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Report No: 29954-KG

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 10.1 MILLION

(US\$15.0 MILLION EQUIVALENT)

TO THE

KYRGYZ REPUBLIC

FOR A

RURAL EDUCATION PROJECT

November 16, 2004

Human Development Sector Unit
Central Asia Country Unit
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective November 1, 2004)

Currency Unit = som
42.037 soms = US\$1.50
US\$ = SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACCELS	American Councils for Collaboration in Education and Language Studies
ADB	Asian Development Bank
CAS	Country Assistance Strategy
CPP	Community Participation Procurement
DO	Development Objective
ESDP II	Second Education Sector Development Program (ADB)
FMR	Financial Management Report
FMS	Financial Management System
FY	Fiscal Year
GDP	Gross Domestic Product
IAS	International Accounting Standards
ICB	International Competitive Bidding
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Financial Institutions
ILO	International Labour Organization
ITC	Independent Testing Center
IP	Implementation Progress
KAE	Kyrgyz Academy of Education
LIS	Learning Improvement Sub-Grants
MLA	Monitoring Learning Achievements
MOE	Ministry of Education
MOF	Ministry of Finance
OEB	Oblast Evaluation Board
OED	Operations Evaluation Department
OSCE	Organization for Security and Cooperation in Europe
PDO	Project Development Objective
PEAKS	Participation, Education, and Knowledge Strengthening Project
PHRD	Policy and Human Resources Development Fund (Government of Japan)
PISA	The OECD Programme for International Student Assessment
PIU	Project Implementation Unit
PM	Procurement Manual
POM	Project Operational Manual
QCBS	Quality-and-Cost-Based Selection
SBD	Standard Bidding Document
SDR	Special Drawing Rights
SIL	Sector Investment Loan
SOE	Statements of Expenditure

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SOROS	Soros Foundation
SWAP	Sector-Wide Approach
TA	Technical Assistance
TAB	Textbook Approval Board
TOR	Terms of Reference
TRF	Textbook Revolving Fund
UK	United Kingdom
UNICEF	United Nations International Children's Education Fund
USAID	United States Agency for International Development

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**KYRGYZ REPUBLIC
RURAL EDUCATION PROJECT**

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KYRGYZ REPUBLIC
RURAL EDUCATION
PROJECT APPRAISAL DOCUMENT
EUROPE AND CENTRAL ASIA
ECSDH

Date: November 16, 2004	Team Leader: Michael T. Mertaugh
Country Director: Dennis de Tray	Sectors: General education sector (100%)
Sector Manager: Maureen McLaughlin	Themes: Education for the knowledge economy (P); Education for all (S)
Project ID: P078976	Environmental screening category: Not Required
Lending Instrument: Specific Investment Loan	Safeguard screening category: Not Applicable

Project Financing Data

[] Loan [] Credit [X] Grant [] Guarantee [] Other:

For Loans/Credits/Others:

Total Bank financing: SDR 10.1 million (US\$15.0 million equivalent)

Proposed terms: IDA Grant

Financing Plan (US\$m)

Source	Local	Foreign	Total
RECIPIENT	0.50	0.00	0.50
IDA GRANT FOR DEBT VULNERABLE	7.20	7.80	15.00
Financing Gap	0.00	0.00	0.00
Total:	7.70	7.80	15.50

Recipient: Kyrgyz Republic

Responsible Agency: Ministry of Education

Estimated disbursements (Bank FY/US\$m)

FY	2005	2006	2007	2008	2009	2010	0	0	0
Annual	0.6	3.8	7.0	2.4	1.0	0.2	0.00	0.00	0.00
Cumulative	0.6	4.4	11.4	13.8	14.8	15.0	0.00	0.00	0.00

Project implementation period: Start: April 1, 2005 End: September 30, 2009 (completion date)

Expected effectiveness date: April 1, 2005

Expected closing date: March 31, 2010

Does the project depart from the CAS in content or other significant respects? [] Yes [x] No
Ref. PAD A.3

Does the project require any exceptions from Bank policies? [] Yes [x] No
Ref. PAD D.7

Have these been approved by Bank management? [] Yes [x] No

Is approval for any policy exception sought from the Board? [] Yes [x] No

Does the project include any critical risks rated “substantial” or “high”? <i>Ref. PAD C.5</i>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project meet the Regional criteria for readiness for implementation? <i>Ref. PAD D.7</i>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Project development objective <i>Ref. PAD B.2, Technical Annex 3</i></p> <p>The overall objective is to improve learning and learning conditions in primary and secondary schools, with priority attention to rural areas. To promote this objective, the Project would support: (i) development of an improved performance management system for teachers and principals and a related revised salary scale, the application of the revised salary scale in Issykul and Talas oblasts, and the development and implementation of a targeted, nationwide teacher incentive scheme to help attract and retain teachers in rural schools in subjects with particular teacher shortages, (ii) development and implementation of Learning Improvement Projects by school boards of trustees in schools in Issykul and Talas oblasts, (iii) introduction of an improved process of textbook authorship, selection, and production, introduction of an improved textbook rental scheme, and the provision of textbooks and learning materials to primary and secondary schools throughout the country, (iv) strengthened student assessment capacity; (v) development of strategic planning capability by the Ministry of Education, and (vi) strengthened project management capacity.</p>	
<p>Project description <i>Ref. PAD B.3.a, Technical Annex 4</i></p> <p>Components:</p> <ol style="list-style-type: none"> 1. Improved Teacher Incentives. Subcomponents: (i) development of model performance management arrangements; (ii) improved national guidelines and criteria for progression to higher salary categories; (iii) revised teacher salary scale to provide improved performance incentives, and pilot implementation of the scheme in Talas and Issykul Oblasts; (iv) pilot fellowship program for new rural teachers in shortage subjects. 2. School Grants for Improved Learning. Objective is to improve learning in basic education schools in Issykul and Talas through implementation of learning improvement plans. 3. Textbooks and Learning Materials. Subcomponents: (i) textbook provision; (ii) provision of teaching and learning materials; (iii) improvement of textbook rental scheme. 4. Student Assessment. 5. Education Budgeting and Strategic Planning. 6. Project management. 	
<p>Which safeguard policies are triggered, if any? <i>Ref. PAD D.6, Technical Annex 10</i></p> <p>Environmental Assessment</p>	
<p>Significant, non-standard conditions, if any, for: <i>Ref. PAD C.7</i></p> <p>Condition of Board presentation: Financial Management System in place, satisfactory to IDA.</p> <p>Conditions of Effectiveness: (i) Project Implementation Unit has been established by the Recipient and is fully operational, with structure, functions and staffing necessary to start implementation of the Project, as agreed with IDA; (ii) Operational Manual, satisfactory to IDA, has been adopted by the Recipient.</p> <p>Other: dated covenants: A new Textbook Approval Board with terms of reference satisfactory to IDA will be established by December 31, 2006.</p> <p>A new textbook rental scheme satisfactory to IDA will be in operation by December 31, 2006.</p>	

A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

A high proportion of rural population. One of the particular challenges for education delivery is the high proportion of the population that lives in rural areas. In the aggregate, 65 percent of Kyrgyzstan's population lives in rural areas – mostly in mountainous areas. In Naryn and Chui *oblasts*, more than 80 percent of the population is rural. The predominance of the rural population presents a challenge for delivery of education in terms of both education delivery and demand for education. It complicates the delivery of education and raises education costs because the greater dispersion of population in rural areas leads to smaller class sizes, smaller school sizes, and often to lower teacher utilization rates. Rural location also affects the demand for education and quality of education because: (a) poverty is more widespread in rural areas, such that many families cannot afford the cost of textbook rental, school supplies, and presentable clothing for their children; (b) the public revenue base is much smaller in rural areas, such that many local governments are not able to finance school inputs beyond the meager inputs financed through the Republican budget; (c) rural schools are generally less well-equipped and maintained than urban schools;¹ (d) rural parents have lower levels of educational achievement than urban parents, and rural households offer fewer educational stimuli and resources than urban households, and (e) school-age children in many rural households miss part of the school year because they need to participate in seasonal agricultural labor in order to contribute to household income.

Transition changes. The transition led to fundamental changes in the education system. Lacking resources to maintain the education system as it had been, the Government reduced the duration of compulsory education from eleven years to nine years, shifted much of the responsibility for financing public primary and secondary education to local governments and parents, and authorized schools to raise money from the rental of facilities and other activities. Students were required to purchase or rent textbooks that formerly had been provided free. The Government also encouraged the private provision of education at all levels and instituted a system of contracted, fee-paying education within public universities and specialized upper secondary schools – essentially creating a segregated system of private instruction within ostensibly public educational institutions. Central budget resources have managed to keep existing primary and secondary schools and higher education institutions alive, but only barely alive. The quality of education has declined seriously in all schools except the few (largely urban) schools that benefit from significant parental and community contributions, or have received assistance from external donors.

Declining quality. Although there are as yet no time-series data to track changing education quality in the Kyrgyz Republic, there is a consensus on the part of teachers, students, and parents that education quality has deteriorated seriously over the past decade in all but a few well-endowed urban schools. Declining quality results mainly from the budgetary neglect, resulting in depleted stocks of textbooks and other educational materials, in an underpaid and demoralized teaching force, and in physical deterioration of schools. The increasing reliance on formal and informal parental contributions to meet essential school needs also results in a more unequal distribution of education quality. Large differences have emerged in teaching conditions and educational outcomes among *oblasts* and between urban and rural schools, reflecting the fact that local governments and parents in urban areas supplement teacher salaries and

¹ The National Survey of Primary Education Quality that was carried out in November, 2000 found that 28 percent of rural schools lacked electricity, 45 percent lacked adequate heating, and 78 percent lacked adequate furniture. (Center for Public Opinion Studies and Forecast, *Monitoring Learning Achievement: National Survey of Primary Education Quality*, Bishkek, Kyrgyz Republic, Ministry of Education and Culture, United Nations Children's Fund, United Nations Educational Scientific, and Cultural Organization, 2001.)

school budgets, whereas rural schools lack these resources and have to rely on meager funding under the state budget. In a recent national assessment of fifth-grade students, results in numeracy skills varied markedly by *oblast* and urban/rural location. Four times as many students in Batken *oblast* received assessment scores in the lowest category as in Bishkek, and 70 percent more students in Bishkek received scores in the highest category than in Batken *oblast*. After Batken *oblast*, the next-lowest-performing *oblasts* were Talas and Issykul. Similar but smaller differences in assessment results were recorded between rural and urban schools across all *oblasts*.

Lack of teacher incentives. A major reason for low learning achievement in rural areas is the lack of teacher incentives. Although teacher salaries in urban schools are supplemented by sizeable contributions from parents and local governments, rural teachers receive only their official salary from the state budget. Official teacher salaries – which average US\$19 per month – are low in both absolute and relative terms. In absolute terms, they are only half the minimum consumption level for individuals, not to mention households. As a result, teachers lack motivation, and are compelled to work at other jobs in order to support themselves and their families. Teacher salaries are also low in a relative sense, averaging less than 40 % of average earnings in public administration. The salary structure of teachers is based largely on seniority. Because salary increases of teachers are unrelated to their performance, they provide no incentive for improving their effectiveness as teachers – particularly, in terms of what their students are learning.

Lack of community involvement and school accountability. The findings of research throughout the world have confirmed the positive effect of community involvement and local accountability on school performance. Under the Government's decentralization policy, primary and secondary schools in the Kyrgyz Republic are meant to be managed and financed by local governments. Teachers' salaries are paid from the state budget, but local communities are responsible for meeting the other recurrent needs of schools – including educational materials of all kinds. Local school management works better in the larger, urban communities which have the community and parental resources to support their schools. But in rural areas, where parents and local governments consistently lack these resources, there is very little community involvement or school accountability. Schools need more resources in order to become accountable for their performance.

An outdated approach to teaching and learning, supporting a passive citizen role. Like other former Soviet Republics, Kyrgyzstan's education system at independence was rigid and teacher centered. Pedagogy stressed the memorization of facts, rather than the application of concepts. Students were not encouraged to ask questions. Teamwork was discouraged. This passive approach to teaching and learning encouraged a passive role of citizens in their society. It reinforced the view that it is government's responsibility to improve people's lives. A key objective of education reform in the Kyrgyz Republic is to institute a more active, student-centered form of pedagogy which encourages inquiry, application, initiative, and teamwork, and encourages citizens to play a more active role in improving their own personal and family situation, as well as their larger environment – their community and their country. Work has started in a number of areas – often with foreign partners – to develop more modern methods of teaching and learning. The high average age of the teaching force and the low rates of teacher attrition and recruitment complicate the task of updating pedagogy because they limit the potential for change through improvements in the training of new teachers. Exposure to improved methods of teaching for the stock of teachers that is already in place needs to occur through the more gradual process of in-service training and incentives to motivate changes in teaching practice.

An inefficient and ineffective process of textbook provision. Textbooks used to be provided free in public schools under the former Soviet Union. With the collapse of public revenues early in the transition, it was no longer possible to maintain this policy and parents were required to purchase

textbooks for their children. The cost of textbook purchase proved onerous for many families. To reduce the burden of textbook purchase, the Government instituted a textbook rental scheme in 1998 with financial support from the Asian Development Bank (ADB). Under this scheme, the Government (with ADB support) provided schools with an initial supply of textbooks which parents rented at a charge that was a fraction of the cost of textbook purchase. The scheme was meant to self financing: it was intended that schools would retain textbook rental payments which they collected and use them to replace the books as they wore out. In reality, it did not turn out that way. Schools were required to deposit textbook rental receipts in Treasury accounts, and these funds were often used to purchase new textbooks rather than to replace existing textbooks. Thus, the textbook rental charges that schools had collected were not available when they needed to replace the worn-out rented textbooks. The ground rules of the textbook rental scheme need to be changed in order to ensure that the scheme is self-financing by allowing schools to fully retain textbook rental receipts in earmarked accounts. In addition to this problem with the textbook rental scheme, there is a serious problem of textbook availability in the system. For many core subjects in the primary and secondary education curriculum, there is a shortage of textbooks; for some core subjects, no textbooks are available. There is also a generic problem of textbook content. In principle, textbook content can help modernize teaching and learning methodology, but little actual progress has occurred. This reflects the fact that the process of textbook generation is inbred and inefficient, and provides no incentives for improved content. A single institution, the Academy of Education, currently dominates the process of authorship, selection, and production of textbooks, involving an intrinsic conflict of interest. Competitive techniques of selection and production of textbooks are needed in order to introduce incentives for modernization of content and presentation, and more efficient production. Textbook authors also need training in modern approaches to content presentation which support a more active, student-centered approach to teaching and learning.

Donor support. Kyrgyz education programs have benefited from assistance from a number of donors during the transition, including the Asian Development Bank (ADB), USAID, UNICEF, UNESCO, the Islamic Development Bank, OPEC Fund, and the Soros Foundation (Annex 2). The World Bank is a newcomer to the education sector in Kyrgyzstan. Under the terms of an informal agreement in the early 1990s between ADB and the World Bank for dealing with the social sectors in the Central Asia region, the World Bank focused on health, while the ADB focused on education. In 2002, the Government specifically asked for World Bank assistance in education, and both agencies are now active in both sectors. The largest donor-supported initiatives in the education sector are those of the Asian Development Bank (ADB) and USAID. The ADB has supported two Education Sector Development Programs (both completed) which focused on school rehabilitation, textbook and learning materials development, and modernizing learning assessment. ADB is now preparing a third project which is intended to complement both the earlier ADB projects and the World-Bank-financed Rural Education Project. The other major donor in the education sector is USAID, which is financing a \$3 million education project, the *Participation, Education, and Knowledge Strengthening Project* (PEAKS). The main thrust of PEAKS is in-service teacher training. The project is also supporting curriculum reform, parental and community involvement in schools, school rehabilitation, and education finance and management reform. Other donors are providing support on a more limited scale for upgrading particular schools and supporting in-service teacher training and other specific system improvements.

2. Rationale for Bank involvement

The Government recognizes the urgent need to address the serious quality deficiencies in rural schools that have developed during the transition. It also places a high priority on the need to reform the content and process of education in order to respond to the challenges of the global economy and post-soviet era – including the need for education to promote self-reliance and individual initiative on the part of all citizens. The Government approached the World Bank to request assistance in the education sector in August, 2002. In October, 2002, it specifically requested a project to improve the quality of rural

education, including actions to improve the incentives for teachers serving in rural schools. The Rural Education Project is provided for in the Country Assistance Strategy,² and consistent with the objectives and programmatic thrusts of that Strategy, including helping stem the deterioration in social services and strengthening public sector accountability, transparency, and efficient resource management. It is also consistent with the goals of the National Poverty Reduction Strategy Paper,³ including improving the access to quality education, and improving textbook content and student assessment.

The Bank has acquired knowledge of education sector performance, issues, and needs through several sources. The education input to the 2002 Public Expenditure Review⁴ documented the acute resource shortages in rural schools and the difficult financial situation of teachers in rural schools. It also described the deficiencies of the financing and budget process for education, including the major discrepancies in resources available to urban schools and the lack of incentives for efficient delivery at the local level. The 2003 Poverty Assessment⁵ provided further evidence on the resource discrepancies between urban and rural schools, and documented the importance of education as an instrument for poverty alleviation. The *Monitoring Learning Achievement* surveys which were carried out by the Ministry of Education with the support of UNICEF and UNESCO in 2001 for fourth-grade students and in 2002 for eighth-grade students documented the lower learning achievement of rural students and the dispersion of performance results by oblasts. These studies also surveyed the lack of essential teaching and learning materials in schools throughout the country. Several studies carried out with the support of UNICEF, USAID, and Save the Children UK documented the reasons for school non-attendance, including household poverty, lack of textbooks and educational materials, and the necessity for rural children to help with sibling care and agricultural tasks at the beginning and end of the school year.⁶ This analytical and advisory work was followed up by the education inputs to the Governance Structural Adjustment Credit (GSAC) and Governance Technical Assistance Credit (GTAC) in 2003, under which the Ministry of Finance is developing a new capitation-based financing formula for primary and secondary schools and primary health care facilities. This work is expected to improve the accountability of local governments for delivery of basic education and basic health care, and to strengthen their incentives for efficient provision of these services.

After the Government's request for a Rural Education Project, the project identification team met with other donors to explore how the Project could best complement the ongoing activities of other partners. The in-service teacher training which is being supported by USAID and other donors is a crucial input to improving teaching effectiveness and learning in rural schools. But one of the findings of these discussions was that this training is not achieving its full potential in terms of improved learning because

² *Memorandum of the President of the International Development Association and the International Finance Corporation to the Executive Directors on a Country Assistance Strategy for the Kyrgyz Republic*, Report No. 25708-KG, April 22, 2003.

³ *Kyrgyz Republic: Joint IDA-IMF Staff Assessment of the National Poverty Reduction Strategy Paper and National Poverty Reduction Strategy Paper*, Report No. 25377-KG, January 24, 2003.

⁴ *Kyrgyz Republic: Public Expenditure Review, Budgeting and Expenditures in the Education Sector*, background paper prepared by Michael Mertaugh, 2002.

⁵ *Kyrgyz Republic: Enhancing Pro-Poor Growth*, Report No. 24638-KG, June 30, 2003.

⁶ *Children of 7-11 Years Old Who Do Not Attend School, Survey Findings, Naryn Town*, Centre for Public Opinion Studies and Forecast, 2001, Bishkek; *Educational Problems in Three Villages of Nookat Rayon; Results of a Pilot Survey, August 24 – 28, 2003*, Julia Droeber, 2003; *School Attendance in the Kyrgyz Republic – Report for UNICEF Bishkek*, Eric Eversmann, 1999; *Children Aged 7 to 11 That Do Not Attend School II*, Save the Children UK, 2003-2004. Center for Public Opinion Studies and Forecasting, Bishkek; *Educational Problems of Naryn Town, Naryn Oblast; Results of a Pilot Survey, September 8 – 29, 2003*, USAID/PEAKS, 2003.

teachers lack the *incentives* to teach more effectively and to acquire the skills that they need to teach more effectively. It was agreed with the Government and with the other education partners that an area where Bank assistance would be particularly valuable would be in helping establish the *incentive framework* for teachers – particularly for teachers in rural schools – to upgrade their teaching skills through in-service training, to improve their daily teaching practice, and to take more interest in how well their students are learning. Improving learning achievement by providing the incentive framework for more effective teaching is a key objective of the first component of the Rural Education Project.

The project also aims to improve school performance by improving the resources available to schools for more effective learning and improving the *accountability* of schools to the local community. The School Grant program under the second component of the project will involve parents and teachers in the development and implementation of Learning Improvement Plans for schools in the two pilot oblasts. Schools will report to the community on how they are implementing these plans, and, in general, how well they are performing in relation to other schools. School accountability will also be improved through more transparency in use of funds provided to schools by parents. One of the conditions for receipt of the school grants is that schools report to communities the amount of contributions which they receive from parents, and the intended and actual uses of these funds. A central finding of the 2004 World Development Report, *Making Services Work for Poor People*, is that improved accountability and incentives are powerful instruments for improving local service delivery. In supporting the development of incentives for more effective teaching and measures for improving school accountability to the community, the Rural Education Project is promoting the recommendations of the World Development Report.

Research throughout the world has documented the crucial role of textbooks and educational materials in the learning process. The third component of the project will improve the learning environment in schools by providing priority textbooks and learning materials to primary and secondary schools throughout the country. It will also support improvements in the process of textbook authorship, selection, and production designed to bring about more cost-effective provision and more modern content for all textbooks, and changes in the textbook rental scheme to ensure that schools have the resources to replace textbooks as they wear out.

The fourth component of the project will support strengthened student assessment by the Ministry of Education. Better student assessment is a key tool for improved education management. The Government appropriately sees student assessment as a crucial diagnostic tool for determining how well the education system as a whole is performing in terms of student learning, and for highlighting areas of lagging performance which need corrective action. The present student assessment practices do not provide reliable information that can be used in this manner. Therefore, the component will seek to improve assessment practices and capacity in the Ministry so that high-quality data on learning outcomes will continue to be available to all stakeholders (including teachers, parents and students) in the long term. In addition, in order to provide comparisons with other countries, the project will support Kyrgyz participation in the OECD's PISA international assessment.

The fifth component of the project will support strengthened education budgeting and strategic planning by the Ministry of Education, including strengthened monitoring and evaluation. The general objective of the component is to strengthen education strategy development with a focus on optimizing educational outcomes within prevailing resource and implementation constraints. A specific objective is to strengthen annual and medium-term budget planning by the Ministry of Education in order to: (a) provide a stronger evidence-based rationale for the Ministry's annual and medium-term budget proposals, (b) achieve better educational results with available budget and donor resources, and (c) mobilize and attract additional resources.

To help ensure efficient implementation of the project, the sixth component will provide support for strengthened project management, including monitoring and evaluation of project outputs and development outcomes. The capacity to monitor development outcomes will improve over time as the Ministry's capacity for student assessment and outcome evaluation grows.

3. Higher level objectives to which the project contributes

In addition to the specific objective of promoting improved learning achievement, the project will, through its support for strategic planning, help the country achieve better educational results with the limited public resources which are available in the sector. By promoting school-level accountability, the project will also help establish public expectations for accountability on the part of all public officials and public service providers. By promoting improved processes of textbook authorship, selection, and production, the project will help demonstrate the benefits of competition in areas that were once the domain of public monopoly.

B. PROJECT DESCRIPTION

1. Lending instrument

The project would be a Sector Investment Loan (SIL), financed by an IDA Grant of US\$15 million equivalent, and counterpart-fund financing of US\$0.5 million.

2. Project development objective and key indicators

The objective of the Rural Education Project is to improve learning and learning conditions in primary and secondary schools, with priority attention to rural areas. To promote this objective, the Project would support six activities: (a) the development of a performance management system for teachers and principals and of a related salary-based performance incentive scale, the application of the performance incentive scale in Issykul and Talas oblasts,⁷ and the development and implementation of a targeted, nationwide teacher fellowship program to help attract new teacher graduates to teach in rural schools in subjects with acute vacancies; (b) the development and implementation of Learning Improvement Plans in schools in Issykul and Talas oblasts; (c) the introduction of an improved process of textbook authorship, selection, and production, the introduction of an improved textbook rental scheme, and the provision of textbooks and learning materials to primary and secondary schools throughout the country; (d) strengthened student assessment; (e) strengthened education budgeting and strategic planning by the Ministry of Education; and (f) strengthened project management capacity. These activities are supported through six components, described below.

3. Project components

Component I: Improved Teacher Incentives (US\$2.5 million total cost, out of which US\$2.5 million IDA grant). This activity would support the development of an improved performance management system for teachers and principals, and payment of related performance incentives for teachers and principals for two complete academic years (2006/07 and 2007/08) in two pilot oblasts, Issykul and Talas. The performance criteria in the new system will reward teachers for the quality of their classroom

⁷ Issykul and Talas oblasts were selected for the pilot because they have the second and third-lowest student performance as measured by the *Monitoring Learning Achievement* surveys. Although Batken oblast recorded even lower student performance, the Government opted not to include it because there are many other ongoing donor initiatives in that oblast.

teaching, their capacity to diagnose and support their students' learning progress, and the progress (not just the level of achievement) of all their students (not just their highest performing students) against agreed standards. For school principals, the criteria will also cover leadership and management performance as well as student progress and performance. Annual school-based appraisal against these criteria will be a basis for determining teachers' progression through the salary scale, supplementing current reliance on qualifications and length of service. The process will start with self-evaluation by teachers and principals of their own effectiveness against the new performance criteria, followed by review at the school level, and validation at the rayon and oblast level. Intensive training will be provided under the pilot to prepare teachers, principals, and regional education administrators to implement the new performance evaluation scheme, and to provide training in the skill areas included in the new scheme so that teachers and school principals can upgrade their skills in order to meet the new performance criteria.

It is expected that the new performance incentives will be incorporated into the nationwide salary scale for teachers and principals if the results of the pilot evaluation are positive. The purpose of the new performance incentives is to improve student learning achievement by motivating teachers to pay more attention to what their students are learning. It would be unrealistic to expect that the introduction of teacher performance incentives will lead to an immediate, measurable improvement in students' learning achievement. But it is possible to observe the effects of introducing performance incentives through other indicators, such as communities' and principals' perceptions of how the new performance incentives affect teaching practices, teachers' uptake on in-service training opportunities, teacher absenteeism, student absenteeism, and the presentation of evidence by teachers themselves of how they are meeting the new performance criteria. The experience of the first year of the performance incentive pilot will be evaluated during the Mid-Term Review of project implementation which is planned for May, 2007. If appropriate, the formula for performance incentives will be refined at that stage, based on the findings of this interim evaluation. A final evaluation of the performance incentive pilot is to be carried out in May, 2008. If the results of this evaluation are positive, a proposal will be developed to extend the pilot, with a proposed implementation plan and financing plan. Financing could involve Republican budget finance, donor finance, or a combination of the two. Extension of the pilot could occur through sequential addition of other oblasts, or through nationwide implementation. In either case, it would require particular attention to ensure that all teachers and principals receive advance training in how to implement the new performance evaluation scheme successfully. In order to facilitate the transition from pilot to system-wide implementation of the new performance incentives, the performance incentives under the pilot are to be paid along with teachers and principals' regular salaries. For the same reason, the formula for the new performance incentives is to be formulated to map readily onto the current teacher salary scale.

To help attract and retain qualified teachers in rural schools in subjects with unfilled teacher positions, it will also finance a program of rural teacher fellowships for about 600 new teacher graduates in scarce subject areas who agree to teach in rural schools throughout the country, starting in September, 2005.

This component comprises five subcomponents:

- Improvement of existing school-based self-appraisal procedures for teachers and school principals through the development of model performance management arrangements which elaborate the new performance criteria described above.
- Development of improved national guidelines and criteria for performance evaluation. The new criteria will address student progress, and will improve comparability of school performance. Unlike the current system, which recognizes teaching performance only in terms of the highest-performing students in national competitions, the new performance criteria will be based on improvements over time (and not just current in learning achievement) of *all* students. In the

process of self-appraisal, teachers will present evidence of their effectiveness against each of the performance criteria. This subcomponent also includes the development of new external verification procedures to support the existing school evaluation commissions in carrying out performance evaluation for teachers and school principals.

- Development of a performance incentive scheme which is structured to map onto the current salary scale for teachers and principals, and pilot implementation of the scheme in Issykul and Talas oblasts. This incentive scheme will be structured so as to map onto the following changes in the current salary scale for teachers and school principals: (a) improve the basic pay level for teachers, (b) extend the number of salary points within the current first and highest salary categories, and (c) create two new, parallel salary categories above the current highest category to recognize teaching excellence (exemplary classroom practice) and leadership and management for school principals and deputies.
- Support for a targeted program of fellowships for new teachers who agree to teach for at least three years in rural schools throughout the country in subject areas with unfilled vacancies. The program is to finance fellowships for three cohorts of 200 new teachers per year for a duration of three years (a total of 600 new teachers). In selecting new teachers for the program, priority is to be given to teachers: (a) who are from the rural areas with the highest number of unfilled rural teacher vacancies and agree to serve in schools in those areas, (b) who graduate in the subject areas with the largest numbers of unfilled rural school vacancies, and (c) have the highest scholastic attainment. Rural schools are to be selected on a nationwide basis to receive new teachers under the rural fellowship program through a process which gives priority to rural schools: (i) which are most remote from oblast and rayon centers, (ii) which have the largest numbers of unfilled teacher vacancies, and (iii) which would benefit the largest numbers of students.⁸
- Technical assistance and training of teachers, school principals, and education administrators in implementation of the new performance management system.

Component II: School sub-grants for improved learning (US\$1.8 million total cost, of which US\$1.8 million IDA grant). The objective of this component is to improve learning and school accountability in basic education schools in Issykul and Talas oblasts through support for development and implementation of Learning Improvement Plans by school teams. The component will consist of two subcomponents: learning improvement sub-grants (LIS), and technical assistance (TA) to schools in school development approaches and methodologies, including grant application and execution. This component will benefit a total of about 150 thousand pupils (grades 1-11) and 11,000 teachers in 301 primary and secondary rural and urban schools (110 in Talas and 191 in Issykul). In the interest of simplicity, implementation procedures will be consistent with procedures established under other projects already under implementation, such as the Village Improvement Project and the USAID-financed PEAKS project.

- **Learning Improvement Sub-Grants.** School teams comprising teachers, principals, and parents in the two pilot oblasts will be assisted to prepare Learning Improvement Plans which describe their most urgent learning needs and propose action programs to address those needs. These may include a broad range of activities which respond to a school's particular needs to improve learning. These could include, for example, teacher training, purchase of instructional equipment and learning materials, school meals and purchase of clothing for deprived children, extracurricular activities, travel, workshops and seminars. They may also include minor school

⁸ Since these criteria would individually lead to a different rank ordering of rural schools, a weighting coefficient is to be attached to each of the three criteria for purposes of school selection. These weights are to be agreed with the Bank prior to school selection.

refurbishment (such as repair of classroom stoves) which is directly related to student learning. Schools will receive sub-grants to implement the Learning Improvement Plans. Implementation of the sub-grants will be monitored by school Boards of Trustees. The average amounts of the sub-grants will be about \$4,500 per school. Maximum amounts of sub-grants for individual schools will be determined by a formula (comprising a lump-sum amount and a per-student amount) which gives preference to small – largely rural – schools). The proportion of civil works is not to exceed 30% of individual grant amounts, and activities focused directly on students must constitute at least 60% of the amount of each grant. Sub-grants will be awarded on a one-time basis, and will be implemented over three years. (That is, the sub-grant application process would be finalized in one year and Learning Improvement Plans would be implemented in the following two years.) Implementation of the Learning Improvement Plans will be evaluated by the school Board of Trustees after the first year of implementation. Based on the outcome of this review, the Learning Improvement Plans may be modified upon the advice of the school Board of Trustees for the second year of implementation in order to improve learning outcomes. If such changes involve a significant departure from the originally approved design, the revisions would need to be approved under the same process as the original proposals. Three complete cycles of sub-grant awards are planned during the five years of project execution. Sub-grant-financed activities could be carried out during the school year as well as during the summer vacation (June-August). Since the sub-grants are intended to improve learning in schools in a manner which promotes transparency, community participation, and local school accountability, the component will be implemented within the framework of a reformed system of parental contributions to schools in the pilot oblasts. School sub-grants will provide 80% of the financing for the learning improvement programs. The other 20% is to be provided by cash or in-kind contributions from parents, the community, or local government. Maximum amounts of parental contributions in the two pilot oblasts will no longer be restricted to a specific amount; school development plans must exempt children whose families may not be able to afford the contribution amount. In the interest of simplicity, implementation procedures will be consistent with procedures established under the ongoing Village Improvement Project.

All types of schools can benefit; that is, complete schools (those offering all eleven grades of basic education cycle), incomplete schools (those offering grades 1 thru 9) and elementary schools (those offering grades 1 thru 4), and rural as well as urban schools. Funds will be disbursed in installments directly to separate accounts in a commercial bank or credit institution held by each school that successfully completes a learning improvement plan.⁹ Application forms will be standardized and simple. The same principle will apply to reporting forms.

⁹ In many countries, these are known as School Development Plans (SDP) or School Improvement Plans (SIP); the name that makes the most sense in the local languages should be chosen in English; the critical matter is agreement, among all parties, that the meaning of improvement here does not include “hardware”; that is, these grants are meant to finance goods and services required for activities that directly and positively impact learning, and not for equipments for schools. Civil works and furniture will be permitted only in exceptional cases where it can be demonstrated to be directly related to student learning, and then in an amount which is not to exceed 30% of the grant.

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- **Technical Assistance.** This subcomponent will support orientation and training of school teams and rayon and oblast staff, as well as hands-on support to schools and communities to prepare and implement viable learning improvement plans, including micro-projects (see Annex 4 description of the component). Its primary focus will be the finance of consultants to work directly with schools. The component will also support the activities, including travel and per diem, of the Oblast Evaluation Board, as part of the contract with the PIU. It will also finance *ad hoc* studies, as necessary – for example, on the basis for improving the regulatory framework affecting school-based governance and management (including expenditures and accounts), and a retrospective evaluation of the effectiveness of school grants during the last year of the project.

Component III: Textbooks and Learning Materials (US\$6.7 million total cost, of which US\$6.5 million IDA grant). This component will finance the provision of textbooks and learning materials for primary and secondary schools throughout the country, under competitive procurement procedures which conform to the World Bank’s new guidelines for textbooks. It will also support the development and implementation of an improved textbook rental scheme, and will promote improved textbook content through author training and a transparent and competitive textbook selection process. The component comprises three subcomponents:

- **Textbook Provision.** This subcomponent will fund the development of a new generation of textbooks and teachers’ manuals. It may also finance reprints of existing textbooks and teachers’ manuals where these are found to be consistent with the Ministry’s content standards (such as the promotion of critical thinking), some of which may require minor changes. It will also fund the development and publication of new textbook manuscripts where it is not appropriate to reprint existing materials or where no suitable manuscripts exist. Titles will be selected in order of priority, as agreed with the World Bank. Before any existing titles are reprinted, their appropriateness for reprinting will be evaluated by Book Evaluation Panels established by the Project Implementation Unit, or, eventually, by a new *Textbook Approval Board* (TAB), which is to be established under the project. This sub-component will also finance training of textbook authors and publishers, and for TAB management and members to develop new, modern textbooks. The Government also plans to implement an agreed program of textbook policies, described in the *Letter of Textbook Development Policy (Annex 6A)* which has been signed by the Prime Minister, and adoption of a suitable textbook rental scheme for all textbooks (see below).
- **Improvement of the Textbook Rental Scheme.** This subcomponent will provide financing to improve the textbook rental scheme to ensure adequate financing of textbook replacement, and to establish a *Textbook Rental Fund* as an autonomous body with a managing board which is chaired by a representative of the Ministry of Education and includes representatives of the Ministry of Finance and other appropriate bodies as well as the *Textbook Rental Fund* manager. The managing board, to be chaired by the Ministry of Education, will be responsible for setting the level of rental fees on an annual basis. Schools’ textbook rental receipts will be held in earmarked bank accounts and used to fund the replacement of textbooks when they wear out.
- **Provision of Learning Materials.** This subcomponent will support the provision of learning materials such as additional teachers’ manuals, supplementary reading materials, library books, maps, globes, mathematical and other scientific instruments, and laboratory equipment. This sub-component will finance the supply of such materials to all schools in Kyrgyzstan, each of which will be entitled to purchase materials up to an amount to be calculated on the basis of a lump-sum per school and a per-capita sum for each student. A survey will be carried out to build a list of all the varieties of materials that a range of different schools require. On the basis of this list,

expressions of interest accompanied by samples and prices will be requested from both local and international suppliers. All items approved by the TAB will be listed in a catalog and exhibited in a number of different centers throughout the country, to enable schools to select materials which best meet their needs.

Component IV: Student assessment (US\$1.6 million total cost, of which US\$1.5 million IDA grant). This component aims to strengthen four main dimensions of student assessment: (a) school-based and classroom-based formative assessment, (b) formal examinations of all students at specific transition points (e.g. grade 9 and grade 11), (c) periodic sample-based national surveys of student achievement, and (d) international sample-based surveys of student achievement. In addition to these specific assessment areas, the component will strengthen the assessment function of the Ministry of Education by building professional capacity and specialist expertise and by establishing a sustainable, identifiable professional/technical unit that can take responsibility for all four dimensions of student assessment listed above. This new unit will complement the existing Independent Testing Center (ITC), which carries out the national university entrance examination and will continue to perform that function.¹¹ The component comprises five sub-components:

- **Improvement of School-Based and Classroom-Based Formative Assessment.** This subcomponent will promote “assessment for learning” (often referred to as “formative” assessment) through the development, field-testing and dissemination of teacher support materials, including sample tasks and tests that can be used by teachers to improve their own assessment practices. To familiarize teachers with these new approaches, the sub-component will present these support materials through a series of (oblast or rayon) workshops led by a small cadre of trainers who have been involved in the design, development and field-testing of the support materials.
- **Improvement of Existing Examinations.** This subcomponent will assist the MOE and the Kyrgyz Academy of Education (KAE) to: (a) develop and introduce more challenging questions in the national examinations that allow students to demonstrate their ability to apply reasoning and independent thinking skills, and (b) make national examinations a better gauge of student ability by abolishing the current assessment practice of using only previously-available test questions.¹² This will involve technical assistance to MOE and KAE specialists to prepare and field-test improved assessment questions and answers (or “items”). Once field-tested and calibrated, these improved test items are to be gradually introduced into new editions of the test booklets, and into the national examinations. Under this subcomponent, the current practice of

¹¹ At present, the responsibility for the evaluation of learner achievement is fragmented among the Department for Evaluation in the MOE, the National Testing Center, and the Independent Testing Center (ITC). Currently, these bodies do not systematically co-ordinate their work with each other; communication is limited; technical and professional skill levels are different (and very limited, in the case of the NTC and the Department), and expertise is not shared. Of these bodies, the ITC is the most important source of professional expertise in student assessment. It was established with assistance from USAID and its contractor, the American Councils for Collaboration in Education and Language Studies (ACCELS), and performs a vital role as the independent body which administers the national university entrance examination. Because independence is crucial to the objectivity and integrity of the national university entrance examination, it is appropriate that the ITC should continue to perform that role in the future. Like the Educational Testing Service in the United States, the ITC will also provide specialist advice and professional services on a contractual basis to the new Ministry assessment unit, as well as to other clients.

¹² In mathematics, for example, the MEC/KAE publishes all the questions in a booklet that remains in force for 5 years and can be bought in shops for about 10 soms (\$0.25). Essay questions and the questions to be asked in oral examinations are published in newspapers prior to each exam. See detailed discussion in “Technical Annex on Curriculum and Assessment Issues”, World Bank Identification Mission, June 2003.

annual promotion exams will also be reviewed and brought more into line with agreed achievement standards for each grade level.¹³

- **Periodic Sample-Based National Surveys of Student Achievement.** Two useful sample-based surveys have been undertaken in Kyrgyzstan - the first in 2000/01 at grade 4, and the second in 2002/03 at grade 8. These studies, “Monitoring Learning Achievements” (MLA), were financed by UNICEF/UNESCO, with active participation by the MOE and KAE. These surveys, and the May, 2005 repeat of the grade 4 survey, will serve as baseline studies for the Project. This sub-component will finance and support at least three follow-up periodic sample-based national assessments of the same skills, based on the same sampling frame. This subcomponent will also support the improvement of test items for these sample surveys. Consultant support for this activity is to be contracted on a sole-source basis with the Independent Testing Center, which is the only organization with the necessary professional expertise (including Kyrgyz language proficiency), experience, and security provisions for this task. The actions to be supported under this subcomponent will establish a regular cycle to assist the MEC and the general public in monitoring education quality and learner achievement over time. These surveys will also provide the basis for monitoring the educational impact of the project interventions in the two pilot oblasts. Options for the timing and subject coverage of these national assessments have been proposed to the MEC for policy decision.
- **Participation in the OECD PISA International Student Assessment.** This subcomponent will finance Kyrgyzstan’s participation in the 2006 round of the OECD/PISA international student assessment survey, including the routine national and international costs of PISA participation, as established by OECD. In view of the unique character of the OECD/PISA survey, Kyrgyz participation in the survey will be carried out under sole-source procurement.
- **Capacity Building in Modern Practices and Techniques in Student Assessment.** This subcomponent aims to strengthen the assessment function of the Ministry by building capacity and specialist expertise and by establishing a sustainable, identifiable professional/technical unit (provisionally called *The MOE Assessment Unit*). The objective of this subcomponent is to improve the instruments for routine monitoring of student learning achievement by strengthening the Ministry’s capacity in all four dimensions of student assessment described in the preceding four bullet points. It will assist the MOE in developing its assessment and evaluation function by providing technical assistance and advice in: (a) the design of such a unit, and the definition of its tasks, its level of independence, and its institutional relationships; (b) recruiting and designing training programs for local specialist staff; (c) defining and advising on technical and material resource requirements (security, equipment, logistics). The subcomponent will also provide opportunities for capacity building through participation in international specialist organizations and conferences in learner assessment, participation in regional activities related to learner assessment, and modest professional resources such as books, journals, etc.

Component V: Education budgeting and strategic planning. (US\$1.8 million total cost, of which US\$1.8 million IDA grant). This component will support technical assistance, training, commissioned studies and workshops to strengthen budget planning, strategic planning, and monitoring and evaluation in the Ministry of Education. The general objective of the subcomponent is to strengthen education strategy development with a focus on optimizing educational outcomes within prevailing resource and implementation constraints. A specific objective is to strengthen annual and medium-term budget

¹³ Under these standards, exams will no longer be held at the end of each grade, and where they *are* used – e.g., at the end of grades 5 and 7 – they are to be used for *all* students regardless of average marks, in order to ensure that *all* have reached the required standard.

planning by the Ministry of Education in order to: (a) provide a stronger evidence-based rationale for the Ministry's annual and medium-term budget proposals, (b) achieve better educational results with available budget and donor resources, and (c) mobilize and attract additional resources. In the medium term, the actions supported under this component are expected to develop the MOE's capacity for program budgeting and results-based management. Among other benefits, this would equip the Ministry to implement a possible future programmatic operation financed by multiple donors under a Sector-Wide Approach Project (SWAP).

The activities to be carried out under this subcomponent are also expected to equip Ministry of Education staff to play a stronger role with the Ministry of Finance and other partners in the budget planning process, and in other policy deliberations which impact the education sector. Important examples are: (a) work with the Ministry of Finance on the appropriate level and composition of education financing in the annual Republican budget and Medium-Term Budget Framework, (b) the ongoing work with the Ministry of Finance under the Governance Structural Adjustment Credit (GSAC) and the Governance Technical Assistance Credit (GTAC) to improve the financing formula for education, (c) work with the Poverty Reduction Strategy Paper (PRSP) Secretariat in developing a prioritized implementation plan for educational interventions under the PRSP, (d) development of an implementation and financing plan for extension of the performance incentives which are to be piloted under Component I, and (e) work with the Ministry of Local Administration and other relevant agencies to develop sound recommendations for the proposed administrative restructuring to consolidate the oblast and rayon levels of administration. Education programs are likely to be seriously impacted by these actions, but the Ministry of Education is often not invited or not equipped to contribute to their development.

The Education Budgeting and Strategic Planning component comprises three subcomponents:

- **Capacity building.** This subcomponent will support training, technical assistance, and office equipment and software to help establish a new *Education Budgeting and Strategic Planning Unit* in the MOE. This new *Education Budgeting and Strategic Planning Unit* will report directly to the Minister of Education, in order to provide a strategic overview of all the Ministry's activities. This new unit could eventually replace the MOE's current Economics Department, which reports to one of the MOE's three Deputy Ministers.
- **Commissioned policy studies.** This subcomponent of the project will support the preparation of four annual cycles of commissioned papers on priority topics of education budgeting and strategic planning, to be awarded under a competitive process with international peer review, and annual policy workshops to discuss the findings and recommendations of the strategy papers. The first annual cycles of commissioned strategy papers and policy workshops are expected, *inter alia*, to address topics b through e, above. Topics for these and subsequent cycles are to be agreed with the Bank during implementation. In parallel with the commissioned policy studies financed under the Rural Education Project, additional policy studies are to be commissioned under the same process and financed by the Asian Development Bank under its Third Education Project, currently under preparation. Proposed topics for the ADB-financed studies include the program requirements for transition from eleven-year to twelve-year secondary education, and constraints to school attendance and interventions to raise school attendance.
- **Monitoring and Evaluation.** This subcomponent will support technical assistance, studies, and surveys to monitor and evaluate project outcomes and broader educational trends. An important source of information on educational outcomes (including educational outcomes of the project) and trends is the annual sample-based surveys of student achievement which are to be carried out under Component IV of the project. The monitoring and evaluation subcomponent will support actions to provide additional information on the outputs and outcomes of the project, as well as

information on broader educational trends. This will include: (a) commissioned project impact studies for specific impact areas such as school attendance, (b) preparation and dissemination of “school report cards” in the two pilot oblasts, (c) improvements generation and use of education statistics through training and technical assistance, (d) improvements in the reporting format (or questionnaire) in which schools report enrollments and student flows, and (e) publication of annual yearbooks of education statistics. It is also expected that the inefficiency and ambiguity involved in the current parallel systems of education statistics¹⁴ will be eliminated during project implementation through consolidation of the two systems.

Component VI: Project management (US\$1.0 million, of which US\$1.0 million IDA grant) The objective of this component is to ensure effective administration and coordination of the project activities. The implementing agency for the project will be the MOE. Strategic orientation and oversight for the Project will be provided by a National Council which is in the process of being established. The National Council will be chaired by the Vice Prime Minister for Social Affairs, and will comprise representatives of the Ministry of Education, the Ministry of Finance, the Ministry of Labor and Social Protection, the Comprehensive Development Framework Secretariat, the President’s Administration, the Prime Minister’s Office, the Ministry of Local Self-Government, and the Parliamentary Committee on Education. This Council will also provide oversight to the other donor activities in the sector, to ensure coordination of the education program. The Council will meet semi-annually, and additionally as appropriate. In addition, Project Coordination Committees will be set up in each of the two oblasts – Talas and Issykul – to provide oversight to the project activities in the respective oblasts.

The Project Implementation Unit (PIU) will: (a) coordinate project implementation, and manage the resources of the project; (b) procure all Bank-financed goods and services under the project; (c) operate the financial management system according to World Bank requirements; (d) act as liaison between the technical agencies involved in the project and the World Bank; and (e) carry out, on an annual basis, an independent audit of the project. Specifically, in its management capacity, the PIU will ensure that: (i) the project activities are well-coordinated; (ii) issues affecting or potentially affecting project implementation are identified and addressed in a timely manner; (iii) technical advice is provided to project component coordinators and relevant MOEC staff in how to develop work plans, write terms of reference, and effectively manage consultant services; (iv) necessary project inputs are provided in a timely and cost-effective manner; (v) project resources are appropriately managed in accordance with Bank requirements for procurement and financial management; (vi) effective project monitoring and progress reporting are carried out; and (vii) there is a systematic out-reach to various stakeholders to promote project objectives.

The component will finance: (a) minor refurbishment of the Project Implementation Unit (PIU) office space agreed between the MOE and the Bank; (b) adequate office equipment and supplies, and a project vehicle; (c) technical assistance and training for PIU staff in project management, procurement and financial management; (d) annual external audit of the project; (e) public information specialist support to the project; and (f) incremental operating costs for the PIU, including vehicle and equipment operation and maintenance, communications costs, banking fees, transportation costs, meeting expenses, advertisement fees, representation, and office security arrangements.

Implementation of the Project will be the responsibility of the Ministry of Education, which will be the implementing agency for this project. Overall management of the Project will be carried out by the Rural

¹⁴ There are at present two duplicative sources of education statistics: the school survey which was inherited from the Soviet Union and managed by the National Statistics Committee, and the new school survey which was established under the ADB Education Sector Reform Project. This duplicative system is inefficient, unnecessarily burdens school administrators, and leads to ambiguity of results.

Education Project Implementation Unit (PIU). This is to be an expanded version of the Project Preparation Unit (PPU) which is currently managing preparation of the project under the PHRD Grant on behalf of the Ministry of Education. The PIU will act as both the coordinating unit for technical implementation of the components, and the “business office” for the project. The PIU comprises: (a) a Director, who is responsible for coordinating the day-to-day project activities, as well as the business office functions of project management, and liaising with the World Bank and the MOE Departments implementing project components; (b) a Financial Manager and Disbursement Specialist; (c) a Procurement Specialist; (d) an Office Manager/Translator; (e) a Secretary; (f) a Public Information Specialist; (g) five full-time Coordinators (one for each of the first five project components), who will ensure coordination among related implementation units within the MOE; and (h) an oblast coordinator and accountant for each of the two pilot oblasts. A project assistant for the PIU will also be supported by the Grant. In addition, the PIU will include a number of national consultants and will engage international consultants on a temporary and as-needed basis. In particular cases, accessing the required expertise may require engaging civil servants as consultants.

Coordination with the Asian Development Bank (ADB) financed Project. Both the World Bank and the ADB are planning education projects that will become effective in 2005. In order to better serve the interests of the MOE in implementing an integrated program for education reform, the two agencies have agreed on coordination arrangements that will ensure close cooperation between the two projects. While maintaining administratively separate project implementation units, the two projects will have a shared strategic perspective, ensured by the National Coordinator and the National Council, and the strategic perspective to be provided by the *Education Budgeting and Strategic Planning Unit*. Those project activities which will have input from both projects, e.g., textbooks and teacher training, will require close cooperation between the two projects. In order to increase communication and understanding, the ADB and World Bank supervision teams will, to the extent possible, plan overlapping missions, and the two project units will share common premises within the MOE. To further harmonize the two units, a unified salary scale for the project unit staff will be agreed.

4. Lessons learned and reflected in the project design

The Project reflects key lessons learned in similar Bank-supported education projects in the Region, as well as the lessons of other development interventions with similar objectives of improved learning achievement.

Improving performance incentives for teachers is a key intervention for improving learning outcomes.¹⁵ The first component of the project supports development and introduction of performance incentives whose purpose is to motivate teachers to focus more attention on what their students are learning and how to improve student learning by improving their teaching effectiveness.

Realistic evaluation of the institutional capacity for managing reform and project activities, and an appropriate project scope improve the chances for success. A considerable amount of technical assistance has been included in the project design to ensure that institutional capacity is strengthened. In addition, project scope is realistic and tailored to the needs of the Kyrgyz education sector.

¹⁵ As documented, for example, in *World Development Report, 2004: Making Services Work for Poor People*, World Bank, 2003; *Determinants of Primary Education Outcomes in Developing Countries*, draft OED consultant report by Maurice Boissiere, June 22, 2004; and Guarino, Cassandra; Lucrecia Santibañez; Glenn Daley, and Dominic Brewer, *A Review of the Research Literature on Teacher Recruitment and Retention*, May 2004, Santa Monica, Rand Corporation.

Define implementation plans as an integral part of project preparation. Experience with education projects within the region and projects in other sectors in the Kyrgyz Republic has shown that clear definition of implementation procedures, including the Project Implementation Unit responsibilities and support to project activities, is a very important element of a successful project. In order to achieve this objective, the MOE has selected well-qualified staff for the PIU, including four full-time component coordinators for each of the project components, to ensure that the appropriate oversight and management of the project activities is in place. The Project Operations Manual (POM) is being prepared by the PIU staff in conjunction with the relevant technical staff in the MOE central and regional offices. However, it is recognized that the POM is a starting point intended to ensure clear understanding between the implementing agency and the Bank, and is not to be used as a “straight jacket”. The POM can be revised during project implementation with the mutual agreement of the Bank and Government.

5. Alternatives considered and reasons for rejection

A stronger focus on educational materials provision. In view of the extensive needs for educational materials in rural schools, the Bank and the Government considered a project design focusing more heavily on educational materials provision for rural schools. This option was rejected in favor of a design giving more attention to teacher incentives because, while other donors are helping meet the need for educational materials, none is addressing the incentive issue for teachers in rural schools. Discussions with the Ministry of Education and Ministry of Finance, with other donors, and with teachers confirmed the importance of addressing the incentive issue for rural teachers as a matter of priority.

An exclusive focus on rural schools. Since the needs and challenges for improved learning are greatest in rural schools, the Bank and the Government initially considered a project which exclusively benefits rural schools. This design was rejected because a number of the interventions which are most needed to improve learning achievement in rural schools are generic, and by nature also benefit urban schools.

A more formal partnership with other donors. The Government and the Bank explored the possibility of implementing the project as part of a more formal collaboration with other donors, such as a Sector-Wide Approach (SWAP) in which donor funds would be pooled to support implementation of an agreed program benefiting rural schools. This option was rejected because the timing of other major donor initiatives in the education sector does not lend itself to this approach at this time. Nonetheless, the Rural Education Project is expressly designed to complement other, ongoing donor efforts. In addition, the Asian Development Bank has agreed to configure its future education project to complement the Rural Education Project and other donor initiatives as much as possible.

An experimental design. The project will support a range of interventions designed to improve learning achievement. In order to facilitate evaluation of the impacts of these various interventions, the team considered an experimental design with random assignment of schools into treatment and control groups (possibly, with alternative treatment mixes), or a quasi-experimental design with matched pairs of treatment and non-treatment schools. This approach was rejected for two reasons: First, because it would be technically (and politically) difficult to exclude generic interventions from control-group schools, and second, because it would significantly complicate implementation and increase implementation risks.

C. IMPLEMENTATION

1. Partnership arrangements (if applicable)

As described above, a rationale for the design of the Rural Education Project is to complement the support which is being provided by other donors. The project provides for close collaboration among partners

through both formal and informal mechanisms. The former involves an External Advisory Group which was established by the Minister of Education to ensure partner coordination in preparing and implementing the Rural Education Project. Informal arrangements include consultations during missions, joint missions, videoconferences, and sharing of mission TORs and *Aides Mémoires*. Preparation of the Rural Education Project involved extensive and ongoing consultation with other partners – particularly the ADB and USAID, the two most active external partners in the education sector – in order to ensure maximum mutual complementarity between the earlier ADB projects, the ongoing USAID project, and the new Rural Education Project. These complementarities are summarized in Annex 2A.

Both the World Bank Rural Education Project and the ADB Third Education Project will become effective in 2005. In order to better serve the interests of the MOE in implementing an integrated program for education reform, the two agencies have agreed on coordination arrangements that will ensure close cooperation between the two projects. While maintaining administratively separate project implementation units, the two projects will have a shared strategic perspective, ensured by the National Coordinator and the National Council, and the strategic perspective to be provided by the *Education Budgeting and Strategic Planning Unit*. Those project activities which will have input from both projects, e.g., textbooks and teacher training, will require close cooperation between the two projects. In order to increase communication and understanding, the ADB and World Bank supervision teams will, to the extent possible, plan overlapping missions, and the two project units will share common premises within the MOE. To further harmonize the two units, a unified salary scale for the project unit staff will be agreed. As shown in Annex 2A, this effort at donor harmonization also involves the ongoing USADI-financed PEAKS project. Close coordination will also be maintained with UNICEF, the SOROS Foundation, and Save the Children/USA, which are implementing other small-scale initiatives in the education sector.

2. Institutional and implementation arrangements

The MOE will be the executing agency for the Project. Strategic orientation and oversight for the Project will be provided by the National Council, which is in the process of being established. The National Council will be chaired by the Vice Prime Minister for Social Affairs, and will comprise representatives of the Ministry of Education, the Ministry of Finance, the Ministry of Labor and Social Protection, the Comprehensive Development Framework Secretariat, the President's Administration, the Prime Minister's Office, the Ministry of Local Self-Government, and the Parliamentary Committee on Education. This Council will also provide oversight to the other donor activities in the sector, to ensure coordination of the education program. The Council will meet semi-annually, and additionally as appropriate. In addition, Project Coordination Committees will be set up in each of the two pilot oblasts – Talas and Issykul – to provide oversight to the project activities in the respective oblasts.

Within the MOE, the Minister has been designated as National Coordinator for the Project. Overall management of the Project will be carried out by the newly established Rural Education Project Implementation Unit which is situated in the MOE, and is already implementing the project preparation activities financed through the PHRD Grant. For project implementation, the PIU will build on this unit and will comprise: (a) a Director, who will be responsible for coordinating the day-to-day project activities, as well as the “business office” functions of project management, and liaising with the World Bank and the MOE Departments implementing the project components; (b) a Deputy Director who will support the Director in overall management of project activities, including providing back-up to the Director; (c) a Financial Manager; (d) a Procurement Specialist; (e) Administrative/Disbursement Assistants; and four full-time project component coordinators who will ensure coordination among the related implementation units within the MOE. A driver will also be supported by the Project. In addition, the PIU will include a number of national consultants and will engage international consultants on a temporary and as-needed basis.

The financial manager will be responsible for project financial management, including project accounting, reporting, administration of the Special Account and auditing arrangements. The financial manager has had experience in the ADB-financed project, and is familiar with World Bank procedures based on previous work in a World Banked-financed project. She is expected to further enhance her skills and capacity for financial management during the implementation of the PHRD-funded project preparation. The PIU is in the process of putting in place a financial management and reporting system, using an appropriate accounting software. It is expected that the accounting software will be installed and fully tested by end November 2004. An assessment will be carried out once the software has been installed and is operational. The PIU will incorporate in the Operations Manual the financial procedures which will guide the financial management functions of the project and establish key internal control mechanisms on the application and use of project funds. A draft of the manual has been submitted to the Bank for review, and will be finalized by end-November 2004.

Strengths and Weaknesses. Although the MOE has no prior experience with implementation of World Bank-financed projects, it has implemented projects financed by the Asian Development Bank and, therefore, is generally familiar with requirements of international financial institutions (IFI). The financial manager of the Project Preparation Unit (PPU) also has prior experience in project financial management, having previously worked as disbursement specialist and accountant in projects financed by the ADB and World Bank, respectively. The existing manual (excel-based) accounting system, though satisfactory for the Grant, is not considered adequate to provide enough assurance for a larger amount of transactions that the project will have. The financial management system is being set up, under the direction of the financial manager, which is expected to be in place before Board approval.

3. Monitoring and evaluation of outcomes/results

High-quality student assessment is ultimately the most relevant and most powerful tool for evaluating the performance of education systems in terms of their ultimate development outcome – what students are learning. The support which is being provided for student assessment under Component IV, including Kyrgyz participation in the next cycle of OECD’s PISA international assessment, will make a very important contribution to the system’s capacity to monitor and evaluate system performance. Over time, the various project interventions are expected to lead to measurable improvements in student learning. But developing the skills and the instruments for high-quality student assessment is a long-term task. Progress will appear gradually. In the meantime, the *Monitoring Learning Achievement* surveys which were carried out by the Ministry of Education with the support of UNICEF and UNESCO in 2001 for fourth-grade students and in 2002 for eighth-grade students, as well as the repeat of the grade 4 survey which will be carried out in May, 2005, will be treated as the baseline for the Rural Education Project. These surveys will be repeated under the project to give a general indication of changes in levels and patterns of learning achievement during project implementation. The sampling plan of the survey is specifically designed to provide results which are statistically significant at the oblast level. The two pilot oblasts were selected on the basis of their educational needs and low average educational performance. Comparing the change in educational performance – the slope of the time trend in average learning achievement – in the pilot oblasts with that of other oblasts will provide an indication of the overall effect of the various project interventions in the two pilot oblasts.

Attributing changes in learning achievement to specific interventions is far more difficult. As described above (under “Alternatives considered...”) the team considered an experimental design which would have enabled attribution of project results to specific interventions, but rejected this approach as impractical. For most project interventions, project results will be measured in terms of less ultimate outcomes. For example, school report cards under the School Grants Component will measure changes (and differences) in student attendance and parental satisfaction with schools over the period of school grant

implementation. Implementation of the Textbooks and Educational Materials component will be monitored in terms of the types and volumes of materials provided to schools. (Since worldwide research on the education production function confirms the vital role of textbooks and educational materials to the learning process, this information will give an indirect measure of the learning impact of this component.) Impacts of the subject-based and rural teacher incentives will be monitored in terms of changes in teacher attraction and teacher retention, and changes in the proportion of students who are able to receive instruction in subjects which formerly suffered teacher shortages. Impacts of performance incentives for teachers will be monitored in terms of how many teachers are able to present evidence that their teaching and their student results are contributing to the specific goals of the school development plan.

4. Sustainability

There is an important question of sustainability of the teacher incentives which are being introduced under Component I of the project. (To put this issue in perspective, there is also a fundamental question of sustainability of rural education in the absence of new teacher incentives to attract and retain qualified teachers to serve in rural schools.) Historically, there have been and will continue to be periodic salary increases for teachers. By linking these salary increases to performance to teaching performance, the new evaluation scheme and associated salary scale will provide better value for whatever teacher salary increases the Government adopts in the future. In general, the fiscal sustainability of the teacher incentives which are to be introduced under the project will require that the cost of the new incentives be consistent with prospective budget resources for education. These comprise: (a) the increases provided in the Medium-Term Budget Framework, (b) the adjustment funds provided under the Rural Education Project, (c) a portion of the 0.3% of GDP increase that is planned for counterpart financing for health and education investments over the next three years, and (d) grant resources that may be provided by other donors. The plan for the performance incentives and subject specialty incentives under the project is well within these constraints. As shown in Annex Table 9.2, the cost of grant-financed teacher incentives would equal 0.0% of the projected education budget in 2005, would grow to 0.3% of the projected education budget in 2007 and 2008, and would decline thereafter. Expressed in terms of the annual real increase in the projected education budget, teacher incentives would equal 1.0% of the increase in 2006, would rise to 6.4% in 2008, and would decline thereafter. In a longer-term sense, the support which the project is providing to strengthen education budgeting and strategic planning in the MOE will also help to ensure fiscal sustainability of future teacher incentives and other education initiatives. Sustainability is also an issue for the school grants under Component II of the project, as it is for all community-driven-development initiatives. Whether or not financing is not available to extend the school grants after the project, this activity is expected to provide long-term benefits by demonstrating the advantages of greater transparency in use of community and parental contributions and greater community participation in the activities of schools. The experience of school grant programs in other countries has found that: (i) the involvement of communities in the activities of schools leads to better educational outcomes, and (ii) this community involvement tends to continue even after external financing ends.

Sustainability is also an issue for the textbooks and learning materials which will be provided to schools under Component III. Although the direct financing of these inputs will end when the project ends, there will be lasting benefits of the *process* changes which the project will introduce. For textbooks, this includes the improved textbook content which is expected to result from changes in the authorship and selection process, improved cost-effectiveness which is expected to result from more competitive production, and more transparent and sustainable textbook financing under the improved textbook rental scheme. Specifically, the new textbook rental scheme to be introduced under the project will ensure that schools will be able to replenish rented textbooks as they wear out. For educational materials, the project is expected to demonstrate the advantages of a new demand-driven selection process for educational

materials, thus providing for a more efficient and responsive process of educational materials provision after the project closes.

5. Critical risks and possible controversial aspects

Risk	Risk Mitigation Measures	Risk Rating with Mitigation
There may not be sufficient budget funds to maintain the teacher incentives after the project.	Teacher incentives are being set within the agreed Medium-Term Budget Framework. The results of the pilot are to be evaluated and a financing and implementation plan prepared on the basis of that evaluation prior to possible wider implementation. Technical assistance for strategic planning will strengthen the MOE's capacity for disciplined budget planning.	Low
Under the new system of teacher performance evaluation and salary incentives, some teachers may resist being evaluated and compensated on the basis of their performance.	The project provides for seminars and other dissemination activities to make teachers, parents, and other stakeholders aware of the potential learning gains from teacher performance incentives.	Moderate
As in any system of performance evaluation, the new system of teacher performance evaluation and salary incentives could lead to inappropriate inflation of teacher performance and salary grades.	The new evaluation scheme will include clear guidelines on eligibility for promotion. Implementation of teacher evaluation will be closely monitored. If necessary, promotion ceilings will be imposed to limit grade inflation.	Moderate
It will not be possible to document the impact of the new performance evaluation and related salary scale on learning achievement during pilot implementation.	Impacts of performance incentives for teachers will be monitored in terms of the intermediate outcomes described above (Section B.3), including teachers' presentation of evidence that their teaching and their student results are contributing to the specific goals of the school development plan.	Low
The Educational Academy, which had a monopoly on textbook authorship and selection under the former system, could resist the competitive processes for textbook authorship, selection and production which are being introduced under the project.	Prior to disbursement for textbooks, the Government will commit itself to the reforms under the Letter of Textbook of Development Policy. A new Textbook Approval Board with terms of reference satisfactory to the Bank will be established prior to disbursements for textbooks. Technical assistance will be provided to help keep the reforms on track.	Moderate

6. Loan/credit conditions and covenants

Condition of Board Presentation:

- Financial management arrangements for the Project are in place and satisfactory to IDA.

Conditions of Effectiveness:

- The Project Implementation Unit has been established and is fully operational, with structure, functions, and staffing necessary to start implementation of the Project, as agreed with IDA.
- The Project Operational Manual has been adopted, satisfactory to IDA.

Dated covenants:

- A new Textbook Approval Board with terms of reference satisfactory to the Bank will be established by December 31, 2006.
- A new textbook rental scheme satisfactory to the Bank will be in operation by December 31, 2006.

Financial Covenants:

- The Recipient will maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to IDA.
- The financial statements will be audited in accordance with auditing standards and by auditors acceptable to IDA.
- The audited project financial statements will be submitted to IDA no later than six months after the end of the fiscal year.
- The Recipient will furnish to IDA quarterly Financial Monitoring Reports, including financial statements, physical progress reports and procurement reports.
- The Recipient will open a separate Project Account in a commercial Bank acceptable to IDA.
- The Recipient will maintain the Project Account throughout implementation of the project and will replenish the account with funds sufficient to ensure the Recipient's co-financing obligations.
- The Recipient will use the amount in the Project Account exclusively for financing the Recipient's contribution to project expenditures.

D. APPRAISAL SUMMARY

1. Economic and financial analyses

Education is a powerful instrument for poverty alleviation and growth. The findings of recent household surveys confirm the role of education in raising personal and household income and in reducing the risk of being poor (Annex 9). Schools' reliance on parental and community financing to meet core educational needs (including textbooks) leads to very significant dispersion of educational results (learning achievement) across schools – with consistently lower performance of schools in rural areas. The project aims to reduce this under-performance of rural schools through a variety of actions, including strengthening performance incentives for teachers (most of whom teach in rural schools), by providing

textbooks, learning materials and school grants to meet priority learning needs, and by strengthening the accountability of schools for effective education.

Benefit incidence analysis confirms that public expenditures on basic education are the most pro-poor form of public expenditures on education (Annex 9). By focusing on this level of education, the project will help bring about a more equitable distribution of public expenditures in education.

The project will have fiscal implications, both during and after project implementation. These are discussed under “Sustainability”, above. The main issue of sustainability under the project involves the improved teacher incentives which are to be introduced under Component I. Fiscal sustainability of the teacher incentives will require that the incremental cost of the new incentives be consistent with prospective budget resources for education. These comprise: (a) the increases provided in the Medium-Term Budget Framework,¹⁶ (b) the resources provided under the Rural Education Project, (c) a portion of the 0.3% of GDP increase that is planned for counterpart financing for health and education investments over the next three years, and (d) grant resources that may be provided by other donors. As shown in Annex 9, the plan for the performance incentives and subject specialty incentives under the project is well within these constraints. As shown in Annex Table 9.2, the cost of grant-financed teacher incentives would equal 0.0% of the projected education budget in 2005, would grow to 0.3% of the projected education budget in 2007 and 2008, and would decline thereafter. Expressed in terms of the annual real increase in the projected education budget, teacher incentives would equal 1.0% of the increase in 2006, would rise to 6.4% in 2008, and would decline thereafter. In a longer-term sense, the support which the project is providing to strengthen education budgeting and strategic planning in the MOE will also help to ensure fiscal sustainability of future teacher incentives and other education initiatives.

2. Technical

The proposed Rural Education Project has been designed to respond to three policy areas that are of particular importance for the quality of rural schooling: (a) deficiencies in the financing formula for primary and secondary education which systematically under-provide needs of rural schools and fail to provide an incentive for efficiency improvements, (b) the absence of incentives for teachers to upgrade their skills and improve their classroom teaching performance; and (c) deficiencies in the textbook rental scheme which lead to many children not having textbooks. All three of these policy areas involve a combination of educational and financial considerations. The Bank is well situated to help in these areas because its dialogue on macro policy and budget issues, as well as education issues, equips it to help broker improved policy. The process of policy improvement has already started under the Governance Structural Adjustment Credit, in which the Government has agreed: (i) to revise and implement the formula for calculating categorical grants which comprises a significant share of financing in the education sector; (ii) to develop and implement minimum education standards; and (iii) to modify and implement the textbook decentralized financing of primary and secondary schools.

During preparation, the relevant experiences of the international agencies working in Kyrgyz Republic were taken into account. In particular, the Asian Development Bank and USAID, among others, are supporting teacher training and improvements in curricula, education management, and textbooks. These are valuable interventions, and could be further strengthened by improvements in the three policy areas referred to above. Technical assistance provided through a PHRD Grant has been instrumental in

¹⁶ As described in Annex 9, these involve an increase in the education budget, expressed as a share of GDP, from 4.2% in 2004 to 4.6% in 2005, 5.0% in 2006, and 5.3% in 2007. *Medium-Term Budget Framework 2005-2007*, Kyrgyz Republic Ministry of Finance, Bishkek, 2004.) The projections shown in Annex 9 adopt the 4.5% annual GDP growth rate projected by the IMF for the medium term.

bringing in experts with an international perspective, as well as in enabling consultations with key stakeholders and beneficiaries.

3. Fiduciary

An assessment of the financial management arrangements of the Project Implementation Unit (PIU) was undertaken in October 2004 to determine whether the financial management arrangements are acceptable to IDA. These financial management arrangements include the systems of accounting, financial reporting, auditing, and internal controls. The PIU has installed a stand-alone spreadsheet-based accounting system that is being used for the PHRD-financed preparatory phase. A draft financial management manual will be ready by end-November, and will be finalized taking into account comments of the Bank.

Currently, the financial management arrangements do not meet minimum Bank requirements. A summary of financial management actions required to meet minimum financial management requirements is provided in the draft Action Plan in Annex 7. The Action Plan is aimed at ensuring that the financial management arrangements are consistent with current Bank requirements as laid out in the updated OP/BP 10.02 on Financial Management. Having financial management arrangements in place that are acceptable to the Bank is a condition for Board Presentation.

4. Social

A Social Assessment was carried out to establish a solid understanding of important aspects of the education system in Kyrgyz Republic, in order to tailor the project to local needs and circumstances, and to maximize the direct and indirect participation of key stakeholders in designing and implementing the reforms. The social assessment identifies specific concerns regarding project design, identifies an effective communications strategy, and indicates what social indicators to measure and how. The project preparation process has involved stakeholder workshops at which proposals for education reform have been presented and discussed.

5. Environment

There are no significant environment issues in relation to this project. The Bank will not be funding civil works construction or rehabilitation of schools, which are areas normally requiring environmental assessment. Some very minor rehabilitation (such as window replacement) could be carried out under the school grant program which provides grants to selected schools. These grants would average about US\$4,500 per school.

6. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[x]	[]
Natural Habitats (OP/BP 4.04)	[]	[x]
Pest Management (OP 4.09)	[]	[x]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[]	[x]
Involuntary Resettlement (OP/BP 4.12)	[]	[x]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[]	[x]
Forests (OP/BP 4.36)	[]	[x]
Safety of Dams (OP/BP 4.37)	[]	[x]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[]	[x]
Projects on International Waterways (OP/BP/GP 7.50)	[]	[x]

The project has been classified as “B”, and an Environmental Assessment has been prepared using PHRD Grant resources.

7. Policy Exceptions and Readiness

The project is entirely consistent with Bank policy and no exceptions are requested. Most of the applicable readiness criteria, detailed component activities, budgets, output and outcome indicators, implementation plan and schedule, procurement plan, terms of reference for consultants, and financial management plan have been reviewed, and are included in the draft Project Operational Manual which was agreed at Negotiations. The Government is currently managing a PHRD Grant to support preparation activities. A monitoring and evaluation plan has been prepared and was agreed at Negotiations.

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

Annex 1: Country and Sector or Program Background

KYRGYZ REPUBLIC: Rural Education Project

Population. Kyrgyzstan's population of 5 million people is predominately ethnic Kyrgyz, but also includes significant ethnic and linguistic minorities of Russian, Uzbek, Tajik, and Turkish population. Major emigration after independence reduced the share of the Russian population from 21.5 % in 1989 to 12.4 % currently. Fertility has fallen sharply since the late 1980s, but unlike most of the former Soviet Union, Kyrgyzstan's population is still growing – at about 1.1 percent per year. Yet in spite of this, the school-age cohort – from 7 to 15 years old – is shrinking at an annual rate of about 1.7% and will continue to do so for at least a decade. This contraction of the school-age population results from the abrupt fertility declines in the late 1980s and the consequent youthful age profile of the population. Fully 45 % of the population is 19 years old or younger, versus 26 % in the Russian Federation and similar levels in the other CIS countries. One consequence of this is that although the country does face some problems of school overcapacity, the problem is far less severe than it is in the other transition countries in the CIS and Central and Eastern Europe.

Structure of the education system. The Kyrgyz education system comprises preschool education for children between one and six years of age, primary education (grades one through four), lower secondary education (grades five through nine), upper secondary education (grades ten and eleven), and higher education. In addition to the formal sector, there are numerous out-of-school institutions and organizations to meet the education and training needs of the population. Specialized schools within the public education system provide instruction in each of the major minority languages. Kyrgyzstan entered the transition with relatively high levels of educational participation. Under the former Soviet system, the Kyrgyz education system benefited from centrally developed curriculum, teacher training, textbooks, and educational materials. The system was sustained at a relatively high level of coverage and performance by direct and indirect subsidies of many kinds from the more prosperous Soviet republics. Education was free at all levels and compulsory through grade ten. But curricula and teaching methods at all levels were dominated by ideology, and discouraged questioning and critical thinking. Teaching was teacher-centered and emphasized repetition as evidence of mastery. Students were not invited to be inquisitive or to apply concepts to real-life applications. The bulk of enrollments at the secondary level were in narrowly specialized academic, technical, and vocational programs that conveyed a static set of skills for a specific occupation. Access to higher education was very limited, with less than a fifth of secondary school graduates going on to higher education. Programs in higher education concentrated on science and engineering, with few offerings in social sciences and humanities. Virtually all students were assured of jobs at the completion of their secondary or higher education studies, and could expect to keep these initial jobs throughout their working lifetimes.

Transition changes. The transition led to fundamental changes in the education system. Lacking resources to maintain the education system as it had been, the Government reduced the duration of compulsory education to nine years, shifted much of the responsibility for financing public primary and secondary education to local governments and parents, and authorized schools to raise money from the rental of facilities and other activities. Students were required to purchase or rent textbooks that formerly had been provided free. The Government also encouraged the private provision of education at all levels and instituted a system of contracted, fee-paying education within public universities and specialized upper secondary schools – essentially creating a segregated system of private instruction within ostensibly public educational institutions. Central budget resources have managed to keep existing primary and secondary schools and higher education institutions alive, but only barely alive. The quality of education has declined seriously in all schools except the few (largely urban) schools that benefit from significant parental and community contributions, or have received assistance from external donors.

Enrollment changes. The largest changes in enrollments during the transition occurred in preschool education and higher education. Recorded enrollments in preschool education declined precipitously throughout the 1990s, with virtually the entire decline occurring in schools managed by ministries other than the MEC. Enrollments in higher education more than doubled. Enrollments in primary and secondary education increased at an average of slightly under 2 percent per year, with an initial decline in enrollments in grades five through nine and a rapid recovery in the latter years of the decade. At the same time, university enrollments have increased significantly – from 10.8 percent of the age group in 1990 to 15.2 percent 1998, largely due to growth in enrollments in private institutions. Coverage in preschool education as a percentage of the age group has declined sharply; coverage in higher education has increased. For primary and secondary education, the evidence is mixed. The Government's official country report for the *Education for All* program reports a gross enrollment ratio for primary education of 97.5 percent and a net enrollment ratio of 97.1 percent for 1998, with virtually identical rates for boys and girls. These rates are consistent with the results of the Kyrgyz Poverty Monitoring Surveys that were carried out in 1996, 1997, and 1998 and the Household Budget Survey that was carried out in 2001. These surveys reported average coverage rates (corresponding to net enrollment ratios) ranging from 95.3% to 97.4%. But the recent (2002) National Poverty Reduction Strategy reports a basic education coverage rate of 89.5 percent for 1999. This lower coverage rate is consistent with the 89.9% gross enrollment ratio that results from dividing 1999 registered enrollments in grades 1 through 9 by enumerated 1999 population aged 7-15 years. These lower enrollment rate estimates imply that there are about 100,000 children of primary-school age who are not enrolled in school. Resolution of the ambiguity about coverage of primary schooling will require new, more detailed data.

Declining quality. Although there are as yet no time-series data to track changing education quality in the Kyrgyz Republic, there is a consensus on the part of teachers, students, and parents that education quality has deteriorated seriously over the past decade in all but a few well-endowed urban schools. Declining quality results mainly from the budgetary neglect, resulting in depleted stocks of textbooks and other educational materials, in an underpaid and demoralized teaching force, and in physical deterioration of schools. The increasing reliance on formal and informal parental contributions to meet essential school needs also results in a more unequal distribution of education quality. Large differences have emerged in teaching conditions and educational outcomes among *oblasts* and between urban and rural schools, reflecting the fact that local governments and parents in urban areas supplement teacher salaries and school budgets, whereas rural schools lack these resources and have to rely on meager funding under the state budget. In a recent national assessment of fifth-grade students, results in numeracy skills varied markedly by *oblast* and urban/rural location. Four times as many students in Batken *oblast* received assessment scores in the lowest category as in Bishkek, and 70 percent more students in Bishkek received scores in the highest category than in Batken *oblast*. After Batken *oblast*, the next-lowest-performing *oblasts* were Talas and Issykul. Similar but smaller differences in assessment results were recorded between rural and urban schools across all *oblasts*.

Lack of teacher incentives. A major reason for low learning achievement in rural areas is the lack of teacher incentives. Although teacher salaries in urban schools are supplemented by sizeable contributions from parents and local governments, rural teachers receive only their official salary from the state budget. Official teacher salaries – which average US\$ 19 per month – are low in both absolute and relative terms. In absolute terms, they are only half the minimum consumption level for individuals, not to mention households. As a result, teachers lack motivation, and are compelled to work at other jobs in order to support themselves and their families. Teacher salaries are also low in a relative sense, averaging less than 40 % of average earnings in public administration. The salary structure of teachers is based largely on seniority. Because salary increases of teachers are unrelated to their performance, they provide no incentive for improving their effectiveness as teachers – particularly, in terms of what their students are learning.

Lack of community involvement and school accountability. The findings of research throughout the world have confirmed the positive effect of community involvement and local accountability on school performance. Under the Government's decentralization policy, primary and secondary schools in the Kyrgyz Republic are meant to be managed and financed by local governments. Teachers' salaries are paid from the state budget, but local communities are responsible for meeting the other recurrent needs of schools – including educational materials of all kinds. Local school management works better in the larger, urban communities which have the community and parental resources to support their schools. But in rural areas, where parents and local governments consistently lack these resources, there is very little community involvement or school accountability. Schools need more resources in order to become accountable for their performance.

An outdated approach to teaching and learning. Like other former Soviet Republics, Kyrgyzstan's education system at independence was rigid and teacher centered. Pedagogy stressed the memorization of facts, rather than the application of concepts. Students were not encouraged to ask questions. Teamwork was discouraged. A key objective of education reform in the Kyrgyz Republic is to institute a more active, student-centered form of pedagogy which encourages inquiry, application, initiative, and teamwork. Work has started in a number of areas – often with foreign partners – to develop more modern methods of teaching and learning. The high average age of the teaching force and the low rates of teacher attrition and recruitment complicate the task of updating pedagogy because they limit the potential for change through improvements in the training of new teachers. Exposure to improved methods of teaching for the stock of teachers that is already in place needs to occur through the more gradual process of in-service training and incentives for changes in teaching practice.

An inefficient and ineffective process of textbook provision. Textbooks used to be provided free in public schools under the former Soviet Union. With the collapse of public revenues early in the transition, it was no longer possible to maintain this policy and parents were required to purchase textbooks for their children. The cost of textbook purchase proved onerous for many families. To reduce the burden of textbook purchase, the Government instituted a textbook rental scheme in 1998 with financial support from the Asian Development Bank (ADB). Under this scheme, the Government (with ADB support) provided schools with an initial supply of textbooks which parents rented at a charge that was a fraction of the cost of textbook purchase. The scheme was meant to self financing: it was intended that schools would retain textbook rental payments which they collected and use them to replace the books as they wore out. In reality, it did not turn out that way. Schools were required to deposit textbook rental receipts in Treasury accounts and the Government used these funds to purchase other textbooks. Thus, the textbook rental charges that schools had collected were not available when they needed to replace the worn-out rented textbooks. The ground rules of the textbook rental scheme need to be changed in order to ensure that the scheme is self-financing by allowing schools to fully retain textbook rental receipts in earmarked accounts. In addition to this problem with the textbook rental scheme, there is a serious problem of textbook availability in the system. For many core subjects in the primary and

secondary education curriculum, there is a shortage of textbooks; for some core subjects, no textbooks are available. There is also a generic problem of textbook content. In principle, textbook content can help modernize teaching and learning methodology, but little actual progress has occurred. This reflects the fact that the process of textbook generation is inbred and inefficient, and provides no incentives for improved content. A single institution, the Academy of Education, currently dominates the process of authorship, selection, and production of textbooks, involving an intrinsic conflict of interest. Competitive techniques of selection and production of textbooks are needed in order to introduce incentives for modernization of content and presentation, and more efficient production. Textbook authors also need training in modern approaches to content presentation which support a more active, student-centered approach to teaching and learning.

Donor support. Kyrgyz education programs have benefited from assistance from a number of donors during the transition. Donors include the Asian Development Bank (ADB), USAID, UNICEF, UNESCO, the Islamic Development Bank, OPEC Fund, and the Soros Foundation. The World Bank is a newcomer to the education sector in Kyrgyzstan. Under the terms of an informal agreement between ADB and the World Bank in the early 1990s, the World Bank focused on health in the Central Asia region, while the ADB focused on education. In 2002, the Government specifically asked for World Bank assistance in education, and both agencies are now active in both sectors. The largest donor-supported initiatives in the education sector are those of the Asian Development Bank (ADB) and USAID. The ADB has supported two Education Sector Development Programs (both completed) which focused on school rehabilitation, development of textbooks and learning materials, and modernizing learning assessment. ADB is now preparing a third project which is intended to complement both the earlier ADB projects and the World-Bank-financed Rural Education Project. The other major donor in the education sector is USAID, which is financing a \$3 million education project, the *Participation, Education, and Knowledge Strengthening Project* (PEAKS). The main thrust of PEAKS is in-service teacher training. The project is also supporting curriculum reform, parental and community involvement in schools, school rehabilitation, and education finance and management reform. Other donors are providing support on a more limited scale for upgrading particular schools and supporting in-service teacher training and other specific system improvements.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

KYRGYZ REPUBLIC: Rural Education Project

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed: Ongoing projects			
Education and Health Financing (revision of categorical grants methodology)	Governance Structural Adjustment Credit	S	S
Sub-national government administration	Village Investment Project	HS	HS
Bank-financed: Closed projects		OED Outcome Rating for Bank-financed closed projects	
Health	Health Sector Reform Project	HS	
Other Social Services	Social Safety Net Project	MU	
ADB-financed projects		Project Status	
Primary and Secondary Education	Third Education Development Project: Support for upgrading facilities and infrastructure, textbooks & learning materials development, modernizing learning assessment.	Under preparation	
Primary and Secondary Education	Education Sector Development Program (First and Second Education Projects): Support for basic education curriculum, textbooks & learning materials development, teacher training, rehabilitation of schools and school heating systems, school equipment and furniture, capacity building for education management.	Completed in June 2004	
Health & Psychosocial development (children bw birth and 8 years of life)	Community based Early Childhood Development Project (US\$13.47 million)	Ongoing (until December 2008)	

Other development agencies		
1. UNICEF	<ul style="list-style-type: none"> • “Aiming an Improving Quality of Education through Global Education Concept & Program” (reforming of curriculum, teaching & learning processes) • “Access & regular attendance” with community involvement • “Education for All Initiative” • Monitoring and Learning Assessment (grades 4 and 8) • Introduction of the "Life Skills health based education " in 1-7 grades; community participation in education. 	Ongoing
2. UNDP/DFID	<p>Political and Administrative Central Governance Program: Functional review of the territorial structures of the Ministry of Education.</p>	Ongoing
3. USAID	<p>National Testing Initiative Program: Administration of the National Scholarship Test, development of the new testing and enrollment system.</p>	Ongoing

USAID – Central Asia Regional Project for Participation, Education and Knowledge Strengthening in Central Asia Regional Project (PEAKS) Subcontractors:

<ul style="list-style-type: none"> • Open Society Institute (OSI) – Kyrgyzstan 	In-service training & retraining of teachers & introduction of voucher system; introduction of interactive methods, critical thinking; community involvement; school development program; textbooks authors training.	Ongoing
<ul style="list-style-type: none"> • Save the Children, USA 	Rehabilitation of 25 schools in 3 pilot regions (roof, floor, heating systems repair).	Ongoing
<ul style="list-style-type: none"> • Save the Children, UK 	Inclusive education, community action for education, working with parents.	Ongoing
<ul style="list-style-type: none"> • Abt Associates 	Piloting of a new budget formulation system, development & introduction of per capita financing in pilot rayon	Ongoing
<ul style="list-style-type: none"> • AED 	Development & piloting of standard exams for 4 th and 9 th grades; support of policy development (as related to PEAKS's activities)	Ongoing
4. Mercy Corps	Small Grants Program for rehabilitation of schools (roofs and heating systems repair)	Ongoing
5. Organization for Security and Cooperation in Europe (OSCE)	Integration in Multi-ethnic Societies through Education Project: development of recommendations in areas of curriculum design & development, language teaching, teacher training, the organization of the system of schools.	Completed
6. Every Child, UK	Children's rights, working with marginalized & vulnerable children, strengthening family & community abilities	Ongoing

Annex 2A: Complementarity of Rural Education Project with ADB Third Education Project and USAID PEAKS Project

OBJECTIVE	USAID PEAKS	WB REP	ADB EDP III
<p>Strengthen teachers' capacity for effective teaching</p>	<p>Develop capacity of 11 schools (at least 1 school in each oblast) as a resource school on interactive teacher training methodologies (Step by Step (SbS), Reading and Writing through Critical Thinking (RWCT), Inclusive Education (IE), Multicultural Classrooms (MC)) through training of trainers on these methodologies and creating training facilities in these schools.</p> <p>PDS trainers to train about 2500 teachers in 84 cluster schools (up to 10 per PDS) on above mentioned interactive teacher training methodologies with mentoring support from PEAKS.</p> <p>Conduct 3 trainings for 50 staff of state in-service teacher training structures on SbS, RWCT, IE.</p> <p>Pilot Teacher Training Voucher System in Issy-Kul Oblast in order to broaden variety of the professional development opportunities for teachers and improve quality of in-service teacher education through introducing the system when 'money follows the teacher'.</p> <p>Establish/strengthen 4 professional education organizations (Early Childhood/Step-by-Step NGO, Critical Thinking, School Improvement/The Foundation for Support of Educational Initiatives, and Association of Educational Service Providers) who will continue to support PEAKS trained trainers after the project closes.</p>	<p>Encourage young teachers to enter teaching in rural schools through the implementation of a rural fellowship program for a total of 600 new teachers over 5 years.</p> <p>Improve teacher and principal effectiveness by developing a performance-based evaluation system which is related to student learning progress.</p> <p>Pilot implementation of performance-based evaluation incentive system in 2 oblasts – Issykul and Talas.</p> <p>Teacher and principal training in the new performance management system.</p>	<p>Develop teachers' classroom observation skills, development of objective assessment standards.</p> <p>Additional incentives for young teachers; deposit program for teachers: provision of financial incentive for 400 teachers to work in rural schools and teach subjects where teachers are in short supply – incorporation of 100 more people into the program is possible (depending on the project feasibility)</p> <p>Organize teachers in-service trainings in the TTI (Teachers Training Institution) founded in 7 oblasts: in accordance with new curricula, textbooks and assessment system reflected in them.</p> <p>Improvement of pre-service trainings for students of pedagogic major and in-service trainings for practicing teachers: 7 oblast courses of teachers' upgrade trainings are proposed (with the help of Kyrgyz Academy of Education – and possibly 2 new institutions created within its structure); training topics: new curriculum, modern learning and assessment methodologies, strategies for school development, etc.</p>

OBJECTIVE	USAID PEAKS	WB REP	ADB EDP III
<p>Improve curriculum and learning materials</p>	<p>Conduct 3 trainings for 30 textbook authors (selection of trainers and training topics to be discussed with the WB and ADB project staff).</p>		<p>Long-term development of curriculum to support government shift to twelve grades of education. Training support to KAO and oblast TTIs; establishment of links with overseas curriculum centre Training of curriculum writers, especially in principles of active student-centered learning.</p>
	<p>Develop a manual on writing and assessing a good textbook for authors and publish 100 copies.</p>	<p>Short-term supply of textbooks and other learning materials, mainly reprinting but with some adaptation/development; some author training. Adoption of improved Textbook Rental Fund.</p>	<p>Development of complete sets of associated learning materials to support the revised curriculum. Within the framework of EDP III, Grade 1 materials will be complete; other grades will be at various stages of development. Training of writers of learning materials, especially in principles of active student-centered learning. Training of school principals and teachers of Grade 1 in principles of curriculum, learning materials and active student-centered methodologies.</p>
	<p>Train a core group of resource teachers on working with school based curriculum component at 11 Professional Development Schools (PDS).</p>	<p>Move towards involvement of private sector publishers in learning materials development.</p>	<p>Major shift towards development of learning materials by private sector publishers, building on WB foundations. Support to private sector publishing industry; establishment of links with overseas training body.</p>
	<p>Translate, adapt, and distribute professional journals (SbS, Mektrep) to teachers in all schools of Kyrgyzstan on a quarterly basis.</p>	<p>Establishment of Textbook Approval Board; training of managers and members of the Board.</p>	<p>Materials developed within EDP III will follow established approval mechanisms.</p>
	<p>Develop 1,000 copies of low cost materials development manual and train 50 master teachers at 11 PDS.</p>	<p>Reform of Textbook Rental Scheme.</p>	
		<p>Establishment of list of learning materials and provision of learning materials to schools under a "learning materials fair" approach.</p>	<p>Provision of \$1,500 to each refurbished school for purchase of equipment, supplementing WB provision and using WB-developed equipment list.</p>

OBJECTIVE	USAID PEAKS	WB REP	ADB EDP III
<p>Improve assessment of student learning achievement</p>	<p>Areas of intervention will be finally identified by January 2005 following review of ADB and WB planned interventions.</p>	<p>Establishment of a reliable, practical, corresponding to acknowledged standards testing system.</p> <p>Improvement of classroom-based assessment to enable competent promotion of teachers and progress of student's achievements.</p> <p>Participation in the international study PISA.</p> <p>Development of school monitoring mechanisms.</p>	<p>Problem: setting goals and objectives of learning assessment; comprehension of a difference between assessment for learning and assessment of learning.</p> <p>Efficient policymaking in the field of assessment (as a part of public policy in the sphere of education).</p> <p>Development of national assessment system in accordance with revised curriculum and learning materials which are to reflect approaches to the classroom-based assessment and summative assessment.</p> <p>Development of mechanisms for balanced interplay of formative (continuous) and summative (concluding) assessment.</p> <p>Revision of curriculum and learning assessment methods. Train teachers on the concepts of formative assessment with an emphasis on development teachers' inquiry skills (trainings on development of different types of tests).</p>

ADB EDP III	WB REP	USAID PEAKS	ADB EDP III
<p>Trainings for school administrators and managers to support the implementation of revised curriculum, materials and new assessment techniques (trainings for 4000 teachers and 2000 school principals). Trainings for curriculum developers.</p> <p>Development of new learning programs for the pedagogic institutes graduates.</p> <p>Organizing MA program on learning assessment and measurement.</p> <p>Development of a Certificate on Learning Assessment.</p>	<p>Strategic planning: technical assistance, trainings, study programs for enhancing strategic planning in MO KR.</p>	<p>OBJECTIVE Build capacity in strategic planning</p> <p>Training of Trainers in improved school management (School Improvement program) at 11 PDS.</p> <p>PDS trainers to training around 300 school administration staff at 84 cluster schools (up to 10 per PDS).</p> <p>Conduct 2 trainings for 25 senior managers of the state in-service teacher training structures in good management practice.</p> <p>Pilot alternative mechanisms of budget formation and resource management in education financing system in Djети-Oguz Rayon of Issyk-Kul Oblast</p> <p>Provide technical assistance in Education Financing field through forming and facilitation of meetings of inter-ministry WG in Education Financing.</p> <p>Train 65 school directors and local administrators in Djети-Oguz Rayon in good management practice including financial management.</p> <p>Conduct in-depth training in financial management for 25 rayon/school accountants in Djети-Oguz Rayon.</p> <p>Build capacity of local educational authorities in 4 pilot Rayons on c-EMIS (community based education management information system).</p>	<p>Strategic planning: technical assistance, trainings, study programs for enhancing strategic planning in MO KR.</p>

OBJECTIVE	USAID PEAKS	WB REP	ADB EDP III
<p>Increase parent and community involvement in schools</p>	<p>Establish, build capacity and co-fund projects of school-community groups at 11 PDS to improve education quality and attendance. In turn, PDS will share this experience in community mobilization with 84 cluster schools.</p>		
<p>Improve School Infrastructure</p>	<p>Rehabilitate 25 schools across the country with significant community participation and contribution. Equip 11 PDS with 1 set of child friendly furniture to promote active learning in primary grades. Equip 11 PDS with start up equipment to function as resource school at local level for cluster schools.</p>		

Annex 3: Results Framework and Monitoring
KYRGYZ REPUBLIC: Rural Education Project

Results Framework

PDO	Outcome Indicators	Use of Outcome Information
To improve learning and learning conditions in primary and secondary schools, with priority attention to rural areas.	Improved average scores in <i>Monitoring Learning Achievement</i> surveys for students in grades 4 and 8.	Interventions to improve learning achievement to be targeted to oblasts with the lowest learning achievement.
Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
Component One: Improved Teacher Incentives	<p>Component One:</p> <p>Improved average scores in <i>Monitoring Learning Achievement</i> surveys for students in grades 4 and 8.</p> <p>Communities' and principals' perceptions of how the new performance incentives affect teaching practices improve from the first year of pilot implementation of performance incentives to the second.</p> <p>The learning environment in schools is improved through better availability of teachers in rural schools in subject areas with historical shortages of teachers.</p> <p>Teachers' uptake on in-service training opportunities improves.</p> <p>Teacher absenteeism is reduced.</p> <p>Student absenteeism is reduced.</p> <p>Increasing numbers of teachers are able to present evidence of effective teaching in relation to school development plan.</p> <p>Reduced teacher vacancies in rural schools.</p>	<p>Component One:</p> <p>Decision to continue/extend the performance evaluation scheme.</p> <p>Decision to continue/extend the performance evaluation scheme.</p> <p>Decision to continue/extend the performance evaluation scheme.</p> <p>Decision to continue/extend the performance evaluation scheme.</p> <p>Decision to continue/extend the performance evaluation scheme.</p> <p>Decision to continue/extend the performance evaluation scheme.</p> <p>Decision to continue/extend the performance evaluation scheme.</p> <p>Decision to continue/extend the rural teacher incentives.</p>

<p>Component Two:</p> <p>School Grants for Improved Learning</p>	<p>Component Two :</p> <p>Students in schools supported by Learning Improvement Grants will have improved learning performance as measured by average scores on the sample-based <i>Monitoring Learning Achievement</i> surveys.</p> <p>Schools supported by Learning Improvement Grants will have improved learning conditions (such as improved school attendance by students and teachers, and increased percentage of students with textbooks) as reported in School Report Cards.</p> <p>Schools supported by Learning Improvement Grants will modify interventions over the period of grant implementation to improve educational outcomes.</p> <p>All of the above.</p>	<p>Component Two:</p> <p>Schools and parents will see whether the educational interventions supported by the Learning Improvement Grants led to improved learning achievement, and will consider what other actions they may take to improve learning achievement.</p> <p>Schools and parents will see whether the educational interventions supported by the Learning Improvement Grants led to improved learning conditions, and will consider what other actions they may take to improve learning conditions.</p> <p>Schools supported by Learning Improvement Grants will become more accountable to the local community for educational outcomes.</p> <p>The MOE and MOF will decide whether to continue/extend the pilot.</p>
<p>Component Three:</p> <p>Textbooks and Learning Materials</p>	<p>Component Three:</p> <p>The learning environment in schools is improved through better availability of textbooks and other learning materials.</p> <p>The Textbook Approval Board is operational and performing its intended functions.</p> <p>New textbook rental scheme is operational.</p> <p>The learning environment in schools is improved through better availability of textbooks and other learning materials.</p>	<p>Component Three:</p> <p>Better learning achievement.</p> <p>Improved quality and relevance of textbook content; improved efficiency of textbook production.</p> <p>Resources are secured for ensuring the replenishment of worn-out textbooks.</p> <p>A higher proportion of students have the appropriate textbook for their courses.</p>

	<p>Learning materials in areas of greatest need are provided to schools.</p> <p>Textbook content is improved through a more competent author pool and more competitive selection of textbook manuscripts.</p> <p>Procurement of textbooks and learning materials is done through a transparent and competitive process.</p>	<p>Teachers are better able to demonstrate concepts; student learning improves.</p> <p>Textbook production is more cost-effective.</p>
<p>Component Four:</p> <p>Student Assessment</p>	<p>Component Four:</p> <p>Kyrgyz participation in PISA 2006.</p> <p>Implementation of new <i>Monitoring Learning Achievement</i> surveys, with enlarged samples for the two pilot oblasts</p> <p>Initiation of new sample-based national assessments of student learning and factors that affect student learning.</p> <p>Support is provided to teachers to improve their skills in assessing student progress against standards.</p> <p>Support is provided to MOE staff to improve management of student assessment.</p> <p>The quality of student assessment improves in successive years of project implementation.</p>	<p>Component Four:</p> <p>Refine education strategy to improve learning achievement.</p> <p>Evaluation of overall impact of project interventions.</p> <p>Improved diagnostics of education system performance; appropriate corrective measures.</p> <p>Improved diagnostics of education system performance; appropriate corrective measures.</p> <p>Improved management of student assessment.</p>
<p>Component Five:</p> <p>Education Budgeting and Strategic Planning</p>	<p>Component Five:</p> <p>Successively more evidence-based and strategic preparation of annual budgets for education.</p>	<p>Component Five:</p> <p>More cost-effective use of public financing for education.</p>

	<p>Successively more evidence-based and strategic preparation of annual budgets for education.</p> <p>MOE staff competence in education budgeting and strategic planning is improved.</p>	<p>Education strategy is more educationally effective and more relevant to changing national needs and priorities.</p>
<p>Component Six: Project Management</p>	<p>Component Six: Implementation, procurement, disbursement, and financial progress reporting carried out on schedule.</p> <p>Project implementation is rated as satisfactory or better.</p> <p>External audit is performed on annual basis, satisfactory to IDA.</p> <p>Public awareness of education reforms supported by the project improves over time.</p>	<p>Component Six: Appropriate management action by Government, and supervision action by Bank.</p> <p>Appropriate management action by Government, and supervision action by Bank.</p> <p>Appropriate management action by Government, and supervision action by Bank.</p> <p>Appropriate management action by Government, and supervision action by Bank.</p>

Arrangements for results monitoring

	Baseline	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Outcome Indicators Improved average scores in <i>Monitoring Learning Achievement</i> surveys for students in grades 4 and 8.							Annual.	<i>Monitoring Learning Achievement</i> surveys for students in grades 4 and 8.	MOE, PIU
Results Indicators for Each Component									
Component 1: Improved Teacher Incentives Improved average scores in <i>Monitoring Learning Achievement</i> surveys for students in grades 4 and 8. Communities' and principals' perceptions of how the new performance incentives affect teaching practices improve from the first year of pilot implementation of performance incentives to the second. Teachers' uptake on in-service training opportunities								<i>Monitoring Learning Achievement</i> surveys. Supervision reports for component.	MOE, PIU PIU PIU

<p>improves. Teacher absenteeism is reduced. Student absenteeism is reduced. Increasing numbers of teachers are able to present evidence of effective teaching in relation to school development plan. Reduced teacher vacancies in rural schools.</p>						<p>Monitoring data. Monitoring data. Monitoring data. Monitoring data.</p>	
<p>Component 2: School Grants for Improved Learning Students in schools supported by Learning Improvement Grants will have improved learning performance as measured by average scores on the sample-based <i>Monitoring Learning Achievement</i> surveys. Schools supported by Learning Improvement Grants will have improved learning conditions (such as improved school attendance by students and teachers, and increased percentage of students with textbooks) as reported in School Report Cards.</p>						<p>Average scores on the sample-based <i>Monitoring Learning Achievement</i> surveys. School Report Cards.</p>	<p>MOE, PIU School Boards of Trustees, PIU</p>

<p>Schools supported by Learning Improvement Grants will modify interventions over the period of grant implementation to improve educational outcomes.</p>				<p>Supervision reports on component implementation.</p>	<p>School Boards of Trustees, PIU</p>
<p>Component 3: Textbooks and Learning Materials Textbook Approval Board is operational and performing its intended functions. New textbook rental scheme is operational. Textbooks in priority subjects are produced under improved procedures and provided to schools. Learning materials in areas of greatest need are provided to schools.</p>			<p>Monitoring Learning Achievement surveys</p>	<p>Supervision reports on component implementation. Supervision reports on component implementation. Supervision reports on component implementation. Supervision reports on component implementation. Supervision reports on component implementation.</p>	<p>PIU, MOE, TAB PIU, MOE TAB PIU</p>
<p>Component 4: Student Assessment The quality of student assessment improves in successive years of project implementation. Kyrgyz participation in PISA</p>				<p>MOE, PIU MOE, PIU</p>	

<p>2006.</p> <p>Implementation of new Monitoring Learning Achievement surveys, with enlarged samples for the two pilot oblasts.</p> <p>Initiation of new sample-based national assessments of student learning and factors that affect student learning.</p> <p>Support is provided to teachers to improve their formative and diagnostic skills.</p> <p>Support is provided to MOE staff to build technical/professional capacity in managing student assessment.</p>						<p>PISA survey</p> <p>Monitoring Learning Achievement surveys</p> <p>Sample-based national assessments of student learning and factors that affect student learning</p> <p>Supervision reports on component implementation</p>	<p>MOE, PIU</p> <p>MOE, PIU</p> <p>PIU</p>
<p>Component 5: Education Budgeting and Strategic Planning</p> <p>Successively more evidence-based and strategic preparation of annual budgets for education.</p> <p>Successively more evidence-based and strategic preparation of annual budgets for education.</p>					<p>Supervision reports</p> <p>Supervision reports</p>	<p>PIU, MOE</p> <p>PIU, MOE</p>	

<p>Component 6: Project Management</p> <p>Implementation, procurement, disbursement, and financial progress reporting carried out on schedule.</p> <p>Project implementation is rated as satisfactory or better.</p> <p>External audit is performed on annual basis, satisfactory to IDA.</p> <p>Public awareness of education reforms supported by the project improves over time.</p>							<p>Supervision reports</p> <p>Bank supervision reports</p> <p>Annual audit reports</p> <p>Commissioned study</p>	<p>PIU, MOE</p> <p>Bank</p> <p>PIU, MOE, consultant</p> <p>PIU, MOE, consultant</p>	
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Annex 4: Detailed Project Description
KYRGYZ REPUBLIC: Rural Education Project

Component I: Improved Teacher Incentives (US\$2.5 million total cost, out of which US\$2.5 million IDA grant). This activity would support the development of an improved performance management system for teachers and principals, and payment of related performance incentives for teachers and principals for two complete academic years (2006/07 and 2007/08) in two pilot oblasts, Issykul and Talas. The performance criteria in the new system will reward teachers for the quality of their classroom teaching, their capacity to diagnose and support their students' learning progress, and the progress (not just the level of achievement) of all their students (not just their highest performing students) against agreed standards. For school principals, the criteria will also cover leadership and management performance as well as student progress and performance. Annual school-based appraisal against these criteria will be a basis for determining teachers' progression through the salary scale, supplementing current reliance on qualifications and length of service. The process will start with self-evaluation by teachers and principals of their own effectiveness against the new performance criteria, followed by review at the school level, and validation at the rayon and oblast level. Intensive training will be provided under the pilot to prepare teachers, principals, and regional education administrators to implement the new performance evaluation scheme, and to provide training in the skill areas included in the new scheme so that teachers and school principals can upgrade their skills in order to meet the new performance criteria. It is expected that the new performance incentives will be incorporated into the nationwide salary scale for teachers and principals if the results of the pilot evaluation are positive.

The purpose of the new performance incentives is to improve student learning achievement by motivating teachers to pay more attention to what their students are learning. It would be unrealistic to expect that the introduction of teacher performance incentives will lead to an immediate, measurable improvement in students' learning achievement. But it is possible to observe the effects of introducing performance incentives through other indicators, such as communities' and principals' perceptions of how the new performance incentives affect teaching practices, teachers' uptake on in-service training opportunities, teacher absenteeism, student absenteeism, and the presentation of evidence by teachers themselves of how they are meeting the new performance criteria. The experience of the first year of the performance incentive pilot will be evaluated during the Mid-Term Review of project implementation which is planned for May, 2007. If appropriate, the formula for performance incentives will be refined at that stage. A final evaluation of the performance incentive pilot is to be carried out in May, 2008. If the results of this evaluation are positive, a proposal will be developed to extend the pilot, with a proposed implementation plan and financing plan. Financing could involve Republican budget finance, donor finance, or a combination of the two. Extension of the pilot could occur through sequential addition of other oblasts, or through nationwide implementation. In either case, it would require particular attention to ensure that all teachers and principals receive advance training in how to implement the new performance evaluation scheme successfully. In order to facilitate the transition from pilot to system-wide implementation of the new performance incentives, the performance incentives under the pilot are to be paid along with teachers and principals' regular salaries. For the same reason, the formula for the new performance incentives is to be formulated to map readily onto the current teacher salary scale.

To help attract and retain qualified teachers in rural schools in subjects with unfilled teacher positions, it will also finance a program of rural teacher fellowships for about 600 new teachers in

scarce subject areas who agree to teach in rural schools throughout the country, starting in September, 2005.

This component comprises five subcomponents:

- Improvement of existing school-based self-appraisal procedures for teachers and school principals through the development of model performance management arrangements which elaborate the new performance criteria described above.
- Development of improved national guidelines and criteria for performance evaluation. The new criteria will address student progress, and will improve comparability of school performance. Unlike the current system, which recognizes teaching performance only in terms of the highest-performing students in national competitions, the new performance criteria will be based on improvements over time (and not just current in learning achievement) of *all* students. In the process of self-appraisal, teachers will present evidence of their effectiveness against each of the performance criteria. This subcomponent also includes the development of new external verification procedures to support the existing school evaluation commissions in carrying out performance evaluation for teachers and school principals.
- Development of a performance incentive scheme which is structured to map onto the current salary scale for teachers and principals, and pilot implementation of the scheme in Issykul and Talas oblasts. This incentive scheme will be structured so as to map onto the following changes in the current salary scale for teachers and school principals: (a) improve the basic pay level for teachers, (b) extend the number of salary points within the current first and highest salary categories, and (c) create two new, parallel salary categories above the current highest category to recognize teaching excellence (exemplary classroom practice) and leadership and management for school principals and deputies.
- Support for a targeted program of fellowships for new teachers who agree to teach for at least three years in rural schools throughout the country in subject areas with unfilled vacancies. The program is to finance fellowships for three cohorts of 200 new teachers per year for a duration of three years (a total of 600 new teachers). Teachers graduating in subject areas with the largest numbers of unfilled rural school vacancies are to be invited to apply for the rural teacher fellowships. Among the teachers that apply, selection priority is to be given to teachers: (a) who are from the rural areas with the highest number of unfilled rural teacher vacancies and agree to serve in schools in those areas, (b) who graduate in the subject areas with the largest numbers of unfilled rural school vacancies, and (c) have the highest scholastic attainment. Teachers selected for the program must agree to teach at least three complete school years in the designated rural schools. Rural schools are to be selected on a nationwide basis to receive new teachers under the rural fellowship program through a process which gives priority to rural schools: (i) which are most remote from oblast and rayon centers, (ii) which have the largest numbers of unfilled teacher vacancies, and (iii) which would benefit the largest numbers of students.¹⁷ Teachers selected for the program will have an earmarked account established in their name at the time of their appointment. Monthly fellowship payments in the amount of 1,000 soms (US\$25) are to be made into this account on behalf of each participating teacher over the three-year fellowship period. At the end of

¹⁷ Since these criteria would individually lead to a different rank ordering of rural schools, a weighting coefficient is to be attached to each of the three criteria for purposes of school selection. These weights are to be agreed with the Bank prior to school selection.

that period, teachers who complete the program are to receive the accumulated fellowship amounts (equivalent to about US\$900 each).

- Technical assistance and training of teachers, school principals, and education administrators in implementation of the new performance management system.

Estimated costs of the performance incentives and rural teacher fellowships are presented in tables 4.1 and 4.2, below, along with the underlying assumption for the cost estimates.

**Table 4.1 – Teacher Incentives under Rural Education Project
(School Years)**

School Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Rural Teacher Fellowships						
Cost (\$ thousand)	60	120	180	120	60	540
Teacher Performance Incentives						
Cost (\$ thousand)		300	300			600
Total	60	420	480	120	60	1,140

**Table 4.2 – Teacher Incentives under Rural Education Project
(Calendar Years)**

School Year	2005	2006	2007	2008	2009	2010
Rural Teacher Fellowships						
Cost (\$ thousand)	20	80	140	160	100	40
Teacher Performance Incentives						
Cost (\$ thousand)		100	300	200		
Total	20	180	440	360	100	40

Assumptions:

Rural teacher fellowships of 1,000 soms per month (or \$300 per year) are paid for three years to three cohorts of 200 teachers each, starting in September, 2005.

Performance incentives are paid to highest performing teachers in the pilot oblasts for two school years, starting in September, 2006.

There are 6,411 teachers in Issykul oblast, 3,544 in Talas oblast. Assume 10,000 in total.

10% of teachers in pilot oblasts attain the highest performance grade and qualify for an incentive payment equivalent to a 30% salary increase; assume their initial starting salary is \$400 per year: ($\$400 \times 1,000 \times 30\% = \$120,000$ per year for two years)

One-third of the remaining teachers in the pilot oblasts (3,000 in total) qualify for incentive payments equivalent on average to a 20% salary increase, and assume that their average salary is \$300 per year: ($3,000 \times 20\% \times \$300 = \$180,000$ per year for two years.)

Mid-term evaluation to be carried out in May, 2007; final evaluation and proposal to MOF for generalization of performance incentives in May, 2008, in time for preparation of 2009 budget.

Component II - School Sub-Grants for Improved Teaching and Learning (US\$1.8 million total cost, of which US\$1.8 million IDA grant). The objective of this component is to improve learning conditions in basic education schools in Issykul and Talas oblasts through the implementation of learning improvement grants. Schools in the two pilot oblasts will be assisted to prepare learning improvement plans (LIP)¹⁸, which *inter alia* describe their most urgent learning needs and propose actions (called sub-projects) to address those needs. Since the grants are intended to improve learning in schools in a manner which promotes transparency, community participation, and local school accountability, the component will be implemented within the framework of a reformed system of parental contributions to schools in the pilot oblasts.

All types of schools can benefit – that is, complete schools (those offering all eleven grades of the basic education cycle), incomplete schools (those offering grades 1 thru 9) and elementary schools (those offering grades 1 thru 4), and rural as well as urban schools. Funds will be disbursed in installments directly to separate accounts held by each school; implementation will be managed by schools, and monitored by school Boards of Trustees. Application forms will be standardized and simple. The same principle will apply to reporting forms. All sub-grants will be awarded to the respective public education foundations (PEF) of eligible schools that successfully complete their respective sub-grant proposals.

The component will consist of two subcomponents: learning improvement sub-grants (LIS) and technical assistance (TA) to schools in school development approaches and methodologies, including sub-grant application and execution. This component will benefit a total of about 150 thousand pupils (grades 1–11) and 11,000 teachers in 301 primary and secondary rural and urban schools (110 in Talas and 191 in Issykul). In the interest of simplicity, implementation procedures will be consistent with procedures established under other projects already under implementation, such as the Village Improvement Project and PEAKS.

Community involvement in the grant program is expected in two forms: provision of counterpart (local) resources, and participation in planning, implementation, and supervision of sub-grant-financed activities. Local public scrutiny will be emphasized. There will be semester publication by schools of reports which describe activities planned, contracted, and implemented, as well as the receipt and use of funds from all sources. Schools are asked to hold general meetings to discuss and approve their LIP, including sub-project activities. Schools are asked to post sub-grant reports on large bulletin boards placed on school building walls. These reports will cover not only the school sub-grant funds, but also locally raised funds, including parental contributions.

As input for the LIP process, the MOE will provide school profiles, or *School Report Cards*, containing basic education indicators to be generated from data in existing databases (E-MIS). School profiles could include indicators of attendance, promotion, transition, dropout, teacher profile, student profile, and any other relevant available information, such as condition of school infrastructure and school budget. If available, reliable measures of learning would form the core

¹⁸ Elsewhere these are often known as School Development Plans (SDP); the name that makes the most sense in the local languages should be chosen in English; the critical matter is agreement, among all parties, that the meaning of improvement here is “software”; that is, improvement grants are meant to finance minor works, goods and services required for activities that directly and positively impact learning.

of school report cards. Information will be presented using a comparative format, that is, school averages will be presented side-by-side with regional averages (rayon, oblast, nation), such that each school can readily see where it stands in relation to other schools in terms of inputs and outputs (and, if possible, outcomes), and can define its progression path (that is, improvements over time). The component includes technical assistance to the MOE to help develop School Report Cards.

An audit of the school sub-grant program will be carried out annually, starting in the first year of project effectiveness, by a specialized consulting firm engaged for this purpose.¹⁹ The audit will cover administrative and financial aspects of grant implementation. Institutions selected to provide technical assistance to schools will also be subject to auditing. A retrospective evaluation of the effectiveness of school sub-grants will be carried out during the last year of project implementation (that is, in school year 2009–10).

Subcomponent 1 – Learning Improvement Sub-Grants (US\$1.35 million = 300 schools x US\$4,500)

Learning Improvement Plans (LIP) will analyze the current situation of each school and present a vision for its improvement over time, in terms of its functioning and effectiveness. They are documents for use by schools and school communities. Hence, they need not be reviewed externally; only sub-grant proposals (micro-projects) are appraised and approved by the sub-grant evaluation board.

The LIP will be prepared by a team, established by the school Board of Trustees, comprising teachers, principals, and parents, with technical assistance from a specialized institution. They will focus on problems and proposed solutions. Those solutions to be implemented with grant monies will be called micro-projects. Within its LIP, a school may propose one or more micro-projects, as long as it stays within its budget (that is, as long as the total cost of all micro-projects does not exceed the school sub-grant allocation, based on its enrollment).

It is expected that all micro-project proposals will include training for teachers and extracurricular learning activities for students, including study tours (visits to museums, for example). Micro-project proposals could also include purchase of didactic equipment and materials, as well as minor school refurbishment (such as repair of classroom stoves) which is directly related to student learning. The proportion of civil works is not to exceed 30% of the total amount of any individual school grant. Activities focused directly on students must constitute at least 60% of the amount of each grant.

Micro-project proposals are to be approved first by the school Board of Trustees and then submitted to the Oblast Evaluation Board (OEB) for approval. Once approved by the OEB, sub-grants will be signed by the school principal (on behalf of the school) and the PIU (on behalf of the Ministry). In order to ensure that Learning Implementation Plans and micro-projects are developed with community participation, the sub-grants are also to be countersigned by the Chairman of the school Board of Trustees. Sub-grants will be awarded on a one-time basis, and will be implemented over two years. That is, the sub-grant application process would be finalized in one year and sub-grant-financed micro-projects would be implemented in the following two years. Implementation of micro-projects would be managed by the school principal and designated staff and evaluated yearly by the school Boards of Trustees. Based on the outcome of this review, schools may modify the content of the LIP upon the advice of the Board of Trustees

¹⁹ Grant audits are to be executed under the Project Management Component, as part of routine annual audits.

for the second year of implementation in order to improve learning outcomes. If such changes involve a significant departure from the originally approved design, the revisions would need to be approved under the same process as the original proposals. Three complete cycles of grant awards are planned during the five years of project execution; the first cycle is planned for school years 2005–2007. Grant-financed activities could be carried out during the school year as well as during the summer vacation (June–August).

Local Financing

School sub-grants will match local contributions in the form of parental contributions, local government financing, or sponsor financing. School sub-grants will provide up to 80% of the financing for the learning improvement programs. The other 20% is to be provided by cash or in-kind contributions from parents, the community, or local government. A list of education-funding institutions will be provided to schools, as part of the technical assistance they will receive. Parental and local government contributions could be totally or partially in-kind, such as labor or donation of construction and other materials. Maximum amounts of parental contributions in the two pilot oblasts will no longer be restricted to a specific amount; schools are to exempt children whose families may not be able to afford the contribution amount.

Criteria for participation

Eligibility criteria would be as follows: (a) inclusion in pilot oblasts, (b) successful completion of the school Learning Improvement Plan, with community participation; (c) existence of an active school Board of Trustees; (d) existence of an active school account, (e) observance of budget ceiling amounts; (f) not receiving funds from other sources for the same purpose; and (g) adherence to counterpart minimum percentages.

Approval criteria for these proposals are not designed to be restrictive or onerous, since it is hoped that all schools in the two pilot oblasts will participate. They would include: (a) coverage (that is, having the majority of students as beneficiaries or having a pertinent minority group of students as beneficiaries (for example, poor children or children with poor attendance)); (b) consistency between identified learning problems and proposed solutions; (c) feasibility of actions, given school situation; (d) expected impact on learning, based on existing sector knowledge; and (e) likelihood of project impact.

Sub-Grant Allocations

The average amounts of the sub-grants will be about US\$4,500 (that is, US\$1.3 million divided by about 300 schools). Per-school allocations will be made on basis of actual school enrollment, as recorded by the official school census. Given the requirement for counterpart financing, the sub-grant allocation will amount to 80% of the total cost of a micro-project. Maximum grant amounts will be determined by a formula comprising a lump-sum amount and a per-student amount, with the amount of the constant coefficient selected to give preference to small – largely rural – schools. The constant amount will be US\$3,000 and the per-capita allocation will be US\$3. Using these parameters, small schools (that is, up to 100 students, elementary grades only, assuming 15 to 20 students per grade/class) would receive up to US\$3,300; and large schools (that is, around 500-600 students, grades 1–11, assuming 20–25 per class) would receive US\$4,500 – US\$4,800. The average rural school, which comprise the majority of schools and has an average size of about 450 students in the pilot oblasts, would receive around US\$4,350. The average urban school, which represents the minority of schools and has an average size of 600-800 students in both pilot oblasts, would receive between US\$4,800 and US\$5,400.

Sub-Grant Procurement and Disbursement

Sub-grant funds would be disbursed in semester installments, directly to school accounts. The first disbursement would occur before the beginning of school year and the second one in the middle of school year, during a maximum of two years, in amounts based on the micro-project budgets. Periodical financial reports would be issued by the school. Transparency procedures would be implemented (for example, posting of financial reports on large bulletin boards placed in school buildings).

Local shopping will be the procurement procedure adopted by schools. That is, three price quotations will be obtained for each purchase, and the lowest bid would be chosen. Appropriate records will be kept in school files; these will be subject to auditing, as applicable. If necessary, school staff will be trained by the TA provider in the appropriate procurement and accounting practices.

Implementation Arrangements

In addition to the Project Implementation Unit, a number of bodies will be established by the MOE, under the Rural Education Project, specifically to assist with the execution of the grant component.

Oblast Evaluation Boards

Two Oblast Evaluation Boards (OEBs), one per selected oblast, will be established to appraise and approve grant applications. The OEBs will meet twice a year, in accordance with a published timetable, to consider school grant applications. They have 5 members, as follows: (a) oblast education department head, (b) president of national teacher union, (c) PIU grant coordinator, (d) component supervisor within MOE, and (e) head of oblast financial department. The costs of operating the OEB, including training, will be financed under Subcomponent 2 of the grant component, as part of the contract with an external technical assistance provider.

Regional Training and Outreach Team

Support to schools will be provided by institutions recruited for this purpose. There will be one technical assistance institution per oblast. Each school outreach agent will be responsible for a certain number of schools at a time. S/he would lead the process at the local level, in close coordination with staff at the rayon and oblast education departments. The technical assistance providers will organize training for school representatives (that is, school directors and heads of board of trustees and of public education foundation). It will also provide hands on technical assistance in preparation and implementation of Learning Improvement Plans, with focus on micro-projects. Qualified outreach officers, hired by the technical assistance institutions, will be assigned to groups of 20 schools. The outreach officers will advise schools when their micro-project proposals are ready for review by the OEB. If the OEB does not approve these proposals, then the outreach officer will work with the school team to address the shortcomings. They would lead the process at the local level, in close coordination with rayon and oblast staff. The local implementation team will follow the guidance to be provided by the central PIU, which will represent the MOE in project execution. All costs related to the technical assistance to schools will be financed under the Project.

School Team

Each school, in a general meeting of school staff (including administrators), parents and local government representatives, will select a team of 3–7 persons, who will be responsible for the actual preparation of the Learning Improvement Plan, including micro-project proposals. This team would be composed as follows: school director, 1–3 representatives from school teachers, and 1–3 representatives from parents. Everything produced by the School Team must be presented and approved by the school's general assembly attended by parents, local government representatives and school staff (including administrators). School team members will be trained by the technical assistance provider, on the methodology of Learning Improvement Planning and execution, including preparation of grant applications. Operational costs will be counted as counterpart funding.

Micro-Project Implementation Teams

Each school will be responsible for implementation of its micro project(s) under the general oversight of the school Board of Trustees. Where appropriate, school staff who are involved in implementation of the microprojects will be trained by the technical assistance provider, on the methodology of micro-project execution, including procurement and reporting details of grant execution. Operational costs will be counted as counterpart funding.

Rayon Compliance Group

Each rayon education department will designate a 3-member committee, formed by regular staff, who will be in charge of receiving grant proposals and checking them for compliance with grant norms in terms of content and format, including budget accuracy. Operational costs will be counted as operational funding.

Sub-Grant coordinators

In addition to the sub-grant coordinator at the PIU, there will be sub-grant coordinators appointed at the oblast level. The local implementation team will follow the guidance to be provided by the central PIU, which will represent the MOE in grant execution. Operational costs will be counted as counterpart funding.

Positive List of Micro-Projects

Before submission, draft Learning Improvement Plans are to be approved by the school's general assembly, open to parents, school staff and representatives of local governments. In this meeting, the school community will prioritize micro-projects, to be chosen from a positive list of improved learning activities and learning materials, including minor equipment, to be developed by local consultants, in close coordination with MOE staff. The list preparation process should also include consultations, using the focus-group approach, with groups of teachers, school directors and parents, as well as staff at the rayon and oblast education departments. The final draft list is to be reviewed and approved by the MOE and the World Bank. This list should reflect the best available knowledge about what activities affect learning, including actions which improve attendance. Poor teaching and poor attendance are among the learning problems to be addressed by these grants. A negative list of items not eligible for financing under the school grants component will also be developed. This list will include most electronic equipment, technological gadgets, and certain consumables. Schools will carefully follow simplified (local shopping) procurement rules. Goods and services required to implement the approved micro-projects would

be eligible for financing, including teacher training, field trips for students, library books, visual aids, science equipment and supplies (see Annex 1).

Role of Public Education Foundation and of Board of Trustees

Sub-Grants will be awarded to schools and implemented by schools under the general oversight of school Boards of Trustees. All schools are entitled under a 1999 Ministerial Order to have a Board of Trustees. The enabling Ministerial Order regulates membership, organization and responsibilities of school Boards of Trustees. If schools do not currently have a Board of Trustees, they will need to establish them in order to be eligible for the sub-grant program. Composition of school Boards of Trustees can be quite diverse, but in practice most members are parents. Teachers can be members, but often are not. Often other members are representatives of local village governments. Most school Boards of Trustees have 6 to 12 members, the majority of whom are parents. To date, school Boards of Trustees have focused mainly on school operations and maintenance needs, and occasionally on needs to improve teaching and learning conditions. But the Ministerial Order does allow for school Boards of Trustees to involve themselves in more strategic questions such as overall school development planning. Application forms for participation in the school sub-grant program will be signed by both the school principal and the president of the school Board of Trustees.

Administrative and Financial Agreements

The MOE will issue administrative orders to oblast and rayon education departments, establishing their active support and supervision role in the execution of the grant component. These administrative agreements will not involve transfer of sub-grant funds. For the transfer of funds to school accounts, the PIU will sign a sub-grant agreement with each school. These sub-grant agreements would be signed by the school principal, the president of the school Board of Trustees, and the PIU director, on behalf of the MOE. The school principal will be responsible for sub-grant implementation, including management of the school sub-grant account, although in many cases it is expected that specific responsibilities, such as accounting for use of the sub-grant funds, will often be delegated by the principal to specialist staff in the school.

Implementation Sequence

The sub-grant implementation would entail the sequence of events described below.

- a) Participation of school principals and presidents of school Boards of Trustees in orientation meetings, to be organized by technical assistance institutions, in close coordination with rayon and oblast staff. All interested schools included in the respective cycle would be invited – and required to attend these meetings, as a condition of grant eligibility. Informational flyers (1 to 2 pages) would be distributed in these meetings.
- b) Establishment of oblast evaluation boards (OEB), to be responsible for appraisal and approval of micro-projects submitted by schools.
- c) Organization of the first cycle of training and related activities for school teams and members of the OEB. Training would focus on procedures for grant application, including eligibility and evaluation criteria for participation. Standard forms will be distributed, as part of the Grant Operational Manual. The training activities will be carried out by the institutions recruited to provide assistance to schools in each oblast.

- d) Organization, by the school principal, of a general meeting of parents and school staff, on school premises, to explain to the community the principles and procedures of participation in the school grant program, with particular attention to the methodology for developing a Learning Improvement Plan. At this meeting, a school team will be elected to carry on the work, on behalf of the school community, and report back to the general assembly. Each school team will include the school director plus representatives from teachers (1–3 persons) and from parents (1–3 persons). Moreover, the president of the school Board of Trustees would fill in the sign-up forms, stating its interest in participating in the grant program. The TA provider will support the school principal in organizing this meeting.
- e) Organization of second cycle of training and related activities for school teams and members of the OEB. Training would include how to apply School Report Cards for school improvement planning, including micro-projects. Standard forms will be distributed, as part of the Grant Operational Manual. These activities will be carried out by the institutions recruited to provide assistance to schools in each oblast.
- f) First drafting of school Learning Improvement Plan by the school team, with technical assistance from the NPO specifically recruited for this purpose. A Learning Improvement Plan should embrace all activities that will be implemented by a school for learning improvement, including micro-projects carried out with grant resources and those financed by other resources. During the course of the work, as soon as the priority problems are identified, school teams would engage other teachers in the early phases of micro-project design.
- g) Presentation (and approval) of the Learning Improvement Plan to school community, in general meeting of parents, teachers and representatives of local government. Actual problems and proposed solutions are discussed and decisions are made on what actions the school will propose under the school grants, as eligible micro-projects.
- h) Submission, by school principals, of micro-project applications to the rayon compliance group, which would register them and check them for compliance with grant eligibility criteria. After performing its checks, the rayon would deliver the complete package of proposals from all schools to the rayon evaluation board, to be specifically set up by PIU for this purpose, at the oblast level. At the time of proposal delivery, the school director will receive a registry number.
- i) First review of grant proposals by the oblast evaluation board, with help from the TA provider of other oblast (that is, the TA provider of Issykul oblast will assist the oblast evaluation board of Talas oblast; and vice versa). To perform their duties, board members will receive training from the TA provider.
- j) Feedback, in writing, by Oblast Evaluation Board to schools, with specific recommendation: (a) approved as is; (b) approved as long as the school agrees to improve proposal, or (c) not approved (and justification).
- k) Schools refine and revise their respective proposal(s), with technical assistance from the consultant, if improvements are deemed necessary by the Oblast Evaluation Board.
- l) Final review of school micro-projects proposals, by the Oblast Evaluation Board, in meetings organized and facilitated by the technical assistance providers. Additionally,

the technical assistance provider of Talas oblast will be a member of the OEB for Issykul, and vice-versa.

- m) Submission of recommendations of the Oblast Evaluation Board to the PIU for follow-up actions, including signing of grant agreements, disbursements and monitoring.
- n) Signing of grant agreement by school director, president of school Board of Trustees and PIU director.
- o) Disbursement, by PIU, of first installment (of a planned four) of grant monies to the school accounts, which are managed by the school principal under the supervision of the school Board of Trustees.
- p) Implementation of micro-projects by teams specifically chosen for this purpose by the school community, including periodic reporting; goods are procured via shopping, minor works are contracted via price quotation comparisons, services are recruited via short list, etc.
- q) Completion and final reporting, including mid-term review and ex-post final assessment of effectiveness of grants vis-à-vis learning conditions in schools.

Implementation Schedule

All schools will have a chance to partake in the grant program, but not at the same time. Three cycles are envisaged: cycle 1, during 2005–7, for the 30% of schools in poorest villages in each rayon of both oblasts; cycle 2, during 2006–8, for the 40% of schools in richest villages in each rayon of both oblasts; and cycle 3, during 2007–9, for the remaining schools in two selected oblasts. Schools selected for participation in one cycle, but which fail to succeed in completing the application process within the established timetable, will be allowed to take part on the subsequent cycle.

Timetable

Assuming that the Project will be effective by mid-2005, and that the technical assistance (see below) will be in place by the same time, the following timetable was agreed for the first cycle of grant awards:

August, 2005: launch of program in oblast-level orientation meeting
September, 2005: organization of general orientation meeting at school level
October–November, 2005: training of school teams
December, 2005: drafting of Learning Improvement Plan by school team
January, 2006: presentation Learning Improvement Plan to school community
End of January 2006: submission of micro-project applications to rayon compliance group
Early February 2006: rayon staff checks proposals for compliance and delivers them to oblast
Late February, 2006: the first review of proposals by oblast evaluation board
Early March: feedback to schools by oblast evaluation boards
Late March, 2006: refinement and finalization of grant proposals by schools
April, 2006: final review of grant proposals by external decision committee
Early May, 2006: receipt by PIU of list of approved micro-projects
Late May, 2006: signing of grant agreements
June, 2006: disbursement of the first of four installments of grant funds.
July–June of following two years: implementation of grants for cycle 1 schools

Mid-2007: mid-term review

Mid-2008 (end of school year 2007): completion of first cycle

Subcomponent 2 – Technical Assistance (US\$450 thousand for 300 schools = average of about US\$1,700 per school).

This sub-component will support orientation and training of school teams and rayon and oblast staff, as well as hands-on support to schools and communities to prepare and implement viable learning improvement plans, including micro-projects. Its primary focus will be the finance of consultants to work directly with schools. The component will also support the activities, including travel and per diem, of the Oblast Evaluation Board, as part of the contract with the PIU. It will also finance ad hoc studies, as necessary – for example, on the basis for improving the regulatory framework affecting school-based governance and management (including expenditures and accounts); and a retrospective evaluation of the effectiveness of school grants, during the last year of the project.

Technical assistance (TA) to schools will be provided by a non-commercial, not-for-profit organization to be recruited for this purpose. This TA provider could be an NGO, foundation or other autonomous, not-for-profit institution. Regional education institutes may be eligible, if they are found to be autonomous organizations. The technical assistance would cover technical soundness and potential effectiveness of proposed actions, as well as adequacy of budget. The organization is to be selected using a competitive Quality-Based Selection (QBS) process. The contracted institution should have extensive experience in the provision of technical assistance to schools for the preparation and implementation of school improvement plans, with focus on learning and learning conditions.

A key element of this component is the training of school teams, representatives from the rayon and oblast education departments, and members of the oblast evaluation boards. For the former, the TA provider will organize workshops at the rayon. These workshops would cover both the methodologies of school development planning and execution, as well as the logistics of grant application and management, including procurement and reporting details. For the latter, the TA provider will organize seminars at the appropriate level (rayon, oblast and/or PIU). These workshops will inter alia focus on the technicalities of grant proposal evaluation, including feedback to schools.

The TA provider will also organize school visits by outreach officers for provision of technical assistance to school teams in the preparation of LIP, including micro-projects. Outreach officers will be responsible for a certain number of schools (estimated as 20 per full time consultant). School principals from these schools are to receive, from the TA provider, practical training on education administration, including leadership skills, budgeting, conflict resolution, fund raising, and community involvement.

Technical assistance would cover both preparation and implementation of Learning Improvement Plans. Standardized procedures and forms will be developed by the TA provider, in close coordination with PIU staff, as well as consultations with rayon and oblast education department staff. The experience of other projects (such as PEAKS and the Village Investment Project) should be reflected in the work of the local consultants. At least two institutional contracts would be awarded: (a) one for the technical assistance provider for Issykul schools; and (b) one for the technical assistance provider for Talas schools. Individual consultants will be recruited to assist the MOE in development of school report cards (or school profiles).

Timetable

It is expected that the technical assistance providers will be contracted before the effectiveness of the overall project. To this end, draft terms of reference were prepared during appraisal. The timetable for the following follow-up actions was also agreed:

December, 2004: finalization of Terms of Reference (TORs) and agreement on short-lists

January, 2005: issuance of invitations for submission of proposals

January–February 2005: preparation of proposals by invited institutions

March 1, 2005: submission of proposals by invited institutions

March 2005: review of proposals by evaluation committee

April 2005: review of recommendation by World Bank

May 2005: negotiation and signing of contract

June 2005: beginning of work

Component III – Textbooks and Learning Materials (US\$6.7 million, of which IDA grant of US\$6.5 million)

This component aims to improve student learning by: (a) improving the quality of teachers' guides and textbooks for teachers and students in grades 1 to 9, (b) improving textbook availability to ensure that in these grades all teachers and students have copies of the core titles that they need, and (c) providing learning materials other than textbooks and teachers' manuals to all schools. The focus of textbook provision will be on providing textbooks in core-curriculum subjects for which no textbooks are currently available. By providing teachers' guides and textbooks, the component will benefit students and teachers in grades 1 through 9 in both rural and urban schools. All public schools offering grades 1 through 9 will be eligible to receive textbooks under the project. These include "complete secondary schools" which offer instruction in all grades 1 through 11, as well as schools offering just grades 1 through 9 and 1 through 4. Other educational materials will be provided to both rural and urban schools under the project, under a per-capita allocation formula which gives preference to rural schools.

Textbook quality will be improved by the introduction of textbook competitions using the World Bank's new *Standard Bidding Documents for the Procurement of Textbooks and Reading Materials*, which will ensure transparency in the procurement process, and by the establishment of an autonomous Textbook Approval Board which selects textbooks and monitors the quality of textbook content using publicly available evaluation criteria and weightings. The component will also fund the provision of authorship and publisher training which will help raise the quality of textbook content and will help enlarge the currently limited pool of authors.

Textbook availability will be improved by funding the production of the winning titles in the textbook competitions and ensuring that they are available for sale to those parents and students who can afford to buy them and for rental to those who cannot. The component will put in place a new rental scheme that will ensure the continued sustainability of textbook provision after project completion. The new textbook rental scheme will be merged with and jointly managed with the existing textbook rental scheme. Provision will be made to ensure that those parents and students who cannot afford to pay all or part of the textbook rental fees will still be provided with books.

Learning materials other than textbooks and teachers' manuals will be provided to schools on a demand-driven process in which schools are awarded vouchers which they can exchange for learning materials. In spending their schools' vouchers, school principals and teachers will be able to make their own choices of materials from a wide range that will be displayed at a series of Learning Materials Fairs which will be held throughout the country.

Disbursement of funds for textbook procurement under the project will be contingent upon the establishment of a Textbook Approval Board with terms of reference satisfactory to the Bank, and the adoption of an improved textbook rental scheme satisfactory to the Bank. Prior to Negotiations for the project, the Government is expected to provide assurances in the form of a *Letter of Textbook Development Policy* that it will carry out an agreed program of reforms in its policy for textbook provision. This will cover in particular the introduction of competitive, fair, and transparent methods for selecting and procuring textbooks, and the introduction of the proposed textbook rental scheme and the integration of the existing scheme within it. Among other topics that will be covered in the *Letter of Textbook Development Policy* are the provision of free textbooks to those who cannot afford to rent them, the sensitivity of textbook content to a wide range of issues, the provision of textbooks to minority language groups, the protection of intellectual property rights, and the commitment of the Government to alter the status of government entities to enable them to take part in International Competitive Bidding (ICB) on the same terms as private-sector entities.

The component comprises three sub-components: textbook provision, provision of learning materials, and improvement of the textbook rental scheme.

Subcomponent 1 – Textbook Provision

An autonomous Textbook Approval Board (TAB) will be set up which will be responsible for establishing the technical specifications which authors, publishers and printers will be required to meet and the evaluation criteria and weightings on which their bids will be evaluated when bidding to develop and produce new textbooks and teachers' guides. These criteria and weightings will be made public. The TAB will also establish the ratio between the points score for quality and that for price that will be used to identify winning bids. This will put a substantial emphasis on quality.

Figures of the actual numbers of textbooks and teachers' guides that exist in primary and secondary schools at present and of specific shortages are already available. Agreement has to be reached on the subjects and grade levels of the textbooks that are most urgently needed. This entails deciding which subject textbooks are considered to be core textbooks at each grade level and which are considered to be non-core, since initially only core textbooks will be reprinted or replaced. This task will be carried out by the Textbook Approval Board as soon as it has been established and will involve the TAB's panel members, in consultation with school principals, teachers and subject specialists. The TAB will also prioritize the list of textbooks by subject and grade level for provision under the project.

The TAB's panels will then conduct an analysis of existing textbooks and teachers' guides in the core subject areas and appropriate grade levels. They will determine whether they are consistent with the Ministry's content standards (such as the promotion of critical thinking) or can be made so with only minor changes. If existing titles are found to be suitable, or almost so, minor improvements may be developed to prepare these titles for reprinting under the component. This would be carried out through publishing services procured under the World Bank's *Guidelines for the Procurement of Consultancy Services*. The manufacture and distribution of titles selected by the TAB for reprinting would be subject to International Competitive Bidding.

Those titles that cannot be reprinted will be replaced with newly developed textbooks and teachers' manuals, in order of the priority established by the TAB and agreed with the Bank. This will be carried out through a series of competitive procurement following World Bank procurement procedures for International Competitive Bidding. These will cover the

development, manufacture and distribution of new textbooks. The provision of new textbooks and teachers' manuals involves distinct services of authorship, publishing, manufacture, and distribution. These services are to be procured either separately or in combination, as agreed with the Ministry and the Bank. As an essential part of the bid evaluation process, the TAB will organize subject evaluation panels and will oversee the evaluation process in order to identify the winning competition entries. The panels will then work with winning publishers and authors and will review manuscripts, illustrations and page layouts at successive stages during the development process and will make recommendations for changes and improvements. Finished copies of textbooks – whether reprints or new titles – will be distributed to schools free of charge either directly or via the rayon education offices. They will then be included in the new Textbook Rental Scheme. Additionally a special version of every title, which will carry a different cover from that for use in the textbook rental scheme, will be made available to the retail book trade so that those parents who wish to buy copies for their children rather than rent them will be able to do so.

For many years, textbook authorship has been in the hands of a very small number of people many of whom have had little or no classroom experience. The quality of content, appropriateness for present-day teaching and learning and general user-friendliness of Kyrgyz textbooks all need to be improved. This is to be carried out by widening the pool of authors and by providing appropriate training for both existing and new authors, and also for publishers. The establishment of the Textbook Approval Board (TAB) is a key prerequisite in this process. It is vital that this entity be autonomous and unbiased so that it can play a major role in raising the quality of the content of all teaching/learning materials in Kyrgyzstan's schools. Members of the board itself and of the TAB's panels need to have a very clear understanding of what the new generation of textbooks should contain and how they should be structured. The staff of the TAB are likely to consist of a full time chairperson, two members of staff (probably academics) who will be part time, working for 50% of their time and a full time secretary/computer operator. Staff salaries for the TAB will be met from project funds throughout the project, and by membership dues paid by authors and publishers after project completion.

The choice of members for the TAB should not be the sole responsibility of the MOE nor of the Academy of Education. It will be necessary to appoint a panel with representatives from the MOE, the Academy, academics and practicing teachers to agree on board membership. The TAB will appoint panels to carry out the evaluation of a wide range of different educational materials. The members of each of the panels - of which there will need to be several - will have to be specialists in the subject areas and grade levels of the materials that they are evaluating. They will receive training in evaluation. Panel membership will not be a permanent. The TAB management will regularly change the composition of panels to ensure that evaluation is unbiased as possible.

The panels will use the criteria and weightings that the TAB itself will develop for the evaluation of different educational materials. The TAB will adjudicate if the authors and/or publishers challenge the panels' findings and on very rare occasions may have to set up a new panel to carry out the evaluation process again.

Additional tasks to be handled under this sub component are the identification of potential authors and the organization of authorship and publisher training. It is intended that the training within this project and that within the USAID funded PEAKS project will be coordinated.

It is essential that the pool of authors of both textbooks and other teaching and learning materials should be enlarged in Kyrgyzstan. Textbook authorship is currently virtually a monopoly of the Academy of Education. If authors are not members of the Academy themselves they are chosen by the Academy. A new generation of books is going to need a new generation of authors.

Potential new authors will be identified in the course of textbook competitions. Those who then benefit from project funded training will not necessarily be solely the winners but will also include those who come close to winning. Publishers will be asked to identify new authors who could benefit from training.

The most effective form of authorship training is that which is carried out on-the-job. This entails trainers working with an author or a team of authors over a period of time while a new title or new titles are being developed. The trainers must be able to communicate directly with the author or authors even if they do not necessarily have mastery of the language which is used in the textbooks themselves. Since Kyrgyz authors are likely to be Russian speakers the potential pool of trainers is a large one. Trainers will be employed using the World Bank's guidelines for the procurement of Consultancy Services.

The alternative to on-the-job authorship training is to invite foreign authors to Kyrgyzstan to lecture on the subject of textbook authorship. This is far less effective.

Subcomponent 2 – Improvement of the Textbook Rental Scheme

The project will set up a textbook rental scheme that will provide parents and students with textbooks at an affordable cost and will also ensure that books are replaced when they wear out. The letter of Textbook Development Policy (Annex 6A) describes the actions which the Government will take to ensure that this occurs, and confirms that the Government is committed to carrying out these actions. It is also intended that this rental scheme will be merged with the one that was set up to rent books funded through the Asian Development Bank loan.

The Textbook Rental Fund (TRF) will be administered by a Board of Management and managed by a Textbook Fund Manager. The Board of Management will be chaired by the Minister of Education and include representatives from the Ministries of Education and Finance and other appropriate bodies as well as the Textbook Rental Fund manager. It will be established as an autonomous entity linked to the Ministry of Education.

Rental fees will be set annually by the Board of Management at a level that is both affordable by the majority of students and which allows for the replacement of the textbooks when they wear out. The Board of Management may when appropriate agree that any surplus in the fund should be used for the procurement of new textbooks.

Schools' rental funds will be held in individual bank accounts or sub-accounts and all investments of the funds will be made under the control and responsibility of the Board of Management.

Accumulated rental fees will only be used for the replacement of those textbooks for which the fees were paid, unless the Board of Management of the TRF agrees that any surplus in the fund should be used for the procurement of new textbooks

Schools' debts for textbooks in the existing rental scheme which were funded prior to as well as through the Asian Development Bank loan will be written off and the fund itself will be merged with that which will be set up under the Rural Education Project as soon as feasible after project effectiveness.

An essential feature of the TRF is that it should ensure that students whose parents are unable to pay all or part of the rental fees should nonetheless be provided with textbooks. Initially this will

be achieved by producing additional copies of each title over and above the immediate requirement for rental fee paying students. This will delay the requirement for additional funding until the books need replacing. Plans for government funding will have to be drawn up well before that point.

The TRF will be managed from Bishkek but will have a member of staff in the education department of each oblast. These staff members will monitor the number of students requiring specific textbook titles, the book stocks held in the schools, the payment and banking of rental fees, the way in which rented books are looked after and their potential life span.

Special computer software will be used both in Bishkek and in each oblast to ensure that the comprehensive records of the TRF can be kept fully up to date.

Books in the rental scheme will initially consist of those funded by the Asian Development Bank. These will be augmented by books that are produced through the textbook competitions held under sub-component 3.1. It is not intended that rental fees will be charged for titles that predate the independence of the Kyrgyz Republic.

Subcomponent 3 – Provision of Learning Materials

All schools will receive grants. The per capita value of these grants will be greater for rural schools than for urban ones. The sum will be calculated on the basis of a lump-sum for the school and a per-capita sum for each student. The exact formula for calculating the grants has yet to be drawn up. An essential factor is that schools must be able to prove that they have secure storage facilities for the items that they order.

The categories of materials from which schools will be able to choose are:

- Library Books (including supplementary readers)
- Visual Aids
- Science Equipment
- Technical Aids
- Consumable Materials

Percentage ceilings are to be set at appraisal on the amount that schools can spend on each category. A survey will be carried out by the PPU and consultants to build a list of all the varieties of materials that a range of different schools require. On the basis of this list, expressions of interest accompanied by samples and prices will be requested from both local and international suppliers.

The technical specifications will have been drawn up by panels appointed by the TAB. All items accepted by the TAB will then be included in a series of Book Fairs. Details will also be included in a printed catalog which schools will use in preparing their shopping lists.

The Book Fairs will be held in oblast centers and other appropriately situated towns. There will be total of ten fairs. Two will be held simultaneously in different parts of the country making five pairs of fairs in all. The purpose of this is to cut down on the time required to gather schools' orders. Head teachers and teachers from all the government schools in the oblast that provide education for students between grades 1 and 11, 1 and 9, and 1 and 4, will be invited to attend them. They will then decide exactly how their grants will be spent by drawing up costed shopping lists.

In order to ensure that, even if there are shortages of certain items, schools will be able to spend their entire grants, head teachers and teachers will prepare a second shopping list that will be used to allocate those funds that are not spent in the first round of shopping.

Once the schools have placed their orders these will be combined and contracts will be signed with each of the suppliers. A consolidator will be appointed who will be responsible for warehousing the items as they are received, for making up consignments for each of the schools and for delivering these consignments to the schools. Schools will sign that they have received what they ordered and the suppliers will be paid.

Component IV: Student Assessment (US\$1.6 million total cost, of which US\$1.5 million IDA grant).

This component aims to strengthen four main dimensions of student assessment: (a) school-based and classroom-based formative assessment, (b) formal examinations of all students at specific transition points (e.g. grade 9 and grade 11), (c) periodic sample-based national surveys of student achievement, and (d) international sample-based surveys of student achievement. In addition to these specific assessment areas, the component will strengthen the assessment function of the Ministry of Education by building professional capacity and specialist expertise and by establishing a sustainable, identifiable professional/technical unit that can take responsibility for all four dimensions of student assessment listed above. This new unit will complement the existing Independent Testing Center (ITC), which carries out the national university entrance examination and will continue to perform that function.²⁰ The component comprises five sub-components:

- **Improvement of school-based and classroom-based formative assessment.** This sub-component will promote “assessment for learning” (often referred to as “formative” assessment) through the development, field-testing and dissemination of teacher support materials, including sample tasks and tests that can be used by teachers to improve their own assessment practices. To familiarize teachers with these new approaches, the sub-component will present these support materials through a series of (oblast or rayon) workshops led by a small cadre of trainers who have been involved in the design, development and field-testing of the support materials.
- **Improvement of existing examinations.** This sub-component will assist the MOE and the Kyrgyz Academy of Education (KAE) to: (a) develop and introduce more challenging questions in the national examinations that allow students to demonstrate their ability to apply reasoning and independent thinking skills, and (b) make national examinations a better gauge of student ability by abolishing the current assessment practice of using only

²⁰ At present, the responsibility for the evaluation of learner achievement is fragmented among the Department for Evaluation in the MOE, the National Testing Center, and the Independent Testing Center (ITC). Currently, these bodies do not systematically co-ordinate their work with each other; communication is limited; technical and professional skill levels are different (and very limited, in the case of the NTC and the Department), and expertise is not shared. Of these bodies, the ITC is the most important source of professional expertise in student assessment. It was established with assistance from USAID and its contractor, the American Councils for Collaboration in Education and Language Studies (ACCELS), and performs a vital role as the independent body which administers the national university entrance examination. Because independence is crucial to the objectivity and integrity of the national university entrance examination, it is appropriate that the ITC should continue to perform that role in the future. Like the Educational Testing Service in the United States, the ITC will also provide specialist advice and professional services on a contractual basis to the new Ministry assessment unit, as well as to other clients.

previously-available test questions.²¹ This will involve technical assistance to MOE and KAE specialists to prepare and field-test improved assessment questions and answers (or “items”). Once field-tested and calibrated, these improved test items are to be gradually introduced into new editions of the test booklets, and into the national examinations. Under this subcomponent, the current practice of annual promotion exams will also be reviewed and brought more into line with agreed achievement standards for each grade level.²²

- **Periodic sample-based national surveys of student achievement.** Two useful sample-based surveys have been undertaken in Kyrgyzstan – the first in 2000/01 at grade 4, and the second in 2002/03 at grade 8. These studies, “Monitoring Learning Achievements” (MLA), were financed by UNICEF/UNESCO, with active participation by the MOE and KAE. These surveys, and the May, 2005 repeat of the grade 4 survey, will serve as baseline studies for the Project. This sub-component will finance and support at least three follow-up periodic sample-based national assessments of the same skills, based on the same sampling frame. This subcomponent will also support the improvement of test items for these sample surveys. Consultant support for this activity is to be contracted on a sole-source basis with the Independent Testing Center, which is the only organization with the necessary professional expertise (including Kyrgyz language proficiency), experience, and security provisions for this task. The actions to be supported under this subcomponent will establish a regular cycle to assist the MEC and the general public in monitoring education quality and learner achievement over time. These surveys will also provide the basis for monitoring the educational impact of the project interventions in the two pilot oblasts. Options for the timing and subject coverage of these national assessments have been proposed to the MEC for policy decision.
- **Participation in the OECD PISA international student assessment.** This sub-component will finance Kyrgyzstan’s participation in the 2006 round of the OECD/PISA international student assessment survey, including the routine national and international costs of PISA participation, as established by OECD. In view of the unique character of the OECD/PISA survey, Kyrgyz participation in the survey will be carried out under sole-source procurement.
- **Capacity building in modern practices and techniques in student assessment.** This subcomponent aims to strengthen the assessment function of the Ministry by building capacity and specialist expertise and by establishing a sustainable, identifiable professional/technical unit (provisionally called *The MOE Assessment Unit*) that can take responsibility for all four dimensions of student assessment described above.²³ It will assist the MOE in developing its assessment and evaluation function by providing technical assistance and advice in: (a) the design of such a unit, and the definition of its

²¹ In mathematics, for example, the MEC/KAE publishes all the questions in a booklet that remains in force for 5 years and can be bought in shops for about 10 soms (\$0.25). Essay questions and the questions to be asked in oral examinations are published in newspapers prior to each exam. See detailed discussion in “Technical Annex on Curriculum and Assessment Issues”, World Bank Identification Mission, June 2003.

²² Under these standards, exams will no longer be held at the end of each grade, and where they *are* used - e.g., at the end of grades 5 and 7 - they are to be used for *all* students regardless of average marks, in order to ensure that *all* have reached the required standard.

²³ At present, the responsibility for the evaluation of learner achievement is fragmented among the Department for Evaluation in the MEC, the National Testing Centre, and the Independent Testing Organization (ITO). They do not systematically co-ordinate their work with each other; communication is limited, technical/professional skill levels are different (and very limited, in the case of the NTC and the Department), and expertise is not shared.

tasks, its level of independence, and its institutional relationships; (b) recruiting and designing training programs for local specialist staff; (c) defining and advising on technical and material resource requirements (security, equipment, logistics). The sub-component will also provide opportunities for capacity building through participation in international specialist organizations and conferences in learner assessment, participation in regional activities related to learner assessment, and modest professional resources such as books, journals, etc.

Component V: Education budgeting and strategic planning. (US\$1.8 million total cost, of which US\$1.8 million IDA grant). This component will support technical assistance, training, commissioned studies and workshops to strengthen budget planning, strategic planning, and monitoring and evaluation in the Ministry of Education. The general objective of the subcomponent is to strengthen education strategy development with a focus on optimizing educational outcomes within prevailing resource and implementation constraints. A specific objective is to strengthen annual and medium-term budget planning by the Ministry of Education in order to: (a) provide a stronger evidence-based rationale for the Ministry's annual and medium-term budget proposals, (b) achieve better educational results with available budget and donor resources, and (c) mobilize and attract additional resources. In the medium term, the actions supported under this component are expected to develop the MOE's capacity for program budgeting and results-based management. Among other benefits, this would equip the Ministry to implement a possible future programmatic operation financed by multiple donors under a Sector-Wide Approach Project (SWAP).

The activities to be carried out under this subcomponent are also expected to equip Ministry of Education staff to play a stronger role with the Ministry of Finance and other partners in the budget planning process, and in other policy deliberations which impact the education sector. Important examples are: (a) work with the Ministry of Finance on the appropriate level and composition of education financing in the annual Republican budget and Medium-Term Budget Framework, (b) the ongoing work with the Ministry of Finance under the Governance Structural Adjustment Credit (GSAC) and the Governance Technical Assistance Credit (GTAC) to improve the financing formula for education, (c) work with the Poverty Reduction Strategy Paper (PRSP) Secretariat in developing a prioritized implementation plan for educational interventions under the PRSP, and (d) work with the Ministry of Local Administration and other relevant agencies to develop sound recommendations for the proposed administrative restructuring to consolidate the oblast and rayon levels of administration. Education programs are likely to be seriously impacted by these actions, but the Ministry of Education is often not invited or not equipped to contribute to their development.

The Education Budgeting and Strategic Planning component comprises three subcomponents:

- **Capacity building.** This subcomponent will support training, technical assistance, and office equipment and software to help establish a new *Education Budgeting and Strategic Planning Unit* in the MOE. The new *Education Budgeting and Strategic Planning Unit* will report directly to the Minister of Education, in order to provide a strategic overview of all the Ministry's activities. This new unit could eventually replace the MOE's current Economics Department, which reports to one of the MOE's three Deputy Ministers.
- **Commissioned policy studies.** This subcomponent of the project will support the preparation of four annual cycles of commissioned papers on priority topics of education budgeting and strategic planning, to be awarded under a competitive process with international peer review, and annual policy workshops to discuss the findings and recommendations of the strategy papers. The first annual cycles of commissioned

strategy papers and policy workshops are expected, *inter alia*, to address topics b through e, above. Topics for these and subsequent cycles are to be agreed with the Bank during implementation. In parallel with the commissioned policy studies financed under the Rural Education Project, additional policy studies are to be commissioned under the same process and financed by the Asian Development Bank under its Third Education Project, currently under preparation. Proposed topics for the ADB-financed studies include the program requirements for transition from eleven-year to twelve-year secondary education, and constraints to school attendance and interventions to raise school attendance.

- **Monitoring and Evaluation.** This subcomponent will support technical assistance, studies, and surveys to monitor and evaluate project outcomes and broader educational trends. An important source of information on educational outcomes (including educational outcomes of the project) and trends is the annual sample-based surveys of student achievement which are to be carried out under Component IV of the project. The monitoring and evaluation subcomponent will support actions to provide additional information on the outputs and outcomes of the project, as well as information on broader educational trends. This will include: (a) commissioned project impact studies for specific impact areas such as school attendance, (b) preparation and dissemination of “school report cards” in the two pilot oblasts, (c) improvements in the generation and use of education statistics through training and technical assistance, (d) improvements in the reporting format (or questionnaire) in which schools report enrollments and student flows, and (e) publication of annual yearbooks of education statistics. It is also expected that the inefficiency and ambiguity involved in the current parallel systems of education statistics²⁴ will be eliminated during project implementation through consolidation of the two systems. Monitoring and evaluation will also include routine reporting of implementation progress, including the preparation of semi-annual progress reports, as well as the mid-term review that is planned for May, 2007.

Component VI: Project management (US\$1.0 million, of which US\$1.0 million IDA grant)
The objective of this component is to ensure effective administration and coordination of the project activities. The implementing agency for the project will be the MOE. Strategic orientation and oversight for the Project will be provided by a National Council, chaired by the Vice Prime Minister for Social Affairs, which is in the process of being established. The Council will comprise representatives of: the Ministry of Education and Culture, the Ministry of Finance, the Ministry of Labor and Social Protection, the Comprehensive Development Framework Secretariat, the President’s Administration, the Prime Minister’s Office, the Ministry of Local Self-Government, and the Parliamentary Committee on Education. This Council will also provide oversight to the other donor activities in the sector, to ensure coordination of the education program. The Council will meet semi-annually, and additionally as appropriate. In addition, Project Coordination Committees will be set up in each of the two oblasts – Talas and Issykul – to provide oversight to the project activities in the respective oblasts.

The Project Implementation Unit (PIU) will: (a) coordinate project implementation, and manage the resources of the project; (b) procure all Bank-financed goods and services under the project; (c) operate the financial management system according to World Bank requirements; (d) act as liaison between the technical agencies involved in the project and the World Bank; and (e) carry

²⁴ There are at present two duplicative sources of education statistics: the school survey which was inherited from the Soviet Union and managed by the National Statistics Committee, and the new school survey which was established under the ADB Education Sector Reform Project. This duplicative system is inefficient, unnecessarily burdens school administrators, and leads to ambiguity of results.

out, on an annual basis, an independent audit of the project. Specifically, in its management capacity, the PIU will ensure that: (i) the project activities are well-coordinated; (ii) issues affecting or potentially affecting project implementation are identified and addressed in a timely manner; (iii) technical advice is provided to project component coordinators and relevant MOEC staff in how to develop work plans, write terms of reference, and effectively manage consultant services; (iv) necessary project inputs are provided in a timely and cost-effective manner; (v) project resources are appropriately managed in accordance with Bank requirements for procurement and financial management; (vi) effective project monitoring and progress reporting are carried out; and (vii) there is a systematic out-reach to various stakeholders to promote project objectives.

The component will finance: (a) minor refurbishment of the Project Implementation Unit (PIU) office space agreed between the MOE and the Bank; (b) adequate office equipment and supplies, and a project vehicle; (c) technical assistance and training for PIU staff in project management, procurement and financial management; (d) annual external audit of the project; (e) public information specialist support to the project; and (f) incremental operating costs for the PIU, including vehicle and equipment operation and maintenance, communications costs, banking fees, transportation costs, meeting expenses, advertisement fees, representation, and office security arrangements.

Implementation of the Project will be the responsibility of the Ministry of Education, which will be the implementing agency for this project. Overall management of the Project will be carried out by the Rural Education Project Implementation Unit (PIU). This is to be an expanded version of the Project Preparation Unit (PPU) which is currently managing preparation of the project under the PHRD Grant on behalf of the Ministry of Education. The PIU will act as both the coordinating unit for technical implementation of the components, and the “business office” for the project. The PIU comprises: (a) a Director, who is responsible for coordinating the day-to-day project activities, as well as the business office functions of project management, and liaising with the World Bank and the MOE Departments implementing project components; (b) a Financial Manager and Disbursement Specialist; (c) a Procurement Specialist; (d) an Office Manager; (e) a Secretary; (f) a Public Information Specialist; (g) five full-time Coordinators for each project component, who will ensure coordination among related implementation units within the MOE; and (h) an oblast coordinator and an accountant for each of the two oblasts covered by the project. A project assistant (driver/logistics support) for the PIU will also be supported by the Grant. In addition, the PIU will include a number of national consultants and will engage international consultants on a temporary and as-needed basis. In particular cases, accessing the required expertise may require engaging civil servants as consultants.

Coordination with the Asian Development Bank (ADB) financed Project. Both the World Bank and the ADB are planning education projects that will become effective in 2005. In order to better serve the interests of the MOE in implementing an integrated program for education reform, the two agencies have agreed on coordination arrangements that will ensure close cooperation between the two projects. While maintaining administratively separate project implementation units, the two projects will have a shared strategic perspective, ensured by the National Coordinator and the National Council. Those project activities which will have input from both projects, e.g., textbooks and teacher training, will require close cooperation between the two projects. In order to increase communication and understanding, the ADB and World Bank supervision teams will, to the extent possible, plan overlapping missions, and the two project units will share common premises within the MOE. To further harmonize the two units, a unified salary scale for the project unit staff will be agreed.

Annex 5: Project Costs
KYRGYZ REPUBLIC: Rural Education Project¹

Project Cost By Component and/or Activity	Local US\$ million	Foreign US\$ million	Total US\$ million
A. Improved Teacher Incentives	2.0	0.4	2.4
B. School Grants for Improved Teaching and Learning	0.3	1.5	1.8
C. Textbooks and Learning Materials	2.1	4.0	6.1
D. Student Assessment	0.9	0.6	1.5
E. Education Budgeting and Strategic Planning	1.3	0.4	1.7
F. Project Management	0.7	0.2	0.9
Total Baseline Cost	7.4	7.1	14.5
Physical Contingencies	0.3	0.5	0.8
Price Contingencies	0.0	0.2	0.2
Total Project Costs²	7.7	7.8	15.5
Interest during construction			
Total Financing Required	7.7	7.8	15.5

¹ Numbers may not add due to rounding.

² Identifiable taxes and duties are US\$2.2 million, and the total project cost, net of taxes, is US\$13.3 million. Therefore, the share of project cost net of taxes is 17 percent.

Annex 6: Implementation Arrangements
KYRGYZ REPUBLIC: Rural Education Project

The Ministry of Education (MOE) will be the lead implementing agency for the Project, responsible for project management. Strategic orientation and oversight for the Project will be provided by the National Council, which is in the process of being established and will be chaired by the Vice Prime Minister for Social Affairs. The Council will comprise representatives of the Ministry of Education, the Ministry of Finance, the Ministry of Labor and Social Protection, the Comprehensive Development Framework Secretariat, the President's Administration, the Prime Minister's Office, the Ministry of Local Self-Government, and the Parliamentary Committee on Education. This Council will also provide oversight to the other donor activities in the sector, to ensure coordination of the education program. The Council will meet semi-annually, and additionally as appropriate. In addition, Project Coordination Committees will be set up in each of the two oblasts – Talas and Issykul – to provide oversight to the project activities in the respective oblasts.

A Project Preparation Unit (PPU) has been recently established to manage the PHRD Grant funds which are supporting project preparation. It is already implementing the project preparation activities. For project implementation, the PIU will build on this unit and will comprise: (a) a Director, who will be responsible for coordinating the day-to-day project activities, as well as the “business office” functions of project management, and liaising with the World Bank and the MOE Departments implementing the project components; (b) a Financial Manager and Disbursement Specialist; (c) a Procurement Specialist; (d) an Office Manager; (e) a Secretary; (f) a Public Information Specialist; (g) five full-time project component coordinators who will ensure coordination among the related implementation units within the MOE; and (h) an Oblast Coordinator and Accountant for each of the two pilot oblasts. A project assistant (driver/logistics support) will also be supported by the Project. In addition, the PIU will include a number of national consultants and will engage international consultants on a temporary and as-needed basis.

Each of the project components has a designated working group to assist in project preparation, established by Ministerial order. During implementation, there will be lead departments within the MOE responsible for each of the components/subcomponents. The Budget Department will be responsible for implementation of the Improved Teachers Incentives activities. The PIU will be responsible for implementation of the School Grants for Improved Teaching and Learning. The Textbooks and Learning Materials will be managed by the Educational Materials Department. The Student Assessment activities will be managed by the Student Assessment Unit. The Education Budgeting and Strategic Planning Component will report directly to the Minister.

The PIU, with technical assistance support, is in the process of preparing the Project Operational Manual (POM) which will cover arrangements for project implementation, including procurement and financial management requirements. The POM will also include all Terms of Reference for technical assistance assignments financed under the Project. For the School Grants for Improved Teaching and Learning (Component 2), a separate operational manual is being prepared to provide guidance on implementing this program.

Annex 6A: Letter of Textbook Development Policy

Mr. James W. Wolfensohn
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Wolfensohn,

The Government of the Kyrgyz Republic highly appreciates your contribution to the development of the economy and social infrastructure of our republic. As you are aware, there is an urgent need for the creation of new generation textbooks for all core subjects and for the provision of textbooks to all students of general schools. The Government of the Kyrgyz Republic, using effectively the support of the World Bank, intends to develop and realize consistent textbook development policy based on fair and transparent competition.

As a result of planned measures, the Government of the Kyrgyz Republic:

- intends to provide textbooks to all students at an affordable rental, and to supply textbooks free of charge to those students who are unable to pay the rental fees. It also intends to supply teachers' guides free of charge to teachers
- intends to ensure that textbooks are sensitive to issues of gender, religion, ethnic tolerance, language and ecology
- intends to supply minority language groups in the Kyrgyz Republic and children with special needs with appropriate textbooks
- will ensure that the intellectual property rights of authors, publishers and, where appropriate, of the government itself are fully protected under the law
- in order that they should be able to take part in competitive bidding the Government of the Kyrgyz Republic intends to ensure as early as possible within the life of the project that state entities involved in textbook development, manufacture and distribution will be made financially autonomous, according to the requirements of the World Bank
- intends to provide assistance in establishment of the Textbook Rental Fund. The Board of Management of the Textbook Rental Fund shall monitor the financial discipline of fund accumulation and coordinate the textbook order process
- will ensure that rental fees are only used for the replacement of those textbooks for which the fees were paid, unless the Board of Management of the Textbook Rental Fund agrees that any surplus in the fund should be used for the procurement of new textbooks

- will ensure the opening of an individual bank account for each school, and that rental funds will be held in individual bank accounts

The Government of the Kyrgyz Republic expresses its intentions for further fruitful cooperation with the World Bank Group.

Prime Minister:

N.Tanaev

Annex 7: Financial Management and Disbursement Arrangements

Country Financial Management Issues. Weak public financial management capacities and high perceived levels of institutional corruption are serious challenges facing the country. However, the Government appears committed to change the way its institutions work, and there is strong support for the initiatives included in the Governance Structural Adjustment Credit and Governance Technical Assistance Credit operations which support wide-ranging reforms in public administration, the civil service and public expenditure management. Overall, the standards and capacity of the accounting profession in the country are low. In 2002, the Government promulgated International Accounting Standards (IAS) as the ruling standards in the Kyrgyz Republic. However, these standards are not widely used due to lack of experience with IAS. Most project implementing entities use the cash basis of accounting, which is not in accordance with IAS, but which in many cases is sufficient for proper project accounting. Internal audit is only found in a few institutions. External audit is practiced by individuals and a small number of audit firms. Most audits required by international organizations traditionally have been performed by the Big Four firms Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers, mostly with staff based in Almaty, Kazakhstan. In June 2004, the Bank conducted a review of audit firms to determine their acceptability to audit Bank-financed projects. The outcome of the review and revised list of acceptable audit firms will be communicated to the government and project implementing agencies when available. To minimize financial risk, there has been the need to “ring fence” financial resources in Bank projects in order to provide the appropriate fiduciary safeguards.

Implementation arrangements. Project activities will be implemented by the Project Implementation Unit under the Ministry of Education. The PIU Director will be responsible for the implementation and coordination of all activities funded under the proposed project. There is a Project Preparation Unit (PPU) that is managing the PHRD grant for the preparation of the proposed project and the staff are developing experience in project financial management. The PPU will be converted into a Project Implementation Unit (PIU) with suitably qualified and experienced financial management staff. Staff will require additional training on Bank procedures related to financial management, disbursement and procurement functions. The financial management arrangements for the proposed Project will be strengthened by establishing a financial management reporting system, satisfactory to IDA. The financial manager will maintain accounts, produce financial reports, manage the disbursement function and generally be responsible for the entire financial management function of the project, in accordance with terms of reference acceptable to IDA.

Strengths and Weaknesses. Although the MOE has no prior experience with implementation of World Bank-financed projects, it has implemented projects financed by the Asian Development Bank. The financial manager of the PPU also has prior experience in project financial management, having previously worked as disbursement specialist and accountant in projects financed by the two institutions. The existing manual (excel-based) accounting system, though satisfactory for the grant, is not considered adequate to provide enough assurance for the larger amount of transactions that the project will have. The financial management system is in the process of being strengthened, under the direction of the financial manager, and it is expected that an acceptable financial management system will be in place before Board approval.

Staffing. A financial manager, already recruited into the PPU, will be responsible for project financial management, including project accounting, reporting, administration of the Special Account and auditing arrangements. The financial manager previously worked for an ADB-financed project in the same ministry, and has gained good experience with previous Bank-financed projects. She is expected to further enhance her skills and capacity for financial management during the implementation of the PHRD funded project preparation. During project

implementation, the financial manager will be assisted by a Disbursement Assistant, who will be responsible for processing withdrawal applications and maintaining records of all transactions through the Special Account. There will also be accountants hired to be responsible for project accounting functions at the oblast level. These staff will work under the general guidance and direction of the financial manager.

Accounting Policies and Procedures. Consistent with the implementation arrangements, and as will be reflected in the financial management section of the Operations Manual, accounts and records for the proposed project will be maintained by the PIU, using the project-specific financial management system (FMS). The FMS using a suitable accounting software, will be capable of producing Financial Monitoring Reports (FMR) in accordance with formats agreed with IDA. The PIU has incorporated in the draft Operational Manual financial procedures to guide the financial management functions of the project and that establish key internal control mechanisms on the application and use of project funds. The accounting system for the preparation phase is manual (spreadsheet-based), and is not considered adequate for the level of activities for the main project. This will be replaced by a fully automated project accounting system once an appropriate accounting software is installed. It is expected that the accounting software will be installed and fully tested by the end of November 2004. The FMS will be capable of recording all transactions and balances, supporting the preparation of regular financial statements, and safeguarding the project's assets.

Planning and Budgeting. The PIU will prepare annual budgets in line with the Project Implementation Plan, and these budgets will form the basis for spending and requesting funds from the Government for counterpart contribution. These budgets, prepared in accordance with the FMR format (disbursement categories, components and activities, financiers, account codes, and by quarter), will establish physical targets to ensure a proper comparison between actual and budgeted performance. The financial procedures will prescribe the appropriate manner for preparing budgets to satisfy both government and good financial management requirements. A detailed budget for the first full year of project implementation, broken down by quarter, will be prepared before the Grant becomes effective.

Financial Reporting and Monitoring. The PIU will maintain project accounts and will ensure appropriate accounting of the funds provided. It will prepare Financial Monitoring Reports (FMR) on a quarterly basis. The FMR includes: (a) Project Sources and Uses of Funds, (b) Uses of Funds by Project Activity, (c) Special Account Statement plus Local Bank Account Statement, (d) XDR Reconciliation, including reconciliation of exchange rates movement and total funds not spent and not committed, (e) Physical Progress Reports, and (f) Procurement Reports. These FMRs will be submitted to IDA within 45 days of the end of each quarter. The first FMR will be submitted after the end of the first full quarter following initial disbursement. Formats of the annual financial statements and the FMRs will be incorporated in the manual of financial procedures. The financial manager will be responsible for overall project financial management, maintenance of books and accounts for the project, preparation and dissemination of financial statements and FMRs, and timely audits of the proposed project. The financial manager will cooperate closely with the PIU Director in carrying out the financial management/disbursement responsibilities for the project.

Auditing Arrangements. There will be comprehensive annual audits of the project financial statements, covering all aspects of the project. The audits will be performed by independent private auditors acceptable to IDA, and in accordance with International Standards on Auditing (ISA) and the World Bank's guidelines on auditing as stated in the guidelines on *Annual Financial Reporting and Auditing for World Bank-financed Activities* (June 2003) and other guidance that might be provided by IDA. The tasks of the auditors will include both the audit of

financial transactions and an assessment of the operation of the financial management system (FMS), including a review of the internal control mechanisms. The annual audit reports will be in a format in accordance with ISA and World Bank guidelines, and they will include an opinion on the financial statements of the PIU, incorporating the project financial statements, including Special Account Reconciliation, and SOE Withdrawal Schedule, as well as a management letter. The audit reports will be submitted to IDA no later than six months after the end of the fiscal year to which they relate (i.e., by June 30 of each year). The cost of the audits will be eligible for financing from the IDA Grant. The PIU will provide the auditor with full access to project-related documents and records and with the information required for the purpose of the audit.

Disbursement Arrangements.

The proceeds of the IDA Grant will be disbursed over a period of five years. Withdrawals from the Grant Account will be requested in accordance with the guidance provided in the Disbursement Letter. Disbursements will follow the transaction-based method, i.e., the traditional Bank procedures (reimbursements with full documentation, Statements of Expenditure (SOEs), direct payments and special commitments). Reimbursement of funds will be made available to the PIU through deposits into the Special Account. Report-based disbursement (disbursements based on quarterly FMRs) is not considered feasible in the Kyrgyz portfolio at present. Minimum size of application for direct withdrawals and issuance of letters of Special Commitments from the IDA Grant account will be specified in the Disbursement Letter once the Grant is approved.

Allocation of Grant Proceeds.

The proposed Project has been designed to be implemented over a five year period. The disbursement arrangements are based on IDA’s appraisal of the financial management capability of the implementing ministry and its institutions, as well as the experience and lessons learned from current and previous projects in the Kyrgyz Republic portfolio. Project procurement and disbursements are synchronized in a manner that allows for a six-month disbursement lag from the time of completion of a project-funded activity to the release of the Grant funds to the supplier/contractor. Project Completion Date, by which time all activities should have been initiated or completed, is set for September 30, 2009. Grant funds are expected to be fully disbursed by the Project Closing Date of March 31, 2010. The disbursement categories and amounts and percentages to be financed under each category are presented in Table A below:

Table A: Allocation of Grant Proceeds

Expenditure Category	Amount in US\$ equivalent	Financing Percentage
1. Civil Works	39,800	100%
2. Goods, equipment and material	5,294,600	100%
3. Sub-grants under Part B.1	1,215,000	100% of the disbursed amounts
4. Consultant Services, including audit	4,722,300	100% of local expenditure; 90% of foreign expenditure
5. Training	926,500	100%
6. Incremental Operating Costs	275,800	100%
7. Teacher Incentives	1,026,000	100%
8. Unallocated	1,500,000	
TOTAL	15,000,000	

Use of Statements of Expenditure (SOEs): Disbursement arrangements under the Project will be carried out using SOE procedures for: (a) works and goods costing less than US\$100,000 equivalent; (b) services of consulting firms costing less than US\$100,000; (c) services of individual consultants costing less than US\$50,000; and (d) training, sub-grants, incremental operating costs and teachers' incentives payments, all under such terms and conditions as the Association shall specify by notice to the Recipient. The required supporting documentation and other records will be retained by the PIU for at least one year after the receipt by IDA of the audit report for the year in which the last disbursement was made. This documentation will be made available for review by the independent auditors and by the visiting IDA staff upon request.

Special Account: To facilitate timely project implementation, the Recipient will establish, maintain and operate, under terms and conditions acceptable to IDA, a Special Account for the Project, denominated in US dollars in a commercial bank acceptable to IDA. The selection process and criteria for selection of the bank will be in accordance with World Bank guidelines. Payment of eligible expenditures (civil works, goods, services, grants, and operating costs) may be made by the PIU out of the Special Account. The authorized allocation is US\$1,000,000. The initial deposit into the Special Account will be US\$500,000, until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by IDA shall be equal to or exceed the equivalent of SDR2.5 million. The Special Account will be replenished at regular intervals, preferably monthly. Replenishment applications will be submitted on a monthly basis and will be accompanied by full documentation, including monthly bank statements of the Special Account, for all items except those eligible for disbursement on the basis of the SOEs. All other applications for direct payment or issuance of Special Commitments must be for an amount 20 percent or more of the Special Account allocation.

The PIU will also open a project account into which a share of the Government's contributions will be deposited every year. The amount deposited by the Government shall be in accordance with project needs, based on requests submitted to the Ministry of Finance by the PIU. All project accounts will be autonomous and will be audited annually by an independent auditing firm acceptable to IDA, on terms of reference previously agreed with IDA.

Financial Flows. There will be one Special Account, and financial flows will comprise mainly: (a) transfer of funds from the Grant Account for replenishment of the Special Account; (b) transfers of funds from the Special Account to the local currency account for payment of local expenses; (c) direct payment from the Special Account to foreign consultancy firms and individuals, and (d) direct payment from the Grant Account for Goods and Services within predetermined thresholds specified in the Disbursement Letter. Counterpart funds will be provided to cover project expenditures not financed by the grant, and will be deposited in a separate Project Account maintained and managed by the PIU. Flow of funds for the teacher incentive payments and sub-grants will be described in the Operational Manual.

Financial Management Action Plan. Taking into consideration the status of the financial management systems of the PIU, and the ongoing work to further strengthen the financial management systems, the financial management arrangement for the project, as currently implemented, is not considered capable of recording all transactions and balances, supporting the preparation of regular financial statements, and safeguarding the project's assets. A summary of financial management actions required to meet minimum financial management requirements is provided in the Table below. Having financial management arrangements in place that are acceptable to the Bank is a condition for Board presentation.

ACTION PLAN
FINANCIAL MANAGEMENT SYSTEM

Date: November 16, 2004

	Action	Responsibility	Due Date	Remarks
1.	<p>Financial Management Procedures Manual</p> <ul style="list-style-type: none"> • Prepare the Manual of Financial Procedures, documenting accounting and internal control procedures, including description of the system and sample Financial Monitoring Reports (FMRs) and books of accounts. • Present the final draft Manual to the Bank for review. • Finalize the Manual incorporating Bank comments. 	PIU	Board Date	A draft of the manual has been submitted to the Bank for review. It is expected that the final draft will be available by Board.
2.	<p>Upgrade Accounting and financial reporting system</p> <ul style="list-style-type: none"> • Sign contract for software installation. • Complete installation of the system, including design of Chart of Accounts and draft FMRs. • Provide appropriate training to the PIU financial manager, disbursement assistant and procurement specialist on application and maintenance of the installed system. Test the accounting and reporting system. • Produce Draft FMRs for submission to the Bank for review and comments. <p>NB: Financial Monitoring Reports to be generated by the accounting system</p>	PIU PIU	System up and running by Board By Board	<p>Selection of consultant to develop computerized project accounting system has been completed.</p> <p>Sample reports based on activities under the PHRD grant, and generated by the FMS, to be submitted for review by Board.</p>
3.	<p>Strengthen FM Capacity</p> <ul style="list-style-type: none"> • Recruitment of Disbursement Assistant. 	PIU	By Effectiveness (this is not a condition of effectiveness)	During implementation, additional FM staff will be required to strengthen internal control system.

Project Financing Supervision Plan. IDA will conduct risk-based financial management supervision, at appropriate intervals, to monitor progress of project implementation. The financial management supervision will pay particular attention to: (a) disbursements and financial management arrangements, that may include review of SOEs; (b) review of project's financial monitoring reports and audited financial statements; (c) review of implementation of progress of

remedial actions recommended in the auditor's Management Letters; and (d) financial flows, including counterpart funds, etc.

Annex 8: Procurement Arrangements
KYRGYZ REPUBLIC: Rural Education Project

A. General

Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. The general description of various items under different expenditure category are described below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement of Goods. Goods identified for procurement at the time of appraisal include Textbooks; Teachers' Guides; Teaching and Learning Materials; Office Equipment; Furniture, and Vehicle. The procurement will be done using Bank's standard bidding documents (SBD) for all ICB and tenders. The SBDs shall contain draft contract and conditions of contract acceptable to the Bank.

Procurement of Works: Works procured under this project would include: a small contract for the refurbishment of the PIU facilities to accommodate an expanded staff is planned. The procurement will be done using the Shopping procedure acceptable to the Bank.

Selection of Consultants. The Project will finance international and local consultants, both individual and companies, for all six components of the project – (a) Improved Teacher Incentives, (b) School Grants for Improved Teaching and Learning, (c) Textbooks and Learning Materials, (d) Student Assessment, (e) Education Budgeting and Strategic Planning, and (f) Project Management. Short lists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Single Source Selection and Direct Contracting: Under component 4 – Student Assessment, the Ministry of Education will contract ACCELS on a single source selection basis to carry out a program for Sample-based National Assessments and PISA Support. ACCELS is the only source of these services in the Kyrgyz Republic which has the necessary experience and qualifications to undertake and complete this assessment. Under component 3 – Textbooks and Learning Materials, the Ministry of Education will use Direct Contracting procedures for procurement of the Learning materials and Teacher's Guides by following procedures described in detail in an Operational Manual (OM).

Procurement of non-consulting services. Technical services under the project will be procured in accordance with the appropriate bidding documents, which shall contain draft contract and conditions of contract acceptable to the Bank.

Operational Costs. For the new unites established under the project – PIU, the Textbook Approval Board (TBA), the MOE Assessment Unit, and the Education Budgeting and Strategic Planning Unit – the project will finance incremental operating costs incurred as a result of project implementation. These costs will include: (a) operation and maintenance of office equipment

used by the PIU and TBA, and vehicle used by the PIU; (b) travel and subsistence allowances paid to PIU staff; (c) office supplies and communications; and (d) bank charges and other miscellaneous expenditures. The PIU will prepare an annual budget to be agreed with the Association. The Government will fully finance the salaries of civil servants, office rent for PIU and project staff, and related expenditures of utilities.

Training/study tours. Training and study tours will be carried out according to the project training plan and study tours plan will be prepared by the PIU annually and submitted to IDA for no-objection prior to implementation. The institutions for training and for study tours will be selected on the basis of an analysis of the most suitable program of training offered by the institutions, availability of services, period of training and reasonableness of the cost.

Others. Component 2 – School Grants for Improved Teaching and Learning will follow procedures established under the Village Improvement Project. The PIU will delegate the execution of procurement of certain small-scale activities to implementing groups (e.g., to community-based organizations, non-government organizations and schools). Procurement responsibilities, procedures and sample documentation will be described in detail in a Procurement Manual (PM).

The average amount of grants will be about US\$4,500. Micro-projects implemented by communities and local implementing groups will follow procedures detailed in the PM. Procurement under small grants will be based on Community Participation Procurement (CPP) as described under para. 3.17 of the Procurement Guidelines (May 2004). The exact scope of works, goods and services and training to be financed will depend on the results of the micro-project identification process by communities.

B. Assessment of the agency's capacity to implement procurement

Procurement activities will be carried out by the Ministry of Education of the Kyrgyz Republic (MOE). The MOE has established a Project Preparation Unit (PPU) to implement project preparation activities financed by a PHRD grant and the staff are gaining experience in Bank procurement procedures. The PPU will be converted into a Project Implementation Unit (PIU) once the Grant is effective, and the PIU will be staffed with suitably qualified individuals. The PIU would have overall responsibility for procurement under the project, and will have one procurement officer to carry out the procurement activities under this project. This individual needs to be experienced in international procurement.

An assessment of the capacity of the Implementing Agency to implement procurement actions for the project was carried out by the lead procurement specialist for the Kyrgyz Republic on July 15, 2004. The assessment reviewed the organizational structure for implementing the project and the interaction between the project's staff responsible for procurement and the Ministry's relevant central unit for administration and finance.

Most of the issues/ risks concerning the procurement component for implementation of the project have been identified and include:

- (a) Government officials who would be involved in project procurement through Tender Committees may not be familiar with procurement procedures;
- (b) The bureaucratic system creates opportunities for informal interference in procurement process by senior officials;
- (c) The above mentioned risks would be a basis for delays of the procurement processes;

- (d) Suppliers and contractors, and goods and works required for the project, especially in remote region may not be available. As a result, there may be inadequate competition resulting in higher prices for goods, works and services.

The corrective measures which have been agreed are:

- The PIU should train the PIU financial manager as back-up to procurement officer;
- The Procurement Officer and the Financial Manager should receive training in international procurement. These officers should attend the regional procurement seminar that will be jointly organized by the ILO - International Training Center (Turin) and Regional Procurement Training Center (Bishkek) in Bishkek in accordance with the agreed plan.
- The Bank should organize a one day project procurement launch workshop for the PIU and for representatives from the Ministry of Education.
- The Bank should organize a half-day seminar for senior officials and members of the Tender Committees to make them aware of Bank procurement requirements.
- For all procurement, at the central and local levels, a simple but detailed operational manual should be prepared. The manual should include procurement methods to be used in the project along with their step by step explanation as well as the standard or sample documents to be used for each method.
- For the grant scheme, the PIU should prepare an inventory of suppliers of the required goods, construction contractors and consultants (firms and individuals, as well as an inventory of the available goods in the remote regions). This will help to determine the extent, to which procurement will be extended to other areas.
- The Bank staff will review the efficiency of procurement under the project, especially in remote areas, after one year of the credit effectiveness.

The overall project risk for procurement is high.

Procurement Plan

The Government, at appraisal, developed a Procurement Plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Government and the Project Team on October 15, 2004 and is available at the PIU. It will also be available in the Project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

C. Frequency of Procurement Supervision

In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended once a year supervision missions to visit the field to carry out post review of procurement actions.

**Attachment 1:
Details of the Procurement Arrangements Involving International Competition**

Goods and Works and non-consulting services.

(a) List of contract Packages which will be procured following ICB and Direct contracting:

1	2	3	4	5	6	7	8
No.	Contract Description	Estimated Cost	Procur Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date
1	Textbooks and Teacher's Guide	373,000	ICB	No	Yes	Prior	5/10/2005
2	Textbooks and Teacher's Guide	373,000	ICB	No	Yes	Prior	7/10/2005
3	Textbooks and Teacher's Guide	373,000	ICB	No	Yes	Prior	8/10/2005
4	Textbooks and Teacher's Guide	380,000	ICB	No	Yes	Prior	2/15/2006
5	Textbooks and Teacher's Guide	380,000	ICB	No	Yes	Prior	4/10/2006

(b) ICB Contracts estimated to cost above US\$100,000 per contract and all Direct contracting will be subject to prior review by the Bank.

Consulting Services.

(a) List of Consulting Assignments with short-list of international firms.

1	2	3	4	5	6
No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date
1	Teacher Performance Mgt. Policy. Policy Development	190,400	QBS	Prior	5/01/2005
2	Staff Training (Trainers for Principals, Trainers for Teachers)	309,000	QBS	Prior	7/13/2005
3	Training of School & Evaluation Teams	147,200	QCBS	Prior	4/10/2005
4	Assistance to School & Evaluation Teams	184,300	QCBS	Prior	6/10/2005
5	Formative Classroom Assessment	257,800	QCBS	Prior	7/15/2005
6	Improving Existing Exams	270,900	QCBS	Prior	8/20/2005
7	MEC Assessment Function	451,200	QCBS	Prior	7/20/2005
8	Capacity Building	254,200	QCBS	Prior	4/2/2005
9	Sample-based National Assessments	136,000	SSS	Prior	10/10/2005
10	PISA Support	78,200	SSS	Prior	9/20/2005
11	Participation in PISA 2006	75,000	SSS	Prior	9/20/2005

(b) Consultancy services estimated to cost above US\$50,000 per contract for individuals; above US\$100,000 for firms; and Single Source selection of consultants will be subject to prior review by the Bank.

(c) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US\$100,000 equivalent per contract, may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis
KYRGYZ REPUBLIC: Rural Education Project

Effects on Earnings and Poverty

As in most countries, the level of completed education in the Kyrgyz Republic is positively and significantly associated with personal earnings. Regressions performed with data from the 1998 Kyrgyz Poverty Monitoring Survey found that completion of secondary schooling was associated with 12% higher earnings.²⁵ Based on the findings of the 2001 Household Budget Survey, the 2003 Kyrgyz Poverty Report²⁶ showed a generally inverse relation between duration of completed education and the incidence of poverty (Table 9.1).

Table 9.1 – Headcount Incidence of Poverty by Education of Household Head, 2001

Education level	Absolute Poverty (%)	Extreme Poverty (%)
Higher/incomplete higher	35.8	9.9
Secondary vocational	52.6	21.8
Secondary general	66.7	32.4
Incomplete secondary	56.3	27.2
Primary	68.1	36.3
Below primary	78.0	19.1
All households	56.4	24.7

Source: 2001 HBS. Weighted estimates.

The same study also found that the probability of dropping out of school before completing secondary education is higher in rural areas than in urban areas, and is higher for the poor than for the non-poor. Converting the income data from the 2001 HBS into same years of schooling and estimating the returns to education and work experience yields the following regression (in which all coefficient estimates are significant at the 1% confidence level):

$$\ln \text{monthly income} = \alpha + .070 \text{ years of schooling} + .040 \text{ experience} - .001 \text{ experience}^2 + \varepsilon$$

These findings confirm that education is an important instrument for poverty alleviation. But they do not account for the effects on earnings and poverty of qualitative differences in education. Since the objective of the project is improved learning in basic education – particularly, in rural schools – it would have been useful to compare the effect of quality improvements in education on earnings and the probability of being poor. Because there are no satisfactory data series on education quality, it is necessary to examine this question with indirect evidence.

Sources and Effects of Qualitative Differences

Household expenditures on education have a strong effect on enrollments, but their effect on education quality is of even greater concern. Because budget resources for education are essentially limited to financing teacher salaries, parents are routinely asked to make contributions to schools in order to finance school maintenance, school recurrent expenditures, and the purchase of crucial educational materials such as library books and computers. As a result, schools in more prosperous communities tend to provide a

²⁵ *Kyrgyz Republic: Poverty in the 1990s in the Kyrgyz Republic*, World Bank Report N. 21721-KG, June, 2001.

²⁶ *Kyrgyz Republic: Enhancing Pro-Poor Growth*, World Bank Report No. 24638-KG, September 30, 2003.

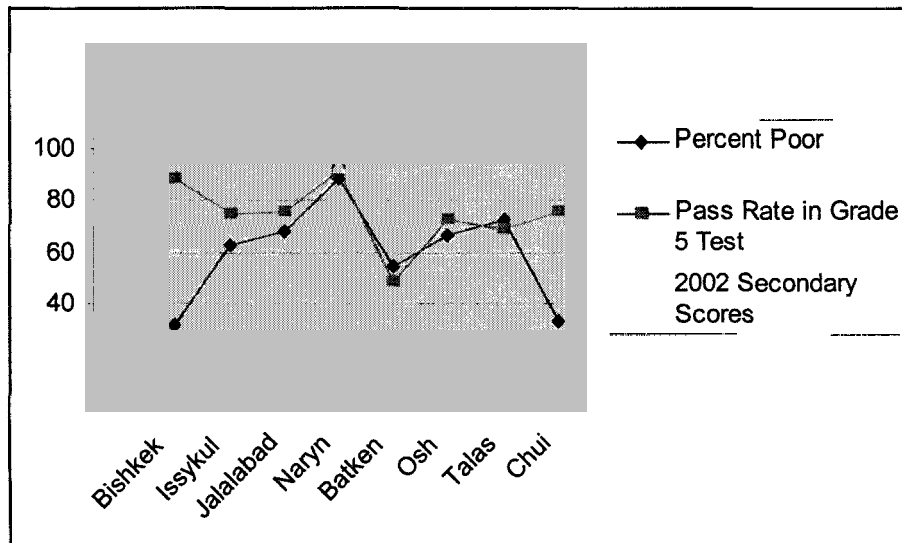
better teaching and learning environment than schools in poorer communities. One conspicuous example concerns fuel for heating: Classrooms in schools in the poorest communities often lack functioning stoves or fuel, and are too cold for effective teaching and learning for much of the year. This problem is especially acute at high altitudes, where the incidence of poverty is greater and where the winter weather conditions are most severe. Even within schools, differences in household income lead to different education quality because poor households often cannot afford to rent textbooks or purchase school supplies for their children,²⁷ and are more likely to be undernourished and to miss school to help with income-earning tasks.

As a result of these factors, the differences between the best and the worst schools are very great – representing enormously different conditions for teaching and learning effectiveness. Student assessment results illustrate the effects of these differences on student learning achievement. In general, the incidence of poverty and secondary scores move inversely, with Bishkek and Chui oblasts having the lowest incidence of poverty and the highest secondary examination results (Figure 9.1). Test results for grade 5 do not correlate as closely with poverty incidence by oblast. In particular, Batken oblast has a much lower pass rate in the grade 5 test than its poverty incidence would suggest. This could be related to learning problems for non-Kyrgyz or Russian-speaking population, which is more numerous in Batken than in other oblasts. Speaking a language other than Russian or Kyrgyz was found in the 1998 KPMS to lead to higher probability of school dropout.²⁸ This ethnicity effect on learning achievement may not be as apparent in the secondary examination results because self selection after completion of the compulsory cycle effectively eliminates most students whose native language is other than Kyrgyz or Russian.

²⁷ The project team leader visited one rural primary school in Chui oblast in which only 40% of the students had textbooks. When asked why this was so, the principal replied that the other students could not afford to rent textbooks. She also explained that the school text-book rental library had enough books for another 40% of the students. When asked why the school did not make these books available to some of the students without textbooks, she replied that that would undermine the incentive for other students to rent their books.

²⁸ *Kyrgyz Republic: Poverty in the 1990s in the Kyrgyz Republic*, World Bank Report Number 21721-KG, June, 2001.

Figure 9.1 – Percentage Poor, Grade 5 Test Pass Rate, and Secondary Examination Scores by Oblast



Source: Table 2.1, *Kyrgyz Republic, Enhancing Pro-Poor Growth*, World Bank Report Number 24638-KG, August 23, 2002; Ministry of Education and Culture data, and *Monitoring Learning Achievement: National Survey of Primary Education Quality*, Kyrgyz Ministry of Education and Culture, UNICEF, UNESCO, and the Center for Public Opinion Studies and Forecasts; Bishkek, 2001.

Fiscal Sustainability

The project will have fiscal implications, both during and after project implementation. The main issue of sustainability under the project involves the improved teacher incentives which are to be introduced under Component I. (To put this issue in perspective, there is also a fundamental question of sustainability of rural education in the absence of new teacher incentives to attract and retain qualified teachers to serve in rural schools.) Historically, there have been and will continue to be periodic salary increases for teachers. By linking these salary increases to performance to teaching performance, the new evaluation scheme and associated salary scale will provide better value for whatever teacher salary increases the Government adopts in the future. Fiscal sustainability of the teacher incentives will require that the incremental cost of the new incentives be consistent with prospective budget resources for education. These comprise: (a) the increases provided in the Medium-Term Budget Framework,²⁹ (b) the resources provided under the Rural Education Project, (c) a portion of the 0.3% of GDP increase that is planned for counterpart financing for health and education investments over the next three years, and (d) grant resources that may be provided by other donors. The plan for the performance incentives and subject specialty incentives under the project is well within these constraints. As shown in Table 9.2 below, the cost of grant-financed teacher incentives would equal 0.0% of the projected education budget in 2005, would grow to 0.3% of the projected education budget in 2007 and 2008, and would decline thereafter. Expressed in terms of the annual real increase in the projected education budget, teacher incentives would equal 1.0% of the increase in 2006, would rise to 6.4% in 2008, and would decline thereafter. In a longer-term sense, the support which the project is providing to strengthen education budgeting and strategic

²⁹ These involve an increase in the education budget, expressed as a share of GDP, from 4.2% in 2004 to 4.6% in 2005, 5.0% in 2006, and 5.3% in 2007. *Medium-Term Budget Framework 2005–2007*, Kyrgyz Republic Ministry of Finance, Bishkek, 2004.) The projection shown in Table 9.2 adopts the 4.5% annual GDP growth rate projected by the IMF for the medium term.

planning in the MOE will also help to ensure fiscal sustainability of future teacher incentives and other education initiatives.

Table 9.2 – Evolution of Budgetary Finance for Teacher Incentives under the Rural Education Project as a Share of Projected Education Expenditure

Year	2005	2006	2007	2008	2009
Rural Teacher Fellowships					
Cost (\$ thousand)	20	80	140	160	100
Teacher Performance Incentives					
Cost (\$ thousand)		100	300	200	
Total	20	180	440	360	100
GDP (US\$ million)	2,079	2,270	2,373	2,480	2,591
Education Share (from MTBF)	4.6 %	5.0 %	5.3 %	5.3 %	5.3%
Projected education budget (\$ million)	95.6	113.5	125.8	131.4	137.3
Projected annual increase in education budget (\$ million)		17.9	12.3	5.6	5.9
Grant-financed teacher incentives as % of projected education budget	0.0%	0.2%	0.3%	0.3%	0.0%
Grant-financed teacher incentives as % of annual increase in projected education budget		1.0%	3.6%	6.4%	1.7%

GDP growth projected according to IMF forecast of 4.5% real per annum. Education budget projected on the basis of GDP percentages as expressed in the Medium-Term Budget Framework (MTBF), MOF, 2004.

Incentives and Accountability

A central message of the 2004 World Development Report³⁰ is that effective provision of public services requires appropriate incentives and accountability at the service delivery level. To promote the objective of improved learning achievement, the first component in the Rural Education Project is supporting the introduction of incentives to motivate teachers to pay more attention to what their students are learning, and to acquire the skills to improve their teaching effectiveness. The second component in the Project supports actions to improve school accountability for delivering effective education.

Benefit Incidence Analysis

Combining the expenditure and education unit cost information prepared for the recent Public Expenditure Review³¹ with the education and poverty findings of the 2001 Household Budget Survey leads to the incidence analysis presented in Table 9.3. Public expenditures on primary education predominately benefit the poor and rural population. Public expenditures on secondary education also predominately benefit the poor and rural population, but less so than expenditures on primary education.

³⁰ *World Development Report 2004: Making Services Work for Poor People*. The World Bank, September, 2003.

³¹ *Kyrgyz Expenditure Review: Fiscal Policies for Growth and Poverty Reduction*, December 16, 2002 draft, The World Bank.

Public expenditures on higher education primarily benefit the non-poor and the urban population. Thus, public expenditures on primary education are the most pro-poor form of public expenditures on education.

Table 9.3 – Benefit Incidence of Public Expenditures on Education by Level of Education and Poverty Status of Beneficiaries, 2001

	Primary	Secondary	Higher
By Income Quintiles			
1 st Quintile	28 %	21 %	7 %
2 nd Quintile	22 %	20 %	9 %
3 rd Quintile	21 %	22 %	24 %
4 th Quintile	16 %	20 %	23 %
5 th Quintile	13 %	17 %	37 %
By Poverty Status			
Poor	67 %	58 %	35 %
Non-Poor	33 %	42 %	65 %
By Residence			
Urban	27 %	32 %	58 %
Rural	73 %	68 %	42 %

Annex 10: Safeguard Policy Issues
KYRGYZ REPUBLIC: Rural Education Project

It has been agreed that the project is “B” environmental safeguards category as it does not raise concerns of major health or environmental impacts. An environmental assessment has been completed, and the Ministry of Education has agreed to public disclosure of the document. The Environmental Assessment indicates certain environmental issues that need to be taken into account concerning project implementation. Other safeguard policies are not applicable.

The School Grants for Improved Teaching and Learning Component may include minor refurbishment of school buildings, limited by the very small size of the individual grants, averaging US\$4,500 per school. The refurbishment could include painting of walls, new windows, upgrades in electrical system, etc. All contracts for works will require specific environmental safeguards provisions.

Waste from civil works: Minor refurbishment of buildings does not include major structural changes and therefore minor quantities of debris would be generated. The project implementation documents will guide the implementing agency on worker safety, dust and noise pollution, proper handling, transportation and disposal of construction waste materials.

Annex 11: Project Preparation and Supervision
KYRGYZ REPUBLIC: Rural Education Project

	Planned	Actual
PCN review	June 26, 2003	October 20, 2003
Initial PID to PIC		October 21, 2003
Initial ISDS to PIC	October 26, 2003	October 21, 2003
Appraisal	January 6, 2004	October 6–17, 2004
Negotiations	November 9, 2004	November 9–10, 2004
Board/RVP approval	December 14, 2004	
Planned date of effectiveness	April 1, 2005	
Planned date of mid-term review	November, 2007	
Planned closing date	March 31, 2010	

Key institutions responsible for preparation of the project:

Ministry of Education, Kyrgyz Republic

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Michael Mertaugh	Task Team Leader	ECSHD
Isak Froumin	Senior Education Specialist	ECSHD
Virginia Jackson	Senior Operations Specialist, Consultant	ECSHD
Asel Sargaldakova	Operations Officer	ECSHD
Elina Manjjeva	Junior Professional Associate	ECSHD
Kirill Vasiliev	Education Technology Consultant	ECSHD
Naushad Khan	Lead Procurement Specialist	ECSPS
Nurbek Kurmanaliev	Procurement Analyst	ECCKG
John Ogallo	Senior Financial Management Specialist	ECCKG
Julie Wagshal	Program Assistant	ECSHD
Natalia Turchina	Team Assistant	ECCKG
Philip Cohen	Textbook Specialist, Consultant	ECSHD
Johanna Crighton	Assessment Specialist, Consultant	ECSHD

Bank funds expended to date on project preparation:

1. Bank resources: US\$396,000.00
2. Trust funds: US\$102,935.39
3. Total: US\$498,935.39

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$77,304.00
2. Estimated annual supervision cost: US\$114,000.00

Annex 12: Documents in the Project File
KYRGYZ REPUBLIC: Rural Education Project

- Asian Development Bank. 2002. *Sub-Regional Cooperation in Managing Education Reforms – Country Study: Kyrgyz Republic*. Bishkek.
- Centre for Public Opinion Studies and Forecast. 2001. *Children of 7–11 Years Old Who Do Not Attend School, Survey Findings, Naryn Town*. Bishkek.
- Centre for Public Opinion Studies and Forecast. 2002–2003. *Monitoring of Learning Achievement II: Grade 8; National Survey of Quality of Learning in the 8th Grade*. Bishkek.
- Centre for Public Opinion Studies and Forecast. 2001. *Monitoring Learning Achievement: National Survey of Primary Education Quality*. Bishkek.
- Droeber, Julia. 2003. *Educational Problems in Three Villages of Nookat Rayon; Results of a Pilot Survey, August 24–28, 2003*. Preliminary Report.
- Eversmann, Eric. 1999. *School Attendance in the Kyrgyz Republic – Report for UNICEF* Bishkek.
- Guarino, Cassandra; Lucrecia Santibañez; Glenn Daley, and Dominic Brewer. 2004. *A Review of the Research Literature on Teacher Recruitment and Retention*. May 2004, Santa Monica, Rand Corporation.
- Hudaïbergenov, A.J. 2004. *The Estimation of Influence on the Environment: Repair – Civil Work of School Buildings*. Consultant report prepared for the proposed Rural Education Project. Bishkek.
- Mertaugh, Michael, Education in Central Asia, with Particular Reference to the Kyrgyz Republic, in *The Challenge of Education in Central Asia*, edited by Stephen P. Heyneman and Alan J. DeYoung, Information Age Publishing, 2004.
- Ministry of Education and Culture of the Kyrgyz Republic. 2002. *The “Rural School” Comprehensive Program*. Bishkek.
- Ministry of Education and Culture of the Kyrgyz Republic. 2004. *Social Assessment of the Proposed Kyrgyz Republic Rural Education Project*. Bishkek.
- Save the Children UK. 2003–2004. *Children Aged 7 to 11 That Do Not Attend School II*. Center for Public Opinion Studies and Forecasting. Bishkek, Save the Children.
- USAID/PEAKS. 2003. *Educational Problems of Naryn Town, Naryn Oblast; Results of a Pilot Survey, September 8–29, 2003*. USAID.
- Working Group of the Kyrgyz Republic. *Education as a Means of Integration in Multiethnic Societies*, Bishkek, 2004.

Annex 13: Statement of Loans and Credits
KYRGYZ REPUBLIC: Rural Education Project

Project ID	FY	Purpose	Original Amount in US\$ Millions					Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF	Orig.			Frm. Rev'd	
P074881	2004	PYMNT/BANK SYST MOD	0.00	9.00	0.00	0.00	0.00	8.93	0.00	0.00	
P073973	2004	VILLAGE INVESTMENT	0.00	0.00	0.00	0.00	0.00	15.29	-0.25	0.00	
P071061	2003	GOV SAC	0.00	20.00	0.00	0.00	0.00	15.45	1.68	0.00	
P071063	2003	GOV TA	0.00	7.78	0.00	0.00	0.00	8.23	0.09	0.00	
P036977	2002	RURAL WS & SAN	0.00	15.00	0.00	0.00	0.00	16.62	5.16	0.00	
P051372	2001	HEALTH 2	0.00	15.00	0.00	0.00	0.00	10.31	4.37	-0.35	
P050719	2001	URBAN TRANS/MAINT.	0.00	22.00	0.00	0.00	0.00	3.32	-19.41	0.00	
P035810	2001	CONSOLIDATION SAC	0.00	35.00	0.00	0.00	0.00	17.66	17.75	17.75	
P049723	2000	ON-FARM IRRIGATION	0.00	20.00	0.00	0.00	0.00	18.44	7.07	0.00	
P049719	2000	LAND REGISTRATION	0.00	9.42	0.00	0.00	0.00	5.31	3.18	0.00	
P069814	2000	CONSLD TA	0.00	5.00	0.00	0.00	0.00	3.28	2.39	0.00	
P064585	1999	RUR FIN 2	0.00	15.00	0.00	0.00	0.00	3.47	2.94	0.00	
P062682	1999	FLOOD EMERGENCY	0.00	10.00	0.00	0.00	0.00	0.00	0.40	0.45	
P040721	1998	ASSP	0.00	14.98	0.00	0.00	2.03	5.78	7.16	0.09	
P046042	1998	IRRIGATION REHAB	0.00	35.00	0.00	0.00	0.00	9.38	7.14	0.00	
P008519	1996	POWER & DIST HEAT	0.00	20.00	0.00	0.00	0.00	16.00	1.96	20.91	
Total:			0.00	253.18	0.00	0.00	2.03	157.47	41.63	38.85	

**KYRGYZ REPUBLIC
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars**

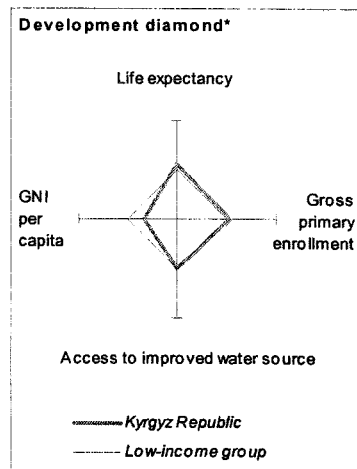
FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2004	AKB Kyrgyzstan	1.50	0.00	0.00	0.00	0.55	0.00	0.00	0.00
1996/03	Demirbank Kyrgyz	0.00	0.11	0.00	0.00	0.00	0.11	0.00	0.00
2001	FINCA	0.00	1.00	0.00	0.00	0.00	1.00	0.00	0.00
1995	Kumtor Gold	0.00	0.00	10.00	0.00	0.00	0.00	10.00	0.00
2001	SEF Akun Ltd.	1.40	0.00	1.00	0.00	0.40	0.00	1.00	0.00
1999	SEF Altyn-Ajydar	0.15	0.00	0.00	0.00	0.15	0.00	0.00	0.00
2000	SEF KICB	0.00	1.40	0.00	0.00	0.00	1.40	0.00	0.00
	Total portfolio:	3.05	2.51	11.00	0.00	1.10	2.51	11.00	0.00

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

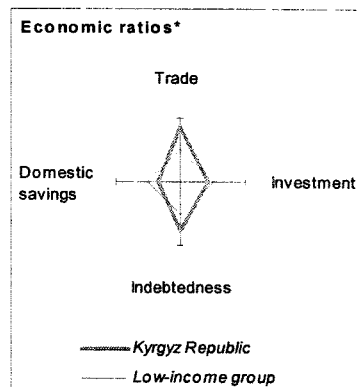
Annex 14: Country at a Glance

KYRGYZ REPUBLIC: Rural Education Project

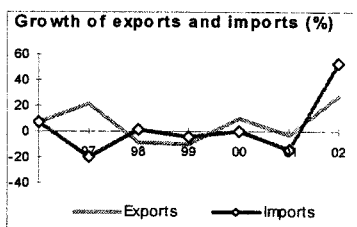
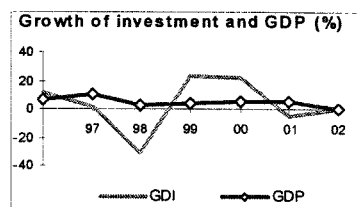
POVERTY and SOCIAL	Europe & Central Asia		
	Kyrgyz Republic	Central Asia	Low-income
2002			
Population, mid-year (millions)	5.0	476	2,495
GNI per capita (Atlas method, US\$)	290	2,160	430
GNI (Atlas method, US\$ billions)	15	1030	1,072
Average annual growth, 1996-02			
Population (%)	12	0.1	19
Labor force (%)	2.0	0.4	2.3
Most recent estimate (latest year available, 1996-02)			
Poverty (% of population below national poverty line)	64	..	..
Urban population (% of total population)	34	63	30
Life expectancy at birth (years)	65	69	59
Infant mortality (per 1000 live births)	54	25	81
Child malnutrition (% of children under 5)	11	..	..
Access to an improved water source (% of population)	77	91	76
Illiteracy (% of population age 15+)	..	3	37
Gross primary enrollment (% of school-age population)	101	102	95
Male	103	103	103
Female	100	101	87



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1982-2002				
	1982	1992	2001	2002	
GDP (US\$ billions)	..	2.1	15	16	
Gross domestic investment/GDP	..	19.9	19.0	18.1	
Exports of goods and services/GDP	..	35.6	36.7	38.6	
Gross domestic savings/GDP	..	7.9	17.7	14.4	
Gross national savings/GDP	..	10.8	16.8	14.9	
Current account balance/GDP	..	..	-13	..	
Interest payments/GDP	..	0.0	2.9	1.5	
Total debt/GDP	..	0.3	112.2	112.7	
Total debt service/exports	..	0.0	29.8	24.2	
Present value of debt/GDP	..	..	87.0	..	
Present value of debt/exports	..	..	223.1	..	
	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	13	0.7	5.3	-0.5	..
GDP per capita	-0.6	-0.4	4.5	-1.5	..

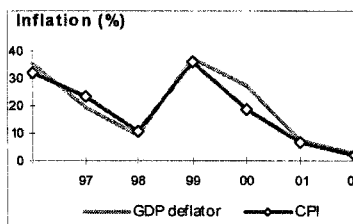


STRUCTURE of the ECONOMY	1982-2002			
	1982	1992	2001	2002
(% of GDP)				
Agriculture	..	39.0	37.3	38.6
Industry	..	37.8	28.3	26.2
Manufacturing	..	33.7	10.8	10.5
Services	..	23.2	34.4	35.2
Private consumption	..	70.7	64.8	72.7
General government consumption	..	21.4	17.5	12.9
Imports of goods and services	..	47.6	37.0	42.3
(average annual growth)				
Agriculture	0.5	4.5	7.3	3.3
Industry	-3.5	-3.5	5.2	-11.2
Manufacturing	..	-10.7	-3.0	3.1
Services	6.4	-0.7	3.3	4.2
Private consumption	..	-3.2	2.2	-100.0
General government consumption	..	-4.0	-13	-100.0
Gross domestic investment	..	14	-5.6	0.0
Imports of goods and services	..	-5.7	-13.8	53.4



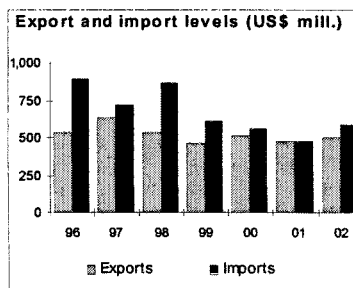
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices				
<i>(% change)</i>				
Consumer prices	6.9	2.1
Implicit GDP deflator	..	830.2	7.3	2.3
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	20.3	22.6
Current budget balance	-17	-0.6
Overall surplus/deficit	-5.8	-5.2



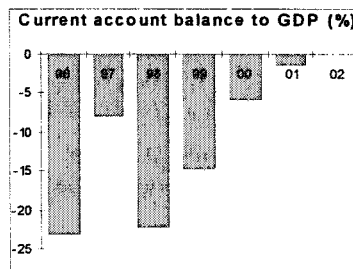
TRADE

	1982	1992	2001	2002
<i>(US\$ millions)</i>				
Total exports (fob)	480	501
Electricity	47	22
Gold	225	163
Manufactures	106	125
Total imports (cif)	472	590
Food	36	47
Fuel and energy	121	151
Capital goods	58	114
Export price index (1995=100)	104	..
Import price index (1995=100)	95	..
Terms of trade (1995=100)	110	..



BALANCE of PAYMENTS

	1982	1992	2001	2002
<i>(US\$ millions)</i>				
Exports of goods and services	561	630
Imports of goods and services	..	400	565	691
Resource balance	..	-15	-5	-61
Net income	..	0	-66	-57
Net current transfers	..	22	51	66
Current account balance	-20	..
Financing items (net)	38	..
Changes in net reserves	..	127	-18	-34
Memo:				
Reserves including gold (US\$ millions)	285	311
Conversion rate (DEC, local/US\$)	..	0.4	48.4	46.1



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	..	6	172	1839
IBRD	..	0	0	0
IDA	..	0	389	454
Total debt service	..	0	177	164
IBRD	..	0	0	0
IDA	..	0	3	3
Composition of net resource flows				
Official grants	..	0	35	..
Official creditors	..	4	86	73
Private creditors	..	0	-78	-17
Foreign direct investment	..	0	5	..
Portfolio equity	..	0	0	..
World Bank program				
Commitments	..	0	15	15
Disbursements	..	0	27	33
Principal repayments	..	0	0	0

