

PROGRAMMATIC APPROACH CONCEPT

1. The programmatic approach of the Second Investment Climate Improvement Program comprises three subprograms to be implemented during July 2014–June 2018. Subprogram 1 is being implemented during July 2014–June 2015, subprogram 2 is expected to be implemented during July 2015–October 2017, and subprogram 3 is expected to be implemented during July 2017– October 2018.
2. The Second Investment Climate Improvement Program will deliver four outputs: (i) financial deepening and access to finance increased, (ii) comprehensive public–private partnership (PPP) program fostered, (iii) trade and investment diversification facilitated, and (iv) transparency and efficiency of doing business increased.
3. The four outputs will be delivered through a set of policy actions appropriately sequenced over subprograms 1, 2, and 3, with each subprogram advancing the progress made in the preceding subprogram(s). The policy actions are presented in the policy matrix (Appendix 4 of the report and recommendation of the President). The policy actions for subprogram 1 have been fulfilled before board approval. The policy actions for subprograms 2 and 3 are indicative and may be revised to ensure consistency. Subprograms 2 and 3 will be submitted for Asian Development Bank (ADB) board consideration upon completion of their respective policy actions.
4. The targets and indicators for each output and the overall impact will be tracked through the program design and monitoring framework (Appendix 1 of the report and recommendation of the President of each subprogram), supplemented with summary interim progress reports.
5. The programmatic approach has been designed with a results orientation, with upstream reforms followed by downstream effective implementation and monitoring. This will help mitigate risks and ensure that the budget support is used for the intended purposes, and value for money is achieved.
6. Subprograms 2 and 3 under each output will advance the progress made under the respective subprogram 1 as follows:
7. **Output 1: Financial deepening and access to finance increased.** The objective of this output is to increase access to finance. The mechanisms will include reducing the risks of lending to small and medium-sized enterprises (SMEs) and expanding the range of financial products through (i) risk-sharing mechanisms, particularly for SMEs owned and/or managed by women; (ii) Islamic finance; and (iii) the development of a commodities exchange. Mechanisms will also include the structured development of mobile financial services and strengthening microfinance sector supervision to ensure sound growth of the sector, including the possibility of allowing deposit-taking microfinance organizations.
8. Building systematically on the progress made in subprogram 1, subprograms 2 and 3 will continue supporting the development of mobile financial services, as the National Bank of the Kyrgyz Republic (NBKR) will implement priority recommendations of the technical and organizational capacity assessment of the national payment system operator. The NBKR will also increase payment system efficiency by requiring the banking industry to move from deferred to real time net settlement, broadening participants in the retail payment system, and increasing transaction switching and access point infrastructure. The NBKR will also (i) implement new regulations for e-money, payment system operators, and remote delivery of

financial services; (ii) implement a communication plan to increase consumer financial literacy and industry knowledge of e-payments and mobile financial services, as well as of Islamic finance and related financial products; and (iii) monitor progress in implementing the payments systems development strategic plan. Based on the agreed concept papers, the government will approve the legal framework and funding to implement the risk-sharing facility for SMEs owned and/or managed by women, and establish the commodities exchange, as well as piloting one of the value chains prioritized under the national Export Development Program (EDP).¹ An assessment of the demand for Islamic finance and regulatory gaps in the existing framework will be completed, and necessary legal amendments adopted. The NBKR will implement risk-based supervision of microfinance organizations and will assess the need for, and suitability of, legal changes to facilitate deposit-taking by microfinance organizations (the majority of whose clients are women).

9. Output 2: Comprehensive public–private partnership program fostered. The objective of this output is to improve the enabling environment for PPPs, including through necessary government financial support mechanisms, and build greater government operational knowledge and capacity. The legal and regulatory framework will be strengthened through amendments, as suggested by the review of the PPP Law (undertaken in October 2013). Rigorous and well-documented PPP project preparation, appraisal, and approval processes and supporting toolkits will be developed. Investment programming and public financial management of PPPs, i.e., fiscal risk assessment and management, will also be supported. Government capacity will be built through learning by doing on pilot projects for each stage in the PPP project development and implementation process. Pilot PPP projects will be used to test the robustness of the enabling framework.

10. Subprograms 2 and 3 will build on subprogram 1. The operational capacity of the government will be further strengthened by increasing the pipeline of projects on which PPP staff of the Ministry of Economy, Ministry of Finance, and various line ministries can work. PPP staffing in key ministries and the PPP Unit will need to be sustained or increased, so that the project pipeline can continue to grow and government capacity continue to be enhanced. Using pilot project experience, revision, adoption and implementation of key legal documents will continue to address enabling environment gaps. The PPP manual will be developed and approved, including toolkits, guidelines (covering social, gender, and climate risk assessments), and model documents for project preparation and implementation. Disclosure of information in budget documents on guarantees or other forms of financial support will increase the budget transparency of PPPs. Regulations will be approved to limit government payments for PPPs, based on a carefully assessed benchmark. Sector strategies inclusive of potential PPPs will be developed and approved for the roads sector and the City of Bishkek. The Central Asia Regional Economic Cooperation Almaty–Bishkek Corridor Initiative may offer PPP opportunities following Eurasian Economic Union accession.

11. Output 3: Trade and investment diversification facilitated. The objective of this output is to effectively implement the country's liberal trade and investment policies. Policy reforms will be complemented by appropriate institutional support, including under the four key areas identified in the national EDP: trade information and promotion, access to finance, national quality (assurance) infrastructure, and trade facilitation infrastructure.² Since trade and investment facilitation also require a more service-oriented approach, this output will also cover

¹ The EDP outlines the country's export strategy and specific courses of action to implement it. It also takes into account the implications for the Kyrgyz Republic of joining the Eurasian Economic Union.

² See footnote 1.

market intelligence to exporters on new markets, worker skills development to meet the current and future requirements of the private sector, and appropriate trade finance products and financial services for SMEs. An investment grievance redress mechanism will be established, based on international good practice. A sovereign credit rating will be obtained to enable prospective lenders and investors to assess and price country risk.³

12. Subprograms 2 and 3 will approve the modernization strategy for national quality (product assurance) infrastructure to implement the EDP. The Eurasian Economic Union help desk will start running, with a dedicated website. The official Generalized System of Preference Plus (GSP+) application will be submitted to the European Union and the technical requirements of the application will be implemented. To comply with its World Trade Organization (WTO) obligations, the Kyrgyz Republic will start negotiations on tariff changes and/or compensation with individual WTO members and will implement the agreements reached. To access new markets, expand trade, and attract foreign direct investment, WTO commitments including trade facilitation and sanitary and phyto-sanitary agreements and related World Customs Organization initiatives such as the Revised Kyoto Convention will be implemented.⁴ Institutional restructuring (merging export and investment promotion into one agency) will be undertaken if warranted, based on the experiences of similar size economies looking to diversity trade and investment, and on feedback from current and potential foreign investors. An effective investment grievance redress mechanism will be established and steps will be taken to improve the sovereign rating. Modifications to the Agency for Vocational Education's training and curriculum will be undertaken based on the market skills requirements identified by the Investment Promotion Agency, to enable market demand-linked internships for students.

13. **Output 4: Transparency and efficiency of doing business increased.** The objective of this output is to increase transparency and reduce corruption, and to further reduce the costs of doing business. Subprograms 2 and 3 will make it mandatory for all government entities to use e-procurement. Sustainability of the e-procurement system after the end of ADB technical assistance in December 2015 will be ensured through annual budget allocation or other suitable financing arrangements. The State Tax Service Development Strategy (2015–2017) will be approved and taxation procedures for businesses will be streamlined, including through further automation and enhancement of the tax administration system, in line with the development strategy.

³ The rating will help undertake reforms needed to improve the country's risk, and open up the possibility for the country to increase access to international capital markets.

⁴ A more robust and fully deployed single window facility is being supported under the CAREC project. ADB. 2013. *Central Asia Regional Economic Cooperation Regional Improvement of Border Services (RIBS) Project* (46124-001). Manila