



Completion Report

Project Number: 41544-022, 41544-082, 41544-084
Grant Numbers: 0120-KGZ(SF), 0319-KGZ(SF), 0393-KGZ(SF)
March 2015

Kyrgyz Republic: Investment Climate Improvement Program

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Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit		–	som (Som)	
			At Appraisal	At Program Completion
			1 October 2008	19 January 2009
0120-KGZ	Som1.00	=	\$0.027	\$0.025
	\$1.00	=	Som36.80	Som39.55
			1 October 2012	7 February 2013
0319-KGZ	Som1.00	=	\$0.021	\$0.021
	\$1.00	=	Som47.15	Som47.98
			14 May 2014	8 September 2014
0393-KGZ	Som1.00	=	\$0.019	\$0.018
	\$1.00	=	Som52.25	Som53.54

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
IFC	–	International Finance Corporation
NBKR	–	National Bank of the Kyrgyz Republic
NPSDC	–	National Professional Skills Development Council
PDSF	–	project development support facility
PPP	–	public–private partnership
STS	–	State Tax Service
SWFT	–	single window for pre-customs clearance of foreign trade
TA	–	technical assistance
UAIS	–	Unified Automated Information System

NOTE

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

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BASIC DATA

A. Grants Identification

1.	Country	Kyrgyz Republic		
2.	Grant Numbers	0120-KGZ(SF) (Subprogram 1) 0319-KGZ(SF) (Subprogram 2) 0393-KGZ(SF) (Subprogram 3)		
3.	Program Title	Investment Climate Improvement Program		
4.	Borrower	Kyrgyz Republic		
5.	Executing Agency	Ministry of Economy ¹		
6.	Amount of Grants	0120-KGZ(SF) Subprogram 1 \$12,500,000	0319-KGZ(SF) Subprogram 2 \$20,000,000	0393-KGZ(SF) Subprogram 3 \$22,000,000
7.	Program Completion Report Number	PCR: KGZ 1496		

B. Grants Data

	Subprogram 1	Subprogram 2	Subprogram 3
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1.	Fact-finding			
	– Date Started	23 May 2008	1 February 2010	20 May 2013
	– Date Completed	20 June 2008	12 February 2010	31 May 2013
2.	Grant Negotiations			
	– Date Started	17 September 2008	13 June 2012	23 April 2014
	– Date Completed	18 September 2008	15 June 2012	23 April 2014
3.	Date of Board Approval	3 November 2008	26 November 2012	19 June 2014
4.	Date of Grant Agreement	24 November 2008	26 November 2012	19 June 2014
5.	Date of Grant Effectiveness			
	– In Grant Agreement	24 December 2008	26 December 2012	17 September 2014
	– Actual	18 December 2008	5 December 2012	10 July 2014
	– Number of Extensions	0	0	0
6.	Closing Date			
	– In Grant Agreement	31 December 2009	31 December 2012	31 December 2014
	– Actual	31 December 2009	31 December 2012	31 December 2014
	– Number of Extensions	0	0	0
7.	Disbursements			
	a. Dates			

	Initial Disbursement	Final Disbursement	Time Interval
Subprogram 1	22 December 2008	22 December 2008	None
Subprogram 2	5 December 2012	5 December 2012	None
Subprogram 3	14 July 2014	14 July 2014	None

¹ The Ministry of Economic Development and Trade was the executing agency for all three subprograms. The ministry was renamed the Ministry of Economic Regulation in 2009, the Ministry of Economy and Antimonopoly Policy in 2010, and the Ministry of Economy in 2011. In this report, the latest designation is used.

	Effective Date	Original Closing Date	Time Interval
Subprogram 1	18 December 2008	31 December 2009	12.5 months
Subprogram 2	5 December 2012	31 December 2012	26 days
Subprogram 3	10 July 2014	31 December 2014	5.7 months

Category	Original Allocation	Amount Disbursed	Amount Canceled
Subprogram 1	12.5	12.5	0.0
Subprogram 2	20.0	20.0	0.0
Subprogram 3	20.0	22.0	(2.0)
Total	52.5	54.5	(2.0)

() = negative.

C. Program Data

1. Program Cost (\$ million)

Cost	Appraisal Estimate	Actual
Subprogram 1		
Foreign Exchange Cost	12.5	12.5
Local Currency Cost	0.0	0.0
Subprogram 2		
Foreign Exchange Cost	20.0	20.0
Local Currency Cost	0.0	0.0
Subprogram 3		
Foreign Exchange Cost	20.0	22.0
Local Currency Cost	0.0	0.0
Total	52.5	54.5

2. Financing Plan (\$ million)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower Financed	0.0	0.0
ADB Financed		
Subprogram 1	12.5	12.5
Subprogram 2	20.0	20.0
Subprogram 3	20.0	22.0
Total	52.5	54.5

ADB = Asian Development Bank.

3. Cost Breakdown by Subprogram (\$ million)

Component	Appraisal Estimate	Actual
Subprogram 1	12.5	12.5
Subprogram 2	20.0	20.0
Subprogram 3	20.0	22.0
Total	52.5	54.5

4. Program Schedule

Item	Appraisal Estimate	Actual
Tranche Release ^a		
Subprogram 1	24 December 2008	22 December 2008
Subprogram 2	26 December 2012	5 December 2012
Subprogram 3	17 September 2014	14 July 2014

^a Grant proceeds for each subprogram were disbursed in a single tranche.

5. Program Performance Report Ratings: Not Applicable.

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days ^a	Specialization of Members ^b
Subprogram 1				
Reconnaissance	28 February–11 March 2008	2	11	b, d
Fact-finding	23 May–20 June 2008	3	57	b, b, d
Appraisal	4–12 August 2008	3	20	b, d, g
Subprogram 2				
Consultation	27 January–10 February 2009	2	13	a, p
Reconnaissance	6–14 November 2009	5	24	b, d, n, o, p
Consultation	1–12 February 2010	4	27	b, d, i, f
Consultation	5–15 April 2011	6	30	a, f, i, j, l, r
Fact-finding	22 November–2 December 2011	2	15	h, i
Subprogram 3				
Consultation	5–11 December 2012	1	5	h
Reconnaissance	24 January–1 February 2013	3	15	h, i(2)
Fact-finding	20–31 May 2013	8	28	c, e, i(2), k, q, r, s
Review	3–7 February 2014	7	28	i(2), k, m, q, r, s
Program completion review	29 September–1 October 2014	2	6	i, p

^a This column includes estimates for the number of person-days allocated for the program in case of missions that included other assignments.

^b a = senior economist, b = economist, c = senior economics officer, d = economics officer, e = principal counsel, f = senior counsel, g = counsel, h = senior financial sector specialist, i = financial sector specialist, j = senior financial sector officer, k = private sector development specialist, l = public–private partnership specialist, m = senior social development specialist (gender and development), n = young professional, o = portfolio management specialist, p = associate project analyst, q = senior project officer, r = project officer, s = project analyst.

I. PROGRAM DESCRIPTION

1. On 3 November 2008, the Asian Development Bank (ADB) approved a program cluster to the Kyrgyz Republic for the Investment Climate Improvement Program. Comprising three single-tranche subprograms, the program included policy reforms on business regulation, access to finance, workers' skills development, and public-private partnerships (PPPs) that were expected to improve the business environment and investment climate. By facilitating private investment in the country, the program was anticipated to promote broad-based and sustainable economic growth and job creation in the Kyrgyz Republic.¹

2. Subprogram 1 (\$12.5 million) was approved on 3 November 2008, together with a \$2.9 million project grant, and a \$600,000 project preparatory technical assistance (TA) grant to prepare subprogram 2.² Subprogram 2 (\$20 million) was approved on 26 November 2012, together with a \$700,000 TA grant to support implementation of subprogram 3.³ Subprogram 3 (\$22 million) was approved on 19 June 2014.⁴

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

3. The program design was relevant at appraisal and throughout implementation. The Kyrgyz Republic's real gross domestic product (GDP) grew 4.7% per annum during 1996–2005, reaching about 80% of its 1991 level by 2005. But the political turmoil following the 2005 Tulip Revolution adversely affected the economy: real GDP growth was only 3.8% during 2005–2007. In 2005, the government received debt relief granted by the Paris Club. Economic prospects were uncertain in 2007 and the authorities faced two immediate challenges: (i) to maintain macroeconomic stability through fiscal and monetary policies, and (ii) to secure financial resources to protect those worst affected by the food and fuel crises. The program was a timely intervention, designed to support the government's reform agenda as a foundation for sustained growth and to support its fiscal resources during a time of global economic and financial crisis.

4. The program supported reforms aimed at a better business environment and investment climate to generate domestic and foreign investments. ADB selected policy reforms based on specific criteria: (i) the reform should directly address a constraint to business development and private investment; (ii) the reform should have received sufficient high-level political support and resource allocation (both financial and human); and (iii) the reform should be unlikely to be implemented (or to be implemented within a reasonable time line) if not included in the program. The original program design did not envisage policy reforms for enhancing workers' skills; these were introduced in subprograms 2 and 3 as workers' skills were identified as an emerging binding constraint for private sector development, as an increasing number of workers were leaving the Kyrgyz Republic, particularly to find employment in the Russian Federation.

¹ The design and monitoring framework is in Appendix 1.

² ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Grant for Subprogram 1 and Technical Assistance Grant to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

³ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant for Subprogram 2 and Technical Assistance Grant to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

⁴ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant to the Kyrgyz Republic for Subprogram 3 of the Investment Climate Improvement Program*. Manila.

Subprograms 2 and 3 included policy actions designed to address obstacles faced by female entrepreneurs, and to promote a level playing field between male and female entrepreneurs.

5. The program incorporated priorities of the Joint Country Support Strategy prepared by development partners.⁵ It was consistent with the main pillars of ADB's country partnership strategies for 2007–2010 (footnote 5) and 2013–2017,⁶ by addressing issues limiting economic growth and job creation. The program design benefited from a comprehensive assessment of the private sector that covered legal, regulatory, policy, and institutional aspects of the economy, as well as sector-specific constraints.⁷ The project preparatory TA performance was satisfactory: it focused on assessing the most binding constraints to the investment climate and on the design of blueprints for policy actions.⁸ The project preparatory TA consultants' inputs were satisfactory. The policy matrix was jointly developed by ADB and relevant government agencies, and benefitted from consultation with nongovernment organizations, particularly with business associations and private businesses. Many of the policy actions were included in the government's action plan to improve the country's score in the *Doing Business* ranking.

B. Program Outputs

6. The program delivered four outputs: (i) reduced cost of regulatory compliance, (ii) improved access to finance, (iii) enhanced workers' skills, and (iv) PPPs facilitated. Table 1 provides a snapshot of key achievements under the program. Subprograms 2 and 3 included policy reforms that built on lessons from the previous subprograms, particularly the need for improved monitoring and coordination, dialogue with stakeholders, and close attention to ensure that benefits are shared with all regions.

Table 1: Summary of Achievements under the Investment Climate Improvement Program

Subprogram 1 Achievements (completed in 2008)	Subprogram 2 Achievements (completed in 2012)	Subprogram 3 Achievements (completed in 2014)
Output 1: Cost of regulatory compliance reduced		
Framework for one-stop shop for business registration established and capacity building initiated	Pilot testing of one-stop shop for business registration completed in all regions; registration requirements reduced	Options for electronic tax filing and payments and no-contact policy expanded to all regions
Legal and institutional framework for regulatory impact assessment for businesses established	Licensing requirements reduced based on regulatory impact assessment results, and risk-based inspections institutionalized	Further reduction of licensing requirements and simplification of legal framework into a single law
Institutional framework for pre-customs single window adopted	Automated pre-customs single window system developed	Operations of pre-customs single window system initiated
Output 2: Access to finance improved		
Legal reforms to strengthen the secured lending framework initiated	Legal reforms on secured lending framework consolidated	Legal reforms on secured lending framework completed
Tax-related impediments to leasing removed	Availability of financial services further increased, particularly for women	Risk-based supervision of microfinance organizations strengthened

⁵ The Joint Country Support Strategy was prepared by ADB together with the Department for International Development of the United Kingdom, Swiss Cooperation, United Nations agencies, and the World Bank Group.

⁶ ADB. 2013. *Kyrgyz Republic: Country Partnership Strategy, 2013–2017*. Manila.

⁷ ADB. 2007. *Private Sector Development Issues in the Kyrgyz Republic: Issues and Options*. Consultant's report. Manila (TA 4705-KGZ).

⁸ ADB. 2008. *Technical Assistance to the Kyrgyz Republic for Preparing the Investment Climate Improvement Program*. Manila.

Subprogram 1 Achievements (completed in 2008)	Subprogram 2 Achievements (completed in 2012)	Subprogram 3 Achievements (completed in 2014)
Legal framework for credit information sharing initiated	Institutional framework for credit information sharing improved	Legal framework for consumer protection strengthened
Output 3: Workers' skills enhanced		
	National Professional Skills Development Council formed, with women represented at near 50% Qualification framework adopted for technical and vocational education for 18 occupations	Sector councils on skills development established Modern competency-based training introduced for more than 6,000 students in 18 occupations
Output 4: Public-private partnerships facilitated		
Legal reform for PPPs initiated PPP risk management unit established	Legal and risk management framework for PPP established Units for risk management and PPP promotion operationalized First steps taken to build PPP project pipelines through screening methods	PPP standard tender documents developed Project development support facility approved Pilot PPP projects further prepared

PPP = public-private partnership.
Source: Asian Development Bank.

7. **Output 1: Cost of regulatory compliance reduced.** This output helped reduce the cost of doing business by cutting the regulatory burden on businesses. It was partly financed by a \$2.9 million project grant that implemented two new systems: (i) a business registration system under a one-stop-shop approach, and (ii) a single window for pre-customs clearance of foreign trade.⁹

8. Implementation of the business registration system was highly effective. It has been running since February 2012 in one-stop shops in all seven regions and in the cities of Bishkek and Osh. The overall assessment is very positive. The Kyrgyz Republic now ranks 9th out of 189 economies on the ease of starting a business, from 49th in 2007.¹⁰ Legislation was simplified.¹¹ Many of the simplified processes were automated, including exchange of information among the Ministry of Justice and other agencies. Anecdotal evidence suggests that the average time to register a business has been reduced from 15 days in 2009 to 4 days (for commercial organizations) in 2012. The quality of the registration process has improved, particularly the accuracy in registering business economic classification and the capacity to collect sex-disaggregated data for heads of firm and individual shareholders.¹² From 2012 to 2014, an average of 4,750 registrations were processed every year through the new system, against an average of 4,600 registrations under the old system during 2009–2011. Users from concerned agencies seem satisfied with the new system—it is user-friendly and provides comprehensive reports for management. Information was migrated from the old to the new electronic database, which now includes about 89,500 records. The public can access the

⁹ A separate completion report was prepared for the project grant. ADB. 2013. *Completion Report: Investment Climate Improvement Program System Support Project in the Kyrgyz Republic*. Manila (Grant 0121-KGZ). The project was partly successful in achieving its outcome. The systems were established efficiently and are operating, but the effectiveness of the single window for pre-customs clearance was deemed very limited at the time. The effectiveness of the single window has significantly improved since the report was finalized.

¹⁰ World Bank. 2014. *Doing Business 2015: Going Beyond Efficiency*. Washington, DC.

¹¹ The 2009 Business Registration Law abolished (i) the requirement to have the signatures of company founders notarized, (ii) minimum capital requirements, (iii) various post-registration fees, and (iv) the requirement to open a bank account before registration.

¹² Reporting of gender data has been generated upon request. During 2010–2014, women represented 37% of newly registered heads of firms and 21% of newly registered individual shareholders in the Ministry of Justice's database.

database through the Ministry of Justice's website.¹³ This has significantly reduced the ministry staff's workload.

9. More than 370 licenses and permits were eliminated under the program, which is about 75% of the licenses in force in 2008 when program implementation began. The process was backed by a newly developed regulatory impact assessment system. A new law, enacted on 19 October 2013, consolidated all licenses and permits into a single law. In 2014, only 98 types of activities required licenses or permits. A unit in the Ministry of Economy is responsible for monitoring legislative and regulatory processes, and facilitating assessment of the regulatory impact of all newly proposed legislation. The reform process was supported by ADB and United States Agency for International Development TA. However, it is not clear if businesses are fully aware of these changes; anecdotal evidence shows that some government agencies still try to apply abolished licenses.

10. Amendments to the law on inspections introduced the concept of risk-based inspections, which prioritize firms with higher risk of noncompliance instead of targeting all firms. This new approach helps make better use of scarce regulatory resources, reduces the burden faced by compliant businesses, and minimizes opportunities for corruption. The government adopted procedures for inspections, defining rights and obligations of inspectors and businesses. The number of business inspections (excluding tax inspections) fell from 21,000 in 2011 to 13,500 in 2013. Tax inspections represent the highest number of inspections on businesses, and were specifically targeted under the program. The State Tax Service (STS) also introduced a risk-based audit system through the integrated information technology system developed with ADB support. The system assigns each taxpayer with a compliance score based on 13 risk factors. Beginning in June 2013, all tax offices must implement system-based inspection plans generated in STS headquarters for taxpayers below the compliance score. Mandatory use of centralized, computer-generated audit plans reduces unjustified costs for firms that are in compliance. The reform was supported by ADB and International Finance Corporation (IFC) TA.

11. Other initiatives to reduce tax compliance costs have been implemented with assistance from ADB and IFC. A new regulatory framework on electronic tax declarations using a login-password system was approved. This enables full operation of the new ADB-financed electronic system, which will help increase the number of taxpayers filing electronically (5,410 taxpayers as of 30 June 2014) and reduce filing costs. The STS has simplified 10 tax documents through restructuring, rewording, and elimination of redundancies. The Tax Code was amended to allow small and medium-sized enterprises to use simplified methods for determining the base for corporate income tax computation.¹⁴ The STS conducted pilot tests in Ortasai and Madina markets for electronic payment of tax patents through cash terminals, and expanded this approach nationwide—allowing thousands of patent holders to pay their taxes without having to go to a bank branch.¹⁵ More than 16,000 payments were made in cash terminals in the first 8 months of 2014, against a total of only about 1,500 payments in 2012 and 2013. The STS started accepting payment of some taxes through electronic cards, with ATM receipts as proof of payment. The STS has also reduced tax compliance costs and scope for informal payments by introducing one-stop shops with no-contact windows for taxpayers in rural areas. Finally, the

¹³ Ministry of Justice. <http://register.minjust.gov.kg/register/SearchAction.seam?logic=and&cid=204>

¹⁴ Before the amendment, the code required firms under the general tax regime to compute profits using depreciation rates for equipment that differed from those required under the Kyrgyz Republic's accounting standards.

¹⁵ The tax patent regime is targeted at individual entrepreneurs and applies to 132 types of business activities. Individual entrepreneurs pay a fixed amount (called a tax patent) for a predetermined period. Seventy percent of women entrepreneurs work under the patent system.

STS conducted a campaign to inform taxpayers in all regions about the new mechanisms to help in complying with tax requirements (e.g., electronic declarations).

12. The single window for pre-customs clearance of foreign trade (SWFT) started operations in 2013. As of 7 October 2014, it had issued more than 12,500 electronic customs clearance folders for foreign trade transactions. More than 300 companies have used the new system. The single window has a service center in Bishkek but not in other parts of the country. It incorporates 16 agencies, including four commercial certification entities.¹⁶ The electronic interface between the SWFT and the State Customs Service's information system has been effectively used. The reform process was supported by TA from ADB and German development cooperation through GIZ.

13. Many challenges remain to be addressed before the SWFT can achieve its full potential. Because of resistance to change by some government agencies, streamlining of clearance procedures in these agencies was minimal. The new system automated existing processes, but did not improve them. Traders still have to visit participating agencies physically to collect paper copies of clearance documents.¹⁷ This has led to suboptimal gains in clearance time. Pre-customs clearance in 2013 still took 23 days for imports and 25 days for exports—the same as at appraisal (footnote 10). Obtaining pre-clearance certificates through the SWFT has added to the costs incurred by traders, since the SWFT charges for processing of electronic documents in addition to the charges by government agencies for paper documents. This was not envisaged under the program. ADB will continue to provide assistance through the Regional Improvement of Border Services Project, which includes a \$4.12 million component to support further development of the SWFT and improvement of related processes and charges.¹⁸

14. The State Customs Service implemented the ADB-financed Unified Automated Information System (UAIS) from October 2012 to December 2013. All 40 customs posts and offices are now connected to the UAIS. More than 190,000 electronic customs declarations have been processed in 2013 (73.6% of total declarations issued in 2013). In 2014, all customs declarations—a total of 156,000 declarations by August—were issued in electronic format through the UAIS. The system has an online interface for access by more than 400 users.

15. **Output 2: Access to finance improved.** Reforms under the program helped to (i) improve financial institutions' confidence in the enforcement of financial contracts and their capacity to assess borrowers' credit risk; (ii) increase the availability of financial services, such as leasing, particularly for women borrowers; and (iii) strengthen financial supervision and financial consumer protection. By reducing credit risks and the inefficiency of financial intermediation, these measures improved access to finance for longer-term investment.

16. Amendments to the Civil Procedures Code enabled a reduction of the period of review by the state courts of the request for writ of execution to enforce arbitral awards, and introduced

¹⁶ The government agencies that require the most interaction are estimated to be (i) the Chamber of Commerce and Industry; (ii) Kyrgyzstandard; and (iii) the State Inspection for Food, Veterinary, and Phytosanitary Security. Source: Focus group discussions with traders and brokers held in November 2012.

¹⁷ For exporters, paper documents (certificates of origin, sanitary permits, and lab test certificates) are still important because foreign countries, including the neighboring countries of Kazakhstan, Uzbekistan, and Tajikistan, do not recognize electronic custom clearance folders.

¹⁸ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grants to the Kyrgyz Republic and the Republic of Tajikistan for Central Asia Regional Economic Cooperation Regional Improvement of Border Services Project*. Manila.

provisional measures imposed by the state courts for arbitration cases. These amendments are expected to reduce the average court enforcement period from 16 to 8 months. Given that 75% of arbitration cases involve loan transactions, this should reduce lending costs.

17. In 2012 and 2013 an annual average of 1.3 million credit reports were shared between credit institutions through the single credit bureau, against an annual average of 371,000 from 2008 to 2011. More than 100 institutions are sharing information through the bureau, against 48 in 2012. The positive developments in the credit information system were influenced by the reforms included in the program—changes in the Civil Code to allow specialized legislation on credit information sharing among credit-financial organizations (negative information), as well as revision of the National Bank of the Kyrgyz Republic (NBKR) supervision procedures to verify if banks check the credit histories of loan applicants with a credit bureau and report all credit extensions and events to a credit bureau. IFC also provided substantial TA in this area.

18. The leasing market is starting to benefit from the revisions to the tax code supported by the program. The average volume of leasing transactions increased from \$2.3 million per year during 2008–2011 to \$10.0 million per year during 2012–2013. The government’s awareness campaign for female entrepreneurs is expected to bring leasing benefits to female borrowers. A law was enacted under the program allowing microfinance organizations to offer additional financial services by acting on behalf of banks, and to conduct foreign exchange transactions. The program also included measures to incentivize deposit taking by microfinance organizations. In 2012 one of the largest microfinance organizations was transformed into a bank, and in 2014 another one received preliminary approval from the banking regulator for a bank license. The government approved a program of required measures to provide deposit insurance for small depositors in the event a microfinance organization fails, including integration of these organizations into the payment system. If implemented, the program will increase trust in financial institutions, and help expand the saving products available to lower-income households.

19. To support prudent microfinance development, the NBKR (i) strengthened its risk-based supervisory capacities by adopting new operational procedures for offsite and onsite supervision of microfinance organizations; (ii) strengthened consumer protection and fostered responsible lending practices for all financial institutions; and (iii) introduced legal, regulatory, and supervisory changes to prevent overindebtedness, establish responsible product pricing, and increase transparency in communications between microfinance organizations and their clients.

20. **Output 3: Workers’ skills enhanced.** This output was included during subprogram 2, as the lack of skilled workers had developed into a binding constraint for private businesses since early 2010. Under the program, the government strengthened the institutional framework for workforce skills development, which has been made more demand-driven by establishing the National Professional Skills Development Council (NPSDC) and seven sector skills development councils.¹⁹ The councils have appropriate rules on their composition, including the need for broad participation of private sector stakeholders and female entrepreneurs.

21. The Agency for Vocational Education adopted a technical qualification framework, competency standards, and training packages for 18 occupations.²⁰ In 2013, more than 14,000

¹⁹ The sectors covered are agriculture and agro-processing, construction, energy, mining, restaurants and hotels, textiles and garments, and tourism.

²⁰ The occupations are electric and gas welder; electrician (household equipment); electrician (electric equipment); electrician (power stations and networks); motor mechanic; plumber; plasterer, paver; master gypsum plasterboard construction; master finisher; joiner-carpenter; junior veterinary assistant; farmer; operator on agricultural products processing; hotel industry worker; cook; tailor; cutter; and hairdresser.

students in primary vocational schools received competency-based training. In March 2014, the agency (with ADB support) started a marketing campaign to increase female enrollment in technology-based and nontraditional occupations.²¹

22. **Output 4: Public–private partnerships facilitated.** This output helped to improve the enabling environment for PPPs and to develop a project pipeline that can reduce infrastructure bottlenecks such as those caused by high transport costs and frequent power outages.

23. Under the program, the government enacted a PPP law that is substantially in line with international good practice as measured against criteria established by the United Nations Commission on International Trade Law for PPP legislation.²² The government also amended relevant laws and regulations to align them with the PPP law, adopted a risk management policy defining principles for government support for PPPs, adopted standard development and tender procedures for PPP projects, and established a risk management unit for PPPs and a project development support facility (PDSF) with adequate rules and funding. The PDSF will finance the development of potential PPP projects to increase the quality and quantity of successful PPPs and government decision making. The government has allocated \$2 million to the PDSF in the 2014 budget and has committed to additional allocations in 2015 and 2016.

24. The government expanded the mandate of the Coordination Council on Macroeconomic and Investment Policy to include formulation and implementation of PPP policy matters. The Ministry of Economy established a PPP unit responsible for overall coordination of the PPP program. The unit is the secretariat to the coordination council on PPP matters. ADB TA (para. 34) helped develop initial capacity in the ministries of economy, finance, transport and communications, and health, as well as the Bishkek City Development Authority, to prepare and implement PPP projects.

25. To date, three line ministries and the City of Bishkek have identified a pipeline of 21 PPP project proposals (Appendix 5). The Ministry of Economy has prepared position papers on six proposals being considered for PPPs.²³ Three feasibility studies have been completed (Karakul hydropower plant, performance-based maintenance for the Bishkek–Kara Balta road section, and small hydropower plants) and two tender documents have been prepared for potential projects. Pre-feasibility studies have been completed for five of the seven initial project ideas in the health sector, and two feasibility studies have been commissioned. The government completed a master plan for the energy sector, but implementation measures have not yet been established.

C. Program Costs and Disbursements

26. ADB supported the program with three single-tranche grants from ADB's Special Funds resources as budget support. The grants were disbursed in accordance with ADB's Simplification of Disbursement Procedures and Related Requirements for Program Loans,²⁴ and after grant effectiveness of each of the three subprograms: the grant for subprogram 1 was

²¹ Asian Development Bank. <https://www.youtube.com/watch?v=sqKbcwW1Fo>

²² A first PPP law approved in 2010 did not meet ADB requirements. The second (and current) PPP law was approved on 24 February 2012.

²³ The position paper is an in-principle approval or rejection of project proposals, submitted by line ministries and implementing agencies, to proceed to the pre-feasibility stage. ADB TA has helped prepare a template for position papers and provided training to staff of the Ministry of Economy.

²⁴ ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

disbursed in December 2008, the grant for subprogram 2 in December 2012, and the grant for subprogram 3 in July 2014. The budget support helped finance the government's development program.²⁵ The amount disbursed for subprogram 3 was \$22 million, higher than the initially expected \$20 million, to account for the higher than expected cost allocated to the PDSF. There were no problems with the disbursement of the two attached TA grants.

D. Program Schedule

27. The program was implemented from October 2007 to April 2014. The estimated program completion date was December 2011. The delay was mainly due to the 2010 Revolution, to the resistance to reforms by vested interests and the need for extensive dialogue, and to the technical challenges of the reform process. In 2010 the government and ADB placed the program on hold for almost 1 year, to focus on emergency assistance to restore the country's fiscal capacity and rebuild houses and public infrastructure damaged during the April and June 2010 conflicts.²⁶ Resistance to reforms and the need for extensive dialogue mainly delayed the implementation of the single window for foreign trade clearance, the elimination of unnecessary licenses, and the acceleration of court enforcement of arbitral awards. Technical challenges delayed implementation of the PPP component (footnote 22).

E. Implementation Arrangements

28. The implementation arrangements were satisfactory. The Ministry of Economy was the executing agency and assumed overall responsibility for the program, including coordination of agencies responsible for implementation of policy actions. The implementing agencies were the Ministry of Economy, the Ministry of Finance, the Ministry of Justice, the State Customs Service, the State Tax Service, the NBKR, the Agency for Vocational Educational, the Deposit Protection Agency, and the state enterprise Single Window Center on Foreign Trade. The program envisaged the establishment of a high-level steering committee chaired by the minister of economy, with representatives of relevant stakeholders; it was expected to meet at least three times a year to provide guidance on program implementation. However, throughout implementation the government demonstrated a preference for the use of established coordination mechanisms (e.g., the Cabinet of Ministers, and the Macroeconomic and Investment Policy Coordination Council) to discuss and monitor implementation of specific policy actions. During subprograms 2 and 3, ADB and the Ministry of Economy regularly informed the Prime Minister's Office about the most critical policy actions, which often helped remove resistance to reforms through consensus building. ADB TA helped the government to fulfill policy actions (paras. 32–34).

29. The government's monitoring and implementation of policy actions was satisfactory during subprograms 1 and 3. Implementation of subprogram 2 was affected by frequent changes in the Cabinet and senior officials, with the exception of the main focal persons in the Ministry of Economy. As an example of the shifts during subprogram 2, in November 2009 the government proposed, and ADB accepted, that the newly established Central Agency for Development, Investment and Innovation under the President would become the executing agency. This implementation arrangement lasted for about 6 months, until the 2010 Revolution.

²⁵ The government budget was balanced in 2008, whereas it observed a deficit of 5.3% of GDP in 2012. For 2014, the estimated deficit is 4.2% of GDP.

²⁶ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Kyrgyz Republic for Emergency Assistance for Recovery and Reconstruction*. Manila (Grants 0217-KGZ and Loan 2668-KGZ).

F. Conditions and Covenants

30. No delays occurred in meeting the conditions of effectiveness of the three subprograms. Appendix 2 lists the status of compliance with grant covenants for the three subprograms. The Single Window Center for Foreign Trade (not the State Customs Service) was responsible for implementation of the SWFT, which had the benefit of assigning to a fully dedicated institution the responsibility of its implementation. However, the center has had difficulties in facing resistance from other government agencies during implementation of the SWFT, which significantly delayed the reform process. Many of the covenants that were not complied with or partially complied with relate to implementation arrangements under subprograms 2 and 3.²⁷

31. The government did not share written progress reports on a regular basis. The void was partially filled by information provided by the Ministry of Economy and implementing agencies at ADB's request and during ADB missions.

G. Related Technical Assistance

32. Two TA grants were approved under the program: (i) a \$600,000 project preparatory TA grant approved in November 2008 to prepare subprogram 2 (footnote 2), and (ii) a \$700,000 capacity development TA grant approved in November 2012 to prepare subprogram 3 (footnote 3). Although similar in nature, the two TA projects had different classifications.²⁸

33. The first project preparatory TA had an original implementation period from November 2008 to June 2010. It was closed in June 2010 as envisaged. ADB engaged seven individual consultants to support design and implementation of subprogram 2. The Ministry of Economy, the Ministry of Justice, the NBKR, and the Ministry of Finance were the implementing agencies.

34. The second TA grant is rated *successful*. It was classified as capacity development TA although its objective was to support implementation of subprogram 3. The TA had an original implementation period from November 2012 to May 2014. The TA was extended twice and was closed on 31 December 2014. ADB engaged 12 individual consultants and their overall performance was satisfactory. The TA achieved its objective and has accommodated additional activities, which have assisted the government in deepening the impact of reforms under the program. The completion report for this TA is in Appendix 4.

H. Performance of the Borrower and the Executing Agency

35. The government's performance in implementation of the program was *satisfactory*. The majority of implementing agencies completed the policy actions within reasonable time periods, considering the natural resistance to change and the need for extensive communication among stakeholders. The grant effectiveness conditions for all subprograms were swiftly met. Despite frequent government changes, including those that resulted from the 2010 Revolution, key staff of the Ministry of Economy remained in place throughout the program implementation period. However, government staff was not assigned to program implementation on a full-time basis and had to perform other functions as well; this reduced program effectiveness.

²⁷ Since these covenants were agreed after implementation of the two subprograms, the impact on program performance of this non- or partial compliance with covenants was irrelevant. This is due to the nature of ADB policy-based lending, where Board approval and loan agreement take place after program implementation.

²⁸ The first TA was classified project preparatory TA—and thus does not require a completion report—whereas the second TA was classified capacity development TA.

36. The government's support to the Ministry of Economy for implementation of the PPP program may not have been adequate. The ministry did not have funding for staff to be assigned to the PPP program on a full-time basis. Rotation of technical staff in ministries involved in PPPs was high. In September 2014, the government transferred the PPP promotion function to the newly established Investment Promotion Agency to address these constraints.

I. Performance of the Asian Development Bank

37. ADB staff at headquarters and the resident mission provided appropriate assistance to the government in implementing policy actions and in complying with grant covenants. No major disagreements arose during implementation. ADB fielded an average of two review missions per year during the 6.5-year implementation period (2007–2014). ADB demonstrated sufficient flexibility to extend time lines or adjust policy actions to better fit the program's objectives when implementation suffered delays or resistance, or when a better reform was proposed to achieve the intended outcome. ADB appointed four officers to the program during implementation. The transition periods had minor impacts in the efficient cooperation between ADB and the government. Overall, the performance of ADB in program implementation is rated *satisfactory*.

III. EVALUATION OF PERFORMANCE

A. Relevance

38. The program is rated *relevant*. It was aligned with the government's Sustainable Development Strategy, 2007–2010 and the National Sustainable Development Strategy, 2013–2017,²⁹ as well as government action plans. It was also well aligned with ADB's country and corporate strategies—supporting economic growth and poverty reduction through private sector development is an important theme of ADB's Strategy 2020. The country strategy and program, 2004–2006 concluded that the public investment-led growth of 1996–2001, financed primarily by external resources, was no longer sustainable, and proposed a new focus on interventions to support private investment and promote exports.³⁰ The program was also in line with a 2007 study by ADB's Operations Evaluation Department that noted that DMCs were increasingly requesting ADB support to build the enabling environment for the private sector in DMCs (including rule of law, access to finance, and an appropriate policy, legal and regulatory framework) to lower the risks associated with ADB nonsovereign transactions.³¹

39. The choice of budget support to the Kyrgyz Republic was timely given the country's fiscal pressures and difficult economic situation at appraisal, and the need to promote a better enabling environment for private sector development. The policy-based nature of the program—particularly the incentive provided by ADB budget support—helped the government implement many policy reforms that faced significant resistance. The program approach allowed long-term support to policy reforms and necessary flexibility in tackling changing binding constraints to growth. Implementation of the most challenging policy reforms was usually supported by ADB TA. The mitigation measures were adequate, and could not have foreseen the delay created by the 2010 Revolution. The government was excessively focused on improving competitiveness indicators in international rankings, which sometimes distracted it from implementing reforms that addressed important constraints to growth that are not reflected in such rankings.

²⁹ National Council for Sustainable Development of the Kyrgyz Republic. 2013. *National Sustainable Development Strategy for the Kyrgyz Republic for the period of 2013–2017*. Bishkek.

³⁰ ADB. 2003. *Country Strategy and Program, 2004–2006: Kyrgyz Republic*. Manila.

³¹ Operations Evaluation Department. 2007. *Special Evaluation Study: Private Sector Development and Operations – Harnessing Synergies with the Public Sector*. Manila. ADB.

B. Effectiveness in Achieving Outcome

40. The program was *effective* in achieving the intended outcome. The Kyrgyz Republic's investment climate has improved since 2008, when program implementation began. Investment has increased from an average of 18.2% of GDP in 2003–2007 to an average of 27.1% of GDP during 2008–2012; it was estimated at 27% of GDP in 2013. Private investment (gross fixed capital formation) has significantly increased from an average of 13.5% of GDP in 2003–2007 to an average of 21.1% of GDP during 2008–2012; foreign investment accounted for 32.1% of total investment and about half of private investment over this period.³² Half of foreign investment has been directed to manufacturing, most of it to the Kumtor gold mine.³³ The country has attracted more foreign direct investment as a percentage of GDP than Tajikistan and Uzbekistan, but performance is slow compared with Armenia and Georgia. The size of the informal economy was estimated at 39% in 2011, down from 53% in 2007. The number of registered female entrepreneurs continues to rise—87,125 in 2013, which is higher than the project target for 2015 (75,000). The country's ranking in the *Doing Business* report has improved from 94th in 2007 to 68th in 2012.³⁴ Significant changes in the report's methodology have affected the Kyrgyz Republic's overall position in the ranking, and made it impossible to measure achievements against the program's initial target. The latest *Doing Business* report places the Kyrgyz Republic in 102nd place (footnote 10).³⁵

41. Financial intermediation has expanded: domestic credit to the private sector reached an all-time maximum of 16.3% of GDP in 2013 and has continued to grow in 2014. The average maturity of bank loans also reached an all-time maximum of 28.8 months in June 2014. The volume of money outside banks has fallen significantly, reaching an all-time minimum of 95.7% of total deposits in June 2014 (Appendix 6). Electronic tax collection supported under the program will further improve transparency and increase the financial system's depth (para. 11).

42. Not all outcome performance indicators were fully achieved. In particular, the SWFT continues to have limited use, and has not been able to reduce the time and costs for clearance of foreign trade transactions. The NPSDC has had limited activity and requires significant TA to support dialogue between the vocational training system and businesses.³⁶ The PPP component has had limited impact on the investment climate in the Kyrgyz Republic. The design and monitoring framework for subprograms 2 and 3 updated the outcome indicators and targets.

³² National Statistics Committee. <http://www.stat.kg>

³³ Kumtor mine produces the majority of the country's industrial output and exports. The concession has been renegotiated twice since its operations started in 1997. In February 2013, Parliament directed the government to renegotiate the agreement again amid allegations that Kumtor operations have caused massive environmental destruction. Parliament has yet to ratify the non-binding Heads of Agreement on potential restructuring of the concession's ownership structure (signed by the government and the private partner in January 2014). The prospect of a unilateral termination of the concession agreement has raised concerns among investors.

³⁴ World Bank. 2013. *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*. Washington, DC.

³⁵ The 2015 *Doing Business* report covers January 2013 to December 2013. This report is not directly comparable with previous editions since the World Bank revised its methodology. These revisions have negatively affected the Kyrgyz Republic's overall position in the ranking: the country ranked 102th in the January 2013–December 2013 report, against 68th in the previous year; it ranked 70th in the January 2010–December 2010 report, against 44th in the previous year.

³⁶ ADB continues to support the NPCSD through ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kyrgyz Republic for the Second Vocational Education and Skills Development Project*. Manila.

C. Efficiency in Achieving Outcome and Outputs

43. The achievement of outputs and outcome was *efficient*. Despite a tight fiscal situation and capacity constraints, the government implemented the policy actions under each subprogram. The great majority of policy actions were executed within the expected time frame, particularly those under subprograms 1 and 3. However, delays or impediments occurred in the implementation of some critical reforms, particularly under subprogram 2, mostly as a result of unforeseen and external factors (para. 27).

44. The program reinforced and benefitted from other ADB interventions. Coordination among development partners also explains part of the program's success: many reforms were partially supported by technical inputs financed by development partners that do not provide policy-based programs.³⁷ This increased the efficiency of overall development assistance, but makes it slightly more difficult to measure ADB's exact contribution to program effectiveness.

D. Preliminary Assessment of Sustainability

45. The program is rated *likely sustainable*. All policy actions implemented under the program since 2007 are in place as of the end of 2014. The program supported the establishment of new institutions that will continue to underpin an improved investment climate and business environment beyond program implementation, if continued government support is provided. Many of these new institutions receive funding from the state budget. For example, the government has pledged allocations from the state budget to the PDSF (\$1 million in 2015 and \$1 million in 2016) to finance the preparation of feasibility studies and transactions costs for potential PPPs. Some of these new institutions, however, still require financial support from development partners. In particular, ADB continues to support the SWFT (para. 13) and the NPCSD (also supported by the Second Vocational Education and Skills Development Project).

46. Other developments in the Kyrgyz Republic not directly related to program policy actions also help in the sustainability of the program outcome. The 2010 Revolution, while delaying program implementation, brought in a new constitution that established new checks and balances in the country's political system, making it more difficult to introduce rules that impose unnecessary costs to business. Since 2008, the number of business associations has increased five times. These associations also make it more difficult to introduce measures that harm the business environment, as they are active in promoting their interests.

E. Contribution of Policy-Based Grant to Institutional Development

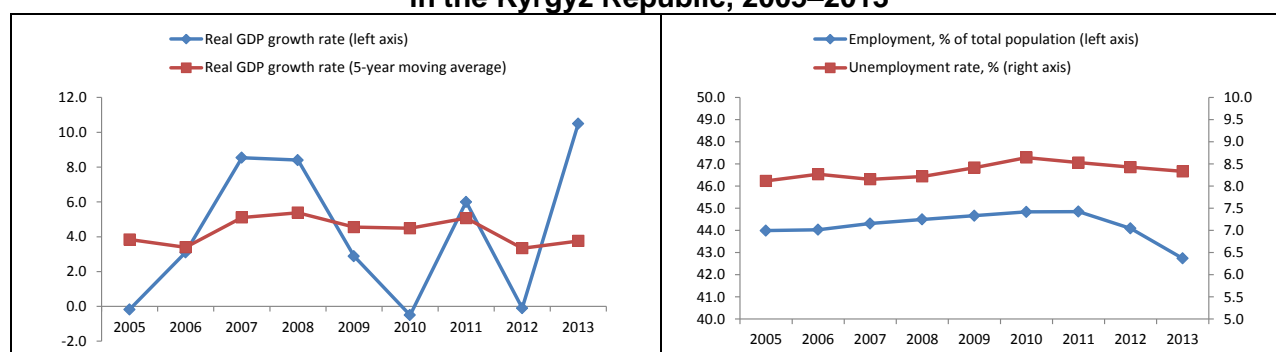
47. The program and related TA have built institutional capacity in certain government functions. New agencies with new functions were introduced: a unit in the Ministry of Economy that coordinates regulatory impact assessment; a unit in the Ministry of Finance that monitors and evaluates fiscal risks, including from contingent liabilities from PPP contracts; a state enterprise for managing the SWFT; and the NPSDC and seven sector councils that improve communication between the vocational education system and private business. Many government ministries and agencies have streamlined their business processes, such as the Ministry of Justice, the NBKR, the State Customs Service, and the State Tax Service. The program also built the Ministry of Economy's capacity to act as an executing agency.

³⁷ The program reinforced the project outcomes of development partners, particularly those from German development cooperation through GIZ, IFC, the International Monetary Fund, the Swiss State Secretariat for Economic Affairs, and the United States Agency for International Development.

F. Impact of Policy-Based Grant

48. The program's policy actions intended to contribute to sustainable economic growth and employment creation. There has been no discernible change in real GDP growth dynamics or in employment and unemployment rates. Economic growth continues to be highly volatile, and official unemployment rates have remained constant over the last decade (Figure). During 2012–2013, the employment rate has fully reversed the minor gains that had been achieved since program implementation began in 2007. But significant negative exogenous factors have occurred during program implementation, particularly the global economic and financial crises and the 2010 Revolution. This makes it very difficult to make a proper judgment of initially projected impact targets and the potential impact from the program.

Figure: Dynamics of Gross Domestic Product and Employment in the Kyrgyz Republic, 2005–2013



GDP = gross domestic product
Source: National Statistics Committee.

49. During 2006–2009, absolute poverty fell from 39.9% to 31.7% and extreme poverty declined from 9.1% to 3.1%. The Gini coefficient for consumption fell from 32.3 in 2006 to 24.5 in 2009, showing a better balance of resources between households. The main factor contributing to the poverty reduction was the growth in remittances (from 11.0% of GDP in 2005 to 18.0% of GDP in 2009), which fueled an increase in private consumption. During 2010–2012, poverty increased to 38.0% and extreme poverty to 4.4% as a result of economic challenges stemming from domestic political and civil unrest. In 2013, the poverty rate fell slightly to 37.0%.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

50. The program was *successful* in achieving its outcome as defined in the program's design and monitoring framework. The investment climate and business environment have shown improvements in many important areas, and this has led to higher levels of private investment. The Kyrgyz Republic has a stronger institutional framework to ensure that unnecessary regulations are not imposed on businesses. Two of the three subprograms effectively mainstreamed gender features that helped address obstacles faced by female entrepreneurs, and promoted a level playing field between male and female entrepreneurs. The increase in the number of female entrepreneurs significantly exceeded initial expectations, reaching 87,125 in 2013. However, reforms will continue to be necessary to further support development of the private sector and ensure sustainable economic growth and employment creation.

51. The program was largely implemented as designed, although in a longer than expected period due to unforeseen and significant external factors (para. 27). The changes introduced during implementation were necessary to address shifts in the constraints to growth and to increase the impact of reforms. The design and monitoring framework had one indicator that suffered methodological changes, making it difficult to assess progress in achieving the target (footnote 35).

B. Lessons

52. Implementation of institutional reforms under the program was more effective and efficient when there was an adequate and detailed blueprint with clear and measurable results indicators, as well as where project-type implementation arrangements were in place to facilitate the change process (e.g., the business registration system or the new inspection process for tax administration were supported by detailed blueprints and financed through investment projects).³⁸ The \$2.9 million grant approved under the program cluster was thus very useful. The government accelerated implementation of the SWFT when the policy action was reworded to become more results-oriented rather than process-focused.

53. Despite an improvement in the business environment, firms in the Kyrgyz Republic have had limited progress in developing new productive capabilities: the number and sophistication of products exported with comparative advantage by Kyrgyz Republic firms has declined. It is possible that the increase in investment has been directed to sectors that produce non-tradable goods and services or that produce a limited number of tradable products (e.g., mining). This questions whether improvement of the overall investment climate is sufficient to attract investments that can bring additional productive capabilities to a country (para. 57).

54. It is problematic to use a country's overall position in the *Doing Business* report to monitor progress in improving the business environment and overall competitiveness. The report has been subject to criticism and methodological problems have been identified.³⁹ Its usefulness for monitoring progress in similar programs lies more in monitoring the country's performance over time—particularly in indicators that are not sensitive to the representative case used by the World Bank team⁴⁰—rather than measuring progress against other economies.

C. Recommendations

1. Program Related

55. **Future monitoring.** ADB and the government should continue monitoring and support the activity of the NPSDC and the sector councils. The Second Vocational Education and Skills Development Project can support this, particularly by improving NPSDC's role, objectives, procedures, and operations (footnotes 36 and 38). ADB should continue monitoring the use of the PDSF through recently approved TA.⁴¹

³⁸ A blueprint is a document that describes the government's policy objective, the institutional function(s), the governance rules, the business processes and rules, the business (and/or implementation) plan, the cost estimates, and the financing plan.

³⁹ Independent Panel. 2013. *Reviewing the World Bank Group's Doing Business Report*. <http://www.dbrpanel.org/sites/dbrpanel/files/doing-business-review-panel-report.pdf>

⁴⁰ For example, the ease of trading across borders is monitored based on a specific transaction. Although useful, this indicator does not fully represent foreign trade transactions in the country.

⁴¹ ADB. 2014. *Technical Assistance to the Kyrgyz Republic for Strengthening the Enabling Environment for Public–Private Partnerships*. Manila.

56. **Further action or follow-up.** The government should revise the fee structure charged by the entities that participate in the SWFT to reduce the burden to traders and enable them to pay these fees through electronic payment mechanisms. The government should pursue ISO certification of the business registration system, since the system has been in operation for more than 3 years and has thus reached a required level of experience. The Agency for Vocational Education should revise its management information systems to enable sex-disaggregated statistics of students' enrollment by occupation; a detailed implementation schedule would ensure stronger commitment.

57. **Additional assistance.** ADB assistance to the Kyrgyz Republic should continue to help improve the environment for businesses, including those in the informal sector, particularly given the rapidly changing regional competitive environment. The use of long-term programmatic assistance and TA is recommended. However, ADB should not neglect assistance for delivery of targeted public inputs (goods) that improve the competitiveness of Kyrgyz Republic firms, as well as economic diversification and structural transformation. Policy reforms should promote coordination within strategic value chains through greater use of domestic skilled labor and locally produced inputs, as well as efforts by firms to export new, strategic products to new markets. This is critical for structural transformation, which the country desperately needs. ADB should aim to work with different institutions—the judiciary, civil society (including business associations), nongovernment organizations, the media, audit institutions, and an independent anticorruption agency—to strengthen the pillars of the governance system and reinforce mutual accountability, transparency, and access to information to eliminate unnecessary obstacles toward businesses.

58. **Covenants.** ADB should not include covenants in loan agreements for regular monitoring of progress under subprograms when policy actions have already been implemented.

2. General

59. As it stands, the usefulness of the design and monitoring framework for subprograms in a programmatic assistance loan is limited since it is only approved after policy reforms are implemented. ADB should improve the template and guidelines for the design and monitoring framework to make it more applicable to programmatic assistance, perhaps through better alignment with the policy matrix.

60. ADB should develop guidelines and templates for preparing blueprints for institutional reforms, since these are critical for successful implementation of policy-based loans.

61. ADB should promote similar types of programmatic assistance in other developing member countries in similar circumstances, and where there is strong ownership for support to private sector development.

62. ADB should continue to explore measures to increase synergies with other development partners in implementation of policy-based loans.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines		Data Sources and Reporting Mechanisms
	Appraisal	Actual	
<p>Impact Sustainable economic growth and employment creation</p>	<p>GDP growth higher than:</p> <ul style="list-style-type: none"> - 7% per annum on average during 2008–2013 from 5% during 2003–2007 [subprogram 1] - 5% per annum on average during 2013–2016 from 3.3% during 2005–2010 [subprogram 2] - 5% per annum on average during 2014–2018 from 3.2% during 2008–2012 [subprogram 3] <p>Unemployment rate reduced to:</p> <ul style="list-style-type: none"> - 5% in 2013 from 8% in 2007 [subprogram 1] - 6% (both female and male) in 2016 from 8% in 2008 (9.4% female, 7.3% male) [subprogram 2] - below 7% (both female and male) in 2018 from 8.4% in 2012 (9.5% female; 7.7% male) [subprogram 3] 	<p><i>Less likely to be achieved.</i> Real GDP growth during 2008–2013 was 4.5%</p> <p><i>Unlikely to be achieved.</i> Unemployment rate was 8.3% in 2013</p>	<p>NSC annual statistical yearbook. www.stat.kg</p> <p>NSC annual report on employment and unemployment. www.stat.kg</p>
<p>Outcome Improved investment climate and business environment</p>	<p>Gross fixed capital formation, private sector increased to 23% of GDP in 2015 (baseline: average of 13.5% of GDP in 2003–2007 and of 21.1% of GDP in 2007–2011)</p> <p>Lending to the private sector increased to 15% of GDP in 2015 (2008–2011 baseline: average of 12.5% of GDP)</p> <p>Number of female entrepreneurs increased to 75,000 in 2015 (2011 baseline: 64,290)</p> <p>Female enrolment in technology-based, nontraditional vocational</p>	<p><i>Likely to be achieved.</i> Gross fixed capital formation, private sector was 21.1% of GDP in 2008–2013 (21.3% of GDP in 2013)</p> <p><i>Achieved.</i> Credit to the private sector increased to 16.3% of GDP in 2013</p> <p><i>Achieved.</i> Number of female entrepreneurs was 87,125 in 2013</p> <p>[The AVE does not yet have sex-disaggregated statistics by occupation for 2014]</p>	<p>World Bank, World Development Indicators</p> <p>International Monetary Fund, International Financial Statistics Online</p> <p>NSC: Women and Men in the Kyrgyz Republic. www.stat.kg</p>

Design Summary	Performance Targets and Indicators with Baselines		Data Sources and Reporting Mechanisms
	Appraisal	Actual	
	<p>education training programs increased by 20% by 2015 (2013 baseline: 124)^a</p> <p>Size of the informal economy declines from 53% in 2007 to a maximum of 30% in 2012 [subprogram 1]</p> <p>Time taken to register a business is reduced from 21 days in 2007 to 3 days in 2012 [subprogram 1]</p> <p>Number of pre-customs clearance documents reduced from 12 in 2007 to 1 in 2012, and clearance time reduced from 25 days in 2007 to 5 days in 2012 [subprogram 1]</p> <p>Coverage of the Credit Information Bureau increases from 1.6% of the population in 2007 to at least the regional average of 15.4% by 2012 [subprogram 1]</p>	<p><i>Partly achieved.</i> Size of the informal economy was estimated at 39% in 2011</p> <p><i>Partly achieved.</i> In 2013, a business (legal entity) required a maximum of 8 days and an average of 4 days to register.</p> <p><i>Partly achieved.</i> In 2013, a trader required 9 documents for a typical export transaction, and 11 documents for a typical import transaction. Customs clearance and inspections required 3 days for export transactions and 11 days for import transactions.</p> <p><i>Achieved.</i> Coverage of the private credit information bureau (Ishenim) was 32.1% of the adult population in 2013 against 1.6% in 2007</p>	<p><i>Analysis of the Shadow Economy in the Kyrgyz Republic</i>^a</p> <p>Ministry of Justice and World Bank <i>Doing Business</i> report</p> <p>World Bank <i>Doing Business</i> report</p> <p>World Bank <i>Doing Business</i> report</p>
<p>Outputs</p> <p>1. Cost of regulatory compliance reduced</p>	<p>Number of licenses and permits reduced from 347 to fewer than 200 by 2014</p> <p>At least 5,000 taxpayers (including at least 50% women) use electronic filing by December 2014 (baseline: zero usage before 2010)</p> <p>Pre-customs clearance time for imports reduced from 25 days in 2009 to 10 days by 2014;</p>	<p><i>Achieved.</i> Law on Licensing, enacted on 19 October 2013, reduced the number of licenses and permits to 98 types of activities</p> <p><i>Achieved.</i> By August 2014, 5,410 taxpayers were registered with the State Tax Service to file their tax returns electronically. The State Tax Service does not collect sex-disaggregated statistics.</p> <p><i>Not achieved.</i> In 2013, pre-customs clearance time was 25 days</p>	<p>Law on Licensing, enacted on 19 October 2013</p> <p>State Tax Service report</p> <p>World Bank <i>Doing Business</i> report</p>

Design Summary	Performance Targets and Indicators with Baselines		Data Sources and Reporting Mechanisms
	Appraisal	Actual	
	and for exports, from 23 days in 2009 to 10 days by 2014	for imports and 23 days for exports	
2. Access to finance improved	<p>Enforcement period for arbitral awards shortened to 6 months in 2014 (2010 baseline: 8 months)</p> <p>Number of financial leasing transactions increased to more than 400 in 2014 (2008–2012 baseline: average of 172 per year), of which 50% are for women</p> <p>At least two financial institutions providing microfinance are able to collect deposits that are tailored to women's needs (by December 2014)</p>	<p><i>Achieved.</i> Average enforcement period for court decisions was 5 months in 2013</p> <p><i>Achieved.</i> There were 632 leasing transactions in 2013; the Union of Kyrgyz Banks has not collected sex-disaggregated statistics.</p> <p><i>Achieved.</i> NBKR (i) awarded a full banking license to a microfinance institution (Bai Tushum) in November 2012 (37% of the institution's loan clients are female); and (ii) pre-approved a full banking license to another microfinance organization (Finca) in August 2014.</p>	<p>World Bank <i>Doing Business</i> report</p> <p>Union of Kyrgyz Banks. http://www.ub.kg/ru/liz/</p> <p>National Bank of the Kyrgyz Republic; Bai Tushum annual report</p>
3. Workers' skills enhanced	At least 5,000 students (of whom at least 50% are women) enroll in modern competency-based training for 18 key occupations by December 2014	<p><i>Achieved.</i> In 2013, AVE trained 14,434 students in modern competency-based training for 18 key occupations (AVE has not collected sex-disaggregated statistics)</p>	AVE progress reports under the Second Vocational Education and Skills Development Project ^b
4. Public–private partnerships facilitated	PDSF approved by the government by December 2014	<p><i>Achieved.</i> The government approved the PDSF in March 2014</p>	Ministry of Justice, depository of laws and government resolutions

AVE = Agency for Vocational Education, GDP = gross domestic product, NBKR = National Bank of the Kyrgyz Republic, NSC = National Statistics Committee, PDSF = project development support facility.

^a R. Hasanov. 2012. *Analysis of the Shadow Economy in the Kyrgyz Republic*.

^b ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kyrgyz Republic for the Second Vocational Education and Skills Development Project*. Manila.

Source: Asian Development Bank.

POLICY MATRIX FOR THE INVESTMENT CLIMATE IMPROVEMENT PROGRAM

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
Output 1: Cost of Regulatory Compliance Reduced				
Simplified business registration and deregistration	<p>Submission to Parliament of amendments to the Civil Code and to the Law on State Registration of Legal Persons, Representations and Branches to:</p> <p>(i) remove requirements for substantive review of registration documents and introduce standard charters;</p> <p>(ii) strengthen the protection given to legal names of legal persons;</p> <p>(iii) provide for the establishment of the one-stop shop business registration system;</p> <p>(iv) establish new procedures for voluntary and compulsory deregistration of dormant companies</p> <p>Commencement of process to remove requirement for legalization of constitutive documents for many foreign investors by acceding to the Hague Apostille Convention</p> <p>Adoption of a blueprint for one-stop shop business</p>	<p>Simplify legal framework and procedures for business registration of legal entities by:</p> <p>(i) reducing pre-registration requirements, and</p> <p>(ii) acceding to the Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents (the Apostille Convention).</p> <p>Operationalize an automated one-stop shop business registration system in departments of the Ministry of Justice in at least two cities (including Bishkek and Osh) and seven oblasts, which provides sex-disaggregated statistics of management of firm and individual shareholders of registered legal entities.</p>		<p>The 2009 business registration law abolished (i) minimum capital requirements, (ii) various post-registration fees, and (iii) the requirement to open a bank account before registration. The new business registration system has been running since February 2012 in one-stop shops in all seven regions and in the cities of Bishkek and Osh. This reduced the time to register a business from 21 days in 2007 to an average of 4 days in 2012. The Kyrgyz Republic now ranks 9th out of 189 economies on the ease of starting a business.</p> <p>The Kyrgyz Republic acceded to the Apostille Convention on 31 July 2011—removing the requirement for foreign investors to provide legalized documents of constitutive documents of their home country when establishing a company in the Kyrgyz Republic. An apostille is now sufficient for recognition of</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
	registration, including streamlined procedures with increased automation, supporting institutional framework, cost estimates and implementation schedule			foreign documents, which facilitates foreign investments.
Simplified business licensing and inspection procedures	<p>Establishment of a legal and institutional framework that:</p> <ul style="list-style-type: none"> (i) sets out minimum standards for government regulation and inspection of business activities, and (ii) mandates a new interdepartmental committee to review existing and new business regulation methods for conformity with those standards <p>Establishment of the interdepartmental committee with adequate powers to execute its tasks</p> <p>Approval of a regulatory impact assessment method that sets out objective and transparent criteria to assess the validity of all business related licenses, permits and approvals.</p>	Reduce the number of licenses and permits required by businesses to less than 370 from 470.	To further simplify licensing of businesses, (i) reduce the number of licenses and permits from 347 to fewer than 200, based on a regulatory impact assessment, and (ii) consolidate all types of licenses and permits into one single law.	<p>More than 370 unnecessary licenses and permits were eliminated under the program, or about 75% of the initial number. The Law on Licensing, enacted on 19 October 2013, reduces the number of licenses and permits to 98 types of activities and consolidates them in a single law.</p> <p>A regulatory impact assessment unit was established in the Ministry of Economy. The unit is responsible for monitoring legislative and regulatory processes, and for facilitating assessment of the regulatory impact of newly proposed legislation. The reform process was supported by ADB and United States Agency for International Development technical assistance.</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
	Adoption of business inspection procedures that clearly delineate the different types and frequency of inspections; define the rights and obligations of the inspecting agencies; and impose adequate reporting requirements	Enact legal framework for risk-based inspections of enterprises by government bodies.	The STS to take further steps towards risk-based auditing of businesses by mandating all tax offices to implement inspection plans generated at the central level by computer software.	<p>The government introduced risk-based inspections, which prioritize those firms with higher risk of noncompliance, instead of targeting all firms. The government adopted procedures for inspections, defining rights and obligations of authorized agencies and businesses. The number of business inspections excluding tax inspections declined from 21,000 in 2011 to 13,500 in 2013.</p> <p>The STS also introduced a risk-based audit system through the integrated information technology system developed with ADB support. There are 13 risk factors, based on which each taxpayer is provided a compliance score. Since June 2013, all tax offices are mandated to implement inspection plans generated in STS headquarters by the enhanced system, through which taxpayers below the compliance score are selected for audit.</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
Reduced tax compliance costs		<p>Implement pilot initiatives to reduce tax compliance costs and informal payments to tax officials by</p> <p>(i) making electronic filing available to taxpayers, and</p> <p>(ii) establishing one-stop-shop windows in at least four tax offices.</p>	<p>Expand options for electronic tax filing and payments, with particular benefits for women entrepreneurs, by:</p> <p>(i) allowing electronic submission of tax returns using login-password system,</p> <p>(ii) starting a pilot for electronic payment of patents which is the tax regime for the majority of women entrepreneurs, and</p> <p>(iii) accepting payment of taxes using the national electronic card payment system (Elkart).</p>	<p>A new legal and regulatory framework on electronic tax declarations using a login-password system was approved. This enables full operation of the new ADB-financed electronic system in STS, which will increase the number of taxpayers filing electronically (5,410 taxpayers as of 30 June 2014) and reduce filing costs.</p> <p>The STS conducted pilot projects in Ortasai and Madina markets for electronic payment of tax patents through cash terminals and subsequently expanded this approach nationwide, allowing thousands of patent holders to pay their taxes without having to go to a bank branch. More than 16,000 payments were made in cash terminals in the first 8 months of 2014, against a total of only about 1,500 payments in 2012 and 2013. The STS also started accepting payment of some taxes through electronic cards, with ATM receipts as proof of payment.</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
		<p>Simplify tax filing forms and procedures to reduce the cost of tax compliance.</p> <p>Simplify the corporate income tax system for small and medium-sized enterprises (SMEs) under the general tax regime.</p>	<p>Expand initiatives to reduce informal payments to tax officials in rural areas by establishing one-stop shops with no-contact windows in at least 10 tax offices outside main cities.</p>	<p>STS has completed the construction of 10 new one-stop shops with no-contact windows in the following tax offices: Issyk-Ata, Kemin, Tyup, Jety-Oguz, Ak-Suu, Batken, Kadamjay, Leilek, Batken city, and Sulyukta city.</p> <p>The new layout in the tax offices requires taxpayers and tax officials to discuss tax matters in an open space where they are separated by a desk with a window. This will dissuade rent-seeking behavior that often occurs in closed rooms, which especially affects women entrepreneurs (given the existing traditional and religious stereotypes about the role of women).</p> <p>The STS has simplified 10 tax documents by reducing the number of pages through restructuring, rewording, and elimination of redundancies.</p> <p>Amendments to the Tax Code were enacted to allow SMEs to use simplified methods for determining the base for corporate income tax</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
			Conduct a public information campaign to raise taxpayers' awareness in rural areas on how to comply with tax requirements.	<p>computation; before the amendment, tax legislation required firms under the general tax regime to determine profits using depreciation rates for equipment that differed from those required under the Kyrgyz Republic's accounting standards.</p> <p>The STS conducted a public information campaign in the second half of 2013 to inform taxpayers about the new call center, the new website, the new system of electronic tax declarations, and the new one-stop shops with no-contact windows. Billboards, seminars, and media clips were used in the campaign.</p>
Improved cross-border trade	<p>Adoption of a concept to guide the implementation of a customer-oriented pre-customs single window for efficient exchange of information among businesses and all approval and certification bodies</p> <p>Adoption of a blueprint for a pre-customs single window including streamlined</p>	<p>Enhance the efficiency of pre-customs clearing by</p> <p>(i) streamlining pre-customs documents, and</p> <p>(ii) implementing automated pre-customs clearing procedures through a pilot with at least ten firms.</p>	<p>Simplify foreign trade clearance by</p> <p>(i) making the pre-customs single window (PCSW) operational with 150 customs clearance folders issued by the PCSW, for at least 20 companies, that are electronically</p>	<p>The single window for pre-customs clearance of foreign trade started operations in 2013. It has a service center in Bishkek but not in other parts of the country. As of 7 October 2014 it had issued more than 12,500 electronic customs clearance folders for foreign trade transactions. More than 300 companies have so far used the new</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
	procedures with increased automation, supporting institutional framework, cost estimates and implementation schedule		submitted to the Unified Automated Information System (UAIS) of the State Customs Service; and (ii) implement and allow access of qualified importing and exporting businesses to the new UAIS.	system. The State Customs Service has implemented the ADB-financed UAIS. All 40 customs posts and offices are now connected to the UAIS. More than 190,000 electronic customs declarations have been processed in 2013 (73.6% of total declarations issued in 2013). In 2014, all customs declarations—a total of 156,000 declarations by end of August—have been issued in electronic format through the UAIS. The UAIS has an online interface that can be accessed by more than 400 users.
Output 2: Access to Finance Improved				
Improved creditor rights and dispute resolution frameworks	Draft amendments to the Law on Pledges and other relevant legislation to introduce new procedures to improve extra-judicial enforcement of execution of pledges by means which include (i) allowing the process of notarial executive inscriptions to be coupled with the use of court executors, (ii) removal of the requirement for pledges to contain	Take necessary steps to enable accelerated court enforcement of arbitral awards to reduce cost associated with lending and foreclosure.	Enact the amendments to the Civil Procedures Code to enable accelerated court enforcement of arbitral awards.	Amendments to the Civil Procedures Code were enacted in 2013 to (i) reduce the period of review by the state courts of the request for writ of execution to enforce arbitral awards, and (ii) introduce in arbitration cases the institute of provisional measures imposed by the state courts.

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
	<p>valuations of pledged property, and (iii) removal of restrictions on auction procedures relating to starting prices.</p> <p>Draft amendments to the Law on Third party courts and other relevant legislation to enable decisions and orders (including property arrest orders) of third party courts (arbitral awards) to be enforced without participation of other courts</p> <p>Draft amendments to the Law on Pledges to improve the ability of a pledge holder to levy execution against a licensed business</p> <p>Draft amendments to the Law on Financial Leases to require registration of financial leases in the Central Pledge Office</p>			<p>The enactment of amendments to the Civil Procedures Code to enable accelerated court enforcement of arbitral awards by the state courts is expected to reduce the average enforcement period from 16 to 8 months. Given that 75% of arbitration cases involve loan transactions, the change is expected to reduce lending costs.</p>
Development of financial leasing facilitated	<p>Submission to Parliament of amendments to the Tax Code (i) to remove any restrictions on the interest rate charges that can be claimed as a tax deductible expense, and (ii) towards creating a level playing field between financial</p>	<p>Enable leasing by removing tax disadvantage of financial leases to facilitate access to finance for borrowers who cannot offer collateral, which are frequently women.</p>	<p>Ministry of Economy (i) approves and initiates implementation of a time-bound action plan of targeted workshops to raise awareness among women entrepreneurs on availability and benefits of</p>	<p>The leasing market is starting to benefit from the tax code revisions supported by the program. The average volume of leasing transactions increased from \$2.3 million per year during 2008–2011 to \$10.0 million per year during</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
	<p>leasing and lending products by addressing the current nonrecoverable nature of VAT upon import of leasing equipment</p> <p>Clarification through appropriate public channels that the current legislation allows a lessee to choose between capitalizing financial lease assets or claiming financial lease payments as a tax deductible expense</p>		<p>leasing products for their business development, and (ii) allocates necessary resources for its implementation.</p>	<p>2012–2013.</p> <p>The Ministry of Economy raised awareness among women entrepreneurs on the availability and benefits of leasing products. The Ministry of Economy has allocated staff and venues for two workshops conducted in February 2014—one in Bishkek and one in Osh.</p>
Improved access to credit information	<p>Adoption of amendments to the Civil Code in order to allow specialized legislation on credit information sharing amongst credit-financial organizations (negative information)</p>	<p>Improved access to credit information by</p> <p>(i) strengthening self-regulation of credit bureaus with the aim to require members to</p> <p>(a) check with a credit bureau the credit histories of loan applicants and</p> <p>(b) report to a credit bureau all credit extensions and events, and</p> <p>(ii) including the verification of compliance with these requirements in bank supervision procedures.</p>		<p>An annual average of about 1.3 million credit reports have been shared between credit institutions (banks and microfinance organizations) through the credit bureau in 2012 and 2013, against an annual average of 371,000 from 2008 to 2011. More than 100 institutions are now sharing information through the credit bureau, against 48 in 2012.</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
Increased availability of financial services and strengthened consumer protection		<p>Take necessary measures to enable microfinance institutions to better serve their clients, most of which are females, by allowing them to enhance the scope of their services to include agent banking, and foreign exchange operations.</p> <p>Expand lending possibilities of MFOs by (i) establishing the process and requirements for their transformation into deposit-taking banks, (ii) taking steps to enabling group lending to be classified as secured lending for prudential requirements of banks.</p> <p>Streamline regulatory requirements for term deposit taking to improve funding availability of microfinance institutions.</p>	<p>Broaden the scope of services provided by MFOs, including deposit services provided by qualified MFOs, to respond to the needs of women entrepreneurs in particular, by:</p> <p>(i) allowing MFOs to act as bank agents and to conduct foreign exchange transactions, and</p> <p>(ii) developing a program of required measures for deposits in qualified MFOs to be covered by an insurance scheme, including integration of qualified MFOs into the national payment system.</p>	<p>Amendments to the laws on microfinance, on credit unions, and on foreign exchange transactions were enacted through Law No. 60 of 26 April 2013, allowing qualified MFOs to act as bank agents and to conduct foreign exchange transactions.</p> <p>One of the largest microfinance organizations was transformed into a bank, and another one received preliminary approval from the banking regulator, taking advantage of the reforms implemented under the program.</p> <p>The government approved a program of required measures for deposits in qualified MFOs to be covered by an insurance scheme.</p>
			<p>The NBKR to strengthen risk-based supervision of MFOs by adopting an</p>	<p>NBKR has adopted a new integrated framework with (i) a new manual for off-site</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
			integrated framework for off-site supervision and onsite inspections.	supervisory procedures, including criteria, indicators, and thresholds to determine the program of annual targeted onsite inspections; and (ii) a new manual for onsite inspection procedures.
			<p>To improve consumer protection, particularly women borrowers, NBKR will</p> <ul style="list-style-type: none"> (i) define minimum standards for affordability assessments of MFOs' clients and identify and monitor early warning indicators of debt stress to prevent borrowers' over-indebtedness, (ii) require MFOs to increase the transparency of interest rate calculation by providing information to borrowers about effective interest rates, and (iii) set standards for responsible and transparent pricing of 	<p>Amendments to the Law on MFOs (and others) improved minimum standards for lending and restricts penalty rates to 20% of the credit amount.</p> <p>The NBKR (i) strengthened requirements for financial institutions' loan screening and for information to be collected from borrowers; (ii) approved minimum credit risk requirements for non-deposit-taking microfinance organizations, including recommendations for pricing policy; and (ii) increased customers' rights and transparency measures.</p> <p>Revised inspection procedures include inspection of (i) loan appraisal and cash flow analysis, (ii) completeness of borrower records, (iii) appropriateness of MFO staff's incentive</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
			loans.	<p>payments, (iv) sample loan agreements, (v) average loan size, (vi) loan rescheduling, and (vii) portfolio-at-risk.</p> <p>NBKR Resolution No. 51/3 of 27 December 2012 mandates financial institutions to (i) reflect the effective interest rates, all other related costs, and monthly repayment schedule in the loan agreement; and (ii) publicly advertise and disseminate information on both nominal and effective rates.</p>
Output 3: Workers' Skills Enhanced				
Improved worker skills through demand driven vocational education		Strengthen the coordination between the private and public sector on worker skills development through the establishment of the National Professional Skills Development Council (NPSDC), which is responsible for developing basic requirements and qualifications for workers, making projections of labor market demand, and develop mechanisms for introducing	The NPSDC to recommend, and Agency on Vocational Education (AVE) to approve (i) regulations on the composition and functioning of sector skills development councils and (ii) establishment of such councils in two additional priority sectors. The sector councils will allow broad participation of private sector stakeholders and women entrepreneurs.	The government strengthened the institutional framework for workforce skills development, which has been made more demand-driven by establishing the NPSDC and seven sector skills development councils (agriculture and agroprocessing, construction, textiles and garment, restaurants and hotels, tourism, mining, and energy). The councils have appropriate rules on their composition, including the need for broad participation of private sector

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
		independent certifications systems. At least 1/3 of NSDC members shall come from the private sector, including at least two organizations that represent the interests of women entrepreneurs.		stakeholders and female entrepreneurs. The 7 sector councils comprise a total of 54 members, of which 25 are women. The ADB-financed Second Vocational Education and Skills Development Project will provide assistance to the skills development councils until 2017. ^a
		<p>Improve the quality of and demand for technical and vocational education training (TVET) by</p> <p>(i) piloting a competency-based training (CBT) methodology in primary vocational education for one occupation,</p> <p>(ii) initiating the roll out of the CBT methodology for 17 additional occupations; and</p> <p>(iii) adopting the technical qualification framework, competency standards and training packages for 18 occupations, five of which are dominated by women.</p>	Further improve technical and vocational education training by (i) introducing modern competency-based training for 18 occupations to at least 5,000 students; and (ii) starting implementation of a marketing plan to increase female enrollment in technology-based and nontraditional vocational education training programs.	In 2013, more than 14,000 students in primary vocational schools received competency-based training. In March 2014, the agency with ADB support started implementation of a marketing campaign to increase female enrollment in technology-based and nontraditional occupations.

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
Output 4: Public–Private Partnerships Facilitated				
Improved enabling environment for PPP	<p>Issuance of a high-level policy statement in support of infrastructure sector reforms and PPP</p> <p>Completion of a technical review of the relevant cross-sector and sector-specific laws and regulations (such as Law on Concessions, Law on Privatization, Law on Roads, and Law on Energy)</p> <p>The mandate of the Coordination Council on Macroeconomic and Investment Policy (the “Coordination Council”) is expanded to include formulating and implementing PPP policy matters, also defining the appropriate powers and responsibility for ensuring policy consistency, quality control, and transparency by establishing mandatory standards and principles, and (ii) establishment of a Central PPP Unit within the Investment Policy Department of the Ministry of Economy that will serve as the</p>	<p>Align the legal framework for PPP with international good practices and develop a policy framework for PPP projects that establishes criteria for financial support and risk-sharing.</p> <p>Build capacity for PPP promotion and risk-management in key government bodies, including at least MOE and MOF.</p>	<p>The government to:</p> <p>(i) adopt standard development and tender procedures for PPP projects, and</p> <p>(ii) enact amendments to the Tax Code, the Customs Code, the Land Code, the Law on Basic Principle of Budget Law, Law on Financial and Economic Conditions of Local Self-Government, the laws on the Status of the Capital City Bishkek and the Status of the City of Osh, the Law on Local State Administration, the Law on Local Self Government, and the Law on Municipal Ownership, to harmonize them with the PPP law.</p>	<p>The government approved through Resolution No. 39 of 28 January 2013, (i) the Provisions on the Tender Committee on Selection of Private Partners for PPP Projects, and (ii) the Procedure on Preparation of Tender Rules and Tender Documentation for PPP projects.</p> <p>Law No. 201, enacted on 15 November 2013, amends 10 laws to harmonize them with the PPP law.</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
	<p>secretariat of the Coordination Council on PPP matters only</p> <p>Establishment of PPP focal points in the Ministry of Transport and Communications, and Ministry of Industry, Energy and Fuel Resources, with the responsibility for the identification, preparation, execution and monitoring of PPP projects</p> <p>Conduct an inter-ministerial workshop on key principles, procedures and risks associated with PPP contracts, and dissemination of reference materials</p> <p>Establishment of a Risk Management Unit in the MOF, with the responsibility for evaluating proposals for government support, setting limits on exposure, and managing consequent budget risks</p> <p>Completion of a long-term Energy Master Plan</p>			

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
	Development of a strategy for full-cost recovery in the energy sector through efficiency improvements, tariff increases, and transparent subsidies			
Financing Mechanisms for PPP Projects			<p>To provide financial support for PPP project development and implementation the government will:</p> <ul style="list-style-type: none"> (i) approve a PPP project development support facility (PDSF); and, (ii) ensure, through annual allocations from the state budget, minimum financial resources in the PDSF (\$2 million in 2014, \$1 million in 2015, and \$1 million in 2016). 	<p>Government resolution No. 147, of 17 March 2014, approved the establishment, governance, funding, and operational guidelines for a PPP PDSF. The resolution was drafted by the Ministry of Economy with ADB support. The PDSF is designed as a revolving fund, recovering costs from winning bidders into the PDSF.</p> <p>The government resolution approves an allocation of \$2 million from the state budget to the PDSF in 2014—which is also reflected in the 2014 budget law—\$1 million in 2015 and \$1 million in 2016.</p> <p>The seed funding for the PDSF is based on international experience, which shows that development costs are usually about 5% of project cost for</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
				mid-sized projects (e.g., \$100 million–\$300 million).
PPP project pipeline developed	Identification of suitable pilot projects to demonstrate the application and benefits of the new PPP framework	Develop and implement a screening mechanism to identify investment projects with PPP potential in existing public sector project pipelines.	To further develop a pipeline of PPP projects: <ul style="list-style-type: none"> (i) the Ministry of Economy will complete position papers on 6 PPP project proposals, (ii) the government will complete feasibility studies for at least 1 project. 	<p>The pipeline of PPP projects has made good progress under subprogram 3, with 21 project proposals identified by three line ministries and the City of Bishkek. The Ministry of Economy has prepared position papers on six project proposals that have been shared with the respective line ministries. ADB technical assistance prepared a template for position papers (i.e., in-principle approval or rejections for PPP proposals submitted by line ministries and implementing agencies) and guided the Ministry of Economy's staff in this process.</p> <p>Three feasibility studies have been completed (Karakul hydropower plant, performance-based maintenance for the Bishkek–Kara Balta road section, and small hydropower plants) and two tender documents prepared for potential projects. Pre-feasibility studies have been completed for five</p>

Principal Objective	Policy Actions			Results
	Subprogram 1	Subprogram 2	Subprogram 3	
				<p>of the seven initial project ideas in the health sector, and two feasibility studies have been commissioned.</p> <p>Opportunities for PPPs in the health sector have been identified: pre-feasibility studies have been completed for five of the seven initial project ideas, and two feasibility studies have been commissioned (the proposals for a central laboratory and for hemodialysis units have so far demonstrated potential for PPPs).</p>

ADB = Asian Development Bank, AVE = Agency for Vocational Education, CBT = competency-based training, MFO = microfinance organization, MOF = Ministry of Finance, NBKR = National Bank of the Kyrgyz Republic, NPSDC = National Professional Skills Development Council, PCSW = pre-customs single window, PDSF = project development support facility, PPP = public-private partnership, SMEs = small and medium-sized enterprises, STS = State Tax Service, TVET = technical and vocation education and training, UAIS = Unified Automated Information System, VAT = value-added tax.

^a ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kyrgyz Republic for the Second Vocational Education and Skills Development Project*. Manila.

Source: Asian Development Bank.

STATUS OF COMPLIANCE WITH GRANT COVENANTS

Reference in Grant Agreement	Covenant	Status of Compliance
Subprogram 1		
<u>Article IV</u> Section 4.01	In the carrying out of the Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 of the Grant Agreement.	
Section 4.02	(a) The Recipient shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.	Complied with.
	(b) The Recipient shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Complied with.
Section 4.03	(a) As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Complied with.
	(b) Without limiting the generality of the foregoing or Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Not complied with. The government did not share progress reports in writing on a regular basis. The void was partially filled by information provided by the Ministry of Economy and the implementing agencies at ADB's request and during ADB missions
<u>Schedule 4</u> <i>Implementation Arrangements</i> Para. 1	The Recipient shall ensure that the Program is executed and implemented in accordance with the provisions of the Schedule.	Complied with.

<p>Para. 2</p>	<p>MOE shall be the Program Executing Agency with overall responsibility for execution and coordination of the Program activities. The principal implementing agencies for the Program shall be:</p> <p>(a) for CPA 1: MOE, MOJ and the State Customs Committee;</p> <p>(b) for CPA 2: MOE, MOJ and NBKR; and</p> <p>(c) for CPA 3: MOE and MOF.</p> <p>MOJ shall be the principal implementing agency for the one-stop-shop business registration system contemplated under CPA 1. As such, MOJ shall be responsible for liaising, coordinating, and cooperating with, all line ministries and government agencies whose participation is required for successful implementation of the one-stop-shop business registration system. The State Customs Committee of the Recipient (the "State Customs Committee") shall be the principal implementing agency for the PCSW contemplated under CPA 1. As such, the State Customs Committee shall be responsible for liaising, coordinating, and cooperating with, all line ministries and government agencies whose participation is required for successful implementation of the PCSW.</p>	<p>Partially complied with. The Single Window Center for Foreign Trade was the main implementing agency for the PCSW (and not the State Customs Service).</p>
<p>Para. 3</p>	<p>MOE shall establish and chair a program working group (PWG) that will be responsible for the day-to-day implementation of the Program. The PWG shall comprise representatives of the above-mentioned implementing agencies and any other line ministries or government agencies as may be required or conducive for successful implementation of the Program. The PWG shall meet at least once a month and submit quarterly progress reports to ADB and the PSC, in form and substance acceptable to ADB.</p>	<p>Not complied with. Throughout implementation, the government demonstrated a preference for the use of established coordination mechanisms (e.g., the Cabinet of Ministers, and the Macroeconomic and Investment Policy Coordination Council) to discuss and monitor implementation of specific policy actions.</p>
<p>Para. 4</p>	<p>The Recipient shall establish a high-level program steering committee (PSC) to supervise the PWG and to guide the reform agenda under the Program. The PSC must comprise representatives from the Prime Minister's Office, the Presidential Administration, MOJ, MOF and the Investment Council, and shall be chaired by the Minister of Economic Development and Trade. The PSC must meet at least three times a year to review and resolve any issues highlighted in the progress reports from PWG and discuss further steps under the reform agenda of the Program, with ADB as an observer.</p>	<p>Not complied with. Throughout implementation, the government demonstrated a preference for the use of established coordination mechanisms (e.g., the Cabinet of Ministers, and the Macroeconomic and Investment Policy Coordination Council) to discuss and monitor implementation of specific policy actions.</p>

Para. 5	Within the PWG, the Investment Council shall have the special mandate of engaging in regular consultative meetings with the private sector and development partner community to solicit their feedback on emerging regulations and institutional reforms and their impact on Program implementation.	Partially complied with. The Investment Council conducted regular consultations with the private sector but its agenda was not linked with the program.
Para. 6	The Recipient shall ensure that the PWG and PSC have adequate resources and dedicated and qualified staff to perform their respective tasks for the duration of the Program.	Not complied with. The government did not share progress reports in writing on a regular basis. The void was partially filled by information provided by the Ministry of Economy and the implementing agencies at ADB's request and during ADB missions.
<i>Implementation of the Policy Letter</i> Para. 7	The Recipient shall ensure that the policies adopted and actions taken under the Policy Letter, including the Policy Matrix, continue in effect during the Program period and thereafter.	Complied with.
<i>Implementation of the One-Stop-Shop Business Registration System and PCSW</i> Para. 8	The Recipient shall ensure that the one-stop-shop business registration system and PCSW adopted under the Program Cluster substantially conform to the blueprints developed under Subprogram 1, and shall only deviate from these blueprints with prior approval from ADB.	Complied with. All changes to the blueprints were introduced with ADB consent.
<i>Policy Dialogue</i> Para. 9	The Recipient shall keep ADB informed of, and the Recipient and ADB shall from time to time exchange views on, sector issues, policy reforms and additional reforms during the Program period that may be considered necessary or desirable, including the progress made in carrying out policies and actions set out in the Policy Letter and the Policy Matrix.	Complied with.
Para. 10	The Recipient shall promptly discuss with ADB problems and constraints encountered during implementation of the Program and appropriate measures to overcome or mitigate such problems and constraints.	Complied with.
Para. 11	The Recipient shall keep ADB informed of policy discussions with other development partners that may have implications for the Program, and will provide ADB with an opportunity to comment on any resulting policy proposal.	Complied with.

<p><i>Counterpart Funds</i> Para. 12</p>	<p>The Recipient shall ensure that the Counterpart Funds are used to finance the local currency costs relating to the implementation of the Program and other activities consistent with the objectives of the Program and shall provide the necessary budget appropriations to finance the structural adjustment costs relating to the implementation of reforms under the Program.</p>	<p>Complied with.</p>
<p><i>Environmental and Social Assessment</i> Para. 13</p>	<p>The Recipient shall ensure that the environmental and social assessments of the model PPP projects to be developed under the Program Cluster are carried out and that appropriate mitigation measures, including monitoring mechanism, are prepared and implemented in accordance with all applicable laws and regulations of the Recipient.</p>	<p>Complied with.</p>
<p><i>Review and Evaluation of the Program</i> Para. 14</p>	<p>Based on experiences gained under (i) Subprogram 1, (ii) the recommendations under the Advisory TA, and (iii) the implementation of the Project Grant Agreement, the Recipient shall undertake a review of the Program Cluster in close cooperation with ADB. Under the review, the Recipient shall submit a report to ADB recommending revisions and elaborations to the indicative reforms for subprograms 2 and 3 of the Program Cluster.</p>	<p>Partially complied with. The government and ADB undertook regular reviews of program implementation. However, the government did not submit written reports to ADB.</p>
Subprogram 2		
<p><u>Article IV</u> Section 4.01</p>	<p>In the carrying out of the Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 3 to the Grant Agreement.</p>	
<p>Section 4.02</p>	<p>(a) The Recipient shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.</p>	<p>Complied with.</p>
	<p>(b) The Recipient shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.</p>	<p>Complied with.</p>
<p>Section 4.03</p>	<p>As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Programmatic Cluster, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.</p>	<p>Complied with.</p>

<p><u>Schedule 3</u> <i>Implementation Arrangements</i> Para. 1</p>	<p>MOE shall be the Program Executing Agency with overall responsibility for execution and coordination of the Program activities. The principal implementing agencies for the Program shall be MOE, MOF, MOJ, MYLE, NBKR, and STS.</p>	<p>Complied with. The covenant is, however, irrelevant since grant agreement was signed after program implementation.</p>
<p>Para. 2</p>	<p>The Recipient shall retain the PWG and the PSC. The PWG shall be responsible for the day-to-day implementation of the Program. The PSC shall supervise the PWG and guide the reform agenda under the Programmatic Approach. The PSC shall meet at least three times a year to review and resolve any issues highlighted in the progress reports from PWG and discuss further steps under the reform agenda of the Programmatic Approach, with ADB as an observer.</p>	<p>Not complied with. The covenant is not relevant since the grant agreement was signed after implementation of the subprogram.</p>
<p>Para. 3</p>	<p>The Recipient shall ensure that the PWG and PSC have adequate resources and dedicated and qualified staff to perform their respective tasks for the duration of the Programmatic Approach.</p>	<p>Not complied with. The covenant is not relevant since the grant agreement was signed after implementation of the subprogram.</p>
<p><i>Policy Actions and Dialogue</i> Para. 4</p>	<p>The Recipient shall ensure that all policy actions adopted under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Programmatic Approach.</p>	<p>Complied with.</p>
<p>Para. 5</p>	<p>The Recipient shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall take into account ADB's views before finalizing and implementing any such proposal.</p>	<p>Complied with.</p>
<p><i>Counterpart Funds</i> Para. 6</p>	<p>The Recipient shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and other activities consistent with the objectives of the Program.</p>	<p>Complied with.</p>
<p><i>Governance and Anticorruption</i> Para. 7</p>	<p>The Recipient shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.</p>	<p>Complied with.</p>

<i>Monitoring and Review</i> Para. 8	Based on experiences gained under the Program implementation and the recommendations under the technical assistance extended by ADB to assist the Recipient in preparing a subsequent subprogram of the Programmatic Approach, the Recipient shall undertake a review of the Programmatic Approach in close cooperation with ADB. Under the review, the Recipient shall submit a report to ADB recommending revisions and elaborations to the indicative reforms for the subsequent subprogram of the Programmatic Approach.	Partially complied with. The government and ADB undertook regular reviews of program implementation. However, the government did not submit written reports to ADB.
Subprogram 3		
<u>Article IV</u> Section 4.01	In the carrying out of the Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 3 to this Grant Agreement.	
Section 4.02	(a) The Recipient shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.	Complied with.
Section 4.03	(b) The Recipient shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section. As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Complied with. Complied with.
<u>Schedule 3</u> <i>Implementation Arrangements</i> Para. 1 <i>Policy Actions and Dialogue</i> Para. 2	The MOE shall be the Program Executing Agency with overall responsibility for execution and coordination of the Program activities. The principal implementing agencies for the Program shall be the Recipient's Agency for Vocational Education, Deposit Protection Agency, MOE, Ministry of Finance, National Bank of the Kyrgyz Republic, State Customs Service, State Tax Service and Single Window Center of Foreign Trade. The Recipient's Macroeconomic and Investment Policy Coordination Council will act as high level steering committee overseeing the Program implementation. The Recipient shall ensure that all policy actions adopted under the Program, as set forth in the Policy Letter and the policy matrix, continue to be in effect until the Grant Closing Date as specified in Section 3.04 of the Grant Agreement.	Complied with. The covenant is, however, irrelevant since grant agreement was signed after program implementation. Complied with.

<p>Para. 3</p>	<p>The Recipient shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall take into account ADB's views before finalizing and implementing any such proposal.</p>	<p>Complied with.</p>
<p><i>Use of Counterpart Funds</i> Para. 4</p>	<p>The Recipient shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and other activities consistent with the objectives of the Program.</p>	<p>Complied with.</p>
<p><i>Governance and Anticorruption</i> Para. 5</p>	<p>The Recipient shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.</p>	<p>Complied with.</p>
<p><i>Review</i> Para. 6</p>	<p>By no later than 31 July 2014, the Recipient shall undertake a review to assess the effectiveness of the Program and the Programmatic Approach based on its experiences in implementing the reforms under the Program and the Programmatic Approach and the recommendations under various technical assistance extended by ADB to assist the Recipient in implementing those reforms. Upon review, the Recipient shall submit a report to ADB in a form satisfactory to ADB.</p>	<p>Partially complied with. The government undertook a review of the programmatic approach. However, the government did not submit a written report to ADB. Instead, the government and ADB decided to jointly write the project completion report.</p>

ADB = Asian Development Bank; CPA = core policy area; MOE = Ministry of Economy, MOF = Ministry of Finance; MOJ = Ministry of Justice; MYLE = Ministry of Youth, Labor and Employment; NBKR = National Bank of the Kyrgyz Republic; PCSW = pre-customs single window; PSC = program steering committee; PWG = program working group; STS = State Tax Service; TA = technical assistance.

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: Public Management, Financial Sector and Trade Division, Central and West Asia Department

TA No., Country and Name			Amount Approved: \$700,000	
TA 8222-KGZ: Investment Climate Improvement Program—Subprogram 2 (Preparing Subprogram 3)			Revised Amount: \$700,000	
Executing Agency Ministry of Economy		Source of Funding TASF-IV (\$550,000) Financial Sector Development Partnership Fund (\$150,000)	Amount Undisbursed: \$104,407.77	Amount Utilized: \$595,592.23
TA Approval Date: 26 November 2012	TA Signing Date: 14 December 2012	Fielding of First Consultants: 8 January 2013	TA Completion Date Original: 31 May 2014 Actual: 15 October 2014	Account Closing Date Original: 31 August 2014 Actual: 31 December 2014
Description				
<p>The Asian Development Bank (ADB) approved in November 2008 a program cluster to the Kyrgyz Republic for the Investment Climate Improvement Program.^a The program cluster, comprising three single-tranche subprograms, included policy reforms in business regulation, access to finance, workers' skills development, and public–private partnerships (PPPs) that were expected to improve the business environment and investment climate. This capacity development technical assistance (TA) was approved together with subprogram 2 of the program to support the government in implementing policy actions under subprogram 3.^b</p>				
Expected Impact, Outcome and Outputs^c				
<p>The objective of the TA was to support the government in preparing subprogram 3 of the program through technical inputs and capacity building, including support for stakeholder consultations. Outputs included support for policy reforms and capacity building in the areas of (i) business regulation, (ii) access to finance, and (iii) PPP.</p>				
Delivery of Inputs and Conduct of Activities				
<p>The TA objective was relevant throughout implementation. It was adequately formulated. Changes made during implementation were minor and remained relevant to the TA's objective of supporting the government in implementing policy reforms to improve the business environment and the investment climate. The changes in implementation arrangements helped the TA to achieve more than what was originally planned, including preparation of policy reforms that can be the basis for future ADB programmatic assistance for private sector development.</p>				
<p>The Ministry of Economy was the executing agency. It was in charge of implementing activities related to business regulation and PPP. The National Bank of the Kyrgyz Republic (NBKR) and the Deposit Protection Agency were in charge of implementing activities related to access to finance.</p>				
<p>The TA was declared effective in December 2012 together with subprogram 2 of the program. TA implementation commenced on time (January 2013)—only about a month after effectiveness—and was completed on 15 October 2014—4.5 months after the expected completion date (31 May 2014). The TA was extended twice (an extension of less than 5 months in total) to allow finalization of all TA activities and support additional activities (e.g., participation of NBKR staff in a study tour).</p>				
<p>Twelve individual consultants were recruited and engaged on time and in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (2013, as amended from time to time), six of which were originally envisaged: (i) a national business regulation expert (10.9 person-months); (ii) an international microfinance regulation expert (3.0 person-months); (iii) an international financial market expert (0.8 person-month); (iv) an international PPP expert (7.0 person-months); (v) a national PPP expert (13.1 person-months); and (vi) a national legal expert (8.0 person-months). The other six individual consultants were (i) an international deposit protection expert (1.8 person-months); (ii) two legal experts (1.8 person-months for the international legal expert and 1.4 person-months for the national legal expert); (iii) a national foreign trade clearance specialist (3.8 person-months); and (iv) an international microfinance regulation expert (2.0 person-months). These additional consultants were hired to provide support to originally envisaged activities and to conduct new activities that contributed to the overall TA outcome.</p>				
<p>Consultants worked with (i) NBKR on an integrated supervisory and regulatory framework for microfinance organizations (MFOs), and an improved financial consumer protection framework; (ii) the Ministry of Economy and the Ministry of Finance on capacity building of PPP specialists in these ministries, on development of the PPP project pipeline, and on the design of a PPP project development facility; (iii) an interagency working group headed by the Deposit Protection Agency on a concept for a deposit protection scheme for MFOs; (iv) the Single Window Center on Foreign Trade, the State Customs Service, and other relevant government agencies on the introduction of the single window on foreign trade; and (v) the Ministry of Economy on an awareness campaign for female business managers about the benefits of leasing. The TA helped to finance (i) a 3-day study tour to</p>				

Tajikistan (held from 22 to 24 September 2014) for four NBKR staff to learn more about Tajikistan's microfinance regulatory framework;^d and (ii) two leasing workshops in Bishkek and Osh (held in February 2014) to inform women entrepreneurs of the legal bases, taxation, and benefits of leasing.

The overall consultants' performance was satisfactory. Two of the individual experts got an *excellent* rating; two more experts got a *generally satisfactory* rating, while the rest of the consultants got a *satisfactory* rating for their performances.

ADB conducted an inception mission and two review missions during TA implementation, in conjunction with missions fielded for subprogram 3. This allowed ADB staff to monitor TA implementation on a regular basis and identify necessary adjustments to the TA scope.

Evaluation of Outputs and Achievement of Outcome

The TA was *effective* in achieving its objective of supporting the government in preparing subprogram 3, which was approved by the ADB Board of Directors on 19 June 2014. The TA activities and outputs were delivered on time and largely with good quality. Outputs were produced to support policy reforms and capacity building in the areas of (i) business regulation, (ii) access to finance, and (iii) PPPs. Consultants' reports produced under the TA include (i) an assessment and recommendations for improvement of the single window on foreign trade; (ii) an assessment of the NBKR supervision framework for the microfinance sector; (iii) a draft NBKR manual for off-site and onsite inspection procedures for MFOs; (iv) an assessment and recommendations for improvement of the NBKR monetary policy framework; (v) a concept for a program of measures for deposits in qualified MFOs to be covered by an insurance scheme; and (vi) an overview of the PPP environment in the Kyrgyz Republic. These reports have been shared with a selected number of stakeholders.

The TA was *efficient*. The TA design included 13 person-months of international consulting inputs and 52 person-months of national consulting inputs but ended up using 16 person-months of international inputs and only 37 person-months of national input. TA funds were utilized at 85%. Additional TA activities, which include the study tour and support to a microfinance conference promoted by the NBKR, were also completed and delivered on time, and required only 4.5 months of extension of the TA completion date.

Overall Assessment and Rating

The TA was *successful*. Its contribution to the preparation of subprogram 3 was substantial, as its achievements went beyond what it was originally designed to do. ADB has accommodated additional TA activities not envisaged during TA design, which assisted the government in deepening the impacts of reforms and going beyond what was originally envisaged under subprogram 3.^e Several government agencies showed their appreciation of ADB TA and of the advice provided by the consultants, particularly the international consultants.

Recommendations and Follow-Up Actions

It is recommended that ADB reports prepared by the TA consultants are shared more widely with relevant stakeholders and made public, except for those that contain confidential information. The TA also proved that it is important to provide TA to governments in implementation of reforms under policy-based programs.

^a ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Grant for Subprogram 1 and Technical Assistance Grant to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

^b ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant for Subprogram 2 and Technical Assistance Grant to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

^c The TA was attached to subprogram 2 of the program and did not have its own design and monitoring framework.

^d NBKR staff that participated in the study tour are directly involved in regulating and supervising MFOs. The study tour was successfully conducted and focused on the legal, regulatory, and supervisory framework that the National Bank of Tajikistan has developed for microcredit organizations and their participation in the national payments system. The steps needed for eligible MFOs to become deposit-taking institutions were also discussed at the study tour.

^e Additional TA activities include financing of the 3-day study tour by NBKR staff, and the leasing workshops.

Source: Asian Development Bank.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

PUBLIC-PRIVATE PARTNERSHIP PROJECT PIPELINE IN THE KYRGYZ REPUBLIC

(as of September 2014)

No.	Public Partner	Project	PPP Initiative as per MOE	Project Brief	Project Brief Public Partner	Position Paper 1	Budget Arranged	Advisors Retained	Pre-Feasibility Study	Budget Arranged	Advisors Retained	Feasibility Study	Position Paper 2	Budget Arranged	Advisors Retained	Tender Documents	Position Paper 3	Request for EoI	Short list	Request for Proposal	Preferred Bidder	Negotiations	Contract Award	Position Paper 4	Status	
CDA																										
1		Bishkek Street Lightning	█	█	█	█	█	█	█	█	█	█		█	█											█
2		Car Park Osh Bazaar	█	█	█	█																				█
3		E-Ticketing	█		█	█				█	█	█		█	█	█										█
4		Solid Waste Management	█	█																						█
MOH																										
5		Central Laboratory	█				█	█	█	█	█	█		█	█											█
6		Hemodialysis Units				█	█	█	█	█	█	█		█	█											█
7		Catering KSRI BP	█				█	█	█	█	█	█														█
8		CT Scans	█			█	█	█	█	█	█	█														█
9		Diagnostic Centre				█	█	█	█	█	█	█														█
10		Angiographic Centre	█																							█
11		Health Insurance	█																							█
MOT																										
12		Bishkek—Kara Balta		█			█	█	█	█	█	█														█
13		Bazar Korgon—Sargata		█																						█
14		Kara Balta PBM								█	█	█		█	█	█										█
15		Electronic Toll Collection							█																	█
16		Osh Airport	█	█																						█
17		Issuk Kyl Airport		█																						█
MOEI																										
18		Technopolis for Textile	█																							█
19		Shamsi HPP	█																							█
20		Karakul HPP				█				█	█	█														█
21		Small Hydropower Plants								█	█	█		█	█	█										█

█	Completed
█	In process
█	Decision made to proceed
█	Status unclear
█	Decision made not to proceed

CDA = Bishkek City Development Authority, EoI = expression of interest, HPP = hydropower plant, MOE = Ministry of Economy, MOEI = Ministry of Energy and Industry, MOH = Ministry of Health, MOT = Ministry of Transport, PBM = performance-based management.

Source: Consultant's report.

FINANCIAL INTERMEDIATION IN THE KYRGYZ REPUBLIC (%)

Item	2006	2007	2008	2009	2010	2011	2012	2013	2014 ^a
Broad money (M2x)	28.4	30.3	25.8	28.4	31.4	27.8	31.7	34.5	34.5
Banking sector assets	24.8	29.7	29.2	36.6	27.6	23.6	28.2	31.7	33.9
Nonbank credit institutions assets ^b	3.2	4.6	5.7	13.7	8.4	7.3	6.7	6.8	7.0
Insurance sector assets	0.2	0.3	0.3	0.4	0.4	0.5	...
Stock market capitalization	3.3	3.2	1.8	1.5	1.7	2.8	2.5
Outstanding government securities	1.1	1.2	1.5	2.2	2.1	2.3	2.9	3.0	2.9
Access to Finance									
Credit to private sector	10.3	14.9	14.2	12.9	13.0	12.9	13.5	16.3	...
Banks' nominal interest rate in Som (% , average)	24.4	21.3	23.7	25.3	22.9	22.4	23.0	20.7	19.4
Banks' real interest rate in Som (% , average)	18.8	11.1	(0.8)	18.5	14.9	5.8	15.5	16.7	10.9
Banks' interest rate margin (%)	8.5	9.7	10.2	8.5	9.1	9.6	8.5	8.1	8.1
MFOs' nominal interest rate (% , average)	33.5	32.9	32.5	34.5	38.8	38.3	34.9	31.0	30.8
MFOs' real interest rate (% , average)	26.9	22.7	8.0	27.7	23.7	21.9	27.4	27.0	22.3
Average maturity of bank loan (months)	20.0	24.2	23.8	23.5	24.3	26.6	26.2	28.2	28.8
Money outside banks (as % of deposits)	150.8	163.2	154.1	145.8	149.5	146.2	124.0	104.9	95.7
Population ('000) per bank branch	30.6	24.7	22.8	22.7	26.0	21.9	20.4	20.1	...

() = negative, ... = not available, MFO = microfinance organization.

^a As of June 2014.

^b The Development Fund of the Kyrgyz Republic was established in 2009 as a nonbank financial institution but on 31 April 2010 the government decided to liquidate it. In 2012, one of the largest microfinance organizations (Bai Tushum) was transformed into a commercial bank.

Sources: Asian Development Bank's *Key Indicators*; National Bank of the Kyrgyz Republic; National Financial Market Regulation and Supervision Service of the Kyrgyz Republic; Asian Development Bank estimates.