



Report and Recommendation of the President to the Board of Directors

INTERNAL

Project Number: 56150-001
October 2022

Proposed Countercyclical Support Facility Loan, Grant, and Technical Assistance Grant Kyrgyz Republic: Building Resilience with Active Countercyclical Expenditures Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 13 September 2022)

Currency unit	–	som (Som)
Som1.00	=	\$0.0122
\$1.00	=	Som81.98

ABBREVIATIONS

ADB	–	Asian Development Bank
BRACE	–	Building Resilience with Active Countercyclical Expenditures
CAREC	–	Central Asia Regional Economic Cooperation
CDEP	–	Countercyclical Development Expenditure Program
COVID-19	–	coronavirus disease
EU	–	European Union
GDP	–	gross domestic product
IMF	–	International Monetary Fund
M&E	–	monitoring and evaluation
MOF	–	Ministry of Finance
NBKR	–	National Bank of the Kyrgyz Republic
OP	–	operational priority
PPP	–	public–private partnership
SMEs	–	small and medium-sized enterprises
SOE	–	state-owned enterprise
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

NOTE

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

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CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. PROGRAM AND RATIONALE	2
A. Background and Development Constraints	2
B. Countercyclical Expenditure Package and ADB's Value Addition	6
C. Expected Outcomes of the Reforms	9
D. Developing Financing Needs and Budget Support	9
E. Implementation Arrangements	10
III. ATTACHED TECHNICAL ASSISTANCE	10
IV. DUE DILIGENCE	11
V. ASSURANCES	13
VI. RECOMMENDATION	13
APPENDIXES	
1. Design and Monitoring Framework	14
2. List of Linked Documents	17
3. Development Policy Letter	18
4. Assessment of Compliance with Countercyclical Support Facility Access Criteria	24

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 56150-001	
Project Name	Building Resilience with Active Countercyclical Expenditures Program	Department/Division	CWRD/CWPF
Country	Kyrgyz Republic	Executing Agency	Ministry of Finance
Borrower	Kyrgyz Republic		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=56150-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=56150-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		25.000
	Social protection initiatives		25.000
		Total	50.000
3. Operational Priorities		Climate Change Information	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP2: Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ OP4: Making cities more livable		ADB Financing	
✓ OP5: Promoting rural development and food security		Adaptation (\$ million)	2.450
✓ OP6: Strengthening governance and institutional capacity		Mitigation (\$ million)	1.250
✓ OP7: Fostering regional cooperation and integration			
Sustainable Development Goals		Cofinancing	
SDG 1.3, 1.5		Adaptation (\$ million)	0.000
SDG 2.1		Mitigation (\$ million)	0.000
SDG 5.5, 5.c			
SDG 8.1, 8.8		Gender Equity and Mainstreaming	
SDG 9.1		Effective gender mainstreaming (EGM)	✓
SDG 11.5			
SDG 13.a		Poverty Targeting	
SDG 17.4		General Intervention on Poverty	✓
4. Risk Categorization:		Complex	
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		50.000	
Sovereign Countercyclical Support Facility Lending (Grant): Asian Development Fund		25.000	
Sovereign Countercyclical Support Facility Lending (Concessional Loan): Ordinary capital resources		25.000	
Cofinancing		0.000	
None		0.000	
Counterpart		0.000	
None		0.000	
Total		50.000	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-7) in the amount of \$400,000.			
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan and (ii) a proposed grant, both to the Kyrgyz Republic for the Building Resilience with Active Countercyclical Expenditures (BRACE) Program, under the Countercyclical Support Facility.¹ The report also describes proposed technical assistance (TA) for Supporting the Building Resilience with Active Countercyclical Expenditures Program, and if the Board approves the proposed loan and grant, I, acting under the authority delegated to me by the Board, approve the TA.

2. **The proposed program.** The Kyrgyz Republic is experiencing significant adverse social and economic impacts from the coronavirus disease (COVID-19) pandemic, compounded by the Russian invasion of Ukraine. The government has prepared a Countercyclical Development Expenditure Program (CDEP) of \$213.7 million to help poor and vulnerable groups, promote food security and price stability, and support employment and businesses in the affected sectors (para. 13). The BRACE Program will help finance the CDEP in the 2022 national budget, and will allow for fiscal sustainability and quick economic recovery to continue with other important medium and long-term reform programs envisaged by the government.² The program is aligned with all seven operational priorities of Strategy 2030 of the Asian Development Bank (ADB).³ The program is also aligned with ADB's country partnership strategy for the Kyrgyz Republic, 2018–2022, especially on improving access to public and social services, supporting growth and economic diversification, and leveraging regional cooperation and integration more effectively.⁴ The Kyrgyz Republic meets all the criteria to access ADB's Countercyclical Support Facility (Table 1).

Table 1: Compliance with Access Criteria for Countercyclical Support Facility

CSF Access Criteria	ADB Staff Assessment
1. Adverse impact of exogenous shocks	Inflation is projected to accelerate from 11.2% in 2021 to 15.4% in 2022 because of escalating food and energy prices resulting in lower consumption, a widening of the current account deficit from 8.7% in 2021 to 10.4% of GDP in 2022, and a drop in GDP growth from 6.4% to 2.8% in 2022 (IMF Assessment Letter). Remittances are expected to fall by 20% in 2022. The fiscal deficit is projected to increase from 0.4% of GDP in 2021 to 4.1% in 2022. As a result, the population living below the poverty line is expected to increase to 38.0% from 33.3% in 2021, with a significant impact on women and children.
2. Countercyclical development expenditures	The government's \$213.7 million pro-poor Countercyclical Development Expenditure Program prioritizes support for (i) food security and price stability, (ii) social protection and safety net programs, and (iii) employment and small and medium-sized enterprises. The measures target the poor and vulnerable groups and food security.
3. Pre-shock record of generally sound macroeconomic management	During 2017–2019, the Kyrgyz economy demonstrated a stable GDP growth above 4.0%, low inflation at 3.1%, and a manageable external debt level at 51.6% of GDP. The economy contracted by 8.4% in 2020 but recovered to 3.6% growth in 2021. The National Bank of the Kyrgyz Republic took steps to curb rising inflation by raising the policy rate from 5.0% to 8.0% in 2021, and inflation was contained within 11.2% in 2021 despite global price pressures. The budget deficit declined to 0.4% of GDP in 2021.

¹ Asian Development Bank (ADB). 2022. [Enhancing Contingent Disaster Financing and the Countercyclical Support Facility](#). Manila.

² Government of the Kyrgyz Republic. 2018. [National Development Strategy of the Kyrgyz Republic for 2018–2040](#). Bishkek; and Government of the Kyrgyz Republic. 2021. [National Development Program of the Kyrgyz Republic until 2026](#). Bishkek.

³ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila. The operational priorities are: (i) addressing remaining poverty and reducing inequalities; (ii) accelerating progress in gender equality; (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; (iv) making cities more livable; (v) promoting rural development and food security; (vi) strengthening governance and institutional capacity; and (vii) fostering regional cooperation and integration.

⁴ ADB. 2018. [Country Partnership Strategy: Kyrgyz Republic, 2018–2022—Supporting Sustainable Growth, Inclusion, and Regional Cooperation](#). Manila.

CSF Access Criteria	ADB Staff Assessment
	Similarly, as a ratio of GDP, the total public debt declined to 61.1% in 2021 from its peak of 67.6% in 2020.
4. Structural reforms	The Kyrgyz Republic is taking credible steps to continue with planned reforms. The government adopted a medium-term National Development Program, 2021–2026 to continue with economic diversification for minimizing dependence on gold mining and remittances and improve the country's resilience to future shocks. Key structural reforms include developing infrastructure and non-gold sectors, improving the investment climate, strengthening public–private partnerships, enhancing regional cooperation, focusing on labor skills development, and exploring alternative trade routes. ADB is providing coordinated medium-term support for structural reforms in several key sectors (para. 14) through its programmatic policy-based loans, sector development programs, and technical assistance support (para. 15).
5. Debt sustainability	The debt sustainability assessments of ADB and the IMF concur that despite economic and fiscal pressure the Kyrgyz Republic is at <i>moderate</i> risk of debt distress. The country's debt-carrying capacity is assessed as strong, as the current foreign exchange reserves provide sufficient buffers to mitigate the impact of external shocks. The baseline scenario and stress tests show that both the public debt and external public and publicly guaranteed debt remain under tolerable limits. ADB lending for the BRACE Program does not jeopardize the Kyrgyz Republic's debt sustainability. The government is committed towards sound macroeconomic policies and building fiscal buffers to avoid debt distress.
6. Coordination with the IMF	ADB is consulting and closely coordinating with the IMF, which provided its assessment letter to ADB on 3 June 2022 and has recommended higher development partners' support to the Kyrgyz Republic (paras. 18 and 21). The next IMF Article IV mission is planned for November 2022. ADB is closely coordinating with other development partners (the European Union, the Food and Agriculture Organization of the United Nations, the European Bank for Reconstruction and Development, the International Finance Corporation, the Eurasian Development Bank, and the World Bank) to address macro and fiscal issues arising from this crisis through consultations during missions and as member of the Development Partners Coordination Council.
7. Monitoring and evaluation	The government will establish a steering committee for effective monitoring and evaluation of the BRACE Program. The committee, headed by the deputy minister of economy and commerce, will provide quarterly reports on the implementation of the BRACE Program to ADB and the Ministry of Finance, which will be publicly disclosed. The BRACE Program's monitoring and evaluation mechanism will be incorporated in the government's existing monitoring and evaluation mechanism for its Countercyclical Development Expenditure Program.

ADB = Asian Development Bank, BRACE = Building Resilience with Active Countercyclical Expenditures, COVID-19 = coronavirus disease, CSF = Countercyclical Support Facility, GDP = gross domestic product, IMF = International Monetary Fund.

Source: Asian Development Bank.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

1. Economic Context

3. **Macroeconomic management.** The Kyrgyz Republic is an open and internationally integrated economy in Central Asia. However, being landlocked, it has limited trade and transit routes. The Kyrgyz Republic has experienced periods of economic stability and growth interrupted by economic recessions, combined with external shocks as well as social and political instability. Economic growth remains mainly driven by the mining sector (gold), private consumption (based on remittances), and government expenditures.⁵ The Kyrgyz Republic implemented tax

⁵ National Bank of the Kyrgyz Republic (NBKR), National Statistical Committee of the Kyrgyz Republic. 2021. [Bulletin of the National Bank of the Kyrgyz Republic from 2018](#). Bishkek.

administration reforms resulting in tax revenues reaching 20.5% of gross domestic product (GDP) in 2021 compared with 17.4% of GDP in 2020 and 19.6% of GDP in 2019. The government planned to improve tax revenue collection to 21.4% of GDP in 2022 and to maintain total revenues at 34.1% of GDP for 2022. GDP per capita reached \$1,287 in 2021 but was on the lower end among the Central Asian economies. A significant number of the labor force works overseas and contributes to the economy through remittances (para. 8).

4. Before 24 February 2022, the Kyrgyz economy was gradually recovering from the COVID-19 pandemic with GDP growth of 3.6% in 2021.⁶ The relaxation of the pandemic arrangements for cross-border flows of goods allowed a rapid recovery of goods imports. This hike in imports was supported by post-lockdown growth in remittances of Kyrgyz migrant workers. The trend for increased imports was expected to continue in 2022.

5. The increase in international food and energy prices,⁷ increased cost of logistics, and the expansionary monetary policy of the National Bank of the Kyrgyz Republic (NBKR) in 2020 to sustain growth during the pandemic caused inflation to accelerate in 2021.⁸ In response, the NBKR tightened its monetary policy in 2021, increasing its policy rate (from 5.0% to 8.0%), and managed to contain inflation within 11.2% in 2021. Before the Russian invasion of Ukraine, inflation was expected to return to single digits by the end of 2022 (footnote 7).

2. The Crisis and Its Transmission Channels

6. The exogenous shock triggered by the Russian invasion of Ukraine has further driven up prices for food and fuel, resulting in fluctuation of remittance inflows and affecting trade. It is impacting sectors that the poor are most dependent on (trade and migration) and hurting the poor through high inflation when the Kyrgyz Republic has limited fiscal space to support the vulnerable population. 12-month price indices for key food items like bread and cereals reached 120.2% in April 2022, while for oils and fats, they increased to 118.7%. This puts the well-being of the population and economic recovery at risk in 2022 and beyond. The Kyrgyz Republic is among the seven economies most vulnerable to severe negative effects from this shock.⁹ The economy is heavily dependent on gold extraction and remittances as well as trade with the Russian Federation and Kazakhstan. The Russian Federation is the main economic partner of the Kyrgyz Republic—the total value of key economic flows between the Russian and Kyrgyz economies equaled 55% of GDP in 2019.¹⁰ Consequently, the new crisis has necessitated a revision of the macroeconomic and fiscal outlook for the Kyrgyz Republic. The latest International Monetary Fund (IMF) assessment projects a drop in GDP growth from pre-crisis estimate of 6.4% to 2.8% in 2022.¹¹ There is a high level of uncertainty and major downside risks, requiring cautious assessment of the forecasts.

⁶ International Monetary Fund Assessment Letter (accessible from the list of linked documents in Appendix 2).

⁷ FAO Food Price Index increased by 48% in February 2022 compared to the pre-pandemic level in March 2020.

⁸ The monetary base increased by 25% and money supply (M2x) by 24% in 2020.

⁹ The seven most vulnerable economies are Armenia, Belarus, the Kyrgyz Republic, Lebanon, Maldives, Montenegro, and Uzbekistan. S. Raga and L. Pettinotti. 2022. [Economic Vulnerability to the Russia–Ukraine War: Which Low- and Middle-Income Countries Are Most Vulnerable?](#) ODI Emerging Analysis. London: Overseas Development Institute.

¹⁰ Exports and imports of goods and services, labor migrants' remittances, and foreign direct investment.

¹¹ Footnote 6. During March–May 2022, key development partners revised economic forecasts for the Kyrgyz economy. ADB's revised estimates (September 2022) projected growth of 3.0% in 2022, with significant downside risks from external uncertainties. ADB. 2022. Asian Development Outlook Update. Manila (September). The World Bank's initial estimate on the onset of the Russian invasion of Ukraine expected contraction of GDP by 5.0% has been later revised to negative 2.0%. In August 2022, National Bank of Kyrgyz Republic forecasted GDP growth at 4.2%. NBKR. 2022. *Monetary Policy Report, Quarter 2 of 2022*. Bishkek (August).

7. **Commodity prices, inflation, trade, and supply chain disruption.** The Kyrgyz Republic is a net importer of essential food and energy items. In 2021, the key imports were oil and gas products (9.7% of GDP), grains and flour (1.1% of GDP), and oil seeds and vegetable oil (0.8% of GDP). The supply-chain disruption with key trading partners are affecting the prices and availability of petroleum, gas, wheat, vegetable oil, and other essential products. The 12-month consumer inflation rate increased from 10.8% in February 2022 to 14.5% in April 2022, and reached 15.6% in August 2022. Food inflation went up from 12.1% in February 2022 to 17.9% in April 2022 and was equal to 18.9% in August 2022. Inflation has adverse implications on the population's living standards and poverty rates, as 85.7% of household expenditures were directed for consumption. Further, the Kyrgyz Republic and international businesses used the Russian Federation as the main transport and logistics hub for the delivery of goods and components to Central Asian economies and shipped goods through Russian ports at the Baltic Sea and Black Sea. These ports are now operating at reduced capacity because of international sanctions on the Russian Federation. Alternative trade routes are much costlier and will take time to arrange. These changes will increase the cost and delivery time of shipments because of longer routes and loss of economies of scale. The global supply chain disruptions and the exchange rate fluctuations are expected to further drive inflation in the country.

8. **Decline in remittances.** The Kyrgyz Republic is highly dependent on remittances, which constituted 32% of GDP during 2012–2016 and increased to 34% of GDP during 2017–2021.¹² An estimated 800,000 Kyrgyz citizens or 32.6% of the labor force work abroad. More than 80% of remittances come from the Russian Federation (footnote 6). However, demand for Kyrgyz labor migrants from the Russian Federation has fallen because of the impending recession in the Russian Federation resulting from economic sanctions. The remittances from the Russian Federation decreased by 7.4% in May–July 2022 in Russian rubles compared with the same period in 2021. Remittances on annual term are expected to decline by 20% in 2022. The drop will reduce household consumption and adversely affect demand in the economy (footnote 11). The official som to Russian ruble exchange rate sharply appreciated in March 2022 and then gradually depreciated in April–June 2022. In parallel, the som to United States dollar exchange rate first depreciated by 25% in mid-March and then gradually appreciated by 5.3% from pre-crisis levels.¹³ These currency fluctuations create major risks for trade flows and other international transactions, including remittances. Although some workers may have started searching for jobs in other countries, many will find it difficult to secure overseas employment in the upcoming months. The increased return of Kyrgyz migrant workers from Russian Federation due to announced partial mobilization by the Government of Russian Federation and escalation of sanctions on Russian economy will lead to additional downward pressure on Kyrgyz economy.

9. **Reversal of poverty reduction gains achieved over the past 5 years.** The national poverty rate declined from 25.6% of the population in 2017 to 20.1% in 2019. In 2020, the poverty rate slipped to 25.3%, with about 1.68 million people living in poverty,¹⁴ and worsened further to 33.3% in 2021, as people spent their savings during the pandemic.¹⁵ Remittance income and social transfers were respectively 12.6% and 14.9% of the total disposable income of the

¹² NBKR. 2022. [The Financial Sector Stability Report of the Kyrgyz Republic according to the Results of 2021](#). Bishkek (June). In 2021, remittance inflows were on the rebound, reaching \$2.7 billion.

¹³ The som has been informally pegged to the Russian ruble.

¹⁴ United Nations Kyrgyz Republic. 2021. [Half of the Households in the Kyrgyz Republic Lost Income due to COVID-19](#). News release. 10 March.

¹⁵ National Statistics Committee. 2022. [Poverty Level in Kyrgyz Republic in 2021](#). Bishkek (July). Almost 63% of the 2.24 million people living in poverty reside in rural areas. Urban poverty increased significantly from 14.7% in 2019 to 33.3% in 2021, while rural poverty increased from 23.2% in 2019 to 33.3% in 2021.

population in 2021.¹⁶ It will be difficult to mitigate the adverse impact of the COVID-19 pandemic and the new crisis without expanded social and economic support to counter high inflation, the fall in remittance income, and reduced job opportunities. Without substantial social and economic support, the poverty rate is estimated to increase to 38.0% in 2022.¹⁷

10. Increased risks of food insecurity. Food insecurity is an inherent feature of the Kyrgyz Republic's recent past. Although about 60% of household income is spent on food, this is not sufficient to provide the calories and nutrients needed. The country's agriculture sector is characterized by low productivity, limited connectivity, and lack of resilience to market volatility and climate change (i.e., affected by an increase in temperature, heat stress, drought, and flooding).¹⁸ These factors have caused the country to rely significantly on importing essential food items such as wheat, sugar, and vegetable oil; and have exposed the country to external shocks. Inherent sector weaknesses, along with the COVID-19 pandemic and the Russian invasion of Ukraine, have worsened national food security and seriously reduced food affordability, especially for the poor, low-income groups, and women. Lack of paid employment and alternate livelihoods have increased the vulnerability of households, as they are more likely to adopt negative coping strategies—reducing food consumption, switching to cheaper but less nutritious food options, and/or selling productive household assets. Households headed by women are more vulnerable to food insecurity because they have fewer income earners and a lower food budget per capita—Som1,865/month compared with Som2,101/month for households headed by men. In this context, it is critical for the government to ensure adequate short-term food supply, especially for vulnerable groups, through budgetary replenishment. Holistic long-term measures should also be in place to increase domestic food supply and improve affordable access to food for the population through an integrated food value chain and efficient production and marketing systems.

11. Decline in investment and business activities. Increased levels of uncertainty and volatility, as well as the perception of elevated geographical, political, and economic risks in the Kyrgyz Republic, will reduce the appetite of domestic and foreign entrepreneurs and investors. The World Bank forecasts net foreign direct investment in the Kyrgyz Republic at 1.3% of GDP in 2022.¹⁹ The finance sector was quick to adjust, with Kyrgyz banks quickly switching from Russian correspondent banks to other banks for United States dollar and euro transactions. However, trade disruptions and a decline in exports are expected to impact businesses, increasing nonperforming loans.

12. Fiscal pressure. The latest assessment of the Ministry of Finance (MOF) indicates that the central (republican) budget revenue for 2022 may decline by 3 percentage points because of lost customs income, while the cumulative government expenditure will reach 38.2% of GDP as higher amounts are directed to countercyclical measures.²⁰ Consequently, the fiscal deficit will increase from 0.4% of GDP in 2021 to 4.1% of GDP for 2022, equivalent to about \$404.1 million. The Kyrgyz Republic has limited capacity to access external markets and will need support from bilateral and multilateral partners to meet the unexpected additional fiscal pressure (footnote 11).

¹⁶ The southern regions of Batken (29.2% of total disposable income), Jalalabad (21.5%), and Osh (10.9%) are highly dependent on remittances. Given the impact of the exogenous factors, the vulnerability of the southern regions of the Kyrgyz Republic to fluctuation of remittances is high.

¹⁷ World Bank. 2022. [Sustaining Small Business through the Pandemic in Kyrgyz Republic](#). 6 May.

¹⁸ World Bank Group and ADB. 2021. [Climate Risk Country Profile: Kyrgyz Republic](#).

¹⁹ World Bank. 2022. [Europe and Central Asia Economic Update, Spring 2022: War in the Region](#). Washington, DC.

²⁰ The authorities continue to enhance revenue collection while reducing low-priority capital expenditure.

B. Countercyclical Expenditure Package and ADB's Value Addition

13. **Countercyclical Development Expenditure Program.** The government was quick to respond to the crisis. It adopted several resolutions totaling \$213.7 million during March–June 2022 aimed at addressing the negative impact of the shock on the poor and vulnerable.²¹ The CDEP comprises measures across three support areas, as summarized below and detailed in the program economic assessment.²²

- (i) **Support for food security and price stability (\$53.6 million).** These goals are to be achieved through a stable supply of staple food and energy products, support for the expansion of agricultural crop areas, the provision of climate-adaptive seeds and fertilizers to vulnerable groups of farmers, support to agriculture producers, and agriculture cooperation. The government will focus on (a) importing climate-adaptive seeds of different crops, diesel fuel, and nitrogenous fertilizers (\$25.2 million); and (b) purchasing essential foods and non-food items (including grains, flour, sugar, and vegetable oil) to stabilize domestic market prices (\$28.4 million). These resources will be managed by the Fund of State Material Reserves under the Ministry of Emergency Situations of the Kyrgyz Republic, the agency in charge of the state revolving fund for food and agricultural inputs—ensuring a guaranteed, affordable supply of material resources to Kyrgyz farmers and food for the population.
- (ii) **Support for social protection and safety net programs (\$45.6 million).** To help the population withstand the impact of the new crisis on household incomes, the government will continue with the planned increase of allowances, pensions, and safety net programs. The following measures will be implemented in this area: (a) the size of its monthly social benefit for people with disabilities will increase by 33%–120%;²³ and (b) \$22 million of budget assistance is planned to support the social fund to increase pensions and social allowances for pensioners (almost 10% of the population are recipients of these pensions), starting from 1 October 2022.
- (iii) **Support of employment and small and medium-sized enterprises (\$114.4 million).** Measures include supporting and finding alternative destinations for migrant workers and offering public sector work. For businesses, the government plans to ease reporting requirements and defer penalties for entrepreneurs; support domestic producers; and promote investments, exports, and tourism. The following key measures are included in the government response plan within existing budget parameters: (a) improve the access of Kyrgyz workers to information on job opportunities inside and outside the country, and negotiate with the governments of migrant-receiving countries to increase the quotas for Kyrgyz labor migrants; (b) allocate \$113.0 million through a capital injection in two state-owned banks (Aiyl Bank and RSK Bank) to support financing and refinancing of loans to agriculture sector producers for developing value-chain agriculture and food processing clusters under an agricultural cluster development program to resolve food security, reduce losses, and promote export capacity. These measures will help farmers to use modern water and energy saving equipment, alternative (green) energy, organic and high-yield seeds for staple food crops (cereals and others), modern agricultural techniques and processing, resulting in reduction of waste; and (c) introduce a \$1.4 million currency risk coverage for

²¹ Decree No. 133-r of the Cabinet of Ministers of the Kyrgyz Republic dated 24 March 2022.

²² Program Economic Assessment (accessible from the list of linked documents in Appendix 2).

²³ This increase elevates the size of these benefits above the poverty line and provides beneficiaries with additional cash, which is important for the mostly rural recipients of the benefit, whose income is predominantly in kind.

potential losses from export-oriented enterprises to restructure loans from foreign to local currency.

14. **Structural reforms.** Despite the COVID-19 pandemic and Russian invasion of Ukraine, the Kyrgyz Republic is taking credible steps to continue with reforms planned in the long-term National Development Strategy of the Kyrgyz Republic, 2018–2040 and medium-term National Development Program of the Kyrgyz Republic until 2026 adopted in October 2021 to continue economic diversification and improve the well-being of the population (footnote 2). Key reforms include developing the infrastructure and non-gold sectors, improving the investment climate, strengthening public–private partnerships (PPPs), enhancing regional cooperation, focusing on labor skills development, improving health care and the crisis response system, and exploring alternative trade routes. The government plans to accelerate its economic diversification efforts and has prioritized the implementation of structural reforms to improve (i) trade and investment competitiveness, (ii) the development of small and medium-sized enterprises (SMEs), (iii) infrastructure development (including through PPPs), (iv) industry-based skills development, (v) fiscal management and social protection, and (vi) reforms to governance and protection of investors' rights. ADB's Promoting Economic Diversification Program is supporting the government in these areas.²⁴ These efforts will enable the economy and the population to be more resilient to exogenous shocks in the future and will help improve the economy's medium- to long-term trajectory. The BRACE Program will provide emergency support in fiscal space for the government to continue implementing complex reforms and ensure that planned reform efforts are supported through TA, deep policy dialogue, and policy-based lending.²⁵

15. **ADB's value addition.** ADB is an important partner for the Kyrgyz Republic in emergency response, public sector management, education, and infrastructure. The 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 socioeconomic impact of the pandemic on the poor and vulnerable, ADB, together with other development partners, assisted the government to formulate anti-crisis response measures that are pro-poor and promote gender empowerment. ADB is providing TA to help the MOF develop a rapid diagnostic assessment of debt management in the Kyrgyz Republic and to strengthen its institutional capacity for public debt management.²⁶ ADB supports government efforts to diversify the economy and improve the country's resilience to shocks through structural reforms with the Promoting Economic Diversification Program and a focus on gender targets and most vulnerable groups (footnote 25) that also support the operationalization of its Nationally Determined Contribution.²⁷ ADB and the government have agreed to establish a robust institutional arrangements for continued policy dialogue and align the program's implementation, monitoring and evaluation (M&E) mechanism with the government's M&E mechanism for the

²⁴ Asian Development Bank (ADB). 2019. [Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Grant for Subprogram 1 to the Kyrgyz Republic for Promoting Economic Diversification Program](#). Manila; ADB. 2021. [Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Grant for Subprogram 2 to the Kyrgyz Republic for Promoting Economic Diversification Program](#). Manila; and ADB. 2022. [Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Grant for Subprogram 3 to the Kyrgyz Republic for Promoting Economic Diversification Program](#). Manila.

²⁵ Independent Evaluation Department (IED). 2018. [Corporate Evaluation: Policy-Based Lending, 2008–2017: Performance, Results, and Issues of Design](#). Manila; ADB; IED. 2018. [Country Partnership Strategy Final Review Validation: Kyrgyz Republic, 2013–2017](#). Manila; ADB; and IED. 2022. [Country Partnership Strategy Final Review Validation: Kyrgyz Republic, 2018–2022](#). Manila; ADB.

²⁶ ADB. 2022. [Technical Assistance to the Kyrgyz Republic for Supporting Debt Management and Transparency Subproject 4: Support to Public Debt Management in Kyrgyz Republic](#). Manila.

²⁷ The Kyrgyz Republic. 2021. [Updated Nationally Determined Contribution](#). Bishkek.

CDEP (para. 23). ADB has taken coordinated approach for the design and implementation of similar countercyclical programs in aligning programs' outputs and M&E reporting arrangements. BRACE programs will explore synergies in jointly mitigating the trade and supply chain disruptions and alternative trade routes in members of the Central Asia Regional Economic Cooperation (CAREC) Program.

16. **Lessons.** The BRACE Program incorporates in its design key lessons from ADB's experience from the 2020 COVID-19 Active Response and Expenditure Support Program for the Kyrgyz Republic funded under the COVID-19 Pandemic Response Option.²⁸ First, the COVID-19 Pandemic Response Option facility was an effective crisis response tool that helped ADB respond to government request for assistance rapidly and effectively. The Independent Evaluation Department's validation report of the Kyrgyz Republic's country partnership strategy, 2018–2022 confirmed that the COVID-19 Active Response Expenditure Support Program provided vital fiscal space to enable the government to address the adverse health, economic, and social impacts of the pandemic. Second, focusing on fiscal risk management and social protection programs will help strengthen resilience to future shocks. The lack of fiscal buffers and effective social protection systems may exacerbate the economy's vulnerability to crises. Fiscal buffers and debt management options are also crucial to help address liquidity issues in the immediate aftermath of crises. Third, establishing a program monitoring and reporting system and technical support is highly beneficial where capacity have been weak. Finally, while the Countercyclical Support Facility opens dialogue to discuss the government's reform agenda, the structural reforms are better addressed through specific policy-based operations in the Kyrgyz Republic, which is supported by ADB through separate policy-based and sector development programs.

17. **Debt sustainability analysis.** The IMF, in its 2021 Article IV report, confirmed that the Kyrgyz Republic's debt remains sustainable and at *moderate* risk of debt distress for both external debt and total public debt.²⁹ ADB's debt sustainability analysis concurs with the IMF assessment that the Kyrgyz Republic's risk of overall debt distress is *moderate*.³⁰ The country's debt-carrying capacity is assessed as strong, as the current foreign exchange reserves still provide sufficient buffers to mitigate the impact of external shocks. The external public and publicly guaranteed debt–GDP ratio is projected to increase marginally from 50.3% in 2021 to 51.1% in 2022, before gradually declining to and stabilizing at 44.0% of GDP by 2027. The stress tests substantiate that both the public and external public and publicly guaranteed debt remain under tolerable limits and are considered sustainable. ADB's lending for the BRACE Program does not jeopardize the Kyrgyz Republic's debt sustainability. However, risks to debt sustainability include (i) a further rise in the current account deficit, (ii) depreciation of the som, and (iii) a rise in fiscal and primary deficits. Since the post–COVID-19 economic outlook is marred by uncertainties associated with the Russian invasion of Ukraine and the possibility of new COVID-19 variants, the government needs to remain committed to sound macroeconomic policies and building fiscal buffers to avoid debt distress.

18. **Coordination with the International Monetary Fund and other development partners.** ADB held several consultations with the IMF regarding the assessment of the crisis and the proposed ADB support through the program and other ongoing structural reforms. The IMF and ADB recommended the government to prioritize support to affected households and sectors. The recommendation to the government was to increase its engagement with donors to mobilize more

²⁸ ADB. 2022. [Completion Report: COVID-19 Active Response and Expenditure Support Program in the Kyrgyz Republic](#). Manila. The report evaluated the program to be *relevant, effective, highly efficient, and successful* overall.

²⁹ IMF. 2021. [Kyrgyz Republic: 2021 Article IV Consultation — Press Release; and Staff Report](#). Washington, DC.

³⁰ Debt Sustainability Analysis (accessible from the list of linked documents in Appendix 2).

concessional financing, which will be critical in the coming years as the cost of domestic financing remains high and the country does not have ready access to international capital markets. The Development Partners Coordination Council, cochaired by ADB, is has been an effective platform to coordinate development assistance in the Kyrgyz Republic. The council discussed the economic outlook for the Kyrgyz Republic and meets regularly to provide common diagnostics, financing, and policy advice to Kyrgyz authorities advising to continue with structural reforms and improve governance and public finance management. In 2022, ADB, the Eurasian Fund for Stabilization and Development (part of the Eurasian Development Bank), and the European Union (EU) are expected to provide policy-based lending. Also, the World Bank is providing a \$50 million program, a hybrid development policy and program-for-results operation, in support of the power sector and energy tariff reforms. ADB coordinated. ADB also consulted the development partners and incorporated their suggestions in the program's design and monitoring framework.

C. Expected Outcomes of the Reforms

19. The program supports the government's immediate priorities (para. 13) to contain the effects of the Russian invasion of Ukraine, which are compounding significant adverse social and economic impacts from the COVID-19 pandemic. The overarching development objective of the program is inclusive economic growth sustained and income inequality reduced.³¹ The outcome of the program is impact of exogenous shocks effectively managed and immediate adverse socioeconomic effects reduced. The program outputs are (i) measures to support food security and price stability strengthened, (ii) measures to support social protection and safety net programs of the government implemented, and (iii) measures to support employment through small and medium-sized businesses implemented.

20. The program will contribute directly to the immediate priorities in the government's crisis response: the need to ensure macroeconomic stability, food security and protect the weakest economic segment of the population. It will contribute to the government's efforts to contain inflation within reasonable limits through fiscal interventions, with the monetary authorities also complementing that effort. The program targets the provision of social assistance to more than 1.03 million people, including low-income families, widows, senior citizens, people with disabilities, and other vulnerable persons to prevent them from falling deeper into poverty. The beneficiaries will be reached through established government programs channels. The program will also enhance entrepreneurship support to farmers and agriculture producers that help to engage returning migrants and the unemployed. The program will also help stabilize Kyrgyz Republic's trade (especially of agri-food products) with its partners in the CAREC region and Europe.

D. Developing Financing Needs and Budget Support

21. The government's budget deficit for 2022 is estimated at \$404.1 million (or 4.1% of GDP), and the gross development financing needs total \$643.5 million. The financing needs will be partially supported by external financing of \$197.1 million, which includes \$105 million financing from ADB,³² while the Eurasian Fund for Stabilization and Development, the World Bank, and the

³¹ Government of the Kyrgyz Republic. 2021. [National Development Program of the Kyrgyz Republic until 2026](#). Bishkek.

³² ADB's financing in 2022 includes (i) the Promoting Economic Diversification Program, subprogram 3 (\$50 million)—\$25 million grant and \$25 million concessional loan; (ii) the BRACE Program (\$50 million)—\$25 million grant and \$25 million concessional loan; and (iii) the first tranche (\$5 million) of the policy-based grant component of the School Education Sector Development Program planned for approval in 2022. The planned School Education Sector

EU will together provide \$92.1 million. Domestic financing will contribute \$207.8 million. The balance is not yet secured and is likely to be met with additional financing from other bilateral and multilateral partners, and the 2021 special drawing rights allocation of the IMF (SDR170 million) transferred from the NBKR to the MOF.

22. The government has 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 program.³³ The 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 grant agreements.

E. Implementation Arrangements

23. The MOF will be the executing agency for the program. The implementing agencies are the MOF; the Ministry of Economy and Commerce; the Ministry of Labor, Social Protection, and Migration; and the Ministry of Agriculture. The proceeds of the loan and grant will be withdrawn following ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). The loan proceeds will be withdrawn as a single tranche. The implementation period of the BRACE Program is from 24 February 2022 to 31 December 2022.

24. **Monitoring and evaluation, and policy dialogue.** To monitor the program implementation, the government will set up a steering committee composed of the deputy minister of economy and commerce (chair) and the deputy ministers of the MOF and the Ministry of Labor, Social Protection, and Migration. The steering committee will provide a structured platform for policy dialogue and implementation support. The program management unit set up under the attached TA will support the steering committee in submitting quarterly progress reports to ADB, which will also be disclosed to the public. The government has already set up an M&E mechanism for its CDEP. It consists of a working group chaired by the deputy minister of economy and commerce, which comprises representatives from relevant government agencies. The working group reports to the head of the cabinet of ministers. The objective of the government's M&E mechanism is to identify potential risks and undertake measures based on monthly or special monitoring reports. The program's M&E mechanism is embedded in the government's mechanism through the deputy minister of finance, who is a member of the government's working group.³⁴

III. ATTACHED TECHNICAL ASSISTANCE

25. The attached TA will support effective M&E of the government's CDEP, assess and monitor other structural reforms, and identify reform areas for further support by ADB.³⁵ The TA project's outcome will be the government's socioeconomic package to the poor, women, other vulnerable groups, and businesses delivered. The TA outputs are (i) M&E of the government's crisis response strengthened, (ii) a centralized program monitoring unit established, (iii) gender climate finance, and social sector statistics enhanced, and (iv) additional public financial management reform areas identified. ADB will administer the TA. The MOF will be the executing agency for the TA, which will be implemented from October 2022 to September 2025. The TA

Development Program focuses on science, technology, engineering, and mathematics (STEM) development in general education (primary and secondary).

³³ The proposed loan and grant are included in the latest commitment projections and reflected in the assessment of ADB's risk bearing capacity in the Quarterly Risk Management Report since the 1st quarter of 2022.

³⁴ Monitoring and Evaluation Mechanism (accessible from the list of linked documents in Appendix 2).

³⁵ Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2).

financing amount is \$400,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7). The government will provide counterpart support in the form of counterpart staff remuneration, office accommodation and supplies, logistical support, and other in-kind contributions.

IV. DUE DILIGENCE

26. **Poverty and social considerations.** The COVID-19 pandemic has already reversed the Kyrgyz Republic's pre-pandemic achievements, which allowed the poverty rate to decline to 20.1% in 2019. The COVID-19 pandemic and current crisis will impact the poor and may push up the poverty rate to 38% in 2022 (para. 9 and footnote 15). Because of the high male labor migration, an increasing trend of households headed by women and children has emerged, and they are among those most susceptible to poverty. In addition, sustaining growth and maintaining social protection initiatives in the national budget may come under stress following the expected budget deficit. The program will play a critical role in mitigating the negative trend to reverse poverty and provide social protection by expanding government safety net programs and safeguarding food security and private consumption. It will also support entrepreneurship to create jobs and build the resilience of the agriculture sector.

27. **Gender.** The program is categorized *effective gender mainstreaming*. It plays a critical role in times of crisis, supporting disproportionately affected poor and vulnerable groups—women, children and youth, older persons, people with disabilities, and migrants. Women and girls comprise 60% of the beneficiaries of the countercyclical social and economic assistance measures. The key gender interventions are (i) about 475,000 beneficiaries received increased social allowances under various government social protection programs, including 50% women; (ii) at least Som170.1 million paid to about 8,000 people with disabilities, of whom 40% are women; (iii) at least 550,000 pensioners (at least 68% of whom are women) received indexed pensions; (iv) Som10 billion allocated from the budget to selected banks and provided to borrowers (entrepreneurs or small businesses) in loans with at least 21% allocated to businesses owned or led by women; (v) at least 7,000 farmers and/or agribusiness enterprises received loans under the agriculture sector and regional development programs (at least 21% of loan recipients are women); and (vi) the information system for labor migrants allowing online job application with data disaggregated by sex, industry, and destination country is introduced and functions under the Ministry of Labor, Social Protection, and Migration.

28. **Governance.** ADB completed a country governance assessment in 2022 in line with the implementation guidelines of ADB's Second Governance and Anticorruption Action Plan. The assessment found the country's public financial management system to be adequate, with notable strengths in debt management, internal control, audit, and fiscal transparency. The country strongly benefits from frameworks and practices in its budgetary process and through the operation of a treasury single account.³⁶ At the same time, the government will need to address weaknesses in revenue forecasting, budget credibility, investment planning, and off-budget fund reporting and reconciliation; and improve fiscal management information system functionalities and usage.³⁷ The 2021 Public Expenditure and Financial Accountability concluded that the public procurement system is adequately structured and functions well. However, the Public Procurement Law, 2022 excluded state-owned enterprises (SOEs) from its coverage. The government is developing a separate regulation and procedures to govern procurement by SOEs.

³⁶ World Bank. 2021. [Public Expenditure and Financial Accountability: Kyrgyz Republic](#). Washington, DC.

³⁷ Governance Assessment (accessible from the list of linked documents in Appendix 2); and ADB. 2006. [Second Governance and Anticorruption Action Plan \(GACAP II\)](#). Manila.

All development partners are in dialogue with the government and committed to ensuring that SOEs conduct procurement in a transparent and efficient manner. Regarding anticorruption, the Constitution of the Kyrgyz Republic includes measures to prevent corruption. The new draft anticorruption strategy, 2022–2024 was presented to the public and is being finalized by the government. The National Development Program 2021–2026 focuses on reforming the judicial system, law enforcement agencies, fiscal system, digitalization, electronic customs, and PPPs, with the aim of improving transparency and reducing corruption risks. A new Anticorruption Business Council was established in 2021 to develop recommendations on the state anticorruption policy, the business environment, the investment climate, and protection of investors and business entities.³⁸ Civil society and media are free and vocal in reporting corruption practices and cases. The development partners also have a platform (the Development Partners Coordination Council) to raise various development concerns to the government, including governance and corruption. The authorities also showed commitment toward streamlining investment facilitation and the resolution of disputes by operationalizing an investor grievance mechanism.³⁹ ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, the MOF, and implementing agencies.

29. **Safeguards.** The program is classified *category C* for environment, involuntary resettlement, and indigenous people following ADB's Safeguard Policy Statement (2009).⁴⁰ ADB proceeds will not be used for any physical construction (temporary or permanent), activities included on the ADB prohibited investment activities list (Appendix 5 of the Safeguard Policy Statement), or the introduction of any new alien species. The program will confirm such exclusions through the MOF's quarterly reporting on consolidated expenditures

30. **Risk mitigating measures.** Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.⁴¹

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
The crisis resulting from the Russian invasion of Ukraine has the potential to prolong or escalate. The country's capacity to withstand the crisis has been significantly weakened since the disruption caused by the COVID-19 pandemic. It carries the risk of further economic decline, the closure of small and medium-sized enterprises, higher unemployment, and lower incomes. This could strain the government's capacity for effective management of its response.	The government has set up a dedicated institutional mechanism for monitoring and responding to the crisis with appropriate countermeasures as it evolves. ADB's monitoring and evaluation is embedded in the government's institutional mechanism. ADB and the government will jointly monitor the program and its impact. ADB will also work with other development partners to support the government as the situation evolves.
Imports of essential commodities and trade routes are affected because of further restrictions imposed by other economies.	The government is negotiating with major exporting economies to ensure adequate supply of essential commodities. The government is exploring multiple alternative trade routes and access to new markets to minimize disruption. ADB will work with other development partners to support the government's countermeasures as situation evolves.
Coordination issues across government agencies may affect program implementation.	The monitoring and evaluation mechanism established for the program will support coordination across agencies, and reporting of issues so that bottlenecks can be addressed.

³⁸ The members of the council consist of the President, the general prosecutor, heads of parliament factions, the business ombudsman, business associations, and nongovernment organizations. It also includes several development partners (the United States Agency for International Development and the EU) as observers.

³⁹ Decree No. 32 of the Cabinet of Ministers of the Kyrgyz Republic dated 28 January 2022.

⁴⁰ ADB. 2009. [Safeguard Policy Statement](#). Manila.

⁴¹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigation Measures
	ADB's technical assistance will also support interagency coordination.
Prolonged economic slowdown and political tensions may shift the government's focus away from implementing key structural reforms related to macroeconomic management, gender equality and women's empowerment, domestic resource mobilization, public financial management, state-owned enterprise governance, and public-private partnerships.	Coordinated efforts by ADB and other development partners will promote continuity of structural reforms through (i) policy dialogue, (ii) the provision of targeted support to new programs and/or projects and the monitoring of existing ones, and (iii) attached TA.

ADB = Asian Development Bank, COVID-19 = coronavirus disease.

Source: Asian Development Bank.

V. ASSURANCES

31. The government has assured ADB that implementation of the 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.

VI. RECOMMENDATION

32. 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 Building Resilience with Active Countercyclical Expenditures Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1.0% per year during the grace period and 1.5% per year 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 from ADB's Special Funds resources (Asian Development Fund) for the Building Resilience with Active Countercyclical Expenditures Program, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Masatsugu Asakawa
President

10 October 2022

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Inclusive economic growth sustained and income inequality reduced ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
Outcome Impact of exogenous shocks effectively managed and immediate adverse socioeconomic effects reduced	By July 2023: a. The average share of social transfers in disposable income of the population in 2022 stays at or above the level of 16.0% (2021 baseline: 14.9%) (OP6.1.3) b. The 12-month price indices for bread and cereals maintained at or below 124.0% by December 2022 (April 2022 baseline: 120.2%) (OP6.1.3) c. The 12-month price indices for oils and fats maintained at or below 113.0% by December 2022 (April 2022 baseline: 118.7%)(OP6.1.3)	MOF periodic reports; NSC reports	R: Uncertainties about duration and outcome of the Russian invasion of Ukraine and the potential impact of sanctions against the Russian Federation may lead to a greater negative impact on inflation, remittances, trade, and the exchange rate in the region.
Outputs 1. Measures to support food security and price stability strengthened	Key Policy Actions By December 2022: 1.1 30,000 tons of nitrogenous fertilizers imported and distributed in the domestic market (February 2022 baseline: none) (OP1.1.3; OP6.1.3; OP7.2) 1.2 12,000 tons of grains imported and distributed in the domestic market (February 2022 baseline: none) (OP1.1.3; OP6.1.3; OP7.2) 1.3 8,000 tons of seeds (of which at least 50% are climate-adaptive) imported and distributed in the domestic market (Baseline: none) (OP1.1.3; OP3.2; OP6.1.3; OP7.2) 1.4 4,000 tons of vegetable oil imported and distributed in the domestic market (Baseline: none) (OP1.1.3; OP6.1.3; OP7.2)	1.1–1.4 MOF annual budget reports and reports of the State Material Reserves Fund	R: Volatility of global food and energy prices, and strong currency in trade partners will decrease imports of foods and supplies, thus not allowing to mitigate demand.
2. Measures to support social protection and safety net programs of the government implemented	2.1 By December 2022: (i) about 475,000 beneficiaries received increased social allowances under various government social protection programs, including 50% women (2021 baseline: 435,000 beneficiaries) (OP1.1.3; OP6.1.3)	2.1–2.2 MOF annual budget reports and MLSPM progress reports	R: Weak data on poor and vulnerable groups and lack of information on social benefits may reduce

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
	<p>(ii) at least Som170.1 million paid to about 8,000 people with disabilities, of whom 40% are women (2021 baseline: Som107.4 million)^b (OP1.1.3; OP1.3.3; OP2.5; OP6.1.3)</p> <p>2.2 By December 2022, at least 550,000 pensioners (at least 68% of whom are women) received indexed pensions (February 2022 baseline: none) (OP1.1.3; OP1.3.3; OP2.4.2; OP2.5; OP6.1.3)</p>		the number of applicants for social services.
3. Measures to support employment through small and medium-sized businesses implemented	<p>3.1 By December 2022, Som10 billion allocated from the budget to selected banks and provided to borrowers (entrepreneurs or small businesses) in loans with at least 21% allocated to businesses owned or led by women (February 2022 baseline: none) (OP1.2.1; OP1.3.2; OP2.1.3; OP2.5; OP4.2.2; OP6.1.3)</p> <p>3.2 By December 2022, at least 7,000 farmers and/or agribusiness enterprises received loans (including agriculture inputs and equipment directed to climate adaptation and mitigation)^c under the agriculture sector and regional development programs (at least 21% of loan recipients are women) (February 2022 baseline: none) (OP1.2.1; OP1.3.2; OP2.1.3; OP2.5; OP3.2; OP5.2; OP4.2.2; OP6.1.3; OP 7.2)</p> <p>3.3 Currency risk insurance mechanism is in place and available for export-oriented enterprises (April 2022 baseline: no mechanism) (OP1.2.1; OP4.2.2; OP6.1.3; OP7.2)</p> <p>3.4 At least 30% of previously issued foreign-currency-denominated loans to small businesses converted into the loans denominated in national currency (February 2022 baseline: none) (OP1.2.1; OP4.2.2; OP6.1.3; OP7.2)</p> <p>3.5 Information system for labor migrants allowing online job application with data disaggregated by sex, industry, and destination country is introduced and functions under the MLSPM (February 2022 baseline: no information system in place) (OP1.1.3; OP1.3.3; OP2.5; OP6.1.3)</p>	<p>MOF annual budget reports</p> <p>M&E reports</p> <p>MLSPM report and statistics</p>	
<p>Budget Support ADB: \$50 million \$25 million loan from concessional ordinary capital resources lending \$25 million grant from Asian Development Fund \$400,000 Technical Assistance Special Fund (TASF 7)</p>			

ADB = Asian Development Bank; M&E = monitoring and evaluation; MLSPM = Ministry of Labor, Social Protection, and Migration; MOF = Ministry of Finance; NSC = National Statistical Committee; R = risk; TASF = Technical Assistance Special Fund.

^a Government of the Kyrgyz Republic. 2021. [National Development Program of the Kyrgyz Republic until 2026](#). Bishkek.

^b Brief description of groups of disabilities 1st group includes: People who need constant outside help and supervision of other persons, and are completely dependent on other persons; 2nd group includes people with the ability to self-service, partial orientation with regular assistance of other persons, if necessary, auxiliary technical means; who are able to perform labor activities in specially created working conditions using auxiliary technical means, a specially equipped workplace and with the help of other persons; 3rd group includes people with the ability to self-service, move independently, these might require a longer time, the fragmentation of tasks, using auxiliary technical means if necessary; and the ability to perform labor activity with a decrease in qualifications, severity, and (or) a decrease in the volume of work (based on the regulation on the recognition of a citizen as a person with a disability).

^c Loans will, among others, finance climate adaptive agriculture inputs and water and energy saving equipment, alternative (green) energy equipment, organic and high-yield seeds procurement for production of staple food crops (cereals), use of modern agricultural techniques, and reduction of waste.

Contribution to Strategy 2030 Operational Priorities: Operational priority indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=56150-001-3>

1. Loan Agreement
2. Grant Agreement
3. Contribution to Strategy 2030 Operational Priorities
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Program Economic Assessment
8. Summary Poverty Reduction and Social Strategy
9. Risk Assessment and Risk Management Plan
10. List of Ineligible Items
11. Attached Technical Assistance Report
12. Climate Change Assessment
13. Gender Monitoring Matrix

Supplementary Documents

14. Debt Sustainability Analysis
15. Safeguard Assessment Matrix
16. Monitoring and Evaluation Mechanism
17. Governance Assessment

DEVELOPMENT POLICY LETTER

КЫРГЫЗ РЕСПУБЛИКАСЫНЫН
ФИНАНСЫ МИНИСТРЕЛИГИМИНИСТЕРСТВО ФИНАНСОВ
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01.09.22 № 16-2/10534

№

DEVELOPMENT POLICY LETTER

Mr. Masatsugu Asakawa
President
Asian Development Bank
Manila, Philippines

Dear President Asakawa

Subject: Building Resilience for Countercyclical Expenditures (BRACE) Program for Kyrgyz Republic

On behalf of the Government Kyrgyz Republic, let me express our gratitude to the Asian Development Bank (ADB) for being a friend and trusted partner. ADB's support during the COVID-19 pandemic allowed us to mitigate the adverse impact of the crisis while continuing with our structural reform agenda. We look forward to ADB's continued support as we deepen our reforms for economic diversification to build resilience, and for battling the ongoing geo-political crisis triggered by the war in Ukraine that is adversely affecting the economy.

I am taking this opportunity to brief you on the Government's efforts towards an inclusive, broad-based, and sustainable economic recovery, while ensuring that the poor and vulnerable are suitably protected from the adverse impact of the ongoing regional crisis and the risk from new COVID-19 variants.

Sound Macroeconomic Management. Prior to 24 February 2022, the economy of the Kyrgyz Republic was gradually recovering from the COVID-19 pandemic and the GDP was expected to increase by 5% in 2022. Inflation of 3.1% in 2019 accelerated to 13.2% in 2021 due to the hike in international food and energy prices, increased cost of logistics, and NBKR's expansionary monetary policy in 2020 to respond the pandemic crisis. However, the situation was manageable, as NBKR tightened its monetary policy in 2021 increasing its policy rate (from 5% to 8.5%). As a result, the monetary base growth slowed down considerably in 2021. Prior to new shock the expectation was that inflation will return to single digit by the end of 2022. The relaxation of the pandemic arrangements for cross-border flows of goods allowed for the rapid recovery of goods imports. This hike in imports was supported by the post-lockdown growth in

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remittances of the Kyrgyz migrants. The trend for increased imports was expected to continue in 2022.

The Crisis and Its Transmission Channels The economic recovery is again at risk in 2022 because of the impact of the new crisis. The exogenous shock from this crisis is having severe negative effects on the Kyrgyz Republic, which has been assessed as among the seven economies most vulnerable to its impact. The shock already has driven up prices for food and fuel and reduced inflow of remittances and contracted the export. The economy is heavy dependence on gold extraction and remittances as well as on trade with the Russian Federation and Kazakhstan. Russia is the main economic partner of the Kyrgyz Republic with the total value of key economic flows between them at 55% of GDP in 2019. Besides, there is limited fiscal space and gross international reserves available following COVID-19 pandemic. Consequently, the government and development partners revised the outlook for 2022. ADB's revised estimates in the wake of the economic sanctions imposed on Russia, the Kyrgyz Republic's main trading partner, projected growth to slow to 2.0% in 2022 and recover slightly to 2.5% in 2023. World Bank's initial estimate expected contraction of GDP by 5.0%; it has been revised to negative 2.0%. The government's initial assessment of the revised economic growth is in the range of 3.4%–4.5%. In June 2022, the NBKR published its revised macroeconomic forecast, according to which, in 2022 the GDP will grow by 3.4% and 12-months inflation rate will be 15.5%. The evidence shows a high level of uncertainty and major downside risks requiring cautious assessment of the forecasts.

Commodity prices, inflation, trade and supply chains disruption. Kyrgyz Republic is net importer of essential food and energy items. The increase in international prices for petroleum, gas, wheat, vegetable oil, and some other products caused by the war and trade restrictions in key trading partners are affecting availability of goods and domestic prices in the Kyrgyz Republic. In 2021, the imports of oil products and gas products were equivalent to 9.7% of GDP, imports of grains and flour to 1.1% of GDP, and imports of oil seeds and vegetable oil to 0.8% of GDP. The 12-month consumer inflation went up from 10.8% in February 2022, it increased to 14.5% in April and was 13.6% in July 2022. Food inflation was even higher at 17.9% in April 2022. NBKR is projection annual inflation to reach 15.5% in 2022. Inflation has adverse implications on the population's living standards and poverty rates as 85.7% of household expenditures were directed for consumption. Further, Kyrgyz and international businesses used Russia as main transport and logistics hub for delivery of goods and components to Central Asian economies and shipped goods through Russian ports at Baltic and Black Seas. Due to international sanctions on Russia, these ports are no longer operational. Alternative trade routes are much costlier and will take time to arrange. These changes increasing the cost and delivery time of shipments due to longer routes and loss of economies of scale. The global supply chain disruptions and the exchange rate fluctuations are expected to further drive inflation in the country.

Decline in remittances. Estimated 800,000 Kyrgyz citizens or 32.6% of labor force work abroad. Kyrgyz Republic is highly dependent on remittances which constituted 32% of GDP in 2021. Remittances inflow were on rebound reaching \$2.7 billion in 2021. Demand for Kyrgyz labor migrants is expected to drop in Russia because of recession caused by economic sanctions in the second half of 2022. Over 80% of remittances inflow comes from Russia, which are estimated to decline by about 20% in 2022. This drop will reduce household consumption and also adversely affect demand in the economy. The inflow of remittances from Russia already decreased by 9.3% in March–April 2022 compared to the same period in 2021. Relative stable volume of remittances in US dollar is linked to appreciation of Russian Ruble against US dollar and other currencies. The official som to ruble exchange rate sharply appreciated in March 2022 and then gradually depreciated in April–June 2022. In parallel, the som to United States dollar exchange rate first depreciated by 25% in mid-March and then gradually appreciated by 5.3% from pre-crisis level. Apparently, these fluctuations create major risks for trade flows and other international transactions, including remittances. Labor migrants return may create additional

pressure on the domestic labor market. Although some workers may have started searching jobs in other countries considering the language and skill set requirements of other countries it will be difficult to secure overseas employment for many in a short to medium-term.

Decline in investment and business activities. Increased levels of uncertainty and volatility, and perception of elevated geographical, political and economic risks will be reducing the appetite of domestic and foreign entrepreneurs and investors in the Kyrgyz Republic. World Bank forecasts net foreign direct investment at 1.3% of GDP and gross fixed capital investments growth by 4.1% in 2022. Currently, many production and distribution facilities in Russia have been closed or have suspended their activities. The financial sector was quick to adjust, with Kyrgyz banks quickly switching from Russian correspondent banks to other banks for dollar and euro transactions. However, decline in export and trade disruption ratio may impact businesses increasing non-performing loans. With the expected economic downturn in Russia, its demand for imports is expected to decline by 23.0%. While Kyrgyz exports to Russia may be less prone to decline as there should be no direct effect of sanctions, some decrease is still possible. In March 2022, Kyrgyz exports to Russia fell by 37.0% compared to March 2021, while in January–February 2022, there was an increase in these exports by 21.0% compared to the same period in 2021. Also, unfavorable price dynamics for key imported products may cause a reduction in imports to the Kyrgyz Republic.

The poverty reduction gains achieved over the past years are in reverse. The national poverty rate has been declining from 25.6% in 2017 to 20.1% in 2019, reflecting robust economic growth, rising share of small businesses, remittance inflows, and targeted social safety nets. During the pandemic, the poverty rate slipped to 25.3% in 2020 or 1,678,000 people living in poverty. Thus additional 365,000 people became poorer. In 2021, the situation worsened as population utilized savings during the pandemic. The National Statistics Committee survey of household budget and workforce identified that poverty has increased to 33.3% of population who living below poverty line by end-2021. Currently 2,244,000 people are living in poverty with 62.7% in rural areas, and 40.5% or 1.72 million of them being children. Moreover, with a new crisis and without substantial social and economic support to the population, the poverty rate is estimated to increase to 38%. Notably, urban poverty increased significantly from 14.7% in 2019 to 33.3% in 2021, while rural poverty from 23.2% in 2019 to 33.3% in 2021. The impact of the COVID-19 pandemic had its toll on rise of poverty in all regions of the Kyrgyz Republic, including the capital city of Bishkek that increased the fastest by 19% reaching 35.8% in 2021. Poverty was above average in Jalalabad (43.2%), Batken (40.7%), Naryn (39.2), Issyk-Kul (38.1%) regions and recently in Bishkek City (35.8%). Acute poverty also increased dramatically from 0.9% in 2020 to 6% or 407.1 thousand people in 2021, of whom 54.9% were living in rural areas.¹ Acute poverty was above average in Batken (10.1%), Jalalabad (7.5%), Naryn (8.2%), Issyk-Kul (8.0%) regions and recently in Bishkek City (9.5%). Acute poverty in urban areas was 0.1% in 2019, 0.3% in 2020 but increased to 7.3% in 2021 and is now higher than the rural level (0.8% in 2019 and 5.3% in 2021). Household cash income was highly dependent on labor activities (66.3%), social transfers (14.9%) and sales of homegrown agriculture produce (14.3%). Overseas income was 12.6% of total disposable income of the population with Batken (29.2%), Jalalabad (21.5%), and Osh (1095) regions highly dependent on the remittances. Given the impact of the exogenous factors, the dependency of the southern regions of the Kyrgyz Republic on remittances is obvious. If excluded, the poverty level will increase from 33.3% to 42.8% in the country. Acute poverty in case of exclusion of remittances will increase from 6% to 17.1%. Furthermore, an additional 10% of the population is at risk of falling below poverty line.

Due to the lack of infrastructure and job opportunities in the regions significant number of workers migrate abroad for service or seasonal construction and agriculture work. While Kyrgyz citizens, being members of EEU, may be in better labor condition comparing to migrants from other countries, decline in service sector of Russian economy and imported inflation will

¹ Extreme poverty was above average in Batken (10.1%), Jalalabad (7.5%), Naryn (8.2%), Issyk-Kul (8.0%) regions, and recently in Bishkek City (9.5%).

have impact on household income and will result in decline in private consumption. Coupled with accelerating inflation, the reduction in remittances will affect the income of households and push them into poverty. The exogenous shock on the domestic labor market would further trim job opportunities for women and girls. Women predominantly work in the informal economy, in seasonal and part-time jobs, which have been hit hard by the crisis. Women are self-employed and engaged in housekeeping, childcare, repair of textile products, catering, care for the older persons and sick, and farming. Without expanded social and economic support to counter high inflation, the anticipated loss in household income from remittances, and reduced job opportunities it will be hard to reverse the impact of COVID-19 pandemic and the new crisis. At the end-2021 and beginning of 2022, the government has decided to strengthen social protection and significantly increased allowances, introduce new benefits, and aim for greater coverage of vulnerable groups. These measures should mitigate the negative impact of the new shock on the economy and support a quicker recovery.

Fiscal pressure. Kyrgyz Republic managed to improve revenue collection through tax administration reforms reaching 20.5% of GDP in 2021 comparing to 19.6% of GDP in 2019 and reversing drop in tax revenues in 2020 (17.4%). The government planned to improve collection to 21.4% of GDP in 2022 and to maintain total revenues at 34.1% of GDP for 2022. The Ministry of Finance (MOF) of the Kyrgyz Republic latest assessments indicate that central (republican) budget revenue may decline by 3.0% due to loss of customs income, require additional expenditure by 2.2% compared to the 2022 approved budget. This will create a financing gap of Som11.5 billion (equivalent to \$131.5 million or 1.4% GDP). The revised 2022 plans indicate that cumulative government expenditures to reach 38.2% of GDP with higher amounts directed to countercyclical measures.² Consequently, the fiscal deficit will increase from 0.4% in 2021 to 4.1% of GDP for 2022, equivalent to about \$396 million. Kyrgyz Republic have limited capacity to access external markets and will need concessional loan and grant support to meet unexpected fiscal pressure.

Countercyclical Development Expenditure Program

32. Government assessed and developed measures to counter the social and economic impact of exogenous shock. The government adopted several resolutions during March–June 2022 aimed at addressing negative impact of transmission channels on the economy and mitigate factors impacting inflation and food security. The government's \$213.7 million countercyclical development expenditure program (CDEP) discussed with ADB aims to mitigate the impact on the poor and vulnerable population and businesses; and support agriculture and industry to sustain production, find alternative trade routes to avoid economic downturn. It can be summarized as follows:

(i) Ensuring food security and price stability (\$53.6 million). These goals are to be achieved through stable supply of staple food and energy products, support for expansion of agricultural crop areas, provision of seeds and fertilizers to vulnerable groups of farmers, and support to agriculture producers and agriculture cooperation. The government will focus on the following activities: (a) purchase of import seeds of different crops, diesel fuel, nitrogenous fertilizers (\$25.2 million); and (b) purchase of essential foods and non-food items (including grains, flour, sugar, vegetable oil) to stabilize domestic market prices (\$28.4 million). These resources will be managed by the Fund of State Material Reserves under the Ministry of Emergencies of the Kyrgyz Republic, the agency in charge of the state revolving fund of foods and agricultural inputs ensuring guaranteed and affordable supply of material resources to the Kyrgyz farmers and foods for the population.

(ii) Support for social protection and safety net programs (\$45.6 million). To help the population withstand the impact of the new crisis on household incomes, the government will continue with the planned increase of allowances, pensions, and safety net programs.

² The authorities continue to enhance revenue collection while reducing low-priority capital expenditure

The following measures are implemented in this area: (a) the size of its monthly social benefit for people with disabilities and some other vulnerable categories of the population will increase by 33%–100%; and (b) \$22 million of budget assistance is planned to support Social Fund for increase of pension and social allowances for pensioners (almost 10% of the population are recipients of these pensions), starting from 1 October 2022.

(iii) Support of employment and small and medium businesses (\$114.4 million).

Measures include supporting and finding alternative destinations for migrant workers and offering public sector work. For businesses, the government plans to ease reporting requirements and defer penalties for entrepreneurs, support domestic producers, promote investments, exports, and tourism. The following key measures are included into the government response plan within existing budget parameters: (a) improving access of Kyrgyz workers to information on job opportunities inside and outside the country; negotiating with governments of migrant-receiving countries to get an increase in quotas for the Kyrgyz labor migrants. Government will allocate (b) \$114.1 million through capital injection into two state-owned banks (Aiylbank and RSKbank) to finance agriculture sector producers to refinance and finance loans that will support development of value-chain agriculture and processing clusters under agricultural cluster development program to resolve food security, reduce losses and promote export capacity; and (c) \$1.4 million introduction of the currency risk coverage for potential losses export-oriented enterprises in case of restructuring loans to local currency who borrowed in foreign currencies.

Structural reforms. Despite COVID-19 pandemic the Kyrgyz Republic is committed to continue with planned reforms. In 2021, government adopted a medium-term NDP 2026 to continue with economic diversification plan set in NDS 2018-2040 to avoid dependance on gold mining and remittance. Key reforms include, development of infrastructure and non-gold sectors, improving investment climate, strengthening public-private partnership, enhancement of regional cooperation, focusing on labors skills development, and exploring alternative trade routes. The government plans to accelerate its economic diversification efforts and has prioritized the implementation of structural reforms to improve (i) trade and investment competitiveness, (ii) small and medium-sized enterprises (SMEs) development, (iii) infrastructure development (including through public-private partnerships [PPPs]), (iv) industry-based skills development, and (v) fiscal management and social protection, and (vi) governance reforms. These efforts will enable the economy and the population to be more resilient to exogenous shocks in the future and will help improve the economy's medium-to long-term trajectory. The program will provide much needed fiscal space to the government to continue its support in implementing complex reforms against the backdrop of significant macroeconomic challenges by ensuring that planned reform efforts are supported through technical assistance, deep policy dialogue, and policy-based lending.

Monitoring and evaluation. To monitor the CDEP implementation the government has already set up M&E mechanism. It consists of a Cabinet of Ministers' level working group chaired by Deputy Minister of Economy and Commerce and consisting of representatives of government agencies. The working group reports to Head of Cabinet of Ministers. The objective of the government's M&E mechanism is to identify potential risks and undertake proactive measures based on monthly or special monitoring reports. The program's M&E mechanism is embedded in the government's mechanism through the SC and the MOF who is a member of government working group.

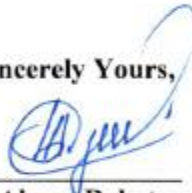
I strongly believe that BRACE program will help addresses the government's immediate priorities, which are to (i) contain the effects of the new exogenous shock from Russia-Ukraine conflict, and (ii) provide a countercyclical response to support the poor and vulnerable groups, expand social safety net programs and safeguards productive sectors and businesses to ensures quick recovery. Unless managed the situation could lead to large declines in development

expenditure and a substantial regress in health and education outcomes and general wellbeing of the population.

Compliance with CSF criteria have been verified. I therefore seek ADB's favorable consideration of our wish to obtain a US\$25 million concessional loan and \$25 million concessional grant, totaling \$50 million under BRACE Program, to help us meet our development financing needs. The remaining fiscal gap will be financed through planned budget support from ADB and other development partners, deferred debt repayments and domestic borrowing.

We look forward to the prompt consideration and approval of the Kyrgyz Republic BRACE Program. Please extend my deep gratitude and appreciation to the hardworking management and staff of ADB for their effective and fruitful cooperation and help in these difficult times.

Sincerely Yours,



**Mr. Almaz Baketaev,
Minister of Finance
of the Kyrgyz Republic**

ASSESSMENT OF COMPLIANCE WITH COUNTERCYCLICAL SUPPORT FACILITY ACCESS CRITERIA

CSF Access Criteria	ADB Staff Assessment
1. Adverse impact of exogenous shocks	<p>The Kyrgyz Republic is experiencing significant adverse social and economic impacts from the coronavirus disease (COVID-19) pandemic, compounded by the Russian invasion of Ukraine. The exogenous shock triggered by the new crisis has further driven up prices for food and fuel, resulting in fluctuation of remittance inflows and affecting trade. It is impacting sectors that the poor are most dependent on (trade and migration) and hurting the poor through high inflation when the Kyrgyz Republic has limited fiscal space to support the vulnerable population. This puts the well-being of the population and economic recovery at risk in 2022. The Kyrgyz Republic is among the seven economies most vulnerable to severe negative effects from this shock.^a The economy is heavily dependent on gold extraction and remittances as well as trade with the Russian Federation and Kazakhstan. The main channels of new shock to the economy are through imported inflation of food and oil products, a decline in investments and trade, a decline in remittance inflows, and disruptions to supply chains. The latest IMF assessment projects an increase in inflation from 11.2% in 2021 to 15.4% in 2022 because of escalating food and energy prices resulting in lower consumption, a widening of the current account deficit from 8.7% in 2021 to 10.4% of GDP in 2022, and a drop in GDP growth from 6.4% to 2.8% in 2022 (IMF Assessment Letter). Remittances are expected to fall by 20% in 2022. The fiscal deficit is projected to increase from 0.4% of GDP in 2021 to 4.1% in 2022. As a result, the population living below the poverty line is expected to increase to 38.0% from 33.3%, especially in remote and rural areas, with a significant impact on women and children. The national poverty rate declined from 25.6% of the population in 2017 to 20.1% in 2019. In 2020, the poverty rate slipped to 25.3%, with about 1.68 million people living in poverty,^b and worsened further to 33.3% in 2021, as people spent their savings during the pandemic.^c Remittance income was 12.6% of the total disposable income of the population in 2021.^d It will be difficult to mitigate the adverse impact of the COVID-19 pandemic and the new crisis without expanded social and economic support to counter high inflation, the fall in remittance income, and reduced job opportunities. Without substantial social and economic support, the poverty rate is estimated to increase to 38.0% in 2022.^e</p>
2. Countercyclical development expenditures	<p>The government's \$213.7 million pro-poor Countercyclical Development Expenditure Program prioritizes support for (i) food security and price stability, (ii) social protection and safety net programs, and (iii) employment and small and medium-sized enterprises. The measures target the poor and vulnerable groups. The program will contribute directly to the immediate priorities in the government's crisis response: the need to ensure macroeconomic stability, food security and protect the weakest economic segment of the population. It will contribute to the government's efforts to contain inflation within reasonable limits through fiscal interventions, with the</p>

CSF Access Criteria	ADB Staff Assessment
	monetary authorities also complementing that effort. The program targets the provision of social assistance to more than 1.03 million people, including low-income families, widows, senior citizens, people with disabilities, and other vulnerable persons to prevent them from falling deeper into poverty. The beneficiaries will be reached through established government programs channels. The program will also enhance entrepreneurship support to farmers and agriculture producers that help to engage returning migrants and the unemployed. The program will also help stabilize Kyrgyz Republic's trade (especially of agri-food products) with its partners in the CAREC region and Europe. The impact of the program will be improved social inclusion and strengthened economic resilience.
3. Pre-shock record of generally sound macroeconomic management	During 2017–2019, the Kyrgyz economy demonstrated stable growth above 4.0%, low inflation at 3.1%, and a manageable external debt level at 51.6% of GDP. The economy contracted by 8.4% in 2020 but recovered to 3.6% growth in 2021. The National Bank of the Kyrgyz Republic took steps to curb inflation by raising the policy rate from 5.0% to 8.0% in 2021, and inflation was contained within 11.2% despite global price pressures. The budget deficit declined to 0.4% of GDP in 2021. Similarly, as a ratio of GDP, the total public debt declined to 61.1% in 2021 from its peak of 67.6% in 2020. The Kyrgyz Republic implemented tax administration reforms resulting in tax revenues reaching 20.5% of gross domestic product (GDP) in 2021 compared with 17.4% of GDP in 2020 and 19.6% of GDP in 2019. The government planned to improve tax revenue collection to 21.4% of GDP in 2022 and to maintain total revenues at 34.1% of GDP for 2022.
4. Structural reforms	The Kyrgyz Republic is taking credible steps to continue with planned reforms despite the new crisis. The government followed the medium-term National Development Program, 2021–2026 to continue with economic diversification for minimizing dependence on gold mining and remittances, and improve the country's resilience to future shocks.. Key structural reforms include developing infrastructure and non-gold sectors, improving the investment climate, strengthening public–private partnerships, enhancing regional cooperation, focusing on labor skills development, and exploring alternative trade routes. ADB's Promoting Economic Diversification Program is supporting the government in these areas. ^f These efforts will enable the economy and the population to be more resilient to exogenous shocks in the future and will help improve the economy's medium- to long-term trajectory. The BRACE Program will provide emergency support in fiscal space for the government to continue implementing complex reforms and ensure that planned reform efforts are supported through TA, deep policy dialogue, and policy-based lending. (para of RRP).
5. Debt sustainability	The debt sustainability assessments of ADB and the IMF concur that the Kyrgyz Republic is at <i>moderate</i> risk of debt distress. The country's debt-carrying capacity is assessed as strong, as the current foreign exchange reserves provide sufficient buffers to mitigate the impact of external shocks. The baseline scenario and stress tests substantiate that both the public and external public and publicly guaranteed debt remain under tolerable limits, indicating that overall debt-to-GDP ratio is

CSF Access Criteria	ADB Staff Assessment
	sustainable in the medium term. ADB lending for the BRACE Program does not jeopardize the Kyrgyz Republic's debt sustainability. Currently, foreign exchange reserves are adequate and provide sufficient buffers to mitigate the impact of external shocks; however, the government needs to remain committed to sound macroeconomic policies and building fiscal buffers to avoid debt distress. More importantly, in order to meet the country's fiscal needs and without compromising debt sustainability, further efforts are needed to strengthen public debt management, enhance spending efficiency, and create additional fiscal space to upscale productive investments.
6. Coordination with the IMF	ADB consulted and is closely coordinating with the IMF which provided its assessment letter to ADB on 3 June 2022 and has recommended higher development partners' support to the Kyrgyz Republic. The IMF has recommended higher development partners' support to the Kyrgyz Republic in view of new crisis. The next IMF Article IV mission is planned for November 2022. ADB is closely coordinating with other development partners (i.e., the European Union, the Food and Agriculture Organization of the United Nations, the European Bank for Reconstruction and Development, the International Finance Corporation, the Eurasian Development Bank) and the World Bank to address macro and fiscal issues arising from this crisis through meetings during missions and as member of the Development Partners Coordination Council.
7. Monitoring and evaluation	To monitor the program implementation, the government will set up a steering committee composed of the deputy minister of economy and commerce (chair) and the deputy ministers of the MOF and the Ministry of Labor, Social Protection, and Migration. The steering committee will provide a structured platform for policy dialogue and implementation support. The program management unit set up under the attached TA will support the steering committee in submitting quarterly progress reports to ADB, which will also be disclosed to the public. The government has already set up an M&E mechanism for its CDEP. It consists of a working group chaired by the deputy minister of economy and commerce, which comprises representatives from relevant government agencies. The working group reports to the head of the cabinet of ministers. The objective of the government's M&E mechanism is to identify potential risks and undertake measures based on monthly or special monitoring reports. The program's M&E mechanism is embedded in the government's mechanism through the deputy minister of finance, who is a member of the government's working group.

ADB = Asian Development Bank, BRACE = Building Resilience with Active Countercyclical Expenditures, CAREC = Central Asia Regional Economic Cooperation, CDEP = countercyclical development expenditure program, COVID-19 = coronavirus disease, CSF = countercyclical support facility, EBRD = European Bank for Reconstruction and Development, EDB = Eurasian Development Bank, EU = European Union, FAO = Food and Agriculture Organization, GDP = gross domestic product, IFC = International Finance Corporation, IMF = International Monetary Fund, M&E = monitoring and evaluation, WB = World Bank.

^a The seven most vulnerable economies are Armenia, Belarus, the Kyrgyz Republic, Lebanon, Maldives, Montenegro, and Uzbekistan. S. Raga and L. Pettinotti. 2022. [Economic Vulnerability to the Russia-Ukraine War: Which Low- and Middle-Income Countries Are Most Vulnerable?](#) ODI Emerging Analysis. London: Overseas Development Institute.

- ^b United Nations Kyrgyz Republic. 2021. [Half of the Households in the Kyrgyz Republic Lost Income due to COVID-19](#). News release. 10 March.
- ^c National Statistics Committee. 2022. [Poverty Level in Kyrgyz Republic in 2021](#). Bishkek (July). Almost 63% of the 2.24 million people living in poverty reside in rural areas. Urban poverty increased significantly from 14.7% in 2019 to 33.3% in 2021, while rural poverty increased from 23.2% in 2019 to 33.3% in 2021.
- ^d The southern regions of Batken (29.2% of total disposable income), Jalalabad (21.5%), and Osh (10.9%) are highly dependent on remittances. Given the impact of the exogenous factors, the vulnerability of the southern regions of the Kyrgyz Republic to fluctuation of remittances is high.
- ^e World Bank. 2022. [Sustaining Small Business through the Pandemic in Kyrgyz Republic](#). 6 May.
- ^f Asian Development Bank. 2019. [Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Grant for Subprogram 1 to the Kyrgyz Republic for Promoting Economic Diversification Program](#). Manila; and ADB. 2021. [Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Grant for Subprogram 2 to the Kyrgyz Republic for Promoting Economic Diversification Program](#). Manila, and upcoming Subprogram 3 of Promoting Economic Diversification Program planned for 2022.

Source: Asian Development Bank.