

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

| Risk Description | Risk Assessment | Mitigation Measures or Risk Management Plan |
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| Public Financial Management | Medium | <p>The Ministry of Finance initiated the Capacity Building for Public Financial Management project in 2011, which is financed by the Multi-Donor Trust Fund. This project will continue until 2014. Other programs supported by development partners are targeting specific elements of PFM. A new PEFA assessment is planned for 2014.</p> |
| <p>PFM legislation is not consistently enforced or necessarily supported by capacity for implementation</p> <p>Weak budget planning at the subsector level and political interference in amending budget requirements results in reorientation of spending with weak strategic basis</p> | | <p>ADB technical assistance for preparing ICIP SP3 is developing key government staff's capacity to design, screen and prioritize investment projects based on economic rationale. The International Monetary Fund and the Multi-Donor Trust Fund are supporting the government in expanding the coverage of the commitment register to include local budgets and special means.</p> |
| <p>Poor system of internal checks and balances and absence of financial statements prepared in accordance with internationally recognized accounting standards</p> | | <p>Various audit functions are in place throughout government. While some consolidation has occurred, additional streamlining of audit agency roles and responsibilities is needed. The government is working with several donors to introduce risk-based criteria to determine which government agencies will be audited. Mandatory reporting requirements were introduced in the 20 largest state-owned enterprises.</p> |
| Procurement | Medium | <p>In February 2012 the government decided to move to electronic procurement to limit the scope for corruption. ADB has supported development of an e-procurement strategy and implementation plan, and an e-procurement portal. The Public Procurement Development Strategy 2012–2014, approved in September 2012, reaffirms the government's commitment to ongoing legal and institutional reforms and implementation of public procurement plans.</p> |
| <p>Government agency procurement units rely on historically entrenched practices that do not necessarily result in transparent, market-based procurement or provide access for new market entrants.</p> <p>PPP projects and concessions may face risks such as breach of contract and enforcement of arbitral awards (e.g., Kumtor concession)</p> | | <p>Breach of contract and enforcement of arbitral awards risks will be mitigated at the project level through, for example, recourse to international arbitration to reassure investors on the legal enforceability of the contracts signed with government. The Kyrgyz Republic is a signatory of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 1958). ADB supported a government working group that drafted amendments to the investment legislation to ensure a more stable legal and taxation regime for investors.</p> |

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| Corruption | High | <p>Since 2012, the government has been implementing an action program to change the incidence and perception of corruption and expropriation risk. The program includes: (i) the reduction of controlling agencies; (ii) reform of the financial police; (iii) a safe city program, traffic police reforms, and creation of a video surveillance center; (iv) improvements to the process of filing reports at the Ministry of the Interior; (v) the reduction of licenses and permits; (vi) introducing the concept of risk-based inspections; and (vii) minimizing contacts between entrepreneurs and civil servants by establishing one-stop shops and online interfaces for business registration, filing of tax reports, and pre-customs clearance. Ongoing procurement reforms are complementing government efforts to fight corruption.</p> <p>In December 2011, the President re-established an anti-corruption agency under the State Committee for National Security. The anti-monopoly committee has increasingly taken on a regulatory role in the economy. A number of financial and other audit functions are implemented by the chamber of accounts and the State Service for Fighting Economic Crime (restructured and renamed in March 2012).</p> <p>In August 2012, the President approved the Measures on Improving the Judiciary and established the National Council for Judicial Reform under the Apparatus of the President. The first meeting of the Council resulted in the adoption of an action plan on reform of the judiciary for 2012–2014. Legislation was amended in 2012 to remove the immunity of judges and increase liability for corruption</p> |
| Other Risks | | |
| Economic crisis in neighboring countries may reduce the inflow of remittances | Medium | <p>The government is implementing an adjustment program supported by the International Monetary Fund to rebuild its resilience to economic shocks through fiscal and banking sector reforms. Reforms supported under ICIP SP3 should help to diversify the Kyrgyz Republic's economy, thereby making it more resilient to external shocks.</p> |
| Domestic political instability may affect the business environment, and reduce economic growth and employment opportunities | Medium | <p>Political stability improved following the election of a new President in November 2011 by a large majority of the Kyrgyz electorate, ending a period of political instability that started with the ouster of the former President in April 2010. Expanding economic opportunities with economic reforms such as those supported by ICIP SP3 should help to further stabilize the political situation.</p> |
| Overall | Medium | |

ADB = Asian Development Bank, ICIP SP3 = Investment Climate Improvement Program, subprogram 3; PEFA = Public Expenditure and Financial Accountability; PFM = public financial management.

Source: Asian Development Bank.