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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT
IN THE AMOUNT OF SDR 9.20 MILLION
(US\$13.75 MILLION EQUIVALENT)

AND A

PROPOSED GRANT
IN THE AMOUNT OF SDR 7.60 MILLION
(US\$11.25 MILLION EQUIVALENT)

TO THE KYRGYZ REPUBLIC

FOR THE

FIRST DEVELOPMENT POLICY OPERATION

June 24, 2013

Poverty Reduction and Economic Management
South Caucasus and Central Asia Unit
Europe and Central Asia Region

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KYRGYZ REPUBLIC - GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of June 24, 2013)

Currency Unit	=	Kyrgyz Som (KGS)
US\$1.00	=	48.4768 (KGS)

Weights and Measures
Metric System

ABBREVIATION AND ACRONYMS

AAA	Analytic and Advisory Activities	MoF	Ministry of Finance
ADB	Asian Development Bank	MTBF	Medium-Term Budget Framework
AUB	Asia Universal Bank	MTDP	Medium-Term Development Program
BEEPS	Business Environment and Enterprise Performance Survey	MTTP	Medium-Term Tariff Policy
CAS	Country Assistance Strategy	NBKR	National Bank of the Kyrgyz Republic
CoA	Chamber of Accounts	NPLs	Non-Performing Loans
CPSR	Country Procurement Status Review	OECD	Organization for Economic Co-operation and Development
DfID	Department for International Development	PEFA	Public Expenditure and Financial Accountability
DPA	Deposit Protection Agency	PER	Public Expenditure Review
DPO	Development Policy Operation	PFM	Public Finance Management
DSA	Debt Sustainability Analysis	PPL	Public Procurement Law
EBRD	European Bank for Reconstruction and Development	PPP	Public Private Partnership
EC	European Commission	PRAF	Prompt Remedial Action Framework
ECA	Europe and Central Asia	PSD	Private Sector Development
ECF	Extended Credit Facility	PV	Present Value
ERSO	Economic Recovery Support Operation	ROA	Return on Assets
EU	European Union	REER	Real Effective Exchange Rate
FDI	Foreign Direct Investment	ROE	Return on Equity
FIRST	Financial Sector Reform and Strengthening	ROSC	Report on the Observance of Standards and Codes
GDP	Gross Domestic Product	SAI	Supreme Audit Institution
GTAC	Governance Technical Assistance Credit	SAPPMR	Public Procurement and Material Reserves
IDA	International Development Association	SDR	Special Drawing Rights
IFC	International Finance Corporation	SECO	Swiss State Secretariat for Economic Affairs
IMF	International Monetary Fund	SIDA	Swedish International Development Agency
IPSAS	International Public Sector Accounting Standard	SME	Small and Medium Enterprises
IsDB	Islamic Development Bank	SOE	State Owned Enterprise
ISN	Interim Strategy Note	TMIS	Treasury Management Information System
JEA	Joint Economic Assessment	TSA	Treasury Single Account
JSAN	Joint Staff Advisory Note	UCoA	Unified Chart of Accounts
JSC	Joint Stock Company	UNDP	United Nations Development Program
KfW	Germany Development Bank	USAID	United States Agency for International Development
KICB	Kyrgyz Investment and Credit Bank	WB	World Bank
LDP	Letter of Development Policy	WDR	World Development Report
M&E	Monitoring and Evaluation	WTO	World Trade Organization
MDTF	Multi-Donor Trust Fund		
MoE	Ministry of Economy		

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KYRGYZ REPUBLIC

FIRST DEVELOPMENT POLICY OPERATION

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PROGRAM SUMMARY

KYRGYZ REPUBLIC

PROGRAMMATIC DEVELOPMENT POLICY OPERATION

Borrower	Kyrgyz Republic
Implementing Agency	Ministry of Finance
Financing Data	IDA Credit (\$13.75 million equivalent) of 40 years maturity including a 10-year grace period and IDA Grant (\$11.25 million equivalent).
Operation Type	Programmatic Development Policy Operation (DPO). This is the first in a series of two annual single tranche DPOs.
Main Policy Areas	The proposed DPO series intends to support government efforts in maintaining macro-economic stability, promoting governance and anti-corruption reforms, and enhancing other important structural reforms that improve the environment for private sector investment and growth. There are two broad themes supported by the DPO. The policy areas under Theme 1 support the government's anti-corruption program and development of a judiciary reform action plan with key priorities for implementation. Theme 1 also supports reforms in public finance management including procurement reform, aimed at increased budget transparency, planning, monitoring, and enhanced accountability over the use of public resources. Theme 2 focuses on competitiveness and improving the environment for private investment through: (a) removing barriers that hinder business registration and operation, (b) reforming the energy sector, which is critical for economic growth and the welfare of the population, and (c) ensuring financial sector stability to address vulnerabilities and support private sector growth.
Key Outcome Indicators	<p>Selected key outcome indicators expected by the end of the program:</p> <ul style="list-style-type: none"> • Semi-annual report on implementation of the anti-corruption action plan. Base: No report Target: Implementation report published semi-annually. • Global Competitiveness Index (Institutions Pillar Rank) by World Economic Forum Overall Base: rank 137 out of 144 Target: rank 120 out of 144 (ECA average is 84) • Judicial appointment process finalized. Base: All judges (35) of the Supreme Court and all judges (11) of the Constitutional Chamber in place. Target: Appointment of all local court judges (401) completed and all judges working in their courts. • PEFA PI-2. Composition of expenditure out-turns compared to original approved budget. Base: C Target: B • Quality of the Public Procurement Law (PPL) and implementation capacity. Base: Public procurement reports are not published Target: Timely publication of annual public procurement reports by MoF • Reduction in number of days to register a business.

	<p>Base: 20 days Target: Reduced by 10 days</p> <ul style="list-style-type: none"> • Extent of director liability (sub-indicator of the protecting investors' indicator of DB). Improvement in the score of director liability will contribute to protecting minority shareholder against directors' misuse of corporate assets for personal gain. Base: score 7 Target: score 8 • Increased transparency – regular disclosure of the power sector's financial and operational performance indicators. Base: No indicators are disclosed. Target: Key operational and financial performance indicators of the sector and key decisions are regularly disclosed. • Adoption of modern bank supervision methods. Base: Supervisory framework lacking modern supervision methods. Target: The supervisory framework is based on the Basel norms and standards.
<p>Program Development Objective(s) and Contribution to CAS</p>	<p>The proposed DPO series is intended to support the Kyrgyz Government with the implementation of reforms and policy priorities highlighted in the National Sustainable Development Strategy (2013-17) and the Medium-Term Development Program of the Kyrgyz Republic for 2012-14. The proposed DPO supports key areas of the reform program with the objectives of: (i) strengthening governance and anti-corruption efforts and putting in place enforcement and evaluation and monitoring mechanisms, implementing key priority areas in the judicial sector to promote the rule of law, and improving public sector accountability and efficiency in the management and use of public resources, and (ii) sharpening competitiveness and enhancing the attractiveness for private investment through improving transparency and governance in the energy sector, reforms in the financial sector, and improving the environment for development of private business.</p> <p>The operations is aligned with the objective of the FY11-12 Interim Strategy Note of reinforcing national stability following the 2010 conflicts by strengthening governance, and supporting the financing of the government's fiscal deficit.</p>
<p>Risks and Risk Mitigation</p>	<p>This is a high risk operation. The key risks and mitigating factors are:</p> <ul style="list-style-type: none"> • <u>Political and social risks.</u> The political environment has stabilized since the 2010 events, but the nascent parliamentary democracy will continue to face challenges. Political stability will depend upon the state's ability to fight corruption, improve public services, and sustain broad-based growth and employment. The 2010 constitution has fundamentally changed the political economy of the Kyrgyz Republic by dispersing power among a number of parties and strengthening the role of the parliament. The government and presidency are committed to anti-corruption, and the present DPO supports a range of state initiatives designed to strengthen transparency and accountability. • <u>Macroeconomic risks.</u> Vulnerability to external shocks, reflecting in part the substantial reliance of the economy on gold production and exports and on inflows of remittances is a key risk. Lower growth in Russia and Kazakhstan because of potential spillovers from the Eurozone crisis or a decline in oil prices would weaken inflows of remittances and demand for Kyrgyz exports. Another disruption in gold production could have a strong negative impact on Kyrgyz growth prospects. A large fiscal deficit and failure to control growth of expenditures could jeopardize sustainability. Finally, heavy reliance on imports of food and fuel leads to

	<p>vulnerability to inflationary pressures stemming from global food and fuel price shocks. Prudent macroeconomic management supported by the Bank and IMF programs will help partly mitigate the macro risks. Efforts to help the economy diversify by building human, physical and institutional capital feature strongly in the government medium-term development program. Bank-supported policies towards development of the private sector, and reforms in the agriculture, financial, and energy sectors play a strong role in strengthening the potential for growth. The Bank’s ongoing public expenditure review is expected to support the government’s fiscal consolidation efforts. Specific revenue and expenditure policy measures will require tough choices.</p> <ul style="list-style-type: none"> • <u>Fiduciary and governance risks.</u> Corruption has been perceived as the main cause of the failure of previous governments. Reducing corruption and improving governance, transparency, and accountability in the public sector, including the proper use of public funds, is high on the agenda of the new government. Nonetheless, weak institutions and low capacity could undermine government efforts in this area. Measures taken to improve transparency and accountability and reduce opportunities for corruption through development and implementation of an anti-corruption action plan are expected to provide a platform for the government in this area. Moreover, reform of the judiciary, which aims at strengthening the rule of law, property rights, and providing for a stronger role for the courts, would mitigate governance risks. Weakness in the public financial management (PFM) system are being addressed through implementation of the ongoing PFM multi-donor Trust Fund, as well as strengthening control mechanisms for accounting and information security at the central treasury. • <u>Implementation risks.</u> The ability of the government to build consensus and coordinate across key economic and social implementing ministries, and weak institutional and technical capacity are the two critical limiting factors to implementation. Although the governing coalition holds 69 seats out of the 120 in the parliament (compared to 92 in the previous coalition government), it seems to be strengthening internal coordination and achieving political consensus over time. The DPO itself serves as an organizing framework for the coordination of key reforms.
Operation ID	P126034

**IDA PROGRAM DOCUMENT FOR A
PROPOSED FIRST DEVELOPMENT POLICY OPERATION
TO THE KYRGYZ REPUBLIC**

I. INTRODUCTION

1. **This Program Document presents the first operation in a programmatic series of two Development Policy Operations (DPOs) to the Kyrgyz Republic over the period 2012-14.** The proposed DPO program is anchored in the National Sustainable Development Strategy (2013-17) and the government's *Medium-Term Development Program* (MTDP) for 2012-14 and supports reforms initiated in previous operations that remain critical for appropriate macroeconomic management and good governance. It also builds on the government program that was supported by the Economic Recovery Support Operation (ERSO), a single tranche development policy operation approved in 2011. The ERSO provided budget financing to the Kyrgyz Republic immediately after the 2010 conflict and supported critical reforms in the areas of public sector governance, transparency, and accountability.

2. **The DPO series constitutes the central pillar of IDA support envisaged in the Bank's Interim Strategy Note (ISN).** The ISN was discussed by the IDA Board of Executive Directors in August 2011 and places substantive emphasis on countervailing the key causes of conflict through its focus on governance and accountability, support for social services and infrastructure, and protection of essential spending during the process of fiscal consolidation. Equally, it envisages support for private sector development as reflected in the government's medium-term development program.

3. **The proposed operation reflects the recommendations from the 2011 World Development Report (WDR) on *Conflict, Security and Development* for Bank engagement in states emerging from conflict and in situations of fragility.** The Kyrgyz Republic has taken significant steps with its program of economic recovery following the overthrow of the government in April 2010 and the severe violence of June-2010. In line with the WDR, the World Bank was the first development partner to re-engage after the conflict with the provision of the ERSO operation, analytic and advisory activities, and investment operations. The proposed DPO series represents a continuation of our previous engagement and is tailored to promote incremental improvements in governance and anti-corruption reforms in selective areas including reforms in the judiciary sector, public finance management, and public procurement. The program is aimed at supporting a small number of reforms that are politically feasible given the still fragile and complex political situation in the country.

4. **The government is committed to its medium-term reforms in the face of high political, social and implementation risks.** The DPO program takes into account the varying speeds of policy development and capacity limitations in the different reform areas. The core set of reforms for the two operations is fully identified. The program under the first operation of the series supports essential reform steps in the areas of governance, public financial management, private sector development, judicial reform, and energy. The second operation of the series will build on the achievements and interim results achieved by the reforms supported by this proposed operation.

II. KYRGYZ DEVELOPMENT CHALLENGES AND PROSPECTS

5. **Despite concerted action towards reform and a commitment to democracy the Kyrgyz Republic remains one of the poorest countries in the Europe and Central Asia (ECA) region.** Since independence in 1991, the country has made strong advances towards the creation of a liberal market economy with the aim of promoting sustained economic growth and fighting poverty. In 1998 the Kyrgyz Republic became a member of the World Trade Organization (WTO), a reflection of the country's commitment to international integration through trade and investment. However, while the country has met with some success in fostering open institutions, the Kyrgyz Republic remains a low income country with a GNI per capita in 2011 of \$880.¹

6. **In April 2010, anti-government political demonstrations took place against centralization of power within the presidency.** Protests were fuelled by a widespread belief that there had been a marked rise in corruption, nepotism, and misuse of public assets, which is borne out by the time trend in governance perceptions indicators. These protests culminated in the removal of the president from office and the formation of an interim government headed by a coalition of opposition political and civic leaders. These events left a power vacuum in the south and in June 2010, political and social tensions climaxed into violent clashes. According to official statistics, there were over 300 deaths, 2,500 injuries, and, at the peak of the fighting, up to 400,000 internally displaced people. Furthermore, large scale destruction of power transmission and heating as well as public and private property, especially housing, occurred. The Joint Economic Assessment (JEA) estimates that these infrastructure damages amounted to \$350 million, or 7.3 percent of GDP.²

7. **The provisional government that took office in the spring of 2010 drafted a new constitution in a participatory manner.** In the belief that a wider division of powers would counter mis-governance, the presidential system was transformed into a parliamentary one. Checks and balances have subsequently been introduced and measures taken to strengthen public accountability. Parliamentary elections were held in September 2010 and presidential elections in October 2011. Both elections were deemed to be free and fair, and were followed by the creation of new governments in January and December 2011.

8. **A new Government was formed in August 2012.** The new coalition was expeditiously formed and a new prime minister and cabinet took office in early September. The new government is backed by a three-party coalition in parliament and continues its policy reforms within a liberal and business orientation framework.

9. **These frequent changes in government highlight the fragile political environment in the country.** Political instability and weak governance are key challenges facing the Kyrgyz Republic, which is ranked in the bottom third of all countries according to most governance and transparency indicators. Internal political instability and political processes of 2005 and 2010

¹ The Kyrgyz Republic is classified as a low income country under the World Bank's income classification. As of July 1, 2012, low income countries were defined as those having an average GNI per capita (atlas method) of \$1,025 or less in 2011.

² Joint Economic Assessment: Reconciliation, Recovery and Reconstruction, July 21, 2010.

negatively affected the economic development of the Kyrgyz Republic. Within government, weak public financial management practices reduce both the efficacy and efficiency of public spending. Moreover, weak governance, and in particular corruption-related concerns, adversely impact meritocracy within the public sector. Corruption also discourages the private sector from formalizing their business activities, evidenced by the significance of the shadow economy in the Kyrgyz Republic, estimated at 40-60 percent of GDP.³

10. **Another significant challenge facing the Kyrgyz Republic is the weakness of the existing growth model, given the large dependence on gold production and remittances.** In recent years, gold production has been the mainstay of the economy, and specifically production from one mine (Kumtor).⁴ In 2011, gold production accounted for 12 percent of GDP and 44 percent of exports. The development impact of the gold sector has, however, been limited: the sector employs around 1,600 local staff and has few supply chain linkages, requiring little additional infrastructure. Other sectors of the economy such as agriculture and agri-business, textiles, tourism and communications have shown promise but policies to stimulate productivity and growth have yet to yield transformative results. On the demand side, private consumption is driven by remittances, which in 2011 represented 30 percent of GDP. Not only does this reliance on remittances expose the country to exogenous shocks, it also reflects the broader issue of limited income opportunities inside the country.

A. RECENT ECONOMIC DEVELOPMENTS

11. **Political instability in 2010 led to a recession.** Several key borders were closed, dampening economic activity and private sector confidence. The economy experienced a recession, with GDP falling by 0.5 percent. Farming was disrupted by delays in supply of inputs, especially during the sowing season in the north of the country. Physical damage to businesses and business closures had an effect on income and employment, as did the slowdown in the labor-intensive sectors of construction and tourism sectors that bore the brunt of the disruptions. The authorities stepped up public expenditures to address the impacts of the crisis and reduce social tensions. These policy measures, in addition to lower revenues and wage and pension increases introduced in 2009, resulted in a budget deficit of 6.3 percent in 2010, compared to a balanced budget in 2008 and a deficit of 3.5 percent of GDP in 2009.

12. **Growth recovered to 6.0 percent in 2011 because of improvements in the economic and political situation.** With improvements in the political and security situation, and the reopening of borders, the economy recovered from recession in 2011 (Table 1). Industry was the main driver of growth, particularly in the mining and energy sectors. Higher water levels at the Toktogul reservoir resulted in a 25 percent growth in power generation.⁵ Both power and gold contributed 0.7 percentage points to the total growth rate.

³ As reported by the Kyrgyz Republic authorities.

⁴ The Kumtor gold mine, accounting for about 12 percent of GDP in 2011, is the largest project in the Kyrgyz Republic with 33 percent of its total shares belonging to the government. It is run by the Centerra Gold Company.

⁵ The Toktogul Hydro Power Station produces about 90 percent of total electricity power.

Table 1: Selected Economic Indicators, 2010–14

(In percent of GDP unless indicated otherwise)

	2010	2011	2012	2013	2014
	Act.	Act.	Prel.	Proj.	
Nominal GDP (in billions of soms)	220.4	286.0	340.4	348.1	398.5
Real GDP (growth in percent)	-0.5	6.0	-0.9	7.4	7.5
Consumer prices (12-month percent change, eop)	18.9	5.7	7.5	7.0	7.0
General government finances (in percent of GDP) 1/					
Total revenue and grants	30.5	31.8	34.5	32.0	32.1
Of which: Tax revenues	22.3	23.1	26.0	25.4	25.7
Total expenditure (including net lending)	36.6	36.3	39.8	37.3	36.1
Of which: Current expenditures	31.0	30.9	32.4	30.8	29.3
Capital expenditures	5.4	5.5	7.4	7.0	6.0
Overall fiscal balance	-6.3	-4.6	-5.4	-5.3	-4.0
Primary balance	-5.4	-3.6	-4.5	-4.2	-3.1
Total public debt	60.3	50.1	51.5	50.6	48.5
External sector					
Current account balance (in percent of GDP)	-6.9	-6.6	-15.3	-8.0	-6.0
Export of goods and services (in millions of U.S. dollars)	2,526	3,388	3,538	3,996	4,450
Export growth (percent change)	-1.1	34.1	-7.4	12.9	11.4
Import of goods and services (in millions of U.S. dollars)	3,917	5,074	6,450	6,446	6,871
Import growth (percent change)	6.0	29.5	24.9	-0.1	6.6
External public debt outstanding (in percent of GDP)	55.1	45.9	45.8	45.2	43.3

Sources: Kyrgyz authorities and WB staff estimates.

1/ General government comprises of the State Government and Social Fund finances. State government comprises of central and local governments.

13. A large drop in gold production led to a 0.9 percent economic contraction in 2012.

According to Centerra Gold Company, gold production at Kumtor declined to 315 thousands troy ounces in 2012 from 583 thousands troy ounces a year earlier owing to ice shifts in the mine (Figure 1). Growth in most of the non-gold sectors has been resilient. Real output grew at 5 percent year-on-year, with services and construction materials (cement and glass) as the main contributors. However, power generation only recorded a marginal increase compared to 2011, reflecting the authorities' attempt to accumulate water at the Toktogul reservoir for the winter, following lower water inflows in 2012. Agriculture also experienced modest growth (1.2 percent), owing to adverse weather conditions (Figure 2).

Figure 1: Real GDP growth has fluctuated over the past few years

(In percent)

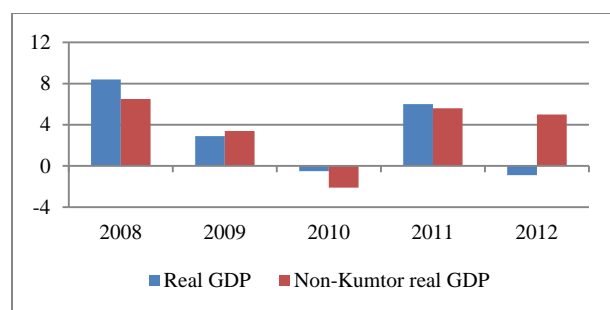
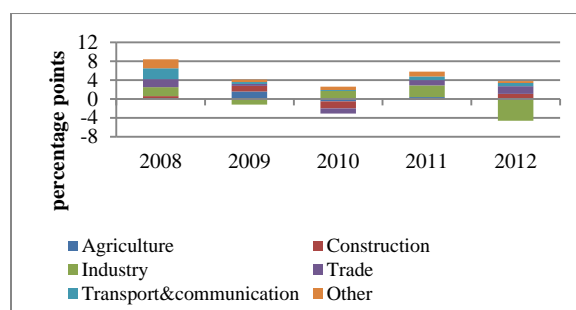


Figure 2: Industry shrunk significantly in 2012

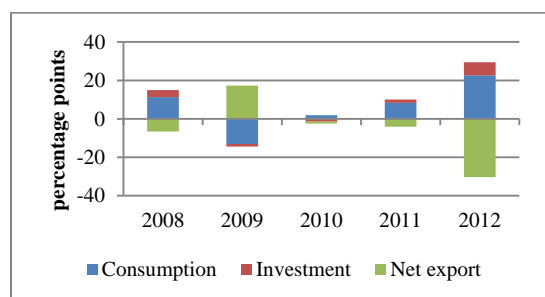
(Percentage of GDP growth)



Source: National Statistics Committee, Kyrgyz Republic.

14. **On the demand side, remittances continue to fuel private consumption.** At about 30 percent of GDP, remittances have been a relatively resilient flow of income for the Kyrgyz Republic. Remittances fell in 2009, in the wake of the 2008 financial crisis, before rebounding strongly since 2010. In 2012, remittances are estimated to have reached \$1.9 billion, an increase of nearly 15 percent compared to 2011. Supported by remittances, private sector consumption contributed almost 22 percent to GDP growth. Public sector consumption was moderate, recording close to 3 percent year-on-year growth, mainly reflecting the higher public sector wage bill. Large energy projects explain the growth in public investment in 2012 (Figure 3).

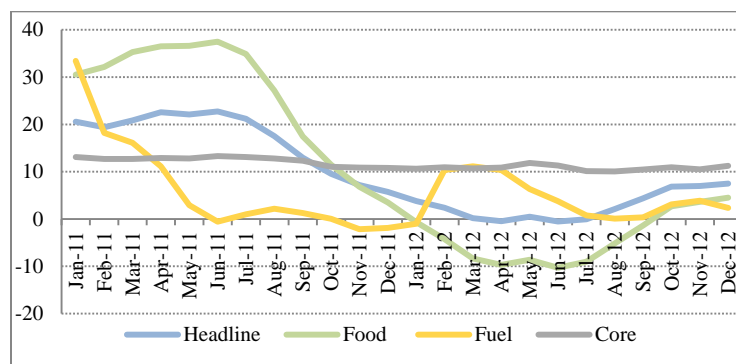
Figure 3: Consumption and investment continue to prop up demand
(Contribution to growth)



Source: National Statistics Committee, Kyrgyz Republic

prices, combined with rising consumer prices, resulted in an end of year inflation rate of 7.5 percent (year-on-year) (Figure 4).

Figure 4: Declining food prices have been the main drivers of headline inflation
(In percent, 12 month rate)



Source: National Bank of the Kyrgyz Republic.

agreement with Centerra Gold Company on an advanced tax payment of \$30 million, spread over 2012 and 2013.

15. **After reaching double-digit levels in 2010, inflation rates receded in the first half of 2012, but have been on the rise since.** Year-on-year inflation rose steadily throughout 2010, peaking at close to 19 percent in December. Inflationary pressures came from across the board: food inflation was at 27 percent, fuel at 32 percent and core inflation at 17 percent (all figures December 2010 year-on-year). Twelve-month inflation continued rising in the first half of 2011 but came down to single digits, reaching 5.7 percent by the end of the year. This declining trend continued in the first half of 2012 (-0.5 percent in June 2012). However, pressures from higher international wheat

prices, combined with rising consumer prices, resulted in an end of year inflation rate of 7.5 percent (year-on-year) (Figure 4).

16. **Solid growth and higher gold prices helped raise revenues relative to GDP over the past few years.** Revenues increased from 27.1 percent of GDP in 2009 to 28.8 percent in 2011.⁶ Tax administration reforms have been an important factor in boosting tax collection. Despite plummeting gold production, revenues continued to grow to 31.9 percent of GDP in 2012, supported by buoyant imports and improved customs administration.⁷ In addition, the government was able to reach an

⁶ Excluding grants.

⁷ A large part of the increase in imports is believed to be imported fuel aimed for re-export to Tajikistan.

17. **Despite increasing revenues, the budget has been in deficit since 2009.** Government spending rose from less than 30 percent of GDP in 2008 to nearly 40 percent in 2012 (Figure 5). Increases in capital spending reflect the implementation of large energy infrastructure projects. Larger current spending is mostly the result of significant wage and pension increases in 2011. These increases were fully felt in 2012, with the wage bill rising to 8.8 percent of GDP in 2012 from 7.7 percent in 2010. Expenditures by the Social Fund also rose substantially (Figures 6 and 7). As a result, the consolidated fiscal deficit increased by 1.5 percentage points to 6.1 percent of GDP in 2012, the highest deficit currently estimated in the ECA region (Figure 8).

18. **The decline in gold exports together with a significant increase in imports led to a widening of the trade deficit to 46 percent of GDP in 2012, from 28 percent in 2011.** Imports increased by 24 percent year-on-year in 2012, mainly as a result of oil imports. The country imports most of its final and intermediate products, maintaining close ties to the CIS countries. Over the last few years demand for imported products has risen in line with remittances and private consumption. Public investment, in turn, also stimulated imports of machinery and construction materials. Gold accounts for about half of exports. Gold exports faltered in 2010 owing to political instability and bounced back in 2011, benefiting also from higher world gold prices. Lower production in 2012 reduced gold exports by 48 percent. Exports other than gold rose strongly, expanding by 13 percent.

Figure 5: Expenditures have been growing faster than revenues

(Lines: in percent of GDP, LHS; bars: in millions of 2000 soms, RHS)

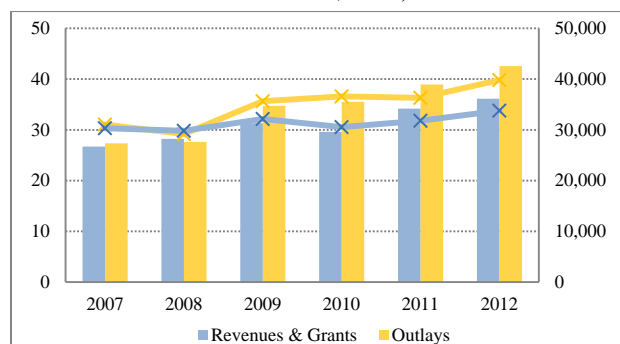


Figure 7: Pension spending will rise above 10 percent of GDP

(In percent of GDP)

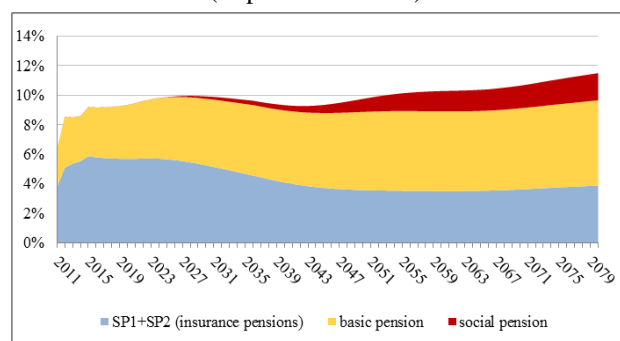


Figure 6: Wages and social spending are driving expenditure growth

(In percent of GDP)

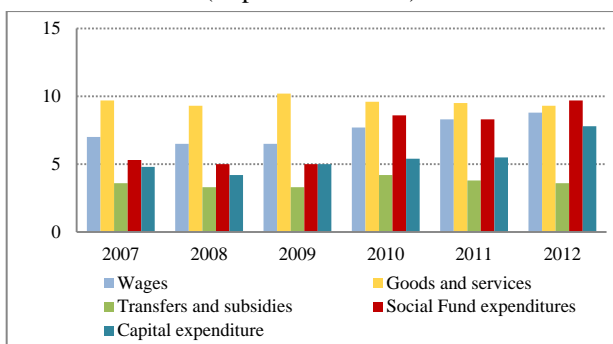
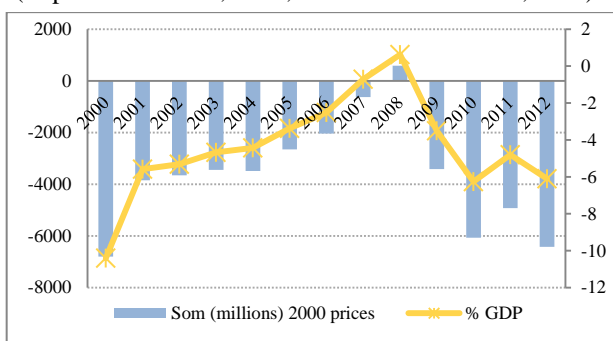


Figure 8: The fiscal deficit was over 6 percent in 2012

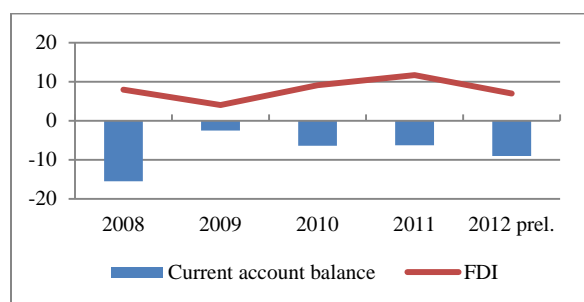
(In percent of GDP, RHS; and millions of soms, LHS)



Sources: National Statistics Committee, Kyrgyz Republic and World Bank. All 2012 figures are preliminary.

19. **The worsened trade balance in 2012 led to an increase in the current account deficit.** Current account deficits have been recorded consecutively since 2006, with initial estimates of the 2012 shortfall at over 10 percent of GDP. The balance of trade in services was also negative, further contributing to the current account deficit.

Figure 9: Inflows of FDI financed the current account deficit before 2012
(In percent of GDP)



Source: National Statistics Committee, Kyrgyz Republic.

20. **Inflows of Foreign Direct Investment (FDI) fully financed the current account deficit in 2010 and 2011, but only partially covered the shortfall in 2012.** Inflows rose by almost 60 percent in 2011, as the economy recovered from the political and security uncertainty. Owing to lower reinvested income from the Centerra Gold Company, FDI inflows are preliminary estimated to have declined to \$470 million in 2012 compared to nearly \$700 million in 2011. Public and private borrowing financed the rest of the external shortfall (Figure 9).

21. **The underlying current account deficit may be smaller due to large unrecorded exports.** Errors and omissions reflows are estimated at \$136 million in 2012 compared to a deficit of \$36 million in 2011. The authorities have attributed these high levels of errors and omissions to unrecorded exports linked to the shadow economy. As a result, even with the wider officially recorded current account deficit in 2012, gross foreign reserves amounted to \$2.0 billion at the end of December, up from \$1.8 billion at the end of last year.

22. **The NBKR intervenes to smooth sharp fluctuations in the som/USD exchange rate.** In 2012, the foreign exchange market was broadly stable, with a slow depreciation of the domestic currency vis-à-vis the U.S. dollar: the nominal som/USD exchange rate fell to 48.2 at the end of April 2013 from 47.4 at the end of 2012 and 46.5 at the end of 2011. The real effective exchange rate (REER) appreciated by 0.1 percent in 2012 and depreciated by 0.7 percent in the first month of 2013.

23. **The political upheavals of 2010 led to significant financial sector instability.** The political crisis caused a large and immediate deposit outflow during March and April 2010, mostly due to large withdrawals from nonresident accounts concentrated in Asia Universal Bank (AUB), the largest bank with 53 percent of deposits and 33 percent of assets at end-2009. Non-performing loans (NPLs) increased rapidly after March 2010, reaching 16 percent of total loans at end 2010 (from 8 percent in 2009). Capitalization also declined, with the capital adequacy ratio reaching 27.3 percent by the end of 2010 (compared to 34.6 percent at end-2009). Overall, banks incurred losses of over KGS 4.5 billion in 2010, with a return on equity (ROE) of 7.1 percent and a return on assets (ROA) of negative 1.1 percent.

24. **NBKR took immediate measures to restore financial stability, although the interventions stretched its capacity severely.** The NBKR took seven banks under temporary

administration, including AUB.⁸ AUB was nationalized and declared bankrupt at the end of 2010. In February 2011, AUB was split into a “good bank” named Zalkar Bank, and a “bad bank” called AUB. The authorities have privatized Zalkar bank⁹, and AUB is under liquidation. Three other banks remain under conservatorship.¹⁰ The NBKR cannot take action to resolve these banks because of pending court cases from their shareholders. Due to the NBKR’s interventions, as well as improved stability in the political and economic climate, banking sector indicators have begun to improve. Bank assets grew by 30 percent with the loan portfolio growth of 28 percent compared to 18 percent loans growth in 2011. Bank deposits increased by 33.8 percent in 2011 and by another 17 percent during 2012, suggesting continued increases in public confidence. Total assets of the banking system increased to 28.5 percent in 2012; deposits increased to 14.2 percent; and profitability as measured by ROE and ROA have improved. Indicators from 2012 show an increase in banking assets, loans, and deposits (Table 2).

Table 2: Banking Sector Indicators

	2009	2010	2011	2012
Total assets, in percent of GDP	34.6	27.3	24.4	28.5
Total deposits, in percent of GDP	16.9	13.0	13.5	14.2
Total loans, in percent GDP	12.8	12.4	11.4	13.1
Total capital/total assets, in percent	20.5	20.0	20.1	18.3
Liquidity ratio, in percent	86.8	72.8	74.9	80.0
Nonperforming loans/total loans, in percent	8.2	15.8	10.2	7.2
Return on equity, in percent	13.6	7.1	17.7	18.5
Return on assets, in percent	2.5	1.1	3.0	3.0

Source: Kyrgyz authorities.

25. **External public debt grew due to increased fiscal deficit in 2012.** External public debt increased to 47.2 percent of GDP at the end of 2012 from 45.9 percent at the end of 2011 following a decline from 55.1 percent at the end of 2010. In 2012, an increased fiscal deficit led to an increase in foreign borrowings. This was mainly to finance public infrastructure projects. The World Bank, Asian Development Bank (ADB), Islamic Development Bank (IsDB), and China have been key donors. In addition, the ADB and the IMF continued to provide budget support. A slower GDP growth in nominal terms (as a result of the contraction of real GDP) also contributed to the increase in external debt as a share of GDP in 2012. The debt service-to-exports ratio was reduced from 3.6 to 2.8 percent in 2011, but increased to 3 percent in 2012, as a result of a decline in exports.

B. POVERTY, UNEMPLOYMENT, AND GENDER

26. **After almost a decade of gains in living standards, poverty increased as a result of the global economic and financial crisis and the events of the 2010 crisis.** The share of the population living below the poverty line fell from 40 percent in 2006 to 32 percent in 2008,

⁸ The NBKR also imposed direct supervision in ten banks, and issued instructions to senior officials of three additional banks.

⁹ 90% of Zalkar shares were bought by Russia's Investment and Trade Business Holding Company and the remaining 10% will be handed over to the Kyrgyz State Property Management Fund.

¹⁰ The three banks are Manas Bank, KyrgyzCredit Bank, and Issyk-Kul Invest Bank.

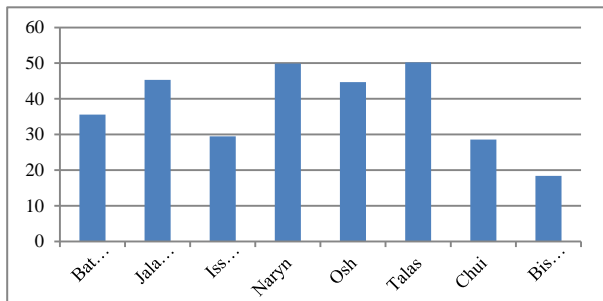
before increasing to 37 percent in 2011.¹¹ Currently an estimated 5 percent of the population (or 246 thousand persons) lives in extreme poverty and are unable to meet their basic food needs.

27. **While monetary poverty rates deteriorated in 2010 and 2011, non-income poverty compares well to that of other low-income countries.** Poverty rates in the Kyrgyz Republic vary greatly across oblasts, ranging from 18 percent in Bishkek to 50 percent in Talas (Figure 10). Inequality, as measured by the Gini coefficient, fell from 26 in 2010 to 23.5 in 2011 as differences in consumption per capita narrowed between the lower and upper deciles. The Kyrgyz Republic’s human development indicators are significantly better than other low-income countries (Figure 11). For example, births attended by skilled health staff, secondary net enrollment rates, and access to improved water sources exceeds the average of low-income countries by a wide margin.

28. **Gender indicators are encouraging, especially when compared to other low-income countries.** The Kyrgyz Republic has adopted a non-discriminatory legal framework and the effects of this can be seen in various sectors. Gender gaps are small in primary and secondary education and women participate more in entrepreneurial activities than the average for the ECA region (Figure 12). However, three key gender challenges remain: reducing maternal mortality rates, addressing the gap between male and female labor force participation rates, and closing the gender wage gap (women earn about 30 percent less than men). The largest gender wage gaps are observed in the male-dominated mining and transport sectors and in the female-dominated health and social work sector. Addressing gender inequality issues will require a multi-pronged approach which would include, but not be limited to, an overall improvement in the business environment and labor market.¹²

Figure 10: Poverty rates vary substantially across oblasts

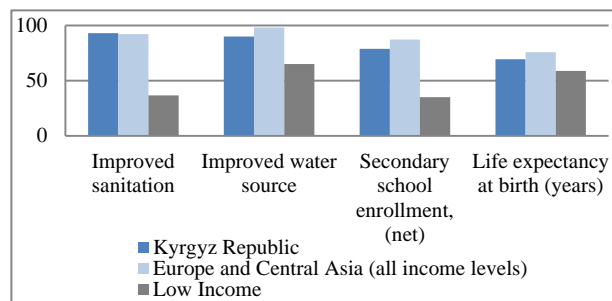
(Percentage of the population below the poverty line)



Source: World Bank computations based on KIHS, 2011.

Figure 11: Human development indicators in the Kyrgyz Republic are better than in other low income countries

(Percentage of the population)

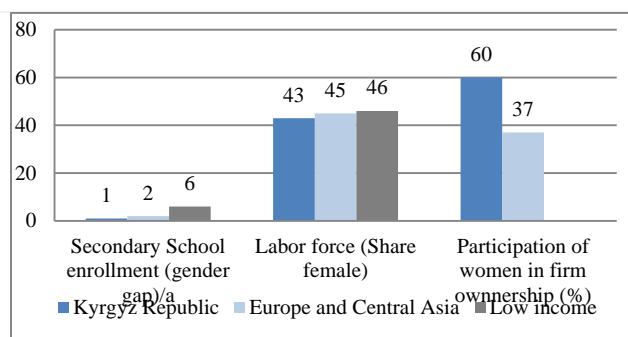


Source: World Development Indicators, 2010.

¹¹ The poverty line is defined by the National Statistics Committee of the Kyrgyz Republic. It is based on a costs-of-basic-needs approach that looks at the costs of a consumption bundle, excluding rent.

¹² For further details on gender issues, see ADB/UNDP/WB Joint Gender Assessment, June 26, 2012.

Figure 12: Women in the Kyrgyz Republic participate more in entrepreneurial activities than women in the other ECA countries



Source: WDI and BEEPs (2010 or latest available).
 Note: a/ Male minus female secondary school net enrollment rates.

indicated in a recent report of the Ministry of Labor, Youth and Employment, a large part of new jobs are created in the agricultural and service sectors, which are mainly dominated by informal labor. Moreover, estimates show that about 230 thousand people were employed outside of the Kyrgyz Republic in 2010 (Table 3).

Table 3: Kyrgyz Republic: Employment and Unemployment

(In thousands unless otherwise indicated)

	2007	2008	2009	2010	2011
Employed population	2152.7	2184.3	2216.4	2243.7	...
Employment rate (%)	59.8	60	59	58.6	...
Unemployed population	191.1	195.6	203.7	212.3	
Unemployment rate (%)	8.2	8.2	8.4	8.4	8.5
Unemployed population registered at state employment service	...	67.2	61.4	63.4	61.1

Source: Kyrgyz authorities.

C. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

30. **Medium-term growth prospects remains favorable despite the economic contraction in 2012 Gross Domestic Product (GDP) growth.** Should plans by the Kumtor management to make up for the lost production in 2012 over the next two years materialize, growth in 2013 and 2014 could reach 7.0-7.5 percent. In the medium-term, growth is expected to average 5 percent per year driven by gold, but also other sectors of the economy such as power, agriculture and textiles.

31. **This medium-term growth outlook relies on the government's continued commitment to structural reforms.** The government is acutely aware of the economy's exposure to gold and the need to push forward structural reforms to create an environment where other sectors of the economy can thrive. The government sees the private sector as the main player in the development, in particular, promoting growth through reforms in key sectors of the economy (e.g. agro-processing, energy, mining, transport, and financial services). One of the key areas of focus of the government's reform strategy is therefore on removing the main

29. **The overall macroeconomic slowdown of recent years owing to the financial crisis and the recent political unrest led to a small increase in unemployment during 2008-2010.** The Kyrgyz Republic appears to suffer from high structural unemployment. This may reflect the economy's limited capacity to create sufficient jobs internally due to factors such as high reservation wages due to migration opportunities and skills mismatch. Underdeveloped labor market infrastructure and institutions exacerbate the problem of high unemployment, making it difficult for new entrants to find jobs quickly or for the employed to shift into growing sectors. As

physical, governance, and structural constraints faced by the private sector. The key focus to date, however, has been on addressing corruption and governance. These are the areas that businesses cite as the biggest hindrance to doing business in the Kyrgyz Republic.

32. **The reforms supported by this operation will also positively contribute to the medium-term growth outlook.** Reforms aimed at improving transparency and efficiency of public resources will help reduce wasteful spending. This will enable the government to better target its resources while simultaneously reducing expenditures, both of which will contribute to macroeconomic stability – an important foundation of economic growth. Reforms to improve the business environment will directly address barriers currently faced by the private sector. By improving the implementation of recent business friendly reforms, and by better targeting business inspections, more business will be able to operate within the formal sector. Reforms in the energy sector will improve reliability of energy supply both for households and businesses. Finally, reforms in the financial sector, proposed under the second operation, will support the NBKR to manage distressed banks and maintain financial stability.

33. **Structural reforms and the rebound in gold production will help narrow the current account deficit.** The current account deficit is projected to come down in 2013 with the restoration of gold production. Moreover, improved performance in agriculture and a projected pickup in foreign tourist arrivals will help narrow the external shortfall in the coming years.

34. **The medium-term outlook is subject to several downside risks.** First, there is a risk that the problems at Kumtor are not completely eliminated, resulting in future supply shocks. Second, agriculture performed below expectations in 2012 and may continue to do so in 2013 owing to lower rainfall. In the medium-term this risk will be mitigated by the government's commitment to improve the overall productivity of the sector, and by addressing infrastructure gaps such as irrigation. The third risk is political instability and frequent changes in government. Ensuring sustainability of policy implementation is extremely difficult under transient governance and until a reputation for stability is built, investors and businesses will be cautious. Finally, the effects of the sovereign debt crisis in the Eurozone will affect the Kyrgyz Republic through the impact on the country's largest trading partners: Russia and Kazakhstan. If they are affected, it would impact the Kyrgyz Republic on two fronts: lower demand for its produce; and lower remittances, dampening domestic demand. In the short term, and for the purposes of this operation, the macroeconomic risks will be monitored closely.

35. **High dependency on food imports and higher global food prices pose yet another risk.**¹³ Over the medium term, inflation is expected to remain in the range of 5-7 percent. However, with severe drought impacting world grain prices and a decline in wheat production in Russia and Kazakhstan (the main sources of supply of wheat and wheat flour to Kyrgyz Republic), there are concerns regarding the pass-through impact on domestic prices.¹⁴ Continued food price increases would pose a serious threat to poverty reduction. A preliminary simulation shows that a 10 percent increase in bread and wheat prices could increase the headcount poverty

¹³ Despite its large rural and agriculture sectors, the population is extremely dependent upon purchases of staple food items. Food counts for up to 60 percent of household expenditure, and wheat products (bread, flour, etc.) are a large part of Kyrgyz households' caloric intake.

¹⁴ Food inflation accounts for 58 percent of consumer basket.

rate by 2 percent, i.e., an additional 50 thousand people could fall into poverty. A boost to production from higher prices is less likely to materialize in the short run as agricultural production capacity is limited.

36. The implementation of a fiscal consolidation program will help address medium-term expenditure pressures and ensure macroeconomic sustainability. The government-agreed targets under the IMF program include a 3.5 percentage point reduction in the fiscal deficit from 2012 bringing it down to 2.6 percent of GDP in 2015. The current projections suggest a 4.0 percentage point reduction in total expenditures is needed over this period, with the bulk of these cuts to come from current expenditures. The consolidation of expenditures will require structural shifts in expenditure policy, particularly in the areas of social protection, the wage bill, education and pensions. The World Bank is supporting the government address these medium-term challenges through a Programmatic Public Expenditure Review (PER). The emerging findings from the PER suggest savings could result from improved targeting of social protection measures to those most in need; the adoption of a harmonized approach to wage bill management, improved efficiency in the provision of education; and reforms to the current pension system.

37. Tax reforms have helped support improved revenue collection. Despite a shortfall in tax revenues caused by the drop in gold production, revenues increased by 3.1 percent of GDP in 2012, in part due to taxes on high oil imports and to tax administration reforms. Over the medium term, revenues and grants are expected to stabilize at around 30-32 percent of GDP. Continued tax reforms including those to reduce tax avoidance help support revenues.

38. The latest Joint Bank-Fund debt sustainability analysis (DSA) conducted in September 2012 demonstrates that public sector debt is sustainable with a moderate risk of debt distress. The revised DSA includes updated data on factors that increase the debt burden: revisions to private sector debt from 2007, higher borrowing for energy infrastructure (but on more concessional terms) and a new loan from Turkey, as well as factors that reduce the debt burden: debt relief from Turkey (\$49.5 million) and Russia (\$188 million) in 2012 instead of 2011, and debt relief of \$300 million from Russia over 10 years starting in 2016).

39. Under both the baseline scenario and a scenario where key variables are kept at their historical averages, the present value of debt is on a downward trajectory. The present value (PV) of debt is projected to gradually decline from a projected 37 percent of GDP in 2012 to 32 percent in 2032. External debt burden indicators are well below indicative thresholds under the baseline and alternative scenarios. The PV of public debt is vulnerable to extreme shocks such as significantly lower export growth, a lower GDP, or an unexpected depreciation of the som. Under plausible parameters for such shocks, the PV of external debt-to-GDP ratio could exceed the indicative risk threshold of 40 percent in the medium term. Importantly, debt service thresholds would not be breached under any of these scenarios.

40. The overall macroeconomic policy framework is considered adequate for the purposes of this operation. The authorities have responded appropriately to the events that unfolded in 2010 by introducing fiscal stimulus to help support economic activity and reduce social tensions. Tax reforms have been effective in supporting improved tax revenues, which together with spending rationalization measures will help reduce the fiscal deficit over the medium term. Monetary policy has been effective in countering inflationary pressures arising

from domestic and external shocks, and the exchange rate has been allowed to fluctuate in response to market behavior. Fiscal consolidation and debt sustainability are among the main strategic priorities for the government as reflected in its Medium-Term Development Program. The government's external financing strategy is based on concessional borrowing. The threshold for foreign borrowing is 35 percent of grant element. The IMF has also positively assessed the authorities' policy stance and the Fund Board approved the disbursement of the third tranche under the ECF in early December 2012. The overall macroeconomic policy stance is therefore considered appropriate for the purposes of this operation.

III. THE GOVERNMENT PROGRAM AND PARTICIPATORY PROCESSES

41. **The 2012-14 MTDP was developed in the context of the 2010 disruptions and the need to ensure sustained growth.**¹⁵ The document was driven by the revulsion felt in the country against the corrupt excesses of the earlier regime and, as such, has governance and anti-corruption as a key theme. A continuation of post-conflict rehabilitation and reconciliation is envisaged through deepening civic participation in governance and ensuring equal access of all ethnic groups in political, economic and public life. The main goal of the government's MTDP is to reduce poverty and improve quality of life of the population through three key sets of reforms: securing economic growth through an invigorated private sector, improving governance, and raising the quality of public services (see Box 1).

42. **The Bank and the IMF have provided advice to the authorities on their MTDP through a joint Bank-Fund Staff Advisory Note (JSAN) which has been provided to the Board for information.** While commitment to improving governance and strengthening transparency and accountability in the public sector is well presented in the MTDP, policies and structural reforms needed to achieve these objectives are yet to be formulated. A mechanism for monitoring implementation also remains to be established. The proposed DPO series aims to provide support to these areas.

43. **The consultation process adopted by the authorities in the design of their MTDP was narrow.** While the strategy document was developed with participants from a broad political spectrum, including representatives from the coalition government, as well as with participation from the development partners, the consultation process did not include civil society. The JSAN recommends that future reviews and monitoring of the MTDP through Annual Progress Reports follow a thorough participatory and consultative process involving a broader range of stakeholders and civil society organizations to ensure that the stated reforms are supported and owned by the whole country.

44. **The MTDP implementation, however, envisages full participation of all stakeholders under the general coordination of the prime minister.** At present, any new legislation,

¹⁵ Following the resurgence of the new coalition and the government in office in early September, the Parliament approved a Program of the Government of the Kyrgyz Republic on September 5, 2012. This program builds on the MTDP, reflects on the deterioration in the economy and the decline in growth during January to August 2012 following the decline in gold production, and highlights their priorities in stabilizing the economy and managing government expenditures, ensuring food and energy security, and promoting the private sector development over the period of September 2012-March 2013.

regulation, or by-law, or any amendments to legislation (which are usually part of MTDP implementation), are shared with the public for discussion via government or ministerial websites. The government also holds round tables with NGOs and civil society. Business legislation and regulations are always discussed with business community and business associations. A recently-introduced initiative, which involves participation of civil society in anti-corruption efforts (notably, the establishment of an anti-corruption forum), is expected to improve the effectiveness of law enforcement bodies to ensure public order and crime prevention. It is anticipated that the consultation process will encompass the implementation of other areas of the MTDP. Similarly, dissemination and communication of reforms to the broader public will need to be reflected in the strategy.

Box 1: Kyrgyz Republic MTDP 2012-2014 - Main Areas of Reform

To ensure sustainable economic growth, the government plans to conduct a set of reforms aimed at:

- (i) Developing a favorable investment climate by reducing inspections and licenses, improving the flexibility of regulatory policy, and by enhancing the predictability and stability of legislation. In particular, policy measures will include: (a) further deregulation of the economy; (b) elimination of administrative barriers and restrictions for business development; and (c) modernization of mining legislation to attract investments.
- (ii) Establishing an efficient and stable tax system which will ensure budget sustainability in the medium and long term.
- (iii) Enhancing stability of the banking and non-banking system in order to extend access to financial services.
- (iv) Implementing large scale infrastructure projects to ensure adequate supply of energy and transport services.

To improve efficiency of governance, the following reforms are envisaged:

- (i) Development of a rational model of the governance system under conditions of rigid budget restrictions, and elimination of unnecessary public services, functions, and responsibilities.
- (ii) Application of indicators and assessment criteria to assess effectiveness of performance of governmental institutions.
- (iii) Implementation of policy measures to fight against corruption in various sectors, including public services, financial police and the judiciary.
- (iv) Strengthening the public finance management system, and increasing budget discipline and transparency of budget funds spending.
- (v) Improvement of the quality of state property management and introducing new principles of asset management. State-owned enterprises to run on commercial lines with reformed corporate governance.
- (vi) Improving management at energy enterprises and enhancing transparency of their activities.
- (vii) Reforming state regulation and licensing and permitting and control-and-supervisory functions.

To improve the quality of life of the country's population, the government plans to conduct a wide range of reforms in the following areas:

- (i) Education: improve management of the education system; improve the efficiency of funding; revise the educational content; and optimize teacher training.
- (ii) Health care: increase the availability of preferential medicines; improve the quality of health care; preserve and optimize the existing system of health care delivery; improve the availability of medical personnel and the quality of medical education; and develop market mechanisms in the public health system, including privatization of some facilities and services.
- (iii) Social protection and pension social insurance: improve targeting of social assistance; reform and develop social services system; and ensure financial sustainability of the pension system.

IV. BANK SUPPORT TO THE GOVERNMENT PROGRAM

A. LINK TO THE COUNTRY INTERIM STRATEGY

45. **The ISN provided a framework for the Bank’s engagement in the Kyrgyz Republic during FY12-13.** The three key objectives that constitute the pillars of the strategy are: (i) improving governance, effective public administration, and reducing corruption; (ii) economic stabilization to support recovery, reconstruction and sustained growth; and (iii) social stabilization, through social services, community infrastructure, and employment, with emphasis on the south. These pillars closely correspond to the government’s main priorities, which are governance, macroeconomic stability, post-conflict economic recovery, social reconciliation, and sustained peace building.

46. **The DPO program is structured around these pillars.** The DPO series supports the government in implementing a two-year multi-sector reform agenda with an overarching governance focus to address transparency and accountability in various areas of anti-corruption, judiciary, PFM, energy, financial sector and private sector development, as highlighted in Table 4. In parallel, the DPO responds to the budgetary needs of the country to ensure adequate financing for the government’s social obligations and provision of social services. Improvement in the business environment, including strengthening the financial performance of the energy and banking sectors, would further sharpen competitiveness. Through continuous dialogue over the DPO series, the Bank will seek a sharpened focus on poverty analysis and anti-poverty policies, as well as fully-costed sector strategies.

Table 4: MTDP-ISN-DPO Linkages

MTDP GOALS	ISN GOALS	DPO GOALS
Improved standard of life and reduced poverty based on economic growth.	Economic management consistent with strong and sustained pro-poor growth and continued social reconciliation.	Maintenance of macroeconomic stability, fiscal sustainability, and debt management.
Reforming the structure of the government, and promoting improved governance, transparent and effective state asset management and public financial management.	Policy dialogue towards addressing the foundational causes of conflict: mis-governance, exclusion and quality of public services. Budget support to strengthen governance and ensure sustainability of fiscal resources for quality service delivery.	Public Finance Management (PFM): Improve budget discipline, comprehensiveness, credibility, and efficiency. Assist in developing a comprehensive governance and anti-corruption strategy and medium-term action program. Judicial sector reforms. Improved legal and institutional framework in public procurement.
Improving the business environment and investment climate, and ensuring the predictability of legislation.	Investments and policy dialogue for creating transparency, accountability, and a competitive private sector.	Sharpening competitiveness and enhancing the attractiveness for private investment by improving the business environment. Fostering the competitiveness of the SMEs through streamlining the inspection procedures. Financial and Banking sector reforms.
Financial rehabilitation and a balanced and comprehensive development of the energy sector.	Technical assistance support to achieve financial sustainability.	Improving the financial viability of the power sector by promoting transparency and commercialization of the sector; and strengthening corporate governance.

B. COLLABORATION WITH THE IMF AND OTHER DONORS

47. **The staff of the Bank and the Fund collaborates closely to support the government in its reform agenda.** The JEA, prepared in July 2010 to assess the economic and social impact of the crisis, laid the framework for well-coordinated donor support. This collaboration has continued with joint comments to the government on sector policies and the MTDP. In addition, the Bank collaborates with Department for International Development (DfID), the European Commission (EC), the Swiss Cooperation, and Swedish International Development Cooperation Agency (SIDA) through a multi-donor trust fund (MDTF) established to support the reform agenda on PFM. The Bank, jointly with the ADB, has just completed a procurement review assessment and the report was disseminated in a workshop recently held with the authorities. The Bank, in collaboration with the ADB and the UNDP, has recently completed a gender assessment. A donor working group on energy, consisting of the ADB, the Bank, Japan International Cooperation Agency (JICA), Germany Development Bank (KfW), and the USAID is active. The Bank works closely with the European Union (EU), United States Agency for International Development (USAID), and the United Nations Development Program (UNDP) in the areas of governance and judicial reforms. Overall, the Bank activities are closely coordinated with other bilateral and multilateral donors active in various areas of reform.

48. **A three-year \$106 million program with the IMF under the ECF was approved in June 2011.** The program supports fiscal consolidation over the medium term, with Fund resources available for budget support. So far, \$45 million of the ECF has been disbursed. The third review was completed on December 3, 2012 when the next tranche of \$15 million was disbursed. Areas of collaboration with the IMF include assessment of macro and fiscal stance, public finance management, expenditure prioritization, tax policy and administration, debt sustainability analysis, and financial and banking sector reforms.

C. LINK WITH OTHER BANK OPERATIONS

49. **The reforms supported under this operation will add to the effectiveness of several projects under implementation.** *The Capacity Building for Economic Management (CBEM) Project* provides support for economic policy formulation (macroeconomic policy coordination, regulatory environment, and fiscal policy) and builds capacity in public institutions, including in the area of evaluation and monitoring of anticorruption mechanisms. *The Payments & Banking System Modernization Project* develops an integrated national payments system to increase the efficiency of payment services and facilitate financial intermediation. *The Governance Technical Assistance Project (GTAC)* strengthens the organizational and technical capacity of the government to enhance its transparency, accountability, integrity, effectiveness, efficiency, service quality and responsiveness, and in particular to assist with strengthening of budget formulation and budget execution, and treasury modernization. The DPO operation has been instrumental in developing a budget code, which follows international best practice, and in supporting reforms towards the establishment of a Treasury Single Account and operationalization of a TMIS. *The Financial Sector Development Project* will strengthen banking regulations and supervision, along with the central bank's capacity to implement them. The project will also assist the government in its efforts to increase access to financial services by supporting: (i) the reform of the Kyrgyz Post Office aimed at expanding its financial services; and (ii) the modernization of the moveable collateral registry to increase access to secured credit. The areas covered by this operation feature prominently in the program supported by the DPO.

D. LESSONS LEARNED

50. **The design and content of this programmatic series has benefitted from Bank-wide experience with other DPOs, including those summarized in the most recent DPL Retrospective by OPCS, and from the WDR 2011 on Conflict, Security and Development.** For example, building on the lessons from previous successful DPOs, this series embeds the following general principles:

- Avoid pushing for unrealistic and ambitious reforms that would not be politically feasible in the current context of continuing fragility;
- Concentrate on high priority areas that have full ownership and thus a greater chance of success;
- Deepen reforms that were initiated in previous operations; and
- Complement the DPO with other instruments for Bank support, including TA, ESW, and investment operations.

51. **In addition to these general principles, the proposed programmatic series identifies internal and external risks to the program and their corresponding mitigating measures.** For example, it argues that buffers must be built for handling macroeconomic and external vulnerabilities. The Bank has also been engaged in discussions with the authorities on the challenges of fiscal consolidation, and this is one of the key areas of focus of the ongoing PER. Finally, the Bank has engaged the authorities on a dialogue on energy sector reforms, which will require a sequenced tariff revision to ensure sustainability of the sector reforms. Technical assistance from the Bank will continue to provide support for capacity building for implementation. An existing capacity building project is being extended to provide support for implementation of the government anti-corruption program and the judiciary reform action plan.

52. **Finally, a government communication strategy needs to be carefully executed.** The experience with development policy lending worldwide demonstrates that gaining public support for necessary and often difficult policy measures is essential for a successful and sustainable implementation of reforms.

E. ANALYTICAL UNDERPINNINGS

53. **The World Bank has undertaken economic and sector work in virtually all areas covered by the two operations in this programmatic series.** In addition to the economic and sector work carried out recently (Table 5), the World Bank's analytical and advisory services have also conducted several round-tables with the government, civil society and private sector representatives, and other development partners on the broad spectrum of policy issues covered by the World Bank's program of economic and sector work. This work has helped shape the design of the series.

54. **The post-conflict JEA provided the initial foundation for Bank activities, leading to the preparation of the 2011 ERSO program and the current DPO series.** The JEA is a multi-sector report that addresses the post crisis needs of the country and priorities for sustained

growth. It relied heavily on existing and ongoing AAA and TA work in the energy, financial and private sectors. The themes of the JEA were developed into the ISN for FY12-13.

55. **Recent AAA in the financial sector underpins the DPO program.** An early assessment under the *Financial Sector Monitoring* study in 2009 highlighted the vulnerabilities in the banking sector and deficiencies in the supervisory response mechanism. The study recommended an assessment of the adequacy of the central bank's contingency plans and crisis management framework to ensure that they were comprehensive, with clearly defined roles and responsibilities of the various stakeholders, including the central bank, the Ministry of Finance and the Deposit Protection Agency (DPA). The study also noted deficiencies in the bank resolution framework, which allowed bankrupt banks to linger unresolved for years and recommended further strengthening of the legal framework for bank resolution. A comprehensive *vulnerability assessment* was completed in March 2010 before the crisis of April 2010, which identified many of the risks that subsequently materialized.¹⁶ In response to the crisis, the World Bank quickly mobilized additional TA to: strengthen the DPA's capacity in case of deposit payouts in failed banks; to identify vulnerable banks and to develop bank-specific action plans; to enhance the legal framework for bank resolution; and strengthen the central bank's supervisory response mechanism. In these activities, the Bank has coordinated closely with the Fund to avoid duplication of efforts and to ensure that all critical issues were being addressed.

56. **The Bank Group's private sector dialogue has led to the identification of DPO supported reforms.** A recent diagnostic study and the subsequent *Reform Recommendations for Investment Climate Reform* from the International Finance Corporation (IFC) have shown that, while the laws in various areas are generally sound, implementation is weak. The diagnostic identified insolvency as being burdensome (evidenced by the country's Doing Business 2012 ranking in the Resolving Insolvency indicator of 150), prolonged and costly. Since debt resolution has been identified as particularly burdensome by businesses, the DPO supports the development of alternative dispute mechanisms (such as a mediation law) for debt resolution purposes.

¹⁶ See Banking Sector Vulnerability Assessment: Kyrgyz Republic, June 2010.

Table 5: Recent World Bank-Sponsored Economic and Sector Work

DPO REFORM AREAS	AAA (ESW, TA)
Macroeconomic and fiscal policy framework supports sustained growth with low inflation. Fiscal and external debt indicators improve with the risk of debt distress falling to minimal.	Growth Study (2011) Kyrgyz Republic Programmatic PER (2012) Kyrgyz Republic Poverty Update (2010) Debt Sustainability Analysis (2011) JEA (2010)
Strengthened governance and transparency.	Corporate Governance ROSC Assessment (2010) ICR ROSC Update (2009) Multi-donor trust fund on PFM (2009) Public Expenditure and Financial Accountability (PEFA) (2009) Energy Dialogue and Technical Assistance (2006) JEA (2010) Country Procurement Status Review (2012)
Maintaining financial sector stability.	Financial Sector Monitoring (2010, 2011) FIRST TA: Pre-privatization Advice – Aiyl Bank (2011) FSAP Follow Up TA (2009) FIRST TA: Kyrgyz Republic NBFi Capacity Building Project (2010) FIRST TA : Deposit Protection Agency Capacity Building (2010) JEA (2010) FIRST TA: Strengthening Bank Supervision and Regulation (2010)
Private sector development, business environment.	JEA (2010) PSD Dialogue (2012) IFC Advisory Services on Business Enabling Environment

Table 6: Links Between the DPO Program and Selected Prior Analytical Work

ANALYTICAL REPORTS	RECOMMENDATIONS	LINKS TO DPO ACTIONS
<i>Joint Economic Assessment (JEA) (2010)</i>	The report was prepared for the Donor Conference in July 2010 following the political and social crisis in 2010. In addition to assessing the overall economic and social cost of the impact of crisis, the report highlighted weaknesses in various sectors of the economy, which provided the framework for analytical and lending activities of development partners engaged in the Kyrgyz Republic.	Theme 1 and 2. The DPO program supports adoption and implementation of structural and institutional reforms that feature in the JEA as fundamental for the Kyrgyz Republic economic management and poverty reduction efforts going forward.
<i>Growth study (2012)</i>	In addition to maintaining macroeconomic stability, the study indicates structural reform policies that are essential for achieving sustainable growth. These include policies aimed at improving governance, investment climate and business environment, ensuring stability of the banking sector and promoting adequate access to finance for SMEs.	Macroeconomic stability is a prerequisite for the DPO program. Theme 1. The DPO's strong support for governance and anti-corruption reforms across various areas is essential for achieving growth and poverty reduction. Theme 2. The DPO program places a strong emphasis on competitiveness and private sector development, improving the business environment, strengthening financial sector stability, and energy sector reforms.
<i>Public Expenditure Review (PER) (2013)</i>	The PER is expected to make recommendations for fiscal consolidation over the next few years. Early recommendations suggests that fiscal consolidation will require structural shifts in expenditure policy, particularly in the areas of social protection, wages, pensions, energy, and education which could generate savings and ease expenditure pressures ensuring macroeconomic sustainability.	Theme 1 and 2. Macroeconomic stability is a prerequisite for the DPO program. The government has committed to a 4.0 percentage point reduction in total expenditures over 2012-15 as part of the IMF program. The PER will provide recommendations on where efficiency gains could come from. There are significant contingent liabilities associated with the energy sector - a quasi-fiscal deficit estimated at 3 percent of GDP. A strong reform agenda is therefore required to ensure financial sustainability and cost-recovery in this sector.
<i>Multi donor trust fund on PFM (2009)</i>	The medium-term PFM reform Action Plan for 2012-2015 has recommended a list of priority actions which include: preparation of a realistic budget, including: improvement of revenue forecasting and costing of budget activities; improvement of transparency and coverage of the budget; development of a consolidated Chart of Accounts and improvement of budget classification in accordance with international standards; provision for proper control for budget execution procedures and improvement of cash management system; modernization of the treasury system, establishment and development of a system of internal audit in public organizations and institutions; and development of a normative legal basis for the internal audit, and procurement policy and procedures.	Theme 1. The DPO series builds on the PFM recommendations and supports reforms in the area of improving budget discipline and transparency in use of budget resources, a revised budget code that incorporates elements of transparency and best practice, adoption of a new Unified Chart of Account, and reforms towards establishment of a treasury single account (TSA). The DPO series also places strong emphasis on transparency in public procurement by introducing the regular publication of an annual procurement report on the use of budget funds. This first of these reports was published in 2011.

ANALYTICAL REPORTS	RECOMMENDATIONS	LINKS TO DPO ACTIONS
<i>Public Expenditure and Financial Accountability (PEFA) Assessment (2005, 2009)</i>	The reports highlight where improvements are needed in budget preparation and execution, cash management, comprehensiveness of budget, reporting and auditing, management of TSA introduction and development of a new Unified Chart of Accounts (UCoA), as a threshold for the treasury automation, and improvement of an organic budget law.	<p>Theme 1. The DPO series supports the modernization of the treasury system towards establishment of a treasury single account, the availability of budget information on the MoF website and adoption of a new f UCoA.</p> <p>The DPO also supports a draft Budget Code that is in line with international best practice to be approved by the Government and submitted to the Parliament.</p> <p>The DPO series supports improving internal audit and establishment of an independent Internal Audit Council.</p>
<i>Country Procurement Status Review (CPSR) (October 2012)</i>	The key recommendations are: (i) the procurement legislative framework should be reviewed and revised; (ii) a strategy for improvement of the public procurement system should be prepared; (iii) annual reports on the performance of public procurement should be prepared and made publically available; (iv) an e-procurement strategy should be prepared and implemented, and (v) a capacity building strategy should be prepared and implemented.	<p>Theme 1. The DPO series supports publication of public procurement annual reports; development of public procurement strategy; revisions of the public procurement law (PPL) to address issues identified in the CPSR, and establishment of the independent public procurement regulatory body and independent complaint review board.</p>
<i>PSD Strategy Roadmap and Short-Term Action Plan for Reforms for the Kyrgyz Republic (2012)</i>	The report places strong emphasis on promoting private sector development and increasing private investment by reducing the gap between laws and implementation.	<p>Theme 2. The DPO series supports reforms to improve the business environment by easing the administrative burden and improving the governance environment for businesses to promote private sector growth.</p>
<i>Banking Sector Vulnerability Assessment, June 2010</i>	The assessment highlights several vulnerabilities in the Kyrgyz banking sector, including the need to improve regulations and supervision practices.	<p>Theme 2. The DPO series supports revision of regulations on prompt remedial action framework (PRAF) to improve its effectiveness in terms of timely, adequate and consistent response to developments in banks, including supervisory actions to promptly address material deficiencies in corporate governance policies and practices, to establish clear thresholds for considering: issue of recommendations to banks for making improvements in their operations; taking corrective actions requiring banks for making improvements; taking enforcement actions.</p>
<i>FIRST TA: “Kyrgyz Republic: Deposit Protection Agency Capacity Building” – “Review of the Law on Protection of Bank Deposits” (Feb 2011)</i>	The assessment identifies numerous shortcomings of the Law on Deposit Protection and recommends necessary amendments. For example, the Law currently says that if the bank participating in the deposit protection system fails to pay contribution to the deposit protection system, or pays it in an untimely fashion, or not in full volume, it shall be excluded from the deposit protection system. This would deprive banks and their depositors of deposit insurance precisely when it is needed.	<p>Theme 2. The DPO series support amendments to the Law on Deposit Protection in line with recommendations listed.</p>

V. THE PROPOSED DEVELOPMENT POLICY OPERATION

A. OPERATION DESCRIPTION

57. **The government recognizes that sustainable growth requires the maintenance of prudent macroeconomic policies and the implementation of structural reforms.** Steps were taken during 2010-11 to improve the transparency and accountability of the public sector in managing assets and budget resources, to simplify regulations and to reduce government control over the private sector. Against this background, the operation is grouped under two main themes: (i) *strengthening governance and fighting corruption*; and (ii) *sharpening competitiveness and enhancing the attractiveness for private investment*.

58. **Beyond the areas that are covered within these two themes, the authorities have expressed explicit commitment to other important reforms as reflected in their Letter of Development Policy (LDP).** Three areas are notable. First, the significant potential of state-owned enterprises to add value to the economy. The commercialization of such enterprises, privatization or private sector participation, and modernization of corporate governance in SOEs are envisaged. The efficiency gains realized through such reforms will help attract inflows of foreign capital and boost the potential rate of growth of the economy. Second, in the mining sector, where investment and output growth have been seen as below potential, changes to the system of licensing and taxation are designed to also attract foreign capital. Third, social sector policies will be formulated to build human capital, protect the vulnerable, and improve quality of life for the population.

59. **The authorities have expressed commitment to enhance existing social protection programs and mechanisms.** In social protection, the government is committed to improve coverage of the poor by social assistance and social services, and to increase adequacy of the assistance received by poor families. Among the key longer-term policy directions pursued by the government, is the ratification of the UN Convention on rights of people with disabilities. In health, the government is committed to universal public coverage, and intends to increase and formalize the role of the private sector. In education, reinstatement of the textbook rental scheme offers the government an effective alternative to ensure the provision of textbooks for all in achieving its declared goal of free basic education. The Bank is in active dialogue with the government in these areas through the Health Sector Policy and the Education Sector Reform Projects.

B. POLICY AREAS

THEME 1: STRENGTHENING GOVERNANCE AND FIGHTING CORRUPTION

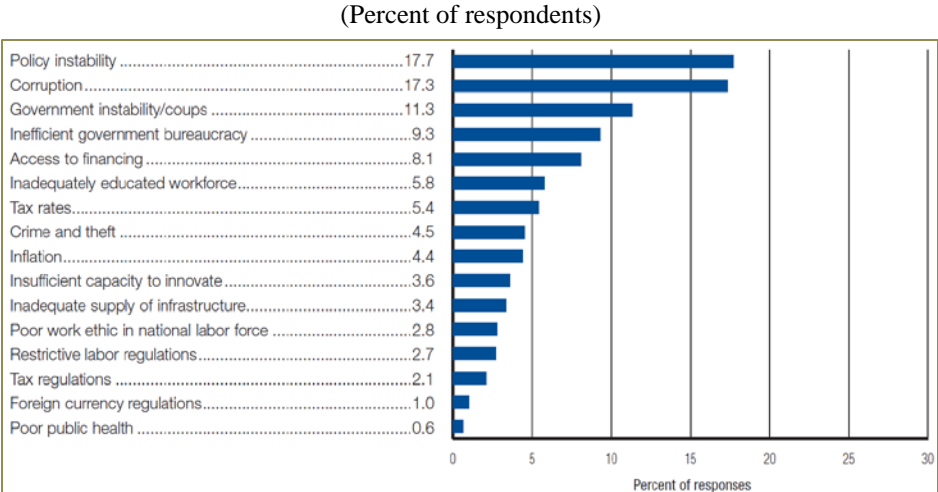
Support the Government's Anti-Corruption Program

60. **Corruption has been perceived as the main cause of the failure of previous governments.** As such, reducing corruption and improving governance and transparency are high on the agenda of the new government. Nonetheless, a legacy of vested interests, weak institutions and low capacity could undermine government efforts in this area.

61. **The authorities have asked for Bank support to strengthen their anti-corruption strategy.** The country has been ranked 154th out of 182 countries in the Transparency International’s Corruption Perception Index (CPI). The World Economic Forum’s Global Competitiveness index ranks the quality of Kyrgyz institutions as 137th of 144 countries. The index also includes a business survey, which shows that enterprises consider corruption to be the second most important obstacle to doing business, only below policy instability (Figure 13). Progress in reducing corruption has been slow and the new government has reiterated its desire to have Bank support to strengthen its anti-corruption efforts.

62. **Efforts to reduce corruption have been stepped up.** The institution of a parliamentary system of government was based on the belief that a strong system of checks and balances would help strengthen accountability and raise governance standards. The oversight of public asset management has been strengthened and privatizations are to follow open and transparent processes. Moreover, the government has revised privatization tender rules to ensure that future sales are transparent and competitive. The establishment of supervisory councils across government ministries with civic society participation has ensured improved governance.

Figure 13: The most problematic factors for doing business are policy instability and corruption



Source: The Global Competitiveness Report, World Economic Forum, 2012-13.

63. **A step of practical and symbolic importance was the disbandment of the financial police and the selection of new officials through a televised open examination conducted with fairness.** The financial police was the main investigative body for allegations of fraud and financial malpractice, which was permeated with corruption. This step will need to be followed by operating rules and incentives together with other institutional reforms that will establish high governance standards. The authorities are currently designing a package of reforms to give independence to investigators and prosecutors in criminal law and to reform the traffic police, drawing upon examples from Georgia.¹⁷

¹⁷ *Fighting Corruption in Public Services*, Chronicling Georgia’s Reforms, The World Bank, 2012.

64. **In February 2012, the president signed a decree endorsing the National Anti-Corruption Strategy.** This was followed by the creation of the Committee on Anti-Corruption in the Parliament. Subsequently, the government adopted an Anti-Corruption Program and an Action Plan for 2012-2014 (August 30, 2012). The government has assigned the Ministry of Economy (MoE) as a Secretariat for monitoring and evaluation of the implementation of the Action Plan. In this context, a guideline on the methodology for monitoring and evaluation of anti-corruption measures has been prepared and is expected to be approved by the Government soon. The anti-corruption program has focused on key priority areas and clear definition of responsibilities of ministries and agencies for each action. The program includes indicative costing, and also mandates the Cabinet to review the progress of the implementation of the program every six months. This is a coordinated effort between various government ministries, state agencies, and the president's administration, with the MoE tasked with preparing the background information for its monitoring and evaluation.

65. **The MoE has already made progress with implementation of the anti-corruption action plan.** A memorandum was signed on December 20, 2012 between the Minister of Economy and Head of Anti-corruption Business Council aimed at ensuring collaboration on anti-corruption activities between the government bodies and civil society institutions (Article 64 in the action plan). An Anti-Corruption Forum representing experts from various government institutions has been established under the MoE. This Forum will facilitate undertaking of the activities envisaged in the Memorandum on anti-corruption collaboration between the government bodies and civil society institutions. While there is strong and consistent push for good governance, the expectation that better governance can be achieved swiftly warrants some caution as reforms in these areas often face resistance and there is an inevitable lag in measurable results.

66. **The Bank's dialogue with the authorities on the program has identified judiciary reform as an area to be supported by the DPO program.** This is an area with strong support and commitment for reform by the President and the Parliament, and where initial steps have been undertaken to develop a concept for reform of the judiciary and strengthening the rule of law. A parliamentary committee on judicial reform prepared a draft strategy for judicial reform in early 2012, which benefitted from discussions with the Council of Europe, donors, and civil society. This draft provided the basis for further elaboration and development of a set of recommendations by a newly created council at the President's office on various areas of reform including selection and appointment of judges, their status and independence, judiciary proceedings, financial and logistical support, and administration of judicial reform. These recommendations were endorsed by the President in May 2012 and formed a strategic action plan which will be implemented in 2013. Priorities identified by the Bank's recent diagnostic work: "*Kyrgyz Republic Judicial System Diagnostic: Measuring Progress and Identifying Needs*" have been reflected in the action plan.

Policy actions to be supported

67. **DPO 1 has supported the following government actions:**

- Government, through Resolution No. 596 dated August 30, 2012, adopted the Anti-corruption Program and Action Plan for 2012 – 2014 and has established a

framework for monitoring its implementation that includes independent experts and non-governmental organizations.

- The Presidential Decree No. 147 dated August 8, 2012, “On the Measures to Improve Justice in the Kyrgyz Republic,” has established the Judicial Reform Council and identified priorities for judicial reform. The Judicial Reform Council under the President approved a Strategic Action Plan on reforming the judicial system (Resolution No. 2, dated October 12, 2012).

68. DPO 2 will support the following government actions:

- Implementation of the anti-corruption Action Plan and the establishment of the monitoring and evaluation arrangements for its implementation. Establishment of an institutional mechanism for coordination of the anti-corruption policy among all branches of the state.
- Implementation of priority reforms included in the Judicial Reform Strategic Action Plan.

69. ***Expected Outcomes:*** These actions are expected to contribute to the government’s efforts to reduce corruption, the key factor contributing to social and political instability in the country, as well as an obstacle for private sector growth. Lowering corruption will strengthen government legitimacy and investor confidence, as well as reduce the costs of public services, which in turn will increase the prospects for sustainable economic growth. Judicial reforms will strengthen the rule of law and property rights protection, building further trust in government institutions.

Strengthen Public Finance Management to Improve Efficiency and Reduce the Risk of Corruption

70. **Within its MTDP, the government has identified critical PFM reform areas.** These are: (i) drafting the Budget Code; (ii) implementing a phased transition to program budgeting; (iii) completing the modernization of the central treasury (CT); (iv) simplifying the model of intergovernmental transfers to make it more transparent; and (v) implementing the automated system of interaction between the republican and local budgets.

71. **The Bank is supporting the authorities to draft their Budget Code.** An initial draft was shared with the Bank for comments and the Bank identified many areas in which the draft was weak or introduced concepts that did not conform to international best practice. A revised draft has incorporated the guidance provided by a team of experts from the Bank that strengthens controls over non-allocated funds in the treasury, eliminates non-transparent reserve funds, advances the introduction of internal audit and medium-term budgeting, and provides more clarity to the overall budget cycle. The draft code has been submitted to the Parliament for consideration and is expected to be adopted in 2013. In order to protect the interests of the state and citizens of the Kyrgyz Republic, as well as to increase transparency of sovereign guarantees, issuance and approval of sovereign guarantees are to be subject to the same principles applicable to public borrowing. Accordingly, each sovereign guarantee is to be issued and approved by the government with a prior approval by the Parliament. The government aims at approving a resolution regulating the issuance of sovereign guarantees with support from DPO2.

72. **The government is taking critical steps to improve Treasury automation, the establishment of a Treasury Single Account (TSA) and the adoption of UCoA.** These steps are part of a treasury modernization program. The benefits of a TSA—improved cash management and the ability to track and account for all government revenues and expenditures in a comprehensive manner—cannot be realized until an automated system is in place to process the large volume of transactions. The benefits from an automated treasury include not only efficiency, but also strong and proven internal controls to assure that transactions are properly authorized and accounted for. A legal protocol has now been signed between the NBKR and the CT, and the transition to fully automated and more reliable TSA operations will require an operational TMIS.

73. **Budget credibility and discipline remain weak in the Kyrgyz Republic.** Deviations between the original approved budget and the actual spending have worsened since 2005 when the original Public Expenditure and Financial Accountability (PEFA) was carried out. The past practice of distributing resources outside the normal budget process in non-transparent ways has not ended. The multi-donor Trust Fund for PFM, administered by the Bank, and supported by the EU, DfID, and SECO, has been providing support for public finance management reform.

74. **Internal audit remains under developed.** The Law on Internal Audit was approved by Parliament in early 2009, and internal audit units were established in some line ministries and budget organizations. The law is currently being revised to align it with international practice. Some of the regulatory and methodological elements of internal audit are now in place, but practical implementation is constrained by weak institutional and technical capacity within the Ministry of Finance (MoF). The Department of Financial Control and Anti-corruption was abolished. The Department of Internal Audit Methodology was reorganized into the Department of Methodology of Internal Audit, Accounting and Reporting in the Public Sector within the Central Treasury under the MoF. The internal audit unit in the MoF within the department of financial control and anti-corruption might weaken the focus on internal audit methods. The World Bank supports internal audit through the Multi-Donor Trust Fund and an Institutional Development Fund (IDF) grant.

75. **Establishment of an Internal Audit Council is the next step of reform in this area.** The Council would develop recommendations on (a) ensuring financial independence of internal audit services and submission of proposals; (b) developing the strategy and methodology of internal audit. The MoF will prepare a draft regulatory act on the State System of Internal Financial Control, Code of Conduct for Internal Auditors and submit it for approval to the KR Government. The KR Government will take a decision to establish internal audit units within public bodies and agencies that will work in accordance with international professional standards; and prepare reports on the findings of 2011-2012 audits. *Policy actions to be supported*

76. **DPO 1 has supported the following government actions:**

- A Protocol of cooperation dated October 23, 2012 signed between MoF the NBKR, specifying the roles and responsibilities of the treasury, banking and accounting functions, and the oversight of payments/settlements, including the financial and information security controls, for operation of the Single Treasury Account at the NBKR.

- Government, through Resolution No. 605 dated September 4, 2012, delegated authority to approve UCOA to the MoF the Kyrgyz Republic, and through Order No. 177-II dated September 4, 2012 the MoF approved a UCOA
- Government through Resolution No. 718 dated October 15, 2012, “On Enactment of the Budget Code of the Kyrgyz Republic” submitted to Parliament a revised draft Budget Code that strengthens controls over non-allocated funds in the treasury, eliminates non-transparent reserve funds, advances the introduction of internal audit and medium- term budgeting, and provides greater clarity to the overall budget cycle.
- The Prime Minister through letter No. 1-4118 to the Speaker of Parliament dated November 30, 2012, has requested an amendment to the proposed draft Budget Code that would require prior Parliamentary approval of the issuance of sovereign guarantees.

77. **DPO 2 will support the following government actions:**

- Issue and approve a resolution regulating the issuance of sovereign guarantees that make them subject to the same principles defined for public borrowing in the Budget Code.
- Establish a Council on Internal Audit. The Ministry of Finance develops a methodology for internal audit, a regulatory act on the State System of Internal Financial Control, Code of Conduct for Internal Auditors. The Government will take a decision to establish internal audit units within public agencies and bodies that will work in accordance with international professional standards.

78. ***Expected Outcomes:*** These measures will improve transparency in budget planning and execution and increase credibility of resources to line ministries so that they can more effectively plan medium-term activities; utilize budget resources more efficiently; forge a stronger link between resources and output; improve the credibility of ministry ceilings proposed in the MTBF; progress towards consistency between annual budget and MTBF; develop and strengthen the system of internal control and internal audit in public bodies (ministries/agencies) which are based on international professional standards; and progress in reforms in these areas are expected to result in an improvement in budget execution as evidenced by a reduction in the deviation between actual expenditure turnout and the approved budget.

Public Procurement Will be Strengthened to Improve Cost Efficiency and Reduce the Risk of Corruption

79. **The government initiated public procurement reform in 1994 and passed the first Public Procurement Law (PPL) in April 1997.** A revised PPL was later adopted in 2004, reflecting some of the Bank's recommendations in the 2002 Country Procurement Assessment Report that are in line with international standards. The PPL specifies the major principles governing public procurement; identifies the parties to which the PPL is applicable; defines the mandate and authority of the independent public procurement oversight and regulatory body, the State Agency on Public Procurement and Material Reserves (SAPPMR); and outlines the stages of the public procurement process. Based on the recommendations of the Country Fiduciary Assessment of 2007, the PPL was further amended in July 2008 to formally introduce e-

procurement and to limit the power of the SAPPMR to influence the procurement process. As a result, the SAPPMR was to oversee the results of public procurement but not take part in any decision making on bidding processes or contract awards. However, the SAPPMR was abolished in October 2009 as part of government reorganization. At that time, a new Department on Public Procurement Methodology (DPPM) was established under the MoF and the Public Procurement Law (PPL) amended further to introduce e-auction and to improve the institutional framework. The Bank, along with the ADB, conducted a CPSR and disseminated its findings in a workshop in October 2012.

80. **While the road to an efficient procurement system is still long, the MoF has taken initiative to improve the system and has sought the Bank's assistance with reforms.** The ministry's website has improved, bringing more transparency to the procurement system. The procuring entities can (but are not required to) place their procurement plans, bidding opportunities, and contract award results on this website. However, the process for redressing tender violations (complaints) remains unclear. Appropriate oversight and transparency will need to be established as a priority. The MoF recognizes this priority, but its capacity and current legal basis are the main constraints for immediate improvements. The (CT) is currently developing a database of contracts, but there is an institutional gap in monitoring adherence to procurement rules. The UCoA reviews procurement process only during the regular assessment of budget organizations once every two years. This external/internal audit weakness heightens corruption risks in procurement. The Government had noted that the lack of supervision function in procurement had been reportedly a source of administrative corruption and is taking steps to address this.

81. **The authorities have committed to reform the public procurement system.** They plan to improve the legal framework for public procurement and develop a reporting system to monitor the key variables of the procurement process and its outcomes. They also plan to develop a strategy to systematically reform the system, which would involve a legal framework, human resources and institutional capacity development.

Policy actions to be supported

82. **DPO 1 has supported the following government actions:**

- The Ministry of Finance published a Public Procurement Report on the use of the 2011 allocated budget.
- Government, through Resolution No. 661 of September 27, 2012, adopted the Public Procurement Development Strategy for 2012-2014 in line with international best practice.

83. **DPO 2 will support the following government actions:**

- To bring procurement in line with international best practice: (a) approve a revised Public Procurement Law including the secondary legislation (rules and regulations) that meets the international standards; and (b) establish an independent public procurement regulatory body and an independent complaint review Commission.

84. **Expected Outcomes:** These measures are expected to enhance transparency through proper reporting on the use of public funds and the clarification of roles and responsibilities of control bodies; reduce corruption in public procurement; and improve public procurement performance and efficiency.

THEME 2: SHARPENING COMPETITIVENESS AND ENHANCING THE ATTRACTIVENESS FOR PRIVATE INVESTMENT

Improving Business Environment to promote private sector development

85. **The business environment remains a drag on private investment, job creation and growth.** High levels of informality, due in large part to the heavy regulatory burden and corruption, are key stumbling blocks. While reforms have been adopted in line with the principles of *Doing Business* to simplify business procedures, these reforms have not been fully implemented.¹⁸ This is mainly due to the prevalence of complicated procedures, which call for a high number of interactions between government officials and entrepreneurs, and therefore entail corruption risk. Besides investment climate obstacles, inadequate competition, the anti-monopoly and foreign investment regulatory frameworks, weak accounting and auditing practices, and poor implementation of corporate governance laws and standards, hamper the growth of the private sector.

86. **The government has embarked on an ambitious reform of the overall regulatory framework.** Major efforts have resulted in: the adoption of a new set of amendments to the Law on Inspections of Business Entities, a Moratorium on Inspections, the adoption of a new Tax Code, the Law on Regulatory Acts of the Kyrgyz Republic, and a series of regulatory reforms (mainly by amending existing regulations) grouped under the Government's "100 Day Reform" and the MTDP. The government's reform program has resulted in the revision and amendment of regulations in the areas of business registration, licensing and inspection, taxes, trade, and starting a business.

87. **Business start-up and operations remain challenging.** While the government has made significant strides in streamlining business registration procedures, applicants to the registry report that they are requested to come back to the registry a number of times to produce documents that are not required by law. This process often continues until an informal payment is made. This practice defeats the benefits that a one-stop-shop for business registration has to offer. To improve the implementation of the one-stop-shop for business registration, and make it easier for businesses to register and formalize, it is important to develop a checklist which would clarify the grounds upon which an application can be rejected.

88. **According to various enterprise surveys, the inspections process remains one of the most significant burdens for businesses.** Inspectorates assign and conduct inspections arbitrarily, often with rent seeking purposes. The system of inspections is being streamlined according to risk criteria, which will then guide the selection of enterprises for the risk-based

¹⁸ Improvements in these procedures are captured by the country's ranking -- 70th out of 183 countries in the *Doing Business* 2013 report.

inspections. Recently the government has taken a number of positive steps to streamline the system of business inspections by adopting the amendments to the Law on Inspections to introduce risk based inspections (July 29, 2011) and the Government Resolution on risk criteria (February 18, 2012). A database is being developed which will classify the businesses according to the risk criteria and provide a basis for assessing and differentiating risk level of businesses and gauging the frequency of inspections by all controlling agencies. The system is to be piloted in a number of controlling bodies located in the city of Bishkek. Technical regulations in line with international standards are also to be strengthened to improve the competitiveness of Kyrgyz businesses.

89. **Through this DPO, the Bank is supporting improvements in legislation that can contribute to increased access to finance (credit and capital).** Amendments to the Joint Stock Company (JSC) Law – to protect minority shareholder rights –can contribute to increased transparency in the management of JSCs, which is one of the building blocks for providing confidence to investors and make it easier to raise capital. In particular, the Bank is supporting government efforts to improve the legal and regulatory framework for a well-functioning secured transaction, enforcement mechanisms and the insolvency mechanisms, developing a mediation mechanism, and facilitating the use of alternative dispute mechanisms in insolvency proceedings. Various studies, including the Insolvency and Creditor Report on the Observance of Standards and Codes (ROSC) that was delivered to the government in 2012, identify corruption in the judicial system as a significant challenge. Developing a mediation system, as well as a simplified judicial procedure for cases with low financial value will reduce the burden that currently exists on the judicial system by giving parties-to-commercial-disputes additional tools to resolve their disagreements.

Policy actions to be supported

90. **DPO 1 has supported the following action:**

- Government through the Ministry of Justice issued Order No. 134 dated October 11, 2012, containing: (a) a checklist for the registry offices to clarify on what basis a registration application for the establishment of a business can be rejected; and (b) instructions that applicants will receive upon the first submission of all requests identifying what additional information is required.
- Government, through Resolution No. 108 dated February 18, 2012, introduced transparent, risk-based criteria for planning and conducting business inspections and has developed a risk-based inspections coordination module (Kontr Pro 3) within the MoE, including a database of businesses subject to inspection.

91. **DPO2 proposes to support the following actions:**

- Improve potential access to capital and credit by: (i) Amending Article 77 of the Joint Stock Company Law to strengthen the responsibilities of company directors; and (ii) Submitting to Parliament amendments to the legal framework for secured transactions, and amendments to the insolvency law, consistent with the 2011 Insolvency and Creditor Rights ROSC recommendations.

- Expand the risk based inspections coordination module (Kontr Pro 3) and business inspections databases within MoE and ensure they are used by a number of central apparatuses of controlling bodies located in the city of Bishkek, .

92. ***Expected outcomes:*** Implementation of the DPO supported reform measures are expected to improve the implementation of some of the reforms that have been carried out to date (such as the one-stop-shop for registration); improve transparency and reduce administrative barriers for enterprises by streamlining procedures, and to offer better secured transactions, insolvency, contract enforcement and debt resolution mechanisms that simplify procedures and reduce reliance on courts. Such improvements may be captured in better Doing Business ratings.

Energy Sector Reforms

93. **The power sector, overwhelmingly public, is large and has huge export and growth potential.** Energy production and distribution accounts for about 4 percent of GDP and 16 percent of industrial production. Furthermore, its performance is critical for the health of the economy and the quality of life of the citizens. Kyrgyz has near universal access to power. The sector is endowed with hydro-generation, a low cost and clean source of energy. However, weak governance, including opacity in operations and accounts, and a poor regulatory environment, stymie private investment and growth. The promising export potential for energy and ancillary services from hydropower is not therefore, fully exploited.

94. **Commercial and technical losses in electricity are very high.** The poor financial performance of the sector has led to severe under-maintenance and related degradation of assets. The regulatory agency is not independent and, for political reasons, electricity tariffs are far below recovery levels. The existing contractual arrangements and payment mechanisms in the sector hinder the transparency of financial flows and undermine the incentives for good performance and sound management.

95. **Financial flows and flows of electricity are not recorded or reported in a comprehensive way.** The existing contractual arrangements between the energy companies and payment mechanisms in the sector hinder the transparency of power and financial flows in the sector and undermine the incentives for good performance and sound management by the sector entities. The current law in force on electricity was enacted in 1997 and has gone through multiple revisions resulting in many functions of the state agencies overlapping. Despite the legal framework recognizing the theft of electricity as an offence, there were barely any such cases brought to the courts in the recent years.

96. **Modest steps to improve governance in the energy sector have been taken.** The introduction of the Fuel and Energy Sector Transparency Initiative (FESTI) represents an attempt to improve management and governance within the sector. The FESTI attempts to ensure greater public participation and transparency. It, however, does not address financial viability, i.e., the possibility of raising tariffs, privatizing energy sector assets, or significantly increasing the role of market forces.

97. **The power sector is in need of critical investments.** The government recently decided to undertake urgent transmission investments including the Datka substation and transmission lines to ensure reliable power supply to the north. However, the planned investments, totaling

\$600 million (about 10 percent of GDP), and to be financed by a loan, will require tariff increases or another sustainable mechanism to ensure repayment does not become a burden on the budget. The government is preparing a five-year Medium-Term Tariff Policy (MTTP) with the objective of ensuring progressive cost-recovery for the power supply. The implementation of the MTTP will be accompanied with properly designed and implemented communication strategy, as well as targeted social protection program for the poor and vulnerable groups.

98. **The government has developed an energy sector development strategy for 2012-2015.** Measures in the strategy include: (a) further improvements in efficiency and transparency of the sector operations, particularly focusing on the management of power export proceeds; (b) development and adoption of an MTTP that would need to be accompanied by properly designed social protection schemes; and (c) a number of important energy investments, such as the Datka-Kemin transmission line, Kambarata hydro-power plants, and Kara-Keche green-field coal-firing power plant. However, the strategy does not consider the financing of such ambitious investment projects. The government will need to make an affordability assessment and prioritize the investment plans.

Policy actions to be supported

99. **The DPO1 has supported the following actions:**

- Government, through Resolution No. 611 dated September 7, 2012, adopted a comprehensive action plan to enhance transparency, accountability, and governance in the energy sector, including: (i) carrying out annual audits of financial statements of energy companies following international accounting practices and making the audit reports public; (ii) setting up and maintaining web-sites for the Ministry of Energy, the Energy Regulatory Department, and the energy companies; (iii) ensuring transparent and competitive procurement of fuel resources; (iv) maintaining escrow accounts for power export revenues for the National Electrical Grid of Kyrgyzstan Joint Stock Company and the Power Plants Joint Stock Company ;and (v) selecting the general directors and executive bodies of the energy companies based on transparent and competitive procedures.

100. **DPO2 proposes to support the following actions:**

- Adopt a comprehensive electricity law delineating functions of policy setting and independent regulation, and clarifying governance structure and accountability arrangements.

101. **Expected outcomes:** The proposed measures included in Resolution 611 dated September 7, 2012 outlining reforms for the energy sector will help improve transparency and accountability of sector entities.

Financial Sector Reforms to ensure stability

102. **The political upheavals of 2010 led to significant financial sector instability.** The political crisis caused a large and immediate deposit outflow. Bank deposits fell by 30 percent during March and April 2010, mostly due to large withdrawals from nonresident accounts. The deposit decline was mainly concentrated in the AUB, the largest bank with 53 percent of deposits and 33 percent of assets at end-2009.¹⁹ In addition, NPLs increased rapidly after March 2010, reaching 17 percent of total loans at end-October 2010 (from 8 percent in 2009). Capitalization also declined, with the capital adequacy ratio reaching 22 percent in October 2010 (compared to 34 percent at end-2009). Although some banks remained profitable and weathered the crisis well, overall banks incurred substantial losses in the first ten months of 2010 (in the amount of KGS 4.5 billion), with an ROE of negative 50 percent and an ROA of negative 9 percent. The liquidity ratio (liquid assets as a percentage of liabilities maturing within 30 days) also declined to 65 percent in October 2010 (from 87 percent at end-2009).

103. **The NBKR took immediate measures to restore financial stability, although the interventions stretched its capacity severely.** Following the large deposit outflow, the NBKR took seven banks (accounting for 45 percent of the system's assets) under temporary administration, including AUB.²⁰ Following a complicated legal process, AUB was nationalized and declared bankrupt at the end of 2010. It was split into a "good bank", named Zalkar Bank, and a "bad bank", AUB, in February 2011.²¹ In the absence of a sound bank resolution legal framework, the intervention of AUB engulfed the authorities in a complicated legal process. The authorities have privatized Zalkar bank and AUB is undergoing liquidation. Three other banks remain under conservatorship; the NBKR cannot take action to resolve these banks because of pending court cases from their shareholders.

104. **Due to the NBKR's interventions, as well as improved stability in the political and economic climate, banking sector indicators have begun to improve.** Total assets of the banking system increased by 15.2 percent in 2011; deposits and loans increased by 13.5 percent and 18.3 percent, respectively; and profitability as measured by ROE and ROA have improved. However, banking assets, including loans, as a share of GDP dropped slightly, while deposits/GDP increased.

105. **Despite these improvements, the challenges faced by the NBKR in resolving problem banks highlighted deficiencies in the bank resolution legal framework.** The bank resolution framework is fragmented, and there are gaps, overlaps and inconsistencies across several laws, such as the Law on Conservation, Liquidation and Bankruptcy of Banks, the Law on Banks and Banking Activities, the Law on the National Bank of the Kyrgyz Republic, and the Law on Bankruptcy (insolvency). These problems make the laws difficult to interpret or apply,

¹⁹ AUB's portfolio was affected by connected and insider lending.

²⁰ The NBKR also imposed direct supervision in ten banks, and issued instructions to senior officials of three additional banks.

²¹ Most of the loan book, liquid and fixed assets, deposits, and losses from AUB's swap agreements with microfinance institutions were transferred to Zalkar Bank. Assets and liabilities of related parties, nonresident liabilities, and deposits from the State Property Bureau (pending criminal cases related to these deposits) remained in AUB.

leading to court decisions that have undermined the NBKR's ability to take prompt actions to deal with the banks placed under official administration.²²

106. The banking crisis also highlighted weaknesses in the supervisory framework for the banking sector. There are weaknesses in onsite and offsite supervision, stress testing, and contingency planning and crisis management. Although the NBKR has been working towards strengthening the prompt remedial actions framework, it does not have in place an effective framework that it can use to ensure that effective remedies are initiated at the earliest stage of bank problems. In addition, the supervisory staff do not have adequate legal protection from prosecution for actions taken in performance of their duties, and thus have been hesitant to take supervisory actions. There are weaknesses in onsite supervision, in the Capital, Assets, Management, Liquidity, Earnings, Sensitivity (CAMELS) methodology and processes, the quality control framework for on-site examinations, and the bank supervision manual. Experience from the recent stress in the banking sector has also confirmed the need to strengthen the off-site reporting framework²³ as there are weaknesses in the reporting formats and the analysis of information. In addition, the single factor stress tests undertaken by the NBKR do not capture vulnerabilities adequately – stress tests on more parameters would enhance NBKR's capacity to monitor vulnerabilities. The NBKR also lacks a formal framework for crisis preparedness and crisis management, and a special supervisory framework designed for 'systemic' or 'large' banks.

107. There are also deficiencies in the regulatory framework for the banking sector. For example, the regulation on credit risk management does not explicitly require banks to adopt uniform asset classification within the bank or across banks, which can lead to an understatement of NPLs. The liquidity risk management guidelines do not require separate management of risks for domestic currency and foreign currency. NBKR lacks prudential guidelines for banks to address the indirect risks inherent in foreign currency loans to unhedged clients, such as fixing prudential limits on such exposures or periodical internal monitoring of unhedged foreign currency exposures. In addition, there are no regulations on electronic banking, business continuity planning, outsourcing, new products and related risks, Basel II, Basel III, consolidated supervision, and risk-based supervision.

108. The current Deposit Protection Law also provides insufficient protection to depositors. The World Bank's ERSO, approved in 2011, supported the independence of the (DPA with an appropriate supervisory board providing oversight, thus paving the way to improve governance in the deposit protection system through clarified roles, responsibilities, and accountability of DPA, the central bank, and the government. There are, however, weaknesses in the DPA law that limit availability of deposit protection for banks when it may be particularly needed. For example, a bank failing to pay its fees on time to the deposit guarantee fund is,

²² The World Bank provided TA, financed by the FIRST Initiative, in October 2010 to strengthen the bank resolution legal framework. Subsequent to this TA, the Kyrgyz authorities agreed with the IMF to incorporate changes to the bank resolution framework in a new banking code. As development of the Banking Code is supported by the IMF's program, it is not included in this DPO. However, the World Bank and IMF teams are closely coordinating their assistance to NBKR on legal and other reforms.

²³ Amongst others, the off-site framework should include details of: (i) unhedged foreign currency exposures of bank customers; (ii) asset-liability mismatches in greater detail; and (iii) duration of interest rate sensitive assets and liabilities to support more intensive stress testing.

according to the law, excluded from the deposit protection system. Since it is precisely when a bank is in trouble that it will have difficulty paying its fees, this exclusion defeats the purpose of deposit protection. The law also has deficiencies related to the DPA's governance and procedures, including powers and qualifications of its board and executive director, vague requirements to "coordinate" with other entities, definition of an insurance event, timing of paying depositors, investment provisions, remedial powers, legal protection of DPA officials, coverage of insiders' deposits, and conflicts of interest.

109. **The Bank ERSO supported the independence of the DPA** with an appropriate supervisory board providing oversight, thus paving the way to improve governance in the deposit protection system through clarified roles, responsibilities, and accountability of DPA, the central bank, and the government. There are, however, weaknesses in the DPA law that limits availability of deposit protection for banks when it may be particularly needed.

110. **While there are numerous areas that could be strengthened, reforms in targeted key areas will likely have the most significant impact.** This DPO will focus on a limited number of key policy actions to enhance stability and improve access to finance, while other interventions (supported by the Bank or other donors) will complement these policy actions with additional reforms and investments. As the authorities are concentrating their efforts and limited resources on drafting a banking code (a measure supported by the Fund arrangement), DPO1 will not include any actions related to the financial sector. Instead, the program supported reforms will occur under DPO2 and beyond.

Policy actions to be supported

111. **The proposed DPO2 will support the following policy measures:**

- Revise regulations on PRAF to: (a) improve its effectiveness in terms of timely, adequate and consistent response to developments in banks, including supervisory actions to promptly address material deficiencies in corporate governance policies and practices; (b) establish clear thresholds for considering: issue of recommendations to banks for making improvements in their operations; taking corrective actions requiring banks for making improvements; and (c) take enforcement actions.
- Submit amendments to the Deposit Protection Law to Parliament.

112. **Expected outcomes:** The program is expected to support the central bank by enhancing its capacity to supervise and regulate the banking sector, address vulnerabilities in a timely manner, and resolve problem banks efficiently. Amendments to the Law on the Protection of Individuals' Deposits will, inter alia, ensure that deposit protection will be available for depositors in all banks, including those that have failed to pay their fees to the Deposit Protection Fund. Banking sector privatization is to gain from enhanced transparency and competition by participation of sound investors.

Box 2: Good Practice Principles for Development Policy Lending

Principle 1: Reinforce-ownership

The proposed DPO series is anchored in the high priorities of the MTDP. Reforms have already begun in the areas of energy, public finance management, and private sector development. The Bank's analytical work and dialogue, through existing projects, have contributed to the formulation of the policy measures that the government is undertaking. The government has shown a keen determination to reform governance and develop anti-corruption policies based on the Bank's advice.

Principle 2: Agree upfront with the government and other financial partners on a coordinated accountability framework

The government has paid particular attention to the harmonization of donor's activities within the framework of the Paris Declaration. This follows a tradition of close donor cooperation as demonstrated by a *Joint Country Strategy* developed in 2007. The DPO program has been designed in close collaboration with other development partners, including the IMF, the EC, ADB, USAID, SECO, Swiss, DfID, and the Eurasian Development Bank (Anti-Crisis Fund) and is based on reforms outlined in the country's strategic documents. The policy matrix, which outlines reform measures, expected outputs and monitoring indicators agreed with the authorities during the DPO preparation, provides framework for coordinated accountability. Furthermore, the Government PFM Action Plan, supported by the DPO, is also supported by the multi-donor trust fund with participation from DfID, the EC, and SECO.

Principle 3: Customize the accountability framework and modalities of Bank support to country circumstances

Suggested reform measures have been formulated based on country specific circumstances and are based on the need for medium-term structural and institutional policy reforms across sectors. The program takes into account the existing capacity in public sector, the political environment, and the new structure of the government.

Principle 4: Choose only actions critical for achieving results as conditions for disbursement

The DPO program focuses on actions that are considered most critical for the success of reforms and objectives of the MTDP, the ISN, and the proposed DPO. The program has been selective in limiting the number of prior actions to those critical for the achievement of the expected outcomes.

Principle 5: Conduct transparent progress reviews conducive to predictable and performance-based financial support

Progress with the implementation of reforms and achievement of outcome goals will be monitored on a regular basis; the results framework, which outlines the status of reforms and outcome indicators, will be updated periodically and the process will be closely aligned with the country's M&E system and cycles.

Table 7: DPO1 Prior Actions

PRIOR ACTION	STATUS
Government adopted the Anti-corruption Program and Action Plan for 2012 – 2014 and has established a framework for monitoring its implementation that includes independent experts and non-governmental organizations.	Completed – Resolution No. 596, dated August 30, 2012.
President's decree established the Judicial Reform Council under the Presidency and identified priorities for judicial reform. The Judicial Reform Council under the President approved a Strategic Action Plan on reforming the judicial system.	Completed – President’s decree No. 147, dated August 8, 2012, “On the Measures to Improve Justice in the Kyrgyz Republic”. Completed - Resolution No. 2, dated October 12, 2012.
<p>A Protocol that specifies the roles and responsibilities of the treasury, banking and accounting functions, and the oversight of payments/settlements, including the financial and information security controls for operation of the STA at the NBKR signed between the MoF and the NBKR.</p> <p>The Government delegated authority to approve the UCoA to the MoF, and the MoF did so.</p>	<p>Completed – The Protocol including all the agreed elements of controls, roles and responsibilities and oversight between the treasury and the NBKR was issued and signed on October 23, 2012 by the Governor of NBKR and the Minister of Finance.</p> <p>Completed – Order of the Ministry of Finance No. 177-II, dated September 4, 2012 in accordance with Resolution No. 605 dated September 4, 2012 approved the new UCoA.</p>
<p>The Government submitted to Parliament a revised draft Budget Code that strengthens controls over non-allocated funds in the treasury, eliminates non-transparent reserve funds, advances the introduction of internal audit and medium term budgeting, and provides greater clarity to the overall budget cycle.</p> <p>The Prime Minister through a letter to the Speaker of Parliament has requested an amendment to the proposed draft Budget Code that would require prior Parliamentary approval of the issuance of sovereign guarantees.</p>	<p>Completed – Resolution No. 718, dated October 15, 2012, “On Enactment of the Budget Code of the Kyrgyz Republic” approved draft Budget Code and submitted to Parliament.</p> <p>The Prime Minister’s letter to the Speaker of the Parliament, No. 1-4118, dated November 30, 2012, requested the amendment of paragraph 6 of Article 36 to read as follows: "Public borrowing and issuance of sovereign guarantees shall be made by the Government of the Kyrgyz Republic with a prior approval by the Parliament of the Kyrgyz Republic."</p>
MoF published a Public Procurement Report on the use of the 2011 allocated budget.	Completed – Report published on August 29, 2012.
Public Procurement Development Strategy for 2012-14 in line with international best practice was adopted.	Completed – Resolution No. 661, dated September 27, 2012.
The Government through Ministry of Justice issued an order that contains: (i) a checklist for the registry offices to clarify on what basis a registration application for the establishment of a business can be rejected; and (ii) instructions that applicants will receive during the first submission of all requests a statement on additional information required.	Completed – Ministry of Justice issued order No.134, dated October 11, 2012.
The Government introduced transparent, risk-based criteria for planning and conducting business inspections and has developed a risk-based inspections coordination module (Kontr Pro 3) within the MoE, including a database of businesses subject to inspection.	Completed – Resolution No. 108, dated February 18, 2012.

PRIOR ACTION	STATUS
<p>The Government, adopted a comprehensive action plan to enhance transparency, accountability, and governance in the energy sector, including through: (i) carrying out annual audits of financial statements of energy companies following international accounting practices and making the audit reports public; (ii) setting up and maintaining web-sites for the Ministry of Energy, the Energy Regulatory Department, and the energy companies; (iii) ensuring transparent and competitive procurement of fuel resources; (iv) maintaining escrow accounts for power export revenues for the National Electrical Grid of Kyrgyzstan Joint Stock Company and the Power Plants Joint Stock Company; and (v) selecting the general directors and executive bodies of the energy companies based on transparent and competitive procedures.</p>	<p>Completed – Resolution No. 611, dated September 7, 2012 issued.</p>

VI. OPERATION IMPLEMENTATION

A. POVERTY AND SOCIAL IMPACT

113. **The proposed set of policies and reforms supported by this programmatic series of DPOs will help the authorities in their efforts to reduce poverty and ease social tensions.** The reforms focus primarily on strengthening institutions (governance, judicial reforms, and public finance management), reducing misuse of public funds (anti-corruption programs, transparency in public procurement and energy sector), and leveling the playing field in the private sector (improving the business environment). All of these reforms – if well implemented – would improve the ability of the government to function in the interest of all its citizens, men and women and poor and non-poor. The extent of the poverty impact of these reforms is dependent upon the magnitude of resources being wasted or diverted for personal gain and the degree to which these reforms will be able to reduce this leakage and redirect resources to public services. The policies are discussed in greater detail below as is the net impact of proposed energy reforms – improving the power supply and the eventual increase in tariffs.

114. **The policy operations under Theme I “Strengthening governance and fighting corruption” will improve poverty and social conditions if implemented.** The proposed reforms target: (i) institutionalization of anti-corruption policies; (ii) improvement in budget transparency, planning and efficiency of utilization of budget resources; and (iii) stronger financial control environment. These policies will benefit society by ensuring improved efficiency in the use of public funds. Based upon the latest available data from 2010, an estimated 35 percent of the population had “some or complete trust” in the government/cabinet of ministers while over 40 percent had “some or complete distrust”. Furthermore, in the latter part of the last decade, corruption was seen to have increased significantly by over 80 percent of the population.²⁴ Businesses are also affected by corruption and especially firms headed by

²⁴ Based on the Life in Transition Survey, 2010.

women, 76 percent whom identify corruption as a major constraint vs. 54 percent of firms with male top managers.²⁵

115. The business environment component of policy actions under Theme II “Sharpening competitiveness and enhancing the attractiveness for private investment” is expected to stimulate growth, increase fiscal revenues and reduce poverty. Similar to other countries, economic growth in the Kyrgyz Republic is strongly associated with reduction in poverty. The policy actions that target improvement in business environment by reducing the administrative burden of conducting business and paying taxes will likely result in better prospects for economic activities. This in turn should have a positive effect on poverty reduction and employment. However, though similar levels of male and female-headed firms are expected to give gifts in meetings with tax officials (39 percent and 34 percent respectively)²⁶, little is known whether disproportionately more female than male-owned businesses suffer from inspections, thus collecting sex disaggregated data will shed light on the gender impact of this reform.

116. The policy actions supported under “increasing energy sector transparency, governance and accountability” will remove a major source of public unease on the use of revenues. The objectives of this component are to: (i) improve transparency and accountability; (ii) disseminate sector indicators and key decisions to the public; and (iii) clearly define sector management and regulation framework, which would lead to more transparency and better management of energy related expenditures in the budget. Positive impact of policy actions comes from greater accountability of energy companies to the population and improvement of corporate governance in the sector. They also arise from greater resources being collected by the sector and by the government through reductions in theft and diversion of funds.

117. The impact of an increase in tariffs will remove an implicit subsidy of more than 4 percent of GDP, but will have an adverse welfare impact on the poor.²⁷ Under the current tariff structure the government implicitly subsidizes energy consumption with close to 9 billion KGS annually. Microeconomic analysis demonstrates that elimination of all implicit energy subsidies will decrease real income by more than 6 percent on average. The negative impact will be the strongest for households in Bishkek who are the main consumers of hot water. Thus, if all subsidies are removed the real income of households in the capital will decline by about 14 percent. Raising electricity tariffs to full cost recovery levels would result in a reduction of real income increasing poverty by 3.3 percentage points. Households with children and/or pensioners and households not living in Bishkek will face the highest risk of falling into poverty.

118. A gradual approach in shifting energy tariffs to cost recovery and mitigating measures protecting the poor would help to lessen the negative impact on the population. A program to institute the tariff increases over a 5-year period would lessen the impact on the population. Microeconomic simulation shows that a gradual increase of electricity tariffs by 25 percent will have a moderate impact on the poverty. The overall poverty level would increase

²⁵ www.enterprisesurveys.org (2009).

²⁶ Ibid.

²⁷ For background paper, see Franziska Gassmann, Energy Consumption and Tariff Increases in the Kyrgyz Republic, December 2011.

by 0.3 percentage points affecting mostly single pensioners and households with children and pensioners. To mitigate this negative effect, the government intends to devise protection measures to compensate the poor and the vulnerable for the income impact of the tariff increases. The impact of the increase in tariffs will be beneficial if service quality and reliability improves as can be expected from improved maintenance of the infrastructure.

119. The financial sector component of the program under Theme II via strengthening the independence of the central bank and of the deposit protection system and improving privatization and competition in the banking sector will have favorable social impact.

Access to finance will improve through measures planned increasing the currently low levels of accounts held by men and women in formal financial institutions (about 4 percent for both sexes compared to over 20 percent for adults in low income countries).²⁸ Policy action under this component improves the capacity of the monetary authorities to conduct sound actions, reduce the risk of banking crises, and hence reduce volatility in output and fiscal revenues. Trust in financial sector is vital for investor's confidence and for provision of a steady source of credit to a growing economy. Thus, these policies are conducive to economic growth and poverty reduction.

B. ENVIRONMENTAL ASPECTS

120. The specific policies supported by the DPO program will not have adverse effects on environment and natural resources. Indeed, energy efficiency will be promoted through the installation of modern equipment with the investments undertaken to rehabilitate the energy infrastructure. Improvements in the quality and reliability of power supply are likely to reduce the dependence on coal or wood for heating.

C. IMPLEMENTATION, MONITORING AND EVALUATION

121. The MoF which has the responsibility of coordinating donors' activities and all external assistance will be the Bank counterpart on the DPO implementation. The MoF will also be the partner on the management and coordination of implementation of the proposed policy measures among various ministries and agencies. Other key counterparts will include the MoE, Ministry of Energy, the President's Office, the First Vice Prime Minister's office, the Central Treasury, State Registry Office, and the National Bank of the Kyrgyz Republic. Bank staff will focus on the impact outcomes of the program and the adjustments that need to be made to the operation as it evolves, to take into account the latest country developments, stakeholder support, and feasible options for realizing the intended development goals. This review would be largely based on the monitoring indicators and the goals of the program. The overall status of the Government's program also will be monitored to determine whether country conditions and the specific policy actions of the proposed operation have been met.

²⁸ www.worldbank.org/globalindex, 2012.

D. FIDUCIARY ASPECTS

Accounting, Recording, and Reporting

122. **Improvements in systems of accounting, recording and reporting are necessary.** Although limited computerisation of treasury functions now enables regional treasuries to agree expenditure details with the local transit banks daily before submitting details to the central treasury which then agrees the total with the National Bank, there is no comprehensive automation of accounting, recording, and reporting. Further, there is no comprehensive system in place to capture all transaction level detail of activity of both revenues and expenditures. Revenue details are received by regional treasuries which pass information to local tax offices to enable them to update taxpayers' accounts. There are established arrangements for monthly and quarterly reconciliations between budgetary organisations' records and those of the central treasury that leads, each quarter, to reports to the President, the Parliament and the Prime Minister. Although the arrangements are cumbersome and probably do not resolve all data errors they are the only possible arrangements in the absence of a fully integrated system. The government budget is published on the MoF's web site (www.minfin.kg).

123. **Movement toward the introduction of a Government Finance Statistics (GFS) 2001 compliant unified chart of accounts could improve the level of information available on a quarterly basis.** No reports are made available to line ministries or other bodies, neither are reports produced on resources received by local delivery units. Annually, a cash-based budget execution report, in respect of the previous financial year, is produced by the government for submission to the Parliament by the middle of May. This report is the nearest there is to financial statements, and, though it includes extensive information on revenues and expenditures, in accordance with GFS 2001, it does not include accounting policies. The huge amount of numerical data it does contain is not supported by any useful summaries or commentary that would assist in their interpretation.

124. **National accounting and reporting standards for the public sector are not fully developed yet.** According to the Action Plan on reforming accounting and reporting in the public sector of the Kyrgyz Republic adopted by the Decree of the Government of Kyrgyz Republic No.359, dated July 3, 2009, a decision was made on transition to the International Public Sector Accounting Standards. As per the Decree of the President of the Kyrgyz Republic No.396 dated October 22 of 2009, the International Public Sector Accounting Standards (hereinafter IPSAS) firstly will be implemented based on cash accounting with further transition to accrual method of accounting. As per the amended Law on Accounting dated May 18, 2012, IPSAS should be adopted as accounting standards to be applied by all budget organizations in the country. However, legal and methodology framework as well as institutional mechanisms for transition to international standards are insufficient. The ongoing PFM Trust Fund supports a few IPSAS related activities. In particular, the development of the methodological base (including a draft concept on transition to IPSAS and legal, normative and methodology documents on IPSAS) that is currently weak and is a significant impediment for effective implementation of IPSAS strategy in the Kyrgyz Republic. A limited number of introductory trainings will be conducted to familiarize public accountants with the newly elaborated methodological base. These measures, if fully implemented, could go a long way in improving accounting and reporting in the public sector.

Public Sector Auditing

125. **Public sector auditing is performed by the Chamber of Accounts (CoA), the equivalent of supreme audit institution (SAI) in the country.** The Chamber of Accounts is responsible for auditing the budget execution report, prepared by the Ministry of Finance by mid-May, and submitting its findings to the Parliament. No audit opinion is given; instead a report of errors and violations is produced which is laid before Parliament in September or October following the year of account. The absence of a set of financial statements prepared in accordance with internationally recognised accounting standards represents a limitation on what the Chamber can do. Its audit of revenues and expenditure each year is not complete with only the consolidated statement of the MoF audited annually; the policy in relation to other financial statements is not transparent. In addition to work on the annual budget execution report, the Chamber undertakes audits of budget organisations, but does not separate reporting on its work on the financial statements from compliance and the efficient use of resources.

126. **The Bank has been supporting the CoA, through an IDF grant (that closed in February 2012) aimed at promoting capacity building activities, including development of appropriate audit methodology.** The grant enabled CoA to develop audit methodology for financial and performance audits, that was field-tested through pilot audits conducted jointly with a private firm of auditors, and supported training to audit staff on accounting and audit standards, including IPSAS. The IDF grant also financed the setting up of a training center that is being used by the CoA for ongoing training of its specialists. The UNDP and USAID are jointly funding further capacity development of the CoA and strengthening of its independence. It is expected that past and ongoing technical assistance will enable the CoA to develop sustainable capacity to conduct audits in accordance with international standards. Capacity strengthening of the CoA is running in parallel to the efforts being made to develop financial reports in the public sector that can be subject to audit resulting into expression of audit opinion but this capacity has yet to be developed.

127. **As highlighted earlier, weaknesses in internal audit are being supported by the DPO operation as well as the Multi Donor TF on the PFM.** The law on internal audit is being revised and DPO2 aims at supporting the establishment of an independent Internal Audit Council that is expected to: (a) prepare guidelines on principles, processes, and structure of internal audit, and an internal control framework; (b) draft a regulation on Public Internal Financial Control System; and a law on ethical standards for internal auditors; (c) coordinate establishment of internal audit units in public bodies and agencies that can operate on the basis of international professional standards; and (d) produce a report on the audit results conducted in 2011-12.

Foreign Exchange Control Environment

128. **The central bank has been audited regularly by internationally recognized audit firms.** The 2011 audit of the consolidated financial statements was conducted by LLC KPMG Bishkek, who issued unqualified opinion on the financial statements. Previous audited financial statements have also been unqualified with no major issues raised in the management letter.

129. **The recent safeguards assessment update was completed by the IMF on October 28, 2011 as part of the ECF program.** The assessment concluded that the NBKR has established important safeguards in financial reporting, external and internal audits. It also highlighted some

areas for improvement in NBKR operations. Governance arrangements need to be strengthened by establishing independent board oversight and more effective reporting by the audit committee that became operational following the 2009 assessment. The proposed new Banking Code which will include amendments to the law on NBKR is expected to strengthen institutional autonomy and giving the NBKR sole responsibility for the governance of official foreign exchange reserves.

Public Procurement

130. **Public procurement has been reformed through revisions to the PPL to bring it in line with international good practices.** Principles and stages of an efficient procurement process have been introduced, and the mandate and authority of the State Procurement Agency was defined. However, this agency, which was established as an independent public procurement oversight body, was abolished in October 2009 as a part of the government reorganization which took place under previous government. Instead, a new Department on Public Procurement Methodology has been established under MoF while the procurement supervision function was not assigned to any organization.

131. **The MoF has improved its website to bring more transparency to the procurement system.** The procuring entities can place their procurement plans, bidding opportunities and contract award results on this website. However, the process for redressing tender violations (complaints) remains unclear. Given that public procurement carries a risk of high corruption, appropriate oversight and transparency will need to be established as a priority. The Ministry of Finance recognizes this priority, but its capacity and current legal basis are the main constraints for immediate improvements. Recently, the unit began to request the minutes of tender commission meetings in an attempt to check compliance with PPL of the procurement process followed; however, the unit's capacity clearly is not sufficient to do this promptly and with acceptable quality. The unit is initiating revisions to the PPL that is intended to re-establish appropriate procurement oversight.

132. **There is an institutional gap in monitoring the adherence to procurement rules that lead to issuance of contracts.** The CoA reviews procurement processes only during the regular assessment of budget organizations once every two years. The government had noted that lack of supervision function in procurement had been reportedly a source of administrative corruption. The government will need to establish an independent procurement oversight body to monitor public procurement by budget entities, and to develop an independent complaint handling mechanism to reduce corruption in procurement.

133. **The Bank maintains dialogue with the government on public procurement reform.** The government has actively participated in the Regional Public Procurement Forum.²⁹ The

²⁹ The Regional Public Procurement Forum, an annual event initiated by the Bank in 2005, provides a platform for public procurement officials from Central Asia and neighboring countries to share knowledge and learning, exchange views and experiences, and discuss policy issues in public procurement reforms. Countries from other regions (such as Korea, Singapore, Brazil), as well as relevant international organizations were also invited to share their experiences and good practices. The Government of Kyrgyz Republic has actively participated in the Forum including hosting two of them.

World Bank would provide more assistance through the on-going PFM project to facilitate further reform, institutional development and capacity building in public procurement.

134. **Though the overall fiduciary environment is weak, the DPO supports key reforms to strengthen the control environment.** Experience with the previous DPO has not yielded any reason to question the suitability of supporting the operation but any significant changes in the PFM system beyond that supported by the DPO would necessitate a re-examination of impact of that change on the fiduciary environment.

E. DISBURSEMENT AND AUDITING

135. **The Recipient is the Kyrgyz Republic.** The credit and grant proceeds would be made available to the Recipient upon the effectiveness of the Financing Agreement between the World Bank and the Kyrgyz Republic.

Disbursement

136. **The Recipient will submit a withdrawal application to the International Development Association (IDA).** Upon receipt of the withdrawal application IDA will disburse the amount in (one tranche) into a foreign currency deposit account that forms part of the country's official foreign exchange reserve and is opened for the purpose in the National Bank of Kyrgyz Republic (the central bank). This account is available for budget financing and will be managed by and subject to the control of the MoF. The Recipient will report to the World Bank on the amount deposited in the foreign currency account and confirm its availability to finance budget expenditures, within 30 days of receiving such funds. If, after depositing funds in this deposit account, the proceeds of the credit and/or grant are used for ineligible purposes as defined in the Financing Agreement, the World Bank will require the Recipient to refund the amount directly to the World Bank, in which case the World Bank will cancel an equivalent undisbursed amount of the credit.

137. **The administration and accounting of the credit will be the responsibility of the MoF.** The proceeds of the credit and grant deposited at the Treasury account with central bank will be converted into local currency to cover budget expenditures or will be used for refinancing foreign debt repayments. The MoF will be responsible for the credit and grant administration and for preparing the withdrawal application, and maintaining the withdrawal application as required. The MoF, with the assistance of central bank, will maintain records of all transactions under the credit in accordance with sound accounting practices.

138. The closing date of the proposed operation will be September 30, 2014.

F. RISKS AND RISK MITIGATION

139. **Political instability and waning political commitment to reform pose a serious risk to reform implementation.** While the Kyrgyz Republic's commitment to democratic procedures is commendable, it should be recognized that a lot remains to be done to tackle fragility. Governments undergo frequent changes, impacting institutional knowledge and continuity of engagement. The current constitution which provides for a parliamentary democracy with checks and balances – is in its early stages, and enduring success will require concerted efforts by the

president, the executive and the legislature. Moreover, ethnic reconciliation and social tensions exacerbate this fragility. Relatedly, there are widespread concerns regarding corruption. Corruption impacts all walks of life in the Kyrgyz Republic. It prevents the private sector and investors from operating effectively and in some cases acts as a barrier to entry. It adversely impacts incentives within the public sector, reducing efficiency and meritocracy. Finally, it creates mistrust in the government which further impacts political instability.

140. The World Bank is working with the government on several measures to help mitigate these risks. The new government has reaffirmed its commitment to reducing corruption and improving governance, transparency and accountability in the public sector including proper use of public funds. Improved transparency and accountability will help improve trust between government and its citizens. Mitigating measures comprise supporting the government's endeavors through this programmatic DPO, which includes a comprehensive set of reforms. First, the Bank has worked with the government to develop an anti-corruption strategy. Second, governance risks are being mitigated through reform of the judiciary, which aims at strengthening rule of law, principles of property rights and a stronger role for the courts. Third, weaknesses in the public financial management system are being addressed through implementation of an ongoing PFM Trust Fund, as well as strengthening control mechanisms for accounting and information security at the central treasury through the GTAC Treasury Modernization component. Fourth, the Bank and the government have been working closely to develop a Budget Code and finalize procurement reforms, both following best practice. Fifth, governance and transparency to improve the business environment for private sector growth is being addressed through reforms which strengthen the enforcement of laws and implementation in practice.

141. External risks from the ongoing Euro crisis and weaker global economic outlook will need to be monitored. While it is unlikely that Kyrgyz Republic will be impacted directly by events in the Euro zone, the country remains vulnerable to shocks from Russia and Kazakhstan. Lower growth in Russia and Kazakhstan either through any potential spillovers from the Eurozone crisis or a fall in the oil price, would weaken external demand for Kyrgyz's exports and much relied upon flows of remittances. The World Bank, together with the authorities will monitor the situation closely and ensure any remedial policies are appropriate for the changing circumstances.

142. Similarly, short-term macroeconomic risks will need to be watched closely. On the fiscal side, there is a risk that gold production does not fully pick up and that other sectors underperform, such as agriculture from lower rainfall. If these risks were to materialize, revenues would drop and there would be a negative impact on incomes, especially if agriculture were to suffer at the same time. Over the medium term, the government is pursuing a structural reform agenda to help diversify the economy away from gold by strengthening human and physical capital and building government and market institutions. Kyrgyz Republic is heavily dependent on imports of food and fuel and remains vulnerable to inflationary pressures stemming from international food and fuel price hikes. In the medium term, improved productivity in the agricultural sector will help reduce their exposure to international food price hikes. In the short term, and for the purposes of this operation, the macroeconomic risks will be watched closely.

143. There are also risks associated with reform implementation which will be mitigated through capacity building and technical assistance. There are two critical limiting factors to

implementation of reforms: the ability of the government to build consensus and coordinate across key economic and social implementing ministries, and weak institutional and technical capacity to design and implement programs. The authorities are cognizant of these risks and have worked to address them by improving government institutions and strengthening capacity. The Bank has been supporting the implementation of reforms through emphasizing a communication strategy for the government, as well as through the provision of technical assistance and capacity building. This is essential to prevent the onset of paper reforms that have little impact on the ground.

ANNEX 1: LETTER OF DEVELOPMENT POLICY

/Unofficial translation/

H. E. Mr. Jim Yong Kim,
World Bank Group President
Your Excellency,

The Ministry of Finance of the Kyrgyz Republic would like to present its compliments and gratitude to the World Bank for the continuous support to the social and economic development of the Kyrgyz Republic.

I. RETROSPECTIVE OF THE COUNTRY'S ECONOMIC SITUATION

In 2011, the Government of the Kyrgyz Republic (KR) implemented measures to overcome an economic crisis and promote a positive rate of economic growth. According to the National Statistical Committee of the KR, real GDP growth reached 6 percent in 2011, which is 6.5 percentage points higher than in 2010. Nominal gross domestic product (GDP) totaled 286.0 billion soms.

Real economic growth, excluding enterprises operating at Kumtor gold mine, amounted to 6.3 percent as a result of growth in industrial production (excluding Kumtor) (18.8 percent), agriculture (2.0 percent) and services (6.9 percent).

The consumer price index in December 2011 was 5.7 percent, year-on-year, compared to 19.2 percent in December of 2010. The annual average consumer price index in 2011 was 16.6 percent compared to 8.0 percent in 2010.

The Kyrgyz Republic faced a sharp slowdown in economic growth in 2012, owing to the following challenges: uncertainty in world markets and instability of the world economy, which was characterized by a slowdown in economic growth and a debt crisis in some countries, affecting the Kyrgyz Republic's major trading partners - Russia, Kazakhstan and China; severe climatic factors, which affected the agricultural sector; and geological factors resulting in a significant decline in production at the "Kumtor" deposit.

Measures to counter the above challenges and adverse impacts focused on the implementation of the major priorities of socio-economic development in 2012, defined in the Program of the Government of the Kyrgyz Republic and the Action Plan for the implementation of the Program of the Government of the Kyrgyz Republic for 2012.

The Government of the Kyrgyz Republic quickly adopted compensatory measures to support the economy, which helped prevent a further decline - at the beginning of the year the growth rate was 88.0 percent of 2011 levels - and kept it at 99.1 percent of 2011 level by the end of the year.

According to a preliminary assessment by the NSC, GDP was 304.4 billion soms at the end of 2012 and the economy experienced a real decrease of 0.9 percent, against 6.0 percent real growth in 2011. Excluding enterprises developing the “Kumtor” deposit, real GDP growth amounted to 5.0 percent; in 2011 the growth for the same period was 6.3 percent. The GDP deflator was 107.4 percent.

In 2012, farms of all categories produced gross agricultural output amounting to 167.5 billion soms in current prices. The growth rate compared to the corresponding period of 2011 was 101.2 percent, including the livestock industry - 101.8 percent (80.1 billion soms) and crop production 100.6 percent (84.5 billion soms). Agriculture is estimated to have positively contributed to GDP by 0.2 percentage points, resulting in a 17.5 percent share of GDP, up 0.9 percentage points compared with the corresponding period in 2011.

Over 2012, industry produced goods worth 133.8 billion soms. The production volume decreased by 79.8 percent compared to 2011. Excluding enterprises at the “Kumtor” deposit, industry production amounted to 83.2 billion soms, or a real increase of 106.1 percent. The overall contribution to GDP from industrial production is negative and significant, estimated to be (-) 4.6 percentage points. The share of industry in GDP amounted to 16.8 percent, down 5.7 percentage points compared to 2011.

In the construction sector, there was an increase of capital investments. In 2012, the volume of investment in fixed capital from all sources amounted to 62.6 billion soms and increased by 21.5 percent. The total amount of gross construction in 2012, based on preliminary data, amounted to 54.6 billion soms, or an increase of 17.3 percent. The impact of the construction sector on economic growth was positive, and its contribution to GDP amounted to 0.9 percentage points – a 5.7 percent share of GDP.

The gross output of the service sector in 2012 was 258.4 billion soms, with a 106.1 percent rate of real growth. The growth of services is attributed to trade, which grew 10.1 percent, services of hotels and restaurants with a growth rate of 11.9 percent, and the provision of transport and communications services, which grew at 8.8 percent. The service sector is estimated have positively contributed to GDP by 2.79 percentage points - representing 46.6 percent as a share of GDP, up 1.6 percentage points compared with 2011.

Despite the negative trends in economic growth, certain results were achieved in 2012.

Effective action taken by the Government and the National Bank of the Kyrgyz Republic, in accordance with the Joint Statement on Economic Policy for the year of 2012 (Resolution of the GKR and of the NDKR of January 26, 2012 № 61/68/2), made it possible to keep inflation within the planned range of 7-9 percent. The consumer price index amounted to 7.5 percent (December 2012 to December 2011). Annual average inflation (January-December 2012 compared with January-December 2011) was 2.8 percent, while in January-December 2011 it amounted to 16.6 percent.

Total budget revenues increased by 12.1 percent; reaching 28.5 percent as a share of GDP. The State social policy of the Kyrgyz Republic concentrated on the implementation of the State constitutional provisions on social guarantees for citizens. In accordance with the parameters set for the year 2012, full and timely funding of the state social guarantees was

accomplished. A two-stage increase in pensions resulted in a 14 percent increase compared to 2011. Average nominal wages per employee in 2012 (excluding small businesses) amounted to 10,891 soms, increasing by 16.5 percent compared to 2011; its real size, calculated based on the consumer price index grew by 13.3 percent.

In 2012, most of the Government's action focused on removing barriers and simplifying the business environment, the formation and adoption of new "rules" / laws for the smooth development of business and inflow of foreign capital into the country, which may occur in 2013.

Recognizing the importance of providing economic freedom to the business environment, more than 113 types of licenses and permits were canceled limiting excessive state intervention into business affairs. A "silence gives consent" norm was introduced, which regulates the actions of government agencies and licensors. Significant reforms have been made in the field of inspections: the number of controlling bodies was reduced from 21 to 12; the number of inspections decreased two fold (from 24,000 in 2011 to 13,500 inspections in 2012); the duration of scheduled inspections decreased two fold (from 30 to 15 days (for legal entities) and to 5 (for individuals)); in the regulation of public services the number of services decreased from 20 thousand down to 389.

In order to simplify visa procedures for foreign citizens and to increase the attractiveness of the tourism market, for the development of tourism and investments, the Law of the Kyrgyz Republic was adopted: "On the introduction of visa-free travel for citizens of some countries, up to 60 days", where a visa-free regime for citizens of 44 nations have been introduced.

In the reporting period, work was carried out on the implementation of the "State strategy of anti-corruption policy of the Kyrgyz Republic" - a mechanism for the coordination of anti-corruption measures between public authorities and civil society institutions.

In order to improve fiscal policy, the following measures were put in place: another three-year extension for VAT tax cuts for enterprises engaged in the processing of agricultural products; a general framework for the administration of insurance premiums and taxes was established; accounting for small and medium size businesses was simplified; favorable conditions were created for leasing companies and operations, which allows them to renew fixed assets; 59 companies were exempt from revenue tax, which has been considered to be a positive measure for business, etc.

In view of the negotiations on the accession to the Customs Union (CU), analysis was undertaken on national legislation to meet the legal basis of the CU, including a comparison of the obligations of the Kyrgyz Republic and the Russian Federation on WTO customs tariffs, as well as on preparation of a package of regulations and international agreements.

II. CURRENT SOCIAL AND ECONOMIC SITUATION IN THE KYRGYZ REPUBLIC

According to the National Statistics Committee's preliminary report for January-March 2013, real GDP growth was 7.6 percent, which was 16 percentage points higher than in the same period of 2012. Nominal GDP amounted to 59.0 billion of soms.

Real growth excluding enterprises operating at Kumtor gold mine was 4.9 percent (it was 3.7 percent in the same period of 2012) as a result of growth in industrial production (excluding Kumtor) by 5.7 percent, agriculture by 1.5 percent, services by 4.7 percent and construction by 14.5 percent.

Consumer price index increased 1.1 percent in March 2013 compared to December last year (it was 0.9 percent in March 2012 compared to December 2011).

The period average consumer price index was 7.8 percent in January-March 2012 compared to the same period of last year (it was 2.1 percent in January-March 2012 over January-March 2011).

The som to US dollar exchange rate increased by 2.42 percent compared to end-March 2012, and amounted to 47.9610 soms as of end-March 2013.

Real growth in industrial production increased by 18.6 percent in January-March 2013 (it declined by 28 percent in January-March 2012). Growth in industry excluding Kumtor was 5.7 percent (it was 16.1 percent in January-March 2012) as a result of 28.4 percent growth in processing industry. In mining and the energy sector declined by 2.3 percent and 1.5 percent, respectively.

Real growth in the service sector was 4.7 percent in January-March 2013 (it was 4.2 percent in January-March 2012). Growth in trade, and repair of vehicles and personal items was 7.1 percent, and retail trade growth (excluding trade in automobiles and motor fuel) was 6.3 percent.

Hotel and restaurant services increased by 6.6 percent in January-March 2013 (it was 5.9 percent in January-March 2012) as a result of rising consumer demand for these types of services.

Postal and electric coupling services grew 1.3 percent in January-March 2013. Cargo volumes transported by all type of vehicles increased by 5.4 percent (it grew 1.8 percent in January-March 2012).

Agricultural production including hunting and forestry amounted to 17,641.1 million soms, which represents 1.5 percent growth (it was 1.8 percent in January-March 2012).

Investment into fixed capital financed by all sources of financing increased by 9.7 percent in January-March 2013 compared to the same period of last year (it declined by 5.7 percent in January-March 2012). The actual amount invested into fixed capital totaled 6,900.7 million soms during this period.

Based on the invested amount, the gross output of construction amounted to 6,439.6 soms in January-March 2013, which represents 14.5 percent growth (it declined by 3.5 percent in January-March 2012).

The number of officially registered unemployed was 61.4 thousand people as of end-March 2013, which represent a 0.5 percent decline compared to the same period of 2012 (it declined by 5.4 percent in January-March 2012).

Real average monthly salary declined by 2 percent during January-February 2013, and in nominal terms it amounted to 10,315 soms.

According to preliminary data external trade turnover totaled 925 million US dollars in January-February 2013, which represents 1.1 percent growth compared to January-February 2012. This includes 178.7 million US dollars of exports (a 20.2 percent decline) and 746.3 million US dollars of imports (an 8 percent increase). The export decline resulted from lower gold exports (by 2 times) as well as textile and related goods exports (by 1.5 times).

Exports excluding gold amounted to 130.4 million US dollars (a 2.3 percent increase).

Due to faster growth of imports relative to growth of exports, the trade deficit amounted to 567.6 million US dollars, which represents an increase by 1.2 times compared to the same period of last year.

The main objectives of economic policy in 2013 are:

- restoring macroeconomic stability and sustainable economic growth at the planned level;
- the fulfillment of social obligations;
- continued integration within the Common Economic Space;
- further development of regional policy; and
- modernization of public governance.

To do this, the Government will carry out its primary regulatory function, which is to create an effective business environment in economy. On the one hand, this is by ensuring the macroeconomic environment is sustainable, through prudent fiscal and other economic policies. On the other hand, this is by establishing a common set of rules for businesses; ensuring a competitive environment; developing and monitoring compliance with regulations and standards; licensing; and the reorientation of domestic business in view of the potential joining of the Customs Union, and future integration to the Eurasian Economic Union.

Work will be continued in the following areas of economic policy: encouraging economic growth through even distribution of the tax burden over the economy; attracting foreign and domestic investments into infrastructure; improving the business and investment climate; integration of the economy into a regional economic system; implementation of structural reforms in key sectors (energy, mining, agro-processing, transport, financial services, etc.); ensuring food security through increased domestic production and productivity in agriculture; creation of state reserves in sufficient quantities; effective management of the country's assets; maintaining a liberal trade regime; development of a new and traditional bilateral and multilateral mutually beneficial economic ties; access to new markets for domestic / local products; and an increase in exports and gradual reduction of the trade deficit.

Macroeconomic stability will be achieved by ensuring social and political stability in the country, efficient use of internal resources and developing capacity.

Macroeconomic stability will be assessed by the following key quantitative parameters:

- ensure economic growth of not less than 7.0 percent;
- curb inflation within the planned range – it should not exceed single digits;
- keep the budget deficit within 5.0 percent of GDP;
- hold the public debt to GDP ratio at a level not to exceed the threshold of economic security;
- ensure full and timely implementation of all public guarantees.

To achieve these objectives, the Action Plan for 2013 on the implementation of the Program of the Government of the Kyrgyz Republic (Decree of the Government of the Kyrgyz Republic of March 5, 2013 № 111) was prepared and adopted. It captures the priorities of stabilizing the situation in the economy, and solutions, as well as projects aimed at developing the country's economy in 2013 and in the medium term. The Plan addresses the most pressing current issues, creating a sustainable platform for economic reform and stabilization of individual sectors of the economy, which will help restore investor confidence in the country.

Fighting Corruption

The Decree of the President of the Kyrgyz Republic No 26 dated 2 February 2012 approved the National Strategy for Anti-corruption Policy of the Kyrgyz Republic, which includes analysis of the current situation and identifies the main principles, components and mechanism of its implementation.

In this connection, in order to take drastic measures on combating corruption, to minimize its impact on the economy and strengthen improvements in the country's investment attractiveness and image of the government institutions, the Anti-corruption Service of the State Committee on National Security (ACS) was created in December 2011; this Service was tasked with identification, prevention and suppression of corruption crimes in all areas of public administration.

Initially, the attention was focused primarily on the implementation of a set of measures aimed at hampering growth in further corruption via criminal prosecution and ensuring public access to information. As a result, the ACS has managed to involve the public at large and civil society in the state anti-corruption program. Each criminal case is now a subject of wide public discussion, which has formed a zero-tolerance attitude towards corruption in the population and has built up public confidence in the authorities. There is an environment of civic control over the detected corruption crimes.

The Government of the Kyrgyz Republic has been undertaking a systemic approach in the implementation of corruption control. In particular, the main efforts are focused on identification and elimination of conditions that facilitate corruption, excessive contacts between citizens and officials, and ineffective practices in public administration.

The Government of the Kyrgyz Republic has shown its determination and commitment to fight corruption by adopting Resolution No 596 on 30 August 2012, which stipulates the Government Anti-corruption Program and Action Plan for 2012-2014.

The Program is based on three broad priorities:

- Elimination of corruption schemes;
- Reform and modernization of public administration in order to increase transparency and accountability in public procurement;
- Interaction of public bodies with the civil society.

The Action Plan includes activities with due regard for their prioritization, as well as specific timelines, responsible public bodies and preliminary estimates for their implementation. The Resolution also stipulates monitoring and evaluation arrangements, according to which an implementation progress of the Program and Action Plan will be regularly discussed and progress monitored every six months at sessions of the Government of the Kyrgyz Republic.

In order to ensure efficient control over the implementation of the country's anti-corruption strategy, on the basis of international experience reviewed by the Government of the Kyrgyz Republic, an activity in progress is the discussion of arrangements to establish a permanent inter-departmental anti-corruption working group. This measure will organize timely interaction between public bodies both on the implementation of the Anti-corruption Program and Action Plan and other issues related to this topic.

Among the multiple initiatives of the Government of the Kyrgyz Republic within the anti-corruption policy, one can note the following:

- Reduced number of inspecting bodies from 21 to 12;
- Introduced single register of state services;
- Abolished mandatory technical inspection of motor vehicles;
- Abolished power of attorney for driving motor vehicles;
- Eliminated monopoly on production of national passports with the respective functions transferred to the state; etc.

Taking into account the need to stimulate and activate the civil initiative, a draft law 'On Incentives for Citizens Informing on the Facts of Corruption' was developed to stipulate a monetary remuneration in the amount of 20 percent of the amount of loss compensated to the state.

In order to streamline and strengthen the legislative framework on corruption crimes, including the one which relates to the judicial system, the ACS has developed a package of legislative acts that entered into force in August 2012:

- The Law of the Kyrgyz Republic 'On Corruption Control' No 153 dated 8 August 2012;
- The Law of the Kyrgyz Republic 'On Amendments and Addenda to a Number of Legislative Acts of the Kyrgyz Republic' No 164 dated 10 August 2012 (The Administrative Code of the Kyrgyz Republic, the Criminal Code, the Code of

Criminal Procedure, laws of the Kyrgyz Republic ‘On Prosecution Bodies’, ‘On Operational-Investigative Activities’, ‘On Public Procurement’, ‘On Declaration and Publication of Data on Income, Liabilities and Assets of Persons at Political and Other Special Public Posts and their Close Relatives’, ‘On the Civil Service’, ‘On the Local State Administration’, ‘On the Local Self-Governance’, ‘On the Municipal Service’);

- The Constitutional law of the Kyrgyz Republic ‘On Amendments and Addenda to the Constitutional Law of the Kyrgyz Republic ‘On the Status of Judges of the Kyrgyz Republic’ No 167 dated 10 August.

Moreover, based on the findings of anti-corruption expertise of the current legislation, which entailed analysis of corruption risks and instigated criminal cases within the process of introducing anti-corruption models in the mining sector management and customs service, the ACS submitted the following legislative initiatives:

- Draft Resolution of the KR Government ‘On the Draft Resolution of the KR Jogorku Kenesh ‘On Established Rates of Customs Duties on Goods Exported from the Kyrgyz Republic’ that will help to streamline export of non-ferrous metals and eliminate corruption risks at the stage of legalization of external economic transactions;
- In order to preclude conditions for unjustified provision and use of financial benefits by the entities of the free economic zone ‘Bishkek’, a set of activities is being implemented to develop a legislative act, which is expected to be approved before the end of this year.

Along with the above, taking into account the fact that corruption constitutes a significant threat to the economic security of the State; the Government of the Kyrgyz Republic also focuses its attention on important elements of economic security such as food, energy, financial and environmental security.

The work of various public bodies on these issues, timely identification, analysis and accurate assessment of potential risks and possible consequences as well as informed decision-making, will prevent considerable losses in various branches of the economy in the future.

Also, to fight corruption in public finance management, the State Enterprise ‘Info-systema’ under the Ministry of Finance has developed and introduced a government information portal okmot.kg, where the following information systems and tools have been launched:

1. An electronic procurement system (zakupki.okmot.kg);
2. An economic map (map.okmot.kg);
3. ”Open Budget” portal (budget.okmot.kg).

Judicial Reform

The Government is committed to improving the rule of law in the Kyrgyz Republic via improved judicial protection of interests of individuals and legal entities. Following the

constitutional changes, the Government has focused on strengthening the judiciary system as one of the main building blocks of the legal system. Good progress was achieved in the process of selection and appointment of judges. To date, Supreme Court judges are elected on a competitive basis and in a transparent manner; the competition involves all candidates that comply with the requirements of the law on professional and other characteristics of candidates. The process of selection of the Constitutional Chamber members at the Supreme Court continues and the competition of judges for local courts has started. In order to guarantee of impartial trials and access to well-functioning courts, the Judicial Reform Council under the KR President, which comprises of members of Jogorku Kenesh (Parliament), members of the Government, specialists from various branches of law and scholars of law, approved the Strategic Action Plan on Judicial Reform, which identifies necessary measures to address issues of justice.

This plan was prepared in order to implement the provisions of the Presidential Decree 'On the Measures to Improve Justice in the Kyrgyz Republic' No 147 dated 8 August 2012. The Decree identifies priorities for the judicial reform on the basis of recommendations developed in the multilateral dialogue. The decision that the Judicial Reform Council approves the Action Plan was signed by the President who is the Chairman of this Council. The judicial reform Action Plan, which was approved by the Council, identifies actionable steps towards the implementation of judicial reform priorities. The Plan includes specific measures, timeframes and budget allocations for their implementation. The Judicial Reform Council is committed to the implementation of priority reforms included in the Judicial Reform Strategic Action Plan and will ensure well-coordinated functioning and interaction of public bodies and judicial self-government bodies, in the implementation of the main components of judicial system improvements in the Kyrgyz Republic as well as related institutes.

Public Procurement Reform

At present, a draft law 'On Public Procurement' is being finalized. It will prevent close relatives of civil servants from participating in tenders, and improve transparency, economy and efficiency in line with international best practices.

Further, the Public Procurement Strategy has been finalized, which aims at rational use and saving of public funds, ensuring transparency and openness of public procurement procedures, encouraging and developing competition among suppliers (contractors), thus enhancing competitiveness of local suppliers. The Public Procurement Report for FY 11 on the use of funds was published on the website of the Ministry of Finance of the Kyrgyz Republic with the objective of increasing transparency.

The objective of this Strategy is to identify promising areas for further development of the public procurement system and in the medium-term perspective to conduct a range of interrelated organizational, legal and institutional activities, aimed at further development of the public procurement system in the Kyrgyz Republic, including e-procurement in the light of a significant increase in the volumes of public procurement and its growing impact on the country's economy.

The Government is committed to approve the revised law 'On Public Procurement' by 30 June 2013, including appropriate secondary legislation (rules and regulations); establish an

Independent Public Procurement Regulatory body and an Independent Complaint Review Board; improve and continue to publish Public Procurement Reports in the coming years that will include information on the use of funds and compliance with the Procurement Law by the procuring entities that could be seen through sample compliance tests.

Public Finance Management and Fiscal Policy

Political events affected the 2010 budget, which was preconditioned by a significant increase in additional budget expenditures, mainly for rehabilitation activities after April and June events in the south of the country and social payments to victims. Nonetheless, as a result of constructive cooperation between the Government and the donor community on the issues of budget support, the government deficit in 2010 was 4.8 percent of GDP, which was less than expected.

In 2011, budget expenditures increased significantly as a result of an increase in salaries for workers of the social sector and law-enforcement agencies, rehabilitation activities in the southern part of the country and increased financing for development projects. To reduce the budget deficit, the Government has developed a number of measures to attract additional sources of budget revenues alongside with collection of tax revenues, which had a positive impact in terms of restraining the budget deficit. As compared to initially projected budget deficit of 7.5 percent of GDP in 2011, the actual deficit was 4.8 percent. A significant budget deficit necessitates its optimization by improving traditional mechanisms, as well as searching for alternative revenue sources.

In general, the country's budget remains to be socially-oriented. Growth in the socially vulnerable group of the population and increased poverty in 2010 led to an increase of social budget expenditures in 2011, up to 43-45 percent of total expenditures from the republican budget.

The main goal of public expenditure policy for the next three years will be to provide full and timely financing of all social guarantees of the state and create favorable conditions for economic growth in the interest of poor segments of the population.

The Government recognizes the importance of initiating budget consolidation. The consolidation strategy includes measures aimed at increasing revenues and constraining expenditure growth.

Budget revenues will be increased in the mid-term through: (i) improving customs administration by transferring the majority of imported goods for customs clearance purposes from weight evaluation to price evaluation; (ii) abolishment of certain privileges for VAT; (iii) revision of the excise policy; (iv) reform of non-tax payments aimed at streamlining public paid services and effective management of state-owned property and natural resources.

The Government set up the following tasks to reduce the fiscal deficit and streamline expenditures: (i) improve budget planning; (ii) tighten the process of monitoring public expenditure efficiency; and (iii) enhance budget legislation.

The major priority will be a reform of the public finance management system, enhancement of budget discipline and transparency in the use of budget resources.

Public finance management reform measures include: (i) development of a system to assess economic efficiency; (ii) phased transition to program budgeting; (iii) comprehensive training of staff of pilot ministries on sectoral analysis and program budget development; (v) introduction of electronic tendering in public procurement; (vi) establishment of a single centralized system to manage financial resources allocated for capital construction (CCM).

The reforms in the public finance management system (PFM) in the Kyrgyz Republic have been implemented within the Mid-term Action Plan on Public Finance Management Reform of the Kyrgyz Republic approved by the Decree of the President of the Kyrgyz Republic No 396 dated 22 October 2009.

This Action Plan is aimed at ensuring necessary improvements in the budget process and addressing specific problems, and represents the continuation of the public finance management system modernization based on the initial plan approved by the KR President's Decree No 337 dated 26 June 2006.

The implementation of the above-mentioned Action Plan targets resolving problems in the public finance management system and fixing deficiencies in the budgeting process as a whole. The plan serves as a platform for further significant modernization in the PFM system.

However, in the light of recent changes and further improvements of the public finance management system, there is a need to revise and update the Mid-Term Action Plan on Public Finance Management Reform in the Kyrgyz Republic.

On the basis of achieved progress, evaluation of further perspectives, and due to the introduction of a reliable system of monitoring and evaluation for the implemented reforms, 'the Mid-term Action Plan on Public Finance Management Reform in the Kyrgyz Republic' was revised and updated in the Kyrgyz Republic (the KR Government Resolution No 675 dated 3 October 2012 approved the Mid-term Action Plan on Public Finance Management Reform for 2012-2015).

The reform process is aimed at achieving three comprehensive outcomes: (i) a reliable budget with predictable resources; (ii) improvements in controls and establishment of a management reporting system; (iii) improved linkages between policy priorities and annual as well as mid-term planning.

In light of recent changes, the draft Budget Code of the Kyrgyz Republic was prepared to ensure an effective and transparent public finance management system, establish adequate legal norms for budget formulation, which are consistent with the national interests, and introduce best international budget system practices. The draft Budget Code was submitted to Parliament on 15 October 2012 and is expected to be adopted in 2013. In order to protect the interests of the state and citizens of the Kyrgyz Republic, as well as to increase transparency of sovereign guarantees, a resolution regulating the issuance of sovereign guarantees, which makes them subject to the same principles defined for public borrowing in the Budget Code, will be approved by May 2013. Accordingly, each sovereign guarantee will be issued and approved by the government with a prior approval by the Parliament.

As reflected in the Budget Code, the internal audit will be strengthened by establishing (a) an independent Council, which will monitor the independence of internal audit, prepare proposals on strategy and internal audit methodology; (b) a system of public internal control and financial management and control; and (c) establish internal audit units in public bodies and agencies based on international professional standards.

A transfer to a two-tier budget has been implemented to improve the inter-budget relations, where the concept of 'local budgets' in the system of inter-budgetary relations includes budgets of local communities of an aiyl (village), a settlement, a town, the formulation, approval and execution of which are performed by local self-governments. The deduction rates from general government taxes have been revised (income tax, patent-based taxes), as the receipts may be affected by local self-governments when they create jobs and conditions for small business development. This will enable the strengthening of local budgets at the expense of their own funds; stimulate an interest in local self-governments, in increasing their revenue potential and improving expenditure efficiency. Implementation of financial decentralization reform assumes formulation and execution of local budgets directly by local self-governments.

To stimulate enhancement of the economic capacity in local communities and increase the role and responsibility of local self-governments in the intergovernmental fiscal relations the work will be continued in the following areas: (i) improvement of legal acts which regulate the system of inter-budgetary relations; and (ii) improvement of the system of inter-budget transfers based on mid-term planning of local budgets.

Continued efforts are being undertaken to ensure public finance transparency, cooperation with a number of non-governmental organizations on issues of budget transparency and access for citizens to budget information. In this area, the focus will be on the formulation of annual civil budgets.

It is expected that in the medium-term the current expenditures will be covered only by current revenues.

Reform of Social Protection

The Social Protection Development Strategy for the 2012-2014 and the Medium-term Development Plan identify the following key issues in the area of Social Protection: (i) weak targeting of social assistance (all programs combined), resulting in inadequate support to the truly needy population, and (ii) the high level of institutionalization in the social protection system. A set of priority measures to tackle these issues has been identified as follows:

- (i) Improve coverage and adequacy of poverty-targeted social assistance. This will be achieved by budgeting necessary funds to finance monthly benefits for poor families, including children's benefits, increasing the Guaranteed Minimum Income (GMI) in 2013 and 2014 by at least 10 percent a year in addition to the amount of GMI established on 1 November 2012.
- (ii) Gradually reduce the share of social assistance expenditures spent on categorical programs. This will be achieved via nonproliferation of the number of beneficiary

categories and maintain amounts of monetary compensations instead of benefits at the 2010 level.

- (iii) Prioritize and focus limited resources on the most critical areas in social protection. A gradual reform of a child protection system with the focus on de-institutionalization is an immediate priority.

Reform the system of social services financing to shift from the current budget planning focused on residential institutions to a result-based financing. Measures will include costing of services, which is an important element in this reform.

Energy Sector

The power sector of the Kyrgyz Republic has significant growth prospects. The country has abundant and relatively inexpensive hydropower potential that could result in profitable exports of power. However, this potential remains largely unrealized. The sector faces serious challenges, including lack of financial viability, undermined power supply reliability, weak governance and lack of transparency.

The power sector overall and its entities are not financially viable. The major cause for this is the low levels of tariff, which is significantly below the level of cost recovery. The operational performance of the sector is also poor. Particularly, commercial and technical losses continue to be high (at around 21 percent), despite their reduction in recent years.

Due to aged power sector infrastructure and years of under-maintenance, the sector has sizable investment needs to prevent fatal failures and extended outages. The number of accidents and failures of power equipment significantly exceeds the established norms, especially during winter peak demand. The increasing prices for hydrocarbons and low tariffs for electricity lead to larger reliance of residential customers on electric heating, which further increases demand during winter peak and undermines power supply reliability.

The power sector suffers from weak governance and lack of transparency. Financial flows and electricity consumption are not recorded or reported in a comprehensive manner, undermining the credibility of reforms. Additionally, managers in the sector entities are not selected through a well-defined competitive process, and their contracts are not performance-based.

To address the challenges of transparency and governance in the sector and its regulatory environment, the Government adopted the Medium-term Power Sector Development Strategy on 28 May 2012. In accordance with this Strategy, Government policy will be focused on three main areas: (i) improvement of governance, regulation and transparency of the power sector; (ii) improvement of power sector financial viability; (iii) increase in volumes of power generation and export, improvement in reliability of power supply, and implementation of investment projects.

The Government has already undertaken a number of steps towards these areas. The Government made some urgent investments. These include construction of 500kV Datka substation and 220kV lines to extend the power supply to the southern regions at a cost of 208

million US dollars; introduction of modern metering and automatic data acquisition system and reconstruction of system-level substation for 44.8 million US dollars; 500kV Datka-Kemin line and 500kV Kemin substation with associated works at a cost of about 390 million US dollars to sustain the power supply to the northern part of the country without dependency upon neighboring countries' power grids, which was a cause of several black-outs in the winter of 2011; rehabilitation of Toktogul HPP for 55 million US dollars and the reconstruction of substations in Bishkek and Osh cities for 23.08 million US dollars.

Another implemented measure is the introduction of the Fuel and Energy Sector Transparency Initiative (FESTI) aiming to improve transparency and governance within the sector and ensure greater public participation and transparency. Under FESTI, a Supervisory Council with the involvement of the civil society has been established and is currently operational.

The Government has also adopted a time-bound Action Plan to enhance the transparency and accountability of power sector entities and strengthen their governance. The Action Plan envisages: annual financial audits of power sector entities in accordance with international financial reporting standards and publication of the audit reports; establishment and maintenance of interactive websites for the Ministry of Energy and Industry, the Regulatory Department for fuel and energy sector under the Ministry of Energy and Industry and the sector entities in order to publish key power sector statistics to ensure that procurement of fuel resources is conducted through transparent and competitive bidding; maintenance of escrow accounts for power export revenues; and ensuring that selection of the top management of public power sector entities is done through transparent and competitive procedures. Decisions have been adopted to revoke licenses from intermediary distribution companies.

Going forward, the Government is committed to implement the Power Sector Development Strategy, focusing on its three main pillars, and the related Action Plans. Under the first pillar – improving governance, regulation and transparency of the power sector – the Government commits to:

- Make efforts in the clear delineation of functions on policy setting and clear identification of independent regulatory bodies, governance structure and accountability in the energy sector. The law 'On Electricity Sector' is under preparation. The new Law will clearly delineate the roles and responsibilities of various ministries and agencies, including the Ministry of Energy and Industry, the State department on regulation of the energy complex, the State Property Fund, etc. It will allow for the setting up of an independent settlement center that will provide independent accounting of the power flows at the wholesale market.
- Implement the recently adopted transparency Action Plan which targets improving the corporate governance in the energy companies, including (a) selection and appointment of senior managers in the state-owned energy companies through a transparent and competitive process, (b) implementation of management contracts (pilot it with a selected company) with proper incentives tools.

Under the second pillar – improving power sector financial viability – the Government commits to:

- Ensure that the power sector is financially sustainable by reducing sector losses and ensuring adequate revenues for sector companies to adequately maintain the existing infrastructure and to service the debts.

Under the third pillar – ensuring a reliable power supply – the Government commits to:

- Implement critically important investments in the power sector as reflected in the GOK's strategy. Given the large investment needs of the sector, the GOK will seek donors' support in prioritizing and financing these investments. A specific focus will be placed on the technical maintenance of the existing assets as well as on investments in construction of high voltage transmission lines to facilitate power trade and ensure access to export markets for the Kyrgyz summer power surplus.

Mining Sector

The mining sector has been an important source of both export and fiscal revenues for the Kyrgyz Republic for the last two decades. However, over 90 percent of these revenues have consistently come from one gold mine, Kumtor, hence policy and institutional reforms are needed to improve the investment climate for mining sector and to increase exploration and mine development. A specific challenge is the distribution of rights for the available mineral resources to make it a transparent and an acceptable process to the communities in the areas of potential mining sites as well as to the general population of the country. Accordingly, a new law ‘On Subsoil Use’ is planned to be adopted and implemented.³⁰ This new law provides a better internationally competitive framework for mining companies that are considering investing in the Kyrgyz Republic. It also contains the methodology by which different land areas — including areas where the existence of mineral resources are not known — are allocated to mining investors.

It will still be necessary to accommodate the demands and requests of local communities and local governments in the areas of known deposits as well as new areas under exploration. New regulations ought to be developed in 2013 that include the concept of consultation processes that must be undertaken by mining companies and the Government of the Kyrgyz Republic with potentially impacted mining communities and lower level governments before mining activities can begin. With the new law ‘On Subsoil Use’ and regulations in place, it will be possible to start a process of tendering or auctioning of known mineral resources.

Financial Sector

After difficulties in the financial sector that took place in 2010, the Kyrgyz Republic banking system regained stability in 2011, and the renewed growth has continued into 2012. While three commercial banks³¹ remain under conservatorship and continue to face pending

³⁰ Subsequent to receipt of the signed LDP, the Government has informed us (Letter No. 16-2-2/5549 dated June 4, 2013) that the law “On Subsoil Use” was adopted in 2012, and requested that this information be reflected.

³¹ This figure does not include OJSC "Ak-Bank", which is also in conservation, but its license to conduct banking operations was revoked in accordance with the NBKR Board Resolution № 33/1 of 31.10.2005

litigation, conservatorship was discontinued in the 4th bank following the settlement with an owner who injected additional capital and appointed new management team in the bank.

The challenges faced by the banking system during 2010-2011 highlighted several immediate priority actions in order to strengthen and enhance the financial sector's stability, especially to: (a) reinforce supervisory function of the National Bank by enhancing NBKR's capacity to supervise and regulate the banking sector, improve the effectiveness of timely responses to the deteriorating situation and settlement of situations with problem banks, improve the regulatory and supervisory framework in line with Basel international standards; (b) strengthen the Deposit Protection System (DPS) legal framework which improves Deposit Protection Law by submitting amendments to the law in line with the best international practices; (c) complete the privatization of Zalkar Bank in line with international best practices, or take appropriate measures in accordance with legislation; (d) resolve problems of banks currently under external management; and (e) undertake measures on strengthening corporate governance requirements and risk-based management in the banking sector.

Policy priorities also include measures that enhance access to finance given the limited financial intermediation in the Kyrgyz Republic. Stronger consumer protection and improved financial literacy will also improve the quality of financial services.

Private Sector Development

The private sector in the Kyrgyz Republic is facing important constraints in the business environment. Despite recent legal and regulatory reforms regarding business registration, some weaknesses in the regulatory and institutional frameworks still remain. In addition, there are gaps between laws and implementation in many areas. These gaps could be due to (a) a lack of transparency; (b) a lack of dissemination of reforms; and (c) a lack of private sector's knowledge on how to use the system, etc.

In order to overcome these key obstacles in private sector development, the government has simplified laws, regulations and procedures which led to an improvement in the ranking of the Kyrgyz Republic in international indicators. For example, in the area of starting a business, the Kyrgyz Republic is currently ranked 17 by the 2012 Doing Business report.

Nonetheless, the Government is still working on enhancing implementation, strengthening the institutional framework and promoting proper dissemination of all regulatory reforms. In order to introduce further clarity to businesses in the area of starting a business, the Government has reduced discretion on the part of government officials that provide services to entrepreneurs and has improved transparency and is currently working on the preparation, issuance and adoption of an Order of the Minister of Justice that mandates the registry offices in the process of a registration to use a receipt and checklist to clarify on what basis a registration application can be rejected. Simultaneously, this receipt and checklist serve as a set of uniform registry instructions for the applicant on how to proceed in the event if there are any missing documents.

The implementation of a Risk-Based Inspections Module (Proverka.kg) under the Ministry of Economy is underway. This is an important area of a reform which addresses one of the most significant burdens that businesses face – frequent and arbitrary inspections. A

resolution was adopted in February 2012 which mandated all inspectorates to develop risk-based criteria which will upgrade a system of inspections. The Proverka.kg website which is designed to facilitate risk-based inspections was launched on 25 August 2012. It is being piloted in two inspectorates and in the Ministry of Economy. Trainings will be provided to controlling agencies, and the system will be further refined and expanded following the pilot testing.

Moving forward, the Government will focus on other areas with remaining weaknesses in the existing legal and regulatory framework, or where there are gaps between laws and their implementation. Some of the reforms relate to areas of insolvency and creditor rights, strengthening the protection of the rights of investors and the responsibilities of company directors, and improving enforcement mechanisms through strengthening alternative dispute resolution mechanisms (arbitration and mediation).

Public Assets Management

Today, public attention is focused on the issues of privatization. One of the priorities in the Ministry of Economy's policy is to *ensure transparency and openness of the privatization of public assets*.

The Government Resolution No 601-p dated 25 December 2012 stipulates that information on the process and results of the public assets privatization bidding are to be placed in government publications and also broadcasted by OTRK, EITR, 'Channel 5' and 'Pyramyd'.

In addition, the Ministry of Economy prepared and initiated the approval procedure for the KR Government Resolution 'On Approved Regulation on the Procedure of Electronic Auctions in the Kyrgyz Republic'. The draft resolution stipulates automation of the auction procedure on the sale of state facilities via the introduction of information and communication technology and by launching an electronic trade platform. Implementation of e-auctions will minimize any interference in bidding processes and ensuring fairness and impartiality in the buyer's selection process.

Moreover, 30 November 2012 saw the establishment of the Inter-departmental Committee (No 804 dated 30 November 2012) *on the streamlining of state-owned enterprises' activities*. The Committee includes representatives of the civil society and is supposed to give independent and impartial opinions about the deficiencies and bottlenecks of the SOEs' work, as well as develop specific proposals on improving their economic effectiveness.

An objective has also been set up to enhance the management of SOEs' expenditures. In particular, this year will see the work on restructuring of non-profile assets of state-owned companies.

The Ministry of Economy has been working jointly with the State Property Fund, to elaborate on the development of *a single database of public assets*.

At present, the Ministry of Economy has started work that targets development of regulatory and methodological documents on the recording and inventory-taking of public assets.

Within the work on the institutional framework for public assets recording and inventory-taking, there is a need to develop a classifier of the main assets, methodology of inventory-taking and recording of certain types of public assets (real estate, road and transportation facilities, fuel and energy assets, energy and natural resources, water works and infrastructure, agricultural facilities, etc.).

At the same time, the State Property Fund has reached an agreement with the World Bank that had expressed its readiness to provide a grant for automation of the public assets inventory-taking process within the Improved Public Assets Management project (the project will finance procurement of a relevant equipment to the amount of USD 60,000).

PROJECTED COUNTRY DEVELOPMENT TARGETS

In the medium term (2014-2016) sustainable economic growth will be achieved through:

- Improving the competitiveness of the national economy by conducting fundamental reforms to improve the business environment;
- Implementation of a new fiscal policy, and optimization of public expenditure;
- Building a transparent and effective system of executive power, free from the influence of corruption.

The medium-term macroeconomic objectives will be achieved through the implementation of investment projects, efficient management of public assets of the country, and reform of state regulation to encourage all sectors of the economy.

Economic growth will be supported by all sectors of the real economy, forming the country's GDP. The maximum contribution is expected to be from the service industry facilities and entities.

The Government of the Kyrgyz Republic will develop a system of measures aimed at mitigating possible shocks on the economy as a result of deterioration in the global economic situation.

The most important internal preconditions for successful implementation of macroeconomic policy are:

- Social and political stability in the country;
- Implementation of coordinated monetary and fiscal policies;
- Strengthening the banking system and deepening financial markets;
- Achieving real GDP growth as a result of growth in services (6.6 percent), agriculture (2.5 percent), industry (7.7 percent) and construction (17.1 percent);
- Further promoting structural reforms in priority areas of economic development;
- Improving business environment by reducing state interference into the economy;
- Establishing a favorable investment climate for inflows of domestic private and foreign investment into the country's economy;

- Attracting and promoting foreign direct investments in large national projects (mining, metallurgy, electric power, transport and communications);
- Putting in operation new gold deposit mines;
- Improving livestock productivity and yield of agricultural crops;
- Growth in business activities of economic entities under an improved investment climate;
- Promoting tourism products of Kyrgyzstan in global markets for further development of tourism;
- Reducing the external debt burden;
- Fighting corruption and enhancing quality of public administration;
- Legalizing an informal economy;
- Expanding external economic cooperation.

External risks, which may affect GDP growth in 2014-2016, include:

- Worsening global economic situation (dependence on world prices for gold, energy and other primary materials);
- Dependence on the growth of the economies of neighboring countries (Russia, Kazakhstan, China);
- The openness of the economy, which is highly exposed to external shocks;
- Dependence of the domestic market on imports of food products (flour, oil, sugar, cereals, etc.), fuel;
- Growth of world food prices (according to the United Nations Food and Agriculture Organization, the prices of food staples in the medium and long term will remain relatively high for the next decade. According to the 2011 Agricultural forecast of OECD and FAO, world prices of rice, wheat, corn and oilseeds in the five years period of 2015/16-2019/20 in real terms will be higher 40 percent, 27 percent, 48 percent and 36 percent compared to the previous five-year period);
- Introduction of the conditions of the Customs Union (higher prices for imported goods from other countries, reducing re-exports from China and others);
- Reduction of jobs in Russia and Kazakhstan due to a tightening of immigration laws.

In the mid-term, it is assumed that the implementation of coordinated monetary and fiscal policies aimed at enhancing macroeconomic stability trends and a moderate tariff policy will hold overall inflation at the level of single digits in the absence of shocks. Meanwhile, there are certain risks related to the increased impact of external and internal factors, which may make it difficult to achieve target indicators, as well as the risk of a price spiral for food commodities as a result of an increase in demand for these goods under a relatively slow growth of agricultural goods production.

We are convinced that the priorities of our economic program for 2012 and development of the Mid-term Country Development Strategy are the most important objectives in order to

ensure a sustainable and successful future of this country. We hope that the World Bank will find it possible to provide assistance to the Kyrgyz Republic in the amount of US\$30 million³² to implement the first phase of the WB Program 'Development Policy Operations'.

Sincerely,

Prime Minister

of the Kyrgyz Republic

J. Satybaldiev

³² Subsequent to receipt of the LDP, a decision was taken by the Bank to reduce the amount to \$25 million.



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Его Превосходительству
г-ну Джим Йонг Киму,
Президенту Группы Всемирного Банка

Ваше Превосходительство,

Правительство Кыргызской Республики хотелось бы засвидетельствовать свое высокое уважение и признательность Всемирному Банку за оказываемую на постоянной основе помощь на социально - экономическое развитие Кыргызской Республики.

РЕТРОСПЕКТИВА ЭКОНОМИЧЕСКОГО ПОЛОЖЕНИЯ СТРАНЫ

За 2011 год Правительство Кыргызской Республики проделало определенную работу по преодолению кризисных явлений в экономике и выводу экономики на положительные темпы роста. По данным Национального Статистического Комитета Кыргызской Республики за 2011 год реальный прирост ВВП сложился на уровне 6,0%, что выше уровня 2010 года на 6,5 процентных пункта, а номинальный объем ВВП сложился на уровне 286,0 млрд. сомов.

Реальный прирост экономики без учета предприятий по разработке месторождения «Кумтор» составил 6,3 % в результате роста производства в промышленности (без Кумтора) (на 18,8%), в сельском хозяйстве (на 2,0 %), и в секторе услуг (6,9 %).

Индекс потребительских цен в 2011 году по сравнению с декабрем 2010 года составил 5,7 % (за 2010 год к декабрю 2009 года – 19,2 %). Индекс потребительских цен к соответствующему периоду прошлого года составил 16,6 % (в 2010 году к 2009 году – 8,0 %).

Основным результатом 2012 года стало преодоление угрозы глубокого спада экономического роста в условиях неопределенности на мировых рынках, неустойчивости мировой экономики, которая характеризовалась замедлением экономического роста и долговым кризисом в ряде стран, что создавало риски для всех участников рынка, в том числе и для основных торговых партнеров – России, Казахстана и Китая, а также

негативного влияния внутренних факторов на экономику страны, таких как суровые природно-климатические факторы, повлиявшие на аграрный сектор и геологические факторы, приведшие к значительному спаду объемов производства на предприятиях по разработке месторождения «Кумтор».

Меры по противодействию кризисным проявлениям и влиянию неблагоприятных факторов были сфокусированы на реализации важнейших приоритетов социально-экономического развития страны на 2012 год, определенных Программой деятельности Правительства Кыргызской Республики и Планом мероприятий по реализации Программы Правительства Кыргызской Республики на 2012 год.

Оперативно принятые Правительством Кыргызской Республики компенсационные меры по поддержке экономики позволили не допустить дальнейшего снижения экономики (в начале года был отмечен темп роста 88,0 % к 2011 году) и удержать его на уровне 99,1 % в конце года.

По итогам 2012 года объем валового внутреннего продукта (ВВП), по предварительной оценке НСК, сложился в сумме 304,4 млрд. сомов и реальное сокращение производства в экономике составило 0,9 %, против реального прироста 6,0 % в 2011 году. Без учета предприятий по разработке месторождения «Кумтор», реальный прирост ВВП составил 5,0 %, за 2011 год аналогичный показатель составлял 6,3 %. Дефлятор ВВП сложился на уровне 107,4 %.

За 2012 год произведено валовой продукции сельского хозяйства всеми категориями хозяйств республики в действующих ценах на 167,5 млрд. сомов. Темп роста к соответствующему периоду 2011 года составил 101,2 %, в том числе по отрасли животноводства – 101,8 % (80,1 млрд. сомов), а растениеводства 100,6 % (84,5 млрд. сомов). Положительный вклад в формирование ВВП со стороны сельского хозяйства оценивается на уровне 0,2 процентных пункта, удельный вес которого в структуре производства ВВП составил 17,5 %, увеличившись на 0,9 процентного пункта по сравнению с соответствующим периодом 2011 года.

За 2012 год промышленными предприятиями произведено продукции на сумму 133,8 млрд. сомов, или объем производства по сравнению с 2011 годом снизился и составил 79,8 %. Без учета предприятий по разработке месторождения «Кумтор» – 83,2 млрд. сомов, или реальный рост составил 106,1 %. Отрицательный вклад в формирование ВВП со стороны промышленного производства является значительным и оценивается на уровне (-)4,6 процентного пункта. Удельный вес промышленности в структуре производства ВВП составил 16,8 %, снизившись на 5,7 процентного пункта по сравнению с 2011 годом.

В строительном комплексе отмечается увеличение объемов капитальных вложений. За 2012 год объем инвестиций в основной капитал за счет всех источников финансирования составил 62,6 млрд. сомов и увеличился на 21,5 %. Общий объем валовой продукции строительства по предварительным данным за 2012 год составил 54,6 млрд. сомов, где увеличился на 17,3 %. Влияние строительного сектора на темпы экономического роста было положительным, и вклад в формирование ВВП составил 0,9 процентных пункта, удельный вес которого в структуре производства ВВП – 5,7 %.

Валовой выпуск сферы услуг за 2012 год сложился в объеме 258,4 млрд. сомов, с темпом реального роста 106,1 %. Рост сферы услуг обеспечен со стороны торговли, где прирост составил 10,1 %, а также услуг гостиниц и ресторанов - на 11,9 %, в сфере предоставления услуг транспорта и связи - на 8,8 %. Положительный вклад в формирование ВВП со стороны сферы услуг оценивается на уровне 2,79 процентного пункта, удельный вес которой в структуре производства ВВП составил 46,6 %, увеличившись на 1,6 процентного пункта по сравнению с 2011 годом.

Несмотря на наличие отрицательной тенденции экономического роста, достигнуты определенные результаты в 2012 году.

Эффективные действия Правительства и Национального Банка Кыргызской Республики, в соответствии принятому Совместному заявлению об экономической политике на 2012 год (постановление ПКР и НБКР от 26 января 2012 года №61/68/2), позволили удержать уровень инфляции на запланированном коридоре 7-9 %. Индекс потребительских цен составил 7,5 % (декабрь 2012 года к декабрю 2011 года). Среднегодовое значение инфляции (январь-декабрь 2012 года к январю-декабрю 2011 года) составило 2,8 %, тогда как за январь-декабрь 2011 года составляло 16,6 %.

Общие доходы бюджета возросли на 12,1 %, доля к ВВП составила 28,5 %. Основные направления государственной социальной политики Кыргызской Республики были сконцентрированы на выполнении государством конституционных положений о социальных гарантиях гражданам страны, в соответствии с установленными параметрами на 2012 год обеспечено полное и своевременное финансирование социальных гарантий государства. Двухэтапное повышение размера пенсии позволило увеличить его по сравнению с 2011 годом на 14 %. Среднемесячная номинальная заработная плата на одного работника в 2012 году (без учета малых предприятий) составила 10891 сомов и по сравнению с 2011 годом увеличилась на 16,5 %, а ее реальный размер, исчисленный с учетом индекса потребительских цен, возрос на 13,3 %.

В 2012 году подавляющая часть действий Правительства была сфокусирована на снятии барьеров и упрощение среды для бизнеса, формирование и принятие новых

«правил»/законов для беспрепятственного развития бизнеса и притока иностранного капитала в страну, способных оказать уже в 2013 году.

Осознавая важность предоставления экономической свободы бизнес-среде, сокращено свыше 113 видов лицензий и разрешений, которые позволили ограничить чрезмерное вмешательство государства в дела бизнеса. Введена норма «молчание – знак согласия», регламентирующая действия госорганов-лицензиаров. Значительные реформы были проведены и в сфере проверок: количество контролирующих органов сокращено с 21-го до 12-ти, в два раза сократилось количество проведенных проверок (с 24,4 тыс. в 2011г. до 13,5 тыс. проверок в 2012г.), в два раза сокращены сроки проведения плановых проверок (с 30-ти до 15-ти (для юр. лиц) и 5-ти (для физ. лиц)), в сфере регулирования государственных услуг количество услуг уменьшено с 20-ти тысяч до 389.

В целях упрощения процедур выдачи виз иностранным гражданам и повышения привлекательности туристического рынка, развития туризма и привлечения инвестиций, принят Закон Кыргызской Республики «О введении безвизового режима для граждан некоторых государств, сроком до 60 дней», где введен безвизовый режим для граждан 44 государств.

В отчетном периоде проводилась работа по выполнению «Государственной стратегии антикоррупционной политики Кыргызской Республики» - созданы механизмы по координации антикоррупционных мер государственных органов и институтов гражданского общества.

В целях совершенствования фискальной политики продлен еще на три года срок действующих налоговых послаблений по НДС предприятиям, занимающимся переработкой сельскохозяйственной продукции; создана общая основа по администрированию страховых взносов и налогов; упрощено ведение учета для субъектов малого и среднего предпринимательства; созданы благоприятные условия для лизинговых компаний и операций, что позволит обновить основные фонды; 59 предприятий освобождены от налога на прибыль, что оценивается как положительная мера для ведения бизнеса и др.

В целях проведения переговорного процесса по присоединению к Таможенному союзу активно проводилась работа по анализу национального законодательства на соответствие договорно-правовой базе ТС, включая сравнение обязательств КР и РФ по таможенным тарифам перед ВТО, а также подготовка пакета нормативных правовых актов и международных договоров.

ТЕКУЩЕЕ СОСТОЯНИЕ СОЦИАЛЬНО – ЭКОНОМИЧЕСКОЙ СИТУАЦИИ КЫРГЫЗСКОЙ РЕСПУБЛИКИ

По предварительным данным Нацстаткомитета КР за январь-март 2013 года реальный рост ВВП сложился на уровне 7,6%, что выше уровня соответствующего периода 2012 года на 16 процентных пунктов, а номинальный объем ВВП сложился на уровне 59,0 млрд. сомов.

Реальный рост экономики без учета предприятий по разработке месторождения «Кумтор» составил 4,9% (рост на 3,7% в январе- марте 2012 года) в результате роста производства в промышленности (без Кумтор) (на 5,7%), в сельском хозяйстве (на 1,5%), услуг (на 4,7%), строительства (на 14,5%).

Индекс потребительских цен за январь – март 2013 года к декабрю прошлого года составил 1,1% (за январь – март 2012 года к декабрю 2011 года 0,9%).

Индекс потребительских цен к соответствующему периоду прошлого года составил 7,8% (в январе – марте 2012 года к январю – марту 2011 года 2,1%).

Учетный курс доллара увеличился на 2,42% по отношению к концу марта 2012 года и на конец марта 2013 года составил 47,9610 сом/доллар США.

По итогам января – марта 2013 года производство промышленной продукции в реальном выражении увеличилось на 18,6% (спад на 28,0% в январе – марте 2012 года). В промышленности без учета Кумтора рост произошел на 5,7% (рост на 16,1% в январе – марте 2012 года) за счет роста в обрабатывающей промышленности - на 28,4%. В горнодобывающей промышленности и энергетическом секторе наблюдался спад на 2,3% и 1,5%, соответственно.

В сфере услуг январе – марте 2013 года реальный рост составил 4,7% (рост на 4,2% в январе - марте 2012 года). Ростуслуг торговли, ремонта автомобилей, бытовых изделий и предметов личного пользования составил 7,1%, при этом рост розничной торговли (кроме торговли автомобилями и моторным топливом) составил 6,3%.

Услуги гостиниц и ресторанов в январе – марте 2013 года увеличились на 6,6% (рост на 5,9% в январе – марте 2012г.) в связи с увеличением потребительского спроса на данные виды услуг.

Услуги почтовой и электрической связи в январе – марте 2013 года увеличились на 11,7% по сравнению с соответствующим периодом 2012 года, тарифные доходы составили 5143,8 млн.сом.

Услуги перевозок пассажиров в январе – марте 2013 года выросли на 1,3%. Объем грузов, перевезенных всеми видами транспорта, увеличился на 5,4% (рост на 1,8% в январе – марте 2012г.).

За январь – март 2013 года объем продукции сельского хозяйства, охоты и лесного хозяйства составил 17641,1 млн. сомов, рост на 1,5% (рост на 0,8% в январе – марте 2012 г.).

За январь – март 2013 года уровень освоения инвестиций в основной капитал за счет всех источников финансирования увеличился на 9,7%, по сравнению с соответствующим периодом прошлого года (спад на 5,7% в январе – марте 2012 года). За отчетный период фактически освоено 6900,5 млн. сомов инвестиций в основной капитал.

Исходя из общего объема использованных капитальных инвестиций, общий объем валовой продукции строительства за январь – март 2013 года составил 6439,6 млн. сомов с ростом на 14,5% (спад на 3,5% в январе – марте 2012 года).

Численность официально зарегистрированных безработных на конец марта 2013 года составила 61,4 тыс. человек и уменьшилась по сравнению с соответствующим периодом 2012 года на 0,5% (спад на 5,4% в январе – марте 2012 года).

Снижение реального роста среднемесячной заработной платы за январь-февраль 2013 года составило 2,0%, в номинальном выражении среднемесячная заработная плата сложилась на уровне 10315 сомов.

По предварительным данным внешнеторговый оборот за январь-февраль 2013 год составил 925 млн. долл. США и увеличился по сравнению с январем-февралем 2012 года на 1,1%, в том числе, экспорт – 178,7 млн. долл. США (уменьшение на 20,2%) и импорт – 746,3 млн. долл. США (увеличение на 8,0%). Сокращение экспортных поставок обусловлено снижением поставок золота (в 2 раза), а также текстиля и текстильных изделий (в 1,5 раза).

Без учета золота объем экспорта составил 130,4 млн.долл. США (увеличение на 2,3%).

В связи с опережающим ростом объемов импорта над экспортом отрицательное сальдо торгового баланса составило 567,6 млн. долл. США, увеличившись по сравнению с аналогичным периодом 2012 года в 1,2 раза.

Основными задачами экономической политики в 2013 году являются:

- восстановление макроэкономической стабильности и обеспечение устойчивого экономического роста на запланированном уровне;
- выполнение социальных обязательств;
- продолжение интеграционных процессов в рамках Единого экономического пространства;
- дальнейшее развитие региональной политики;
- модернизация системы государственного управления.

Для этого Правительство будет выполнять свою основную регулятивную функцию, которая заключается в создании эффективной деловой среды в экономике. Это, с одной стороны, поддержание здоровой и устойчивой макроэкономической ситуации средствами фискальной и других видов экономической политики. С другой стороны, установление единых правил хозяйственной деятельности для всех участников, обеспечение конкурентной среды, выработка и контроль за соблюдением нормативов и стандартов, лицензирование, а также переориентация части отечественного бизнеса в связи с перспективами вступления в Таможенный союз и интеграцией в будущий Евразийский экономический союз.

Будет продолжена работа по таким направлениям экономической политики, как стимулирование экономического роста через равномерное распределение налогового бремени на экономику, привлечение внешних и внутренних инвестиций в инфраструктуру, улучшение бизнес и инвестиционного климата, интегрирование экономики в региональную экономическую систему, а также реализация структурных реформ для развития ключевых отраслей экономики (энергетика, горная добыча, переработка сельхозпродукции, транспорт, финансовый сектор и другое); обеспечение продовольственной безопасности через повышение объема внутреннего производства и производительности в сельском хозяйстве, а также создание государственных резервов в достаточном объеме; эффективное управление собственными активами; поддержание либерального торгового режима, установление новых и развитие традиционных двусторонних и многосторонних взаимовыгодных экономических связей, выход на новые рынки сбыта отечественной продукции, увеличение экспорта продукции и постепенное уменьшение отрицательного сальдо торгового баланса.

Основным условием достижения макроэкономической стабильности является обеспечение общественно-политической стабильности в стране, эффективное использование внутренних ресурсов и собственного потенциала.

Макроэкономическая стабильность будет выражаться в достижении следующих ключевых количественных параметров:

- обеспечение экономического роста не ниже 7,0 %;
- сдерживание уровня инфляции в планируемом коридоре, не превышающей однозначного показателя;
- удержание дефицита бюджета в пределах 5,0 % к ВВП;
- удержание размера государственного долга к ВВП на уровне, не превышающим порог экономической безопасности;
- полное и своевременное выполнение всех социальных гарантий государства.

Для достижения поставленных задач подготовлен и принят План мероприятий на 2013 год по реализации Программы Правительства Кыргызской Республики (постановление Правительства Кыргызской Республики от 05 марта 2013 года №111), который отображает приоритетные задачи по стабилизации ситуации в экономике страны и пути их решения, а также проекты, ориентированные на развитие экономики страны в 2013 году и на среднесрочный период. План направлен на решение наиболее острых текущих проблем, создание устойчивой платформы для проведения экономических реформ, стабилизации отдельных сфер экономики, восстановления доверия инвесторов к стране.

Борьба с коррупцией

Указом Президента Кыргызской Республики от 2 февраля 2012 года № 26 утверждена Государственная стратегия антикоррупционной политики Кыргызской Республики, в которой приведён анализ текущей ситуации и определены основные принципы, направления и механизм её реализации.

В этой связи, в целях принятия кардинальных мер по противодействию коррупции, максимальной минимизации последствий ее воздействия на экономику, улучшения инвестиционной привлекательности республики, а также повышения авторитета органов государственной власти среди населения, в декабре 2011 года образована Антикоррупционная служба ГКНБ (АКС), перед которой поставлены задачи по выявлению, предупреждению и пресечению коррупционных преступлений во всех сферах государственного управления.

На первоначальном этапе основное внимание было акцентировано на реализацию комплекса мер, направленных на сдерживание дальнейшего роста коррупционных проявлений путем уголовного преследования и обеспечения общественного доступа к информации. В результате, на сегодняшний день деятельность АКС позволила привлечь к участию в антикоррупционной программе государства широкую общественность и гражданское сообщество. Каждое уголовное дело стало предметом широкого общественного обсуждения, формируя у населения чувство нетерпимости к коррупции и повышая степень доверия к органам государственной власти. Проявилась атмосфера гражданского контроля по вскрытым коррупционным преступлениям.

Правительством Кыргызской Республики применяется системный подход при реализации комплекса мер по противодействию коррупции. В частности, основные усилия направлены на выявление и устранение условий, способствующих коррупционным проявлениям, излишних контактов между гражданами и государственными служащими и неэффективных мер государственного управления.

В подтверждение приверженности борьбе с коррупцией, а также свидетельствуя о

решительности и обязательств по борьбе с коррупцией, постановлением Правительства Кыргызской Республики от 30 августа 2012 года №596 утверждены Программа и План мероприятий Правительства Кыргызской Республики по противодействию коррупции на 2012-2014 годы.

Указанная Программа основывается на трёх широких приоритетах:

- устранение коррупционных схем;
- реформа и модернизация государственного управления в целях повышения прозрачности и подотчётности государственных закупок;
- взаимодействие государственных органов с гражданским обществом.

План действий включает мероприятия и с учётом их приоритетности установлены конкретные сроки и определены ответственные за их исполнение государственные органы, а также составлены предварительные сметные расчёты по их реализации. Указанным постановлением также предусмотрены мониторинг и оценка процесса реализации Программы и Плана каждые шесть месяцев с обсуждением на заседаниях Правительства Кыргызской Республики.

Для обеспечения действенного контроля над реализацией антикоррупционной стратегии государства, на основе изучения международного опыта Правительством Кыргызской Республики прорабатывается вопрос о создании постоянной межведомственной рабочей группы по противодействию коррупции. Эта мера позволит организовать оперативное взаимодействие между государственными органами как по исполнению правительственной Программы и Плана мероприятий по противодействию коррупции, так и по другим вопросам, относящимся к данной проблематике.

Среди многих инициатив Правительства Кыргызской Республики в рамках антикоррупционной политики можно отметить:

- сокращение проверяющих органов с 21 до 12;
- введение единого реестра государственных услуг;
- отмена обязательного технического осмотра автомобильного транспорта;
- отмена доверенности на вождение автомобильного транспорта;
- устранение монополии на изготовление национальных паспортов с передачей соответствующих функций государству и др.

Учитывая необходимость стимулирования и активизации гражданской инициативы, разработан проект Закона Кыргызской Республики «О поощрении граждан, заявивших о фактах коррупции», согласно которому гражданину, сообщившему о коррупционной схеме, будет выплачиваться денежное вознаграждение в размере 20% от суммы ущерба, возмещённой государству.

В целях оптимизации и ужесточения законодательной базы по коррупционным преступлениям, в том числе относящейся к судебной системе, АКС разработан пакет законодательных актов, вступивших в силу в августе 2012 года:

- Закон Кыргызской Республики «О противодействии коррупции» от 8 августа 2012 года № 153;

- Закон Кыргызской Республики «О внесении изменений и дополнений в некоторые законодательные акты КР» от 10 августа 2012 года № 164 (Кодекс КР об административной ответственности, УК, УПК, Трудовой кодекс. Законы Кыргызской Республики «О прокуратуре», «Об оперативно-розыскной деятельности», «О государственных закупках», «О декларировании и публикации сведений о доходах, обязательствах и имуществе лиц, замещающих политические и иные специальные государственные должности, а также их близких родственников», «О государственной службе», «О местной государственной администрации», «О местном самоуправлении» и «О муниципальной службе»);

- Конституционный Закон Кыргызской Республики «О внесении изменений и дополнений в конституционный Закон Кыргызской Республики «О статусе судей Кыргызской Республики» от 10 августа № 167.

Кроме того, по результатам антикоррупционной экспертизы действующего законодательства, проведенной на основании анализа основных коррупционных рисков и возбужденных уголовных дел, в рамках внедрения антикоррупционных моделей в управлении горнодобывающей отраслью и таможенной сфере АКС внесены следующие законодательные инициативы:

- проект постановления Правительства Кыргызской Республики «О проекте постановления ЖогоркуКенеша Кыргызской Республики «Об установлении ставок экспортных таможенных пошлин на товары, вывозимые с территории Кыргызской Республики», что позволит упорядочить экспорт цветных металлов и исключить коррупционные риски на этапе оформления внешнеэкономических операций;

- в целях исключения условий для необоснованного предоставления и использования финансовых льгот субъектами свободной экономической зоны «Бишкек», проводится комплекс мероприятий по разработке законодательного акта, принятие которого ожидается до конца текущего года.

Наряду с указанным, учитывая, что коррупция является значительной угрозой экономической безопасности государства, приоритетное внимание Правительства Кыргызской Республики обращено на такие важные элементы экономической безопасности как продовольственная, энергетическая, финансовая и экологическая

безопасность.

Работа различных государственных органов по данным направлениям своевременное выявление, анализ и правильная оценка потенциальных угроз и возможных последствий, а также выработка обоснованных решений позволят предотвратить колоссальные потери в будущем в различных отраслях экономики.

Также, для борьбы с коррупцией в сфере управления государственными финансами ГП «Инфосистема» при Министерстве финансов КР разработало и внедрило государственный информационный портал okmot.kg, на основе которого запущены следующие информационные системы и инструменты:

1. Электронная система закупок (zakupki.okmot.kg);
2. Экономическая карта(map.okmot.kg);
3. Портал «Открытый бюджет»(budget.okmot.kg).

Реформа судебной системы

Правительство обязуется улучшить правовые нормы в Кыргызской Республике в части совершенствования судебной защиты интересов физических и юридических лиц. Следуя конституционным изменениям, Правительство сосредоточилось на усилении судебной власти, как одного из основных формирующих блоков юридической системы. Достигнут значительный прогресс в обеспечении процесса избрания и назначения судей. На сегодняшний день судьи Верховного суда избираются на основе конкурса в условиях прозрачности по всем кандидатам с учетом требований закона по профессиональным и иным качествам претендентов. Продолжается процесс избрания членов Конституционной палаты Верховного суда и начат процесс конкурсного отбора судей в местные суды. В целях обеспечения гарантий объективного правосудия, доступа к хорошо функционирующим судам, Совет по судебной реформе при Президенте Кыргызской Республики, в состав которого входят депутаты ЖогоркуКенеша (Парламента), члены Правительства, специалисты различных отраслей права и юристы-ученые, утвердил Стратегический план действий по реформированию судебной системы для определения мер, которые необходимо предпринять для разрешения проблемных вопросов по обеспечению правосудия.

Данный План подготовлен в реализацию положений Указа Президента «О мерах по совершенствованию правосудия в Кыргызской Республике» от 8 августа 2012 года №147. Данный Указ также устанавливает приоритеты для судебной реформы на основе рекомендаций, выработанных в ходе многостороннего диалога. Решение об утверждении Советом по судебной реформе Плана действий подписано Президентом, являющимся председателем данного Совета. Утвержденный Советом План действий по реформированию

судебной системы определил шаги, которые должны быть применены на практике в рамках выполнения приоритетов судебной реформы. План включает конкретные меры, временные сроки и установление бюджетных требований для их выполнения. Совет по судебной реформе привержен к выполнению Стратегического плана действий по реформированию судебной системы и будет обеспечивать согласованное функционирование и взаимодействие государственных органов, органов судейского самоуправления при реализации основных направлений совершенствования судебной системы Кыргызской Республики, смежных с ней институтов.

Реформирование системы государственных закупок

В настоящее время находится на стадии завершения проект закона Кыргызской Республики «О государственных закупках», в рамках которого будет исключена возможность участия в тендерах близких родственников, улучшена прозрачность экономика и эффективность в соответствии с международным передовым опытом.

Кроме того, окончательно доработана Стратегия выполнения государственных закупок, нацеленная на рациональное использование государственных средств, их экономию, гарантируя прозрачность и открытость процедур по государственным закупкам, поощряя и развивая конкурентоспособность среди поставщиков (подрядчиков) увеличивая тем самым конкурентоспособность местных поставщиков. Отчет о государственных закупках за 2011 финансовый год по использованию средств был опубликован на сайте Министерства финансов Кыргызской Республики в целях увеличения прозрачности.

Цель данной Стратегии - определение перспективных направлений дальнейшего развития системы государственных закупок и проведение в среднесрочной перспективе комплекса взаимосвязанных организационных, правовых и институциональных мероприятий для реализации дальнейших путей развития системы государственных закупок в Кыргызской Республике, в том числе электронным способом в свете значительного увеличения объемов государственных закупок и усиления их влияния на экономику страны.

К 30 июня 2013 Правительство обязуется одобрить пересмотренный закон «О государственных закупках», включая подзаконные акты (правила и постановления); сформировать независимый орган регулирующий государственные закупки и независимый комитет по рассмотрению жалоб; усовершенствовать и продолжать публиковать Отчеты о государственных закупках в последующие годы, которые будут включать сведения об использовании средств и соответствии Закону о закупках закупающих органов через образцы тестов на соответствие.

Управление государственными финансами и бюджетная политика

Произошедшие в стране общественно-политические события оказали влияние на бюджет 2010 года, что было обусловлено значительным ростом дополнительных расходов бюджета, в основном, на восстановительные мероприятия после апрельских и июньских событий на юге страны и социальные выплаты пострадавшим. Тем не менее, в результате конструктивного сотрудничества Правительства с донорскими сообществами по вопросам поддержки бюджета, дефицит государственного бюджета в 2010 году сложился в размере 4,8 % к ВВП, что оказалось ниже ожидаемого уровня.

В 2011 году расходы бюджета существенно увеличились в связи с повышением заработной платы работникам социальной сферы и правоохранительных органов, восстановлением южного региона страны и увеличением финансирования проектов развития. Для снижения дефицита бюджета Правительством был разработан ряд мер для привлечения дополнительных источников доходов в бюджет, что наряду с ростом поступления налоговых доходов дало положительные результаты по сдерживанию роста бюджетного дефицита. При планируемом первоначальном показателе дефицита в 2011 году на уровне 7,5% к ВВП, фактически данный показатель сложился на уровне 4,8%. Значительный бюджетный дефицит диктует необходимость его оптимизации как путем улучшения традиционных механизмов, так и поиска альтернативных источников дохода.

В целом, бюджет страны продолжает оставаться социально-ориентированным. Рост социально уязвимой группы населения и нарастание бедности в 2010 году повлияли на увеличение социальных расходов бюджета в 2011 году до 43- 45% от общих расходов республиканского бюджета.

Главная цель политики государственных расходов на ближайшие три года будет заключаться в полном и своевременном финансировании всех социальных гарантий государства и создании благоприятных условий для экономического роста в интересах бедных слоев населения.

Правительство признает важность начала бюджетной консолидации. Стратегия консолидации включает меры по увеличению доходов и сдерживанию роста расходов.

Увеличение бюджетных доходов в среднесрочной перспективе будет обеспечено за счет: (i) улучшения таможенного администрирования через перевод большинства импортируемых товаров с системы таможенного оформления на основе веса на ценовую основу; (ii) отмены отдельных льгот по НДС; (iii) пересмотра акцизной политики; (iv) за счет реформы неналоговых платежей, направленной на оптимизацию государственных платных услуг и эффективное управление государственной собственностью и природными ресурсами.

В целях сокращения дефицита бюджета и оптимизации расходов перед

Правительством стоят следующие задачи: (i) совершенствование планирования бюджета; (ii) усиление контроля эффективности государственных расходов; и (iii) совершенствование бюджетного законодательства.

Основным приоритетом будет реформирование системы управления государственными финансами, повышение бюджетной дисциплины и прозрачности использования бюджетных ресурсов.

Меры реформирования управления государственными финансами включают: (i) разработку системы оценок экономической эффективности; (ii) поэтапный переход на программное бюджетирование; (iii) комплексное обучение сотрудников пилотных министерств по проведению секторального анализа и разработке программного бюджета; ((v) внедрение электронных торгов для проведения государственных закупок; (vi) создание единой централизованной системы управления финансовыми ресурсами на цели капитального строительства (УКС).

Реформирование системы управления государственными финансами (УГФ) в Кыргызской Республике осуществлялось в рамках утвержденного Указом Президента Кыргызской Республики от 22 октября 2009 года № 396 Среднесрочного плана действий по реформированию системы управления государственными финансами Кыргызской Республики.

Данный План действий был направлен на обеспечение необходимых улучшений в бюджетном процессе и решении специфических проблем, и являлся продолжением этапа модернизации системы управления государственными финансами на основе первоначального плана, который был утвержден Указом Президента Кыргызской Республики от 26 июня 2006 года № 337.

Реализация вышеуказанного Среднесрочного плана действий была направлена на дальнейшее устранение проблем системы управления государственными финансами и недостатков бюджетного процесса в целом и послужила платформой для дальнейшей существенной модернизации системы управления государственными финансами.

Однако в свете последних преобразований, а также в рамках дальнейшего совершенствования системы управления государственными финансами возникла необходимость пересмотра и обновления Среднесрочного плана действий по

реформированию системы управления государственными финансами Кыргызской Республики.

На основе достигнутых результатов, оценки дальнейших перспектив, с внедрением надежной системы мониторинга и оценки реализации реформ пересмотрен и обновлен «Среднесрочный план действий по реформированию системы управления государственными финансами Кыргызской Республики» (постановлением Правительства Кыргызской Республики №675 от 3 октября 2012 года утвержден «Среднесрочный план действий по реформированию системы управления государственными финансами Кыргызской Республики на 2012 – 2015годы).

Процесс реформирования направлен на достижение трех обширных результатов: (i) достоверный бюджет, предоставляющий предсказуемые ресурсы; (ii) улучшение контроля и формирование системы отчетности управленческого звена; (iii) улучшение связи между приоритетами политики и годовым, а также среднесрочным планированием.

В свете последних преобразований нами разработан проект Бюджетного Кодекса Кыргызской Республики, направленный на обеспечение организации эффективной и прозрачной системы управления государственными финансами, создание надлежащих правовых норм для формирования бюджета, отвечающего национальным интересам, и внедрение мировых передовых норм бюджетной системы. Проект Бюджетного Кодекса представлен в Парламент 15 октября 2012 года и ожидается быть одобренным в 2013 году. В целях защиты интересов государства и граждан Кыргызской Республики, а также для увеличения прозрачности при предоставлении государственных гарантий, к маю 2013 года будет принято постановление, в соответствии с которым при предоставлении государственных гарантий будут применяться те же принципы, которые определены для государственных заимствований в Бюджетном Кодексе. Соответственно, каждая государственная гарантия должна предоставляться Правительством с одобрения Парламента.

Как отражено в Бюджетном Кодексе, внутренний аудит будет усилен с помощью создания :а) Совета по внутреннему, который будет осуществлять мониторинг по обеспечению независимости внутреннего аудита, готовить предложения по обеспечению по определению стратегии, методологии внутреннего аудита, б) системы государственного внутреннего контроля и финансового управления и контроля, в) отдела внутреннего аудита в государственных учреждениях на основе международных профессиональных стандартов. . В целях совершенствования межбюджетных отношений осуществлен переход на 2-уровневый бюджет, где в системе межбюджетных отношений понятие «местные

бюджеты» включает бюджеты местного сообщества айла, поселка, города, формирование, утверждение и исполнение которого осуществляют органы местного самоуправления. Пересмотрены нормативы отчисления от общегосударственных налогов (подходный налог, налоги на патентной основе), на рост поступления которых местные органы самоуправления могут оказывать влияние через создание рабочих мест и создание условий для развития малого бизнеса. Это позволит усилить местные бюджеты за счет собственных средств, повысить заинтересованность органов местного самоуправления в увеличении доходного потенциала и улучшить эффективность расходов. Реализация реформы финансовой децентрализации предполагает формирование и исполнение местных бюджетов непосредственно органами местного самоуправления.

Для стимулирования повышения экономического потенциала местных сообществ, повышения роли и ответственности органов местного самоуправления за эффективность управления местными бюджетами в области межбюджетных отношений будет продолжена работа по следующим направлениям: (i) совершенствование правовых актов, регулирующих систему межбюджетных отношений, (ii) совершенствование систем межбюджетных трансфертов с учетом среднесрочного планирования местных бюджетов.

На постоянной основе продолжается работа в сфере обеспечения прозрачности государственных финансов, сотрудничества с рядом неправительственных общественных организаций по вопросам бюджетной прозрачности и доступа граждан к бюджетной информации. В этой сфере, усилия будут направлены на формирование годовых гражданских бюджетов.

В среднесрочной перспективе ожидается, что текущие расходы будут покрываться только за счет текущих доходов.

Реформирование системы социальной защиты

Стратегия развития социальной защиты населения на 2012-2014 годы и Среднесрочный план развития определяют следующие ключевые вопросы в области социальной защиты: (i) не обеспечена адресность социальной помощи (общий бюджет всех программ в совокупности) и, в результате, государственная поддержка тех, кто в ней реально нуждается, оказывается недостаточной (ii) высокий уровень институционализации в системе социальной защиты. Был определен следующий комплекс приоритетных мер для решения этих проблем:

- (i) Улучшение охвата и адекватности социальной помощи, нацеленной на сокращение крайней бедности. Это будет достигнуто путем бюджетного планирования средств, чтобы ежемесячно осуществлять финансирование пособий для малоимущих семей, включая пособия на детей, подразумевая увеличение Гарантированного минимального

дохода (ГМД) не менее чем на 10 % год в 2013 и 2014 годах по сравнению с размером ГМД, установленного с 1 ноября 2012 года.

- (ii) Постепенное сокращение доли расходов на социальную помощь в рамках программ категориальной социальной помощи. Это будет достигнуто путем недопущения роста числа категорий получателей и сохранения размеров денежных компенсаций взамен льгот на уровне 2010 года.
- (iii) Приоритизировать и сконцентрировать ограниченные ресурсы на наиболее критических областях социальной защиты. Постепенная реформа в системе обеспечения защиты детей с фокусом на деинституционализацию является приоритетом.

Реформирование системы финансирования социальных услуг с целью перехода от существующего бюджетного планирования, ориентированного на финансировании содержания интернатных учреждений, к финансированию, основанному на результатах. Меры будут включать определение стоимости услуг, важного элемента в данной реформе.

Энергетика

Энергетический сектор Кыргызской Республики обладает значительными перспективами роста. В стране есть богатый и относительно недорогой гидроэнергетический потенциал, что может привести к выгодному экспорту электроэнергии. Однако этот потенциал остается в значительной степени нерализованным. Сектор сталкивается с серьезными проблемами, такими как отсутствие финансовой жизнеспособности, ослабленная надежность электроснабжения, слабое управление и отсутствие прозрачности.

В целом, энергетический сектор и его предприятия не являются жизнеспособными в финансовом отношении. Основной причиной этого является низкий уровень тарифов, который значительно ниже уровня возмещения затрат. Эксплуатационные показатели сектора также низкие. В частности, коммерческие и технические потери продолжают оставаться высокими (около 21 процента), несмотря на снижение потерь в последние годы.

Из-за устаревшей инфраструктуры энергетического сектора и недостаточного уровня технического обслуживания и ремонта, сектор требует значительных инвестиций для предотвращения фатальных сбоев и длительных отключений. Число аварий и сбоев энергетического оборудования значительно превышает установленные нормы, особенно в зимний период пиковой нагрузки. Рост цен на углеводороды и низкие тарифы на электроэнергию приводят к росту зависимости бытовых потребителей от электрического

отопления, что еще больше увеличивает нагрузку в зимний период и ослабляет надежность электроснабжения.

Энергетический сектор страдает от слабого управления и отсутствия прозрачности. Финансовые потоки и потребление электроэнергии не учитываются или подаются в сложной форме, подрывая доверие к реформам. Кроме того, менеджеры отраслевых подразделений не выбираются на основе четко определенного конкурентного процесса, а контракты с ними не основываются на результатах деятельности.

Для решения таких проблем как прозрачность и управление в секторе, а также регулятивной среды данного сектора, Правительство приняло среднесрочную Стратегию Развития Энергетики от 28 мая 2012 года. В соответствии с этой стратегией, государственная политика будет сосредоточена на трех основных направлениях: (i) совершенствование управления, регулирования и прозрачности в энергетическом секторе; (ii) повышение финансовой жизнеспособности энергетического сектора; (iii) увеличение объемов производства и экспорта электроэнергии, повышение надежности электроснабжения и реализации инвестиционных проектов.

Правительство уже предприняло ряд шагов в этих направлениях. Правительство реализовало ряд срочных инвестиций. Эти инвестиции включают строительство подстанции 500 кВДатка и линии электропередач 220 кВ с тем, чтобы увеличить объемы подачи электроэнергии в южные регионы на сумму 208 млн. долл. США; внедрение современной системы учета и сбора данных в передающих сетях и реконструкция системных подстанций на сумму 44,8 млн. долл. США; линию электропередач 500 кВДатка – Кемин и подстанцию 500 кВКемин, а также связанные с этим работы приблизительно на сумму 390 млн. долл. США с тем, чтобы обеспечить электроснабжение северной части республики, вне зависимости от сетей соседних стран, которая явилась причиной ряда отключений электроэнергии зимой 2011 г.; проект реабилитации Токтогульской ГЭС на сумму 55 млн. долл. США, реконструкция подстанций г. Бишкек и г. Ош на сумму 23,08 млн. долл. США;

Другой реализованной мерой является введение Инициативы прозрачности топливно-энергетического комплекса (ИПТЭК или FESTI), направленной на улучшение прозрачности и управления отрасли и обеспечения более широкого участия общественности и прозрачности. Согласно этой Инициативе (ИПТЭК или FESTI), был создан и в настоящее время действует наблюдательный совет с участием гражданского общества.

Правительство также приняло срочный план действий по повышению прозрачности и отчетности субъектов энергетического сектора и укрепления их управления. План

действий предусматривает: ежегодные аудиторские проверки субъектов электроэнергетики в соответствии с международными стандартами финансовой отчетности и публикацию аудиторских отчетов; создание и поддержание интерактивных веб-сайтов для Министерства энергетики и промышленности, Департамента по регулированию топливно-энергетического комплекса и субъектов отрасли для публикации важной отраслевой статистики, чтобы обеспечить осуществление закупок топливно-энергетических ресурсов через прозрачные и конкурентные торги; обслуживание целевых депозитных счетов для доходов от экспорта электроэнергии; а также обеспечить осуществления назначения исполнительного руководства государственных организаций этого сектора на основе прозрачных и конкурентных процедур. Были приняты решения по отзыву лицензий у распределительных компаний-посредников.

В перспективе правительство намерено реализовать Стратегию развития энергетического сектора, сосредоточив внимание на трех основных столпах, и соответствующих планах действий. В рамках первого этапа - совершенствование управления, регулирования и прозрачности энергетического сектора - Правительство обязуется:

- Приложить усилия в четком разграничении функций определения политики и четкого определения независимых регулирующих органов, структуры управления и подотчетности в области энергетики. Закон «Об электроэнергетике» находится в стадии разработки. В новом законе будут четко определены роли и обязанности различных министерств и ведомств, включая Министерство энергетики и промышленности, Государственного департамента по регулированию топливно-энергетического комплекса, Фонда государственного имущества и т.д. Это позволит создать независимый расчетный центр, который обеспечит независимый учет потоков электроэнергии на оптовом рынке.

- Реализовать недавно принятый план действий, который нацелен на улучшение корпоративного управления в энергетических компаниях, в том числе (а) отбор и назначение руководителей высшего звена в государственных энергетических компаниях через прозрачный и конкурентный процесс, (б) внедрение управленческих контрактов (апробировать на выбранной компании) с соответствующими механизмами стимулирования.

В рамках второго этапа - повышение финансовой жизнеспособности энергетического сектора - Правительство обязуется:

- Обеспечить финансовую устойчивость энергетического сектора за счет сокращения потерь отрасли и обеспечения соответствующих доходов отраслевых компаний сектора, чтобы адекватно поддерживать существующую

инфраструктуру и обслуживание долгов.

В рамках третьего этапа - обеспечение надежного электроснабжения - Правительство обязуется:

- Реализовать критически важные инвестиции в энергетический сектор, как это отражено в стратегии Правительства. Учитывая большую потребность отрасли в инвестициях, Правительство будет искать поддержку у доноров в определении приоритетов и финансировании этих инвестиций. Особое внимание будет уделяться техническому обслуживанию существующих активов, а также инвестициям в строительство высоковольтных ЛЭП для облегчения торговли электроэнергией и обеспечения доступа избыточной электроэнергии Кыргызстана в летний период на экспортные рынки.

Сектор горнодобывающей промышленности

Горнодобывающий сектор является важным источником как экспортных, так и финансовых доходов для страны за последние два десятилетия. Однако более 90% этих доходов равным образом поступали из месторождения золота «Кумтор», поэтому мы планируем предпринять политические и институциональные реформы для улучшения инвестиционного климата горнодобывающей отрасли и приведения к увеличению разведывательной деятельности и разработки месторождений. Особой проблемой является процедура распределения прав на количество известных минеральных ресурсов, чтобы это был и прозрачный, и приемлемый процесс для сообществ на территориях, где располагаются потенциальные горнодобывающие объекты, а также, в целом, для населения. В соответствии с этим, планируется принять и реализовать новый Закон «О недропользовании». Данный новый закон обеспечит более конкурентоспособную в международном плане структуру для горнодобывающих компаний, которые рассматривают вложение инвестиций в Кыргызскую Республику. Он также будет содержать методологию, согласно которой различные земельные площади, включая те, где наличие минеральных ресурсов еще не изведено, будут выделяться инвесторам горнодобывающего сектора.

Все еще будет необходимо урегулировать требования наших местных сообществ и местных органов правления на территориях известных месторождений, а также на новых площадях, находящихся в разработке. В 2013 году мы планируем разработать новые положения, включающие проведение консультационных процессов, которые должны быть предприняты Правительством и горнодобывающими компаниями с сообществами и органами управления более низкого уровня, которые будут подвержены потенциальному

воздействию в результате горнодобывающей деятельности, до того, как будут начаты мероприятия по разработке месторождений. С новым Законом «О недропользовании» и постановлениями на местах можно будет начать процесс по проведению тендеров или аукционов по известным месторождениям минеральных ресурсов.

Финансовый сектор

После трудностей в финансовом секторе в 2010 году, банковская система Кыргызской Республики вновь обрела стабильность в 2011 году, возобновленный рост продолжился в 2012 году. В то время как три коммерческих банка¹ остаются под внешним управлением и продолжают стоять перед проблемой надвигающейся судебной тяжбы, было прекращено действие режима консервации для 4-го банка в результате урегулирования с владельцем, который ввел дополнительный капитал, и назначения нового состава руководства банка.

Трудности, с которыми столкнулась банковская система во время 2010-2011 годов, выдвинули на первый план несколько непосредственных приоритетов для усиления и расширения стабильности финансового сектора, особенно: (а) усиления надзорной функции Национального Банка Кыргызской Республики, расширяющей способность НБКР в осуществлении надзора регулирования банковского сектора, повышения эффективности своевременного реагирования на ухудшение ситуации и урегулирования ситуаций с проблемными банками, а также улучшение регулирующей и надзорной структуры структуры в соответствии с международными стандартами Базельской конвенции; (б) усиления правовой структуры Системы защиты депозитов, совершенствующей Закон «О защите депозитов» через внесение поправок в данный закон в соответствии с наилучшими международными методами; (с) завершение приватизации Залкар Банка в соответствии с наилучшими международными методами или принятие мер в соответствии с законодательством; (d) разрешения проблемы с банками, находящимися под внешним управлением; и (е) принятия мер усиления требований к корпоративному управлению и управления рисками в банковском секторе.

Приоритеты политики также включают меры, которые увеличивают доступ финансирования данного ограниченного финансового посредничества в Кыргызской Республике. Более сильная защита клиента и улучшенная финансовая грамотность также улучшат качество финансовых услуг.

Развитие частного сектора

Частный сектор в Кыргызской Республике сталкивается важными ограничениями

¹ данная цифра не включает ОАО «Ан-Банк», который также находится в режиме консервации, но у которого отозвана лицензия на право проведения банковских операций Постановлением Правления НБКР №33/1 от 31.10.2005 г.

бизнес - среды. Несмотря на недавние нормативно-правовые реформы относительно регистрации бизнеса, все еще остаются некоторые слабые места в регулирующей и институциональной структуре. В дополнение, во многих областях имеются пробелы между законами и выполнением. Зачастую такой пробел может происходить из-за (а) отсутствия прозрачности; (b) недостатка в распространении реформ; (с) отсутствия знаний у частного сектора, как применять эту систему и т.д.

Для преодоления этих основных преград в развитии частного сектора, Правительством были упрощены законы, постановления и процедуры, которые привели к улучшению в ранжировании Кыргызской Республики по международным показателям. Например, в области начала собственного дела в настоящее время Кыргызская Республика занимает 17 позицию в Отчете «Ведение бизнеса» за 2012 год.

Несмотря на это, Правительство все еще работает над расширением выполнения, усилением институциональной структуры и продвижением надлежащего распространения всех реформ по регулированию. В области начала собственного дела для того, чтобы внести дальнейшую ясность для бизнеса, сокращают свободу действий на свое усмотрение со стороны правительственных должностных лиц, обеспечивающих услуги предпринимателям, улучшают прозрачность, в настоящее время Правительство работает над подготовкой, выпуском и утверждением Приказа Министра юстиции, который предоставляет полномочие по регистрационным удостоверениям и контрольному списку регистрационным отделам в целях предоставления разъяснений, на каком основании заявление о регистрации может быть отклонено. Одновременно такое удостоверение и контрольный список послужат в качестве единых инструкций по регистрации для заявителя относительно того, как необходимо действовать в случае, если какие-либо документы отсутствуют.

В процессе реализации находится Модуль основанных на рисках проверок (Proverka.kg) в рамках Министерства экономики. Это важная область реформы, касающаяся одной из самых существенных трудностей, с которыми сталкивается предпринимательская деятельность; поведение частых и случайных проверок. В феврале 2012 года было принято решение, обязующее все подразделения контролеров разработать критерии риска, которые модернизируют систему проведения проверок. Сайт Proverka.kg, который разработан, чтобы способствовать проведению проверок на основе оценок рисков, был запущен 25 августа 2012 года. Он выполняется в пилотном плане в двух подразделениях контролеров и Министерстве экономики. Будет предоставлено обучение контролирующим ведомствам, а далее система будет усовершенствоваться и расширяться в результате пилотного испытания.

Продвигаясь вперед, Правительство сфокусируется на других сферах, где все еще имеются слабые места в существующей нормативно-правовой структуре или где существуют пробелы между законодательством и выполнением. Некоторые из реформ касаются областей банкротства и прав кредитора, усиления защиты прав инвесторов и ответственности директоров компаний, а также усовершенствование механизмов обеспечения соблюдения через усиление альтернативные механизмы разрешения споров (арбитраж или ходатайство).

Управление государственным имуществом

Сегодня вопросам приватизации уделяется пристальное внимание общественности. Одним из приоритетных направлений проводимой Министерством экономики политики является *обеспечение гласности и открытости процесса приватизации государственного имущества*.

Так, было инициировано распоряжение Правительства (от 25.12.2012г. №601-р), предусматривающее, что информация о проведении и результатах торгов по приватизации государственного имущества будет размещаться в государственных печатных изданиях, а также эфире ОТРК, ЭлТР, «Пятого канала» и «Пирамиды».

Также Министерством экономики подготовлен и находится на стадии согласования проект постановления Правительства КР «Об утверждении Положения о порядке осуществления электронных аукционов в Кыргызской Республике».

Проект постановления предусматривает автоматизацию процедуры проведения аукционов по продаже государственных объектов посредством внедрения информационно-коммуникационных технологий и запуска электронной торговой площадки. Внедрение электронной формы проведения аукционов позволит минимизировать всякое вмешательство ход торгов и обеспечит объективность и беспристрастность процесса отбора покупателя.

Кроме того, 30 ноября 2012 года (№804 от 30.11.2012г.) была образована межведомственная комиссия по *оптимизации деятельности госпредприятий*, в состав которой также включены представители гражданского сектора. Данная комиссия должна дать независимое объективное заключение о недостатках и проблемных участках работы госпредприятий и выработать конкретные предложения по повышению эффективности их финансово-хозяйственной деятельности.

Также поставлена задача по оптимизации расходов госпредприятий, в частности в этом году будет проведена работа по реструктуризации непрофильных активов госкомпаний.

Кроме того, сейчас Министерством экономики совместно с Фондом по управлению

государственным имуществом прорабатывается вопрос создания *единой базы данных объектов государственной собственности*.

В настоящее время Министерством экономики начата работа, направленная на разработку нормативно-методических документов по учету и инвентаризации госимущества.

В рамках работы по созданию институциональной основы учета и инвентаризации государственного имущества требуется разработка классификатора основных средств, методик инвентаризации и учета отдельных видов государственного имущества (недвижимого имущества, объектов дорожно-транспортного комплекса, топливно-энергетического комплекса и энергетических ресурсов, природных ресурсов, водно-хозяйственной инфраструктуры, государственных объектов сельского хозяйства и др.).

В то же время Фондом по управлению государственным имуществом достигнута договоренность со Всемирным Банком, выразившим готовность выделить грант на автоматизацию процесса инвентаризации государственного имущества в рамках реализации проекта «Совершенствование управления государственными активами» (в рамках проекта будет закуплено соответствующее оборудование на сумму 60 000 долларов США).

НАМЕЧЕННЫЕ ПОКАЗАТЕЛИ РАЗВИТИЯ СТРАНЫ

В среднесрочной перспективе (2014-2016 годы) обеспечение устойчивого экономического роста в среднем на 6,8 % в год будет обеспечиваться за счет:

- повышения конкурентоспособности национальной экономики через проведение кардинальных реформ для улучшения бизнес – среды;
- реализация новой бюджетной политики, оптимизация государственных расходов;
- построение прозрачной и эффективной системы исполнительной власти, свободной от влияния коррупции.

Среднесрочные целевые макроэкономические показатели будут достигаться через реализацию инвестиционных проектов, эффективное управление государственными активами страны, реформирование системы государственного регулирования для стимулирования всех отраслей экономики.

Экономический рост будет поддерживаться со стороны всех секторов реальной экономики, формирующих ВВП страны. Максимальный вклад прогнозируется от работы объектов и предприятий сферы услуг.

Правительством Кыргызской Республики при необходимости будет разработана система мер, направленная на смягчение возможного шокового воздействия на экономику от негативных процессов, связанных с ухудшением мировой конъюнктуры.

Важнейшими внутренними предпосылками успешной реализации макроэкономической политики станут:

- Социально-политическая стабильность в стране;
- Проведение согласованной денежно-кредитной и налогово-бюджетной политик;
- Укрепление банковской системы и углубление финансовых рынков;
- Достижение реального роста ВВП в результате роста в сфере услуг (на 6,6%), сельском хозяйстве (на 2,5%), промышленности (на 7,7%) и строительстве (на 17,1%);
- Дальнейшее продвижение структурных реформ по приоритетным направлениям экономического развития;
- Повышение привлекательности бизнес - среды через сокращение государственного вмешательства в экономику;
- Создание благоприятного инвестиционного климата для притока частных внутренних и иностранных инвестиций в экономику республики;
- Привлечение и продвижение прямых иностранных инвестиций в крупные национальные проекты (горнодобывающая, металлургическая отрасли, электроэнергетика, транспорт и связь);
- Ввод новых месторождений по добыче золота;
- Улучшение продуктивности скота и урожайности сельскохозяйственных культур;
- Рост деловой активности хозяйствующих субъектов в рамках улучшения инвестиционного климата;
- Продвижение турпродукта Кыргызстана на мировых туристических рынках для дальнейшего развития туризма;
- Снижение бремени внешнего долга;
- Борьба с коррупцией и повышение качества государственного управления;
- Легализация неофициальной экономики;
- Расширение внешнеэкономического сотрудничества.

К внешним рискам, которые могут оказать воздействие на рост ВВП в 2014 – 2016 годах, относятся:

- ухудшение мировой конъюнктуры (зависимость экономики страны от мировых цен на золото, энергоносители и другие сырьевые ресурсы);
- зависимость экономического развития республики от темпов роста экономики соседних стран (Россия, Казахстан, Китай);
- открытость экономики, в значительной степени подверженной влиянию внешних шоков;

- зависимость внутреннего рынка от импорта продовольственной группы товаров (мука, растительное масло, сахар, крупы и т.д.), ГСМ;

- рост мировых цен на продовольственные товары (по данным продовольственной и сельскохозяйственной организации объединенных наций, цены на продовольственное сырье в средне- и долгосрочный период будут оставаться относительно высокими в течение примерно следующего десятилетия. Согласно Сельскохозяйственному прогнозу 2011 года ОЭСР и ФАО мировые цены на рис, пшеницу, кукурузу и масличные культуры за пятилетний период 2015/16-2019/20 годов в реальном выражении будут выше на 40 %, 27 %, 48 % и 36 %, чем за предыдущий пятилетний период);

- введение в действие условий действия Таможенного союза (повышение цен на импортируемые товары из дальнего зарубежья, сокращение реэкспорта товаров из Китая и др.);

- сокращение рабочих мест в России, Казахстане за счет ужесточения миграционного законодательства.

В среднесрочной перспективе предполагается, что проведение согласованной денежно-кредитной и бюджетно-налоговой политики, направленной на укрепление тенденций макроэкономической стабильности, умеренная тарифная политика позволит в целом значение инфляции удерживать на уровне однозначных показателей при условии отсутствия шоков. При этом существуют определенные риски, связанные с усилением влияния внешних и внутренних факторов неопределенности, которые могут затруднить достижение целевых показателей, а также угроза роста цен на продовольственные товары вследствие роста спроса на данный вид товаров при относительно медленном темпе роста производства сельскохозяйственных продуктов.

Мы убеждены, что приоритеты Программы действий Правительства Кыргызской Республики и разработка среднесрочной стратегии развития страны имеют первоочередную важность для обеспечения более устойчивого и успешного будущего нашей страны. Мы очень надеемся, что Всемирный банк сочтет возможным предоставить нашей стране помощь в размере 30 млн. долл. США на реализацию первой фазы Программы Всемирного банка «Операции на цели поддержки в области развития (ОППР)».

С уважением,

Премьер-министр
Кыргызской Республики



Ж. Сатыбалдиев



ANNEX 2: MATRIX OF POLICY AND INSTITUTIONAL ACTIONS AND EXPECTED OUTCOMES AND MONITORING INDICATORS

Objectives	DPO 1 (Actions Taken)	DPO 2 (Triggers)	Expected Outcomes (Monitoring Indicators)
<i>Pillar I: Strengthening Governance and Anti-Corruption Reforms</i>			
Governance/anti-corruption reforms	<p>Government, through Resolution No. 596 dated August 30, 2012, adopted the Anti-corruption Program and Action Plan for 2012 – 2014 and has established a framework for monitoring its implementation that includes independent experts and non-governmental organizations.</p> <p>The Presidential Decree No. 147 dated August 8, 2012, “On the Measures to Improve Justice in the Kyrgyz Republic,” has established the Judicial Reform Council and identified priorities for judicial reform. The Judicial Reform Council under the President approved a Strategic Action Plan on reforming the judicial system (Resolution No. 2, dated October 12, 2012).</p>	<p>Implementation of the anti-corruption Action Plan and the establishment of the monitoring and evaluation arrangements for its implementation. Establishment of an institutional mechanism for coordination of the anti-corruption policy among all branches of the state.</p> <p>Implementation of priority reforms included in the Judicial Reform Strategic Action Plan.</p>	<ul style="list-style-type: none"> • Semi-annual report on implementation of the anti-corruption action plan. Base: No report Target: Implementation report published semi-annually. • Global Competitiveness Index (Institutions Pillar Rank) by World Economic Forum Overall Base: rank 137 out of 144 Target: rank 120 out of 144 • Judicial appointment process finalized Base: All judges (35) of the Supreme Court and all judges (11) of the Constitutional Chamber in place Target: Appointment of all local court judges (401) completed.
Public Finance Management (PFM) Improve budget discipline and transparency in use of budget resources	A Protocol of cooperation dated October 23, 2012 signed between Ministry of Finance and the National Bank of the Kyrgyz Republic (NBKR), specifying the roles and responsibilities of the treasury, banking and accounting functions, and the oversight of		<p>Increased budget transparency in budget planning and execution.</p> <ul style="list-style-type: none"> • PEFA PI-2³⁴. Composition of expenditure out-turns compared to original approved budget. Base: C

³⁴ Public Expenditure and Financial Accountability Assessment.

Objectives	DPO 1 (Actions Taken)	DPO 2 (Triggers)	Expected Outcomes (Monitoring Indicators)
	<p>payments/settlements, including the financial and information security controls for operation of the Single Treasury Account at the NBKR.</p> <p>Government, through Resolution No. 605 dated September 4, 2012, delegated authority to approve a Unified Chart of Accounts to the Ministry of Finance of the Kyrgyz Republic, and through Order No. 177-II dated September 4, 2012 the Ministry of Finance of the Kyrgyz Republic approved a Unified Chart of Accounts.</p> <p>Government through Resolution No. 718 dated October 15, 2012, "On Enactment of the Budget Code of the Kyrgyz Republic" submitted to Parliament a revised draft Budget Code that strengthens controls over non-allocated funds in the treasury, eliminates non-transparent reserve funds, advances the introduction of internal audit and medium term budgeting, and provides greater clarity to the overall budget cycle.</p> <p>The Prime Minister through letter No. 1-4118 to the Speaker of Parliament dated November 30, 2012, has requested an amendment to the proposed Budget Code that would require prior Parliamentary approval of the issuance of sovereign guarantees.</p>	<p>Issue and approve a resolution regulating the issuance of sovereign guarantees that make them subject to the same principles defined for public borrowing in the Budget Code.</p> <p>Establish a Council³³ on Internal Audit. The Ministry of Finance develops a methodology for internal audit, a regulatory act on the State System of Internal Financial Control, Code of Conduct for Internal Auditors. The Government will take a decision to establish internal audit units within public agencies and bodies that will work in accordance with international professional standards.</p>	<p>Target: B</p> <p>Efficiency of utilization of budget resources is increased</p> <ul style="list-style-type: none"> • PEFA PI-21. Effectiveness of internal audit. Base: D. Target: C. <p>A stronger public internal financial control environment that ensures efficiency and effectiveness in the management of public resources.</p>

³³ According to the current Law on Internal Audit passed in 2009 the Council has to be established to safeguard the independence of the internal audit services. The Council will have the following functions: a) develop a strategy and methodology on internal audit; and b) prepare an annual report on internal audit activities.

Objectives	DPO 1 (Actions Taken)	DPO 2 (Triggers)	Expected Outcomes (Monitoring Indicators)
Transparency in public procurement	<p>The Ministry of Finance published a Public Procurement Report on the use of the 2011 allocated budget.</p> <p>Government, through Resolution No. 661 of September 27, 2012, adopted the Public Procurement Development Strategy for 2012-2014 in line with international best practice.</p>	To bring procurement in line with international best practice: (i) approve a revised Public Procurement Law including the secondary legislation (rules and regulations) that meets the international standards; and (ii) establish an independent public procurement regulatory body and an independent complaint review Board.	<ul style="list-style-type: none"> • Quality of the Public Procurement Law (PPL) and implementation capacity. Base: Public procurement reports are not published. Target: Public procurement process improved as evidenced by the publication of annual public procurement reports by the MoF that include a section on compliance with the PPL through conducting sample compliance tests to document number of bidders and timeliness of public notification of procurement. <p>Enhance transparency through proper reporting on use of public money; clarify roles and responsibilities of control bodies, reduced corruption in public procurement as evidenced by sample compliance tests.</p>
<i>Pillar II: Sharpening competitiveness and enhancing the attractiveness for private investment</i>			
<p>Business environment</p> <p>Business startup and operations</p> <p>Access to finance</p>	Government through the Ministry of Justice issued Order No. 134 dated October 11, 2012, containing: (i) a checklist for registry offices to clarify on what basis a registration application for the establishment of a business can be rejected; and (ii) instructions that applicants will receive upon the first submission of all requests identifying what additional information is required.	Improve potential access to capital and credit by: (i) Amending Article 77 of the Joint Stock Company Law to strengthen the responsibilities of company directors; and (ii) Submitting to Parliament amendments to the legal framework for secured transactions, and amendments to the insolvency law, consistent	<ul style="list-style-type: none"> • Reduction in the number of days to register a business. Base: 20 days Target: Reduced by 10 days. • Extent of director liability (sub-indicator of the protecting investors indicator of DB) Base: score 7 Target: score 8 Improvement in the score of director liability will contribute to protecting minority

Objectives	DPO 1 (Actions Taken)	DPO 2 (Triggers)	Expected Outcomes (Monitoring Indicators)
		with the 2011 Insolvency and Creditor Rights ROSC recommendations ³⁵ .	shareholder against directors' misuse of corporate assets for personal gain. <ul style="list-style-type: none"> • Amended legal framework for debt resolution regimes Base: poor legal framework Target: legal framework amended
Business inspections	Government, through Resolution No. 108 dated February 18, 2012, introduced transparent, risk-based criteria for planning and conducting business inspections and has developed a risk-based inspections coordination module (Kontr Pro 3) within the MoE, including a database of businesses subject to inspection.	Expand the risk based inspections coordination module (Kontr Pro 3) and business inspections databases within MoE and ensure they are used by a number of central apparatuses of controlling bodies located in the city of Bishkek.	<ul style="list-style-type: none"> • Implementation of a risk-based approach to inspection that will lead to 30%reduction by re-directing of focus on high risk businesses. Base: No risk based approach to business inspections. Target: Risk based inspection used by MoE and pilots: 1. Vet., Sanitary and Phito-Sanitary Safety and 2. Environmental and Technical Safety to manage risk based inspections, and further expanded to all of controlling agencies, and the info on 60% of businesses which are subject to inspections is in the database.
Energy Sector			
Increasing energy sector transparency, governance and	Government, through Resolution No. 611 dated September 7, 2012, adopted an action plan to enhance transparency, accountability	Adopt a comprehensive electricity law delineating functions of policy setting and independent regulation, and clarifying	<ul style="list-style-type: none"> • Increased transparency – regular disclosure of the sector's financial and operational performance indicators.

³⁵These include: submitting amendments to the Insolvency Law, as well as the Law on Arbitration that allow the use of arbitration in insolvency proceedings; enforce a stay on proceedings over secured creditors (with possibility of seeking an exemption from that stay under specific circumstances) for a limited time upon the filing of an insolvency case to give a viable debtor breathing space to rehabilitate itself; enact the UNCITRAL Model Law on Cross-Border Insolvency; establish legal provisions enabling to void a rehabilitation plan where its approval was procured by fraud; address the current lack of legal provisions requiring for the independent assessment of the rehabilitation plan; grant post-petition creditors an administrative priority over pre-petition creditors; amend the sanction proceedings to allow for the continuation of a business as a going concern instead of it only serving the satisfaction of the creditors' claims; review the remuneration mechanism of insolvency administrators to encourage them to consider rehabilitation cases.

Objectives	DPO 1 (Actions Taken)	DPO 2 (Triggers)	Expected Outcomes (Monitoring Indicators)
accountability	and governance in the energy sector, including through: (i) carrying out annual audits of financial statements of energy companies following international accounting practices and making the audit reports public; (ii) setting up and maintaining web-sites for the Ministry of Energy, the Energy Regulatory Department, and the energy companies; (iii) ensuring transparent and competitive procurement of fuel resources; (iv) maintaining escrow accounts for power export revenues for the National Electrical Grid of Kyrgyzstan Joint Stock Company and the Power Plants Joint Stock Company; and (v) selecting the general directors and executive bodies of the energy companies based on transparent and competitive procedures.	governance structure and accountability arrangements.	Base: No indicators are disclosed Target: Key operational and financial performance indicators of the sector and key decisions are regularly disclosed. Legislation approved clearly defining sector management and regulation framework.
Financial Sector Reinforcement of the NBKR supervisory function and enhancing financial sector stability		Revise regulations on PRAF to: (a) improve its effectiveness in terms of timely, adequate and consistent response to developments in banks, including supervisory actions to promptly address material deficiencies in corporate governance policies and practices; (b) establish clear thresholds for considering: issue of recommendations to banks for making improvements in their operations; take	<ul style="list-style-type: none"> • Adoption of modern supervision methods (areas where supervision methods are improved)³⁶ Base: Supervisory framework lacking modern supervision methods. Target: The supervisory framework is appropriately based on the Basel norms and standards, and the NBKR's capacity to supervise and regulate the banking sector,

³⁶ In line with the Financial Sector Development Project, this will, at the minimum, include: (i) implementation of risk based supervision and key aspects of Basel II and Basel III; (ii) review and revision of supervisory processes, bank supervision manual, and quality control framework for on-site bank examinations; (iii) strengthening the package of off-site returns and early warning systems; and (iv) introduction of formal contingency planning and crisis management frameworks.

Objectives	DPO 1 (Actions Taken)	DPO 2 (Triggers)	Expected Outcomes (Monitoring Indicators)
		corrective actions requiring banks to make improvements; and (c) take enforcement actions.	address vulnerabilities in a timely manner, and resolve problem banks efficiently is enhanced.
Strengthening of the Deposit Protection System (DPS) legal framework		Submit amendments to the Deposit Protection Law to Parliament	<ul style="list-style-type: none"> • The Deposit Protection Law is in line with the best international practices without gaps and mismatches with other legislation and provides effective framework for DPS. Base: Deposit Protection Law not in line with international best practice. Target: Enhanced financial sector stability and effective framework for DPS, increased public confidence in banks as evidenced by increasing deposit/GDP indicator.

ANNEX 3: DEBT SUSTAINABILITY ANALYSIS UPDATE

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

Kyrgyz Republic - Debt Sustainability Analysis—Update

Prepared by the Staffs of the International Monetary Fund
and the World Bank

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November 6, 2012

Based on the Debt Sustainability Analysis update, the Kyrgyz Republic remains at a moderate risk of debt distress. The debt outlook has improved slightly, but stress tests suggest that country is still vulnerable to large exogenous shocks. Fiscal consolidation and prudent use of concessional loans, in particular in the energy sector, are key for keeping the debt outlook sustainable and improving debt ratios in the medium term.

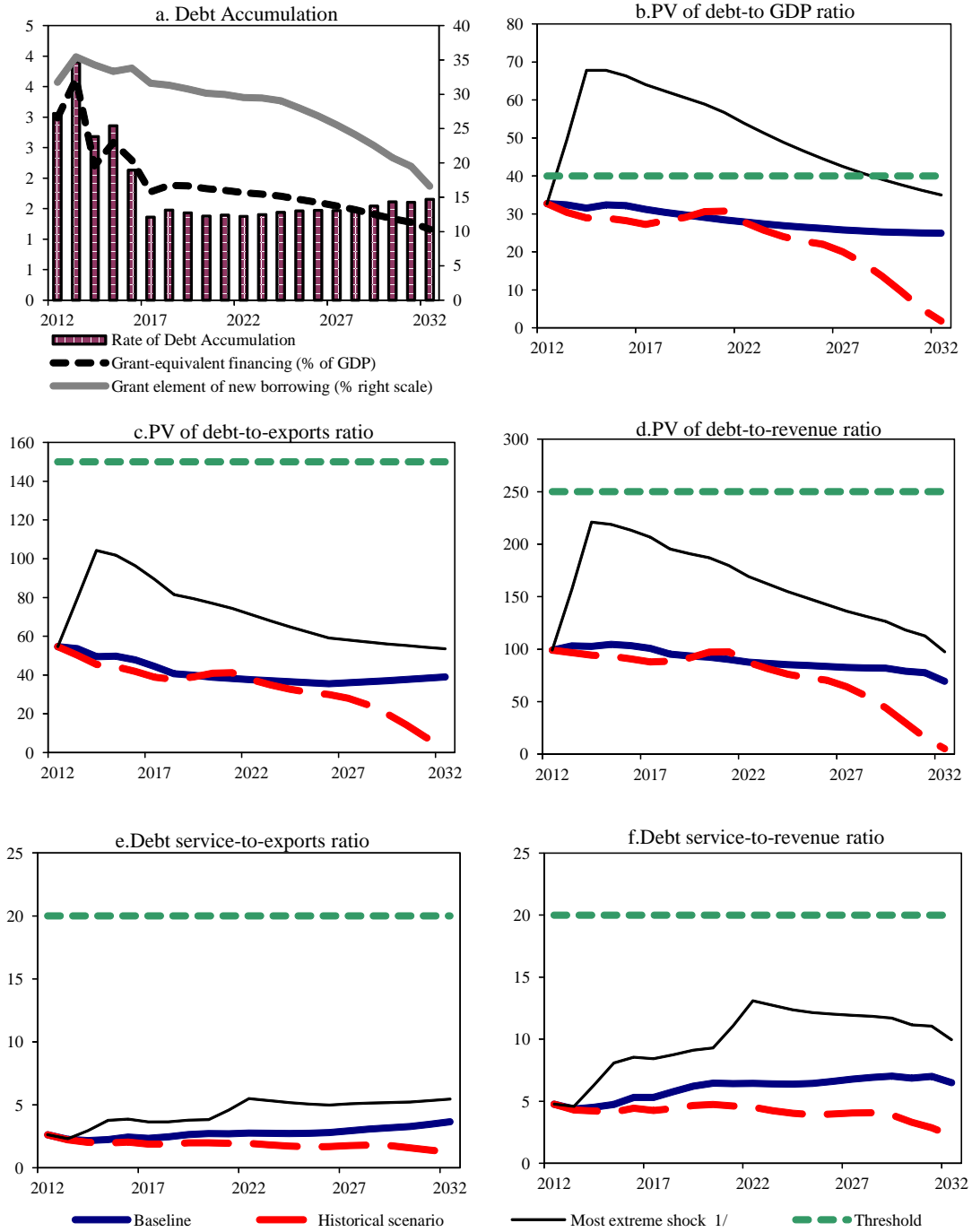
This joint Bank-Fund DSA update by Fund and Bank staffs reconfirms the moderate risk rating found in the last DSA (EBS/11/83, Supplement 2). The updated assessment incorporates: (i) the revised data on private sector debt since 2007; (ii) the higher borrowing for energy infrastructure (US\$620 million compared to US\$450 million expected previously) but on concessional terms as opposed to slightly nonconcessional terms in the last DSA; and (iii) a new loan from Turkey (US\$100 million). Furthermore, the update factors in the completion of debt relief from Turkey (US\$49.2 million) and Russia (US\$188.9 million) in 2012 instead of 2011, and a write off of a US\$300 million debt from Russia over 10 years starting from 2016). The macroeconomic assumptions underlying the assessment have been revised to reflect temporarily lower growth in 2012, due to the deferral of a third of this year's gold production to 2013-14, and consequently higher growth in 2013-14. Despite the changes introduced in this update, with the long term assumptions remaining largely the same, there would not be any significant impact on the debt indicators.

Table 1. Underlying long term DSA Assumptions		
	2011 DSA Proj.	2012 DSA Update Proj.
Real GDP growth (in percent)	5.1	5.0
Growth of exports of G&S (U.S. dollar terms, in percent)	6.3	6.4
Growth of imports of G&S (U.S. dollar terms, in percent)	6.7	6.5
Primary Deficit (percent of GDP)	2.2	1.7
Inflation rate	4.1	4.0

Sources: Country authorities and staff projections.

The projected debt ratios under the baseline and alternative scenarios generally point to better outcomes than projected last year. All external debt burden indicators in the baseline and alternative scenarios, except the ones related to the PV of debt to GDP in the most extreme shock (a combination of growth, export value, US dollar GDP deflator, and net non-debt creating flows as well as one time depreciation of KGZ Som of 30 percent in 2013), are well below the thresholds. Stress tests indicate that the Kyrgyz Republic still remains vulnerable to large external shocks and substantially less favorable assumptions. With regard to public debt, all debt indicators suggest a manageable debt outlook. The PV of debt to GDP ratio is gradually declining from 37 percent in 2012 to 32 percent in 2032. As in the previous DSA, alternative scenarios and stress test indicate that public debt is highly sensitive to shocks that reduce real GDP growth.

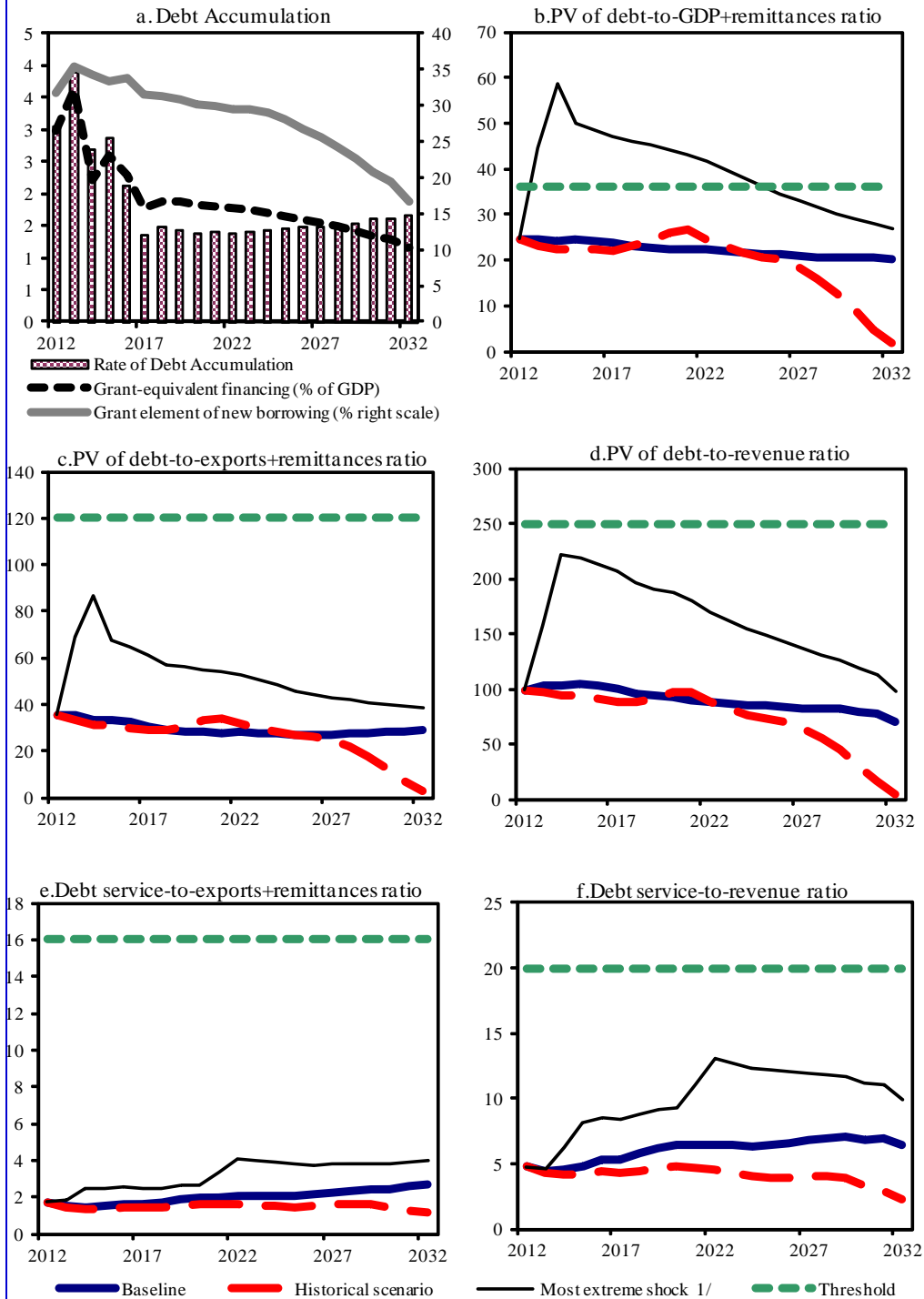
Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

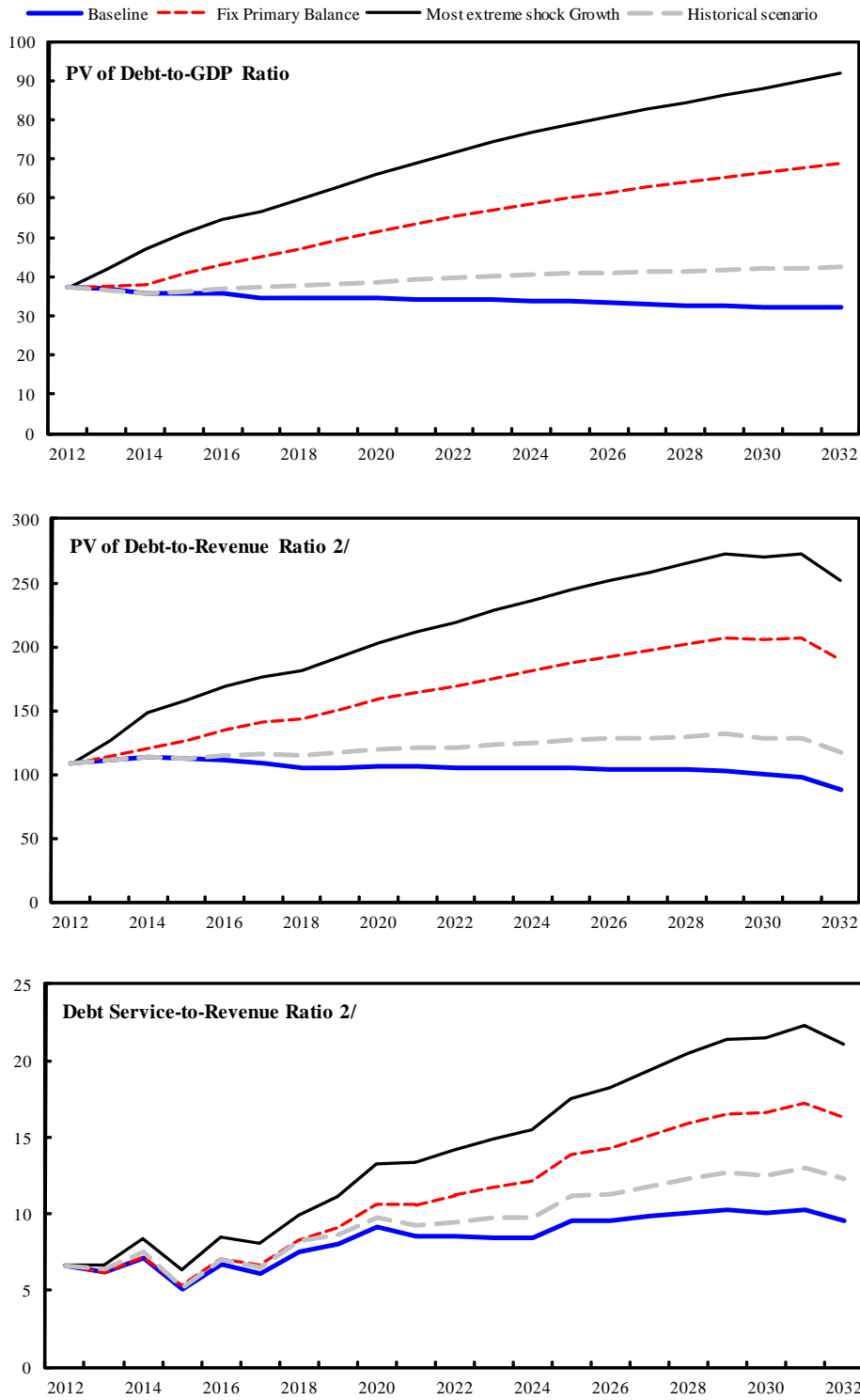
Figure 2. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios Including Remittances, 2012-2032



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Combination shock; in e. to a Non-debt flows shock and in figure f. to a Combination shock

Figure 3. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022.

2/ Revenues are defined inclusive of grants.

Table 1. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032
(In percent of GDP, unless otherwise indicated)

	Actual			Average ^{6/}	Standard Deviation ^{6/}	Estimate					Projections			
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	58.0	60.3	52.4			52.0	51.3	49.3	49.5	49.1	47.1		44.8	40.7
o/w foreign-currency denominated	55.1	57.4	49.2			48.1	47.4	45.7	46.6	45.9	44.1		38.7	33.7
Change in public sector debt	9.5	2.3	-7.9			-0.4	-0.7	-2.0	0.2	-0.4	-2.0		-0.4	-0.3
Identified debt-creating flows	5.7	4.5	-7.7			4.0	-1.2	-1.9	-0.7	-1.4	-2.1		-0.6	-0.3
Primary deficit	3.0	5.2	3.8	2.3	1.9	5.0	4.3	3.1	1.8	1.5	0.7	2.7	1.7	1.6
Revenue and grants	32.1	30.5	33.3			34.4	33.0	31.5	32.1	32.2	32.0		32.7	36.4
of which: grants	5.1	2.8	3.2			1.5	1.6	0.8	1.1	1.0	1.0		0.8	0.6
Primary (noninterest) expenditure	35.1	35.7	37.2			39.5	37.3	34.6	33.8	33.7	32.7		34.4	38.0
Automatic debt dynamics	2.6	-0.6	-11.4			-1.0	-5.1	-4.5	-2.2	-2.7	-2.8		-2.3	-1.9
Contribution from interest rate/growth differential	-1.0	0.7	-3.1			-0.4	-4.2	-3.7	-1.8	-2.6	-2.6		-2.3	-1.9
of which: contribution from average real interest rate	0.4	0.4	0.2			0.1	-0.1	-0.2	-0.2	-0.2	-0.2		-0.2	0.1
of which: contribution from real GDP growth	-1.4	0.3	-3.2			-0.5	-4.1	-3.6	-1.6	-2.4	-2.3		-2.1	-2.0
Contribution from real exchange rate depreciation	3.6	-1.3	-8.4			-0.6	-1.0	-0.7	-0.4	-0.1	-0.2		...	...
Other identified debt-creating flows	0.1	-0.1	-0.1			-0.1	-0.3	-0.6	-0.2	-0.2	0.0		0.0	0.0
Privatization receipts (negative)	0.1	-0.1	-0.1			-0.1	-0.3	-0.6	-0.2	-0.2	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes /2	3.8	-2.1	-0.2			-4.4	0.5	0.0	0.9	1.0	0.0		0.2	0.0
Other Sustainability Indicators														
PV of public sector debt	...	...	34.8			37.3	36.8	35.6	35.8	35.8	34.5		34.2	32.1
o/w foreign-currency denominated	...	...	31.6			33.4	33.0	32.0	32.8	32.6	31.6		28.1	25.0
o/w external	...	...	30.8			32.7	32.4	31.5	32.4	32.2	31.2		27.9	24.9
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 3/	6.6	8.7	7.4			9.0	8.2	7.3	5.0	5.0	4.1		6.8	5.6
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	104.5			108.2	111.6	113.1	111.8	111.3	108.1		104.6	88.1
PV of public sector debt-to-revenue ratio (in percent)	...	...	115.5			113.0	117.2	116.1	115.7	115.0	111.5		107.3	89.5
o/w external 4/	...	...	102.2			99.2	103.1	102.7	104.6	103.4	100.7		87.5	69.5
Debt service-to-revenue and grants ratio (in percent) 5/	7.1	7.5	7.0			6.6	6.2	7.1	5.1	6.7	6.1		8.6	9.6
Debt service-to-revenue ratio (in percent) 5/	8.5	8.2	7.8			6.9	6.5	7.3	5.3	6.9	6.2		8.8	9.8
Primary deficit that stabilizes the debt-to-GDP ratio	-6.5	2.8	11.7			5.5	5.0	5.1	1.6	2.0	2.8		2.1	1.9
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	2.9	-0.5	5.7	4.1	3.6	1.0	8.5	7.5	3.3	5.0	5.0	5.1	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.2	1.1	1.2	1.3	0.3	1.2	1.2	1.1	1.2	1.2	1.2	1.2	1.5	2.1
Average real interest rate on domestic debt (in percent)	10.0	2.5	-3.2	-0.3	5.2	7.8	7.5	4.9	3.6	3.7	2.8	5.0	0.2	0.1
Real exchange rate depreciation (in percent, + indicates depreciation)	8.1	-2.3	-15.3	-6.8	7.4	-1.2	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.0	10.0	17.3	9.7	6.8	5.8	7.4	6.8	6.0	5.4	5.5	6.1	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	31.8	35.5	34.3	33.3	33.8	31.6	33.4	29.5	16.6

Sources: Country authorities; and staff estimates and projections.

1/ Covers general government and gross debt is used.

2/ Includes debt relief.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt 2012-2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	37	37	36	36	36	35	34	32
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	37	37	36	36	37	37	40	43
A2. Primary balance is unchanged from 2012	37	37	38	41	43	45	55	69
A3. Permanently lower GDP growth 1/	37	37	37	38	39	39	47	72
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	37	42	47	51	54	56	72	92
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	37	37	36	37	37	35	35	32
B3. Combination of B1-B2 using one half standard deviation shocks	37	38	39	42	44	46	58	74
B4. One-time 30 percent real depreciation in 2013	37	50	47	46	46	44	42	38
B5. 10 percent of GDP increase in other debt-creating flows in 2013	37	45	43	43	43	41	40	35
PV of Debt-to-Revenue Ratio 2/								
Baseline	108	112	113	112	111	108	105	88
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	108	111	114	113	115	116	121	117
A2. Primary balance is unchanged from 2012	108	113	120	126	134	141	169	189
A3. Permanently lower GDP growth 1/	108	113	116	118	120	120	142	198
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	108	126	149	158	169	176	219	252
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	108	111	116	114	114	110	106	89
B3. Combination of B1-B2 using one half standard deviation shocks	108	115	122	129	138	143	177	203
B4. One-time 30 percent real depreciation in 2013	108	151	149	145	142	138	127	105
B5. 10 percent of GDP increase in other debt-creating flows in 2013	108	136	137	134	133	129	121	97
Debt Service-to-Revenue Ratio 2/								
Baseline	7	6	7	5	7	6	9	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	6	8	5	7	6	10	12
A2. Primary balance is unchanged from 2012	7	6	7	5	7	7	11	16
A3. Permanently lower GDP growth 1/	7	6	7	5	7	6	10	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	7	7	8	6	8	8	14	21
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	7	6	7	5	7	6	9	10
B3. Combination of B1-B2 using one half standard deviation shocks	7	7	8	6	8	7	12	17
B4. One-time 30 percent real depreciation in 2013	7	7	9	7	9	9	12	14
B5. 10 percent of GDP increase in other debt-creating flows in 2013	7	6	8	6	7	7	10	11

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 3a.: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections							2018-2032 Average	
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average		2022	2032
External debt (nominal) 1/	89.3	92.8	81.2			80.0	75.5	71.3	71.1	69.6	68.0		63.8	73.5
o/w public and publicly guaranteed (PPG)	54.1	56.5	48.4			47.5	46.8	45.2	46.1	45.5	43.7		38.5	33.6
Change in external debt	16.0	3.5	-11.6			-1.2	-4.5	-4.1	-0.2	-1.5	-1.6		-1.3	1.2
Identified net debt-creating flows	5.5	-4.8	-23.1			1.3	-6.0	-6.6	-5.0	-6.0	-6.2		-3.3	2.7
Non-interest current account deficit	1.6	5.6	5.8	2.4	6.2	7.1	4.6	2.7	0.8	0.7	0.2		1.3	5.3
Deficit in balance of goods and services	24.4	29.0	28.3			35.9	31.0	27.1	27.7	27.7	27.0		25.1	26.3
Exports	54.5	52.7	58.8			59.8	60.4	63.6	65.2	67.4	70.1		74.1	63.8
Imports	78.9	81.7	87.2			95.7	91.5	90.7	92.9	95.1	97.1		99.2	90.2
Net current transfers (negative = inflow)	-25.8	-29.0	-31.0	-21.6	8.9	-32.4	-31.5	-31.1	-32.2	-32.4	-31.9		-25.4	-22.4
o/w official	-4.2	-1.6	-1.4			0.0	0.0	0.0	0.0	0.0	0.0		-0.4	-0.2
Other current account flows (negative = net inflow)	2.9	5.6	8.4			3.6	5.1	6.7	5.3	5.4	5.1		1.6	1.3
Net FDI (negative = inflow)	-4.0	-9.1	-11.7	-5.5	3.5	-7.0	-6.4	-6.1	-5.5	-5.3	-5.2		-4.3	-4.4
Endogenous debt dynamics 2/	8.0	-1.3	-17.1			1.1	-4.2	-3.2	-0.3	-1.3	-1.2		-0.3	1.8
Contribution from nominal interest rate	1.0	0.8	0.5			1.9	1.8	1.8	1.9	2.0	2.1		2.8	5.2
Contribution from real GDP growth	-2.3	0.4	-4.3			-0.8	-6.0	-5.1	-2.2	-3.3	-3.2		-3.0	-3.4
Contribution from price and exchange rate changes	9.3	-2.5	-13.4			...	...	...	...	...	...		...	...
Residual (3-4) 3/	10.5	8.3	11.5			-2.4	1.5	2.5	4.7	4.5	4.5		2.0	-1.4
o/w exceptional financing	0.0	0.0	0.0			-0.8	-2.7	0.0	0.0	0.0	0.0		0.0	0.0
PV of external debt 4/	...	...	63.6			65.2	61.0	57.7	57.4	56.3	55.4		53.1	64.9
In percent of exports	...	...	108.1			109.1	101.0	90.6	88.1	83.5	79.1		71.7	101.7
PV of PPG external debt	...	...	30.8			32.7	32.4	31.5	32.4	32.2	31.2		27.9	24.9
In percent of exports	...	...	52.4			54.7	53.6	49.5	49.7	47.7	44.5		37.6	39.0
In percent of government revenues	...	...	102.2			99.2	103.1	102.7	104.6	103.4	100.7		87.5	69.5
Debt service-to-exports ratio (in percent)	28.2	19.1	8.9			13.0	14.5	12.7	13.0	13.1	11.8		17.4	36.0
PPG debt service-to-exports ratio (in percent)	3.3	3.6	2.8			2.6	2.3	2.2	2.3	2.4	2.3		2.8	3.7
PPG debt service-to-revenue ratio (in percent)	6.7	6.9	5.5			4.8	4.4	4.5	4.7	5.3	5.3		6.4	6.5
Total gross financing need (Billions of U.S. dollars)	0.6	0.3	0.0			0.5	0.5	0.4	0.3	0.4	0.3		1.3	6.4
Non-interest current account deficit that stabilizes debt ratio	-14.4	2.2	17.4			8.3	9.2	6.8	1.0	2.2	1.8		2.6	4.0
Key macroeconomic assumptions														
Real GDP growth (in percent)	2.9	-0.5	5.7	4.1	3.6	1.0	8.5	7.5	3.3	5.0	5.0	5.1	5.0	5.0
GDP deflator in US dollar terms (change in percent)	-11.3	2.8	16.9	10.5	10.5	3.5	4.2	3.7	2.9	2.3	2.4	3.2	2.0	2.0
Effective interest rate (percent) 5/	1.2	0.9	0.7	1.3	0.4	2.5	2.6	2.7	2.8	3.0	3.2	2.8	4.5	7.7
Growth of exports of G&S (US dollar terms, in percent)	-7.8	-1.1	37.9	21.3	18.0	6.3	14.3	17.3	8.9	11.0	11.9	11.6	6.4	4.8
Growth of imports of G&S (US dollar terms, in percent)	-22.3	6.0	31.7	26.4	23.2	14.7	8.1	10.6	8.8	9.9	9.9	10.3	7.3	3.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	31.8	35.5	34.3	33.3	33.8	31.6	33.4	29.5	16.6
Government revenues (excluding grants, in percent of GDP)	27.1	27.7	30.2			33.0	31.4	30.7	31.0	31.1	31.0		31.9	35.8
Aid flows (in Billions of US dollars) 7/	0.6	0.3	0.3			0.2	0.3	0.2	0.3	0.2	0.2		0.3	0.4
o/w Grants	0.2	0.1	0.2			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2
o/w Concessional loans	0.4	0.1	0.1			0.1	0.2	0.2	0.2	0.2	0.1		0.2	0.3
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.0	3.6	2.2	2.6	2.3	1.8		1.8	1.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			47.6	49.6	45.4	46.4	48.4	50.7		43.6	28.2
Memorandum items:														
Nominal GDP (Billions of US dollars)	4.7	4.8	5.9			6.2	7.0	7.8	8.3	8.9	9.6		13.5	26.6
Nominal dollar GDP growth	-8.7	2.4	23.5			4.5	13.1	11.4	6.3	7.4	7.6	8.4	7.1	7.1
PV of PPG external debt (in Billions of US dollars)	...	...	1.8			2.0	2.2	2.4	2.6	2.8	2.9		3.7	6.6
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			3.1	3.9	2.7	2.9	2.1	1.4	2.7	1.4	1.7
Gross workers' remittances (Billions of US dollars)	1.0	1.3	1.8			2.0	2.2	2.4	2.7	2.9	3.1		3.4	5.9
PV of PPG external debt (in percent of GDP + remittances)	...	...	23.8			24.7	24.6	24.0	24.5	24.3	23.6		22.3	20.4
PV of PPG external debt (in percent of exports + remittances)	...	...	34.9			35.4	35.2	33.3	33.2	32.2	30.6		28.1	28.9
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.9			1.7	1.5	1.5	1.5	1.7	1.6		2.1	2.7

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)] / (1+g+\rho+gp)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes and accounts for the financing gap, which creates debt but is not included in the current or financial account.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of debt-to GDP ratio								
Baseline	33	32	32	32	32	31	28	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	33	30	29	29	28	27	28	2
A2. New public sector loans on less favorable terms in 2012-2032 2	33	34	34	36	36	36	36	41
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	33	34	36	37	37	35	32	28
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	33	37	46	46	45	44	38	28
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	33	33	34	34	34	33	30	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	33	50	66	66	64	62	52	33
B5. Combination of B1-B4 using one-half standard deviation shocks	33	49	68	68	66	64	54	35
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	33	45	44	45	44	43	39	34
PV of debt-to-exports ratio								
Baseline	55	54	50	50	48	44	38	39
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	55	50	45	44	42	39	38	3
A2. New public sector loans on less favorable terms in 2012-2032 2	55	56	53	55	54	51	49	65
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	55	53	49	49	47	44	37	38
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	55	67	90	89	85	79	64	55
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	55	53	49	49	47	44	37	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	55	83	104	101	96	89	70	52
B5. Combination of B1-B4 using one-half standard deviation shocks	55	79	104	102	96	89	71	54
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	55	53	49	49	47	44	37	38
PV of debt-to-revenue ratio								
Baseline	99	103	103	105	103	101	88	69
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	99	97	94	93	91	88	87	5
A2. New public sector loans on less favorable terms in 2012-2032 2	99	107	110	115	116	115	114	116
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	99	110	117	119	118	114	100	79
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	99	116	149	149	146	142	119	78
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	99	106	109	111	110	107	93	74
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	99	160	215	213	207	201	163	92
B5. Combination of B1-B4 using one-half standard deviation shocks	99	157	221	219	213	207	169	98
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	99	143	142	144	143	139	121	96

Table 3b. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 (continued)
(In percent)

Debt service-to-exports ratio								
Baseline	3	2	2	2	2	2	3	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	3	2	2	2	2	2	2	1
A2. New public sector loans on less favorable terms in 2012-2032 2	3	2	2	2	3	3	3	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	3	2	2	2	2	2	3	4
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	3	3	3	4	4	4	5	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	3	2	2	2	2	2	3	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	3	2	3	4	4	4	5	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	2	3	4	4	4	6	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	3	2	2	2	2	2	3	4
Debt service-to-revenue ratio								
Baseline	5	4	5	5	5	5	6	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	5	4	4	4	4	4	5	2
A2. New public sector loans on less favorable terms in 2012-2032 2	5	4	5	5	6	6	7	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	5	5	5	5	6	6	7	7
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	5	4	5	6	6	6	9	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	5	5	5	5	6	6	7	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	5	4	6	8	8	8	13	9
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	6	8	9	8	13	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	5	6	6	7	7	7	9	9
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	21	21	21	21	21	21	21	21

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

ANNEX 4: FUND RELATIONS NOTE



INTERNATIONAL MONETARY FUND

EXTERNAL
RELATIONS
DEPARTMENT

Press Release No. 13/207
June 10, 2013

IMF Completes Fourth Review Under an ECF Arrangement with the Kyrgyz Republic, Approves US\$14.4 Million Disbursement, and Completes Article IV Consultation

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Kyrgyz Republic's economic performance under the program supported by a three-year, SDR 66.6 million (about US\$100.8 million) Extended Credit Facility arrangement that was approved by the IMF's Executive Board on June 20, 2011 (see [Press Release No. 11/245](#)). The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 9.5 million (about US\$14.4 million) to the Kyrgyz Republic. This would bring total disbursements under the arrangement to SDR 47.57 million (about US\$72 million).

In completing the review, the Board approved the authorities' request for a waiver of nonobservance of the continuous quantitative performance criteria on contracting or guaranteeing of new nonconcessional external debt by the public sector. The request for the waiver was approved based on the corrective actions taken by the authorities.

The Executive Board also concluded the 2013 Article IV Consultation with the Republic of Kyrgyzstan. Under the Article IV of its Articles of Agreement, the IMF has a mandate to exercise surveillance over the economic, financial, and exchange rate policies of its members in order to ensure the effective operation of the international monetary system. A Public Information Notice on the Board's assessment of the Consultation will be released separately.

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, stated:

"The Kyrgyz authorities have made good progress under their ECF-supported program. The fiscal targets were met despite a temporary slowdown in growth. The economy is recovering, and the medium-term outlook is favorable. Steadfast implementation of the program will be important to consolidate the gains and guard against downside risks.

"Fiscal consolidation is a priority in the medium term to reduce vulnerabilities, rebuild policy buffers, and ensure sustainability. The authorities' consolidation plans appropriately focus on restraining current spending while preserving social and capital outlays. Reforms in tax policy and administration and public financial management should continue.

"Maintaining a tight monetary policy stance is necessary to mitigate underlying inflationary pressures. Stronger de facto independence will help the central bank to maintain low inflation.

"Creating a well-functioning financial sector is key to supporting private sector-led growth. The new banking code, once approved, will help restore confidence in the banking system. The resolution of Zalkar Bank was an important step, and its operations will need to be closely supervised to ensure compliance with prudential standards.

“Diversification of the economy will help reduce volatility in growth stemming from disruptions in gold production. Good governance and sound institutions remain critical to create a level playing field, improve investor confidence, and lay the foundation for strong private sector-led growth.”

IMF COMMUNICATIONS DEPARTMENT

Public Affairs

Media Relations

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ANNEX 5: LINK WITH DONORS

DPO POLICY AREAS	DONORS' ACTIVITIES
Macroeconomic and fiscal policy framework supports sustained growth with low inflation. Fiscal and external debt indicators improve with the risk of debt distress falling to minimal	IMF Extended Credit Facility (ECF) ADB: Crisis Support program, Economic Policy TA EC: Budget Support, SPSP in Social Policy and PFM Swiss: Government Securities Market Development Project Eurasian Development Bank (Anti-Crisis Fund)
Enhance governance and transparency	EC: PFM, TA in Ministry of Finance, CB in PFM MDTF, judicial sector reforms Swiss: PEFA, CB in PFM MDTF OECD: Anti-Corruption Network for ECA DfID: CB in PFM MDTF DfID : EITI MDTF ADB: Procurement Assessment (jointly with WB) EBRD: Procurement support USAID: Anti-Corruption, judicial sector reforms
Strengthened public finance management	EC: SPSP in SP and PFM, SPSP TA in Ministry of finance, CB in PFM MDTF Swiss: PEFA, CB in PFM MDTF DfID: CB in PFM MDTF
Establish proper accounting in energy sector operations	KfW: Advanced measures Severelectro Loan and TA, Loss reduction in energy sector Loan and TA Swiss: Naryn electricity losses reduction project, At-Bashy hydro power plant rehabilitation project EC: Technical audit of oil and gas pipelines project, regional projects in gas and water management sectors USAID: Kyrgyz Energy Advisory Services USAID: Regional Energy Markets Assistance Program (REMAP-II) 9/2009 — 9/2012
Maintaining financial sector stability.	ADB: Banking Sector and Capital Market Development Program and TA, Rural Livelihood Development Project KfW: KICB, Mortgage Financing, SME Credit line Swiss: SME Financing Facility, Anti-Money Laundering and Counter Terrorism Financing project (impl. IMF) GTZ: Promotion of Microfinance in CA Project IMF TA
Private sector development, improving the business environment	ADB: PSD Project, PPP USAID: Improving technical regulation

ANNEX 6: COUNTRY AT A GLANCE

Kyrgyz Republic at a glance

3/15/13

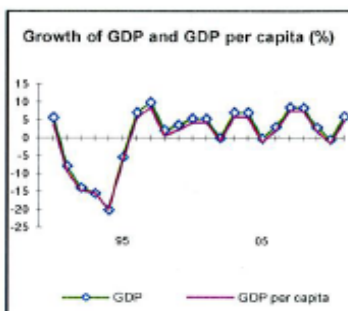
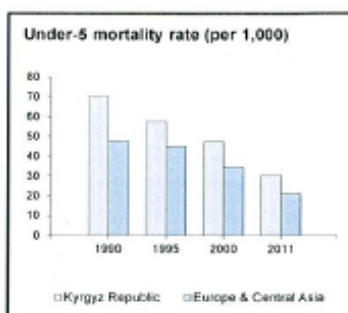
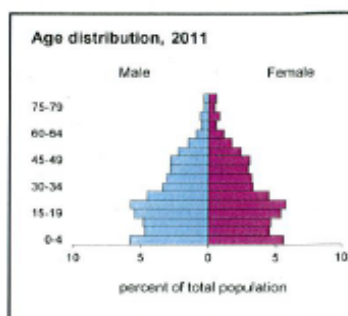
Key Development Indicators

(2011)

	Kyrgyz Republic	Europe & Central Asia	Low income
Population, mid-year (millions)	5.5	408	817
Surface area (thousand sq. km)	200	23,614	10,584
Population growth (%)	1.2	0.5	2.1
Urban population (% of total population)	35	65	28
GNI (Atlas method, US\$ billions)	5.0	3,157	468
GNI per capita (Atlas method, US\$)	900	7,734	571
GNI per capita (PPP, international \$)	2,290	14,323	1,378
GDP growth (%)	6.0	5.9	6.0
GDP per capita growth (%)	4.7	5.4	3.7

(most recent estimate, 2005–2011)

Poverty headcount ratio at \$1.25 a day (PPP, %)	6	0	48.4
Poverty headcount ratio at \$2.00 a day (PPP, %)	22	2	74.3
Life expectancy at birth (years)	70	71	59
Infant mortality (per 1,000 live births)	27	18	63
Child malnutrition (% of children under 5)	3	1	23
Adult literacy, male (% of ages 15 and older)	100	99	70
Adult literacy, female (% of ages 15 and older)	99	97	56
Gross primary enrollment, male (% of age group)	102	100	108
Gross primary enrollment, female (% of age group)	100	100	103
Access to an improved water source (% of population)	90	96	65
Access to improved sanitation facilities (% of population)	93	84	37



Net Aid Flows

	1980	1990	2000	2011
<i>(US\$ millions)</i>				
Net ODA and official aid	..	21	215	380
<i>Top 3 donors (in 2010):</i>				
United States	..	1	25	56
Germany	..	0	5	25
European Union Institutions	..	0	15	24
Aid (% of GNI)	..	0.9	16.7	8.5
Aid per capita (US\$)	..	5	44	70

Long-Term Economic Trends

Consumer prices (annual % change)	..	1208.8	18.7	12.1
GDP implicit deflator (annual % change)	..	7.9	27.2	22.5
Exchange rate (annual average, local per US\$)	..	0.0	47.7	46.1
Terms of trade index (2000 = 100)	..	112	100	81

	1980	1990	2000	2011	1980–90	1990–2000	2000–11	
Population, mid-year (millions)	3.6	4.4	4.9	5.5	1.9	1.1	1.1	
GDP (US\$ millions)	..	2,874	1,370	6,198	..	-4.1	4.4	
<i>(% of GDP)</i>								
Agriculture	..	33.5	36.7	18.6	..	1.5	0.1	
Industry	..	35.0	31.4	30.8	..	-10.3	1.5	
Manufacturing	..	27.1	19.5	20.6	..	-7.5	0.1	
Services	..	31.4	31.9	50.6	..	-5.2	10.5	
Household final consumption expenditure	..	71.1	65.7	84.7	..	-5.8	6.2	
General gov't final consumption expenditure	..	25.0	20.0	18.2	..	-6.8	0.9	
Gross capital formation	..	24.2	20.0	24.2	..	-4.5	8.6	
Exports of goods and services	..	29.2	41.8	54.5	..	-7.6	5.4	
Imports of goods and services	..	49.6	47.6	81.6	..	-8.2	10.0	
Gross savings	..	8.9	14.7	19.4	..	..	..

Note: Figures in italics are for years other than those specified. .. indicates data are not available.

Development Economics, Development Data Group (DECDG)

Balance of Payments and Trade

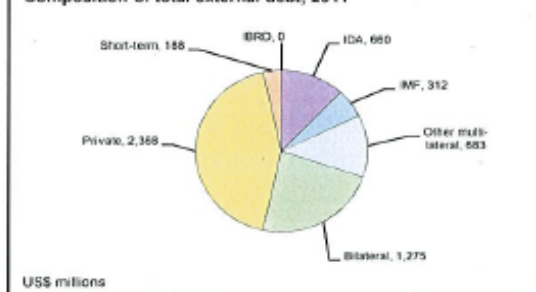
	2000	2011
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	511	2,349
Total merchandise imports (cif)	559	4,005
Net trade in goods and services	-81	-1,871
Current account balance	-75	-380
as a % of GDP	-5.5	-6.1
Personal transfers and compensation of employees (receipts)	9	1,709
Reserves, including gold	263	1,975

Central Government Finance

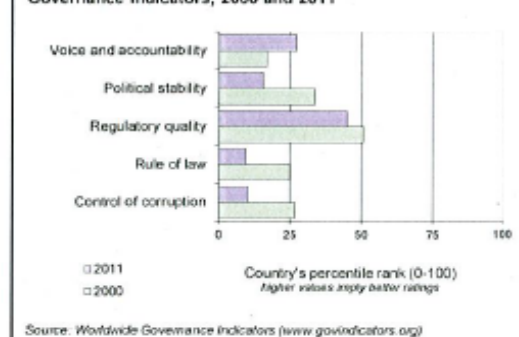
	2000	2011
<i>(% of GDP)</i>		
Current revenue (including grants)	18.5	30.1
Tax revenue	15.1	21.7
Current expenditure	20.8	31.3
Overall surplus/deficit	-9.6	-7.5
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows

	2000	2011
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	1,938	5,486
Total debt service	178	410
Debt relief (HIPC, MDR)	-	-
Total debt (% of GDP)	141.5	88.5
Total debt service (% of exports)	30.2	12.4
Foreign direct investment (net inflows)	-2	391
Portfolio equity (net inflows)	0	5

Composition of total external debt, 2011**Private Sector Development**

	2000	2011
Time required to start a business (days)	..	10
Cost to start a business (% of GNI per capita)	..	3.5
Time required to register property (days)	..	5
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2011
Tax administration	..	33.7
Access to/cost of financing	..	32.7
Stock market capitalization (% of GDP)	0.3	2.7
Bank capital to asset ratio (%)	..	21.6

Governance indicators, 2000 and 2011**Technology and Infrastructure**

	2000	2011
Paved roads (% of total)	91.1	..
Fixed line and mobile phone subscribers (per 100 people)	8	126
High technology exports (% of manufactured exports)	14.8	3.0

Environment

	2000	2011
Agricultural land (% of land area)	56	55
Forest area (% of land area)	4.5	5.1
Terrestrial protected areas (% of land area)	6.9	6.9
Freshwater resources per capita (cu. meters)	9,804	8,873
Freshwater withdrawal (% of internal resources)	20.6	20.6
CO2 emissions per capita (mt)	0.92	1.2
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	3.1	3.8
Energy use per capita (kg of oil equivalent)	490	536

World Bank Group portfolio

	2000	2011
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	377	660
Disbursements	52	28
Total debt service	3	20
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	31	25
Disbursements for IFC own account	0	3
Portfolio sales, prepayments and repayments for IFC own account	5	4
MIGA		
Gross exposure	75	8
New guarantees	0	0

Note: Figures in italics are for years other than those specified.
.. indicates data are not available. - indicates observation is not applicable.

3/15/13

Development Economics, Development Data Group (DECDG)

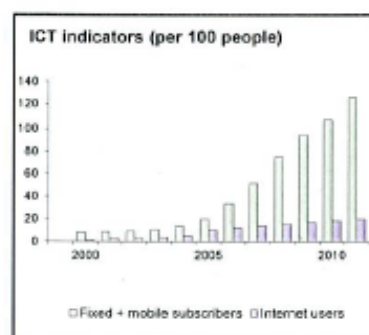
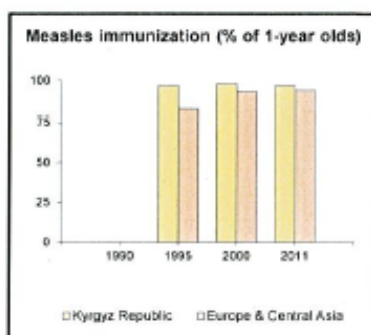
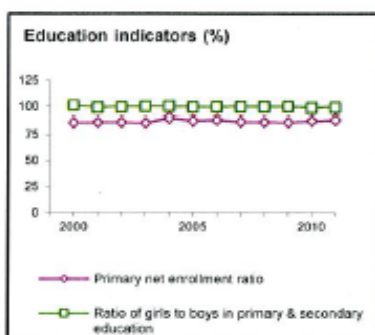
Millennium Development Goals

Kyrgyz Republic

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Kyrgyz Republic			
	1990	1995	2000	2011
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	<2	18.6	34.0	6.2
Poverty headcount ratio at national poverty line (% of population)	..	..	..	33.7
Share of income or consumption to the poorest quintile (%)	10.6	2.5	8.4	6.8
Prevalence of malnutrition (% of children under 5)	..	8.2	..	2.7
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	92	86	88
Primary completion rate (% of relevant age group)	..	103	93	98
Secondary school enrollment (gross, %)	102	87	84	88
Youth literacy rate (% of people ages 15-24)	..	..	100	100
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	100	..	101	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	49	46	51
Proportion of seats held by women in national parliament (%)	..	1	2	23
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	70	58	47	31
Infant mortality rate (per 1,000 live births)	58	48	41	27
Measles immunization (proportion of one-year olds immunized, %)	94	97	98	97
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	73	98	82	71
Births attended by skilled health staff (% of total)	99	98	99	99
Contraceptive prevalence (% of women ages 15-49)	..	60	..	48
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	0.4
Incidence of tuberculosis (per 100,000 people)	92	168	249	128
Tuberculosis case detection rate (% of all forms)	57	44	60	80
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	78	78	82	90
Access to improved sanitation facilities (% of population)	93	93	93	93
Forest area (% of total land area)	4.4	..	4.5	5.1
Terrestrial protected areas (% of land area)	8.4	6.8	6.9	6.9
CO2 emissions (metric tons per capita)	2.4	1.0	0.9	1.2
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	1.5	2.4	3.1	3.8
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	7.1	7.8	7.6	9.3
Mobile phone subscribers (per 100 people)	0.0	0.0	0.2	116.4
Internet users (per 100 people)	0.0	..	1.1	19.6
Households with a computer (%)	..	..	..	4.0



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

3/15/13

Development Economics, Development Data Group (DECDG).

MAP

Map No: KYR3340



KYRGYZ REPUBLIC

- SELECTED CITIES AND TOWNS
- ⊙ OBLAST CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- OBLAST BOUNDARIES
- INTERNATIONAL BOUNDARIES

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