



Report and Recommendation of the President to the Board of Directors

Project Number: 41544-091
November 2017

Proposed Policy-Based Grant for Subprogram 3 Kyrgyz Republic: Second Investment Climate Improvement Program

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CURRENCY EQUIVALENTS

(as of 2 November 2017)

Currency unit	–	som (Som)
Som1.00	=	\$0.01445
\$1.00	=	Som69.1927

ABBREVIATIONS

ADB	–	Asian Development Bank
EEU	–	Eurasian Economic Union
EU	–	European Union
FDI	–	foreign direct investment
GDP	–	gross domestic product
GSP+	–	Generalized System of Preferences Plus
HACCP	–	hazard analysis and critical control points
IMF	–	International Monetary Fund
MOE	–	Ministry of Economy
MOF	–	Ministry of Finance
NBKR	–	National Bank of the Kyrgyz Republic
PPP	–	public–private partnership
SGF	–	State Guarantee Fund
SMEs	–	small and medium-sized enterprises
TVET	–	technical and vocational education and training

NOTE

In this report, "\$" refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 41544-091		
Project Name	Second Investment Climate Improvement Program (Subprogram 3)	Department /Division	CWRD/CWPF	
Country Borrower	Kyrgyz Republic Ministry of Finance	Executing Agency	Ministry of Economy	
2. Sector	Subsector(s)	ADB Financing (\$ million)		
✓ Finance	Finance sector development	6.00		
	Inclusive finance	3.00		
	Small and medium enterprise finance and leasing	3.00		
	Education	Technical and vocational education and training	2.00	
	Industry and trade	Small and medium enterprise development	2.00	
	Trade and services	3.00		
Public sector management	Public expenditure and fiscal management	6.00		
		Total	25.00	
3. Strategic Agenda	Subcomponents	Climate Change Information		
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low	
Regional integration (RCI)	Pillar 2: Trade and investment			
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 and SDG Targeting		Location Impact		
Geographic Targeting	No	Nation-wide	High	
Household Targeting	No			
SDG Targeting	Yes			
SDG Goals	SDG8			
6. Risk Categorization:	Low			
7. Safeguard Categorization	No Safeguards Categorization available.			
8. Financing				
Modality and Sources		Amount (\$ million)		
ADB		25.00		
Sovereign Programmatic Approach Policy-Based Lending (Grant): Asian Development Fund		25.00		
Cofinancing		0.00		
None		0.00		
Counterpart		0.00		
None		0.00		
Total		25.00		

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based grant to the Kyrgyz Republic for subprogram 3 of the Second Investment Climate Improvement Program.¹

2. The program aims to improve the private sector investment climate and help diversify the economy.² The program will accomplish this by supporting increasing access to finance for small and medium-sized enterprises (SMEs), enabling private participation in infrastructure, diversifying export products and markets, encouraging diversified foreign direct investment (FDI), improving skills to match market needs, increasing transparency in the government, and reducing the cost of doing business.³

II. THE PROGRAM

A. Rationale

3. Gross domestic product (GDP) growth in the Kyrgyz Republic slowed marginally to 3.8% in 2016 from 3.9% in 2015. Recovery of the gold sector, an increase in private consumption fueled by increased remittances resulting from easier access to the Eurasian Economic Union (EEU) labor markets,⁴ and government spending helped offset a slowdown in manufacturing, the spillover effect of the recession in the Russian Federation, and slower growth in the Republic of Kazakhstan. In 2016, overall exports increased by 4.8%—exports to EEU member countries increased by 4.3%,⁵ and exports to other main markets by 5.3%. Imports declined by 5.7%, mainly as a result of lower energy imports and weak domestic demand. The 2016 fiscal deficit increased to 4.5% of GDP from 3% in 2015, fueled by a shortfall in tax revenue. However, appreciation of the Som, restrained spending on nonpriority items, and the rephasing of externally financed investment projects limited the increase in the fiscal deficit. Public debt increased by \$300 million in 2016, with the ratio of public debt to GDP at about the legal threshold of 60% of GDP.⁶ The de-dollarization policy actions of the National Bank of the Kyrgyz Republic (NBKR) led to a sharp decline in dollarization levels. From 2015 to 2016, the proportion of deposits held in dollars declined by 15.7% to 56.2%, while the proportion of loans denominated in dollars fell by 12.2% to 44.1%. GDP growth is expected to slow slightly to 3.5% in 2017 before accelerating to 4.3% in 2018. However, slow growth is expected in regional economies⁷, and the Kyrgyz economy is expected to remain on a lower-growth trajectory because its links with these economies through remittances, trade, and foreign investment channels.

4. Since 2008, the Asian Development Bank (ADB) has been working with the government to support one of the key priorities of the country's National Sustainable Development Strategy,

¹ The design and monitoring framework is in Appendix 1.

² The proposed subprogram 3 is included in ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila and in ADB. 2016. *Country Operations Business Plan: Kyrgyz Republic, 2016–2018*. Manila. [Subprogram 1](#) was approved on 17 June 2015, and [Subprogram 2](#) on 29 July 2016.

³ The Asian Development Bank (ADB) provided transaction technical assistance for the [Second Investment Climate Improvement Program](#).

⁴ In 2016 remittances increased by 21.6% from 2015 levels, and totaled \$1.6 billion, but remain below pre-crisis levels. Remittances constituted about 30% of GDP in 2016.

⁵ In 2016, the share of exports to the EEU comprised about 26% of the country's total exports.

⁶ The legislation allowing the government to review the debt threshold level on an annual basis came into force in January 2017, effectively removing the administrative constraint for government debt to be capped at 60% of GDP.

⁷ European Bank for Reconstruction and Development. May 2017. [Regional Economic Prospects in EBRD Countries of Operations](#).

2013–2017, to decrease the country’s dependence on natural resource exploitation and migration-led remittances by improving the investment climate and supporting private sector development.⁸ Past and ongoing ADB assistance (footnote 2) has contributed to progress including growing private sector contributions to diversified and sustainable economic growth. Since investment climate improvement reforms are a process requiring continuous support,⁹ subprogram 3 of the Second Investment Climate Improvement Program (Second ICIP) focuses on the remaining policy and institutional reforms, as well as their implementation, necessary to (i) further expand access to financial services, (ii) improve physical infrastructure and services delivery, (iii) diversify trade and investment away from commodities, (iv) align workforce skills with the needs of employers, and (v) reduce corruption and the cost of doing business.

5. **Inadequate access to financial services.** The level of financial intermediation has improved significantly, with the share of loans to GDP increasing from 27.1% in 2015 to 38.9% in 2016. SMEs contributed about 40% of GDP in 2016,¹⁰ 13% of total exports in 2015, and about 19% of total employment in 2015. However, the use of suitable products and services by SMEs is constrained by high bank lending interest rates (with a weighted average of 18.2%, and 22.0% for Som-denominated loans) and high collateral requirements (120%–200% of the loan amount). This prevents SMEs from contributing to economic growth in the formal sector and creating diversified and high value-added jobs. To meet SME financing needs and reduce reliance on collateral-based lending, credit guarantee mechanisms should be expanded to increase access to bank financing. The failure of the banking sector to effectively capture remittances (footnote 4) reduces the size of the deposit base that could otherwise be used for long-term SME financing. Lending processes are underdeveloped, with a greater focus on collateral-based lending than on business cash flows. Access to finance for those who are underbanked— particularly women and rural and remote populations—is impaired by the weak payment infrastructure, including mobile banking, and low levels of financial literacy. The move to an e-economy and greater use of mobile financial services can lower the cost of financial intermediation and expand outreach to new customers (especially in rural areas), women, and marginalized groups, thus helping them to engage in productive economic activities. Addressing these issues can help increase funding opportunities for the private sector and broaden private sector access to finance.

6. **High infrastructure and service needs.** Substantial investments and expertise, particularly from the private sector, are needed to develop critical economic and social infrastructure and services to facilitate private sector activity. Progress has been made in developing the policy, legal and regulatory, institutional, and financial enabling environment for public–private partnerships (PPPs).¹¹ Further strengthening is needed to build an effective PPP program and crowd-in private sector expertise and investments. Dedicated financing for project preparation and advisory services, and improved knowledge and technical capacity of key government ministries and agencies will help prepare bankable projects and bring private sector participation, including through PPP transactions. The government needs to improve its capacity

⁸ Government of the Kyrgyz Republic, National Council for Sustainable Development of the Kyrgyz Republic. 2013. *National Sustainable Development Strategy for the Kyrgyz Republic 2013–2017*. Bishkek.

⁹ Sector Assessment (Summary): Multisector (accessible from the list of linked documents in Appendix 2).

¹⁰ SMEs are broadly distributed among the trade sector (26%), real estate sector (24%), transport and communications (9%), production sector (14%), construction sector (10%), and others (17%). As of the end of 2015, 795 of the 14,027 SMEs could be classified as medium-sized. In addition, there are more than 366,000 individual entrepreneurs and 400,700 peasant farms.

¹¹ ADB. Kyrgyz Republic. [Strengthening the Enabling Environment for Public–Private Partnerships](#). Achievements include the PPP law and regulations assigning roles for the Ministry of Economy (coordination), Ministry of Finance (risk management), and line ministries (project initiation and development); establishment of the Project Development Support Facility for project preparation advisory and structuring; and a pipeline of 13 projects. The technical assistance supports output 2 of the program.

to plan, regulate, execute, and oversee PPP projects; and increase private investor confidence through proper allocation of risk and reward incentives for investors, and by executing demonstration projects (footnote 12). Given the early stage of PPP market development in the country and the absence of long-term finance, continued government support through risk participation is needed to ensure the viability and affordability of PPP projects. Experience in well-developed markets indicates that at least 5 years is required to bring the first PPP projects to the market and reach contract awards.

7. Undiversified trade and investment. The country's trade and FDI policies support market openness, as indicated by the improvement in the trade-to-GDP ratio, from 95% in 2005 to 110% in 2015.¹² However, exports—which increased by 4.8% in 2016—remain concentrated, both with respect to destinations (with Switzerland accounting for 34.0%, Kazakhstan for 17.8%, the Russian Federation for 9.0%, and Uzbekistan for 8.1%) and product (gold and other minerals account for 34%). FDI is focused on a few capital-intensive investments in mining and energy, with minimal technology and skills transfer, or links with the local economy.¹³ Diversification of the export base and FDI, and realization of the intended benefits of EEU accession and the Generalized System of Preferences Plus (GSP+) trade privilege of the European Union (EU), require substantial improvements in customs infrastructure and logistics, infrastructure, and technical expertise.¹⁴ These improvements are critical to implement product standardization, metrology, and accreditation, and harmonization with the EEU. FDI expansion and diversification will also require addressing risks related to disputes with foreign investors. In most disputes between foreign investors and the government, the Kyrgyz judicial system fails to act as an independent arbiter.¹⁵ A transparent investor dispute resolution mechanism will provide for out-of-court settlements, thereby avoiding protracted and costly litigation, and renegotiation of contracts.

8. Industry–labor market skills mismatch. Potential employees lack the skills needed for employment in the private sector, particularly in the agri-industrial, energy, mining, transport and communications, tourism and services, and manufacturing and logistics sectors. A skilled workforce is needed to increase productivity and accelerate private sector development, and thereby expand opportunities for better-paid jobs and higher incomes. Industry sector skills councils have been operationalized to support better interaction between technical and vocational education and training (TVET) and the labor market. However, occupational standards and competence-based learning content need further improvement, as they are not streamlined and institutionalized to ensure that TVET curricula meet the needs of private enterprises.¹⁶

9. Weak governance and high cost of doing business. Real and perceived corruption remains a key obstacle for doing business. Public service delivery lacks transparency, accountability, and efficiency. The high costs of compliance with government regulations and high profit tax rates impair private sector development. The move to government e-procurement systems and tax administration reforms will help reduce compliance costs and provide incentives for formalization of businesses.

¹² United Nations Conference on Trade and Development. 2016. *Investment Policy Review: Kyrgyzstan*. Geneva.

¹³ In 2016, FDI was concentrated in manufacturing (31%) and power generation (15%), dwarfing mining (7%). The top investors were from the People's Republic of China, Canada, and the Russian Federation.

¹⁴ GSP+ is a trade privilege granted by the EU to a few countries to help diversify their economies. It eliminates or sets highly preferential tariffs for more than 7,000 product exports from these countries. The countries are required to ratify and implement international conventions on human and labor rights, environment, and good governance.

¹⁵ The country is a member of the (i) 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards since March 1997, and (ii) International Center for the Settlement of Investment Disputes since July 1997.

¹⁶ One of the key objectives of the Education Development Strategy 2012-2020 of the government is to ensure greater synergy between labor market needs and skills and vocational education and training. <http://www.globalpartnership.org/fr/download/file/fid/44406>.

10. **Government efforts.** The State Guarantee Fund (SGF) has been in operation since November 2016, and has leveraged Som125 million (\$1.1 million) in guarantees to provide Som520 million (\$5.5 million) in bank lending. Risk-based supervision of microfinance institutions is also helping reduce the risk of lending to SMEs. To reduce the share of cash circulating in the economy, all public sector salaries are paid through local payment cards. Social benefits payments through cards have increased from 9.3% (2015) to 13.0% (2016) and pensions payments through cards have increased from 38.4% (2015) to 43.0% (2016). SMEs receive tax incentives for using noncash transactions. The NBKR's strengthened regulations are increasing service offerings through electronic payment transactions, payment cards, ATMs, and point-of-sale terminals. As of the first quarter of 2017, the volume of payment card transactions totaled Som38 million, an increase of a 46.1% over the first quarter of 2016. More than 6.2 million payment card transactions had been executed as of 31 March 2017, an increase of 12.2% compared with the same period in 2016. Greater access to electronic payments tends to increase the number of transactions rather than the value of each transaction, indicating improving financial services for small transactions. Comprehensive PPP project development and transaction advisory and government financial support have resulted in 10 projects at various stages of preparation. Amendments to the Law on Investment have improved investor protection.

11. **Development coordination.** Key development partners are supporting government efforts to improve the investment climate and ADB's program is closely coordinated with development partners' interventions.¹⁷ The Extended Credit Facility of the International Monetary Fund (IMF) was approved in April 2015, and the combined fourth and fifth reviews is expected for consideration by the IMF Board in December 2017.¹⁸ The Facility supports fiscal and debt sustainability and finance sector stability. The World Bank supports reforms in public financial accounting and audit. The International Finance Corporation assists in improving the foreign investment policy and related laws, and agribusiness regulations, as well as providing PPP transaction advisory services. The United States Agency for International Development helps improve the competitiveness of textile, tourism, and construction sectors. The Japan International Cooperation Agency, European Bank for Reconstruction and Development, and German development cooperation through KfW and Deutsche Gesellschaft für Internationale Zusammenarbeit are supporting SMEs and private sector development, and PPPs.

12. **ADB value addition.** Continued ADB engagement has motivated the government to complete several ambitious reforms that it might not have undertaken otherwise. ADB advised the government to expedite the piloting of electronic and mobile financial services, in key government agencies which deal with public services. This is helping expand financial services to the currently underbanked (mainly the poor and women) and gradually reduced the size of the informal economy by increasing electronic and mobile transactions through the banks. ADB's technical advice on the establishment of the SGF and initial capitalization of \$1 million has enabled the government to channel its support for SMEs through the more effective SGF mechanism rather than as direct interest rate subsidies. The SGF mechanism has brought substantial value for money for the government—catalyzing nearly \$5.5 million in bank lending through \$1.1 million of guarantees. The success of the SGF has also resulted in the Russian—

¹⁷ Development Coordination (accessible from the list of linked documents in Appendix 2).

¹⁸ The Second Investment Climate Improvement Program has been coordinated closely with the IMF through discussions during missions as well as through the Kyrgyz resident mission. The IMF staff has completed its country visit for the combined fourth and fifth reviews under the Extended Credit Facility on 8 November 2017 and have reached an agreement with the authorities on the next steps, including the prior conditions for consideration of the reviews by the IMF Board in December 2017. The IMF is expected to disburse its fourth and fifth tranches after the pending conditions are met. The ADB program complements the IMF program which also stresses the need to further improve the country's investment climate.

Kyrgyz Development Fund agreeing in-principle to provide additional capitalization of approximately \$1.5 million. ADB's advisory on PPPs has helped the government develop its PPP policy, legal, institutional, and financial framework in line with international good practice and a pipeline of 15 projects, in addition to the first PPP contract awarded in August 2017.¹⁹ Continuous engagement and guidance has enabled the country to reap the benefits of the EU's GSP+ trade privilege (footnote 17) in a relatively short time—exports to the EU have increased by 53.4% (from \$20.1 million in 2015 to \$66.7 million in the first 11 months of 2016), and helped maintain its sovereign credit rating (B2 Stable) obtained from Moody's Investors Service in December 2015,²⁰ enabling investors and lenders to better price country risks and open avenues to diversify the country's funding sources.

13. **Lessons.** The key lessons from past interventions²¹—that activity-oriented policy actions and sustained engagement with the government yield substantive results—have been incorporated into subprogram 3. The implementation of the Investment Climate Improvement Program System Support Project has also shown that the procurement and project management capacities as well as internal control environments of executing and implementing agencies should be strengthened to ensure effective utilization of public resources (para 26).

14. **Alignment with ADB's strategy.** The overall program, including subprogram 3, is aligned with the country partnership strategy, 2013–2017 and the Strategy 2020 midterm review,²² and included in the country operations business plan, 2017–2019. The new government, elected in October 2017, also supports investment climate improvement reforms including support provided by ADB under the Second Investment Climate Improvement Program.

15. **Programmatic approach.** The Second ICIP is a programmatic approach with a results orientation. Upstream policy and institutional reforms are followed by downstream implementation. Four outputs are being delivered through a package of reforms phased over three subprograms in a manner that allows each subprogram to build on the progress of the previous one and incorporate changes as necessitated by the evolving economic environment. The approach helps ensure that the reforms are effectively implemented, and not confined to enactment of laws and regulations. Subprogram 3 builds on and complements the achievements under subprograms 1 and 2 (paras. 18–21).

B. Impact and Outcome

16. The impact will be increased private sector investment in the economy. The outcome will be an improved business and investment climate in the Kyrgyz Republic.

C. Outputs

17. Subprogram 3 continues the reforms under subprograms 1 and 2 in four output areas (paras. 18–21). All policy actions completed under subprograms 1 and 2 remain intact; the 15 subprogram 3 policy actions have helped the overall program make substantive achievements.

¹⁹ The contract is for the provision of hemodialysis services in Bishkek, Osh, and Jalal-Abad. The winning bidder is Fresenius Medical Care, Germany.

²⁰ The rating was B Stable from S&P Global Ratings.

²¹ ADB. 2015. *Completion Report: Investment Climate Improvement Program in the Kyrgyz Republic*. Manila, and subprograms 1 and 2 of the Second Investment Climate Improvement Program (footnote 2).

²² ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

18. **Output 1: Access to finance increased.** This output aims to increase access to finance by reducing the risks of lending to SMEs, and increasing the access of the underbanked to the formal financial system, including by increasing cashless payments. Subprograms 1 and 2 (i) approved the establishment of the SGF for SMEs; (ii) established the legal and regulatory framework for e-payments and mobile financial services; and (iii) established risk management and dispute resolution systems for e-payments and mobile financial services. Under subprogram 3, (i) the government (a) piloted the Internet Payment Gateway project to enable online (noncash) payments for key public services (State Registration Service, State Tax Service, State Service of Intellectual Property and Innovation, Mandatory Health Insurance Fund, Higher Attestation Commission of Kyrgyz Republic, and the State Communications Agency); and (b) operationalized the SGF, issuing 33 guarantees amounting to \$1.1 million and catalyzing \$5.5 million in bank lending for SMEs in priority sectors (exports and agriculture); and (ii) SGF management approved the SGF's medium-term business strategy (2017–2022), with targets for capitalization (Som1.9 billion) and guarantees issued (Som8.5 billion).

19. **Output 2: Public–private partnership program enhanced.** This output aims to support private sector participation in infrastructure and services by bringing bankable PPPs to the market, and gradually builds operational experience through pilot projects.²³ Subprograms 1 and 2 strengthened the PPP policy, legal and regulatory, institutional, and financial framework for developing the country's PPP program and market (footnote 12), including developing project selection criteria, templates for project concept notes, a model concession agreement, and guidelines for managing PPP fiscal risks and contingent liabilities. The government's operational experience is gradually being increased through pilot projects. Under subprogram 3, the

- (i) Ministry of Health signed a competitively tendered PPP agreement with the private sector for the implementation of the Hemodialysis Services Project in Bishkek, Osh, and Jalal-Abad (footnote 21);
- (ii) government approved the development strategy—Sports for Kyrgyzstan 2018–2022—and a multiyear investment plan of the State Agency for Youth Affairs, Physical Culture and submitted project concept notes to the Ministry of Economy (MOE) for the Modernization of Edelveis Sports Base Project and the Modernization of Small Sports Arena Project;
- (iii) Bishkek City Development Agency approved the city development strategy—Program on Economic and Social Development for 2017–2020—and a multiyear investment plan of the Bishkek City Development Agency and submitted project concept notes to MOE for the On-Street Parking Project and Development of Pre-school Organizations (Kindergartens) Project;
- (iv) government initiated commissioning prefeasibility studies for five projects—Uzgen Bypass Road Project (Ministry of Transport and Communication), Customs and Logistics Complex (State Customs Services), Public Transportation Project (Bishkek City Development Agency), On-street Municipal Parking Project; and Development of Pre-school Organizations (Kindergartens) Project; and
- (v) government, in line with PPP legislation, (a) allocated budget funds (including an exemption from taxes and other payments) to enable implementation of PPP projects on the request of the concerned public partner (ministry or agency); and (b) strengthened fiscal risk management of PPPs by limiting annual budget support for implementation of PPP projects to 0.3%–0.5% of the budget.

20. **Output 3: Trade and investment diversified.** This output aims to more effectively implement the country's largely open trade and investment policies. The focus is on dedicated

²³ Pilot projects are being developed in health, medical services, roads, tourism, and urban transport.

trade and investment facilitation services for Kyrgyz exporters and prospective foreign investors; developing national product quality infrastructure (standardization, metrology, and accreditation); addressing investors' grievances; and aligning workers' skills with market demand. Subprograms 1 and 2 helped (i) the country obtain the GSP+ (footnote 15), and its first sovereign credit rating; (ii) streamline export and investment facilitation under a single entity (the Investment Promotion Agency); (iii) prepare a draft process for addressing investor grievances; and (iv) introduce industry-reviewed TVET curricula in select institutes. Under subprogram 3, (i) the government modernized and operationalized three laboratories to enhance the potential for exports of high-value and value-added food products to the EU, and trained 30 officials from two key state bodies—sanitary epidemiological inspection and veterinary inspection—in hazard analysis and critical control points (HACCP); (ii) MOE approved two guidance manuals (one each for the apparel and agriculture sectors), which were piloted with at least one exporter from each sector; (iii) the government ratified the Trade Facilitation Agreement and operationalized the National Trade Facilitation Committee as per the requirements set out in this agreement; (iv) MOE approved the action plan to institutionalize an improved investor grievance mechanism, with improved procedures, for out-of-court settlement of investor disputes, and the Investment Promotion Agency resolved two investor-related grievances in its current portfolio; (v) the government obtained a sovereign credit rating update for 2017 from Moody's Investors Services, and made budget allocations for the 2018 and 2019 rating reviews; and (vi) the Agency for Vocational Education implemented market-oriented training modules in textile, agriculture and food processing, and manufacturing sectors and trained 100 students (for the academic year ending in May 2017) under the TVET institutes' internship program. This intervention is complementing ADB's proposed Skills for Inclusive Growth Sector Development Program which is aimed at strengthening technical and vocational education and training in the Kyrgyz Republic.

21. **Output 4: Transparency and ease of doing business increased.** This output aims to increase transparency in government procurement and ease of doing business by providing incentives to businesses to expand and join the formal economy. Subprograms 1 and 2 supported implementation of a government e-procurement system, reduction of the tax burden of businesses, and simplification of tax administration. Under subprogram 3, the government (i) allocated Som4 million in the 2017 annual budget to ensure continued utilization and maintenance of the e-procurement system, and allocated Som8 million to develop additional e-procurement modules; and (ii) further reduced tax administrative burdens on small businesses by (a) decreasing the single tax from 4% to 2% and 6% to 3% for SMEs making cashless payments, and (b) approving amendments to the Tax Code setting limitations for resolution of taxpayer grievances, and relaxing time limitations on the validity of tax patents.

D. Development Financing Needs

22. The overall program has three subprograms with an estimated funding requirement equivalent to \$70 million for 2015–2017. A grant of \$20 million disbursed in 2015 funded subprogram 1, while a loan and grant totaling \$25 million equivalent disbursed in 2016 funded subprogram 2. The government has requested a grant not exceeding \$25 million from ADB Special Funds resources (Asian Development Fund) to help finance subprogram 3 in 2017 (Appendix 3). Subprogram 3 funding will be disbursed in a single tranche upon completion, to ADB's satisfaction, of all the policy actions set out in the policy matrix (Appendix 4).²⁴

²⁴ ADB has agreed with the government to withhold \$407,960 from the subprogram 3 disbursement pending agreement between ADB and the government on the aggregate amount of acceptable expenditures financed under Grant0121-KGZ: Investment Climate Improvement Program System Support Project. Upon reaching such agreement, ADB will disburse the balance (if any) to the government before the grant closing date.

23. The size of subprogram 3 is based on the government's development financing needs, the nature of the required reforms, and the development impact. The 2017 development-related financing gap is about \$320.7 million, up 1% from 2016.²⁵ The fiscal deficit is projected at 4.7% of GDP in 2017. The gap will be met mainly by long-term loans from foreign sources (projected at \$109.9 million) and budget support expected from ADB (\$29.0 million), the World Bank (\$24.0 million), IMF (\$26.0 million), and EU and other development partners (\$37.9 million) (footnote 19). In addition, there is expected budget support of \$32 million from the Russian Federation. Revenues from proposed privatization (\$2 million) and government bonds will fill the remaining gap. ADB's subprogram 3 will help narrow the financing gap by about 7.8% in 2017. Budget support is necessary to finance part of the development financing needs projected for the period covering subprogram 3 (2016–2017).²⁶ Specific elements of the government's development expenditure program supported by counterpart funds of ADB's budget support include expenditures needed to (i) develop new infrastructure and rehabilitate existing assets, along with overall sector reforms to take advantage of private sector expertise and investments; and (ii) develop agriculture value chains, including product quality assurance infrastructure and related training and services, to capitalize on EEU market and the GSP+ trade privileges.

E. Implementation Arrangements

24. The executing agency (MOE) will oversee and coordinate timely implementation of the policy actions. The implementing agencies—MOE, the Ministry of Finance (MOF), and the NBKR—are responsible for completing their respective subprogram 3 policy actions. The government has effectively implemented reforms, including under the first Investment Climate Improvement Program (footnote 23), and policy-based programs with other development partners. Two technical assistance projects support subprogram 3 implementation.²⁷ All subprogram 3 policy actions were completed by 31 October 2017. The proceeds of the policy-based grant will be disbursed in accordance with the ADB *Loan Disbursement Handbook* (2017, as amended from time to time). Proceeds will be used to finance the foreign exchange cost of items, excluding items on the list of ineligible items and imports financed by other bilateral and multilateral sources.²⁸ Implementation is expected to be completed by 30 November 2017.

III. DUE DILIGENCE

A. Economic and Financial

25. The reforms supported by the program entail (i) short-term direct and indirect costs to the government to implement and monitor reforms, and (ii) fiscal benefits in the form of increased revenues from greater and diversified economic activities. Indirect costs are staff time and administrative expenses. Direct costs include the costs associated with capitalizing the SGF and implementing pilot Internet Payment Gateway in key government agencies; government funding to develop and implement infrastructure PPP projects and develop product quality certification infrastructure for trade; and sovereign ratings reviews. Key economic benefits will be (i) an increase in labor force participation by women in the formal economy as a result of broader access to e-payments for public services and digital financial services; (ii) expanded access to credit for the private sector through guarantee facilities, as well as an increase in the volume of money in the banking system; (iii) financial savings and efficiency gains from improved public investment

²⁵ Government of the Kyrgyz Republic, Ministry of Finance. 2016. *Budget Law*. Bishkek.

²⁶ Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

²⁷ ADB. 2016. *Minor Change in Scope: Second Investment Climate Improvement Program—Increase in TA Amount, Change in Implementation Arrangements, and Request for Extension of Completion Date*. Manila; and footnote 12.

²⁸ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

planning, execution, and leveraging of private sector finance, including PPPs, in priority social sector projects that impact women; (iv) more value-added jobs through effective implementation of trade and investment policies, including the development of critical skills to implement HACCP plans needed to link SMEs to global value chains; (v) greater formalization of the economy through easing of tax compliance and tax administration; (vi) greater investor confidence and higher investments; and (vii) improved cost efficiency from the government's expanded use of e-procurement. Higher expenditures are imperative, necessitating budget support (para. 22).

B. Governance

26. Public financial management risks are high.²⁹ Budget processes are being improved with multidonor support. Integration of the public procurement web portal with the automated information system *Kazna Budzhet* is enabling consistency of budgetary obligations to fiscal year appropriations. Since 1 January 2017, the central treasury is a direct participant in the interbank payment system, with the Unified Treasury Account functioning as the centralized account of all budgets. The World Bank supports strengthening the quality of audits and financial reporting capacity of state-owned enterprises.³⁰ Based on the lessons learned from implementing Grant0121-KGZ: Investment Climate Improvement Program System Support Project that supported the first Investment Climate Improvement Program, 2008–2012 (footnote 26), ADB and the government have also agreed on an action plan to strengthen the internal control environment and procurement and project management capacity of MOE, MOF and other concerned ministries and agencies. They have also agreed to implement the action plan within six months from the date of the grant agreement for subprogram 3. Streamlined tax regulations, lower tax rates, and the automation of tax filing (supported under output 4) are reducing the cost of compliance and rent-seeking opportunities of tax collection officials. The ADB Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MOE.

C. Poverty and Social

27. Better access to finance, diversified trade and investment, improved public infrastructure, and reduced costs of doing business will stimulate private sector activity. Growth and innovation in existing and emergence of new enterprises will create more and higher value-added jobs. Improved public infrastructure and services will directly benefit the poor and vulnerable, as will the expansion of mobile and e-payments. Subprogram 3, categorized *effective gender mainstreaming*, will address the insufficient representation of women in economic policy development and implementation, and unequal access to assets and resources. SMEs, including those owned or managed by women, will be supported by the SGF. In addition to financial services, dedicated business development support will be provided to these SMEs to help them capitalize on EEU and GSP+ export opportunities and become part of global value chains. Key implementing agencies under the program, including the MOE and MOF, are hiring women to ensure an appropriate gender balance in key technical positions, and to ensure women's participation in training in the new, expanding technical fields of PPPs and HACCP. Infrastructure PPP projects with positive poverty and gender impacts are being prioritized. The market-linked TVET programs will aim to provide 45% of jobs and internships to women. Reducing taxes and tax compliance requirements will encourage unregistered businesses, many of which are owned by women, to enter the formal economy.

²⁹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

³⁰ World Bank. Kyrgyz Republic. [Kyrgyz Audit and Financial Reporting Enhancement Project](#).

D. Safeguards

28. Subprogram 3 activities comprise only policy and institutional reforms and are unlikely to have adverse impacts on the environment, require involuntary resettlement, or affect indigenous peoples. Safeguards categorization for the environment, involuntary resettlement, and indigenous peoples are all C, in accordance with the ADB Safeguard Policy Statement (2009).

E. Risks and Mitigation Measures

29. Major risks and mitigation measures are summarized in the table and detailed in the risk assessment and risk management plan (footnote 31). The benefits and impacts of subprogram 3 are expected to outweigh the costs and mitigate risks.

Summary of Risks and Mitigation Measures

Risks	Mitigation Measures
Compliance requirements for EEU regulations could delay unrelated reforms and heighten the negative effects of slow growth in major trade and investment partners (Kazakhstan and the Russian Federation).	Some trade and investment diversification is being supported under the program, including through interventions to capitalize on the EU's GSP+ trade privilege (obtained in January 2016).
Weak public financial management systems adversely impact budget planning and execution, and transparency and accountability.	Budget processes, internal audit, and project management systems are being improved, and related institutional and human resource capacity is being strengthened with development partner support.
Weak internal rules and entrenched public procurement practices bear significant risks of fraud and abuse of funds.	A centralized public e-procurement system, in line with international standards, is operating in all state organizations. Annual budget allocations, starting in 2017 under the program, will support sustainability.
Corruption and weak implementation of laws—including breach of contractual obligations without fair compensation—could deter private investment.	The program is supporting electronic payments and mobile financial services, tax compliance reforms, and institutionalization of a mechanism for out-of-court settlement of investors' grievances.

EEU = Eurasian Economic Union, EU = European Union, GSP+ = Generalized System of Preferences Plus.
Source: Asian Development Bank.

IV. ASSURANCES

30. The government and MOE have assured ADB that implementation of subprogram 3 shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the grant agreement.

V. RECOMMENDATION

31. I am satisfied that the proposed policy-based grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the grant not exceeding \$25,000,000 to the Kyrgyz Republic from ADB's Special Funds resources (Asian Development Fund) for subprogram 3 of the Second Investment Climate Improvement Program, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Takehiko Nakao
President

27 November 2017

DESIGN AND MONITORING FRAMEWORK

Impact the Program is Aligned with			
Private sector investment in the economy increased ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Investment and business climate improved	<p>a. Banking sector lending to the private sector increased to 18.0% of GDP (2015–2019) (Baseline 2010–2014: 15.7%)</p> <p>b. At least one competitively tendered PPP project (with gender, social, and environment assessments) implemented by 2018 (Baseline 2014: 0)</p> <p>c. E-procurement implemented in at least 90% of central government agencies by 2018 (Baseline 2014: 1%)</p>	<p>a. NBKR annual report</p> <p>b. MOE (PPP unit) notification</p> <p>c. MOF notification</p>	Compliance requirements for EEU regulations delay non-EEU-related reforms and worsen the negative effects of slow growth in major trade and investment partners (Kazakhstan and the Russian Federation).
Outputs 1. Access to finance increased	<p>By October 2017:</p> <p>1a. Information Technology and Communications Committee of the government: (i) implemented the IPG project in the State Registration Service for online payments of public services (Baseline 2016: not implemented); (ii) rolled out the IPG to five key agencies (Baseline 2016: 0); and (iii) increased knowledge of at least 300 specialists (of which 50% are women) in IPG services (Baseline 2016: not implemented).</p> <p>1b. SGF, with at least 25% female technical staff (Baseline: 0), issued at least 33 guarantees for SMEs in priority sectors (exports and agriculture) at least 35% of which are owned and/or managed by women (Baseline: 0 in 2016).</p> <p>1c. SGF management approved the SGF's medium-term business strategy 2017–2022 (Baseline 2016: not approved).</p>	1a–1c. MOE program evidence of compliance report	
2. Public–private partnership program enhanced	<p>By October 2017:</p> <p>2a. (i) The government approved the development strategy “Sports for Kyrgyzstan 2018–2022” and multiyear investment plan of the State Agency for Youth Affairs, Physical Culture and Sports (Baseline 2016: not approved), and submitted to MOE project briefs for Modernization of Edelweis Sports Base Project and Modernization of Small Sports Arena Project (Baseline 2016: not submitted); and (ii) Bishkek City Development Agency approved the city development strategy “Program on Economic and Social Development for 2017–2020” and multiyear investment plan of the Bishkek City Development Agency (Baseline 2016: not approved), and submitted to MOE priority project briefs for the On-Street Parking Project and Development of Kindergartens Project (Baseline 2016: not submitted).</p>	2a–2d. MOE program evidence of compliance report	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>2b. The government: (i) allocated 100% of the funds requested by the concerned public partner (ministry), (including exemptions from taxes and other payments) for implementation of PPP projects (Baseline 2016: no allocation); and (ii) limited the annual budget support for PPP projects to 0.3%–0.5% of the annual budget (Baseline 2016: no budget limits imposed).</p> <p>2c. Prefeasibility studies, including those funded by the PDSF, for at least five additional projects^b commenced commissioning by the government, with at least two projects directly benefitting women and the poor (Baseline 2016: 2).</p> <p>2d. The Ministry of Health signed a competitively tendered PPP contract with the private sector for the Hemodialysis Services Project in Bishkek, Osh, and Jalalabad (Baseline 2016: not signed)</p>		
3. Trade and investment diversified	<p>By October 2017:</p> <p>3a. MOE: (i) approved a guidance manual each for the apparel and agriculture sectors (in which women are predominantly employed) (Baseline 2016: 0); and (ii) piloted the guidance manuals with at least one apparel and one agriculture exporter (Baseline 2016: 0).</p> <p>3b. The government: (i) modernized and operationalized three laboratories (Baseline 2016: not operationalized); and (ii) increased skills of at least 30 officials (including 20% women) from two key state bodies—sanitary epidemiological inspection and veterinary inspection—in HACCP (Baseline 2016: 0).</p> <p>3c. Government ratified the TFA and operationalized the National Trade Facilitation Committee as per the TFA requirements (Baseline 2016: not ratified).</p> <p>3d. MOE: (i) approved the plan of action to institutionalize an improved IGM for out-of-court investor dispute settlement (Baseline 2016: not approved); and (ii) resolved at least two investor-related grievance cases in its current portfolio (Baseline 2016: 0)</p> <p>3e. Government: (i) commissioned and obtained from Moody's Investor Services its SCR update for 2017; and (ii) made budget allocations for rating reviews in 2018 and 2019 (Baseline 2016: first SCR update or review).</p> <p>3f. AVE, in coordination with IPA (i) developed with TVET institutes and export industries, market-oriented training modules in at least three skills each from the textile, agriculture and food processing, and manufacturing sectors; and (ii) increased the skills of at least 100 students (including at least 45% women) for the September 2016–May 2017</p>	3a–3f. MOE program evidence of compliance report	Corruption and weak implementation of related laws deter trade and private investment.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	academic year under the internship program of the TVET institutes.		
4. Transparency and ease of doing business increased	<p>By October 2017:</p> <p>4a. The government allocated (i) Som4 million in the 2017 annual budget to ensure continued use and maintenance of the e-procurement system (Baseline 2016: 0); and (ii) at least Som8 million to develop additional e-procurement modules (Baseline 2016: 0).</p> <p>4b. The government: (i) decreased the single tax for SMEs (35% of which are owned or managed by women) making cashless payments from 4% to 2% and 6% to 3% (depending on the type of activity) and (ii) approved amendments to the Tax Code (a) to set time limitations for resolution of taxpayer grievances, and (b) to relax the time limitations on the validity of voluntary tax patents.</p>	4a–4b. MOE program evidence of compliance report	
Key Activities with Milestones			
Not applicable.			
Inputs			
ADB: \$25 million grant for subprogram 3 from ADF.			
Assumptions for Partner Financing			
Not applicable.			

ADB = Asian Development Bank, ADF = Asian Development Fund, AVE = Agency for Vocational Education, EEU = Eurasian Economic Union, EU = European Union, GDP = gross domestic product, HACCP = hazard analysis and critical control points, IGM = Investor Grievance Mechanism, IPA = Investment Promotion Agency, IPC = Interbank Processing Center, IPG = Internet Payment Gateway, MOE = Ministry of Economy, MOF = Ministry of Finance, MOH = Ministry of Health, NBKR = National Bank of the Kyrgyz Republic, PDSF = Project Development Support Facility, PPP = public–private partnership, SCR = sovereign credit rating, SGF = State Guarantee Fund, SMEs = small and medium-sized enterprises, TFA = Trade Facilitation Agreement, TVET = technical and vocational education and training.

^a Government of the Kyrgyz Republic, 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; and Government of the Kyrgyz Republic, Ministry of Economy. 2015. *Private Sector Development Program 2015–2017*. Bishkek.

^b The five additional projects will be chosen from among the following projects (i) Uzgen Bypass Road Project, (ii) Angiography project, (iii) Solid Waste Management Project, (iv) Customs and Logistics Complex Project, (v) On-street Parking Project, (vi) Public Transportation Project, and (vii) Development of Pre-school Organizations (Kindergartens) Project

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=41544-091-3>

1. Grant Agreement
2. Sector Assessment (Summary): Multisector
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter¹
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items

Supplementary Documents

10. Program Impact Assessment
11. Summary of Achievements under the Investment Climate Improvement Program (2008–2014)

¹ The International Monetary Fund mission visited Bishkek from 5 to 18 April 2017 to conduct the fourth review under the Extended Credit Facility and hold the 2017 Article IV Consultation.

DEVELOPMENT POLICY LETTER

КЫРГЫЗ
РЕСПУБЛИКАСЫНЫН
ПРЕМЬЕР-МИНИСТРИ



ПРЕМЬЕР-МИНИСТР
КЫРГЫЗСКОЙ
РЕСПУБЛИКИ

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2017-ж.г. «17» 10

№17-94461

4-ж.г. «17»

Mr. Takehiko Nakao
President
Asian Development Bank
Manila, Philippines

Subject: Development Policy Letter for the Second Investment Climate Improvement Program, Subprogram 3

Dear President Takehiko Nakao,

First of all, on behalf of the Government Kyrgyz Republic (Government) let me express our gratitude to the Asian Development Bank (ADB) for its continuous support to social and economic development and investment climate improvement of the country.

This letters explains the most recent and expected economic changes in the Kyrgyz Republic, provides information on reforms aimed at improvement of business and investment climate that are currently being implemented by the Government, on support provided by development partners, and coordination of reforms in this area, and how the proposed Program eliminates factors constraining private sector development.

Thus, economic growth of the Kyrgyz Republic slowed marginally to 3.8 % in 2016 from 3.9 % in 2015 due to negative external impact from recession in the Russian Federation (0.6 % in 2016 and 3.7 % in 2015) and slower growth in Kazakhstan (0.8 % in 2016 and 1.2 % in 2015). The economy of the Kyrgyz Republic is linked significantly to economies of two countries due to trade, remittances, and investments flows. Economic growth is projected at 3.5 % in 2017, and budget deficit at 4.7 % of GDP in 2017, and 4.2 % in 2018.

The Kyrgyz Republic achieved significant progress in implementation of political, legal and institutional reforms aimed at business and investment climate improvement to facilitate private sector development.

As stated in the National Sustainable Development Strategy 2013-2017 of Kyrgyz Republic (NSDS), the Government of Kyrgyz Republic sets a task of creating stable society and improvement of living standards by sustainable economic growth, favorable business environment, and enhancing rule of law. Particularly,

economic growth through private sector development was identified as a major prerequisite for national sovereignty and security. To achieve those objectives, one of priorities of NSDS was improvement of business environment and securing favorable conditions for private sector development. Thus, Private Sector Development Program was approved by the Government on March 18, 2015. This Program reflects vision of the Government on reforms for private sector development and creates a unified platform for partners' support.

The Government of the Kyrgyz Republic accords high priority to this issue and undertakes various measures to encourage investment flows and private sector development. Partnership with ADB under Investment Climate Improvement Program (2008-2017), complemented by other development partners, helped to reduce some binding constraints to private sector development.

Liberalization of investment regime and foreign trade policy through reducing binding administrative constraints and barriers for investors, legislation improvement and simplification of domestic and foreign trade regimes continue to be strategic priorities for the Government. In recent years, the Government enhanced legal framework for investment activity due to amendments in investment, tax, and other legislation. Amendments to the Law of the Kyrgyz Republic «On Investments» provide for protection of investors against risks caused by changes in legislation of the Kyrgyz Republic. Progressive reforms on reduction of administrative barriers to facilitate economic activity are ongoing. The number of permits and licenses decreased from 518 to 100; and the number of controlling bodies reduced from 21 to 10.

Fiscal reforms enabled the most liberal tax regime in the region. Corporate income tax rate is 10 %, personal income tax is 10 %, and VAT is 12 %. These reforms improved ranking of the Kyrgyz Republic in various international rating systems.

In addition, to attract investors, assess creditworthiness of the country, and improve country's image globally, in 2015 the Kyrgyz Republic obtained sovereign credit rating of «B2» «Stable» for the first time, and in 2016 it was confirmed by Moody's rating agency.

In comparison with 2015, foreign direct investments decreased by 48.3 % in 2016. The decrease is, firstly, due to establishment of the Kyrgyz-Russian Development Fund in 2015 (with authorized capital \$500 million); and secondly, due to big investment projects in mining, manufacturing and electricity supply.

The Government of the Kyrgyz Republic will continue to make all efforts to secure sustainability of public investment policy under the Government Program «Jany Doorgo Kyrk Kadam» (Forty Steps Towards Prosperity) for 2018-2023. This Program is the first and crucial step of Development Strategy of the Kyrgyz Republic till 2040. This Program will be phased. It is planned to address priority issues which are of concern to the population:

- reduce of unemployment level and creation of new jobs;
- ensure economic wellbeing and increase business independence;
- eliminate to maximum direct contacts between citizens, business and state;
- construct modern and accessible infrastructure, including transport, social, irrigation, and digital;
- develop regions and ensure addressing socio-economic problems at local level;
- ensure security and comfort in cities, towns, villages, and other settlements;
- eradicate corruption and introduce modern digital technologies;
- and ensure social security and decent life standards.

Under the «Jany Doorgo Kyrk Kadam» program, creation of «investment paradise» anticipates reforms of investment legislation securing preferential conditions for investors and protecting property and investments during implementation of investment projects. In addition, legislation on public-private partnerships will be improved based on gained experience of implementing projects, to simplify requirements and create favorable conditions to attract investments.

On August 12, 2015, the Kyrgyz Republic became full member of the Eurasian Economic Union (EEU), which has various important consequences for economy of the country. Long term development and poverty reduction will depend on capacity of the Kyrgyz Republic to foster private sector development, and export promotion to EEU markets.

Accession to EEU enabled Kyrgyz producers with a possibility to enter much bigger markets, and necessitating investment climate reform to ensure Kyrgyz producers can compete globally. This is a long-term transition from economy heavily dependent on gold production and remittances to a competitive economy integrated into regional and global trade networks.

On one hand, this transition will require compliance with quality standards, customs and border control rules, and other measures securing the flow of goods. Economic policy, legal and regulatory acts, general legal framework of the Kyrgyz Republic should correlate with those of EEU countries. Potential economic and social impacts of joining EEU should be minimized. On the other hand, economic recession in the region, in particular in the Russian Federation, urges us to diversify exports and investments. In this regard, our state policy is complemented by relevant Institutional support, including four key areas: trade promotion, access to finance, national quality infrastructure, and simplification of trade procedures, given EEU accession.

The Government, recognizing importance of exports for economic development of the country, and to improve quality and efficiency of functions of export promotion, increase export potential and competitiveness of domestic

producers, took a decision to enhance the status and reorganized the Agency on Investment Promotion into the State Agency on Investment and Exports Promotion under the Ministry of Economy of the Kyrgyz Republic.

In addition to EEU accession measures, the Kyrgyz Republic also fulfills its obligations with World Trade Organization (WTO) and World Custom Organization (WCO). We are moving forward in meeting requirements of WTO agreement on trade procedure simplification and harmonization. The agreement in many aspects correlates with the revised International Convention of the World Custom Organization on customs procedures harmonization as part of the revised Kyoto Convention (KC). Joining KC and implementing provisions of WTO on trade facilitation are being conducted concurrently. Meeting requirements of Sanitary and Phyto-sanitary Agreement of WTO is crucial for agri-industrial sector of the Kyrgyz Republic as it facilitates entering new markets, improves perspectives to attract foreign direct investments, and helps to diversify Kyrgyz economy. With assistance of ADB and other development partners, we are achieving progress.

As part of Subprogram 3 on investment climate improvement the Government will continue to address political and institutional constraints for development of private sector and medium and small enterprises (SMEs) by: addressing and improving access to financial services, developing and improving physical infrastructure, and services, aligning workers' skills with market demand, combating and reducing corruption and costs of doing business. These intersectoral and systemic reforms are decisive for achieving objectives of the National Sustainable Development Strategy 2013-2017 (NSDS) and for decreasing Kyrgyz economy's heavy dependence on gold production and remittances.

Access to Finance: While implementing the Second Investment Climate Improvement Program, the Government developed a concept of risk sharing and set up the Guarantee Fund for SMEs; laws and regulations for online payments and mobile financial services, and prepared Strategic Plan for Retail Payments, including regulatory supervision.

The Guarantee Fund was established in June 2016 with support from ADB under Subprogram 2 of the Second Investment Climate Improvement Program, to provide assistance to SMEs to resolve the problem of shortage of long-term and affordable loans. Currently, the authorized capital of Joint Stock Company "Guarantee Fund" is 282 million KGS, and its equity capital is 293 million KGS.

In 2017 the Guarantee Fund approved 157 guarantees in the amount of 172 million KGS, thus enabling SMEs to receive loans in the amount of 697 million KGS. We should also note the social and economic effect of this activity: 500 new jobs were created, and more than 1,000 existing jobs were supported.

The Guarantee Fund will continue to develop guarantee fund system to fully satisfy needs of SMEs for loans and other financial resources, increase the volumes of guarantees in accordance with financial market growth in the Kyrgyz Republic. In

addition, the Guarantee Fund works on improvement of entrepreneurship culture by conducting seminars to increase financial literacy, also it provides consulting services on business planning for entrepreneurs in real sector of economy, and facilitates attraction of financial resources from financial institutions in the form of loans and grants.

Public Private Partnerships: The Government, building on initial experience of PPP integration, actively pursues further implementation of this mechanism in the country. Thus, the Government expects the inflow of investments through concentration of material and physical resources of the state and private sector for implementation of investment-infrastructure projects in medicine, urban development, transport, customs, education, solid waste management, and other areas within public-private partnerships.

The purpose of further reforms is development of effective platform for collaboration of public and private sectors to attract partners from both sectors to design, finance, construct, rehabilitate, and reconstruct facilities, as well as to manage existing or newly constructed facilities and infrastructure.

Under Subprogram 3, while implementing PPP development Program for 2016-2020, the Government created a comprehensive legal and regulatory, institutional and financial framework for further PPP development. Thus, in 2017, PPP sections are included in new strategic programs on socio-economic development of Bishkek city, and in the National program on Physical Education and Sports Development in the Kyrgyz Republic.

To support development of PPP projects and performance of Project Development Support Facility (PDSF), the Government in 2016-2017 allocated \$1,4 million for 8 projects. Now tenders are being conducted, and the winners will be identified.

To build capacity of key government institutions and enlarge our portfolio of PPP projects in the country, the Government in 2017 conducted a series of trainings on initiation of PPP projects for senior officials of central government bodies, municipal authorities in Bishkek and Osh; and supported coverage of PPP mechanisms in mass media to increase public awareness.

One of the most significant events was signing in August 2017 of the first Agreement on PPP for “Hemodialysis Services in Bishkek, Osh, and Jalal-Abad cities” project. Signing of Agreements on other PPP projects is expected in the following years.

Trade and investment diversification: In general, investment policy and open trade policy have still to be implemented in full. Export is concentrated on several markets. Foreign trade turnover with Eurasian Economic Union (EEU) countries reached \$1,962,6 million in 2016, it decreased by 20.7 %. It should be noted that such a decline occurred due to import decline by 25.2 %, whereas exports

growth was 4.3 %. In total exports volume to EEU countries, the share of exports to Russia is 33.3 %, that of Kazakhstan is 66 %.

Foreign trade turnover with other countries reached \$3,501.0 million; it increased by 10.7 %; including exports of \$1,126.6 million (growth 5.0 %); imports reached \$2,374.4 million (growth 13.7 %). Gold constitutes almost 45.4 % of total value of export (gold ratio vs general export ration for 2016).

In January–July 2017, exports of the Kyrgyz Republic reached \$950.5 million (28.5 % of total trade turnover). It increased by 27 % compared to the similar period in 2016.

In January–July 2017, imports of the Kyrgyz Republic reached \$2390.1 million (71.5 % of total trade turnover). It increased by 8.7 % compared to the similar period in 2016.

As the National Export Development Plan for 2015-2017 comes to its end, the Government is in the process of developing the National Export Development Strategy for 2018-2023.

To expand export possibilities, the relevant authorities work on raising awareness of SMEs regarding exports: distribute analytical information, users' manuals 'how to enter external markets', information on existing tendencies in various external markets, lists of permits required to conduct exports operations; support to international quality systems, including introduction of HACCP («Hazard Analysis and Critical Control Points») system.

At the same time, relevant authorities assist potential exporters to enter external markets by organizing business missions, inviting potential exporters to participate in international and interregional fairs and exhibitions and meetings in B2B format.

Transparency and ease of doing business increased. The objectives of reforms in this field are to increase transparency of public administration. Under Subprogram 2, the Government introduced E-procurement system in all central government ministries and agencies; approved amendments to legislation thus reducing frequency of filing tax returns [declarations] by SMEs. To protect the rights of entrepreneurs and to exclude potential corruption mechanisms, the Law of the Kyrgyz Republic was adopted "On Amendments and Additions to the Law of the Kyrgyz Republic "On Procedure for Conducting Inspections of Entrepreneurship Entities" dated 14.04.2016, No. 41, which provides for the following:

- to relieve new entrepreneurs from inspections for 3 years;
- to reduce by half the frequency of inspections of entrepreneurs by sanitary epidemiological inspection;
- state control bodies are not entitled to carry out unscheduled inspections without supporting information and materials;
- the period of the control check was reduced to 1 day.

Risk criteria and checklists are introduced to enable state regulatory bodies determine the degree of risk of entities and, accordingly, frequency of inspections. The timeframe for inspections of legal entities was reduced from 30 to 15 working days, for small businesses - to 5 working days.

As a result of these measures, unjustified business inspections were reduced, and in 2016 the number of inspections was 19,985 and in comparison with the previous year the number of inspections reduced by 3,076 inspections or by 13 % (2,3061 inspections in 2015). At the same time, majority of inspections are scheduled inspections, which account for 93 % of all inspections, unscheduled inspections comprise 7 %.

One of the important steps for transition to e-Government and simplification of risk-based inspections, and for reduction of level of corruption schemes in the area of inspections of business entities is creation of a single portal www.proverka.gov.kg that allows to consolidate information on all kinds of inspections conducted by state control authorities.

Also, under Subprogram 3, the Government focuses on providing appropriate financial and technical resources to ensure sustainability of the e-procurement system, further reducing the costs of doing business for small and medium-sized enterprises by decreasing the single tax from 4 % and 6 % (depending on a type of business) to 2 % and 3 % respectively for SMEs making cashless payments, and approving amendments to the Tax Code setting limitations for resolution of taxpayers' grievances and relaxing the limitations on the number of days of the period for which a voluntary tax patent can be valid

Given that improving business and investment climate in the country requires systematic analysis and institutional reforms in sectors of economy, the Government of the Kyrgyz Republic will take all necessary measures to ensure coordination of development partners' efforts and effective use of resources.

Given the improvement of business and investment climate requires coherent policies and reforms in all sectors, the Government will provide coordination of efforts from different development partners and improve efficiency of resources utilization.

The Government of the Kyrgyz Republic assures the Asian Development Bank in its firm commitment to conduct reforms to ensure enabling conditions for private sector development. The Government highly appreciates the leading role of ADB and sustainable partnership with ADB aimed at improvement of business environment and investment climate in the Kyrgyz Republic. The Government counts on continuing the dialogue with ADB and earliest consideration of allocation of funds under Subprogram 3 of the Second Investment Climate Improvement Program.

In conclusion, I would like to express once again gratitude to the Asian Development Bank for its continued support of socio-economic development and improvement of investment climate in the Kyrgyz Republic.

Yours sincerely,

Sapar Isakov
Prime Minister
of the Kyrgyz Republic

A handwritten signature in blue ink, appearing to read 'S. Isakov', is positioned below the printed name and title.

POLICY MATRIX

Outputs	Subprogram 1 Policy Actions (Completed June 2015)	Subprogram 2 Policy Actions (Completed June 2016)	Subprogram 3 Indicative Actions (Completion by October 2017)
Output 1: Access to finance improved			
1.1 Support the structured development of electronic payments and mobile financial services	The government to establish an enabling legal environment for mobile financial services by approving the Payments System Law.	To enable use of innovative technologies including mobile financial services, National Bank of the Kyrgyz Republic (NBKR) to: (i) Establish Risk Management System, Internet Payment Gateway and dispute resolution system to improve the operations of the Interbank Processing Center (IPC); (ii) Approve the IPC business strategy 2016-2018; and (iii) Execute payment and money transfer services.	1.1.1 To commence mobile financial services, the Information Technology and Communications Committee of the Government to: (i) pilot the Internet Payment Gateway (IPG) in the State Registration Service for online payments of public services; and (ii) roll out the IPG to the State Tax Service, State Service of Intellectual Property and Innovation, Mandatory Health Insurance Fund, Higher Attestation Commission of Kyrgyz Republic, and the State Communications, and train 300 specialists (50% women) of these agencies/ organizations.
	NBKR to establish strategy and regulations for expanding the coverage of the payment system to retail transactions.	NBKR to establish regulations for e-money, operators of payment systems & the remote delivery of financial services to benefit the under banked (rural population, poor, women, & informal sector).	
		Government to carry out the State Program on Financial Literacy to increase bank customer awareness on the benefits costs and risks on the use of electronic payments and financial services.	
1.2 Reduce the risks of lending to SMEs	MOE to approve concept for business cases for (i) a risk-sharing facility to support SMEs, including women-owned and managed SMEs, with potential for growth in	Government to approve the establishment of a guarantee fund for SMEs with at least \$1 million capital allocated by the Republican Budget 2016, with at	1.2.1 Government to operationalize the State Guarantee Fund (GF) (with at least 25% female technical staff) by issuing 33 guarantees amounting to \$1.05 million catalyzing \$5.5 million in bank lending for

Outputs	Subprogram 1 Policy Actions (Completed June 2015)	Subprogram 2 Policy Actions (Completed June 2016)	Subprogram 3 Indicative Actions (Completion by October 2017)
	line with the national EDP; and (ii) a commodities exchange.	least 25% of the benefitting SMEs being women-owned or managed.	SMEs in priority sectors (exports and agriculture), at least 35% of which are women owned and/or managed.
			1.2.2 GF management to approve GF's medium-term business strategy (2017–2022) with targets for capitalization (Som 1.9 billion) and guarantees to be issued (Som 8.5 billion).
1.3 Strengthen prudential supervision and conditions for financial sector deepening	NBKR to strengthen risk-based supervision for the microfinance sector by approving an internal document through NBKR management on the roles, responsibilities, and coordination mechanisms for on-site and off-site supervision of the sector.		
Output 2: Public–private partnership program enhanced			
2.1 Strengthen policy, institutional, and legal framework	MOE to complete inter-ministerial review and submit for government approval, the PPP development program.	Government to execute the PPP Development program, including capacity building.	
		Government to recruit and deploy adequately skilled staff (at least 35% of whom are women) in relevant line ministries and/or agencies to develop PPP transactions.	
		Government to (i) amend Project Development Support Facility (PDSF) Regulations to expedite project preparatory and/or advisory funding for PPPs by the PDSF Steering Committee; and (ii) establish a PPP Council, headed by the Vice Prime Minister.	

Outputs	Subprogram 1 Policy Actions (Completed June 2015)	Subprogram 2 Policy Actions (Completed June 2016)	Subprogram 3 Indicative Actions (Completion by October 2017)
	MOH to develop a draft health sector strategy that includes PPP and multiyear investment plan, and includes at least one gender and social development project that directly benefits the poor, youth, and women.	Government to: (i) approve development strategies with multiyear investment plans (up to 2025) for the health and roads sectors; and (ii) submit at least one health sector and one road sector PPP project for PDSF funding.	2.1.1 (i) Government to approve development strategy “Sports for Kyrgyzstan 2018–2022” and multiyear investment plan of the State Agency for Youth Affairs, Physical Culture and Sports and submit to MOE project briefs for Modernization of Edelweis Sports Base Project and Modernization of Small Sports Arena Project. (ii) Bishkek City Development Agency to approve the city development strategy “Program on Economic and Social Development for 2017–2020” and multiyear investment plan of the Bishkek City Development Agency , and submit to MOE priority project briefs for On-Street Parking Project and Development of Pre-school Organizations (Kindergartens) Project.
	Government to submit for approval amendments to the PPP Law and its regulations.	Parliament to approve amendments to the PPP Law.	
	MOE to operationalize a (i) comprehensive PPP website; and (ii) PPP communication plan, to disseminate information and raise public and private sector awareness about PPPs for infrastructure and social projects that directly benefit the poor or women. ^b		
2.2 Establish Government Financial Support Mechanisms within Public Financial Management Framework	To ensure appropriate and transparent budgeting of fiscal costs of PPP projects and minimizing of fiscal risks, MOF to approve fiscal risk guidelines for PPPs (including guidance on contingent liabilities).		

Outputs	Subprogram 1 Policy Actions (Completed June 2015)	Subprogram 2 Policy Actions (Completed June 2016)	Subprogram 3 Indicative Actions (Completion by October 2017)
	To support commercial viability of PPP projects and enable availability of long-term financing for PPP projects, MOF to prepare and review the proposals of possible financial support schemes (such as a long-term debt facility, viability gap fund, and guarantee mechanisms).	Government to (i) include in the Draft Budget Code appropriate provisions for government financial support; and (ii) draft a plan and guidelines for long-term debt financing of PPP projects.	2.2.1 In line with the existing legislation, Government: (i) to allocate, on the request of the concerned public partner (ministry/ agency), budget funds (including exemptions from taxes and other payments) for implementation of PPP projects; and (ii) to strengthen fiscal risk management of PPPs by limiting the annual budget support for PPP projects to 0.3%–0.5% of the annual budget.
2.3 Operationalize the Project Development Support Facility to develop pipeline of PPP projects	Relevant government bodies to: (i) tender a PDSF financed prefeasibility or feasibility study for at least [1] PPP project, preferably a social sector project; and (ii) submit for approval by PDSF Committee, at least [2] projects for pre-feasibility or feasibility study financing from the PDSF (in addition to the CT scan project).	PDSF Steering Committee to approve PDSF funding for at least 6 projects and relevant line ministries and /or agencies to publish tenders. MOH to commission PDSF-funded transaction advisory contract for the Computer Tomography Scan (health) project.	2.3.1 Government to commence commissioning of prefeasibility studies, including those funded by the PDSF for at least 5 of the following 7 projects: (i) Uzgen Bypass Road Project (MOTC); (ii) Angiography Project (MOH); (iii) Solid Waste Management Project (City of Tokmok); (iv) Customs and Logistics Complex (State Customs Services) Project; (v) On-street Parking Project (Bishkek City); (vi) Public Transportation Project (Bishkek City Development Agency); and (vii) Development of Pre-school Organizations/ Kindergartens Project (Bishkek City Development Agency, with at least two projects (vi and vii) directly benefitting women and the poor. ^a 2.3.2 Ministry of Health to sign a competitively tendered PPP contract with the private sector to implement the Hemodialysis Services project in Bishkek, Osh and Jalalabad.

Outputs	Subprogram 1 Policy Actions (Completed June 2015)	Subprogram 2 Policy Actions (Completed June 2016)	Subprogram 3 Indicative Actions (Completion by October 2017)
Output 3: Trade and investment diversified			
3.1 Strengthen the policy and institutional framework for trade	<p>Prime Minister's Office to approve the revised national Export Development Program (EDP).</p> <p>MOE to prepare a draft project proposal, including organizational chart, operational plan, and budget, to establish a Eurasian Economic Union (EEU) Help Desk.</p>	Government to establish the Export Development Program (EDP) 2015–2017 monitoring and implementation secretariat and implement the EDP tracking system	
	To avail of the EU Generalized System of Preferences Plus (GSP+) status (granting preferential or zero tariffs for nearly 7,000 export products) MOE to submit application to EU.	Kyrgyz Republic to acquire the EU GSP+ trade privilege.	3.1.1 MOE to: (i) approve a guidance manual each for the apparel and agriculture sectors in which women are predominantly employed; and (ii) pilot such guidance manuals with at least one apparel and one agriculture exporter.
	To comply with product quality requirements for the EEU and export markets such as the EU, MOE to prepare and publish on its website, a draft concept paper on the modernization of national quality Infrastructure (NQI), incorporating ADB findings on the existing physical infrastructure and institutional capacity to implement sanitary and phytosanitary standards.	<p>Government to approve the Strategy ("Concept") for Modernization of National Quality Infrastructure (NQI) for Trade (incorporating EEU quality standards).</p> <p>MOE to identify at least [20] priority export sector oriented SMEs (at least 25% majority owned, managed or women employees) that can be linked to the Guarantee Fund for SMEs (to be established under 1.2.1).</p> <p>(i) Government to establish a working group chaired by MOE; and</p>	3.1.2 To enhance the potential for exports of high-value and value-added food products to the EU, Government to: (i) modernize and operationalize at least 3 laboratories; and (ii) increase skills in Hazard Analysis and Critical Control Points of at least 30 officials (of which 20% women) in two key state bodies – sanitary epidemiological inspection and veterinary inspection.

Outputs	Subprogram 1 Policy Actions (Completed June 2015)	Subprogram 2 Policy Actions (Completed June 2016)	Subprogram 3 Indicative Actions (Completion by October 2017)
		(ii) MOE to draft time bound action plan MOE to draft time bound action plan for trade expansion under GSP+.	
			3.1.3 Government to ratify the Trade Facilitation Agreement (TFA) and operationalize the National Trade Facilitation Committee as per the TFA requirements.
3.2 Strengthen the institutional framework for investment	IPA of MOE to implement its 2015–17 strategic plan, covering: (i) staffing with at least 30% women technical staff; (ii) operationalization of the website in Russian and English (providing information at least on investment laws and incentives, on the economy, and taxation and company registration); (iii) Operationalization of the customer relationship management system to manage the information flow with potential investors.	Government to mandate IPA as the single agency responsible for investment and export promotion, and adequately staff IPA (including with female professional staff).	
	Government to establish, with an action and budget plan, an interagency working committee, (having at least 1 senior level woman representative) headed by the Center for Judicial Representation (CJR) and including MOF, MFA, MOJ, MOE and other relevant government agencies, as the first step toward creating an institutional platform for resolution of investment grievances.	(i) Government to designate IPA to address investor grievances and establish a grievance redress mechanism; (ii) IPA to: - establish database registering all investor grievances; - draft process for out-of-court settlement of investor grievances; and - identify the required modifications of law and regulations.	3.2.1 MOE to: (i) issue an Order approving the action plan to institutionalize an improved (with improved procedures) Investor Grievance Mechanism for out-of-court investor dispute settlement; and (ii) IPA to resolve at least 2 investor-related grievances in its current portfolio.

Outputs	Subprogram 1 Policy Actions (Completed June 2015)	Subprogram 2 Policy Actions (Completed June 2016)	Subprogram 3 Indicative Actions (Completion by October 2017)
3.3 Sovereign Rating to encourage financial market development and international capital flows	MOE to sign a contract with one of the three international credit rating agencies (S&P, Moody's or Fitch) to start the sovereign rating process.	Government (MOE-MOF) to: (i) publish sovereign credit ratings assigned by Standard & Poor's and Moody's; (ii) commission and budget for annual sovereign ratings update by internationally recognized agencies, from 2016 onwards.	3.3.1 Government to: (i) commission and obtain from Moody's Investor Services its sovereign credit rating (SCR) update for 2017; and (ii) make budget allocations for rating review in 2018 and 2019.
3.1 Support the development of market-based skills for SMEs	To ensure matching of skills and vocational training to the needs of local exporters as well as foreign investors, MOE to: (i) Designate the IPA as its representative on the National Skills Development Council of the AVE; and (ii) Sign an MOU with AVE to collaborate on the identification of market-relevant skills and the development of market-responsive vocational skills training and curriculum, including vocational skills aimed at attracting more women into traditional male occupations.	Agency for Vocational Education (AVE) to: (i) set occupational standards for at least one skill each from the three priority occupations identified by IPA; (ii) ensure relevant Sectoral Councils (with appropriate industry representation) approval of the standards; and (iii) ensure signed internship agreements (between TVET schools and private sector companies) for internships for at least 50 TVET students (25% of whom are women).	3.4.1 AVE, in coordination with IPA, to (i) develop, with TVET institutes and export industries, market-oriented training modules in at least three skills each* from textile, agriculture & food processing, and manufacturing sectors; and (ii) train at least 100 students (of which at least 45% are women) for the September 2016-May 2017 academic year under the internship program of the TVET institutes.
Output 4: Increased ease of doing business			
4.1 Improve the transparency and efficiency of public procurement	To increase competition, transparency, and efficiency in public procurement, at least 20 states and municipal bodies start using the e-procurement system.	MOF to approve the Regulation on e-procurement system operation and maintenance and conclude related employment contracts and budgets.	4.1.1 Government to allocate (i) at least Som 4 million in the annual budget (2017) to ensure continued utilization and maintenance of the e-procurement system; and (ii) at least Som 8 million to develop additional e-procurement modules.

Outputs	Subprogram 1 Policy Actions (Completed June 2015)	Subprogram 2 Policy Actions (Completed June 2016)	Subprogram 3 Indicative Actions (Completion by October 2017)
4.2 Reduce costs of tax compliance	To reduce tax filing/payment frequency for SMEs from monthly to quarterly, thereby reducing transaction costs, government to approve the draft law on amendments to the Tax Code.	Government to reduce administrative burdens for small business by: (i) exempting business from value-added tax with annual turnovers up to Som8 million; (ii) waiving sales tax on exports and on all noncash transactions; (iii) approve a simplified tax declaration form for individuals; and (iv) simplify tax reporting for individual entrepreneurs, to a single agency.	4.2.1 Government to reduce administrative burdens to incentivize formalization of micro- and small businesses (35% of which are women owned or managed) ^b by: (i) decreasing the single tax from 4% and 6% (depending on the type of activity) to 2% and 3%, respectively for SMEs making cashless payments; and (ii) approving amendments to the Tax Code (a) to set time limitation for resolution of taxpayers' grievances, and (b) to relax the limitations on the number of days for which a voluntary tax patent is valid.

ADB = Asian Development Bank, AVE = Agency for Vocational Education, EDP = Export Development Program, EEU = Eurasian Economic Union, EU = European Union, GSP+ = Generalized System of Preferences (Plus), IPA = Investment Promotion Agency, MFA = Ministry of Foreign Affairs, MOE = Ministry of Economy, MOF = Ministry of Finance, MOH = Ministry of Health, MOJ = Ministry of Justice, MOTC = Ministry of Transport and Communication, NBKR = National Bank of the Kyrgyz Republic, SME = small and medium-sized enterprise, PDSF = project development support facility, PPP = public-private partnership.

* Manufacturing Sector (Car mechanic: Training Module #1 On Car maintenance, Training Module #2 On Repair of Mechanical, Hydraulic Systems of the Car and its Components, and Training Module #3 Diagnostics and Repair of Car Wiring); Agriculture and Food Processing Sector (Tractor Driver: Training Module #4 Tractor Control, Training Module #5 Maintenance of Tractors, Agricultural Machinery and Aggregates, Training Module #6 Work Performance on Cultivation and Harvesting of Agricultural Crops in Plant Growing Sector); Textile (Seamstress: Training Module #7 Work on sewing and ironing equipment, Training Module #8 Processing of parts and assemblies in products without lining, Training Module #9 Processing of parts and assemblies in products in lined products).

^a Examples of *social projects that directly benefit women and the poor* are health projects that reduce maternal and child mortality, social protection projects, urban infrastructure projects (solid waste management, roads, transport, kindergartens, parking) that impact women's safety and time poverty, or education projects that improve girls' access to non-traditional occupations.

^b These reforms will incentivize women micro- and small-entrepreneurs to formalize and thereby have greater access to formal financial services to help them graduate to small or medium entrepreneurs.