



Country Partnership Strategy

August 2013

Kyrgyz Republic 2013–2017

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 24 July 2013)

Currency Unit	–	som (Som)
Som1.00	=	\$0.0204
\$1.00	=	Som49.03

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAPE	–	country assistance program evaluation
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	country partnership strategy
GDP	–	gross domestic product
M&E	–	monitoring and evaluation
NSDS	–	National Sustainable Development Strategy
PPP	–	public–private partnership
TA	–	technical assistance
WSS	–	water supply and sanitation

GLOSSARY

oblast	–	a governmental subdivision, corresponding to province or state
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NOTES

- (i) In this report, "\$" refers to US dollars.

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CONTENTS

	Page
COUNTRY AT A GLANCE	
I. DEVELOPMENT TRENDS AND ISSUES	1
A. Country Background	1
B. Economic Assessment and Outlook	2
C. Highlights of Previous ADB Country Strategy	3
II. THE COUNTRY STRATEGY	4
A. Government National Strategy	4
B. ADB Country Strategy	4
III. STRATEGY IMPLEMENTATION	8
A. Indicative Resource Parameters	8
B. Program Overview	9
IV. RESULTS MANAGEMENT	10
A. Monitoring	10
B. Risks	10
APPENDIXES	
1. Country Partnership Strategy Results Framework	11
2. List of Linked Documents	13

COUNTRY AT A GLANCE

Economic	2008	2009	2010	2011	2012
GDP (\$ billion, current) ^a	5.1	4.7	4.8	6.2	6.5
GDP per capita (\$, current) ^a	969.3	865.9	875.3	1,116.6	1,143.5
GDP growth (% , in constant prices) ^a	8.4	2.9	(0.5)	6.0	(0.9)
Agriculture	0.9	6.7	(2.6)	1.9	1.2
Industry	14.0	(0.3)	2.5	7.0	(13.8)
Services	11.0	2.3	(1.1)	6.9	6.2
Gross domestic investment (% of GDP) ^a	28.9	27.3	27.4	25.5	...
Gross domestic saving (% of GDP) ^a	16.7	25.1	20.8	19.8	...
Consumer price index (annual % change) ^a	24.5	6.8	7.8	16.6	2.8
Liquidity (annual % change in M2) ^b	12.6	17.9	21.1	14.9	23.8
Overall fiscal surplus (deficit) (% of GDP) ^c	0.0	(3.7)	(6.3)	(4.8)	(6.6)
Merchandise trade balance (% of GDP) ^b	(36.6)	(23.9)	(25.1)	(26.9)	(46.2)
Current account balance (% of GDP) ^b	(13.7)	(2.2)	(7.2)	(6.1)	(20.9)
Total external debt service (% of exports of goods and services) ^a	26.8	41.4	25.9	11.5	11.3
Total external debt (% of GDP) ^a	69.9	87.8	91.4	78.6	83.4

Poverty and Social	2008	Latest year
Population (million) ^a	5.3	5.7 [2012]
Population growth (annual % change) ^a	1.1	2.0 [2012]
Maternal mortality ratio (per 100,000 live births) ^d	77.0	[2005] 71.0 [2011]
Infant mortality rate (per 1,000 live births) ^d	38.0	[2005] 27.0 [2011]
Life expectancy at birth (years) ^a	68.4	68.0 [2012]
Adult literacy (%) ^e	98.7	[1999] 99.2 [2009]
Primary school gross enrollment (%) ^a	99.7	100.0 [2011]
Population below poverty line (%) ^a	31.7	36.8 [2011]
Urban population with access to safe water (%) ^f	99.0	99.0 [2010]
Urban population with access to sanitation (%) ^f	94.0	94.0 [2010]

Environment	2008	Latest year
Carbon dioxide emissions (in million tons) ^f	1.0	...
Carbon dioxide emissions per capita (metric tons per capita) ^f	1.2	...
Forest area (kilometer ²) ^a	...	1,123.1 [2011]
Urban population (% of total population) ^a	34.38	33.95 [2011]

ADB Portfolio (Sovereign Loans and Grants, as of 31 December 2012)^g	ADF	Total
Total number of loans & grants	51	51
Net loan & grant amount (\$ million, cumulative)	1,144.1	1,144.1
Disbursements		
Total funds available for withdrawal (\$ million)	500.7	500.7
Disbursed amount (\$ million, cumulative)	247.1	247.1
Percentage disbursed (disbursed amount/total available)	49.3	49.3

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

Sources:

^a National Statistics Committee.

^b National Bank of the Kyrgyz Republic.

^c International Monetary Fund, National Statistics Committee.

^d World Health Organization data.

^e Produced once in 10 years and based on population census data by the National Statistics Committee.

^f World Development Indicators.

^g Asian Development Bank.

I. DEVELOPMENT TRENDS AND ISSUES

A. Country Background

1. The Kyrgyz Republic is a mountainous, landlocked country of 5.7 million people in the heart of Central Asia. It is surrounded by the People's Republic of China, Kazakhstan, Tajikistan and Uzbekistan. At \$1,144, the country's 2012 per capita gross domestic product (GDP) was the second lowest in the Commonwealth of Independent States.¹ Political unrest stalled economic growth in 2005 and 2010. The Kyrgyz Republic has only limited resources to meet its challenges of achieving sustainable growth, reducing persistent poverty, and restoring public trust in government.

2. A popular revolt called the Tulip Revolution ousted the country's president, Askar Akaev, in March 2005. The unrest appeared to have been triggered by public dissatisfaction with the conduct of elections in February 2005, although the underlying causes were complex. They included public dissatisfaction with a lack of tangible improvements in life for many, corruption, and increasing perceptions of nepotism. These issues persisted under the succeeding president, Kurmanbek Bakiev. In 2010, hikes in electricity tariffs led to a surge in popular discontent. In April 2010, major protests across the country forced the president to leave. The April political unrest was followed by ethnic violence in June in which, hundreds of people died and a great deal of property was damaged. Although stability has returned, the reconciliation process has been slow and especially painful in Osh City, the country's second largest city.

3. In June 2010, the country adopted a new constitution that replaced the republic's presidential system with a parliamentary one. Parliamentary elections were held in October 2010. In 2011 presidential elections, a former prime minister, Almazbek Atambaev, won an outright majority with 63% of votes. This was the first peaceful transfer of presidential power in the Kyrgyz Republic's independent history.

4. **Poverty and Inequality.** Persistent poverty and economic disparities contributed to the past popular unrest and remain the government's greatest challenges. The poverty rate declined rapidly from 56.4% in 2001 to 31.7% in 2008, but a harsh winter in 2008 and the effects of the global economic crisis in 2009 stalled progress.² The global crisis particularly affected remittances, which are an essential source of financial support for many households. The poverty rate rose to 33.7% due to the impact of the protests in 2010 and to 36.8% in 2011. Bishkek City, the Chui oblast that surrounds it, and Issyk-Kul oblast have substantially lower poverty rates than the rest of the country. Poverty rates often differ little between rural and urban areas within oblasts. Inequality measured by the consumption Gini coefficient declined from 0.27 in 2005 to 0.23 in 2011, while the income Gini coefficient declined from 0.43 to 0.38. Education level is a significant determinant of poverty.

5. **Gender equity.**³ The Kyrgyz Republic scores high on international gender equity indices for education but consistently low on the economic and political empowerment of women. Since independence, declining employment opportunities have limited the economic activities of women. Women are active in the informal sector, but their average earnings in the formal labor market in 2010 were only 63.6% of men's. The labor force participation rate for women is 52.3%, compared with 76.6% for men. Women are overrepresented in public

¹ An organization of nine countries that once were part of the former Soviet Union.

² Poverty Analysis, Country, and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).

³ Gender Analysis (accessible from the list of linked documents in Appendix 2).

education and health sector jobs, which pay relatively low salaries but provide other benefits and often demand shorter working hours. Women are also underrepresented in managerial positions.

6. **Millennium Development Goals.** The 2011 Millennium Development Goal progress report found that the Kyrgyz Republic had reached benchmarks for several indicators, including the reduction of extreme poverty, which fell rapidly up to 2008. But it is likely to fall short of targets on maternal and child mortality; gender equality; combating HIV/AIDS; and improving access to safe drinking water and sanitation.

B. Economic Assessment and Outlook

7. **Economic performance.** The Kyrgyz Republic has been open to change and new ideas, and the new government has initiated an ambitious reform program. Many of these reforms have been incomplete or not enforced in practice, however. Although the country has one of the most open economies in the world, its exports are highly concentrated in terms of goods and markets, which leaves it susceptible to external economic shocks. Kazakhstan, the Russian Federation, Switzerland, and the United Arab Emirates account for more than two-thirds of exports. Gold makes up 46% of exports, and the Kumtor Gold Company alone accounts for more than 10% of GDP.

8. The Kyrgyz Republic grew by an annual average of 3.9% during 2001–2012, despite its multiple challenges. Growth has been periodically undermined by political events, economic crises, and technical issues affecting gold production. Following the events of 2010, GDP contracted by 0.5% in 2010. The economy in the country's South was especially hard hit by a closure of borders with Uzbekistan. Recovery began in 2011, with GDP growth of 6.0%, but GDP fell by 0.9% in 2012, when gold production declined. Gold production is expected to recover in 2013, and the Asian Development Bank (ADB) projects GDP growth of 7.5% for the year. The government has growth targets of more than 7% for 2013 and 2014. The factors involved in the uneven growth pattern show clearly that political stability and economic diversification are needed to make the country's growth sustainable.

9. Services, particularly transport and communications, have grown rapidly. The service sector's share in GDP increased from 31.5% in 2001 to 46.6% in 2012. The share of agriculture declined from 34.5% to 17.5% during the same period, while the share of industry remained roughly constant. On the demand side, growth was driven by the consumption financed by remittances, which have increased rapidly since 2000 and was equivalent to 27.3% of GDP in 2012. In 2012, two-thirds of investment was directed to Bishkek City and Chui and Issyk-Kul oblasts and concentrated in the transport and communications and mining sectors.

10. **Employment.** Employment has not grown as quickly as GDP. Official unemployment was about 8.5% in 2011, with an estimated 20% of the labor force working abroad, mostly in the Russian Federation or Kazakhstan. Off-farm work is increasingly important—only 46% of the overall rural population (including workers absent abroad) worked in agriculture. The country's labor productivity is among the lowest in Central Asia, although it has been increasing gradually since 1995. Labor migration has contributed to reducing rural poverty.

11. **Private sector.** The private sector accounts for 75% of GDP and dominates most sectors.⁴ A very large number of small economic entities—mainly farmers, individual

⁴ Private Sector Assessment Update (accessible from the list of linked documents in Appendix 2).

entrepreneurs, and small enterprises operating in the informal sector—dominate the economy. Few large firms with strong growth prospects exist. State ownership is concentrated in infrastructure, utilities, and social services. Infrastructure markets are characterized by limited competition and include monopolistic structures dominated by state-owned enterprises. In addition to its policy and regulatory roles, the government is generally responsible for public infrastructure, directly or through state-owned enterprises.

12. **Inclusive growth.** The Kyrgyz Republic needs economic growth that is inclusive to reduce poverty. A diagnostic study financed by ADB has identified binding constraints to inclusive economic growth.⁵ Political instability, weak rule of law, and corruption are the most serious constraints to growth. Other constraints to the country's economic growth are (i) a shortage of skilled labor due to the low quality of education and training, (ii) the high cost of finance, and (iii) an unreliable electricity supply. The problems of skill shortages and the high cost of finance are especially acute in remote oblasts. Addressing these constraints, combined with support for private sector development, can likely accelerate growth, but making such growth inclusive will require that people be given more equitable access to economic opportunities. The population, especially young people in remote oblasts and the poor and vulnerable, must be provided with greater access to the quality training and education that will make them employable. Improving access to affordable finance not only in the better-off regions of Bishkek City and the surrounding oblasts but also in the country's remote oblasts will help distribute economic opportunities more evenly across geographical areas.⁶

C. Highlights of Previous ADB Country Strategy

13. The country partnership strategy (CPS), 2007–2010 for the Kyrgyz Republic was part of the joint country support strategy for 2007–2010.⁷ The CPS focused on (i) road transport and communications, (ii) agriculture and natural resources, and (iii) education. ADB also addressed the cross-cutting themes of (i) private sector development, (ii) regional cooperation, and (iii) environmental sustainability. The energy sector was included in 2010.

14. A 2012 country assistance program evaluation (CAPE) rated ADB's country strategies and assistance programs in the Kyrgyz Republic *successful*.⁸ ADB's strategic positioning was rated *satisfactory*, its programs *relevant* and *effective*, and its resource use *efficient*. However, outputs and outcomes were assessed as *less than likely* to be sustained because the road network supported by ADB, was not well maintained. The CAPE found the performance of ADB support to transport, finance/private sector development, education, agriculture and natural resources, and health sectors, to have been *successful*. Performance in rural water supply and sanitation (WSS) and in public sector management was rated *less than successful*. The CAPE recommended that ADB (i) focus on a few sectors where government ownership is strong and

⁵ ADB. 2012. *Technical Assistance to the Kyrgyz Republic for Support for Strategic Assessment of the Kyrgyz Economy to Promote Inclusive Economic Growth*. Manila.

⁶ Another requirement for inclusive growth is social protection. Although the targeting needs to be improved, the Kyrgyz Republic's social protection system compares favorably with those of many similar countries in terms of the percentage of GDP spent. A much greater impact on poverty would require increases in social protection payments that are beyond the country's current means. Other development partners, including the World Bank and the European Commission, are supporting the social protection sector.

⁷ ADB. 2007. *Joint Country Support Strategy: Kyrgyz Republic, 2007–2010*. Manila. The joint country support strategy was prepared in cooperation with the Government of Switzerland, the Department for International Development of the United Kingdom, United Nations agencies, and the World Bank Group. The European Commission, the Government of Germany, and the International Monetary Fund later joined the joint country support strategy.

⁸ ADB. 2012. *Country Assistance Program Evaluation. The Kyrgyz Republic: Evolving Transition to a Market Economy*. Manila.

ADB is capable of delivering results; (ii) address sustainability issues during the project design stage; (iii) use advisory technical assistance (TA) strategically; (iv) improve the CPS results framework and continue helping the country improve results orientation and the overall monitoring and evaluation (M&E) system; (v) address climate change adaptation; and (vi) continue efforts to boost ADB's private sector operations and improve the investment climate.

II. THE COUNTRY STRATEGY

A. Government National Strategy

15. In January 2013, the President of the Kyrgyz Republic approved the National Sustainable Development Strategy (NSDS) for 2013–2017, which was developed by the National Council for Sustainable Development of the Kyrgyz Republic. The strategy aims to achieve successful, stable democracy, along with stable growth in GDP and household incomes. Persistent poverty and regional disparities are recognized as key challenges. The strategy addresses the causes of instability directly by making the rule of law, national unity, and the integration of all ethnicities its main goals.

16. The strategy calls for governance reform in the public sector as well as broader anticorruption measures. The government plans to increase transparency in its decision making and budgeting and improve the efficiency of state institutions and the quality of civil servants. Anticorruption measures include improvement of the judiciary system and the legal framework, a reform of law enforcement, and the reduction of rent-seeking opportunities. Civil society's active involvement in controlling corruption is sought.

17. The NSDS's main economic priority is to create an enabling environment for the private sector and thereby attract investment and drive growth. Public investments and national projects are to focus on mining, energy, finance, transport and communications, tourism and services, and agro-industry. The strategy aims to reduce poverty mainly by creating new jobs and better access to good education and training to make people employable, and improving social assistance to pensioners and low-income groups. The government intends to address regional disparities by attracting investment to areas outside of the traditional growth centers of Bishkek City and Issyk-Kul and Chui oblasts, largely by improving the business climate.

18. ADB's Strategy 2020 and the NSDS share a common goal of reducing poverty through inclusive growth. Both see private sector development and good governance as drivers of change. Infrastructure and education are given priority under both strategies to achieve inclusive growth. The country's needs, however, go far beyond these common priorities.

B. ADB Country Strategy

19. **Objectives.** The overarching goal of the CPS for 2013–2017 is poverty reduction through inclusive economic growth. ADB will help the government achieve inclusive economic growth by addressing key constraints to economic growth, improving the investment climate, and reducing disparities in access to economic opportunities. It will do this by helping reform legal and regulatory frameworks to improve the business environment, expand access to affordable finance across the country, improve the reliability of electricity services, help people become more employable, maintain and enhance connectivity, and reduce the gaps between regions in levels of basic infrastructure and services. ADB is already active in these areas, but a sharper focus on addressing regional disparities is needed in each of these sectors. The priority sectors and themes are selected based on the results of diagnostic studies, close alignment

with the government strategy, recommendations in the 2012 CAPE, the availability of ADB's resources and its capacity to deliver, the capacity and ownership of the government counterparts, and complementarity with other development partners' programs.

20. **Regional cooperation.** Regional integration is essential to improve the Kyrgyz Republic's economy and its people's livelihoods. Since 2001, 20 regional projects in the transport, energy, and trade facilitation sectors have been implemented in the country under the Central Asia Regional Economic Cooperation Program (CAREC). Transport connectivity will continue to be important. To enhance its benefits, ADB may support measures to strengthen trade facilitation; improve customs and logistics along the regional corridors; and upgrade quality control, especially of agriculture and livestock products. ADB will support essential regional energy sector projects, as the energy sectors of the Kyrgyz Republic, Kazakhstan, Tajikistan, and Uzbekistan are heavily interdependent.⁹

21. **Gender equity.** ADB will support the implementation of the government's national gender action plan and focus on increasing economic opportunities for women. ADB's support for private sector development will include measures to address gender barriers and ensure gender equity in access to skills development programs and education. While improvements in transport and energy infrastructure will benefit both men and women, improved WSS services will especially benefit women.

22. **Climate change and environment.** Many development partners have been helping the government address environmental concerns and disaster management, including disaster impact assessment. ADB and the government agree that ADB will support (i) to improve the capacity of public institutions and the country's environmental legislation to international standards, and (ii) to harmonize the national safeguard system with ADB's Safeguard Policy Statement (2009). Under the CPS, ADB will also (i) climate-proof energy and transport project designs to protect investments, people, and ecosystems; and (ii) enhance climate change data and information through knowledge products.¹⁰

1. Sectors

23. **Public sector management for improving investment climate.** ADB has been working with the government on improving the business environment through the Investment Climate Improvement Program (ICIP),¹¹ tax and customs projects that improved the efficiency of tax payment and customs services, and TA projects to introduce a public e-procurement system. Upstream program support for regulatory and legislative reforms required for private sector development will continue under the new CPS. Based on experience from its previous operations, ADB will focus on reducing barriers to businesses, improving access to affordable financing, and promoting public-private partnerships (PPPs). Simplifying the licensing, inspection, taxation, and foreign trade clearance regimes not only reduces barriers, but also reduces rent-seeking opportunities.

⁹ ADB. 2012. *CAREC 2020: A Strategic Framework for the Central Asia Regional Economic Cooperation Program 2011–2020*. Manila.

¹⁰ ADB-financed construction follows the national construction standards, which cover disaster management. This includes seismic risk.

¹¹ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Grant for Subprogram 1, and Grant Assistance to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

24. To make financing more affordable and widely accessible, ADB will support expansion of the financial sector. It will seek to expand long-term domestic funding options, particularly through mobilizing domestic savings. Greater access to finance in remote provinces should be promoted by facilitating the introduction of a variety of financial products, including mobile banking and electronic payment systems. To improve gender equity, ADB could also support business advisory services for women entrepreneurs.

25. **Energy.** The Kyrgyz Republic has potential to expand its hydropower capacity, which now produces more than 80% of its electricity. Electricity supply has deteriorated and become unreliable. Frequent power outages hurt businesses and negatively affect the general population. The energy sector is plagued by high commercial and technical losses, poor corporate governance, aging assets in serious need of rehabilitation and upgrading, and artificially low tariffs. In 2012, the government adopted a new sector strategy and developed a reform action plan. This was done in close consultation with development partners, including ADB, the United States Agency for International Development, KfW, and the World Bank. The government intends to (i) improve state regulation of the sector, (ii) improve the management of energy companies and increase the transparency of corporate activities, (iii) gradually increase tariffs, and (iv) increase production for more reliable domestic electricity supply and higher electricity exports.

26. ADB operations in energy will aim to improve the reliability and financial sustainability of electricity supply. ADB will focus on (i) rehabilitation and upgrading of key existing assets, including hydropower plants; and (ii) institutional and technological reform to improve efficiency in the sector. To achieve this efficiency, ADB is supporting an information and education campaign to inform the public of the energy sector's problems and the need for, and role of, future increases in tariffs. Because the Kyrgyz Republic needs significant investment to sustain the energy system, ADB will selectively support the most important areas where investments are needed. ADB support will require progress on the government's key reforms. ADB has been working closely with the generation and transmission companies. It may now expand this support to help improve the management of distribution companies, which is a government priority.

27. **Education and training.** A shortage of skilled or qualified workers is a major constraint on economic growth in the country. This is mainly caused by a deterioration in the quality of general and vocational education, the failure of the education system to offer training that meets the market's needs, and migration. An individual's levels of education and skills are important determinants of employability and wages. Data show that graduates of vocational schools and tertiary education are more likely to be employed than high school graduates. Yet, 50% of the country's high school graduates do not go on to higher education or vocational schools, and the prevalent youth unemployment that is considered a simmering cause of social unrest. The number of higher education institutions and graduates grew rapidly during 2001–2011, despite significant challenges, including extremely low government funding and underprepared incoming students.

28. ADB will support the government's Education Development Strategy 2020 under the sector-wide approach umbrella by helping the government reform the education system to produce more skilled and qualified workers and improve the ability of new graduates to find jobs. ADB will build on ongoing ADB assistance and begin to address the shortage of middle-level workers by supporting further government reforms in the technical and vocational education and training system. The aim will be to improve the quality of education and training and make the system flexible, demand-driven, and capable of responding effectively to

changing needs of the economy and the labor market. ADB may also continue to help improve the quality of general education and may support selected higher education reforms. ADB investment will be designed to benefit rural areas and smaller towns in particular, with special attention to female students and poor and vulnerable children.

29. **Transport and logistics.** ADB has supported rehabilitation of 831 kilometers of road on five regional transport corridors in the past to increase trade and economic activities through better connectivity. Economic activities have increased along these corridors, with a large number of people trading goods imported along improved roads from the People's Republic of China. While the regional corridors have brought economic benefits, the government has found maintenance of the expensive road network to be a major challenge. It urgently needs a comprehensive road asset management policy and plan to address financial, technological, and institutional issues. ADB's first operational priority will be to help the government develop and implement this policy and plan, jointly with development partners; and to support the rehabilitation of the two remaining sections of Bishkek–Osh Road, with efforts included to identify climate change adaptation measures. ADB will continue to help the government develop and implement its road safety action plan, which will include road safety audits and capacity building.

30. ADB may also support the development of logistics and trade facilitation systems, and assist the government in upgrading key feeder roads to improve access of remote rural villages to city centers or to major corridors. As a continuation of the country's long-term transport master plan study completed in 2012, ADB will help the government develop a transport sector strategy, in coordination with other development partners.

31. **Water supply and sanitation.** The country's WSS infrastructure and services, while robust though uneconomically run under the former Soviet Union, have greatly deteriorated due to a lack of proper maintenance. The infrastructure is dilapidated, and many of the 1,074 water systems are failing. The volume and quality of water supply have declined. Water loss rates are now conservatively estimated at 35%–45%. WSS services are significantly worse in rural areas, where collecting water can constitute a significant time burden, especially for women. Raising the quality of rural WSS system would therefore reduce one of the regional disparities in living standards and contribute to inclusive growth. ADB has made intensive efforts to identify and discuss problems and lessons regarding WSS with the government and communities. The lessons learned from the three ongoing ADB financed projects and a WSS governance assessment conducted with the DFID's financial assistance suggest an urgent need for a national WSS sector strategy, along with reforms in governance, regulation, operations, and implementation arrangements.

32. Given persistent government requests for further assistance in the WSS sector and the government's commitment to address governance problems, ADB will continue support for WSS development, adjusting its approach based on the lessons learned. The government is preparing a long-needed WSS sector strategy. In the first stage of its support, ADB will provide assistance for reforms and capacity development. TA support for reforms should concentrate on (i) strengthening institutional capacity for WSS program development and implementation; (ii) developing a transparent financing and subsidy mechanism that will incentivize cost recovery and efficiency; and (iii) developing a better, updated regulatory framework. These reforms and the identification of a sustainable model will be followed by investment assistance in the second stage, provided that strong government and community ownership is demonstrated. ADB will also support the second Issyk-Kul Sustainable Development Project to complete the upgrading of WSS infrastructure and service delivery in the three main cities by the Issyk-Kul Lake.

2. Drivers of Change

33. **Knowledge solutions.** The Kyrgyz Republic faces political and economic challenges beyond its domestic capacity. Foreign direct investment, which often brings new technology and knowledge, remains small. People comprise the most important driver of change, as the Kyrgyz Republic's recent political history has demonstrated. Developing the human capital of the Kyrgyz Republic through better education and skills training is critical to building domestic capacity and meeting the country's challenges. The country may also benefit from the development lessons of others. In response to government requests and the CAPE's recommendation, ADB will provide advisory and capacity development TA strategically in key reform areas. This will help the government build capacity, learn from the experience of other countries, and develop innovative solutions.

34. **Private sector development.** ADB will support private sector development by improving the investment climate, providing assistance for national and cross-border infrastructure and services, and raising workforce skills. In 2011, the Kyrgyz Republic ratified a PPP law developed with ADB's support. ADB will support further necessary legal and regulatory adjustments and the identification of possible PPP projects. A few PPP projects are expected to begin in the country during the CPS period. In addition to projects that may be targeted by ADB private sector operations, ADB may provide transaction advisory services to help public sector entities structure potential private-sector-led transactions and to advise on PPP projects in the health and education sectors.

35. **Private sector operations.** ADB's direct assistance for private sector projects may include lending in such important areas as telecommunications; oil and gas production, processing, and pipelines; and manufacturing projects aimed at energy efficiency and environmental improvement. Projects in agribusiness, logistics, and construction materials (mainly cement) will be considered. Operations in the financial sector will concentrate on trade finance and lending to financial institutions for such high development impact sectors as microfinance, small and medium-sized enterprises, leasing, and agribusiness. ADB is also willing to support traditional infrastructure investments (power, airports, roads, rail, water, and solid waste) when the government is able to attract private investors with relevant sector experience into such projects. However, ADB notes the prior need for significant upstream work by the government in terms of project preparation and regulations in line with international standards.

36. **Governance.** Improving governance and reducing corruption are the government's top priorities. Good governance is essential for regaining public trust and thereby achieving political stability and attracting investment. ADB's operations, especially in the energy and WSS sectors, address governance challenges, and ADB will continue to assist the government's e-procurement initiative.

III. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

37. The 2012 debt sustainability analysis concluded that the Kyrgyz Republic is at a moderate risk of debt distress. It continues to be eligible for ADF grants and loans. The ADF allocation for 2013–2014 is \$121.44 million, and the indicative allocation for 2015–2016 is \$124 million. ADB and the government will actively mobilize cofinancing to meet the country's resource needs. Under the established agreements with the government, the country cost-

sharing ceiling for the portfolio of ADF grants, loans, and TA projects is set at 99%. Individual projects may be accorded ADB financing for up to 99% of total project costs.¹²

B. Program Overview

38. On average two projects are programmed per year to avoid overstretching the limited implementation capacity of the government. The country operations business plan for 2014–2016, which also includes the 2013 pipeline, incorporates support for the rehabilitation of an existing major hydropower plant, ICIP, the rehabilitation of the Osh–Bishkek regional corridor, education sector reform, and projects to improve WSS and regional trade. The selection and sequencing of the projects are primarily determined by the strategy, but the ownership and absorption and implementation capacity of counterpart agencies are also factors, as is the performance of preceding projects in the sector. For example, gaps of 1 year or more will be provided between approvals of projects in the same sector to avoid stretching relatively weak government capacity and ensure the quality of ongoing operations.

39. **Improving project implementation.** Portfolio performance has suffered implementation delays and irregularities in procurement. Although some delays were unavoidable due to major political events, others were caused by the limited capacity in executing and implementing agencies for project implementation. The results included failure to comply with social and environmental safeguards and inadequate diagnostics and risk assessments. The government and ADB will develop a country-specific project readiness filter to improve quality at entry. The filter will include measures to mitigate implementation risk. Thorough assessment of implementation capacity and development of capacity building measures should be undertaken in advance of, or integrated into, project design.

40. **Improving sustainability.** Infrastructure and services deteriorate when they are poorly maintained, which is in turn due mainly to a lack of funds. Ensuring financial sustainability must be central to the design of ADB-financed projects. While the government has a role to play in improving the efficiency and quality of infrastructure and services, it is imperative that users share the cost. Because higher tariffs have often faced major protests, designs should also ensure that the necessary public education will be carried out to show that such increases are necessary to sustain dependable quality services over the long term.

41. **Development partnerships.**¹³ Donor coordination in the Kyrgyz Republic is exemplary, and active coordination will continue during CPS implementation. The development partners' coordination council and its sector working groups regularly meet to discuss common issues. ADB has been an active member of development partners' coordination council and working groups, chairs working groups for energy and transport, and is a member of the coordination council established by the government and chaired by the prime minister.

42. **Civil society.** The Kyrgyz Republic is known for its active civil society, and government often consults with civil society on policies and regulations. Apart from regular consultations on strategies and programs, ADB foresees active participation by civil society in the implementation of the CPS, particularly in monitoring WSS projects and energy sector performance, and in public education activities.

¹² Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters (accessible from the list of linked documents in Appendix 2.)

¹³ The development coordination matrix is in Table 4 of the Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).

IV. RESULTS MANAGEMENT

A. Monitoring

43. The CPS will be monitored based on results frameworks during the annual country portfolio review and country programming.¹⁴ The Kyrgyz Republic's own sector results frameworks are used whenever available. ADB supported several TA projects in the past to strengthen the M&E capacity of various government agencies, but frequent changes of government and major political disturbances have almost completely depleted the capacity built through these activities. Overall M&E capacity is being rebuilt by (i) training on M&E organized by ADB and other donors, (ii) the introduction of a data management system with support of the Government of Switzerland, and (iii) ADB TA. At the project level, regular review of outcomes and outputs during portfolio review is gradually building the executing agencies' sensitivity to results.

B. Risks¹⁵

44. **Political instability.** The biggest risk is political instability, which disables government decision-making processes and discourages private sector investment. The major causes of political instability are poor governance and economic disparities. With its focus on inclusive growth, this CPS as a whole will mitigate this risk.

45. **Public financial management.** Weaknesses in public financial management pose fiduciary risks for public expenditure. The government has been making substantial efforts to improve the system. It has been supported in this effort by several development partners, including the multidonor trust fund administered by the World Bank and financed by DFID, the European Commission, and the Government of Switzerland. ADB has also supported the automation of tax and custom operations.

46. **Corruption.** Corruption undermines project and program implementation and the achievement of results. The government has been implementing an action program to reduce the incidence of corruption and expropriation risk. The ICIP financed by ADB helps reduce corruption through regulatory reforms, including the limiting of the number of licenses. ADB-financed investment projects also support specific mitigation measures.

47. **Procurement.** Lack of transparency in public procurement is a major cause of corruption. The government is improving the procurement system, following the recommendations of the 2012 World Bank–ADB joint procurement assessment. It has also adopted an e-procurement strategy and is pursuing the introduction of e-procurement. This should help increase transparency and limit the scope for discretionary decision making. ADB's support to implement the e-procurement strategy will continue through TA.¹⁶

48. **Sector strategies.** The absence of clear government sector strategies has caused inefficiency and insufficient sustainability for many sector operations. The Kyrgyz Republic has now developed sector strategies for the education and energy sectors. A master plan for the transport sector and a WSS strategy are being developed. These strategies and plans will clarify the government strategic focus in these sectors.

¹⁴ Country Partnership Strategy Results Framework (Appendix 1).

¹⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2)

¹⁶ ADB. 2012. *Technical Assistance to the Kyrgyz Republic for Implementing the E-Procurement System*. Manila.

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Goals			
1. Strong and stable economic growth (average growth rate of real GDP to be above 5% 2013–2017) 2. Job creation (350,000 additional jobs created 2013–2017) 3. Poverty reduction in all regions (poverty rate to fall from 36.8% in 2011 to 25% by 2017, at the national poverty line, with a reduction in every province) ^a			
Sectors Selected for ADB Support			
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities
1. Transport and ICT (Strategy 2020 Core Area 1: Infrastructure and 3: Regional Cooperation and Integration)			
Enhanced connectivity and reduced regional imbalances and inequality	Increased, more efficient, and safer movement of people and goods Road traffic fatality rate decreased to 18 per 100,000 persons in 2017 (2011 baseline: 19.2 per 100,000 persons) International freight traffic increased to 345 AADT in 2017 (2011 baseline: 320 AADT)	(i) International road and selected feeder road rehabilitation (ii) Road asset management system (iii) Road safety (iv) Cross-border facilitation	\$210 million ^b in 2013–2017, 44% of total CPS envelope, of which: ENV: 100% RCI: 100%
2. Energy (Strategy 2020 Core Areas 1: Infrastructure and 3: Regional Cooperation and Integration)			
Improved quality of energy supply	Improved electricity supply for domestic and international customers based on commercial tariffs Domestic consumption increased to 8,500 GWh in 2019 (2010 baseline: 6,100) 10-year average of net exports by 2019 maintained at 2001–2010 average of 2,000 GWh/year Income to be distributed to generation, transmission, and distribution companies based on approved tariff by 2017 (2012 baseline: income is distributed based on short-term financial requirements)	(i) Transmission rehabilitation and wholesale metering (ii) Rehabilitation of an existing hydropower plant (iii) Improvement in distribution sector operations	\$100 million in 2013–2017, 21% of total CPS envelope, of which: ENV: 100% RCI: 100%
3. Education (Strategy 2020 Core Area 5: Education)			
Quality, results-oriented education system	Modernized TVET infrastructure and improved quality of training relevant to the labor market needs Percentage of employed graduates on the basis of contracts signed between PVSs and employers' organizations increased to 30% in 2014 and 45% in 2020 (2011 baseline: 10%) Percentage of strengthened and modernized PVSs increased to 60% in 2014 and to 80% in 2020 (2011 baseline: 40%)	(i) Modernization of physical facilities (ii) Introduction of CBT methodology (iii) Skills development fund (iv) Curriculum development	\$40 million in 2013–2017, 9% of total CPS envelope, of which: GEN + EGM: 100%

	<p>Percentage of occupational standards that are developed in cooperation with employers increased for PVSs to 49% in 2014 and 60% in 2020 (2011 baseline: 12%, or 18 out of 155), and for SVSs to 30% in 2014 and 60% in 2020 (2011 baseline: 2%)</p> <p>Quality of school education strengthened</p> <p>Annual coverage of teachers by in-service training courses increased to 20% in 2016 (2011 baseline: 8%)</p> <p>Net enrollment in 5-9 grades increased to 90% in 2016 and 95% in 2020 (2012 baseline: 84.8%)</p> <p>Percent of higher education institution graduates with a specialist diploma who gain employment at schools increased to 30% in 2015 and 50% in 2020 (2011 baseline: 19.3%)</p>		
4. Multisector (Strategy 2020 Core Areas Other: Public Sector Management and 4: Finance Sector Development; Drivers of Change: Private Sector Development, Governance, and Gender Equity)			
Appropriate environment to develop and improve private sector performance	<p>Improved business environment and investment climate</p> <p>Share of private investment in GDP increased to 20% in 2013–2017 (baseline: average of 17.6% in 2007–2010)</p> <p>Number of products exported with competitive advantage increased from 63 in 2011 to 80 (average 2013–2017)</p>	<p>(i) Business environment and investment climate reforms</p> <p>(ii) Financial sector development</p>	<p>\$72 million in 2013–2017, 15% of total CPS envelope, of which:</p> <p>GEN + EGM: 97%</p> <p>PSD: 100%</p>
5. Water Supply and Other Municipal Infrastructure and Services (Strategy 2020 Core Area 1: Infrastructure)			
More people access improved water supply and sanitation services	<p>More people access improved water supply and sanitation</p> <p>Share of population using clean potable water increased to 92% by 2015. (2011 baseline: 91.5%)</p> <p>Share of population using sewerage increased to 40% by 2015. (2010 baseline: 26.4%)</p>	<p>(i) Rehabilitation of rural and urban water supply, sanitation, and solid waste management facilities</p> <p>(ii) Improvement of sustainability, operation and maintenance, tariff policies, urban and rural governance</p>	<p>\$50 million in 2013–2017, 11% of total CPS envelope, of which:</p> <p>ENV: 100%</p> <p>GEN + EGM: 29%</p>

ADB = Asian Development Bank, AADT = annual average daily traffic, CAREC = Central Asia Regional Economic Cooperation, CBT = competency-based training, CPS = country partnership strategy, EGM = effective gender mainstreaming, ENV = environmental sustainability, GDP = gross domestic product, GEN = gender equity, GWh = gigawatt hour, PSD = private sector development, PVS = primary vocational school, RCI = regional cooperation and integration, and TVET = technical and vocational education and training.

^a For 2011 poverty rates by province, see Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).

^b The figure includes \$65 million regional allocation from the Asian Development Fund, and \$60 million cofinancing by the Eurasian Development Bank.

Source: ADB.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=KGZ-2013>

1. Economic Analysis (Summary)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Education
7. Sector Assessment (Summary): Energy
8. Sector Assessment (Summary): Transport
9. Sector Assessment (Summary): Water Supply and Other Municipal Infrastructure and Services
10. Risk Assessment and Risk Management Plan (Summary)
11. Country and Portfolio Indicators
12. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters
13. Country Performance Assessment Ratings
14. Country Partnership Strategy Formulation
15. Country Partnership Strategy 2007–2010 Final Review
16. Country Operations Business Plan 2014–2016
17. Country Assistance Program Evaluation

Supplementary Documents

18. Diagnostic Study of the Kyrgyz Economy to Promote Inclusive Growth (Summary)
19. Climate Change Assessment
20. Governance Risk Assessment (Summary)
21. Private Sector Assessment Update
22. Thematic Assessment (Summary): Regional Cooperation and Integration