



Report and Recommendation of the President to the Board of Directors

INTERNAL

Project Number: 52225-004
August 2022

Proposed Policy-Based Loan and Grant for Subprogram 3 Kyrgyz Republic: Promoting Economic Diversification Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 August 2022)

Currency unit	–	som (Som)
Som1.00	=	\$0.0122
\$1.00	=	Som82.17

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
EU	–	European Union
FDI	–	foreign direct investment
FRA	–	Fiscal Risk Assessment
GDP	–	gross domestic product
GSP+	–	general system of preferences plus
IMF	–	International Monetary Fund
MOEC	–	Ministry of Economy and Commerce
MOF	–	Ministry of Finance
NDP 2026	–	National Development Program of the Kyrgyz Republic until 2026
NDS 2040	–	National Development Strategy of the Kyrgyz Republic for 2018–2040
NIA	–	National Investment Agency
OECD	–	Organisation for Economic Co-operation and Development
PPEF	–	post-program engagement framework
PPP	–	public–private partnership
SMEs	–	small and medium-sized enterprises
SOE	–	state-owned enterprise
TA	–	technical assistance
TVET	–	technical and vocational education and training
UN	–	United Nations

NOTE

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

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PROGRAM AT A GLANCE

PROGRAM AT A GLANCE			Project Number: 52225-004
1. Basic Data			
Project Name	Promoting Economic Diversification Program - Subprogram 3	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=52225-004-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=52225-004-PortAtaGlance		
2. Sector		Subsector(s)	ADB Financing (\$ million)
✓ Public sector management	Economic affairs management		10.00
	Public expenditure and fiscal management		10.00
	Social protection initiatives		10.00
Agriculture, natural resources and rural development	Agricultural policy, institutional and capacity development		10.00
Education	Technical and vocational education and training		10.00
Total			50.00
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
✓ OP5: Promoting rural development and food security			
✓ OP6: Strengthening governance and institutional capacity			
✓ OP7: Fostering regional cooperation and integration			
		ADB Financing	
		Adaptation (\$ million)	3.20
		Mitigation (\$ million)	3.20
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.3, 1.5, 1.b		Effective gender mainstreaming (EGM) ✓	
SDG 2.3, 2.4, 2.c			
SDG 4.3, 4.4			
SDG 5.a, 5.c			
SDG 8.3, 8.8			
SDG 9.1			
SDG 10.3, 10.4			
SDG 12.2, 12.c			
SDG 13.a			
SDG 16.6			
SDG 17.17, 17.4			
4. Risk Categorization:		Low	
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		50.00	
Sovereign Programmatic Approach Policy-Based Lending (Grant): Asian Development Fund		25.00	
Sovereign Programmatic Approach Policy-Based Lending (Concessional Loan): Ordinary capital resources		25.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		50.00	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed policy-based loan and (ii) a proposed grant, both to the Kyrgyz Republic, for subprogram 3 of the Promoting Economic Diversification Program.

2. Subprogram 3 is the final subprogram in a programmatic series that was approved in 2019 with the financing of \$50 million for subprogram 1. The program was originally designed with two subprograms.¹ However, during the approval of subprogram 2 (\$80 million) in 2021, it was restructured with the introduction of a new subprogram 3 (\$50 million) and an additional reform area (para. 10). The proposed subprogram 3 remains fully aligned with the original program outcome and outputs, which support the implementation of the long-term National Development Strategy of the Kyrgyz Republic for 2018–2040 (NDS 2040) and, more recently, the medium-term National Development Program of the Kyrgyz Republic until 2026 (NDP 2026), adopted by the government in December 2021.² The overarching objective of these strategic plans is to diversify the Kyrgyz economy away from over-reliance on gold production and remittance-led consumption.

3. 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 enterprise (SME) development; (iii) infrastructure development, including through public–private partnerships (PPPs); (iv) industry-based skills development; and (v) fiscal management and social protection.³ These efforts will enable the economy and the population to be more resilient to exogenous shocks and will help improve the economy’s medium- to long-term trajectory. The Promoting Economic Diversification Program has supported the government’s economic diversification agenda. While subprogram 1 helped the government lay the foundation for policy and institutional reforms, subprogram 2 ensured continuity and advancement of the economic diversification reforms during a difficult period of rapidly changing macroeconomic conditions and political instability (para. 11). Subprogram 3 has supported the government in implementing complex reforms against the backdrop of significant macroeconomic challenges and constitutional changes by ensuring that the planned reform efforts are supported through technical assistance (TA), deep policy dialogue, and policy-based lending (paras. 13–23).⁴

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

4. **Development constraints.** The Kyrgyz Republic has experienced periods of economic

¹ 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; 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.

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 After a national referendum in April 2021, the Kyrgyz Republic adopted a new Constitution which enabled the switch to a presidential form of government. The president reorganized ministries and agencies to streamline government bureaucracy and improve public service responsiveness and delivery.

⁴ Independent Evaluation Department. 2018. [Corporate Evaluation: Policy-Based Lending, 2008–2017: Performance, Results, and Issues of Design](#). Manila; Independent Evaluation Department. 2018. [Country Partnership Strategy Final Review Validation: Kyrgyz Republic, 2013–2017](#). Manila; and Independent Evaluation Department. 2022. [Country Partnership Strategy Final Review Validation: Kyrgyz Republic, 2018–2022](#). Manila: ADB.

stability and growth interrupted by frequent economic recessions that have conflated hardship-inducing external shocks, serious social and political instability, and disruptions to medium-term reform and institutional development plans.⁵ This boom–bust pattern helps explain the country’s lack of income per capita convergence with upper middle-income countries during 1990–2020.⁶ By the end of the third quarter of 2021, gross domestic product (GDP) entered a positive growth territory following one of the worst contractions (8.4% of GDP in 2020) in the country’s 30-year history because of coronavirus disease (COVID-19) pandemic. However, economic recovery is again at risk in 2022 because of the impact of the Russian invasion of Ukraine, which has driven up prices for food and fuel and reduced migrant labor remittances and exports. It is expected that the pace of the global economic recovery will slow down and weigh in on the economic growth, which will lead to increasing hardships among the poor population. The economy will continue to be highly vulnerable to external shocks because of its heavy dependence on gold extraction and remittances and on trade with the Russian Federation and Kazakhstan, combined with its lack of fiscal space following efforts to mitigate the impacts of COVID-19.

5. Accelerating economic diversification reforms to insulate the economy from external shocks remains an important task. Significant progress has been made, but major challenges remain, including:

- (i) **Low trade and investment diversification.** In 2021, exports continued to be concentrated on a few products (mainly precious metals and mineral commodities) to three major markets (Kazakhstan, the Russian Federation, and the United Kingdom). Despite a relatively open foreign direct investment (FDI) regime, the sources of FDI remain concentrated in a few countries and sectors, with the investment climate characterized by considerable risk and uncertain time horizons.⁷ Uneven application of the rule of law is viewed by business community as a major obstacle. Weak enforcement undermines the legal and regulatory framework, especially regarding intellectual property rights. The Kumtor gold mine dispute further aggravated the risk perception of the Kyrgyz Republic as an investment destination.⁸ Although the Kyrgyz Republic improved its Global Competitiveness Index ranking from 102 (out of 140 countries) in 2016 to 96 (out of 141 countries) in 2019, it scores low in innovation capability, the financial system, and infrastructure.⁹ The government’s vision for promoting FDI did not fully account for labor market needs, comparative advantages of Kyrgyz economy, and global trends, resulting in overall non-mining FDI remaining low.
- (ii) **Inhibited small and medium-sized entrepreneurship growth.** From 2016 to 2020, the number of SMEs in the Kyrgyz Republic increased from 808,437 to 897,363, while their share of the GDP decreased slightly from 39.1% to 38.6%. The contributing factors to the falling share of GDP include the high cost of credit, stringent collateral requirements, low levels of financial literacy and market

⁵ Sector Assessment (Summary): Finance, Industry and Trade and Investment Competitiveness, Small and Medium Entrepreneurship Development, Private Sector Development, Skills Development, Public Sector Management, and Social Protection (accessible from the list of linked documents in Appendix 2).

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

⁷ During 2011–2020, 78% of all FDIs came from just five economies (Canada, Kazakhstan, People’s Republic of China, the Russian Federation, and the United Kingdom) mainly in mineral processing, construction, and finance. Source: National Statistics Committee. 2022. [Kyrgyzstan: Brief Statistical Handbook](#). Bishkek (accessed 14 July 2022).

⁸ In May 2021, the authorities introduced external management over Kumtor gold mine, operated by a foreign private investor, claiming the violation of environmental laws which resulted in international arbitration proceedings. In April 2022, the government and the private investor reached an amicable settlement.

⁹ World Economic Forum. 2019. [The Global Competitiveness Report 2019](#). Geneva.

knowledge, lack of incentives to formalize, and low-level technology such as in e-commerce systems. Women contribute significantly to the country's GDP and head 28% of SMEs. Despite efforts to enhance women's access to finance, borrowing patterns indicate that women tend to use microfinance institutions, which set lower requirements for obtaining a loan, but offer less credit for shorter terms and higher interest rates. Furthermore, women are often restricted to micro and small businesses, taking smaller loans than men.¹⁰

- (iii) **Weak infrastructure and slow public–private partnership development.** The quality of infrastructure in the Kyrgyz Republic is among the lowest in the world, ranking 103 out of 141 countries in 2019 (footnote 9). Kyrgyz Republic ranked high in the quality of PPP institutional framework,¹¹ but implementation of PPP projects was slow.¹² The main factors include (a) lack of interest of the partners in initiating projects, (b) limited PPP sensitization and awareness, (c) slow expansion of the PPP pipeline, (d) ineffective gateway reviews, (e) limited access to nonrecourse finance, and (f) limited attention to the gender and social impact of projects.
- (iv) **Skills mismatch with industry requirements.** The current technical and vocational education and training (TVET) system is underdeveloped and lacks responsiveness to industry needs. It is not able to meet the labor force replacement rate, which is up to five times higher than the number of skilled workers and technicians entering the workforce. The quality and relevance of TVET provision is also a concern and accounts for high dissatisfaction among employers. While the Kyrgyz Republic's spending on education is considerably above the Organisation for Economic Co-operation and Development (OECD) averages, its spending on TVET is only 5.15% of the total education sector allocation.¹³ This gap is compounded by the fact that linkages between TVET spending and outcomes are weak. In the absence of a national qualifications framework, unstructured TVET system variations have developed that undermine quality and relevance.
- (v) **Weaknesses in fiscal management.** There has been steady progress with public financial management reforms between 2016 and 2022, particularly in modernizing the budget system, updating the budget code, procurement reforms, establishing a debt accounting system, developing a debt management strategy, and improving debt transparency. Significant weaknesses, however, remain. The statement of fiscal risks, for example, is included as part of the budget but this assessment is narrow and limited in scope. Public debt management and reporting remain weak. Other weaknesses include (a) limited reporting of state-owned enterprises (SOEs) financial performance, (b) rising quasi-fiscal deficit of the energy sector, (c) the absence of strategic procurement planning, and (d) delays in procurement processes and related payments.

¹⁰ In 2020, 56.4% of microloan recipients were women. The National Statistics Committee of the Kyrgyz Republic collects and reports statistics on businesses entities headed by women. Therefore, the term “SMEs headed by women” is used throughout the document.

¹¹ The Economist Intelligence Unit Infrascope assessment report ranked the Kyrgyz Republic ninth out of 19 Asian countries and first in Central Asia. The Economist Intelligence Unit. 2018. [Evaluating the environment for public–private partnerships in Asia: The 2018 Infrascope](#). London.

¹² As of March 2019, the number of contracts awarded has increased to three. This means that the PPP program is starting to lead to actual transactions after 6–10 years of preparation, consistent with international experience.

¹³ National Statistical Committee. 2022. [Kyrgyz Republic: Finance Statistics](#). Bishkek. Education expenditure was 6% of GDP, and 15.7% of total government expenditure in 2020. World Bank. 2021. [Education Statistics: Countries at a Glance - Kyrgyz Republic](#). Washington, DC; and OECD. 2021. [Education at a Glance 2021: OECD Indicators](#). Paris. In comparison, OECD averages for education sector expenditure as a percentage of GDP and as a percentage of total government expenditure were 4.9% and 11%, respectively.

- (vi) **Insufficient and fragmented social protection services.** The social protection system of the Kyrgyz Republic has gradually evolved into a model that not only covers social and medical insurance, but also social welfare and social assistance programs. As a result, the main pillars of the social protection system have not been developed in parallel and in sequence, prompting significant fragmentation of social protection provision and policy making.¹⁴ This has led to a low provision of social services for certain vulnerable groups of the population, such as women, persons with disabilities, or the unemployed. Also, the government has faced difficulties in identifying vulnerable groups during times of crisis, failing to identify them because of a lack of data.

6. **Macroeconomic performance post-COVID-19.** The Kyrgyz economy recovered in 2021. The Asian Development Bank (ADB) projected an economic growth of 5.0% in 2022 underpinned by a more favorable global outlook; revival of domestic activity; higher gold production; and a gradual rebound in tourism, transportation, and related services.¹⁵ Inflation increased from 3.1% in 2019 to 11.2% in 2021 (footnote 15), fueled by the hike in international commodity prices for food and oil, as well as the recovery of internal and external demand after the pandemic.¹⁶ The National Bank of the Kyrgyz Republic subsequently increased its policy rate from 6.5% in June 2021 to 8.0% by the end of 2021 and targeted a return to single-digit inflation of 5%–7% by the end of 2022. Remittances were strong, and imports grew by 49.8% in 2021 following a decline of 26.2% in 2020. Government revenue increased from 30.8% of GDP in 2020 to 34.0% of GDP in 2021 and helped reduce the budget deficit from 3.3% of GDP in 2020 to 0.4% of GDP in 2021. This trend in performance was expected to continue in 2022 before the disruption caused by the Russian invasion of Ukraine.¹⁷

7. **Debt sustainability.** The International Monetary Fund (IMF) assessed the Kyrgyz Republic's debt as sustainable and at *moderate* risk of debt distress for both external debt and total public debt (footnote 17). ADB's debt sustainability analysis concurs with IMF assessment that the Kyrgyz Republic's risk of overall debt distress is *moderate*.¹⁸ The country's debt-carrying capacity is strong because the current level of foreign exchange reserves still provides sufficient buffers to mitigate the impact of external shocks. The government's macroeconomic management is broadly sound.

8. **Emerging macroeconomic challenges.** The Russian invasion of Ukraine in February 2022 has significantly affected the short- to medium-term outlook for the Kyrgyz economy. The Russian Federation is the country's main economic partner, accounting for 33.6% of imports and 25% of exports in 2021 (para. 5).¹⁹ It is also the largest host country for labor migrants from the Kyrgyz Republic, with more than 80% of remittances originating from the Russian Federation. The impact of the war on the Kyrgyz Republic will be felt through reductions in remittances inflow (20% from 2021 volume); increase in food and energy prices (15.4% in 2022); higher unemployment; rising poverty (additional 350,000 people may fall below the poverty line); decline in investments; and disruption of trade. This will result in high volatility of the national currency, and the reduction

¹⁴ OECD. 2018. [Social Protection System Review of the Kyrgyz Republic](#). Paris.

¹⁵ The International Monetary Fund (IMF) projected 6.4% of GDP growth in 2022, and 4.4% in 2023, back in 2021. IMF provided its updated assessment on 3 June 2022 (IMF Assessment Letter, accessible from the list of linked documents in Appendix 2).

¹⁶ Food and Agriculture Organization of the United Nations (FAO) Food Price Index increased by 48% in February 2022 compared to the pre-pandemic level in March 2020.

¹⁷ IMF. 2021. [Kyrgyz Republic: Article IV Consultation Staff Report](#). Washington DC.

¹⁸ Debt Sustainability Analysis (accessible from the list of linked documents in Appendix 2).

¹⁹ Imports consist mainly of fuel and fuel products, machinery and equipment, construction materials, sunflower seed oil, grains and fertilizers, and pharmaceutical products.

of government revenues, while requiring countercyclical expenditure support for fiscal stimulus, social protection, food security, and price stability.²⁰ The GDP growth projection was revised downward in 2022 from 6.4% to 2.8% (footnote 15). Although the economy is forecast to rebound to 4.3% in 2023, there are significant downside risks. The government has developed countercyclical response measures to limit the negative spillovers of the invasion. Although this additional public expenditure will increase the budget deficit to 4.1% of GDP, fiscal expansion is needed and is well within the government's borrowing capacity. It will also be important to maintain course with structural reforms to help strengthen the economy's long-term resilience and strengthen market confidence.

B. Policy Reform, ADB's Value Addition, and Sustainability

9. The program was developed on the basis of the NDS 2040 and the NDP 2026 (footnote 2) and is aligned with ADB's Strategy 2030, including the operational priorities of addressing remaining poverty and reducing inequalities, accelerating progress in gender equality, promoting rural development and food security, strengthening governance and institutional capacity, and fostering regional cooperation and integration.²¹ The program is also aligned with ADB's country partnership strategy for the Kyrgyz Republic, 2018–2022.²² The program has been prepared with ADB TA support, concerted policy dialogue, and in close coordination with the IMF on debt sustainability and on the preparation of fiscal management reforms.²³

10. **The programmatic approach.** Through 12 policy actions, subprogram 1 helped the government build the foundation for comprehensive policy and institutional reforms in agriculture, trade and investment competitiveness, SME development, PPP development, and industry-linked skills development (footnote 1). Subprogram 2 was originally expected to be implemented from August 2019 to July 2021. The COVID-19 pandemic crisis fundamentally disrupted reform timelines and the implementation of reform preparation. The program was subsequently restructured to provide more space for reform implementation because of the complexity of reforms amid an ongoing pandemic. Subprogram 2 (for \$80 million) introduced a fiscal management and social protection reform area and helped the government meet its urgent financing needs in 2021. Subprogram 3 (for \$50 million) was also added to be a crucial enabler of the program's objectives. A new reform area for improvement of fiscal and social protection resilience was added to enable post-COVID-19 stabilization and recovery. These changes remain fully aligned with the original program outcome, that is, increased broad-based economic growth, and the original logical framework for the program as outlined in the design and monitoring framework for subprogram 1.

11. **Performance under subprograms 1 and 2.** A total of 27 policy actions were implemented in subprograms 1 and 2, which remain in effect. Under the trade and investment competitiveness reform area, for instance, building on the Export Development Program (2019–2023) approved in subprogram 1, the utilization under the general system of preferences plus

²⁰ Preparatory work to ascertain the country's eligibility for countercyclical support under ADB's Countercyclical Support Facility is underway. If successful, the Kyrgyz Republic will be able to access up to \$25 million in concessional ordinary capital resources and \$25 million in grant from Asian Development Fund and support the government's anti-crisis plan, which will focus on immediate- to short-term measures to maintain aggregate demand and provide relief for food and fuel prices.

²¹ ADB. 2018. [*Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*](#). Manila.

²² ADB. 2018. [*Country Partnership Strategy: Kyrgyz Republic, 2018–2022—Supporting Sustainable Growth, Inclusion, and Regional Cooperation*](#). Manila.

²³ ADB. 2018 [*Technical Assistance to the Kyrgyz Republic for Preparing the Promoting Economic Diversification Program*](#). Manila.

(GSP+) improved from 61% in 2019 to 65.3% in 2021. New programs to support trade and expansion to new markets (trade and logistics centers and halal centers) were introduced. Under the SME development reform area, financing for small and medium-sized entrepreneurship increased and tax and other incentives were introduced to ease the cost of doing business and increase access to financing. The support for women resulted in the number of registered individual women entrepreneurs increasing from 94,987 in 2015 to 121,876 in 2021.²⁴ Under the PPP development reform area, despite the pandemic, ADB has built the government's institutional capacity by establishing a PPP center and building its capacity for structuring PPP projects, supporting formulation of operational guidelines and model documents, a PPP manual, and a fiscal exposure assessment tool that estimates direct and contingent liabilities for awarded PPP agreements. The main achievement has been the increase in the level of private investments through PPP from three projects totaling \$14 million in 2017 to eight projects totaling \$191.5 million by 2022, covering a range of sectors including health, road transport, plant nurseries, fisheries, and tourism. In addition, the PPP pipeline now contains 47 initiatives with an estimated project value of \$1 billion. ADB's support to the newly established PPP Center under the Ministry of Economy and Commerce (MOEC) has been instrumental in this expansion. Under the industry-skills linked development reform area, per capita financing of TVET institutions was introduced and successfully piloted. The National Qualification Framework and System was strengthened to match the TVET curricula with the needs of priority industries. Under the fiscal and social protection resilience reform area, the Ministry of Finance (MOF) introduced consolidated reporting on the use of emergency COVID-19 funds and required the completion and disclosure of ex-post audits. The government introduced a new strategy for debt management and measures to operate social protection programs more efficiently and increase coverage of vulnerable groups in parallel with improvements to the government social protection database. The comprehensiveness of the program scope, coverage, and number of policy actions reflects the government's determination to accelerate the pace of economic diversification and improve the resilience of its economy and people to future shocks.

12. **Independent validation of accomplishments.** Although a program completion report will be prepared after the conclusion of subprogram 3, a validation of the final review of the country partnership strategy 2018–2022 for the Kyrgyz Republic has assessed the support to public management, industry and trade, and finance sector, the areas covered under the Promoting Economic Diversification Program, to be *relevant, effective, highly efficient, and sustainable* (footnote 4).

13. **Adjustments in subprogram 3 policy actions.** Under subprogram 3, one out of the 17 indicative policy actions was dropped while the remaining 16 policy actions were completed (i) in their original form with minor updates based on latest developments (4 policy actions), or (ii) after strengthening including new sub-actions to reflect the positive changes in the government's priorities and its commitment to adopt more advanced reforms (6 policy actions), or (iii) to reflect adjustments in achievements and budget requirements based on realistic estimates (6 policy actions).²⁵

²⁴ National Statistics Committee. 2020. [Women and Men of the Kyrgyz Republic](#). Bishkek.

²⁵ Policy action 3.2 on establishment of 2 trade and logistics centers was dropped since it is linked to an ADB project that is being processed by the agriculture division (CWER), and its approval is planned for 2023. Policy actions 3.3, 3.9, 3.14, and 3.15 were completed in their original form with minor updates based on latest developments. Policy actions 3.1, 3.5, 3.8, 3.13, 3.16, and 3.17 were updated and strengthened. Policy actions 3.4, 3.6, 3.7, 3.10, 3.11, and 3.12 were modified to reflect adjustments in achievements and budget requirements based on realistic estimates. Policy action reference to indicative numbering is from the policy design and monitoring framework of subprogram 2 (footnote 1). Because of the removal of policy action 3.2, the numbering of subsequent actions was revised in the

14. **Reform area 1: Trade and investment competitiveness to develop the non-mineral sector and diversify exports and investments improved.** The actions under this reform area aim to address the relevant binding constraints (para. 5) and promote the overall enabling environment for investment and export competitiveness, including building supply chains for food processing and agriculture.

15. Under subprogram 3, policy actions fall under four broad categories: (i) improving the competitiveness of organic products from the Kyrgyz Republic; (ii) increasing exports to the European Union (EU) under the GSP+ trade privileges program; (iii) promoting domestic and international trade of halal products; and (iv) improving the policy, legal, and institutional environment for domestic and foreign direct investments. These reforms align the national organic certification with international standards, improve the country's utilization of the GSP+, harmonize regulations, and develop standards and capacity building. The government has prioritized improvement of business environment and investment promotion in the Kyrgyz Republic as demonstrated by the elevation of the Kyrgyz Agency for Development of Investment into the National Investment Agency (NIA) directly under the President of the Kyrgyz Republic, and operationalization of the investor grievance mechanism by NIA as envisaged under the corresponding regulation adopted in January 2022.²⁶ NIA maintains a register of investors' grievances, conducts assessments, facilitates pre-court dispute resolution, and is required to publish a summary report annually on its website on the complaints and major issues brought by investors. NIA is also required to inform the Cabinet of Ministers of any unresolved dispute and recommend actions and proactive measures to improve investment climate, minimize grievances, and build investor confidence. As of 30 June 2022, 14 investors had submitted their complaints to NIA, of which five were already resolved. The government has also adopted a Program for Attracting Investments for 2022–2026, that not only aims to facilitate foreign and domestic investments in identified priority sectors (infrastructure, agriculture, tourism, and light industry) but also promotes sustainable investments with particular attention on climate finance.²⁷ The law on organic production was submitted to Parliament with the aim to align the national organic certification with international standards, improve competitiveness of organic products, support sustainability, and reduce climate impact. The Tax Code was updated to include tax incentives for preferential industrial activities in targeted locations; value-added tax exemptions for technology, equipment, and components meeting the requirements of energy and resource efficiency; and the import of renewable power installations, electric vehicles, and charging equipment for electric vehicles. The Tax Code also provides a 50% reduction of the property tax payable on buildings, premises, and structures meeting the requirements for energy and resource efficiency.²⁸

16. **Reform area 2: Small and medium-sized enterprise development to broaden the economic base and promote entrepreneurship improved.** The actions under this reform area aim to address the relevant binding constraints (para. 5), broaden the economic base, and promote entrepreneurship and the participation of women in economic activities.

policy design and monitoring framework of this report and recommendation of the President. Details of the adjustments are in Comparison of Original and Revised Reforms under Subprogram 3 (accessible from the list of linked documents in Appendix 2).

²⁶ The Cabinet of Ministers adopted the regulation on investor grievance mechanism on 28 January 2022 to supersede the old system where complaints were reviewed under the general provision of the law on citizens' petitions. The investor grievance mechanism is a much better mechanism advocated by development partners. The International Finance Corporation is supporting NIA in building its staff capacity to deal with investors' grievances.

²⁷ Government of the Kyrgyz Republic. 2022. Resolution No. 352 On approval of the Program for attracting investments to the Kyrgyz Republic for 2022–2026 (dated 30 June 2022). Bishkek.

²⁸ Climate Change Assessment (accessible from the list of linked documents in Appendix 2)

17. Under subprogram 3, policy actions fall under two broad categories: (i) promoting SME development and entrepreneurship, and (ii) promoting business start-ups and improving regulatory compliance. These reforms, among other things, ensure the continuation of budget funding for entrepreneurial programs; the operationalization of a warehouse receipts finance program to expand the range of affordable financing to SMEs; taxation policy and administration reforms to promote formalization (enabling entrepreneurs and businesses to shift from the informal to the formal sector); submission of an e-commerce law to Parliament to promote business opportunities for SMEs, improve consumer services and protection, and expand national and international markets; approval and implementation of, for the first time, a national development program for women entrepreneurs that will benefit a significant number of women in the medium term through regulatory changes and additional financing; and, finally, the piloting and operationalization of business service centers, which are one-stop shops for all business regulatory requirements, and also offer business planning and technical training.

18. **Reform area 3: Public-private partnership development to develop social and economic infrastructure improved.** The actions under this reform area aim to address the relevant binding constraints (para. 5) and develop critical social and economic infrastructure through PPP investments in a fiscally sustainable manner. This will help reduce the costs of doing business and of delivering public services.

19. Under subprogram 3, policy actions fall under three broad categories: (i) supporting the operations of the PPP center, (ii) setting standards and principles for PPP project development and strengthening fiscal risk management of PPP projects, and (iii) developing well-structured and fiscally responsible PPP projects. These reforms, among other things, (i) ensure continued funding support through the national budget until the PPP center can become self-sustaining, (ii) improve the capacity of government officials in fundamental PPP concepts, (iii) improve the transparency of awarded PPP projects, (iv) improve the overarching strategic framework developed under subprogram 2 for PPP development in the country, (v) include submission to Parliament of amendments to the PPP law in June 2022 to manage the level of fiscal exposure from awarded PPP projects, and (vi) support downstream work on PPPs by awarding an additional four PPP contracts and tendering additional PPP proposals.

20. **Reform area 4: Industry-linked skills development through enhanced internal efficiency and qualifications structure improved.** The actions under this reform area aim to address the relevant binding constraints (para. 5) and improve the quality, funding, and relevance of TVET by modernizing the curricula and teaching materials, improving quality assurance mechanisms, strengthening cooperation with industry, and ensuring adequate TVET financing.

21. Under subprogram 3, policy actions fall under three broad categories: (i) improving the strategic allocation of funds to the skills subsector; (ii) expanding access to work-based learning, including promoting employability through improving the quality of practical skilling; and (iii) continuing promotion of pre-employment training and on-the-job upskilling. These reforms, among other things, ensure (i) the completion of the nationwide rollout of the per capita financing concept in primary vocational education institutions, (ii) the commencement of the rollout of per capita financing to secondary vocational education institutions, (iii) the introduction of new work-based education, and (iv) on-the-job training models that allow flexible use of TVET institutions. The government also approved the National Qualifications Framework and implementation of the respective action plan, ensured that additional four pilot model centers for work-based learning are fully operational, and the effective utilization of the Skills Development Fund established in 2020 to conduct work-based learning and training with 2,908 people certified (53% females)

against the target of 2,800 people (40% females).

22. Reform area 5: Fiscal and social protection resilience to enable post-COVID-19 stabilization and recovery improved. This reform area aims to address the relevant binding constraints (para. 5) and strengthen fiscal management and improve resilience to macroeconomic shocks in the future by expanding the number of social protection beneficiaries in a transparent, evidence-based, and targeted manner. This reform area also builds the foundation for a more inclusive recovery post-COVID-19 pandemic.

23. Under subprogram 3, policy actions fall under four broad categories: (i) improve fiscal accountability and transparency; (ii) strengthen fiscal sustainability; (iii) improve social protection and access to essential public services for people facing significant hardships; and (iv) improve the overall social protection system, including expenditure, targeting, and coverage. These reforms ensure transparency and accountability in fiscal risk management and public debt management; enhance processes and procedures for registering for, and participating in, social protection programs; improve coverage of the social protection system to certain vulnerable groups of the population; and improve access for victims of domestic violence. The MOF introduced amendments to the Law on the Budget and the Budget Code of 2016 to enable mandatory annual publishing of (i) the government's annual borrowing plans and fiscal risk statement as reflected in the budget, and (ii) the annual list of borrowings of the seven largest SOEs, with ensured public disclosure of their international financial reporting standards-based annual audited financial statements and the accompanying notes. The MOF prepared and published a detailed annual fiscal risk assessment to strengthen fiscal transparency and resilience.²⁹

24. Post-program engagement framework. To ensure traction and continued policy dialogue, the post-program engagement framework (PPEF) for 2022–2023 will also be supported by an ongoing ADB TA project. Under reform area 1, the government will continue efforts to help exporters diversify export products; monitor the implementation of the program for development of trade and logistics centers, food security, and nutrition action plan; and review agriculture programs with improved gender targeting. Under reform area 2, the government will aim to improve the financial literacy and digital financial services, and expand the business services center to other regions. Under reform area 3, the government will strengthen the PPP pipeline, implement legislative amendments upon Parliament approval, manage fiscal risk exposures, and introduce gender-responsive and climate resilience framework in PPP cycle. Under reform area 4, the government will ensure cohesion between occupational standards and labor market needs, encourage entrepreneurial activities in all TVET institutions, and work with private sector to cofinance the Skills Development Fund. Last, under reform area 5, the government will upgrade its public procurement system; improve revenue forecasting and fiscal management modeling; upgrade the new debt management system; adopt a fiscal plan to reduce tax exemptions, energy sector subsidies, and wage bills share in the national budget; and introduce a public investment management strategy. The government will continue to streamline its social protection system to expand coverage of vulnerable groups, improve equal employment opportunities for women, and strengthen legislative protection against domestic violence.

²⁹ The Fiscal Risk Assessment (FRA) was published on 31 May 2022 by MOF on its website. The FRA was developed in accordance with Article 80 of the Budget Code of the Kyrgyz Republic and as part of the implementation of the Strategy for Development of Public Finance Management of the Kyrgyz Republic for 2017–2025, in order to ensure the sustainability of the state budget and to provide the budget process a higher degree of predictability. The fiscal risk assessment for 2022–2024 is attached to the Explanatory Note of the Draft Republican Budget and is approved by the Law on Republican Budget, which has its own monitoring and reporting mechanisms. The FRA was prepared with TA from the World Bank and was based on international practices of fiscal risk disclosure.

25. **ADB's value addition.** Subprogram 3 builds on ADB's strong base of country knowledge as a longstanding partner of the Kyrgyz Republic. This strong relationship has enabled ADB to significantly contribute to the government's economic diversification efforts, as well as (i) promote gender empowerment and ensure its formalization in the government's policy agenda; (ii) restructure the program to support immediate challenges of the government during a period of public health and macroeconomic crises; (iii) introduce and promote other enabling policy reforms that have not received high priority in the past but have become high priorities because of the continuum of shocks that the economy faces, such as fiscal and debt management and social protection; and (iv) rapidly repurpose and provide additional TA to support reform preparation, implementation, and monitoring and evaluation.

26. **Lessons.** Key lessons from ADB's experience with policy-based lending in the Kyrgyz Republic and Central Asia have been incorporated into the program design:³⁰

- (i) **ADB's continuing support for business and investment climate reforms.** The use of long-term and adaptable or flexible programmatic assistance and TA is recommended to support a medium- to long-term reform path, and necessary for sustainability of reforms.
- (ii) **Phasing of technical and vocational education and training reform.** Project interventions demonstrated that TVET reform takes time to be effective, and that the engagement of stakeholders, particularly the industry, is slow. An engagement of more than 10–15 years, involving three or four project cycles and links to related policy reform programs, is likely to provide the most effective and sustainable results.
- (iii) **Strengthening fiscal risk management and social protection programs to help strengthen resilience to future shocks.** The lack of fiscal buffers and effective social protection systems exacerbated the economy's vulnerability to the pandemic. Sustained reform efforts and institutional development in the Kyrgyz Republic has often fallen prey to frequent political transitions. Fiscal buffers and debt management options are crucial to help address liquidity issues in the immediate aftermath of crises.³¹

27. **Development partner coordination.** The program was prepared in close consultation with other development partners, including the Development Partner Coordination Council.³² ADB has engaged with the IMF and other development partners for the program since October 2021. The dialogue intensified after the Russian invasion of Ukraine to coordinate responses to the new shock while continuing with the structural reform agenda. ADB exchanged updates with the IMF for fiscal and debt projections, governance, and broader macroeconomic analysis. The IMF assessment letter has been received (footnote 15). ADB coordinated with (i) the World Bank, the European Bank for Reconstruction and Development, the Food and Agriculture Organization, the United Kingdom Foreign Commonwealth and Development Office, the EU, and the United Nations (UN) agencies in trade, investment, and SME development; (ii) the World Bank and the International Finance Corporation in PPP reforms; (iii) the IMF, the EU, and the World Bank on fiscal management and governance; and (iv) the UN agencies in social protection. In 2022, ADB,

³⁰ ADB. 2014. [Validation Report: Vocational Education and Skills Development Project in the Kyrgyz Republic](#). Manila; ADB. 2015. [Validation Report: Investment Climate Improvement Program in the Kyrgyz Republic](#). Manila; and ADB. 2020. [Validation Report: Second Investment Climate Improvement Program in the Kyrgyz Republic](#); Manila. (All programs were rated *successful* overall.)

³¹ ADB. 2022. [Completion Report: COVID-19 Active Response and Expenditure Support Program in the Kyrgyz Republic](#). Manila.

³² Development Coordination (accessible from the list of linked documents in Appendix 2).

the Eurasian Development Bank, and the 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.

C. Expected Outcome of the Reforms

28. The overarching objective of the program is the creation of decent jobs, providing decent employment and stable income for people (footnote 2). The program's outcome is broad-based economic growth increased.³³ There are no revisions to the outcome or output indicators under the original programmatic approach because these remain fully aligned with the current reform proposals. Overall, the reform program will create an enabling environment for expanding the product and export base of the Kyrgyz economy, leading to economic diversification, and ensuring sustainable and more equitable growth and higher resilience to economic shocks. The reforms will boost trade and facilitate the growth of export-oriented businesses. In investment promotion, a long-term strategy will outline the priority sectors and roadmap to diversify away from mineral extraction, and the investor grievance mechanism will improve investor confidence and attract a higher number of investors. The program facilitates access to finance and information resources for SMEs that will lead to growth in the number and size of SMEs across key sectors. Improvements in public finance management will lead to eliminating financial fragility and enhance the government's ability to rapidly respond to shocks. The social protection system will be strengthened for improvements in the quality of life of vulnerable groups, which will ultimately help reduce poverty levels in the country.³⁴

D. Development Financing Needs and Budget Support

29. The government's budget deficit for 2022 is estimated at \$404.1 million (or 4.1% of GDP) and the gross development financing needs, inclusive of debt servicing, total \$643.5 million. The financing needs will be partially supported by external financing of \$197.1 million, which includes \$105 million financing from ADB³⁵ while the Eurasian Fund for Stabilization and Development, the World Bank, and the EU will together provide \$92.1 million. Domestic financing will contribute \$207.8 million. The uncovered balance will be met with additional financing from other bilateral and multilateral partners, and the 2021 Special Drawing Rights allocation of the IMF transferred from the National Bank of the Kyrgyz Republic to the MOF.

30. For subprogram 3, 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 subprogram 3. 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 as set forth in the draft loan agreement. ADB determined the loan and grant size considering the

³³ The policy design and monitoring framework is in Appendix 1.

³⁴ Program Economic Assessment (accessible from the list of linked documents in Appendix 2) provides a detailed program impact assessment.

³⁵ ADB's financing in 2022 includes (i) current subprogram 3 (\$50 million) of \$25 million grant and \$25 million of concessional loan, (ii) new Building Resilience with Active Countercyclical Expenditures Program (\$50 million) consisting of \$25 million grant and \$25 million of concessional loan, and (iii) the first tranche (\$5 million) of policy-based grant component of School Education Sector Development Program planned for approval in 2022. The planned Building Resilience with Active Countercyclical Expenditures Program will provide countercyclical support to address negative impact of external shock of the Russian invasion of Ukraine. The planned School Education Sector Development Program focuses on science, technology, engineering, and mathematics development in general education (primary and secondary). There is only a complementary relationship with subprogram 3 as secondary education is feeding into TVET.

government's commitment to economic diversification reforms and the country's development financing needs.

E. Implementation Arrangements

31. The MOF is the executing agency for subprogram 3.³⁶ The MOF, NIA, MOEC, Ministry of Agriculture, Ministry of Education and Science, and Ministry of Labor, Social Protection and Migration will be the implementing agencies. The MOF, Prime Minister's Office, and MOEC will monitor and evaluate the overall effectiveness of the program through the program completion report process. These three agencies have extensive experience in implementing ADB-financed policy-based lending programs and are responsible for supporting and monitoring the implementation of the policy matrix and the PPEF.³⁷ Support for reform implementation is provided through the ongoing TA. The implementation period for subprogram 3 is April 2021–August 2022. The PPEF is expected to be implemented in late 2022 to the end of 2023. The proceeds of the policy-based loan and grant will be withdrawn following ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

III. DUE DILIGENCE

32. **Safeguards.** The program is classified as category C for the environment, involuntary resettlement, and indigenous peoples. Program activities will be confined to policy and institutional reforms. The policy actions have been assessed and these will have no direct or indirect environmental impacts. No civil works activities will be financed under this policy-based loan, and no direct or indirect impact is expected that leads to involuntary resettlement or negatively affect indigenous peoples or the environment. Program proceeds will not be used for any activities resulting in physical or economic displacement, as defined by the Safeguard Policy Statement (2009).³⁸

33. **Poverty and social issues.** The country was making satisfactory progress in poverty reduction before the COVID-19 pandemic. The poverty rate declined from 25.4% in 2016 to 20.1% in 2019 before the pandemic but increased to 25.3% in 2020 and to 33.3% by the end of 2021. In addition, extreme poverty increased dramatically from 0.9% in 2020 to 6% or 407,100 people in 2021, of whom 54.9% were living in rural areas.³⁹ The economy is dominated by small economic entities—mostly farmers and small enterprises that operate in the informal sector. The private sector remains weak, although some progress in expanding and producing higher value-added products and services is being made. Efforts to develop skills and SMEs have a positive correlation to reducing poverty. The unemployment rate has experienced an increasing trend, rising from 6.9% in 2019 to 9.1% in 2021.⁴⁰

34. **Gender.** The program's gender categorization is *effective gender mainstreaming*. Key policy actions aim to ensure that women are represented at all levels as beneficiaries, training participants, agents of change, and decision makers; and that women are considered in all the reform areas of the program. The gender-responsive policy actions aim to increase access to

³⁶ The executing agency was changed from MOEC in subprogram 1 to MOF in subprograms 2 and 3 following the government's decision to prioritize high-level administrative attention to program implementation.

³⁷ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

³⁸ Safeguards Assessment Matrix (accessible from the list of linked documents in Appendix 2).

³⁹ National Statistics Committee of the Kyrgyz Republic. 2022. *About the Level of Poverty in the Kyrgyz Republic in 2021*. Bishkek.

⁴⁰ World Bank. 2022. [Unemployment rate of the Kyrgyz Republic](#). Washington DC.

finance for SMEs headed by women, with the 30% quotas offered under the financing of business entities programs and by the open joint stock company Guarantee Fund, which has benefited 632 women entrepreneurs. Moreover, the new Program for the Development and Support of Women Entrepreneurship aims to provide a comprehensive approach to increasing women's participation in business activities. Policies include enforcing government targets for female representation in government bodies. Domestic violence is on the rise since the pandemic, affecting women of all social strata. The program supports efforts to provide clear guidelines to local committees on dealing with domestic violence cases and raises awareness of this critical issue on personal assistant services.

35. **Governance.** ADB completed a country governance assessment in 2022⁴¹ in line with the implementation guidelines of ADB's Second Governance and Anticorruption Action Plan.⁴² 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 single treasury account.⁴³ At the same time, the government will need to address weaknesses in revenue forecasting, budget credibility, investment planning, off-budget fund reporting and reconciliation, and fiscal management information system use and interoperability. The public procurement system is adequately structured and functions well (footnote 42). However, the new Public Procurement Law, 2022 excluded SOEs from its coverage. The government is developing a separate regulation to govern SOE procurement. All development partners are in dialogue with the government and committed to ensuring that all majority SOEs conduct procurement in a transparent and efficient manner. In anticorruption, the Constitution of the Kyrgyz Republic includes measures to prevent corruption. The new draft anticorruption strategy, 2022–2024 was presented to public and is under finalization by the government. The NDP 2026 focuses on reforming the judicial system, law enforcement agencies, fiscal system, digitalization, electronic customs, and PPPs with aim to improve transparency and reduce 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, protection of investors and business entities.⁴⁴ Civil society and media are free and vocal in reporting corruption practices and cases. The development partners also have a platform (Development Partners Coordination Council) to raise various development concerns to the government, including governance and corruption. The authorities also showed commitment towards streamlining investment facilitation and resolution of disputes (para. 15).

36. **Risks and mitigating measures.** Major risks and mitigating measures are highlighted in the policy design and monitoring framework and described in detail in the risk assessment and risk management plan.⁴⁵

Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Private investment growth might slow because of lower remittance inflows resulting from the economic deterioration of major trading partners and continued Russian invasion of Ukraine.	Continuance of technical assistance (TA) and policy dialogue with the government to support efforts to diversify the economy from remittance-led consumption

⁴¹ Governance Assessment (accessible from the list of linked documents in Appendix 2).

⁴² ADB. 2006. Manila. [Second Governance and Anticorruption Action Plan \(GACAPII\)](#). Manila.

⁴³ World Bank. 2021. [PEFA: Kyrgyz Republic](#). Washington, DC.

⁴⁴ The members of the council consist of the President, the general prosecutor, heads of parliament factions, business ombudsman, business associations, and nongovernment organizations. It also includes several development partners (USAID and EU) as observers.

⁴⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigation Measures
Weak administrative capacity of implementing agencies because of a lack of skilled staff, reorganization of government agencies, limited resources, and other competing priorities.	Close coordination with key government agencies through the Asian Development Bank's resident mission and provision of TA to support administrative and implementation efforts
Unexpected shocks such as next wave of coronavirus disease (COVID-19), prolonged Russian invasion of Ukraine, or urgent domestic issues may cause delays in implementing critical reforms.	Continuance of TA and policy dialogue with the government to support efforts to implement critical financial sector reforms

Source: Asian Development Bank

37. The risk that new external shocks and changes in political leadership lead to weakening reform momentum is mitigated by the following: (i) the government's continued commitment to reforms despite change in leadership, including prioritization of the NDS 2040 and the NDP 2026 (footnote 2), and (ii) the post-program engagement framework supported by ADB (para. 24).

38. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MOF.

IV. ASSURANCES

39. 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 draft loan and grant agreements. All policy actions completed by the government as specified in the policy matrix relating to the program will have to continue to be in effect.

V. RECOMMENDATION

40. I am satisfied that the proposed policy-based 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 subprogram 3 of the Promoting Economic Diversification 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 subprogram 3 of the Promoting Economic Diversification 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

30 August 2022

POLICY DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective: Creation of decent jobs, providing decent employment and stable income for people. (National Development Strategy) ^a				
Outcome Broad-based economic growth increased.	Risks R: Volatile political situation and changes in leadership lead to weakening reform momentum. Negative economic impacts of COVID-19 pandemic are more severe than projected. Negative impact of war in Ukraine and slower global economic growth. Weak administrative capacity of implementing agencies because of a lack of skilled staff, limited resources, and other competing priorities.			
Prior Actions: Subprogram 1 (Completed: August 2018–July 2019)	Prior Actions: Subprogram 2 (Completed: August 2019–March 2021)	Prior Actions: Subprogram 3 (Completed: April 2021–August 2022)	Outcome Indicators	Post-Program Engagement Framework (2022–2023)
Reform Area 1: Trade and investment competitiveness to develop the non-mineral sector and diversify exports and investments improved.				
1.1 Government has approved the Kyrgyz Republic Food Security and Nutrition Program 2019–2023 to improve Kyrgyz Republic's nutritional status with sections addressing the specific food and nutrition needs of women, men, and children and their role in food and nutrition security, ensure consistency of food supplies to the domestic market and compliance with export market consumer protection standards.	2.1 To enable the change in agricultural policy priorities towards increased agricultural production and food security, the Government adopted the Resolution of the "8th Financing of Agriculture Program" – a priority action in the <i>Food Security and Nutrition Program 2019–2023</i> which provides preferential credits for agricultural producers to accelerate animal husbandry, crop production, processing of agricultural products, and implementation of spring farm work in 2020.	3.1 The government submitted the Law "On Organic Production" to Parliament for approval to align the national organic certification with international standards and improve competitiveness of organic products from Kyrgyz Republic in international markets, which will (a) expand the list of products from agriculture to textiles and forestry, (b) prohibit use of agrochemicals, pesticides, antibiotics, hormonal drugs, chemical additives or ionizing radiation for the processing of organic materials, (c) promote minimal use of non-renewable natural resources and means of production, and (d) mandate other requirements to ensure healthy development of organic products.	a. Kyrgyz Republic's utilization rate under the EU GSP+ preferential trade access increases to 80% by June 2023 (2018 baseline: 60%, 2021 – 65.3%). Source: MOEC/NIA reports.	<ul style="list-style-type: none"> • Government continues to provide exporters with market information and export assistance to diversify export products and markets. • Government continues to implement <i>Program for the Creation and Development of Trade and Logistics Centers for Agricultural Products in the Kyrgyz Republic for 2019–2023</i> and support establishment of private sector-led trade and logistics centers in strategic locations to improve market access for farmers and improve export opportunities. • Government completes a feasibility study for development of a modern wholesale agricultural market. • Government continues the implementation of the Food Security and Nutrition Action Plan 2019–2023, with specific attention to the following: <ul style="list-style-type: none"> (i) Government assesses unmet demand for agricultural and agribusiness credit (including demand for women farmers and women rural entrepreneurs) with the aim to expand the resource
1.2 Government has approved the <i>Program for the Creation and Development of Trade and Logistics Centers for Agricultural Products in the Kyrgyz Republic for 2019–2023</i> to reduce storage, distribution and transportation costs for agricultural producers.				

Prior Actions: Subprogram 1 (Completed: August 2018–July 2019)	Prior Actions: Subprogram 2 (Completed: August 2019–March 2021)	Prior Actions: Subprogram 3 (Completed: April 2021–August 2022)	Outcome Indicators	Post-Program Engagement Framework (2022–2023)
<p>1.3 Government has approved the <i>Export Development Program (EDP) 2019–2023</i> which outlines the export strategy and actions to develop the country's export sector, and has commenced implementation of the EDP by:</p> <ul style="list-style-type: none"> (i) designating a dedicated body within the Government to administer the REX for exporting to the markets of the European Union (EU) countries within the framework of GSP+ trade privileges; (ii) obtained the International Laboratory Accreditation Cooperation (ILAC) for the Kyrgyz Center of Accreditation (KCA) through ILAC Mutual Recognition Arrangement (ILAC MRA) to enhance product standardization and harmonization with EU and Eurasian Economic Union (EEU) access conditions; (iii) signing an agreement with the Islamic Development Bank on preparation of feasibility study to establish the integrated supply chain park for Halal product development and export; and 		<p>3.2 The MOEC/NIA has rolled-out the REX system to increase exports to the EU under the GSP+ trade privileges program by:</p> <ul style="list-style-type: none"> (i) registering in REX at least 80% of exporters to the EU market;^b (ii) mandating the adoption of REX system procedures through an order made effective from 30 May 2022; (iii) training the 4 NIA staff (2 of whom are women) responsible for administering the REX system.^c <p>3.3 The government has established and operationalized the “Center for Halal Industry” to promote domestic and international trade of Halal products and services by providing services such as harmonization of regulatory acts, development of standards and capacity building in halal industry practices, by</p> <ul style="list-style-type: none"> (a) allocating an annual budget of Som9 million starting from FY2022; (b) supporting elaboration of standards and guidelines for halal certification; (c) appointing staff (with at least 35% female technical staff out of which 45% are trained);^d and (d) providing training and advisory services to both public and private sector. 		<p>envelope for targeted concessional finance programs by 2022.</p> <ul style="list-style-type: none"> (ii) Ministry of Agriculture in cooperation with the State Agency for Water Resources reviews and develops policies and programs for increasing irrigated and dryland wheat productivity by 30% over 10 years and seek resources for its implementation. • Government develops matching grant programs for farmers and farmer groups (including women farmers and women cooperatives) accompanied with training program (with at least 30% women participants) to improve product storage capacity and initial packaging and processing. • Government develops a program to overcome barriers and constraints to agricultural trade and work with EEU, EU members to develop the concept of a green channel aiming to minimize disruption to agricultural products and food trade. • Government implements the Program for the Development of Pastures and Livestock Breeding in the Kyrgyz Republic for 2020–2024. • Government introduces factoring by commercial banks and other

Prior Actions: Subprogram 1 (Completed: August 2018–July 2019)	Prior Actions: Subprogram 2 (Completed: August 2019–March 2021)	Prior Actions: Subprogram 3 (Completed: April 2021–August 2022)	Outcome Indicators	Post-Program Engagement Framework (2022–2023)
(iv) KCA obtaining the status of a full member of the International Forum on Halal Accreditation.				innovative financial instruments for exporters.
<p>1.4 Enabling environment to promote diversified foreign investments has been developed through:</p> <p>(i) Government adopted an Annual Action Plan to improve country ranking in World Bank's rating on Doing Business and have commenced implementation of the following measures:</p> <ul style="list-style-type: none"> starting a business including amending the Law of the Kyrgyz Republic "On State Registration of Legal Entities, Branches (Representative Offices)" to allow filing of documents in electronic form; getting electricity including improving power supply reliability and transparency by publishing the average duration and frequency of power outages, as well as the average time to restore power to consumers, on the power utility's website; 		<p>3.4 The Government has adopted a <i>Program for Attracting Investments for 2022–2026</i> that promotes sustainable investments with particular focus on climate finance to strengthen investment coordination and responsiveness to investors, and commenced the program implementation through:</p> <p>(i) upgrading the Kyrgyz Investment Promotion Agency (KADI) to the National Investment Agency (NIA) directly under the President of the Kyrgyz Republic (with at least 40% of female technical staff and at least 30% women in decision-making positions)</p> <p>(ii) updating the Tax Code, effective from 1 January 2022, to</p> <ul style="list-style-type: none"> (a) provide tax incentives to preferential industrial activities in targeted locations, (b) exempt VAT for imports of (i) special goods and equipment for renewable power installations; (ii) electric vehicles; and (iii) equipment for charging electric vehicles (c) exempt VAT for technology, equipment and components meeting the requirements of 		<ul style="list-style-type: none"> Government continues to increase funding of the Civil Aviation Agency to ensure there are sufficient trained employees to inspect aircraft and equipment based on international standards. Government implements <i>Program for Attracting Investments for 2022–2026</i>. Government to adjust with new EU regulations on environment and climate change under GSP+ program. Government to monitor performance of new VAT refund system for exporters.

Prior Actions: Subprogram 1 (Completed: August 2018–July 2019)	Prior Actions: Subprogram 2 (Completed: August 2019–March 2021)	Prior Actions: Subprogram 3 (Completed: April 2021–August 2022)	Outcome Indicators	Post-Program Engagement Framework (2022–2023)
<ul style="list-style-type: none"> • registering property including publishing real estate data on the government website; • getting credit including introducing a credit rating system and credit scores for borrowers; • paying taxes including introducing consolidated reporting on income tax and social contributions; • trading across borders including risk-based customs control; • enforcing contracts including addressing creditors' claims by consolidating all relevant information in an electronic database; and • resolving insolvency including promoting transparent orderly disposition of assets for distressed companies; 		<p>energy and resource efficiency, and</p> <p>(d) reduce by 50% the property tax payable on buildings, premises, and structures meeting the requirements for energy and resource efficiency.</p> <p>(iii) Operationalizing an investor grievance mechanism to resolve issues that arise in investors' interaction with state bodies, local self-governance bodies, and business partnerships and companies that have a state share.</p>		

Prior Actions: Subprogram 1 (Completed: August 2018–July 2019)	Prior Actions: Subprogram 2 (Completed: August 2019–March 2021)	Prior Actions: Subprogram 3 (Completed: April 2021–August 2022)	Outcome Indicators	Post-Program Engagement Framework (2022–2023)
(ii) liberalizing the regulations of the aviation industry through the introduction of the 5th Level of Freedom of Air, which will allow airlines to carry international revenue traffic to help develop tourism, trade and transport logistics industries.				
Reform Area 2: Small and medium-sized enterprise development to broaden the economic base and promote entrepreneurship improved.				
<p>1.5 SME including women entrepreneurs' access to finance and services is improved through:</p> <p>(i) Jogorku Kenesh (Parliament) approval of a new version of the Law on Guarantee Funds to authorize the NBKR to regulate and supervise the Guarantee Fund;</p> <p>(ii) NBKR approval of a capital increase for the Guarantee Fund by up to 49%; and</p> <p>(iii) NBKR approval of changes to its regulatory requirements to increase access to financing through:</p> <p>a) Optimization of collateral requirements for the provision of loans;</p> <p>b) Establishment of a credit rating system; and</p> <p>c) Introduction of electronic signatures for online lending to improve financial intermediation.</p>	<p>2.2 To promote SMEs access to finance and entrepreneurship, the Government and relevant authorities have taken the following reform and policy measures:</p> <p>(i) enabled direct financial support for SME, through the execution of the Som4 billion <i>"Financing of Business Entities Program"</i> in 2020 which provided a credit line to all SMEs, of which 30% of beneficiaries were women-headed;</p> <p>(ii) increased risk pricing efficiency and transparency in credit markets through the full operationalization of an integrated online credit history and credit scoring system for banks and financial institutions; and</p> <p>(iii) submitted the Government Resolution "On the opinion of the Government of the Kyrgyz Republic on the draft</p>	<p>3.5 The Government demonstrated its ongoing commitment to SME development and entrepreneurship to the private sector by:</p> <p>(i) Operationalizing warehouse receipt finance, by developing and operationalizing a system for registry of warehouses at SS and registry of warehouse receipts at Financial Market Regulation and Supervision Service, to enable farmers to use their stored produce as collateral to expand the range of affordable lending to SMEs;^e</p> <p>(ii) Incentivizing formalization of businesses by (a) providing an option to small and medium-sized businesses to pay a single tax that subsumes income tax, sales tax and VAT at lower tax rates and submit a single report on quarterly basis; (b) lowering the tax rates for individual</p>	<p>b. Of the total number of clients of the OJSC Guarantee Fund, at least 30% women-headed SMEs^f received financial loans by June 2023 (2020 Baseline: Zero). Source: OJSC Guarantee Fund annual reports.</p>	<ul style="list-style-type: none"> • Government and NBKR continue to implement financial literacy programs and introduce digital financial services and technology platforms for entrepreneurs, especially women. • Government opens more Business Service Centers in different oblasts or regions of the Kyrgyz Republic (with at least 40% female technical staff).

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	<p>Law of the Kyrgyz Republic "On amendments to certain legislative acts of the Kyrgyz Republic on investment support" to Parliament to increase the use of non-productive agricultural land for, inter alia, collateralization in external finance.</p> <p>2.3 To strengthen the regulatory governance and targeting framework for SME lending:</p> <p>(i) NBKR issued requirements for monthly reporting of guarantee funds by all financial institutions on issued guarantees for women-headed SMEs; and</p> <p>(ii) the board of OJSC Guarantee Fund resolved to ensure that 30% of guaranteed loans are reserved for women-headed SMEs.</p>	<p>entrepreneurs and exempting them from tax reporting during 2022–2024;</p> <p>(iii) E-Commerce Law was approved by the Parliament to provide an enabling regulatory framework for e-commerce and enhance business opportunities for SME operations, improve consumer services and protection, expand national and international markets, and increase growth potential; and mandated simplified taxation for e-commerce at 2% under the tax law.</p> <p>(iv) approving and making effective with immediate effect the Program for the Development and Support of Women Entrepreneurship in 2022–2026 to create enabling environment for women entrepreneurship, and</p> <p>(a) mandating that state bodies and local self-government bodies get involved in the implementation of the program action plan with quarterly progress reports to the MOEC, while the MOEC is to submit semiannual reports to the administration of the President,</p> <p>(b) starting from 2022, providing a dedicated funding in the state budget for implementing the program,</p>		

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		<p>(c) launching a public information campaign to create public awareness.</p> <p>(v) Ordaining based on NBKR directives for monthly reporting, the Open Joint Stock Company (OJSC) “Guarantee Fund” (a) to submit monthly reports to NBKR during May 2021 to May 2022 on issued guarantees for women-headed SMEs; and (b) ensure that 30% of guaranteed loans in 2021 were reserved for women-headed SMEs.</p>		
<p>1.6 Government has approved the <i>Concept for Development of Business Service Centers for 2019–2022</i>, to provide a range of services including obtaining regulatory approvals to start a business and capacity building and training for SMEs and entrepreneurs.</p>	<p>2.4 To reduce barriers to entry in markets, tax compliance and other transactions costs to SMEs that give birth to rent-seeking and additional informal costs of regulatory compliance, Government:</p> <p>(i) submitted the draft Law of the Kyrgyz Republic “<i>On State Registration of Legal Entities, Branches (Representative Offices)</i>” to Parliament, allowing submission of registration documents in electronic form and automation of legal entity registration processes. This will improve transparency and promote good corporate governance in business formalization, and reduce transaction costs of starting a business; and</p> <p>(ii) adopted the Resolution “<i>On Amendments to some decisions of the Government of Kyrgyz Republic</i>” to ease and improve tax</p>	<p>3.6 The government has improved business start-up and regulatory compliance and expanded the range of support services available by operationalizing the Bishkek Business Service Center (with at least 40% female staff) to obtain permits, licenses, and all other government requirements in one office and have access to business planning, skills and technical training, and financial resources with periodic reporting on services provided disaggregated by sex, type of business, sector and region.</p>		

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	administration, enabling consolidated reporting of income tax and social insurance contributions.			
Reform Area 3: Public–private partnership development to develop social and economic infrastructure improved.				
1.7 MOE has adopted a PPP Manual including model tender documents and gender-sensitive operational guidelines on identification, preparation and implementation of priority socially-oriented PPP projects.	2.5 To upgrade the effectiveness and technical competence of the Center for PPP, the Government increased the Center's budget allocation from Som7.0 million in 2019 to Som11.1 million in 2020 to allow recruitment of PPP experts.	3.7 The government has ensured continued expert support for the operations of the PPP Center by: <ul style="list-style-type: none"> (i). increasing the PPP Center's budget from Som11.1 million in 2021 to Som17 million in 2022. (ii). ensuring the certification of 38 Government officials (with at least 45% female officials trained and certified) in the APM Group (APMG) International PPP Certification (Foundation) Program;^g and (iii). adopting a systematic approach made effective from 14 April 2022 to register concluded (awarded) PPP projects and disclose this information for transparency on the PPP website. 	c. The Kyrgyz Republic's ranking in Central Asia in The Economist Intelligence Unit Infrascope report for level of PPP readiness is maintained as of June 2023. (2019 baseline: 1st in Central Asia). Source: Economist Intelligence Unit. and/or Maintain or improve periodic country and global average standing of Kyrgyz Republic in the World Bank's periodic <i>Benchmark Infrastructure Development</i> in PPP ^h in 4 thematic areas, i.e., preparation, procurement, contract management and unsolicited	<ul style="list-style-type: none"> • Government continues to strengthen the PPP pipeline with prospective PPP projects that add value to society and improve public service delivery • Government ensures adaptation of the proposed amendments by Parliament and continues to manage the fiscal exposure arising from PPP to ensure fiscal sustainability. • Government ensures continued CP3P certification for staff of the PPP Center. • Government reviews/updates the framework for gender-responsive and climate resilience identification, preparation, tendering and implementation of PPP projects in order to increase the efficiency and effectiveness of PPP projects. • Government continuously undertakes review and enhancement of operational guidelines and model document to further improve the efficiency and effectiveness of, and integrating gender considerationsⁱ in project preparation and implementation. • Government continues to raise awareness through expanded

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			proposals by June 2023 [2018 baseline: score of 33 regarding preparation of PPPs, score of 40 regarding procurement of PPPs, score of 49 regarding PPP contract management, score of 50 regarding unsolicited proposals. ⁱ	<p>outreach activities by the PPP Center and understanding of PPPs through proactive promotion and communication in order to further sensitize and inform relevant stakeholders in particular line ministries.</p> <ul style="list-style-type: none"> • The PPP Center maintains an appropriate level of staff (with at least 40% female staff) in terms of quantity and quality to coordinate, promote and support the development of PPP. • Government continues to allocate and spend the necessary budget resources for PPP project development through PDSF to ensure adequate project preparation and reducing the risk of project failure. • Government continues to tender PPP projects in order to improve the quality of public service delivery and reduce the infrastructure gap.
1.8 Government has approved the establishment of the Center for Public–Private Partnership with budgetary allocation of \$88,000 for 2019 in order to support and accelerate development of PPP projects.	2.6 To eliminate past ad-hoc, uncoordinated and harmful practices and ensure a fiscally-responsible PPP approach, the MOE submitted to Cabinet a draft decree for a 5-year strategic framework for PPP development in Kyrgyz Republic entitled PPP Development Program 2021–2026 to set standards and principles for project development and support and to strengthen fiscal risk management.	3.8 The Government has set standards and principles for project development and strengthen fiscal risk management by: (i) approving and beginning implementation of the <i>PPP Development Program 2022–2026</i> ; (ii) submitting to Parliament amendments to the Law of Kyrgyz Republic “ <i>On Public–Private Partnership</i> ” to concur and monitor all contingent liabilities arising from any PPP		

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		<p>agreement irrespective of the value of the PPP project;</p> <p>(iii) approving regulations made effective from 14 May 2022 to assess and allocate adequate budget to meet any direct or contingent liabilities arising from PPP; and</p> <p>(iv) with effect from 2021, starting publishing annual reports on the aggregated amount of fiscal spending and future commitments of direct and contingent liabilities arising from all awarded PPP agreements and their related value for money.</p>		
<p>1.9 Five tenders for consulting services for preparing public–private partnership (PPP), of which 2 are gender and socially-oriented projects, including feasibility studies and tender documents, have been published, and 2 ongoing feasibility studies have, been completed and approved.</p>	<p>2.7 In accordance with the Law of Kyrgyz Republic “<i>On Public–Private Partnership</i>”, the Government approved:</p> <p>(i) methodological guidelines for assessing fiscal exposure for direct and contingent liabilities of PPP agreements;</p> <p>(ii) utilization of a fiscal exposure assessment tool that estimates direct and contingent liabilities for awarded PPP agreements;</p> <p>(iii) operational guidelines and model documents to develop financially viable PPP projects in accordance with international good practice;^k and</p> <p>(iv) certified at least 30 Government officials (of which at least 40% were women) in 2020 for Level 1</p>	<p>3.9 The Government has improved the quality of the PPP pipeline by:</p> <p>(i) approving preparation of at least 4 prospective PPP projects through the PDSF appropriations as approved by the PDSF Board and/or financial support from development partners;^l</p> <p>(ii) awarding at least 4 PPP contracts developed in accordance with national legislation;^m and</p> <p>(iii) publishing at least RfQ on 3 PPP projects in accordance with international good practices.ⁿ</p>		

Prior Actions: Subprogram 1 (Completed: August 2018–July 2019)	Prior Actions: Subprogram 2 (Completed: August 2019–March 2021)	Prior Actions: Subprogram 3 (Completed: April 2021–August 2022)	Outcome Indicators	Post-Program Engagement Framework (2022–2023)
	Foundation certification as per the PPP Certification Program by APMG International.			
Reform Area 4: Industry-linked skills development through enhanced internal efficiency and qualifications structure improved.				
<p>1.10 Per capita financing (PCF) has been introduced in the primary vocational education institutions (PVET) sub-sector to improve the strategic allocation of funds to the sub-sector through:</p> <ul style="list-style-type: none"> (i) Government approval of transition of PVET to PCF (i.e., money following the individual student and is occupation specific rather than lump-sum allocation per PVET institution); and (ii) Government approval of the creation of incentive funds in PVET institutions under PCF (allowing for flexible and performance-related remuneration of PVET staff and improved consumables and supplies). 	<p>2.8 In order to complete the transition from historical lump-sum budget allocations to annual performance-based budget allocations and ensure better alignment between the TVET curricula and the needs of the labor market, the Government:</p> <ul style="list-style-type: none"> (i) piloted PCF in at least 8 national Centers of Excellence (7 outside of Bishkek) and in secondary vocational education institutions (SVET);^o (ii) approved the methodology for Sectoral Qualifications Frameworks (SQF), which will match the TVET curricula with sectoral and industry needs; and (iii) approved an Action Plan for an NQS. 	<p>3.10 The Government has improved strategic allocation of funds to the skills subsector by:</p> <ul style="list-style-type: none"> (i) completing the roll-out of PCF in PVET, with PVET institutions spending not less than 95% of their approved 2021 budget allocation, (ii) rolling-out PCF to all publicly funded SVET institutions from 1 January 2022 based on evaluation of PCF pilot program by establishing standards for budget financing of SVET based on normative methodology to compute PCF, and (iii) implementing the following substantive actions of the National Qualification System action plan, besides the approval of the National Qualifications Framework: <ul style="list-style-type: none"> (a) establishing a National Qualification Council (including 13 representatives of businesses and industry associations of which at least 6 are representing sectors in which female workforce constitutes 40% and more),^p and 	<p>d. Percentage of firms that identify an inadequately educated workforce as a major constraint to business development declines to 30% by June 2023 (2019 baseline: 33%). Source: Enterprise Surveys www.enterprise-surveys.org, The World Bank.</p>	<ul style="list-style-type: none"> • PCF is the standard financing method in TVET: (i) PVET institutions are spending not less than 97% of approved 2023 budget allocation and (ii) PCF has been rolled-out in all public SVET institutions. • Government institutionalizes a coherent mechanism of how occupational standards and labor market needs at large are mirrored into the TVET system, and are referenceable in an NQF. • The Budget Code and other legislative acts were amended to encourage entrepreneurial activities in all TVET institutions. • Government and the private sector operate a co-financed SDF with a public–private governance and a sustainable financing mechanism (no less than 40% of SDF beneficiaries should be female). • Government allocates \$250,000 in the approved 2023 national budget to SDF or has introduced another sustainable financing mechanism.

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		designating MLSPM as its secretariat, and (b) approving an employer-led methodology based on 3 endorsed occupational standards, which is binding with immediate effect.		
1.11 Legislative foundation is provided for an NQS, including an NQF, to match qualifications' supply and demand sides.				
1.12 Agency for Vocational Education (AVE) has developed and approved Model Center (MC) guidelines and action plan that provides for MCs to be established in the form of legal entities (with due registration, articles of association, and bank accounts, with 20% of female teachers and staff) to provide work-based learning opportunities and gradually carry out entrepreneurial activities to generate and retain income.	2.9 To promote industry-relevant work-based learning and entrepreneurial activities, the MOES issued a Ministerial Order to legally establish 8 additional model centers (MC), of which 7 are outside of the main urban center of Bishkek) with 20% of female teachers and staff, and at least 30% of women in decision making positions in MCs. ⁹	3.11 The Government has expanded access to work-based learning, improve the quality of practical skilling and increase employability through a sustainable institutional framework by: (i) institutionalizing work-based learning in 16 priority specializations and approved the dual training regulation (not less than 60% of training is on-the-job); ^r and (ii) Operationalizing at least 4 additional MCs (with 45% of female staff, and at least 40% of women in decision making positions) in accordance with the approved charter, regulation, and action plan.		
	2.10 To promote pre-employment training and on-the-job upskilling, the Government legally established a SDF with an annual budget allocation of \$250,000 in 2021.	3.12 The Government has continued promotion of pre-employment training and on-the-job upskilling by: (i) certifying at least 2,800 participants in priority skills (not less than 40%		

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		(ii) women) from the Skills Development Fund; ^s and approving a budget allocation for the Skills Development Fund of Som21 million (equivalent to \$250,000) for 2022 to conduct trainings and ensure payments related to the current expenses of Skills Development Fund employees participating in outreach activities of the fund.		
Reform Area 5: Fiscal and social protection resilience to enable post-COVID stabilization and recovery improved.¹				
	2.11 To ensure all future emergency support is provided on-budget and to improve consolidated control, monitoring, recording and management reporting, the MOF approved an Order: (i) incorporating all financial assistance provided for COVID-19 into the consolidated report of the Treasury Management Information System; and (ii) requiring mandatory completion of ex-post audits of COVID-19 emergency funds and disclosing the results on the MOF's website.		e. Overall public debt level for Kyrgyz Republic reduced to 62% of GDP target ceiling by December 2024 (2020 baseline: 69% of GDP). ¹ f. MLSPM list of vulnerable households includes sex and age-disaggregated data and number of households by June 2023 (2020 baseline: disaggregated data not available). Source: MLSPM progress reports and other	<ul style="list-style-type: none"> • MOF upgrades the functionalities in its public procurement information technology system and update its public procurement portal to improve its e-procurement system. • To improve its revenue forecasting capacity, Government: (i) upgrades its revenue forecasting information technology system; and (ii) introduces a fiscal management model that allows MOF to simulate the impact of Government's fiscal policy decisions on the overall debt position. • Government will develop and install a new debt management information technology system that will allow the Public Debt Department to, amongst other things, (i) securely record and

Prior Actions: Subprogram 1 (Completed: August 2018–July 2019)	Prior Actions: Subprogram 2 (Completed: August 2019–March 2021)	Prior Actions: Subprogram 3 (Completed: April 2021–August 2022)	Outcome Indicators	Post-Program Engagement Framework (2022–2023)
			government monitoring and evaluation reports.	<p>maintain all debt-related transactions such as commitments, disbursements and debt service payments; (ii) produce payment projections of principal, interest, and other fees; and (iii) generate reports at individual instrument and portfolio levels.</p> <ul style="list-style-type: none"> • Government will adopt a fiscal plan to reduce tax exemptions, energy sector subsidies, and the wage bill as shares of the national budget. • Government approves a new <i>Public Investment Management Assessment</i> and develops a Public Investment Management Strategy to enable efficient public investment planning, comprehensive, unified and targeted resource allocation, and timely and cost-effective implementation. • Government approves the next <i>Strategy for Public Debt Management, 2023–2025</i>. • Government introduces the universal infant benefit as part of state benefit reform by establishing a three-component state benefit for families with children, incorporating universal grants for newborns and infants and a poverty-targeted grant for older children.

Prior Actions: Subprogram 1 (Completed: August 2018–July 2019)	Prior Actions: Subprogram 2 (Completed: August 2019–March 2021)	Prior Actions: Subprogram 3 (Completed: April 2021–August 2022)	Outcome Indicators	Post-Program Engagement Framework (2022–2023)
	<p>2.12 In order to deepen the domestic debt market, improve the enabling environment for public debt management, and ensure COVID-19 emergency response support is within prudent debt limits, the Government approved a new <i>Strategy for Public Debt Management for 2020–2023</i> and commenced implementation through:</p> <ul style="list-style-type: none"> (i) issuance of an Order mandating the periodic preparation and approval <i>Medium-Term Debt Strategy</i> and its annual review; (ii) adoption of medium-term indicators to reduce the fiscal deficit to 3.0% of GDP by 2022, and overall public debt to 60% of GDP by 2022; and (iii) adoption of a medium-term domestic debt target of 16% of GDP by 2024 in order to start reducing vulnerability of the general government to exchange rate risks. 	<p>3.13 The MOF has significantly improved fiscal accountability and transparency by:</p> <ul style="list-style-type: none"> (i) approving and publishing on its website the Public Debt Management Strategy, 2022–2024; (ii) publishing and publicly disclosing the following in accordance with the MOF order requiring annual mandatory publication <ul style="list-style-type: none"> (a) Government’s annual borrowing plans and fiscal risk statement as reflected in the budget starting from FY2022; and (b) the annual list of borrowings of the seven state-owned enterprises (SOEs) that are the largest borrowers in the energy sector^u and their IFRS-based annual audited financial statements and the accompanying notes, starting from FY2021. 		
	<p>2.13 To eliminate the current financial fragility and enhance the Government’s ability to rapidly respond to exogenous shocks in the future, the MOF:</p> <ul style="list-style-type: none"> (i) approved the <i>Medium-Term Action Plan for Development of Public Finance Management, 2020–2022</i> to chart key emerging reform objectives in budget planning, medium-term budget forecasting, public 			

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	<p>procurement, improving accounting and reporting standards, and improving internal audit and control procedures; and</p> <p>(ii) established a fiscal buffer, known as the State Budget Reserve, within the level of 1.0% of total budget expenditure, and fully funded it in the 2020 national budget.</p>			
	<p>2.14 To strengthen public financial management and ensure fiscal headroom for coping with unanticipated shocks, Cabinet submitted to Parliament fiscal rules to remove Government discretion to change the annual debt ceiling and to embed a rules-based fiscal framework for determining the debt ceiling and, amongst other things, corrective measures to be taken and sanctions to be applied if the debt ceiling is breached, and special circumstances in which the debt ceiling may be breached and the path of fiscal adjustment to be followed afterward.</p>	<p>3.14 The MOF has prepared and published a detailed annual fiscal risk assessment to help strengthen fiscal sustainability.^v</p>		
	<p>2.15 To establish a new targeting framework for social protection of vulnerable groups, and immediate integration of the unemployed due to the COVID-19 pandemic, and the victims of domestic violence, the Government approved:</p> <p>(i) updating of the MLSPM social protection database</p>	<p>3.15 The Government has improved social protection and the access to public services provided to categories of people in difficult life situations by:</p> <p>(i) simplifying the process for citizens and legal entities effective from 15 January 2022 to request public</p>		<ul style="list-style-type: none"> To provide equal employment opportunities to women, the government lifts legal barriers limiting women's participation in the workforce by declaring null and void the resolution of the government of the Kyrgyz Republic in which the use of

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	<p>to include data disaggregated by sex, age and region;</p> <p>(ii) introduction of a national hotline and website for self-registration; and</p> <p>(iii) rapid validation of the registered candidates.</p>	<p>authorities' certificates and/ or documents by converting them into electronic format;</p> <p>(ii) allocating additional Som1.19 billion to "Uiy-Bulogo komok" program to increase allowance from Som810 to Som1200 from 1 June 2022 (to benefit approximately 350,000 children in low-income families;^w</p> <p>(iii) allocating Som11.75 million and approved at least 24 social projects for implementation aimed at providing social services to individuals in difficult life situations, including beneficiaries who are vulnerable to climate change impacts and female victims of domestic violence, targeting 800 beneficiaries per project cycle;^x and</p> <p>(iv) implementing <i>Guidelines for Members of Local Committees for the Prevention of Domestic Violence</i> to apply uniform standards of performance.</p>		<p>women's labor is prohibited in the list of industries, jobs, professions and positions with harmful and/or dangerous working conditions.</p> <ul style="list-style-type: none"> The amendments on the Law of the Kyrgyz Republic "On Prevention and Protection from domestic violence" that include provisions to improve interagency cooperation, collection of statistical data, and suggests the development of standards of services by relevant actors.
		<p>3.16 The Government has introduced amendments to the legislative framework and norms to strengthen social protection of specific groups of people in difficult life situations, namely:</p> <p>(i) increased the norms for per capita expenditure on food in social institutions</p>		

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		<p>of the MLSPM by 100% from 1 January 2022 (from Som110 to Som220 daily per person);^y</p> <p>(ii) increased the size of monthly social allowance from 1 October 2021 for incapacitated persons who are not entitled to pension provision, including children with disabilities, children born to mothers with HIV/AIDS, children who lost one or both parents, persons with disabilities from childhood, senior citizens; mothers-heroiners, and children whose parents are unknown; and</p> <p>(iii) introduced the payment of Som6,300 approximately for personal assistant services from 1 June 2022 to over 9,000 persons with disabilities of over 18 years of age who need constant care; and increase the payment for personal assistant services from Som4,900 to Som6,300 approximately from 1 June 2022 to over 8,000 children with disabilities who need constant care.^z</p>		
Budget Support Subprogram 1: ADB: \$50 million (ADF grant) Subprogram 2: ADB: \$80 million (Concessional OCR and ADF grant)				

Prior Actions: Subprogram 1 (Completed: August 2018–July 2019)	Prior Actions: Subprogram 2 (Completed: August 2019–March 2021)	Prior Actions: Subprogram 3 (Completed: April 2021–August 2022)	Outcome Indicators	Post-Program Engagement Framework (2022–2023)
Subprogram 3: ADB: \$50 million (Concessional OCR and ADF grant) Technical Assistance: ADB: \$1.5 million (TASF 6)				

ADB = Asian Development Bank, ADF = Asian Development Fund, AVE = Agency for Vocational Education, COVID-19 = coronavirus disease, CP3P = APMG Certified Public–Private Partnership Professional Program, EEU = Eurasian Economic Union, EU = European Union, GDP = gross domestic product, GSP+ = Generalised System of Preferences Plus, IFRS = international financial reporting standards, MLSPM = Ministry of Labor, Social Protection and Migration, MOE = Ministry of Economy, MOEC = Ministry of Economy and Commerce, MOES = Ministry of Education and Science, MOF = Ministry of Finance, NBKR = National Bank of the Kyrgyz Republic, NQF = national qualifications framework, NQS = national qualifications system, OCR = ordinary capital resources, OJSC = Open Joint Stock Company, PCF = per capita financing, PDSF = Project Development Support Facility, PPP = public–private partnership, PVET = primary vocational and technical education, R = Risk, REX = Registration of Export System, RFQ = request for quotation, SDF = Skills Development Fund, SME = small and medium-sized enterprise, SOE = state-owned enterprises, SVET = secondary vocational and technical education, TASF = Technical Assistance Special Fund, TVET = technical and vocational education and training, VAT = value added tax.

^a Government of the Kyrgyz Republic. 2018. *National Development Strategy of the Kyrgyz Republic for 2018–2040*. Bishkek.

^b Zero is the baseline, that is, there were no exporters to the EU registered in REX prior to this action being implemented. 80% of exporters to the EU being registered was assessed to be an ambitious but achievable target.

^c The gender target was determined based on the staff that was hired to administer the REX system.

^d “Technical staff” means specialist level personnel (i.e., expert, specialist, inspector, engineer, etc.) while “decision making positions” are counted as head/deputy head of agency/ministry, heads of department, division or unit.

^e The system for the registry of warehouses at MoA and the registry of warehouse receipts at Financial Market Regulation and Supervision Service has been operationalized.

^f The National Statistics Committee of Kyrgyz Republic collects and reports statistics on women-headed business entities. Therefore, the term *women-headed SMEs* is used throughout the document.

^g To achieve a gender-responsive institutional framework the following measures can be considered: (i) ensuring representation of men and women in institutions and teams involved in the PPP process; (ii) providing specific gender training to all relevant government officials involved in the PPP process; and (iii) capacity building measures, such as training, awareness raising or advisory services for the private sector (including women-headed local companies).

^h The World Bank’s Benchmark Infrastructure Development for PPP was introduced in 2017. Before that the only indicator to reflect on the quality of the enabling environment was provided by Infrascopes. Since 2017, no updates have been provided by Infrascopes. It is uncertain whether there will be Infrascopes updates in the coming years which is why this indicator has been replaced by the Benchmark Infrastructure Development. This benchmark, initiated in 2017 has been updated in 2018 and 2020 and is assumed to continue to be updated in the coming years. The methodology to assess the quality of the enabling environment continuous to be refined which is why there may be some discrepancies in the underlying parameters for the different years. However, overall, it is fair proxy for the quality of the enabling environment and the only indicator as such for the enabling environment for PPP, which is the objective of the reform area for PPP.

ⁱ The original policy action envisaged different targets. However, the targets needed to be recalculated based on the current availability of government officials involved with PPP projects across the different agencies at the time of enrolment for the training.

^j World Bank, 2018. *Procuring Infrastructure Public–Private Partnerships Report 2018*. Washington DC.

^k Guiding materials for the identification, preparation, and tender processes for PPP projects in the Kyrgyz Republic in accordance with PPP legislation, including the Law of the Kyrgyz Republic “On Public–Private Partnership” adopted in 2019. The Guidelines contain samples and examples of documents, methodological approaches and instructions required for various stages of preparation and implementation of PPP projects. This will also involve: (i) analysis of gender aspects during the preparation and appraisal stage, e.g., by collecting sex-disaggregated data, including women and men at an early stage in the consultations, and by incorporating gender aspects into the various analyses and assessments; (ii) translation of the analysis and assessment results into the design of projects and programs, e.g. by designing gender-responsive policies, bidding documents and contracts; and (iii) utilizing meaningful performance indicators to monitor and evaluate actions designed to narrow gender gaps.

^l PSDF to fund: Northern Bypass Road PPP and Southern Bypass Road PPP, and DPs to fund: Manas international Airport PPP (IFC), Solar Power Plant PPP (WB).

^m 1. Fruit and Berry Nursery PPP, 2. Fish Farm PPP, 3. National Lottery PPP, 4. Wrestling Hall PPP.

ⁿ RFQ’s published for: 1. Trade and Logistic Complex PPP in Naryn Province; 2. Computer Tomography Units PPP in Bishkek City and 4 regions 3. On-street Parking PPP in Bishkek City.

- ° The targeting was chosen by the Government to promote rural and inclusive development and with regards to establishing MCs which were most likely to successfully establish entrepreneurial activities and work-based learning.
- ^p The council is functioning, the Quarterly meetings in Q1 and Q2, 2022 took place as scheduled; timely decisions on labor market interlinkage of Occupational Standards and NQF discussed and the Action Plan approved includes important milestones of development of NQF/NQS law, establishment of sectoral qualifications councils and establishment of a NQ-Agency. Rather than focusing on how many women are members of the NQC as such, the amount of PS representatives in the NQC who are representing female employment intensive sectors was considered more substantial.
- ^q Gender segregation in education continues in the labor market, where women dominate in often lower-paid sectors. Measures such as quotas for teaching, staff and senior management positions in the MCs reserved for women will help ensure gender empowerment is mainstreamed into formal government policy and operations.
- ^r Due to the lessons learnt from establishing 4 MCs during subprogram and subprogram 2, a more conducive policy environment was prioritized to improve practical skills development in MCs first and then scaling the amount of MCs. Therefore, WBL methodology in 16 priority specializations was institutionalized and the regulation of dual training on-the-job was approved and is being implemented. In addition, the gender target was chosen to be able to disaggregate between share of women as staff and share of women in decision making positions.
- ^s The gender target was determined in order to ensure access of women to SDF training offers.
- ^t International Monetary Fund Article IV Staff Reports. MOF annual national budget documents and reports
- ^u The seven largest state-owned enterprises in the Kyrgyz Republic are: (1) OJSC Kyrgyzaltny; (2) OJSC Severelectro; (3) OJSC Electric Power Plants; (4) OJSC National Electrical Grid of Kyrgyzstan; (5) JSC Oshelectro; (6) OJSC Manas International Airport; and (7) OJSC Bishkekteploset.
- ^v The Fiscal Risk Assessment (FRA) was published on 31 May 2022 by MOF on its website. The FRA was developed in accordance with Article 80 of the Budget Code of the Kyrgyz Republic and as part of the implementation of the Strategy for Development of Public Finance Management of the Kyrgyz Republic for 2017-2025, in order to ensure the sustainability of the state budget and to provide the budget process a higher degree of predictability. The fiscal risk assessment for 2022-2024 is attached to the Explanatory Note of the Draft Republican Budget and is approved by the Law on Republican Budget, which has its own monitoring and reporting mechanisms. The FRA was prepared with technical assistance from the World Bank and was based on international practices of fiscal risk disclosure.
- ^w The “Uiy-Bulogo komok” program is the biggest social assistance program targeting children from the poorest families whose per capita income is below the guaranteed minimum income (GMI) of Som1,000 per month per household member. Before the increase, the allowance was KGS 810, which was below the general minimum income. According to the World Bank, even a small increase of Som300 (top-up) might significantly mitigate the impact of the pandemic on poverty increase. While poverty is expected to increase as a result of the Russian invasion of Ukraine, the expansion of the UBK program is expected to decrease the poverty headcount by 1.4 %. The target was chosen to ensure financing of the social assistance.
- ^x The targeting of 800 people per project cycle was calculated based on the capacity that the 24 social projects have to provide assistance to the targeted vulnerable groups.
- ^y The objective of this policy action is to strengthen the social protection resilience of people in social institutions. Increases in the volume (amount) of allowances will enhance their food intake. The target was chosen to ensure financing of the social protection measures.
- ^z The objective of this policy action is to strengthen the social protection resilience of people with disabilities who need constant care. Increases in the volume (amount) of allowances will support this vulnerable group to mitigate the poverty impact of the pandemic and the crisis and enhance their livelihood. The target was chosen to ensure financing of the social protection measures.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=5225-004-3>

1. Loan Agreement
2. Grant Agreement
3. Sector Assessment (Summary): Trade and Investment Competitiveness, Small and Medium Entrepreneurship Development, Private Sector Development, Skills Development, Public Sector Management, and Social Protection Resilience
4. Contribution to Strategy 2030 Operational Priorities
5. Development Coordination
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Program Economic Assessment
9. Risk Assessment and Risk Management Plan
10. List of Ineligible Items
11. Safeguards Assessment Matrix
12. Climate Change Assessment
13. Management-Approved Concept Paper: Proposed Programmatic Approach, Policy-Based Grant for Subprogram 1, and Technical Assistance Grant to the Kyrgyz Republic for the Promoting Economic Diversification Program
14. Approved 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 the Promoting Economic Diversification Program
15. Approved Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Grant for Subprogram 2 to the Kyrgyz Republic for the Promoting Economic Diversification Program

Supplementary Documents

16. Comparison of Original and Modified Reforms under Subprogram 3
17. Kyrgyz Republic: Debt Sustainability Analysis (DSA)
18. Status of Compliance of Subprogram 1 and Subprogram 2
19. Governance Assessment

**КЫРГЫЗ РЕСПУБЛИКАСЫНЫН
ФИНАНСЫ МИНИСТРЛИГИ**



**МИНИСТЕРСТВО ФИНАНСОВ
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05.08.22 № 16-2/9281

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DEVELOPMENT POLICY LETTER

Mr. Masatsugu Asakawa
President
Asian Development Bank
Manila, Philippines

Dear President Asakawa,

Subject: Promoting Economic Diversification Program, Subprogram 3

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.

The Kyrgyz economy achieved an average annual growth rate of 4.3% during 2017-2019 but it suffered its worst contraction in 30 years during 2020 due to the COVID-19 pandemic when the economy contracted by 8.4%. The economy recovered in 2021 with a GDP growth rate of 3.6%. The recovery was expected to pick up momentum in 2022 underpinned by a more favorable global outlook, recovery of domestic activity, higher gold production, and a gradual rebound in tourism, transportation, and related services. Inflation increased from 3.1% in 2019 to 11.2% in 2021 fueled by the hike in international commodity prices for food and energy products. In response

to the rising prices, NBKR subsequently tightened its policies, increasing its policy rate from 6.5% in June 2021 to 8.0% by the end of 2021. It originally planned to meet the inflation target of 5%–7% by the end of 2022. Stronger remittance performance allowed the rapid recovery of imports, which grew by 49.8% in 2021 following a decline of 26.2% in 2020. This led to a major increase in government revenue (from 30.8% of GDP in 2020 to 34.0% of GDP in 2021) and contributed to a reduction in the budget deficit from 3.3% of GDP in 2020 to 0.4% of GDP in 2021.

However, the recent geo-political crisis has significantly affected the short- to medium-term outlook for the Kyrgyz economy and increased the downside risks. Russia is the country's main economic partner accounting for 33.6% of imports and 25% of exports. It is also the largest host country for labor workers from the Kyrgyz Republic with over 80% of remittances originating from Russia. The impact of the recent conflict in Ukraine on the Kyrgyz Republic will be felt through reductions in remittances inflow (projected between 20 to 33% from 2021 amount), increase in food and energy prices (15.4% in 2022), higher unemployment, rising poverty (estimated additional 200,000 people may fall below the poverty line), decline in investments, and disruption of trade. This will put pressure and volatility on the national currency, significantly reduce government revenues, while requiring countercyclical expenditure support for fiscal stimulus, social protection programs, food security, and price stability. The government revised its GDP growth projection downward in 2022. IMF also assessed the GDP growth to decline in 2022 from 6.4% to 2.8%. The government has developed countercyclical response measures to limit the adverse impact on the poor and vulnerable. Although this additional public expenditure will increase the budget deficit to 4.1% of GDP, and the development financing needs will increase to \$643.5 million, the fiscal expansion is needed and is well within the government's borrowing capacity. In this regard, we appreciate that ADB has initiated its preparatory work to support the implementation of the government's countercyclical plan as well through a separate program. It will help us maintain course with structural reforms to help strengthen the economy's long-term resilience and strengthen market confidence.

Kyrgyz Republic aims to strengthen the economy, build capacity and productivity, and improve the quality and welfare of the people, in accordance with the National Development Strategy of the Kyrgyz Republic for 2018-2040. To achieve these objectives, the macroeconomic policy prioritizes economic diversification, development of industries with high export potential, creating jobs, increasing the people's wealth and providing the overarching policy framework for the implementation of downstream reforms in trade and investment competitiveness, small and medium-sized enterprises (SMEs), public-private partnership (PPP), and industry-linked skills. We understand that achieving economic diversification is a gradual process and that, in the short-term, our development will continue to rely on gold extractions and remittances. However, we also know that our strong partnership with ADB has helped to produce significant improvements in the policy, legal and institutional environment for trade and competitiveness, SME development, financial sector development, PPP development, and business regulation and that we are now in a position to continue and follow-through.

I strongly believe that the Promoting Economic Diversification Program (PEDP) suitably addressed our reform priorities. Some of these reforms were challenging in these unprecedented times but we were able to achieve with constant monitoring and support from ADB. The achievements in subprogram 3 of the PEDP for improving our economic diversification and competitiveness are summarized below and details are provided in the attachment.

- i. **Trade and investment competitiveness.** The policy actions in this reform area fall under four broad categories: (i) improving the competitiveness of

organic products from the Kyrgyz Republic, (ii) increasing exports to the European Union (EU) under the GSP+ trade privileges program, (iii) promoting domestic and international trade of Halal products, and (iv) improving the policy, legal, and institutional environment for domestic and foreign direct investments. These reforms align the national organic certification with international standards, improve the country's utilization of the GSP+ preferential trade access, harmonize regulations, and develop standards and capacity building. The elevation of the Kyrgyz Agency for Development of Investment into the NIA under the President of the Kyrgyz Republic demonstrates government's priority to promote investments. NIA operationalized the investor grievance mechanisms. The Tax Code was updated to improve compliance, risk management, and taxpayer morale.

ii. **Small and medium-sized enterprise development.** The policy actions in this reform area fall under two broad categories: (i) promoting SME development and entrepreneurship, and (ii) promoting business start-ups and improving regulatory compliance. These reforms, among other things, ensure the continuation of budget funding for entrepreneurial programs; the operationalization of a warehouse receipts finance program to expand the range of affordable financing to SMEs; taxation policy and administration reforms to promote formalization (enabling entrepreneurs and businesses to shift from the informal to the formal sector); submission of an e-Commerce Law to Parliament to promote business opportunities for SMEs, improve consumer services and protection, and expand national and international markets; approval and implementation of, for the first time, a national development program for women entrepreneurs that will benefit a significant number of women in the medium term through regulatory changes and additional financing; and, finally, the piloting and operationalization of business service centers, which are one-stop-shops for all business regulatory requirements, and also offer business planning and technical training.

iii. **Public-private partnership development.** The policy actions in this reform area fall under three broad categories: (i) support for the operations of the PPP center, (ii) setting standards and principles for PPP project development, as well as strengthening fiscal risk management of PPP projects with MOF, and (iii) taking well-structured and fiscally responsible PPP projects to the market. These reforms, among other things, (i) ensure continued funding support through the national budget until the PPP center can become self-sustaining, (ii) improve the capacity of government officials in fundamental PPP concepts, (iii) improve the transparency of awarded PPP projects, (iv) improve the overarching strategic framework developed under subprogram 2 for PPP development in the country, (v) include submission to Parliament of amendments to the PPP Law to manage the level of fiscal exposure from awarded PPP projects, and (vi) support downstream work on PPPs by awarding an additional 4 PPP contracts and tendering additional PPP proposals.

iv. **Industry-linked skills development.** The policy actions under this reform area fall under three broad categories: (i) improving the strategic allocation of funds to the skills subsector, (ii) expanding access to work-based learning (including promoting employability through improving the quality of practical skilling), and (iii) continuing promotion of pre-employment training and on-the-job upskilling. These reforms, among other things, ensure (i) the

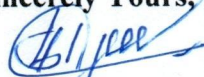
completion of the nationwide roll-out of the per capita financing concept in primary vocational education institutions, (ii) the commencement of the roll-out of per capita financing to secondary vocational education institutions, (iii) the introduction of new work-based education, and (iv) on-the-job training models that allow flexible use of TVET institutions. The government also approved the National Qualifications Framework and implementation of the respective action plan, ensured that additional four pilot model centers for work-based learning are fully operational, and the effective utilization of the Skills Development Fund established in 2020 to conduct work-based learning and training with at least 2,800 people certified.

v. **Fiscal and social protection resilience.** The policy actions under this reform area fall under four broad categories: (i) improve fiscal accountability and transparency, (ii) strengthen fiscal sustainability, (iii) improve social protection and access to essential public services for people facing significant hardships, and (iv) improve the overall social protection system including expenditure, targeting, and coverage. These reforms ensure transparency and accountability in fiscal risk management and public debt management, enhance processes and procedures for registering for, and participating in, social protection programs, improve coverage of the social protection system to certain vulnerable groups of the population, and improve access for victims of domestic violence. MOF introduced amendments to the Law on the Budget and the Budget Code to enable mandatory annual publishing of (i) the government's annual borrowing plans and fiscal risk statement as reflected in the budget, and (ii) the annual list of borrowings of the seven largest state-owned enterprises and ensured that their international financial reporting standards-based annual audited financial statements and the accompanying notes are publicly disclosed. To strengthen fiscal transparency and resilience, the MOF prepared and published a detailed annual fiscal risk assessment. The government will improve the access to public services provided to vulnerable citizens, as well as increase the amount and coverage of social benefits for specific vulnerable groups of the population.

All actions have been completed and verified. I therefore seek ADB's favorable consideration of our wish to obtain a US\$25 million loan and \$25 million grant, totaling \$50 million under Subprogram 3 of the PEDP, to help us meet our development financing needs. The remaining fiscal gap will be financed through additional budget support from ADB and other development partners, deferred debt repayments and domestic borrowing. The program policy matrix, agreed between the Government and ADB (attached), is in line with the policy reforms contained in the NDS 2040.

We look forward to the prompt consideration and approval of the Kyrgyz Republic PEDP Subprogram 3. 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**