

Document of  
The World Bank

Report No: ICR00001017

IMPLEMENTATION COMPLETION AND RESULTS REPORT

(IDA-37560)

ON A

IDA CREDIT

IN THE AMOUNT OF SDR 14.7 MILLION  
(US\$ 20 MILLION EQUIVALENT)

TO THE

KYRGYZ REPUBLIC

FOR A

GOVERNANCE STRUCTURAL ADJUSTMENT CREDIT

March 9, 2009

Poverty Reduction and Economic Management Unit  
Europe and Central Asia Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective December 31, 2008)

Currency Unit = Som  
Som 1.00 = US\$ 0.0256  
US\$ 1.00 = Som 39.375

## FISCAL YEAR

## ABBREVIATIONS AND ACRONYMS

CA	Chamber of Accounts
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CIS	Commonwealth of Independent States
CPAR	Country Procurement Assessment Report
CSMA	Civil Service Management Agency
DFID	Department for International Development (United Kingdom)
EPC	Economic Policy Council
EU-TACIS	European Union TA program for CIS countries
GDP	Gross Domestic Product
GSAC	Governance Structural Adjustment Credit
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDF	Institutional Development Fund
IMF	International Monetary Fund
LCS	Law on Civil Service
MOF	Ministry of Finance
MOH	Ministry of Health
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
NPRS	National Poverty Reduction Strategy
PER	Public Expenditure Review
PEM	Public Expenditure Management
PIP	Public Investment Program
PMG	Project Management Group
PRGF	Poverty Reduction and Growth Facility Arrangement
PSRMAC	Public Sector Resource Management Adjustment Credit
RIA	Regulatory Impact Assessment
SDR	Special Drawing Rights
TA	Technical Assistance
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WTO	World Trade Organization

<b>Vice President:</b>	Shigeo Katsu (ECAVP)
<b>Country Director:</b>	Motoo Konishi (ECCU8)
<b>Sector Director:</b>	Luca Barbone (ECSPE)
<b>Sector Manager:</b>	Ronald Myers (ECSPE)
<b>Task Team Leader:</b>	Roland Clarke (ECSPE)

**KYRGYZ REPUBLIC**  
**Governance Structural Adjustment Credit**

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<b>A. Basic Information</b>			
Country:	Kyrgyz Republic	Program Name:	Governance Structural Adjustment Credit (GSAC)
Program ID:	P071061	L/C/TF Number(s):	IDA-37560,TF-53016
ICR Date:	03/23/2009	ICR Type:	Core ICR
Lending Instrument:	SAL	Borrower:	REPUBLIC OF KYRGYZ
Original Total Commitment:	XDR 14.7M	Disbursed Amount:	XDR 14.7M
<b>Implementing Agencies:</b> Ministry of Finance			
<b>Cofinanciers and Other External Partners:</b>			

<b>B. Key Dates</b>				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	05/30/2001	Effectiveness:		07/30/2003
Appraisal:	03/26/2003	Restructuring(s):		
Approval:	05/15/2003	Mid-term Review:		
		Closing:	06/30/2005	06/30/2008

<b>C. Ratings Summary</b>	
<b>C.1 Performance Rating by ICR</b>	
Outcomes:	Moderately Unsatisfactory
Risk to Development Outcome:	High
Bank Performance:	Moderately Unsatisfactory
Borrower Performance:	Moderately Unsatisfactory

<b>C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)</b>			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Unsatisfactory	Government:	Moderately Unsatisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Moderately Unsatisfactory
<b>Overall Bank Performance:</b>	Moderately Unsatisfactory	<b>Overall Borrower Performance:</b>	Moderately Unsatisfactory

<b>C.3 Quality at Entry and Implementation Performance Indicators</b>			
<b>Implementation Performance</b>	<b>Indicators</b>	<b>QAG Assessments (if any)</b>	<b>Rating:</b>
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Program at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

<b>D. Sector and Theme Codes</b>		
	<b>Original</b>	<b>Actual</b>
<b>Sector Code (as % of total Bank financing)</b>		
Central government administration	80	80
General education sector	5	5
General industry and trade sector	10	10
Health	5	5
<b>Theme Code (Primary/Secondary)</b>		
Administrative and civil service reform	Primary	Primary
Decentralization	Primary	Secondary
Health system performance	Secondary	Secondary
Other public sector governance	Secondary	Primary
Public expenditure, financial management and procurement	Primary	Primary

<b>E. Bank Staff</b>		
<b>Positions</b>	<b>At ICR</b>	<b>At Approval</b>
Vice President:	Shigeo Katsu	Johannes F. Linn
Country Director:	Motoo Konishi	Dennis N. de Tray
Sector Manager:	Ronald E. Myers	Helga W. Muller
Program Team Leader:	Roland N. Clarke	Jit Bahadur S. Gill
ICR Team Leader:	Roland N. Clarke	
ICR Primary Author:	Richard J. Carroll	

## F. Results Framework Analysis

### Program Development Objectives (from Project Appraisal Document)

(i) Improve transparency and responsiveness of the public sector and enhance the ability of external stakeholders to hold it accountable.

(ii) Increase efficiency, effectiveness and accountability within the public sector.

### Revised Program Development Objectives (if any, as approved by original approving authority)

#### (a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1 :</b>	Establish non-political merit based civil service			
Value (quantitative or Qualitative)	Appointments to Civil Service highly politicized.Changes in political heads of ministries lead to large scale changes in incumbents at lower levels. Appointments generally not merit based.	Proper legal structure and appointments by due process overseen by Civil Service Agency		An independent Civil Service Management Agency was established and made operational. All new recruitments are conducted according to due proces recruitment procedures.
Date achieved	06/30/2003	10/31/2007		06/30/2008
Comments (incl. % achievement)				
<b>Indicator 2 :</b>	Chamber of Accounts acts as independent agency to require accountability for the use of public funds.			
Value (quantitative or Qualitative)	COA is a rent seeking body focussed on legal violations for the detection of which it receives funding.	COA carries out audits of public institutions guided by new law and no longer audits and extracts rents from the private sector		Legal framework for COA was established, but audits of private sector entities have been limited.
Date achieved	06/30/2003	10/31/2007		06/30/2008
Comments	It is expected to take several more years to reach full implemenation of the			

(incl. % achievement)	COA law.			
<b>Indicator 3 :</b>	High state officials declare and publish income and assets			
Value (quantitative or Qualitative)	No declarations at present	Majority of High Officials make and publish declarations		99% compliance (2008) with Declaration and Publication Rules.
Date achieved	06/30/2003	10/31/2007		12/31/2007
Comments (incl. % achievement)				
<b>Indicator 4 :</b>	Integrate budgetary functions of Budget Commission and Goskominvest within Economic Policy Council			
Value (quantitative or Qualitative)	Budgetary functions fragmented between Budget Commission, Goskominvest and EPC	All major prioritisation decisions, including particularly PIP taken by EPC		All functions of the Budget Commission and Goskominvest were integrated in the Economic Policy Council, renamed the Macroeconomic Council. Most recent CPIA (budget plan vs. actual) shows average 12% deviation for past three years.
Date achieved	06/30/2003	10/31/2007		06/30/2008
Comments (incl. % achievement)	Additional assistance is provided through the Capacity Building project			
<b>Indicator 5 :</b>	Exrtra budgetary funds to be transferred to the Treasury.			
Value (quantitative or Qualitative)	4 major extra-budgetary (Economic Development Fund, Enterprise Development Fund, State Property Fund, Material Reserve Fund) funds are administered outside the budget and Treasury	All funds integrated in Treasury		All known extra-budgetary accounts have been transferred to the Treasury. Offsets and non-cash transactions have been virtually eliminated.
Date achieved	06/30/2003	10/31/2007		06/30/2008
Comments (incl. % achievement)				
<b>Indicator 6 :</b>	Freedom of Information Act provides proper access to public information with			

	mechanism to appeal denials of information			
Value (quantitative or Qualitative)	Freedom on Information Law does not define what information is to be kept secret and presumes that most information is secret	Effective freedom of information Act is in operation		Most important government information is published.
Date achieved	06/30/2003	10/31/2007		06/30/2008
Comments (incl. % achievement)	Implementation remains weak and requires additional capacity building.			
<b>Indicator 7 :</b>	All income from fines and inspections accrued directly to the budget and not the special means accounts of regulatory agencies			
Value (quantitative or Qualitative)	Most income from fines and inspections is accrued in special means accounts of agencies	All regulatory agencies financed from budget and not special means accounts.		Special means financing no longer exists and all regulatory fees accrue to the State Budget.
Date achieved	06/30/2003	10/31/2007		06/30/2008
Comments (incl. % achievement)				

**(b) Intermediate Outcome Indicator(s)**

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1 :</b>	Intermediate indicators are the implementation of tranche conditions below			
Value (quantitative or Qualitative)	First tranche conditions met	All second and third tranche conditions met or waived		All Third Tranche Release conditions met.
Date achieved	06/30/2003	10/31/2007		06/05/2008
Comments (incl. % achievement)				

**G. Ratings of Program Performance in ISRs**

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)



1	06/25/2003	Satisfactory	Satisfactory	0.00
2	12/11/2003	Satisfactory	Satisfactory	5.15
3	05/24/2004	Satisfactory	Satisfactory	5.15
4	11/15/2004	Satisfactory	Satisfactory	5.15
5	12/29/2004	Unsatisfactory	Unsatisfactory	5.15
6	06/23/2005	Unsatisfactory	Unsatisfactory	5.15
7	06/29/2006	Moderately Satisfactory	Satisfactory	5.15
8	06/29/2007	Moderately Satisfactory	Satisfactory	10.71
9	06/23/2008	Moderately Satisfactory	Satisfactory	22.66

**H. Restructuring (if any)**

Not Applicable

## 1. Program Context, Development Objectives and Design

### 1.1 Background and Context at Appraisal

The Kyrgyz Republic is a small, land-locked country with a population of 5.3 million. Following independence in 1991 income levels declined by about 60 percent due to termination of budgetary transfers from the Soviet Union, disruption of traditional trading relationships, terms of trade shocks and the collapse of the central planning system. At appraisal, agriculture accounted for about 40 percent of GDP. Gold and electricity were the two most important exports (though electricity exports had decreased significantly because of problems with replenishment of the Toktogul reservoir).

The country undertook major reforms beginning in 1993 that helped create the basic foundations of a market-oriented economic system consisting, including a market-based price system; an open, foreign trade regime; and substantial private ownership of key productive assets. The Kyrgyz Republic was the first in the CIS to join the World Trade Organization (WTO). A large number of small and medium enterprises emerged during this period. The regional financial crisis in 1998, however, halted economic recovery. It also highlighted continuing vulnerabilities caused by large financial imbalances in the energy sector, fragile public finances, inefficient safety nets and a poorly developed banking sector.

The Governance Structural Adjustment Credit (GSAC) was launched in a substantially improved macroeconomic context. The country had made significant progress in attaining macroeconomic stability and restarting economic growth. The fiscal deficit had fallen from about 11.3 percent of GDP in 1998 to 5.2 percent of GDP in 2002, mostly as a consequence of expenditure cuts. The current account deficit declined from an average of 18.4 percent of GDP (in 1996-98) to 3.2 percent of GDP in 2002. As a result of the fiscal and monetary tightening, inflation fell to 2.3 percent in 2002. Growth averaged about 4.8 percent in 1999-2001.

Despite these improvements, the Kyrgyz Republic remained the second poorest of the FSU republics and one of the poorest countries in the world. In 2001, per capita income was less than US\$300. Severe poverty affected 13.5 percent of the population, and 47.6 percent were considered poor, with incomes below PPP US\$4.30 per day. Poverty is highest in rural areas, but there are large regional disparities. Access to public services such as running water, public sewerage, reliable electricity, district heating, and telephone service is very low.

The country had a heavy burden of external debt - at 477 percent of Government revenues, in net present value terms, at end-2001. Civil servants were poorly paid and often had to seek alternative sources of income, which, in turn, reduced the quality of public services and promoted rent-seeking behavior.

**Macroeconomic Policy Framework:** A 3-year arrangement under the Poverty Reduction and Growth Facility (PRGF), approved by the Executive Board of the IMF in December 2001, provided the basic underpinnings for the macro-policy framework.

The Government's reform efforts had also been supported through adjustment lending by the World Bank. Seven prior Bank adjustment operations were active in the following areas:

- privatization and enterprise reform,
- agricultural privatization,
- improvements in the business environment
- financial sector reform,

- public sector resource management,
- pension reform and
- power and gas sector reform.

These operations helped the Kyrgyz Republic undertake reforms to orient its policy and institutional framework to the principles of a free market economy.

**Governance environment:** While considerable progress had been made in economic reforms, the State retained many of the characteristics of the previous Soviet system, particularly the culture of control and the use of personal power, government by executive fiat, and the absence of concepts of accountability and rule-based decision-making. All of these factors combined to allow corruption and rent seeking to flourish, particularly at the highest levels of government, and among the President, his family and closest associates. Corruption permeated society and became entrenched and institutionalized.

The center of government was a pool of competing interests without mechanisms for resolving implicit conflicts. Individual ministers, regional governors, parliament and business interests would lobby their own proposals which would represent a mixture of populist measures designed to strengthen political support, proposals for national development and, frequently, measures to increase the possibilities of rent extraction. The system was mediated by the President and his administration through *ad hoc* arbitration and legal measures. The main expression of policy was through thousands of decrees from the President and Government, together with laws passed by parliament. There thus emerged a patchwork of legislation and orders, many of which were ambiguous and contradictory, without clear implementation mechanisms. Each new legal act would act as a source of power and authority, but would be counterbalanced by many others.

**NPRS Governance assessment.** The NPRS recognized that weak governance and an ineffective state were serious hurdles to achieving development goals. It recognized (at least in formal terms) that the electoral system needed to be improved, political parties were weak and the communication between the State and the people was not fully effective. The NPRS assessment noted that the legal framework suffered from outdated norms, frequent, non-transparent and inconsistent changes, lack of public discussion of proposed laws and regulations and inadequate public access to normative acts. The judiciary and law enforcement agencies faced serious capacity and integrity challenges that reduced their ability to uphold the law. At the level of central and local administration, policy making capacity was extremely weak, implementation of policies was poor and often non-existent, transparency and accountability were inadequate and Government interference in business activities was excessive.

Local self-governments lacked adequate functional and fiscal authority, management capacity and community participation. Public expenditure management reforms were needed to strengthen budget formulation, budget execution and financial accountability. The level of political interference and instability in the civil service was high, while its professional capacity and accountability for performance were low and declining, as real salaries declined and motivated staff became demoralized and left the public service. The structure of Government needed to be rationalized. Corruption was a major systemic problem that plagued many public agencies, as confirmed by surveys of households and firms. For these reasons, the NPRS accorded a very high priority to measures leading to the formation of an effective State.

**Rationale for Bank Involvement.** The reforms included in the Government's program were urgently needed to successfully implement the poverty reduction agenda. The Bank had been actively involved in reforming key public sector institutions through various operations, including the Public Sector Resource Management Adjustment Credit (PSRMAC), Institutional Development Fund (IDF) Grants for development of public procurement, and projects to reform the Health sector. Recent economic and sector work, especially, the Public Expenditure Review (PER), the Country Financial Accountability

Assessment (CFAA), and the Country Procurement Assessment Report (CPAR) had also focused on identifying critical weaknesses in public sector management. Of particular importance was the Governance and Service Delivery Report of 2002, which originated from a request by the government to do an assessment of the degree of corruption in the Kyrgyz Republic. In the meantime, the Government had undertaken additional reforms on its own, or with the assistance of other donors. One of the issues that was perhaps never fully resolved, however, was how the Bank and other donors could be reasonably certain that the Government, and particularly President Akaev, was committed to reform, given that close relatives of the President were among the most corrupt in the country.

The objective of the GSAC was to maintain the momentum of the reform process and provide a coherent framework which would carry it forward. In developing the GSAC agenda, extensive consultations were held with the Government and the donor community. As a result, there was considerable consensus around the program and donors expressed their willingness to participate in the program through grant-TA assistance. Given the Bank's experience in implementing public sector reforms in the Kyrgyz Republic and in other countries, its country knowledge and strong relationships with counterparts and stakeholders, it could have a significant positive impact on the quality, pace and realism of the reforms. The Bank could also play a key role in coordinating assistance provided by different donors.

### **1.2 Original Program Development Objectives (PDO) and Key Indicators (as approved)**

The Governance Structural Adjustment Credit (GSAC) would support the Government's program to strengthen the effectiveness of the State. GSAC had two complementary objectives: (a) to improve the transparency and responsiveness of the public sector and enhance the ability of external stakeholders to hold it accountable; and (b) to increase efficiency, effectiveness and accountability within the public sector. See Section 3.2 Achievement of Program Development Objectives for details of key indicators.

### **1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification**

The PDOs were not revised.

### **1.4 Original Policy Areas Supported by the Program (as approved)**

With regard to the first objective, the GSAC supported reforms aimed at:

- (i) improving personal accountability of political officials and civil servants;
- (ii) strengthening voice and participation by improving public access to official information;
- (iii) improving the interaction between regulatory agencies and business enterprises; and
- (iv) strengthening external audit.

To advance the second objective, the operation supported reforms directed at:

- (i) strengthening public expenditure management by establishing a more strategic and transparent budget formulation process, and strengthening accountability and transparency in budget execution;
- (ii) improving the internal control environment;
- (iii) improving transparency, value for money and accountability in public procurement;
- (iv) improving service delivery in the health and education sectors;
- (v) enhancing the effectiveness of the civil service; and
- (vi) streamlining the structure of Government ministries and agencies.

## 1.5 Revised Policy Areas (if applicable)

There were no revisions

## 1.6 Other significant changes

The most significant changes were the extensions of the program closing date (of which there were four) from June 30, 2005 to June 30, 2008, but there were no significant changes to the program. Note that the Dutch Government provided an additional Euro1.4 million of retroactive financing to the Government for actions already completed under the first tranche.

## 2. Key Factors Affecting Implementation and Outcomes

### 2.1 Program Performance<sup>1</sup>

GSAC was a three-tranche operation with the first tranche conditions to be met as a requirement for Board presentation and the second and third tranche conditions to be met over a two-year period (Table 1). Although the credit was fully disbursed, there was nearly a four-year gap between the first and second tranche releases. This delay was mainly because of Government resistance to civil service reform, the events surrounding the Tulip Revolution and distractions caused by government deliberations over the HIPC initiative (see Section 2.2 for additional details).

**TABLE 1: Tranche Release Dates and Amounts**

Tranche #	Amount		Expected Release Date	Actual Release Date	Release
	(Mill. USD)	(Mill. SDR)			
Tranche 1	5.151	3.675	June 30, 2003	July 31, 2003	Regular
Tranche 2	5.561	3.675	June 30, 2004	May 29, 2007	Waiver
Tranche 3	11.948	7.35	June 30, 2005	June 5, 2008	Regular
Total	22.660	14.7			

Note: The expected dates are cited at the end of the expected range. Dollar amounts of disbursements differ from programmed values due to changes in the US\$ / SDR exchange rate.

All tranche release conditions were met with the exception of two conditions of the second tranche, both of which required partial waivers. The waiver of the second condition of tranche 2 (Table 2) was needed because, in the Bank's judgment, although the Government had sent a substantive Civil Service Law (CSL) to the Parliament, which was consistent with the reform program and the tranche condition, the Parliament had amended the CSL in a way that potentially weakened the newly created Civil Service Management Agency (CSMA) relative to Ministers. However, the waiver, which was granted three years after the approval of the CSL was justified on several grounds:

- It was not politically feasible to rescind the amendments;
- The CSMA had developed institutional credibility;
- Real progress had been achieved in separating politics from the civil service; and
- There was a track record developing where due process was followed in appointing civil servants.

<sup>1</sup> Note: Section 3 reviews the main elements of the policy matrix.

- The Government had complied with the Credit Agreement, and it was not clear that Parliament could be bound by the conditions, since it was the government that had signed.

Condition 8 was waived, according to the tranche release memo, because the education sector did not meet the minimum pre-conditions to ensure that grants would be either equitable or would constitute incentives for greater efficiency. In fact, the reason that condition 8 was waived was because the condition, as written, was incompatible with the institutional organization of education and local government financing. Specifically, the issue was that the staffing for schools was controlled by the Ministry of Education, while the budget was controlled by the local government. The separation of responsibilities for staffing and school budgets would have made it impossible to administer per capita-based grants effectively.

**TABLE 2: Tranche Release Conditions and Status-Tranches 1, 2 and 3**

<b>GSAC Tranches 1, 2, and 3 Release Conditions and Their Status</b>	
<b>Tranche 1</b>	<b>Status</b>
1. All candidates for Parliament are required to file Declarations of Income and Assets for themselves and their families for the year preceding the year of election.	Met
2. Prime Minister's Decree (#110-r, 13.03.03) issued forming a Working Group to draft a Law on Declaration and Publication of Income and Assets of High State Officials in the Executive, Judicial and Legislative Branches of the State, including the President, Prime Minister, Vice Prime Ministers, Ministers, Deputies Ministers, Judges and members of the Parliament and their close family members (spouse and dependent children, parents, brothers and sisters), satisfactory to IDA.	Met
3. President's Decree (#33, 17.02.03 issued to form a Working Group to draft amendments to the Civil Service Law, satisfactory to IDA, to (i) require declaration of income and assets of civil servants and their close family members (spouse and dependent children, parents, brothers and sisters) and (ii) make the declarations of incomes and assets of civil servants available to the public, and declarations of incomes and assets of their close family members available to specified state bodies.	Met
4. Comprehensive database of all laws, decrees and instructions registered with the Ministry Justice has been created and is available on the State Computer Network (SCN). The database can be readily connected to the internet to provide access to the general public. The Ministry of Justice also regularly sends draft laws electronically to major investors and international institutions for comments.	Met
5. Presidential Decree No. 100 of April 25, 2002, abolished formation and use of special means funding of Governmental institutions through receipts from issue of permits, licenses and certificates and fines imposed through inspections, except as specifically allowed by law, in a phased manner.	Met
6. The Economic Policy Council headed by the PM was established in 2001.	Met
7. Order of Minister of Finance, #121-P as of April 11, 2003, issued to adopt a regulation that establishes a new procedure for the preparation of the monthly financial plans.	Met
8. State Procurement law, based on UNICITRAL model law, enacted.	Met
9. Draft Government decree establishing the Bishkek Territorial Health Insurance Fund and the rules and regulations guiding the operation of the Fund prepared.	Met
10. Merit-based competitive recruitment launched in 2001: 200 employees at the central and 160 employees at the local levels hired under the new system.	Met

<b>Tranche 2</b>	<b>Status</b>
1. A new law, satisfactory to the Association, on declaration and publication of income and assets of high state officials in the executive, judicial and legislative branches of the State, including the President, the Prime Minister, Vice Prime Ministers, ministers, deputy ministers, judges and members of the Parliament, and their close family members (spouse and dependent children, parents, brothers and sisters), has been enacted.	Met
2. Amendments, satisfactory to the Association, have been introduced to the Civil Service Law to: (i) differentiate political appointees and career civil servants, (ii) increase competitiveness in recruitment and promotion of civil servants and reduce political interference in personnel management decisions, (iii) improve incentives for performance and integrity; (iv) improve institutional arrangements for management of the civil service, (v) require declaration of income and assets of civil servants and their close family members (spouse and dependent children, parents, brothers and sisters), and (vi) make declarations of income and assets of civil servants available to the public on request, and declarations of income and assets of their close family members available to specified state bodies.	Waived
3. Amendments, satisfactory to the Association, have been introduced to the Chamber of Accounts Law to: (i) ensure that the Budget Committee of the Parliament has an opportunity to review jointly with the Ministry of Finance the draft budget of the Chamber of Accounts prior to its submission to the Government; (ii) eliminate the provision entitling the Chamber of Accounts to retain 10 percent of the amounts recovered to the budget as a result of its activity, and provide compensatory funding through the State budget; and (iii) adopt international audit standards acceptable to the Association.	Met
4. Actions, satisfactory to the Association, have been taken by the Borrower for integration of the budget related functions of the Budget Commission and Goskominvest within the Economic Policy Council.	Met
5. An Action Plan, satisfactory to the Association, for transferring all extra-budgetary accounts, with the exception of the Social Fund, into the Treasury General Ledger has been adopted by the Borrower's Government and is under successful implementation.	Met
6. The Borrower has achieved satisfactory progress in the implementation of the CPAR Action Plan.	Met
7. A Law, satisfactory to the Association, introducing a single-payer system in the Health Sector has been enacted by the Borrower.	Met
8. A capitation-based formula for calculating categorical grants in health and education sectors, satisfactory to the Association, has been developed and introduced by an appropriate legal instrument.	Waived
<b>Tranche 3</b>	<b>Status</b>
1. The Borrower has achieved satisfactory progress in the implementation of a new law referred to in paragraph 1 of Section I of this Schedule 2, including publishing of income and assets declarations of high state officials in the executive, judicial and legislative branches of the State and their close family members.	Met
2. Declarations of income and assets of all civil servants have been made available to the public according to the amended Civil Service Law.	Met
3. Amendments, satisfactory to the Association, have been introduced to the Law on Guarantees and Freedom of Access to Information, to enhance access of the public to official information, to strengthen the right of individuals to appeal against denials of requests for information, and to provide a mechanism for monitoring of state bodies' compliance with the provisions of this Law.	Met
4. The Borrower has successfully implemented a set of legislative and other measures, satisfactory to the Association, to ensure that fees from issue of licenses, permits, certificates and other similar requirements placed on economic activities, and fines resulting from inspections are directed only to the State budget and not credited to the Special Means Accounts of regulatory agencies, with the exception of SEA and SCA, and that regulatory agencies are provided compensatory funding through the State budget.	Met
5. A draft budget for FY 2005, providing: (i) more transparent presentation of the	Met

policy priorities financed by the budget; (ii) sectoral ceilings for two consecutive years, based on the medium term budget framework; and (iii) an integrated presentation of recurrent and investment expenditures, has been presented to the Parliament.	
6. The Borrower has completed the transfer of all extra-budgetary accounts, with the exception of the Social Fund, into the Treasury General Ledger.	Met
7. The Borrower has achieved satisfactory progress in the implementation of the action plan for phasing out off-sets and non-cash transactions in the State budget and Social Fund.	Met
8. The CPAR action plan has been successfully implemented.	Met
9. The Borrower has achieved satisfactory progress in the implementation of a capitation-based formula for calculating categorical grants in the health and education sectors.	Met
10. The Civil Service Management Agency has been established by the Borrower and is fully operational with staff, resources and terms of reference satisfactory to the Association.	Met
11. The Borrower has achieved satisfactory progress in the implementation of recommendations of functional reviews of central and local levels of MH, ME, MLSP, MJ and their affiliated agencies.	Met

## 2.2 Major Factors Affecting Implementation:

### Revolution of 2005

Following the disputed parliamentary elections of February and March 2005, the previous President and Government were overthrown in a non-violent “Tulip Revolution” in March 2005. The change of government opened up possibilities for significant reforms, particularly given that a frustration with corruption and poor service delivery provided one of the sparks of the revolution. As a result, the new authorities indicated their formal commitment to transparency and good governance. This change was also supported by a civil society that had become much more active and demanding.

A presidential election in July 2005 confirmed the new President in office. The next two years were, however, marked with considerable political instability, including major mobilizations of people and demonstrations, which, on a number of occasions, paralyzed the government. In addition major tensions within the government and between the government and parliament led to major changes to the constitution being approved on at least four occasions. There were also four different prime ministers during 2007. It was only following the changes to the constitution approved in the referendum of October 2007, and the parliamentary elections of December 2007 that there was a consolidation of political power and the reestablishment of political stability.

In the final analysis the revolution of 2005 and its aftermath substantially delayed implementation and required reacquainting the new government with the policy reforms supported by GSAC. Efforts to re-politicize the civil service system were, to a degree, held back by already implemented civil service legislation combined with strong leadership (especially the director) of the CSMA.

### The Influence of the HIPC Debate

In addition to the political instability described above, from February 2006 to February 2007, the WB and IMF staffs were discussing a possible HIPC program with the Kyrgyz authorities. Following the revolution, popular demands for better government and an end to corruption were interwoven with a resurgent nationalism, and a sense that western institutions bear considerable responsibility for poor governance and the perceived lack of economic development. There was, therefore, a considerable degree of skepticism in civil society regarding the HIPC initiative which was seen as a national



humiliation, or a means by which western institutions might seize Kyrgyz assets. In addition to this groundswell of popular feeling there was opposition from much of the administration and particularly parliamentarians, who saw their interests and rents threatened through a greater focus on transparency and particularly through reforms in the energy and mining sectors.

The threatened vested interests helped activate the latent opposition in civil society to western institutions and past failures. Participation in HIPC became deeply entangled with other political debates, and a highly emotional issue. The result was that HIPC became a political liability for the authorities, and acted both as a distraction from other issues and the main focus of dialogue and dispute with the World Bank and IMF. Finally the political liability became so great that the authorities rejected HIPC debt relief in February 2007.

The effect of the emotional political debate around the issue of HIPC on GSAC was to weaken implementation. This debate monopolized the government's attention after the revolution and detracted from other important issues – indeed it was probably the most significant political issue during 2006 and until early 2007. For example, the Bank team recognized that the attempt at civil service reform was possibly too wide-ranging. However, redesigning the reform was made virtually impossible by the lack of stable and appropriate counterparts during this period who could focus their attention on this issue. Thus the focus of the dialogue during the period of instability was on ensuring that appointments were made through due process and that the Civil Service Agency developed and implemented appropriate procedures to manage appointments, dismissals and promotions. High level dialogue was mainly concerned with reinforcing political commitment to the main principles of the civil service law.

### **Resurgence of Interference in the Private Sector**

Following the revolution, there was a resurgence of interference in private sector enterprises by officials where the potential for financial gains was the greatest. This interference took the form of a redistribution of productive assets and the opportunistic take over of private concerns by particular groups belonging to or having contacts with influential politicians, and is the principal reason for the deterioration of corruption indicators such as the Transparency International Corruption Perceptions Index, which showed a consistent decline between 2005 and 2008. GSAC was not designed to deal with the phenomenon of grand corruption, and indeed it is difficult to envisage any development policy operation dealing with these issues. With regard to the private sector, GSAC was limited to enacting a law on administrative procedures and to halting the practice of Special Means Financing, which encouraged public officials to fine private businesses without cause. The GSAC-supported program also required public officials to disclose their assets.

### **The Soviet Legacy and the Emergence of Regional Differences**

Kyrgyzstan presented a challenging environment for governance reform even without external factors adding difficulties for the program. However, the authoritarian Soviet legacy, combined with newly surfaced regional loyalties (north vs. south, which became important in the wake of the revolution), made it more difficult to achieve a kind of institutional readiness to carry out governance reforms along the lines of a “Westminster model.” The assumptions of the program underestimated these obstacles, and this readiness had not been achieved at project launch.

### **2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:**

The design of the GSAC program did not provide for an established M&E framework. While some performance indicators were identified in the policy matrix, these were not systematically monitored and there was no scheme for overall project reporting, and, therefore, no mechanism for monitoring data to

feed back into program implementation. Without consolidated M&E reporting, it has been necessary (in this ICR) to assemble data from various sources to provide some quantitative measures of progress, whether through outputs or outcomes.

### **Implementation Arrangements**

Implementation of the reforms under the GSAC program was initially overseen by a Coordination Council (CC), chaired by the Deputy Head of the President's Administration. The Minister of Finance and other minister or deputy minister level officials were members of the CC. A Project Management Group (PMG), reporting to the CC was established to facilitate and coordinate implementation of the reform program, including the management of technical assistance.

The operation was partly supported by a parallel technical assistance operation (GTAC). While the majority of funds under GTAC were for Treasury Modernization, funds were made available also for a number of activities to support the CSMA and to improve transparency in the public sector. In addition, funds were provided under GTAC to fund local consultants in the PMG who would assist the government agencies to push forward the GSAC agenda in different areas. Funding was also provided for a Project Implementation Unit (PIU) of an existing project to provide services for procurement and financial management under GTAC.

These arrangements proved to be ineffective and, during the first year of implementation, considerable supervision resources were used in mediating disputes between the director of the PMG and the PIU as the former sought to be involved in the procurement and financial management issues (of GTAC) which were supposed to be dealt with by the PIU (almost certainly for the potential for rent seeking) rather than supporting the Government in the implementation of the GSAC agenda. Following intensive discussions the authorities accepted that the arrangement was dysfunctional, and the PMG director was removed, the PMG dissolved as an institution, although the individual consultants continued working to support the government's efforts to implement GSAC (more effectively than previously), while the PIU functions were transferred to another existing PIU in the Ministry of Finance. Overall the poor design of the implementation structures was remedied by intensive supervision and reorganization of the arrangements. The effect was that, while this may have contributed to some delay in implementation in the early stages of the project, process-related tranche release conditions were eventually met without major exceptions.

In addition the Coordinating Council proved ineffective in the post revolutionary period. Because the chair of the council was the deputy head of the Presidential Administration, continuity was lost as this position became one of the most unstable posts in the administration, with at least eight changes of the occupant of this position over the period March 2005 to June 2008. Combined with other frequent changes of other ex-officio members of the Council, it had no institutional continuity and reflected the wider fragmentation of the government, and the difficulties of providing a coordinated approach in any policy area during this period. In this situation the coordination function fell largely to the Ministry of Finance, which became the central government institution with relatively more institutional continuity and the one that had most interest in the implementation of the GSAC.

### **2.4 Expected Next Phase/Follow-up Operation (if any):**

Several follow-up policy operations are planned and ongoing. GTAC will continue with the Treasury capacity building and computerization effort. The Rural Education Project is also continuing to support GSAC-related reforms to reform financial arrangements in education sector in order to ensure a more even distribution of financial resources across the country through introduction of per capita financing. The SWAP in the health sector and the Reducing Technical Barriers to Entrepreneurship and Trade project (RTBET) with the objective of improving the business environment are ongoing and DFID, EU

and USAID continue to support public financial management activities. The Capacity Building for Economic Management TA project became effective in FY09 as well as a joint donor Trust Fund operation for Public Finance Capacity building. Thus, there is a substantial amount of continued support in areas that were covered by GSAC.

### **3. Assessment of Outcomes**

#### **3.1 Relevance of Objectives, Design and Implementation**

The strategy of the GSAC operation was to have a critical set of governance-related policy reforms that could substantially improve the performance of the public sector. Despite seven prior Bank-supported adjustment operations, there was a lack of coherence in public expenditure management and policy formulation, weak social service delivery, and the business climate was unfavorable. The relative lack of success of previous adjustment operations should perhaps have been a warning sign for GSAC, and suggests that the Bank was overoptimistic in its assessment of the degree of ownership of the operation (as proved to be the case). Indeed, this would clearly raise the question of how objective the review process is, when it comes to assessing ownership, because the only evidence available to outsiders are the public statements and programs of the government, and possibly the formal enactment of laws. With hindsight, it is clear that ownership was not sufficiently deep and the Bank team underestimated the risks of political change resulting (indirectly) from the 2005 elections.

However, the Bank team's estimation of government ownership did coincide with that of other Development Partners and outside observers. The emphasis of the Government's own formal strategy (NPRS) on governance issues clearly made a case for an operation to support governance reform. The objectives were relevant to removing many of the key governance obstacles to improving public sector performance. These governance obstacles were identified by AAA in the form of a PER and a CAS completion report and had been experienced in a variety of forms in seven prior adjustment operations. The reform measures of the programs of individual components aligned well with the priority problems of the public sector. However, the composition of the operation as a whole was too broad and ambitious to reasonably expect the required government commitment for program success and timely implementation. The program simply required more political capital to implement than the leadership actually had at its disposal.

To reinforce GSAC and enhance its relevance, it was submitted to the Board at the same time as the supporting TA (GTAC) and the Country Assistance Strategy (CAS). The Board did not find any contradictions or discrepancies in the approaches of the CAS and the two program documents. Bank management raised the issue whether a highly indebted country such as Kyrgyzstan should be borrowing money for computerization of the Treasury function (under GTAC). However, this computerization was justified because it carried with it significant governance benefits (see below).

#### **3.2 Achievement of Program Development Objectives**

The major expected outcomes are longer term, especially for civil service, and therefore it is not yet possible to fully assess these outcomes. Many of the performance indicators in the policy matrix were process-oriented, referring to completed actions or output indicators, and not true outcome indicators. There was no formal results matrix so it is difficult to track the progress of outcomes since the time of the implementation of the first tranche (pre-Board) conditions. However, through the implementation of specific reforms, related output indicators and an assessment of the reform program's sustainability, there can be some reasonable assertions of outcome. The overall program was based on the premise that by simultaneously strengthening the voice of external stakeholders and improving the effectiveness of the

Government machinery, the operation would enhance the ability of the State to pursue the objectives of the National Poverty Reduction Strategy.

### Macroeconomic Framework

Table 3 shows that a stable macro-framework was maintained during the program. Though growth was slightly negative during the year of the revolution, 2005, it was positive in 2006 and reached 8.2 percent in 2007. Inflation increased sharply in 2007, largely due to the increase in international food and energy prices. It is generally agreed that the authorities responded appropriately to external developments. Trends in other indicators including the fiscal balance, public debt and external debt were all favorable through 2007.

**TABLE 3: Selected Macroeconomic Indicators**

Indicator	2003	2004	2005	2006	2007
Real GDP Growth	7.0	7.0	-0.2	3.1	8.2
Inflation-CPI (% Dec.-Dec.)	5.6	2.8	4.9	5.1	20.1
Fiscal Balance (% of GDP)	-4.7	-4.0	-3.8	-3.1	0.0
Public Debt/GDP (%)	102.9	94.1	84.0	72.8	57.4
External Debt/GDP (%)	104.4	94.7	82.2	76.5	62.0

Table 4 details the main achievements and strategies of the GSAC program and shows that many (but not all) of the original program objectives were achieved.

**TABLE 4: Selected Major Initiatives of the GSAC-Supported Program, Outputs and Potential Outcomes**

Component, Rationale, Actions	Outputs and Outcomes
<b><i>MAINTAIN A STABLE MACROECONOMIC FRAMEWORK</i></b>	
This required meeting of macroeconomic indicators as agreed with the IMF.	Fiscal and monetary management maintained a stable framework (Table 3). Inflation reached 20 percent for 2007, but has fallen significantly since then.
<b><i>I. IMPROVE THE TRANSPARENCY AND RESPONSIVENESS OF THE PUBLIC SECTOR AND ENHANCE THE ABILITY OF EXTERNAL STAKEHOLDERS TO HOLD IT ACCOUNTABLE</i></b>	
<b><i>(i) Improving Personal Accountability of Political Officials and Civil Servants</i></b>	
This component required both Parliament candidates and civil servants to file income and asset declarations for themselves and their families.	Though the declarations did not result in the ouster or prosecution of any government officials, the measure did improve the Government's public image and improve transparency with respect to conflicts of interest. <b>Indicators:</b> <ul style="list-style-type: none"> <li>• <b>Number of declarations of high state officials in compliance with Declaration and Publication rules and published annually:</b> <ul style="list-style-type: none"> <li>○ 905 declarations, 91.3%-2006.</li> <li>○ 976 declarations, 98.5%-2007.</li> <li>○ 1395 declarations, 99.1%- 2008.</li> </ul> </li> <li>• <b>Declarations of income and assets of civil servants available to the public. Done.</b></li> </ul>

**TABLE 4 Cont'd: Selected Major Initiatives of the GSAC-Supported Program,  
Outputs and Potential Outcomes**

Component, Rationale, Actions	Outputs and Outcomes
<b>(ii) Strengthening Voice and Participation by Improving Access to Official Information</b>	
<p>The aim was to increase the ability of citizens, civil society and the private sector to demand improvements in public performance. This would be accomplished by establishing a Government Public Information Center, enacting amendments to the Freedom of Access to Information Law (FOI) and publishing key information such as civil service job openings, government audits, public expenditures, names of delinquent taxpayers, etc.</p>	<p><b>Indicators:</b></p> <ul style="list-style-type: none"> <li>• Government Public Information Center (GPIC) established and functioning. <b>Done. Most important government information is published, though the delinquent taxpayers list no longer is</b></li> <li>• Number of non-governmental organizations and individuals using GPIC services. <b>No data.</b></li> </ul> <p>The FOI law approved by the Parliament at the end of 2006 was viewed as satisfactory to IDA. Implementation remains weak and additional PR/training is required. The sustainability and effectiveness of the FOI law will depend on overall political developments in the Kyrgyz Republic.</p>
<b>(iii) Improving the Interaction between Regulatory Agencies and Business Enterprises</b>	
<p>The purpose of this subcomponent was to eliminate special means financing of government institutions, whereby civil servants' compensation was directly linked to the fines they levied and permits they sold.</p> <p>Fees, from issue of licenses, permits, certificates and other similar requirements placed on economic activities, and fines resulting from inspections were to be directed only to the State budget and not credited to the Special Means Accounts of regulatory agencies.</p> <p>As a non-core condition the Government was to Enact a Law on Administrative Procedures satisfactory to IDA, to inter alia, institute specific procedures for internal administrative review of all actions which impose a penalty or burden upon, or deny a request sought by a citizen or legal entity.</p>	<p><b>Indicators:</b></p> <ul style="list-style-type: none"> <li>• Eliminate Special Means funding of regulatory agencies out of fees relating to licenses, permits, certificates, inspections; fines; or other similar requirements placed on economic entities. <b>Done, all [regulatory] fees are accruing to State Budget.</b></li> <li>• Number of draft laws and regulations discussed with the private sector and civil society before their adoption. <b>The MOJ website made virtually all draft legislation available for any party, but website currently does not work. At least 50% of all legal drafts in 2007 were interactively discussed.</b></li> <li>• Access to legal database of the Ministry of Justice available to the public on line. <b>Done, but not working due to technical problems.</b></li> <li>• Enacted Law on Administrative Procedures. <b>Done, but law not working properly. Follow-up measures by to be determined.</b></li> <li>• RIA's of three new laws and three new regulations agreed with IDA. <b>Done for law on administrative procedures.</b></li> </ul>
<b>(iv) Strengthening External Audit</b>	
<p>The goal was to reduce government influence on the CA budget and also remove perverse incentives by amending the Law on the Chamber of Accounts to ensure that the Budget Committee of the Parliament has an opportunity to review, jointly with the Ministry of Finance, the draft budget of the Chamber of Accounts prior to its submission to the Government.</p>	<p><b>Indicator:</b></p> <p>Financing arrangements of the Chamber of Control improved to reduce its dependence on rent seeking. Implementation of INTOSAI standards in the work of the CA initiated. <b>Done according to the new CoA law</b></p> <p>The legal framework for COA is in place and audits of private sector entities have been limited, but full implementation will require several more years and intensive capacity building. However, it has proven unrealistic to expect real reform of the COA primarily through the legal framework.</p>

**TABLE 4 Cont'd: Selected Major Initiatives of the GSAC-Supported Program,  
Outputs and Potential Outcomes**

Component, Rationale, Actions	Outputs and Outcomes
<b>II. INCREASE EFFICIENCY, EFFECTIVENESS AND ACCOUNTABILITY OF THE PUBLIC SECTOR</b>	
<b>(i) Strengthening Public Expenditure Management</b>	
<b>(a) Establishing a more Strategic and Transparent Budget Formulation Process</b>	
<p>At the time of GSAC, there was no effective policy formulation body. The Office of the President was very strong, but an effective opposition was beginning to grow and demand consensus. There was the need to coordinate objectives and resources more strategically and over a longer time period.</p> <p>The Government also intended to expand the fiscal framework into a Medium Term Budget Framework (MTBF) for 2004-2006, by including cross-sectoral expenditure analysis and preparing a medium term budget strategy in Health, as a pilot sector.</p>	<p><b>Indicators:</b></p> <ul style="list-style-type: none"> <li>• Functions of the existing Budget Commission and budget related functions of Goskominvest integrated in the Economic Policy Council. <b>Done.</b></li> <li>• Beginning with the 2005-2007 MTBF, estimates of recurrent cost implications of all investment projects included in the MTBF. <b>Done.</b></li> <li>• Revised budget format implemented from Budget of FY 2005. <b>The format of the budget has been improved and currently it includes actual numbers for the last 2 years, budget year, and forecast for next 2 years. The classification was improved significantly and meets requirements of GFS 2001.</b></li> <li>• Rules and procedures for the calculation of all transfers between different levels of government publicly available. <b>The regulations on transfers are available in legal database (web-based)</b></li> <li>• Percentage deviation of actual expenditures from approved budget plan reduced. <b>Last CPIA indicated 12% deviation for last 3 years.</b></li> </ul> <p>The EPC, which has been re-named the Macroeconomic Council, now formally leads the budget process. The PIP is not yet fully integrated. Additional assistance is provided through the new Capacity Building project.</p>
<b>(b) Strengthening Accountability and Transparency in Budget Execution</b>	
<p>The objective was to increase transparency by eliminating extra-budgetary accounts and transferring them into the Treasury General Ledger.</p>	<p><b>Indicators:</b></p> <ul style="list-style-type: none"> <li>• New monthly financial planning procedures implemented. <b>Some improvements were observed, but planning procedures are far from best practices</b></li> <li>• Number of Extra budgetary accounts outside the TSA reduced. <b>All known extra budgetary funds have been integrated into the Treasury</b></li> <li>• Amount of offsets and non-cash transactions as a percentage of total government expenditure reduced. <b>Significant improvement. Virtually no offsets and non-cash transactions.</b></li> </ul>
<b>(ii) Improving the Internal Control Environment</b>	
<p>The creation of an effective internal audit function in public entities was essential to achieve improved transparency in the public sector.</p>	<p><b>Indicator:</b></p> <p>Improved financial accounting and compliance with laws and regulations in three ministries, due to strengthened internal control systems. <b>Done, a new law on internal audit was approved by the parliament, envisaging establishment of internal audit departments in line ministries. Currently, IA departments operate in about 4 line ministries, of which the Ministry of Health is probably the most advanced (because of SWAP technical/methodological assistance).</b></p>

**TABLE 4 Cont'd: Selected Major Initiatives of the GSAC-Supported Program,  
Outputs and Potential Outcomes**

Component, Rationale, Actions	Outputs and Outcomes
<b>(iii) Improving Transparency, Value for Money and Accountability in Public Procurement</b>	
The Government intended to improve procurement by, inter alia, carrying out a procurement audit of selected, high value items that affect service quality in the Health and Education sectors (e.g. selected pharmaceuticals on the List of Essential Drugs, text books etc.).	<p><b>Indicators:</b></p> <p>Performance indicators as specified in the CPAR. OECD/DAC indicators (on a 0 to 3 scale: legislative framework-2.1, institutional and management capacity-1.0, procurement operations and market practices-0.7, and public procurement integrity-1.2.</p>
<b>(iv) Improving Service Delivery in the Health and Education and Social Protection Sectors</b>	
The Government sought to improve the delivery of health and education services to its citizens by conducting functional reviews of central units of Ministries of Health and Education, implementing the reforms of those reviews and the reforms under the Health – II Project, enacting a Single-payer Law, and adopting an appropriate legal act to define capitation-based formulae for calculating categorical grants in the health and education sectors.	<p><b>Indicators</b></p> <ul style="list-style-type: none"> <li>Permanent legal and regulatory framework for the operation of the single-payer system in place. <b>Done.</b></li> <li>Resources for health insurance for pensioners and unemployed persons provided on time in accordance with budget allocations. <b>Done.</b></li> <li>Functional and expenditure responsibilities in the health and education sectors defined clearly. <b>Not certain.</b></li> <li>Revised categorical grant formulae for health and education sectors implemented. <b>In the process of introduction for education sector. Health sector is fully financed from central government.</b></li> </ul>
<b>(v) Enhancing the Effectiveness of the Civil Service</b>	
<p>Increased professionalism and capacity of the civil service would provide much needed skills in critical areas of policy formulation and implementation. This would be achieved by the following actions:</p> <ul style="list-style-type: none"> <li>Amending the Civil Service Law.</li> <li>Merit-based competitive recruitment</li> <li>Enacting amendments to the Law on Civil Service to separate political appointees and career civil servants; increase competitiveness in recruitment and promotion; improve incentives for performance and integrity; and improve institutional arrangements for management of the civil service.</li> <li>Establish the Civil Service Management Agency (CSMA) and ensure that it is fully operational.</li> </ul>	<p><b>Indicators</b></p> <ul style="list-style-type: none"> <li>Independent Civil Service Management Agency established and operational. <b>Done</b></li> <li>Percentage of “Main” and “Senior” civil servants recruited on competitive basis. <b>In 2005 more than 60% civil servants (as a whole) were appointed outside of due process, in 2006, 13.7%, in 2007, 3.9%.</b></li> <li>Average number of applications for a civil service position. <b>No data.</b></li> <li>Percentage increase in civil service salaries. <b>In 2008 salaries of civil servants were increased on average by 60%.</b></li> </ul> <p>The CSMA has been functioning and monitoring compliance with competitive recruitment procedures. Recent reports, however, indicate backtracking on due process recruitments.</p>
<b>(vi) Streamlining the Structure of Government Ministries and Agencies</b>	
<p>Streamlining the structure of Government was intended to improve administrative efficiency and coordination. This would be achieved by:</p> <ul style="list-style-type: none"> <li>Functional Reviews of the Ministries and agencies at the central level (with the assistance of UNDP/ DFID).</li> <li>Implementation of recommendations of functional reviews in the Ministries of Health, Education and Labor and Social Protection and in their affiliated agencies.</li> </ul>	<p><b>Indicators:</b></p> <p>Number of ministries reorganized based on functional reviews. <b>Uncertain. A number of ministries have been under reorganization, but it is unclear if they strictly followed FRs recommendations.</b></p> <ul style="list-style-type: none"> <li>Optimization of the number of public servants in the Ministry of Health, Education, Labor and Social Protection and one additional ministry to be agreed with IDA. <b>No data.</b></li> </ul>

## Summary of Achievement of Objectives

### **Pillar 1: Improve the Transparency and Responsiveness of the Public Sector and Enhance the Ability of External Stakeholders to Hold It Accountable**

The objectives for Pillar 1 on public sector transparency and responsiveness were essentially achieved. In Civil Service reform, which could be seen as the centerpiece of the program, the objectives were mainly achieved, at least in a formal sense, following a long process of detailed engagement by the team with the

authorities. The Civil Service Management Agency was established and operates professionally. New procedures for recruitment, dismissal and promotion were introduced, and virtually all civil service recruitment follows due process procedures. Finally the role of the State Secretary, as the (non-political) administrative head of agencies has been established. The Borrower's Contribution to the ICR, which focuses almost exclusively on civil service, further documents these achievements. Public accountability was improved with 99 percent compliance with asset declaration and with the FOI law and the establishment of the Public Information Center. It was reported that this center is popular, but it is recommended that better data on use of the facility be recorded.

The business sector-related objectives achieved more mixed success. Eliminating fines against businesses that are driven by special means financing was a significant gain. The Ministry of Justice (MOJ) publishing of draft laws was useful, but the ministry is not keeping its website in functioning order. The Chamber of Accounts law was passed, but will not be effective on the ground without further capacity building.

## **Pillar II: Increase Efficiency, Effectiveness and Accountability of the Public Sector**

Public expenditure management reform, by all indications, has been a mixed success. All of the specific technical measures under GSAC were carried out, and in addition there has been a considerable subsequent effort by the World Bank jointly with other donors to support a government-owned public finance reform plan. Among results achieved there are lower budget plan vs. actual deviations and there are now MTBF estimates with two-year projections. The Macroeconomic Council (formerly EPC) has unified policy and budget planning. Extra-budgetary accounts and non-cash transfers have been essentially eliminated. The internal audit function has also been improved. However, despite these advances, it is not clear that the overall objective of establishing a more strategic budget process has yet been achieved. While fiscal discipline is maintained, frequent in-year revisions lead to unpredictability and uncertainty in the availability of resources.

Procurement performance, for which there are detailed indicators, would have to be described as less than successful. The procurement component scored poorly according to an OECD/DAC methodology that was used to evaluate progress in procurement outcomes. The progress was evaluated on a 0-3 point scale with respect to (a) the legislative and regulatory framework; (b) the institutional framework and management capacity; (c) purchasing operations and market practices; and (d) the integrity and transparency of the public procurement system. A score below 2 indicates less-than-full achievement with need for improvement. The legislative and regulatory framework scored a 2.1 which is acceptable, but the others indicated substantial work was needed. Institutional and management capacity scored only 1.0, while procurement operations and market practices scored 0.7, and the integrity of public procurement scored 1.2.

In service delivery, GSAC complemented initiatives in the health sector efforts by supporting reform measures, in particular, the institution of a single payer system. There is now an active health sector SWAP, which has been supporting improved delivery of health services.

### **Should GSAC have been cancelled?**

While it is true that many of the objectives of the GSAC were achieved, there is general agreement that the program was overly ambitious and probably not suited to the political and institutional environment of the Kyrgyz Republic, particularly after the revolution. Even before the revolution, however it is not unreasonable to suggest that the proposed operation represented a triumph of hope over experience and was based upon an overoptimistic interpretation of the commitment and capacity of the authorities for fundamental governance reform. A key issue to be raised then is whether at some point it would have



been appropriate to cancel the operation rather than extend it for three years beyond its original closing date.

There is no clear cut answer to this question. Once the operation began, although there were some delays during the first year, there was active implementation and dialogue with the Bank in the development of the laws on the Civil Service, Declaration of Income and Assets and the Chamber of Accounts. There was also steady progress in the implementation of the measures in the area of public finances. There was certainly no case for cancellation at this stage. The first major problems occurred with the amendments to the Civil Service Law in parliament in June 2004 and more importantly the appointment of the President's (unqualified) sister-in-law as the State Secretary of the Civil Service Agency in October 2004. This latter was clearly a major setback for the program as it indicated an obvious lack of commitment and/or understanding of the program at the highest levels. The team indeed responded firmly and made clear to the authorities that this action was incompatible with the program and that there could be no question of the second tranche being released while the President's sister-in-law was a senior official of the CSMA. There continued a period of intense dialogue on this issue until the revolution of March 2005. With hindsight, given the proximity of the revolution, cancellation at this point, could have been effective for reorienting the program. However, given that most of the second tranche conditions had already been fulfilled cancellation at this point might well have been seen as an unreasonable overreaction.

Following the Revolution, the issue of the sister-in-law disappeared, with her resignation. The new Government moreover was formally committed to governance reform and fighting corruption. Again an immediate cancellation would have been a pre-emptive judgment of the commitment and capacity of the new government. However, new problems emerged, firstly with the lack of knowledge of the new authorities about GSAC and the wider governance reform, and the initial tendency to replace officials of the previous regime by the new authorities outside due process. The existence of the GSAC program gave the Bank a strong platform for dialogue on these issues with the new authorities, often at the highest levels. The effect of this was clearly to reduce the tendencies of the new government towards arbitrary behavior and towards the importance of institution building. Again a cancellation at this stage, and particularly during the difficult phase of the HIPC discussions, would likely have signaled that the Bank and other donors were not interested in engagement and might have strengthened the nationalistic and isolationist tendencies in the Kyrgyz Republic. There was therefore no clear moment at which cancellation would have had a positive effect on the governance agenda, and indeed, while the operation lasted it did provide an effective vehicle for dialogue.

### **3.3 Justification of Overall Outcome Rating**

#### **Rating: Moderately Unsatisfactory.**

As the summary demonstrates, there were substantial achievements and it is clear that the operation made significant progress in a very difficult environment. Moreover, the tranche conditions were met with fairly minor exceptions. What brings the rating down to MU is the incidences of backtracking in some areas of implementation, particularly with respect to procurement and civil service reform that call the sustainability of the gains into question. There has been an increasing tendency to treat state secretaries as political appointees or to remove from them essential HR management functions. Thus the original aim of de-politicizing the civil service appears to be undermined. This practice became particularly clear after the closure of the operation. The MU rating also reflects the fact that the operation was unrealistically ambitious, excessively broad, poorly benchmarked, and focused on the passage of laws in an environment in which implementation was extremely weak. It is also difficult in some areas, perhaps because of weak monitoring, to document outcomes in the performance of the public sector.

### **3.4 Overarching Themes, Other Outcomes and Impacts**

#### **(a) Poverty Impacts, Gender Aspects, and Social Development**

Part of the expected impact was a system of improved social service delivery. The M&E data do not provide information on outcomes related to poverty impacts. However, the enactment of a single-payer health system and the implementation of the health sector SWAP are expected to improve outcomes of health care delivery. The institution of categorical grants is expected to improve delivery of education services which would reduce poverty by improving financing for rural schools. However, as explained above, implementation was delayed because of a failure to recognize that the institutional basis for the implementation of categorical grants was not in place. This part of the program is now on track and is expected to produce positive outcomes with respect to poverty and social development.

#### **(b) Institutional Change/Strengthening**

The reform of the civil service was the central institutional change with civil servants now being recruited under a due process approach (see Table 4). This process withstood a change of government by revolution and continues to operate. Recruitment is overseen by the CSMA, which was created with GSAC support, and which, by all accounts, has maintained its institutional integrity. Transparency has become increasingly institutionalized as well, particularly with regard to asset disclosure by political and civil servants, elimination of extra-budgetary accounts and special accounts from regulatory fees and fines that used to enrich specific civil servants, and access to public information (Table 4). Combining the GSAC with a TA, the GTAC, also strengthened institutions by funding training and technical advisors. Most of the resources of GTAC were allocated to improving the functioning of the Treasury system and, therefore, GSAC-supported improvements to budget execution.

#### **(c) Other Unintended Outcomes and Impacts (positive or negative, if any)**

None reported.

### **3.5 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops**

Neither a specific beneficiary survey, nor a stakeholder workshop was conducted as this ICR is not an Intensive Learning ICR.

## **4. Assessment of Risk to Development Outcome**

### **Rating: High**

The country context for comprehensive civil service reform was more challenging than anticipated. Although the Civil Service reform was sustained to a degree after the Tulip Revolution when a new government came to power, there has been some backtracking to the extent that the risk to sustainability remains high. It was recently reported that ministers of two major ministries (Ministry of Finance and Ministry of Economic Development and Trade) had issued internal ministerial decrees on functional assignments, which maintained that human resources policy and management are the responsibilities of ministers (and not of State Secretaries), which is counter to the CS law. The Civil Service agency, it was reported, once again has competent leadership. Nevertheless, previous efforts at public sector reform, such as those supported by the Bank in the 1990s, were reversed, and the same appears possible again.

There are also the weaknesses in implementation of the Law on Administrative Procedures, the Chamber of Accounts Law, and unresolved technical issues in the MOJ's publication of draft legislation, which will need to be addressed in the near future. The improvements to social service delivery are still untested because key measures were only recently implemented.

The global economic crisis that hit in late 2008 generally does not pose a serious risk to the sustainability of outcomes the GSAC program. The reason is that the GSAC achievements are of a governance nature that does not require substantial financial expenditures. One area where the global crisis, through its effects on growth and public revenues could threaten GSAC outcomes is in the area of civil service compensation. With increasing strains on the budget it will be more difficult for the Government to preserve the real increase in civil service salaries which is an important component of civil service reform, and particularly for maintaining a merit-based civil service.

The influence of well-connected officials in the operation of successful private sector enterprises remains a serious concern. Though it is somewhat outside the scope of the GSAC program, such interference could threaten the modest gains from the program. For these reasons, the ICR concurs with the most recent ISRs, which acknowledge that the risk to development outcome remains high.

## **5. Assessment of Bank and Borrower Performance**

### **5.1 Bank Performance**

#### **(a) Bank Performance in Ensuring Quality at Entry (*i.e.*, performance through lending phase)**

##### **Rating: Unsatisfactory**

Although GSAC was extensively reviewed by management, the fundamental flaws remained: an overly ambitious set of reforms to be accomplished in too brief a time span, with inadequate government ownership and understanding by the authorities of the implications of the reforms. The Public Expenditure Review (PER) March 2003, which was the key AAA underpinning the design of the GSAC demonstrated the excessive optimism with respect to the Government's ability to implement far reaching institutional change. In addition to recommending comprehensive tax, energy and education reform, all of which were placed in the "short-term" program, the PER also included in short-term program "the creation of a professional and stable civil service that is clearly differentiated from political appointees." Management, particularly the Country Director, expressed strong reservations whether a meaningful program could be accomplished in some areas of governance, particularly in civil service reform.

The operation went forward because it was clear that poor governance was a key obstacle to development and because it had the endorsement of public sector management experts in the Bank. Formally it was also a central plank of the Government's development strategy. The operation suffered from the fact that ownership was superficial, and perhaps because of a lack of a real strategy of how to initiate a wide ranging institutional reform process in institutionally weak environments. The Bank had previous experience in public sector reform in the mid-1990s, and very little of the gains from that period were sustained. Thus, GSAC fell to the general Bank tendency to create Christmas tree programs and over commit the borrower relative to its political capital to carry out reforms according to a tight timeframe. Still, the tranche conditions were relevant to priority governance issues with the exception of the condition relating to categorical education grants, which did not fit the Kyrgyz government structure and had to be waived (see Section 2.1). The lack of program targets and baselines in many cases, along with the lack of a coherent process for collecting monitoring indicators added to the future supervision challenges of this operation. Thus, a rating of Unsatisfactory is appropriate.

**(b) Quality of Supervision** *(including M&E arrangements)***Rating: Satisfactory**

The supervision of the program was detailed and constructive in aiding implementation, particularly in creating and amending laws required for an upgraded governance framework. Because progress was being made in areas of Treasury and service delivery, as well as the legislative and operational gains in civil service, it was decided to extend the closing date four separate times. It was a correct decision to continue the operation post-revolution because essentially the same governance challenges faced the new government as well, and to cease the operation, given the time it would take to re-engage and prepare a new Bank operation, would have posed an unacceptable risk of losing many of the gains achieved by March 2005 (see section 3.2 for more details on this decision). Continuing the GSAC also helped lead to other Bank-supported operations such as the health sector SWAP and the Public Finance Capacity Building operation.

One criticism of the supervision phase was that the lack of M&E framework in the design of the program was effectively not remedied during implementation. ISRs tracked progress with respect to PDOs, but did not make systematic use of the indicators described in the policy matrix. ISR ratings appeared reasonable including the period from the end of 2004 through 2005 when the GSAC program went off track and was rated unsatisfactory for both implementation and achievement of development objectives.

The country office provided fully satisfactory support to the operation, which included the intensive involvement of the operations officer for the full life of the program. The TTL was stationed in Almaty for just over one year of the program (2007-08) and was also country economist over the period 2005-2008, which facilitated closer supervision at a critical time for the reform program. Supervision also had the unusual advantage of having a sector manager who had previously worked as a TTL for adjustment operations in the Kyrgyz Republic several years before. The Sector Manager had witnessed the limitations (and reversals) of earlier reform efforts and was, according to program team members, able to set a tone of realism during supervision.

**(c) Justification of Rating for Overall Bank Performance****Rating: Moderately Unsatisfactory**

The combination of unsatisfactory performance of the Bank at preparation and satisfactory at supervision leads to a moderately unsatisfactory performance overall. Advocating on behalf of an overly ambitious program is not serving the best interests of the client. The efficiency of Bank resource use clearly could have been better had the design been better tailored to the country context. However, the GSAC realized important achievements for a modest amount of IDA resources. Thus, in terms of effectiveness of Bank resources, the Bank program could be viewed as worthwhile, despite the significant shortcomings.

**5.2 Borrower Performance****(a) Government Performance****Rating: Moderately Unsatisfactory**

It is true that the government could not control the events which led to the March 2005 ‘Tulip Revolution,’ which delayed the program. In addition, the political debate on HIPC was unavoidable and impeded dialogue and any possible restructuring of the program. The Government did meet the conditions of the three tranches with no really substantial waivers. However, the government, on too many occasions took actions that were contrary to the core objectives of the program, particularly civil

service reform, including the appointment by the President of his sister-in-law to head the Civil Service agency, as well as the difficulties in procurement and Chamber of Control reforms.

### **(b) Implementing Agency or Agencies Performance**

#### **Rating: Moderately Unsatisfactory**

The Ministry of Finance was the main implementing agency, and was generally effective in pushing forward the GSAC program, but there were 11 other agencies involved in implementing some portion of the GSAC-supported program. Overall, implementing agencies (IAs) struggled to implement the reforms. Among these, in addition to the Ministry of Finance, the CSMA and the Ministry of Health performed well. In the case of the CSMA, the early leadership of the first Director was relatively strong and there was some pressure on government agencies to separate political changes from civil service management and increase merit hiring. After some stagnation after the revolution, the current leadership of the agency has been able to renew leading role of the agency in reforming the civil service. Visible high level support from the government is still needed.

However, it was difficult for some agencies, including the Administration of the President and the Procurement Agency to internalize the need and rationale for the governance reforms. This weak ownership, together with institutional instability, sometimes led to these agencies to support actions which ran contrary to the reform program.

#### **Justification of Rating for Borrower Performance**

#### **Rating: Moderately Unsatisfactory**

The program achieved important gains in key areas, but it was a constant struggle during supervision to keep the Government from reversing course in the reform program. The good performance of some agencies has to be set against poorer performance in others, and thus leads to a moderately unsatisfactory rating overall.

## **6. Lessons Learned**

### **The cost side of overly complex programs needs to be thoroughly considered**

Very complex programs strain the political capital available to leaders. In the case of GSAC, the leaders had to expend political capital with respect to reforms in public procurement, public expenditure management, asset declaration of public servants and major civil service reform, all of which clearly taxed the already thin reform commitment to the point that there were major delays and risks to sustainability. The Bank needs to acknowledge the pressures to create overly complex programs on both the borrower (from the ministries) and the Bank side (from the sectors) and find ways to resist over-complicating project designs and achieve greater focus, particularly in country contexts like Kyrgyzstan.

### **Development Policy operations are less effective as instruments to support institutional reforms in poor countries with low implementation capacity**

The inherent difficulty of ensuring ownership, together with the implementation gap between the passing of laws and their implementation, which was clearly observable in the Kyrgyz Republic, implies that there is a strong incentive to accepting reforms proposed by donors, even when both the ability and willingness to implement them are absent. The conditionality of a development policy operation will

only be effective when policy decisions can be enforced, the conditions are modest and well crafted for the local environment, there is real government ownership and there is extensive TA and time for implementation. These conditions were largely absent in the Kyrgyz Republic for the GSAC and other Development Policy operations.

### **Public expenditure reforms require a shorter timeline than do civil service reforms**

The Bank-supported program design needs to reflect the reality that comprehensive civil service reforms and public expenditure management cannot be accomplished on the same time schedule; civil service reforms take significantly longer to achieve, depending not only on major shifts in long-held attitudes toward hiring, but also the Government's very ability to pay a decent salary to civil servants. To put public expenditure and civil service reform on the same time schedule and expecting full implementation is not realistic.

### **Narrower scope may yield better implementation of civil service reforms**

To achieve better results and within the short timeframe of a policy operation, civil service reform could be scaled down to either of a couple of options: reforms that affect only a certain top layer of management, as was implemented in Albania; or a pilot reform that focuses on selected ministries, possibly the Ministry of Finance, rather than all ministries at once. If senior management is appropriately recruited, it can lead to improved recruitment at lower levels. The ministries can then ensure a higher quality, less pro forma, due process recruitment.

### **Additional caution in program design is needed in countries with pending elections**

The Bank did not tailor the design of GSAC to the risks of disruption of elections scheduled before the end of the program. More caution is needed even if the consensus is that there will be no change of government.

### **Analytic work needs to make realistic recommendations if program design is to be realistic**

The fact that there is analytic work underpinning an operation is no guarantee that the operation will be appropriately designed. The analytic work itself, while technically sound, may have unrealistic recommendations for the time frame of a policy operation. The PER (March 2003), in particular, included a wide range of profound institutional and policy reforms, such as depoliticizing the civil service, as part of the "short-term" program.

### **The act of computerization of Treasury operations and streamlining operational processes carry substantial governance benefits:**

- Better reconciliations with the banking system
- Greater detail, better classified budgets, that are also published
- Ability to carry out audits more quickly.
- Reduction of the gap between planned vs. actual

### **The Bank does not learn adequately from previous experience**

A broad institutional lesson from this operation is that the Bank often does not learn from its own experience. At review meetings for GSAC, it was reported that no analog could be presented of a similar

program succeeding in an environment similar to that of the Kyrgyz Republic. If such analogs cannot be found, then program designs need to be scaled back.

## **7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners**

### **(a) Borrower/Implementing agencies**

The Government drafted a Borrower's contribution and, in addition, a draft ICR was circulated to the borrower and implementing agencies on January 22, 2009. A response was received only on March 4, 2009, after the ICR had been approved. Nevertheless the ICR was withdrawn and now reflects this response. Both the Borrower's contribution and the response to the draft ICR are shown in Annex 4.

In the response to the draft ICR the Ministry of Finance provided additional data on the results of the implementation of the GSAC program, which have now been incorporated into this ICR. The response also mentions the Ministry of Justice legal database, which the ICR described as no longer existing. As the response, notes this database is no longer available to the public (its principal purpose). Thus the ICR has been corrected to say that it is no longer available to the public.

The government response also questions the evaluation of moderately unsatisfactory for the overall outcome of the program. While it is recognized that civil service reform is a long and difficult process and some progress was made, the central issue is that program was over-ambitious as regarding what could reasonably be achieved (a joint responsibility of the Bank and the authorities). However, as is explained in Section 4, developments since the closure of the credit indicate that the authorities are implementing measures contrary to the central principles of the Civil Service Law (assigning human resource management to ministers rather than state secretaries, and removing state secretaries from their positions as if they were political appointees). Such measures imply a high risk that any progress made so far may be reversed. In the response to the draft ICR it is mentioned that the reversals by the Government were political in nature, but since the depoliticization of the Civil Service was a central goal of the program, this is a serious problem.

Finally the response questioned the assessment of the performance of the President's Administration, the Government Office and the Ministry of Justice. In the first case, given that many of the reversals of the GSAC program originated in the President's Administration, and that after May 2005 the President's Administration did not effectively coordinate the implementation of the program, there can be little doubt that these made implementation of the program slower and more difficult. It was decided however that rather than formally rating the performance of individual agencies it was more appropriate to consider an overall rating for the authorities performance, and so the table of ratings for individual agencies was deleted. The overall rating balances good performance by some agencies with weaker performance in others with an overall rating of moderately unsatisfactory. This corresponds also the Bank's moderately unsatisfactory performance in agreeing with the authorities on an unrealistic and over ambitious program, without sufficiently deep ownership.

### **(b) Cofinanciers**

Annex 5 contains comments submitted from the IMF, UNDP and the European Commission. These comments are essentially consistent with the conclusions of the Bank ICR. One exception is the comment from the IMF that it might have been better to cancel the GSAC after March 2005. The ICR addresses this point in Section 3.2 which summarizes the pros and cons of this issue, and argues that the decision to continue the operation was correct.

The table below briefly characterizes the roles of donors who were involved GSAC activities.

### Brief Description of Roles of Cooperating Donors

Donor	Comment on their support
DFID	Supported the PEM (at MoF), which was initially too ambitious in the scope of reforms supported. The program was reoriented to focus on basic PEM issues, in collaboration with the Bank.
IMF	Worked in close collaboration with the Bank on all budget reform issues
UNDP	Supported a functional review of selected (8) line ministries, including right-sizing, but the recommendations were not implemented.
EU-Tacis	Worked on the functional review of ministries and implementing recommendations.
USAID	Helpful in PEM work in financing long term consultants who were effective. Helped with business environment and Kyrgyzstandard.

### Note on IMF PRGF

The PRGF program targeted a reduction in the fiscal deficit of the general government, consistent with the balance of payments adjustment needed to address the country's external debt problems. The key elements of this effort were an increase in collections of tax revenue through a combination of measures that include, a broadening of the tax base and improvements in tax administration led by the establishment of a modern Large Taxpayer Unit, as well as expenditure restraint. The PRGF program also required the pursuance of a debt strategy, including seeking debt relief from Paris Club creditors on Naples terms, a reduction in the size of the Public Investment Program, and limiting external borrowing to loans with high levels of concessionality. The program anticipated the implementation of a tight monetary policy in support of low inflation and a stable nominal exchange rate. Structural reforms in the PRGF program focused on governance and financial sector reforms.

As regards governance, the PRGF identified measures in the areas of institution building, public awareness, efficiency of public administration, corporate governance and judicial reforms. In this regard, it particularly emphasized the restructuring of the Ministry of Finance as a key step to improve the administration of public finances. In the financial sector, reforms of bank supervision, improvements of the regulatory framework, the enhancement of debt recovery capacity, the divestiture of state-owned banks, and the development of the payments system were key priorities.



## Annex 1 Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
<b>Lending</b>			
Jit B. S. Gill	Lead Public Sector Management Specialist	ECSPE	TTL.
Alma Kanani	Senior Economist	ECSPE	PEM
Dominique de Roquefeuil	Senior Informatics Specialist	ECSPE	Treasury
Konstantin Atanesyan	Consultant	ECSPE	Civil Service
Azamat Abdymomunov	Economist (Country Office)	ECSPE	Coordination with authorities
Natalia Pisareva	Consultant (Country Office)	ECSPE	Project management PEM
Kathy Lalazarian	Public Sector Management Specialist	ECSPE	Regulatory agencies
Jan Bultman	Lead Health Specialist	ESCHD	Health
Michael Mertaugh	Lead Education Specialist	ESCHD	Education
Sarbani Chakraborty	Health Economist	ESCHD	Health
Nikolai Soubotin	Senior Counsel	LEGEC	Legal
Hannah Koilpillai	Disbursement Officer	LOAG1	Disbursement
Mapi Buitano	External Affairs	ECAVP	Communication
Mala Johnson	Team Assistant	ECSPE	Team Support
Daniyar Bolotbekovich Aitimbetov	Team Assistant	ECKG	Team Support
<b>Supervision</b>			
Roland Clarke	Senior Country Economist	ECSPE	TTL / All components
Naushad A. Khan	Lead Procurement Specialist	ECSPS	Procurement
Nurbek Kurmanaliev	Procurement Specialist	ECSPS	Procurement
Kathy Lalazarian	Senior Public Sector Specialist	ECSPE	Regulatory agencies /Civil Service
Natalia Pisareva	Senior Economist	ECSPE	All components
Ekaterine Vashakmadze	Senior Country Economist	ECSPE	PFM reform
Piet Hein Van Heesewijk	Sr Program Officer	PRMPS	Civil Service
Michael Mertaugh	Lead Education Specialist	ESCHD	Education
Sarbani Chakraborty	Health Economist	ESCHD	Health
John Ogallo	Senior Financial Management Specialist	ECSPS	Financial Management
Asel Sargaldakova	Health Specialist	ECSHD	Health
Nikolai Soubotin	Senior Counsel	LEGEC	Legal
Hannah Koilpillai	Disbursement Officer	LOAG1	Disbursement
Kenneth Mwenda	Sr. Counsel	LEGEM	Legal
Daniyar Bolotbekovich Aitimbetov	Team Assistant	ECKG	Team Support
Cholpon Ibraimova	Team Assistant	ECKG	Team Support
Asel Almanbetova	Team Assistant	ECKG	Team Support

**(b) Staff Time and Cost**

Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
<b>Lending</b>		
FY01	37	126.05
FY02	40	200.66
FY03	48	259.38
FY04		5.00
FY05		0.00
FY06		0.00
FY07		0.00
FY08		0.00
<b>Total:</b>	125	591.09
<b>Supervision/ICR</b>		
FY01		0.00
FY02		0.00
FY03		0.13
FY04	34	150.32
FY05	34	107.93
FY06	39	132.99
FY07	15	65.49
FY08	10	46.17
FY09	4	31.07
<b>Total:</b>	136	534.10

## **Annex 2. Beneficiary Survey Results**

**Not Applicable**

### **Annex 3. Stakeholder Workshop Report and Results**

Not Applicable

## **Annex 4. Summary of Borrower's ICR and/or Comments on Draft ICR**

### **Report on the GSAC Project Implementation—Civil Service and Asset Declaration (contribution received December 14, 2008)**

#### **Overview**

The project has significantly enhanced overall effectiveness of the civil service workings in the Kyrgyz Republic. The enactment of the laws of the Kyrgyz Republic “On Civil Service” and “On Declaring and Publicizing Data on Incomes, Liabilities and Assets Owned by Persons Holding Political and Other Distinctive Government Posts and Their Close Relatives” in 2004 have laid a foundation for an advanced and brand new system established to organize and manage the civil service.

Public posts were divided into policy-making and administrative posts, principles of competitive admission to the administrative segment of the civil service were introduced, A Civil Service Council was established to set a development strategy in the given area, and a working body of the Council – Civil Service Agency - was established to develop and implement a uniform public policy.

Another important achievement is establishment of the institute of state secretaries in all the ministries, state committees and administrative agencies (with some exceptions) as well as in other central bodies of the public administration system pursuant to the Decree of the President of the Kyrgyz Republic No 376 as of November 3 2004. Presently, the positions of state secretaries are filled in 31 governmental bodies.

The President K.S. Bakiev held a working meeting on May 23 2008 to discuss the most urgent issues related to state secretary’s functioning and to set further objectives. *This is an indicator of the importance of civil service issues given at the highest government level*, thus halting negative practices by some state officers tending to inhibit operations of the state secretaries. This signals that it is time to open a position of a state secretary in the law enforcement agencies in order to implement uniform public policies more effectively in the civil service system.

The implementation of the law of the Kyrgyz Republic “On Civil Service” has brought some of its shortcomings into light, including contradicting norms, technical and stylistic errors, thus leading to ambiguities in interpretations and preventing a uniform application of the law. For example, the operations of the Civil Service Agency comprise workings of the policy-makers and distinctive civil servants related to declarations of the earnings and assets owned. Hence, the Agency’s authority shall not include such areas as admission of such public servants to civil service, their performance evaluation and qualifications upgrade and training.

The current situation results in lack of systemic approach to the civil service issues, waste of public resources and prevents development and implementation of uniform public policies in the civil service. To this end, representatives of the President’s Administration, the Prime-Minister’s Office as well as GSAC/GTAC consultants and the Agency developed a draft law of the Kyrgyz Republic “On the Public Civil Service,” which sets forth discretions, organization and main principles of the civil service workings taking the undergoing reforms into account as well as expanding the authority of the Agency related to developing policies in the area of public administration.

The above draft law regulates operations of the public civil service, stipulates institutional capacity building measures for the civil service management, sets forth improvement of staff selection and civil servants promotion mechanisms for better qualified staff, and heightens social and legal protection of the

civil servants. Based on recommendation of the Administration of the President of the Kyrgyz Republic, the draft law comprises a separate chapter on the provisions of the Ethics Code for the civil servants, which had been earlier developed by the Agency in cooperation with the GSAC/GTAC project consultants. The Agency submitted the draft law to the Administration of the President of the Kyrgyz Republic for further submission for consideration by the State Parliament of the Kyrgyz Republic.

### **Recruitment of Civil Service Personnel**

The Agency in cooperation, with state secretaries of the government agencies, introduced a procedure for competitive selection of applicants to fill vacant positions available with the administrative civil service. There is a tendency toward the reduction of cases when vacant positions in the civil service were filled in a manner contradicting the legislation. This way, according to the data submitted to the Agency by various government agencies, unlawful appointments amounted to more than 60 percent of the total civil service appointments in 2005, the figure contracted to 13,7 percent in 2006 and reached 3,9 percent in 2007.

### **Civil Service Applicant Testing**

Besides, operations of the certification and selection committees within the government agencies, established to set certification procedures to check if the civil servants fit the positions held and to conduct professional assessment tests for ranking purposes, were streamlined. To this end, in order to implement Decree of the President of the Kyrgyz Republic № 77 as of February 28 2007, the Agency, under counseling and financial support of the GSAC/GTAC project, established a Test Center, which was opened on April 16 2008 in presence of the Prime-Minister of the Kyrgyz Republic, Mr. I.V.Chudinov.

Opening and operation of the Test Center is a significant step toward the implementation of anti-corruption measures identified as one of important areas in the Country Development Strategy approved by Decree of the President of the Kyrgyz Republic № 249 as of May 16 2007.

Use of the most recent IT technologies in the Test Center helps eliminate some elements of corruption practices and rules out a possibility of forging the test results, increases transparency and strengthens impartiality of the competitive selection, certification and professional assessment processes. The Agency has developed and approved the following provisions:

- «On the Test Center of the Civil Service Agency of the Kyrgyz» (№ 74 as of September 22 2008);
- «On the Procedure for testing civil servants and applicants for vacant administrative public posts in the Kyrgyz Republic » (№ 75 as of September 22 2008).

At present, mandatory computer-based tests for applicants for vacant administrative public posts are conducted in the Test Center for civil service competitive staff selections. Also, efforts are made to establish Test Center branches in the Southern and Northern Representative Offices of the Agency (Osh and Balykchy towns). The tests are designed to check the candidates' knowledge in the areas of state structure, public administration, basics of civil service, management issues, human resources management, paperwork as well as special issues pertinent to workings of the ministries and agencies. To this end, the Agency developed Terms of Reference for experts to design subject-matter and special purpose issues. It is necessary to note that the Agency preliminarily submitted a proposal, for consideration of relevant government agencies, to use the Test Center to test the knowledge and skills of the candidates for the positions of judges, registers of births, marriages and deaths and notary officers.

Pursuant to Decree of the President of the Kyrgyz Republic № 77 as of February 28 2007, the Agency shall:

- provide counseling and methodology assistance on issues of organizing and operating a civil service to all government agencies;
- monitor and supervise operations of the government agencies related to compliance with the current legislation on the civil service, including competitive selection procedures undertaken to fill vacant administrative government posts and to certify civil servants.

A system was introduced to ensure regular submission of information by the government agencies in line with the agency reporting formats as per the law of the Kyrgyz Republic “On the Civil Service” approved by resolution of the National Statistics Committee of the KR No18 as of August 22 2007. Monthly memos on the appointments and dismissals of administrative civil servants are submitted to the President’s Administration, Prime-Minister’s Office, the World Bank Country Office and is posted on the Agency’s web-site. Moreover, pursuant to the order № 79 issued by the Agency on November 10 ноября 2006, the Agency staff members are members of the certification and selection committees of the government agencies for the purpose of rendering methodological assistance.

In order to improve effectiveness of the civil service management, the Agency, under the GSAC/GTAC project, is undertaking work aimed at developing and introducing HR Management Information System (HRMIS). With support of the GSAC/GTAC project, pilot modules of the HRMIS have been developed and are presently introduced.

### **Civil Service Training**

In 2008, the Agency undertook analysis of the training of administrative civil servants based on the information submitted by 45 government agencies for 2007. It is worthwhile to note that Article 21 of the law of the Kyrgyz Republic “On Civil Service” establishes allocation of funds from the state budget to conduct training for administrative civil servants based on the rate of no less than 1% of the total budgetary allocation to the particular government agency. At the same time, in 2007, none of the government agencies allocated full amounts of the funds for staff training purposes as stipulated by the above law.

According to instruction of the President’s Administration, the issue is being addressed by the Agency in cooperation with the Ministry of Finance of the KR. This way, from 2009 onward, allocation of funds for the administrative civil servants training is planned to be a separate expenditure item, thus facilitating task-oriented use of the funds pursuant to the law.

In accordance with the tasks legally imposed on the state secretaries and HR officers of the government agencies, the Agency developed appropriate standard training programs. Besides, training seminars are conducted on a regular basis, annually, with support of the GSAC/GTAC project.

With a view to develop a uniform training system for civil servants and to design mechanisms for its management, presently, the Agency supported by the GSAC/GTAC project, drafted a National Strategy for the Civil Servants Training in the Kyrgyz Republic, which is based on comprehensive analysis of the existing training system.

Pursuant to Article 18 of the law of the Kyrgyz Republic “On Civil Service”, the Agency established a National HR Reserve (NHRR) by means of carrying out competitions among the administrative civil servants and university graduates. Overall, nation-wide, 955 people took part in the competitions in 2006-2008, where 646 are administrative civil servants and 309 are university graduates. At present, the NHRR comprises 84 administrative civil servants and 69 university graduates.

More than one third of the HR reserve (38,3%) have two and more higher educations, 15,7% administrative civil servants participated in the professional upgrade courses held overseas, 11,9% - were educated abroad. Administrative civil servants with a background in Economics (29%), Engineering (15,9%) and Law (16%) are prevalent. 13 percent of the HR reserve have master's degrees and 9 percent – completed post-graduate studies. About 51,1 percent of the HR reserve presently hold managerial positions at the levels of division heads and deputy department heads. 32 HR reserve (21%) were appointed to fill vacant administrative civil service posts.

The Agency conducts training courses for the reserve personnel on modern approaches to HR management, public policy analysis and development, normative document drafting systems and methodologies and civil service ethics code development.

### **Declaration of Assets of Public Officials**

Articles 33-35 of the law of the Kyrgyz Republic «On Civil Service» and the law of the KR «On Declaring and Publicizing Data on Incomes, Liabilities and Assets Owned by Persons Holding Political and Other Distinctive Government Posts and Their Close Relatives» stipulate submissions of declarations on earnings and assets owned by the policy-makers and distinctive and administrative civil servants to the Civil Service Agency of the Kyrgyz Republic.

As a result of declaration campaign held in 2008, the Agency received 1395 declarations of earnings, liabilities and assets owned by the policy-makers and distinctive civil servants and 15141 declarations - from the administrative civil servants. The Agency conducted workshops in 2007-08 for senior officers of the central apparatus within 57 government agencies.

By end of the declaration campaigns for 2005–2008, aggregated data on the earnings and assets owned by the policy-makers and distinctive civil servants were publicized through the mass media. Additionally, data on the policy-makers and distinctive civil servants who failed to submit their declarations to the Agency were publicized through the mass media, posted on the Agency's web-site and reported to the President, the Prime-Minister and Chairman of the State Parliament of the Kyrgyz Republic.

### **Conclusion**

Hence, implementation of the GSAC/GTAC project helped introduce a new institutional base for the civil service system, increase transparency of earnings and assets owned by the civil servants as well as processes for admission to the civil service and working in the civil service system. These factors, on their turn, being based on the international best practices and being advanced by nature, have significantly increased effectiveness of the civil service.

At the same time, the Government of the Kyrgyz Republic is hopeful to receive further support from the World Bank to be used to improve the current institutional mechanisms of the civil service operations, with special emphasis on the regulatory foundations, which will be in line with the forthcoming discussions of the draft law “On Public Civil Service” to be held in the State Parliament of the Kyrgyz Republic. Moreover, there is a need for funding of the activities aimed at ensuring further operations of the Test Center, professional qualifications upgrade for the state secretaries and HR officers of the government agencies, and introducing the HR Management Information System.



## Comments and Suggestions on the Draft Report on Completion and Results of the GSAC Project<sup>2</sup> (contribution received March 4, 2009)

### 1. Table 3: Certain key initiatives, results and potential outcomes of the program's implementation with GSAC support:

- 1) Section 1. "Strengthening the transparency and increasing the public sector's response in line with expansion of civil society's opportunities to control its accountability".

In our view the following clarifications and additions need to be made:

- in paragraph (i) "Increase of personal responsibility of political officials and civil servants". In the area recording the result of the second indicator being "Declared information on income and property of civil servants is available to public" it is stated that "This condition is fulfilled, however the data on the number of declarations is unavailable".

This condition has in fact been fulfilled, because all the declarations of civil servants holding political and special posts that were submitted to the Kyrgyz Republic Agency on Civil Service Affairs were published in mass media and accordingly made available to public.

However, as far as the information on the number of declarations available to public is concerned, this information was recorded in the results of the first indicator being "The number of published and reviewed declarations of the civil servants holding high posts", which was provided to the World Bank earlier. This data is stated below:

976 declarations of the civil servants holding political and special posts were submitted to the Agency in 2005, representing 90% of the total number of acting civil servants.

905 declarations representing 91.3% of the total number of acting civil servants were submitted in 2006.

976 declarations representing 98.5% of the total number of acting civil servants were submitted in 2007.

1395 declarations representing 99.1% of the total number of acting civil servants were provided in 2008.

Accordingly, all the data required on the above mentioned indicators confirming fulfillment of this condition is available in full and has earlier been provided to the World Bank by the GSAC/GTAC project implementation group.

- in paragraph (ii) "Strengthening the opportunities for open expression of opinions and participation by way of improved public access to the official information". In the area recording the result of fulfilling the second indicator being "The number of non-government organizations and private individuals using State Public Information Center services", it is stated that "There is no data". However, the information on this indicator stated below, has also been earlier provided to the World Bank by the GSAC/GTAC project implementation group.

The services of the Public Information Center are being used by numerous categories of citizens (school children, students, scientific workers, civil and public servants, pensioners and unemployed) as well various organizations. For instance, the conference room facilities are being used on average by 10-15

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<sup>2</sup> The response to the government's comments is shown in Section 7.

organizations per annum. The reading room is being visited by up to 500 persons per annum. The computer room is being utilized by up to 10 thousand persons per annum. Additionally, the civil services web site has been created (<http://www.govservices.kg>) and is being maintained. Over 75 141 visits have been registered on this civil services web site over the period of its operation.

Accordingly, all the data required for the second indicator and confirming fulfillment of this condition is available, and GSAC/GTAC project implementation group has earlier provided the same to the World Bank.

- We also believe that in paragraph (ii) being “Strengthening of opportunities for open expression of opinions and participation by way of improved public access to the official information” the indicator on “Consistent modem access to the Ministry of Justice legal data base” is missing. Significant funding to fulfill this condition has been allocated and spent from the GTAC project on the purchase of goods and consultancy services for the Ministry of Justice as well as for training of its specialists in information technologies.

The information on full completion of this task per the above indicator has also been earlier provided to the World Bank by GSAC/GTAC project implementation group.

In this regard, with a view of creating a unified information system of the Ministry of Justice, improving the information legal field and providing the public with an open access to draft laws and other legal information developed by state authorities, modernization of the Ministry of Justice data base has been carried out and the same was connected to the Internet. The Ministry’s IT specialists have also undergone training. The Ministry of Justice data base is being regularly updated and added to and the public’s access to the same is ensured via the information network resource of the Ministry of Justice ([www.minjust.gov.kg](http://www.minjust.gov.kg)). The success and effectiveness of the Ministry of Justice website is evident by the fact that in January 2008 the Ministry of Justice site won the 1<sup>st</sup> prize in the Best Website Competition among the ministries and departments of the Kyrgyz Republic, carried out in October 2007 by the UNDP Program on “Democratic Development” together with the Ministry of Transport and Communications of the Kyrgyz Republic.

## 2) Section II. “Improvement of effectiveness, efficiency and accountability of the public sector”

In paragraph (v) “Improvement of the civil service effectiveness” in the area recording the result of the third indicator fulfillment being “The average number of applications for vacant civil service positions” it is stated that “There is no data”.

However, the data on this indicator for the past three years has been earlier provided to the World Bank by the GSAC/GTAC project implementation group, namely:

On average there were 4 applications submitted for one vacant public administrative position in 2006.

In 2007, the average number of applications per one vacant position was 2.4.

In 2008 (11 months), the average number of applications per one vacant position was 2.6.

Accordingly, the data for this indicator evidencing fulfillment of the requirements of the paragraph (V) is also available and has been provided to the World Bank.

## **2. Section 3.4 Justification of the Overall Results Assessment.**

This section of the report states, that the evaluation is brought down to the level of “moderately unsatisfactory” due to the cases of deviation from the reforms on a number of work directions, especially in the area of the civil service reform. It would be difficult to accept this statement, because the same report gives quite a high assessment of the works carried out in the area of the civil service system reforms. In particular, the World Bank confirms the fact that the civil service reform was the principle

institutional transformation, which survived the Government's change in the result of the revolution and continues to function. This is also confirmed by the fact that despite certain attempts to politicize the system of civil service following the revolution, it was possible to a certain extent avoid the same having adopted the legislation on the civil service and having established the Agency of the Kyrgyz Republic on Civil Service and the State Secretary Institute which is functioning successfully.

We would agree with the fact that there were certain actions on behalf of the Government, which contradicted the general direction of the civil service reform (appointment by the former country's President of his wife's sister as the State Secretary of the Kyrgyz Republic Agency on the Civil Service Affairs, the attempt to liquidate the posts of the State Secretary in the Ministry of Justice, information about violations of the civil service legislation by certain ministers with regard to lawful allocation of the State Secretary functions). At the same time, we deem it necessary to point out that these actions have a political inclination and are not systematic. The deviations from the objectives of the reform have been and presently are temporary, which once again reiterates the necessity of further development of the initiated transformations. We deem it possible having established the Agency of the Kyrgyz Republic on Civil Service Affairs, the activities of which were quite highly assessed – namely “Satisfactorily” (Table 4 “Assessments Summary of Certain Executing Agencies”).

The World Bank has also made a completely objective and correct conclusion about the fact that significantly more time is required to carry out the reforms in the civil service sector.

Accordingly, within the framework of GSAC program, it was possible to achieve significant advancement in the area of modernizing the system of the Kyrgyz Republic Civil Service and we would suggest to exclude from the text of the reviewed Report the statements referring to the project assessment results having been brought down due to the cases of deviation from the reforms in the civil service sector.

### **3. Table 4: Summary Assessment of Certain Executive Agencies**

1) In this table, the activities of the Kyrgyz Republic President's Administration are assessed as unsatisfactory. However, we believe that this assessment of their activities on implementation of the GSAC project is far from being objective. It needs to be stated that despite frequent personnel changes within the President's Administration, it was due to the coordination and the decisions made by the President's Administration that the majority of the key conditions of the GSAC program were implemented, despite significant resistance on behalf of certain conservative politicians. In this regard, we would propose to give a higher evaluation of the President's Administration for their input towards the implementation of the GSAC program.

2) We consider Government performance as satisfactory as the Government of the KR took active participation in the drafting and adjusting normative and legal acts.

3) In the “Notes” Column, under the Ministry of Justice it is stated that the Legal Information Data Base, for the modernization of which significant GTAC project funding was allocated, is no longer in existence. This does not reflect the reality. Such data base does exist in the Ministry and was regularly updated and actualized. However, the access to the same is temporarily unavailable because of the repair and construction works taking place in the building of the Ministry of Justice as well as certain difficulties having aroused in hiring and retaining of qualified IT specialists. As you're aware, after a long break, a State Secretary was appointed in the Ministry of Justice in October 2008 in accordance with the legislation on civil service, i.e. following competitive selection. At this time the personnel procedures are being normalized in the Ministry, namely they are being brought in compliance with the legislation on civil service, and we hope that qualified IT specialists will be hired and following completion of the repairs the legal information data base will be again accessible for public use in the near future.

## **Annex 5. Comments of Cofinanciers and Other Partners/Stakeholders**

### **International Monetary Fund**

From the narrow perspective of the Fund, the main benefit of GSAC came with the final disbursement. The timing was fortuitous since it stabilized the government finances when government finances were under some pressure. The additional financing allowed the authorities to avoid any short term cash-induced expenditure reductions. Nevertheless, direct fiscal support was not the primary goal of GSAC.

In terms of the wider objectives of GSAC (public sector transparency, accountability, efficiency), the major constraint was a lack of progress on PFM. Since the demise of HIPC, there has been virtually no movement in this area. Obviously, the change in government was partly to blame. It was probably difficult for the Bank to get the new government to endorse the original GSAC reform agenda, since it was agreed by the old regime. In retrospect, it might have been better to cancel the original GSAC after March 2005 and negotiate a new arrangement in the hope that there would be more ownership of the reform agenda.

The lack of progress on PFM also suggests an important lesson. It might have been a good idea to link some of the GSAC conditionality directly to treasury reform. The original policy matrix had a strong bias towards legislative conditionality (new laws, regulations amendments etc). However, some conditionality on upgrading the MoF's infrastructure, better budgetary control etc could have been helpful. There was probably a greater recognition of PFM reform – both directly and indirectly (in terms of a more forthright discussion of corruption) - in the third tranche disbursement document.

As for key achievements, the government has made some progress towards improving the interaction between regulatory agencies and the business sector, particularly in the area of legislative reform. The GSAC conditionality laid the groundwork for the more recent improvements in the doing business survey, although there remains a significant implementation gap.

## UNDP/Kyrgyz Republic and WB GSAC Programme

1. The UNDP democratic governance programme has coordinated some aspects of its activities with the WB GSAC programme and several of its activities were closely related to individual GSAC objectives. Some of the examples are given below:
  - a. in response to Kyrgyz Government request for assistance in creating of efficient and streamlined administrative structures, UNDP jointly with DFID provided the expert and technical support in accelerating the process of the reform and creating the capacity for the development of a professional civil service and modern public administration. Functional Reviews conducted together with Kyrgyz Government became tools to define the goals, objectives and functions of the state administrative bodies in the Kyrgyz Republic.
  - b. Other parts of the UNDP programme, notably the Information Communication Technologies for Development (ICTD), the Public Administration and the Anti-Corruption component supported the GSAC goals (iv) voice and participation, (iii) streamlining the structure of government (ii) improving service delivery and (i) improving personal accountability through piloting e-services, functional reviews, capacity building of the civil service agency.
  - c. During 2007-2008 UNDP Democratic Governance Programme and GSAC programme jointly supported development of the Civil Service Law and Code of Conduct. Eventually the Code of Conduct became the biggest part of the Civil Service Law.
  - d. Current support to the Civil Service Agency under the President of the Kyrgyz Republic is another example of programmes cooperation. Both programmes contributed into establishment of the Testing Centers for civil servants in the northern and southern part of the country, developing their database, equipping and installing the software, improvement and development of testing system modules, updating of the web-site of the Civil Service Agency, and conducting trainings on Human Resources Management Informative System to the human resources departments of the Governmental bodies
2. At the same time it should be noted that while GSAC main support went to central government institutions, a large part of the UNDP programme focused on local governance in order to support local economic development. Through its support to the Agency of Local Self Government and to the Ministry of Finance it supported inter alia the GSAC goals (iv) strengthening voice and participation and (v) public expenditure management. UNDP training programmes and technical assistance were undertaken in close cooperation and coordination with the WB, DFID, USAID and the EC.
3. The Government of the Kyrgyz Republic is still engaged in efforts to reform and modernize its institutions and policies. The next phase of the reform program will be continued in Judicial area, Public Administration, Local Self-governance and decentralization as well as anti-corruption work and increasing the transparency of the state. The achievement of macroeconomic stability, further strengthening of a favorable business and investment climate, structural changes and improving the effectiveness of social services and social policy are remaining among most important reform areas.
4. A few general lessons learned should be mentioned:
  - a. Governance reforms require a longer term approach and sustainable commitment from the partners.
  - b. They work best where linked to measurable results like in public finance or in service provision – and less when they are addressing ‘rules and procedures’ e.g. in civil service reform.

## **European Commission**

### **Our understanding of GSAC**

According to the Programme document GSAC was initiated by the WB to support the Government's program to strengthen the effectiveness of the State, namely (1) by improving the transparency and responsiveness of the public sector and (2) by increasing efficiency, effectiveness and accountability within the public sector. Under each objective there were several reforms supported by the WB, of which the EC had special interest and involvement in the following:

- strengthening public expenditure management, by establishing a more strategic and transparent budget formulation process, and strengthening accountability and transparency in budget execution;
- improving the internal control environment;
- enhancing the effectiveness of the civil service; and
- streamlining the structure of Government ministries and agencies.

The special interest of the EC towards the abovementioned reforms was expressed by several projects implemented by the EC during the implementation period of GSAC and EC budget support programmes, which several times shared with GSAC cross disbursement conditions and were concerned with the similar reform areas.

### **Our brief assessment**

The WB GSAC in Kyrgyzstan was highly relevant and met both the needs of the country and the broad development objectives. It represented a combination of relief financing and moves towards the establishment of a framework for longer term development, and in this reflected the stage of transition of Kyrgyzstan from a high poverty high unemployment collapsed command economy to a vibrant private sector led market directed economy.

Rather than introduce supplementary actions to peripherally address the weaknesses, and maintain dependence on donor assistance, the aim of GSAC was to mainstream Government structural reforms, increase Government ownership and commitment, and focus support on efforts to build Government's capacity to formulate, manage, and monitor programmes to realise its objectives.

Levels of poverty, particularly extreme poverty, fell significantly during the WB GSAC period, although this was also attributed to external macroeconomic factors. Insofar these macroeconomic developments were supported by the additional fiscal and foreign currency resources provided by the WB under GSAC, and by its adherence to other donor reforms (including reforms supported by the EC), GSAC played an essential role in these developments.

We believe that the delivery of GSAC was reasonably efficient. As a deficit financing instrument, the cost of delivery was relatively small, since use of the Treasury to channel funds, even with the limitations of the Treasury and overall PFM system, is an efficient method of utilisation of external financial aid.

Currently for us it is very difficult to assess the impact of GSAC, since it is not immediate, but we believe that it will establish the ground for the adoption of new, deep and more sustainable reform directions. We also understand that some of the reforms initiated under GSAC are incomplete and on-going, and they display little sustainability as yet (this specifically refers to PFM and civil service reforms).

We also believe that generally GSAC was fully coherent with other donor interventions (specifically with EC interventions), and either complemented or lead those of other donors. The EC Delegation maintained close relations with the WB in the key areas of reforms. Generally, both the EC through its budget support and the WB through GSAC or other similar interventions support Government strategic directions where they existed, and this support in harmony with broad strategic documents such as the NPRS and CSD.

## **Annex 6. List of Supporting Documents**

Public Expenditure Review: Fiscal Policies for Growth and Poverty Reduction, March 4, 2003  
GSAC Program Document, April 21, 2003  
CAS-2004-07  
GTAC Program Document, April 2003  
ISRs for GSAC  
Board Minutes-CAS, GSAC, GTAC  
Aide Memoires for GSAC  
ICG Reports (on corruption and governance)  
Analysis of Civil Service Reform in the Kyrgyz Republic (internal paper), Summer 2007  
General Correspondence