

**WORLD BANK GROUP- KYRGYZ REPUBLIC PARTNERSHIP
PROGRAM SNAPSHOT**



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RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Recent Economic Developments

Economic activity moderated, as higher investments were offset by weak external demand and a poor harvest. GDP expanded by 3.6 percent year-on-year in 2014, driven by a 21.6 percent growth in investment. Construction increased by 24.9 percent, resulting from higher public investment growth and strong demand for residential buildings. On the other hand, higher inflation, stagnant remittances due to lower growth in Russia, and modest wage growth affected disposable income and consumer sentiments, reducing consumption growth. Weaker demand from the country's main trading partners reduced non-gold exports, and adverse weather in early 2014 led to a poor harvest, reducing output in agriculture.

The current account deficit narrowed due to a decline in imports and lower private transfers. Total exports, in US dollar terms, fell by 6.2 percent (y-o-y) as both gold and non-gold exports registered negative growth rates due to lower gold prices, declining re-exports suffering from weaker growth in main trading partners, the closure of the Manas Transit Center and thicker borders. Imports declined by 7.2 percent, as slowing consumption contributed to the reduced demand for re-exports. Private transfers, including remittances inflows and unregistered exports of goods and services, declined slightly.

Borrowing, primarily by the public sector, compensated for reduced foreign direct investment (FDI). Smaller reinvested earnings (mostly by Kumtor, the largest gold mine) as well as other inter-company transactions kept net FDI at US\$245 million in 2014 compared to US\$626 million last year. Still, debt-creating inflows increased, pushing external debt to 81.2 percent of GDP at the end of 2014 from 72.9 percent the year before.

Higher non-tax revenues and stronger grant support helped offset the impact of slower growth on tax revenues, but a spike in capital expenditures increased the fiscal deficit. Slower growth affected the value added tax (VAT), but an increase in excise tax rates for tobacco and alcohol, stronger grant support, and a higher telecom dividend ensured a robust revenue outturn in 2014 (table 1). More intensive works on foreign-financed projects increased public capital expenditures, while current expenditures fell slightly as a share of GDP because of lower purchases of goods and services. Along with continued borrowing, public debt also increased,

reaching 53 percent of GDP from 46.1 percent the year before.

Monetary policy has been tightened in response to rapid credit expansion, higher inflation, and increased pressures on the som, the local currency. The National Bank of the Kyrgyz Republic (NBKR) has increased its main policy rate on four occasions since July 2014 by a total of 400 basis points, bringing it to 10.5 percent at the end of 2014, and also stepped up interventions on the foreign exchange market. Still, significant dollarization, low monetization, and a predominantly cash-based economy limit the effectiveness of the interest rate transmission channel. At the same time, as currencies of key trading partners lost value, the som also came under pressure. The som depreciated by 20 percent against the U.S. dollar, with the NBRK selling more than US\$530 million (or around 20 percent of the country's international reserves) to smooth the adjustment. Gross international reserves stood at around US\$2 billion, exceeding three months of imports and covering broad money almost fully.

Table 1: General Government Budget

	2013	2014
Total revenues and grants	33.4	34.7
Total revenues	31.0	32.2
Tax revenues	25.2	25.3
Non-tax revenues	5.6	6.7
Capital revenues	0.2	0.1
Grants	2.4	2.5
Total expenditure (incl. net lending)	37.3	38.8
Current expenditure	30.4	29.5
Capital expenditure	7.0	8.4
Net lending	-0.1	0.8
Overall balance	-3.9	-4.1
Financing	3.9	4.1
External	5.1	5.6
Domestic	-1.2	-1.4

Headline inflation picked up, as prices adjusted to the weaker som against the U.S. dollar. Annual inflation surged to 10.5 percent in December 2014, up from 4 percent the year before, due to high pass-through from the exchange rate.¹ In addition, higher excise tax rates on fuels and increased energy tariffs contributed to consumer price increases.

Governance

Improved governance and reduced corruption continue to feature prominently in the Government's priorities, including in the National Sustainable Development Strategy, resulting in some progress. Weak economic governance and a high level of perceived corruption have been seen as key hurdles to development in the country, although recent efforts have resulted in

¹ The Kyrgyz Republic shares a number of the characteristics associated with high exchange rate pass-through to consumer prices, including

small size, import dependence (close to 60 percent of food is imported), and limited domestic production.

some improvements. While the country scores poorly on key governance indicators, it has made modest—but more importantly, continuous—gains recently on several Worldwide Governance Indicators (WGI), including voice and accountability, rule of law, and control of corruption. The Kyrgyz Republic has also made progress on other indicators, albeit from low levels, such as Transparency International’s Corruption Perception Index, where it ranked 136th out of 175 countries in 2014 compared to 164th out of 183 in 2011. However, both the BEEPs Survey² and the World Economic Forum’s *Global Competitiveness Report 2014–2015* found political instability and corruption as the most problematic factors for doing business in the country. Levels of public trust are low,³ and citizens have an especially negative perception of economic governance in the energy and mining sectors and in the area of public financial management, particularly public procurement.

The anticorruption agenda is seen as a priority for all branches of power in the Kyrgyz Republic. The president is a champion of several anticorruption initiatives and also heads the Defense Council, whose Secretariat is a coordinating body for anticorruption activities across all branches of power. The authorities are also drafting a Law on Conflict of Interest, expected to be adopted by the Parliament later in 2015.

Among the key priorities in the Public Sector Reform Roadmap are higher standards in public accountability, the enforcement of control over the budget, and stronger management of public assets. Budget transparency is improving and all extra-budgetary funds (except the Social Fund) have been consolidated into the budget. Approved budget laws, revised budgets, the medium-term budget framework, and monthly and annual budget execution reports are accessible to the public. The draft Budget Code proposed a number of improvements in the budgeting process. Parliamentary oversight and public debates in the Parliament, operationalization of a “Transparent Budget” portal where one may find data on revenue and expenditure, and the introduction of an e-procurement system have made it more difficult to misuse public resources. Budget hearings open to the public have been introduced. The full Extractive Industries Transparency Initiative (EITI) compliance certificate, awarded to the country in 2011, demonstrates progress in and continuing commitment to reducing corruption in the mining and extractive sector. A new Public Procurement law should bring the institutional framework for public procurement in line with good international practice.

The institutional and legal frameworks for improved governance continue to evolve. The first Judicial Sector Development Program to increase public confidence in the justice system by improving its transparency and also to ensure the independence of judges and enforcement of their decisions has been adopted by the Government. Currently, the authorities have already started publishing court decisions in pilot courts and are revising the judge selection process to reduce subjective influences. Measures in six subareas of public sector reform (anticorruption, judicial reform, public financial management, public administration, civil service, and sectors with a large share of state ownership) were consolidated under a Public Sector Reform Roadmap.

Transparency and governance are at the center of the World Bank Group Country Partnership Strategy (CPS) for FY14–17. The main objective of the CPS is to improve governance, largely focusing on three broad areas: public administration and public service delivery; the business environment and investment climate; and the management of natural resources and physical infrastructure. The ongoing programmatic Development Policy Operation (DPO) series supports governance reforms in anticorruption, the judiciary, public financial management, energy, and trade and competitiveness, as governance improvements in these areas are crucial to the country’s ability to move forward on this agenda. The policy dialogue under the DPO is effectively supported by the Public Financial Management Trust Fund, which supports fiscal governance, particularly the improvement of the budget process, public procurement reform, energy sector activities, Medium-Term Budget Framework (MTBF) implementation, and internal audit reforms. A technical assistance project supports the office of the Prime Minister in the implementation of the Public Sector Reform Roadmap, including advice on developing the necessary legislation, monitoring the program, and implementing a communications campaign. The International Finance Corporation (IFC) and World Bank also provide advice on improving the investment climate. The Bank’s Public Expenditure Review is at the same time providing the analytical foundations for improved governance in a number of sectors, including wage-bill management, education, social protection, and energy. A technical assistance project supports the office of the First Vice-Prime Minister in the development of the Public Sector Reform Roadmap and implementation of the reform agenda.

² BEEPs stands for Business Environment and Enterprise Performance Survey.

³ Life in Transition Surveys 2006, 2010, 2013.

Public Financial Management



Progress on improving public financial management systems since 2005 can be traced through the Public Expenditure and Financial Accountability (PEFA) assessments. Budget credibility, budget predictability, and control over budget execution have deteriorated, although some progress has been achieved in: budget comprehensiveness; efforts to link the budget with policies, accounting, and reporting; and external scrutiny and audit between 2005 and 2009.

The World Bank supports public financial management through the *Capacity Building for Economic Management Project* and the *Multi-donor Trust Fund for Public Financial Management Project*. A major step forward in public financial management will require the creation of an automated financial management information system (FMIS) that meets international standards, and the development of a sound legal framework in the form of a Budget Code. A draft of the code has received comments from various stakeholders and has been forwarded to the Government for consideration.

Other key reforms necessary for advancement in public financial management include strengthening the budget processes, improving budget transparency, strengthening the link between a MTBF and the annual budget, introducing performance budgeting, and continuing the capacity-building process at key government institutions.

Financial Sector Development

The Kyrgyz financial sector is bank dominated, although microfinance organizations are playing an increasingly important role. The banking sector remains relatively stable and profitable. In 2014, the liquidity ratio stood comfortably above the minimum regulatory requirement of 30 percent. The capital to risk-weighted asset ratio fell to 21.8 percent, however, due to an increase in credit to the private sector, and remained well above the legal minimum threshold of 12 percent. Returns on assets and equity were at 2.6 and 18.7 percent, respectively. Meanwhile, nonperforming loans (NPLs) were at a notably

low 4.5 percent at the end of 2014. Provisions covered 58.8 percent of NPLs classified as substandard (34 percent of NPLs), doubtful (32 percent), and loss (34 percent). Although financial stability indicators suggest that there is significant capacity in the sector for growth, the 46 percent run-up in credit against the 57.6 percent dollarization in 2014 caused regulatory concern.

The low level of financial intermediation is broadly in line with income level. The economy remains heavily cash based. Bank private credit to GDP reached 19.8 percent at end-2014, and lending from microfinance organizations (MFOs) accounted for 5.2 percent of GDP. Bank credit grew by 46 percent in 2014 compared to 35 percent the previous year. The increase in credit contributed to strong domestic demand, especially in agriculture (54 percent growth), mortgage (50.5 percent), and construction (56 percent). Loans with over three-year maturity accounted for 37 percent of total loans and grew by 62.4 percent in 2014, which could suggest growing investor confidence. However, despite this growth, financial intermediation in the Kyrgyz Republic remains among the lowest in the region. Recently enacted legislation on a payment system and on a credit information exchange defined the regulatory framework that is needed for the deepening of financial intermediation.

The World Bank Group supports financial sector development through policy advice, technical assistance, and financial support. The Bank has provided diagnostics and policy advice on financial sector vulnerability, access to finance, banking sector supervision, the deposit insurance system, and financial institutions such as pension funds and insurance companies. The *Financial Sector Development Project* focuses on strengthening the regulatory and supervisory framework for the banking sector; expanding financial services via the Kyrgyz Post Office's (KPO) network; and modernizing the movable collateral and debt resolution regimes. The scope of technical assistance has been expanded to include enhancing the deposit protection framework; strengthening the non-banking sector supervisory capacity of the NBKR; and improving the regulatory and supervisory framework for Islamic banking.

IFC invests in financial markets to expand access to finance for micro, small, and medium-sized enterprises (MSMEs), including women, in rural areas. IFC's advisory services in housing microfinance, capacity building of financial institutions, and the promotion of responsible finance in the Kyrgyz microfinance sector presently complement these financial market investments. In addition, IFC has been implementing advisory services projects focused on improving the financial infrastructure, specifically credit information-sharing systems and risk management education, and on improving the business

environment, capacity, and financing for agricultural supply chains.

Private Sector Development



The Kyrgyz Republic’s private sector is concentrated in a few areas, with employment largely in the informal sector. While the country’s exports and value added are concentrated in metals and minerals (particularly gold), employment is concentrated in labor-intensive activities such as agriculture, garment production, and the retail trade. Small and medium-sized enterprises (SMEs) and individual entrepreneurs contribute up to 19 percent of employment and up to 37 percent of GDP.

There are a number of areas where the environment for the private sector could be strengthened. The country’s performance on *Doing Business* is inconsistent, with a relatively poor performance on a number of topics. As agreed with the Government, the *Doing Business* team is providing targeted assistance to improve Kyrgyzstan’s rankings. On another measure of the environment for private business—the *Global Competitiveness Index*—the country’s position was 108 in 2014–15. The Kyrgyz performance on these measures occurs despite legislative and institutional reforms, whose impact has been attenuated by a gap between laws and their implementation.

The Government is focused on continuing to work to strengthen the private sector. The authorities issued a five-year Strategy for Sustainable Development (SSD) that targets annual GDP growth averaging 7 percent. This is to be achieved through governance reforms and economic diversification based on an expanding private sector. Agribusiness, energy, mining, transport, and tourism are cited as promising areas for diversification and growth, with human capital and skills development to be addressed through social sector reforms.

The World Bank Group has launched a number of programs and initiatives to support private sector development. The Ministry of Economy has developed the National Private Sector Development Program and its medium-term action plan to help clarify the Government’s vision for improving competitiveness and the investment

climate, and this will be used as an instrument for donor coordination. At the request of the ministry, the World Bank Group has provided analyses of the potential impacts of price changes on low-income consumers and on net buyers and sellers of food caused by accession to the Customs Union (CU), and of the potential employment impact on the formal sector for firms directly affected by the CU.

The Private Sector Development Policy Dialogue program is supporting investment climate reforms. The *Tax Reform and Gender Project* aims to reduce the implementation gap between *de jure* and *de facto* tax regulations and their discriminatory impact on female entrepreneurs. Based on focus group discussions and in-depth consultations, certain areas for pilot interventions and their impact assessments have been determined and approved. The *Reducing Technological Barriers to Entrepreneurship and Trade Project* strengthened the institutional governing quality of Kyrgyz products; created opportunities for the regional collaboration of quality systems authorities in Central Asia; and established a culture of quality, evidenced by the sizable stream of producers willing to pay for quality enhancement services provided by Kyrgyz laboratories. IFC’s *Central Asia Tax Project* supports the Kyrgyz Tax Service’s capacity in terms of risk-based audit, the implementation of a fully functional VAT refund system, and a reduction in the frequency of tax reporting and payments for SMEs.

IFC is continuing implementation of the project, focusing on improving the business environment, with a particular emphasis on the agriculture sector. The project aims to generate substantial compliance cost savings and investment as a result of a reduction in the inspections coverage of businesses and an improved regulatory framework for investment policy.

IFC also helped the Government to adopt amendments to the Law on joint-stock companies, introducing mandatory cumulative voting and implementing an assessment of corporate governance.

Poverty



Consistent with low economic growth, poverty in the Kyrgyz Republic has remained high and stagnant. The most recent national poverty estimates of absolute and extreme poverty are 37.0 percent in 2013.⁴ This constitutes a decline of about one percentage point compared to the 2012 poverty level, though it remains above the 2011 rate.

In comparison to other countries in the region, shared prosperity, measured as the consumption growth of the most vulnerable population in the bottom 40 percent, shows significant progress. In the Kyrgyz Republic, the average consumption growth for all households was 2.5 percent, while the growth rate of consumption per capita of the bottom 40 percent was about 6 percent during 2006–11, which is higher than in the Baltic countries.

The labor market was the most important factor driving down poverty by almost three percentage points in 2010–13 (as measured by the national poverty line). Wages remain the most important driver of improved living standards, along with pensions. Though most remittances went to a relatively small portion of the population (15 percent), their growth fueled the expansion of the non-tradable sector, especially low-skilled jobs in construction and services.

The previous convergence in rural and urban poverty rates reversed in 2013 due mainly to a sharp decline in urban poverty. Previous trends since 2004 showed a narrowing gap between the rural and urban poverty rates, but in 2013, the gap started to widen again. By 2013, rural poverty increased by 1.8 percentage points, reaching 41.4 percent of the rural population, while urban poverty had declined sharply by 7 percentage points, leveling at 28.5 percent of the urban population. The observed dynamics underline the great degree of annual volatility of regional-level poverty rates, and rural poverty rates may be correlated to low growth in the agriculture sector, though this requires further analysis. The poverty rate based on the extreme poverty line in urban areas has declined from 4.2 percent in 2012 to 1.6 percent in 2013, perhaps in part because food prices remained largely unchanged in 2013. Rural extreme poverty rates show a continuation of a declining trend over recent years.

The poverty gap ratio declined during 2012 and 2013, indicating that the poor are better off than previously. An additional important indicator of poverty changes is the poverty gap ratio, which shows how far the poor's consumption per capita lies below the poverty threshold.

⁴ The official absolute poverty rate is comparable to the purchasing power parity (PPP)-corrected US\$2.50 per day poverty estimate for 2011 of 34.3 percent.

The reported poverty gap and poverty severity index (i.e., the squared poverty gap) narrowed by 0.7 and 0.4 percentage points, respectively, in 2012–13, indicating that inequality among the poor and the depth of poverty are on a decreasing trend. Poverty gaps for food poverty approach zero.

Social Protection



Enhancing the effectiveness of social protection expenditure, including its impact on poverty, is one of the key challenges facing the Kyrgyz Republic. Non-contributory social protection expenditure increased significantly from 1.3 percent of GDP in 2008 to 2.2 percent in 2014 (higher than the Europe and Central Asia [ECA] average of 2 percent and significantly higher compared to peer countries). Past increases in spending have often favored categorically targeted programs that mostly benefit better-off individuals. As a result, more than two-thirds of social assistance spending goes to poorly targeted programs. At the same time, the Monthly Benefit for Poor Families with children (MBPF), the program with the greatest potential to alleviate extreme poverty and contribute to equalizing opportunities in the early years—critical for success in adulthood—has seen drops in coverage and been underfinanced. The MBPF is well targeted on the poor, but more than 60 percent of children in the poorest quintile remain uncovered. In addition, the benefit amount is inadequate to meet even the most basic needs.

The Government has taken steps to improve the performance of social assistance expenditure. Spending in the regressive cash compensation program (former privileges) has slightly declined, thanks to the policy of keeping the number of beneficiary categories and benefit amounts in check. The Guaranteed Minimum Income (GMI) was increased by 57 percent in 2012 and 10 percent in both 2013 and 2014, improving the adequacy of the MBPF. However, more decisive action is necessary in order to improve the coverage of children in the poorest quintile. The newly adopted National Social Protection Program 2015–2017 aims to shift spending toward the

MBPF to reach 45 percent of the total benefit budget, administered by the Ministry of Social Development, and to improve its adequacy.

The pension system suffers from the effects of prevailing macroeconomic, fiscal, and labor market conditions, as well as from systemic pension design issues. Though about 90 percent of the elderly population is now receiving labor pensions, only about 30 percent of the working-age population is accruing pension rights with the pension system, leaving almost half of the future old-age population with low social pensions and thus potentially increasing future poverty rates among the elderly. Basic pension financing and the growth of the number of social pension recipients will dramatically increase government pension spending. As a result, unless reforms are implemented, the total public pension spending is projected to increase to 11–12 percent of GDP over the next two–three decades and further to 14–15 percent in the longer run, posing a challenge to the financial sustainability of the pension system. In addition, inadequate benefit levels make the system unsustainable from the social standpoint, with an increasing risk of pressure on the Government to raise labor pensions and the system’s cost growing even further. The Government has elaborated a National Pension System Reform Strategy to address a broad range of issues, including fiscal sustainability, coverage, and administrative efficiency.

The World Bank supports the social protection sector via a component of the *Second Health and Social Protection Project*, which supports the deepening of reforms in the system of social assistance, the modernization of services for the disabled, and further development of the social protection management information system (MIS). Previous activities under the project included direct budget support to increase the benefit level under the MBPF, and support to the development and rollout of the social protection MIS. These activities are complemented by a technical assistance program to strengthen the capacity of the Ministry of Social Development, financed by the Rapid Social Response Multi-Donor Trust Fund, and a Public Expenditure Review of Non-Contributory Social Protection and Pensions.

Gender

The Kyrgyz Republic’s laws and institutions promote the equal access of men and women to human capital development. There are restrictions regarding the employment of women in the areas of mining, construction, and metalworking, as well as in certain

factories, jobs requiring lifting weights above a threshold, and jobs deemed hazardous or arduous.

There are noticeable gender differences in the demographic structure in the country. In the age group over 35 years old, the number of women exceeds the number of men, and the number of men is two times lower than women among people 80 years old and older. The difference in life expectancy at birth is lower for boys (at 15 years old) by eight years and correlated to the death rate; the mortality rate for men is 1.5–1.6 times higher than the rate for women. Furthermore, about two-thirds of migrants are men, which also reduces the population of prime-age men.

The country continues to exhibit a strong performance in equality of gender in health and education. Life expectancy for women and men at (74 and 66 years, respectively) continues to exceed the average for low-income countries (LICs). Education opportunities for girls and boys are high, and school enrollment rates are comparable. However, a gender gap exists at the tertiary level and is in favor of women—46 percent and 37 percent for female and male gross enrollment rates, respectively. Both the secondary school and tertiary enrollment rates exceed the average of low-income countries.

Women face disadvantages in access to economic opportunities. Economic activity among women is almost 1.5 times lower than among men. Employment varies significantly across age groups. The highest gap is observed in the age groups of 25–34 years and 55–64 years, due to childbirth and childcare for the first age group and to earlier retirement for the second age group. In these age groups, the difference in the male and female unemployment rate is also the widest. The high unemployment rate in the 15–24 age group is mostly driven by very high youth unemployment in urban areas. In rural areas, youth unemployment is lower, but the difference between male and female unemployment is widest.

Although the country continues to make strides in giving men and women equal status and protection under the law,⁵ women are underrepresented in managerial positions in private companies and the government. About 60 percent of all public servants are male. At the working level, including senior staff appointments, women are prevalent and hold professional and senior positions.

⁵ In 2011, the Electoral Law was amended and now specifies a 30 percent quota for either sex on electoral lists.

Health



The Ministry of Health has developed a new health strategy “Den Sooluk,” which aims to address key shortcomings in the current health care delivery system. Despite structural and organizational reform efforts, Kyrgyzstan is still struggling to catch up to epidemiological changes in the morbidity and mortality patterns over recent years. In addition, the efficiency of public spending on health and the governance of health institutions need further improvement.

The strategy emphasizes actions on the prevention and effective management of cardiovascular diseases (CVDs), improvements in maternal and child health (MCH), and prevention and control of tuberculosis (TB) and HIV/AIDS, as well as measures to improve the coordination between health care levels. The implementation of the strategy is being supported by development partners in a sector-wide approach.

Implementation progress of the “Den Sooluk” program:

On inter-sector tobacco control, the law on increasing taxes, including taxes on tobacco products, has been approved by the Parliament. In addition, the Kyrgyz Government has adopted a new governmental regulation mandating pictorial health warnings on tobacco products starting in January 2016. These policy changes represent important progress toward greater control of tobacco in the country.

The MCH priority program has demonstrated good progress in reducing child mortality, but maternal mortality continues to stagnate. Kyrgyzstan is on track to achieve the fourth Millennium Development Goal (MDG) by reducing perinatal mortality due to a focused and consistent adherence to agreed approaches and implementation of essential evidence-based programs and policies, including effective prenatal services, neonatal care and resuscitation, breastfeeding initiation right after birth, exclusive breastfeeding, regionalization, etc. In contrast, progress on maternal mortality reduction has stagnated and the Kyrgyz Republic will not achieve its target MDG5

goals by 2015. The fact that the main reasons for maternal deaths are sepsis, preeclampsia, and bleeding reinforces the argument for strengthening primary health care and improving the quality of care and awareness activities provided to mothers.

The CVD priority program has demonstrated progress, suggesting that the overall strategy of stepping up population activities and strengthening primary health care is appropriate and is leading to expected results. Under-65 CVD-related mortality is declining, but CVD mortality among the 30–39 age group has increased, particularly in younger men. Infarction-related mortality has exceeded the program goal, which was to slow down acceleration in mortality rates observed in recent years. Although stroke-related mortality has reportedly declined, particularly in the over-65 group, it is not clear if this decline reflects a genuine decrease in stroke-related mortality or a reduction in the improper classification of stroke as the cause of unwitnessed deaths. While this progress is a welcome development, CVDs still account for over 50 percent of mortality in the country and should remain the priority area for further health interventions.

Key impact indicators of the TB prevention and control program showed positive trends. The improvement in diagnostics and treatment helped to stabilize TB case notification at 102.4 per 100,000 people. Better access to rapid TB diagnostics is available in the country and drug sensitivity testing (72 percent in 2013) has expanded. Priority actions for the TB program in the coming years should be focused on improving the quality of TB case management in health care facilities.

Incidence of new HIV cases in Kyrgyzstan displays a decreasing trend, from 13.2 per 100 000 people in 2012 to 9.1 in 2013 and 8.2 in 2014. New HIV cases are decreasing in absolute numbers as well. Despite this progress, the HIV program has yet to demonstrate improvement in halting the rise in new HIV cases, the main impact indicator for this program.

The key policy actions that are essential for the continued implementation of the “Den Sooluk” Health Reform Program involve:

- **Further promoting tobacco control:** develop an action plan for tax increases in the following years and regulations to ban smoking in public places.
- **Further developing primary health care:** strengthen leadership for primary health care in the Ministry of Health; refine the PHC model; expand the role of rural nurses; and improve financing and motivation.
- **Increasing health expenditures:** manage the health budget, which in 2014 was reported to have been 13.1

percent of the state budget, a level that is essential to ensure that the health budget is also sustained in nominal terms. Non-salary expenses at a level of 31.4 percent are below the targeted 35 percent. As non-salary expenses are also below the target, this remains a policy concern for the coming years.

- **Advancing health financing reforms:** strengthen strategic purchasing and provider payment mechanisms, improve public financial management and transparency, redefine the State Guarantee Benefit Package, and revise payment mechanisms for CVD and TB priority programs as key enabling conditions for better detection, improved disease management at the primary health care level, and improved care coordination across all levels.

Education



The Kyrgyz Republic has a literacy rate of nearly 99 percent and a strong history of education. The Government allocates a solid 20 percent of its expenditure to the education sector, with universal primary enrollment. The key challenge is to turn this spending into better learning outcomes for all. Informed by the results from national (National Sample Based Assessment [NSBA]) and international (Program for International Student Assessment [PISA]) assessments, which report that more than 80 percent of Kyrgyz students were deemed “functionally illiterate” in mathematics, reading, and science according to the PISA methodology, the Government has initiated a set of reforms elaborated in its Action Plan for 2012–2014, to be followed by a subsequent Action Plan for 2015–2017.

Key priorities include expansion of the coverage of preschool education, reform of curricula and assessments, enhancement of teacher pedagogical practices, and a deepening of financing reforms through an expanded per student financing approach.

The program consists of an International Development Association (IDA)-financed *Sector Support for Education Reform Project*, financed by the Global Partnership for Education *Early Education Project*, focusing on school quality and management and increasing

equitable access to preschool education and school readiness; and a Russian Trust Fund–financed Russia Education Aid for Development (READ) program to strengthen the national assessment system.

The earlier pilot and the ongoing reforms have contributed and will continue to contribute to the following results areas:

Expanded access to preschool education:

Access to preschool education for children aged 5–6 was increased to 50 percent in 2013 and is planned to reach 100 percent; 2,135 preschool classes were opened countrywide for an enrollment of 55,000 children aged 5–6 to support a smooth transition to primary school; an additional 3,254 teachers were trained and made qualified for preschool education; 90 percent of the teachers in newly established kindergartens will be trained and certified; 2,135 packages of children’s learning materials and furniture were provided to schools; 100 percent of school preparation classes will receive a package of essential teaching-learning materials and furniture; about 100 new community-based kindergartens will be established in poor and rural communities, with a target enrollment of 10,000 children of 3–5 years; 5,750 school and kindergarten teachers will be trained; a legal regulatory framework pertaining to preschool financing will be developed; and the introduction of shift models of preschool education will be reviewed and revised.

Improved school quality and management:

- 10,000 teachers will be trained for enhanced classroom practice for grades 1–4; and all school directors will be trained on school development planning, reporting, and financial management;
- 100 percent of schools and students in grade 3–4 will receive new textbooks in their native tongue, math, and motherland studies; 3 million copies of textbooks and learning materials will be distributed; and a new curriculum for grades 5–9 will be finalized;
- a new financing model for schools will be operational, making them accountable for annual budget and expenditures; and the use of school report cards to the community and other stakeholders on performance and budgets will be expanded.

Strengthened student assessment system:

- 10,000 teachers were trained for classroom-based assessments in all oblasts;
- a new strategy for a national assessment has been developed;
- two new instruments will be tested and introduced into the system: 1) for school readiness measurement and 2) for the observation of pedagogical practices.

Agriculture and Irrigation



The agricultural sector generates about one-fifth of the country's GDP, about one-third of its employment, and about 13 percent of total exports. Farm incomes are driven by irrigated agriculture (1.3 million hectares) and pasture-based livestock production (9 million hectares). In the late 1990s, Kyrgyzstan was a leader among the Commonwealth of Independent States (CIS) countries in land reform and land privatization. The mass distribution of land proved to be an effective measure to regain the value of agricultural production lost pre- and post-independence. It also provided an effective safety net and food security for the majority of the population. However, the fragmentation of land is increasingly seen as an unfavorable factor for the productivity and competitiveness of the sector, and the process of fragmentation still continues.

Reforms and investments in the irrigation subsector remain a big item on the agenda. While the Law on Water Users Associations has been implemented successfully, implementation of the Water Code and water resources management reforms is still a challenge. The water fee charged for state irrigation services to the Association of Water Users was set in the late 1990s and has not been revised since, making it completely inadequate for cost recovery, although the collection rate is at a relatively high standing at 85–90 percent. In the livestock sector, a new paradigm of pastures management has been set by the Pasture Law, which delegates the responsibility of pastures management to the local community through unions of pasture users.

The World Bank and IFC are improving marketing links between farmers and businesses. The *Agribusiness and Marketing Project* boosted the trade and promotion of Kyrgyz agricultural products, both domestically and abroad. The project facilitated sales of US\$17.5 million, of which 89 percent was to export markets such as Kazakhstan, Russia, Bulgaria, Moldova, and Turkey.

Current projects include the *Second On-Farm Irrigation Project*, the *Pasture and Livestock Improvement Project*, and the

Agricultural Productivity Assistance Project. Results include: the establishment of 481 water users associations and the rehabilitation of 175,000 hectares of irrigation schemes; the establishment of 454 pasture users unions, and increased access to an additional 51,000 hectares of pasture through community investment in bridges, tracks, and watering points; a halving of the incidence of brucellosis in humans following mass vaccinations and a public information campaign; and the training and equipping of over 1,100 private veterinarians and the establishment of the Veterinary Chamber to accredit veterinarians.

Support to the agriculture sector will be continued through several new projects: the *National Water Resources Management Project*, the *Agricultural Productivity and Nutrition Improvement Project*, the Food Security Program, and the Central Asia Agri Finance Program, which has a focus on dairy sector development.

Energy



The energy sector is one of the most important in the Kyrgyz economy, accounting for roughly 3.9 percent of GDP and 16 percent of industrial production. The bulk of the country's current generating capacity is hydropower, developed for the dual purpose of generating electricity and serving as the irrigation water supply for the Kyrgyz Republic and downstream countries.

The power sector has a potential for export that is currently not fully realized. Other features are the relatively low cost of hydropower generation, its reliance on clean sources of energy, and the near universal access to the power supply.

However, the energy sector does face several challenges, including the poor reliability of the energy supply and inadequate service quality; the weak financial standing of the sector leading to delays in necessary capital expenditures; and governance issues throughout the sector. Although collection rates remain high (more than 95 percent), the sector suffers from high losses, exceptionally low tariffs, and old, severely undermaintained assets. There is an emerging gap between

the available winter generation capacity and winter demand, which is projected to grow unless serious reforms and investments are undertaken.

The Kyrgyz Republic has also taken steps to initiate a process of improved governance and transparency in the sector. The Government adopted an Action Plan on reforming the energy sector. The plan envisages a comprehensive set of reform measures, including the establishment of a Settlement Center for the transparent operation of the wholesale market; the adoption of a tariff-setting methodology and policy that will ensure the gradual attainment of cost-recovery levels of tariffs; the adoption of a new Energy Law delineating the functions of policy making, economic regulation, and anti-monopoly monitoring; the transparent and competitive procurement of fuel resources; and escrow accounts for power export revenues for the power generation and transmission companies. Amendments to legislation in the energy sector and also the Mid-Term Tariff Policy from 2014–17 for heat and electric energy have been approved, which envisage a gradual increase in heating and power tariffs. The Government has also established an independent Regulator for the Energy Sector, serving as a single entity for economic regulation of the sector.

The World Bank recently approved a DPO for the energy Sector. Certain key reforms have been implemented, including the establishment of the Regulatory Agency; the adoption of the Mid-Term Tariff Policy; and the application of a methodology for setting tariffs as well as key performance indicators for measuring service quality.

The World Bank has completed a study on identifying viable winter heating solutions. In addition, the Bank has approved two investment operations to (i) support the country through the development of export markets (the regional *CASA-1000* project⁶) and through improvements in the reliability of the electricity supply in the service area of the largest distribution company; and (ii) strengthen the governance of the company's operations through the establishment of a transparency and accountability framework (*Electricity Supply Accountability and Reliability Improvement Project*).

Municipal and Community Services



Access to municipal services and service quality remains a challenge. Municipalities, which are responsible for the provision of water supply, solid waste collection, municipal roads, and public lighting, have been struggling to expand services to the quickly growing urban population, sustain regular maintenance, and ensure the adequate quality of existing services. Infrastructure is in poor condition and tariffs are in most cases below cost-recovery levels. There is a significant financing gap to meet investment needs.

The World Bank has provided financing since the early 2000s to improve access to basic public services. The ongoing projects focus on water supply, sanitation, local roads, solid waste, and other public services in Bishkek, Osh, 23 small towns, and over 200 villages. These projects also address the institutional and capacity-building needs of local utilities.

Currently, the World Bank is supporting the *Bishkek and Osh Urban Infrastructure Project*, which has so far: rehabilitated 21 kilometers of roads (for about 30,745 beneficiaries) in Bishkek and the water supply system (about 50,000 beneficiaries) in Osh; implemented 77 social investment projects that have benefited 210,300 residents of Osh and Bishkek; developed a Municipal Asset Management Information System, which will improve management, accountability, and transparency in municipal governance; and financed investments in the water supply—Bashkara-Suu water intake—to supply water to over 100,000 residents of *novostroiki* (informal settlements) in Bishkek.

The *Second Rural Water Supply and Sanitation Project* has achieved the following: rehabilitation works completed in 55 villages, reaching about 83,000 beneficiaries with improved water supply services; the Hygiene and Sanitation Program implemented by UNICEF; 82,160 people trained on improved hygiene

⁶ CASA-1000 refers to the Central Asia South Asia Electricity Transmission and Trade Project.

practices (74 percent were women); the Government State Water Supply and Sanitation Sector Strategy developed and approved; current water supply and sanitation legislation, financial modeling, and water disinfection technologies reviewed; 289 Community Drinking Water Users Union members trained on fee collection and the management of water and sanitation schemes; and water supply and sanitation data from 1,899 villages compiled in a database managed by the Department of Drinking Water and Sanitation.

Transport



One of the core challenges of the Kyrgyz Republic is to create reliable transportation connections⁷ that link people and markets to opportunities at the local, regional, and international levels.

The rehabilitation of strategic road links is therefore a priority of the Government, given that 92 percent of all passenger flows and 59 percent of all freight traffic in the country is carried by road. Mountains make travel difficult; roads cross mountain passes of 3,000 meters in altitude and are subject to frequent natural disasters. Improved connectivity, however, will be achieved only if reforms in areas of trade facilitation and logistics are addressed simultaneously. Trade and logistics costs are very high (about 18 percent of the value of imports/exports) as reflected in the Logistics Performance Index (149th out of 160 countries).

With a complex regulatory environment and a rolling stock and air fleet that is almost entirely obsolete, most network infrastructure still requires significant investments in rehabilitation and reconstruction. Adopting a more liberal air transport policy (open skies) to allow both local and foreign carriers to operate from and to any airport in the country is also currently under consideration but would require further work on setting up the right institutional framework. Those changes may

result in positive improvements but would not necessarily guarantee increased capacity or lower transportation costs.

Following a collaborative initiative of the Government of the Kyrgyz Republic and neighboring Central Asian countries, the World Bank has provided financing toward a regional program (Central Asia Road Links, CARs), which has the objective of improving cross-border road transport links and enhancing regional economic development. *The Central Asia Road Links Project – Phase 1* covers road links connecting Batken and Isfana cities to the border crossing points at Kyzyl-Bel/Guliston and Kairagach/Madaniyat with Tajikistan (total 56 kilometer-long road sections). The main results expected under the project include: a 10 percent increase in freight volume; a 19 percent increase in the market accessibility index in Batken oblast; and a 19 percent decrease in road user costs by trucks along the project road sections.

The World Bank has also supported the development of the roads sector through the *National Road Rehabilitation (Osh-Batken-Isfana) Project.* The project has financed the rehabilitation of about 50 kilometers of the Osh-Batken-Isfana road, including 32 kilometers from Pulgon to Burgandy, and 18 kilometers of the Nookat pass. Rehabilitation of 32 kilometers has resulted in an increase of vehicles from 3,046 per day in 2009 to 4,570 in 2014 and a tenfold increase in truck traffic. Travel time has halved, thus improving the access of the population to services and markets. The project also financed the rehabilitation of the Osh bypass and airport roads. A *Road Safety Strategy and Action Plan* has also been developed. As per the request of the Ministry of Transport and Communication, the project financed the establishment of a Road Asset Management System, a database with an inventory of 18,000 kilometers of roads and data on the condition of 1,500 kilometers to support maintenance planning, programming, and budgeting and to monitor the performance of the road network.

In the railways sector, the World Bank has provided advisory services to the the Ministry of Transport and Communications on the proposed development of a new rail link connecting China with Uzbekistan through the Kyrgyz Republic. This work was funded by the Trade Facilitation Facility and specifically analyzed operational, financial, and economic aspects of the proposed project.

⁷ The transportation network under the responsibility of the Ministry of Transport and Communications consists of 18,650 kilometers of public roads, 425 kilometers of railways, and 11 airports.

Disaster Risk Management



The Kyrgyz Republic is prone to multiple low- to medium-level disasters due to its mountainous landscape and location in a highly active seismic zone.

The World Bank is supporting the *Central Asia Hydrometeorology Modernization Project* to improve the accuracy and timeliness of weather, climate, and hydrological service delivery in Central Asia, with a particular focus on the Kyrgyz Republic and the Republic of Tajikistan. Project results include: Kyrgyzhydromet's Development Plan, aimed to improve its service delivery, was approved; equipment and software for data sharing of various parameters with stakeholders has been installed; and 1 million pages of documents, covering all historical records from 1980 to 2010, have been scanned and archived.

The World Bank has also initiated an activity, “Strengthen the Kyrgyz Republic Disaster Risk Reduction and Response Institutions,” funded by the Global Facility for Disaster Reduction and Recovery (GFDRR). Results of this activity include: the introduction of a national methodology on a Post-Disaster Needs Assessment; the establishment of the risk data platform to support efficient and effective decision making for disaster risk management; the launch of the unified emergency management system “112” to increase the efficiency of emergency management in crisis situations; a 10–15 percent reduction in response time; and coordination and joint actions among various agencies during emergencies.

To better understand seismic hazards and risks, the GFDRR and the World Bank have launched a new project that will develop new seismic risk information in the Kyrgyz Republic.

THE WORLD BANK PROGRAM IN THE KYRGYZ REPUBLIC

Since the Kyrgyz Republic joined the World Bank in 1992, the Bank has approved US\$1.3 billion for IDA-funded projects and Recipient Executed Trust Funds (RETFs), out of which US\$1.1 billion has been disbursed. Forty-seven IDA investment operations for US\$1 billion have been completed and closed, and 14 projects (10 IDA projects and four large stand-alone trust funds) for US\$273.35 million are ongoing. Additionally, two IDA-funded Central Asia regional projects for US\$51 million are being implemented in the Kyrgyz Republic. There is one additional project, CASA-1000, with US\$45 million allocated for the Kyrgyz Republic. The recent budget support operation for the energy sector was developed in response to the Government's request to provide urgent support in addressing the winter energy shortages. Additionally, the multiyear programmatic budget support program is envisioned until FY17.

Despite important progress since 2011, the country's overriding development challenge remains improved governance. The Country Partnership Strategy (CPS) for the Kyrgyz Republic is targeted to help reduce extreme poverty and promote shared prosperity through support for improved governance. Assistance would be provided through the existing portfolio, by new IDA lending averaging US\$55 million annually (supplemented where appropriate by trust fund financing), and by intensified analytical and advisory activities that emphasize practical, problem-solving advice. A balance of investment and development policy lending is envisaged.

The following operations are planned to be delivered in FY16: the Fiscal Management and Governance Development Policy Operation, the *Integrated Forest Ecosystem Management Project*, the *Urban Planning and Development Project*, and the *Rural Water Supply and Sanitation Project-3*, which has been included into the pipeline at the Government's request due to the successful implementation of the *Rural Water Supply and Sanitation Project-2*.

The portfolio performance has improved in comparison with the previous fiscal year, and there are no problem projects out of the 14 ongoing projects. However, two projects are undergoing the ratification process and have been pending effectiveness for more than eight months due to lengthy and unpredictable internal government procedures. In order to resolve these portfolio issues, the Bank team has intensified the dialogue with deputies and conducted risk management portfolio reviews each quarter with the Ministry of Finance, implementing

agencies, and project implementation units, focusing on problem projects.

Trust Funds. In addition to the IDA portfolio, the program includes a significant number of cofinancing and stand-alone trust funds with a US\$60 million portfolio. The largest trust funds are the *Agricultural Productivity Assistance Project*, Capacity Building in Public Financial Management, Kyrgyz Health Results Based Financing, Kyrgyz Second Health and Social Protection, and Kyrgyz Global Partnership for Education. Trust funds are mainly provided to cofinance IDA operations and to support capacity-building activities. The main contributors are the European Union (EU), Switzerland, and the United Kingdom.

International Finance Corporation

Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than US\$117 million from IFC's own funds to finance 36 projects in the financial sector, including banking and microfinance, the mining sector, agribusiness, and the pulp and paper sectors. As of June 30, 2014, IFC's portfolio in the Kyrgyz Republic stood at \$30.5 million, with investments in the financial markets and manufacturing sectors.

IFC advisory programs implemented in the Kyrgyz Republic focus on: i) improving financial markets infrastructure, specifically credit information sharing systems and risk management education; (ii) promoting the institutional and capacity building of financial intermediaries; (iii) promoting microfinance and housing microfinance development; (iv) enhancing the investment

climate and tax administration; (v) improving corporate governance in local companies; (vi) developing agri-finance; and (vii) designing public-private partnership (PPP) projects, currently in the health and power sectors.

IFC's role in the CPS is to support the development and diversification of the private sector, contributing to the country's greater competitiveness and improving employment opportunities. IFC prioritizes activities aimed at improving the investment climate, increasing access to finance, and promoting corporate disclosure standards, while at the same time exploring a greater role for energy efficiency and renewable energy and looking for opportunities in the area of PPPs jointly with IDA. In the banking sector, IFC aims to increase access to finance for MSMEs by improving the regulatory framework, strengthening local financial institutions, expanding microfinance organizations, and providing credit lines for MSME financing to local banks. In the real sector, IFC aims to improve corporate business practices while looking for emerging opportunities to invest across a variety of sectors, particularly in agribusiness, mining, and infrastructure.

Multilateral Investment Guarantee Agency

MIGA's current portfolio in the Kyrgyz Republic consists of one project, financed by Austrian and Italian investors, in support of the country's manufacturing and services sector. The outstanding gross exposure from this investment is US\$5.8 million. The project relates to the cargo handling and storage services at Manas International Airport and contributes to the strategic goal of improving the environment for business and economic growth.

IDA Projects		US\$ million
1.	Programmatic Development Policy Operation 2	25
2.	Pasture and Livestock Management Improvement Project	15
3.	Electricity Supply Accountability and Reliability Improvement Project	25.47
4.	Energy Sector Development Policy Operation	24
5.	Financial Sector Development Project	13
6.	Bishkek and Osh Urban Infrastructure Project	27.8
7.	Second On-Farm Irrigation Project	31
8.	Sector Support for Education Reform Project	16.5
9.	Health and Social Protection Project	45
10.	Second Health and Social Protection Project	16.5
11.	Central Asia Road Links Project – Kyrgyz Republic	
	Total (current IDA portfolio)	238.8

Major Trust Funds		US\$ million
12.	Kyrgyz Global Partnership for Education (GPE) - 3	16.27
13.	Kyrgyz Health Results Based Financing	11
14.	Capacity Building in Public Financial Management	7.49
15.	Agricultural Productivity Assistance Project (Russia Food Price Crisis Rapid Response Trust Fund)	6.85
	Total	41.61

IFC		
	Investments Portfolio (as of March 2014)	23
	Advisory Services Projects (funds managed by IFC)*	8.8
	*Donors/partners: UK, Switzerland	

MIGA		
	“Manas Management Company”	5.8

**KYRGYZ REPUBLIC: PROGRAMMATIC DEVELOPMENT POLICY OPERATION SERIES
DPO1 (P126034) & DPO2 (P126274)**

Key Dates:

DPO1

Approved: July 25, 2013
Effective: December 6, 2013
Closing: September 30, 2014

DPO2

Approved: June 10, 2014
Effective: July 11, 2014
Closing: December 31, 2015

Financing from all cofinanciers, million US Dollars:

Financier	DPO1	DPO2
IDA Credit	13.75	13.75
IDA Grant	11.25	11.25
Total Project Cost	25.0	25.0

World Bank Disbursements, million US Dollars *:

	DPO1	Disbursed	Undisbursed
IDA Credit	13.78	13.78	0
IDA Grant	11.39	11.39	0
	DPO2	Disbursed	Undisbursed
IDA Credit	12.32	12.32	0
IDA Grant	9.86	9.86	0

* Source Client Connection as of March 20, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The objective of the programmatic series of Development Policy Operations (DPOs) is to support the Government in laying the foundations for faster growth, reduced poverty, and shared prosperity through improving public sector governance and enhancing the business environment. The program is anchored in the 2013–2017 National Sustainable Development Strategy of the Kyrgyz Republic. The DPO2 builds on the measures supported under the DPO1, such as the adoption of a new Budget Code, the streamlining of business registration, etc.

This DPO program supports key areas of the reform program with the objectives of improving transparency and accountability in managing public resources and promoting simpler and more efficient business regulation and a stronger financial sector.

To improve public sector governance, the DPO2 supports a number of important measures, including:

- completing the verification of asset declaration for a selected group of public officials;
- adopting a judicial sector development program (i.e., an independent budget for the judiciary);
- improving the functioning of the internal audit system;
- bringing the Law on Public Procurement in line with international good practice;
- improving transparency and accountability in the state-owned enterprises in the energy sector.

The DPO2 is also addressing some of the bottlenecks to more vibrant development of the private sector and a stable financial sector. This includes:

- implementing a risk-based approach to inspections in key inspection agencies in the Bishkek region;
- strengthening the accountability of executive directors through amendments to the Law on Joint Stock Companies;
- developing a credit registry within the National Bank of the Kyrgyz Republic as well as amendments to the Law on Deposit Protection to improve the functioning of the system.

Results to be achieved:

- Increased compliance with anti-corruption regulations;
- A more independent judiciary as well as a more efficient public financial management structure (internal audit function, budget code, and public procurement);
- Lowered burden of inspections of business activities and a more stable financial sector.

Key Partners: Ministry of Finance; Ministry of Economy and Industry; and National Bank of the Kyrgyz Republic.

**KYRGYZ REPUBLIC: ELECTRICITY SUPPLY ACCOUNTABILITY AND RELIABILITY
IMPROVEMENT PROJECT (P133446)**

Key Dates:

Approved: July 15, 2014

Effective:

Closing: December 31, 2019

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA Credit	13.75
IDA Grant	11.25
Total Project Cost	25.00

Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IDA Credit	13.75	0	13.75
IDA Grant	11.25	0	11.25

*Source Client Connection as of March 20, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations.



The objective of the project is to improve the reliability of the electricity supply in the capital city Bishkek and the Chui and Talas regions—an area served by the state-owned power distribution company Severelectro JSC—and to strengthen the governance of Severelectro’s operations. By focusing on the service area of Severelectro, the project will ensure that benefits accrue to the largest share of customers, since it is the largest distribution company, serving more than 40 percent of all residential customers in the country and delivering more than 50 percent of total electricity consumption.

Specifically, the project will aim to:

- Improve power supply reliability in the service area of Severelectro by strengthening its distribution infrastructure (including investments in new substations to eliminate overloads and in advanced meters);
- Enhance the quality of services to customers by providing Severelectro with better information management tools for a faster and more effective response to service interruptions and customer complaints;
- Improve the financial viability of Severelectro through a reduction in technical and nontechnical losses in its service area;
- Strengthen governance and internal controls in Severelectro through the provision of access to real time and reliable corporate and commercial information, as well as institutional strengthening.

Results to be achieved:

- The project will enhance the reliability of the power supply in Severelectro’s service area and make the company more responsive and accountable to customers for the quality of its services. For example, the incorporation of management information systems and business process reengineering will facilitate customers’ communication with Severelectro through a 24/7 customer call center, ensuring that customer inquiries and complaints are executed in a timely, accountable, and transparent manner.

The project is currently undergoing the process of internal reviews by the Government for the signing and subsequent ratification of the Financing Agreement. Meanwhile, Severelectro, the largest distribution company in the country and the implementing entity, continues to strengthen its capacity to ensure that the project can move to the active implementation stage soon after it is ratified and declared effective.

The Ministry of Energy and Industry and Severelectro will undertake the next steps to ensure that the project becomes effective: (i) ensure completion of the internal reviews of the Financing Agreement by the Government for signing; (ii) initiate ratification; (iii) fulfill the effectiveness conditions of the project, including approval of the project’s Operational Manual by the Project Steering Committee and the signing of the Subsidiary Agreement with the Ministry of Finance; and (iv) prepare supply- and installation-type bidding documents for substations, meters, and management information systems.

Key Partners: Ministry of Energy and Industry, Severelectro OJSC.

KYRGYZ REPUBLIC: ENERGY SECTOR DEVELOPMENT POLICY OPERATION
P152440

Key Dates:

Approved: January 29, 2015

Effective:

Closing: January 31, 2016

Financing from all cofinanciers, million US Dollars*:

Financier	Financing
IDA Credit	26.4
IDA Grant	21.6
Total Project Cost	24.00

World Bank Disbursements, million US Dollars*:

	Total	Disbursed	Undisbursed
IDA Credit	26.4	.	0.0
IDA Grant	21.6	.	0.0

*Source Client Connection as of March 20, 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The Project Objectives

The Energy Sector Development Policy Operation (DPO) aims to improve the financial viability of the energy sector and enhance its governance and accountability while also managing the impact of power shortages on poor regions. Accordingly, the proposed operation supports government efforts in the following three areas: 1) improving the financial viability of the sector; 2) enhancing sector governance, transparency, and accountability; and 3) managing the impact of power shortages on poor regions. The program is at the core of the National Power Sector Development Strategy 2012–2017 and is fully aligned with the objectives of the Country Partnership Strategy for 2013–17 and the World Bank’s objective of reducing poverty and promoting shared prosperity. The proposed operation incorporates the following key lessons: (i) support complex and politically difficult reforms through a dedicated sector DPO; (ii) concentrate on a few policy areas that are fundamental to addressing key sector challenges and that have the Government’s full ownership; and (iii) complement the DPO with other instruments for Bank support, including investment project financing, technical assistance, and economic and sector work.

Results to be achieved:

- The improved financial viability of the energy sector through power and heating tariff reforms will allow investments in maintenance and system improvements and the procurement of fuel for the combined heat and power plants.
- The strengthened governance, transparency, and accountability of the sector will ensure that increased revenues lead to improvements in sector operational and financial performance for the benefit of all groups of the population.
- The management of power shortages will ensure that power rationing is equitable across the country and is not to the detriment of poor regions.

Key Partners: Ministry of Finance; Ministry of Energy and Industry.

KYRGYZ REPUBLIC: FINANCIAL SECTOR DEVELOPMENT PROJECT
P125689

Key Dates:

Approved: March 08, 2012

Effective:

Closing: June 30, 2018

Financing from all co-financiers, million US Dollars:

Financier	Financing
IDA Credit	4.05
IDA Grant	5.07
Total Project Cost	9.12

World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IDA Credit	3.59	0.00	3.59
IDA Grant	4.49	0.56	3.93

*Source Client Connection as of March 20, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The political turmoil of 2010 in the Kyrgyz Republic led to significant financial sector instability, causing the collapse of its largest bank and stress in several other financial institutions. This in turn impacted access to financial services in the country, as the number of nonperforming loans and funding constraints grew and lending slowed, which further reduced the already low level of access to formal financial services in the Kyrgyz Republic. Bank credit and deposit penetration in the country are among the lowest in Europe and Central Asia, and interest rates are among the highest and constitute one of most significant constraints to private sector development. While non-bank financial institutions, such as microfinance organizations, are filling some of the gaps for smaller borrowers, including in rural areas, they remain small and face high operational and funding costs as well as legal, regulatory, and institutional constraints that inhibit their expansion.

The Project Objectives are: to enhance financial sector stability and increase access to financial services throughout the Kyrgyz Republic, including in remote rural areas. Specifically, the project will: (i) strengthen banking regulation and supervision, including by means of a new IT system for bank supervision; (ii) support reforms in the Kyrgyz Post Office to expand its financial services; and (iii) modernize the movable collateral registry to expand the use of movable collateral, such as equipment, livestock, and accounts receivable.

Results to be achieved:

Those living in remote or rural areas will benefit from significantly improved access to financial services through:

- New points of sales in post offices
- Possibilities to better leverage their assets to obtain loans
- An enhanced consumer protection and financial literacy framework
- Greater access to safe deposit facilities
- Expanded payment and remittance services

Given the explicit targeting of women as good clients by many microfinance organizations and credit unions, it is expected that women will particularly benefit from this project.

Increasing access to a variety of financial services, especially deposit services, for the poor, vulnerable, and other underserved populations will help them manage shocks (e.g., food prices, illness, unemployment), especially in rural areas and remote regions of the country, and will enhance employment opportunities.

The project has made progress on the administrative arrangement by improving a legal, regulatory, and supervisory framework for the banking sector and increasing the National Bank's capacity to monitor and address vulnerabilities; transforming the Kyrgyz Post Office's existing operation into a more cost-effective distribution channel for basic financial services with increased access by poor and rural communities, and strengthening the regime for movable collateral registration and execution.

Key Partners: National Bank of the Kyrgyz Republic, Kyrgyz Post Office, and the Movable Collateral Registry.

Key Development Partners: Swiss State Secretariat for International Affairs (SECO).

KYRGYZ REPUBLIC: BISHKEK-OSH URBAN INFRASTRUCTURE PROJECT
P104994

Key Dates:

Approved: March 18, 2008

Effective: July 29, 2008

Closing: June 30, 2015

Financing from all cofinanciers, million US Dollars*:

Financier	Financing
IDA Grant	12.0
IDA Grant – AF	7.1
IDA Credit - AF	8.7
Government of the Kyrgyz Republic	2.35
Total Project Cost	30.15



World Bank Disbursements, million US Dollars*:

	Total	Disbursed	Undisbursed
IDA Grant	10.42	10.42	0.0
IDA Grant – AF	6.17	6.17	0.0
IDA Credit - AF	7.54	4.57	2.97

*Source Client Connection as of March 20, 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

To control the effects of growing migration on urban development in Bishkek and Osh, the Kyrgyz authorities in the early years of independence began allocating agricultural land to migrants for housing construction in semi-informal settlements, so-called *novostroiki* (literally “areas containing new construction”). The creation of such *novostroiki* continued throughout the 1990s and early 2000s at a relatively moderate scale, but accelerated significantly after 2005. Today, Bishkek has about 50 such settlements, with a population of between 125,000 and 200,000, or up to one-fifth of the city’s total population. Osh has eight, with a total population of possibly in excess of 50,000. Developing these *novostroiki* was instrumental to preserving a reasonably orderly urban fabric and averting the emergence of slum-like neighborhoods, but it did little to provide minimally acceptable living conditions to the residents of these areas or help secure their integration into the urban community. As a result, the two cities have become surrounded by a ring of settlements whose inhabitants are generally poor, lack basic infrastructure, and have limited access to social, educational, and other services.

The Project Objective is to increase the availability of basic urban services and social infrastructure in the *novostroiki* in the cities of Bishkek and Osh, as well as in selected small towns. The outcome of the project will be improvements (that can be monitored) in the quantity and quality of basic services (water supply, roads, etc.) available to *novostroiki* residents. Specifically, the project’s performance will be assessed against criteria such as: (i) increase in the number of residents benefiting from the 12-hour availability of safe potable water, (ii) increase in the number of residents with access to piped potable water within a distance of less than 150 meters, (iii) increase in the number of residents with access to roads open to public transportation within a distance of less than 500 meters, and (iv) the completion of a number of community investment projects.

Results achieved:

- In Bishkek, 21.5 kilometers of roads have been constructed and rehabilitated, thereby providing access to a year-round transportation network to about 30,745 *novostroiki* residents. In Osh, construction of water mains and distribution networks have been completed and are now supplying water to about 50,000 residents.
- About 210,300 residents of Osh and Bishkek have benefited from 77 social investments projects.
- 28 trucks were equipped with GPS trackers, and data base and electronic data management has been developed in Osh, and the solid waste management utility (Spetsavtobaza) in Osh was supported to improve its operations.
- Collaboration with Bishkek city has been expanded and support provided in developing the Municipal Asset Management Information System, which will improve management, accountability, and transparency in municipal governance,
- Financial investments have been made in the water supply in Bishkek (Bashkara-Suu water intake) to supply water to over 100,000 residents of *novostroiki*, and water supply and sanitation investments made in Batken, Naryn, Talas, Isfana, Tash-Kumyr, and Shopokov.
- A total of 174 community subprojects in Bishkek, Osh, and 29 small towns have been approved. To date, 139 have been completed, 29 are under implementation, two are in the process of tendering, and four are under the approval process. Subprojects have been selected by communities and reflect local needs and priorities.

Key Partners: Community Development and Investment Agency (ARIS) and municipalities.

**KYRGYZ REPUBLIC: PASTURE AND LIVESTOCK MANAGEMENT IMPROVEMENT PROJECT
P145162**

Key Dates:

Approved: July 15, 2014

Effective:

Closing: March 31, 2019

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA Credit	8.25
IDA Grant	6.75
Total Project Cost	15.00

Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IDA Credit	8.25		
IDA Grant	6.75		

*Source Client Connection as of March 20, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations.



The Project Objective is to improve community-based pasture and livestock management in the project area.

The project will support 140 pasture user unions (PUUs) and 420 private veterinarians in Chui and Talas oblasts in the north of the country. The PUUs and private veterinarians in the remaining five oblasts will receive a similar program of support from parallel-financed International Fund for Agricultural Development (IFAD)-funded projects under common terms and conditions. The project will also pilot community-based pasture management in five forestry enterprises (out of 42 nationally) in Chui and Talas oblasts as a basis for a future program nationally.

The project is expected to generate improved incomes for livestock owners as a result of higher livestock productivity due to improvements in animal nutrition and health. Improved animal nutrition from pastures will be generated from the better alignment of stocking rates with pasture carry capacity, the restoration of degraded pastures, and improved access to underutilized pastures.

Improved animal health and reduced mortality will result from better animal disease control and improved nutrition. Other benefits that were not quantified in the analysis include: more equitable access to pastures, including for vulnerable groups and women, as a result of better governance of PUUs; improved public health as a result of a reduced incidence of zoonotic diseases; improved incomes from nongrazing pasture use; reduced soil degradation; and reduced water runoff in pastures, which are an important part of the watershed, and improved carbon sequestration. Fiscal benefits to the Government will include improved land tax revenues as a result of greater pasture user willingness to pay and improved land tax collection rates.

Results to be achieved:

- About 190,000 rural households in Chui and Talas oblasts will benefit from improved PUUs and private veterinarian services. About 10 percent of these households are female-headed households.
- 140 PUUs (out of 454 nationally), currently responsible for the community-based management of about 1.2 million hectares of pastures and 2,100 pasture committee (PUU executive body) members, as well as 420 private veterinarians, in the project area, will benefit from capacity building under the project.
- In addition, about 48 veterinary graduates will receive equipment and benefit from training.
- The Pasture Department, the Veterinary Chamber, and to a lesser extent, the Livestock and Pasture Research Institute (LPRI), Rayon Departments for Agrarian Development (RUAR), and SAEPF will all benefit from capacity building under the project.

Key Partners: Ministry of Agriculture and Melioration, Community Development and Investment Agency (ARIS), the State Agency for Environmental Protection and Forestry (SAEPF), the Pasture Department, the Veterinary Chamber, the Kyrgyz National Agrarian University (KNAU), the Livestock and Pasture Research Institute (LPRI), and the State Inspectorate for Food Veterinary Safety.

CENTRAL ASIA ROAD LINKS: KYRGYZ REPUBLIC
P132270

Key Dates:

Approved: April 22, 2014

Effective:

Closing: April 30, 2019

Financing from all cofinanciers (US\$ million): 54 mln

Financier	Financing
IDA Credit	36.8
IDA Grant	8.2
Government	9.00
Total Project Cost	54.00

Disbursements of IDA Credit/Grant (US\$ million)*:

	Total	Disbursed	Undisbursed
IDA Credit	32.76	0	32.76
IDA Grant	7.262	0.195	7.07

*Source Client Connection as of March 20, 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The Central Asia Road Links (CARs) Program, the result of a collaborative effort initiated by respective governments in the Central Asia region, has been developed as a regional, multiphase program considered to be a regional transformational project. The program has the overall objective of increasing transport connectivity between neighboring countries in Central Asia along priority cross-border road links while supporting improvements in road operations and maintenance practices. The road links once rehabilitated will improve access along priority transport connections between major urban agglomerations within the Central Asia region, thereby supporting the creation of an integrated economic region across borders.

The CARs Program is designed as part of a series of projects (horizontal regional program) with multiple countries. The program is horizontal in that not all countries would need to start at the same time, but rather each would begin when ready, through a series of sequential phases. The proposed project in the Kyrgyz Republic is the first phase in this program (CARs-1), since the country has demonstrated formal commitment and readiness. Tajikistan and Kazakhstan have also expressed interest in the program. The Second Phase of the CARs (CARs-2) in Tajikistan is already under preparation. Discussions between the Government of the Kyrgyz Republic and the Republic of Kazakhstan are ongoing with a view to increasing transport connectivity between the two countries in Issyk-Kul oblast (Kyrgyz Republic) with bordering Almaty oblast (Republic of Kazakhstan).

The Project Objective of the first phase of the CARs (CARs-1) is to increase transport connectivity between the Kyrgyz Republic and the Republic of Tajikistan along priority cross-border road links in Batken oblast while supporting improvements in road operations and maintenance practices. The road sections to be financed under CARs-1 prioritize connectivity between the Osh and Batken oblasts in the Kyrgyz Republic and Sugd oblast in Tajikistan, as they build lateral spurs from the Osh-Isfana axis to the Tajik border.

Results achieved:

- The project was declared effective on December 14, 2014.
- The Implementing Agency (Investment Projects Implementation Group, IPIG) has initiated advance procurement for civil works as well as construction supervision and recruitment of key staff.
- The Implementing Agency, in collaboration with the Bank team, has started preparations for the project launch workshop to take place at the end of May 2015.

Key Partners: The Ministry of Transport and Communications of the Kyrgyz Republic (MOTC).

KYRGYZ REPUBLIC: SECOND ON-FARM IRRIGATION PROJECT
P096409

Key Dates OIP-2:

Approved: June 19, 2007; **AF Approved:** June 28, 2011
Effective: October 31, 2007; **AF Effective:** December 15, 2011
Closed: December 31, 2013; **AF Closing:** December 31, 2015

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA Grant (OIP-2)	16
IDA Grant (Additional Financing)	6.7
IDA Credit (Additional Financing)	8.3
Government of Kyrgyz Republic	4.55
Total Project Cost	35.55



World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IDA Grant	14.6	14.11	0.45
IDA Grant - AF	5.78	5.78	0
IDA Credit - AF	7.17	1.38	5.78

*Source Client Connection as of March 20, 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Irrigation has been practiced in the Kyrgyz Republic for centuries. Since 1991, due to technical, managerial, and financial constraints, the deterioration of the irrigation and drainage infrastructure has led to an unreliable supply and distribution of irrigation water, as well as drainage and waterlogging problems. With the assistance of the first On-Farm Irrigation Project (OIP-1), 450 water users associations (WUAs) were established, and 63 WUAs with a total command area of 122,000 hectares benefited from rehabilitation. After OIP-1, a large unfinished agenda remained. Insufficient investment in rehabilitation and modernization left many farmers without access to adequate and timely water resources, and the assistance to WUAs needed to be redirected toward developing the skills necessary to sustain their infrastructure and maximize utilization.

The Project Objective is to improve irrigation service delivery on a sustainable basis that will contribute to increased agricultural productivity among irrigation farmers.

The project will achieve its objective through (i) assistance to ensure that WUAs are able to efficiently and productively utilize their rehabilitated on-farm irrigation systems on a sustainable basis, with special emphasis on water and asset-management aspects; and (ii) the rehabilitation and modernization of the irrigation and drainage infrastructure for around 29 WUAs commanding 51,000 hectares under the OIP-2, and an additional 18 WUAs (34,800 hectares) under the Additional Financing.

Results achieved:

- Rehabilitation works were completed in 30 WUAs covering around 70,000 hectares, which significantly exceeds the project target of 51,000 hectares. 30 subprojects were completed.
- There are now 312 WUAs nationwide, with well-informed water users actively interacting with WUA management through their zonal representatives and taking part in WUA activities.
- As result of the rehabilitation of systems and capacity-building support under OIP-1 and OIP-2, 182,888 hectares have improved irrigation and drainage services.
- WUA Support Units were initially constrained in their work as a result of government budget deficits, but with the funding of some of their operational costs, their performance in supporting WUAs continues to improve.
- An additional 19 WUAs are supported under the Additional Financing. Currently, the status of WUAs selected for rehabilitation works is as follows: rehabilitation works have started in 16 WUAs; mobilization is ongoing in two; and one tender was conducted at the end of February 2015, with the evaluation of the tender bid ongoing.

Key Partners: Department of Water Resources and Land Improvement, which is responsible for project implementation through its Project Implementation Unit (PIU); Ministry of Agriculture and Melioration; and Ministry of Finance.

KYRGYZ REPUBLIC: HEALTH AND SOCIAL PROTECTION PROJECT (HEALTH SWAp-I)
P084977, P112142, P125470

Key Dates:

Approved: December 15, 2005

Effective: June 8, 2006

Closing: June 30, 2015

Financing from all cofinanciers, 2006-2015, million US Dollars:

Financier	Financing	Add. Financing 1	Add. Financing 2
IDA (Grant)	15	6	24
Other Donor (DFID)	17.32		
Other Donor (KfW)	28.3		
Other Donor (SIDA)	12.54		
Other Donor (SDC)	8.97		
Total Project Cost			112.13



World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IDA	45	41.3	2.95

*Source Client Connection as of March 20, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

This project is designed as a sector-wide approach in which joint financiers pool funds at the Treasury with government funds to support the government health strategy. This approach to implementation resulted in a much stronger coordination among donors and contributed to a high level of aid effectiveness and government ownership of the reform process.

The Project Objectives are to improve the performance of the health sector, strengthen the targeting of social benefits, and improve and sustain the health and nutritional status of vulnerable populations affected by food price shocks.

Components: (i) Supporting the government health strategies *Manas Taalimi* and Den Sooluk programs to help finance the State-Guaranteed Benefit Package; (ii) Strengthening the administrative system of the Ministry of Social Protection (MSP) to help it to design a social safety net strategy and build staff capacity; and (iii) Protecting the population's health and nutritional status by supporting a package of nutrition activities targeting women and children.

Results achieved: The Government adopted a new health strategy Den Sooluk for 2012–16 to further strengthen primary health care (PHC) and address delivery system deficiencies, especially for cardiovascular diseases, mother and child care, HIV, and tuberculosis (TB) services. The implementation of the Den Sooluk Program 2013, supported by a Sector-Wide Approach (SWAp), remained largely unfunded until July 2014, due to uncertainty about the approval and ratification of the Joint Financiers' new contributions to SWAp-2. Key results so far include:

- Infant and child mortality rates have begun to decrease and Kyrgyzstan is on track to achieve the Millennium Development Goal 4 (MDG), but it is off track on achieving MDG5 (maternal mortality). TB incidence and mortality have been on the decline, and cardiovascular mortality among working-age adults has stabilized. HIV incidence continues to rise and the emergence and growing incidence of multi-drug resistant TB is a worrying sign. It is critical for Den Sooluk to accelerate further progress toward improving key health outcomes.
- With support from the SWAp-1, health expenditures increased from 10.6 percent out of total government expenditures in 2006 to 13 percent in 2010–13.
- The financial burden of the poorest 40 percent declined during 2003–09, and geographic and financial barriers to access have decreased due to the introduction of the single payer system and the pooling of funds, efficiency gains obtained from restructuring, and the expansion of the state-guaranteed benefits package (SGBP). No further reductions in financial burdens have taken place since 2009. This leaves a continued agenda for Den Sooluk.
- The efficiency of resource allocation within the SGBP has improved: the share of health expenditures allocated to PHC has increased from 29 percent in 2005 to 38 percent in 2009, and direct patient expenditures (drugs, supplies, food) have increased from 20 percent in 2005 to 30 percent in 2009, due to the optimization of excessive health infrastructure. However, a drastic increase in the salaries of health workers in 2011 squeezed the share of non-salary expenditures. It is critical to ensure that it reach at least 35 percent in the next few years.
- The use of primary care services has risen slightly, although the further strengthening of primary care will be addressed in the new strategy. Consensus has been reached that improving the quality of care needs to be the main driver of Den Sooluk.

Key Partners: Ministry of Finance, Ministry of Health, Ministry of Social Development, and Mandatory Health Insurance Fund. **Key Development Partners:** Department for International Development (DfID), Swedish International Development Cooperation Agency (SIDA), Swiss Agency for Development and Cooperation (SDC), and KfW, which financially contributed to the project through pooled budget support, and the World Health Organization (WHO), U.S. Agency for International Development (USAID), the United Nations Children's Fund (UNICEF), United Nations Population Fund (UNFPA), German Technical Cooperation Agency (GIZ), and others that provided parallel funding.

KYRGYZ REPUBLIC: SECOND HEALTH AND SOCIAL PROTECTION PROJECT (HEALTH SWAp-2)

Key Dates:

Approved: May 3, 2013

Effective: July 11, 2014

Closing: December 31, 2018

Financing from all cofinanciers, 2014-2019, mln US Dollars:

Financier	Financing
IDA Grant	7.43
IDA Credit	9.07
Other Donors:	30.4
Other Donor (KfW grant)	18.5
Other Donor (SDC grant)	11.96
Total Project Cost	46.9



World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IDA Grant	7.43	0	7.26
IDA Credit	9.07	0	8.75

*Source Client Connection as of March 20, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The objectives of the Project are to improve health outcomes in four health priority areas in support of the Den Sooluk National Health Reform Program 2012–2016 and support the Government’s efforts to enhance the effectiveness and targeting performance of social assistance and services. The first component supports the implementation of the Den Sooluk Program through a Sector-Wide Approach (SWAp). The focused areas are: improving the delivery of core services as defined in the Den Sooluk Program, strengthening the health system, supporting the State Guaranteed Benefits Package (SGBP), and strengthening the fiduciary capacity of the health sector. The second component involves strengthening the policy and administrative capacity of the Ministry of Social Development to support the Government’s efforts to enhance the effectiveness and targeting performance of social assistance and social services aimed at supporting the poor and the vulnerable. The third component is a contingency emergency response. The objective of this component is to improve the Government’s response capacity in the event of an emergency.

Results to be achieved:

- Government health expenditures as a percentage of total government expenditures will be sustained at a level of 13 percent;
- Increased coverage of the enrolled population, with an increase in the percentage of detected cases compared to the number of estimated cases under disease management programs with incentives for providers and patients (hypertension, diabetes, etc.);
- Financial burden of the two poorest quintiles will at least be sustained at the level of the achieved 22 percent;
- Share of social assistance spending on poverty-targeted programs will increase from 15.5 to 35 percent.

Health: Thematic meetings on health financing, curbing the tobacco epidemic, and refining primary health care (PHC) brought together various stakeholders, including the Deputy Prime Minister, other policy makers, leaders of health organizations and nongovernmental organizations (NGOs), and representatives of development partners. The meetings have identified the steps needed to refine existing health purchasing/output-based provider payment methods and the model of PHC delivery and to implement effective tobacco control measures:

- improving public finance and transparency, improving the primary care payment system and the refinement of a case-based hospital payment system, and enhancing the State Guarantee Benefits package;
- increasing excise taxes, banning smoking in public places, and using large pictorial health warnings on tobacco products, among other measures;
- fine-tuning the model of care with the further integration of outreach services provided by village health communities into family medicine; revisiting the financial incentives by combining the current capitation mechanisms with a pay-for-performance incentive; and reviewing and adjusting human resource policies and training with a focus on redefining the role of mid-level providers and upgrading their training curriculum to reflect the expanded scope of work.

Concerted efforts are needed to push the PHC development and health financing refinement agenda forward. Strong leadership and political commitment is a mandatory condition of further improvement.

Social Protection: (i) safety net reform, (ii) modernization of disability services, and (iii) capacity building, particularly in developing plans and measures for the gradual reform of the social safety net to refocus it on protecting the poor from abject poverty and mitigating the negative effects of various shocks on the poor.

Key Partners: Ministry of Finance, Ministry of Health, Ministry of Social Development, and Mandatory Health Insurance Fund. **Key Development Partners:** KfW, SDC which financially contributed to the project through pooled budget support, and WHO, USAID, UNICEF, UNFPA, GIZ, UNDP, Global Fund, and others that provided parallel funding.

**KYRGYZ REPUBLIC: KYRGYZ HEALTH RESULTS-BASED FINANCING
(TRUST FUND) P120435**

Key Dates:

Approved: April 18, 2013

Effective: July 29, 2014

Closing: June 30, 2017

Financing from all sources, million US Dollars:

Financier	Financing
TF Grant for pre-pilot project	0.5
TF Grant for pilot project	11.0
Total Project Cost	11.5

World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
TF Grant	11.0	0.9	10.1



***Source Client Connection as of March 20, 2015.**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project is to pilot performance-based payments for, and/or enhanced supervision of, the quality of maternal and neonatal care in randomly selected rayon hospitals and to strengthen the capacity of the Government and providers in performance-based contracting and monitoring and evaluating (M&E) for results.

There are two components:

The first component would finance a randomized controlled trial to test two alternatives for improving the quality of maternal and neonatal care at the rayon (regional) hospital level: a) an enhanced supervision scheme using a balanced score card (BSC) together with a performance-based payment, and b) an enhanced supervision scheme using a BSC only.

The second component would finance training and technical assistance to providers in participating facilities to a) understand their roles and responsibilities under performance-based contracting; b) enhance their capacity to conduct peer verification of results; and c) increase their ability to conduct self-M&E for results.

Results to be achieved:

- Performance-based payment for, and enhanced supervision of, the quality of maternal and neonatal care will be piloted in selected rayon and small town hospitals;
- Capacity of the Government (Ministry of Health and Mandatory Health Insurance Fund) and providers in performance-based contracting and M&E for results will be strengthened.

Pilot project has been successfully scaled up to all 42 hospitals since the project effectiveness on July 30, 2014. That included four rounds of quarterly peer verifications and one round of semiannual counter verification. The scale up of the pilot project since project effectiveness demonstrates promising results - the hospitals performance has improved in average from 9% to 33,8%, 42,3% and 53,6% between July 2014 baseline survey and follow up October 2014, January and April 2015 rounds of peer verification. All 42 hospitals have prepared hospitals development plans to address identified issues, focusing on quality improvement measures. Counter verification conducted in 10 randomly selected hospitals (5 in each Arm) in March 2015 showed difference in scores below the acceptable threshold of 10%. Structural measures of quality have shown striking improvement, for instance, with the availability of blood stocks and kits of emergency care drugs increasing to near-universal availability from baseline across both Arms. The improvement of process measures of quality would require further actions, both at the national and local levels. As agreed with key partners, the use of clinical vignettes seems to be the next step in enhancing the content of care processes. Another priority area is enhancing provider autonomy, which is necessary to strengthen hospital governance and the effectiveness of the results-based payment mechanisms.

Overall, first year implementation has created an interest among providers across all three Arms and at the oblast level of health care. It has been also agreed that preparation of the pilot PHC PBF scheme needs to be accelerated, focusing on all key needs/issues identified at the PHC level and on the entire PHC network, including stand-alone Family Groups Practices/FGPs and remote small PHC facilities/FAPs. Close attention needs to be paid to (i) timely design of an open-source information and communication technology (ICT) system for the RBF program and (ii) technical assistance (TA) for capacity building of providers' knowledge and skills. Both should contribute to improvement of quality of care.

Key Partners: Ministry of Finance, Ministry of Health, Mandatory Health Insurance Fund, and civil society.

Key Development Partners: KfW, SDC, WHO, USAID, UNICEF, UNFPA, GIZ, UNDP, and others.

**KYRGYZ REPUBLIC: SECTOR SUPPORT FOR EDUCATION REFORM PROJECT
P113350**

Key Dates:

Approved: March 7, 2013

Effective: March 26, 2014

Closing: July 16, 2018;

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA Grant	7.45
IDA Credit	9.12
Total Project Cost	16.57

World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IDA Grant	6.75	0.42	6.33
IDA Credit	8.27	0.84	7.43

*Source Client Connection as of March 20, 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The Project Objective is to create the conditions for improved learning outcomes in basic education.

There are three components:

The first component focuses on enhancing classroom learning through (1) the design and implementation of an in-service training program for about 10,000 primary school teachers to improve teaching-learning practices in support of the newly revised curriculum, and the design and implementation of training programs to enhance the capacities of approximately 1,500 deputy directors, district-level methodologists, and inspectors to support primary level teachers to teach the new curriculum; (2) the printing and distribution of approximately 3 million textbooks, teacher guides, and student workbooks for primary and lower secondary schools and the provision of a package of essential teaching-learning materials for primary schools; (3) support for the ongoing revision of the curriculum for grades 5–9, focusing on the piloting and finalization of subject standards and program content; and (4) a sample-based assessment of student learning achievements at grade 4 and an assessment of teaching-learning practices at the primary level.

The second component aims to improve the management of education resources and accountability for their use. The component would support: (1) the expansion of per capita financing (PCF) and the operationalization of a monitoring system for school budgets and expenditures, training, and technical assistance to key players at the local and central levels; and (2) the strengthening of school leadership and management through the training of school directors and accountants and the production of support materials.

The third component is communications and implementation support. This component has two subcomponents: (1) communications and outreach activities to engage and inform stakeholders about the changes in the education sector; and (2) implementation support to finance operating costs at the Ministry of Education and Science to implement the project.

Results to be achieved:

- 10,000 teachers trained to implement the revised curriculum and apply improved teaching learning practices;
- 1,500 school directors and district-level methodologists trained to provide instructional support to teachers;
- 3 million copies of textbooks, teacher guides, and student workbooks printed and distributed;
- All students in grade 3–4 using revised textbooks;
- A new curriculum for grades 5–9 piloted and a sample-based achievement test carried out for grade 4;
- Schools operating under a new financing model and accountable for the annual school budget and expenditures.

Key Partners: Ministry of Education and Science, Kyrgyz Academy of Education, Regional In-service Teacher Training Institutes and Methodological Centers, local self-governance bodies (ayil okmotu), and schools.

**KYRGYZ EARLY EDUCATION PROJECT
GLOBAL PARTNERSHIP FOR EDUCATION
P132490**

Key Dates:

Approved: April 2, 2014

Effective: August 6, 2014

Closing: July 16, 2018;

Financing from all cofinanciers, million US Dollars:

Financier	Financing
GPE Grant	12.7
Total Project Cost	12.7

World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
GPE Grant	12.7	1.9	10.8

*Source Client Connection as of August 1, 2014

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The Project Development Objective is to increase equitable access to preschool education and to establish conditions for improving its quality. The project has three components:

Component One: Expansion of quality preprimary education (US\$11.60 million equivalent). The objectives of this component are to increase access to preschool education for children aged 4–5 years in targeted areas and to enable all children who are in the year prior to grade one to complete a full-year school preparation program. As such, this component would finance: (i) the provision of teaching-learning materials and furniture to enable the opening or expansion of kindergartens in poor communities with limited or no access to preschool services and the universal coverage of the full-year preparation program; and (ii) the training of kindergarten and preparation program teachers on the knowledge and skills needed to deliver appropriate education programs. The component is constituted of three subcomponents that reinforce one another by promoting greater coverage, quality, and integration.

Component Two: Improved policy, programs, and system effectiveness (US\$0.34 million equivalent). The objective of this component is to improve policy, programs, and system effectiveness. To that end, it would finance technical assistance, materials, and the monitoring of child development and classroom practices.

Component Three: Communications and implementation support (US\$0.76 million equivalent). The objective of this component is to finance communications and incremental operating costs generated by the project.

Results to be achieved:

- 80,000 children 5–6 years old enrolled in the full-year school preparation program;
- Up to 100 new community kindergartens established in targeted communities;
- 10,000 children 3–5 years old enrolled in community-based kindergartens in targeted communities;
- 100 percent of school preparation classes have received a package of essential learning and teaching materials;
- 90 percent of the teachers in newly established kindergartens are certified after training.

Key Partners: Ministry of Education and Science, Kyrgyz Academy of Education, Regional In-service Teacher Training Institutes & Methodological Centers, local government and schools. UNICEF, and the Local Education Group.

**KYRGYZ REPUBLIC: AGRICULTURAL PRODUCTIVITY ASSISTANCE PROJECT
(TRUST FUND) P118838**

Key Dates:

Approved: June 30, 2011

Effective: March 27, 2012

Closing: March 31, 2015

Financing from all cofinanciers, million US Dollars:

Financier	Financing
Russia Food Price Crisis	6.85
Beneficiaries	0.78
Total Project Cost	7.63

Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
TF	6.85	6.85	0.0

*Source Client Connection as of March 20, 2015.

Input of beneficiaries: \$1.9 mln.

Note: Disbursements may differ from financing due to exchange rate fluctuations.



The Project Objective is to increase the agricultural productivity of the project beneficiaries. Project activities are aimed at improving access to finance to support investments in farm inputs, agricultural machinery, and marketing infrastructure; timely and reliable weather forecasts; and complementary training activities for farmers.

Investment Support for Improved Farm-Level Productivity Component provides a credit line to farmers and farmer associations: (i) working capital loans for spring and fall planting and harvesting activities; and (ii) investment loans and leases for farm machinery and investments in warehouses and other productive assets. It also finances the further expansion of the community seed funds (CSFs) and women self-help groups (WSHGs) aimed at supporting poorer rural households with high-quality seeds and fertilizer, as well as training for CSF and WSHG members.

Technical Support for Improved Farm-Level Productivity Component supports pilot delivery of weather information to farmers, including early warnings for adverse weather events, to reduce crop losses due to such weather events; and training and extension services to farmers and farmer cooperatives on modern, sustainable agricultural practices (including integrated pest management) and quality management systems at the farm level to increase agricultural productivity and reduce on-farm losses. The funding for the project is provided by the Russia Food Price Crisis Rapid Response Trust Fund for the Kyrgyz Republic and Tajikistan.

Results achieved:

- 505 subloans in the total amount of about US\$3.9 million equivalent have been provided to farmers, including 96 women. 100 percent of the credit line proceeds have been used for investment, mainly in herd improvement and agricultural machinery.
- A total of 95 CSFs have been established in all seven oblasts since autumn 2012, with an initial membership of 2,566 farmers, 13 percent of whom were women. The number of CSFs is higher than the initially proposed total number of 65 CSFs. The newly established CSFs have received 684.2 tons of seeds and 911.3 tons of fertilizer. In 2013, CSF members achieved yields of about 56 percent and 49 percent for winter wheat and potatoes, respectively, higher than they achieved before the project in 2012 and about 35 percent and 54 percent higher than national average yields.
- During 2013–14, 302 new WSHGs with 2,050 members were created in 59 villages and provided with vegetable seeds. A total of 0.301 tons of seeds were distributed among the WSHG members (tomato, cucumber, onion, carrot, cabbage, red beet). In 2013, the women’s groups sold 1.438 tons of vegetables and earned more than KGS 22.5 million from sales.
- 334 farmers in the pilot rayons of Chui, Talas, and Issyk-Kul oblasts were subscribed to receive via short message service (SMS) the three-day weather forecasts and adverse weather warnings produced by Kyrgyz Hydromet and the Rural Advisory Services.
- 1 456 training sessions on improved agro-technical practices and on-farm quality management have been provided to approximately 4,183 poor farmers throughout the country, of which 2, 224 were women heads of households. Surveys indicate that over 80 percent of trainees rated the training as useful and efficient, while 73 percent of respondents reported adopting at least one improved practice promoted by the training courses.

Key Partners: Ministry of Agriculture and Melioration, Ministry of Finance, Credit Line Management Unit under the Ministry of Finance, Agribusiness Competitiveness Center, and Kyrgyz Hydromet.

**CAPACITY BUILDING IN PUBLIC FINANCIAL MANAGEMENT (Multi-Donor Trust Fund)
P112713**

Key Dates:

Approved: November 25, 2008

Effective: December, 16, 2009

Closing: May 31, 2015

Financing in million US Dollars*:

Financier	Financing
Other Donors (EC)	2.84
Other Donors (DFID)	3.66
Other Donors (Seco)	0.52
Other Donors (Sida)	0.47
Total Project Cost	7.49

Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
TF	7.49	5.86	1.63

***Source Client Connection as of March 20, 2015**

Note: *Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



The 2009 Public Expenditure and Financial Accountability Assessment (PEFA) indicated the need for continued reform of the public financial management (PFM) system in the Kyrgyz Republic, including budget preparation, execution, and transparency, internal audit, and cash management. Furthermore, the experience of PFM reform over the past decade indicates that significant reforms have been achieved only when supported by external technical support and the provision of training for civil servants. Thus the main part of the project focused on capacity building in PFM. Diverse donor support for PFM reform in the past has not always been fully coordinated or focused on key reform priorities. There are immense management challenges for public administration in the country and in particular, in the Ministry of Finance (MoF), to implement PFM reforms effectively. In the past, a general criticism of various technical assistance projects has been that they have provided substantial advice and guidance from international consultants but less in terms of direct capacity-building activities. However, this need was addressed through the Multi-Donor Trust Fund (MDTF) project by conducting a comprehensive assessment of capacity gaps/needs so that there will be adequate capacity to implement all key tasks outlined in the project.

The Project Objective is to strengthen the effectiveness, efficiency, and accountability of PFM through strengthening the budget process, the internal audit and control functions, and the institutional and human capacity of the MoF, as well as other agencies involved in PFM in the country. The project has the following components: (i) strengthening the budget process; (ii) improving the medium-term budget framework, including the line ministries; (iii) enhancing internal audit and control; and (iv) strengthening capacity building for PFM.

Results achieved: *Strengthening the Budget Process.* The project supported the MoF in developing a draft Budget Code. A unified draft, which incorporated comments from various stakeholders, was developed. The code is intended to establish a framework for budget management that will reflect best international practices. Progress has been made on increasing transparency through the provision of budget information to the population in a user-friendly format, particularly through development of the Citizen's Budget, and conducting hearings on the budget proposals for both 2014 and 2015, which were arranged in four regions. Moreover, several additional initiatives of the MoF have been supported to enhance the transparency of budget information, resulting in an improvement of the Open Budget Index (OBI) from 15 in 2010 to 20 in 2012.

Medium-Term Budget Framework. Elements of performance budgeting were developed for 28 agencies in 2014, and recommendations on performance budget (program budget) classification were developed. But a stronger linkage of the Medium-Term Budget Framework (MTBF) to the annual budget is a necessary next step.

Capacity Building for Public Financial Management. A Training Plan has been developed based on a needs assessment, and the project is supporting the training activities envisaged in the plan. A business plan for the Training Center has been developed to ensure the sustainability of the project's capacity-building activities. The Training Center staff and consultants conducted numerous training events in 2014–15. Currently, the Training Center is working on implementing an e-learning strategy (distance learning) to efficiently build the capacity of MoF staff around the country.

Key Partners: Ministry of Finance of the Kyrgyz Republic.

Key Development Partners: European Commission, DFID, SECO, and SIDA.

KYRGYZ REPUBLIC: MANAS MANAGEMENT COMPANY
Project ID 1806



Fiscal year: 2010

Guarantee holder: Finrep Ges. m.b.H.

Investor country: Austria

Gross exposure: US\$5.8 million



The project is the construction and operation of an air cargo complex and an air catering center at Manas International Airport in Bishkek.

MIGA originally issued contracts to Italian Technology & Innovations S.r.l. (ITI) and MCC S.p.A. (MCC) (formerly Mediocredito Centrale S.p.A.) in 1998 and 1999, respectively, for this project. MIGA reissued the contracts in FY02 to accommodate changes in the commercial arrangements of the respective parties. Further details of the project appeared in MIGA's 1998 and 1999 annual reports.

MIGA has modified an existing contract of guarantee with Finrep Handles GmbH (Finrep) of Austria, increasing the guarantee amount to US\$5.8 million. This includes the coverage of shares and future retained earnings, reflecting a revised 80 percent shareholding in Manas Management Company and extending the tenor of guarantee by two years. MIGA's coverage is against the risk of expropriation.

The project has been operating at Manas International Airport since 2001 as the sole licensed provider of cargo handling and storage services, as well as in-flight catering services. The company is based and operates in a strategic cargo and transportation hub with significant growth potential in the rapidly expanding Central Asian market.

Results achieved:

The cargo complex at Manas International Airport has enabled the airport to increase the volume of incoming and outgoing airfreight, with broader economic benefits for the Kyrgyz Republic (which has only one international airport). The complex has also provided the necessary infrastructure to improve the capacity of the airport. It was built and now operates to the International Air Transport Association (IATA) standard. This will continue to make the airport a more desirable destination for international airlines, leading to increased air traffic.

MIGA's continuing support to Manas International Airport is consistent with the World Bank Group's Joint Country Support Strategy for the Kyrgyz Republic for 2007–10 and the Kyrgyz Republic's Country Development Strategy for the same period. The project contributes to the strategic goal of improving the environment for business and economic growth.

RECENT IFC INVESTMENTS IN THE KYRGYZ REPUBLIC

Financial year	Project	IFC Financing (US\$ million)	DESCRIPTION
2014	Bai Tushum	4.0	Loan for the expansion of SME lending
2013	Kyrgyz Investment and Credit Bank (KICB)	12	US\$10 million loan and US\$2 million credit line under IFC Global Trade Finance Program to support the bank's lending operations.
2012	Kompanion Financial Group	6.0	Loan to Kompanion for microfinancing activities.
2011/2012	FINCA Kyrgyzstan	10	Loan to FINCA Kyrgyzstan for microfinancing activities.
2012	Demir Kyrgyz International Bank	2.0	Loan to support the bank's trade finance.
2007/2011	Magic Box	2.5	Loan to support expansion of the largest producer of cardboard packages.
2009/2011	Kyrgyz Investment & Credit Bank	5.0	Loan to expand the bank's lending operations.
2008	Altyn-Ajdar	1.6	Loan to finance a new plant to expand its production.

IFC ADVISORY SERVICES IN THE KYRGYZ REPUBLIC

Years of operation	Project	DESCRIPTION
2013 – present	Investment Climate Advisory Services Project	Aims at building on the successful reforms achieved in investment climate reform, with a focus on reducing the implementation gap, increasing investment, and improving the investment climate for the agribusiness sector. Donor partners are the Governments of Switzerland and the United Kingdom.
2007 – present	Central Asia Corporate Governance Project	Helps local joint stock companies and banks strengthen their corporate governance practices with a view to improving their operations and increasing their ability to attract investment and financing. Donor partners are the Governments of Switzerland and the United Kingdom.
2009 – present	Azerbaijan-Central Asia Financial Markets Infrastructure Advisory Services Project	Aims to expand secure access to finance for individual consumers and micro, small, and medium-sized enterprises by improving the financial infrastructure of, and regulatory environment for, credit bureaus and by developing a Risk Certification Program. The project is implemented in partnership with the Government of Switzerland.
2008 – present	Micro Finance Transformation Project	Provides advisory services to microfinance institutions in Azerbaijan and Central Asia to support their transformation processes. The project is implemented in partnership with the Development Bank of Austria.
2012-present	Housing Microfinance Advisory Services Project	Helps improve housing conditions for low-income Kyrgyz households by introducing an innovative housing microfinance lending product to local financial institutions, enabling them to provide funding for home improvements to low-income residents. The project is implemented in partnership with the Government of Switzerland.
2012-present	Central Asia Tax Project	Helps government reduce tax compliance costs for businesses and promotes tax transparency and financial disclosure. Donor partners are the Governments of Switzerland and the United Kingdom.
2014-present	Central Asia Agri-finance Project	The ultimate goal of the project is improved access to finance and markets for farmers through the improved capacity of farmers, supply chain aggregators, and financial intermediaries in Kyrgyzstan, Tajikistan, and Uzbekistan. Donor partner is Austrian Ministry of Finance.