



Concept Paper

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September 2014

Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 Kyrgyz Republic: Second Investment Climate Improvement Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 23 September 2014)

Currency unit	–	som (Som)
Som1.00	=	\$0.018
\$1.00	=	Som54.01

ABBREVIATIONS

ADB	–	Asian Development Bank
ICIP	–	Investment Climate Improvement Program
MOE	–	Ministry of Economy
PPP	–	public-private partnership

NOTE

In this report, "\$" refers to US dollars.

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CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROGRAM	1
A. Rationale	1
B. Impact, Outcome, and Outputs	3
C. Program Costs and Financing	3
D. Indicative Implementation Arrangements	3
II. DUE DILIGENCE REQUIRED	3
III. PROCESSING PLAN	4
A. Risk Categorization	4
B. Resource Requirements	4
C. Processing Schedule	4
IV. KEY ISSUES	4
APPENDIXES	
1. Design and Monitoring Framework	5
2. Problem Tree	8
3. Project Preparatory Technical Assistance	9
4. Initial Poverty and Social Analysis	13
SUPPLEMENTARY APPENDIX	
Summary of Achievements under the First Investment Climate Improvement Program (2008–2014)	16

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 41544-088	
Project Name	Second Investment Climate Improvement Program (Subprogram 1)	Department /Division	CWRD/CWPF
Country Borrower	Kyrgyz Republic Ministry of Economy	Executing Agency	Ministry of Economy
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		10.00
Finance	Central banking systems		2.00
	Finance sector development		5.00
	Inclusive finance		1.00
	Small and medium enterprise finance and leasing		2.00
	Total		20.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development Organizational development Public financial governance	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas Pilot-testing innovation and learning		
Private sector development (PSD)	Conducive policy and institutional environment Promotion of private sector investment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		20.00	
Sovereign Programmatic Approach Policy-Based Lending (Loan): Asian Development Fund		20.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		20.00	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROGRAM

A. Rationale

1. The proposed Second Investment Climate Improvement Program will help create a more attractive climate for private sector development in the Kyrgyz Republic. The program supports reforms that help create more diversified economic opportunities; channel domestic savings and private capital, including remittances, into productive investments; encourage foreign direct investment; and reduce the costs of doing business. The design and monitoring framework is in Appendix 1 and the problem tree is in Appendix 2.

2. The Asian Development Bank (ADB) has supported improvement of the investment climate in the Kyrgyz Republic primarily through the first Investment Climate Improvement Program (ICIP) (2008-2014) cluster comprising three subprograms.¹ Under the program, excessive licensing and inspection requirements, and cross-border trade barriers such as pre-customs clearances, have been reduced.² Electronic filing of tax and payment of patents has been introduced in all regions, and risk-based inspections are now mandated by law.³ The legal framework for secured lending has been developed. The National Bank of the Kyrgyz Republic has improved prudential regulations for supervision of financial services providers. Credit information sharing has improved with the establishment of a private credit bureau. The legal framework for consumer financial protection has improved. The range of financial products and services, particularly for women, has increased, along with more market-responsive vocational education. Some key elements of an enabling framework for public-private partnerships (PPPs) have been developed, including a PPP unit, a risk management unit, and a project development facility.⁴ ADB interventions have complemented those of other development partners. All policy actions under the first ICIP have been complied with and all tranches have been disbursed. Lessons from the Program Completion Report of the first ICIP will be incorporated in the design of the proposed Second ICIP. The first ICIP results summary is in the supplementary appendix.

3. Progress has been made in improving the investment climate, but substantial work is needed to increase the role of the formal private sector in economic growth.⁵ Constraining factors include lack of transparency and corruption; weak institutional frameworks and capacity to implement reforms; lack of access to affordable and long-term finance, particularly for small and medium-sized enterprises (SMEs); deteriorating infrastructure; dwindling productive skills and skills mismatch with industry requirements; and weak coordination for investment promotion, and export product and market diversification.

4. Businesses continue to face unplanned inspections, and public procurement accounts for nearly 20% of the country's budget. Making inspections transparent and predictable will

¹ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Grant for Subprogram 1, and Grant Assistance to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila; 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; ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant for Subprogram 3 to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila. The Program Completion Report is expected in early 2015.

² Law of the Kyrgyz Republic, No. 195: On licensing-permit system in the Kyrgyz Republic, dated 3 October 2013.

³ A patent is a fixed individual tax for engaging in certain entrepreneurial activities. It is issued by the tax authority in the business location as proof of tax payment.

⁴ Regulation of the Government of the Kyrgyz Republic, No. 147: On mechanisms of financing preparation of the Public-Private Partnership projects, dated 17 March 2014.

⁵ The private sector accounts for 75% of gross domestic product but is dominated by a large number of small entities (mainly farmers, individual entrepreneurs, and small enterprises) in the informal sector.

reduce the cost of doing business. The rollout of government e-procurement program commenced in 2013 will help increase competition and efficiency in tendering, enhance transparency, and reduce corruption in public procurement.⁶

5. Perceived as high-risk borrowers, SMEs face higher collateral, guarantee, and interest rate requirements. Availability of collateral is limited, as is the use of credit guarantees (a mechanism to share credit risks with banks).⁷ Public trust in the national currency and banks remains low, and deposits play a small role in funding the banking system. Credit provision to the private sector has improved marginally since 2009, but even at 15% the ratio of private credit to gross domestic product remains low when compared with regional peers. Banks have difficulty identifying viable SME borrowers due to poorly prepared documentation, plans, and accounts. Banks lack policies and skills to develop suitable financial products and services for SME clients. Workers' remittances from abroad are high.⁸ Limited financial intermediation prevents these remittances from being used for investment purposes. With high country risks, dollarization, and the absence of swap markets, banks pass on currency and other risks to borrowers who may not have the capacity to manage such risks. The country does not have a sovereign credit rating, and capital markets to provide long-term finance are not developed.

6. The economy is still heavily cash-based. In conjunction with increasing confidence in the banking system, electronic payment instruments can encourage businesses to move into the formal economy, allow the unbanked to start a transaction history, and improve financial inclusion. Savings, borrowing, insurance, and transfers can be simplified and made more accessible through mobile and electronic financial systems. The financial and communications infrastructure necessary for an effective and efficient electronic payments system, backed by a sound regulatory framework, will need to be developed.

7. Significant investment and technical capacity to develop economic and social infrastructure, including through PPP, is envisaged. Progress has been made in developing the basic policies and processes required for PPP. More work is needed to strengthen the enabling environment, including government financial support mechanisms, greater operational knowledge, and pilot projects for demonstration effects.⁹

8. To increase the competitiveness of firms and their participation in global markets, the Kyrgyz Republic needs to diversify its production structure and export destinations. The industry and labor market skills mismatch needs to be remedied, including through industry apprenticeships. Key tasks under the National Program for Trade Promotion, which takes into account implications of joining the Customs Union, include improving the environment for trading across borders, quality infrastructure, and access to finance.¹⁰ The Investment Promotion Agency was established in March 2014 under the Ministry of Economy (MOE) to develop and implement measures to stimulate foreign and domestic private investment activity.

⁶ A joint ADB and World Bank assessment in 2012 reported a serious need for procurement reform to improve efficiency and transparency, and specific measures to detect and prevent corruption. The government has passed legislation on e-procurement and the e-procurement system is being developed and rolled out with ADB support.

⁷ Five guarantee funds are currently in operation in five cities with a combined capital of \$400,000, funded by the respective local government budgets. The creation of a national fund could be considered.

⁸ The ratio of remittances to gross domestic product was 38% in 2012. It is expected to be 31% in 2013–2014 due to the slowdown in the Russian economy, which is the largest recipient of Kyrgyz migrant workers.

⁹ ADB. 2014. *Technical Assistance to the Kyrgyz Republic for Strengthening the Enabling Environment for Public–Private Partnerships*. Manila (TA 8688-KGZ, \$1,000,000, approved on 21 July).

¹⁰ The proposed program is aligned with these tasks, which will benefit the country's trade and investment promotion efforts. The \$1 billion development fund set up with Russian support will assist the country with preparatory procedures to join the Customs Union and the Eurasian Economic Union.

9. The proposed program will support the government in continuing the progress made under the first ICIP (2008–2014). The National Sustainable Development Strategy 2013–2017 targets creation of an attractive environment for domestic and foreign investors by improving product markets, financial and nonfinancial factor markets, and infrastructure.¹¹ In September 2012, the government approved the Public Procurement Development Strategy, 2012–2014. The proposed program is in the country operations business plan, 2014–2016 and the country partnership strategy, 2013–2017.¹²

B. Impact, Outcome, and Outputs

10. The impact will be increased private sector investment. The outcome will be an improved business and investment climate. The outputs will be (i) financial deepening and access to finance increased, (ii) comprehensive PPP program fostered, (iii) investment and trade facilitated, and (iv) cost of doing business reduced and transparency increased.

C. Program Costs and Financing

11. The government has requested a programmatic approach for 2015–2017 for \$60 million, which will be disbursed in three subprograms with chronologically sequenced reforms. Each subprogram is estimated at \$20 million equivalent.¹³ The size of the loans and the number of subprograms will be finalized during processing, taking into account the government’s financing needs, adjustment costs in preparing, implementing, and monitoring proposed policy actions, and relative importance ascribed by the government to the output areas as reflected in budgetary allocations.¹⁴ The debt sustainability outlook is positive.¹⁵ Proceeds will be made available to the government upon loan effectiveness and compliance with all policy conditions.

Table 1: Tentative Financing Plan (\$ million)

Source	Subprogram 1	Subprogram 2	Subprogram 3	Total
Asian Development Bank				
Special Fund resources (loan)	20	20	20	60
Total	20	20	20	60

Source: Asian Development Bank staff estimates.

D. Indicative Implementation Arrangements

12. The proposed executing agency is MOE. The proposed implementing agencies are MOE, the Ministry of Finance, and the National Bank of the Kyrgyz Republic. The Macroeconomic and Investment Policy Coordination Council, chaired by the Prime Minister, will oversee program implementation. No program implementation unit will be established.

II. DUE DILIGENCE REQUIRED

13. Due diligence, supported by project preparatory technical assistance, will include:

¹¹ Government of the Kyrgyz Republic. 2013. *National Sustainable Development Strategy, 2013–2017*. Bishkek.

¹² ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila; ADB. 2013. *Country Operations Business Plan: Kyrgyz Republic, 2014–2016*. Manila.

¹³ Government written concurrence was provided on 16 April 2014 for the programmatic approach proposal.

¹⁴ Memorandum from the ADB Strategy and Policy Department on Provisional 2015–2016 ADF Loan and Grant Allocations. February 2014. “In the absence of further changes in the debt distress classifications in 2014, Kyrgyz Republic’s grant share can be expected to move from 50% in 2014 to 0% in 2015.”

¹⁵ International Monetary Fund. 2014. *Kyrgyz Republic: Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility*. Washington, DC.

- (i) **Economic and financial.** Assessment of the costs and benefits of policy reforms with short- and medium-term effects on the investment climate, and assessment of the development financing needs of the country.
- (ii) **Governance.** Assessment of country and program fiduciary risks to evaluate public financial management, procurement, corruption, and capacity issues; and agreement on mechanisms for improvement.¹⁶
- (iii) **Poverty and social.** Assessment of potential poverty, social, and gender impacts; and measures to maximize the positive impacts.
- (iv) **Safeguards.** The program will not impact the environment or indigenous peoples, and does not entail any involuntary resettlement. It is categorized as C.

III. PROCESSING PLAN

A. Risk Categorization

14. The policy-based loan is categorized as complex. However, ADB has sound experience in supporting programmatic reforms in the country. In addition, the program builds on the first ICIP and the executing agency and implementing agencies have reasonable capacity in administering aid-financed projects. The safeguard classification is C for environment, indigenous peoples, and involuntary resettlement.

B. Resource Requirements

15. The project team comprises ADB sector staff with expertise in the finance sector, private sector development, and PPP; and one peer reviewer from each of the Financial Sector Development Community of Practice and the PPP Community of Practice. Staff will dedicate an estimated 6 person-months to process the program. A project preparatory technical assistance, costing \$660,000 equivalent (Appendix 3), will contribute to program design.

C. Processing Schedule

16. The indicative processing schedule is in Table 2.

Table 2: Proposed Processing Schedule

Milestones	Expected Completion Date
Concept paper clearance	September 2014
PPTA inception mission	October 2014
Loan fact-finding mission	February 2015
Staff review meeting	April 2015
Loan negotiations	May 2015
Board consideration	June 2015

PPTA = project preparatory technical assistance.

Source: Asian Development Bank estimates.

IV. KEY ISSUES

17. The main issues are ensuring continued government willingness to undertake the next set of reforms, including those that help address transparency and government–business interactions. The impending accession to the Customs Union and Eurasian Economic Union in 2015 will have implications for policy actions under output 3, and will be closely monitored.

¹⁶ In 2011, the Kyrgyz Republic was granted status as fully compliant with the Extractive Industries Transparency Initiative principles. Negotiations are continuing between the government and Canadian gold producer Centerra regarding a potential restructuring transaction to resolve all outstanding concerns relating to Kumtor.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines ^a	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Increased private sector investment	Share of private investment in GDP increased to [20%] by 2020 (baseline 2008 –2013: average of 18.3%)	Annual statistical yearbook of NSC (www.stat.kg)	Assumption Domestic economic opportunities that attract domestic and foreign capital increase.
Outcome Improved investment and business climate	Domestic credit to the private sector increased to [20%] of GDP by 2018 (baseline 2013: [16.3%]) At least [two] PPP projects (with gender assessments) competitively tendered by 2018 (baseline 2014: 0) E-procurement operationalized in at least 75 procuring entities including key ministries by 2017 (baseline 2014: Law on Public Procurement)	NBKR annual report MOE (PPP unit) notification MOF (Public Procurement Methodology Department) notification	Assumption Private sector development remains a key government priority. Risk Political will to implement proposed reforms is weak.
Outputs 1. Financial deepening and access to finance increased	Payments System Law submitted for approval by June 2015 Ratio of deposits to GDP and loans to GDP increased to [X%] and [Y%] by April 2017 (baseline 2013: [17.1%] and [14.7%]) Average interest spread decreased to below [7%] by 2017 (baseline 2014: 8.1%) Revised amendments to Law on Microfinance Organizations (covering payments and savings products) submitted for approval by April 2016 Innovative financing products (supply chain, credit guarantees, and/or Islamic finance) for SMEs introduced in relevant financial intermediaries by February 2016	Government legal database NBKR annual report Resolution of the Board of NBKR NBKR annual report	Assumptions Finance sector development continues to be a government priority. Government strengthens advocacy and awareness building about noncash transactions.
2. Comprehensive PPP program	Infrastructure development and financing strategy, including	MOE notification and / or City	Assumption Political championship

Design Summary	Performance Targets and Indicators with Baselines^a	Data Sources and Reporting Mechanisms	Assumptions and Risks
fostered	<p>PPP, and list of priority projects for private participation for at least one sector or city endorsed by March 2015 and for at least three sectors by March 2017</p> <p>At least two priority sector feasibility studies funded through the PDSF completed (including gender impact assessments) by February 2016</p>	<p>Development Agency notification</p> <p>MOE (PPP unit) notification</p>	<p>for PPP market development is strengthened.</p> <p>Risks Government ensures adequate availability of funds in the PDSF. Needed legal and regulatory amendments are approved.</p>
3. Trade and investment facilitated	<p>IPA business plan operationalized by March 2015</p> <p>Export credit agency or investment guarantee facility operationalized by January 2017</p> <p>Industry apprenticeship programs with at least two export-focused SMEs operationalized (with at least 25% female participation) by NSDC by March 2017</p>	<p>MOE notification</p> <p>[Government decree]</p> <p>MOE notification</p>	<p>Assumptions Cooperation and coordination between line ministries and MOE is effective. Support facilities are adequately funded.</p>
4. Cost of doing business reduced and transparency increased	<p>Order on STS publication of its inspections plans on MOE website by October 2015</p> <p>At least [X] government entities use e-procurement system by 2015 and at least [Y] by 2016 (baseline 2014:TBD)</p>	<p>Government order</p> <p>MOF notification</p>	<p>Assumption Coordination between STS and MOE, and between MOF and procurement agencies or ministries, is effective.</p>
<p>Activities and Milestones</p> <p>1. Financial deepening and access to finance increased</p> <p>1.1 Draft revised Payments System Development Strategy and finalize interministerial consultative group's comments on draft Payments Systems Law (by February 2015)</p> <p>1.2 Undertake steps (e.g., bank reserve requirements, establishment of bank risk tolerance, stress testing,) to improve monitoring and management of financial system liquidity (from February 2015 to June 2016)</p> <p>1.3 Draft legal amendments to Law on Microfinance Organizations (for qualified MFOs to offer payments and savings products (by April 2015)</p> <p>1.4 Finalize interministerial and NBKR comments on executive memorandum for increasing access to finance for SMEs (e.g., supply chain financing, credit guarantees, Islamic finance products) (by February 2015)</p> <p>2. Comprehensive PPP program fostered</p> <p>2.1 Prepare infrastructure investment planning and prioritization toolkits for key sectors (national and city) (by December 2014)</p>			<p>Inputs</p> <p>ADB: \$20 million equivalent for Subprogram 1</p> <p>ADB: \$20 million equivalent for Subprogram 2</p> <p>ADB: \$20 million equivalent for Subprogram 3</p> <p>ADB Cluster TA: Project Preparatory TA \$600,000 (2014)</p>

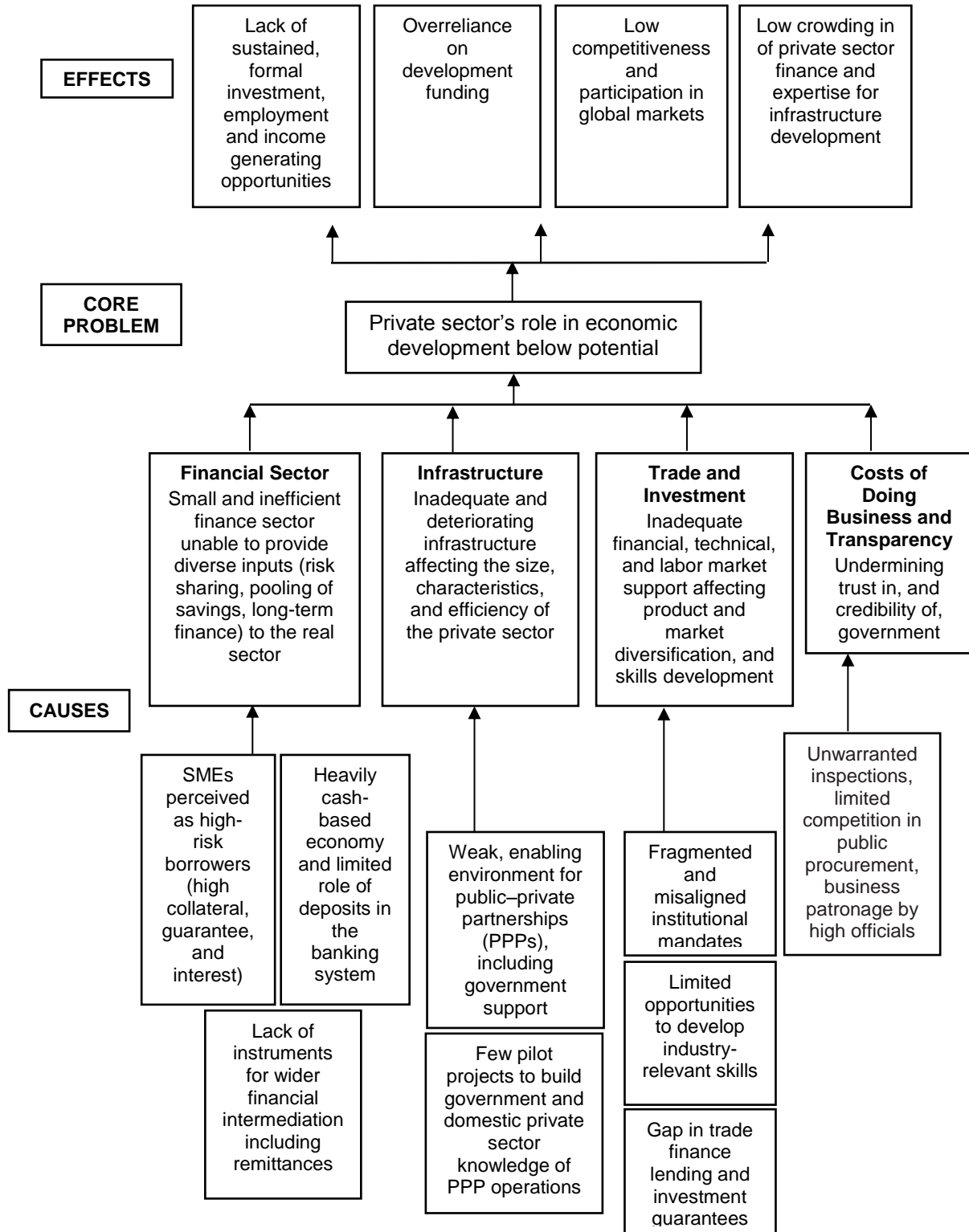
<p>Activities and Milestones</p> <p>2.2 Undertake sequenced preparation of toolkits, guidelines, and model documents (outline and full business case, PPP suitability filters, risk-allocation, contracts, gender and environmental safeguards, RFPs, RFQs) for key priority sectors (by February 2016)</p> <p>2.3 Finalize interministerial comments on executive memorandum on development partner cofinancing of the PDSF (by March 2015) and execute cofinancing agreements (by August 2015)</p> <p>2.4 Develop business cases for VGF and/or guarantee mechanism (by March 2015)</p> <p>2.5 Support the tendering of at least two prefeasibility or feasibility studies (with social, gender, and environmental considerations; financial analyses; project structuring; tender documents) for PDSF-approved projects (by May 2015)</p> <p>2.6 Support MOE in managing PDSF-funded consultants for prefeasibility or feasibility studies (from May 2015 to December 2017)</p> <p>3. Investment promotion and trade facilitated</p> <p>3.1 Draft AIP operations plan with clearly demarcated staff terms of reference for each unit and linkages to relevant government agencies and private sector associations (by December 2014)</p> <p>3.2 Streamline institutional setup for trade promotion (terms of reference of single window for customs subsumed in AIP) (by October 2015)</p> <p>3.3 Draft business cases for government support facilities (by March 2015)</p> <p>3.4 Sector councils of NSDC short-list export SMEs for apprenticeship program (by April 2015) and develop appropriate industrial linkage and/or vendor development program with two SMEs (by October 2016)</p> <p>4. Costs of doing business reduced and transparency increased</p> <p>4.1 Roll out e-procurement in the first set of key agencies (by December 2016)</p> <p>4.2 STS inspections plans linked to MOE website (by January 2016)</p>	
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GDP = gross domestic product, IPA = Investment Promotion Agency, MFO = microfinance organization, MOE = Ministry of Economy, MOF = Ministry of Finance, NBKR = National Bank of the Kyrgyz Republic, NSDC = National Skills Development Council, PDSF = Project Development Support Facility, PPP = public-private partnership, RFP = Request for Proposal, RFQ = Request for Qualification, SMEs = small and medium-sized enterprises, STS = State Tax Service, TA = technical assistance, VGF = viability gap funding.

^a Baselines and targets will be confirmed during program processing.

Source: Asian Development Bank.

PROBLEM TREE



PROJECT PREPARATORY TECHNICAL ASSISTANCE

A. Justification

1. Project preparatory technical assistance (TA) is required to assist the government in designing and implementing reforms for financial deepening, access to finance, and trade and investment to increase the role of the formal private sector in the economic development of the Kyrgyz Republic. Support for public–private partnerships (PPPs) will be provided under a separate TA project.¹

B. Major Outputs and Activities

2. The TA will help (i) complete due diligence on areas proposed for support; (ii) identify key reforms including the adjustment costs in preparing, implementing, and monitoring the proposed reforms; and (iii) reach agreements on reform activities, outputs, and program outcome and impact.

Table A3.1: Summary of Major Outputs and Activities

Major Activities	Expected Completion Date	Major Outputs	Expected Completion Date
(i) Issue EOIs for consultants	15 Sept 2014	Consultants hired	30 Sep 2014
(ii) Undertake assessments and draft reports with recommendations	30 Nov 2014	Draft program of reforms with underlying policy actions prepared	30 Dec 2014
(iii) Undertake stakeholder consultations to finalize reforms and policy actions	30 Dec 2014	Mechanisms and instruments for implementation of reforms designed	15 Feb 2015
(iv) Identify institutional impediments to reform implementation	15 Nov 2014	Steps undertaken to increase access to finance and financial deepening	30 April 2015
(v) Develop operating plans for recommended mechanisms, including budgetary implications	15 Feb 2015	AIP operationalized	30 April 2015
(vi) Draft legal amendments to allow qualified MFOs into payment system	15 Jan 2015		
(vii) Revise regulations to broaden the range of SME receivables for use as loan collateral	15 Feb 2015		
(viii) Draft operating plan for AIP	30 Dec 2014		

EOI = expression of interest, IPA = Investment Promotion Agency.
Source: Asian Development Bank.

C. Cost Estimate and Proposed Financing Arrangements

3. The TA is estimated to cost \$660,000 equivalent, of which \$600,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF)-V. Details are in Table A3.2.

¹ ADB. 2014. *Technical Assistance to the Kyrgyz Republic for Strengthening the Enabling Environment for Public–Private Partnerships*. Manila (TA 8688-KGZ, \$1,000, 000, approved on 21 July).

Table A3.2: Cost Estimates and Financing Plan
(\$'000)

Source	Total Cost
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (12 person-months)	263.0
ii. National consultants (24 person-months)	97.0
b. International and local travel	78.0
c. Reports and communications ^b	10.0
2. Workshops, training, seminars, and conferences ^c	
a. Facilitators	10.0
b. Workshops	10.0
3. Miscellaneous administration and support costs ^d	80.0
4. Equipment ^e	18.0
5. Contingencies	34.0
Total	600.0

Note: The government will provide counterpart support in the form of counterpart staff, translation, office accommodation, office supplies, translation, secretarial assistance, and other in-kind contributions. The value of government contributions is estimated to account for 9.1% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

^b Includes translation costs.

^c Includes rent of facilities, food and beverages, materials, other related costs, as well as honorarium, travel cost, and per diem of resource persons. Resource persons are not expected to be engaged for more than 10 days.

^d Direct and identifiable costs associated with the work of consultants or support to government staff involved in TA implementation, including costs of obtaining a sovereign credit rating.

^e Includes hardware, software, web design, and other related goods. The equipment and software will become property of the Ministry of Economy on completion of the technical assistance.

Source: Asian Development Bank estimates.

D. Consulting Services

4. The TA will engage three international and five national consultants with investment and trade promotion, finance sector development, mobile services development, legal, and social expertise. PPP experts will be hired under a separate TA project (footnote 1). Given the diversity of expertise required, individual consultants are better suited than a firm. While working independently, the technical teams will coordinate as needed. All consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Disbursements will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Procurement will be in accordance with ADB's Procurement Guidelines (2013, as amended from time to time).

Table A3.3: Summary of Consulting Services Requirement

Positions	Person-Months
A. International	
1. Investment and trade promotion specialist	4
2. Finance sector development specialist	4
3. Mobile financial services specialist	4
B. National	
1. Investment and trade promotion specialist	5
2. Finance sector development specialist	5
3. Legal specialist	5
4. Social, poverty, and gender specialist	3
5. Management information system specialist	6

Source: Asian Development Bank.

1. International Consultants

5. **Investment and trade promotion specialist** (4 person-months). The consultant should have a postgraduate degree in economics, finance, or business, and at least 10 years of experience in export or investment promotion. Experience with investment promotion agencies of smaller developing countries is required. The specialist will (i) review government programs for investment and trade; (ii) review Customs Union and Eurasian Economic Union plans and how accession will impact re-export markets such as Dordoi and, consequently, trade, investment, and financial flows in the country; (iii) identify policy measures necessary to address the constraints to trade and investment identified in the National Trade Program, and mitigate adverse impacts identified in item (ii); (iv) assess quality–certification infrastructure support necessary but not supported by the development fund set up to facilitate accession to the Customs Union; (v) develop business cases for government support mechanisms, such as export credit agency, investment guarantee facility; (vi) assist in developing relevant websites; (vii) based on (i)–(vii) outline a comprehensive 5-year policy and institutional reform action plan; and (viii) help build relevant government capacity.

6. **Finance sector development specialist** (4 person-months). The consultant should have a postgraduate degree in economics, finance, or business, and at least 10 years of experience in finance sector development reform in developing countries. The consultant will help identify continuing constraints in financial intermediation and increasing access to finance, and support implementation of reforms to address the constraints. The specialist will perform the following tasks: (i) assess the potential for small and medium-sized enterprise (SME) financing, including products based on movable assets, factoring, and other forms of supply chain finance; (ii) assess options to widen SME access to credit through guarantee schemes and Islamic finance; (iii) help prepare a policy note and draft framework for developing products and services to channel the country's remittances to productive investments through the formal financial system; (iv) review the secured transactions framework, covering collateral and provisioning requirements in the National Bank of the Kyrgyz Republic (NBKR) regulations and practices for commercial banks, impacting bank liquidity and hence lending; (v) based on (i)–(iv), outline a comprehensive 5-year reform plan, including policy actions and institutional arrangements to promote financial intermediation and SME and retail access to finance; and (vi) help implement interventions to build relevant government capacity.

7. **Mobile financial services specialist** (4 person-months). The specialist will have a relevant postgraduate degree; at least 12 years of experience in central banking or banking operations, policy formulation, and development of payments and settlement systems, including electronic payments solutions. Familiarity with the Kyrgyz Republic's finance sector legal and regulatory framework will be an advantage. The specialist will (i) assess the status of electronic payments, including mobile banking and systems; (ii) assess NBKR's oversight and operating functions in retail payment systems; (iii) recommend improvements including in infrastructure, institutional capacity, and legal amendments for the national payments, clearance, and settlement system upgrade; (iv) help develop terms of reference for tendering detailed design and implementation of recommended alternatives; (v) assist NBKR in consultations with banks and other financial services providers, and in implementing policy and regulatory changes (including for licensing and supervising payments operators); (vi) assist NBKR in reviewing the payments system development strategy and preparing the 2015–2017 document; (vii) organize awareness workshops and train authorities in international good practices and regulatory models for electronic payments; and (viii) outline a comprehensive 3–5-year reform action plan.

8. The specialists will conduct fiduciary risk and cost of reforms assessments as needed.

2. National Consultants

9. National consultants, guided by their technical area international specialists, will help (i) collect and analyze data and information, (ii) formulate reform recommendations, (iii) monitor progress of reforms, (iv) assess local capacity, (v) undertake stakeholder consultations, (vi) provide training, and (vii) with other tasks as needed under the TA. They will have good command of English and be responsible for translation of reports into Russian or Kyrgyz.

10. **Investment and trade promotion specialist** (5 person-months). The specialist will have a degree in a relevant discipline and at least 8 years of professional experience in developing and advising on trade facilitation and investment promotion interventions.

11. **Finance sector development specialist** (5 person-months). The specialist will have a degree in a relevant discipline and at least 8 years of experience in financial sector development.

12. **Legal specialist** (5 person-months). The specialist will have a degree in law and at least 8 years of experience with legal and regulatory frameworks for finance sector development and investment and trade. The expert will (i) review relevant laws and regulations, (ii) provide legal recommendations as needed, and (iii) help draft legal documents.

13. **Social, poverty, and gender specialist** (3 person-months). The specialist will have a degree in a relevant discipline and at least 5 years of experience in social, gender, and poverty assessments. Experience with project preparatory TA and in the former Soviet Union countries, will be an advantage. The specialist will help identify reforms and design measures that maximize poverty reduction and social and gender-inclusiveness. Tasks will include preparing a draft summary poverty reduction and social strategy, inputs to the design and monitoring framework, and other documents as required.

14. **Management information systems specialist** (6 person-months). The expert will have a relevant degree and at least 6 years of experience in website and management information systems development and administration. In consultation with the relevant specialists, the specialist will develop (i) the Agency for Investment Promotion website, (ii) a format for collecting sector-specific information, (iii) a system to align sector and prospective investor information, and investor queries, and (iv) technical specifications for website maintenance. The specialist will also train relevant staff.

E. Implementation Arrangements

15. The Ministry of Economy (MOE) will be the executing agency. The proposed implementing agencies are MOE, the Ministry of Finance, and NBKR. The Macroeconomic and Investment Policy Coordination Council will be the high-level steering committee overseeing program implementation. To ensure continuity and sustainability of reforms, the implementation arrangements are the same as for the first ICIP. The TA will be implemented from September 2014 to June 2015. The proposed processing and implementation schedule is in Table A3.4.

Table A3.4: Technical Assistance Processing and Implementation Schedule

Major Milestones	Expected Completion Date
Consultation mission	10–12 February 2014
Reconnaissance mission	27 May–4 June 2014
VPO1 approval	September 2014
Inception mission	October 2014

VPO1 = Vice-President (Operations 1).

Source: Asian Development Bank estimates.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country: Project Title:

Lending/Financing Modality: Department: Division:

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The reforms proposed under the Second Investment Climate Improvement Program are articulated in the National Sustainable Development Strategy (NSDS), 2013–2017. The NSDS is based on a vision of the Kyrgyz Republic as a country with robust economic growth and an attractive environment for business. One of the key focus areas is creating an attractive environment for domestic and foreign investors by improving product markets, financial and nonfinancial factor markets, and infrastructure. Another focus area is human development and poverty reduction including expanding and improving the range and quality of employment services, the quality of workforce, and the right to work for vulnerable groups such as young people, women, and persons with disabilities. The program is aligned with government priorities; it is included in the country partnership strategy, 2013–2017 and contributes to one of its expected outcomes by building an appropriate environment to develop and improve private sector performance.

B. Poverty Targeting

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The program will support reforms to help the Kyrgyz Republic (i) widen and deepen the range of financial services and products available to businesses and retail customers including microfinance deposit and lending services; (ii) increase private sector participation in developing infrastructure and services, including social services such as health; (iii) increase domestic and foreign investment and competitiveness in global markets; and (iv) develop labor market skills linked to industry demand. Interventions in all these areas are expected to individually and collectively improve the business climate, improve infrastructure and services, and generate employment opportunities to benefit increasing numbers of households, including low-income households.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

During 2006–2009, a period of strong growth, absolute poverty fell from 39.9% to 31.7% and extreme poverty declined from 9.1% to 3.1%. The main contributing factor was the strong growth in remittances (from 11.0% of gross domestic product [GDP] in 2005 to 18.0% in 2009), which fueled an increase in private consumption. During 2010–2012, poverty increased to 38.0% and extreme poverty increased to 4.4% due to the economic challenges from the global economic crisis and domestic political unrest. Rural poverty dominates; 40.4% of the rural population is poor, compared with 30.7% of the urban population. The poverty projection for 2014 is 28% of the population.

Potential program beneficiaries are current and future entrepreneurs, including women's micro, small, and medium-sized enterprises (MSMEs), (i.e., owned or run by women, or with women comprising a majority of the employees), potential investors, and the general population—through better and greater access to finance and financial services, better infrastructure services, and an improved legal and regulatory environment. The reforms are expected to provide indirect benefits as well as an improved business climate attracting businesses to the formal sector in rural and urban areas, and increasing formal jobs.

2. Impact channels and expected systemic changes.

The impact channels will be through business creation and employment generation; access to finance and financial services; improved infrastructure; better linkages between industry, MSMEs, and small and medium-sized enterprises (SMEs); and skills development. The expected systemic changes are for business regulation, risk averseness of banks to SMEs, financial intermediation, and electronic and mobile payments.

3. Focus of (and resources allocated in) the PPTA or due diligence.

The social, poverty, and gender specialist included in the TA will review the poverty, social, and gender dimensions of the reforms proposed, and assess how program benefits may be maximized for those who most need them. These are expected to have an indirect medium- and long-term impact on poverty reduction, mainly through an increase in employment opportunities. More direct, short-term links to poverty reduction to be assessed include increased availability of financial services (savings, credit, and payment services) in locations outside Bishkek and by excluded groups (women, lower income).

4. Specific analysis for policy-based lending. The transmission channels will be through the creation of an enabling environment for the formal private sector to play a greater role in the economy. The short-term direct impacts will be in the form of better access to finance businesses and retail customers, and better systems and process to facilitate

their operation. The long-term direct impacts will be in the form of employment creation. The indirect impacts will be in the form of an increased tax base for the government to mobilize resources for investment and growth.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector or subsector that are likely to be relevant to this project or program? Gaining a livelihood is increasingly difficult for women. Formal employment opportunities are few and largely limited to certain sectors (i.e., health, education, services). As a result, informal sector jobs and entrepreneurial activities are a particularly important option for women. Access to finance for entrepreneurship, trading, and other informal work is difficult. Girls and women also frequently lack the skills, networks, financial acumen, and knowledge and experience required to set up businesses or find employment in the formal sector.

An ADB-funded study in 2012 found that most women entrepreneurs bear a considerable burden of time and financial costs associated with corruption, incompetence, and hostility on the part of the relevant authorities (particularly tax authorities). Consequently, in attempting to improve the business environment, the emphasis has been on minimizing direct contact between entrepreneurs and officials, through the introduction of a "single-window" approach and the use of internet technologies. From the point of view of women entrepreneurs, tensions in relations with tax officers arise due to (i) imperfections in the legislative and regulatory framework, (ii) frequent and unnecessary inspections, and (iii) unstable and unpredictable politics of business regulation. All this creates opportunities for preconditions for corrupt actions. Dissatisfaction with the imperfect legislative and regulatory framework and frequent changes was expressed even by tax officials.

Women have particularly been impacted by obstructive and rent-seeking behavior, and express strong enthusiasm for reform of the business climate. They highlight the need for social protection and social insurance (including pensions), especially for women working in informal "shadow business"; broader and easier access to finance; training especially in nontraditional sectors to overcome horizontal segregation in the labor market; and awareness raising about the challenges and risks confronting the development of women entrepreneurs.

The majority of women in waged employment are concentrated in agriculture (which has the lowest wages) and in other areas where the average salary is below the national average, such as education and health care.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No Please explain.

The program actions will enable women to have equal access to opportunities as men by providing better access to finance and financial services, better infrastructure services, and enabling participation in the design and implementation of development and/or infrastructure projects. Toolkits and guidelines prepared for developing public-private partnership projects will require the inclusion of gender safeguards and creation of opportunities for women to be involved in different phases of project development and implementation.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No Please explain

No, the program components are designed to empower women and promote gender equity.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

Main stakeholders include those engaged in business at all levels, including MSMEs and SMEs, and those in the informal and private sectors. The primary beneficiaries are current and future entrepreneurs and investors who are expected to benefit from an improved policy and regulatory environment and have better investment opportunities to provide additional employment. Given that women's businesses comprise a large percentage of MSMEs, these groups will be regularly consulted through focus group discussions; during processing missions; and by the social, poverty, and gender specialist included in the project preparatory TA.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded?

The TA will consult with women and disadvantaged groups from a range of socioeconomic backgrounds to establish their priority concerns and discuss how they may be most effectively addressed within the framework of the proposed program. The TA will then identify modalities for consultation with women's groups during the program itself.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the program design?

<p>The project preparatory TA will identify the key organizations (i.e., women's business groups, microfinance groups, women's community groups, youth groups) and will seek their views on program design.</p> <p><input type="checkbox"/> Information generation and sharing <input type="checkbox"/> Consultation <input checked="" type="checkbox"/> Collaboration <input checked="" type="checkbox"/> Partnership</p>
<p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>No specific issues are anticipated during project design for which participation of the poor and excluded is important. However, to maximize benefits for the poor and excluded, the project preparatory TA will identify the key issues for those groups and how their participation can be ensured.</p>
IV. SOCIAL SAFEGUARDS
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p>
<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p>
<p>1. Does the proposed program have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the program design?</p> <p><input checked="" type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input checked="" type="checkbox"/> Affordability</p> <p><input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability</p> <p><input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the program design?</p> <p>The reforms are expected to provide indirect benefits to the working population, both employed and unemployed, as investment opportunities translate into job creation. These impacts will be assessed under the project preparatory TA. The structural reforms are expected to reduce the costs of regulatory compliance and increase access to finance and financial services; direct and indirect impacts will be assessed during program design.</p>
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analyses, and participation plan during the PPTA or due diligence?</p> <p>The project preparatory TA budget includes a 3-month input by a Social, Poverty, and Gender Specialist, who will specifically address these issues, conduct appropriate analysis, and plan beneficiary participation.</p>

**SUMMARY OF ACHIEVEMENTS UNDER THE FIRST INVESTMENT CLIMATE
IMPROVEMENT PROGRAM (2008–2014)**

Achievements under Subprogram 1 (completed in 2008)	Achievements under Subprogram 2 (completed in 2012)	Achievements under Subprogram 3 (completed in 2014)
Output 1: Cost of regulatory compliance reduced		
<p>Framework for one-stop shop for business registration established and capacity building initiated</p> <p>Legal and institutional framework for regulatory impact assessment (RIA) for businesses established</p> <p>Institutional framework for pre-customs single window adopted</p>	<p>Piloting of one-stop shop for business registration completed in all regions and requirements for registration reduced</p> <p>Licensing requirements reduced, based on RIA results, and risk-based inspections institutionalized</p> <p>Automated pre-customs single window system developed</p>	<p>Options for electronic tax filing and payments and no-contact policy expanded to all regions</p> <p>Further reduction of licensing requirements and simplification of legal framework into a single law</p> <p>Operations of pre-customs single window system initiated</p>
Output 2: Access to finance improved		
<p>Legal reforms to strengthen the secured lending framework initiated</p> <p>Tax-related impediments to leasing removed</p> <p>Legal framework for credit information sharing initiated</p>	<p>Legal reforms on secured lending framework consolidated</p> <p>Availability of financial services increased, particularly for women</p> <p>Institutional framework for credit information sharing improved</p>	<p>Legal reforms on secured lending framework completed</p> <p>Risk-based supervision of microfinance organizations strengthened</p> <p>Legal framework for consumer protection strengthened</p>
Output 3: Workers' skills enhanced		
	<p>National Skills Development Council established with women representation</p> <p>Qualification framework for technical and vocational education for 18 occupations adopted</p>	<p>Sector councils on skills development established</p> <p>Modern competency-based training introduced for more than 6,000 students of 18 occupations</p>
Output 4: Public–private partnerships facilitated		
<p>Legal reform for public–private partnerships (PPPs) initiated</p> <p>PPP risk management unit established</p>	<p>Legal and risk management framework for PPP established</p> <p>Units for risk management and PPP promotion operationalized</p> <p>First steps taken to build PPP project pipelines through screening methods and procedures</p>	<p>PPP standard tender documents developed</p> <p>Project development support facility approved</p> <p>Pilot PPP projects further prepared</p>

Source: Asian Development Bank.