percent received by the non-poor, notably as commodity subsidies and funding for institutionalized care. The Social Fund's spending on pensions, which doubled as a share of GDP from 5 percent to 10 percent over 2008-2012, makes increasing demands on the government budget.

The economic appraisal and prioritization of public investments needs serious attention. The sources of funds for the ambitious proposals in the 2012-2014 Medium Term Development Program, and to some extent the NSDS, are unclear. Meanwhile, spending on maintenance, which has a far higher economic return than new infrastructure, continues to be neglected.

Above all, a common theme running through the NSDS and the Joint Conference Document is that the momentum of governance and anti-corruption reform needs to be maintained. Indeed, transparency, social accountability, institutional capacity and integrity underpin the goals of attracting private investment, creating jobs, improving infrastructure and delivering better quality social services. Meanwhile, the commitments - made at the 2010 Conference and in the NSDS - on the rule of law, social reconciliation and the development of civic identity in a diverse society remain a work in progress.

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## Macroeconomic Sector

### I. Challenges facing the Sector:

#### 1. Macroeconomic situation

While the economic and political situation has stabilized since the domestic crisis in 2010, Kyrgyzstan remains vulnerable to both external and internal shocks. The uncertain global economic environment poses downside risks to the near-term outlook and highlights the need to rebuild fiscal and external buffers. In the near term, there will be a need for continued external financing to facilitate the implementation of key structural reforms, prevent key public infrastructure from deteriorating, and restore public finances. Diversifying the economy away from gold and remittances and improving the business environment to help create a vibrant and self-sustained private sector represent medium-term challenges.

#### 2. Political context

The people's uprising in 2010 adversely affected Kyrgyzstan's economy. The deterioration of the security situation, particularly in the south, led to disruptions in trade flows, a fall in agricultural production, a halt of construction and tourism activities, and a weakening of investor confidence. The political turmoil resulted in policy slippages, hindered fiscal adjustment, weakened investors' confidence, and delayed much needed structural reforms. The constitutional referendum and subsequent parliamentary elections in October 2010 established a democratic political system, helped to stabilize the political situation, and put the economy on a recovery path. Timely efforts by the international community were instrumental to prevent the Kyrgyz economy from plunging into a much deeper recession. Based on the IMF, WB, ADB and the other donors' evaluation of the economic damage from the 2010 crisis, the international community pledged US\$ 1.1 billion at the Donor Conference in July 2010.

#### 3. Economic growth

Kyrgyzstan has the most open economy in the region and depends heavily on gold production, remittances, transit trade, and external assistance. However, this dependency makes the economy vulnerable to both external and internal shocks. In particular:

- While the economy grew by more than 16 percent in the first quarter of 2010, the 2010 crisis resulted in an overall output contraction of 0.5 percent.
- The move to a parliamentary democracy in 2010 provided an impetus for economic reform. Stabilization of the political and security situation, robust domestic demand, and strong exports expanded economy by 6 percent in 2011.
- The disruption in gold production in 2012 by the largest gold mining company Kumtor led to a sharp decline in output to -0.9 percent despite robust non-gold growth of 5 percent, highlighting the need for diversification of the economy.
- The recovery in gold production is expected to lead to a strong rebound in growth to 7½ percent in 2013.
- The medium-term growth outlook is positive and, based on the Government's projections, is expected to stabilize at around 7 percent, supported by continued remittances inflows, strong private credit growth, and structural reforms supportive of private sector-led growth.

#### 4. Inflation

Inflation in the Kyrgyz Republic is very volatile. The high food and fuel content in the consumer price index and almost complete pass-through from international food and fuel prices into domestic inflation is a major factor. Given still high poverty rates, the adverse impact of inflation is felt by a large part of the population:

- Year-on-year- headline inflation rose to nearly 20 percent at end-2010 as a result of the imposition of an oil export duty by Russia in April 2010, the spike in international food prices, and food supply disruptions throughout the year. Timely tightening of monetary policy, a recovery in agriculture, receding global food prices, and the removal of the oil export surcharge helped to reduce inflation to 6 percent by end-2011.

- Renewed pressures from international food and fuel prices pushed inflation up to 8 percent by end-2012. In the absence of renewed supply shocks, inflation is expected to remain in single digit and steadily decline over the medium-term.
- While headline inflation has been steadily declining, continued strong remittance inflows, higher government spending, and increased outlays on pensions and salaries have exerted upward pressure on core inflation, which rose from 7 percent in June 2010 to 13 percent in January 2011.<sup>1</sup> The main drivers of core inflation in the Kyrgyz Republic are alcohol, tobacco, clothing, and transport services.

## 5. Poverty

Poverty was falling until 2009, accompanied by declining inequality, but has increased in recent years:

- The poverty headcount ratio fell by 14 percentage points between 2004 and 2009 to 32 percent, closely following economic growth. The poor seem to have benefited the most from economic growth during this period, which translated into declining inequality, as measured by the Gini coefficient. Still, regional disparities remain.
- The 2010 social unrest, the global slowdown and higher global food prices increased poverty to 37 percent in 2011, reversing the positive reduction in poverty rates seen in earlier years.
- Currently, an estimated 5 percent of the population lives in extreme poverty, and 2012-2013 food price increases may push poverty rates up, especially in urban areas.

## 6. Unemployment

The unemployment rate rose from 7.5 percent in 2000 to 8.5 percent in 2011, but the rates may be substantially higher than suggested by available official sources:

- Economic growth has not been strong enough to create additional jobs to reduce unemployment. The external and internal crises contributed to increased unemployment in 2009–2010.
- According to 2011 Integrated Household Budget and Labor Force Survey, 71 percent of employed population are working in the informal sector.
- Lack of decent jobs in the country pushed the most skilled workers to migrate abroad. People prefer to migrate rather than hold individual, seasonal and other temporary jobs in trade and agriculture.
- The unemployment problem is mitigated by the large number of Kyrgyz working abroad. But this may not last if the host countries stop or make it more difficult accommodating them. A decline in migrant worker remittances, which have been increasing family incomes, and migrants returning home, would put pressure on the local labour market and potentially over social spending.

## 7. Fiscal deficit

The fiscal deficit deterioration in the aftermath of the 2010 crisis because of the rehabilitation, reconstruction, compensation, social, and security costs needs to be reversed:

- The fiscal deficit increased from 3.5 percent of GDP in 2009 to 6.5 percent in 2010. Absorptive capacity constraints to implement capital projects, advance payments made by Kumtor, and efforts to strengthen tax and customs administration led to a lower-than-initially-expected deficit.
- The large increases in wages for teachers, healthcare employees, and other social sector workers and pensions in 2011 led to a permanent increase in current outlays, but they have helped to mitigate social tensions and contributed to fostering political stability. Improved customs valuation, tax administration measures, high gold prices, and the rebounding economy helped raise the revenues. Because of the shortfall in external financing, the 2011 fiscal deficit was 4.6 percent of GDP, significantly lower than expected. Effectively coordinated fiscal and monetary operations eased the inflationary impact of the wage increases.
- A combination of unexecuted 2011 expenditures carried over to 2012 and rising wage bill led to an increase in the fiscal deficit to 5.4 percent of GDP. The revenue-smoothing arrangement with the Kumtor, better-than-expected customs revenues from higher oil imports, and improved customs

<sup>1</sup>Excludes a volatile component that represents about 46 percent of the CPI, and seasonal and administered services prices, such as fuel and energy.

administration have partially offset the shortfall in gold revenues. The government had to curtail some non-priority expenditures to accommodate lower-than-projected external financing.

- Significant inefficiencies in government spending led to structural expenditure pressures. Spending on social assistance (3.3 percent of GDP in 2011) and spending on education are among the highest in Europe and Central Asia region, yet educational performance is low. The quasi-fiscal deficit in the energy sector, estimated at around 3 percent of GDP, is unsustainable with the current tariffs at below cost recovery levels. Pension spending is high at 8.2 percent of GDP owing in part to high old age coverage and low participation in pension contribution.
- The government continues to place strong emphasis on fiscal consolidation in 2013 and the medium term. The 2013 budget is based on conservative revenue forecasts, non-priority expenditure restraint, and social considerations. The overall fiscal deficit is expected to decline to 5.3 percent of GDP. Going forward, the Government remains committed to a fiscal consolidation path that would reduce the fiscal deficit to 3 percent of GDP in 2015 and further down to 1.5 percent in 2017.

## 8. External debt

The turbulence of 2010 had a significant impact on the balance of payments and external debt<sup>2</sup>:

- Agricultural exports, tourism, transportation receipts, and shuttle trade declined due to security issues and border closures. While higher international gold prices and a robust recovery in remittances mitigated the decline in exports, higher fuel prices outweighed the decrease in volume of imports and consequently the current account deficit widened to 6.4 percent of GDP from 2.5 percent in 2009. Foreign direct investments increased compared to 2009 because of Kumtor operations as the political developments in Bishkek and the south have not affected gold production process in the north.
- The deficit remained broadly unchanged in 2011 despite strong growth in imports, but rose sharply to about 15 percent of GDP in 2012, mainly reflecting substantial decline in gold exports and increase in imports related to public infrastructure projects.
- The current account deficit is projected to decline in the medium-term, helped by the recovering gold production, maintaining of flexible exchange rate regime, and well implementation of measures to improve national savings. Reserve coverage at end-2012 was 3.8 months of prospective imports. However coverage fell compared to end-2009, implying that the reserve buffers are limited and vulnerabilities to external shocks have elevated.
- The Kyrgyz authorities are designing a road map to join the Belarus-Kazakhstan-Russia customs union (CU), which may improve external trade relations with the CU members. It would be important to ensure that the new potential arrangement does not come at expense of trade relations with non-members, most notably China.
- While the overall external debt position has improved significantly over the last decade, stress tests suggest that vulnerabilities to large exogenous shocks still exist.
- The 2005 Paris Club agreement led to a fall in the external public debt to GDP ratio to 46 percent in 2012 from over 100 percent in 2000. Recent additional debt relief from Russia and Turkey also helped. Based on the latest debt sustainability analysis, the Kyrgyz Republic remains at a moderate risk of debt distress. While much-needed infrastructure development requires external public borrowing going forward, the authorities are committed to maintain debt sustainability.

## 9. Banking

The 2010 crisis had a significant toll on the banking sector but the financial sector stability has been maintained and depositor runs avoided:

- Five banks were placed under temporary administration to get them under control to ensure safety of assets, ledgers, and the banks' records. Later, one of these banks was nationalized to prevent social tension and to suppress deterioration of the bank's financial condition. Private credit growth resumed on account of buoyant demand across most sectors and a conversion of a micro-finance institution into a bank in November 2012. Strong capital adequacy supported a rebound in lending. Profitability of the banking system has substantially improved relative to the collapse in profits in 2010. The

<sup>2</sup> This note uses the IMF data for the external sector, which may differ from the authorities' data.

share of nonperforming loans, which increased in the aftermath of the political events, declined to 7 percent at end-2012 from 13.1 percent two years earlier.

- Notwithstanding the improvements in system-wide financial stability indicators, the banking sector remains vulnerable.
- As part of the resolution of the liquidated bank, the new bank was established to retain confidence of the population in the banking system. The previous auctions were acknowledged as failures due to no potential buyers. The Affordable Loans for Farmers program that the authorities consider as an important tool to assist the agriculture activities, may expose two state-owned banks to higher credit risks. Pending litigation cases due to weaknesses in the bank resolution framework, the resolution of three banks remains under conservatorship. Dollarization of loans and deposits decreased, but remains high despite the stability of the exchange rate. The financial system is still thin.

## **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

- The Programme Stability and Dignified Life (approved in December 2011) has the goal to increase the well-being of the citizens by restoring and strengthening investment climate, eliminating excessive bureaucratic barriers, and expanding economic freedom for businesses.
- The Medium-Term Development Program (MTDP) for 2012-2014 focuses on accelerating economic growth, consolidating macroeconomic stability, and advancing structural reforms.
- The National Strategy for Sustainable Development of the Kyrgyz Republic for 2013-2017 was adopted in January, 2013. Its goal is to achieve sustainable growth and create an efficient social market economy where the private sector plays the main role and the state creates environment for its activity.

## **III. Prioritised Sector activities requiring development assistance in 2013-17**

- The Kyrgyz Republic needs to achieve sustainable and inclusive private sector-led growth that provides decent employment opportunities in a stable macroeconomic environment. This requires a multi-pronged approach with prudent macroeconomic and financial sector policies complemented by public administration and business environment reforms, including improved management of public assets. Protecting the most vulnerable through better-targeted social safety nets will help to improve living conditions but also gain a popular support for implementation of the reforms.
- Fiscal consolidation with strong revenue measures and prudent expenditure policies while minimizing adverse impact on growth is instrumental in safeguarding macroeconomic stability. Tax administration improvement efforts should be complemented with tax policy measures to raise additional revenues. Advancing PFM and public procurement reforms will help generate fiscal savings, reduce the dependence on external assistance, and enhance transparency. Restraining the growth of the wage bill and gradually consolidating employment through civil service reform will be important challenges. Better targeting of social spending to the poor can generate further savings while reforming the pension system will ensure its sustainability. Prudent use of concessional loans, in particular in the energy sector, will safeguard the debt sustainability.
- The National Bank of the Kyrgyz Republic (NBKR) needs to continue to closely monitoring inflation and tighten monetary policy to further reduce core inflation. Close coordination between the monetary and fiscal authorities is a key to facilitate liquidity management and ensure a smooth implementation of monetary policy. Maintaining of the exchange rate flexibility will be important to strengthen resilience to external shocks without a sharp deterioration in the external position and will support competitiveness.

- The new Banking Code will provide an opportunity to comprehensively address weaknesses in the financial sector legal framework. Reducing the government footprint in the banking system would level the playing field, set the stage for improved investor confidence, and ensure banking sector's long-term viability. Enhancing NBKR capacity to effectively supervise the banking system should minimize the risks to sector and macroeconomic stability.
- Improving the business climate, good governance, and strong institutions will pave the way to sustainable growth over the medium term. The good legal and regulatory framework in number of areas needs to be translated into tangible improvements on the ground. Addressing the perception of corruption and strengthening governance will help create a self-sustained private sector and remove significant barriers to growth. Stronger efforts in number of sectors (energy, transport) will provide the incentives for efficient allocation of resources and greater involvement of the private sector. Bringing tariffs in line with cost-recovery levels in the energy sector, accompanied with relevant social protection measures, and strengthening the governance arrangements are needed to support the viability of the sector.
- The sectoral composition of growth and the mismatches between the skills of the labour force and the market demand need to be analyzed. The quality of human capital can be improved by developing job strategies that boost skill formation and provide training programs for the youth. Implementation of labour-intensive infrastructure investments would enhance employment opportunities in the short term. Strengthening the quality of labour statistics would improve the understanding of the extent to which hidden employment and underemployment are affecting the economy.
- The Kyrgyz Republic needs to preserve its openness and expand trade and investment flows. The effects of the Customs Union (CU) on fiscal revenues are unclear at this stage and will depend on the outcome of negotiations. The benefits as well as the disadvantages of the accession to the CU need to be examined. The country's bargaining position would be improved by efforts to increase customs revenues prior to accession.

#### IV. Sector development assistance already confirmed or under consideration for 2013-2017

##### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/Contractor	Implementation period	Amount (original currency)	Budget support/grant/loan/other	Any other info
IMF	Extended Credit Facility (ECF)	Kyrgyz authorities	June 20, 2011 – June 20, 2014	US\$14,000,000 <sup>3</sup>	Budget support loan	This is the fifth tranche under three-year Extended Credit Facility arrangement for the Kyrgyz Republic. The country can receive about US\$ 106,000,000 in total for the period of the program.

##### Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (original currency)	Budget support/grant/loan/other	Any other info
IMF	Extended Credit Facility (ECF)	Kyrgyz authorities	June 20, 2011 – June 20, 2014	US\$ 28 million	Budget support loan	US\$ 28,000,000 consists of two tranches (US\$ 14,000,000 each) which can be disbursed upon successful completion of the fifth and sixth reviews of the ECF in second half of 2013 and in first half of 2014.

<sup>3</sup>It is assumed that IMF Board meeting in mid-2013 approves completion of the fourth review and the disbursement of this amount.

## Energy

### I. Challenges facing the Sector:

The Kyrgyz Republic's electricity sector is facing challenges that have been accumulating for more than a decade. Their effect has been to continuously weaken the electricity system's ability to withstand technical stresses.

This is particularly the case in winter when supply is constrained and the use of electricity for heating during cold weather increases demand.

These problems have taken a long time to reach a critical point, but as it was demonstrated by the system's performance in December 2012, the country's entire system has now reached a tipping point, and the risk of catastrophic failure continues to increase. The country can no longer afford to allow these problems to worsen and to further erode the system's reliability, as it is the basis for economic growth.

The major challenges include:

#### 1. The Deteriorated Condition of the Sector's Physical Facilities

The physical facilities of the existing system have been deteriorating over the last decade, due to both changes in their operational mode to meet increasing winter demand and insufficient funding to deal with these changes. The major hydro plants and large transmission lines are almost fully depreciated, and the cost of repair, needed replacement parts and appropriate upgrades cannot be financed by the current tariff structure.

The Bishkek and Osh Combined Heat and Power (CHP) plants are almost completely worn out and need to be rebuilt section-by-section. The District Heating System is also worn out and highly inefficient, as its losses are estimated at 40%. The poor performance of the central heating system increases demand for electricity for heating, which puts an even greater strain on the electricity system.

The distribution system is also worn out and is not able to respond to rapid and steep increases in electricity demand during very cold weather periods or when there are gas shortages.

#### 2. Insufficient Supply Throughout the Year and Throughout the Country

The electricity sector can meet demand in the summer months, and in most years it also has a seasonal surplus that can be exported. Meeting domestic demand in winter is always a challenge – as a result the country should rebuild the Bishkek CHP plant and add new sources of reliable supply to the system.

However, adding significant new sources of supply requires substantial amounts of capital investment and will take several years to construct and bring into service. The most effective and quickest source of “new supply” is to encourage each consumer to adopt energy efficiency measures. However, there is little incentive to do so because the current tariff levels are artificially low and do not reflect the total costs of generation, transmission, and distribution.

As for the need to improve system security throughout the country, good progress has been made on the high voltage transmission system over the last 18 months. When completed, the new Datka substation, the new 220 kV lines in the south, and the 500 kV Datka-Kemin line, will enable NESK to provide secure

transit of supply to both the south and the north of Kyrgyz Republic without having to depend on facilities in Uzbekistan and Kazakhstan.

### **3. The Sector's Management Systems**

The electricity system has been reporting very high losses of kWh for many years. Total losses are a combination of both technical losses, which are caused primarily by overloading the distribution lines and equipment, and commercial losses, which are caused by the lack of management discipline that tolerates theft, fraud and customer non-payment.

In recent years the distribution companies have started to invest in replacing or adding new transformers and substations in order to reduce the technical losses. The companies have also been installing new meters to reduce commercial losses. As a result, the companies are now reporting that total losses have been reduced from about 40% to an estimated 20%.

These savings are just estimates, because the entire system is still not completely metered. In addition, the current billing and accounting systems are inadequate and out-dated. Consequently, these figures do not provide verifiable, transparent and reliable data on actual technical and commercial losses or on the write-offs of accounts and financial performance of the companies.

In all distribution companies, the accounting systems and their books and records are so inadequately documented that reputable international auditors have been unable to render an opinion. Furthermore, the companies' Technical and Economic Indicators (as reported to the Ministry) are also not well documented and cannot be compared to the financial statements they provide to the tax authorities.

## **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

The following Government Strategies were developed and approved:

1. National Strategy for Sustainable Development of the Kyrgyz Republic over the period 2013-2017: developed by the National Council for Sustainable Development of the Kyrgyz Republic and approved by decree of the President of Kyrgyz Republic Mr. A. Atambaev in January 2013.
2. Mid-Term Power Sector Development Strategy of the Kyrgyz Republic over the period 2012-2017: approved by resolution of Government of the Kyrgyz Republic on July 13, 2012.

The main target of the National Strategy for Sustainable Development (the National Strategy) is to ensure the energy security of the Kyrgyz Republic. The National Strategy's goals are to:

- Ensure a sustainable supply of electricity for consumers in the Kyrgyz Republic.
- Implement the tariff policy to cover the costs of energy production.
- Enhance financial discipline and management level.
- Reduce commercial and technical losses.
- Strengthen energy and economic security.
- Gain a competitive advantage for Kyrgyz Republic in regional power export markets.
- Provide incentives for investments into energy sector.

The target of the Mid-Term Power Sector Development Strategy (the Power Sector Strategy) is a stable and sustainable power system of the country, with integrated innovative technologies, and an efficient and reliable condition of FEC.

The priority Work Streams of the Power Sector Strategy are as follows:

- Improve governance in the power sector.
- Develop management in energy companies.
- Increase transparency in operations.
- Grow production, increase sustainable energy saving, and implement current projects and programs.

### **III. Prioritised Sector Activities Requiring Development Assistance in 2013-2017**

Priority should be given to activities that mitigate the challenges in restoring reliable supply to domestic customers. This can be done by halting the deterioration of the sector's infrastructure and the rehabilitation of the sector's physical facilities, providing sufficient supply throughout the year and throughout the country, and improvement of the sector's governance and management.

The activities presented below are consistent with the approved government strategies and are based on the recommendations of the Energy Working Group of DPCC.

#### **A. Improving the Deteriorated Facilities and Restoring a Reliable Supply to Customers**

- 1) Implement a mid-term (5-year) tariff policy that provides for a phased increase of tariffs to the cost-recovery level, in tandem with the development of a properly targeted social safety net with secure funding to help poor households pay for electricity.
- 2) Introduce the use of modern tariff methodologies in accordance with international practices to provide sufficient revenue to repair, rehab and maintain existing facilities.
- 3) Develop energy infrastructure rehabilitation plans (including cost estimates and identification of potential financing sources) and approve a prioritized list of rehabilitation projects.
- 4) Develop a rehabilitation plan and financing strategy to repair thermal networks to reduce heat losses that result in increased winter demand for electricity.

#### **B. Regarding Insufficiency of Supply throughout the Year and Throughout the Country**

- 1) Develop, approve, and implement tariff designs in accordance with international practices that provide incentives to consumers to conserve energy (especially in winter) and to adopt alternative fuels. Tariff design options should consider the use of seasonal tariffs and fuel adjustment clauses. Attempts to introduce physical restrictions (such as load limiters) that limit customers' ability to consume electricity are difficult to implement, monitor, and enforce.
- 2) Design and implement a public awareness campaign on the cost of providing electricity and heating services (and on the linkage between reliable service and tariffs) in order to encourage consumers to adopt energy-efficiency measures.
- 3) Conduct a study on energy saving potential and develop an Energy Saving and Raising Energy Efficiency Program.
- 4) Develop a long term heating strategy for the country.
- 5) Conduct a feasibility study, develop a financing strategy and increase the capacity of Bishkek CHP up to 400 MW.
- 6) Conduct a feasibility study and a financing strategy of a new coal-fired thermal power plant that uses domestic coal.
- 7) Conduct a feasibility study and develop a financing strategy for commissioning a second hydro unit of Kamarata HPP-2.

- 8) Conduct a feasibility study and develop a financing strategy for Uch-Kurgan HPP.
- 9) Conduct a feasibility study and develop a financing strategy for the conversion of electric networks of Bishkek from 6kV to 10/20, reconstruction of the existing 35-10/6kV cable networks of Bishkek, reconstruction of the existing 35/6kV substations in Bishkek, conversion of the existing 35/6kV substations to 110/10/20 kV voltage for covering power deficit and creating a reserve for prospective development of the central part of Bishkek.

**C. Regarding the Sector's Governance and Management**

- 1) Reverse the financial losses of the sector and improve the sector's governance and management by:
  - a) Reducing losses through the installation of modern metering, information, billing, collection, and settlement systems, a secure and integrated system-wide metering and automatic data acquisition system that covers the entire wholesale market, master metering throughout the distribution system, and a new billing and customer information system for all distribution companies.
  - b) Introducing transparency mechanisms throughout the Sector in order to rebuild public trust that will be effective in retaining cash in the Sector and ensuring its proper use.
  - c) Launching an independent Data Center for Settlements with sufficient authorities and powers to ensure that the Sector's cash flow is distributed in a transparent manner to all energy companies.
  - d) Developing rules and procedures to enable the independent settlement center to perform its functions.
  - e) Introducing long-term contracts for managing distribution companies, with full rights to manage and operate a company and to be held accountable for improved company performance by reducing losses, improving customer service levels, and reducing the volume of accounts to pay.
- 2) Establish an economic basis for growth and investment by:
  - a) Not dividing the distribution network and not making any other changes in the structure of the electricity sector until the results of a comprehensive analysis have been fully considered.
  - b) Moving gradually to appropriate tariffs that cover full costs, encourage energy savings, attract investment, and are linked to an effective social safety net.
  - c) Strengthening the regulatory body to be able to establish the institutional basis for effective regulation of both the sector's existing state-owned companies and new investments in the sector.
  - d) Introducing new elements of corporate governance and strengthening accountability of the members of the Board of Directors of each power company for assuring the steady improvement in the company's commercial operations.
  - e) Introducing amendments to the laws of the Kyrgyz Republic to clearly separate responsibilities in three areas: the formulation of policy for the fuel and energy sectors, the regulation of independent sector and for the State Property Management Fund to act as shareholder to make company management accountable for improved financial performance.

#### IV. Sector development assistance already confirmed or under consideration for 2013-2017

##### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (orig. currency)	Budget support/ grant/loan/other	Any other info
KfW	Loss Reduction in the Electricity Sector I (Strengthening of the Local Electricity Network Bishkek/ Advanced Measures Severelectro)	Severelectro	2006-2015	EUR 10,230,000 EUR 200,000	Loan (Investment) Grant (TA/AM)	
KfW	Efficiency Improvements in Electricity Distribution	Severelectro	2008-2016	EUR 21,400,000 EUR 1,800,000	Loan (Investment) Grant (TA/AM)	
ADB	Power Sector Improvement project	JSC NEGK	2010-2016	US\$ 16,700,000 US\$ 23,100,000	Loan Grant	
ADB	Power Sector Rehabilitation Project	JSC "Electric Power Plants"	2012-2016	US\$ 15,000,000 US\$ 40,000,000	Loan Grant	
ExIm Bank (China)	Construction of 500kV Datka-Kemin transmission line and 500kV Kemin Substation	JSC NEGK	2012-2015	US\$ 390,000,000	Concessional loan	
ExIm Bank (China)	Southern transmission lines modernization	JSC NEGK	2011-2013	US\$ 208,000,000	Concessional loan	
IDB	Improving power supply of Bishkek and Osh	JSC NEGK	2012-2015	US\$ 23,100,000	Loan	
Russian Federation	Construction of Kamarata HPP-1	JSC Electric Power Plants	2013-2022	US\$ 3,400,000,000	Loan	
Russian Federation	Construction of Upper-Naryn Cascade of HPPs	JSC Electric Power Plants	2013-2019	US\$ 412,000,000	Loan	
World Bank	Emergency Assistance Project	Energy companies	2010-2013	US\$ 35,000,000	Loan Grant	
Turkish Republic	Construction of 110kV HVL and 110kV Substation in "Ak-Ordo" residential area, Bishkek	JSC NEGK	2013-2014	US\$ 5,000,000	Loan	
Eurasian Development Bank	Preparation of JSC "Electric Power Plants" for heating season	JSC "Electric Power Plants"	2013-2015	US\$ 30,000,000	Loan	

**Sector development assistance under consideration for 2013-2017:**

<b>Donor</b>	<b>Name of the project</b>	<b>Implementing partner/ Contractor</b>	<b>Implementation period</b>	<b>Amount (orig. currency)</b>	<b>Budget support/ grant/loan/other</b>	<b>Any other info</b>
IDB	Improving power supply of Arkin residential area	JSC NEGK	2013-2016	US\$ 15,000,000	Loan	
World Bank	Improving transparency of the energy sector and reducing electric energy losses	JSC Severelectro	2014-2018	Approx. US\$ 15,000,000	Loan Grant	
SECO	Reconstruction of At-Bashy HPP	Procurement process has not started yet	2013-2017	CHF 24,000,000, incl. CHF 19,000,000 from Switzerland	Grant	
ADB	Reforming distribution companies	Distribution companies	2014-2016	Approx. US\$ 15,000,000	Loan Grant	Another project is possible

## **Agriculture, Food Security and Rural Development**

### **I. Challenges facing the Sector:**

#### **Agriculture:**

- The privatization programme has led to an increase in the number of farms but a decrease in their size.
- The land market is hampered by restrictions on the sale of plots.
- The small-scale farming sector has low productivity because of limited capital and restricted access to services and quality farm inputs, limited processing facilities, and high post-harvest losses.
- The National Strategy for Sustainable Development (2013-2017) proposes support only to farms of a minimum size, ignoring the majority of rural households who rely on subsistence farming.
- The Kyrgyz Republic has the lowest rate of mechanization in central Asia; inadequate access to credit and small farm sizes are the main constraints to farm mechanization, requiring measures to improve credit, leasing and access to small farm machinery, whereas mechanical services contracting should also be promoted<sup>4</sup>.
- Soil degradation (water and wind erosion, salinization, dehumification, compression, decrease of microbiological activity) represents a severe challenge to increasing agricultural productivity and maintaining important ecosystems.
- Climate change also presents unique challenges for agricultural biodiversity and is predicted to become one of the main factors causing losses of biodiversity.
- Levels of livestock productivity remain low, due to overstocking, feed shortages, high incidence of disease due to poor veterinary services (decreasing vaccination coverage and availability of quality vaccines and drugs and heavy affliction with parasites), and the lack of a systematic breed improvement programme.
- Veterinary laboratories and border posts lack essential equipment and adequately trained staff.
- Research institutions do not play a major role in the generation, transfer or exchange of innovation; this is due to the fact that many research institutions have outdated laboratories, research topics are not responsive to the actual needs of producers, salaries in research are low and financial resources for research are lacking.
- Economic and political difficulties in reforming agriculture, such as low capacity to formulate and implement effective policies due to financial and human resources constraints, frequent changes in the structure of administration of the sector and high turnover of skilled staff, as well as outmoded development and management approaches, and the lack of a long-term strategic action plan in the agricultural sector.
- The high degree of poverty among small-scale farmers who need to implement costly reforms, and a shortage of alternatives to farming, such as labour opportunities and other income-generating activities.
- Poor conditions of off and on-farm irrigation and drainage systems, especially at the on-farm level, continue to pose major constraints to agricultural growth, despite considerable donor assistance through irrigation rehabilitation, formation of Water User Associations (WUAs) and capacity building.
- Conflict mitigation in the allocation of water resources at the local and regional level needs to be addressed since the capacities of WUA to settle water-related disputes remains weak; special attention should also be given to the role of WUA in reducing conflict through the improved distribution of water to its users.
- Trans-boundary cooperation is required in a number of small watersheds in cross border areas to ensure an integrated management of water resources.
- Only limited funding is available from the national budget for spending on water supply systems; impacts include a deterioration of infrastructure (destroyed pumps, damaged pipelines, etc.).

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<sup>4</sup>World Bank and FAO Investment Center 2009 – Farm mechanization and Agricultural Productivity in the Kyrgyz Republic.

- Difficulties in marketing, including a limited cooperative marketing base, poor storage capacities, under developed processing, and a lack of market information, which are hindering development of the sector.
- Barriers that prevent access to markets are significant and include a lack of consistent and sustainable production, the limited cooperative bargaining base and high transport costs to external markets.
- Local agriculture products are unable to fully and consistently meet international food safety export requirements; this requires the establishment of a modern legal, institutional, and regulatory framework on food safety controls, as the ability of the agribusiness sector to access new export markets will depend on its ability to comply with requirements under WTO and evolving requirements from neighbouring country markets.
- The Government of the Kyrgyz Republic needs to adopt a new Food Safety Law, establish producer responsibility for the safety of food products, strengthen consumer redress against producers whose products cause illness, set a deadline in the future for application of the main internationally recognized control systems (HACCP, GMP, GHP) for food businesses, as well as identification of animals used for food, which will allow for tracking of animals that have entered the food chain.
- Lack of coordination of government agencies on epidemiological surveillance and preventive actions for timely detection and eradication of food poisoning outbreaks.

### **Food Security:**

- There is still a gap before the first Millennium Development Goal (MDG) of reducing to 28 percent the proportion of the population consuming less than 2,100 kcal can be achieved by 2015.
- Recent assessments have found that 25 percent of households are food insecure<sup>5</sup> which is a deterioration compared to March 2012 and August 2011.
- Since the Kyrgyz Republic is a food-deficit country, self-sufficiency through domestic production is achieved only for three types of products: potato, vegetables and melons, milk and milk products, while the low level of food self-sufficiency inevitably leads to high dependence on imports.
- The actual share of the volume of imports in the domestic market according to preliminary data for 2012 is: bakery products – 45.7%; meat – 26.2%; sugar – 85% and vegetable oil – 65%.<sup>6</sup>
- Mitigation of the impact of global food inflation through market-based interventions and social safety nets would be a relevant strategy to achieve food security for the population.
- Post-harvest losses are currently in the range of 20% to 50% for fruits and vegetables, while only 10% of fresh produce is stored for future consumption, mainly, due to inadequate cold chain facilities.
- Poverty remains the base cause of poor food consumption<sup>7</sup> and persists particularly in rural areas where there is a higher level of poverty (41 percent) compared to urban area (31 percent).
- Nationally, the poverty rate has been increasing, from 31.7 percent in 2009 to 36.8 percent in 2011, with approximately two million people now living below the poverty line<sup>8</sup>.
- Frequent budget deficits have made it difficult, if not impossible, for the Government to allocate necessary funding for rural development and social safety nets in order to reduce poverty and increase food consumption.
- There is a high prevalence of disorders caused by malnutrition, including: iron deficiency anemia in 21% of non-pregnant women and in 42.5% in children within their first year of life, latent iron deficiency in 53.6% of women, folate deficiency in 49.3% of non-pregnant women, iodine deficiency in 61.6% of pregnant women, iodine deficiency in 43.1% of school-age children, chronic malnutrition in 22.6% of children under 5, while 22% of deaths among children under five are associated with malnutrition.

<sup>5</sup> WFP, *Follow-up Household Food Security Assessment in the Kyrgyz Republic*, September 2012.

<sup>6</sup> FAO, Global crop production monitoring system (FAOSTAT), <http://faostat.fao.org/>.

<sup>7</sup> WFP, *Follow-up Household Food Security Assessment in the Kyrgyz Republic*, September 2012.

<sup>8</sup> World Bank, *World Bank - Kyrgyz Republic Partnership Program Snapshot*, October 2012.

- Malnutrition costs more than US\$ 32 million annually in the Kyrgyz Republic and results in higher mortality and reduced labour productivity.
- Priority actions are required to address malnutrition, including the fortification of flour, iodization of salt, access to nutritious food rich in vitamins and minerals, improved household food security, availability of clean water, and behavioral change to improve breastfeeding and complementary feeding, hygiene practices and parasite control; these activities should be aligned around commonly agreed targets and prioritize the needs of young children and mothers.
- The availability of an accessible food basket<sup>9</sup>, based on WHO norms and standards for macro and micro-nutrients, is necessary, taking into account national traditions, thus preventing micronutrient deficiencies and other forms of malnutrition, or preventing them from deteriorating. As a result of poor nutrition, dietary diversity and insufficient production, the recorded prevalence of nutrition-related diseases is growing in the country, particularly in rural areas.
- The National Strategy for Sustainable Development for 2013-2017 reflects a general government view of food insecurity at the national level, whereas food insecurity must also be addressed at the community and household level as food security conditions vary dramatically across the country.<sup>10</sup>
- The Food Security Law of 2008 is outdated; the Law on Fortification of Baking Flour needs to be amended in order to ensure that all imports of wheat flour are fortified, while the existing budget formulation process needs to comply with legislation and ensure adequate financing of grain and vitamin/mineral premix procurement by the State Material Reserve.
- While the Food Security Council is the supreme advisory body for the Government of the Kyrgyz Republic, it has not been working on a regular basis in line with the Regulation, which requires that it meet “as needed”, “in order to take urgent decisions”.
- In recent years, key ministries and agencies have excluded food security issues from their main activities, although food security is multi-dimensional and cross-cutting.
- Persisting multi-ethnic issues have a significant impact on the food security and wellbeing of women and their children, particularly in border areas, where the patriarchal, traditional society and unequal opportunities for women make it challenging to reach women-headed households, particularly in rural areas, and to tailor assistance to meet their needs.
- Climate change will be a key challenge to food security in the Kyrgyz Republic. Model projections suggest four main trends that could affect food security and livelihoods: (i) the combination of higher temperatures and lower rainfall could result in more intense droughts and heat waves, (ii) reductions in the country’s glaciers and snow cover could lead to increasing pressure on the country’s water resources, (iii) changes in seasonal rainfall may have potentially long-lasting effects on rural livelihoods that are predominantly dependent on reliable rainfall patterns, (iv) low-lying parts of the country are likely to gradually change into arid areas due to reduced glacial runoff.

## II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017

### Adopted documents:

1. CONCEPT for introducing private ownership to land in the Kyrgyz Republic dated 13 October 1998 # 310 identifies the actions targeted to a gradual and smooth entry of society to the new land-market and the conditions for introducing private ownership of land.
2. STRATEGY # 199 dated 10 April 2009 for land utilization from the Agricultural Land Redistribution Fund identifies the objectives and main targets for further use of Fund lands.

<sup>9</sup> 2100 kilo calories

<sup>10</sup> In September 2012, 35 percent of rural households were found to be food-insecure versus nine percent of urban households, and the highest proportion of food insecurity was found in Jalalabad (48%), Osh (28%) and Batken (38%). WFP, *Follow-up Household Food Security Assessment in the Kyrgyz Republic*, September 2012.

3. CONCEPT # 45 dated 31 January 2005 for the development of pedigree livestock breeding in the Kyrgyz Republic to 2010 specifies the main targets for development of the breeding system, quality improvement and increase in the number of pedigree flock.
4. CONCEPT # 465 dated 22 June 2004 for the Kyrgyz Republic on agrarian policy to 2010 defines the Government's role in pursuing agrarian policy under conditions of market transformation and management of democratization.
5. CONCEPT # 239 dated 29 April 1999 for sheep breeding development in the Kyrgyz Republic for 2000-2002 aimed at raising profitability and efficiency of sheep breeding and wool production and provision of services to farmers.
6. CONCEPT # 765 dated December 2001 for the development of the tobacco industry in the Kyrgyz Republic for 2002-2005 identified the priorities and actions for development of the tobacco industry.
7. CONCEPT # 355 dated 16 July 2001 for comprehensive development of yak breeding in the Kyrgyz Republic for 2001-2010 specifies actions for yak breeding development.
8. MARKETING STRATEGY # 662 dated 2 September 2004 for the development of agricultural product procurement, processing and sales, focusing on coordination of stakeholders' efforts on developing agricultural product procurement, processing and sales.
9. NATIONAL STRATEGY OF THE KYRGYZ REPUBLIC # 210 dated 23 June 2004 "Comprehensive Rural Development to 2010" is focused on poverty reduction in rural areas.
10. MID-TERM STRATEGY # 637/37/7 dated 30 December 2005 for the development of micro-finance in the Kyrgyz Republic for 2006-2010 supports micro-finance development in the Kyrgyz Republic, including in rural areas.
11. NATIONAL STRATEGY # 367 dated 5 July 2011 for the development of pedigree livestock breeding in the Kyrgyz Republic for 2011-2015 focused on raising pedigree livestock breeding.
12. Mid-Term Development Programme of the Kyrgyz Republic for 2012-2014.
13. National Strategy for Sustainable Development 2013-2017.
14. National Health Care Reform Programme for the Kyrgyz Republic "Den Sooluk"(2012-2016): contains school feeding programmes and food fortification.

#### **Draft documents:**

1. Agricultural Development Strategy to 2020.
2. Strategy for aquaculture development in the Kyrgyz Republic for the period up to 2020.
3. Concept for fishery development in the Kyrgyz Republic for the period up to 2020.
4. Program for the improvement and conservation of soil fertility in the Kyrgyz Republic for 2012-2015.
5. "Organic Products is a Brand of the Kyrgyz Republic" for 2012-2025 and Action Plan for carrying out the program.
6. Crop development program in the Kyrgyz Republic for 2011 – 2015.
7. Concept for livestock breeding in the Kyrgyz Republic for 2011-2015.
8. State program for developing crop selection and seed farming in the Kyrgyz Republic for 2011-2015.
9. Pasture development program in the Kyrgyz Republic for 2011-2015.
10. State program for developing cooperatives in the Kyrgyz Republic for 2012-2015.
11. 5-year program for developing the agro-processing industry in the Kyrgyz Republic
12. Nutrition Strategy and Action Plan on 2013-2017.

#### **Programmes:**

1. National School Meals Programme.
2. Program on Iodine Deficit Reduction 2010-2014.
3. Adapted technical regulations on: (i) Safety of Fortified Flour, (ii) Iodized Salt, (iii) Safety of child feeding products.

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

1. Long term investment in the livestock industry for the establishment of an animal identification and registration system and control of trans-boundary animal diseases.
2. Land market development with due attention to the following risks and opportunities:
  - Potential social unrest if land is withdrawn from rural farmers;
  - Emergence of large land owners – renters;
  - Reform of pasture management would lead to empowerment of pastoralists and enable pasture committees to tackle current challenges of sustainable pasture management and rehabilitation of natural resources.
3. Develop cooperatives to enhance economies of scale, value-addition chains, and agricultural market logistics; this would stimulate production capacity, income growth, and new market opportunities, including capitalising on initiatives such as organic produce.
4. Develop private/public partnerships to improve services and commodity production, extending to veterinary, plant protection, seed and livestock breeding, mechanization, fodder production, and food fortification.
5. Enhance social protection and safety nets:
  - Continue targeted food distributions for the poorest, most food-insecure rural households.
  - Improve quality, efficiency & sustainability of the existing primary school meals programme
  - Further improve the quality, efficiency and sustainability of the social protection system.
6. Rehabilitate/develop rural and agricultural infrastructure:
  - Continue initiatives that facilitate sustainable community projects, including rehabilitation of shared rural infrastructure, disaster mitigation and environmental protection, and skills training. Such initiatives enable rural communities to improve their own food security by providing them with the resources and incentives to invest in their own sustainable agricultural development.
  - Projects need to be proposed by and selected in coordination with local authorities and communities, helping to establish community ownership and ensure the long-term sustainability of project results; initiatives also need to specifically focus on building local capacity to implement, manage and maintain project results.
  - Need for support and partnership of national and local authorities to identify, develop and implement high-impact priority projects throughout the country.
7. Continue capacity development support to Water User Associations (WUAs); support the development of improved mechanisms for local water management (water user plans, collection of fees, and maintenance of infrastructure, etc.); develop regional approaches or models, and trans-boundary water policies; support capacity development on integrated water resource management; and promote government policies that improve cost recovery and fiscal discipline in water supply.
8. Address nutrition-related issues, bearing in mind that the basic causes of malnutrition go beyond the health system and have broad-ranging impacts across the entire economy, and that MDG goals, such as MDG 1, MDG 3 and MDG 4 to reduce hunger, maternal and child mortality, cannot be realistically achieved without further progress in the reduction of malnutrition.

9. Adopt a dual approach to tackle malnutrition, based on effective coordination and involvement of multiple stakeholders, including ministries, departments, international development partners, the private sector and non-governmental organizations, to ensure effective implementation and sustainability. This would comprise the following approaches:
  - Firstly, a prompt scaling-up of nutrition-specific interventions. This includes interventions to prevent and treat malnutrition, such as nutritional interventions targeting pregnant women and young children, especially in the first 1,000 days of life, the promotion of good nutrition practices, improved micronutrient intake (vitamins and minerals) through, inter-alia, supplementation and fortification (wheat flour, oil and salt), and better complementary feeding;
  - Secondly, the introduction of multi-sectoral interventions which focus on the key determinants of malnutrition; this includes measures to tackle food insecurity through improvements in availability, access to and consumption of balanced foods, improved social protection, and access to health services including for maternal and child health, as well as water and sanitation, immunization and family planning.
10. Improvements in nutrition should give attention to, inter-alia:
  - Creating awareness among decision-makers of the nationwide problem of malnutrition, its consequences, and impact on the well-being of the country.
  - Establishing inter-agency and multi-sectoral coordination to improve food security and nutrition; this could be entrusted to the Food Security Council, to which line ministries could report.
  - Sharing of responsibility for the outcomes of nutrition interventions among line ministries, and developing and agreeing on common targets with key ministries, international organizations, NGOs and development partners.
  - Increased funding for scaling-up nutrition, with an emphasis on proven nutrition interventions that are cost effective.
11. Review the current Food Safety Law in the Kyrgyz Republic to ensure that new legislation is in line with WTO and international best practices [Codex Alimentarius, Sanitary and Phyto-sanitary (SPS)]<sup>11</sup> and support institutional reforms to create well-coordinated food safety inspection services.
12. Introduce a HACCP-based Food Safety Controls System.

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<sup>11</sup> The law should provide the general framework, stipulate the responsibilities of different state agencies, establish rights and clear liability of food business operators, obligatory implementation of HACCP principles and traceability, elimination of compulsory certification of food stuff, unified requirements for labelling rules, provisions for food testing laboratories, procedures for withdrawal and recall of unsafe food or food, which is unfit for human consumption.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner / Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/ loan/ other	Any other info
EU	Poverty Reduction through Efficient Use of Irrigation Infrastructures in Rural Agricultural Communities	ACTED	1 January 2013 – 31 December 2013	EUR 234,596 (187,677 funded by EU, 46,919 to be co-funded)		To improve the livelihood of rural farming households through better use of irrigation infrastructures.
EU	Irrigation Infrastructure Development in High Mountainous Areas of Osh Oblast: Phase I and Phase II	MSDSP KG	11/2012 – 01/2014	EUR 398,090		
EU & AKF UK	Vegetable Value Chain Development in Naryn Oblast	MSDSP KG	03/2012 – 10/2013	EUR 332,974		
Internal funding	Support Livestock Sector Development in Alai and Chong-Alai districts of Osh Oblast	MSDSP KG	On going	US\$ 10,000 (2013)		MSDSP KG supports the development of private vet services & promotes artificial insemination.
Internal funding	Improving agricultural practices in Alai and Chong-Alai districts of Osh Oblast	MSDSP KG	On going	US\$ 10,000 (2013)		Includes organization of demonstration days, exchange visits and publication of information.
FAO	ONE UN Fund Initiative for Kyrgyzstan: Agricultural assistance to vulnerable, food insecure female-headed households	UN Women, WFP	01 Jun 2010 – 31 Jan 2013	US\$ 505,406	UNDP - Administered Donor Joint Trust Fund	To distribute cropping inputs and to provide trainings on vegetable production techniques of Jalalabad, Issyk-Kul, Osh, and Batken oblasts.
FAO	Improving access of small-scale farmers to high quality seeds in the Kyrgyz Republic GCP/RER/026/AUS:baby4		July 2011 – September 2013	US\$ 545,956	Government of Austria	To provide high quality seeds, to demonstrate seed multiplication techniques, capacity building in seed production, contribute towards developing a national policy.
FAO	Strengthening of the National Food Security Information System in the Kyrgyz Republic		17 Nov 2011 – 17 Nov 2014	EUR 1,400,000	EU	To increase use of food security information in the formulation and implementation of food security policies in accordance with the intentions of the Food Law.

FAO	Support to fishery and aquaculture management in the Kyrgyz Republic		01 September 2009 – 30 April 2013	US\$ 2,200,000	Trust fund project funded by the Government of Finland	To increase capacity of the fisheries sector to generate food, employment and income for the rural population through improved aquaculture management and fish marketing.
FAO	Cattle Production Improvement in Central Asian Countries		11 Oct 2011 – 10 Oct 2013	US\$ 400,000 – total US\$ 100,000 by Kyrgyzstan	Turkey	To restart modern beef and dairy cattle production programmes in three Central Asian countries and in Azerbaijan.
FAO	Initiative for Pesticides and Pest Management in Central Asia and Turkey		10 Aug 2010 – 09 Feb 2013	US\$ 450,000 – total US\$ 112,500 by Kyrgyzstan	Turkey	To assist Central Asian states to reduce risks from obsolete pesticide stockpiles and from pesticides in the current and future use.
FAO	Improving capacities to eliminate and prevent recurrence of obsolete pesticides as a model for tackling unused hazardous chemicals in the former Soviet Union		01 Jan 2012 – 31 Dec 2015	US\$ 8,000,000 – total US\$ 347,600 by Kyrgyzstan	EU	To better protect the environment & public health in the ENPI East region and Central Asia, through reducing the risk from hazardous waste, with emphasis on pesticides.
FAO	Irrigation improvement in Kyrgyzstan		16 Sep 2009 – 14 Sep 2013	US\$ 432,668	Government of Austria	To improve irrigated agriculture by increasing the capacity of farmers to manage water at field level.
FAO	Central Asia Regional Programme for Fisheries and Aquaculture Development		05 Dec 2009 – 04 Dec 2014	US\$ 1,799,998 – total US\$ 257,142 by Kyrgyzstan	Turkey	To increase Central Asian fisheries and aquaculture to generate food, employment and income.
FAO	Capacity Building for Sustainable Management of Mountain Watersheds in Central Asia and the Caucasus		20 Jan 2012 – 19 Jan 2014	US\$ 300,000 – total US\$ 50,000 by Kyrgyzstan	Turkey	To improve national capacities in the management of natural resources, reverse the degradation, promote livelihood development.
FAO	Management of migratory & other locusts in Caucasus & Central Asia		01 Apr 2009 – 31 Mar 2011	US\$ 322,000 – total US\$ 35,777 by Kyrgyzstan	FAO	
FAO	Assistance for Capacity Development in Locust Control		01 Feb 2012 – 31 Dec 2013	US\$ 367,000	FAO	To assist in reducing locust damage on crops and rangelands.
FAO	Establishment of a standard methodology (Rural Invest) for effective small and medium scale rural investments		01 Feb 2012 – 31 Dec 2013	US\$ 335,000	FAO	To improve the capacities of the region in terms of economic and financial feasibility for rural investments.
GIZ	Sustainable pasture management in the watersheds of the Jergetal and Ottuk rivers	Ministry of Agriculture, NGO “CAMP Alatoo”	Jan 2012 – Dec 2014	EUR 7.5 mln (3 countries)	German BMZ	GIZ Regional Program: Management of Natural Resources.
GIZ	Sustainable pasture management in Southern Kyrgyzstan	NGO «CAMP Alatoo», Ministry of Agriculture	Jan 2012 – Dec 2014		German BMZ	

GIZ	Sustainable wildlife management	State Agency of Environment and Forestry of the Republic of Kyrgyzstan	Jan 2012 – Dec 2014		German BMZ	
GIZ	Promotion of sustainable economic development	Ministry of Economic Development and Trade	2008 – 2017		German BMZ	
GIZ	Forest and Biodiversity Governance, including Environmental Monitoring		May 2013 – October 2015	EUR 4.4 mln (5 countries)	EU	
IFC (funding from the Swiss Government through SECO – Swiss State Secretariat for Economic Affairs, Ministry of Economy)	IFC Kyrgyz Investment Climate project	Ministry of Agriculture, Ministry of Economy	April 2013 – June 2015	US\$ 1,425,000	Advisory Services (Technical Assistance)	To reform investment climate with a focus on reducing (jointly with the WB) the implementation gap, improving investment climate, increasing investment for the agribusiness sector.
JICA	Support for Joint Forest Management in the Kyrgyz Republic	SAEPF, NALSG	January 2009 – January 2014 (5 years)	US\$ 3,300,000	Technical Assistance	To strengthen framework for expanding JFM in sustainable manner by the SAEPF and NALSG.
JICA	Community Empowerment via Small Business Promotion by One Village One Product (OVOP) approach in Issyk-Kul Region” (Phase II)	MoE	January 2012 – January 2015 (3 years)	US\$ 2,100,000	Technical Assistance	To establish small business promotion model in Issyk-Kul region by OVOP approach.
JICA	Promotion of Exportable Vegetable Seed Production	MoA	June 2013 – June 2018 (5 years)	US\$ 4,300,000	Technical Assistance	To increase vegetable seed production with exportable quality in the target Oblasts.
JICA	Dissemination of Organic Farming	Agriculture University	September 2013 – March 2016 (2.5 years)	US\$ 530,000	Technical Assistance	To develop organic fertilizer and application technology suitable for Kyrgyzstan.
JICA	Agriculture Investment Promotion Policy Adviser (Expert)	MoA	December 2013 – December 2015 (2 years)	NA	Technical Assistance	To improve the capacity of the MoA for export-oriented production.
JICA	Training "Agricultural Mechanization for Central Asia and Caucasus"	MoA and Local Government	2013 – 2014 (2 years)	NA	Technical Assistance	
JICA	Region-focused Training in JAPAN "Strengthening Role and Function of Farmers' Organizations in Central Asia and Caucasus"	MoA and Local Government	2013 – 2014 (2 years)	NA	Technical Assistance	
JICA	Region-focused Training in JAPAN "Sustainable Agriculture by Utilizing Unused Organic Resources for Central Asian Countries"	MoA and Local Government	2013 – 2014 (2 years)	NA	Technical Assistance	
JICA	Region-focused Training in JAPAN "Endogenous Regional Development Utilizing Local Resources"	MoA, MoE and Local Government	2013 – 2014 (2 years)	NA	Technical Assistance	

Swiss Cooperation	Promotion of Interstate Water Management on Transboundary Chui and Talas Rivers (Phase II)	Department of water resources and melioration	2013 – 2016	CHF 950,000	SCADA installations	
UNICEF	Addressing major causes of nutritional and development deterioration of children and their mothers by strengthening Nutrition and ECD in Emergencies	MoH	2013 – 2014	US\$ 1,107,450	Soros Foundation Grant	To help ensure the optimal cognitive, physical and social development of children 6-59 months of age in Batken & Osh Provinces.
UNICEF	Agriculture/Nutrition Improvements under the Global Agriculture and Food Security Program, Component 4: Upscaling Nutrition Interventions and Social Protection.	MoA and MoH	2013 – 2017	US\$ 3,162,000	World Bank	This component is adding the strongest multi-sectoral element to the project and will be key to ensuring that food security is addressed more comprehensively.
United Nations World Food Programme (WFP)	Vulnerable Group Feeding	Primary cooperating partner - Ministry of Social Development. Other partners selected via tender process for each distribution cycle (e.g. in 2012 the programme was implemented through French NGO ACTED, national NGOs – Shoola and AVHC)	July 2011 – June 2014	US\$ 20,730,456	Direct implementation	The programme targets vulnerable households during winter and pre-harvest lean seasons with fortified food rations.
United Nations World Food Programme (WFP)	Rural asset creation and training	Primary coordinating partners: Ministry of Social Development; Ministry of Emergency Situations, State Water Departments, State Agency for Forestry and Environmental Affairs, UNDP, UN Women, FAO, CDA, ADI, GIZ.	July 2011 – June 2014	US\$ 10,102,906	Direct implementation	The programme offers vulnerable households temporary employment opportunities that include restoration and rehabilitation of rural infrastructure, and disaster mitigation and environmental protection projects in exchange for fortified food rations.
WFP funded by the European Union (EU)	Strengthening of the National Food Security Information System in the Kyrgyz Republic	National Statistics Committee, Ministries of Agriculture, of Social Development, of Emergency Situations	August 2011 – July 2013	EUR 400,000	Technical assistance and operational support	The programme will build capacity within the Kyrgyz Government and will enable it to better monitor and respond to food insecurity.
United Nations World Food Programme (WFP)	Optimising the primary school meals programme	Project to be led by Inter-ministerial Working Committee on the optimization of the national school meals programme; Primary partner - Ministry of	2013 – 2016	US\$ 10,000,000	Technical assistance and operational support	To build national capacity to improve quality, efficiency and sustainability of the programme. Assistance to focus on supporting the Government in developing a sound policy framework and

		Education and Science. NGO and other partners to be identified through tender				demonstrate, through a small pilot project, improved implementation modalities that are cost-efficient, transparent and accountable.
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### Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/loan/ other	Any other info
Eurasian Development Bank (EurasEC Anticrisis Fund)	Establishment of a fruit & vegetable supply chain in the Kyrgyz Republic	UNIDO	10 years	US\$ 30,000,000	Loan	
FAO	Technical support for agricultural census in 2014		2014		FAO	To strengthen capacities for the agricultural census in 2014.
FAO	Support to scientific advice to develop management & conservation action plan for Issyk-Kul lake				Government of Finland	
FAO	Support to the Government for establishment of Animal Identification & Registration system					
FAO	Support to Fodder Supply in the Livestock Sector of the Kyrgyz Republic by Developing Fodder Crop Production on the Irrigated Land and Irrigating Winter Pastures		2 years			
GIZ	Climate Change Adaptation in Mountain Regions of Central Asia	Ministry of Environmental Protection of Kazakhstan, State Agency on Environmental Protection and Forestry of Kyrgyzstan, Committee for Environmental Protection of Tajikistan	Jan 2014 – December 2017	EUR 4,950,000 (3 countries)	German BMU	
JICA	The Project for Enhancement of Small-scale Farmers' Income through Development of Farmers Organizations	MoA	NA	NA	Technical Assistant	Applied

JICA	Project for Enhancing the Quality Control and Food Safety	MoE	NA	NA	Technical Assistant	Applied
JICA	Project on Construction of Trade and Logistics Centers	MoA	NA	NA	Grant	Applied
JICA	Project for Promotion of Greenery in Issyk-Kul Arid Area	SAEPF, NALSG	NA	NA	Grant	Applied
Swiss Cooperation	Central Asia Agri-finance Project	IFC	2013 – 2018	Overall budget US\$ 5.5 mln	grant	The project aims at supporting the development of profitable and sustainable agricultural sectors in 3 Central Asian countries by facilitating conducive business enabling environment and improving capacity of financial institutions servicing select agri sector supply chains' participants.
Swiss Cooperation	Organic Cotton Production and Trade Promotion Project	Helvetas	2013 – 2016	CHF 1.4 mln	Grant	
Swiss Cooperation	National Water Resources Management	Department for Water Resources and Melioration	2013 – 2016	CHF 7 mln	Grant	
SECO	BioCotton	Helvetas	2013 – 2016	CHF 1.4 mln	Grant	

## Transport

### I. Challenges Facing the Sector:

After political instability and contractions in economic growth, Kyrgyzstan's economy is back on track with GDP growing at 6 to 7% in the next 5 years. Increase in domestic production and trade implies that traffic along roads and railroads could significantly expand. However, many constraints need to be overcome to ensure a sustained economic development: weak energy sector generating disruptions in power supply, limited impact of the financial sector, narrow tax base, rampant corruption, lack of implementation of the rule of law, low synergy between the private and public sector. On top of this, the transport sector is facing its own serious challenges. The Presidential document, “*National Strategy for Sustainable Development of the Kyrgyz Republic for 2013-2017*” (NSDS) is a clear testimony of the intention of the Kyrgyz government to address the constraints to development with realism and determination. Achieving *Connectivity* and *Sustainability* would be the objectives of the transport sector for the next five years. Challenges facing the Transport Sector fall under these two objectives.

	<b>Connectivity</b>	<b>Sustainability</b>
<b>Roads</b>	Regional road connectivity: completion of CAREC and other international corridors	Road Asset Management and Maintenance, Human Resources Development and Road Safety
	Domestic road connectivity: completion of road network	
<b>Railways</b>	Regional and national rail connectivity: PRC – Kyrgyzstan – Uzbekistan and North – South Projects	Maintenance of existing Railway System
<b>Aviation</b>	Regional and national air connectivity: Aviation Hub project and development of local airports	Air Safety and airport maintenance

**Road Asset Management and Maintenance:** Despite the effort to build effective CAREC corridors, road condition<sup>12</sup> on most of the network remains poor due to the lack of proper road maintenance. The road infrastructure has been routinely affected by climate-induced extreme events, including extreme temperatures, avalanches, landslides and mudslides. Due to the weak enforcement of axle load control legislation international and domestic overload vehicles are frequently allowed to use roads which results in further deterioration of road assets. Sizeable parts of expenditures need to be allocated to “winter maintenance and emergency repairs” and maintenance of newly rehabilitated CAREC Corridors, leaving little budget allocation for routine and periodic maintenance of the rest of the existing road network.

There are two challenges for the prevalence of poor road condition and unsatisfactory road asset management and maintenance. The first is the lack of funding and the absence of a mechanism to collect user fee for economically sustainable maintenance. The 2012 budget allocation of KGS 1.4 billion (\$ 30.2 million) for maintenance work covers just about 1/3 of the estimated KGS 3.5 billion needed to maintain roads at an international standard. Hence, it is inevitable to find additional guaranteed funding for road maintenance sheltered from the hazard of budget allocations and to consider the possible ways of user charge among the relevant stakeholders. In addition, the increased role of the private sector in road maintenance such as the introduction of performance based

<sup>12</sup> It is estimated that 50% of the roads require reconstruction with 80% of the network past its surface life.

maintenance contracts could be one of the solutions to poor quality of maintenance and insufficient maintenance budget through more efficient budget execution.

The second important challenge consists in the capacity development of the Ministry of Transport and Communications (MoTC) and the “delivery of road maintenance” which is carried out by MoTC maintenance units. Despite received assistance, a fully integrated and computerized road asset management and maintenance system with proper quality control facilities has not been yet set up. This inadequate road asset management hinders the efficient budget allocation based on the urgency and priority. The shortage of qualified human resources, good engineering skills and equipment also contribute to the poor performance and record in road maintenance. As a result, managerial and engineering capacity development of MoTC and road sector professionals, also using higher and vocational education institutions, is the core for the sustainable road asset management and maintenance.

Regional Road Connectivity: CAREC has identified 6 major transport corridors and 4 of them cross Kyrgyzstan: CAREC 1: Chaldovar–Kara-Balta–Bishkek–Naryn–Torugart, CAREC 2: Irkeshtam–Sary-Tash–Osh, CAREC 3: Karamyk–Osh–Bishkek–Chaldovar or Ak-Jol/Ak-Tilek and CAREC 5: Irkeshtam–Sary-Tash–Karamyk. To complete regional connectivity, the Government added to the list the following 3 international corridors: Suusamyr–Talas–Taraz; Osh–Batken–Isfana–Sulyukta, Karakol–Tyup–Kegen. The major task is to complete the construction without putting the country into a difficult financial situation and to provide the necessary trade facilitation measures.

National Road Connectivity: Feeder roads and secondary roads risk is continuing to be neglected with high transport costs affecting producers and consumers and delaying economic development. A range of roads could be considered as potential candidates. These roads are in poor condition and their rehabilitation would be costly. Traffic used to be low on these roads and with competition for available funds, the question is whether the government can afford building national connecting roads which are difficult to justify economically.

Road Safety: Road accidents are on the rise and about a thousand people are killed every year. The index (fatalities/10,000 vehicles) for 2010 was 34 for Kyrgyzstan, with 15 for Kazakhstan, 5.5 for Russia and 3.6 for the People’s Republic of China (PRC). The index for Kyrgyzstan seems to have climbed to 47 in 2011. This represents 18 deaths per 100,000 inhabitants, more than three times worse than the best performing countries. Road safety is also a serious economic problem (several studies estimated its impact on GDP to be nearly 4.3%), public health, social development and environment. Unless an effective road safety programme is implemented on the five pillars of the Decade of Action (road safety management; safer roads and mobility; safer vehicles; safer road users; and post-crash response), death rates will keep growing dramatically. The Road Safety Secretariat has little power and resources and the challenge is to get sufficient funds to implement a robust and effective road safety programme.

Railway Development: The railway network is disjointed and railway operations need improvements especially in the rolling stock. There are 2 big railway projects under consideration: the PRC–Kyrgyzstan–Uzbekistan new rail connection and the North–South new connection. The objective is first to carry out reliable feasibility studies with impartial views. Second, in the case of favourable answers, the challenge is to minimize national financial burden and get foreign funding with private sector involvement. The first project would be built before considering North–South project.

Aviation Development and Airport Regional Hub: To maintain safe aircraft operation and to meet international standards, rehabilitation of airfield pavements, airfield lighting system, renewal of air communication, navigation and surveillance system, and preparation of rescue and fire fighting service, are urgent requirements at most airports. Kyrgyzstan, with its favourable location and its spirit of openness has a great opportunity to develop its aviation sector and becoming a regional hub (the Manas airport) subject to modernizing facilities and equipment.

## II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017

Transport sector development and road network receive predominant attention in the following documents:

- Country Development Strategy (CDS) for 2007 – 2010;
- Road Sector Development Strategy for 2007 – 2010 (adopted in 2006);
- National Poverty Reduction Strategy (NPRS) for 2003 – 2005;
- Country Development Strategy (CDS) for 2009 – 2011;
- Long Term Country Development Framework (LTCDF) for 2001 – 2010;
- National Strategy for Sustainable Development of the Kyrgyz Republic for 2013-2017.

The government has a better record in meeting its objective of rehabilitating major international road corridors than in maintaining existing network. Ongoing projects are described below.

Corridor	Time Frame	Km	Cost (US\$ million)	Financing Agency	Progress (as of Decem. 2012)
Bishkek–Osh	1997 – 2012	545	209	ADB/IsDB/Japan	81% (loan)
Bishkek–Naryn–Torugart	2008 – 2016	539	582	ACG/ADB/PRC	33% (grant+loan)
Osh–Sary-Tash–IrkeshTam	2006 – 2013	258	147.9	ADB/IsDB/PRC	74% (loan)
Sary-Tash–Karamyk	2012 – 2013	136	45.6	ADB	99% (grant+loan)
Suusamyr–Talas–Taraz	2012 – 2015	199	100.6	IsDB	38% (loan)
Osh–Batken–Isfana	2012 – 2015	385	105	WB/EBRD/EU	32% (grant+loan)

Source: “Master Plan on Transport Sector Development (2010-2025)” p.28

The NSDS states 5 objectives for the Transport Sector: “(1) rehabilitation of 5 international transport corridors, (2) preservation and improvement of the network of hard-surface roads, (3) ensuring transport independence of the country, (4) completion of the Feasibility Studies and construction of the PRC–Kyrgyzstan–Uzbekistan Railroad and a railway branch connecting the North and the South, and (5) the creation of an air transport hub”.

Financing rehabilitation of international corridors has been achieved through loans or grants with the public debt ratio being at acceptable levels. Also, the government strategy is to build roads in the Batken Oblast around foreign enclaves to ensure national integrity and extend the Osh–Isfana road to Tajikistan. The President has also instructed MoTC to carry out a Feasibility Study on a new North–South road from Kochkor to Jalal-Abad (450 km) to provide an alternative to the Osh–Bishkek road, and there are also discussions of building an expressway between Bishkek and Kara-Balta through PPPs. NSDS, following the objective of preservation of the road asset, has set up ambitious targets<sup>13</sup>.

The CDS for 2009 – 2011 for the first time, despite some controversies, expresses its clear intention to expand the railway network with new rail lines from Torugart to Balykchy and Osh in order to provide connection from the PRC to Uzbekistan and Kazakhstan through Kyrgyzstan. The NSDS for 2013 –

<sup>13</sup>“In order to implement the objective of maintaining and improving the domestic road network, each year it will be necessary to: (1) restore the top wearing surface of the roads by constructing a no-skid road surface along more than 300 km of roads; (2) overhaul at least 150 km of roads, with laying asphalt-concrete pavement”. The document also mentions that vehicles exceeding the axle load limit would not be admitted in the country so as to prevent deterioration of the pavement (NSDS p.99).

2017 goes further: As part of the implementation of its fourth and fifth objectives, in February 2013 a FS for the PRC–Kyrgyzstan–Uzbekistan Trunk Railroad was completed, enabling to proceed directly to construction and a FS will be prepared for a railroad branch connecting the North and the South (p.100).

The CDS for 2009 – 2011 recommended funding for new air navigation equipment at the Manas and Osh airports with a provisional budget of KGS 1 billion. The NSDS for 2013 – 2017 envisages expansion and modernization of the “Osh”, “Issyk-Kul”, “Batken”, “Isfana”, “Jalal-Abad” and “Manas” airports, with the latter becoming a basis for the creation of an air transportation hub.

The government has also enacted or drafted a number of laws and regulations which have impacted the transport sector (draft Law on toll road, Law on PPP, modernization of customs procedures). The priority activities below are consistent with NSDS objectives and reflect the findings of the Transport Master Plan.

### III. Prioritised Sector activities requiring development assistance in 2013-2017

Principles	Activities	Details of activities	Rationale
<b>Connectivity (Regional)</b>	Completion of the International Corridors	<ul style="list-style-type: none"> <li>• Bishkek–Osh;</li> <li>• Osh–Sary-Tash–Irkeshtam</li> <li>• Sary-Tash–Karamyk</li> <li>• Bishkek–Naryn–Torugart</li> <li>• Osh–Batken–Isfana–Tajikistan border</li> <li>• Suusamyr–Talas–Taraz;</li> </ul>	All the currently on-going construction of the CAREC corridors and other international roads should be completed for connectivity to improve trade and economic development. There is a potential economic benefit for Tajikistan and Kyrgyzstan to extend the Osh–Isfana road to Khudjand, but FS is needed.
	Aviation and Airport Development Programme	<ul style="list-style-type: none"> <li>• Airport Development Master Plan</li> <li>• Assistance for investment implementation on prioritized airports under commercial loans, or PPP projects</li> </ul>	Apart from potential improvements at all 4 international airports, possibility of a new Osh airport and progress in all 7 national airports, FS is required for establishing regional hub at the Manas airport.
	Railway Development Programme	<ul style="list-style-type: none"> <li>• Independent review of Feasibility Study of the PRC–Kyrgyzstan–Uzbekistan railway project;</li> <li>• Detailed Financing and Operation Plan of the above project;</li> <li>• Finalization of all the transit agreements;</li> <li>• FS of the North–South Railway project;</li> <li>• If favourable feedback, assistance to find funding</li> </ul>	Completed FS by CRBC should be reviewed by independent body. Financing of project should be by foreign investors. Assistance could be given to Kyrgyzstan on legal international agreement, financing packaging and operation plan. For the North-South Railway, assistance could be provided in financing the FS and helping in financing options. These two projects are valid if economically justifiable from the perspective of the country.
<b>Connectivity (National)</b>	Build a new road connecting the two CAREC corridors after FS	<ul style="list-style-type: none"> <li>• FS on Economic Development and Road to link CAREC 1 and CAREC 3 corridors: Kochkor–Aral–Suusamur and/or Kochkor–Aral–Jalal-Abad (North–South alternate road)</li> <li>• Construction of link roads, if justified</li> </ul>	There are different possible routes to connect the two corridors and therefore it is recommended to carry out a study of economic development of the area and then also include FS of the best road alignment.

<b>Sustainability</b>	Road Asset Management and Maintenance Assistance Programme	<ul style="list-style-type: none"> <li>• TA in Road Asset Management System</li> <li>• TA to assist in performance based contracts</li> <li>• TA on capacity building in road maintenance</li> <li>• Procurement of equipment</li> <li>• Protection against avalanches/land slides</li> <li>• TA on controlling overloading</li> <li>• TA on financing of road maintenance</li> </ul>	Poor road conditions and deficient road maintenance programme justifies the combined effort of development partners to provide a series of integrated TA projects to cover the different aspects of road maintenance. All the listed activities should receive priorities in the next 3 years with clear substantial progress being then accomplished.
	Road Safety Programme	<ul style="list-style-type: none"> <li>• Road Safety Strategy and Action Plan</li> <li>• Road Safety campaigns</li> <li>• TA &amp; program for elimination of black spots</li> <li>• TA to review situation of vehicle inspection</li> </ul>	The dramatic rate of fatalities justifies a strong response from development partners. Road Safety presents many aspects and all aspects should receive the due attention in the concerted effort of the government and development partners.
	Air Safety Programme	<ul style="list-style-type: none"> <li>• Procurement of air navigation equipment to improve air safety</li> <li>• Renovation of existing air fleet to comply with ICAO standards</li> </ul>	Outdated air navigation equipment should be replaced first at all international airports. Domestic airlines should be encouraged to renovate their air fleet. International airlines should be attracted to boost better passenger and cargo services.
	Improvement of existing railway system	<ul style="list-style-type: none"> <li>• FS on measures to improve existing railway system, including electrification</li> <li>• Rolling stock, signalling, container cranes</li> </ul>	There is a series of important investments that could be put in place, but they need to be confirmed by a FS.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013 – 2017:

Donor	Name of the project	Implementing partner/Contractor	Implementation period	Amount (original currency)	Budget support/grant/loan /other	Any other info
ACG (ADF, IsDB, KF, OPEC, SFD)	Bishkek–Naryn–Torugart road	MoTC, contractor not yet selected	2013 – 2017	US\$ 66,200,000	Loan	Rehabilitation of (km. 272-365) Bishkek–Naryn–Torugart road
ADB	PPTA on Phase IV Bishkek–Osh road	MoTC and international consulting firm	2013	US\$ 1,000,000	Grant	Project Preparation TA for financing rehabilitation of Bishkek–Kara-Balta road (60 km.) and Madaniyat–Jalal-Abad road (70 km.)
	Bishkek–Osh road Phase IV	MOTC	2014 – 2017	US\$ 50,000,000 out of US\$ 120,000,000 total cost	Loan	Rehabilitation of Bishkek–Kara-Balta and Madaniyat–Jalal-Abad road sections including road asset management and road safety components (ADB – EDB project)
EBRD	TA in engineering supervision of road construction	MoTC and international consulting firm	2009 – 2013	US\$ 1,500,000	Grant	Supervision of construction of part of Osh–Isfana road
	Osh–Isfana road project	MoTC	2009 – 2013	US\$ 35,000,000	Loan	Co-financing rehabilitation project led by WB
	Assistance to MoTC in implementing road sector reform and restructuring	MoTC and international consulting firm	2013 – 2014	EUR 440,000	Grant	Focus will be on innovative formulas to finance road maintenance and pilot project for private sector contracting
Eurasian Development Bank (EDB)	Bishkek–Osh road Phase IV	MoTC	2014 – 2017	US\$ 50,000,000 out of US\$ 120,000,000 total cost	Loan	Rehabilitation of Bishkek–Kara-Balta and Madaniyat–Jalal-Abad road sections (ADB – EDB project)
EU	Construction of Kok-Talaa–Pulgon section on Osh–Isfana road	MoTC	2012 – 2014	EUR 7,100,000	Grant	15 km of road on Osh–Isfana as part of WB – EBRD project
	Road supervision of construction of Kok-Talaa–Pulgon road	MoTC and international consulting firm	2012 – 2014	EUR 349,300	Grant	Engineering supervision of construction work
IsDB, SFD	Suusamur–Talas–Taraz road	MoTC, contractor not yet selected	2013 – 2017	US\$ 22,100,000 (IsDB US\$ 10,000,000, SFD US\$ 10,000,000 Kyrgyzstan US\$ 2,100,000)	Loan	Suusamur–Talas–Taraz road rehabilitation (Phase II)
JICA	Road Administration Advisor	MoTC Department of Roads	2011 – 2014	N/A	TC	General advisory services in road management
	Project for capacity building	MoTC Department of	2013 – 2015	JPY 198 mln	TC	Improve techniques and engineering skills in

	in maintenance of bridge and tunnels	Roads				bridge and tunnel maintenance
	Reconstruction of Kok-Art Bridge on Bishkek–Osh road	MoTC	2013 – 2015	To be disclosed in March 2013	Grant	Reconstruction of deteriorated bridge
PRC's Export-Import Bank	Osh–Isfana road project (Phase 2)	MoTC	2013 – 2015	US\$ 91,400,000	Loan	Rehabilitation of Osh–Isfana road (127 km)
	Bishkek–Balykchi road	MoTC	2013 – 2015	US\$ 38,400,000	Loan	Rehabilitation of Bishkek–Balykchi road (25 km)
WB	Osh–Isfana road project: Road Safety Component	MoTC and international consulting firm	2010 – 2014	US\$ 500,000	Grant part of US\$ 51,000,000 financing	Road Safety Strategy and Action Plans
	Osh–Isfana road project: Road Assessment Management Component	MoTC and international consulting firm	2012 – 2014	US\$ 300,000 (only consultant services, not equipment part)	Grant part of US\$ 51 mln financing	Data collection on road inventory
	Introduction of Quality management system in roads	MoTC and international consulting firm	2011 – 2013	US\$ 443,000	Grant	Introduction of technical audits
	TA on PRC-Kyrgyzstan-Uzbekistan Railway	MoTC and international consulting firm	2012 – 2014	US\$ 950,000	Grant	Assistance to FS of project

### Sector development assistance under consideration for 2013 – 2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (original currency)	Budget support/grant/ loan/other	Any other info
ADB	Pilot project performance based contracts for road maintenance	MoTC and International consultant	2013 – 2015	To be determined	Grant	To develop pilot project performance based contracts for road maintenance
	CAREC Corridors 1 and 3 Regional Connectivity and Sustainability Project	MoTC	2014 (PPTA) 2015 – 2018 (implementation)	US\$ 50,000,000	Grant and Loan	To connect CAREC 1 & 3 corridors (Kochkor–Aral–Suisamyr road) and improve Road Asset Management and Maintenance
EBRD	Osh–Isfana Road Project (Phase 2)	MoTC and international consulting firm	2013 – 2015	Subject to FS	Loan	Completion of Osh–Isfana road expected to become a CAREC corridor
EDB	Proposed Central Asia Road Links Project	MoTC	2014 – 2018	US\$ 50,000,000	Loan	Rehabilitation of road links in the Osh and Batken Oblasts (in support of the WB project)
	Procurement of locomotives for Kyrgyz Railways	State Enterprise “Kyrgyz Railways”	2013 – 2015	US\$ 18,000,000	Loan	Rehabilitation of dilapidated rolling stock

IsDB	Osh–Batken–Isfana Road	MoTC, contractor not yet selected	2014 – 2017	US\$ 15,000,000	Loan	Rehabilitation of Osh–Batken–Isfana Road (km 2-10, 108-123)
JICA	Road Administration Advisor	MoTC Department of Roads	2013 – 2016		TC	General advisory services in road management
	Road maintenance equipment: Osh, Jalal-Abad, Talas Oblasts	MoTC Department of Roads	2013 – 2015	To be decided after study	Grant	
	Osh–Batken–Isfana Road	MoTC	To be determined	To be determined	Loan	Rehabilitation of Osh–Batken–Isfana Road
WB	Proposed Central Asia Road Links Project	MoTC	2014 – 2018	To be determined	Grant and Loan	Rehabilitation of road links in the Osh and Batken Oblasts

## Urban Development

### I. Challenges facing the Sector:

#### a) Global trends and how they apply to the Kyrgyz Republic

According to the Global Monitoring Report (GMR) 2013 (released on April 17 2013 by the World Bank and International Monetary Fund) urbanization, if managed well, can help to pull people out of poverty and contribute to achieving the Millennium Development Goals. At the same time, if not managed well, urbanization can lead to the burgeoning growth of slums, pollution and crime. Statistical data show that over 80 percent of global goods and services are produced in cities. The GMR 2013 compares well-being in the countryside versus the city. For example, urban infant mortality rates in Latin America and Central Asia are 8-9% lower than those in rural areas.

The Report finds evidence of the rural-urban divide around the world. Cities are the richest and have better access to basic public services while smaller towns, secondary cities and areas on the perimeter of urban centers are less rich. This global trend also applies to the Kyrgyz Republic. While rural areas are the poorest, this does not suggest that urbanization is a cure-all. The urban poor require access to better services as well as infrastructure so they are connected to schools, jobs and decent health care facilities. Urban infant mortality rates are about 9% lower than rural rates in the Kyrgyz Republic.

Drawing from the recommendations of the GMR, complementary rural-urban development policies are needed in many countries. These policies should facilitate a sustainable move toward cities and avoid short-changing rural areas. The Report suggests that in order to optimize the economic and social benefits of urbanization, policy-makers must plan for efficient land-use; match population densities with the required needs for transport, housing and other infrastructure; and arrange the financing of urban development programs.

#### b) Historical background and current challenges

The Soviet heritage left cities and smaller towns in the Kyrgyz Republic with well-developed infrastructure designed in mid-20<sup>th</sup> century. After the breakdown of the Soviet Union, the management and development trend of cities dramatically changed. This was followed by a decentralization process, closure of enterprises and factories, lack of ownership and funding for operations and maintenance (O&M), and low tariffs and low fee collection rates, all of which led to dramatic deterioration of infrastructure.

At present there are 31<sup>14</sup> cities and towns in the Kyrgyz Republic, that have been gradually losing their status as regional (*rayon*) administrative, economic, and cultural centers due to the trend of economic and human resources moving towards Bishkek and Osh. This trend is commonly referred to as a “concentration model” of urbanization, in which smaller towns have a low level of participation in the economic development of the country. According to the 2009 National Census, about 35% of the total population lives in urban centers, predominantly in Bishkek (25% of total population of the country) and Osh. The urban population varies seasonally as many people help their family members in rural areas with herding and agriculture during the summer and move to cities in the winter. Men that leave the Kyrgyz Republic to work as labor migrants abroad (mainly in Russia) often bring their families to urban centers like Osh and Bishkek where they can live more easily without a male head of household.

Urban population growth significantly exceeds the level of employment opportunities and aggravates the already existing overload on municipal infrastructure, leading to even more unemployment and contributing to the deterioration of living conditions in cities. Women in cities are affected disproportionately by urban development challenges such as poor delivery of municipal services. Urban planning capacities that have been decentralized on paper have not yet been developed to function at the local level.

The urban development sector consists of various sub-sectors: urban planning, land management, road infrastructure, electricity supply and heating, gas supply, water supply and sewerage, waste management,

<sup>14</sup> Recently 6 villages were transformed into towns.

housing, urban roads and public transport. The reduction in economic activity (both industrial and agricultural) after 1991 led to a sharp increase in rural-urban migration, the unplanned expansion of cities, and the emergence of *novostroiki* (semi-formal settlements), putting pressure on the existing municipal infrastructure. There are now 57 *novostroiki* in and around Bishkek and 8 *novostroiki* in Osh. These informal settlements vary in the level of their residents' economic wealth. However, recent settlements that are populated by poorer migrants lack basic infrastructure and job opportunities. Low-income people in these semi-formal settlements often do not have official registration paperwork (*propiska*) and therefore have limited access to health and education facilities. The marginalized people of these settlements (predominantly youth) are often vulnerable to be coopted by influential forces and criminal groups.

Generally, urban migration requires cities to expand vertically and horizontally. New settlements in the Kyrgyz Republic come up quickly, often without municipalities being able to offer access to basic services such as water and electricity. Authorities require assistance to plan such expansion processes in a cost-effective manner. In Osh Province there is a substantial influx of ethnic Kyrgyz people coming from neighboring countries and mountainous rural areas who are looking for a better life in the city. To address the issue, authorities have transformed certain sites in Osh city, Kara-Suu and Aravan rayons into residential areas in order to allocate land plots to those in need. While land has been allocated, authorities have not yet been able to provide sufficient services to people in these new settlements.

### **c) Urban Governance**

Urban governance is often not sufficiently accountable or transparent. The level of citizen participation in urban governance is limited; meaning that municipality decision-makers are not held accountable. The legal protection for people to live and work in cities is weak. The way evictions are carried out and land management is implemented often does not meet international human rights standards and fuels inter-community tensions. City master plans are usually considered confidential documents that are not accessible to citizens. This undermines the principles of transparency and accountability in urban planning and land management. The lack of clear updated master plans hampers transparency with regard to land allocation and transactions.

There are gaps and challenges in existing legislation, including the necessity of reforms to existing housing and land codes, due to an absence of fully developed procedures for expropriation. Documentation of property is a complicated issue, evidenced during the reconstruction in Osh and Jalal-Abad after the June 2010 events. In many cases, residents lack the proper property documents which could provide legal safeguards to property rights and also ensure security of tenure for residents.

The problem of separating the roles between central government and local governments is still acute. There is no clear division of responsibilities of various institutions involved in urban development (Departments of Energy, Heating, Architecture, Land Registration, and Municipalities). The list of core functions provided in the Law on Local Self-Governance (2008) did not clearly delineate responsibilities between local self-governments and the state, and many local issues cannot be solved without involvement of the state. Most city development strategies and visions are outdated or not implemented.

Additional governance challenges faced by municipalities are financial and municipal asset management. Urban planning – including the promotion of policies to develop land and housing markets and improve public service delivery – is not based on quality analysis and currently does not meet the demands of urban populations.

### **d) Urban Infrastructure and Asset Management**

Infrastructure has deteriorated and is poorly managed as a result of lack of policy focus or comprehensive long-term plans and inefficient institutional reforms or available funding over the past 20 years. Cities and towns experience problems with water supply, sewerage, roads, and waste management. Many smaller cities do not have a 24 hour water supply or central heating, both of which were operational during Soviet times. Electricity supply is characterized by high energy losses and poor reliability during peak periods, leading to blackouts.

Municipal enterprises have weak financial and technical capacity and use outdated equipment. In recent years, fee collection rates increased; however, there is still not enough financing to maintain the Soviet era infrastructure that in many cases, was overdesigned relative to community needs. This issue is closely linked to the lack of urban governance that would require transparent tariff setting to encourage people to pay for the services they use.

In brief, the major challenges with regards to urban infrastructure are:

- High level of deterioration.
- Small number meters installed (particularly for water and heating).
- Outdated systems and lack of modern cost-effective standards and instruction methods (that could save O&M costs and energy).
- Lack of funding for construction or rehabilitation of urban infrastructure.

The housing sector has gone through major restructuring over the past 20 years, including the state's withdrawal from directly providing housing; decentralization of housing functions to local government; total privatization of housing stock; and the emergence of a private sector in housing construction. Today's main challenge in the housing sector is the lack of affordable housing. Those who cannot afford housing usually move to *novostroiki* to build without permits (see section Ib).

#### **e) Local Economic Development**

Many municipalities include local economic growth into their development strategies in order to create additional sources of revenue. However, economic activities tend to concentrate on Bishkek and Osh, leaving out smaller cities. Local self-governments should prioritize the creation of favorable conditions for local private business development to revitalize cities.

#### **f) Pollution and environmental degradation affecting cities and towns**

The Soviet system encouraged the use of public transport and recycling but also allowed significant industrial pollution and inefficient energy use. Cities and towns still grapple with industrial and other kinds of pollution and environmental degradation that are often not sufficiently taken into account in urban planning and development processes. Because of the trend that cities – especially Osh and Bishkek – are growing while infrastructure is deteriorating, solid waste and sewage management are becoming major problems. In the absence of adequate systems, sewage often goes directly into the ground, causing serious damage to the environment.

## **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

The National Strategy on the Decentralization of Public Governance and Development of Local Self-Government up to 2010 includes the continuation of decentralization and institutional reforms to strengthen local self-governments. Many cities have city development strategies (developed –from 2004-2005 and covering a ten year period, often with donor support), but many have not been implemented or monitored. The housing sector had priority attention in the Country Development Strategy for 2007-2010, followed by the National Programme on Housing Construction in the Kyrgyz Republic for 2008-2010. The Programme's plan to build 5.1 million m<sup>2</sup> of housing was not achieved.

The State Programme Affordable Housing for 2012-2014 includes activities to support construction development; construction and modernization of engineering communications; and financial instruments to support the poorer population in its ability to pay (social mortgage). The Bishkek municipality prepared the Programme on New Settlements for 2012-2014 that is aimed at improving infrastructure (electricity, road pavement, water supply) in the *novostroiki*. The National Sustainable Development Strategy of the Kyrgyz Republic for 2013-2017 highlights the importance of long-term plans for urban development and architecture as a contributor to ensure inter-ethnic accord and civic nation formation.

### III. Prioritised Sector activities requiring development assistance in 2013-2017

#### a) Meeting critical urban infrastructure development needs

International donor agencies have been investing in urban infrastructure and governance, and their involvement will remain critical until municipalities are more self-reliant. The next few years will be crucial in order to save existing assets and move forward in improving and modernizing infrastructure, also considering socio-economic development challenges in *novostroiki*.

Improved infrastructure would be a step towards creating a favorable environment for local economic development in urban areas, which are uniquely important to national economic development. Many cities would need to update their development strategies in a participatory manner, involving all stakeholders. It will be crucial to support authorities in the development of urban development strategies in a participatory manner and assist them in implementing transparent and appropriate land allocation schemes. Quality urban development strategies prepared with local municipalities will form the foundation of urban development assistance in the Kyrgyz Republic in areas where national capacities and financial resources are not sufficient to meet urgent and critical infrastructure needs. In terms of infrastructure provision, the most important sub-sectors to focus on remain water supply, sewerage and waste management. The municipal enterprises dealing with these sub-sectors need to be strengthened in terms of corporate governance, financial and technical management.

#### b) Strengthening the capacity of key state institutions involved in urban governance

Building the capacity of all agencies involved with urban development, planning and governance is essential. This includes municipalities, the State Agency on Local Self-Government Affairs and Inter-Ethnic Relations, the State Agency for Architecture and Construction, and agencies responsible for coordination of delivery of basic services at the central and local level. The capacity of municipal servants in modern management methods also needs to be built. One of the priorities for capacity building is the support to key urban governance and development planning institutions that promote transparency, equity, accountability, and participation.

#### c) Promoting urban development along with human rights and inter-community/inter-ethnic relations

It will be crucial to combine donor support for actual urban development and construction projects with a 'soft' component to ensure that such programmes are not only executed with engineering and urban planning know-how but also protect the rights of individuals that may be negatively affected by it.<sup>15</sup> Authorities should be supported in implementing reforms to relevant laws and procedures, reinforcing the dialogue between affected residents and authorities, and ensuring transparency and openness in the process of planning and undertaking urban development.

Additionally, future urban development programmes should be designed and executed so that they promote good inter-community relations or at least do not fuel existing tensions. Social community infrastructure development can become a vehicle for inter-ethnic/inter-community communications, not only during the joint implementation of projects but also when different communities/groups jointly use infrastructure. The State Agency on Local Self-Government Affairs and Inter-Ethnic Relations under the Government of the Kyrgyz Republic should be supported to empower Local Self-Governments to implement urban development initiatives that can promote inter-community and inter-ethnic relations.

#### d) Greening cities for urban growth

In addressing environmental problems in cities, there is a need to integrate aspects of energy efficiency, lowering pollution, urban public transport and recycling systems. Significant donor support will be needed to promote 'green' cities in line with sustainable development objectives to improve living conditions of inhabitants and increase opportunities for investments.

<sup>15</sup> International development partners have started doing so by organizing a roundtable on human rights and urban development in the Kyrgyz Republic, arranged by OHCHR on 25 September 2012 in Osh in cooperation with the EU, the Development Partners Coordination Council and relevant local and national authorities. It will be important to continue such partnerships.

#### IV. Sector development assistance already confirmed or under consideration for 2013-2017

##### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount(in original currency)	Budget support/ grant/loan/other	Any other info
ADB	Issyk-Kul Sustainable Development Project	Ministry of Finance	2009-2015	US\$ 30,000,000	US\$ 16,500,000 loan + US\$ 13,500,000 grant	Ongoing
ADB	Emergency Assistance for Recovery and Reconstruction (EARR) Project	State Agency for Architecture, Construction and Communal Services (SAACCS)	2010-2015	US\$ 100,000,000	US\$ 48,500,000 loan + US\$ 51,500,000 grant	Ongoing
ADB	Water Supply and Sanitation Strategy	State Agency for Architecture, Construction and Communal Services (SAACCS)	2013	US\$ 750,000	Capacity Development TA	Approved in May
World Bank	Bishkek-Osh Urban Infrastructure Project	ARIS	29.06.2008 – 30.06.2015	US\$ 27,800,000	Grant/loan	

##### Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount(in original currency)	Budget support/ grant/loan/other	Any other info
ADB	Rural Water Supply and Sanitation Project	State Agency for Architecture, Construction and Communal Services (SAACCS)	2013	US\$ 20,000,000	grant	In the 2013 pipeline
ADB	Issyk-Kul Sustainable Development Project (Supplementary)	To be determined	2014	US\$ 30,000,000	US\$ 15,000,000 loan + US\$ 15,000,000 grant	US\$ 20,000,000 co-financing
World Bank	Urban Planning and Development		As of 2017 (tbd)	US\$ 15,000,000	TA	
UNDP	Disaster Risk Management: analysis in urban planning to identify gaps and inconsistencies of institutional (legal, operational, financial) framework of urban development in light of DRR	Ministry of Emergency Situations	2013	US\$ 3,000	N/A	N/A
UNDP	Disaster Risk Management: Greening cities for urban growth	Ministry of Emergency Situations	2013-16	TBC	N/A	N/A

## **Disaster Risk Reduction/Disaster Preparedness**

### **I. Challenges facing the Sector:**

#### 1.1. Poor integration between social, economic and environmental dimensions of sustainable development

Built upon the Millennium Development Goals (MDGs), the Sustainable Development Goals (SDGs) will form the global strategic foundation for reform processes both globally and locally, and require greater integration between the social, economic and environmental dimensions of sustainable development. Climate change is already affecting Kyrgyzstan, and the situation is predicted to worsen. This poses increasing risks especially for water availability, energy security, natural disasters, livelihoods and economic growth, as well as political and social stability. With Kyrgyzstan's heavy dependence on irrigated agriculture based on snow-melt and glacial run-off, the country is highly vulnerable to fluctuations in the water cycle. The reliance of downstream neighboring countries on the same water resources for energy supply through hydroelectric generation further complicates the situation. Damages from droughts, forest fires, floods, and landslides are also increasing, hence reducing agricultural productivity and threatening livelihoods and food security. Coupled with the concentration and growth of population in a few key valleys, Kyrgyzstan's vulnerability to these types of disasters will continue to increase. In a recent assessment of the most climate vulnerable countries, Kyrgyzstan ranks 3<sup>rd</sup> out of 28 countries in Europe and Central Asia.

#### 1.2. Poor level of implementation of national strategies/programmes

On the one hand, most Disaster Risk Reduction (DRR) functions, capacities and resources still remain centralized. The overwhelming majority (around 80% out of total 460) of local self-governments is subsidized by the Republic's budget. On the other hand, especially in rural areas, undiversified economic opportunities and sources of incomes as well as the dependency of community livelihoods on agriculture and fragile ecosystems create constraints for sustainable resource allocation and strategic planning in general, and in the area of DRR, in particular. Therefore, there is a need to improve public service delivery by improving policies, strategic planning and accountability mechanisms and build the capacity of national institutions to effectively implement laws and strengthen oversight mechanisms. In these human rights based approaches, a sustainable natural resources management needs to be considered. International and national responses tend to be specialized in nature and look at DRR, climate change and MDGs as separate issues rather than recognizing that they are all interlinked. This leads to fragmentation and duplication of efforts with limited impact at the local level and limited effectiveness in addressing root causes. This is a poor return on investment.

#### In particular the following gaps still exist:

- Imperfection of organizational and normative legal acts regulating areas of responsibility, separation of functions, structures, staffing of authorities, resources at all levels of state authorities and administrations.
- Improper planning, insufficient funding and implementation of local and national DRR plans.
- Lack of coordination and joint implementation of the National strategy on DRR among relevant ministries and agencies.
- Lack of overall concept for integration DRR into preschool, school, vocational and higher education. The DRR programme is included in the formal curriculum of school grades 1 - 5, and as an extra-curricular activity for grades 6 - 9, which is not continuous and interrupts the education on safe behavior and DRR.
- Lack of DRR teaching and learning materials for women, children and teachers/parents.

### 1.3. High level of local disaster vulnerability, especially of the poor

Disasters disproportionately impact the poor. Furthermore the resilience of the poor is undermined by weak public service delivery and constrained governance capacities, particularly at local level. There is a need to address DRR as an important factor in reducing poverty and promoting sustainable development. This should be done in coherence with good governance reforms and environmental management to ensure inclusive, accountable, responsive and decentralized DRR. Poor communities do not distinguish risk factors such as conflict, violence, corruption, land grabs, and other socio-economic factors from environmental risks.

The following particular challenges are being observed:

- Limited dissemination of information on protection of women and children, emergency preparedness and DRR at local level, no awareness raising program introduced and funded at the national level.
- Lack of access, utilization and quality of emergency obstetric care (EmOC), hence women and their babies can be at risk of life-threatening pregnancy related complications.
- High level of underlying risks (safety of schools, preschools, hospitals and maternity houses' building codes).
- Insufficient supervision over potentially hazardous facilities and complying with general safety regulations in livelihood activities.
- The community resource is often exhausted to respond and cope with daily small scale disasters and therefore these need priority and political commitment. Things are getting worse. There is a substantial increase in losses and the vast majority of losses are small scale crises.

### 1.4. Gender dimension

- Disasters affect women and men, children and elderly differently. Gender inequalities in disaster risk management, resource management and decision-making place women at a disadvantage, making them more vulnerable to the impacts of disasters. Therefore, there is a need to promote gender-sensitive and responsive policies and practices in disaster risk reduction.
- Lack of financial capacity of local governments, limited material and technical capacity of civil protection system.

### 1.5. Low level of operational readiness and weak social cohesion

Actions at the community level lay the foundation for national progress, but national policies are not achieving the required systemic changes at the local level. The primary constraint to converting national policy into local practice is the limited local capacity and underutilization of indigenous knowledge and resources. A balanced approach is needed: going beyond the traditional 'top-down' approach that is producing policies that are often inappropriate to the local context and 'top-down' implementation that fails to connect with, and engage, local communities.

Local governments, private and business sectors and communities play a key role in reducing disaster risks. However, the participation of these parties in the processes remains weak and there is a need to continue to increase their motivation and responsibilities in DRR, thereby strengthening local level capacity and increasing level of understanding and awareness about disaster risks and community-based DRR. There is an insufficient level of preparedness and commitment of relevant management staff, officials and specialists responsible for addressing disaster management issues and raising awareness on disaster risks. As a consequence, the population has an insufficient level of awareness and preparedness to implement disaster risk reduction and act in case of emergencies.

### 1.6. Poor regional cooperation for disaster risk reduction and disaster response

Regional cooperation is of particular importance due to the complex political environment and development contexts of Central Asian countries. Exposure of these countries to a variety of natural hazards (including earthquakes, floods, landslides and droughts) is further aggravated by weak mechanisms of coordination in resource (water, land, pasture) management among neighboring states. This discordance may lead to a potential conflict over natural resources and in times of emergencies in cross border areas. Therefore, the regional cross-border cooperation in the area of DRR, environmental protection and conflict prevention are important. Specific frameworks for regional cooperation in DRR are still at initial stages, while national policies are ambiguous and even conflicting. Lastly, the lack of regional level/cross-border development strategy makes DRR more challenging.

## **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

Currently the Kyrgyz Government is developing “Transitional Programme to Sustainable Development and Action Plan for its implementation” (the "Transitional Programme"). The process is still ongoing; however *“creation of sustainable frameworks of disaster risk management in line with international standards and ensuring early and comprehensive security of population, environment and of sustainable development {processes} of the country”* has been identified as a strategic goal for the Government in the area of DRR under the above-mentioned Transitional Programme. Shifting the focus from post-disaster recovery towards comprehensive prevention and preparedness has been determined as a sustainable model for DRR, which builds on decentralized approaches.

As noted in the national environmental program of the State Agency on Environment Protection and Forestry, the Government of Kyrgyzstan is aware of the risks and the urgency and is committed to act. However, Kyrgyzstan still lacks much in updated knowledge about risks, systemic strategies for adaptation to and reduction of vulnerabilities, detailed implementation and investments plans, and well-developed capacity to dynamically monitor and manage risks. Likely it will also require significant investment capital to handle the adaptation challenge.

Trans-boundary water and energy issues are sensitive and complicated, and there are few functional mechanisms to support the country’s engagement in regional dialogue and programs. Although Kyrgyzstan can also contribute to the global effort to reduce carbon emissions and increase carbon capture in a limited way (for example through better energy efficiency and afforestation programs), the critical priority action is to manage the direct risks to the local populations. In June 2012, the Kyrgyz Government endorsed the DRR Strategy until 2020, which is fully compliant with the Hyogo Framework of Action (HFA) priority areas, such as: a) Ensure that disaster risk reduction is a national and local priority with a strong institutional basis for implementation; b) Identify, assess and monitor disaster risks and enhance early warning; c) Use knowledge, innovation and education to build a culture of safety and resilience at all levels; d) Reduce the underlying risk factors; e) Strengthen disaster preparedness for effective response at all levels. Also, the Transitional Programme, initiated by the Kyrgyz Government, identifies the following priorities: a) integrating DRR into sustainable development programming, poverty reduction and climate change adaptation; b) strengthening national risk assessment and monitoring capacities as well as refinement of early warning; c) raising awareness and knowledge of population and functionaries; d) reducing disaster risks through structural mitigation; d) increasing preparedness at all levels for effective response.

Both DRR Strategy and Transitional Programme are mutually supportive strategic documents. However, the Transitional Programme emphasizes more on what needs to be done to ensure transition to sustainable development principles in the area of DRR, and how DRR contributes to overall sustainable development processes.

### **III. Prioritized Sector activities requiring development assistance in 2013-2017**

International partners are working with the Kyrgyz Government across critical sectors to help in adaptation to increasing risks, and to reduce vulnerability and improve resilience. International partners are deploying a wide set of advisory services and investments in water management and irrigation, upland watershed management and forestry, climate resilient pasture management, agriculture, energy efficiency, disaster risk prediction and response, and social development. FAO, UNDP and UNEP are active agencies in leading climate change partnerships.

The World Bank (WB) is a major partner in DRR, agriculture and water and the EU Partnership Strategy with Central Asia contains strong collaboration in energy security, environmental sustainability and water management. The Asian Development Bank (ADB) is also prioritizing climate change adaptation programs, integrating adaptation and disaster risk reduction into national development plans and ADB country partnership strategies. The Aga Khan Development Network (AKDN) is providing significant investments in local climate adaptation measures and capacity-building. These investments and advisory services at national level are also supported with innovative efforts to promote regional knowledge and dialogue through the recently established Central Asia Energy and Water Development Program (CAEWDP), including support to a regional network of local knowledge institutions through the WB, as well as the regional Central Asia Hydro-Meteorological project.

These actions now need to be consolidated and deepened through a coordinated effort involving national level and local governments, private sector and civil society in partnership with the international community. Successful climate action in Kyrgyzstan will need to combine local, national and regional approaches. Action is required in many sectors. It will need to combine in-depth research with building of monitoring systems, emergency interventions, and fundamental policy and institutional reforms. Refinement of the management of seasonal water flows between Kyrgyzstan and its neighbors will likely be an important contribution to building climate resilience in Central Asia as a whole. Social protection needs to be planned and targeted for the populations vulnerable to climate change effects. To effectively meet the complexity and urgency of the challenge, this support needs to be closely coordinated, managed and prioritized in terms of comprehensive analysis, design, sectoral coverage, geographic and social targeting, and sequencing. This is an enormous agenda, and Kyrgyzstan is engaged with the international community for advice and support. The benefits of a timely and coordinated international response appear to be high and dependent on early action. The costs of inaction and delay appear to be equally high and fast increasing.

**Priority 1:** Integration of DRR into sustainable development programming, poverty reduction and climate change adaptation by:

- creation of an enabling environment (legal framework) for sustainable development planning with DRR considerations and full integration of DRR into sustainable development planning;
- further development of coordination and mainstreaming DRR into social protection, health and nutrition, child protection, education, water sanitation and hygiene;

- DRR, climate change, poverty and livelihoods should be encouraged and supported to coordinate their activity and to work together where possible.

**Priority 2:** Strengthening national risk assessment and monitoring capacities, and refinement of early warning to:

- improve information management (data collection and exchange) amongst public and municipal authorities;
- strengthen capacity of hydrological, meteorological, avalanche services, control of air pollution and surface water for the early prediction of natural disasters caused by hydro-meteorological events;
- develop national system of comprehensive monitoring and forecasting of hazardous natural processes on the basis of Geographic Information Systems (GIS) and remote sensing techniques;
- strengthen avalanche risk reduction capacities through introduction of modern technologies on avalanche release control.

**Priority 3:** Raising awareness and knowledge of health care providers, population and functionaries through:

- capacity building of civil and municipal servants in DRR;
- public awareness raising, community-based DRR integration into the local development;
- continuation of the agenda for educating children and population on DRR, raise a culture of safe behavior, starting from preschool to higher education;
- train staff of health care facilities and raise the capacity of participants on the Minimum Initial Service Package (MISP) for Reproductive Health, a minimum standard of care in humanitarian response;
- enable communities, governments and civil society organizations to establish and coordinate a set of minimum multi-sectoral interventions to prevent and respond to sexual violence during the early phase of an emergency;
- further develop/improve and widely disseminate DRR learning and teaching materials to educational institutions.

**Priority 4:** Reduce disaster risks through structural and non-structural mitigation, and for this purpose to:

- conduct emergency-and-recovery and preventive measures in public/social institutions to minimize the risks;
- integrate “green” projects into the system of preventive measures on pilot basis;
- reduce disaster vulnerability at national and local levels through structural and non-structural mitigation measures and enhancement of local self-help capacities like rural rescue teams;
- adopt, fund and monitor national programme implementation on school and preschool safety to reduce the underlying risks and ensure safety of children, based on findings and recommendations of the schools’ and preschools’ safety assessment.

**Priority 5:** Increase preparedness at all levels for effective response, and for this purpose to:

- establish a Unified Information Management System for emergency situations using information technologies;
- optimize the structure of Emergency Response Services;
- develop logistical system of humanitarian aid in case of disasters with devastating effects;
- further harmonize and improve legislation and strategies on DRR integration into different sectors;
- continue efforts on the local emergency preparedness, develop capacity at both national and local levels to ensure effective planning, funding, implementation, monitoring and reporting.

**Priority 6:** Strengthen regional cooperation for disaster risk reduction and disaster preparedness, climate change adaptation and environment concerns, and for this purpose to:

- strengthen disaster risk reduction and disaster preparedness through regional initiatives and structures;
- promote regional decisions to regional problems of climate change adaptation, protection and saving water resources, issues of environment pollution in uranium tailings and mining industry sites.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/loan/other	Any other info
OFDA, USAID	Reducing disaster vulnerability of children in Kyrgyzstan	UNICEF	August 2011 – April 2013	US\$ 989,975	Grant	
DG ECHO	Supporting DRR among institutions and vulnerable communities in Central Asia	UNICEF	June 2012 – November 2013	US\$ 232,200	Grant	
DFID	Equity project with DRR integrated in education	UNICEF	April 2012-March 2015	US\$ 120,000	Grant	
The Government of Japan	Establishment of Child- Friendly Learning Spaces through Rehabilitation of Educational Institutions in Kyrgyz Republic	UNICEF	April 2012-April 2014	US\$ 50,000	Grant	DRR in education activities integrated
World Bank	Central Asia Hydrometeorology Modernization Project (CAHMP)	Kyrgyz National Hydro-meteorology Services (NHMS under the Ministry of Emergency Situation	03 May 2012 - 31 August 2016		US\$ 6,000,000 (US\$ 5,076,093 loan and US\$ 922,926 grant)	Regional project: Implementation in Tajikistan, Uzbekistan, Kazakhstan and Kyrgyzstan
World Bank	Disaster Risk Management project	Executive trust fund, Ministry of Emergency Situations	24 August 2011-30 June 2013		US\$ 1,450,000 (grant)	Project aimed at upgrading Management Information System and Early Warning System (EWS) for MoES
World Bank	Strengthen the Kyrgyz Republic Disaster Risk Reduction and Response Institutions	World Bank	22 October 2012-30 June 2014		US\$ 400,000 (grant)	Bank executive trust fund
Germany (Ministry for Economic Cooperation and Development)	Support to Regional Cooperation for Disaster Response and Risk Reduction in Central Asia	In Kyrgyzstan: Ministry of Emergency Situations	12/2011 - 11/2014			Regional Programme (other partner countries: Tajikistan, Kazakhstan)
BCPR (Bureau for Crisis Prevention and Recovery, UNDP)	Effective disaster risk management for sustainable development & human security	UNDP	01/2012-12/2016	US\$ 2,000,000 for 5 year period	Grant	
The Government of Japan	Strengthening disaster response and risk assessment capacities in the Kyrgyz Republic and facilitating a regional dialogue for regional cooperation	UNDP, JICA	2013-2014	US\$ 2,200,000	Grant	
ECHO	Improving Preparedness and Response Abilities to Natural Disasters in Tajikistan and Kyrgyzstan	ACTED	06/2012 until 07/2013	EUR 588,000	Grant	Tajikistan and Kyrgyzstan regional project.

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/loan/other	Any other info
Global Network for Disaster Reduction	Views from the Frontline	ACTED	2012 – 2013			Hyogo Framework for Action – Assessment of Capacities
ECHO and AKF UK	Fostering Disaster-Resilient Communities in Isolated Mountain Environments of Tajikistan and Kyrgyzstan – Phase 7	MSDSP KG	04/2012 – 10/2013	EUR 363,042 (for Kyrgyzstan only)		Project activities implemented directly by MSDSP KG
EC	Poverty Alleviation through Mitigation of Integrated High Mountain Risk (PAMIR)	MSDSP KG	09/2011 – 03/2013	EUR 248,075 (for Kyrgyzstan only)		Project activities are implemented directly by MSDSP KG
Prince Saddrudin Aga Khan Fund for Environment	Increasing Community Resilience to Climate Change Impacts in Mountain Areas of Kyrgyzstan	MSDSP KG	03/2012 – 03/2014	US\$ 150,000		Project activities are implemented directly by MSDSP KG
Canadian International Development Agency	Strengthening Civil Society to Lead Climate Change Adaptation in Rural Kyrgyzstan	MSDSP KG	03/2013 – 12/2014	CAD 300,000	Grant	Project activities will be implemented directly by MSDSP KG
UNFPA	UNFPA CO: Reproductive Health and Gender programme	UNFPA, Ministry of Health	2011-2016	US\$ 40,000	Regular resources	UNFPA is committed to facilitate the provision of an integrated Minimum Initial Service Package for Reproductive Health in Crisis Situations (MISP) and effective coordination of Sexual and Reproductive Health (SRH) in humanitarian programs

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**Sector development assistance under consideration for 2013-2017:**

<b>Donor</b>	<b>Name of the project</b>	<b>Implementing partner/ Contractor</b>	<b>Implementation period</b>	<b>Amount (in original currency)</b>	<b>Budget support/ grant/loan/other</b>	<b>Any other info</b>
UNHCR AusAID Government of Japan	Contingency planning and building national and regional capacity for emergency (including situational winter emergency) preparedness	UNHCR	March-April 2013	US\$ 60,000	UNHCR core funds	
UNHCR	Donation of contingency stock items and provision of technical assistance to Ministry of Emergency Situations and Border Guards	UNHCR	2013-2017	US\$ 100,000	UNHCR core funds	

## **Tourism**

### **I. Challenges facing the Sector:**

- Negative global image of country;
- Limited connectivity, few destination offerings, and little diversification of tourism products resulting in limited and fragmented markets;
- Underdeveloped tourism and peripheral infrastructure, low service standards, and unqualified tourism service providers;
- Outdated legal and regulatory framework in support of tourism;
- Inadequate financial resources for the tourism sector.

### **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

Tourism supports development and plays an important role in jobs creation especially in both urban and rural areas. Tourism is one of the most promising sectors for Kyrgyz economic development, but unfortunately, there was no Tourism Development Strategy during 2010-2012.

The government has now declared its interest in supporting the Tourism Sector, having identified it as an area of economic activity with significant potential for growth. The Events Plan for Tourism Sector Development for 2012 set goals for the Sector and identified the following five key areas for action: (i) timely financing, (ii) tourist safety, (iii) the sanitary and ecological conditions of infrastructure, (iv) information and advertising campaigns, and (v) tourist transfer/logistics.

Although the above Plan identified critical priorities, it was not comprehensive and was mainly addressing organization and preparation of events for 2012.

The Stability and Worthy Life Program announced tourism development as a part of the country's general development scheme, while the Medium-term Country Development Program (MTCDP) for 2012-2014 outlined more concrete activities with regard to development of the tourism industry.

Specific actions proposed in the MTCDP included development of new laws on tourism, introduction of tax incentives for the Sector, and up-grading the skills of human resources. However, these ambitious goals have not been achieved, so far. Nevertheless, it is evident that the new Kyrgyz Government has begun focusing on the Tourism Sector as one of the promising economic development opportunities.

The introduction in 2012 of Visa Free status for nationals of 44 countries was an excellent government initiative, which had an immediate positive impact on the volume of international arrivals to the country.

There are only a few tourism related programs/projects that were implemented by international organizations in 2010-2012. USAID is administering a number of projects that have helped to establish tourist information centers, organize bicycle tours on Issyk-Kul, open direct flight connections from Almaty to Tamchi and Karakol airports, and support Kyrgyz companies in attending international tourism fairs.

A European Commission funded project which has just been completed, aimed at creating new job opportunities through tourism development, strengthening cooperation between Central Asian countries and the EU tourism associations. Practical impacts include human resources' training and facilitation of experience exchanges with foreign tour operators. The project has also helped Kyrgyz

enterprises in joining international tourism organizations and helped them to stimulate the creation of a Kyrgyz tourism brand.

Unfortunately, due to some lack of coordination between the donor-funded projects and the Tourism Department, which is the main state organization responsible for tourism development, certain results of the above-mentioned projects left much to be desired. For instance, Tourism Information Centres are not operational at present time; there is neither a country brand nor a country information web-site.

Several strategic documents have been prepared, aiming at development of the tourism industry and coordination of donors' support:

- The National Sustainable Development Strategy (NSDS) for 2013-2017 focusses on 4 areas in the context of developing tourism: development of a new Law on Tourism; improvement of education in tourism; improvement of road infrastructure; and development of a cluster approach in tourism.
- The Program and the Governmental Plan for Transition of the Kyrgyz Republic to Sustainable Development for 2013-2017 outlines the need for nearly forty (40) actions related to tourism, including overall development of tourism industry, improvement of quality and range of tourism products and services, and attention to protection of environment while developing tourist industry.
- The Medium-term Tourism Development Strategy which was developed by private sector under technical support of the International Trade Centre (ITC) and was supported by Mr. Otorbaev – First Vice-Prime Minister of the Kyrgyz Republic. This Medium-term Tourism Development Strategy was included in the National Export Strategy (NES) for 2013-2017 and enumerates as many as 105 actions to address its five main strategic goals: (i) strengthening Kyrgyzstan's destination offering, (ii) implementing an effective commercial and marketing strategy to maintain market share in Russia and Kazakhstan, (iii) achieving a meaningful penetration in untapped industrialized and fast emerging economies, (iv) building an inclusive and sustainable tourism industry, modernizing the related legal framework, regulations and rules (along with their enforcement capacity), and (v) enhancing attractiveness for investors and the investment climate. The Department of Tourism has recommended the Medium-term Tourism Development Strategy to be the main strategy document in Tourism Sector.

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

#### **Marketing Issues**

- To develop good quality pre-visit information for handing over to tourists who have already arrived in Kyrgyzstan, as well as for potential tourists planning to visit Kyrgyzstan.
- To widen the currently small range of services offered by the Tourism Sector; which requires diversification in order to attract more tourists in wider consumer segments.
- To improve hotel infrastructure (this is currently underdeveloped; and almost inadequate to accommodate tourism arrivals during the high season).
- To promote compliance with sanitary norms and standards (this affects the Sector's image and potential revenues).
- To address reasons for high staff turnover (this frequently disrupts operations of enterprises in the Sector).
- To substantially improve general competency and skills in the Tourism Sector.

- To develop a sustainable network of sale points for handicrafts.
- To encourage the local communities and local entrepreneurs to be more involved in provision of tourism services, and increase their understanding of the economic advantages of the tourism industry.
- To increase marketing capacity of local communities and to encourage their provision of services and doing other business directly with the tourists.
- To increase the currently low capacities of the infrastructure.

### **Business Environment Issues**

- To develop a sound legal framework for the tourism industry.
- To create a mechanism for obtaining feedback from tourists, either about their plans or experience in Kyrgyzstan (tour operators use surveys, but it is unlikely that they will share information with the government that they consider valuable from a business perspective). This mechanism could also be instrumental for possible introduction of corrections into the legislation for up-grading the quality of services provided to the tourists.
- To take firm measures against the currently widespread violation of laws on the protection of the environment.
- To establish and fully enforce regulations, aimed at the protection of historical sites.
- To develop the country's transportation infrastructure and thus to improve the connectivity options for tourists.
- Requirement to boost opportunities for small- and medium-scale providers of services in the Tourism Sector.
- To improve provision of security and safety services for the tourists.
- To promote Tourism Sector investment climate to ensure sustainability.

### **International Tourism Market Entry Issues**

- To further develop the policy aimed at maintaining a market share in the current main markets for Kyrgyzstan's tourism industry (Russia and Kazakhstan).
- To improve the currently poor networking.
- National consulates and diplomatic missions must become more proactive in providing market intelligence and leveraging resources for developing the Tourism Sector in Kyrgyzstan.
- To ensure that the Kyrgyz tourism brand is known in countries beyond the CIS region and undertake more active advertising and marketing efforts in newly targeted markets.
- To improve statistical data collection that will facilitate the decision-making process in the Tourism Sector.

#### IV. Sector development assistance already confirmed or under consideration for 2013-2017

##### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/loan/other	Any other info
UNDP	Expertise on tourism strategy	Tourism Department	February – March 2013	N/A	N/A	
UNDP	Creation of country's tourist information web-portal	Tourism Department	May - Sep. 2013	N/A	N/A	
UNDP	Strengthening CBT capacity	Tourism Department	May – Sep. 2013	N/A	N/A	Pilot projects in Naryn and Osh oblasts
UNDP	Creation of Tourism Information Centres	Tourism Department	May – Sep. 2013	N/A	N/A	Pilot projects in Naryn and Osh oblasts
ITC	Support in designing of Mid-term Tourism Development Strategy within National Export Strategy	Tourism Department, Tourism Associations	June 2012 – December 2013	N/A	N/A	Under consideration now
USAID REFORMA PROJECT	Capacity building of the Tourism Department	To be identified	April 2013 – Sep. 2014	N/A	N/A	
EU	Employment in rural areas thru tourism development	Naturefriends International, Dairy Coordination Marketing Centre	March 2013 – March 2015	N/A	N/A	Creation of 6 education-information centres in provinces
JICA	Vocational training: “Eco-tourism”, “Marketing”	To be identified	May – Sep 2013	N/A	N/A	Vocational training in Japan for 2 representatives from Kyrgyzstan (1 for each training programme)

**Sector development assistance under consideration for 2013-2017:**

<b>Donor</b>	<b>Name of the project</b>	<b>Implementing partner/ Contractor</b>	<b>Implementation period</b>	<b>Amount (in original currency)</b>	<b>Budget support/ grant/loan/other</b>	<b>Any other info</b>
USAID REFORMA PROJECT	Revision of legislation in tourism sphere	To be determined				
GIZ	Tourism development in regions					Naryn and Osh oblasts
Any donor is most welcome	Analysis of potential trends/niches/markets	International Trade Centre				

## Private Sector Development

### I. Challenges facing the Sector:

#### I.1. Weak Private Sector

A strong private sector should be a driving force of productivity increases and diversification, and based on that, of economic growth and promotion of employment in the Kyrgyz Republic. Instead, the private sector's share of gross domestic product (GDP) has remained stagnant.

Despite efforts of the Kyrgyz Government to improve the business environment and investment climate in the country, the Kyrgyz Republic was rated as 70<sup>th</sup> by the World Bank "Doing Business– 2012" Report. Consequently, significant improvements need to be achieved in promoting business and the development of private sector.

The average economic growth during the recent decade has been 4% in the Kyrgyz Republic. It is one of the lowest in the region and is characterized by fluctuations from year to year. Despite the positive economic growth rate, the development model of the country is unstable as it significantly depends on production and prices for raw commodities (specifically, gold), remittances from Kyrgyz migrant workers mainly in Russia and Kazakhstan, and limited export markets. The country also remains heavily dependent on external financial and energy resources.

There are notable examples of entrepreneurship in some industries, such as garments and dairy, but the private sector as a whole remains weak and has made little progress in expanding its productive capabilities and creating more wealth.

Many of the shortcomings in the economy—low competitiveness of products in particular—reflect its weak performance. Recent failures in implementation of the privatization program have also contributed to the private sector's slowdown. Since 2006 the Kyrgyz Republic experienced no investment expansion, maintained high density of foreign investments, and labor productivity was not on the rise.

In order to support sustainable economic development, the Kyrgyz private sector must develop and attract investments by producing more valuable goods and services, reaching new external markets, and improving productivity and diversification. Growth needs to become primarily export-led. Achieving higher production capabilities requires a policy and institutional framework that supports industrial development and allows firms to operate efficiently and tap new markets.

#### I.2. Business Environment and Investment Climate

The Government of the Kyrgyz Republic strives to rationalize the normative-legal basis to create a business environment that promotes growth and improvement of the investment climate by means of changes to legislation related to registration, licensure, and inspection of business enterprises. This has led to the improvement of the country's rating as per international indicators, but there are still "bottlenecks" that make it difficult to implement these reforms.

The situation is aggravated by the inadequate level of implementation and weak enforcement of laws, high levels of corruption, and the growth of shadow economy. Domestic and foreign investors still risk having their businesses expropriated or subject to rent seeking by government officials and politically connected individuals. Not surprisingly, this is a major deterrent to long-term investment. Private sector development requires improving government transparency, effectiveness and progress in the fight against corruption.

#### I.3. Competitiveness and SME development

Currently, small business is an important structure-forming sector of the Kyrgyz economy and its operation directly influences successful development of the government as a whole. Public policy must

build on the creation of legal conditions for favorable development of a small business sector, especially along business lines that yield maximum social and economic benefits. Small businesses and business activities of communities are the foundations for middle class formation and expansion. The business sector is a powerful tool for reducing unemployment by providing ample opportunities for community self-employment. The absence of these opportunities drives migration abroad for employment.

The conditions for small businesses remain complicated and unstable, and there are factors that hold back its development; overcoming administrative, technical, financial and legal barriers to the formation and operation of business entities requires clear-cut state policies and support. This is corroborated by negative tendencies in the economy relating to small business development as well as by serious legislative contradictions.

The addition of value chains is a priority for small and medium business development and the competitive recovery of the economy. In this regard, it is necessary to create institutional and legal basis for the formation of business support and development infrastructures.

#### **I.4. Trade Policy and Trade Promotion**

The landlocked geographic location of the Kyrgyz Republic and Central Asia makes it difficult to effectively integrate with international trade outside the region. In addition, the countries introduced administrative and regulatory limits to external trade. Another significant barrier is inefficient customs procedures and insufficient cooperation on external trade. State bodies are in need of institutional development to effectively promote trade.

The most significant barriers in trade, particularly in export development, are technical barriers: weakly developed quality infrastructures (standardization, metrology, accreditation, certification and production test), and application of international standards to production that do not target international markets. Due to toughened requirements by the Customs Union, Kyrgyz food producers have already faced non-tariff barriers built mainly by trade partners (Russia and Kazakhstan).

#### **I.5. Development of Business Support Institutions**

The need to create institutes for supporting investors in small and medium-size businesses was raised more than once in the Investment Promotion Agency Entrepreneurship Support and Development Fund. The initiative to create the Investment Promotion Agency was supported by some international donors and the government, and necessary draft laws were prepared, but it has been unrealized because of financial problems and a budget deficit. Previously there was the State Fund for Supporting Small and Medium Businesses under the government of the Kyrgyz Republic. However, the fund has ceased its operation. The Institute for Entrepreneurship Support has been reorganized into a micro-crediting company.

There is a lack of institutional mechanisms to support innovation and entrepreneurship, so the Kyrgyz Government is not able to back up the development of the Business Support Institutes, such as technoparks. For instance, no budgetary funds are provided for the Park of High Technologies currently under construction.

There has recently been a boost in the development of business associations that bring together private small and medium-size enterprises from various economic sectors to promote joint initiatives of business-associations' members. It is necessary to further support dialogue between the state and business on the highest level: the Business and Investment Development Council under the Government. Within the past six years this institution has proved its effectiveness and is highly supported by the business community.

## II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017

Name of strategy or program	Responsible state authority	Supporting organization	Status
Medium-term development program for 2012 – 2014	Kyrgyz Ministry of Economy	GIZ	Approved by the Government in September 2012
National Strategy for Sustainable Development of the Kyrgyz Republic for 2013 – 2017	Government of the Kyrgyz Republic		Approved by the Presidential Decree №11 on January 21, 2013
National Export Strategy for 2013-2017	Kyrgyz Ministry of Economy	ITC, GIZ	In process
Textile and Clothing Manufacture Development Program for 2013- 2015	Kyrgyz Ministry of Energy and Industry	GIZ	Approved by the Government Provision of №123 on March 6, 2013
Kyrgyz Processing Industry Development Program	Kyrgyz Ministry of Energy and Industry	GIZ	Approved by the Provision of №133 on March 14, 2013
Investment Climate Improvement Program	Ministry of Economy	ADB	Grant agreement signed on 24 November 2008
Action plan (for PSD related issues) as part of Government's Program adopted in September, 2012	Kyrgyz Government and Ministry of Economy	WB - PSD Policy Dialogue TA	
Reform Recommendations for Investment Climate Reform for 2009-13		IFC Business Enabling Environment Project	
State Tax Service Strategy for 2012-2014	State Tax Service	IFC Central Asia Tax Project	
Private Sector Development Strategy (Government Action Plan)		Implemented by IFC (under SECO-IFC partnership)	
Medium- and Long-Term Development Strategy for Mineral Resources Sector	Ministry of Economy	USAID REFORMA	In process

## III: Prioritised Sector activities requiring development assistance in 2013-2017

### III.1. Improvement of Business Environment and Investment Climate by means of:

Transparency / Anti-corruption activities	Corruption increases not only because of weak legislation and inadequate penalties for corrupt actions, but also because of lack of effective preventive measures aimed at achieving increased transparency and clarity of procedures employed by controlling, regulatory bodies and government units that provide services to businesses. Reducing corruption and enhancing efficiency of anti-corruption drives requires integrated legislative and organizational actions. Measures for reducing corruption and strengthening anti-corruption legislation are necessary.
Reduction of inspections based on risk-oriented approaches	Adjustments were made to the “Law on inspecting entrepreneurial entities” that take risk-oriented approaches. However, reforms in this direction need to be continued, namely implementation of the given law and organization of necessary explanatory work with controlling bodies and entrepreneurial entities to regulate clear-cut and predictable routines for inspecting entrepreneurial activities.
Optimization of a licensing and permit system	Decreasing administrative barriers is one of the main objectives of developing the private sector and attracting investments. Work should include approval of the Law on Licensing and Permitting, which is being considered by the Government. The reform of a licensing and permit system must be carried out with a focus on rational utilization of limited natural resources and toughened requirements to comply with legislation in the field of ecology.
Tax administration improvement	Shortcomings in tax legislation and complex administration have resulted in deterioration of the investment climate, inefficiency of production, mass tax evasion by physical and legal entities, and the growth of shadow sectors in the economy.
Customs administration improvement	There is a need to increase customs system effectiveness to address cumbersome administrative systems, lack of transparency and existing corruption. Norms, rules and procedures of customs administration must be applied in line with international standards:

	<ul style="list-style-type: none"> <li>- to ensure minimum intervention. Customs units must comply with the principles of selectivity and adequacy of customs control and apply a risk-management system;</li> <li>- to ensure balance in terms of correlation between customs control in the field of security provision and measures that promote trade;</li> <li>- to improve infrastructure of customs posts, simplify trade clearance documents, and improve use of information technologies including application of electronic declaration procedures.</li> </ul>
Property Rights Protection	This is very important for attracting investors. There is a need to make adjustments & additions to civil & criminal codes, laws on investments, joint-stock companies, business companies & partnerships, equity markets, courts and judicial procedures.
Compulsory insurance	Compulsory insurance is necessitated by its enormous social implications. Some types of compulsory insurance are in the group that provides additional social protection to majority population in the country. However, development of insurance rates and liability limits (insurance payments) according to certain types of compulsory insurance must take into account the opinions of all stakeholders concerned in order to observe balance. Also, insurance companies have low capital intensity, insufficient number of skilled personnel knowledgeable about modern technologies of service provision and promotion. Introduction of compulsory types of insurance is expected to increase the level of insurance business, reimbursement of damage, and remove stress from the state budget. Priority attention must be paid to improvement of regulatory and supervisory practices. Taxation system of insurance companies needs to be improved.

### III.2. Competitiveness and SME development

Sectoral approach / Support to priority economic sectors development	It is necessary to provide comprehensive support of the identified sectors (according to the National Program for Sustainable Development for 2013-2017) which have potential for high efficiency and export diversification with due account given to supposed integration into the Customs Union, Common Eurasian Space and entry to international markets.
Access to finance	Simplification of receiving credits by SME related to providing pledged property and also high interest. Main objectives include increasing the level of financial mediation; ensuring financial stability; increased potential to attracting financing; and improvement of understanding of financial instruments by suppliers and consumers of services.
Strengthening of Value Added Chains	There is no link between primary producers and processing industries. Domestic raw materials go to other markets at reduced prices whereas domestic processing businesses use only half of their total capacity because of lack of raw materials. Added value chains must be in place in priority sectors of the economy to increase incomes, improve economic growth and develop the private sector.
Access to skilled labor	It is necessary to increase the potential of entrepreneurs, train skilled technical & other personnel and improve and strengthen the market for consulting services such as service providers for business development (BDS providers).
Infrastructure / Logistic Improvement	The country's low trade-logistical potential is negatively reflected in trade levels and economic growth and decreases the income of the rural population and may adversely contribute to social tension. Technical assistance is needed in the development of effective skills and exchange programs in the trade-logistical field. Promotion of agricultural products to external markets (in the light of forthcoming entrance to Customs Union) requires availability of modern market infrastructure: trade-logistical centers for the accumulation of goods produced and coordinated export to external markets. It is also necessary to increase the quality of transport and logistic services and improve transport and logistical infrastructure.
Stimulation of a "Green Economy"	"Green" economic development appears to be a prospective vector for the Kyrgyz Republic's development; the country has potential natural resources to promote it. Water, energy and ecologically safe agricultural products are the three inseparable constituents for this initiative.

### III.3. Trade Policy and Trade Promotion

Quality Infrastructure	WTO membership and expected joining of the Customs Union will necessitate transition to new standards and requirements in the field of technical regulation. The National Quality Infrastructure is in need of constant funding by the state to work on the international level (membership in international organizations like BIPM, ILAC/IAF, etc.) and apply international standards. Main objectives: expansion of comprehensive application of the international standards and technical regulations;
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	provision of assistance on international accreditation of Kyrgyz certification bodies of the international accreditation of infrastructure of quality; improvement of possibility of an assessment of compliance in the Kyrgyz Republic by strengthening of infrastructure of certification; development and improvement of application of metrology.
Quality Management	Currently, entrepreneur-producers are unable to export their products abroad because the country lacks food safety systems or international production standards. In this regard, it is necessary to strengthen the capacity of the private sector to improve quality control and food safety.
Simplification of Trade Procedures	<p>Within the past five years a great amount of work has been done to simplify the external trade procedures and introduction of an “Integrated Window” (reduction of the number of documents to be submitted and the time-period to receive them, etc.). Efficient operation of the “Integrated Window” system requires support in:</p> <ul style="list-style-type: none"> <li>• elaboration of mechanism on long-term systemic work in the field of development and realization of measures for simplification of trade procedures;</li> <li>• modernization, optimization and harmonization of internal procedures applied in the regulation of external trade by state bodies, including improvement of physical infrastructure;</li> <li>• more efficient integration of the information system of the “Integrated Window” with unified automated information system of the State Customs Service to simplify transfer of documents of ETA members for carrying out external economic activity;</li> <li>• simplification and harmonization of customs clearance and further reduction of the number of required documents;</li> <li>• integrated control on the border and improvement of interaction and awareness of controlling bodies;</li> <li>• gradual transition to non-paper trade and integration on regional and international (European Union, Russia, China, etc.) levels and intensifying skills exchange among Central Asian states;</li> <li>• intensifying cooperation of Customs services with the private sector and introduction of a principle of authorized economic operators;</li> <li>• professional development of employees engaged in state bodies on planning and implementation of trade promotion actions.</li> </ul>
Trade Information and Promotion	The Ministry of Economy is in the process of developing the National Export Strategy including development of functional strategies on “Trade Information and Promotion.” Current and potential exporters of the Kyrgyz Republic are not able to follow global tendencies for product development, which impedes the opening of new markets and innovative production of goods in line with the requirements of target markets. Kyrgyzstan has no integrated platform to provide trade information for the export community. There is a lack of interaction between government and NGOs, institutions of trade support, mass media and the private sector to distribute and exchange trade information, particularly in the remote regions of the country. It is necessary to create effective infrastructure of services on trade information; to increase the potential of services’ users of trade information for effective use of instruments of trade information; and to improve access to tools of trade information.

#### III.4. Development of Business Support Institutions

Public-Private Partnership	To solve problems in the Kyrgyz Republic’s infrastructure, it is necessary to attract funds from both domestic and foreign private sectors using various models of state-private sector partnerships. Consideration is being given by the Government to creation of a Center for Public - Private Partnership Support in line with a recently adopted law.
Public - Private Dialogue	It is necessary to continue supporting the Business and Investment Development Council under the Kyrgyz Government, providing a dialogue between the state and business on the highest level. Within the past six years this institution has proved its effectiveness and is highly supported by the business community.
Investment Promotion Agency	The country has no integrated body that would deal with issues of attracting foreign investments, support to investors before and after investing into the country, or issues related to the promotion of the country in the international arena. An integrated body must be formed to directly deal with promotion and attraction of domestic as well as foreign investments consistent with the National Programme for Sustainable Development.

#### IV. Sector development assistance already confirmed or under consideration for 2013-2017

##### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (orig. currency)	Budget support/ grant/loan/other	Any other info
German Ministry of Economic Cooperation and Development (BMZ)	Promotion of Sustainable Economic Development in Kyrgyzstan - Programme of GIZ	GIZ	2008-2017	EUR 18,000,000	Grant	Ongoing.
ADB	TA 7310-KGZ: Growth Diagnostic and Impact Evaluation in the Kyrgyz Republic.		Jun 2009-Jun 2010	US\$ 225,000	Advisory Services (Technical Assistance)	Completed.
ADB	TA 4940-KGZ: Business Process Reengineering & Change management for tax Administration	State Tax Services	Jun 2007-Dec 2010	US\$ 500,000	Advisory and Operational (Technical Assistance)	Completed.
ADB	TA 4941-KGZ: Institutional Strengthening & Capacity Building for Tax Administration Reform	State Tax Services	Jun 2007-Dec 2010	US\$ 500,000	Advisory and Operational (Technical Assistance)	Completed.
ADB	TA 7819-KGZ: Enabling Identification of PPP Projects and Capacity Building	Ministry of Economy	Jun 2011-Jun 2012	US\$ 225,000	Capacity Development (Technical Assistance)	Completed.
ADB	TA 7999-KGZ: Support for Strategic Assessment of the Kyrgyz Economy to Promote Inclusive Economic Growth	Ministry of Economy	Dec 2011-Mar 2014	US\$ 225,000	Project Advisory (Technical Assistance)	Ongoing.
ADB	Tax Administration Modernization and Reform Programme	State Tax Service	2007-2013	US\$ 10,000,000	Grant	Ongoing.
ADB	Second Vocational Education and Skills Development Project	Ministry of Youth, Labor and Employment	2012-2017	US\$ 20,000,000	Grant	Ongoing.
ADB	TA 8222-KGZ: Investment Climate Improvement Programme	Ministry of Economy	Nov 2012 - May 2014	US\$ 700,000	Capacity Development (Technical Assistance)	Ongoing.
ADB	TA 8297-KGZ: Implementing the e-Procurement System	Ministry of Economy	Dec 2012-Dec 2015	US\$ 1,000,000	Capacity Development (Technical Assistance)	Ongoing.
ADB	Support to High Level Forum on PPP	Ministry of Economy	2013	US\$ 225,000	Capacity Development (Technical Assistance)	Ongoing.
ADB	Regional Improvement of Border Services Project	Ministry of Economy	2013	US\$ 4,200,000 US\$ 4,200,000	Project grant Project loan	Total project amount is US\$ 8,400,000. Approved on 1 April 2013.
ADB	Trade Finance Programme		Present	n/a	Exposure Limit	ADB's Trade Finance Program (TFP) fills market gaps by providing guarantees and loans to banks to support trade.
ADB	Kyrgyz Investment and Credit Bank Small and Medium-Sized Enterprise Finance		17 May 2012 - 17 May 2020	US\$ 10,000,000	Loan	

German Ministry of Economy (BMZ)	Support of Regional Economic Cooperation in Central Asia - GIZ programme	GIZ	2005-2014	EUR 15,500,000	Grant (TA)	Regional programme: Kazakhstan, Azerbaijan, Kyrgyzstan, Tajikistan, Uzbekistan.
WB	IDF Grant for Private Sector Development Capacity Building	Ministry of Economy	2013	US\$ 320,000		
WB (financed by the USAID)	Measuring and Reducing Regulatory Uncertainty and Discretion for Female Entrepreneurs in Central Asia (Kyrgyzstan, Tajikistan)	Ministry of Economy	2013-2015	US\$ 600,000		
IFC (financed by the Swiss Government – SECO and DfID)	CA Tax Project	State Tax Service, Ministry of Economy, Ministry of Finance	October 2012- June 2015	US\$ 1,175,000	Advisory Services (Technical Assistance)	
IFC (financed by the Swiss Government – SECO and DfID)	Kyrgyz Investment Climate project	Ministry of Agriculture Ministry of Economy	April 2013 - June 2015	US\$ 1,425,000	Advisory Services (Technical Assistance)	
JICA	Capacity Development of Business Persons through the Kyrgyz – Japan Center for Human Development	KNU named after J.Balazagyn	April 2013- March 2016		Technical Cooperation Project	
JICA	Acceptance of trainees in Japan for various business management courses	Ministry of Finance	Till March 2014		Technical Cooperation	One to three representatives from both private and public sectors participate in the courses.
Swiss Government (through State Secretariat for Economic Affairs – SECO)	Strengthening export competitiveness of SME in the textile and clothing sector and enhancing trade support institutional capacity	International Trade Centre (Geneva)	2009-2012	Overall budget: US\$ 3,600,000  Current phase budget: US\$ 1,800,000	TA grant	Contributes to sustainable expansion and diversification of export trade of small and medium size enterprises. It increases competitiveness in the textile and clothing industry and enforces the quality management infrastructures.
Swiss Government (through State Secretariat for Economic Affairs – SECO)	Business Advisory Services Programme	EBRD	2010-2013	Overall budget: EUR 7,000,000  Current phase budget: EUR 2,900,000	TA grant	Supports the development of micro, small and medium -sized private enterprises by co-funding consultancy services, and at the same time boosting the market and ensuring quality of the local consultancy market.
Swiss Government (through State Secretariat for Economic Affairs – SECO)	Investment Climate Advisory Services in the Kyrgyz Republic	IFC	2008-2013	Overall budget: US\$ 3,600,000	TA grant	Improves business environment by working on the reduction and removal of key regulatory barriers with focus on tax administration and inspections.
Swiss Government (through State Secretariat for Economic Affairs – SECO)	Organic Cotton Production and Trade Promotion in Kyrgyzstan	Helvetas	2007-2011	Overall budget: CHF 4,110,000 Swiss contribution: CHF 1,850,000	TA grant	The project promotes organic farming in Kyrgyzstan and supports the trade of these products (e.g. cotton) to the domestic and international markets.
Swiss Government (through State Secretariat for Economic Affairs – SECO)	Strengthening export competitiveness of SME in the textile and clothing sector and enhancing trade support institutional capacity	International Trade Centre (Geneva)	03/2013-02/2016	CHF 2,300,000	grant	Contributes to enhanced export & market diversification by providing sector support to SMEs and trade institutions in textile, clothing and

						handicraft sectors.
USAID	Local Development Programme	Chemonics	09/2010 - 08/2013	US\$ 27,000,000	grant	
USAID	REFORMA – improving business, investment climate, legal& regulatory environment, institutional capacity (mining sector; tax policy, capacity of the private sector and NGO for advisory to Government)	Deloitte Consulting	Sep 2011 - Sep 2014		TA, grant	The project provides support for the implementation of policy reform priorities of both the Government and the private sector.
The multi-donor ETC Fund	Support the public-private dialogue	EBRD	02/2007- 06/2013		grant	Improve the public-private dialogue.

### Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (orig. currency)	Budget support/ grant/loan/other	Any other info
ADB	TA Project for PPP facility	Ministry of Economy	2013	US\$ 2,000,000	TA Project	
ADB	Investment Climate Improvement Program, Subprogram 3	Ministry of Economy	2013	US\$ 20,000,000	Budget support (grant)	Implementation of policy actions is ongoing.
ADB	Strengthening Policy and Portfolio Monitoring	Prime Minister's Office, Ministry of Finance	2014	US\$ 800,000	Capacity Development (Technical Assistance)	
ADB	Second Investment Climate Improvement Program, Subprogram 1	Ministry of Economy	2015	US\$ 20,000,000	Budget support (grant)	
ADB	Education Reform Support	Ministry of Education and Science	2015	US\$ 300,000	Project Advisory (Technical Assistance)	
ADB	Support for Second Investment Climate Improvement Program	Ministry of Economy	2016	US\$ 500,000	Capacity Development (Technical Assistance)	
ADB	Capacity Building for Financial Institutions Phase		Under negotiation	Approximately US\$ 165,000	Technical Assistance	
Swiss Government (through State Secretariat for Economic Affairs – SECO)	Strengthening export competitiveness of SME in the textile and clothing sector and enhancing trade support institutional capacity	International Trade Centre (Geneva)	2013-2016	CHF 2,300,000	TA grant	Regional programme that covers also Tajikistan.
Swiss Government (through State Secretariat for Economic Affairs – SECO) and DfID	Central Asia Investment Climate Program (Kyrgyzstan, Kazakhstan, Azerbaijan, Uzbekistan, Tajikistan)	IFC	2013-2015	US\$ 4,000,000 (€3,000,000)	TA grant	The Program seeks to further improve the investment climate in Central Asia by facilitating investments.

## Water Supply, Sewerage, Sanitation and Hygiene

### I. Challenges facing the Sector:

The Kyrgyz Republic faces significant challenges in ensuring universal access to safe drinking water, to waste water collection and treatment, and to basic sanitation (in short WSS). These services are generally better in larger urban centers than in rural villages or smaller towns, because services in cities are supplied by centralized water supply and sewerage systems, built decades ago but still operational. During the last 20 years the infrastructure has significantly deteriorated due to chronic underinvestment and decay. Sector capacity also diminished as the financial impacts of full decentralization eliminated transfers from the central government to local utilities. The institutions once responsible for WSS services disappeared or lost prominence. Governance in the sector is perceived as very poor, especially in the rural areas.

A strategy and a vision for the sector are urgently needed. Although the sector is critical for the health and well-being of the communities, as well as for development of business, it has not received the necessary attention from Government as well as development partners in the past years.

#### *Service level*

Coverage is not universal. Most of the population enjoyed reliable access to running water and adequate sanitation, but over the last decade access has been steadily declining. Access is particularly limited in rural areas, where only about 40% of the population has adequate access to safe drinking water, and over 75% rely on basic sanitation (pit latrines). In urban areas, while 58% of the population relied in 2005 on pit-latrines for sanitation, that figure had increased to 63% in 2011<sup>16</sup>, highlighting a general decline in access to centralized waste water collection in cities. As of April 1, 2013 officially there are 1,805 villages in the Kyrgyz Republic. Out of these, water supply networks were built in 267 villages in the 1950s, in 458 in the 1960s and the 1970s, while 396 villages lack any water supply. Between 2001 and 2009, water supply systems were built or rehabilitated in 533 villages with the support of international donors. Over the last decade, funds for the rehabilitation of water supply systems were provided solely through projects financed by international donors.

According to some estimates, the economic cost of water-borne diseases in the Kyrgyz Republic amounts to about US\$ 100 million a year, due to the increasing prevalence of parasitic diseases while diarrhea has been growing since early 1990s. In the past decade, about 45,000 cases of parasitic diseases were registered annually with many other cases not officially registered. According to the available national statistics, 60-79% of children in rural areas are infected with severe parasitic diseases. Also, the prevalence of hepatitis and typhoid fever has been growing.

#### *Institutional Set-Up and policy*

The ownership and management of water and wastewater treatment services was fully decentralized in the early 1990s. Local self-governments are primarily responsible for delivering service. As of the decentralization, no leading agency/ministry in the central government has been responsible for coordinating the management and development of the sector. Rather, water and wastewater oversight responsibilities are distributed between many agencies. In 2011, Government's oversight responsibilities for Water Supply, Sanitation and Hygiene were distributed between i) the Department for Development of Drinking Water Supply and Sewerage<sup>17</sup>, which is currently under the State Agency of Architecture, Construction and Communal Services, and ii) the Ministry of Health (Republican Centre for Health Promotion - RCHP and the Sanitary and Epidemiological Surveillance Service - SES). These institutions are meant to support coordination, prioritization and provide assistance to the local self-government bodies (Aiyl-Okmotu, and town and city municipalities), which are directly responsible for providing service to the population.

<sup>16</sup>Household Survey, 2011

<sup>17</sup> In this paper sanitation means the toilet system, waste water collection, treatment and disposal as well as excreta collection and disposal.

The State Agency of Architecture, Construction and Communal Services is responsible for leading the policy making and reforms (tariffs, technical standards, sanctions, etc.) in the sector. The agency should also develop and coordinate all sector programs financed by the government, donors, or other investors. The agency would particularly support smaller towns and villages struggling with financial sustainability. The agency could assist local governments with planning, prioritising investments, accessing funds and carrying out reforms to improve the delivery of WSS services and financial sustainability.

All utilities of the sector do not operate at cost recovery level in the country and struggle to maintain minimum levels of service. The utilities in small towns are in a particularly dire situation, for two main reasons: first, economic stagnation and consequent limited fiscal resources from the local municipalities to be invested in capital rehabilitation and expansion, and second, lack of technical and financial capacity within the utility. For these towns, investments have been very small over the past 20 years, and although some municipalities have been able to access investments directly from donors, these have not been sufficient to achieve operational sustainability and efficiency. The investments necessary to modernize the WSS infrastructure should be complemented by reforms and changes in policy aimed at fostering the financial sustainability of WSS services.

Coordination of WSS activities must be strengthened. Activities in each sub-sector must be complementary in order to improve access to services as well as the financial viability of the utilities, and ultimate positive health impacts. However, the link between activities at a national level is either non-existent or very weak. Activities are mostly coordinated at the project level.

***Proposed recommendations:***

- Strengthen the capacity of the State Agency of Architecture, Construction and Communal Services (SAACCS) to coordinate the sector and provide support to the municipalities and Aiy1-Okmotus.
- SAACCS should play a central role in policy making and strategy implementation.
- Enhance capacity of the Department of Drinking Water Supply and Sewerage within SAACCS through institutional and HR development to meet sector challenges.
- It is necessary for the Government to initiate a realistic and sustainable investment program of WSS service provision, which would be financed at central, oblast and local levels<sup>18</sup>.
- SAACCS should be responsible for sector infrastructure development plans to be coordinated with the municipal master plans.
- The Sector Strategy, which is being developed by SAACCS now, should reflect major challenges and provide an action plan to tackle those challenges. The responsibilities of other relevant agencies (MoH, LSG, municipal enterprises) should also be incorporated into the action plan. In particular, the Sector Strategy must be well coordinated with the Den-Sooluk government healthcare program.
- Relevant norms and standards (SNIPs, SanPin) should be updated to ensure efficiency and affordability of the water supply, sewerage and sanitation services. They should include decentralized solutions such as alternative toilet systems, including the service for excreta collection, treatment and re-use.

***Governance***

The sector's governance must be strengthened. There are widespread complaints about the effective use of funds, especially in rural areas, which could be linked to the sector's weak institutional design. Without a national government body to respond, many of these complaints are unattended leading to mounting frustration among communities. Selection of priority projects has often been questioned due to lack of consistent data on service level country-wide, again particularly for rural areas. Lack of data has undermined consistent sector development. Furthermore, there is no unified database at the central level that could assist in clear and equitable prioritisation of investments. Data have been collected but not systematically updated.

Tariff levels and fee collection rates in both urban and rural areas remain low and are far from necessary cost-recovery levels, thus hindering adequate O&M. Municipal water supply enterprises are severely

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<sup>18</sup> Similar programs already exist in the neighboring Kazakhstan and Uzbekistan.

limited by lack of financial resources and low managerial capacity. In rural areas, the financial position of Community Drinking Water Users Unions (CDWUUs) is generally very weak. As a result, neither rural nor urban service providers are able to adequately plan for capital investment needs leading to systematic deterioration of the system. Metering or other cost recovery mechanisms might improve the financial position of both urban and rural service providers, and thus enable them to better manage service provision and maintenance.

There is no communication mechanism or dialogue platform between well performing and weak CDWUUs that could be a valuable resource to the Government by sharing their lessons learned and common problems. Better communication and collaboration could be achieved through Associations of CDWUUs at both the local and national levels. NGOs active in the sector could also play an important role in supporting CDWUUs.

***Proposed recommendations:***

- Complete development of national database on water supply, sewerage and sanitation and plan the gradual development of management information system (MIS) for analysis and planning, which should be connected to financial plans.
- Production and consumption should be measured through metering, which should be included in the MIS system.
- Corporate development and capacity building of the local utilities, which are generally set up as municipal enterprises.
- Improve technical resources for local self-governments (and other decision-making officials in the sector) to enable them understand the needs, norms, risks and opportunities in the WSS arena.
- Implement pilot Stakeholder Participation Program to encourage water conservation and participation in improving water supply services.
- Capacity of CDWUUs needs to be strengthened to guarantee sustainability of newly rehabilitated/constructed systems.
- Gradual tariff increase should be accompanied by community awareness and communication campaigns.
- Strengthen awareness and facilitate local fund-raising for water supply and sanitation improvement.

***Human Resources Capacity and Technology***

Local expertise is limited with most engineers trained during the Soviet period and approaching retirement age. The network of education facilities that existed in the past has collapsed leaving a gap of expertise, especially at local levels. Standards and norms (SNIPs) need updating to foster engineering modernization and cost-recovery. Sanitation practices in rural areas rely on traditional pit-latrines as there is no awareness of other options, which are more ‘user-friendly’, especially for children and women. Hygiene education, related to proper food preparation and safe disposal of excreta and wastewater, is key to preventing the spreading of parasitic and other related diseases, thus it must be addressed on a national level.

***Proposed recommendations:***

- Build governmental planning program on human resources development in the sector through providing learning opportunities at both national and local levels.
- Develop and introduce specific curriculum at vocational education schools, technical colleges and universities.
- Provide exposure opportunities to successful experiences in other countries and cost-effective technological solutions in design and construction.
- Build capacity of CDWUUs to design and construct various rural sanitation technologies and increase awareness of such technological solutions.
- National awareness raising campaigns to improve hygienic behavior of the whole population.

## **II. Summary of Government Strategies and Programs for the periods 2010-2012 and 2013-2017**

In recent years there was no strategy endorsed or implemented for the sector. All investments were ad-hoc and not linked to national program or vision. Hygiene promotion and water quality issues are reflected in the Den-Sooluk governmental program (2012-2017) of the Ministry of Health (MoH). The government is developing a Sector Strategy to address needs in the medium to long term. The Strategy is to make sure there are realistic and applicable coordination mechanisms established between Government agencies.

## **III. Prioritised Sector activities requiring development assistance in 2013-2017**

The WSS sector requires substantial assistance to improve physical assets, financial as well as technical sustainability and institutional capacity. Estimates of investment requirements for the sector are imprecise, but there is a general understanding of their magnitude. Independent external studies in 2009 estimated that achieving improved rural access to water supply and sanitation will cost about US\$ 380 million over the next 15 years. Whilst to meet the most urgent urban needs, the rough estimates by Development Partners' Coordination Council (DPCC) on water and waste water sector amount to over US\$ 500 million. In order to realize these investments, support from international partners will be required.

The Government of the Kyrgyz Republic has established a Working Group, under the direction of the Department of Drinking Water Supply, Sewerage and Sanitation (DDWSS) to develop a strategy in the first half of 2013. The following areas should receive particular attention:

- The sector can thrive only if put in the hands of competent institutions. For this, the Government has to fulfill its commitment to improve sector governance and capacity of the institutions responsible for delivering WSS services.
- To ensure universal access, the Government will need to adopt sustainable and affordable standards and technical solutions to be used for the construction and rehabilitation of the water supply and waste water schemes. Currently, most of the schemes, especially rural, are still designed and rehabilitated according to Soviet standards which have proved, over the past two decades, inefficient and unaffordable, especially for the rural communities.
- The utilities must also be supported to achieve financial sustainability. WSS should be operated at cost recovery levels.

The DDWSS shall take on the responsibility of supporting its implementation, monitoring and reporting progress, communicating and raising awareness on progress. Therefore, it is critically important to build institutional capacity of the DDWSS, what should be included into the most important priorities in general sector program.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount(currency)	Budget support/ grant/loan/other	Any other info
ADB	Community-Based Infrastructure Services Sector Project-Supplement	ARIS	Nov 2008-Jun 2013	US\$ 30,000,000	Grant	ADB approved the grant cancellation in 2013.
	Issyk-Kul Sustainable Development	Ministry of Finance	Sep 2009 - Jun 2015	US\$ 30,000,000	Loan/Grant	
	Emergency Assistance for Recovery and Reconstruction	State Agency for Architecture, Construction and Communal Service	Sep 2010 - Mar 2015	US\$ 100,000,000: budget support - 40%, housing constr. - 30%, WSSs/Osh, Jalal-Abad & Basar Khorgon 30%	Loan/Grant	
	Capacity Building Technical Assistance for Water Supply and Sanitation Strategy	State Agency for Architecture, Construction and Communal Service	Jun 2013-Nov 2014	US\$ 750,000	Grant	Support rural WSS to enable the execution of the rural WSS strategy
EBRD	Improvement of Water Supply in Bishkek city	Bishkek Vodocanal	2011 - 2014	EUR 5,500,000-EBRD EUR 5,000,000-SECO	Loan/grant	
	Water and Waste Water Rehabilitation in the City of Osh	Osh Vodocanal	2011-2014	EUR 3,000,000-EBRD EUR 4,300,000-SECO	Loan/grant	
	Water and Waste Water Rehabilitation in the City of Jalalabad	Jalal-Abad Vodocanal	2011 - 2014	EUR 3,000,000-EBRD EUR 4,100,000- SECO	Loan/grant	
	Water & Waste Water Rehabilitation in the City of Kara-Balta	Kara-BaltaVodocanal	2012-2015	EUR 2,000,000-EBRD EUR 3,000,000-EBRD	Loan/grant	
	Switzerland-EBRD: Improvement of Water Supply in Bishkek City (SECO)	Holinger AG	2010-2013	EUR 698,964	TA	
	Osh and Jalalabad Water Projects	Seureca	2012-2014	EUR 405,856	TA	
	Kara-Balta Water Projects	Selection process is on-going	2013-2015	EUR 397,000	TA	
	Kara-Balta Water Projects Support	Selection process is on-going	2013-2015	EUR 500,000	TA	
	Programme for Kant Water	Selection process is on-going	2013-2015	EUR 110,000	TA	
	Kant Water Project	Selection process is on-going	2013-2015	EUR 160,000	TA	
	Kant Water Project Support	Selection process is on-going	2013-2016	EUR 580,000	TA	
	Programme for Talas Water Project	Selection process is on-going	2013-2016	EUR 420,000	TA	
	Talas Water Project	Selection process is on-going	2013-2016	EUR 500,000	TA	
SECO	Karakol Water Supply Project	Karakol Vodocanal	2005-2012	CHF 9,500,000	Grant	
	Public Utilities Coaching Project	Comtec Ltd.	2012-2013	CHF 260,000	Grant	
World Bank	Bishkek and Osh Urban Infrastructure	ARIS	April 2008 - June 2015	US\$ 12,000,000	Loan/grant	
	Bishkek and Osh Urban Infrastructure	ARIS	2012 – June 2015	US\$ 15,800,000	Loan/grant	
	Second Rural Water Supply Project	ARIS	2009 – 2013	US\$ 10,000,000	Loan/grant	

UNICEF	Learning Environment for Children in Education institutions in the South of Kyrgyz Republic (donor – Japan)	UNICEF Implementing Partners	2012 - 2014	Total: US\$ 4,600,000 WSS: US\$ 3,200,000	Grant	Batken, Jalalabad and Osh oblasts
	UNICEF/DFID “Equity” Programme in the South of Kyrgyz Republic (donor – UK)	UNICEF Implementing Partners	April 2012 – March 2015	Total: US\$ 9,700,000 WSS: US\$ 480,000	Grant	Batken, Jalalabad and Osh oblasts

**Sector development assistance under consideration for 2013-2017:**

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (currency)	Budget support/ grant/loan/other	Any other info
ADB	Rural Water Supply & Sanitation	To be defined later	2014-2016	US\$ 20,000,000	Grant	Project is in pipeline.
EBRD	Kant Water Supply Project	Kant water utility	2013-2016	EUR 1,500,000-EBRD EUR 5,000,000-SECO	Loan/ grant	
	Talas Water and Wastewater Project	Talas Water Company - ME Taza-Suu	2013-2016	EUR 2,000,000-EBRD EUR 1,850,000-EU IFCA EUR 1,150,000-GEF	Loan/ grant	
WB	Urban Planning Development	--		—	TA	

## Public Health

### I. Challenges facing the Sector:

During the last 20 years of independence, the Kyrgyz Republic has undertaken wide ranging reforms in the health care system. In the implementation of the National Health Care Reform Program “Manas” (1996-2006) comprehensive structural changes have been initiated in health care delivery, financing and strategic management. Innovations addressed the system of mandatory health insurance, Single Payer System, State Guaranteed Benefit Package (SGBP), provision of medicines to insured citizens on an out-patient basis, new mechanisms for the financing of entities providing health care, establishment of the institute of family health care, and development of new clinical practice guidelines.

In the implementation of the National Health Care Reform Program “Manas Taalimi” for 2006-2011 the main focus was on strengthening the health care system based on community involvement, improvement of the quality and accessibility of individual health care services, promotion of public health, and on strengthening of human capacity. The main feature of “Manas Taalimi” Programme was its implementation under the Sector Wide Approach (hereinafter - SWAp), where the funds from donors and international organizations are channeled to support the state health care system through the budget or through parallel financing, instead of supporting individual projects.

The main results of “Manas Taalimi” Programme were: increase in state financing of health care from 10.6 percent in 2006 to 13 percent in 2012; alignment of regional entities providing health care; improvement of technical equipment for primary health care entities; and, a downward trend in mortality (tuberculosis, child and infant mortality). The SWAp approach also produced other indirect but tangible results, such as:

- increased leadership role of the Ministry of Health in development, implementation and monitoring of the reform process;
- improved synchronization of the donor funding with priorities of the National Program “Manas Taalimi” and better coordination of activities in the health sector; and,
- increased level of use of evidence in policy-making and monitoring processes.

However, despite certain achievements, serious problems still remain. There have been no major improvements in health care indicators related to cardiovascular diseases, and to maternal and child health conditions. The cases of drug-resistant forms of tuberculosis, and of HIV infection, are amplifying.

The system of medical services delivery, despite its restructuring, has not yet managed to establish an optimal network of health care facilities with clearly defined interaction of primary, secondary, and tertiary level providers of health care services.

The outflow of medical staff, their irrational distribution with the highest concentration in the cities rather than in the rural areas had a negative impact on the access to medical care and its quality, especially for vulnerable population groups in remote rural areas.

Another problem is that due to the low salaries and the related lack of motivation, there is a high outflow of personnel from the system of Ministry of Health, or rather frequent moves of the trained personnel to better-paid jobs in some other, e.g. private, health care entities.

Adequate funding is critically important for ensuring the widest possible coverage of the population with cost-effective health care services. Shortage in funding has led to a financial gap which is reflected in the poor supply of medicines and outdated equipment in health care organizations. This does not allow including all the necessary services in the State Guaranteed Benefit Package (SGBP) for providing the citizens of the Kyrgyz Republic with adequate health care. The results of the analytical study conducted by the Public Foundation “Center for Health Policy Analysis” showed that the SGBP financial gap in 2010 increased to 34.8 percent, compared to 27.5 percent in 2009.

Weak infrastructure of preventive and treatment facilities coupled with the problem of availability of hot and cold water, electricity, heating, and sewerage systems, affect the health care services, including prevention of contagious diseases. Insufficient number of ambulance vehicles has an impact on the efficiency of emergency medical care, not only in the regions, but also in major cities.

Absence of mechanisms for improving the quality of medical services, poor management of health care entities, and their weak accountability mechanisms, as well as old-fashioned methods of medical education, have a negative impact on the use of evidence-based medicine in the practice of health care delivery. Also, establishment of the Unified Health Information System (UHIS) has not been completed in Kyrgyzstan.

The introduction of public-private partnership (hereinafter PPP) instruments in the health sector is one of the leading activities of the Ministry of Health of the Kyrgyz Republic and meets the strategic development priorities of the country's health care. At the same time, the Ministry of Health requires skilled technical assistance in the activities related to the preparation and promotion of PPP projects.

Large proportion of expenditures for treatment of chronic diseases can be avoided by applying measures for health and well-being promotion as well as those for disease prevention. Such measures include promotion of healthy life-styles, physical activity, prevention of risky behaviors, and environmental hazards.

Infectious and parasitic diseases remain one of the key problems of epidemiological situation in the country, largely due to the limited access for part of the population to safe drinking water and non-compliance with sanitation norms. There is a high level of acute intestinal infections, particularly among children in rural areas of southern part of Kyrgyzstan, which is the result of degradation and low efficiency of water supply systems and poor quality of water used by the people for drinking and recreational purposes. Control of food safety has been neglected in recent years in Kyrgyzstan and more than 70 percent of contaminants are transmitted through food consumption.

In the medium-term period, the Government intends to address the following challenges to:

- increase access of vulnerable segments of the population to specialized medical care services, ensure provision of basic medical services free of charge for the socially vulnerable segments of population through the development of Basic State Health Insurance;
- ensure the rational and efficient use of resources;
- expand the provision of evidence-based medicine, safety monitoring and good quality health care services;
- upgrade the level of health care, aiming at achievements of MDGs 4-6, as well as reducing morbidity and mortality from cardiovascular diseases;
- improve the effectiveness of public health services, including the strengthening of state control over water facilities and the reduction of diseases related to food safety;
- strengthen and modernize the infrastructure of health care organizations, including major and minor repairs, and in doing so, to utilize public-private partnership mechanisms;
- improve quality of medical and pharmaceutical education, to introduce measures on stimulation of work of health care providers in rural and remote areas;
- strengthen primary health care system and emergency medical care services.

## **II. Summary of Government Strategies and Programs for the periods 2010-2012 and 2013-2017**

The National Health Care Reform Program of the Kyrgyz Republic for 2012-2016, i.e. "Den Sooluk" is aiming at consolidation of the progress achieved during the previous years. The "Den Sooluk" Program is based on the following principles:

- Focus on people;

- Focus on the results;
- Removing/overcoming the barriers;
- Democratic principles of the implementation;
- Use of SWAp principles during implementation.

The mission of the “Den Sooluk” Program is to create conditions necessary for the protection and promotion of population’s health, including each and every individual, regardless of social status and gender. The strategic approach to implementation of the “Den Sooluk” Program is based on the formation of a stable connection between the activities of the Program and its impact on population’s health indicators. The Program has three main guidelines which are related to each other and were based on the results from the previous reforms:

- improvement of health indicators within the population;
- use of key services needed to achieve the improvement of health indicators within the population;
- identifying and removing barriers in the health system that prevent the provision of key services to the people.

Improvement of health indicators is expected in the following areas: cardiovascular diseases; maternal and child health; tuberculosis; and, HIV-infection. To achieve these targets, the health care policy should involve:

- key activities at the grass-root level, such as elimination of behavioral, social and environmental hazards that have a negative impact on health indicators;
- individual medical services provided according to principles of evidence-based medicine that must be available to the population in the required quantity and quality;
- increased roles and interaction of health care entities to ensure continuous monitoring of the population’s health status.

Barriers in the health care system that prevent proper delivery of key services, have been identified by the Government and grouped according to the main functions of the health care system, in:

- public health care services;
- individual health care services delivery;
- health system financing;
- resource generation (personnel, medicines, information systems); and,
- strategic management.

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

- It is necessary to allocate sufficient capital (financial, intellectual, technical) for establishment of modern public health care service, structure and level of which would correspond to the existing health care challenges in the country, and to apply modern approaches to health promotion and disease prevention.
- Implementation of quality improvement activities in the four priority areas of “Den Sooluk”, i.e., maternal and child health, cardiovascular diseases, tuberculosis, and HIV-AIDS. This includes identification and expansion of evidence-based and cost-effective measures, many of which can be implemented through the promotion of public health activities (e.g. tobacco control, reduction of harmful use of alcohol, improving nutrition and increasing opportunities for physical exercise), primary health care (e.g. antenatal services, detection and control of hypertension, tuberculosis screening, counseling on HIV prevention, etc.).
- Strengthening of institutional mechanisms, rules, procedures and government’s supervision structures in the health care.

- Addressing the problem of outflow of state employees from the health sector.
- Strengthening of public financing scheme to reduce the financial gap of the State Guaranteed Benefit Package (SGBP).
- Increasing health insurance coverage, review of SGBP, ensure appropriate coverage of key interventions and medicines in the four priority areas of “Den Sooluk”.
- Increase investments in the modernization of hospital care, construction of new medical centers which are meeting the international standards, as well as new rehabilitation and treatment facilities.
- Further strengthening of primary health care with the expansion of the service sector.
- Expansion of the integration of vertical programs in the general health system.
- Rationalization of the hospital network, including specialized hospitals, and hospitals of Bishkek and Osh cities.
- Addressing new areas of reform, such as increasing the autonomy of medical services providers, the professionalism of health facilities management with appropriate management training, the introduction of a merit-based recruitment, development of more extended monitoring of activities at all levels, overcoming the barriers associated with the budget and the state financial rules.
- Building of more functional management information systems.
- Strengthening measures in tobacco control (such as the VAT increase on tobacco), reducing alcohol abuse, improving nutrition and encouraging physical activity, protection of children from the aggressive policy of advertising and sale of harmful substances.
- Implementation of measures for the safety of drinking water and food in accordance with the National Program for Sustainable Development of the Kyrgyz Republic.
- Introducing an integrated approach to regulating and delivering pharmaceutical products to improve the quality and availability of medicines, particularly, for the poor and vulnerable segments of the population.
- Implementing a comprehensive and consistent policy of human resources’ management and improvement of education of health care providers.
- Innovative use of information technologies (telemedicine, unified information network, etc.).
- Improved coordination by all parties involved in reducing child and maternal mortality rate (business community, public sector, civil sector, development partners).
- Since malnutrition is the cause of high child and maternal mortality rates, to address malnutrition by using direct nutrition interventions and focusing on the determinants of malnutrition.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/grant/ loan/other	Any other info
World Bank, German KfW, DfID, Swiss SDC, SIDA	SWAp-1. "Healthcare and Social Protection" Project within the framework of the "Manas Taalimi" National Healthcare Reform Program for 2006-2010/2011. Improving the population's health through creating a responsive, effective, complex integrated system of provision of individual and public healthcare services, increasing the level of responsibility of the citizens, family, society, state authorities & governance bodies for the health of every person and the entire society.	Ministry of Health of the Kyrgyz Republic (MHKR)	December 15, 2005, through June 30, 2013	As of 01.01.2013 US\$ 81,100,000 disbursed	Grant	At the stage of completion.
International Development Association (IDA)	Additional funding -2. Second additional source of funding for the Healthcare and Social Protection Project between the Kyrgyz Republic and International Development Association (IDA). Improving the sector's performance indicators, improving and maintaining the health and quality of food of unprotected groups, strengthening the system of targeted distribution of social welfare benefits.	MHKR	2012-2014	US\$ 24,000,000: US\$ 13,200,000 in loan, US\$ 10,800,000 in grant	Loan—55%, Grant—45%	Law of the Kyrgyz Republic dated July 30, 2012 "On ratification of the Agreement for Second additional source of funding for the Healthcare and Social Protection Project between the Kyrgyz Republic and International Development Association signed on November 22, 2011 in Bishkek".
German Development Bank (KfW)	Prevention of HIV/AIDS (safe blood transfusion). Improving the quality and safety of donor blood and products made of its components; increasing effectiveness of the system of blood donation and transfusion in the Kyrgyz Republic.	MHKR, Republican Blood center	2010-2014	EUR 4,000,000	Grant	Under implementation. Rehabilitation of institutions of blood-related services; purchase of medical and non-medical equipment; mobile expendable materials; technical assistance to MHKR.
	Anti-TB Program III-IV. Support for the "National Anti-TB Program"	MHKR, National Phthisiology center	2008-2014	EUR 5,000,000	Grant	Under implementation. Procurement of anti-TB medications; construction and equipment of the National Reference Laboratory; conducting research on resistance, rehabilitation and equipment of anti-TB hospitals of the regional level, including equipment (disinfection, kitchen equipment, etc.).
	Sector-specific "Healthcare and Social Protection-2" Program. Improving access to medical services for the entire population; reducing the financial burden on the population in cases of diseases; increasing the effectiveness and quality of medical services.	MHKR	2011-2013	EUR 800,000	Grant	Under implementation. Consulting services, assistance to MHKR in making decisions regarding restructuring and improvement of the healthcare system, including development of the concept of Technical Servicing Fund; monitoring of the results of the Program's introduction.
	Protection of maternity and childhood IV. Improvement of medical services for pregnant women and ill newborns in the program-specific region; using the Perinatal center as a site for capacity-building. Contribution to	MHKR, National Center for Protection of Maternity and		EUR 10,500,000	Grant	Under implementation. Construction and installation works for the Republican Perinatal Center on the territory of the NCPMC and repairs of the existing maternity ward of the NCPMC. Purchase and installation

	achievement of Millennium Development Goals (MDG) No. 4 and 5 (alleviation of child mortality and improvement of women's health).	Childhood (NCPMC)				of non-medical equipment; technical assistance to the MH during development and introduction of the system of transportation of newborns and the referral system; consulting services.
	Creation of the national system of emergency medical assistance-1 (Additional funding). Improving the quality of medical care in emergency situations and enhancing public access to emergency medical care.	MHKR		EUR 3,000,000	Grant	Under implementation. Retrofitting/equipment of emergency healthcare divisions of the National Hospital, the Bishkek Center of Orthopedics and Traumatology (NC, the Osh Regional Hospital, several territorial hospitals of Osh oblast; training and capacity building for staff; consulting services).
Swiss SDC, LED (Liechtenstein Development Service)	"Community Action for Health" Program (project location—Kyrgyzstan). The Project's goal is to improve healthcare in rural areas of the country through information-education activity in the area of protection of health and operation of rural health committees.	MHKR, Republican Center for Health Promotion (RCHP)	2011-2014, Phase VI		Total budget: CHF 25,200,000 Current budget: CHF 6,900,000	Under implementation. In the framework of "Community Action for Health" model, over 1,400 rural health committees (RHCs) were established throughout the Republic. In the beginning of 2013, work continued on strengthening inter-sector cooperation on the issues of public healthcare. It is planned to establish additional 270 RHCs by 2016 in Chatkalskiy, Alabukinskiy, Toktogulskiy, and Akyskiy districts of Jalal-Abad oblast.
Swiss SDC	Management of medical waste in the hospitals of Kyrgyzstan (project location—cities of Bishkek, Osh, Jalal-Abad, Chuy oblast). The Project's goal is to more effectively prevent and reduce cases of intra-hospital infection in rural areas of Kyrgyzstan by introduction of a cost-effective system based on international standards.	MHKR	2011- 2014, Phase II		Total budget: CHF 2,900,000 Current budget: CHF 2,400,000	Under implementation. Order #59 of the Ministry of Health of the Kyrgyz Republic "On improving the safety system of management of medical waste within healthcare entities" dated February 18, 2013, has been prepared and signed. 5 standard operating procedures for management of medical waste within healthcare entities in the city of Bishkek have been developed.
UNICEF	Solution of the main causes of deterioration of nutrition and development of children and their mothers by strengthening nutrition and ECD in emergencies.	MHKR	2013-2014	US\$ 1,107,450	Soros Foundation grant	Project goal: to help ensure optimal cognitive, physical and social development of children aged 6 to 59 months in Batken and Osh oblasts.
UNICEF	Efficiency improvement of agriculture and improving nutrition under the Component 4 of Global Agriculture and Food Security Program: Expansion of interventions related to nutrition and social protection measures.	Ministry of Agriculture & Ministry of Health	2013-2017	US\$ 3,162,000	World Bank	This component, which adds the strongest multi-sectoral element to the project, will be the basis for food security and the subject of more comprehensive review.

### Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/grant/ loan/other	Any other info
World Bank, German KfW, Swiss SDC (tentatively)	SWAp-2. Within the framework of the draft "Den Sooluk" National Program of Healthcare Reform in Kyrgyz Republic for 2012-2016. Creation of conditions necessary for the protection and strengthening of health of the population and every individual citizen, independently of their social status and gender differences. Logical	MHKR	2012-2016	Grant	Swiss SDC –US\$ 15,500,000; German Development Bank (KfW) –US\$ 20,700,000; World Bank –US\$ 14,000,000 under the Second additional funding source Project	At the stage of planning. The "Den Sooluk" Program was approved by Decree #309 of the Government of the Kyrgyz Republic dated May 24, 2012. A draft "Memorandum of Understanding between the Government of the Kyrgyz

	continuation of the “Manas” and “Manas Taalimi” programs.				(contribution to unified funding—for State Guarantees Program), and US\$ 13,500,000 for the healthcare sector under the SWAp-2 Project: 55% loan funds (US\$ 7,425,000) & 45% grant funds (US\$ 6,075,000)	Republic and Development Partners” is at the stage of signing.
World Bank	“Result-oriented funding”. The Project’s goal is to assist the Ministry of Health of the Kyrgyz Republic and the Mandatory Medical Insurance Fund (MMIF) under the Government of the Kyrgyz Republic in developing a Project of result-oriented funding in the healthcare sector. Testing new programs/interventions aimed at improving the quality of medical assistance through adding an aspect of quality to the existing system of remuneration of suppliers of medical services.	MHKR, MMIF	2012-2014	Grant	US\$ 12,000,000. Pre-pilot activities in 2013 on result-oriented funding in healthcare sector (grant in the amount not exceeding US\$ 500,000)	At the stage of planning. Agreement is currently under preparation.
	Creation of a system of emergency medical assistance-2. Improving the quality of medical care in emergency situations and enhancing public access to emergency medical care.	MHKR	2012-2015	EUR 3,000,000	Grant	Agreement is being signed. Equipment of emergency medicine wards of hospitals of Jalal-Abad oblast; training and capacity-building of personnel; consulting services.
Government of the People’s Republic of China	Improvement of the infrastructure of healthcare institutions: construction of a municipal hospital for 150 beds in the city of Osh.	MHKR	2012-2015	Grant	KGS 350,000,000 (tentatively)	At the stage of planning. The draft Law and draft Decree of the Government of the Kyrgyz Republic “On ratification of the Response Letter of the Ministry of Health of the Kyrgyz Republic to the Letter of the Embassy of the People’s Republic of China in the Kyrgyz Republic, which jointly form an Agreement between the Government of the Kyrgyz Republic and the Government of the People’s Republic of China to implement a project on construction of a hospital complex in the city of Osh and provision of part of office furniture and medical equipment, dated May 25, 2012” has been agreed with all the ministries and the Office of the Government of the Kyrgyz Republic. Currently, under consideration of the Parliament (Jogorku Kenesh) of the Kyrgyz Republic.

## Social and Child Protection

### I. Challenges facing the Sector:

- Poverty and child poverty: inadequacy of the Guaranteed Minimum Income (GMI)<sup>19</sup> and related cash transfers.
- Social service delivery and pace of the overall social protection reform process.
- Human Resources of the Ministry of Social Development (MoSD) at central and regional levels to implement the Social Protection reforms, in terms of number of staff members, capacity, low salaries and status and consequent high turnover. According to the MoSD, around 250 additional staff members are required.
- The technical capacity, expertise and status of the social workers and of the specialists working in the social protection units is an urgent issue that needs to be addressed. With the recent transfer of responsibility for the Gender Equality portfolio from the Ministry of Youth and Labour to the MoSD, the lack of capacity may jeopardize the implementation of the National Gender Action Plan.
- Placement of children in Child care institutions: studies by UNICEF indicate that 11,000 children currently reside in state institutions. Institutionalization continues to be an issue. Insufficient efforts are being undertaken to prevent institutionalization and to provide family support and alternative care for children without parental care or at risk. Children living in child care institutions are exposed to increased risk of child abuse and violence. The implementation of the Optimization Plan for the management and financing of child care institutions adopted by Government Decree in December 2012 is also at risk due to a lack of resources.
- Disability prevention and early detection, access to day care services, inclusive education and rehabilitation are issues of concern. According to recent reports by GIZ, the certification of disable people conducted through national expert commissions is mainly done following a medical approach and does not include a functional assessment.
- Day care services for disabled children are virtually non existent. Social and school inclusion of disabled children is limited to pilot initiatives targeting to a large extent children with mild physical disabilities. Children with learning disabilities or combined disabilities are not offered sufficient social inclusion, education or rehabilitation activities.
- Elderly women and men are a neglected group of the population, particularly in light of the increased migration which leaves many elderly people in charge of small children (skipped generation families). The care for elderly people not entitled to a pension represents a challenge for the future, as an increased number of people work in the informal sector and therefore have no access to contributory pensions.
- Incoherent policy and discrepancy in approaches to the roles and responsibilities of central and local government with regard to vulnerable and poor children and their families.
- Weak capacity and fragmented policy-making are the key challenges in Social Protection (SP) in the country. The capacity of the Ministry of Social Development and its regional offices is low and this is most often attributed to weak staff capacity and insufficient budget to support capacity building efforts.
- SP policy making is fragmented between several ministries and agencies without adequate coordination mechanisms leading to inconsistent policies between sectors. For example, social insurance and social assistance programs are not aligned, survivors and pensioners with some contribution history get smaller benefits under the social insurance scheme compared to survivors and pensioners with no contribution history at all under the Monthly Social Benefit (MSB) assistance program.

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<sup>19</sup>Over the past years, in the social protection sector the Government has been actively involved in revising the eligibility criteria to provide targeted social assistance to vulnerable groups. The targeting has improved but cash transfers of the size provided under the current regulations in the country are not likely to achieve graduation from poverty. The amount provided is insufficient to act as a safety net for poor families with children. The main reason for this is that the GMI threshold for granting access to pro-poor benefits and calculating amounts due is currently set in an arbitrary way at 1/2 of the extreme poverty line (GMI is set at 580 KGS and the extreme poverty line is set at 1300 KGS). In this context, the rationale for increasing the GMI is that it is instrumental in gradually increasing cash transfers to an adequate level. The social protection reform foresees a gradual increase of the GMI, with the intention to cover all children living under the extreme poverty line.

- The Government's medium-term SP strategy for 2012-2014 aims to improve well-being of certain categories in the population, which are perceived poor and vulnerable. The strategy is ambitious and is not backed by commensurate budgetary allocations. It also lacks a focus on tackling the key issue of equity in distribution of social benefits.
- Progress in improving equity and effectiveness of social assistance has been mixed. While targeted and efficient use of public resources is a priority for the Government, as reflected in the NSDS and other documents, the pattern of social assistance expenditure still favors certain categories in the population, perceived as vulnerable, rather than the needy.
- Monetization of privileges in 2010, while a positive development in itself, resulted in a steep rise of social assistance expenditure and deterioration in overall targeting. According to World Bank estimates, social assistance spending increased by more than 1% of GDP between 2009 and 2011 and currently exceeds 3% of GDP (includes some non-contributory Social Fund transfers). Impact of social assistance on poverty is low, despite relatively high spending, for reasons outlined below.
- The impact of the Monthly Benefit for Poor Families (MBPF) on poverty has been limited due to low coverage and low benefit level. MBPF is the only means of tested social benefit explicitly targeted at the poorest. It covered about 344,000 beneficiaries as of January 2013, 21% less than in 2007. Evidence from the national household budget survey (HBS) data of 2011 suggests that more than 80% of MBPF benefits were channeled to the poorest 40% of the population.
- Coverage of the poor by the program is low (less than one third of the poorest 20%), to a large extent due to its design based on the Guaranteed Minimum Income (GMI), which remains significantly below the extreme poverty line. The value of the benefit has eroded over time as the ratio of the GMI to extreme poverty line fell since inception of the program. MBPF budget grew at slower pace compared to categorical programs and amounted to 0.5% of GDP in 2011, or just about one-sixth of the total social assistance expenditure.
- The other main social assistance programs<sup>20</sup> use categorical targeting, tend to cover a larger proportion of wealthier rather than poor beneficiaries, and provide much more generous benefits. 2011 HBS data analysis suggests that the richest 40% of the population received a larger proportion of the categorical benefits than the poorest 40%, with exception of the Monthly Social Benefit, in which benefits were more evenly spread across welfare groups.
- There is overlap and duplication between different social assistance benefits. Some beneficiaries receive two or more different kinds of benefits at the same time, while others do not receive any support. Administration of benefit programs with overlapping eligibility criteria is costly and confusing to beneficiaries.
- Oversight and quality control of the social assistance program implementation at the local level is insufficient. Rules adopted at the national level may be misunderstood, misinterpreted and ignored, and the MSD has few means to assess and rectify problems on the ground. High staff turnover and inadequate training curtail capacity of the MSD to ensure proper implementation.
- The Kyrgyz Republic lacks a coherent policy towards people with special needs. Response to special needs includes certification of disability status, payment of social allowances and institutionalization of people with moderate and severe disabilities, including children. The Disability Certification Service (DCS) procedures and processes are outdated. The DCS is plagued with weak capacity, poor governance and non-transparent practices. There are limited or no opportunities for meaningful rehabilitation or social integration for the disabled.

## **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

### *Social Protection - Strategy for Social Protection Development 2012-2014*

The Strategy for Social Protection Development of the Kyrgyz Republic for 2012 - 2014 (hereafter referred to as Strategy) adopted in December 2011 arose from the need to develop an effective and fair

<sup>20</sup> These programs include: (i) Monthly Social Benefit; (ii) Cash Compensations (former privileges, in-kind benefits and price subsidies); (iii) Energy compensations to pensioners; and (iv) Early retirement benefits and pension top-ups paid from general revenues.

social protection system in the country. Up until 2011 there was no separate conceptual document on social protection development; these issues were part of strategic state programs (Comprehensive Development Fundamentals, National Strategy of Poverty Reduction, and Country Development Strategy). The Strategy has been drafted in close cooperation with all stakeholders, including representatives of civil society, government agencies and local self-government bodies. The Strategy reflects the comprehensive state vision of the future social protection system.

The main objectives outlined in the Strategy are as follows:

- To improve access of families and children in difficult life situation to state social transfers, guaranteed social services aimed at providing children with a family environment;
- To improve access of people with disabilities to social services and transfers, to create conditions allowing equal opportunities for participation in public life;
- To provide older citizens with a decent level of social transfers and quality social services;
- To develop accessible social infrastructure for prevention and social rehabilitation of homeless people.

The strategy includes an ambitious Action Plan and timeline approved in April 2012, which details the commitments of the Government and various state agencies. The implementation of the Strategy has recently been assessed by the Co-ordination Council on Social Protection based on detailed studies on the ground. The Council found that as of 1 January 2013, of the 111 activities listed in the Action Plan: 17 (15%) are completed; 20 (18%) are partially completed; 54 (49%) are still ongoing; and 17 (15%) have not been performed.

The Council identified as the main problem the limited financial resources available for implementation of activities and implementation of the Strategy.

By Government Resolution of 12 April 2013, the Government of Kyrgyz Republic has established a Working Group of the Ministries of Finance, Social Development and Economy to revise the Strategy in light of fiscal realities.

#### *Child Protection - Optimization Plan for the management and financing of child care institutions 2013-2016*

In order to respond to some of the challenges related to the care of children living in institutions, in September 2012 the Government established an Inter-ministerial Technical Expert Group for the elaboration of an Optimization Plan for the management and financing of child care institutions, chaired by the Vice Prime Minister for Social Affairs and co-chaired by the Ministers of Social Development and Education & Science. The Optimization plan developed by the expert group was endorsed by the Government on 7<sup>th</sup> December 2012.

The Optimization Plan is organized around the following objectives and corresponding clusters of activities:

1. Establish institutional mechanisms for optimization
2. Establish a comprehensive information system at national and local level
3. Improve functioning of existing child care institutions and social services
4. Introduce a new child protection system in the framework of Child Code implementation
5. Optimization of child care institutions

As with the Social Protection Strategy, funding for implementation of the Optimization Plan is an issue not yet fully resolved.

In addition to the Optimization Plan, the Government has endorsed several programs to comply with the revised Child Code adopted in 2012. These programs target juvenile justice and violence against children, among others.

*Protection of women and girls / National Action Plan for the implementation of the UN Security Council Resolution 1325 on Women and Peace and Security*

Elements of social and child protection are also included in the National Action Plan on the implementation of the UN Security Council Resolution 1325 on Women and Peace and Security, approved on 13<sup>th</sup> February 2013.

The objectives of the plan are the following:

- Elaboration of a system of institutional protection of women's and girls' rights in conflict prevention activities
- Strengthening the role of women in the area of security, defense, public order and emergency situations, including at the decision-making level
- Development of zero-tolerance toward violence against women and girls in conflict situations
- Creation and support of secure environment for women and girls
- Enhancement of readiness of response entities with consideration of women and girls protection in conflict situations

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

#### ➤ Social and Child Protection:

- Increase GMI as a means to provide adequate cash transfers for poor families with children.
  - Increase capacity of staff at local, district and national level (including leading specialists/specialists on social issues and social workers assigned to municipalities, social workers and staff from district social development departments; and staff of MoSD) to implement the social and child protection reforms;
  - Increase number of staff available at central and regional level to be involved in direct social service delivery.
  - Increase funding available for social service delivery at local level for vulnerable groups and in particular women and children via identification of protected funding, additional social contracting etc.
  - Support the implementation of the Optimization Plan for the management and financing of child care institutions.
- Strengthen policy and administrative capacity of the Ministry of Social Development by investing into human resource capacity and better design and delivery of programs to support the poor and vulnerable. Build capacity in areas such as policy analysis, M&E, social assistance programs and service design and delivery.
- Build a broad-based support for safety net and social care reform in the society through public and stakeholder information and communication.
- Strengthen the social safety net in an inclusive manner, so that it can provide critical support to the needy, and protect them against extreme poverty, shocks, and related loss of human capital, with particular attention to vulnerable women and children. Increase budget outlays for the MBPF program

to address low coverage and adequacy while improving program performance in different dimensions, such as outreach, removal of barriers for the poor to enter the program, eligibility, enrolment, re-certification, graduation, etc. Address exclusion errors in the MSB program and consider introducing a focus on economic need in some of the categories.

- Consider consolidation and harmonization of different social benefits to reduce duplication and overlap and raise cost effectiveness. Reduce costs by integrating program administration and reducing duplication of functions, e.g. based on a single benefit application and beneficiary registry system.
- Develop further the social protection management information system in terms of (i) staff training for system usage, improving analytical capacity of the MSD staff to use statistical data from the registry, and (ii) functional and architectural improvements to allow fullest use of the opportunities presented by the beneficiary registry, including further automation of business processes and generation of information for program planning, monitoring and evaluation.
- Modernize the Disability Certification by streamlining this process in accordance with approaches focusing on abilities and opportunities for rehabilitation. Move towards establishing a system of individual rehabilitation, development of integration plans, building supportive infrastructure and services nation-wide.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (original currency)	Budget support/ grant/loan/other (please specify)	Any other info
European Union	Sector Policy Support Programme in Social Protection and PFM	Government of the KR/Ministry of Finance and Ministry of Social Development	2012-2014	EUR 12,250,000	Budget support (grant)	Three tranches are foreseen during 2012, 2013 and 2014.
European Union	Technical Assistance to the Sector Policy Support Programme in Social Protection and PFM	OPM Oxford Policy Management	2013-2015	EUR 500,000	Technical Cooperation (provision of expert support/consultants on long and short term to the line Ministries)	To support the Government in the implementation of the programme
UNICEF	Social Policy	Government/PM Office, Parliament, Ministry of Social Development, Management Academy under the President of KR, State Agency on Local Self-Governance and Inter-Ethnic Relations, research companies, national experts	2012-2016	US\$ 2,000,000	Technical Assistance and programmatic support	Support to the implementation and monitoring of the Social Protection Development Strategy 2012-2014 (including social contracting)
UNICEF	Child Protection	Parliament, Government/PM Office, Ministry of Social Development, Ministry of Education and Science, Ministry of Health, Supreme Court, General Prosecutor's Office, Ombudsman's Office, State Agency for Prosecution and Punishment, local authorities, NGOs	2012-2016	US\$ 5,000,000	Technical Assistance and programmatic support	Support to Child Care and Child Protection system reform, including Juvenile Justice
World Bank	Health & Social Protection Project (P084977) + 2 Additional Financing	Ministry of Social Development	June 2006 – June 2014	Remaining undisbursed amount for SP: US\$ 616,000	Grant/loan	
German International Cooperation (GIZ)	Regional Programme "Health in Central Asia" to improve basic social service provision through:  1. Development and introduction of the Software of the Social Passport of Poor Families.	Ministry of Social Development of the KR  NGO "Alga"  Local consultants	2012-2015	n/a	Technical cooperation  (local subsidies, provision of consultants/experts)	Activities are limited to pilot district – Issyk-Ata rayon of Chui oblast

	<p>2. Sensitization and building capacities of social and health work specialists on basic social protection and reproductive health issues in the target district.</p> <p>3. Raising awareness of reproductive age vulnerable population on reproductive health and basic social protection in the target district.</p>					
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**Sector development assistance under consideration for 2013-2017:**

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/loan/other	Any other info
European Union	Sector Policy Support Programme in Social and Child Protection	Government of the KR/Ministry of Finance/ Ministry of Social Development and Ministry of Education	2015-2017 (tentative)	EUR 13,000,000 (to be confirmed)	Budget support (grant) and provision of technical cooperation	
UNICEF	Social Policy	Government/PM Office, Ministry of Social Development, State Agency on Local Self-Governance and Inter-Ethnic Relations research company, experts, NGO network(s)	2017 - 2021	To be confirmed	Country Programme of Cooperation between the Government of the Kyrgyz Republic and UNICEF	Effective improvement of social protection on child poverty and vulnerability reduction
UNICEF	Child Protection		2017 - 2021	To be confirmed	Country Programme of Cooperation between the Government of the Kyrgyz Republic and UNICEF	Support to Child Care and Child Protection system reform, including Juvenile Justice
World Bank	Kyrgyz Second Health and Social Protection Project (P126278)	Ministry of Social Development	2014 – 2019 (tentative)	US\$ 3,000,000 (SP component)	Grant/loan	

## EDUCATION

### I. Challenges facing the Sector:

#### Education Quality

The Government of the Kyrgyz Republic has demonstrated commitment to education reform for the last decade. Despite slight improvements in basic education enrolment from 85% to 87,8%<sup>21</sup> between 2004 and 2011 and maintaining a high literacy rate (99,2%), the quality of education remains a concern. Recent internationally recognised assessments in reading, science and maths show the system is failing many children. The results of national assessment showed that only 33% of 15-year old students are at the basic and above level in reading, maths and science.<sup>22</sup> This quality deficit in the mastery of basic cognitive skills by youth hampers their success in future education or the transition to work. Some universities have recently launched preparatory programs for new students to address the declining quality of intake.

The poor quality of basic education is primarily associated with (i) outdated and too much content rather than skills oriented curricula, learning and teaching materials and learning assessment methods, (ii) weak incentives, inadequate supply of new teachers, and insufficient in-service training for teachers that is too general with little pedagogical and teacher training, and (iii) poor school infrastructure, operation and management systems. Textbook provision is estimated at 41% across the country and has been decreasing since the textbook rental scheme (TRS) was abolished in 2006. The lack of textbooks was the biggest problem identified according to a school level survey among school teachers conducted in 2012. The quality of textbooks is another problem and includes such issues as mismatch with the national curriculum, academic language use which is difficult to understand, the lack of alternative textbooks for children with special learning needs and a dearth of textbooks in minority languages. Ministry of Education and Science (MOES) efforts to revive the TRS scheme have not been successful. The low quality of instruction is the result of an outflow of skilled teaching staff to other sectors and countries and the unwillingness of good university graduates to teach in schools. In 2009, only 24% of teachers were younger than 45 years old. Skilled teachers are being replaced by inexperienced teachers who often have insufficient levels of professional training<sup>23</sup> to meet teaching standards. The current practice needs to become more coherent whereby in-service teacher development needs to be seen as a continuum, rather than an isolated facet.

A nationwide school safety assessment of more than three thousand schools and preschools, published in June 2013, identified serious issues related not only to poor infrastructure but also to safety of the buildings. To ensure students' safety in the schools and preschools the main recommendation of the report is to initiate a national programme on school and preschool rehabilitation, reinforcement and reconstruction. To ensure effective provision of quality education services the country may think about the introduction of a quality management system in education (QMES) sector which should be used as a tool to examine the quality of learning and the performance of the education system.

#### Education Relevance

The focus of 2012-2020 education reforms in the Kyrgyz Republic in terms of the curriculum can be characterised as a move away from a focus on knowledge as the organizing principle of curriculum content to one based on the development of skills and the acquisition of competencies. Thus the government wants to align the teaching and content to the needs and interests of students and society. However, this is just the beginning of a long process where the government should pay more attention to

<sup>21</sup> Here and after: statistical data are acquired from National Statistics Committee (NSC).

<sup>22</sup> OECD .2010.*Kyrgyz Republic 2010: Lessons from PISA*. OECD Publishing

<sup>23</sup> R. Mogilevsky, *Public Expenditure on Education and Health in the Kyrgyz Republic, 2011*

incorporating modern elements of a student's cultural and social background into the design of the national curriculum.

Another important aspect of education relevance is linked to the future livelihoods that the education system may ensure. Currently students, parents and society as a whole increasingly look for an education that offers a full range of products and services needed to be productive workers. In 2012, the International Business Council – the country's largest business association – conducted a survey<sup>24</sup> among its members, which named qualified labour unavailability as the major investment planning constraint. The private sector is concerned about a widening gap between contemporary job requirements and skills provided by the domestic education system. New workers normally require additional pre-service and in-service training at the expense of the employer<sup>25</sup>. This is a risky investment, as highly skilled staff often migrate abroad for better salaries.

Vocational and technical education suffers generic old fashioned supply driven challenges which kept pumping out graduates with outdated skill sets not leading to jobs while the jobs available in the market are left unfilled due to the lack of appropriate skills of candidates. While most of the vocational school staff has professional level education, a majority of them are retired or near retirement age. As there is no institutionalized staff development program, they have not received updated training. Attracting applicants to teach in the Primary Vocational Schools (PVSs) is a persistent problem due to the low salary and lack of potential for career advancement. Also, the quality of teaching staff adversely impacts on the quality of training delivery and its relevance.

Feedback from employers revealed that the education system is not able to adequately respond to the emerging labour market needs. Most of the unemployed lack the practical skills required by enterprises and up-to-date knowledge in their areas of specialization. Graduates who have found employment have had to undergo additional training by their employers. Tourism and IT companies, representing growth sectors for the country, complain about under-qualified PVE graduates. The quality and relevance of training programs suffer from the weak interaction with the private sector and the lack of systematic labor market research. Although there are some schools that have developed good linkages with local companies and provide relevant skills training, the majority of training programs are largely supply-driven and often based on allocated budgets and available staff and equipment rather than on market demand.

### **Policy Reforms' Sustainability**

“The system is too complicated for government to do it well”<sup>26</sup>. The capacity of Ministry of Education and Science (MOES) is restricted: while it has limited staff and control over education spending its mandate is very broad. It results in ad-hoc; on-demand activities based on availability of funds and absence of systemic data collection and informed decision-making.

For instance, MOES staff are involved in regular control visits to different locations; investigation of cases of violation of normative rules (often after citizens' appeals and complaints), supervision of rules for national education competitions, involvement in licensing and attestation, etc. The main remedy that MOES possesses to address these issues is yet another normative act. This is reflected, amongst other, in the concept of quality of education and educational standards. To a large extent those are focused on the “input-side” - for instance, the number of square meters required per student – rather than on the “output-

<sup>24</sup> [http://ibc.kg/index.php?option=com\\_k2&view=item&id=201:инвестиционное-исследование-мдс-№1-2012&Itemid=79](http://ibc.kg/index.php?option=com_k2&view=item&id=201:инвестиционное-исследование-мдс-№1-2012&Itemid=79) on 10 April 2012

<sup>25</sup> Hifab. 2009. *Survey on Labor Market for the Vocational Education and Skills Development Project*

<sup>26</sup> Vaux, Tony and Maxim Ryabkov. 2011. *Political Economy Analysis of the Education Sector: Kyrgyzstan (Consultancy report done for EU Delegation to the Kyrgyz Republic)*. Bishkek

side”, or even more importantly, outcome, i.e. contribution of educational results to economy and society.<sup>27</sup>

Due to such capacity limitations and high turnover, educational institutions are not able to effectively own, sustain, continue and make use of the outputs (initiatives, policies, software, studies) supplied under donor-supported projects. Thus, ADB reports that the Textbook Rental Scheme, Education Management Information System, School User Charges System etc., agreed and supported under the Education Sector Support Project/Program in 1998-2004, were abolished or lost by 2010. Similarly, a lot of successful pilot initiatives do not result in country-wide replication.

Weak capacity of the education supervisory institutions to effectively coordinate donor assistance leads to the emergence of different uncoordinated approaches to education aspects – curriculum development, qualification framework, sector governance etc. This can potentially complicate existing problems even further. Too many reforms have been implemented in certain schools or areas (leading to a “saturation” of reforms), while there are too few reforms in other schools and areas. Uneven coverage by donors, no database of reforms at MOES, and turnover of its officials mean that there is no institutional memory of reforms and donors’ activities. Reforms have not addressed the issue of ownership, ensuring that MOES and other local actors are an integral part of the reforms and should be placed as leaders.

### **System Financing and Management**

The country’s commitment to social sector spending, including education, is heavily debt-dependent. Debt currently amounts to over half of GDP and requires 13% of the country’s budget to service. National budget deficits are around 6-7% of GDP, while the percentage of GDP spending on education has gradually increased from 4.0% in 1999 to 7.1 % in 2011. As percentage of the national budget, it varied from 19.8% in 2000 to almost 23% in 2011 and remains the largest single item in the national budget.

However, despite considerable budget increase, inefficiency and uneven spending remain a challenge. In 2011 the number of schools increased by 140 and the number of administration and maintenance personnel has increased by almost 7,000 positions, compared to 2001, while the number of students decreased by 91,000. Consequently, the already chronic lack of remuneration is made worse. A survey among school principals in 2010 revealed that on average 78.8% of school needs are covered by the government (local and national), with the remainder provided by parents and other donations<sup>28</sup>. Schools appreciate so called “voluntary contributions to the school funds”, but the government’s latest anti-corruption campaign touched upon these funds as well: criminal cases against a few school principals classified such fundraising as a form of corruption. The issue of capital renovation of schools remains an acute problem. The majority of schools saw no major repairs undertaken for over 30 years, and in some schools renovation has never taken place since they were opened. According to official reports only minor repairs and general maintenance are conducted on a regular basis, often supported and even funded by parents. Capital renovations are pushed into the background as the result of financial constraints while the nationwide school safety assessment revealed that nine out of ten schools and preschools do not meet the standards of structural integrity and facility maintenance. These buildings require immediate structural and non-structural changes.

The school management has limited room for manoeuvre as schools do not possess operational budgets. Salaries accrue and come from the central budget, salary top-ups and funds for maintenance are decided by local government, learning and teaching materials are provided by MOES and the school principal is

<sup>27</sup> EU Education Project - Interim Report on Institutional and Capacity Development in MOES. 2012. Bishkek

<sup>28</sup> UNICEF. 2009. *Survival Strategies of Schools in the Kyrgyz Republic: A School-Level Analysis of Teacher Shortages*. Bishkek

appointed by the district education department. No opportunities exist for exercising management efficiency at the school level.

MOES, although administratively in charge of general, pre-primary and higher education, has no control on the budget or the allocation of material resources. Because education financing is decentralized, funds flow directly from the central Treasury to local authorities where it is executed and MOES only manages 15 percent of the sector financial resources. As a result the Ministry can influence neither financing nor critical decisions such as school closing or opening, training, or food provision. For instance, the quality and effectiveness of the national school meals programme has raised concerns among policymakers and civil society. Coordination mechanisms in the national school meals programme lack clarity. There are no management guidelines and there is no programme management and monitoring system beyond the oversight by local administrative bodies. Schools and parents are not involved in the decision making process. Enhanced capacity of the national school meals programme would allow primary school children to enjoy a more nutritious meal. Addressing issues of policy framework, coordination and supply chain transparency would also improve performance and seasonal attendance.

The government is allocating around 4% of the total education budget to higher education, which is well short of the 25%-33% allocations in OECD countries. The level of funding of the Kyrgyz higher education system is extraordinarily low, no matter which basis of comparison is used. For example, one of the Kyrgyz Universities (KGUSTA) is provided approximately US\$ 4 million to support the education of more than 10,000 full-time students. This translates to government funding at the rate of US\$ 400 per student against around US\$ 5,000 in the private American University of Central Asia (AUCA) and Manas University. Currently there is a strong demand for higher education in the Kyrgyz society which has led to the opening of more than 50 higher education institutions (HEI), with 234,000 students<sup>29</sup>. The government wants to improve the quality assurance system, the HEI structure and funding. However the biggest challenge for the HEI will be to introduce changes that will ensure a better match between higher education's output and the demands of working life. Those challenges may be addressed by introducing targeted HE policies along with a student loan system and a standard qualification framework.

## **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

During the past 20 years the basic legal documents developed and adopted in the Kyrgyz Republic to secure the rights of children and adolescents on access to education are the following: The Constitution of the Kyrgyz Republic (2010 edition); The Law on Education (2012 edition); State standards on Pre-school Education (2012); The Law on Pre-school Education (2009); The Code of the Kyrgyz Republic on Children (2012). In 2012, a number of documents were developed by the MoES to define education policy during the upcoming decade. These are: The Concept of Education Development in the Kyrgyz Republic until 2020; The Education Development Strategy of the Kyrgyz Republic for 2012-2020; Action Plan for Education Development of the Kyrgyz Republic for 2012-2014. The Sustainable Development Strategy for 2013-2017 has clear benchmarks for certain areas of education.

## **III. Prioritised Sector activities requiring development assistance in 2013-2017**

Since 2011, the donor partners (DP) held active consultations with the Government of the Kyrgyz Republic for setting up the main principles and terms of the partnership for coordinating the technical and

<sup>29</sup> MoES, 2012, Education development Strategy 2012-2020 of Kyrgyz Republic (p . 21, I para)

financial support to education sector. As a result, in March 2013 Government of the Kyrgyz Republic endorsed the Joint statement of the Government and Development partners on the subject of Sector Wide Approach in Education (SWAp). This Joint statement (JS) will serve as a common basis for coordination of external aid in the education sector for supporting the implementation of the Action Plan for Education Development (APED) 2012-2014.

Donor partners and the Government of the Kyrgyz Republic, represented by the Ministry of Education and Science and the Agency for Vocational and Technical Education (AVTE) under the Ministry of Youth, Labour and Employment, identified the following priority areas to be supported by external aid: **Management and Administration:** Focus on better management, monitoring, reporting and evaluation of the education system; **Early Childhood Development and Pre-School Education:** Focus on enhanced access to equitable, quality and affordable pre-school education; **School Education (grade 1-4, grade 5-9, grade 10-11):** Focus on better curricula, better teachers, better learning materials and school fit for purpose (the whole school approach); **VET:** Focus on employable and life skills based on standards, assessment and certification within a qualifications framework; **Secondary Professional Education:** Focus on employability and life skills based on standards, assessment and certification within a qualifications framework; **Higher Education:** Focus on supporting integration with the Bologna process and development of PhD education, short cycle within the 1<sup>st</sup> level of Bologna framework, establishment and maintenance of independent quality assurance and accreditation institutions; **Adult Education:** Focus on 2<sup>nd</sup> change education, entrepreneurship and life skills; **Cross Cutting Themes:** Focus on ICT in education, quality in education, innovation in education, equity, inclusive education, gender, safety, multilingual education, optimization of the national school meals programme, self-governance and student participation, etc.

Those areas are presented in the SWAp as a separate matrix reflecting the division of Development partners' (DP) support to the education sector and shall serve as a tool for coordination of DP's involvement in APED implementation.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/Contractor	Implementation period	Amount (in original currency)	Budget support/grant/loan/other	Any other info
European Union	Support to the Education Sector in the Kyrgyz Republic	Government of the KR/Ministry of Finance, Ministry of Education, VET Agency	2013-2015	EUR 17,000,000	Budget support (grant)	Disbursements to be done in 3 instalments in the course of 2013, 2014 and 2015
European Union	Support to the Education Sector in the Kyrgyz Republic	Contractor to be determined upon results of the tender in 2013	2013-2015	EUR 1,600,000	Technical Assistance (grant)	To help the Government to implement and meet the BS triggers
European Union	Support to the Education Sector in the Kyrgyz Republic	NGOs (grantees) to be determined upon results of the Call for Proposals in 2014	2014-2016	EUR 1,000,000	Small Grant Programme for civil society and NGOs	
UNICEF, DfID, Japan, Russia	UNICEF Programme of Cooperation with Government of Kyrgyzstan in Quality Education and Early Childhood Development	Ministry of Education and Science of the Kyrgyz Republic, Local authorities, NGO partners	2012-2013	US\$ 7,700,000	Grant	This two year program is part of 2012- 2016 Country Programme Action Plan and is developed in collaboration with MoES in line with EDS priorities and targets.
UNICEF	UNICEF Programme of Cooperation with Government of Kyrgyzstan in Emergency and Disaster Risk Reduction in Education sector	Ministry of Education and Science of the Kyrgyz Republic, Ministry of Emergency Situations, Local authorities, NGO partners	2012-2013	Approx. US\$ 2,000,000	Grant	This two year program is part of 2012- 2016 Country Programme Action Plan and is developed in collaboration with MoES in line with EDS priorities and targets.
Asian Development Bank	Second Vocational Education and Skills Development Project	Agency for Vocational and Technical Education	2013-2017	US\$ 20,000,000	Grant and Loan	Follow-up for Vocational Education and Skills Development Project (2007-2012, US\$ 10,000,000)
Asian Development Bank	Education Sector Reform Project Preparatory Technical Assistance	ADB	2013	---	Technical Assistance	PPTA
USAID	Quality Reading Project	TBD	2013-2017	TBD	Project implementation (contract)	Under procurement
USAID	American University of Central Asia (AUCA) Move Forward	American University of Central Asia (AUCA)	2010-2013	US\$ 3,000,000	Grant	
USAID	Support to the National Testing	Center for Educational Assessment and	Feb 2013-	US\$ 168,000	Grant	

Kyrgyz Republic High Level Development Conference

	Project	Teaching Methods (CEATM)	Dec 2013			
OSF/Soros Foundation Kyrgyzstan	Secondary school standards and learning materials development	Centre for social integration	Feb 2013 – Dec 2014	US\$ 130,000	Grant	
OSF/Soros Foundation Kyrgyzstan	Higher education support (standards and curriculum development, quality assurance)		Feb 2013 – Dec 2014	US\$ 100,000	Operational	
OSF/Soros Foundation Kyrgyzstan	Academic scholarships for study abroad		Annual	Approx. US\$ 400,000	Operational	
OSF/Soros Foundation Kyrgyzstan	Inclusive education support	Selected through open competition	March 2013 – Dec 2014	US\$ 180,000	Grant	
OSF/Soros Foundation Kyrgyzstan	Education for peace building		2013-2014	US\$ 60,000	Grant	
OSF/Soros Foundation Kyrgyzstan	Early childhood development	Foundation for Education initiatives support	2013 – 2014	US\$ 50,000	Grant	
OSF/Soros Foundation Kyrgyzstan		Multimedia Public foundation	2013	US\$ 50,000	Grant	
UNESCO	Establishment of the CA Resource Center on education for conflict prevention	Ministry of Education Center for Social Integration	March-September 2013	US\$ 15,000	Technical assistance for organization period	

## Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/loan/other	Any other info
European Union	Support to the Education in the Kyrgyz Republic	Government of the KR/Ministry of Finance, Ministry of Education, VET Agency	2016-2020	TBD	Budget Support (grant)	This programme is still at the initial stage: scope of work and budget will be determined upon finalisation of the Programming phase
UNICEF	UNICEF Programme of Cooperation with Government of Kyrgyzstan in Quality Education and Early Childhood Development	Ministry of Education and Science of the Kyrgyz Republic, Local authorities, NGO partners	2014-2016	TBD	Grant	This program is part of 2012- 2016 Country Programme Action Plan. Budget is not determined for 2014-2016
GIZ	Reform of Educational Systems in Central Asia	Ministry of Education and Science of the Kyrgyz Republic, Kyrgyz Academy of Education	2009-2013  2014-2016 under consideration:		Technical Assistance	It is a regional program that works in KG, TJ and TM. The program's goal in KG is to build up capacity to improve education quality of general education (grade 1-11). Main focus is on teacher training, curriculum development and new standards for teacher pre-service training
GIZ	Program of VET and Employment Promotion	Ministry of Youth, Labour and Employment; Ministry of Education	03/ 2009 – 12/2013	-----	----	2013 is the last year of the 1 <sup>st</sup> phase
Asian Development Bank	Education Sector Support Project/Program	Ministry of Education and Science	2014-2019	Ca. US\$ 10,000,000 (TBC)	Loan and Grant	Project scope/ design will be developed under PPTA in 2013
USAID	Improve reading skills for visually impaired & training skills of educators	TBD	2013-2014	TBD	Grant	Under procurement
USAID	American University of Central Asia (AUCA) Move Forward  Support to Career and Counselling Centres	American University of Central Asia (AUCA)	2013-2015	US\$ 2,000,000	Grant	Under procurement
World Bank	Russian Education Aid for	Ministry of Education and Science.	2013 -2014	US\$ 1,650,000	Grant	The project focuses on enhancement of assessment in

	Development (READ)					basic education
World Bank/IDA	Sector Support for Education Reform project.	Ministry of Education and Science.	2013 -2018	US\$ 16,500,000	Credit -9.08 Grant - 7.43	The project is developed to support the EDS and APED 2012-2014
Global Partnership for Education.  (World Bank/ UNICEF)	Global Partnership for Education.	Ministry of Education and Science	2014- 2017	US\$ 12,700,000	Grant	The project is developed in collaboration with the MES to support the EDS
Aga Khan Foundation, Kgz	Early Childhood Education	Mountains Societies Development Support Program in KR (MSDSP KG) Public Foundation	Long term	_____	Grant	Program supports expanded ECD access in the remote areas of Kyrgyzstan through introduction of the alternative models into the preschool system of Kyrgyz Republic
Aga Khan Foundation, Kgz	Reading for Children	Mountains Societies Development Support Program in KR (MSDSP KG) Public Foundation	Long term	_____	Grant	Project works with the communities and local government to promote early reading with children in the families
Aga Khan Foundation, Kgz	Primary School Support	Mountains Societies Development Support Program in KR (MSDSP KG) Public Foundation	Long term	_____	Grant	Project supports smooth transition from preschool to primary school and create effective environment for children in the classrooms. Project is implemented in close collaboration with the local government education departments
United Nations World Food Programme (WFP)	Optimising the primary school meals programme	Project to be led by Inter-ministerial Working Committee on the optimization of the national school meals programme;  Primary partner - Ministry of Education and Science.  NGO and other partners to be identified through tender	2013 -2014	US\$ 4,000,000	Technical assistance and operational support	The project will build national capacity to improve the quality, efficiency and sustainability of the programme. Assistance will focus on supporting the Government to develop a sound policy framework and demonstrate improved implementation modalities that are cost-efficient, transparent and accountable, through a small pilot project

## Gender Policy

### I. Challenges facing the Sector:

Kyrgyzstan was able to achieve important, positive results towards gender equality over the past two decades with the help of international partners. The Kyrgyz Republic ratified the Convention on Elimination of all forms of Discrimination against Women (CEDAW), joined the Beijing Platform, signed the Millennium Declaration, and ratified a number of important international conventions. In June 2012, the National Strategy of the Kyrgyz Republic on gender equality was approved, and this is the country's first long-term document in the area of gender balance. Consistent with the Law of the Kyrgyz Republic "On state guarantees of equal rights and opportunities for men and women", the National Gender Council was created under the Kyrgyz Government by the governmental decree # 268 of 2 May 2012 as a body which is coordinating development and implementation of the state gender policy.

There are requirements in the election legislation about quotas for women, youth and ethnic minorities. Likewise, civil and gender activists defended provisions in the 2010 Constitution about the secular and social nature of the state. A number of changes have been introduced in legislation, including the Law of the Kyrgyz Republic "On Social and Legal Protection from Domestic Violence." Mechanisms for mandatory gender evaluation regarding all draft regulations and programs were developed. A National Action Plan was approved that deals with the implementation of UN Security Council resolutions # 1325 (2000) and 1820 (2008) on participation of women at all the levels of decision-making on prevention, regulation and resolution of conflicts.

The National Action Plan to implement the National Strategy on Gender Equality for the period of 2012-2014 (hereafter referred to as the "NAP 2012-2014") was developed and approved in mid-2012. For the first time in Kyrgyzstan a methodology for estimating the NAP budget was developed, with the support of UN Women, and a detailed NAP budget for 2012-2014 calculated, amounting to US\$ 10.4 million.

However, in spite of the progress in promoting gender equality and women's rights, many challenges still remain. Over the years of democratization, Kyrgyzstan provided regulatory and legal support for the concept of gender equality, but the actual implementation of the adopted rules and commitments remains problematic. The majority of gender equality policies, adopted during the Soviet past, are not working anymore. These include affirmative efforts for promotion of women's careers, social benefits in support of motherhood, and adequate social and educational infrastructure that allow women to develop their economic activity and security. At the same time, the burden on women in the area of family responsibility, and the upbringing and education of children, has increased significantly.

The problem of violence against girls and women remains acute; the number of cases of polygamy is increasing as well as the early marriage and bride kidnapping. Trafficking of women for labor and sexual exploitation has increased. Limited numbers of public kindergartens and nurseries, and reduction of women's jobs, have abruptly narrowed women's economic opportunities. Women's employment mainly in the informal sector of the economy cut them off from access to social services and benefits. Dominance of women among low-paid and low-prestige employees leads to a widening gap between the average male and female wages in Kyrgyzstan. Lower life expectancy of men, types of gender-specific diseases, and high maternal and infant mortality rates are increasingly becoming the subject of public concern.

The main challenge facing implementation of the country's international commitments on the subject of gender is that, despite repeated attempts to incorporate a gender dimension into different country development strategies, Gender Mainstreaming (GM) has not yet fully become part of the methodology of formation and development of key strategic documents. Consequently, an inventory of public services, their content and impact on taxpayers of different gender and new methodologies for developing strategic documents on gender equality are required. Departmental policies in different sectors should be reviewed for their gender sensitivity. There is also a need to harmonise the country and sectoral gender programs

with references to the budget cycle. Today, the annual budget of the Kyrgyz Republic is compiled on the principle of traditional line item budgeting and the allocated financial resources do not fully strengthen the human and social capital.

Another major challenge is a weak coordination in the exchange of information, not only in dealing with gender statistics, but also in working on gender issues in various institutions. As a consequence, pressing issues such as migration, shadow employment, and the relation of education to the labor market from the perspective of gender, do not find adequate solutions. This situation is largely due to the weakness of institutional mechanism to promote gender equality. Also, the mass media is not paying due attention to the need for correct interpretation for the public at large of the related terminology, such as, for instance, “gender equality”, “gender balance”, etc.

Consequently, the current key problems in the area of gender equality are:

1. Weakness of institutional mechanism and lack of coordination in implementation of gender policy at national, territorial and sectoral levels.
2. Economic dependency and vulnerability of women, caused by uneven distribution of reproductive and family burden, along with an imbalanced labor market in which women prevail in the informal economy and low paid spheres of production, service and trade.
3. Absence of a system of functional education, that would enable women to attain needed life skills, leads to increasing imbalance and reducing quality of life, including in the area of health, education and chances of professional development.
4. Presence of gender discrimination and limited access to justice, influence of gender stereotypes.
5. Absence of gender parity in the sphere of political participation at all levels of decision-making.
6. Lack of social services for girls, women, boys and men, subjected to violence (sexual, domestic, etc.).
7. Weak and non-systemic coverage of gender issues by mass media.

## **II. Summary of Government Strategies and Programmes for the periods 2010- 2012 and 2013-2017**

Commitment of the country to resolve gender inequalities is proven by the approval of specialised National Programs. The foundation for the institutionalization of gender policy was laid in the first phase (1996-2000) during implementation of the National Program "Ayalzat," based on directions of the Beijing Platform of actions, and focused on improvement of the situation of women. The cost for implementation of the Program was for the first time included in the National Budget; the responsibility for its execution was delegated to ministries, agencies, local state administrations and self-governance bodies. The level of women’s representation in the Parliament and in the Government has since then increased.

The National Action Plan on Gender Equality in the Kyrgyz Republic for the years 2002-2006 became a second stage in the implementation of the National Gender Agenda, and was focused on developing a policy on gender equality. For the years 2007-2010, also a second National Action Plan on Gender Equality in the Kyrgyz Republic was adopted as a fundamental policy document, which defined National gender policy, its goals, tasks and principles, areas and priorities.

The medium-term development program of the Kyrgyz Republic for 2012-2014, in Section VIII “Social Development and Poverty Reduction Policy”, includes the chapter on “Gender Equality Policy” which specified as its main goals promotion of gender initiatives through institutional strengthening, financing activities of gender policy and integration of the gender equality policy with national, sectoral and regional strategic documents.

The Statement of the Government of 27 June 2012 approved both the National Strategy of the Kyrgyz Republic on Gender Equality until 2020 and the NAP 2012-2014. The same Statement approved a Matrix of key indicators for monitoring and evaluating results of implementation of the NAP 2012-2014.

The National Strategy on sustainable development of the Kyrgyz Republic for 2013-2017, approved by Presidential Decree, also emphasized the increasing role of family and gender equality as important factors for the development of the country, through:

- Economic empowerment of women through attaining non-traditional women's occupations in the labor market and support of women's entrepreneurship;
- Reducing violence against women, and reducing the rate of early and forced marriages;
- Support of fathers and mothers in performing their parental functions, creating an environment enabling the combination of career and family responsibilities.

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

Successful implementation of the National Strategy of the Kyrgyz Republic on achieving gender equality by 2020 greatly depends on how goals and tasks will be prioritized and executed, especially on whether it will be possible to realise the vision of the NAP 2012-2014 with a budget of US\$ 10.4 million. At present, the principal funds allocated to the NAP 2012-2014 are from the state budget, planned in the medium-term budget for 2012-2014 within the wages of public servants involved in implementation of concrete measures of the NAP 2012-2014. These resources comprise about 10.2 % of the entire budget of the NAP 2012-2014. The financial gap is therefore 89.8 % and no additional funding from the state budget is envisaged. Consequently, the priority task at this stage is to harmonise cooperation of the Kyrgyz Republic, donors and international organisations working in the sector of gender policy.

Given the limited budgetary resources, the program budgeting could become an effective tool for the rational use of budgetary resources to priority programs of the Kyrgyz Republic. However, work that was started in this direction in 1997 has not yet achieved any proper results. Only a limited number of line ministries know the methodology of budgeting on a program basis, and this methodology was not applied at the local level. In addition, existing methodologies cover only budgetary sources of financing sectoral programs, not including extra-budgetary sources of funding for the national, sectoral and local development programs, including resources of donor organizations actually promoting the development of the country, including promotion of gender equality policy.

The NAP 2012-2014 includes the following priorities: (1) economic empowerment of women; (2) development of the functional education system; (3) elimination of discrimination and extension of access towards justice; (4) promotion of gender parity in making decisions and extension of women's political participation; (5) regulatory policy. However, the biggest financial gap exists over the priority (2) – development of the system for functional education (96%) and priority (3) – elimination of discrimination and extension of access to justice (93.9%).

The priority area for achieving gender equality for the next five years will be economic and social empowerment of women, especially in rural areas. More focused attention is necessary to development of women's entrepreneurship, and this fits the tasks specified in the NAP 2012-2014, as well as in the National Strategy for Sustainable Development for the period until 2017. Institutional and infrastructure support of women in the entrepreneurial sphere enables an increase in the employment level of women by generation of workstations, reduction of unemployment and increase in GDP.

The educational sphere plays one of the key roles in gender balance. A system of functional education, aimed at improvement of life knowledge and skills in general, related to health issues, upbringing of children or possibilities for political participation, is a necessity at the present time. Reproductive health of women and men, parenting, women's leadership and political participation of women are priority areas for strengthening functional knowledge and skills. Therefore, gender mainstreaming in the projects for reforming secondary and primary vocational education will help to reduce segregation in the labor market through the diversification of male and female employment.

Access to justice and the fight against violence and discrimination remain immediate priorities in the gender area. The increasing influence of religious and patriarchal culture, difficulties in the actual implementation of protection of violated women's rights, corruption, and low gender sensitivity of public servants, particularly of law enforcement agencies, make the problem of eliminating discrimination and violence extremely difficult. Strengthening legal and institutional mechanisms for access to justice, improving a system for provision of assistance to victims of violence, development of a culture of zero tolerance to discrimination and violence, are still high priority tasks that must be achieved to resolve problems in this area.

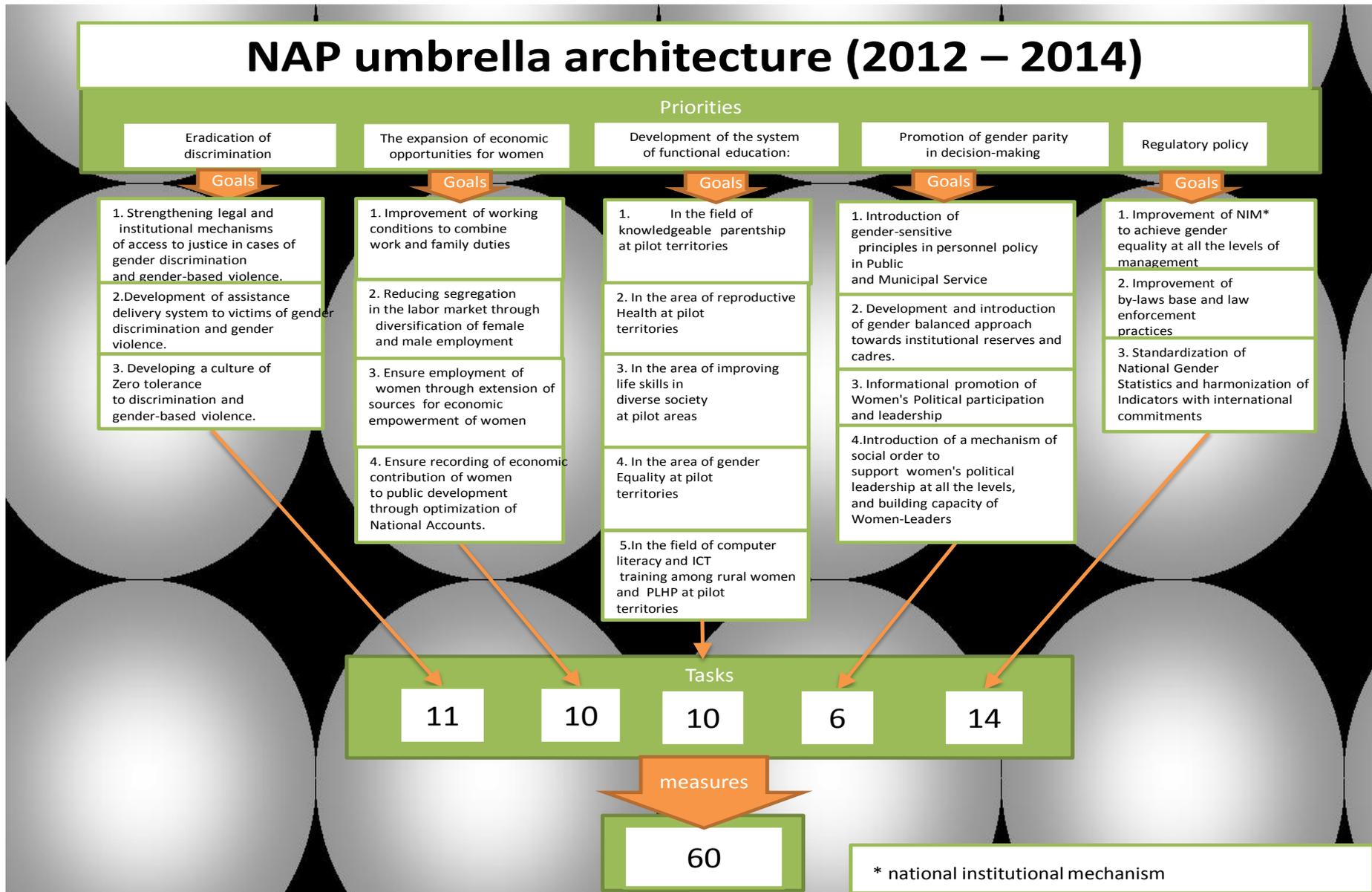
Development and application of the system of institutional protection of girls' and women's rights in conflict and emergency situations, enhancing the role of women in the sphere of strengthening peace and security, as well as in processes of decision-making in emergency situations, are still high on the list of priorities for gender equality and security.

To address the most acute problems and gaps in realisation of rights and possibilities among women and men at the level of state policy, it is necessary to improve gender statistics. At the present time, the bulk of the database of the National Statistical Committee of the Kyrgyz Republic is gender disaggregated. At the same time, certain coefficients (for example, the Gini coefficient) stop being fixed and their trends are lost. Improving gender statistics is important for the prevention of domestic violence, for a timely response to emergency situations.

Also, the following issues need to be included, as priorities, in the forthcoming agricultural census (planned for 2014): economic contributions of women in social production and development; market and non-market activities of women; their employment in the informal economy, household work; introduction of gender indicators.

Finally, it is necessary to introduce mandatory gender-sensitive approaches towards development and realisation of all the development programs.

The annexes to this paper report only on the financial gaps of the NAP 2012- 2014 because it proved impossible to give a realistic picture that would capture all contributions from development partners in the area of Gender/Women empowerment through their various programs.



Priorities	Requirement						Possibility						Financial Gap		Gap, %
	Total		From the State Budget		From other sources		Total		From the State Budget		From other sources		Total		
	Mln. Soms	Mln. USD	Mln. Soms	Mln. USD	Mln. Soms	Mln. USD	Mln Soms	Mln. USD	Mln. Soms	Mln. USD	Mln. Soms	Mln. USD	Mln. Soms	Mln. USD	
<b>Total for the NAP</b>	<b>490,5</b>	<b>10,4</b>	<b>38,4</b>	<b>0,8</b>	<b>452,04</b>	<b>9,6</b>	<b>38,4</b>	<b>0,8</b>	<b>38,4</b>	<b>0,8</b>	<b>0,0</b>	<b>0,0</b>	<b>452,04</b>	<b>9,6</b>	<b>89,8</b>
I. Women Empowerment	108,1	2,3	10,6	0,2	97,5	2,1	10,6	0,2	10,6	0,2	0,0	0,0	97,5	2,1	82,4
II. Development of the Functional Education System	139,4	3,0	5,9	0,1	133,6	2,8	5,9	0,1	5,9	0,1	0,0	0,0	133,6	2,8	96,0
III. Eradication of discrimination and extension of access to justice	148,1	3,2	8,2	0,2	139,9	3,0	8,2	0,2	8,2	0,2	0,0	0,0	139,9	3,0	93,9
IV. Promotion of Gender Parity in decision making and expanding women's political participation	34,8	0,7	5,0	0,1	29,8	0,6	5,0	0,1	5,0	0,1	0,0	0,0	29,8	0,6	69,3
V. Regulatory Policy	60,0	1,3	8,7	0,2	51,3	1,1	8,7	0,2	8,7	0,2	0,0	0,0	51,3	1,1	89,8

## Financial Sector

### I. Challenges facing the Sector:

The Kyrgyz economy remains largely cash-based with a relatively low level of banking sector intermediation. The banking system remains small with an assets-to-GDP in the size of 29%<sup>30</sup> (or 35 per cent including the non-banking microfinance sector). The 2010 crisis negatively affected confidence but the timely measures which were taken by the state authorities, as well as by the financial credit institutions, have helped to overcome the development of crisis and prevented a systemic breakdown. As a result, the trust in the financial sector is on the mend.

Currently there are 23 commercial banks operating in the country, 11 of which are to some extent foreign-owned and account for 55% of the total banking system's assets. There is insufficient genuine competition among banks due to the significant involvement of the state. More competition would lead to better financial services, lower tariffs and lower interest rates on banking products.

On the positive side, the banking legislation is relatively well developed and is expected to be further strengthened, including, *inter alia*, by adopting the Banking Code. Changes to the taxation system now enable leasing transactions. A basic bank deposit protection system is in place, but it needs further development and support both in terms of technical assistance and capital. MFI sector has also been developing dynamically. Microfinance is an important part of the financial market and is represented by 503<sup>31</sup> microfinance organizations (MFOs), credit unions, specialized finance and credit institutions with the market share of over 28%<sup>32</sup> in total lending in the country, also covering remote areas. Recently, one of the largest MFOs was able to transform into a bank, which is a first example of such transformation in Central Asia. Further development of microfinance sector, especially targeting the agricultural production and processing potential in the rural and remote areas, would give a new impetus for the economic growth of the country; as, access to affordable and customized finance still remains an issue in the remote regions.

Governance and regulation of the Bank sector remains an issue. The larger banks and MFOs have started implementing responsible lending practices, encouraged by the National Bank of Kyrgyz Republic (NBKR), donors and investors. To continue improvements in governance of the Bank and Financial sector, it is recommended that an Office of the Financial Ombudsman be established.

Another important issue which will need to be addressed in the Kyrgyz financial market is finding adequate, market-based means to lower the interest rates; which could be tackled by lowering operational costs of the institutions, and undertaking other similar measures. Furthermore, the collection practices on behalf of the lending institutions, i.e. MFOs and banks, should be more transparent and fair.

Dollarization remains high, with foreign currency shares in deposits and loans amounting to 49 and 54 per cent, respectively, while hedging markets are virtually non-existent. This reduces the effectiveness of monetary policy, and increases indirect credit risk, particularly when un-hedged borrowers are forced to borrow in foreign currency. Specifically, the country suffers from high reliance on predominantly expensive short-term funding in foreign currency. In order to mitigate these risks, some of the donors and investors have started to disburse funding in the local currency (Som), however, the cost of local currency funding remains very high. There is a draft law on Microfinance already approved by the Parliament and

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<sup>30</sup> Source: National Bank of Kyrgyzstan, 31 December 2012.

<sup>31</sup> Source: National Bank of Kyrgyzstan, 31 December 2012.

<sup>32</sup> Source: National Bank of Kyrgyzstan, 31 December 2012.

signed by the President which opens up a wider spectrum of operations for the MFIs, including allowing them better hedging opportunities.

The Presidential document, “*National Sustainable Development Strategy of the Kyrgyzstan Republic for 2013-2017*” (NSDS) highlights the following key problems that the financial system is currently facing:

- low public confidence in the banking system, partly due to poor financial literacy of consumers;
- low quality of management and internal control and audit in commercial banks;
- low protection of interests and rights of commercial banks and other finance and credit institutions as creditors;
- lack of opportunities to effectively apply the legislated penalties by the banking supervision system due to difficulties arising in the course of court proceedings;
- underdevelopment of the early identification system for, and prompt resolution of, problems emerging in commercial banks;
- incumbent non-bank financial market (in, insurance, securities market, and pension funds);

In the years ahead, the main challenges in the banking and in the non-bank microfinance sectors are, to:

- increase confidence in the system, strengthen and deepen the sector, so as to better intermediate between savings and loans
- enhance the culture of savings among the rural population through financial literacy and other means, while including the non-banking credit institutions into the deposit protection system;
- broaden the access to financial services in the remote areas of the country, including raising the level of financial literacy;
- strengthen the financial sector stability through better transparency and market discipline, and to provide a level playing field to the banking and non-bank microfinance sector through improved supervision in conformity with the international standards and best practices;
- strengthen the independence of the National Bank;
- improve the overall risk management capability within the system in order to prevent systemic crises,
- improve risk management, internal control and audit of the financial institutions, as part of the overall improvement of the financial sector corporate governance system;
- improve the market discipline by enhancing reporting standards, as well as the standards of transparency and reliability of the financial institutions;
- reduce dollarization and develop local currency capital markets so as to bring down systemic currency and counterparty risks in the financial sector;
- improve the institutional capabilities and framework conditions so that the creditors in the financial sector would become more active and less risk-averse;
- reform and strengthen the credit bureau and mandatory credit information sharing<sup>33</sup>;
- improve collateral registration system;
- support competition in the financial sector in order to,
  - improve quality and expand the spectrum of financial services, including standardized financial products,
  - increase efficiency of the financial sector regarding excess liquidity, high overhead expenses, economies of scale, risks diversification, instruments assessing solvency (leading to lower cost of financial services and helping to reduce the interest rates);

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<sup>33</sup> To this effect, the National Bank has already introduced a draft law on mandatory credit information sharing into the Parliament. Reforming a credit bureau and making its information reliable, accurate and timely would reduce overall risks in the Financial Sector and improve efficiency of financial institutions, as well as central bank supervision. With the purpose of improving supervision on credit risk assessment and in order to prevent over-indebtedness in the sector, the National Bank is implementing, within the framework of developing an automated “Unified reporting system”, a module on creation and implementation of the credit registry.

- improve consumer protection framework conditions, including disclosure standards, business conduct regulation, and dispute resolution mechanisms (such as establishing an Office of Financial Ombudsman) and to improve financial literacy to reduce risks in the financial system;
- improve public relations and communication of financial services provided by commercial financial institutions to the population in order to prevent misunderstandings and negative image;
- conduct various types of research, to help identify bottlenecks and the decisions required for increasing transparency and efficiency of the work of financial institutions;
- conduct various types of research and also to involve local researchers in order to study the impact of programmes/initiatives, including the ones from the state, upon the financial market;
- protect the integrity of private property.

## **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

The NSDS sets the following strategic objectives for Financial Sector development for the next 5 years:

- Strengthening the stability of the sector;
- Improving quality of and increasing access to banking services including in the remote areas;
- Creating conditions for dynamic growth in the sector, and increasing financial intermediation;
- Ensuring effectiveness, safety and reliability of banking sector;
- Increasing transparency through information disclosure requirements;
- Increasing the market of non-cash payments and settlements;
- Strengthening creditors' rights and increasing financial literacy and awareness of financial system clients.

These objectives are to be achieved through the following anticipated actions.

### Banking Sector:

- Increase volumes and access to loans and financial service, especially in the remote regions, by:
  - a. Further development of banking market including using Islamic Finance principles;
  - b. Amending legislation to facilitate collateral registration;
  - c. Creation of conditions for attraction of long-term and lower cost financing, including creation and development of the financial institutions with long-term resources (insurance, investment companies, pension funds and other participants of the financial market);
  - d. Improvement of investment climate in the banking sector, including fiscal incentives;
  - e. Creation of conditions for development of leasing and mortgage finance.
- Improve trust in the banking sector and increase savings by:
  - a. Strengthening deposit guarantee system;
  - b. Strengthening supervision functions of NBKR and its harmonization with Basel Committee requirements;
  - c. Improvement to the legislative framework;
  - d. Improving transparency, corporate governance, risk management and internal controls at the commercial banks;
  - e. Improving Anti Money Laundering and terrorism financing prevention systems;
  - f. Strengthening market discipline and ensuring fair competition.

Currently the NBKR is working on the Banking Code which is envisaged to set the legislative framework and basis for banks and banking activities, define hierarchy of the regulative documents and co-relation with the civil law to ensure harmonisation and consistency. Work on the Banking Code is progressing,

although slower than anticipated, and its submission to the government is expected by the end of April 2013 and to Parliament by the end of September 2013.

Microfinance Sector:

- Establish appropriate legal and regulatory environment for the Microfinance Sector, improve the effectiveness of state supervision and simultaneously ensure non-intervention by the state in market processes;
- Expand deposit taking capacity of MFOs by (i) allowing acceptance of demand deposits, which are particularly needed by women, to prepare the ground for MFOs to enter into agency relationship with banks and mobile phone operators, (ii) develop a pricing model for MFO deposits to be covered by the deposit protection agency, and (iii) develop an action plan to integrate qualified MFOs into the national payment system;
- Improve financial literacy of the population;
- Simplify registration process to attract new investors and companies;
- Expand the range of financial services offered by the sector;
- Encourage mobilisation of internal financial resources;
- Create conditions for possible transformation of MFOs into institutions with a larger range of services;
- Create deposit insurance schemes for the Sector;
- Strengthen and improve quality of credit bureau(s);
- Ensure protection of customers' rights, including through implementation of responsible lending practices.

In 2012, the Government has approved the Kyrgyz Republic Microfinance Sector Development Strategy for 2011-2015 which defines strategic priorities and a detailed action plan for the strategy implementation. The key strategic priorities set in this document have been included in the NSDS.

Insurance Sector:

- (i) Improve legislative and regulatory framework;
- (ii) Establish an institute of actuaries within the country;
- (iii) Strengthen financial supervision of the sector;
- (iv) Revise the types of compulsory insurance;
- (v) Encourage sector consolidation, including through capital increase requirements;
- (vi) Provide incentives to develop re-insurance system within the country.

Pension and Capital Market:

- (i) Develop legislation on voluntary pension funds and ensure protection of pension savings;
- (ii) Adopt legal and normative acts to support mortgage financing, issue of municipal securities, issue of securities under Islamic Financing principles;
- (iii) Develop conditions for issue of long-term state securities to finance strategic sectors of economy;
- (iv) Develop local capital markets.

### III. Prioritised Sector activities requiring development assistance in 2013-2017

Challenge	Strategies/ Activities	On-going and further activities requiring assistance in 2013-2017	Rationale/ justification
Financial sector stability.	NSDS, Microfinance Strategy, Banking strategy, Poverty Reduction Strategy paper for 2012 - 2014	<ul style="list-style-type: none"> <li>Enhanced bank and non-bank supervision.</li> <li>Market discipline through disclosure.</li> <li>Coordination council for Microfinance.</li> <li>Creation of credit registry.</li> <li>Enhancing capacity of the NBKR.</li> </ul>	<ul style="list-style-type: none"> <li>The NBKR needs assistance to improve its supervisory capacity.</li> <li>It makes sense to provide incentives to adhere to better disclosure practices.</li> <li>Coordination Council needs to be supported financially since it's a forum to discuss, and wherever possible, steer the development of microfinance sector.</li> <li>Credit registry will help to assess and manage credit risks, incl. the level of over-indebtedness of subjects in the Kyrgyz Republic.</li> <li>NBKR independence needs to be strengthened.</li> </ul>
Customer protection and financial literacy need to be taken to a higher level.	NSDS, Microfinance Strategy, Banking strategy, Poverty Reduction Strategy paper for 2012 - 2014	<ul style="list-style-type: none"> <li>Programs on improving financial literacy by the NBKR and donor organizations.</li> <li>Development of the national concept on financial literacy.</li> <li>Development of institutional and legislative framework conditions for customer protection (for example, introduction of Financial Ombudsman).</li> <li>Increase the transparency of interest rate calculation by providing borrowers with information about effective interest rates.</li> <li>Implementing fair collection practices by the financial institutions.</li> </ul>	<ul style="list-style-type: none"> <li>People of Kyrgyzstan need to be better educated about financial products: loans, deposits, etc.</li> <li>To distance financial sector disputes from politics could have a positive demonstrative effect.</li> <li>Customer protection would be encouraged, risk of aversion of creditors and borrowers reduced.</li> <li>Loan officers need to be trained in fair and transparent collection practices, especially in the remote regions.</li> <li>Many customers don't understand well the nuances of banking/microfinance and it is necessary to protect their customer rights by legislation.</li> </ul>
Weak credit information environment leading to excessive multiple lending, parallel loans.	NSDS, Microfinance Strategy, Banking strategy, Poverty Reduction Strategy paper for 2012 - 2014	<ul style="list-style-type: none"> <li>Development of legal and regulative framework.</li> <li>Strengthening the capacity of the credit bureau.</li> </ul>	<ul style="list-style-type: none"> <li>Transparent and reliable system of credit information reduces credit risk and increases access to finance.</li> <li>Issue of credit bureau transformation is now considered while reliable data allows estimate the debt service of population and risks in the sector.</li> </ul>
Promotion of new financial products.	NSDS, Microfinance Strategy, Banking strategy, Poverty Reduction Strategy paper for 2012 - 2014	<ul style="list-style-type: none"> <li>Savings, deposits.</li> <li>Mobile banking.</li> <li>Islamic banking products.</li> <li>Hedging instruments.</li> <li>Leasing.</li> <li>Micro-insurance.</li> <li>Agency banking.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce dependency on borrowed funds.</li> <li>Would help to reduce operational costs.</li> <li>Particular need of Islamic banking and microfinance in southern Kyrgyzstan.</li> <li>Reduce FX risks in the financial system.</li> <li>Expand the range of services by the financial institutions to their customers.</li> </ul>

Unavailability of long-term funding, lack of funding in KGS, high cost of resources.	NSDS, Microfinance Strategy, Banking strategy, Poverty Reduction Strategy paper for 2012 - 2014	<ul style="list-style-type: none"> <li>• Develop local capital market.</li> <li>• Develop the insurance sector/companies and pension funds.</li> <li>• Develop hedging mechanism for microfinance sector.</li> <li>• Provision of funds in local currency by some donors/investors.</li> </ul>	<ul style="list-style-type: none"> <li>• Insurance companies and pension funds serve both economic and social purposes.</li> <li>• Mitigate FX risks, aim to further reduce the cost of the resources, reduce risks for the end borrowers.</li> <li>• Mobilise internal capital resources to be deployed into financial and other markets.</li> </ul>
Weak system of movable collateral registry.	Microfinance strategy, banking strategy	<ul style="list-style-type: none"> <li>• Develop framework legislation.</li> <li>• Strengthen the capacities of Central Pledge office.</li> </ul>	<ul style="list-style-type: none"> <li>• Better registration of the collateral will contribute to the lowering of credit risks and increase access to the finance.</li> <li>• Easy access to the reliable data base of the pledged property will contribute to lowering the level of fraud on purchase and sale transactions.</li> </ul>

#### IV. Sector development assistance already confirmed or under consideration for 2013-2017

##### Sector development assistance already confirmed:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (original currency)	Budget support/ grant/loan/other	Any other info
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Multi-Donor Trust Fund for Capacity Building in Public Finance Management Reform in the Kyrgyz Republic: focus on reform of the Kyrgyz PFM system.	Government of the Kyrgyz Republic (through Ministry of Finance of KR)/World Bank as an administrator of Trust Fund	2010-2013, with possible extension up to end 2014	Overall budget: US\$ 7,000,000  Swiss contribution: US\$ 570,000	grant	Co-donors: DfID (UK) SIDA (Sweden) EU
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Technical Assistance in Financial Programming / macroeconomic analysis and forecasting: supports financial programming; macro-economic and revenue forecasts; manual on financial programming; capacity building.	Swiss Consultant (Benedikt Braumann GmbH)	2013-2016 (3-phase)	Overall budget: CHF 3,000,000  For Kyrgyzstan only: about CHF 750,000	grant	Follow-up technical assistance in financial programming for government agencies in-charge of macroeconomic analysis and forecast in Kyrgyzstan, Azerbaijan, Vietnam and Ghana with an increased scope.
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Technical Assistance to NBKR in drafting Banking Code: supports International Consultant at NBKR who assists in drafting the Banking Code that contains best international finance and banking practices.	International Monetary Fund (IMF)/  Mr. Kazimieras Zaveckas (Consultant)	2012-2013, with possible extension to 2014	US\$ 450,000	grant	TA project is financed from SECO-IMF sub-account under Letter of Understanding East.
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Co-financing Programmatic Expenditure Review (PER) to be conducted by WB: supports the Kyrgyz government in fiscal consolidation, debt sustainability, efficiency of public expenditures.	World Bank	Dec. 2012 – Aug. 2013	Overall Budget: US\$ 635,000  Swiss contribution: US\$ 220,000	grant	TA project is co-financed with DfID (US\$ 415,000) and implemented by WB
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Azerbaijan-Central Asia Financial Markets Infrastructure Advisory Services Project (project area - Central Asia and Azerbaijan): strengthens financial markets in Azerbaijan, Kyrgyzstan, Tajikistan, and Uzbekistan.	International Finance Corporation (IFC)	01.10.2012 -30.09.2015 (phase II)	Overall budget: US\$ 4,200,000	grant	

Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Kyrgyzstan Housing Microfinance Advisory Services Project: focus on housing through innovative micro-finance scheme at local FIs, enabling them to provide home improvements finance to low-income residents.	International Finance Corporation (IFC)	2012-2015	Overall budget: US\$ 1,200,000  Swiss contribution: US\$ 1,000,000	grant	
OeEB, NIPP (Netherlands and IFC Partnership), SECO (Switzerland)	Central Asia Advisory Services Project for Transformation of Microfinance Institutions.	International Finance Corporation (IFC)	2009-2015	US\$ 895,000	Grant	The Project supports microfinance Institutions (MFIs) based in Azerbaijan, Tajikistan, Kyrgyzstan, Kazakhstan in their transformation processes.
KfW Development Bank	Housing Finance Program.	Ministry of Finance	2013- 2015	EUR 8,000,000 ( 7,5 mln investment, 0.5 mln technical assistance)	loan	Finances 3 Partner FIs for access to loans for housing purchase, construction, renovation.
KfW Development Bank	Rural Finance Program.	Ministry of Finance	2013 – 2016	EUR 12,000,000 (11 mln investment, 1 mln TA)	grant	Financing, via Partner FIs, the micro & small business in rural areas, incl. a wholesale lender.
KfW Development Bank	New credit line “Green Economy”.	Ministry of Finance	tbd	EUR 8,000,000		Concept still to be determined.
EBRD	Kyrgyzstan Sustainable Energy Financing Facility (KyrSEFF).	EBRD + consultant GFA	2013 - end 2016	US\$ 20,000,000	Credit lines + Technical assistance	Loans to EBRD’s partner banks & “MFIs” up to US\$ 20,000,000.
EBRD	Support of local banks and MFIs under Kyrgyz Financial sector Framework (KFSF).	EBRD +consultant Grontmij	2007 till full utilisation of funds under the framework	US\$ 13,000,000 available out of US\$ 40,000,000 approved	Bonds investments, credit guarantees, TFP + technical assistance debt/equity transactions.	Multi-client, multi-product framework for FIs to strengthen the sector by addressing gaps & promoting best practice.
EBRD	Support of local MFI sector under regional ETC non-bank MFI framework IV.	EBRD	2013 till full utilisation of funds under the framework	Depends on various factors, e.g. demand, MFIs limits. For 2013 US\$ 6,000,000 planned.	Credit lines	Credit lines for EBRD partner MFIs to support local MSEs.
EBRD	Mobile money regional study.	EBRD + consultant Bearing Point	Sep 2012 – Dec 2012	Total Regional project: EUR 275,000	Technical assistance	Develop financial infrastructure to improve financial access.
EBRD	Regional Project – Assistance with Deposit Insurance in Kyrgyz Republic, Mongolia and Tajikistan.	EBRD + consultant A2F consulting	2011 – May 2013	Total project: EUR 450,000	Technical assistance	Strengthen Deposit Protection Agency, develop comprehensive pay-outs, institution-building.
EBRD	EBRD Local Currency and Local Capital Markets Initiative.	EBRD + consultant OGR	2013 - 2014	EUR 105,000	Technical assistance	Helping local capital market by enhancing capacity of the central banks to better control inflation.
EBRD	EBRD Local Currency and Local Capital Markets Initiative.	EBRD + business consultant + legal consultant Latham & Watkins LLP (Moscow)	2012-2013	EUR 70,000 (business consultant) plus US\$ 30,000 (Latham & Watkins LLP)	Technical assistance	Help bond market by a pilot local currency corporate bond issue, resolve investment policy constraints.

Asian Development Bank	Investment Climate Improvement Program, subprogram 3 (ICIP SP3).	MOE	Started in November 2012	US\$ 20,000,000	Budget support	Includes policy reforms to improve access to finance. Policy dialogue with GoKR and the NBKR
Asian Development Bank	Technical assistance for implementation of ICIP SP3.	MOE	November 2012 – May 2014	US\$ 150,000 (financial sector component)	Grant	Help to NBKR in risk-based regulation and supervision of microfinance service providers.
Asian Development Bank	Women's Entrepreneurship Development Project.	MOE	2013-2016	US\$ 1,500,000	Grant	Microfinance
Asian Development Bank	Loan to KICB for SME Finance.	n.a.	2012-2014	US\$ 20,000,000	Non-sovereign loan	<a href="http://www.adb.org/projects/45910-014/main">www.adb.org/projects/45910-014/main</a>
GIZ	Programme on Sustainable Economic Development/NaWi, Component 4.	Financial Company of Credit Unions	2013-2015	Complete budget of NaWi is EUR 5,000,000	Technical Assistance	Component 4: Building up a sustainable Credit Union system.

### Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (original currency)	Budget support/ grant/loan/other	Any other info
World Bank (International Development Association)	Financial Sector Development Project (FSDP) to enhance financial sector stability and increase access to financial services.	Ministry of Finance; Component 1: NBKR; Component 2: Kyrgyz Post State Enterprise (KPO); Component 3: Central Collateral Registration Office (CCRO)	2013-2018	Overall Budget: US\$ 8,850,000	IDA Grant and Credit	Currently is under approval by the Board of Directors of the World Bank.
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Technical Assistance in parallel with the Financial Sector Development Project (Component 1) to improve legal & regulatory framework for the banking sector and to increase capacity of the NBKR.	World Bank	2013-2018	Swiss contribution: US\$ 1,000,000	grant	Project under approval.
Government of the Swiss Confederation (Swiss State Secretariat for Economic Affairs)	Technical Assistance to Financial Intelligence Service of KR on Anti-money Laundering and Combating Financing Terrorism (AML/CFT).	International Monetary Fund HQ	2013-2015 (?)	tbd	grant	TA through Topical Trust Fund on AML/CFT managed by IMF and co-financed by SECO along with other donors.

Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Central Asia Microfinance TA project: to improve access to finance for lower-income and rural population by sustainable micro-finance services in Kyrgyzstan, Tajikistan, Azerbaijan, Kazakhstan.	International Finance Corporation (IFC)	2013-2015	Overall budget: US\$ 4,000,000	grant	
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Central Asia agri-finance TA Project: to support sustainable agricultural sectors in Central Asian countries by improving capacity of financial institutions servicing agricultural sector participants.	International Finance Corporation (IFC)	2013-2017	Overall budget: US\$ 5,500,000	grant	US\$ 2,000,000 co-funded by Austria
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Strengthening the Financial System: building-up on the lessons learned to conduct outreach, raise risk awareness and risk management, and increase capacities of FIs in SME-Banking.	International Finance Corporation (IFC)	2013-2015	Overall budget: US\$ 4,600,000	grant	
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	SME Resilience TA project: to build capacity of FIs so that they are in a position to provide non-financial services to small and medium size companies in selected countries to become more resilient to crisis.	International Finance Corporation (IFC)	2013-2015	Overall budget: US\$ 2,200,000	grant	
Eurasian Development Bank	Loan to OJSC "Halyk Bank Kyrgyzstan"	Eurasian Development Bank	5 years	US\$ 5,000,000	Loan	Financial support of SMEs
Eurasian Development Bank	Loan to OJSC "Ayil Bank"	Eurasian Development Bank	5 years	US\$ 6,000,000	Loan	Development of leasing operations
Eurasian Development Bank (EurAsEC Anticrisis Fund)	Loan to OJSC "Ayil Bank" through Ministry of Finance of KR	Eurasian Development Bank	20 years	US\$ 20,000,000	Loan	Development of leasing operations in Kyrgyzstan's agriculture
Asian Development Bank	TA Project for PPP facility	Ministry of Economy	2013	US\$ 2,000,000	TA Project	

Asian Development Bank	Investment Climate Improvement Program, Subprogram 3	Ministry of Economy	2013	US\$ 20,000,000	Program grant	
Asian Development Bank	Support to High Level Forum on PPP	Ministry of Economy	2013	US\$ 225,000	Capacity Development (Technical Assistance)	
Asian Development Bank	Strengthening Policy and Portfolio Monitoring	Prime Minister's Office, Ministry of Finance	2014	US\$ 800,000	Capacity Development (Technical Assistance)	
Asian Development Bank	Second Investment Climate Improvement Program, Subprogram 1	Ministry of Economy	2015	US\$ 20,000,000	Program grant	
Asian Development Bank	Implementation Support for Second Investment Climate Improvement Program	Ministry of Economy	2016	US\$ 500,000	Capacity Development (Technical Assistance)	

## Public Finance Management

### Background

Sound Public Finance Management (PFM) supports fiscal stability, provides resources for economic and social development, and provides for transparency and accountability mechanisms that strengthen the relationship between a government and its constituents. PFM reforms can help to allocate public funds more effectively and efficiently, thereby improving service delivery and preventing waste. Aiming for these benefits, Kyrgyzstan started PFM reforms in the mid-1990s.

### I. Challenges facing the Sector:

The path of PFM reforms in the Kyrgyz Republic has not been linear. The progress of PFM reforms was seriously constrained by a number of macroeconomic, political and social shocks, particularly in the last seven years. Implementation of governance reforms, including PFM, has been slow during periods of political instability, with weak political commitment to drive through core policy reforms, particularly those reducing corruption.

#### Some successes

In spite of this difficult environment for reforms, there has been some measures to increase efficiency, transparency and fiduciary controls within the public sector at the technical level: external debt is better managed, budget execution has improved due to some initial automation in the Treasury and Tax and Customs administrations; budget classification is close to international standards; the budget is more comprehensive due to integration of off-budget funds including investment spending; and, some progress has been achieved in formulating Medium Term Budget Frameworks that are policy based and costed for several sectors.

#### Continuing Challenges and Opportunities

The new Government showed strong renewed commitment to PFM reform after the April 2010 events, which became especially evident in the transparency and accountability area. Although some progress has been achieved, the PFM system still needs further improvements to make it more efficient, reliable, institutionally strong and more accountable to its citizens. Good quality PFM systems will also promote donors' willingness to use country systems as envisaged by the Paris Declaration, Accra Agenda and Busan Forum.

In order to facilitate PFM reforms, a number of reviews<sup>34</sup> have been conducted by different donors, where the following challenges in the PFM field were highlighted:

- *Institutional capacity*: Over the last four years, there were six changes in Ministry of Finance (MoF) leadership followed by changes in key positions responsible for PFM. Frequent restructurings of the government, including within MoF, further contributed to a difficult environment for implementing PFM reforms by causing a high degree of uncertainty and lack of continuity, thereby undermining capacity development at all levels.
- *MTBF and annual budget planning*. Some progress in Medium Term Budget Framework (MTBF) implementation has been achieved, but important elements of MTBF are still missing. There is neither a document detailing the government's fiscal policy objectives nor are there fiscal targets and medium term plans establishing a fiscal framework that accompanies the republican budget. The link between the MTBF and the annual budget is still very weak. Medium-term budgeting is also made difficult by relatively weak revenue and expenditure forecasting and the absence of a clear separation between existing and new policies in annual budgets and medium-term plans.

<sup>34</sup> Two Public Expenditure and Financial Accountability (PEFA) assessments (2005 and 2009), reports of three technical assistance missions by the IMF's Fiscal Affairs Department (FAD), a report of the Fiscal Transparency Module on the Observance of Standards and Codes (fiscal ROSC) in 2002 and a re-assessment in 2008; and a range of other assessments by the WorldBank, the Asian Development Bank and bilateral donors.

- *Fiscal transparency*<sup>35</sup>. Despite some improvements in the past five years, fiscal transparency also remains at a low level in comparison with other CIS countries. The absence of semi-annual reviews of budget execution, lack of published pre-budget statements and audit reports, complicated formats of main published budget documents and the absence of meaningful explanatory notes contribute to the low level of fiscal transparency.
- *Intergovernmental finance system (IGF)*. The IGF system was introduced in 1998 but has experienced frequent changes in decentralization policy. While intergovernmental transfers are intended as formula-based, funding from the republican budget remains to some extent a negotiated process.
- *Budget execution and predictability of funds*<sup>36</sup>: Budget execution reforms are much delayed and the budget execution process is still highly manual. Poor quality of cash planning and frequent ad hoc policy initiatives introduced within a budget year undermine the credibility of the budget, lead to sub-optimal allocation of public funds and poor quality of services provided. A modern treasury automation system is many years behind schedule.
- *Accounting, Recording and Reporting*. While committed to a policy of introducing International Public Sector Accounting Standards (IPSAS), little progress has been made. Implementing this policy will require significant effort, including improvements of the legal basis for accounting and the institutional environment. Implementation will also require massive training of specialists and a program of raising public awareness of the benefits of IPSAS. Poor progress of Treasury reforms also negatively impacts timely and reliable reporting of the financial position of government. Once an appropriate automated treasury system is in place, focus on financial statements that reflect international standards could move relatively quickly.
- *Public Procurement*. Public procurement is one of the PFM areas where many institutional changes such as shifting responsibilities within the government happened in a short period of time. However, the current public procurement institution's capacity is limited and staff in procuring organizations are poorly trained. There are no independent bodies to monitor and report public procurement performance and compliance and no body to address the bidders' concerns and complaints.
- *Internal audit*: Internal audit has not developed much in the past years even though it has received a lot of attention from donor funded programmes. There is still no functioning internal audit in the Kyrgyz administration in accordance with international standards. The methodological base is weak and there is yet to be established an efficient and effective institutional structure for internal audit, including a lack of a certification program for internal auditors. The demand for internal audit services from politicians is weak and poorly understood.
- *External audit*. The oversight on public funds by the Chamber of Accounts (CoA) and the Jogorku Kenesh remains insufficient. The capacity of CoA needs further strengthening and transition to international audit standards has far to go.

## II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017

PFM reforms remain a high priority of the Government of the Kyrgyz Republic. In 2012, the Government approved a new **“Mid-term plan of activities on PFM reforms in the Kyrgyz Republic for 2012-15”** (as of October 3, 2012, #675). The plan aims at strengthening fiscal governance and transparency as well as the process of fiscal consolidation. The main focus of the plan is further improvement in credibility of the annual budget and MTBF, as well as better linkage of the MTBF with the country development strategy. The Plan also covers a wide range of measures to be implemented in the areas of transparency, public sector debt management, revenue administration, IGF, public procurement, accounting and audit. The Plan of Activities includes measures to revitalize PFM reforms by strengthening the Ministry of Finance's role in this process, revamp its organizational structure and reform treasury operations.

Some reforms included in the Plan have been additionally supported by separate Government decrees. In September 2012, the government approved **the Public Procurement Development Strategy 2012-2014**

<sup>35</sup> Open Budget Index (2012)

<sup>36</sup> PEFA (2009)

**(the Procurement Strategy)**<sup>37</sup>. The Strategy aims at further developing the public procurement system, identifying policy actions to improve the legal and regulatory framework in public procurement, implement a unified electronic procurement system (e-GP), and strengthen capacity of the public and private entities involved in public procurement.

**The Action Plan on Reforming Accounting and Reporting in the Public Sector** was approved by the government in June 2009 and envisages transition to International Public Sector Accounting Standards (IPSAS). According to this Plan, IPSAS is first to be implemented on cash basis with subsequent transition to the accrual method of accounting. As per the amended Law on Accounting dated May 18, 2012, IPSAS should be adopted as the accounting standard to be applied by all budget organizations in the country.

The Plan for 2012-2015 was based on the results of and lessons learned from implementation of the **“Medium term action plan on reforms of Public finance management system of the Kyrgyz Republic for 2009-2013”** approved by Presidential Decree of October 22, 2009, #396. Reforms supported by the 2009-2013 plan included a new budget classification developed in 2007, the Law on Internal Audit adopted in 2008, start of implementation by the Central Treasury of a new Chart of Accounts, and development of methodological Guidelines for budget preparation and execution in 2009.

The new **National sustainable development strategy for the Kyrgyz Republic for the period of 2013-2017 (Road Map)** underlines the importance of PFM reforms, implementation of which will help the government to better reflect the needs of society. It envisages measures to be taken to further improve consistency of fiscal policy and its coordination with monetary and other public policies, transition to programme-based budgeting, strengthening of fiscal discipline and improvement of transparency of the budget process and public procurement. The strategy underlines the importance of prudent debt policy and further consolidation of the budget through improved efficiency and a thorough review and corresponding streamlining of government responsibilities.

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

The challenges of the current Kyrgyz PFM system are manifold and broad as reflected in the Medium-Term Action Plan for 2012-2015. Given the limited capacity of the MoF and the government as a whole, it is important that the reform agenda is prioritized, planned and sequenced.

There are important preconditions for successful reform implementation:

- The gap between the legal framework and actual implementation needs to be closed, which requires strong leadership by the government;
- A more stable policy and institutional environment is required, which will lead to a greater continuity at all levels of the government;
- Demonstrable strengthening of public administration, civil service capacity and external audit reforms as a foundation for progress in the PFM area is needed.

Based on the existing challenges in the PFM area and reflecting priorities articulated in government strategies and programs, the following list of PFM reform activities requiring development assistance has been identified:

#### **1. Budget formulation process**

Further efforts should be undertaken to strengthen the credibility of the annual budget, expand medium-term budget horizons and improve the strategic nature of the Kyrgyz budget. To meet these targets, the following measures are needed:

- Further strengthening of short- and mid-term forecasting of government revenue and expenditure based on an improved macroeconomic forecast and an approved medium-term fiscal strategy;

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<sup>37</sup> ADB assisted the government in developing the Procurement Strategy based on the CPSR recommendations.

- More strategic budget formulation processes based on a better quality MTBF, reflecting country and sectoral priorities, including well defined output and outcome indicators;
- Improved predictability and objectivity of intergovernmental transfers to local self-governments based on well-understood and verifiable formulas.
- Capacity building in the MoF and line ministries to improve skills in policy and program-based budgeting and costing.

Budget process automation would simplify enormously the annual budget process and relieve MOF and line ministry staff from inefficient manual processes. Automation should be based on reasonable improvement of current business processes, including more clear responsibility assignment between MoF, the Ministry of Economy and line ministries, as well as within the MoF.

## **2. Budget execution and predictability of fund allocation**

To improve the quality of budget execution in terms of meeting originally approved budget targets and ensuring predictable funds allocation within the year, future activities should focus on the following aspects:

- Strengthening budget discipline, including minimizing introduction of new budget policies within a budget year;
- Introduction of proper commitment registration to make cash requirements more predictable and to avoid arrears;
- Improvement of cash management as an instrument of budget execution;
- Introduction of IPSAS in the public sector to improve accuracy, accountability and transparency of public finance management, as well as to bring the system of accounting in the public sector in line with requirements of a market economy;
- Finalization of the Financial Management Information System (FMIS), which will help enormously to improve budget execution processes through more timely and accurate recording and processing of government financial transactions; strengthening financial controls, facilitating a complete and current picture of commitments and expenditure on a continuous basis; improving decision making and enhancing transparency and accountability of the executive to parliament, the general public, and other external stakeholders. Full implementation of an FMIS would also allow for a Single Treasury Account and serve as a foundation for rapid advancement in PFM reforms that are dependent on an automated system.

## **3. Improved efficiency of expenditure**

To ensure efficiency of expenditure and increase accountability within the government and between the government and civil society, reforms in the following areas should include:

- Strengthening internal and external audit as major instruments to increase efficiency and effectiveness of public resources and fight corruption and be recognition of this at the political level.
- Ensuring that the law on internal audit is implemented in full and that the Council on Internal Audit functions as a guarantor for independence of internal audit.
- Improvement in public procurement as envisaged by the public procurement development strategy, including adoption of a new revised Public Procurement Law, establishment of an independent complaint review body and implementation of a unified and full-fledged e-procurement system to ensure increased value for money.
- Improvement in budget transparency to support better service delivery by providing information to civil society that can increase accountability. This should include further efforts to improve access of citizens to budget information, make budget data presentation more user-friendly, improve budget education of citizens through regular public awareness campaigns and trainings, and increase participation in the budget preparation and execution process, including through establishment of effective feedback mechanisms.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/ loan/ other	Any other info
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Multi-Donor Trust Fund for Capacity Building in Public Finance Management Reform in the Kyrgyz Republic: focus on government's efforts to reform the PFM system.	Government of the Kyrgyz Republic (through Ministry of Finance)/World Bank as an administrator of Trust Fund	2008-2013 with possible extension up to end 2014	Overall budget: US\$ 7,500,000 Swiss contribution: US\$ 570,000	grant	Co-donors: DfID (UK); SIDA (Sweden); EU
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Technical Assistance in Financial Programming /macroeconomic analysis and forecasting.	Swiss Consultant (Benedikt Braumann GmbH)	2013-2016 (3-phase)	Overall budget: CHF 3,000,000 For Kyrgyzstan only: about CHF 750,000	grant	This is a follow-up to technical assistance in financial programming in Kyrgyzstan, Azerbaijan, Vietnam, Ghana.
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Technical Assistance to NBKR in drafting Banking Code.	International Monetary Fund/ Mr. Kazimieras Zaveckas (Consultant)	2012-2013, with possible extension to 2014	US\$ 450,000	grant	Financed from SECO-IMF sub-account 'Letter of Understanding East'.
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Co-financing Programmatic Expenditure Review (PER) to be conducted by World Bank.	World Bank (Kyrgyz Country Office)	Dec. 2012-Aug. 2013	Overall Budget US\$ 635,000 Swiss contribution: US\$ 210,000	grant	Co-financed by DfID (US\$ 415,000) and implemented by World Bank
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Donor Coordination Project: to strengthen the Government's capacity to manage Official Development Assistance and to increase government's accountability of donors' aid.	Government of KR (Prime Minister's Office)/Development Gateway	2012-2014	Overall Budget US\$ 239,659	grant	
Government of the Swiss Confederation (through SDC - Swiss Development Cooperation, Ministry of Foreign Affairs)	Strengthening Voice and Accountability: Citizens' participation and oversight of budget processes in the Kyrgyz Republic: access of the general public to data on state budgets.	Kyrgyz Public Foundation "DPI" (Development Policy Institute)	2011-2015 (phase I)	Overall budget: CHF 5,800,000	grant	The project is to possibly be co-financed by DfID during follow-up phases

UK Department for International Development	Multi-Donor Trust Fund for Capacity Building in Public Finance Management Reform in the Kyrgyz Republic.	Government of the Kyrgyz Republic (through Ministry of Finance)/World Bank as an administrator of Trust Fund	2008-2013, with possible extension up to end 2014	Overall budget: US\$ 7,500,000 DFID's contribution: £3,300,000	grant	Co-financed by: Swiss SECO, SIDA (Sweden), EU
UK Department for International Development	Co-financing Programmatic Expenditure Review (PER) to be conducted by World Bank.	World Bank (Kyrgyz Country Office)	Dec. 2012-Aug. 2013	Overall Budget: US\$ 635,000 DFID's contribution: £200,000		Co-financed by: SECO: US\$ 210,000 WB: US\$ 160, 000. Implemented by WB
Delegation of the European Union to the Kyrgyz Republic	Support to the Education Sector in the Kyrgyz Republic.	Government of the Kyrgyz Republic/ Ministry of Finance and Ministry of Education	2013-2015	EUR 17,000,000	Budget support (grant)	Aims at macro-economic stability, transparency and PFM progress
Delegation of the European Union to the Kyrgyz Republic	Sector Policy Support Programme, Social Sector.	Government of the Kyrgyz Republic / Ministry of Finance and Ministry of Social Development	2012-2014	EUR 12,250,000	Budget support (grant)	Aims at macro-economic stability, transparency and PFM progress
Delegation of the European Union to the Kyrgyz Republic	Multi-Donor Trust Fund for Capacity Building in Public Finance Management Reform in the Kyrgyz Republic.	Government of the Kyrgyz Republic (through Ministry of Finance of KR)/World Bank as an administrator of Trust Fund	2008-2013, with possible extension up to end 2014	Overall budget: US\$ 7,500,000 EU's contribution: EUR 2,800,000	grant	Co-financed by: Swiss SECO, SIDA (Sweden), EU
World Bank	Multi-Donor Trust Fund for Capacity Building in Public Finance Management Reform in the Kyrgyz Republic.	Government of Kyrgyz Republic (through Ministry of Finance of KR)/World Bank as an administrator of Trust Fund	2008-2013, with possible extension up to end 2014	Overall budget: US\$ 7,500,000, including contributions by: EU: EUR 2,800,000, DfID: £3,300,000, Switzerland: US\$ 570,000., SIDA: SEK 4,750,000	grant	World Bank administers the Trust Fund
World Bank	Government Technical Assistance Credit	Government of the Kyrgyz Republic /Ministry of Finance	2003-2013	US\$ 7,780,000	Investment Lending	TMIS and Budget Planning Module
World Bank	Conducting Programmatic Expenditure Review (PER)	Government of the Kyrgyz Republic /Ministry of Finance	2012-2013	Overall budget: US\$ 635,000, incl. WB's: US\$ 160,000	Grant	Policy Recommendations
Asian Development Bank (ADB)	Second Vocational Education and Skills Development Project.	Government of the Kyrgyz Republic /Ministry of Finance. Executed by Agency for Vocational Education	2013-2018	Total - US\$ 20,000,000	Grant : US \$ 10,000,000 Loan: US\$ 10,000,000	
Asian Development Bank (ADB)	Tax Administration Reform & Modernization Project.	Government of the Kyrgyz Republic /Ministry of Finance. Executed by Prime Minister's Office Implementing Agency: State Tax Service	2007-2013	US\$ 10,000,000	Grant	Continued support by ADB for improving revenue administration.
Asian Development Bank (ADB)	TA: Implementing the e-Procurement System	Government of the Kyrgyz Republic/ Ministry of Finance	2013- 2015	US\$ 1,000,000	CDTA	
Asian Development Bank (ADB)	TA: Support for Strategic Assessment of the Kyrgyz Economy to Promote Inclusive Economic Growth	Government of the Kyrgyz Republic	Dec 2011 - 2014	US\$ 225,000	PATA	

Asian Development Bank (ADB)	Support to High Level Forum on PPP	Government of the Kyrgyz Republic	2013	US\$ 225,000	S-CDTA	
Asian Development Bank (Japan Fund for Poverty Reduction)	Women's Entrepreneurship Development Project.	Government of the Kyrgyz Republic/ Ministry of Finance. Executed by Ministry of Economy. Implementing Agencies: Closed & Open Joint Stock Companies, Microfinance Bank "Bai-Tushum and Partners", The First MicroCredit Company	2013- 2017	US\$1,500,000	Grant	

### Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/loan/ other	Any other info
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Financial Sector Development Project: to improve the legal, regulatory, and supervisory framework for the banking sector and to increase the National Bank of the Kyrgyz Republic's (NBKR) capacity.	World Bank (Kyrgyz Country Office)	2013-2017	Overall Budget: US\$ 2,500,000, incl. Swiss contribution of US\$ 1,000,000	grant	Project under approval
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Technical Assistance to State Financial Intelligence Service of KR on Anti-money Laundering and Combating Financing Terrorism (AML/CFT)	IMF HQ	2013-2015 (tbc)	tbd	grant	TA is to be through Topical Trust Fund on AML/CFT, managed by IMF, and co-financed by SECO and other donors
UK Department for International Development	Strengthening Voice and Accountability: Citizens' participation and oversight of budget processes in Kyrgyzstan	Kyrgyz Public Foundation "DPI" (Development Policy Institute)	2013-2015	Overall budget: CHF 5,800,000 Possible contributions	grant	Project is funded by the Swiss Confederation
Delegation of the European Union to the Kyrgyz Republic	Support to the Education in the Kyrgyz Republic	Government of the KR/Ministry of Finance and Ministry of Education	2016-2020	tbd	Budget Support (grant)	This programme is yet at initial stage: scope & budget to be determined after the Programming phase

Delegation of the European Union to the Kyrgyz Republic	Support to the Rural development	Government of the KR/Ministry of Finance and Ministry of Social Development	2016-2020	tbd	Budget Support (grant)	This programme is yet at initial stage: scope & budget be determined after the Programming phase
World Bank	Programmatic Development Policy Operations	Government of the KR/Ministry of Finance	2012-2014	US\$ 60,000,000	Budget support (BS) (45% grant & 55% loan)	TMIS, Internal Audit, Public Procurement are the BS priority beneficiaries
Asian Development Bank (ADB)	Investment Climate Improvement Program (Subprogram 3)	Government of the KR	2013	US\$ 20,000,000	Budget Support	Project is at the processing stage
(ADB)	Higher Education Reform	Government of the KR	2013	US\$ 500,000		TA is under preparation
Asian Development Bank (ADB)	Regional Economic Cooperation, Regional Improvement of Border Services Project	Government of the KR	2013-2018	US\$ 8,404,000	Grant: US\$ 4,202,000 Loan: US\$ 4,202,000	This CAREC support project is at the processing stage

## **Anticorruption**

### **I. Challenges facing the Sector:**

Corruption in the Kyrgyz Republic poses a genuine threat to the stability of the state and society. The President of the Kyrgyz Republic has called the fight against corruption one of priority issues for the country.

An efficient anti-corruption policy should always provide for an integrated system of measures and resources to be used by public agencies and civil society to combat various forms of corruption. Unfortunately, a system to effectively combat corruption has not been developed in the Kyrgyz Republic. There does not yet exist inter-agency coordination or a consolidation of the efforts of government agencies and civil society. The legal and institutional anti-corruption framework is still weak, and the work of state bodies is often limited to declarative or politically-motivated statements.

All previous country development programmes, from the Comprehensive Development Framework (CDF) to the Country Development Strategies (CDSs), had the stated intention of reducing corruption. However, it was only the National Strategy on Sustainable Development of the Kyrgyz Republic for 2013-2017 (NSDS) that in January 2013 set ambitious goals, such as that the Kyrgyz Republic should by 2017 rank among the top fifty countries according to the Corruption Perception Index of Transparency International. However, the progress is still modest, and Kyrgyzstan was in this ranking yet at position 154 for 2012, although the country has moved up by 10 positions since 2011.

### **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

Strategic documents on anticorruption include:

- *National Strategy on Sustainable Development of the Kyrgyz Republic for 2013-2017;*
- *National Strategy on Anti-Corruption Policy of the Kyrgyz Republic;*
- *The Law of the Kyrgyz Republic "On Combating Corruption", which defines the activities of state agencies and local governments to improve the effectiveness of anti-corruption measures;*
- *Program and Action Plan of the Government of the Kyrgyz Republic on combating corruption for 2012 - 2014;*
- *OECD Recommendations on the implementation by the Kyrgyz Republic of requirements of the Istanbul Action Plan to combat corruption.*

The goals of the above strategic documents in addressing corruption are the following:

- to detect and eliminate corruption schemes, with the strengthening of safeguards to ensure the implementation of state policies in the social, economic and legal spheres;
- to protect the system of state service from the destructive influence of corruption processes and increase its transparency and accountability;
- to integrate the efforts of public bodies and civil society in combating corruption and to raise their awareness.

The strategic documents are aimed at achieving the following tasks:

- provision for comprehensive solutions to the problem, by identifying opportunities for rent seeking in any part of the state's services delivery mechanisms and suggesting remedial actions by revealing their genuine socio-economic roots, the promotion of a law-abiding lifestyle and the incompatibility of corruption phenomena with the precepts of a democratic state governed by the rule of law;
- adoption of uniform procedures, for the organization, coordination, and consolidation of efforts and resources, towards the implementation of approved activities of public bodies to improve their transparency and accountability;
- development and implementation of uniform principles and rules of communication and interaction between government and civil society institutions.

The strategic objectives of the fight against corruption are thematically laid out in the National Strategy for Sustainable Development of the Kyrgyz Republic for 2013-2017 (NSDS) as eradicating corruption requires a coordinated effort across social and economic spheres. The NSDS contains a separate section dedicated to anti-corruption policy; and pays special attention to the threats to the society if corruption is not eradicated as well as to the threats to the anti-corruption effort itself, while clearly stating the measures required to combat corruption. In summary, the NSDS includes: the recognition of corruption as one of systemic threats to the national security of the country; a description of the measures for preventing corruption; and, the specification of the anti-corruption provisions required in the legislation as well as in institutional processes.

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

The Kyrgyz Government is taking steps to reduce corruption in the country by developing and implementing comprehensive mechanisms to reduce corruption and prevent its further spreading.

The priority areas for anti-corruption efforts in 2013-2017 which require support from international donors are:

1. Development and implementation of anti-corruption legislation.

The availability of a full-fledged anti-corruption legislation and its compliance with international legal standards is the foundation of the system to prevent corruption.

One of the objectives of the NSDS for the next 2 years is to reduce the provisions in laws and procedures that encourage rent seeking, and to develop measures for adherence to accepted international conventions for combating corruption.

Implementation of the state anti-corruption policy requires appropriate legal support and related revision of the current legislation, exclusion of contradictions, conflicts, and numerous reference rules, detailed regulation of the conflict of interest at the level of the law and regulations, and the exclusion of rules that create conditions for corruption.

2. Anti-corruption information campaign and anti-corruption education.

Public measures must be taken to build trust in the government authorities fighting corruption as well as to build a critical mass of political culture condemning and counteracting corruption in all its forms (nepotism, illicit financial transactions, favoritism, etc.) across the entire social strata.

This area involves using the media to:

- promote examples of successful anti-corruption programs in other countries;
- defy the myth that the nation is doomed to corruption;
- support the activities of public organizations who are tracking cases, practices, and methodologies of corruption and are disseminating educational and advocacy information;
- develop, apply, and use an index for the level of corruption, allowing comparison between the regions, industries, large enterprises, decisions of branches of government and activities of its individual representatives;
- develop measures to promote a negative image of a corrupt official and to promote the incompatibility of public service with corruption;
- create a “local publicity – local glasnost” to inform the public;
- constantly raise awareness of the society on the implementation of anti-corruption program.

The standards for anti-corruption education need to be developed. These include developing teaching methods, writing training manuals, as well as stimulating local authors to write books on prevention of corruption, upgrade of qualifications of anti-corruption course teachers; raising awareness of citizens about their rights and responsibilities, preparation of TV programs and segments on the legal anti-corruption education of the population.

### 3. Development and Implementation of the National Anti-Corruption System.

As part of this priority area it is expected to develop a system that identifies corruption zones and corruption risks in the work of all branches of government on the basis of an assessment by sectors. It is also necessary to develop measures to reduce the operational costs associated with registering and doing business; to analyze the competencies of state bodies exercising control, permitting and monitoring functions, as well as the existing regulations governing their activity, the presence of the conditions for corruption, the development of mechanisms for reducing contacts between the individuals or businesses and government functionaries during the delivery of public services; by the introduction of ICT supported service delivery.

### 4. Development and implementation of a system for prevention and reduction of political corruption.

As part of the work on this area, it is necessary to develop: a mechanism for the avoiding conflicts of interest situations for those holding political office; a mechanism to ensure transparency in the financing of political parties and election campaigns; a system of independent auditing of party accounts; a mechanism to improve accountability of politicians. Since public service is associated with higher responsibility for certain categories of public officials and for certain types of crimes, it is necessary to consider amendments to the Criminal Procedure Code to include penalties for acts of corruption committed while in public service (whether or not under political duress).

### 5. Creation and maintenance of institutions of civil control in the sphere of combating corruption.

The creation of standards and a system for prevention of corruption in society will require a well-conceived approach for its implementation and to ensure its effective functioning. However, there is a need for creation of an institutional basis, appropriately supported by the legislation, for the development of: an effectively functioning anti-corruption mechanisms to reduce the exposure to corruption in public-private interactions; the process by which the government will be held accountable; mechanisms through which the civil society institutions will monitor the implementation of the anti-corruption policy.

6. Development and implementation of measures on the improvement of law enforcement in the fight against corruption and implementation of international experience to ensure the transparency of courts.

A radical reduction in corruption prevalent in law enforcement and judicial institutions is a fundamental task; for, if it is not resolved in the next few years, it will create systematic risks for the state and for the society. Improving the efficiency of detection, investigation and prevention of crime in a contemporary society demands that the Government and public bodies not only strengthen their efforts to combat crime, but that they also ensure a systematic and comprehensive approach to the prevention of crime and towards developing innovative methods of controlling crime.

The following tables provide information regarding donor support in this area. However, it should be noted that although many of the above areas are developed by the government in a comprehensive and detailed manner, there appears a certain inconsistency between the efforts of the government and donor support. Not all of the anti-corruption combat areas are supported by donors. A number of projects support 3 to 4 sub-components of reform. However, as a rule, these projects focus on specific sectors, for example, on issues of tax or of Customs or on those related to transparency in the mining sector. Generally there is a need for a more comprehensive and focused support for reforms in the sector.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (original currency)	Budget support/ grant/loan/other	Any other info
EU	Promotion of the respect of Rule of Law in Kyrgyzstan with particular emphasis on Transparency and Accountability	tbd	Up to 60 months	Up to EUR 13,500,000	Grant to an EU MS consortium: up to EUR 10,000,000; grants to NGOs: up to EUR 3,000,000; other (evaluation, visibility, etc.): EUR 500,000	
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Multi-Donor Trust Fund for Capacity Building in Public Finance Management Reform in the Kyrgyz Republic. The project focuses on the government's efforts to reform the Kyrgyz public financial management system. It strengthens the budgetary process; improves the implementation of the internal audit function; and supports the capacity building in areas of public financial management	Government of the Kyrgyz Republic (through Ministry of Finance)/World Bank as an administrator of Trust Fund	2008-2013 (extended to the end of 2014)	Overall budget: US\$ 7,500,000  Swiss contribution: US\$ 570,000	grant	Co-donors:  DfID (UK) SIDA (Sweden) EU
Government of the Swiss Confederation (through SDC – Swiss Development Cooperation, Ministry of Foreign Affairs)	Strengthening Voice and Accountability: Citizens' participation and oversight of budget processes in the Kyrgyz Republic. The project promotes the capability of the general public to access information on governmental budgets and ensures the commitment of government to increase access to public services	Kyrgyz Public Foundation "DPI" (Development Policy Institute)	2011-2015 (phase I)	Overall budget: CHF 5,800,000	grant	The project is possibly to be co-financed by DfID during follow-up phases
BMZ	Mineral Resources for Development	GIZ	2012-2015			To support EITI initiatives in Kyrgyzstan and transparency in licensing, mine inspection issues
BMZ	Prospects for Youth	GIZ	2012-2015			Advisory on youth policy & work; education programmes for youth leaders; participation by youth in decision-making

BMZ	Support of the Rule of Law in Central Asia	GIZ	2012 – 2014			Advisory on Administrative Procedures Act for transparency of governmental decisions
BMZ	Support to Regional Economic Cooperation in Central Asia	GIZ	2005-2014			Pre-Customs Single Windows and capacity of customs authorities
EBRD/ UNCITRAL	Initiative on Enhancing Public Procurement Regulation in the CIS countries and Mongolia					

### Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/Contractor	Implementation period	Amount (original currency)	Budget support/grant/loan/other	Any other info
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Financial Sector Development Project. Measures to improve the legal, regulatory, and supervisory framework for the banking sector and to increase capacity of the National Bank of the Kyrgyz Republic (NBKR) to monitor and address vulnerabilities of the financial sector.	World Bank (Kyrgyz Country Office)	2013-2017	Overall Budget: US\$ 2,500,000; Swiss contribution: US\$ 1,000,000	grant	Project under approval
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Technical Assistance to State Financial Intelligence Service of the Kyrgyz Republic on Anti-Money Laundering and Combating Financing Terrorism (AML/CFT)	IMF HQ	2013-2015 (?)	tbd	grant	TA is to be rendered through Topical Trust Fund on AML/CFT managed by IMF and co-financed by SECO along with other donors
Government of the Swiss Confederation (through SECO - Swiss State Secretariat for Economic Affairs, Ministry of Economy)	Central Asia Regional Investment Climate Programme (Kyrgyzstan, Kazakhstan, Uzbekistan, Tajikistan)	IFC	2013-2015	US\$ 4,000,000	TA grant	The Program seeks to further improve the investment climate in Central Asia by facilitating investments

## LOCAL SELF-GOVERNANCE

### I. Challenges facing the Sector:

#### ➤ Background

Local self-governance (LSG) in the Kyrgyz Republic is considered the first level of public authority, which is a system of relationships between communities and LSG bodies. According to the Kyrgyz Constitution of 2010, local self-governance is a guaranteed right and capability of local communities so that they can address the issues of local significance to their own interests and responsibility. The body of local governments consists of the representative body – a local *kenesh* (council) and the executive body – mayor's office or *ayil okmotu* (village government). In total, there are 453 rural and 31 urban municipalities in the country.

Among the city's local governments there are two of national significance – Bishkek and Osh; five of regional importance – Karakol, Naryn, Talas, Jalal-Abad and Batken; and 24 towns. In 2012, six of these towns were transformed from rural municipalities into urban municipalities. Rural municipalities vary significantly from each other in terms of population, economic capacity and geographical climate. There are rural LSG bodies with a population numbering tens of thousands, and remote LSG bodies with less than one thousand. Rural LSG bodies located in flat lands are generally more densely populated and have a significant economic capacity in trade, agriculture and processing industries. Mountainous and remote rural LSG bodies are sparsely inhabited and have a weak basis for local economic development.

#### ➤ Scope and trends of the reforms process

The history of LSG development in Kyrgyzstan goes back to April 19, 1991, and can be divided into five main stages. This shows that policy towards LSG in Kyrgyzstan has not developed consistently. The following stages were dependent on political, social and economic situations in the country, and on cooperation with international institutions.

- **The first stage** (19 April 1991 – 19 December 1991) – transformation of Soviet People's Deputies, which were state authorities constitutionally, in LSG bodies and legal recognition to develop a local self-government.
- **The second stage** (December 1991 – 1997) – introduction of local state administrations, with the formation and strengthening of LSG executive bodies to replace local councils.
- **The third stage** (1998 – 2007) – emergence of an electoral system of the executive bodies of the LSG, and gradual improvement for local communities to influence the LSG bodies.
- **The fourth stage** (2008 – 2010) – centralization of power and a decrease in LSG.
- **The fifth stage** (from April 2010 to present time) – new opportunities for LSG development.

The 22 years of LSG development in the Kyrgyz Republic (as well as the entire system of public administration) has been inconsistent and has impacted the creation of a stable system of local self-government to support the needs of local communities. The political system has been changing, and LSG bodies in these conditions were not able to develop a stable practice of self-consistent governance, nor where they able to take responsibility for local problem-solving. There was a need for effective involvement and use of internal and external resources to address community needs and to enhance the local resource base. Issues such as contribution to the development of LSG system and improvement of the quality of local services remained untouched. This was particularly true for the first and second stages (1991-1997) and for the fourth stage (2008-2010), when the socio-economic situation was extremely difficult. During the third stage (1997-2007), following general economic improvements and

democratization of electoral processes (LSG heads of small cities, townships and villages were elected through direct elections), a middle class emerged in Kyrgyz society and improved living standards. This resulted in more interest towards development among the public, rather than towards modest living necessities typical for the previous stages. At the beginning of this period the Central Government created a favorable environment for the development of local self-governments. LSG bodies started to influence the living conditions of their communities. However in 2008, the strength of LSGs began to decline and the Center began to interfere in the affairs of LSGs. The priority moved from human development to the need to hold all the power in the Center. The political events of 2010 did not bring the Center on the side of LSG development. From April 7, 2010 to January 2013 there were no LSG reforms despite a number of favorable backgrounds:

- 1) The new Constitution of the Kyrgyz Republic provides for the establishment of democratic political and legal framework for the LSG;
- 2) The multi-party election system, active civil society and multi-party Parliament of the Kyrgyz Republic could have prevented centralization of power and limitations for LSG;
- 3) 20 years of accumulated experience in the development of LSG in an independent Kyrgyzstan;
- 4) LSG regulating legislation, although not fully harmonized;
- 5) People's need for a public administration system, which ensures that their voices are heard and needs are addressed;
- 6) A number of municipal servants with the experience and will to improve the LSG system.

The top national institutions (President, Government and Parliament) have not yet adapted to the new functioning defined by the new Constitution. This prevents full use of the above backgrounds to develop and adopt a unified comprehensive reforms strategy. Thus, it can be stated that the Kyrgyz Republic is in stagnation with anecdotal, unbalanced interventions aimed at non-systematic changes to the LSG legislation, such as legislation regulating elections. LSG reforms should be approached differently by all stake-holders. The challenges facing the Sector require that the following should be the basic principles for LSG reforms design and discussions:

- *Local self-government is the public administration system that is the closest to the citizens, which is essential prerequisite for the harmonious development of the Kyrgyz Republic and every citizen;*
- *LSG itself requires a lot of government and society attention, and this should not be limited by short-term political or economic interests.*

#### ➤ **Features of the Reforms Issues faced**

The slow pace of reforms is primarily the result of a lack of understanding the importance of LSG from the system of public administration, rather than the result of the conscious rejection by politicians. The achievements of 2012-2013 confirm this perception and demonstrate the will and ability of the current government to develop LSG bodies. Among the achievements are: improvement of local budgets; the work of the Government on the draft Strategy of LSG; as well as the restoration of the State Agency responsible for LSG issues. But these efforts are not part of a unified systematic reformation approach and have fragmental and irregular solutions to current individual problems.

The local communities and their LSG have demonstrated their strong will for reforms to be continued. Civil society is actively involved in the decision-making process and policy discussions. In 2012-2013, the efforts of civil society and some LSG bodies succeeded in standing for important decisions regarding budgetary relations in favor of the LSG bodies. It is important that this kind of activity is appreciated by the government.

However, the challenge remains that there is great attention given to the centralization of power. Herewith some individual politicians consider LSG as a threat to the central power, and as a condition for the development of separatism (this persistent myth is based on a misunderstanding between state and local separation of issues). This leads to the adoption of controversial decisions including those at the level of legislation, inconsistent reforms and even the denial of some positive results.

Currently the main critical issues and negative factors facing LSG are the following:

- Lack of a single center of decision-making, due to the lack of regulations in the Constitution, which leads to non-synchronous steps taken and contradictory decisions in legislation and practice.
- Lack of a synchronized process of political, fiscal and administrative decentralization, reflected in the existing legislative framework.
- Non-harmonized legislation on LSG, and inconsistent changes to a large amount of industry legislation that impacts the work of local government.
- Maintaining a strong influence of the government and party institutions on the formation of the executive bodies of LSG, cities and provincial *ayil aimaks*.
- Lack of a clear division of functions and powers between the government and LSG bodies.
- Lack of a system of delegation of state powers with appropriate funding.
- Overly centralized budgetary relations, reflected in the small number of tax and non-tax revenue sources of local budgets.
- Lack of negotiations between the government and LSG bodies due to weakness of the Association of Municipalities.
- Weakness of mechanisms of real accountability of LSG bodies to the community, and the instability of the participation of citizens in decision-making process.
- Lack of sufficient knowledge of municipal politicians and officials on accountability and effective management of resources.

#### ➤ **Coordination issues**

During the period from 2010 to 2013, coordination of donor aid within the local self-government sector was weak; firstly due to the lack of clear leadership position in the country, and secondly due to the absence of fully authorized body on LSG issues in the government. In 2011, the National Agency for LSG was dissolved and its functions were divided between several agencies. Furthermore, the LSG sector within the Prime Minister's office was solely responsible for the whole government policy in this sphere. The Association of Municipalities was unable to be a coordinating body for the development of LSG, and lack of well-targeted donor assistance aggravated the situation. In such circumstances, the government could not present structured, prioritized requests on the development of LSG to the donor community. Separate departments and agencies made attempts to promote donor projects to address some sectorial issues relating to LSG, since any government program or strategy could not be implemented properly without the participation of LSG bodies as the primary level of public administration. But the lack of attention and articulated public policy in LSG sphere has led to the fact that donor assistance aimed at improving the management capacity of LSG bodies was barely provided. Scattered, chaotic trainings on specific narrow issues did not have a significant impact on the level of skills and the quality of municipal employees, despite the fact that considerable amounts of funds were spent.

Local self-government, in addressing issues of local significance, is now largely based on the initiative and resources of communities themselves. There are common examples of the implementation of community projects (*ashar*), mobilization of the resources among population, with the support of donor agencies. This removes the responsibility from LSG bodies and creates alternative power centers in the municipality, but does not promote capacity building of LSG bodies. Whereas with the help of such mechanisms, many infrastructure problems are addressed, the lack of qualified management in the system

of local government leads to unsustainability of the outcomes of such projects. Multi-million dollar infrastructure projects raise doubts about the effectiveness and sustainability of the results due to the fact that the main person in charge – local government bodies – did not receive appropriate development and were not supported.

In order to promote democracy, donor agencies have initiated several projects in the last three years aimed at strengthening the accountability of LSG bodies and community involvement in local government, and continue to develop new projects in this sphere. However, there is no systematic approach to strengthen the capacity of LSG bodies to achieve sustainable and efficient functioning. Today, donor support directed at the communities has led to the fact that LSG bodies prefer to take a paternalistic position, expecting assistance from either the government or from the community, which is funded by donors. Donor assistance in improving services, training, quality measurement, and evaluation is fragmented and uncoordinated. The main reason is the lack of a clear request from the Government and LSG bodies.

In order to strengthen LSG as a prerequisite of a stable state and democracy, it is recommended to establish an Office of Plenipotentiary for LSG directly responsible to the Prime Minister. The Plenipotentiary will be responsible to develop, amend, and synchronize a set of laws jointly with the Ministry of Justice and will calculate funding for municipal competencies with the Ministry of Finance. The Plenipotentiary and both Ministries will be responsible for funding delegated competencies. Approved by the Prime Minister, the Plenipotentiary of LSG will lead the work with other Ministries to introduce changes in their expenditures.

## **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

The period of validity of the last strategic document to guide the development of LSG in the Kyrgyz Republic, which is the National strategy of state power decentralization and development of local self-government, ended in 2010. In the period from 2010 to 2013, there was no specific strategy documents related to LSG. During the formation of the Government of the Kyrgyz Republic by the newly elected Jogorku Kenesh in 2010, LSG issues have not received adequate attention. The Government formed by the Parliament at the beginning of 2011, also did not cover these issues in its Program<sup>38</sup>, despite the fact that the Coalition Agreement agreed to the strengthening of LSG and promote its development<sup>39</sup>.

In March 23, 2012 the Concept of Administrative-territorial reform in the Kyrgyz Republic for 2012-2017 was adopted. The Coordinating Council implements this Concept. Since March 2013 the working body is the State Agency for Construction and Regional Development, which was handed over responsibility for LSG. The goal of the Concept is creation of an optimal management system. The purpose of the Concept is the transition to the three-level system of governance, the abolition of rayon *keneshes*, creation of new cities, some measures for fiscal decentralization, and accessibility of services to the population. One of the goals of the Concept is a gradual consolidation of rural municipalities based on the results of the analysis of the possibility of unification of territories according to the criteria outlined in the Concept.

A step forward was made by the President of the Kyrgyz Republic in the framework of the National Sustainable Development Strategy (NSDS) for 2013-2017 adopted on 21 January 2013. The first version

<sup>38</sup> Program of the Government of the Kyrgyz Republic, approved by the order of Jogorku Kenesh as of 17 December 2010 № 26-V (Appendix to Agreement ‘On the Formation of the Fractions Coalition “Unity and Development” in Jogorku Kenesh of the Kyrgyz Republic of V Convocation’ as of 17 December 2010 – Legislative documents of the Kyrgyz Republic as of 17 January 2011 № 3.

<sup>39</sup> Agreement ‘On the Formation of the Fractions Coalition “Unity and Development” in Jogorku Kenesh of the Kyrgyz Republic of V Convocation’ as of 17 December 2010.

of the Strategy presented to the public in December 2012 did not cover the issues of LSG. Under the pressure from the public, the final version has an added section 2.7. "Development of Local Self-Government." This section covers the following areas: improving the institutional framework of LSG and the harmonization of legislation; division of responsibilities and authorities between the state bodies and LSG bodies, the issue of delegation of authority, improving the provision of municipal services, improving the system of budgetary relations, financial sustainability and effective resource management of LSG, increasing the responsibility and role of LSG heads, improving their form of accountability to the local community and the local *kenesh*, and increasing professionalism and strengthening of capacity of municipal service. Despite its lack of detail, this part of the NSSD was an important event for LSG, as it was the first instance of higher state bodies of the country paying attention to the primary local level – local self-government – in the last 3 years.

However, the real implementation of the reform is not possible without a concrete plan from the Government, which should be a continuation of the NSDS and can be formed as LSG development strategy. In summer of 2012, the Government decided to design LSG development strategy through 2017. A special working group was created, which is composed mainly of independent experts in the field of local self-government and representatives of civil society organizations. The Government deliberately decided for this policy paper to be based on the expertise available in the country, taking into consideration the experts' understanding of the LSG current status and trends for the future development. According to the Action Plan adopted by the Government, the draft strategy should be formally reviewed in July of this year.

The LSG development strategy must be planned for at least 10 years to be flexible, and contain qualitative and quantitative indicators, accurate monitoring, and evaluation systems for potential adjustments of the planned activities. The strategy should be protected from possible amendments or cancellation by the current political party, the new Government or the Parliament. In order to do this, it must be approved by all institutions of the supreme power: the President of the Kyrgyz Republic, the Parliament of the Kyrgyz Republic and the Government of the Kyrgyz Republic (although this approach is not provided either by the Constitution of the Kyrgyz Republic, or an established tradition). In order to implement such protection, it is necessary to settle the status of the strategic documents by a special law on the country's strategic documents.

There is also necessity to synchronize LSG issues with the reform of government agencies. Advanced LSG should be balanced with a strong local public authority (LPA.) Reforms on decentralization of public administration must be harmonized based on the delineation of responsibility and authority. Therefore, it is important to pay particular attention to the question of the structure, authorities, and the role of local state administrations in the executive state system.

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

Currently, the Kyrgyz Republic has a unique chance to provide local self-governance with genuine capabilities for: 1) strengthening the principles of self-sufficiency and responsibility of LSG; and 2) improvement of service delivery efficiency aimed at meeting local community needs and human development. This requires support for the following 7 directions:

- 1) **Promote the concept of local self-government** which requires:
  - Increasing the number of people understanding the issue/topic;

- Overcoming unmotivated refusal to consider the benefits of the developed LSG;
- Overcoming the reluctance of a creative approach to LSG development issue, based on the local context;
- Overcoming the desire to simplify and unify the system of self-government;
- Education/raising awareness of political parties about the LSG role;
- Organization of exchange visits and international forums;
- Establishment of regular mechanisms for the practice and information distribution and sharing - the mission of the Association of LSG.

2) **Optimize the interaction of state authorities and LSG bodies in order to improve services and enhance the quality of decisions.** This requires:

- Creating a constructive and efficient cooperation between state authorities and LSG bodies in order to overcome elements of opposition and unconditional consideration of the need to meet national and local interests;
- Clear detailed demarcation of functions and responsibilities between the state authorities and local self-government;
- Deciding on the issue of delegation of state powers with appropriate funding;
- Enhancing the ability of LSG (legal, organizational and financial) to establish municipal facilities in health care, education, public order, and other social functions;
- Reinforcing responsibility of LSG for the execution of legislation (law enforcement);
- Introducing changes in the legislation based on the analysis of law enforcement practice.

3) **Development of municipal service** to:

- Introduce a system for municipality performance evaluation based on objective criteria;
- Develop a reward system, based on performance/results;
- Introduce the sustainable system of municipal employees' training;
- Change the content of educational programs and courses on municipal service in the universities;
- Introduce new specialties in municipal management, for example: local economic development and municipal conflict management;
- Provide LSG with the right to establish positions for municipal employees within the framework of management structure optimization;
- Reduce the share of public funding of municipal employee salaries.

4) **Enhancing and capacity building of the National Association of Local Self-Governments** which is able to express a consolidated points-of-view of LSG bodies, enhance their capacity, and conduct equal dialogue with the Government. The Association should be able to:

- Hold negotiations on budget issues with the Central Government,
- Ensure obligatory legal expertise of legal regulations,
- Create a system of social protection of municipal politicians,
- Solve issues of self-regulation and development of professional skills of municipal employees;
- Develop horizontal data exchange and dissemination of best practice;
- Become a leader in analytical and expert capacity-building for the improved formulation and decision-making on the issues of LSG development;
- Strengthen the role of the Association of Local Self-Government to fix legislation.

5) **Introduction of innovations**

Introduction of innovative globally recognized methods, tools and mechanisms of local services and resources management, and local economic development. This requires:

- Improving accessibility and quality of municipal services through the introduction of municipal cooperation (inter-municipal and private-municipal cooperation);
- Creation of a transparent market of municipal property and land;
- Expansion of mechanisms to stimulate local economic development;
- Introduction of information and communication technologies;
- Development of municipal statistics.

6) **Capacity-building**. LSGs should:

- Form their own structure and staffing, and determine the size of remuneration for employees;
- Increase the role of local *keneshes* in the control over the executive body and in local law-making;
- Study the practice (effect/result) of local elections according to party membership, and, depending on the study result, revise (limit) the influence of political parties on the local *keneshes*;
- Develop institutes of real accountability for LSG performance with the local community, and introduce mechanisms for confidence in the local community;
- Improve the interaction between the local *keneshes* and LSG executive bodies for a coordinated policy to impact living conditions of local communities;
- Develop the institution of personal example of LSG officials in solving local issues in order to: engage and activate the local population; show necessity of careful attitude towards the resources of the territory and budgetary funds; address the pressing problems of the inhabitants of the territory; promote subordination of private interests to public interests, first, among LSG officials.

7) **Development of financial decentralization** to:

- Ensure feasible autonomy of LSG bodies in the budget process in the framework of given powers;
- Strengthen the revenue potential of local budgets;
- Reinforce responsibility of LSG bodies to the community for the effective budgeting and local budget execution. The right of citizens to participate in the budget process should be the basis of effective budgetary policy at the local level.

## IV. Sector development assistance already confirmed or under consideration for 2013-2017

### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (orig. cur'cy)	Budget support/ grant/loan/other	Any other info
World Bank (ECA PFM TF)	P130288 - Kyrgyz Republic: Transparency and Accountability in Local Budgeting - Peer-Assisted Learning and Practice Sharing at the Municipal Level (TALB_PAL)	Eurasia Foundation of Central Asia	FY2012-FY2014	US\$ 250,000	Grant	The main objective of this activity is to catalyze the PTP learning initiative to provide opportunity for representatives of local self-governments to discuss issues related to local budgeting and share experiences, problems and tested solutions, as well as for local CSOs to learn to be more effective in demanding transparency and accountability of budget process.
World Bank (GPF)	P110775 - Information Matters: Transparency and Accountability in the Kyrgyz Republic (IMTAK)	University of Central Asia; Eurasia Foundation of Central Asia; Alliance for Budget Transparency	FY2010-FY2013	US\$ 793,000	Grant	To be closed by the end of FY2013. Through training, practical handbooks and manuals and open budget hearings, the IMTAK project and follow-up projects funded by the World Bank and other donors are giving citizens and local officials alike the knowledge and tools to formulate and implement more effective and transparent local budgets. The project also has promoted demand for additional budget transparency by raising awareness and strengthening journalists' ability to analyze, present, and disseminate accurate information about fiscal and budgetary issues at the local and national levels.
European Union	Support to the Education Sector in the Kyrgyz Republic	Government/Ministry of Finance/Ministry of Education	2013-2015	EUR 17,000,000	Budget support (grant)	Macroeconomic stability, budget transparency and PFM progress are among the budget support triggers.
European Union	Sector Policy Support Programme, Social Sector	Government/Ministry of Finance/Ministry of Social Development	2012-2014	EUR 12,250,000	Budget support (grant)	Macroeconomic stability, budget transparency and PFM progress are among the budget support triggers.
UNDP	National Human Development Report (NHDR) on Local Governance and Decentralization	CSOs, Experts community, Government of the Kyrgyz Republic	2012-2013	US\$ 100,000	UNDP TRAC Funds	The NHDR focuses primarily on national policy formulation and consensus building among national stakeholders. It seeks to inform decision-makers on the management of national resources among the public, private and civil society sectors.

UNDP	Operationalizing Good Governance for Social Justice	Government of the Kyrgyz Republic, Ministry of Social Development, State Agency on LSG, local state administrations and 30 pilot LSGs throughout the country	Oct. 2011- Oct. 2014	EUR 5,318,899 to 3 year UN Joint Project (UNICEF, UNESCO, UN Women, UNDP)	Budget support (EUR 3,664,629 – grant of the European Commission)	Project designed to demonstrate on municipal level operationalizing good governance in the context of social justice initiatives aimed at improving access to public service delivery and addressing the rights of the most vulnerable elements of three thematic constituency groups in Kyrgyzstan: children, women and youth.
UNDP	Effective Disaster Risk Management for sustainable development and human security	Government/Ministry of Emergency Situations, Secretariat of the Disaster Risks Reduction (DRR), LSGs	2012-2016	US\$ 5,000,000, incl. US\$ 2,000,000 for LSGs and local communities	UNDP TRAC Funds; Grant of the Government of Japan	Project initiated to integrate DRR into sustainable development planning; for establishing comprehensive risk assessment framework; building resilience of LSGs and local communities and improve disaster risks management at the local level.
Norway MFA	Promoting Stability and Economic Opportunity in the Kyrgyz Republic – phase II	AKF and UCA <sup>40</sup>	2013	US\$ 701,596	Grant	Project is implemented directly by Contractors.
Switzerland	Strengthening Voice and Accountability: Citizens' participation and oversight of budget processes in the Kyrgyz Republic	Development Policy Institute	2011-2013	CHF 5,830,000	Grant	The project's overall goal is to increase access to information on budgets and public services for all citizens, while improving the performance of LSGs throughout the country.
USAID	Local Development Project	Chemonics International	Sep 2010- Aug 2013		Grant	To stimulate rapid, diversified and sustained economic growth by supporting local economic development in Kyrgyzstan

<sup>40</sup> AKDN agencies (AKF and UCA) might have additional funds for this Sector to report on in the coming weeks/months.

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**Sector development assistance under consideration for 2013-2017:**

<b>Donor</b>	<b>Name of the project</b>	<b>Implementing partner/ Contractor</b>	<b>Implementation period</b>	<b>Amount (orig. cur'cy)</b>	<b>Budget support/ grant/loan/other</b>	<b>Any other info</b>
European Union	Support to the Education in the Kyrgyz Republic	Government /Ministry of Finance/ Ministry of Education	2016-2020	TBD	Budget Support (grant)	This programme is still at the initial stage: scope of work and budget will be determined after the Programming phase
European Union	Support to the Rural development	Government/Ministry of Finance/Ministry of Social Development	2016-2020	TBD	Budget Support (grant)	This programme is still at the initial stage: scope of work and budget will be determined upon finalisation of the Programming phase
Switzerland	Improvement of Public Services Delivery	TBD	2014-2017	TBD	Grant	TBD
USAID <sup>41</sup>	TBD	TBD		TBD	TBD	TBD

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<sup>41</sup> USAID is now developing (by Sep 2013) the Country Development Cooperation Strategy for the Kyrgyz Republic for 5 years, and new program design TBD after approval of the Strategy.

## Judicial Sector/Judicial Reform

### I. Challenges facing the Sector:

#### A. Lack of adequate financial allocations from the national budget to the justice system.

The most serious obstacle to under-developed rule of law and hampered access to justice is represented by inadequate budget allocations for courts, law enforcement bodies and penitentiaries (the “justice system”). Budgetary financing of the courts alone has steadily decreased each year during the past five years from about 1% in 2008 to a new low of 0.39% in 2013. The August 6, 2012 Presidential Decree called attention to the need to spend at least 2% of the state budget on the judiciary, and recommended the Council of Judges along with the Government of the Kyrgyz Republic to elaborate and submit for approval to the Parliament a state target program “Development of the Judicial System of the Kyrgyz Republic for 2013-2017” which aims to provide significant improvement of financial and logistical operations of courts, including repair, reconstruction, construction of new buildings and rooms of courts, and installation of computers and other technical equipment.”<sup>42</sup> The Council of Judges, Government and Jogorku Kenesh conspicuously have not made progress on this key recommendation, nor have any alternative methods of legitimate government financing been provided (e.g. amounts generated during auctions of mining licenses or of other government assets).

Core financing of the justice system is not an issue donors can solve, so adequate budget allocations are essential. Spending at least 2% of the state budget on the judiciary is the way out of perennial budget crises. Economic development and investment will increase only when disregard for human rights and impunity end and when the justice system systematically protects all rights provided by law.

#### B. Legislative challenges.

One of the primary goals of any sustainable justice system reform process is to ensure that the rule of law is upheld in strict compliance with applicable human rights standards.<sup>43</sup> A key challenge is the incompatibility of many existing laws with the 2010 Constitution and ratified international human rights treaties that have priority, and are directly applicable in the domestic legal framework.

Needed changes in legislation, detailed in the above Presidential Decree, Action Plan and the National Sustainable Development Strategy is to provide, *inter alia*:

- Increased effectiveness and transparency of the judiciary; Increased responsibility of judges for fair administration of justice;
- Liberalized criminal law, decriminalization and reclassification of certain offences, introduction of jury trials;
- Improved adversarial criminal proceedings (greater emphasis on the rights of the accused and changed and supportive roles of prosecutors and investigators); improved forensics and availability of independent forensic service;
- Free legal aid; more active professional (bar) associations; improved access to justice for vulnerable groups (fair trial);

<sup>42</sup> Notice that donors suggest expanding wording already adopted in the President’s decree described above and in more detail below to include, in addition to courts, law enforcement organs and the penitentiary system.

<sup>43</sup> Including, but not limited to, increasing access to justice and assistance to victims of crime; ensuring fair, speedy and equal procedure for persons charged with the crime; improving poor prison conditions, increase the use of pre- and post-trial alternatives to detention; addressing the causes of the crime and providing appropriate community supervision, rehabilitation and reintegration of persons who committed the crime.

- Expanded alternative dispute resolution and reconciliation procedures including mediation.
- Adequate application of law by judges, and during administrative decision-making, to support economic development and expanded investment (including foreign direct investments);
- Regulated and harmonized general procedures of administrative authorities to prevent arbitrary decisions of officials, independent court review to protect against unlawful administrative decisions;
- Guarantees of non-discrimination and minorities' representation within all branches of power.

### **C. Cross-sector challenges**

The need for a balanced relationship among prosecutors, judges, lawyers, law enforcement agencies, civil society and other actors within the entire justice system, especially in the area of criminal justice, must be addressed. Administration of justice can take place through formal, state-run judicial mechanisms as well as through traditional, or informal, dispute resolution mechanisms. Besides courts, the many executive branch and legislative organizations that make decisions directly affecting rights may include: law enforcement agencies (police, customs, border service, security and military institutions, prisons, financial and commercial regulatory bodies); prosecutors' offices; national human rights institutions including office of the Ombudsman, law schools, bar associations and legal aid offices; non-governmental organizations (NGOs); and customary and religious non-state dispute resolution institutions.

The Presidential Decree (and Action Plan) identifies cross-sector challenges existing in criminal justice spheres and attempts to create a comprehensive approach to complex issues such as juvenile justice, prison overcrowding, a system of alternative punishments, the development of linkages between penitentiary and probation, and the overall importance of justice system reform. The document properly emphasizes:

- Changes needed in criminal procedure to introduce adversarial procedures, alternative sentencing, and alternative dispute-resolution mechanisms.
- Integrating police into the administration of justice, blending prevention and investigation functions formerly performed by separate agencies, and improving police professionalism.
- Enhancing technical capacities within the judiciary throughout the country.
- Restoring and strengthening constitutional justice and the Constitutional Chamber.
- Tougher measures for combating organized crime, greater examination and surveillance powers for law enforcement, and powers to seize assets.
- Combating corruption and enhancing the professional capacity of law enforcement agents.
- Improving transparency, accountability and publicity within the judiciary.
- Reinforcing oversight over implementation of laws and decision-making processes.
- Establishing a unified professional bar association (European standard) to ensure minimum competency standards, qualifications, and independent regulation of advocates.
- The need to increase use of automated and electronic systems in the justice sector, including transparent case management systems.

## **II. Summary of Government Strategies and Programmes for the periods 2010-2012 and 2013-2017**

Under the Agreement "On Assistance within the framework of the Threshold program Challenges of the Millennium" concluded between the Kyrgyz Republic and the United States of America and the Program of Strengthening of Rule of Law and Corruption Control signed on March, 14, 2008 in the city of Bishkek and ratified on April 14, 2008 by the Law of the Kyrgyz Republic № 56 in 2009, an agreement was

concluded on assistance to be provided by the U.S. Agency on International Development (USAID) in the implementation of the project “Judicial Reform” of the above Threshold program: “Computerization of Courts”, intended to expand the use of the automated system of the judicial information and management.

Within the framework of the implementation of the above Agreement, the software JIMI-2 (Judicial Information and Management System) has been installed in 28 courts of the country. In addition, training was delivered to the Presidents of the courts, judges, senior clerks, chiefs of office, and the staff of the judicial department on the use of the software.

Within the framework of the above Agreement, the Program USAID/IDLO on the strengthening of the judicial system in the Kyrgyz Republic in 2012 developed and made operational the web sites [www.jogorku.sot.kg](http://www.jogorku.sot.kg) (2013) and [www.sot.kg](http://www.sot.kg) (2012). The latter site is intended for publication of the judicial acts.

Within the framework of the implementation of the Decree of the President of the Kyrgyz Republic as of December 14<sup>th</sup>, 2009 “On Training for the Candidates for a Position of a local court Judge in the Kyrgyz Republic”, the Training-and-expert commission of the Council of Judges of the Kyrgyz Republic and the Training Centre for the Judges under the Supreme Court of the Kyrgyz Republic with support by the International Development Law Organization (IDLO) have developed a training program which was approved by the decision of the Council of Judges.

In accordance with the resolution of the Council of Judges as of January 28<sup>th</sup>, 2011, the Training Center for Judges under the Supreme Court of the Kyrgyz Republic announced that training for the candidates to a position of the local court judge will be provided based on competitive entrance examinations and, accordingly, 36 out of 287 applicants have been selected and accepted as trainees.

The trainees are completing the 420-academic hour theoretical part of the training during the period April 18<sup>th</sup> - July 27<sup>th</sup> of the current year. During the period July 28<sup>th</sup> -August 30<sup>th</sup>, 2011 the trainees completed on-the-job training in all the court instances and branches of SSEP under the Government of the Kyrgyz Republic and PSSI in ‘rayons’ of Bishkek with the total duration of one and a half months.

On October 7<sup>th</sup>, 2011 the Director of the Training Center for Judges signed an order that the trainees, upon completion of their training, were to receive certificates endorsed by the Council of Judges and approved by the acting President of the Supreme Court of the Kyrgyz Republic.

**The state target program “Development of the Judiciary of the Kyrgyz Republic 2013 – 2017”.** This program has been endorsed by the Council of Judges on May 24<sup>th</sup>, 2013. It was developed by a working group comprising of the representatives from the Council of Judges, Supreme Court, judicial department, and the President’s Office, with the support by the International Development Law Organization (IDLO), for the purpose of implementation of the Presidential Decree №147 as of August 8<sup>th</sup>, 2012 “On measures to improve justice in the Kyrgyz Republic”. The key objectives of the program are to:

1. Ensure actual independence of the judicial system:
  - 1.1. Eliminate external influence on the judiciary;
  - 1.2. Provide adequate financing of the judiciary.
2. Ensure transparency and accountability of the judicial system:
  - 2.1. Ensure transparency of the judicial activities;

2.2. Provide access of the citizens to the judicial acts, materials and archives.

3. Ensure efficiency and accessibility of courts:

3.1. Provide highly skilled and adequate staff to the judicial system;

3.2. Ensure efficient administration of justice;

3.3. Ensure compliance of the court infrastructure with modern standards.

4. Ensure the community's trust in courts:

4.1. Introduce an institute of jury;

4.2. Increase confidence in courts through external (independent) and internal systems of the judges' performance appraisal.

4.3. Introduce effective mechanisms of accountability of the judges;

4.4. Improve the mechanism of distribution of legal cases and materials.

**Memorandum of Agreement between the Government of the Kyrgyz Republic and the Organization on Security and Cooperation in Europe (OSCE) about implementation of the OSCE Program "On Support of the Law Enforcement Bodies of the Kyrgyz Republic" as of August 7<sup>th</sup>, 2003.**

Objectives of the Program:

- implement pilot projects aimed at increasing efficiency of the law enforcement bodies' operations;
- provide training on observance of human rights and fundamental freedoms;
- deliver different training/seminars for the employees of the law enforcement bodies;
- provide methodological support for the training;
- provide support in the reform of the law enforcement system;
- develop material-and-technical resources of the interior bodies.

The OSCE Program "On reforming the law enforcement system of the Kyrgyz Republic" has provided: training and methodological support to the law enforcement bodies of the Kyrgyz Republic; developed new methodology for the operation of the district police in conformity with the international standards; delivered seminars and training with involvement of the international experts; organized study tours in the neighboring and remote countries for sharing of experience, training and establishing links with law enforcement bodies; and procured vehicles, computer and office equipment, and office furniture.

For the purpose of implementation of the Presidential Decree as of January 21, 2013, № 11, "On the National Strategy for Sustainable Development of the Kyrgyz Republic for 2013-2017", paragraph 2.9, the Ministry of Internal Affairs of the Kyrgyz Republic developed measures for reforming the law enforcement bodies of the Kyrgyz Republic, which were endorsed on April 30, 2013 by the decree of the government of the Kyrgyz Republic № 220.

Measures reforming the law enforcement bodies would be performed in the following key areas:

1. "Promote cooperation of militia and the community in protection of public order and prevention of offences";
2. "Develop legislative and organizational-administrative frameworks and resource basis of the anticorruption component of the law enforcement reform";
3. "Update the system of professional training and personnel training".

Within the framework of the implementation of the above National Strategy, the Prosecutor General's Office of the country on 03.05.2013 endorsed the Action Plan for the implementation of the National Strategy for Sustainable Development of the Kyrgyz Republic for 2013-2017, which contained a list of activities aimed at the coordination of corruption control activities implemented by the law enforcement, fiscal, executive and local government bodies. Also the document has identified the tasks for establishment and maintenance of constitutional legality in the country, protection of human rights and freedoms, protection of the rights of businessmen and business activity, and guarantee of the principle of equality of all citizens before the law.

Based on the tasks set for the prosecutor's offices, the following measures were taken to ensure the rule of law in the country:

- Office of the Public Prosecutor has extended its cooperation with the law enforcement bodies of the neighboring and remote countries in the field of corruption control.
- Mandatory categories of cases were established for direct involvement of the 'rayon' and city public prosecutors in support of the official prosecution case in court.
- Practice of application of the legal standards to counteract the corruption-related crimes has been summarized and the proposals prepared to increase efficiency of those measures by means of drafting of the relevant normative legal acts.

Among the strategic tasks was defined openness of the public prosecutor's office for the public as the major factor of increasing confidence and authority; due cooperation with mass media was established to timely inform the public about the measures taken.

For the purpose of improving the operation of the Office of the Public Prosecutor of the Kyrgyz Republic, efficient activity in all areas of public prosecutor's supervision, and optimization of the organizational management structure, the General Prosecutor on 18.01.2012 issued an order № 4-p to endorse the Strategy of development of the Public Prosecutor bodies in the Kyrgyz Republic till 2015. This Strategy is a "road map" for the modernization process of the Public Prosecutor's system based on the need to adopt measures aimed at reforming of the Public Prosecutor's bodies for the purpose of protection of human rights and freedoms and state interests, increasing efficiency of activity of the Public Prosecutor's bodies, optimization of their supervising activities, and development of the resource basis of the service in the Public Prosecutor's bodies (see the Strategy on the site: [www.prokuror.kg](http://www.prokuror.kg)).

For the sake of reforming of the criminal-execution (penitentiary) system, a decree by the government as of 15.05.2012, № 297, endorsed the National Strategy for the development of the criminal-execution (penitentiary) system of the Kyrgyz Republic for 2012-2016.

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

#### **A. Financing activities**

The main activities needed for financing the courts are spelled out in the Presidential Decree (Paragraph 4 of the Recommendations endorsed by the Decree, see para. 1), but the same activities need to address inadequacies for the entire justice system. These include:

- Create/elaborate a section for the development of the judicial system within the National Development Strategy - a national target program - aimed at developing the judicial system of the Kyrgyz Republic that is approved by the Jogorku Kenesh of the Kyrgyz Republic.
- Include in budget legislation a fixed percentage rate for needs of the judiciary alone (all courts) in the amount of not less than 2% of national budget expenditures; provide adequate funding for courts, judicial department, and the judicial training center, as separate clauses in the budget, defining all articles of the budget for the judiciary as protected.
- Organize at least two hearings a year, initiated by the Council of Judges, of the report of the Ministry of Finance on the implementation of the budget.
- Review the rules of the law on state filing fees and unifying the rates; or adopt a separate law on court fees, which shall determine the rates and transfer of all recoverable amounts to the courts.
- Improve the payroll of judicial system by adopting a law on basic rates, allowances, etc.
- Provide mechanisms for distribution of workload of judges; make sure that the amount of workload correlates with staffing.
- Develop professional and administrative skills necessary to cope with the growing number of complex criminal cases.
- Implement the national automated system of judicial information and "Justice" management (NAS "Adilet sot") in all courts, including audio/video protocols, video conferencing, electronic document management, and court statistics.
- Include IT-specialists in the staff of courts; develop model projects of court buildings and courtrooms, which shall provide decent working conditions for judges, prosecutors, lawyers, and other parties; gradually allocate funds for the construction or reconstruction of buildings and bring them into operation.
- Provide a means of access to any with disabilities to all judiciary buildings.

#### **B. Legislative drafting activities**

According to identified legislative drafting needs, the Secretariat for the National Council on Judicial Reforms (a section of the President's Apparatus) on 1 February 2013 established six working groups tasked to draft new laws and codes on topics related to: criminal, criminal-procedural legislation, and civil-procedural legislation; administrative law and procedure; implementation of court decisions, status of judges and institutional independence of the judiciary. Bringing these laws and codes in compliance with applicable human rights standards is needed to improve fair trial guarantees, the administration of justice and increase public trust in the legal system. Transparency and inclusiveness in the law-drafting process is essential to ensure the legitimacy of justice system reform. Assistance is directed to help the justice system function independently, impartially, honestly, and to enhance the capacity of the justice system to uphold human rights standards and norms in criminal cases. Assistance has been arranged for technical and substantive support to the work of the Expert Working Groups, providing international standards, expert opinions, relevant legislation and practices of other countries, supporting joint

discussions and public discussion of legislative drafts. Key activities are to expand judicial oversight over any limitations on human rights and police investigative activities, eliminating the practice of “filling in the gaps of the investigation/re-investigation”, to introduce and widen the scope of alternatives to pre-trial detention within domestic law and proceedings, to combat torture and ill-treatment including through effective functioning of the National Center for the Prevention of Torture and implementation of UN human rights mechanisms’ recommendations.

### **C. Cross-sector prioritized activities:**

While important cross-sector activities to be implemented are identified in the Presidential Decree (and Action Plan), the following issues also should be carefully considered:

#### **1. Constitutional Chamber and other courts:**

- Support mobilization of the stakeholders to complete the process of appointing judges to the Constitutional Chamber; assist the Constitutional Chamber in its timely and professional start-up.
- Organize adequate training for newly appointed judges.
- Support networking with the Venice Commission and other renowned international centers.

#### **2. Police reform:**

- Support comprehensive police reform through strategic planning and organizational change management, self-assessment, professional training, strengthened civil society oversight, and crime prevention (through cooperation with local authorities and civil society, i.e. Community-Policing).
- Promote measures to prevent and respond to hate-crimes and violence against women, minors, ethnic minorities and other vulnerable groups.
- Increase the quality of investigation and remove quantitative indicators as bases for the evaluation of the quality of work of the police.

#### **3. Procuracy reform:**

- Support legislative reforms and organization measures to enable/enhance prosecutorial independence and effectiveness in accordance with the Constitution.
- Enhance accountability and public understanding of the functions of the prosecutor’s office, professional training to support state prosecution in the court, and carrying out overall oversight on implementation of the laws.

#### **4. Legal aid and access to justice:**

- Develop an integrated approach to the provision of legal assistance to criminal defendants and suspects at all critical stages in criminal cases.
- Review the existing system of free legal aid and design ways to ensure its effectiveness, to improve access to justice and attractiveness to lawyers to engage in free legal aid, and make it available to intended beneficiaries, particularly in rural areas; design monitoring systems to ensure its effectiveness and timeliness.
- Ensure objective consideration of all cases related with June 2010 events and re-consideration of court decisions, which were adopted with violations of international and national norms on fair trial. Widen access to free legal aid, including civil cases.

**5. Prison reform:**

- Improve legal safeguards and conditions of detention for prisoners.
- Increase the scope of alternatives to imprisonment: decriminalizing certain acts, reducing sentences for selected offences, and developing a contemporary probation service.
- Support offenders and ex-offenders to address their social reintegration needs (including in the area of criminal justice as well as labor, education, and social welfare).

**6. Development of a unified bar:**

- Commence staged establishment of a unified independent professional bar, self-regulation of the advocatura and ensure minimum standards of competence, training, and regulation of professional activities of attorneys.

**7. Legal Education and training in the area of human rights:**

- Enhance the capacity of the judiciary, prosecutor's office, the defense lawyers, law enforcement agencies and penitentiary system to train and educate their officers; incorporating human rights standards.
- Organize and conduct joint trainings for representatives of judicial system, prosecutor's office, attorneys, law enforcement bodies, as well as workers of the penitentiary system.
- Create conditions for sustainable state funding of centers for professional development for representatives of the entire justice system.

**8. Anti-corruption:**

- Review and reform oversight procedures related to corruption, lack of due process, and other miscarriages of the law and reinforce civil oversight procedures.

**9. Informal justice sector support:**

- Review and reform alternative dispute resolution mechanisms respecting international human rights standards.

**10. Judicial branch oversight:**

- Strengthen the institutional capacity and other mechanisms for implementing laws and court decisions within the Legislature, Judiciary and Executive.
- Assist the Supreme Court and Task Force to conduct monitoring and semi-annual reporting on enforcement of judicial decisions, and review via public platforms.
- Encourage governmental and civil society analysis of judicial practices and incorporation of proposals into legislative changes through interactions between branches of power.
- Strengthen the role of the Council of Judges and Council for Selection of Judges to ensure the independence of the judicial branch.

#### IV. Sector development assistance already confirmed or under consideration for 2013-2017

##### Sector development assistance already confirmed for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/loan/other	Any other info
United States Agency for International Development	USAID-IDLO Kyrgyzstan Judicial Strengthening Program	International Development Law Organization (IDLO)	October 1, 2011 – September 30, 2016	US\$ 5,000,000	Cooperative Agreement (grant/technical assistance)	
United States Agency for International Development	ABAROLI - Support to the Kyrgyzstani Legal Defense Community Program	American Bar Association Rule of Law Initiative (ABAROLI)	February 1, 2012–January 31, 2015	US\$ 1,600,000	Cooperative Agreement (grant/technical assistance)	
Federal Ministry for Economic Cooperation and Development, Germany	Promoting the Rule of Law in Central Asia	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	April 2012 – September 2014			

##### Sector development assistance under consideration for 2013-2017:

Donor	Name of the project	Implementing partner/ Contractor	Implementation period	Amount (in original currency)	Budget support/ grant/loan/other	Any other info
European Union	Oversight Mechanisms and Judiciary Reform	Consortium lead by EU member states' organizations		EUR 10,000,000		
European Union	Civil Society and Media	NGOs		EUR 3,000,000		

## **Conflict Prevention**

### **High-level Conference with Donors**

### **10-11 June, 2013**

(Text proposed by Partners from the Kyrgyz Republic)

#### **I. Challenges facing the Sector:**

During the consultation with a wide range of representatives of state agencies, local authorities, civil society organizations, the following issues in various spheres have been indicated:

- **Selective application of law by law enforcement and judicial authorities.** This causes a sense of lack of security provided by the government and a search for alternatives and informal ways to solve problems. Numerous unresolved issues result in impunity, which increases the sense of relative vulnerability (by social, ethnic, religious, and other criteria).
- **Insufficient potential of state authorities and local government** to work with diverse society of Kyrgyzstan. This affects involvement in decision making process on national and local levels of different social groups (women, ethnic groups, youth). This is also connected to general low level of services, which are provided unevenly among the population. As a result, this leads to low level of trust of society towards the government.
- **Insufficient potential of government authorities on national and local levels in decision making** on contentious issues, including interethnic relations, cross-border issues, mining, and other urgent matters. Local authorities have low capacity in conflict detection and prevention and in coordination of respective issues with law enforcement agencies and civil society.
- **No effective language policy is developed.** There is no acting mechanism to ensure effective ownership of both state and other languages. Education system is currently an inappropriate tool for the multilingual policy implementation. Usually this issue is politicized and a little time left for its implementation.
- **Weak manifestation of civic identity and a sense of belongingness to the country** is one of the damages for nation and state building. It leads to attempts to dominate the structure of interethnic relations and decrease of tolerance.

At the same time, there is potential to solve abovementioned issues by establishment of institutional framework in government system (Department of ethnic, religious policies and civil society interaction in President's Office, President's Advisor on interethnic relations, state agency of local government and interethnic relations) and by development of related policy, reflected in the National Strategy for Sustainable Development of the Kyrgyz Republic 2013-2017 and the Concept of Strengthening people's unity and interethnic relations in the Kyrgyz Republic.

#### **II. The main Government Strategies and Programmes for the current period**

The following documents, developed by the government, will be considered as the main sources of information:

- Strategy on Sustainable Development – adopted 21 January 2013;
- Concept of National Security – adopted 1 June 2012;

- Report of working group of State Committee of National Security, Ministry of Interior, General Prosecutor's Office on circumstances and chronology of May-June 2010 events – introduced in June 2012;
- Concept of Strengthening people's unity and interethnic relations – approved by President of the Kyrgyz Republic 10 April 2013;
- Presidential decree on urgent measures to strengthen public security in the Kyrgyz Republic – adopted 1 February 2012;
- National plan of Action on realization of Security Council Resolution 1325 “Women, peace, and security” (1325) – adopted 18 February 2013;
- Universal Progress Review in the Kyrgyz Republic – discussed 3 May 2010  
<http://www.ohchr.org/EN/HRBodies/UPR/PAGES/KGSession8.aspx>;
- Progress report to UN Committee on the Elimination of Racial Discrimination – discussed 18-19 February 2013;
- Plan of priorities on peacebuilding, developed jointly by the Government of KR and UN system for implementation in the framework of financing by UN Peacebuilding Fund (in progress, June 2013).

### **III. Prioritised Sector activities requiring development assistance in 2013-2017**

As a result of public consultations and analysis, the following priority areas have been defined:

#### **1. Rule of Law and Human Rights**

- Ensure equal access to justice, civil control over law enforcement agencies and accountability in reflection of diverse society (gender, ethnic, age based) in government on national and local levels.
- Increase capacity of state authorities and LSG in interaction with civil society.
- Increase capacity of both state and public Human Rights institutions.
- Establish and strengthen effective mechanisms and communicative areas of dialogues to ensure population's participation, including vulnerable groups, in decision making processes related to their rights and interests.

#### **2. Local government and Peacebuilding on local level**

- Increase capacity of local government agencies in coordination of their activities with state agencies and civil society on detection, warning and resolution of conflicts and tensions;
- Increase capacity of local government agencies in involvement of various groups of interests in the decision making processes on municipal level.

#### **3. Civic identity, multilingual diversity and respect of diverse society of Kyrgyzstan.**

- Forming the image of modern citizen of the country. Support for educational and cultural initiatives for their promotion;
- Development of state language with focus on positive stimulating mechanism. Stimulating natural demand on use of state language and expanding scope of its application.
- Piloting and spread of programmes of multilingual education. Approval of multilingual education programme as a national one;
- Providing conditions for development of national minorities' languages, including by means of mass media. Promotion of balanced editorial policy of mass media through mechanisms of the media community self-regulation;
- Improving effectiveness of civic education on all levels of education system. Improvement of content of educational disciplines and revision of educational materials;
- Promotion of cultural policy through reflection of political culture of the country in general, and in its regions, in particular. Promotion of youth exchange programmes and providing youth with skills of effective operation in diverse society.