

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

May 5, 2015
Report No.: 96952

Operation Name	Governance and Competitiveness Programmatic DPO
Region	EUROPE AND CENTRAL ASIA
Country	Kyrgyz Republic
Sector	General industry and trade sector (30%); General public administration sector (40%); Telecommunications (10%); General energy sector (20%)
Operation ID	P148099
Lending Instrument	Development Policy Lending
Borrower(s)	KYRGYZ REPUBLIC
Implementing Agency	Ministry of Finance
Date PID Prepared	May 5, 2015
Estimated Date of Appraisal	August 12, 2015
Estimated Date of Board Approval	September 24, 2015

I. Key Development Issues and Rationale For Bank Involvement

World Bank development policy lending aims to help the borrower achieve sustainable growth and poverty reduction, through a program of policy and institutional actions. Development Policy Operations (DPOs), are provided in the form of non-earmarked loans, credits, or grants that support the country's economic and sectoral policies and institutions. Development policy lending complements the Bank's other financing instruments: investment lending, which provides project financing; program-for-results financing, which finances a borrower's program of expenditures and disburses against results; and guarantees, which help mobilize private financing for critical projects and programs.

This development operation to the Kyrgyz Republic is the first in a series of two operations and its focus on governance and competitiveness addresses some of the key challenges in the country. The operation is fully aligned with the FY14-17 Country Partnership Strategy (CPS). The CPS focuses on reducing poverty and building shared prosperity through improved governance, and envisions engagement in the public administration and service delivery reforms, as well as the reforms to improve business environment and investment climate.

Under the proposed operation, IDA will transfer funds to the Government's budget following the completion of specific reform actions by the Government as agreed in the DPO program.

II. Proposed Objective(s)

The Programmatic Governance and Competitiveness Development Policy Operation series aims to support the Kyrgyz government's reforms to improve public sector governance and increase private sector competitiveness. The first operation in the two-part series is in the amount of \$24 million, split between credit and grant parts. The DPO program supports the two main themes highlighted in the National Sustainable Development Strategy (NSDS) of the Kyrgyz Republic, sustainable governance and sustainable economy. The operation builds on the previous programmatic DPO series that aimed at enhancing public sector governance and improving the business environment, as well as on the recent Energy Sector DPO that featured governance and financial viability reforms in the sector.

III. Preliminary Description

Building on the Government's reform efforts, the proposed DPO series has two pillars: (i) public sector governance reforms and (ii) competitiveness reforms. Under Pillar 1, the program aims to improve the integrity of government decisions, the quality of public services, and energy sector governance and financial viability. Drawing on the Government's own priorities in PSRR, Pillar 1 supports key policy actions such as the introduction of the conflict of interest legislation, implementation of the public procurement law, adoption of public service standards, and a number of measures to increase transparency and accountability of the energy sector. Taken together, these measures are expected to address the key sources of both grand and petty corruption, and contribute to a more conducive environment to private investment and growth. Pillar 2, supporting competitiveness reforms, draws on the Private Sector Development Program. It is built around the objectives of trade facilitation, improvement in business environment, and improving connectivity. The measures under this program are expected to enable the Kyrgyz businesses to take full advantage of the Customs Union and Eurasian Union accession.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Poverty analysis shows that changes in poverty are closely linked to economic growth. Thus policy reforms and measures that positively impact growth will have positive long term distributional impact. Successful implementation of policy actions under current DPO should improve the institutional capacity of the Government to provide quality public services to its population, particularly those in the bottom quintiles. Fair and transparent government procedures and institutions will result in better, client oriented provision of public services. Jointly with improvement in business and regulatory climate, this should facilitate the much needed growth in private sector, where the bottom 40 percent of population engages in labor activities. The proposed operation will have positive impact on economic growth and sustainability of economy over medium to long run and as such has a potential to contribute to objectives of shared prosperity and inclusive growth. Preliminary analysis suggests that the cumulative effect of rising energy tariffs is moderate. The World Bank team will continue to monitor the impact of the tariff increases and discuss with the authorities how to improve the targeting of the energy-related subsidies in the long term.

Environment Aspects

The specific policies supported by the DPO program are not expected to have adverse effects on the environment and natural resources.

V. Tentative Financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA 24)	24
Borrower/Recipient	0
IBRD	0
Total	24.0

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Borrower

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