



Report and Recommendation of the President to the Board of Directors

Project Number: 54169-001
April 2020

Proposed Countercyclical Support Facility Loan and Grant Kyrgyz Republic: COVID-19 Active Response and Expenditure Support Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 26 April 2020)

Currency unit	–	som (Som)
Som1.00	=	\$0.0125
\$1.00	=	Som79.9232

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
COVID-19	–	coronavirus disease
CPRO	–	COVID-19 pandemic response option
DSA	–	Debt Sustainability Analysis
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MOH	–	Ministry of Health
NBKR	–	National Bank of the Kyrgyz Republic
PFM	–	public financial management
PRC	–	People’s Republic of China
SMEs	–	small and medium-sized enterprise
TA	–	technical assistance
WHO	–	World Health Organization

NOTE

In this report, “\$” refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 54169-001	
Project Name	COVID-19 Active Response and Expenditure Support Program	Department/Division	CWRD/CWPF
Country	Kyrgyz Republic	Executing Agency	Ministry of Finance
Borrower	Ministry of Finance		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=54169-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=54169-001-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		37.00
	Social protection initiatives		8.50
Health	Disease control of communicable disease		4.50
		Total	50.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Accelerating progress in gender equality			
✓ Strengthening governance and institutional capacity			
✓ Fostering regional cooperation and integration			
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.a, 1.b		Effective gender mainstreaming (EGM)	✓
SDG 3.3, 3.8			
SDG 5.1			
SDG 8.1, 8.8			
SDG 9.1			
SDG 10.4			
SDG 17.4			
4. Risk Categorization: Low		Gender Equity and Mainstreaming	
		Poverty Targeting	
		General Intervention on Poverty	✓
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		50.00	
Sovereign Countercyclical Support Facility Lending (Grant): Asian Development Fund		25.00	
Sovereign Countercyclical Support Facility Lending (Concessional Loan): Ordinary capital resources		25.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		50.00	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan and grant to the Kyrgyz Republic for the COVID-19 Active Response and Expenditure Support (CARES) Program, under the Countercyclical Support Facility–COVID-19 pandemic response option (CPRO).¹

2. The proposed CARES program is part of an integral package of support to help the government's immediate efforts to mitigate the significant negative health, social, and economic impacts of the coronavirus disease (COVID-19) pandemic. The CPRO will provide budget support to help finance countercyclical development expenditures in the supplementary 2020 national budget. This support will deliver (i) social protection for the poor and vulnerable, (ii) the health sector response, and (iii) a pro-poor fiscal stimulus package to safeguard productive sectors and small and medium-sized enterprises (SMEs) from the economic downturn. The CARES program was developed in close coordination and consultation with the International Monetary Fund (IMF), which confirmed in its 2020 Debt Sustainability Analysis (DSA) that the Kyrgyz Republic remains at moderate risk of debt distress, and that it has some space, for both external debt and overall public debt.² The CARES program will generate a substantial regional public good and complement cooperation efforts to contain the pandemic in the Central Asia Regional Economic Cooperation (CAREC) region. The CARES program will also help implement CAREC 2030, especially its operational cluster 5³ and the Operational Plan for Integrated Disaster Risk Management 2014–2020 of the Asian Development Bank's (ADB).⁴

3. The Kyrgyz Republic is one of the most open and integrated economies in the CAREC region with a population of more than 6.5 million as of the beginning of 2020 and an estimated gross national income per capita of \$1,220 (Atlas method, 2018 prices).⁵ The Kyrgyz Republic is also landlocked, which means that transit arrangements with its neighbors will always be critical. Kazakhstan, to the northwest, is its second-largest export market, its third-largest investor, and the country's lifeline for all transit trade through to major trade markets in the Russian Federation, the Middle East, and Europe. The People's Republic of China (PRC), to the southeast, is its largest investor and a major supplier of food and industrial goods such as equipment and textile products, accounting for 35.4% of its total imports. Regional cooperation is key to the country's economic growth, in terms of cross-border trade (including transit trade) with other countries. The Kyrgyz Republic's openness and integration also means that it is at high risk of exposure to the pandemic through its significant migrant population and exposure to cross-border contamination.⁶

4. The Kyrgyz Republic meets all of the access criteria of ADB's CPRO under the Countercyclical Support Facility, which include robust macroeconomic management, undertaking of key structural reforms, a pro-poor countercyclical expenditure program, and public debt levels maintained at sustainable levels (see Table 1 and Appendix 4). The CARES program is also aligned with ADB's Strategy 2030, including operational priorities on addressing remaining

¹ Asian Development Bank (ADB). 2020. [Policy Paper: ADB's Comprehensive Response to the COVID-19 Pandemic](#). Manila.

² IMF. 2020. *Kyrgyz Republic—Request for Purchase Under the Rapid Financing Instrument and Disbursement Under the Rapid Credit Facility—Debt Sustainability Analysis*. Washington, D.C.

³ ADB. 2017. *CAREC 2030: Connecting the Region for Shared and Sustainable Development*. Manila.

⁴ ADB. 2014. [Operational Plan for Integrated Disaster Risk Management 2014–2020](#). Manila.

⁵ IMF. 2020. [World Economic Outlook Database](#). Washington, DC (accessed 11 March 2020).

⁶ ADB. 2019. [Kyrgyz Republic: Improving Growth Potential](#). Manila.

poverty and reducing inequalities, accelerating progress in gender equality, strengthening governance and institutional capacity and fostering regional cooperation and integration.⁷

Table 1: Compliance with Access Criteria for CPRO^a

CPRO Access Criteria	ADB Staff Assessment
1. Adverse impact of exogenous shock	Assuming the impact from COVID-19 will last for the first half of 2020, the IMF estimates that real GDP growth would slow from 4.5% to 0.4%, inflation increase from 3.1% to 12%, and the current account deficit to widen from 9.2% to 14.5% of GDP. The fiscal deficit would increase from 0.1% to 7.8% of GDP and public debt would peak at 66% of GDP from 54.1%.
2. Countercyclical development expenditure	The government's \$248 million COVID-19 Countercyclical and Health Response Plan provides the foundation for a pro-poor countercyclical expenditure program that is geared towards supporting social protection and food security, an enhanced health sector response (in particular, protecting the MOH 2020 national budget allocation of \$240 million), productive sectors and small and medium-sized enterprises, and budget stabilization.
3. Pre-shock record of generally sound macroeconomic management	Prior to the onset of COVID-19, the IMF assessed the Kyrgyz Republic economy and concluded that macroeconomic and financial sector performance in 2019 was broadly sound. Real GDP growth increased to 4.5% in 2019 due to a pickup of both gold and non-gold output. The output gap was closed but both headline and core inflation remained well below the inflation target range (5–7%). The current account deficit narrowed to 9.3% of GDP in 2019 (compared to 12.3% in 2018), driven by both higher gold exports and lower imports. Gross official reserves stabilized at 3.9 months of imports of goods and services, reflecting the net impact of purchases of locally produced gold offset partly by foreign exchange sales. The budget deficit of the general government decreased to 0.1% of GDP in 2019, and, as a result, public debt decreased to 54% of GDP.
4. Structural reforms	Kyrgyz Republic is taking credible steps to address the spread of COVID-19 and mitigate its economic impacts on the population (Tables 2 and 4). In the immediate- to short-term, the government has closed its border with PRC, imposed a lockdown in major urban centers, signed COVID-19 anti-crisis fiscal measures, and has reached out to development partners to mobilize resources to help finance its COVID-19 Countercyclical and Health Response Plan.
5. Debt sustainability	DSA conducted by ADB and IMF concluded that the Kyrgyz Republic was at moderate risk of debt distress, there is some space, around 3–4% of GDP (or \$240 million to \$320 million), for both external debt and overall public debt, and that its debt carrying capacity was strong. Furthermore, the proposed CARES program loan of \$50 million represents only 1.5% of the country's outstanding public debt stock of \$4.65 billion. It will not significantly affect the debt ratio, nor will it add significantly to the annual debt service obligations facing the Government.
6. IMF Coordination	Coordination and collaboration with the IMF has been particularly strong. ADB has closely coordinated with IMF on the macroeconomic situation, COVID-19 impact and the government's financing needs. IMF's assessment is provided through IMF Country Report No. 20/90 of March 2020 (see Linked Document 4).

ADB = Asian Development Bank, COVID-19 = coronavirus disease, DMC = developing member country, DSA = debt sustainability analysis, GDP = gross domestic product, IMF = International Monetary Fund, MOH = Ministry of Health.

^a More detailed information is contained in Appendix 4.

Source: Asian Development Bank.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

5. **Pre-COVID-19 economic outlook.** At the end of December 2019, the macroeconomic outlook was positive. The 2019 *Asian Development Outlook Update* projected economic growth

⁷ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

of 4.0% in 2020, driven by improved remittances and gold production and exports.⁸ Inflation was forecast to moderately increase as a consequence from 2.0% to 3.5%. The current account deficit was projected to decline to 9.3% of gross domestic product (GDP) with higher gold exports. A higher budget deficit compared to 2017 and 2018 was targeted but was expected to remain below 3.0% of GDP and was in line with the fiscal rule adopted by the government of stabilizing public debt at 54% of GDP by 2024. Poverty and inequality levels have also been gradually declining, with poverty incidence of 25% in 2019 compared with 30% in 2015. At the end of the 2019 Article IV Consultations in July 2019, IMF concluded that the country had made progress toward macroeconomic and financial stability.⁹

6. **Onset and impact of the COVID-19 pandemic.** The ongoing COVID-19 pandemic is having a severe impact on developing Asian and Pacific economies through numerous channels—including adverse effects on health, sharp declines in consumption and investment, less tourism and exports, and disruptions in trade and production—that led to loss of employment and income for workforces. Full magnitude of the economic, health, and social losses will depend on how the outbreak evolves and how long it takes to control it. ADB's most recent assessment, released on 1 April 2020, estimates a global impact of \$2.0 trillion–\$4.1 trillion in losses, equal to 2.3%–4.8% of GDP, if the outbreak is contained within 3 to 6 months in PRC and the rest of the world (best-case to worst-case scenario). Developing Asia is expected to incur 22%–36% of these losses with aggregate impacts of 1.0%–2.2% of combined GDP.¹⁰ The risk of more severe outcomes, however, are substantial. The IMF estimates the global economy to contract sharply by 3.0% in 2020 and for the contraction to be more severe if the pandemic does not fade in the second half of 2020.¹¹ The United Nations General Assembly unanimously adopted a resolution on COVID-19, co-sponsored by 188 nations, calling for intensified international cooperation to defeat a pandemic that is causing "severe disruption to societies and economies."¹² Titled "Global solidarity to fight the COVID-19," it was the first resolution on the global pandemic to be adopted by any international organization.

7. **Onset and consequences of the pandemic in the Kyrgyz Republic.** On 17 March 2020, a week after the World Health Organization (WHO) declared a global pandemic, the Kyrgyz Republic reported its first three COVID-19 cases. The outbreak spread quickly, with 621 confirmed cases (94 per million people), 22 new cases, and 8 deaths (1.2 per million people) as of 22 April 2020. On 24 March 2020, the Kyrgyz Republic, like its neighboring countries in the CAREC region, declared a state of emergency in accordance with the WHO guidelines on critical preparedness, readiness, and response actions.¹³ The MOH currently anticipates the pandemic to spread quickly before peaking in the second quarter of 2020. The capacity of the government and the overall health system to deal with the outbreak effectively is low without external assistance, and so, as an immediate first step, the country instituted drastic measures to prevent the further spread of the pandemic—closing its border with the PRC; imposing border restrictions with Kazakhstan and Uzbekistan; imposing a lockdown on the population which entails restricting the mobility of people, goods, and services (except for food and medical supplies), closing most businesses, shopping areas, and banks across the country; and suspending international and

⁸ ADB. 2019. *Asian Development Outlook Update: Fostering Growth and Inclusion in Asia's Cities*. Manila.

⁹ IMF. 2019. *Kyrgyz Republic—Staff Report for the 2019 Article IV Consultation*. Washington, D.C.

¹⁰ ADB. 2020. *What Drives Innovation in Asia? Special Topic: The Impact of the Coronavirus Outbreak—An Update*. *Asian Development Outlook*. Manila.

¹¹ IMF. 2020. *World Economic Outlook, April 2020*. Washington, D.C.

¹² United Nations resolution: <https://www.un.org/pqa/74/wp-content/uploads/sites/99/2020/03/A-74-L.52.pdf> (accessed 10 April 2020).

¹³ WHO guidelines: <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/critical-preparedness-readiness-and-response-actions-for-covid-19> (accessed 10 April 2020).

domestic flights (see Table 2). The country has a total of 520 hospitals and centers, including 30 state hospitals and 83 regional and inter-regional hospitals. There are 25,421 inpatient beds (41.9 beds per 10,000 people), and 34,723 staff (21.9 physicians per 10,000 people). MOH has designated 24 quarantine hospitals and 441 observation sites (beds) and mobilized 29,502 health workers and 262 volunteers to work in COVID-19 zones. However, the system remains underfunded, and the quality of care is substandard. Despite the lockdown, health services are becoming overwhelmed with COVID-19 patients who also put other patients and health staff at high risk.

Table 2: Summary of Measures to Bring the COVID-19 Pandemic Under Control

Measure	Description
Preparedness plan	The plan, developed with technical advice from the WHO, is based on a conservative estimate of 4,000 cases and focuses on limiting human-to-human transmission, including reducing secondary infections among close contacts and health care workers, and mitigating the impact in-country should there be sustained community transmission.
Social distancing	Social distancing is being enforced through the State of Emergency and curfew. Travel outside homes are restricted during the curfew hours (from 8:00 pm to 7:00 am) with the exception of trips to food stores, pharmacies, medical institutions, and only if there is an identification document. When outside, it is compulsory to wear masks and to follow social distancing of at least 1.5 meters.
Medical personnel	At the beginning of February 2020, 92 doctors from Bishkek and Chui oblasts were trained on clinical case management. MOH is still planning to conduct cascade trainings for health care workers in other oblasts under centralized leadership of WHO and with technical assistance provided by other agencies.
Test kits and equipment	76,000 rapid test kits have been procured or supplied, of which about 30,000 have been used.
Repurposing and building of facilities	An additional 24 hospitals covering all oblasts have been selected to become treatment centers for COVID-19, and 9 more may be mobilized to a total of 33 hospitals. At the moment, these 33 facilities only have 226 ICU beds.
Suspension of air travel	There are no other commercial flights scheduled to leave from Kyrgyzstan. It is unclear when further flights will be announced. Only chartered flights carrying returning citizens are allowed. All land borders have now been closed. All foreign nationals are banned from entering the country, including those with Kyrgyz family members, and permanent residency holders.

COVID-19 = coronavirus disease, ICU = intensive care unit, MOH = Ministry of Health, WHO = World Health Organization.

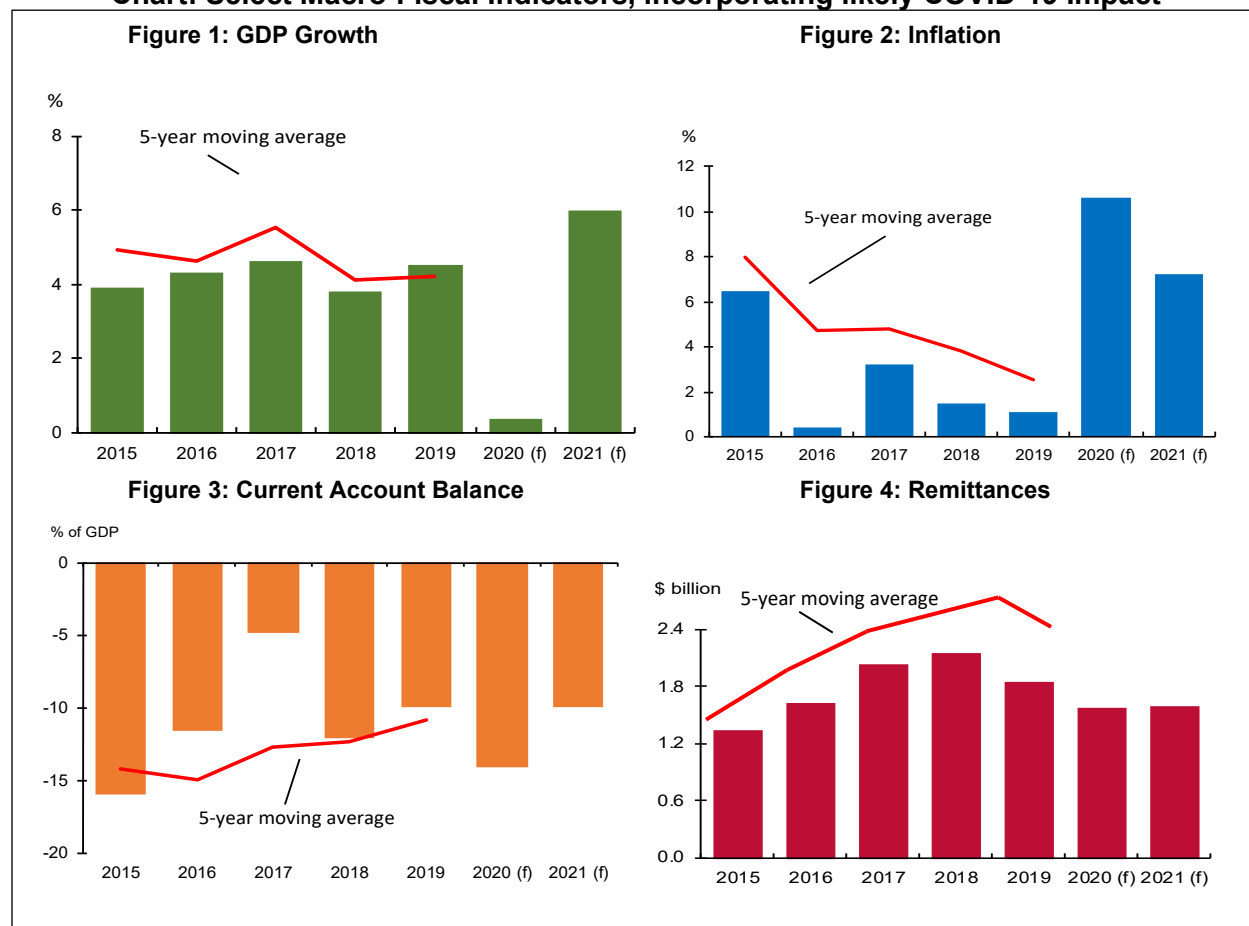
Source: Government of Kyrgyz Republic.

8. **Potential economic, health, and social impacts of the pandemic.** The outbreak of the COVID-19 pandemic weakened the macroeconomic outlook and opened a balance-of-payments gap estimated at about \$405 million. Assuming that the impact from COVID-19 will last for the first half of 2020, real GDP growth would slow from 3.4% to 0.4%, inflation would increase from 5.1% to 12.0%, and the current account deficit would widen from 12.0% to 14.5% of GDP (Figures 1–4). This would create an external financing gap of 5.0% of GDP. The fiscal deficit would increase from 1.1% to 7.8% of GDP and public debt would peak at 66.0% of GDP from 55.5%.¹⁴ The pandemic has resulted in widespread job losses, particularly for those involved in the industry and service sectors (which account for 70% of all employment). The Ministry of Labor and Social Development identified around 1.8 million people (about 30% of the population, that is, (i) persons living below the poverty line (309,441 people), (ii) recipients of monthly social benefits, including

¹⁴ IMF. 2020. *Kyrgyz Republic—Request for Purchase Under the Rapid Financing Instrument and Disbursement Under the Rapid Credit Facility—Staff Report*. Washington, D.C.

people with disabilities, children, elderly people who have lost their breadwinners, and people who are not eligible for pensions (93,520 people), (iii) pensioners with a pension below the cost of basic food (223,510 people), unemployed citizens (156,300 people) and people that have either lost their jobs or are likely to lose their jobs as a result of the economic downturn (1,050,000 people). 22% of this group are women-headed households¹⁵ who will need direct social protection support during the economic downturn. Moreover, the substantial decline in oil prices because of falling demand for energy and the knock on effect on demand in major remittance source countries such as the Russian Federation and Kazakhstan, has amplified the impact of the pandemic on the Kyrgyz economy.

Chart: Select Macro-Fiscal Indicators, incorporating likely COVID-19 Impact



BT = budget target, f = forecast, RF = revised forecast based on collections as at 21 March 2020.

Sources: National Statistical Committee and Ministry of Finance.

9. High-level of uncertainty about final magnitude of impact. The government's assessment of the economic losses based on continuing closure of the borders with the PRC and Kazakhstan, and its revenue collections in January and February 2020, range from \$63 million (best-case scenario: the pandemic is contained in 3 months) to \$269 million (worst-case scenario: the pandemic is contained in 12 months) from loss of trade and tourism alone.¹⁶ On the other

¹⁵ Organization for Economic Cooperation and Development. 2018. *Social Protection System Review of Kyrgyzstan*. OECD Development Pathways. Paris (<http://dx.doi.org/10.1787/9789264302273-en>).

¹⁶ Government of the Kyrgyz Republic. 2020. *Analysis of the Coronavirus Impact on the Global Economy and Kyrgyz Economy*. Unpublished. Prepared for the Special Pandemic Taskforce under the Prime Minister's Office.

hand, IMF estimates the fiscal deficit to be larger and around 7.8% of GDP in 2020 (about \$721 million), compared to the 2020 national budget target of 1.1% of GDP before COVID-19. ADB believes that the fiscal deficit could be even higher (about 12% of GDP) since the government was yet to complete the cost estimates for its response plan when the IMF was finalizing its analysis, and most of the increase in the deficit arises from the weakening of tax revenue (projected losses of \$362 million) rather than additional expenditure to finance the responses. Other significant downside risks include second-round effects from declining domestic demand and consumption; continuing depreciation of the Kyrgyz som against the United States dollar (20% since January 2020, and after a long period of stability since mid-2016); and the possibility of a more protracted and intense crisis that would lead to a significantly larger economic losses and budget deficit, and the need for further financing from development partners (footnote 4). Maintaining fiscal space through measures to ensure new public expenditure programs are well targeted and non-priority expenditures are reduced, and securing budget support from development partners while keeping within borrowing limits, will be critical.

10. **Shock transmission channels.** The macroeconomic impact of the pandemic will be transmitted through shocks to external trade and remittances, as well as domestic supply and demand—in other words, multidimensional exogenous shocks. This will result in sector output, and fiscal and income (business and household) losses as follows (footnote 10):

- (i) **Sector output losses.** The current account deficit is projected to widen to 14.5% of GDP in 2020 (from 9.2% in 2019), because of a combination of lower remittances, and lower non-gold and services exports (i.e., tourism and transport). On the other hand, over the same period, healthy gold exports and falling imports (by 15%) because of closure of the border with the PRC will lead to a slightly lower trade deficit. The government estimates the following losses in 2020 as a result of the fall in demand and border closures:
 - a. **Garment manufacturing.** The largest negative impact will be on clothing and footwear production because imports of raw materials from the PRC account for about 76.8% of total imports of raw materials.
 - b. **Agriculture.** The sector is forecast to contract by 2.0% compared with the originally forecast growth of 3.7%. The Kyrgyz Republic imports only 2.7% of food products from the PRC so the border closure is expected to have a negligible impact here. However, the decline in industrial goods could have a second-round effect on food prices in terms of limited availability of food packaging and equipment.
 - c. **Tourism.** The industry, which contributed an average of about 4.7% of the country's GDP from 2011 to 2018, is projected to be significantly affected as tourism revenues are closely linked to tourism arrivals (visitors from Kazakhstan, for example, account for the biggest proportion of total arrivals, followed by those from the Russian Federation). The subsector of hotel and restaurant services is projected to decline by 25% in 2020 as more and more international and domestic tourists, and business travelers, cancel trips.
- (ii) **Fiscal losses.** Most of the deficit widening will come from a weakening of tax revenue, although part of this performance can be attributed to an overoptimistic revenue assumption in the 2020 national budget:
 - a. **Revenue.** Government revenue is projected to significantly decline in 2020 (by 30% compared to the budget target). Tax collections from trade activity are expected to be hit the hardest, declining by about 10.4% (trade tax), 9.7% (value-added tax), 17.3% (excises on imported goods), and 20.3% (international trade and transaction taxes). Although some of the gaps can be attributed to the overoptimistic budget target, a comparison with actual revenue collected in 2019

still results in a sharp decline. It is worth noting that trade related taxes are a large part of total tax revenues, which help demonstrate as to why the border closures are having such a substantial impact on the economy.

- (iii) **Income losses.** Firms, especially SMEs that employ the most vulnerable and are prevalent in the informal sector, have been forced to close, or temporarily halt or reduce their activities. This has led to weakening business and consumer confidence and losses in employment and income. Private sector credit growth is projected to decline from 14.9% in 2019 to 6.1% in 2020 as a result.¹⁷ The substantial decline in oil prices (down to \$35 per barrel from a peak price of around \$65 in January 2020) has resulted in a fall in remittances—by 15% on a year-on-year basis (compared with March 2019) (footnote 11) on which most households in the Kyrgyz Republic rely.¹⁸
- (iv) **Curtailed Consumption.** As a result of reduced economic activity and with decline in consumption, ADB estimates suggest economic losses to the tune of 3.3% (with shorter containment measures) to 9.2% (with longer containment policies) of GDP.

B. ADB Support Through COVID-19 Pandemic Response Option

11. **Detrimental exogenous shocks.** Section A noted that the Kyrgyz Republic suffered a severe decline in growth and is likely to experience another one in the near future. In addition, the country is likely to face substantial fiscal and financial stress. The fiscal deficit is estimated to reach at least 7.8% of GDP (footnote 14). The measures highlighted below (paras. 12–13 and 17) are part of the first phase of the government’s overall COVID-19 pandemic response. A second phase of support will depend on how the situation evolves in the remainder of 2020. As highlighted in para. 4 and Table 1, the Kyrgyz Republic meets all of the access criteria of ADB’s CPRO under the Countercyclical Support Facility. The CPRO is the appropriate modality to support this response because it provides emergent liquidity into the national budget, and, in this sense, creates more room (both fiscal and time) to develop more targeted support in the future should this be necessary.

12. **Countercyclical and health sector response plan.**¹⁹ To respond to this substantial adverse impact of the COVID-19 pandemic, the government has developed a countercyclical and health sector response plan amounting to \$248 million. The first part of the response is an overall health sector response that includes the \$88 million health sector response plan. The second part is a \$160 million countercyclical response plan to mitigate the impact on the poor and vulnerable, and safeguard productive sectors and SMEs from the economic downturn. In January 2020, the government established a Special Pandemic Taskforce under the Prime Minister’s Office, which is chaired by the vice-prime minister and supported by the Ministry of Finance (countercyclical response) and MOH (health sector response). Other key agencies such as the Ministry of Economy and the Ministry of Labor and Social Development are also represented in the taskforce. The taskforce has its own secretariat and reports to the vice-prime minister on a daily basis.

¹⁷ Government of the Kyrgyz Republic. 2020. *Government Analysis of the Coronavirus Impact*. Unpublished.

¹⁸ Remittances from the Russian Federation accounted for about 90% of total annual remittances. According to the National Statistical Committee, without remittances the poverty level in 2018 would increase by almost 10 percentage points to 32.2% (from the actual value of 22.4%).

¹⁹ Government of the Kyrgyz Republic. 2020. *Priority Action Plan of the Government of the Kyrgyz Republic to Ensure Economic and Social Stability for 2020 in Connection with COVID-19*. Bishkek.

Table 3: COVID-19 Countercyclical and Health Sector Response Plan Summary (\$ million)

Programs	2020
A. Support for health sector response	88
B. Support for the population and food Security	30
C. Support for business entities	30
D. Support for state budget stability	100
Total	248

COVID-19 = coronavirus disease.

Source: Government of the Kyrgyz Republic. ADB staff estimates.

13. The COVID-19 Countercyclical and Health Sector Response Plan (Table 3) can be summarized as follows:

- (i) **Support for the health sector response.** A Disaster Response Coordination Unit was established under the leadership of a United Nations coordinator as a consultative-deliberative mechanism. WHO, United Nations agencies, and other development partners worked with MOH to develop the \$88 million health sector response based on WHO technical guidelines, which recommend focusing on the following key areas: coordination, risk communication and community engagement, surveillance, points of entry, case investigation and rapid response, national laboratory system, infection prevention and control, case management and continuity of essential health services and logistics and supply management (footnote 11). Specific measures include (i) providing rapid response teams with equipment for training them in investigating cases and tracking contacts (including the purchase of phones, tablets, and computers) (\$16.1 million); (ii) providing 24 hospitals designated for COVID-19 surveillance and treatment with the necessary equipment for infection prevention and control (e.g. thermostats, equipment for patient care, and sterilization equipment) (\$11.6 million); (iii) providing intensive care wards in 24 designated hospitals with the necessary technical equipment for case management (\$15 million); and (iv) procuring fully equipped ambulance vehicles (\$2.4 million). These measures, while directly tackling the pandemic, also mitigate the risks faced by health workers. 83% of health and social sector workers are women (doctors, nurses, and community health workers). Women are also the majority of health facility service staff working in areas such as cleaning, laundry and catering, and are more likely to be exposed to the virus. In addition, MOH formed a pool of volunteers to work in COVID-19 zones, including 170 physicians, 22 paramedics and nurses, 48 residents, and 22 students. Local communities and representatives of law enforcement agencies are involved in anti-epidemic activities such as raising public awareness and enforcing mobility restrictions.²⁰
- (ii) **Support for the population and food security.** To help the population withstand impact of the pandemic on employment and household incomes (para. 10), the government introduced price controls on certain categories of basic foods and exempted the import of flour and grain from value-added tax. The government is also providing social assistance in the form of food packages for at least 311,000 vulnerable households, including women-headed households, totaling \$11.4 million, and will maintain social contribution payments (\$6.8 million). ADB support is underway to help government include sex- and age-disaggregated data, and information on occupations of household members, to the Ministry of Labor and Social Development's list of vulnerable households.²¹

²⁰ The project team will coordinate with new and/or ongoing regional TA to promote information sharing with other CAREC member countries.

²¹ ADB. 2018. [Supporting Knowledge Solutions in Central and West Asian Countries](#). Manila.

- (iii) **Support for business entities.** The relief measures that were offered include the deferment of tax debts and social deductions (\$11.8 million), and rent payments (\$900,000); the extension and restructuring of on-loans to SMEs by at least 3 months (\$8.5 million); and support for domestic suppliers, manufacturers, and contractors by adjusting public procurement contract deadlines that cannot be met under the state of emergency restrictions. The National Bank of the Kyrgyz Republic (NBKR), the central bank, is also working on a package to support domestic producers and provide benefits to domestic suppliers for public procurement contracts, and simplifying the lending procedures of the Russian-Kyrgyz Development Fund to improve access to credit. The NBKR will also postpone the enactment of several financial regulations until further notice: (i) reduction of the liquidity ratio requirement to a minimum of 30% (from the current 45%); (ii) removal of liquidity ratio requirements (7-day and overnight); (iii) lowering the minimum threshold level for mandatory reserve requirements from 80% to 70%; and (iv) in the event of arrears arising from COVID-19, option for banks or non-bank financial institutions not to worsen the classification category because of the financial condition of the borrower. Special attention will be given to those SMEs that are engaged in trade, especially in importing critical food and medical supplies.
- (iv) **Support for state budget stability.** In addition to measures to compensate revenue losses of \$362 million, measures include protecting the 2020 budget allocation to MOH (\$240 million), and reducing capital expenditure and non-priority public expenditures such as overseas travel and entertainment allowances. Development partners are being approached to provide budget support to finance the response plans.

14. **Additional macroeconomic policy response.** In addition to the above measures, the NBKR also raised the policy rate by 0.75 percentage points to 5.0% on 24 February 2020 to curb inflationary pressures due to the depreciation of the Kyrgyz Som. As the Kyrgyz Som experienced a sharp depreciation from Som69.9 = \$1.00 on 11 March 2020 to Som80.8 = \$1.00 on 31 March 2020, the NBKR maintained its policy of a managed floating regime for the exchange rate but indicated that it would intervene to smooth excess exchange rate volatility. It has already sold \$202 million from foreign exchange reserves so far (40% more than total foreign exchange interventions for 2019).

15. **Debt sustainability.** IMF's 2020 DSA of the Kyrgyz Republic indicate that even with the expected spike of total public debt given the depreciation of the Kyrgyz som against the US dollar the country remains at moderate risk of debt distress, with some space, around 3–4% of GDP (or \$240 million to \$320 million), for both external debt and overall public debt. Furthermore, ADB's DSA concludes that the proposed CARES program loan of \$50 million represents only 1.5% of the country's outstanding public debt stock of \$4.65 billion. It will not significantly affect the debt ratio, nor will it add significantly to the annual debt service obligations facing the government (footnote 2, Table 1, Appendix 4, Linked Document 4 and Linked Document 9). The expected expenditures and borrowing to cover the 10% of GDP (\$805 million) financing needs will not increase the debt distress risk from moderate to high risk. This assessment is grounded on the expectation that the government will strictly adhere to the fiscal rule of keeping the budget deficit at no more than 3.0% of GDP once the economy has fully recovered.²² The IMF emphasized that remaining cautious when contracting and guaranteeing new debt—including by avoiding non-concessional financing—and improving public investment management would help reduce these vulnerabilities. As the proposed CPRO would be funded by Asian Development Fund grants and

²² More details can be found in the Debt Sustainability Assessment (accessible from the list of linked documents in Appendix 2).

concessional ordinary capital resources (OCR) lending, it should not undermine the borrower's debt sustainability.

16. **Development partner coordination.** The proposed CARES program was prepared in close coordination and consultation with other development partners. Coordination with the IMF has been particularly strong. IMF's COVID related support was conditional on the government mobilizing ADB and other development partners' support. The IMF's Executive Board recently approved budget support of \$241.8 million under the Rapid Financing Instrument and Rapid Credit Facility to help the Government of Kyrgyz Republic meet its urgent balance-of-payment needs stemming from the COVID-19 outbreak (the first IMF emergency loan under these facilities worldwide since the outbreak of the pandemic). The IMF confirmed the need for additional support from ADB and other development partners on concessional terms to bridge the overall financing gap. ADB, together with the Department for International Development of the United Kingdom, the European Union, the IMF, the World Bank, WHO, United Nations agencies, and the United States Agency for International Development, is an active member of the Development Partner Coordination Council which is responsible for facilitating the dialogue between government and development partners. In February 2020, the government reached out through the coordination council to mobilize resources to help it manage the impact of the pandemic on the country. The World Bank approved a \$12.15 million loan for the purchase of medical supplies and equipment as part of its COVID-19 response and will allocate \$9.0 million from its ongoing Enhancing Resilience in the Kyrgyz Republic Project to social protection measures.²³ Other development partners have established crisis response facilities, but the specific support to the Kyrgyz Republic is yet to be defined.

17. **Gender elements of the CARES program.** Women are amongst the most vulnerable to the adverse impact of the pandemic. Women are heavily represented in the health sector (87% of total workforce), services sector (57.6% of the workforce) and garment industry (majority of business owners are women, about 70%–85%) that have been most affected by the economic downturn. In addition, women head 30% of SMEs in the Kyrgyz Republic and make up 33% of their workforces, and so the closure of these businesses have displaced many women entrepreneurs and workers. Household incomes that have been impacted by the sharp fall in remittances will also have a more negative impact on women and children from the households without any alternative income sources. Limited access to food and products, may lead to negative coping mechanisms in these households, such as consuming less food, and result in increased susceptibility to infections and other health problems. ADB and other development partners are working with the government to make sure that its responses includes social protection measures that proactively benefits women and girls. For example, food packages for vulnerable families (more than half of whom are women-led) and accelerated procurement of product lines that are dominated by SMEs and employ a significant number of women. Additional measures to enhance social protection measures for women and stimulating livelihood opportunities for poor women entrepreneurs are being developed in consultation with development partners, including ADB.

18. **Lessons learned.** Because exogenous shocks such as the pandemic can disrupt economic growth and put significant pressure on the fiscal position, mitigating such adverse impacts is in line with ADB's institutional mandate. The preparation of the CARES program draws from ADB's past and recent engagement in similar programs and lessons learned in Kyrgyz

²³ More information on development partners' support for the government's pandemic response efforts: Development Coordination (accessible from the list of linked documents in Appendix 2).

Republic and elsewhere in the region.²⁴ This experience and key lessons can be summarized as follows: (i) importance of regular interaction with the government team. A regular (often daily) dialogue between the government team and the ADB team (comprising both headquarters and resident mission staff) is essential to building trust and confidence, data and information collection, and cross-verification of analyses, and (ii) TA can facilitate the implementation of international best practices by tailoring responses to the crisis to the country's unique needs or it could supplement government-led efforts through the provision of operational support and, where appropriate, capacity building "on-the-job".

19. **ADB's value addition.** ADB is a trusted partner for the Kyrgyz Republic in emergency response, public sector management, education, and infrastructure.²⁵ The proposed CARES program builds on a strong base of country knowledge and two decades of close collaboration. In addition to ongoing policy dialogue on substantive and complex economic diversification reforms and TA to assess the socio-economic impact of the pandemic on the poor and vulnerable (footnote 15), ADB, together with other development partners, is working closely with the government in formulating COVID-19 response measures that are pro-poor and promote gender empowerment. For example, ADB is providing policy advisory support for SME development that builds on an ongoing policy-based loan and which is helping MOF develop measures that help to promote women-owned or -managed SMEs and help to address short-term liquidity pressures through the establishment of rapid credit facility.²⁶

20. The CARES program draws from the collaboration with the government and is part of a comprehensive package of support to the Kyrgyz Republic, including immediate support in the form of (i) a \$200,000 regional TA grant for the United Nations Children's Fund to procure emergency supplies including personal protective equipment, (ii) a coming \$20 million emergency assistance grant and concessional loan to enhance clinical care facilities and case detection, (iii) and a joint ADB–United Nations Development Programme socio-economic study of the impact of the pandemic on the country's poor and vulnerable communities. In addition, ADB's Private Sector Operations Department circulated to the Ministry of Economy a summary of terms available to agribusiness industries that are eligible for fast-track processing because of the pandemic, and ADB is preparing TA to help MOF develop a rapid diagnostic assessment of debt management in the Kyrgyz Republic and to strengthen its institutional capacity for public debt management. In the medium term, ADB will continue to support the government's efforts to diversify the economy and improve the country's resilience to shocks through structural reforms, such as stepping up trade and investment competitiveness, the SME development, public–private partnership investments, and modernization of the workforce by strengthening the institutional framework for market-driven skills.

C. Effects of Program and Outputs

21. The CARES program is designed to support the government's immediate priorities, which are to (i) contain the spread of the pandemic and social support, and (ii) provide a countercyclical response that safeguards productive sectors and SMEs and ensures that the economy is able to

²⁴ ADB. 2009. [Enhancing ADB's Response to the Global Economic Crisis – Establishing the Countercyclical Support Facility](#). Manila; ADB. 2011. [Review of ADB's Policy-Based Lending](#). Manila; ADB. 2016. [Review of ADB's Lending Instruments for Crisis Response](#). Manila; Independent Evaluation Department. 2018. [Country Partnership Strategy Final Review Validation: Kyrgyz Republic, 2013–2017](#). Manila; Independent Evaluation Department. 2018. [Corporate Evaluation: Policy-Based Lending, 2008–2017: Performance, Results, and Issues of Design](#). Manila; and ADB. 2019. [Review of the 2004 Disaster and Emergency Assistance Policy](#). Manila.

²⁵ ADB. 2010. [Kyrgyz Republic: Emergency Assistance for Recovery and Reconstruction](#). Manila.

²⁶ ADB. 2019. [Report and Recommendations of the President: Promoting Economic Diversification Program](#). Manila.

emerge from the crisis without permanently lower employment levels and sector capacity. Unless the crisis is properly managed, conditions could lead to large declines in development expenditure and a substantial regress in health and education outcomes that would disproportionately impact the poorest and most vulnerable segments of the population. The expected impact of the CARES program is: economic and social impacts of COVID-19 pandemic mitigated. The effect of the support provided under the CARES program will be: COVID-19 outbreak more effectively managed and its immediate adverse social and economic effects reduced.²⁷ The financing under the CARES program will (i) help create fiscal room to deploy much needed resources to the health system to contain the outbreak of the pandemic, (ii) mitigate the negative impact of the pandemic on the poor and vulnerable through expanded social protection programs, (iii) safeguard productive sectors and SMEs from the economic downturn through fiscal measures to maintain employment and incomes, and (iv) stabilize the national budget through review and reprioritization of urgent expenditure programs, and by raising revenue or rationalizing tax exemptions, and securing additional budget support.

D. Development Financing Needs and Budget Support

22. **Development financing needs.** As Table 4 highlights, the countercyclical and health response plan will increase the government's fiscal deficit from \$722 million (7.8% of GDP mainly due to a weakening of tax revenue) to \$970 million (12.0% of GDP). However, the government intends to cap its fiscal expenditures at 10% of GDP (\$805 million) to allow a less drastic reduction of the deficit in future years in line with its fiscal rules (footnote 14).

Table 4: Urgent Financing Needs and Support 2020 (\$ million)

	2019	2020 Pre-COVID	2020 Post-COVID IMF Estimates ^a	2020 Post-COVID ADB Estimates
Revenue	2,396	2,671	1,860	1,860
Taxes	1,741	2,073	1,429	1,429
International Trade Taxes	315	378	217	217
Grants	191	187	15	15
Expenditures	2,402	2,758	2,582	2,830
Current Expenditure	1,950	2,270	2,104	2,302
Capital Expenditure	451	488	478	528
Fiscal Balance	-6	-87	-722	-970^b
Funding Gap				311.7
Financing				493.7
ADB:				120.0
CPRO				50.0
EAL				20.0
PBL				50.0
IMF				241.8
EFSD				100.0
EU				31.9

COVID = coronavirus disease, CPRO = COVID-19 Pandemic Response Option, EAL = emergency assistance loan, EFSD = Eurasian Fund for Stabilization and Development, EU = European Union, PBL = policy-based loan.

^a The IMF's projections as at 24 March 2020, which does not include its budget support. The last column highlights ADB's projections, which includes additional financing of \$248 million.

^b The fiscal balance is reduced to \$805 million in order to comply with the government cap.

Source: Government of the Kyrgyz Republic. IMF estimates. ADB staff estimates.

²⁷ The design and monitoring framework is included in Appendix 1.

23. The government is considering the following financing strategy in order to meet its public expenditure needs:

- (i) **Securing budget support (preferably grants).** As of 26 March 2020, the IMF Board of Directors has approved a total of \$241.8 million in concessional lending. Other development partners that have confirmed the provision of support are ADB (potential \$120 million support in concessional lending and grants including the \$50 million CARES program, a \$20 million emergency assistance loan health project and a potential \$50 million policy-based loan program), the European Union (potentially \$31.9 million in general and sector budget support grants), and the Eurasian Fund for Stabilization and Development (\$100 million loan). Securing these funds would reduce the financing gap to \$311.7 million.
- (ii) **Reducing 2020 public expenditure program.** The government could fill the remaining gap by reducing its 2020 public expenditure program by \$311.7 million. It could consider programs such as subsidies to public corporations (\$70 million) and capital expenditure (\$528 million), as well as reducing the size of non-priority items such as overseas travel and entertainment allowances.
- (iii) **Seeking partial financing from domestic financial market.** The domestic debt market is still developing and although government plans to shift to more domestic financing in the medium term, it wishes to do this as part of a gradual transition rather than an immediate action, which could potentially overwhelm the absorptive capacity of the sector and its two main holders of short-term public debt—commercial banks (about 50% of public debt) and the social security fund (about 30%)—and negatively impact foreign exchange reserves.

The timing and volume of financing is a major concern to government and so, in order to smooth out disbursements and ensure that it has funds throughout the rest of 2020, the government may wish to consider a combination of budget support, public expenditure reduction, and domestic debt.

24. **Budget support.** The government's overall financing needs amount to \$970 million (refer to Table 4). This consists of the revised fiscal deficit (\$721 million) post-crisis and additional financing to fund the government's COVID-19 Countercyclical and Health Sector Response Plan (\$248 million). As highlighted in para. 15, the government's maximum expenditure ceiling is \$805 million (10% of GDP)—this is the amount that requires financing. The government requested (i) a concessional loan of \$25 million from ADB's ordinary capital resources, and (ii) a grant not exceeding \$25 million from ADB's Special Funds resources (Asian Development Fund), to help finance the CARES program and to help the government meet its own financing requirements. The CARES program will be funded by a portion of the performance-based country allocation in concessional ordinary capital resources and Asian Development Fund grant and concessional lending resources from the regional set-aside following some reprogramming and some concessional resources freed up from savings and cancelation of ongoing projects. This funding will, in turn, supplement the budget support of \$241.8 million already approved by the IMF (and commitments of up to \$251.9 million from other development partners) to help fill the government's maximum countercyclical expenditure needs of \$805 million for 2020. The ADB loan will have a 24-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the draft loan and program agreements.

E. Implementation Arrangements

25. MOF will be the executing agency for the CARES program. The government, through MOF and MOH, and via oversight of the Special Pandemic Taskforce, will monitor (i) implementation

and effectiveness of government's countercyclical and health response plan, and (ii) execution and the flow of funds. Additional funding of an ongoing TA will be used to support program management activities such as financial management and reporting. Government and development partners recognize that implementation and monitoring and evaluation capacity in MOF and MOH will need to be significantly improved and that a coordinated approach to providing this support is critical. However, this should not add to existing mechanisms for monitoring and evaluation given thin administrative capacities. The mechanism for supporting implementation and financial management and reporting will be through the World Bank-funded Project Implementation Unit (PIU) located in the Foreign Investments Monitoring Division of MOF to support government to comply with its procurement and fiduciary requirements. The PIU has 6 experienced staff (director, financial manager, procurement coordinator, contract administration specialist, disbursement specialist, office-manager/procurement assistant) who are responsible for financial management, disbursements, financial reporting and accounting, financial records management, and managing annual audits. Discussions are underway with MOF to provide additional support to the PIU so that it is able to take implementation and reporting support for government's countercyclical and health expenditures. In addition, ongoing ADB TA will fund a financial management specialist to be based in MOF and serve as an additional resource for the PIU.²⁸ The government, through the Special Pandemic Taskforce, will submit to ADB quarterly reports on expenditures made from the state budget to support the countercyclical and health measures including the progress towards achievement of targets and indicators in the Gender Monitoring Matrix, collecting and using sex-disaggregated data to guide policy development and future financing and to ensure that supported measures benefit both women and men. In addition, the implementation arrangements provide for venues for dialogue for further refinements in the program design and implementation arrangement, and for developing the next phase response should it be necessary. ADB will work through the Development Partner Coordination Council for such ongoing policy dialogue and coordination with government and development partners. The coordination council will also be used to identify gaps and coordinate analysis required for analytical, technical, and financial support. The CARES program implementation period is April 2020–December 2020. The proceeds of the loan and grant will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

III. DUE DILIGENCE

A. Governance

26. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with MOF. ADB completed a governance risk assessment in 2018 in line with the implementation guidelines of its Second Governance and Anticorruption Action Plan. The assessment found that the country's public financial management and public procurement systems were functioning well overall. The functioning of the PFM system, in particular, has improved, especially as regards budgeting, transparency, treasury functions, tax administration, debt management, financial reporting, and the legislative framework (new Budget Code). However, some weaknesses remain, e.g. in revenue forecasting, budget credibility, investment planning and estimation of recurrent expenditures, off-budget funds, financial management information system, and internal and external audit, although these are being addressed through a 3-year World Bank and EU TA. The public procurement system is overall relatively well-functioning, in particular as regards the legislative and regulatory framework and the integrity of the system. However, several weaknesses exist, including that procuring entities cannot undertake two-stage bidding and use

²⁸ ADB. 2018 [Technical Assistance to the Kyrgyz Republic for Preparing the Promoting Economic Diversification Program](#). Manila.

framework agreements, strategic procurement planning is not undertaken, procurement processes start late and payments to contractors and service providers is often late because of inadequate budgetary resources. Although corruption is perceived to be rather high and affecting all sectors of the economy as well as government, the prosecution of former ministers and civil servants has increased since 2018. The government, with support from development partners including ADB, the IMF, the World Bank, the European Union, the Department for International Development of the United Kingdom, the Swiss Agency for Development and Cooperation, and the United States Agency for International Development, are making a concerted effort to overcome weaknesses in these areas through iterative reform strategies and action plans.²⁹

B. Poverty and Social

27. The Kyrgyz Republic ranked only 122 of 189 in the United Nations' Human Development Report 2019. It fares better in life expectancy and ranks second in years of schooling, but has a relatively lower labor market participation rate and lower level of internet use. Further, poverty is unevenly distributed at 20.1% in urban areas, and 23.7% in rural areas. About 68% of the poor are found in rural areas, with Osh, Jalal-Abad, and Batken accounting for 60%. To cope, residents have moved to informal jobs elsewhere in the country or emigrated to take low-skilled jobs. Due to the high level of male labor migration an increasing trend of households with female heads emerged. Such households are among those most susceptible to poverty. In addition, sustaining high growth and maintaining social protection initiatives in the national budget have come under severe stress following the sharp decline in public revenues. The proposed CARES program is expected to be followed by policy-based loans in 2020 and 2021 to help the government strengthen fiscal and social protection resilience, and transform the economy into a diversified and dynamic economy that supports inclusive growth.³⁰

C. Gender

28. The CARES program's gender categorization is "*effective gender mainstreaming*." The CARES program plays a critical role in this context recognizing that in times of crises the poor and vulnerable groups—women, children and youth, older persons, people with disabilities, migrants, and ethnic groups—are disproportionately impacted. Government initiatives supported under the CARES program will help mitigate price and income shocks, especially to the vulnerable population and lagging regions. To protect the most food-insecure households, the government will distribute food packages to the poor and vulnerable, prioritizing low-income households including: recipients of the monthly allowance for needy citizens (families) with children (52% of whom are women); recipients of the monthly social allowance (people with disabilities, elderly citizens, children who have lost their breadwinner/breadwinners who are not entitled to a pension) 51% of whom are women; pensioners whose pension is lower than the cost of basic food basket (65% of pensioners are women³¹); as well as those households where the breadwinners suffered loss of income in industries gravely affected by the pandemic, such as the garments, tourism, and agriculture industries—sectors with significant number of women workers. The targeting mechanism for this support also includes women-headed households (37.6% of all households).³² As women are responsible for food preparation and the families' overall nutrition, the provision of food packs will ease women's burden.

²⁹ ADB. 2018. *Kyrgyz Republic: Country Governance Risk Assessment*. Manila.

³⁰ ADB. 2018. [Country Partnership Strategy. Kyrgyz Republic 2018–2022—Supporting Sustainable Growth, Inclusion, and Regional Cooperation](#). Manila.

³¹ Women and Men of the Kyrgyz Republic. National Statistics Committee. 2019. Page 80.

³² Government of Kyrgyz Republic. 2019. *Women and Men of the Kyrgyz Republic*. National Statistics Committee. Bishkek.

29. Since women make over 80% of frontline medical workers and will have to work longer shifts followed by the necessary observation, essential equipment, supplies and medicines have to be provided. To address specific women healthcare staff' needs, and to avoid higher level of exposure to infection among female doctors and nurses appropriate and well-fitting individual protective equipment, as well as menstrual kits as needed and in adequate number will be provided to the front-line medical staff. The proposed CARES program complements an upcoming health sector emergency assistance loan that is being processed and which focuses on (i) enhancing national capacity in surveillance and response services, (ii) providing safe and quality inpatient care, (iii) providing gender sensitive support to frontline health workers at facility and community levels, (iv) promote women’s representation in leadership and decision making, and (v) address family violence that tends to increase during the self-isolation and quarantine. The CARES program will support SMEs through tax reliefs and prolonged and restructured loans to help them recover, thus mitigating the loss of income of both women entrepreneurs (who own 30% of SMEs) and women workers who predominantly make up the SME workforce.

D. Safeguards

30. Following ADB’s Safeguard Policy Statement (2009), the CARES program is classified category C for the environment, involuntary resettlement, and indigenous peoples. Program activities will be confined to policy and institutional reforms. No activity will result in or lead to involuntary resettlement, or negatively affect indigenous peoples or the environment. ADB proceeds will not be used for any activities resulting in physical or economic displacement as defined by the ADB’s Safeguard Policy Statement. It is understood that expenditure reports from MOF should be confirming this as well.

31. Major risks and mitigating measures are summarized in Table 5 and described in detail in the risk assessment and risk management plan.³³

Table 5: Summary of Risks and Mitigation Measures

Risk	Mitigation Measures
A worsening of the COVID-19 pandemic globally and across regions in Kyrgyz Republic, including a rise in undetected cases, may undermine the implementation of measures to fight the pandemic.	The government is laying the groundwork for a second phase of countercyclical and health sector response, which will depend on how the situation evolves. A potential second phase would continue provision of measures under its current program, provide additional support as needed, and lay the groundwork for structural improvements in health sector capacity to deal with future public health emergencies, social protection capacity including more targeting of measures, and fiscal resilience capacity through building of fiscal buffers into the consolidated fund. ADB is prepared to provide additional policy financing to support critical reforms.
Poor program management and implementation capacity.	Mobilize ongoing and new TA resources to strengthen capacity within MOF and MOH.
Insufficient internal controls in line ministries on expenditure management and lack of effective internal audit units lead to diversion of funds.	TA to help improve the debt management capacity of the line ministries; quarterly Ministry of Finance reports on countercyclical expenditures.

³³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risk	Mitigation Measures
Overall integrity of PFM system undermined by weak mandate of audits and internal controls and lack of effective internal audit units.	TA is being provided by the World Bank, the lead development partner in PFM reform, and the European Union.

MOF = Ministry of Health, MOH = Ministry of Health, PFM = public financial management, TA = technical assistance.
Source: Asian Development Bank.

IV. ASSURANCES

32. The government has assured ADB that implementation of the CARES program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan and grant agreements.

V. RECOMMENDATION

33. I am satisfied that the proposed loan and grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve:

- (i) the loan of \$25,000,000 to the Kyrgyz Republic for the COVID-19 Active Response and Expenditure Support Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) the grant not exceeding \$25,000,000 to the Kyrgyz Republic for the COVID-19 Active Response and Expenditure Support Program, from ADB's Special Funds resources (Asian Development Fund), on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

27 April 2020

Masatsugu Asakawa
President

DESIGN AND MONITORING FRAMEWORK

Impacts Economic and social impacts of COVID-19 pandemic mitigated. ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Effect of the Program^b COVID-19 outbreak more effectively managed and its immediate adverse social and economic effects reduced.</p>	<p>By December 2021:</p> <p>a. 100% of 24 designated quarantine hospitals have necessary equipment to manage 30 COVID-19 cases per day and undertake outbreak investigation (2019 baseline: 0)</p> <p>b. At least 311,000 families (of which at least 35% are female-headed) benefited from use of support provided by the program (March 2020 baseline: no program in place).</p>	<p>a. Hospital records and MOF annual budget reports</p> <p>b. Data from surveys conducted post-program (by Government and/or other organizations) will be used assess use and sufficiency of program's support.</p>	<p>A worsening of the COVID-19 pandemic globally and across regions in Kyrgyz Republic, including a rise in undetected cases, may undermine the implementation of measures to fight the pandemic.</p> <p>Poor program management and implementation capacity.</p>
<p>Outputs</p> <p>1. Measures to support the population and food security introduced.</p>	<p>Key Program Outputs and Actions By December 2020:</p> <p>1.1 Food packages totaling \$11.4 million delivered to at least 311,000 vulnerable families, at least 52% of whom are women (100% of those on the list approved by the MLSD (March 2020 baseline: no food packages delivered)^c</p> <p>1.2 MLSD list of vulnerable households includes sex- and age- disaggregated data and number of households (2020 baseline: disaggregated data not available).^d</p> <p>1.3 Import of flour and grain exempted from value- added tax (March 2020 baseline: no exemption).</p>	<p>1.1–1.3 MOF annual budget reports and MLSD progress reports</p>	<p>Insufficient internal controls in line ministries on expenditure management and lack of effective internal audit units lead to diversion of funds</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
2. Measures to support COVID-19 health sector response implemented.	<p>2.1 Government provides 24 hospitals designated for COVID-19 surveillance and treatment with the necessary sex-segregated facilities, services and equipment for infection prevention and control, including proper sized PPE and gender responsive individual packages^e specifically benefitting 29,502 health workers 83% of whom are women (March 2020 baseline: No equipment and infection prevention and control provided).^{f,g}</p> <p>2.2. Government provides intensive care wards in 24 designated hospitals for treatment with the necessary technical equipment for case management (March 2020 baseline: No technical equipment for case management provided).</p>	<p>2.1 MOF annual budget reports</p> <p>2.2 Special COVID-19 Pandemic Taskforce progress reports</p>	
3. Measures to support business entities offered.	<p>3.1 Government defers tax debts and social deductions of enterprises that suffered losses from the pandemic, especially benefitting SMEs at least 30% of which are women-owned and/or managed (March 2020 baseline: tax debts and social deductions mandatory and enforced)^h</p> <p>3.2 Commercial banks prolong and restructure the principal amounts and interest on loans to small and medium-sized enterprises, at least 30% of which are women-owned and/or managed SMEs, for a period of at least 3 months (March 2020 baseline: None).</p>	3.1–3.2 MOF annual budget reports	Overall integrity of PFM system undermined by weak mandate of audits and internal controls and lack of effective internal audit units.
4 Measures to support State budget stability undertaken.	4.1 At least 25% of government's financing needs for 2020 met (March 2020 baseline: 0%).	4.1 MOF annual budget reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	4.2 Government protects national budget allocation of \$240 million for Ministry of Health, to ensure that current health programs such as maternal and child health programs, and provision of reproductive health services will continue even during the pandemic (January 2020 baseline: \$240 million budget allocation).	4.2 Special COVID-19 Pandemic Taskforce progress reports	

Budget Support

ADB: \$50 million

\$25 million loan from concessional ordinary capital resources lending

\$25 million grant from Asian Development Fund

COVID-19 = coronavirus disease, GDP = gross domestic product, MLSD = Ministry of Labor and Social Development, MOF = Ministry of Finance, NA = not applicable, NBKR = National Bank of the Kyrgyz Republic, PFM = public financial management, SMEs = small and medium-sized enterprises.

^a Government of the Kyrgyz Republic. 2020. *Priority Action Plan of the Government of the Kyrgyz Republic to Ensure Economic and Social Stability for 2020 in Connection with COVID-19*. Bishkek.

^b Due to uncertainties in how the outbreak will unfold, its economic effects, the need for government responses to be flexible as the situation evolves, and because new data collection and reporting systems to monitor the crisis are being developed and evolving, it is not yet possible to set more specific and realistic effect of the program targets than those presented in the DMF. Additional indicators to measure the effects will be identified at a later stage and used to report on the program's effectiveness as comprehensively as possible in the project completion report. Possible indicators include, the reduction of COVID-19 spreading rates and number of cluster outbreaks; share of SMEs which benefited support measures that are still in business, and food consumption of poor households retained at or close to pre-COVID-19 levels.

^c This includes women-headed households, as well as those households whose breadwinners lost their jobs in the garments, tourism, and agriculture industries (sectors with significant women workers).

^d According to NSC in 2019, 37.6% of all households are headed by women.

^e These include, among others, proper fitting PPEs, goggles, face masks and shields, and diapers and menstrual kits, as necessary.

^f Health workers, including women health workers, provided with transportation to and from their work, during the period of the pandemic.

^g 83.2% of health and social sector workers are women (doctors, nurses and community health workers), they are also the majority of health facility service-staff – such as cleaners, laundry, catering and as such they are more likely to be exposed to the virus.

^h 30% of SMEs are women-owned, and that these SMEs predominantly employ women.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=54169-001-3>

1. Loan Agreement
2. Grant Agreement
3. Development Coordination
4. International Monetary Fund Rapid Credit Facility Staff Report
5. Summary Poverty Reduction and Social Strategy
6. Risk Assessment and Risk Management Plan
7. List of Ineligible Items
8. Gender Monitoring Matrix
9. Debt Sustainability Analysis

DEVELOPMENT POLICY LETTER

КЫРГЫЗ РЕСПУБЛИКАСЫНЫН
ФИНАНСЫ МИНИСТРЛИГИ



МИНИСТЕРСТВО ФИНАНСОВ
КЫРГЫЗСКОЙ РЕСПУБЛИКИ

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11.04.2020. № 16-3-Д/3995.

На № _____ от _____

DEVELOPMENT POLICY LETTER

**Mr. Masatsugu Asakawa,
President
Asian Development Bank
Manila, Philippines**

Subject: COVID-19 Active Response and Expenditure Support (CARES) Program

Dear President Asakawa,

On behalf of the Ministry of Finance of the Kyrgyz Republic, let me express our gratitude to the Asian Development Bank (ADB) for being a friend and trusted partner, especially in difficult times. The onset of the COVID-19 pandemic poses the most significant health and economic challenge that the country has ever faced and, as we did in 2010 following the political disturbance that caused significant turmoil, we look to ADB to help us overcome it.

This Development Policy Letter signifies our wish to obtain a US\$28 million loan and US\$22 million grant under the COVID-19 Active Response and Expenditure Support (CARES) Program to help us take an immediate response to the adverse health, social and economic impacts of the coronavirus.

Let me brief you on the decisive action Government has taken to contain the coronavirus outbreak in our country and to help our people, especially the poor and vulnerable, cope with the unprecedented impact of the pandemic. As an immediate first step, the country imposed border restrictions with our neighbors and on March 25, 2020 a State of Emergency was declared, which imposed curfews in the three main cities of the Kyrgyz Republic (Bishkek, Osh and Jalalabad). The State of Emergency restricts the mobility of people, goods, and services (except for food and medical supplies), closes most businesses, shopping areas and other common areas across the country, and suspends international and domestic flights. The curfew was initially meant to last until April 15, 2020 but has been extended to the end of April 2020 to allow our health services more time to improve capacities to contain the transmission and treat infected cases.

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The outbreak of the COVID-19 pandemic has led to a substantial revision of our expectations for economic growth and the health of our fiscal and financial position. Real GDP growth is forecast to fall sharply to -6.8% from 5% based on the assumption that the outbreak will be contained in the first half of 2020. The pandemic has resulted in widespread job losses, particularly for those involved in the industry and service sectors (which account for 70% of all employment, most of whom are women). We have identified around 1.8 million people who will need direct social protection support during the economic downturn including about 1 million people who have temporarily lost their jobs as a result of the downturn. Moreover, the substantial decline in oil prices because of falling demand for energy and the knock on effect on demand in major remittance-source countries such as Russia, has amplified the impact of the pandemic on the Kyrgyz economy. In addition, our assessment of revenue collections losses is estimated at US\$500 million and we will need to cover this gap with either additional grant and concessional lending from bilateral and multilateral development partners, reprioritization and reduction of our public expenditure programs (with the exception of the budget allocation of US\$240 million for the Ministry of Health, which we intend to protect) or borrowing from the commercial banks and pension fund. We are very aware that the final magnitude of economic and fiscal losses could be much higher and would depend on how effective efforts to contain the spread of the pandemic are, here and abroad.

As a response to crisis, we have prepared a US\$180 million Anti-Crisis Stimulus Plan and a US\$88 million Health Sector Response Plan to help mitigate the immediate negative economic and social impact of the pandemic. The combined response package has 4 components, which are summarized as follows:

- (i) *Support for the population and food security:* To help the population withstand the impact of the pandemic on employment and household incomes, price controls on basic foods was introduced; value-added-tax exemption for the import of flour and grain was imposed; social protection in the form of food packages for vulnerable households was provided, etc.
- (ii) *Support for the health sector response:* Ministry of Health (MOH) developed the \$88 million health sector response based on World Health Organization technical guidelines that focus on coordination, risk communication and community engagement to surveillance to case investigation and rapid response to infection prevention and control, etc. Rapid response teams will be provided with personal protection equipment, as well as equipment for training in investigating cases and tracking contacts, 32 hospitals designated for COVID-19 surveillance and treatment will be provided with the necessary equipment for infection prevention and control (e.g. thermostats, equipment for patient care, and sterilization equipment, and so on).
- (i) *Support for business entities:* The range of relief measures to safeguard productive sectors and small and medium-sized enterprises (SMEs) include the deferment of tax debts and social deductions, and rent payments for SMEs and the extension and restructuring of loans to SMEs.
- (ii) *Support for state budget stability:* In addition to measures to compensate revenue losses of US\$500 million, measures include reducing capital expenditure and non-priority public expenditures and rationalizing the tax exemption regime to make available additional resources.

Based on abovementioned, the support that is expected to be provided by ADB via the CARES Program as well as the US\$50 million policy based loan to be processed later this year are extremely important to our ability to effectively contain the spread of the pandemic while taking care of our people, especially the poor and vulnerable who are disproportionately affected during times of crises. The Ministry of Finance has confirmed that the revised fiscal deficit is forecast at 58.2 billion Kyrgyz Som (around US\$721 million or 7.8% of GDP). Since most of this deficit is due to weakening tax revenue rather than additional expenditure, we believe additional

resources will be needed which would widen the fiscal deficit further. Taking all this into account, we believe that our overall financing needs amounts to US\$680 million. This will help us stabilize the 2020 national budget, protect the 2020 budget allocation to MOH, and finance our combined countercyclical and health response package.

In conclusion, these are unprecedented times. Unlike previous crises, we cannot look to the past for a roadmap or manual that will help us deal with the impacts of COVID-19. We must be bold in policy and decisive in action. The Kyrgyz Republic takes a great deal of encouragement knowing ADB stands alongside us in our efforts to deal with the pandemic and its impacts.

We look forward to the prompt consideration and approval of the Kyrgyz Republic CARES Program. Please extend my deep gratitude and appreciation to the hardworking management and staff of ADB for their sterling work so far.

Sincerely Yours,



**Ms. Baktygul Jeenbaeva,
Minister of Finance –
Governor ADB**

**ASSESSMENT OF COMPLIANCE WITH ACCESS CRITERIA FOR THE
COUNTERCYCLICAL SUPPORT FACILITY AND COVID-19 PANDEMIC RESPONSE OPTION**

Access Criteria	ADB Staff Assessment
<p>1. Adverse impact of exogenous shocks</p>	<p>The ongoing COVID-19 pandemic significantly impacted the Kyrgyz economy to sustain growth, maintain resilience in the face of adverse external shocks and weather the contagion effects of the global pandemic. The outbreak spread, with 449 confirmed cases (69 per million people), 19 new cases, and 5 deaths (0.8 per million people) as of 17 April 2020. However, the government's well-placed and timely interventions enabled the economy to respond to post-crises emergency needs swiftly and efficiently.</p> <p>The government's prudent macroeconomic management policies, focusing on cushioning the effects of the pandemic, supporting confidence and economic growth, have been backed by the IMF's emergency assistance program in the amount of \$241.8 million.</p> <p>Assuming that the impact will last for the first half of 2020, real gross domestic product (GDP) growth is expected to slow from 3.4% to 0.4% due to a strong decline in service jobs. Inflation would increase from 5.1% to 12.0% on the back of currency depreciation (20% since January 2020) and higher imported inflation. The rise in inflation is related to currency depreciation and high income inequality. The Gini index by expenditure stood at 27.7 in 2018 which is high. High income inequality translates into an asymmetric distribution of funds and leads to non-uniform consumption. This builds pressures on the foreign exchange market and contributes to the depreciation of local currency resulting in mounting inflationary pressures. The current account deficit would widen from 9.2% to 14.5% of GDP because of a combination of reduced remittances, and decreased non-gold and services exports (i.e., tourism and transport). Without remittances, which comprise 29.0% of GDP, more than the export receipts, the poverty level is expected to rise by almost 10 percentage points to 32.2%. The tumbling oil prices impacting the Russian economy have already resulted in a 15% decrease in remittances.</p> <p>Although income poverty and broader measures of deprivation in the Kyrgyz republic have fallen dramatically over the past two decades, a large proportion of the population still remains vulnerable. In addition, while multidimensional poverty (which goes beyond income poverty to encompass health, education and broader living standards), has fallen over the years, it still remains high. Lack of access to safe drinking water and sanitation affects a sizable proportion of poor and non-poor households.</p>

Access Criteria	ADB Staff Assessment
	<p>Most poor individuals lack access to social assistance and income inequality (with a Gini coefficient at 27.7 in 2018) remains high. The fiscal framework attempts to reduce inequality but has limited impact on poverty. Even among the poorest decile, tax payments equal more than 25% of expenditure with the poor bearing the brunt of indirect taxes (for example, value-added-tax). Realigning the tax framework toward direct taxes could make the tax system more progressive but this approach risks increasing the informal sector, which is already high (accounting for 71.8% of total employment).</p> <p>The subsector of hotel and restaurant services is projected to decline by 25% in 2020 contributing to joblessness. The fiscal deficit would increase from 1.1% to 7.8% of GDP and public debt would peak at 66% of GDP from 55.5%. Government revenue is projected to decline in 2020 by 30% compared to the budget target. There may also be second-round effects from declining domestic demand and consumption.</p> <p>COVID-19 will affect the economy through multiple transmission channels such as trade, tourism, remittances, and FDI. The Kyrgyz republic, being an oil-importing country, is likely to benefit from lower oil prices. The government estimated loss in imports in the amount of \$745 million (8.8% of GDP) and loss in exports of \$124 million (1.5% of GDP). This amounts to an improvement in net exports of \$621 million (7.4% of GDP) that may impact positively on the merchandise trade, but will negatively impact revenues from trade.</p> <p>Even though, the Kyrgyz service sector is well diversified beyond the hospitality industry, a comprehensive ban on travel is likely to have a significant impact on the economy. The data on earnings from cross-border travel in the CAREC region indicate that export earnings amounted to \$438 million, a smaller amount compared with \$2.3 billion for Kazakhstan, for example. The government estimates that hotel and restaurant services are to be projected at 75% of the past capacity because tourists are canceling trips due to a pandemic, and tourism industry representatives report losses.</p> <p>Remittances generally tend to be more stable and less sensitive to external shocks compared with e.g. FDI which tend to be more volatile. The government estimates that a decline in remittances, with the portion that would be spent in the economy (rather than hoarded), will amount to a loss on aggregate demand of \$100 million (1.1% of GDP). The</p>

Access Criteria	ADB Staff Assessment
	<p>government estimates that if there was a complete withdrawal of FDI for the full year, taking into account the prevailing incremental capital-output ratio, the loss would amount to \$42.2 million or about 0.5% of GDP.</p>
<p>2. Counter cyclical development expenditures</p>	<p>The government's countercyclical program is designed to alleviate revenue shortfalls in the business sector and to ensure higher public spending on the liquidation of the effects of the pandemic including addressing rising healthcare costs.</p> <p>Priority Action Plan of the Government of the Kyrgyz Republic to Ensure Economic and Social Stability for 2020 in Connection with COVID-19 comprises: (i) support for the population and food security, (ii) support for the health sector response, (iii) support for business entities, and (iv) support for state budget stability.</p> <p>The government introduced administered prices on certain categories of basic foods and exempted the import of flour and grain from value-added tax. The government is also providing social assistance in the form of food packages for at least 311,000 vulnerable households, including women headed households, totaling to \$11.4 million, and will maintain social contribution payments (\$6.8 million). WHO, United Nations agencies, and other development partners worked with MOH to develop the \$88 million health sector response based on WHO technical guidelines. Protecting the 2020 budget allocation to MOH (\$240 million), and reducing capital expenditure and non-priority public expenditures such as overseas travel and entertainment allowances have been implemented. The government has taken steps to provide the banking system with adequate levels of liquidity in local currency to support lending to the economy. To ensure maximum access to credit funds, the government eased prudential requirements for commercial banks and Non-financial Commercial Organizations. The provision of soft loans together with interest and principal payment restructuring schemes on bank loans for borrowers will support economic activity. Other relief measures that were offered include the deferment of tax debts and social deductions (\$11.8 million), and rent payments (\$900,000) while safeguarding state budget stability; the extension and restructuring of loans to SMEs at least 3 months (\$8.5 million); and support for domestic suppliers, manufacturers, and contractors by adjusting public procurement contract deadlines that cannot be met under the state of emergency restrictions.</p>

Access Criteria	ADB Staff Assessment
<p>3. Pre-shock record of generally sound macroeconomic management</p>	<p>The government's sound economic policy management and strategy to support economic growth through prudent macro and fiscal policy settings helped maintain robust economic activity and continued buoyancy in the private sector in the pre-crisis period. Economic growth stood at 4.5% in 2019, driven by improved remittances and gold production and exports. Inflation at 1.1% was under the target range of 5-7% with currency strength and food imports. The current account deficit hovered at 9.3% of GDP with higher gold exports helping to offset the boost in infrastructure-related imports. The budget deficit remained at 0.1% of GDP, well below 3.0% of GDP, and was in line with the fiscal rule adopted by the government of stabilizing public debt at 54% of GDP by 2024. At the end of December 2019, the macroeconomic outlook was positive. The 2019 <i>Asian Development Outlook Update</i> projected economic growth of 4.0% in 2020, driven by improved remittances and gold production and exports. Inflation was forecast to moderately increase as a consequence from 2.0% to 3.5%. The current account deficit was projected to hover at about 12% of GDP with higher gold exports helping to offset the boost in infrastructure-related imports. A higher budget deficit compared to 2017 and 2018 was targeted but was expected to remain below 3.0% of GDP and was in line with the fiscal rule. Poverty and inequality levels have been also been gradually declining, with poverty incidence of 25% in 2019 compared with 30% in 2015. At the end of the 2019 Article IV Consultations in July 2019, IMF concluded that the country had made progress toward macroeconomic and financial stability as evidenced by low inflation, lower fiscal deficits, and a stable banking industry. However, it warned that the economy remained vulnerable to external shocks given its heavy reliance on remittances and gold exports, the composition of its public debt (most of it external) and the level of the current account deficit. In addition, the IMF cautioned that economic growth had not been sufficient to significantly raise living standards and reduce poverty.</p>
<p>4. Structural reforms</p>	<p>The government acknowledges that it needs to accelerate efforts to achieve sustained and inclusive growth, prepared a comprehensive structural reform program that would include measures to step up trade and investment competitiveness, development of SMEs, and public investment management. It is implementing a comprehensive agenda of structural reforms aimed at fostering macroeconomic stability and diversifying the economy to enable faster and sustained economic growth, employment generation, and poverty reduction.</p> <p>The government-supported measures aim to step up trade and investment competitiveness, development of SMEs, and public investment management. The</p>

Access Criteria	ADB Staff Assessment
	government is investing in preparedness and strengthening the health system against COVID-19 will not only address the direct health impact but will also help to mitigate the broader socioeconomic costs of the pandemic.
5. Debt sustainability	<p>The IMF's 2020 DSA of the Kyrgyz Republic indicates that the country remains at moderate risk of debt distress, with some space, around 3–4% of GDP (or \$240 million to \$320 million), for both external debt and overall public debt, and despite the expected spike of total public debt to 66% of GDP in 2020 in response to COVID-19 and the depreciation of the som against the US dollar. Furthermore, ADB's DSA concludes that the proposed CARES program loan of \$50 million represents only 1.5% of the country's outstanding public debt stock of \$4.65 billion. It will not significantly affect the debt ratio, nor will it add significantly to the annual debt service obligations facing the Government. The expected expenditures and borrowing to cover the 10% of GDP (\$805 million) financing needs will not increase the debt distress risk from moderate to high risk. This assessment is grounded on the projection that the government will strictly adhere to the fiscal rule of keeping the budget deficit at no more than 3.0% of GDP once the economy has fully recovered. Its current debt-carrying capacity is assessed as strong; however, the debt outlook remains vulnerable to shocks to real GDP growth and exports.</p> <p>The Kyrgyz Republic's debt-carrying capacity is assessed as strong. The country's Composite Indicator (CI) index is 3.19, above the threshold of 3.05 for strong debt carrying capacity. This translates into the following external debt burden thresholds: 240% of the present value (PV) of external debt-to-exports ratio, 55% of the PV of external debt-to-GDP, 21% of the PV of external debt service-to-exports, and 23% of the PV of debt service-to-revenue. The total public debt burden threshold is 70% of the PV of total public debt-to-GDP ratio.</p>
6. Coordination with the International Monetary Fund	The CARES program was developed in close coordination and consultation with the IMF. Coordination and collaboration with the IMF has been particularly strong. ADB has closely coordinated with IMF on the macroeconomic situation, COVID-19 impact and the government's financing needs. IMF's assessment is provided through IMF Country Report No. 20/90 of March 2020 (see Linked Document 4). In this report, the IMF also concluded that the Kyrgyz Republic's macroeconomic and financial sector performance in 2019 was broadly sound. Based on their analyses, real GDP growth increased to 4.5% in 2019 due to a pickup of both gold and non-gold output. The output gap was closed but both headline and core inflation remained well below the inflation target range (5–7%). The current

Access Criteria	ADB Staff Assessment
	<p>account deficit narrowed to 9.3% of GDP in 2019 (compared to 12.3% in 2018), driven by both higher gold exports and lower imports. Gross official reserves stabilized at 3.9 months of imports of goods and services, reflecting the net impact of purchases of locally produced gold offset partly by foreign exchange sales. The budget deficit of the general government decreased to 0.1% of GDP in 2019, and, as a result, public debt decreased to 54% of GDP. The banking sector is well capitalized and liquid but exposed to foreign exchange risk due the still high level of dollarization. The banking system’s average capital adequacy ratio amounted to 22% in January 2020, the ratio between liquid assets and liabilities (69%) is well above the minimum required (45%), while the non-performing loan (NPL) ratio increased slightly to 8.1%, mainly due to an increase in NPLs from mortgages and construction. While banks’ direct exposure to foreign exchange risk is low, indirect exposure via the foreign exchange risk of unhedged borrowers, who earn revenue in KGS but carry debt in US\$ and make up about 25% of total loans and two thirds of foreign exchange loan, is higher.</p>

CARES = COVID-19 Active Response and Expenditure Support, COVID-19 = coronavirus disease, DSA = Debt Sustainability Analysis, GDP = gross domestic product, IMF = International Monetary Fund, WHO = World Health Organization.

Source: Asian Development Bank.