

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<p>Macroeconomic Economic slowdown in the Russian Federation, a systemic partner economy, and accession to the EEU increases vulnerability of the Kyrgyz export and investment sectors and delays reforms, including non-EEU-related reforms</p>	High	Government is increasing efforts to diversify the economy, including exports and trading partners, and FDI and investors. Donor coordination will help ensure consistency in reform advice and support through policy dialogue and interventions. ADB is providing the policy-based grant and attached TA, ¹ including facilitating acquiring EU's Generalized System of Preferences Plus (GSP+) trade privilege.
<p>Political economy Change in government after the parliamentary elections, scheduled for November 2015 delays agreed reforms or changes reform agenda</p>	High	Agreed reforms are geared towards economic growth powered by private sector development, including through export and FDI diversification, which is a development approach across all parties. Actions are supported by the National Sustainable Development Strategy (2013–2017) which specifies the government's commitment to private sector development.
<p>Public Financial Management PFM systems are weak, affecting transparency and accountability in economic management and public service delivery</p>	High	PFM systems are being improved with multidonor support. Key aspects include introduction of an FMIS, greater use of electronic transfers to pay government salaries, automation of tax and customs operations, modernization of treasury operations, and decentralization of financial management functions to local governments. There is progress in consolidating almost all known off-budget funds into the budget. However, some government agencies, public enterprises, and the large quasi-fiscal deficit of the energy sector are not yet part of key fiscal reports.
<p>PFM implementation capacity is limited</p>	High	Capacity building for PFM, initiated by the MOF in 2011 and financed by the Multi-Donor Trust Fund ² has been extended to 2015. The program is strengthening PFM effectiveness, efficiency, and accountability by improving the budget process, internal audit, disclosure, institutional, human, and project management capacity.
<p>Treasury system does not fully incorporate all budget entities, affecting complete availability of information and transparency</p>	High	To make public finances more effective and transparent, the Treasury single account is being introduced with IMF support. The treasury system is being extended to include the Social Fund, and new accounting rules, including the unified chart of accounts, are being applied in line with international accounting standards.

¹ ADB. 2014. *Concept Paper for the Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Kyrgyz Republic for the Second Investment Climate Improvement Program*. Manila. (TA 8721-KGZ).

² Financed by the European Union and the governments of Sweden, the United Kingdom, and Switzerland.

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Weak public investment planning and management at the sector level, and political interference to amend budgets, results in capital spending with weak strategic basis, including inadequate risk management for PPPs.	High	ADB, through the proposed program and attached TA, ³ is helping some ministries prepare sector strategies, with multiyear investment financing plans including PPPs. Guidelines for management of fiscal exposure arising from PPPs have been approved by MOF, including guidance on contingent liabilities. Support will continue throughout program implementation.
Procurement Weak internal rules and entrenched practices in public procurement lead to suboptimal results in terms of prices, transparency, or access for new market entrants.	High	ADB is supporting the full rollout and implementation of the universal government e-procurement system. ⁴ An e-portal, with user registration and publication functions and e-tendering for goods, has been rolled out and at least 20 public entities have started to use the system. The Procurement Law is being revised to reflect these developments.
Corruption Weak implementation of laws; corruption, particularly in agencies that have revenue raising and regulation powers; and fear of nationalization and expropriation including breach of contractual obligations without fair compensation can deter private investment ⁵	High	The government, with ADB support since 2008, has automated business registration and reduced business licenses by 75%. ADB is also supporting transparency in public procurement, including completing all stages of public procurement online, obviating the need for any personal contact between the procuring entity and bidders. ADB, through the proposed program and attached TA, ⁶ is helping the government set up an institutional platform for resolving investment grievances to avoid litigation. ADB has previously supported full automation of the customs service with the fully unified automated information system, which has improved the efficiency and transparency of customs services. Automation of tax filing and receipts, and introduction of risk-based inspections, should help reduce opportunities for unofficial payments.
Overall	High	

ADB = Asian Development Bank, EEU = Eurasian Economic Union, EU = European Union, FDI = foreign direct investment, FMIS = financial management information system, IFC = International Finance Corporation, IMF = International Monetary Fund, MOF = Ministry of Finance, PFM = public financial management, PPP = public-private partnerships, TA = technical assistance.

Source: Asian Development Bank.

³ Footnote 1.

⁴ ADB. 2012. *Technical Assistance to the Kyrgyz Republic for Implementing the e-Procurement System*. Manila. (TA 8297-KGZ).

⁵ The Kyrgyz Republic currently has nine investment dispute cases in international courts with a possible payout of more than \$1 billion should the verdicts be against the country (December 2014. Kyrgyz Republic Information Agency Tazabek. Interview with the deputy director of the Center for Judicial Representation under the Government of the Kyrgyz Republic). The government is continuing talks with Centerra Gold on restructuring the Kumtor project. Centerra owns 100% of the Kumtor gold mine through its wholly owned subsidiary Kumtor Gold. However, in the continuing uncertainty around the (future of) the Kumtor project, the Supreme Court of Ontario froze 6.5 million shares in the Kyrgyz Republic Centerra Gold in relation to the ruling by the International Arbitration Court in Paris in October 2014, which requires the Government of the Kyrgyz Republic to pay \$16.5 million for nationalization of Manas Bank in 2010.

⁶ Footnote 1.