

**Report No. 23278**

# **KYRGYZ REPUBLIC**

## **Country Assistance Evaluation**

**November 12, 2001**

Operations Evaluation Department

**Document of the World Bank**

## Abbreviations and Acronyms

AAA	Analytic and Advisory Activities
ADB	Asian Development Bank
APEAC	Agricultural Privatization and Enterprise Adjustment Credit
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CEM	Country Economic Memorandum
CIS	Commonwealth of Independent States (FSU countries, except for Baltic countries)
CSAC	Consolidation Structural Adjustment Credit
EBRD	European Bank for Reconstruction and Development
ERRA	Enterprise Reform and Resolution Agency
ESAF	Enhanced Structural Adjustment Facility
ESW	Economic and Sector Work (now AAA)
EU	European Union
FIAS	Foreign Investment Advisory Service
FINSAC	Financial Sector Adjustment Credit
FSU	Former Soviet Union
FY	Fiscal Year
GOSKOMINVEST	State Committee for Foreign Investments and Economic Assistance
GDP	Gross Domestic Product
ICR	Implementation Completion Report
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-governmental organization
OED	Operations Evaluation Department
PESAC	Privatization and Enterprise Sector Adjustment Credit
PRSP	Poverty Reduction Strategy Paper
PSRMAC	Public Sector Management Adjustment Credit
RC	Rehabilitation Credit
SDR	Special Drawing Right
SOE	State-Owned Enterprise
SOSAC	Social Sector Adjustment Credit
TA	Technical Assistance
TACIS	Technical Assistance for the CIS from the European Union
WBI	World Bank Institute, formerly EDI

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November 12, 2001

## **MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT**

### **Kyrgyz Republic: Country Assistance Evaluation**

On independence in 1991, the Kyrgyz Republic had large distortions in structures, institutions, and prices that were the heritage of the Soviet command economy. As explicit and implicit subsidies from the Soviet Union disappeared along with the Soviet market, the economy went into a tailspin. Inflation surged to 1,000 percent, the volume of trade shrank to a fraction of its pre-1991 level, and GDP dropped by some 50 percent.

With a population of under 5 million, the Kyrgyz Republic is landlocked, mountainous, and relatively poorly endowed with natural resources. It has relatively good social indicators – life expectancy of 64 years and near-universal literacy.

The Kyrgyz Republic became an early and active reformer, even before it joined the Bank in FY93. Throughout the 1990s, it was considered a success case of reform. Inflation decreased to about 10 percent by early 1998; price and trade liberalization were extensive; it became the only CIS country to join WTO, in 1998; privatization was substantial; many laws were passed to improve the environment for private investors; exports, mainly gold, increased and GDP growth rates finally turned positive in 1996-97. The 1998 CAS noted that the Kyrgyz Republic had good prospects for sustaining growth and was a low risk country.

But the transition has been more difficult than anticipated, and both external shocks such as the Russian financial crisis and internal problems of floods, droughts, and financial crises have resulted in mixed development outcomes. Serious problems persist and the country remains highly vulnerable to shocks. Since 1996, growth rates look moderately good compared to other CIS countries, but in more recent years they have been modest, at 2-4 percent; the fiscal situation is uncertain; and debt servicing has become a serious problem. Large, inefficient state owned enterprises remain, private investment is low, and the business climate is poor. Per capita income is estimated at \$300 in 1999, over half the population lives in poverty, and income inequality has increased.

IDA appropriately focused its assistance from the outset on stabilization, liberalization, privatization, and institutional reform geared to moving the country from a command to market economy. More than half of the \$590 million committed over the FY93-00 period was for adjustment lending, all on IDA terms. Covenant compliance

was good and all six of the closed adjustment operations have satisfactory ratings. Investment lending has been generally well-focused on rural areas. Nevertheless, as in other FSU countries, IDA has been over-optimistic in its economic projections and in assuming that good covenant compliance meant good reform implementation, which in turn would translate into growth and poverty reduction. There was insufficient follow through on implementation and risk assessments of the country did not take into account at all or to an inadequate extent serious problems of corruption, a substantial drug trade, ethnic tensions and violence, and disputes with neighboring countries over water, electricity, and border trade.

Taking into account the mixed development results, the outcome of IDA assistance is rated as moderately satisfactory. In spite of the large unfinished reform agenda, however, IDA has had a significant impact on changing policies and developing capacity through training, technical assistance, policy dialogue and analysis, and institutional development impact is rated as substantial. Finally, given the slowed and even halted progress on reforms in privatization, civil service, fiscal, and legal areas, weak capacity of government to follow through on reform implementation, the country's vulnerability to shocks, and the many sources of risks described above, sustainability of the assistance is rated as uncertain.

Recommendations for future IDA strategy include: (i) acknowledge that the Kyrgyz Republic faces substantial risks that call for contingency planning; (ii) focus on governance, institutions, and capacity building, with particular emphasis on creating a better environment for businesses, and improving transparency and accountability in the public sector; (iii) keep projects simple, with few components and realistic objectives, in recognition of the limited implementation capacities in the country; (iv) focus analytic and advisory activities on better monitoring and evaluation of the implementation of reforms; on identifying priorities for government and donor expenditures and priorities for public sector management; and on widening income inequalities and growing rural unemployment.

Robert Picciotto  
by Gregory K. Ingram

Today, when we are to enter a new century there is a need to look back and try to perceive and interpret the way we treaded. It is important to draw lessons useful for the future of Kyrgyzstan out of that experience.

Askar Akeav, President of the Kyrgyz Republic  
July 7, 1999

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## Preface

The Country Assistance Evaluation (CAE) presents a different picture of Kyrgyzstan's progress, problems, and prospects from that painted in the last Country Assistance Strategy Paper (CAS) dated June 1998. The 1998 CAS found Kyrgyzstan to be a success case of reform and recovery, with good prospects for sustaining the growth recorded in 1996-97. Kyrgyzstan's being the first Central Asian country to join the WTO and to launch a CDF have been hailed as signs of its progressiveness and willingness to stay the course of reform. The 1998 CAS described Kyrgyzstan as a low-risk country.

The CAE finds that Kyrgyzstan was indeed receptive to IMF and IDA advice and scored well on many indicators of reform performance. Nevertheless, development outcomes to date have been poorer than expected. As in other Former Soviet Union countries, transition to a successful market economy has taken longer and been more difficult and complex than anticipated and has been compounded by external and internal shocks.

The CAE identifies a number of serious problems, such as growing inequalities in income distribution, corruption in the public administration, deterioration in the quantity and quality of social services, the substantial drug trade, the potential for violent conflict in the Ferghana Valley, regional tensions over borders, water rights, and cross-border trade of gas, oil and power, that render it less sanguine than other IDA reports about Kyrgyzstan's prospects for achieving satisfactory and sustainable rates of growth in the near future. In OED's view, Kyrgyzstan is vulnerable to a number of risks discussed in the CAE. The next CAS should take into account these risks.

This report assesses IDA's assistance program for the period FY93 to FY00. Toward the end of this period, in 1999, IDA introduced new processes and initiatives, in particular the Comprehensive Development Framework and the Poverty Reduction Strategy Paper, which may have an important positive impact in the future on the focus, monitoring, and aid coordination aspects of IDA assistance. Because these initiatives were relatively new at the time of this analysis, however, the CAE is unable to evaluate their impact on future IDA assistance.

The CAE rates the outcome, institutional development impact, and sustainability of IDA assistance, and makes recommendations for future assistance strategy. The definitions of the ratings of the evaluation are found in Attachment 1.

Comments from the Government (in Russian and English) are attached as Attachment 2 and comments received from the Europe and Central Asia Region is attached as Attachment 3. The Management Action Record is attached as Attachment 4. This report was discussed by the Informal Subcommittee to the Committee on Development Effectiveness on September 17, 2001, and a report of that discussion is attached as Attachment 5 at the end of the report.





## 1. INTRODUCTION

1.1 Kyrgyzstan was considered, at least until late 1998, to be one of the most progressive FSU countries in terms of the political and economic liberalization achieved since the country became independent in 1991. Relative to the other Central Asian countries in particular, it was deemed a star performer. This performance has been supported and rewarded by large inflows of foreign aid, including commitments of almost US\$600 million from IDA for a country of less than five million people.

1.2 Economic decline was severe and poverty worsened markedly in the early 1990s, but 1996 and 1997 were years of substantial GDP growth. By 1997-98 the Bank and other donors considered that aid and reform were working, and that growth would be sustained and lead to improved fiscal performance and reduced poverty in the years ahead.

1.3 This hasn't happened. Instead, as of mid-2000, Kyrgyzstan was coping with fiscal and other crises, and slow and uncertain future growth. Many Kyrgyzstan citizens and donor officials have begun to question whether reform and/or aid have failed, given that living conditions for a majority of the population have worsened throughout the decade.

1.4 It is therefore timely that OED should address the questions of where, how, and why IDA's assistance to Kyrgyzstan has succeeded or failed to achieve its objectives, and whether those objectives were the "right" (i.e., most relevant) ones.

### **Some Key "Initial Conditions": Geography as Destiny?**

1.5 Upon its independence in 1991, Kyrgyzstan shared with the other FSU countries most of the distortions in structures, institutions, incentives and prices that were the heritage of the Soviet command economy and political system. But it also was characterized by some unique "initial conditions," above all its geography, that are important in evaluating the country's problems and prospects.

1.6 Kyrgyzstan is a small country whose geography has had, and continues to have, a large influence on its destiny. It is landlocked (its neighbors are Kazakhstan, China, Tajikistan, and Uzbekistan), mountainous (over half the country is above 1500 meters; only seven percent of the land area is arable), and remote from major markets, making access and trade difficult and expensive.

1.7 Kyrgyzstan is relatively poorly endowed with natural resources. It has abundant water and hydroelectric potential, but exploiting this potential in a regional context has been problematic. Gold is the main mineral resource and leading export. In pre-Soviet times, Kyrgyzstan was largely a nomadic society, trading mainly livestock products, with a clan-based culture, important elements of which have survived through the Soviet period into present times. During the Soviet period, the Russian population grew to nearly a quarter of the total, and Kyrgyzstan was transformed into a highly industrialized country. Thus, by 1991 industry comprised nearly 40 percent of GDP while agriculture's share was less than 30 percent. Most of this industry was, however, geared to producing defense and other goods whose markets disappeared upon the breakup of Soviet Union.

1.8 Other important heritages of the Soviet period included Kyrgyzstan's high dependence on external subsidies (both direct and through transfer pricing) equivalent to about 15 percent of GDP, and the extremely inefficient use of the country's and region's water and energy resources. A number of issues go well beyond country borders and need to be addressed at a regional level, including the Aral Sea ecological disaster.

1.9 Notwithstanding its substantial industrial base, Kyrgyzstan was a relatively poor country in 1991. Although per capita income figures were hard to determine because of distortions in the exchange rate at that time, the country was considered an IDA-only borrower, suggesting a per capita income of no more than \$830, and it was estimated that by 1992 at least one-third of the population was below the poverty line. On the positive side, however, the relatively high social expenditure levels of the Soviet period (almost 30 percent of GDP in 1990) created a society with good social indicators (e.g., a life expectancy of 64 years, near-universal literacy of the adult population) and with a labor force educated to high technical levels.

1.10 The ethnic composition of the population has been mostly ignored in donor documents, notwithstanding its importance in political terms (e.g., dominance of the Kyrgyz ethnic group in the political leadership), in economic terms (e.g., the brain-drain of Russians, Ukrainians, and Germans who emigrated in substantial numbers shortly after independence), and in terms of social stability (e.g., tensions between the Uzbek and Kyrgyz ethnic groups). As of 1992 the ethnic composition was: Kyrgyz 52 percent, Russian 18 percent, Uzbek 13 percent, and other 17 percent.

### **The Early 1990s: Hyperinflation and Economic Collapse**

1.11 When Kyrgyzstan joined the IMF (May 1992) and the Bank (September 1992), and for several years thereafter, the economy was in free fall. Between 1990 and 1994, real output in agriculture fell by 45 percent and industrial output fell by 60 percent. These declines were far more severe than in the Central European countries. Explicit budgetary subsidies from the Soviet Union averaging 10-13 percent of GDP before independence had ceased along with other implicit subsidies; by 1994 the terms of trade had deteriorated by 40 percent and the volume of trade had declined to only 40 percent of its 1990 level. The balance of payments, budget, and all sectors of the economy were in extreme crisis. Inflation in 1992-93 averaged about 1,000 percent and poverty increased markedly.

1.12 In the face of these shocks, Kyrgyzstan became an early and relatively active reformer. Even before it joined the Bank, progress had been made on the political front in moving towards democratization and on the economic front in taking initial steps towards a market economy. Kyrgyzstan's failure to make progress in macroeconomic stabilization in 1992 was largely for reasons beyond the government's control. Hence, at the time of Kyrgyzstan's joining the Bank, the country was deemed by the Bank and other donors to be highly aidworthy.

## 2. EVOLUTION AND IMPLEMENTATION OF IDA'S STRATEGY

### IDA's Strategy: Focus on Reforms

2.1 The Bank's involvement in Kyrgyzstan began in early 1992, before membership, with a number of economic missions leading to a Country Economic Memorandum (CEM) and a Bank-led Consultative Group (CG) meeting in December 1992. Funding for the economic missions and for preparation of IDA's initial lending operation was provided from a 1991 Trust Fund grant to the Soviet Union.

2.2 IDA's strategy was initially articulated in the President's Report for the first operation, the 1993 Rehabilitation Credit,<sup>1</sup> and subsequently in two Country Assistance Strategies (CAS) in 1995 and 1998; in 1998 the CAS was a joint effort with IFC. Throughout the 1990s, the main objectives articulated in these documents were to assist the Government in structural and institutional reforms that would enable a transition to a market economy, to restore growth as the main engine for reducing poverty, and to provide an effective social safety net for the more vulnerable segments of the population. The flagships of IDA's assistance program were to be a series of adjustment operations totaling just over half of the total lending, focusing on privatization, private sector development, agricultural reforms, and reforms in the social sector (pensions and social assistance), financial sector, and intergovernmental finance. Investment projects were to be concentrated mainly (but not exclusively) in the agricultural sector.

2.3 Given the importance of learning about the transition process and the need for annual Consultative Group meetings, IDA also planned in the early years to undertake substantial economic and sector work, including annual country economic reports, to monitor the progress of the economic reforms.

2.4 At the time of the 1995 CAS, economic growth had not yet materialized. The focus of the strategy was on continued structural reforms in the expectation that it would facilitate the resumption of growth. By 1998, the economy had stabilized and growth had been good over the preceding two years. IDA strategy was focused on putting the finishing touches on reform so as to enable the economy to achieve long term sustainable growth. Although IDA recognized a number of constraints and challenges in Kyrgyzstan, it was nevertheless perceived as a low risk country. Economic work had shifted from monitoring the outcomes of reforms to areas related to specific adjustment operations, such as land tax and fiscal sustainability; in sector work, the focus was on studies in support of specific investment operations, such as health and livestock projects.

2.5 Donor collaboration became more of a focus in later years: from 1995 onwards, for example, it was agreed that IDA would take the lead in agriculture, ADB in education and infrastructure, and EBRD in energy, financial sector, and several other areas. The 1998 CAS went further, identifying key roles for many donors across a wide range of activities. It also included a much greater cooperative effort with IFC and WBI.

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<sup>1</sup> In 1993 it was normal for initial CASs to be incorporated into loan documents.

2.6 Throughout the FY93-00 period, based mainly on the perceived level of Government commitment to reforms and substantial progress in implementing them, lending for high-case scenarios was proposed, with average proposed commitments of about \$60 million per year. For the FY93-96 period, for example, six operations totaling US\$240 million were planned, about half of which was to be for adjustment lending. For the FY96-98 period (there was an overlap of one year with the previous strategy period), IDA lending would be \$150-190 million, with a possible \$50 million of IBRD if creditworthiness triggers could be met. Finally, for FY99-01, a high case lending program of \$185 million was proposed.

### **Implementation of the Assistance Program**

2.7 IDA's assistance has followed fairly closely the programs envisaged in the strategy documents in terms of support for structural reforms and types of investment operations. As expected, adjustment lending was a little over half of total IDA commitments for the period FY93-00 and 75 percent of disbursements. About half of the investment lending has been concentrated in agriculture and rural development, in recognition of the importance of restoring agricultural productivity for reducing rural poverty; the other projects have been for telecommunications, private enterprise support, health, social safety net, and technical assistance, all of which fit into the respective strategies. The size of the lending program, however, has exceeded the amounts envisaged for much of the FY93-00 period, even for the high case scenarios. Between FY93 and FY99, a little over \$70 million per year was approved, or 15-20 percent more than proposed. In terms of disbursements, IDA is the biggest donor by a relatively large margin (EU countries are second, at about 70 percent of IDA disbursements).

**Table 2.1 Proposed and actual commitments : US \$ millions**

	Proposed (high case)	Actual Commitments
1993 strategy: FY93-95*	180	214
1995 CAS: FY96-98	150-190	224
1998 CAS: FY99-01	185	183**

\* The 1993 CAS proposed lending for FY93-96; to avoid double counting with the next CAS period, the proposed amount was prorated for the period FY93-95 and compared to actual for the same three years.

\*\* If two projects currently in FY01 pipeline are approved.

2.8 **Adjustment credits.** As projected in the strategy documents, IDA approved an adjustment operation almost every year between FY93 and FY01. These included a first rehabilitation credit, an adjustment credit in support of privatization, followed by adjustment operations in agriculture, finance (mainly banking reforms), fiscal reform, pension reform, and finally, in FY01, a consolidation adjustment credit which covers the fiscal and business environment, utility and tax reform, and strengthening social protection to compensate the poor for utility tariff increases. Progress on covenant compliance and implementation under all of the six now-closed adjustment credits was good (only the FY01 adjustment operation is still on-going), and IDA considers that these credits have been, overall, successful. OED agrees that implementation has been satisfactory, but in some cases the government has subsequently backtracked (as noted in the 1998 CAS, "some backstepping has occurred on tax policy, utility regulation, privatization of large enterprises, and delays in land legislation..."; see also para. 4.20)

or the measures have been insufficient to achieve expected outcomes. A large and challenging reform agenda remains.

2.9 The Rehabilitation Credit (RC) was the first operation approved for Kyrgyzstan, in FY93, and as with rehabilitation credits/loans to other FSU countries, it had little or no conditionality. It aimed to support a fledgling reform program and included technical assistance (TA) to support studies and provide advice. This was followed by the Privatization and Enterprise Adjustment Credit (PESAC), whose main objectives were to increase the speed and improve the quality of privatization of small, medium, and large scale enterprises, and to support substantial trade and price liberalization measures to improve private sector development. Both of these were considered by IDA to have had highly satisfactory implementation and outcomes.<sup>2</sup>

2.10 OED rated the outcomes of both RC and PESAC as marginally satisfactory. RC's rating was lowered because its funds were used to finance inefficient SOEs and the TA component had little government ownership and was under-managed by IDA. The outcome of the PESAC was considered only marginally satisfactory because the objective of attracting strategic investors was not realized, serious corporate governance issues were not addressed, negligible enterprise restructuring followed privatization, and many of the large loss-making enterprises intended to be liquidated or restructured continue to be a drag on the economy. The experience of these operations illustrates that even highly satisfactory implementation is not the same as satisfactory efficacy in terms of development outcomes.

2.11 Largely for the substantial progress in undertaking wide-ranging reforms supported under these various adjustment credits, Kyrgyzstan came to be regarded by IDA as a star performer in policy reform relative to other FSU countries. OED has found, however, that satisfactory covenant compliance in Kyrgyz has not meant satisfactory development outcomes. It is the disconnect between perceived progress in undertaking these reforms and outcomes in Kyrgyz that has been most disappointing.

2.12 ***The IMF program.*** The implementation of IDA's adjustment operations was complemented by simultaneous implementation of several IMF facilities. The size and sequencing of those facilities are described in Box A.

**Box A: The IMF in Kyrgyzstan**

Kyrgyzstan joined the IMF in 1992 at a time when the ruble zone was in turmoil. Its quota is SDR 89 million and its outstanding use of IMF credits totals SDR 139 million (about \$187 million). The first IMF operation, the Systemic Transformation Facility, became effective in 1993, when Kyrgyzstan introduced its own currency, the som. In 1994 the first three-year ESAF arrangement (for SDR 21.5 million) and first Policy Framework Paper (PFP) were concluded, and in June 1998 the second ESAF (for SDR 73.4 million) came into effect. It came off track in 1999 when Kyrgyzstan went into arrears on its debt service payments, but the program (now called the Poverty Reduction and Growth Facility, or PRGF) was put back on track in February 2000 following Parliament's approval of a budget geared to restoring macroeconomic stability. An updated PFP also became effective at this time. Over the years the Fund has provided considerable TA to the central bank.

<sup>2</sup> The ICR for the RC rated the policy reform component as highly satisfactory and the import and TA components as satisfactory. In its review of the ICR, OED used the highly satisfactory rating on outcome.

2.13 *Investment and TA components of projects.* Implementation of IDA's investment projects has been more mixed. The only one of the 16 investment projects that has closed, the Social Security Net Project, had a marginally satisfactory outcome. It was the second investment project approved for Kyrgyz and its objective was to help Government to identify the poorer segments of the population and to deliver social assistance more effectively. The poverty monitoring component was considered highly successful, with significant strengthening of the national statistical agency to undertake household surveys. But other components, such as strengthening the employment services and upgrading vocational training facilities were ineffective, partly because the anticipated massive lay-offs never occurred and partly because new jobs were not created for those that were unemployed. In addition, procurement of equipment for the vocational schools was particularly problematic.

2.14 Some of the on-going projects appear to be moving ahead well, such as the health project, which is considered by IDA to be highly satisfactory (near completion), and which has drawn health sector experts from other countries to learn about the health sector reforms instituted under the project. Rural finance, in spite of some problems, is also considered to be going well, with good disbursement rates in spite of relatively high real interest rates (final borrowers pay 32-36 percent per year, with a projected inflation rate of 20 percent in 2000); loan recovery rates are promising, at over 87 percent, although they have slipped recently and need to be monitored closely. Implementation of several irrigation projects have proceeded smoothly, and some observers think that the new investments have made Kyrgyz agriculture more resilient to recent drought. Other projects have had implementation problems stemming mainly from flaws in design and were restructured after more than three years with little implementation. The FY95 Private Enterprise Support Project had negligible disbursements until 1999 when it was restructured, and continues to disburse very slowly; the FY96 Sheep and Wool Improvement Project was also restructured in 1999 to reduce the scope and increase the focus and slow progress is being made in meeting the more modest objectives. A common problem in agriculture has been the weak implementation capacity of the Ministry of Agriculture – a weakness not always sufficiently accounted for in project design.

2.15 Implementation of TA projects and TA components in projects, such as under the RC, has been especially problematic, as in many countries. TA components have been generally under-managed by the Bank, with objectives ill-defined (as in the RC); there has been duplication with other agencies providing TA. Limited ownership by the Government in some cases meant that diagnostic studies remained unread and unused. Consultants have not always been sufficiently familiar with the conditions in Kyrgyzstan to be effective. Finally, high staff turnover in ministries and agencies has meant that capacity development through TA and training, even where initially effective, has frequently been short-lived.

2.16 Nevertheless, for the overall portfolio, QAG rates the portfolio at risk at 14 percent of both number of projects and commitments, which compares favorably to the Regional averages of 20 percent and 37 percent, respectively, as well as to the Bank-wide averages of 18 percent and 20 percent, respectively. Similarly, the Kyrgyzstan portfolio rates high on the realism and proactivity indexes, both 100 percent, and compares favorably to ECA (realism: 79 percent; proactivity: 54 percent) and the Bank-wide

averages (realism, 74 percent; proactivity, 59 percent). This suggests that the quality of the portfolio and the supervision effort is better than average.

2.17 **Analytic and Advisory Activities.** In addition to the credits, IDA delivered a program of Analytic and Advisory Activities(AAA). In the early years, and consistent with its stated intentions to monitor progress in the transition to a market economy, IDA produced an annual economic update through FY95 and a number of sectoral reports, including FIAS reports and advice. These were generally highly relevant and of good quality. OED understood that the FY93 country economic memorandum served as a valuable reference document for many; other analysis served as vehicles for policy dialogue, in addition to that already occurring in the preparation of credits.

2.18 But between FY96 and FY99 the resources devoted to, and output of, AAA decreased considerably, perhaps as the result of budgetary squeezes within the Bank that crowded out AAA in favor of project preparation and supervision, combined with the view that things were going relatively well in the country.<sup>3</sup> The only comprehensive macro-economic report (as opposed to sectoral studies) done between 1995 and 1999 was a study of the country's creditworthiness for IBRD lending (which several government officials cited in particular, along with the FY00 fiscal sustainability study, as providing a consistent macroeconomic framework). It is unfortunate that public expenditure work has been minimal; no end-user surveys of public service delivery have been carried out; and neither the government nor any donor has synthesized the findings of the many studies of mixed quality prepared under TA credits and grants.

2.19 Since FY99, this situation has been partially redressed by the allocation of additional resources to AAA, and priority was given, appropriately, to preparing a study on key constraints to economic growth. A list of AAA is in Annex, Table 5.

2.20 One limitation to the efficacy of AAA has been the government's low absorptive capacity, with only a small number of officials and scholars available to use the studies. This situation is improving, however, as more Kyrgyz citizens have received training in economics and technical subjects (many through WBI and the Vienna Institute), thereby increasing this absorptive capacity significantly. Another limitation to the efficacy of AAA has been that its dissemination and discussion have been too restricted. For example, the first agricultural report was not translated into Russian. The resident mission has made efforts to improve dissemination and IDA made a valuable contribution to setting up a website (Kyrgyzstan Gateway) that is a potentially valuable instrument of dissemination.

2.21 **Efficiency.** The figures on average costs of supervision, lending, and AAA over the FY93-99 period are roughly comparable to those for the Region, slightly higher for lending and slightly lower for formal AAA. Supervision intensity is close to the Region average, although this is some 25 percent higher than it is for the Bank as a whole.

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<sup>3</sup> Over the FY96-99 period, resources spent on scheduled and unscheduled ESW as a proportion of the total were considerably lower for Kyrgyzstan (11 percent) than for ECA (14.7 percent) and for the Bank as a whole (16.7 percent).



2.22 **Other Bank group activities.** Particularly since the joint CAS in 1998, IDA has made a more concerted effort to work with IFC on private and financial sector issues, as well as with WBI on training. IFC's activities, as well as those of MIGA, WBI, and the Vienna Institute are described in Box B.

**Box B: IFC, MIGA, WBI and the Vienna Institute**

Kyrgyzstan has been a member of the **IFC** since 1993. In 1998 it became an "outreach" country under the Extending IFC's Reach Initiative (EIR) that IFC established to serve selected poor countries with difficult investment environments. An EIR office was established in Bishkek in 1999. IFC has made several investments, the largest one being a \$30 million participation in the Kumtor Gold Mining Plant. IFC has approved investments in several commercial banks and through its Small Enterprise Fund, several investments have been approved for agribusiness and packaging companies. Other IFC initiatives included financing preparation of a Master Plan for Tourism, organizing a foreign investment conference (1996), and providing technical assistance on a range of topics for private businesses in Kyrgyzstan.

**MIGA:** As of end-August 2000, MIGA had insured three projects: Kumtor gold mine, Coca Cola, and Italian Technologies and Innovations Srl and Mediocredito Centrale. MIGA estimates that it has facilitated \$360 million of foreign direct investment in the country. Kyrgyzstan is also a pilot country for MIGA's Privatization Link Project which connects potential investors and the national state agencies engaged in privatization via the Internet.

**WBI:** The WBI has played a substantial role in training and capacity building in Kyrgyzstan. It has conducted over 100 activities in the country and over 1,000 participants from the country have attended WBI-sponsored training courses. Many of these activities were co-sponsored by various governmental ministries as well as agencies including the Academy of Management, National University, and Agrarian Academy. While the benefits of WBI's activities have undoubtedly been substantial, their sustainability has been diminished by the high turnover (partly a consequence of low pay) in the beneficiary institutions.

**Vienna Institute:** Established to provide training for officials from transition countries and supported by the Bank and other multilateral institutions such as EBRD, this institute has provided considerable training for high-level government officials from many Eastern European and Central Asian transition countries. Between 1993 and 1999, some 500 participants from Kyrgyzstan received close to 2,000 weeks of training.

2.23 **Aid coordination** in Kyrgyzstan remains a formidable task, considering both the large numbers of donors and projects and the fact that before 1992 the government had no experience in dealing with donors, much less in coordinating their activities. Since 1992, IDA has provided assistance to set up and train staff in Goskominvest, the aid management/coordination agency, and has assumed leadership of Consultative Groups (CGs). But while the CG has been effective as an instrument of aid mobilization and information exchange, it is not truly an instrument of effective aid coordination. Such coordination requires, above all, that the government take a strong lead role, and this has been lacking in Kyrgyzstan. Aid coordination has therefore been dependent on the inclinations of changing heads of donor agency missions. IDA's cooperation with bilateral donors and the IMF has reportedly been good (especially with USAID), whereas relations with other multilateral agencies have generally been satisfactory, but sometimes strained. Relations with TACIS have been reported by informed observers in Kyrgyzstan

to be poor, and the coordination of TA in general has been less than satisfactory. Over time, lead responsibilities on sectoral assistance emerged (e.g., between IDA and ADB on health and education), but such divisions of labor have had their disadvantages as well as benefits. The dynamics of putting in place the Comprehensive Development Framework (CDF) have apparently helped aid coordination, although the sustainability of the efforts in the future is uncertain.

### 3. DEVELOPMENT OUTCOMES AND CHALLENGES

3.1 As in many FSU countries, the development outcomes in the 1990s include both major achievements and major shortcomings in becoming a more democratic and market-oriented economy. *These outcomes cannot be attributed, except in small part, to IDA or other donor activities.* It is nevertheless important to set the context of how key macroeconomic and other variables performed and of how problems were addressed, as background to the assessment of the relevance and efficacy of IDA's assistance program.

#### Main Advances and Achievements

3.2 Kyrgyzstan emerged from the crisis of the breakup of the Soviet Union, with all its repercussions, to achieve considerable progress during the 1990s. Most importantly, violent conflict was avoided both with neighboring countries and between ethnic groups. And in spite of the hardships experienced by the population, no major political actors advocate a return to the Soviet economic or political systems. Even among most Communists who made large gains in the 2000 Parliamentary elections, the search is for ways to make markets work, not to abandon them. Growth rates have been positive since 1996, in spite of the external and internal shocks that the country has encountered; since 1993, Kyrgyz' growth rates have been stronger than most of the CIS countries.

3.3 Stabilization was a success story until 1998, as inflation was rapidly reduced from over 1,000 percent in 1992 to 10 percent in early 1998. The interest rate came down substantially, the exchange rate was more or less stabilized, and the budget deficit fell from an average of 14 percent of GDP in 1992-95 to less than 10 percent in 1996-98.<sup>4</sup> Liberalization was extensive: most prices were freed, including interest rates, convertibility was established in both the current and capital accounts, overall tariffs were reduced to about 10 percent. The economy is among the most open of the CIS countries and in 1998, Kyrgyzstan became the only CIS country to gain membership in the WTO.

3.4 Substantial progress was made in the quantum of privatization, mainly of SMEs, raising the share of GDP generated in the private sector to 60 percent, among the highest of the CIS countries. Important reforms in the pension system and financial sector were introduced and some progress was made in tax reform and in establishing a new legal framework for private enterprise, including foreign investment. A new legal framework and system of rural finance for private agriculture was put in place and private ownership

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<sup>4</sup> The quality of the stabilization, however, left much to be desired, as there remained distortions and abuses on both the revenue and expenditure sides.

of land is now permitted. All of these reforms were supported by IDA operations. On the production front, gold production and export increased substantially following a foreign firm's investment in the sector, and some vitality was evidenced in small scale trade and services, albeit mainly in the informal sector. The increased gold production was a principal factor in the GDP growth of 7 percent and 9 percent realized in 1996 and 1997, respectively.

3.5 On the institutional front, notable progress has taken place in the development of civil society, with over 2000 NGOs now registered (although the number of active NGOs is significantly smaller, probably in the several hundreds). Progress was also made in areas such as accounting and procurement, and there has been extensive learning among government cadres and private sector agents as to what is involved in running a country and its enterprises and farms in the context of a market rather than a command economy. Kyrgyzstan also fostered and maintained good relations with the donor community, and hence maintained a high level of external assistance.

### Main Shortcomings and Problems

3.6 These positive developments have not been sufficient to reduce poverty. As with other CIS countries, the collapse of the Soviet system combined with other external shocks and internal problems of governance and absence of incentives to invest and increase productivity have resulted in an increase in the proportion of the population estimated to be living in poverty to more than 60 percent (compared to an estimated 30 percent at the beginning of the transition) and over one fifth in extreme poverty. Per capita income in 1999 was estimated at about \$300 (Atlas method), making Kyrgyzstan one of the poorer countries in the world.

**Table 3.1 Key economic indicators, 1992- 1999**

	1992	1993	1994	1995	1996	1997	1998	1999
GDP growth (real, % per year)	-14.0	-16.0	-20.0	-5.4	7.1	9.9	2.1	3.7
Overall fiscal balance (% GDP)	-17.4	-14.4	-11.6	-17.3	-9.5	-9.2	-9.5	-12.0
Consumer prices (% per year)	1,259	1,363	95.7	43.5	31.9	23.5	8.2	35.7
Current account balance (% GDP)	-6.0	-9.2	-7.6	-15.7	-24.6	-7.8	-22.9	-15.4
GNP per capita (US\$) (Atlas method)		830	610	690	570	480	350	300
Real GDP per capita (1993=100)*		100	79	75	79	86	87	90

\* GDP in 1993 is taken as the base year, increased by the real rate of growth, and adjusted for population growth, estimated at 0.95% per year between 1993 and 1999

Source: World Bank and IMF estimates, and official sources (Ministry of Finance, National Bank, National Statistical Committee).

3.7 Over 80 percent of all poor and nearly 90 percent of all extremely poor people live in the rural areas. The Gini coefficient, at 0.47, was one of the higher (more unequal) of CIS countries, with Kyrgyzstan having experienced the greatest widening of distribution in the 1990s among these countries. Closely related to the movements of these indicators has been the erosion of social capital, especially among the rural poor,

where clan relationships have emerged as traditional social networks have weakened. A serious implication is that larger holes are appearing in the social safety net of kinship obligations.

3.8 With the country's entire economic structure having been fundamentally changed by the breakup of the Soviet Union, there are now massive mismatches: between the production structures supported under the Soviet system and those that will enable sustained growth in a post-Soviet world; between the physical infrastructure geared to support the Soviet productive structure and the infrastructure that can be maintained in the face of changed needs and limited financial resources; between the old levels of social services and those that can be maintained with lower revenue levels; and between institutional structures developed by the Soviets and those needed by a market economy.

3.9 Partly as a result of the Russian financial crisis, and partly due to internal factors such as a large public investment program and a slow down in reforms in the energy sector, the fiscal situation, after improving in the mid-1990s, again deteriorated toward the end of the 1990s. Both revenue improvements and expenditure cuts are required, that may be difficult to achieve. Inflation declined to about 10 percent in early 1998, but surged to over 35 percent in 1999, reflecting in part a large (35 percent) devaluation of the som that occurred pari passu with devaluation of the Russian ruble. The banking sector, in spite of significant reforms, suffers from weak supervision, experienced major fraud in late 1998, and remains fragile. The external debt increased from 30 percent of GDP in 1992 to over 130 percent by 1999; because of the collapse of gold prices, arrears on debt service accumulated, and debt servicing became a major problem.

3.10 A decade ago, industry accounted for about 40 percent of GDP, agriculture only 30 percent. By 1999 industry had shrunk to only 18 percent (of a much lower total), and agriculture accounted for over 40 percent. Nevertheless, industrial enterprise losses mount along with inter-enterprise arrears, inventories, and debt arrears; pervasive barter is also a form of soft budget constraint. Privatization was insider-dominated (by the nomenklatura) and did not lead to significant restructuring in either industry or agriculture. Major utilities remain to be privatized, are not recovering their costs; their plants have deteriorated. Agriculture, while experiencing some recovery in recent years, has not restored yields to the pre-independence level. Much of the sector is subsistence farming and government still plays an important role in input and output markets. Private investment has remained low and the business climate is poor, partly because of uneven tax enforcement and excessive and ad hoc interference by government. Gold prices have been depressed and, excluding gold and energy, exports have decreased every year since 1996; trade suffers from the large transactions costs involved in movement of goods through neighboring countries, periodic closures of borders, and failure to make progress on economic cooperation and integration among Central Asian states.

3.11 In spite of an official level of 3-4 percent, unemployment is a serious problem; household survey data point to a rate of about 20 percent. Much redundant labor remains in both government and enterprises, and civil service reform is needed: the public administration is overstaffed, competent workers are underpaid (ministers salaries are under \$40 per month), and functions have not been sufficiently redefined to bring responsibilities and capacities into congruence. Implementation capacity of the state is weak. Corruption is a major problem; two FIAS reports noted that the biggest hindrance

for attracting private foreign investment was corruption and “special relationships,” whether in customs collections or Free Zone participation, that bypass legal requirements. Aid dependency remains high (over 10 percent of GDP), entailing adverse effects, e.g., rent-seeking and dualistic and distorted labor markets (IDA’s Project Implementation Units contribute to these distortions).

3.12 Vulnerability to shocks, internal and external, is high, and the government was unprepared to deal with all the shocks that came in 1998 and 1999, including the Russian financial crisis, a gold price decline, a cyanide spill, floods, trade interruptions with neighboring countries, continuing conflict in the Ferghana Valley,<sup>5</sup> and the growing drug trade (Box C).

3.13 Sources of future growth and poverty alleviation are highly uncertain. On balance, the net outcome of Kyrgyzstan’s transition to date has been disappointing and less than satisfactory.

### **Box C: Drugs**

Central Asia has emerged as a major international drug trafficking center, with Osh, in southern Kyrgyzstan, as its hub. In 1999 an estimated 40 tons of heroin equivalent transited through Kyrgyzstan. Drug processing, cultivation, and abuse by the local population have also increased significantly. Cultivation is still limited mainly to cannabis, but opium production is increasing. In 1999 some 50,000 people, over one percent of the population, were registered drug abusers. Associated with the drug trade are arms trafficking, organized crime, financing of radical groups, corruption, economic effects including on the exchange rate, and adverse social and health effects.

A recent study concludes, “it is clear that Central Asia is completely unprepared to deal with the threat posed by the proliferation of drugs and has no resources to pay for the enormous economic and social costs associated with the problem. There is no shared regional understanding of the problem... [and] there is a discontinuity between the Western approach that views criminalization, corruption and social costs as part of the problems and the local approach that focuses on drug trafficking in a narrow sense...It is time the world paid closer attention...and helped Kyrgyzstan [and the other Central Asian states] take charge of the situation before it gets completely out of control.”

*Sources:* UN Office for Drug Control and Crime Prevention, Olcott Report

<sup>5</sup> In 1990, in Kyrgyzstan’s part of the Ferghana Valley, a local conflict that began as a dispute over land redistribution between residents of Kyrgyz and Uzbek ethnic origin flared into violence, with official estimates of 300 people killed and over 1,000 wounded. The Government took measures to prevent a reoccurrence, and ethnic strife was avoided through most of the rest of the 1990s. In the late 1990s, however, conflict returned to Kyrgyzstan’s part of the Valley.

## **4. OVERALL ASSESSMENT OF IDA'S ASSISTANCE**

### **Strengths of IDA Assistance**

4.1 IDA's assistance in the early 1990s was on the whole appropriate, relevant and timely. In particular, it was appropriate to: begin with studies to establish a diagnostic basis for lending, TA and intended further AAA (including by other donors); help put in place an agency to manage external assistance; mobilize and help coordinate assistance from other donors; hold off lending until the new currency was launched and an IMF-supported stabilization program was in place; and then assist the Government, via a series of policy-based operations, to pursue an ambitious and comprehensive reform program.

4.2 The sequencing of the early operations also appears to have been appropriate, starting with a rehabilitation credit that served to get IDA a "seat at the table" and launch the policy dialogue, followed by policy-based operations concentrating on privatization and liquidation/restructuring of the largest loss-making SOEs.

4.3 The objectives for the FY96-98 period was to broaden reforms and emphasize agricultural development. These too were generally appropriate objectives, with appropriate sequencing, given the need for policy and institutional reforms in the financial sector (FINSAC and a complementary TA operation) and in public sector management (PSRMAC) on the one hand, and developing the country's comparative advantages in agriculture and coping with growing poverty, unemployment and underemployment in the rural areas on the other. The involvement of IDA in improving health sector policy and management (via the FY96 Health Sector Reform project) was also appropriate in the face of the impossibility of maintaining the public health system inherited from the Soviet period.

4.4 The objectives of the strategy for FY99-01, as described in the 1998 CAS, to mount adjustment operations in support of pension reform and private sector development were well-placed, as were the stated objectives to strengthen institutional capacity, including through measures to make TA more effective. Other positive aspects of this CAS were that it was more inclusive of other institutions within the Bank Group; it was a joint effort with IFC and targeted cooperative efforts with WBI to enhance ownership of the reforms within Kyrgyzstan. In addition, the CAS was widely discussed (more so than previous CAS's) within IDA and with Kyrgyz partners (including the Parliament, NGOs, and government) and other donors.

### **Weaknesses of IDA's Assistance**

4.5 Several weaknesses that made IDA's assistance less relevant than it might have been were: (i) over-optimism about the speed at which sustainable growth would be restored, as a result of structural changes; (ii) inadequate risk assessment at both the project and strategic levels; (iii) insufficient attention to governance issues, the complexities of institutional development in the local context, and the need for follow up in implementation of the reforms.

4.6 Over-optimism. In the early 1990s there was a “vision” among some high-level government officials that Kyrgyzstan might become “the Switzerland of Central Asia,” a bastion of democracy and market-friendliness that would attract upscale tourists, electronics and other high-tech industry, and regional financial institutions. IDA appropriately helped show this vision to be unrealistic, at least in the near-term, but the vision has not so far been replaced by a more realistic one, much less a medium- to long-term macroeconomic framework.

4.7 As in many CIS countries, IDA was over-optimistic throughout much of the 1990s about how the economy would respond to structural changes. With the exception of growth rates in several years (1996, 1997, and 2000), IDA’s projections of most key variables, including GDP growth rates, fiscal and trade deficits, debt, and inflation have been consistently over-optimistic throughout the decade (Table 4.1). Even the 1998 CAS, with the benefit of the experience of poor past projections and the knowledge that the price of gold, on which exports heavily depended, had dropped to under \$300 per oz., presented no downside scenarios for macroeconomic projections. Underlying these projections was the assumption that structural reforms would be sufficient to restore growth and stability to the economy.

**Table 4.1 Projections of selected key variables in each CAS and actuals, 1993-2000**

		“CAS” 93			CAS 95			CAS 98		
		1993	1994	1995	1995	1996	1997	1998	1999	2000
GDP growth	P	-16	-1 to 1	3 to 5	1	3.0	4.0	6.0	4.5	4.5
	A	-16.3	-20.1	-5.4	-5.4	7.1	9.9	2.1	3.6	5.0
Fiscal	P	-6.9	-7 to -	-5 to -	-10.4	-4.9	-3.4	-8.7	-7.1	-6.2
	A	-13.5	-11.6	-17.3	-17.3	-9.5	-9.2	-9.5	-12.0	-8.5
Current	P	-20.1	-18	-13/-5	-7.9	-9.3	-9.0	-7.5	-6.8	-6.0
	A	-15.9	-11.3	-16.2	-16.2	-23.2	-7.9	-20.2	-16.3	-12.0

Note: P = projected; A = actual

4.8 In addition, in self-evaluation of its operations, IDA has been more positive on outcomes that OED thinks is warranted. For example, IDA rated its adjustment operation in support of privatization, PESAC, as highly satisfactory, whereas OED rated the outcome as marginally satisfactory for reasons discussed in para. 2.10. The adjustment operation in agriculture supported important economic reforms which together with good weather have enabled the sector to be a source of growth in recent years, but agricultural yields and production levels have not regained their pre-independence levels and recent decrees introduced by government suggest some backtracking on government intervention in the sector. Further reforms are needed.

4.9 The FINSAC supported reforms in the financial sector and, like the other adjustment operations, was considered satisfactory by IDA; OED concurred in its review of the ICR. Some of the more important reforms included closing large state-owned banks, establishing a debt resolution agency, and basic legal and regulatory reforms governing the banking system. The 1998 CAS described the financial sector as increasingly robust, with a small core of well managed commercial banks, and suggested that the priority for future development of the sector should be on non-bank financial institutions, particularly the Kyrgyz Stock Exchange and private pension funds. Within

months of the credit's closing and the 1998 CAS, however, the banking sector was hit by a crisis that revealed serious remaining problems: weak banking supervision (including turnover of trained staff), poor financial reporting, poor governance, fraudulent behavior, and concentration of credit in the state oil and gas company, which in turn had problems of non-reimbursed subsidies, mismanagement, and fraud that led to substantial losses. Because of continued vulnerability of the sector and the need for further deep reforms, including closing the largest insolvent banks and restructuring others, OED considers the sustainability of the benefits achieved under the FINSAC to be unlikely.

4.10 Inadequate risk assessment. The flip side of overly optimistic assumptions about economic growth and stability was inadequate analysis of the risks, economic and political. Both the 1995 and 1998 CAS recognized vulnerabilities arising from uncertain sources of growth, trade arrangements with neighboring countries, limitation on policy implementation capacity, and other external factors. But throughout the 1990s the major risk that IDA perceived was a reversal or slippage in policy direction, and concluded that such a risk was unlikely to occur. In the early 1990s, the Bank did not generally deal explicitly in client countries with such issues as poor governance and corruption; potential social unrest; ethnic tensions; and drug trafficking. But by 1998, these topics were openly discussed and analyzed within the Bank on other countries, yet the 1998 CAS on Kyrgyzstan made no mention of any of these risks. In fact, in IDA's view, Kyrgyzstan in 1998 was not a high risk country.<sup>6</sup>

4.11 Insufficient attention to governance issues and follow up of implementation of reforms. The 1993 strategy appropriately emphasized a flexible, learning-by-doing approach. Yet from the beginning, IDA approved a series of relatively large, ambitious, and complex adjustment and investment-cum-TA projects in the context of an uncertain economic environment and limited implementation capacity. IDA staff have acknowledged that Kyrgyzstan operations were sometimes modeled after ones designed for Eastern and Central Europe and Russia, without tailoring project design to reflect Kyrgyzstan's particular conditions, including its geography, dependence on Russia, institutions, and cultural characteristics. Partly in consequence, IDA overestimated the government's implementation capacity, and in some cases its commitment.

4.12 At the project level, there has been over-estimation of the country's implementation capacity and a misreading of how the changed policies would affect behaviors of key principals and agents, including the old nomenclature who became the new "insiders". The new policies and prices did provide incentives to restructure, raise productivity, and create wealth. But the new and old power structures, in combination with old clan loyalties, have given rise to competing and often countervailing incentive structures that made it more attractive, for example, for enterprise managers to strip assets than to enhance them, for farmers to slaughter millions of sheep than to tend them, and for civil servants to extort and exploit private sector entrepreneurs than to assist them. There were unrealistic assumptions, moreover, in the PESAC that foreign strategic investors would invest in Kyrgyzstan, in the Social Safety Net project that unemployment

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<sup>6</sup> The Region notes, "Regional staff were versed in the historical background and ethnic composition of the country, tensions and varying regional problems and needs. Such issues were discussed during the internal review processes of each CAS's development and country assistance strategies were designed against this backdrop."



and labor markets would evolve as in Eastern Europe, and in the Enterprise Financing Project that substantial numbers of privatized enterprises would prove creditworthy.

4.13 Over-optimism has resulted in too little analysis early on of important issues; a reticence to acknowledge until quite recently that the outcome of the initial stages of reform have not been fully satisfactory; and a consequent lack of follow up in specific sectors where implementation has been incomplete (privatization, legal reforms, agricultural reforms, financial sector).<sup>7</sup> For example, although IDA recognized in the early years both the widespread poverty and the need to reduce fiscal expenditures, there was little substantial analysis of public expenditures; it wasn't until FY00 that IDA carried out a review of social expenditures. As a second example, although women have generally fared worse than men during the transition in terms of employment, income, and health indicators, the 1998 CAS stated that "gender was not a significant issue".<sup>8</sup> Had IDA focused on gender aspects of its operations, it might have been able to mitigate some of these outcomes, for example, the tendency for the IDA-supported land privatization to register land in the name of the head of household, in many cases effectively reducing women's control over land (The Region notes that as a result of more recent data, over the last 18 months the Region has supported two grants on women and the law). Finally, as another example of over-optimism, the most recent adjustment credit, the Consolidation Adjustment Credit, was presented initially as putting the "finishing touches" on the reform process and has tried to incorporate a wide range of actions; the future lending program, however, now includes several more adjustment loans to follow up on the considerable remaining reform agenda.

### **Considering the Counterfactual and Rating the Outcome**

4.14 If IDA's views had been more realistic, the volume of IDA lending might have been lower and more consistent with a "base case" than a "high case" scenario. Public consumption would have been less, which might have resulted in greater cuts in health and education expenditure, but it might have pushed the government to take earlier and more forceful action to liquidate uneconomic public enterprises, rationalize utility pricing, and move ahead with civil service reform. The large budgetary support from donors has facilitated some reforms while probably enabling the postponement of others. Although more rapid progress on reforms might have increased poverty even more in the short run, it would have put in place the structures necessary to promote private sector development and growth in the longer run. Finally, more realistic macroeconomic projections would also have served to dampen unrealistic expectations within Kyrgyzstan, and in turn may have prevented some of the anger and frustration that now threaten the sustainability of the reforms.

4.15 Had IDA been less sanguine about outcomes and sustainability, it might have tracked implementation, outcome, and impact of the reforms more carefully, and might have focused earlier on follow up measures needed to carry them through. It might have

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<sup>7</sup> It should be recognized, however, the limited possibilities for follow up operations in a small country with a relatively small number of credit operations. Nevertheless, several smaller, sequenced adjustment operations in the same sector might have ensured better follow through on implementation.

<sup>8</sup> By contrast, ADB had in 1995 developed a gender-based strategy based in part on analysis that made use of the Bank's poverty analysis.

pushed earlier for reforms in the business environment (licensing requirement, tax requirements), in the utilities, and in fiscal management and transparency. In addition, more realistic perceptions of the weaknesses in governance and implementation capacity might have led to simpler project designs and to more efforts to pilot new approaches through APLs and LILs.

4.16 On the other hand, IDA or other donors could have done little to offset the disadvantages of Kyrgyzstan's geography or to avert the collapse of industry, dislocations in trade, the brain drain, exogenous shocks of 1998-99, or to create new institutions and behavioral patterns. Even an "ideal" IDA strategy and program would probably not have had much impact on growth and poverty in the 1990s, although it might have begun to build a better basis for increasing growth and reducing poverty in the years ahead.

4.17 In addition, Kyrgyzstan would likely be even worse off today without IDA's assistance. IDA helped Kyrgyzstan move faster and farther in undertaking reforms than would have been possible otherwise. Although it is enormously disappointing that the outcome of IDA assistance has not been better, a good amount of the necessary foundation for future growth and poverty alleviation have been laid through the substantial IDA-assisted policy reform, learning, and institutional improvements that took place in the 1990s. On balance, therefore, **OED rates the outcome as moderately satisfactory** (definition of the ratings is in Attachment 1).

### **Institutional Development Impact and Sustainability**

4.18 *Institutional development (ID) impact.* In terms of the broad definition of ID as "changes in the rules of the game," including policy reform and organizational change, the ID impact of IDA's program was surely substantial. The impact was also substantial in terms of capacity building in certain areas (See Box D). IDA supported ID through TA credits, TA components in most projects, joint studies, supervision, and WBI and Vienna Institute programs, and beneficiaries included academics, NGO, and project personnel as well as officials at ministry and local levels. OED rated ID impact as modest in the only two projects rated, but these had more limited ID objectives than the overall program. At the country level, the rules of the game have changed enormously in the past decade and a huge amount of donor-supported training has taken place.

4.19 This report has emphasized that an enormous amount of ID remains to be done in terms of both rule/behavior changing and capacity building, and should be done more efficiently than in the past. Nevertheless, in recognition of the substantial contribution IDA has made to progress in reforms, on balance **OED rates the ID impact of IDA's program as substantial.**

4.20 *Sustainability* (see Attachment I to the report for a definition of sustainability). The 1998 CAS was sanguine about the sustainability of Kyrgyzstan's progress towards its main development objectives. On the positive side, there appears to be no popular support for a return to the policies of a command economy and even the communists are not calling for a reversal of reforms. In addition, the general direction of Government has continued to support reforms. Nevertheless, in the past few years there has been some wavering and a bit of backtracking in the government's initially strong commitment to reform. This has been signaled by a near halting in the privatization of the major

monopolies; new decrees that appear to increase government involvement in agriculture; decreases in regulations governing private businesses counteracted by an increase in licensing and inspection; appointments of officials not clearly committed to reform; corruption tolerated at high levels; and slow progress on fiscal, civil service, legal, and key institutional reforms. Popular support for the reforms may also be questionable: true “ownership” of the reform program was always limited to a small proportion of the population, and discontent over declining living standards, corruption, and widening inequality has increased.

4.21 There is also an implementation capacity constraint. Even with adequate political will, the weak government may still have difficulty delivering the core functions of enforcing rules of law, administering a fair tax system, providing an enabling environment for private sector development, and delivering key social services. The sustainability of the transition is also rendered uncertain by the uncertain sources of future growth; the country’s vulnerability to shocks related to its concentration of trade with Russia and its continued uneasy relations with neighboring countries; and ethnic tensions and drug trafficking that create security and stability problems with which the government is ill-equipped to cope. **On balance, OED rates sustainability as uncertain.**

#### **Box D: Good Practice in Building Capacity for Poverty Monitoring and Analysis**

One area where capacity building has been successful to date is poverty monitoring and analysis, carried out by Natstatkom, the National Statistical Agency. The experience points to some lessons relevant to other capacity building efforts.

One objective of the Social Safety Net Project was to strengthen the government’s capacity to carry out surveys and analyses in order to improve targeting and delivery of social services. This became increasingly important because of the widespread and growing poverty and the squeeze on resources available to alleviate it. By end-99, the training and experience gained by Natstatkom staff enabled them to perform, without much external assistance, competent studies and analyses that were used extensively and valued highly by other branches of the government concerned with social protection and the targeting of benefits.

This capacity building did not come quickly or easily. As with many TA projects, the client agency was initially skeptical of the need for new methodologies and skills, while the data users were skeptical of the need for different kinds of data and analyses from those of the Soviet period. There was, consequently, some resistance to the TA, especially since it was not on grant terms. A main reason why the capacity building became client- rather than donor-driver, and why the TA “took hold,” was that the training was provided persistently over five years, allowing *time* for perceptions to change and skills to develop, notwithstanding some setbacks, as when some staff departed. A related factor was the iterative nature of the learning process, as each succeeding survey was built upon progressively stronger foundations. In addition, staff were motivated by seeing their outputs used to good effect, e.g., by IDA in the design of SOSAC, and by the Ministry of Labor and Social Protection in improving targeting of the unified monthly benefit (the main instrument of the social safety net). This led to a “virtuous circle” of improved supply and increased demand. Good leadership (and eventually strong ownership) on the client’s side and strong continuous supervision by IDA were also important contributing factors.

## IDA and Borrower Performance

4.22 **IDA performance.** Areas in which IDA performance was notably strong included the generally responsive, flexible and pragmatic initiatives taken in the early- and mid-1990s to frame an assistance program to address the country's urgent needs for policy reform, a social safety net, and massive institutional change. In the absence of any blueprint on how to do this, Bank staff and management worked extremely hard and reasonably effectively to undertake economic and sector studies needed to underpin both policy reform and lending operations, to foster a policy dialogue with the Government, to mobilize aid from other donors and to some extent coordinate that aid, through TA and WBI and the Vienna Institute to train large numbers of Kyrgyz citizens in the skills needed by a market economy. IDA performance was relatively strong in terms of the overall professional quality of services provided, the exercise of selectivity dictated by the scarcity of resources, and the promotion of participation and partnership.

4.23 IDA performance was less satisfactory with regard to its optimistic assessments of project and country risks, insufficient monitoring of the development impact of IDA's projects and programs, and too little follow through of implementation of the reforms it supported. The glasses through which country performance was perceived were "rose-tinted" for too long. In addition, IDA has been slow to acknowledge how much is still unknown about the workings of Kyrgyzstan's economy and society, and about why expected and actual outcomes have been so different.

4.24 **Borrower (Client Country) performance** was highly satisfactory in the early 1990s when Kyrgyzstan was, among FSU countries, an early and earnest reformer, particularly in terms of its rapid stabilization and extensive liberalization. As exemplified by Kyrgyzstan's admission into the WTO in 1998, the Government deserves considerable credit for continuing to liberalize the economy and for pursuing other policy and institutional reforms as described previously. The Government should be commended in particular for continuing to undertake reforms even in the face of the many shocks it has suffered, both internally and from abroad.

4.25 During the course of the past decade, however, it became clear that the "client" was not a homogeneous set of technocratic reformers but rather an amalgamation of clients, implementing agencies, and stakeholders, including the parliament, the old nomenclature, clan groups, the new mafias, new civil society organizations, and others with often conflicting agendas. In this context of shifting and competing powers, the influence of the reformers was sometimes offset by other groups.

4.26 In consequence, client country performance became less satisfactory as many of the reform-oriented laws, policies and programs were poorly implemented while corruption and other governance problems came to be binding constraints on the country's development. It is also uncertain how many reforms have been undertaken on paper but not in fact in order to secure large aid inflows, rather than because of strong commitment to the reforms themselves. The matter of "ownership" is therefore quite problematic.

4.27 The process of the CDF is encouraging Government to take a leadership role in discussing development issues and agreeing on an agenda for action. For example, in

July 2000 Government organized and chaired a large workshop on governance issues, at the encouragement and with financing from IDA, with wide participation, including the legislative and judicial branches, civil society, the private sector, NGOs, the mass media, academia, representatives of local government, as well as the donor community.

Although this process will complicate the task of defining strategies for future development, it is a healthy sign that the Government may want to take different views into account. It is unclear, however, over whether this process will be sustained beyond the initial impetus (and financing) provided by IDA.

## 5. IMPLICATIONS FOR FUTURE IDA ASSISTANCE

5.1 The two main messages of this evaluation are in the following quotations.

*“Crisis management and peace building have to be part of a development strategy.”*

*Kofi Annan, 1999 Address at the World Bank*

*“With poverty reduction front and center of our agenda, our work at the “rock-face” must be on governance, institutions and capacity building.”*

*James Wolfensohn, Address to the 1999 Annual Meetings*

### Recommendations

5.2 The future strategy should:

(i) **Acknowledge that Kyrgyzstan is highly vulnerable to a number of risks and is a country that calls for contingency planning.** The Government must decide if donor support is called for to cope with increased drugs and arms trafficking, incursions by militant groups, uncertain relations with neighboring countries that affect trade, and other factors over which the Government has limited or no control, and which can be better managed and minimized through actions at regional and international levels. The future strategy should include assisting the government, if it expresses interest, with contingency planning for these kinds of shocks.

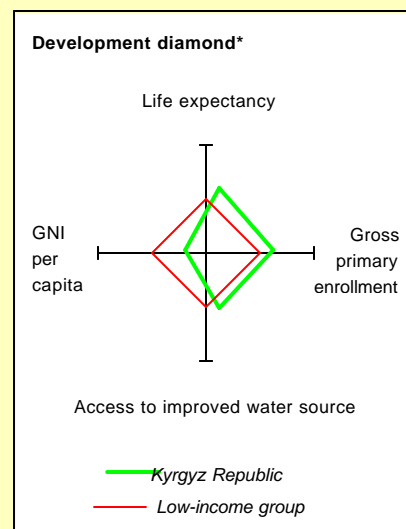
(ii) **Focus on governance, institutions, and capacity building,** giving particular attention to the realities of existing clan and other power structures, and building where possible upon pre-existing institutions and social capital. A central focus should be on creating a better environment for business, getting in place effective incentives to productive behaviors and disincentives and constraints to unproductive and corrupt “insider” dealings and behaviors. Related measures include enforcement of more automatic “exit mechanisms,” to force more liquidations on uneconomic SOEs and bankruptcies of unviable private/mixed enterprises. Because corruption flourishes in the lack of information, transparency, and accountability that cut across all sectors and government functions, improvements in these areas should also be a key objective of IDA’s strategy.

- (iii) **Be more realistic in designing IDA projects and in coordinating donor assistance about the limitations of government's implementation capacities.** A project-pruning exercise by all donors is in order, as there are already too many projects with too many components to permit effective implementation.
- (iv) **Carry out AAA geared to: improving monitoring and evaluation; facilitating prioritization for government and donor expenditures, for policy reform, and, in particular, to identify priorities for improving public sector management.** AAA should also monitor widening inequalities in wealth and income distribution and growing rural unemployment, which add to potential volatility.

# Kyrgyz Republic at a glance

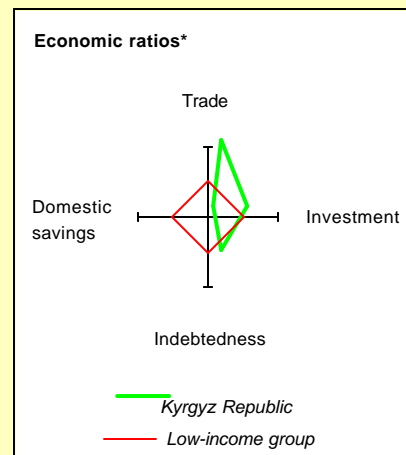
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POVERTY and SOCIAL	Europe & Central Asia		
	Kyrgyz Republic	Central Asia	Low-income
<b>2000</b>			
Population, mid-year (millions)	4.9	475	2,459
GNI per capita (Atlas method, US\$)	270	2,010	420
GNI (Atlas method, US\$ billions)	1.3	956	1,030
<b>Average annual growth, 1994-00</b>			
Population (%)	1.3	0.1	1.9
Labor force (%)	2.9	0.6	2.4
<b>Most recent estimate (latest year available, 1994-00)</b>			
Poverty (% of population below national poverty line)	52	..	..
Urban population (% of total population)	35	67	32
Life expectancy at birth (years)	67	69	59
Infant mortality (per 1,000 live births)	23	21	77
Child malnutrition (% of children under 5)	11	..	..
Access to an improved water source (% of population)	83	90	76
Illiteracy (% of population age 15+)	3	3	38
Gross primary enrollment (% of school-age population)	97	100	96
Male	97	101	102
Female	97	99	86



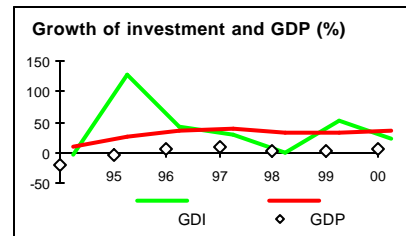
## KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1980	1990	1999	2000	
GDP (US\$ billions)	..	..	1.3	1.3	
Gross domestic investment/GDP	..	24.2	18.0	16.0	
Exports of goods and services/GDP	..	29.2	42.2	43.5	
Gross domestic savings/GDP	..	3.7	3.2	4.3	
Gross national savings/GDP	..	3.7	2.8	4.5	
Current account balance/GDP	..	..	-14.4	-5.9	
Interest payments/GDP	..	..	4.0	5.1	
Total debt/GDP	..	..	133.3	135.8	
Total debt service/exports	..	..	20.1	28.5	
Present value of debt/GDP	..	..	98.1	..	
Present value of debt/exports	..	..	227.8	..	
	1980-90	1990-00	1999	2000	2000-04
<i>(average annual growth)</i>					
GDP	..	-4.1	3.7	5.0	4.4
GDP per capita	..	-5.1	2.2	4.1	3.4
Exports of goods and services	..	-2.3	-10.4	-0.4	0.1

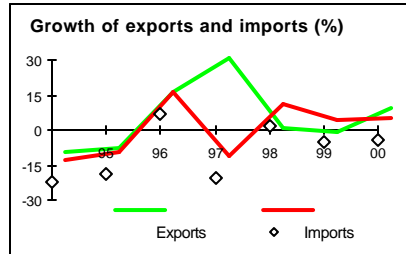


## STRUCTURE of the ECONOMY

	1980	1990	1999	2000
<i>(% of GDP)</i>				
Agriculture	..	34.2	37.7	39.4
Industry	..	35.8	26.7	26.4
Manufacturing	..	27.7	7.1	5.7
Services	..	30.0	35.6	34.2
Private consumption	..	71.1	77.6	77.0
General government consumption	..	25.0	19.1	18.7
Imports of goods and services	..	49.6	57.0	55.2



	1980-90	1990-00	1999	2000
<i>(average annual growth)</i>				
Agriculture	..	1.5	8.2	3.9
Industry	..	-8.0	-3.8	6.0
Manufacturing	..	-14.3	-5.7	-6.6
Services	..	-11.3	0.0	7.0
Private consumption	..	-5.4	2.4	6.7
General government consumption	..	-8.9	4.1	3.1
Gross domestic investment	..	-5.0	23.3	-5.8
Imports of goods and services	..	-8.5	-4.9	-4.6

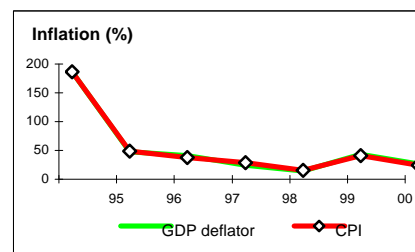


Note: 2000 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

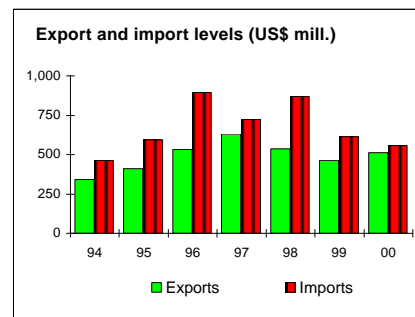
## PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
<b>Domestic prices</b>				
(% change)				
Consumer prices	..	..	35.9	18.7
Implicit GDP deflator	..	7.9	37.6	21.5
<b>Government finance</b>				
(% of GDP, includes current grants)				
Current revenue	..	..	21.0	19.4
Current budget balance	..	..	-2.7	-2.3
Overall surplus/deficit	..	..	-12.5	-10.2



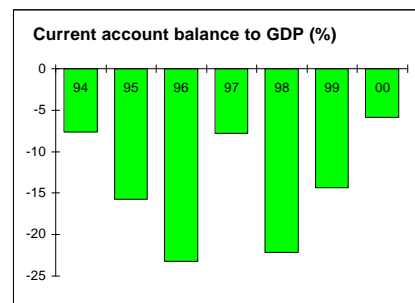
## TRADE

	1980	1990	1999	2000
(US\$ millions)				
Total exports (fob)	..	..	463	511
Electricity	..	..	52	80
Gold	..	..	184	197
Manufactures	..	..	100	104
Total imports (cif)	..	..	614	559
Food	..	..	53	61
Fuel and energy	..	..	123	129
Capital goods	..	..	160	107
Export price index (1995=100)	..	..	107	119
Import price index (1995=100)	..	..	125	128
Terms of trade (1995=100)	..	..	85	93



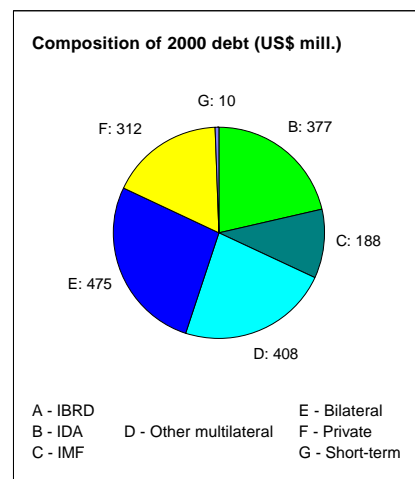
## BALANCE of PAYMENTS

	1980	1990	1999	2000
(US\$ millions)				
Exports of goods and services	..	..	528	573
Imports of goods and services	..	..	701	651
Resource balance	..	..	-174	-78
Net income	..	..	-74	-80
Net current transfers	..	..	68	82
Current account balance	..	..	-180	-77
Financing items (net)	..	..	222	83
Changes in net reserves	..	..	-42	-7
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	..	249	263
Conversion rate (DEC, local/US\$)	..	..	39.0	47.7



## EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US\$ millions)				
Total debt outstanding and disbursed	..	..	1,667	1,770
IBRD	..	..	0	0
IDA	..	..	342	377
Total debt service	..	..	108	169
IBRD	..	..	0	0
IDA	..	..	2	3
Composition of net resource flows				
Official grants	..	..	75	92
Official creditors	..	..	181	133
Private creditors	..	..	-42	-43
Foreign direct investment	..	..	44	-2
Portfolio equity	..	..	26	24
World Bank program				
Commitments	..	..	25	91
Disbursements	..	..	25	52
Principal repayments	..	..	0	0
Net flows	..	..	25	52
Interest payments	..	..	2	3
Net transfers	..	..	22	49





## Annex Table 2: Kyrgyz Republic Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1993-98	Europe & Central Asia	Low-income
<b>POPULATION</b>					
Total population, mid-year (millions)	3.3	4.0	4.7	474.7	3,536.4
Growth rate (% annual average)	2.1	1.9	0.8	0.1	1.4
Urban population (% of population)	37.9	38.2	33.9	66.2	30.5
Total fertility rate (births per woman)	4.9	4.2	2.8	1.6	3.1
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	51.0	..	..
Urban headcount index	..	..	28.5	..	..
Rural headcount index	..	..	64.5	..	..
<b>INCOME</b>					
GNP per capita (US\$)	..	..	380	2,200	520
Consumer price index (1995=100)	..	..	193	155	136
Food price index (1995=100)	..	..	195	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	40.5	..	..
Lowest quintile (% of income or consumption)	..	..	6.3	..	..
Highest quintile (% of income or consumption)	..	..	47.4	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health (% of GDP)	..	..	2.7	4.0	1.3
Education (% of GNP)	..	..	5.3	5.1	3.2
Social security and welfare (% of GDP)	..	..	..	8.8	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	100	100	100	86
Male	..	100	100	100	89
Female	..	100	99	99	82
<b>Access to safe water</b>					
<i>(% of population)</i>					
Total	..	..	81	..	..
Urban	..	..	93	..	..
Rural	..	..	42	..	..
<b>Immunization rate</b>					
<i>(% under 12 months)</i>					
Measles	..	..	98	91	80
DPT	..	..	98	89	82
Child malnutrition (% under 5 years)	..	..	11	..	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	..	65	67	69	63
Male	..	62	63	65	62
Female	..	70	71	74	64
<b>Mortality</b>					
Infant (per thousand live births)	..	42	26	22	68
Under 5 (per thousand live births)	..	..	41	26	92
<b>Adult (15-59)</b>					
Male (per 1,000 population)	306	296	303	283	235
Female (per 1,000 population)	159	131	140	120	208
Maternal (per 100,000 live births)	..	..	65	..	..

**Annex Table 3: Kyrgyz Republic: Key Economic Indicators, 1988-1999**

Indicator	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1988-1999	1990-1999
GDP growth (annual %)	13.2	2.8	5.7	-8.1	-15.8	-16.3	-20.1	-5.4	7.1	9.9	1.8	...	-2.3	-4.3
GNP per capita growth (annual %)	11.4	0.4	5.3	-10.3	-16.5	-12.2	-21.4	-6.6	5.9	6.9	-0.6	1.7	-3.0	-4.6
GNP per capita, Atlas method (current US\$)	...	1230	...	...	...	...	...	720	580	480	360	300	611.7	508.6
GNP per capita, PPP (current international \$)	3322.2	3338.9	3557	3281.3	2860.3	2567.4	2058.2	1973.9	2105.9	2225.9	2158.7	2223.1	2639.4	2513.7
Population growth (annual %)	1.6	2.4	1.5	1.3	0.9	-0.2	-0.2	0.9	1.4	1.3	1.4	1	1.1	0.9
Agriculture, value added (% of GDP)	31.8	33.6	34.6	37.3	39.3	41	40.9	43.9	49.7	44.6	43.6	...	40.0	41.5
Manufacturing, value added (% of GDP)	...	...	27.8	28.9	33.7	26.3	21.8	12.9	11.9	17.9	18.9	...	22.2	22.2
Services, etc., value added (% of GDP)	...	...	29.5	27.2	22.9	27	33.7	36.6	32	32.6	34.9	...	30.7	30.7
Exports of goods and services (% of GDP)	...	...	29.2	35.3	35.6	33.5	33.8	29.5	30.7	38.3	36.7	...	33.6	33.6
Imports of goods and services (% of GDP)	...	...	49.5	36.6	47.6	41.2	40.1	42.4	56.6	46.2	57.5	...	46.4	46.4
International tourism, receipts (% of total exports)	...	...	...	...	0.7	0.6	0.8	1.1	0.7	1	1.2	...	0.9	0.9
Current account balance (% of GDP)	...	...	...	...	...	-2	-2.6	-7.1	-23.3	-7.8	-22.4	...	-10.9	-10.9
Resource balance (% of GDP)	-16.4	-22.4	-20.3	-1.3	-12	-7.6	-6.3	-12.9	-25.8	-7.9	-20.8	...	-14.0	-12.9
Agriculture, value added (annual % growth)	10.2	4.6	1.4	-14.3	-5	-8.6	-8.6	-1.9	15.1	7	6	...	0.5	-0.8
Manufacturing, value added (annual % growth)	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Services, etc., value added (annual % growth)	10.5	0.9	31.6	-9.2	-15.5	-19	-17.1	-6.6	-3.1	20.2	-2.6	...	-0.9	-2.2
Exports of goods and services (annual % growth)	...	...	...	...	...	...	8.5	-38.3	15.8	76.1	-2.5	...	11.9	11.9
Aid (% of GNP)	...	...	...	...	...	2.2	5.5	8.7	12.9	14	13.8	...	9.5	9.5
Aid (% of gross domestic investment)	...	...	...	...	...	18.6	59.7	46.4	50.1	62.3	132.6	...	61.6	61.6
Aid per capita (current US\$)	...	...	...	...	0.8	20.9	38.4	62.7	50.4	51.4	46	...	38.7	38.7
Money and quasi money (M2) as % of GDP	...	...	...	...	...	...	...	...	12.7	12.1	13.5	...	12.8	12.8
Money and quasi money growth (annual %)	...	...	...	...	...	...	...	...	14.8	32.2	17.5	33.8	24.6	24.6
Inflation, consumer prices (annual %)	...	...	...	...	...	...	...	...	31.9	23.4	10.5	35.9	25.4	25.4
Private capital flows, total (% of GDP)	...	...	...	...	...	0.2	1.2	2.9	2.5	6.1	7.9	...	3.5	3.5
Domestic credit provided by banking sector (% of GDP)	...	...	...	...	...	...	...	...	25.6	25	18	20	22.2	22.2
Gross domestic investment (% of GDP)	31.1	35.5	24.3	15.3	19.9	11.7	9	18.3	25.2	21.7	10	...	20.2	17.6
Gross domestic savings (% of GDP)	14.7	13.1	4	14	7.9	4	2.7	5.4	-0.6	13.8	-10.8	...	6.2	4.7
Gross international reserves in months of imports	...	...	...	...	...	1.2	0.6	1.3	1.1	2.3	2.3	...	1.5	1.5
Private investment (IFC, % of GDFI)	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Total debt service (% of exports of goods and services)	...	...	...	...	0	0.4	4.4	13.6	9.1	6.5	10	...	6.3	6.3
Overall budget deficit, including grants (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Expenditure, total (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Current revenue, excluding grants (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Tax revenue (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Trade (% of GDP)	..	..	78.7	71.9	83.2	74.7	73.8	71.8	87.3	84.5	94.1	..	80.0	80.0
Foreign direct investment, net inflows in reporting country (DRS, % of GDI)	...	...	...	...	...	2	13.3	15.8	10.3	22	66.9	...	21.7	21.7
Illiteracy rate, adult total (% of people 15+)	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Immunization, DPT (% of children under 12 months)	...	...	99	82	88	60	83	92	...	98	...	...	86.0	86.0
Life expectancy at birth, total (years)	...	67.9	68.3	68.6	68.1	67.2	66	65.8	66.5	66.9	67.1	...	67.2	67.2
Mortality rate, infant (per 1,000 live births)	...	32.2	30	29.7	31.5	31.9	29.1	28.1	25.9	28.6	26.2	...	29.3	29.0
Population density, rural (people per sq km)	...	...	...	...	228.6	213.3	214.8	234.5	221.4	225.7	...	...	223.1	223.1
Safe water (% of population with access)	...	...	...	...	...	80.5	...	...	...	...	...	...	80.5	80.5
Sanitation (% of population with access)	...	...	...	...	...	...	...	...	...	...	...	...	...	...
School enrollment, primary (% gross)	109.9	109.5	111.1	110.7	110.5	112.1	112.7	104.1	...	...	...	...	110.1	110.2
Urban population (% of total)	37.7	37.6	37.4	36.9	36.4	35.9	35.4	34.9	34.6	34.3	33.9	33.6	35.7	35.4

**Annex Table 4: Kyrgyz Republic - External Assistance**  
(US\$'000)

Net Receipts	1992	1993	1994	1995	1996	1997	TOTAL
<b>Donor</b>							
AUSTRALIA	0	0	0.01	0	0	0.11	0.12
AUSTRIA	0	0	0.12	0.27	0.26	0.18	0.83
BELGIUM	0	0	0.01	0.02	0.01	-0.07	-0.03
CANADA	0	0.05	0.12	0.03	0	0.03	0.23
DENMARK	0.09	0.05	2.71	2.96	2.98	2.64	11.43
FINLAND	0	0	0	0.02	0.13	0.39	0.54
FRANCE	0.04	0.15	0.13	0.93	0.06	1.07	2.38
GERMANY	0	0	2.32	15.26	11.71	10.6	39.89
IRELAND	0	0	0	0.12	0.03	0	0.15
ITALY	0.28	0	1.27	-0.04	0.1	5.79	7.4
JAPAN	0.82	0.78	44.49	45.8	44.27	18.05	154.21
LUXEMBOURG	0.08	0.03	0.04	0	0	0	0.15
NETHERLANDS	1.1	4.91	0.1	3.59	8.73	4.75	23.18
NEW ZEALAND	0	0	0	0	0.1	0.11	0.21
NORWAY	0	0.69	0.13	0.37	0.22	0.57	1.98
PORTUGAL	0	0	0	0	0	0	0
SPAIN	0	0	0	0	0.01	0	0.01
SWEDEN	0.02	0	0	0.07	0	0	0.09
SWITZERLAND	0	3.04	13.51	8.06	2.89	8.47	35.97
UNITED KINGDOM	0	0.7	0.33	0.88	0.92	1.29	4.12
UNITED STATES	1	59	22	19	28	8	137
DAC DONORS	3.43	69.4	87.29	97.34	100.42	61.98	419.86
AfDB	0	0	0	0	0	0	0
AFRICAN DEV. FUND	0	0	0	0	0	0	0
AsDB	0	0	0	0	0	0	0
ADB SPECIAL FUNDS	0	0	2.36	40	26.22	51.91	120.49
CARDB	0	0	0	0	0	0	0
COUNCIL OF EUROPE	0	0	0	0	0	0	0
EBRD	0	0	1.16	30.64	52.84	17.03	101.67
EC	0	25.04	28.9	12.18	14.55	17.69	98.36
EIB	0	0	0	0	0	0	0
IBRD	0	0	0	0	0	0	0
IDA	0	22.81	35.71	81.29	61.2	66.54	267.55
IDB	0	0	0	0	0	0	0
IDB SPECIAL OPER. FUND	0	0	0	0	0	0	0
IFAD	0	0	0	0	0	0.54	0.54
IFC	0	0	0	18.36	21.64	0	40
IMF	0	0	0	0	0	0	0
IMF TRUST FUND	0	0	0	0	0	0	0
NORDIC DEVELOPMENT FUND	0	0	0	0	0	0	0
OTHER UN	0	0	0.09	0.09	0.19	0	0.37
SAF & ESAF	0	0	13.6	46	23.37	44.45	127.42
UN AGENCIES	0	0	0	0	0	0	0
UNDP	0.05	0.08	1.18	1.51	2.5	4.07	9.39
UNFPA	0	0.35	0.43	0.56	1.05	1.07	3.46
UNHCR	0	0	0	0	0	0.5	0.5
UNICEF	0	0.5	1.37	1.68	1.22	1.25	6.02
UNRWA	0	0	0	0	0	0	0
UNTA	0.03	0.08	0.05	0.27	0.19	0.19	0.81
WFP	0	0	1.84	0	0	0	1.84
Arab Agencies	0	0.26	0	0.57	0	0	0.83
TOTAL MULTILATERAL	0.08	49.12	86.69	233.15	204.97	205.24	779.25
Arab Countries	0	0	0	0.05	0.26	0	0.31
EC + EU Members	1.61	30.88	35.93	36.26	39.49	44.33	188.5
TOTAL DONORS	3.51	118.52	173.98	330.54	305.65	267.22	1199.42

Source: OECD, Development Assistance Committee, Geographical Distribution of Financial Flows to Aid Recipients, 1999

**Annex Table 5: List of ESW Studies**

<i>Title</i>	<i>Date of Report</i>	<i>Report No.</i>	<i>Type</i>
Country Economic Memorandum - Crisis in Transition	1992	10979	Economic Report
Social Protection in a Reforming Economy	05/12/93	11535	Sector Report
The Transition to a Market Economy	06/01/93	12301	Country Study
Social Protection in a Reforming Economy	09/01/93	12362	Country Study
External Trade Policy	04/27/94	12410	Sector Report
Mining Sector Review	05/05/94	13024	Sector Report
Economic Report	05/13/94	12942	Economic Report
Intergovernmental Finances	May-95	14493	Sector Report
Economic Report	May-95	14643	Economic Report
National Environmental Action Plan	05/02/95	13990	Sector Report
Energy Sector Review	05/15/95	14036	Sector Report
Agricultural Sector Review	05/17/95	12969	Sector Report
Poverty Assessment and Strategy	05/30/95	14380	Sector Report
Country Assistance Strategy	06/02/95	14548	CAS
Tourism Prospects	FY97		Sector Note
Intergovernmental Finances	FY97		Sector Note
Creditworthiness for IBRD Lending	07/18/97	16664	Economic Report
Uranium Tailings Assessment	FY98		Sector Note
Opportunities for Renewable Energy Development	11/01/97	16855	ESMAP Paper
Country Assistance Strategy	04/14/98	17641	CAS
Agricultural Policy Review: Strategy for Rural Growth and	06/10/98	17734	Sector Report
Urban Transport Sector Review	06/30/98	18310	Sector Report
Private Sector Review in the Transitional Era	04/12/99	18121	Sector Report
Energy Sector Note	FY00		Sector Note
Consultations with the Poor	FY99		Sector Note
Update on Poverty in the Kyrgyz Republic	06/01/99	19425	Economic Report
Water Supply and Wastewater Sector Note	06/28/99	19487	Sector Report
Social Sector Finances	FY99/00		Sector Note
Women's Right to Land Pilot	FY99/00		Sector Note
Sources of Growth	FY00		Economic Work
Natural Resources Management	FY00		Sector Note
Mining Sector Update	FY00		Sector Note
Heat Strategy	FY00		Sector Note
Energy Sector Note	FY00		Sector Note
Banking Note	FY00		Sector Note
Fiscal Sustainability Study	06/01/00	20644	Economic Report

**Annex Table 6: Portfolio of Credits, Active and Closed**

<i>Proj ID</i>	<i>Project Name</i>	<i>Approval</i>	<i>Net Commit (\$m)</i>	<i>Disb.(\$m)</i>
<b>Active</b>				
P008518	TELECOMMUNICATIONS	06/23/94	18	17
P008524	PRIV. ENTERP. SUPP.	05/04/95	15	2
P008523	HEALTH	05/14/96	19	16
P008513	SHEEP & WOOL IMPROV.	05/14/96	12	5
P008519	POWER & DIST HEAT	05/23/96	35	14
P045631	FINANCIAL SEC. TECH.	06/25/96	3	2
P008520	RURAL FINANCE	06/05/97	16	14
P040721	AGRIC. SUPPORT. SERV	05/07/98	15	2
P046042	IRRIGATION REHAB.	05/07/98	35	8
P062682	FLOOD EMERGENCY	01/26/99	10	3
P064585	RUR FIN 2	06/24/99	15	0
P049719	LAND REGISTRATION	06/06/00	9	0
P049723	ON-FARM IRRIGATION	06/06/00	20	0
P069814	CONSLD TA	06/22/00	5	0
P050719	URBAN TRANSPORT	08/22/00	22	0
P035810	CONSLD SAC	09/14/00	35	10
	<i>Subtotal</i>		<i>284</i>	<i>93</i>
<b>Closed</b>				
P008512	REHABILITATION	05/13/93	60	62
P008514	PRIVATE & ENT. SAC	06/29/94	60	64
P008515	SOCIAL SAFETY NET	07/15/94	17	14
P008516	APEAC	06/28/95	45	42
P034095	FSAC	06/25/96	45	44
P008521	PUB SEC RES MGT ADJ	04/16/97	44	44
P038569	SOSAC	12/10/98	37	36
	<i>Subtotal</i>		<i>308</i>	<i>306</i>

**Annex Table 7: OED and QAG Ratings for Kyrgyz Republic and Comparator Countries**

**OED Ratings**

<i>Country</i>	<i>Total Evaluated \$m</i>	<i>o/w Adjustment \$m</i>	<i>Outcome</i>		<i>Inst. Devel. Imp.</i>		<i>Sustainability</i>	
			<i>% Satisf.</i>	<i>% Satisf. Adj.</i>	<i>% Substan.</i>	<i>% Substan. Adj.</i>	<i>% Likely</i>	<i>% Likely Adj.</i>
<b>1993-1999</b>								
Bank-wide	44017	31089	87	92	50	48	73	75
ECA	9080	6945	82	91	50	55	68	76
<b>Kyrgyz Republic</b>	<b>254</b>	<b>254</b>	<b>100</b>	<b>100</b>	<b>82</b>	<b>82</b>	<b>82</b>	<b>82</b>
Uzbekistan	160	160	0	0	0	0	0	0
Armenia	223	180	100	100	0	0	61	67
Moldova	216	190	72	68	12	0	18	0
Lao PDR	57	21	63	0	63	0	0	0

1) Source: OED ratings database as of 08/31/2000.

2) OED ratings for projects approved in FY93-FY99.

**QAG Ratings**

<i>Country</i>	<i>No. of projects</i>	<i>Net commit., \$m</i>	<i>Projects at risk, %</i>	<i>Commitment at risk %</i>
Bank-wide	1650	123425	18	20
ECA	328	22172	20	37
<b>Kyrgyz Republic</b>	<b>16</b>	<b>284</b>	<b>13</b>	<b>11</b>
Uzbekistan	8	298	38	45
Armenia	16	369	6	1
Moldova	11	178	18	28
Lao PDR	10	220	40	38

Source: World Bank Business Warehouse as of 10/20/2000.

**Annex Table 8a: Cost and Efficiency Indicators**

Country	Costs	Indicator	BFY93	BFY94	BFY95	BFY96	BFY97	BFY98	BFY99	93-99
Kyrgyz Republic	ESW Completion Costs (\$m)	Average Completion Cost (\$ '000)	148.6	147	174.2	-	-	-	121.7	167
Kyrgyz Republic	Lending Completion Cost (\$)	Average Completion Cost (\$ '000)	343.3	514.5	439.3	350	379.5	537.8	218.9	383
Kyrgyz Republic	Supervision Intensity (\$m)	Supervision Intensity Cost (\$ '000)	14.8	67.6	116	69.3	83.4	81.4	66.9	78
Kyrgyz Republic	Unsched ESW Completion Costs (\$m)	Average Completion Cost (\$ '000)	-	82.9	-	29.8	27.8	53.1	134.9	78
Europe And Central Asia	ESW Completion Costs (\$m)	Average Completion Cost (\$ '000)	174.9	223.8	186.1	214.2	228.5	160.8	134.8	183
Europe And Central Asia	Lending Completion Cost (\$)	Average Completion Cost (\$ '000)	248.5	398.1	382.2	388.2	339.3	337.2	308.9	347
Europe And Central Asia	Supervision Intensity (\$m)	Supervision Intensity Cost (\$ '000)	56.8	67.7	87.5	81.2	94.9	85.7	72.2	80
Europe And Central Asia	Unsched ESW Completion Costs (\$m)	Average Completion Cost (\$ '000)	101.9	29.1	86.8	109	10.6	36.2	223	84
Bank-wide	ESW Completion Costs (\$m)	Average Completion Cost (\$ '000)	162.3	190.5	171.5	180.2	196.7	177.1	157.1	176
Bank-wide	Lending Completion Cost (\$)	Average Completion Cost (\$ '000)	305.2	365.7	353.5	368.3	329.3	363.8	329.8	345
Bank-wide	Supervision Intensity (\$m)	Supervision Intensity Cost (\$ '000)	48	54.6	61.2	63.8	68.3	69.4	65.2	62
Bank-wide	Unsched ESW Completion Costs (\$m)	Average Completion Cost (\$ '000)	76.3	72.8	71	69.6	62.5	81.5	89.5	74

**Annex Table 8b: Costs of Bank Operations for Kyrgyz Republic, FY93-FY99**

Country/Region	Costs	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	Total FY93-	
									FY99	FY93-FY99
Bank-wide	ESW Completion Costs (\$m)	34.9	42.5	41.5	29.6	26.6	19.3	28.6	223.0	13%
Bank-wide	Lending Completion Cost (\$m)	74.8	83.4	85.6	94.3	79.4	104.0	91.4	612.9	36%
Bank-wide	Supervision Intensity (\$m)	85.1	96.3	106.4	111.7	120.6	126.1	118.0	764.2	45%
Bank-wide	Unscheduled ESW Completion Costs (\$m)	19.7	14.5	13.6	17.7	14.1	14.8	18.3	112.7	7%
<i>Total:</i>									<i>1712.8</i>	

Country/Region	Costs	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	Total FY93-	
									FY99	FY93-FY99
Europe And Central Asia	ESW Completion Costs (\$m)	6.1	10.3	6.9	6.6	3.2	3.9	7.8	44.8	13%
Europe And Central Asia	Lending Completion Cost (\$m)	7.5	16.7	22.2	23.7	22.7	23.3	22.9	139.0	41%
Europe And Central Asia	Supervision Intensity (\$m)	6.9	10.2	16.5	18.6	25.8	27.0	25.6	130.6	39%
Europe And Central Asia	Unscheduled ESW Completion Costs (\$m)	5.0	3.1	2.5	2.1	1.0	2.8	5.4	21.9	7%
<i>Total:</i>									<i>336.3</i>	

Country/Region	Costs	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	Total FY93-	
									FY99	FY93-FY99
Kyrgyz Republic	ESW Completion Costs (\$m)	0.3	0.3	1.0	-	-	0.2	0.2	2.0	14%
Kyrgyz Republic	Lending Completion Cost (\$m)	0.3	1.0	1.3	1.7	0.8	1.1	0.7	6.9	49%
Kyrgyz Republic	Supervision Intensity (\$m)	0.0	0.2	0.7	0.8	0.9	1.0	0.9	4.5	32%
Kyrgyz Republic	Unscheduled ESW Completion Costs (\$m)	-	0.1	-	0.1	0.1	0.1	0.3	0.7	5%
<i>Total:</i>									<i>14.1</i>	

Source: World Bank CTR database as of July 2000.



**Annex Table 8c: Costs of Bank Programs for Kyrgyz Republic and Comparator Countries,  
FY91-99**

<b>Costs</b>				
<i>Regions/Countries</i>	<i>Total costs, \$m</i>	<i>Lending completion costs, \$m</i>	<i>Supervision costs, \$m</i>	<i>ESW completion costs, \$m</i>
Bank-wide	2292.1	979.1	897.9	415.1
Europe and Central Asia	408.6	192.9	139.4	76.3
Kyrgyz Republic	15.2	8	4.5	2.7
Bank-wide	100%	43%	39%	18%
Europe and Central Asia	100%	47%	34%	19%
Kyrgyz Republic	100%	53%	30%	18%

**Efficiency Table**

<i>Regions/ Countries</i>	<i>Total costs, \$m</i>	<i>Number of projects</i>	<i>Net commitment for satisf. &amp; nonrisky projects, \$m</i>		<i>Average costs per project, \$1000</i>	<i>Average costs \$ per \$1000 of net commitment</i>	<i>Average costs \$ per \$1000 of net commitment for satisf. &amp; nonrisky projects</i>	<i>Memo Average project size, \$m</i>
			<i>Net commitment, \$m</i>	<i>satisf. &amp; nonrisky projects, \$m</i>				
Bank-wide	2292.1	2229	197103	144120	1028	11.6	15.9	88
Europe and Central Asia	408.6	434	34976	21464	941	11.7	19.0	81
Kyrgyz Republic	15.2	18	513	343	844	29.6	44.3	29

Source : World Bank CRM database as of July 6, 2000.

- 1) The amount of total costs includes lending completion costs, supervision, scheduled and unscheduled ESW, and dropped project costs.
- 2) The amount of lending completion costs includes lending completion costs and dropped project costs.
- 3) The amount of ESW preparation costs includes unscheduled and scheduled ESW preparation costs.

**Annex Table 9: Bank Management for Kyrgyz Republic: 1993 - 1999**

<i>Year</i>	<i>Vice President</i>	<i>Country Director</i>	<i>Country Operations Division Chief</i>	<i>Resident Representative</i>
1993	Wilfried Thalwitz	Russell J. Cheetham	Kadir T. Yurukoglu	n.a.
1994	Wilfried Thalwitz	Russell J. Cheetham	Kadir T. Yurukoglu	n.a.
1995	Wilfried Thalwitz	Yukon Huang	Kadir T. Yurukoglu	Michael Rathnam
1996	Johannes F. Linn	Yukon Huang	Kadir T. Yurukoglu	Michael Rathnam
1997	Johannes F. Linn	Yukon Huang	Kadir T. Yurukoglu	Michael Rathnam
1998	Johannes F. Linn	Kiyoshi Kodera	Nancy J. Cook*	Michael Rathnam
1999	Johannes F. Linn	Kiyoshi Kodera	Nancy J. Cook*	Mohinder S. Mudahar

\* Country Officer

## Glossary of Ratings Definitions

OED's rating methodology is constantly evolving to take account of changes in evaluation methods and operational policies. This attachment summarizes the rating scales currently used in country assistance evaluations.

Ratings for Country Assistance Performance (Outcome): Currently, OED utilizes six rating categories for outcome, ranging from highly satisfactory to highly unsatisfactory. The three higher ratings are gradations of satisfactory, while the bottom three are gradations of unsatisfactory.

6. Highly Satisfactory
5. Satisfactory
4. Moderately or Partially Satisfactory
3. Marginally Unsatisfactory
2. Unsatisfactory
1. Highly Unsatisfactory

Rating for Institutional Development. The institutional development impact can be rated as: (4) high, (3) substantial, (2) modest and (1) negligible. Ratings are based on an assessment of the Bank's assistance impact on strengthening the client's capacity to manage, among others, the following areas:

- a. economic management,
- b. the structure of the Public Sector, and in particular the Civil Service,
- c. the institutional soundness of the financial sector,
- d. legal, regulatory and judicial systems,
- e. monitoring and evaluation systems,
- f. aid coordination,
- f. financial accountability.

Rating for Sustainability. Sustainability measures the likelihood that the development benefits of the country assistance program will be maintained. Sustainability can be rated as (3) likely, (2) uncertain, and (1) unlikely. It is OED's intention over the coming months to increase to four the number of possible ratings.

**КЫРГЫЗ  
РЕСПУБЛИКАСЫНЫН  
ФИНАНСЫ МИНИСТРЛИГИ**



**МИНИСТЕРСТВО ФИНАНСОВ  
КЫРГЫЗСКОЙ РЕСПУБЛИКИ**

**MINISTRY OF FINANCE  
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Current issue № 23-5 of « 9 » March 2001  
In reply to: № \_\_\_\_\_ of « \_\_\_\_\_ » 2001

**To: Ruben Lamdany  
Manager  
Country Evaluation & Regional Relations  
Operations Evaluation Department  
World Bank**

Dear Mr. Lamdany,

First of all, let me express my sincere appreciation for such a thorough and in-depth appraisal of cooperation between the World Bank and the Kyrgyz Republic. Carrying out such an independent survey shall help both parts reveal more thoroughly the aspects of joint effort that have been thrashed out insufficiently, as well as shall it help the parts to optimize current strategy and strategy for the future.

Government of the Kyrgyz Republic appreciates cooperation with the World Bank and claims such partnership in the area of economic and political development of the country to be of importance and higher priority for the Republic.

In fact, after collapse of the former USSR Kyrgyz Republic (*pari passu* with the other newly formed independent states) faced a good many negative factors associated with defects and upsetting of the economic structures. This was especially true for the industrial and financial sectors of economy that served as links in the common planned economy system of the former USSR. Inflation rates rose dramatically all over the ruble zone of the newly formed Commonwealth of Independent States (CIS). This was followed by sizeable deterioration of all macroeconomic indicators. This was the reason why the Government of the Kyrgyz Republic took the only right decision. Kyrgyz Republic was among the first CIS countries to leave the ruble zone adopting its national currency (the Som, 1993) and proclaim the course of democratic reforms. Given land-locked position of the country and scarce financial and natural resource,

successful implementation of the declared reforms was heavily dependent on timeliness and quality of integration of the Kyrgyz Republic into the international economic and political society. Such international financial organizations as the International Monetary Fund, World Bank, Asian Development Bank, European Bank for Reconstruction and Development, and governments of the key leading developed economies of the world kindly rendered assistance to the young Republic in its efforts.

In this connection the key aspect of cooperation between the Kyrgyz Republic and the World Bank is the utilization of loans provided for implementation of various projects aimed at structural reforms in the country. Having financially supported fiscal deficit, these loans became a catalyst of the reforms in various sectors of the country's economy. Structural adjustment programs allowed the Government of the Kyrgyz Republic to carry out comprehensive reforms in various economic sectors.

Thus, for instance, present steady trend of production growth proves successful reforms in the agricultural sector (now representing ca. 40 percent of the GDP volume). Guiding aspect of reforms in this sector is the abolishment of the moratorium on sale of agricultural land approved in 2001. This shall help create a sound foundation for the further improvements in the agricultural industry performance.

Significant amounts of small and medium enterprises have been privatized during the period under review. Since the very beginning of the privatization process about 7 thousand economic entities (to the overall tune of more than KGS 13 billion) have been reorganized all over the country. To the moment, the rates of privatization in the country are as follows: 88.63 percent of economic units in the industrial sector have been privatized, 58.77 percent – in the construction sector, 56.95 percent – in transport sector, 97.05 percent – in the trade and catering sector; 99.9 percent – in the social services sector, and 41.662 percent of the economic objects in the non-production sector have been privatized. As a result of dynamic transformation of the state property, property structure in the Republic has undergone substantial changes, viz.:

- elimination of the state property monopoly and establishment of the market economy foundations;
- elaboration and putting in force legal basis aimed at regulation of order and mechanism of conversion of the state property into non-public property;
- establishment of foundation that is indispensable for composition and development of the domestic stock market;
- provision of the minimum prerequisites for promotion of foreign investments to the economy of the Republic.

With the view of accomplishing the process of the market relations' system composition, it is projected to round off privatization of the core enterprises and strategic industries (viz. power industry, mining, transport and telecommunications, plus non-production industries, such as the complex of health resort and recreational centers, culture and sport) in 2001-2003. In this case the Government plans to adjust

the legislative and legal base in accordance with the international legislation, abate contradictions in the current legislative acts and statutes. The Government shall administer all necessary support and foster broad participation of the small and medium enterprise representatives in the homestretch of the privatization process.

The period of 1992-1994 may be distinguished as the time of reforms in banking system of the Kyrgyz Republic. At present, the State Committee of the Kyrgyz Republic for implementation of the financial and banking system structural adjustment program has been established in February 2000 with a view to help surmount current problems faced by the financial and banking systems of the country, as well as to help ensure efficient coordination of all public authorities' efforts aimed at restructuring and stabilization of the Kyrgyz Republic banking and financial systems. The Kyrgyz Government and the National Bank of the Kyrgyz Republic shall take drastic measures on rehabilitation and strengthening of the financial institutions of the country, help strengthening banking supervision and regulation of banking activity, promote increased responsibility of the commercial banks' management and shareholders for a bank's performance. The Kyrgyz Government and the National Bank of the Kyrgyz Republic shall also facilitate establishment and development of the corporate governance culture within commercial banks of the Republic.

They have already implemented reforms in the sector of pension provision, including efforts aimed at establishment of a long-range pension system simulation (PROST) which is used to determine the trends of long-term fluctuations in the pension system (including, among the others, the option of gradual transition to partial financing of the pension system through partial mandatory payments). Taking into consideration all positive changes foreshadowed in the pension system reforming process, the Government of the Kyrgyz Republic has made a statement, in which it says that systematic indexing and timely payment of pensions shall remain the main goal of the overall process of reforming the pension system aimed at alleviation of poverty in the country. Consolidation and reinforcement of financial sustainability of the Social Fund's budget shall remain the primary (priority) line of reforms for the purpose of achieving this goal.

The Government of the Kyrgyz Republic has been implementing a comprehensive program on reforming state sector of the financial system since 1997. This program is aimed at enhancement of the scope of possibilities in terms of control, planning and regulation of the budget disbursements based on ensuring transparency in the fiscal system, improvement of accounts and budget techniques and procedures. The following shall be the main lines of the budget policy of public spending at the second stage (covering the period of elaboration and implementation of the National Strategy for Poverty Reduction (NSPR)):

- promoting and increasing transparency of the budget;
- overcoming national budget deficit by 2003;
- reforming the Treasury system and the network of its peripheral branches; adoption of the international accounting standards by both the former and the latter;

- enhancement of the efforts aimed at improvement of expenditure accounting in the network of the Public Investment Program (PIP);
- determining finance programs of higher priority; further improvement of the procedures of medium-term financial planning in terms of increasing social orientation of the national economic policy;
- improving and strengthening Governmental control over external debt servicing;
- improving efficiency of public procurement;
- improving the mechanism of mutual financial relations between the national and local regional budgets with a view to foster local regional authorities to increase incomes together with ensuring improvement of spending efficiency;
- improving the targeted support of the poor – pensioners and disabled in particular;
- ensuring gradual stepwise increase in wages and introducing efficacious measures of corruption control;
- rationalizing public spending through valuation of various social programs to assure these are the programs of priority and sufficient financial supply is available.

The aforementioned steps of the budget policy (within the framework of the National Strategy for Poverty Reduction) for the period of 2001 – 2003 shall facilitate accomplishment of the goal set under the Comprehensive Development Framework, viz. ensuring budget deficit is surmounted and government spending does not exceed public revenues.

The Government of the Kyrgyz Republic does, despite some particular difficulties, carry out comprehensive reforms in the sector of large monopolies in the energy industry and public utilities system. The Government proposes taking the measures aimed at rehabilitation of the aforementioned sectors through establishment of competitive structures (those, who managed to pay for themselves and cover all costs on their own through decrease of systemic and commercial losses of power, adoption of efficient tariff policies based on the principles of self-repayment of the energy sector, and taking appropriate power saving actions).

At the initial state of implementation of the Comprehensive Development Framework (2001-2003), the Government of the Kyrgyz Republic contemplates to launch the process of comprehensive large-scale reforms in the public administration sector within the framework of the National Strategy for Poverty Reduction (NSPR). The state power institute shall be reformed within the framework of the overall administrative reforms that has started in 2000. Composition of this reform is as follows: 1) state power system; 2) court system; 3) eradication of corruption.

Experience shows that weak, corrupted public institutes who are not adapted to market conditions start hampering economic and social development of the society on the whole and do not help alleviating poverty situation. That is why establishment of efficient state power system that would benefit the people of its country is the goal of reforming the state power for the sake of the people. Achievement of the goals implies optimization of performance and improvement of efficiency of the bodies of government through streamlining reduction of staff of civil servants by no less than 30

percent. Optimization of the governmental bodies' structure shall be aimed at elimination of functional redundancy and overlapping of duties and functions of the public sector employees. Efficient system of governmental bodies implicates establishment of close relationships between the state power institute and an individual, as well as building confidence and enforcing trust of the people in the Government.

At the same time, the World Bank supports implementation of the credit-financed projects aimed at reforms in such economic sectors of importance, as health, social security, agriculture lending, private enterprise support, urban transport, agriculture (irrigation), energy sector, establishment of the institutions for registration of land and property. In combination with the credit-financed projects supported by the other international organizations and donor-countries, these are the extremely important issues of higher priority in the Public Investment Program of the Kyrgyz Republic. By and large, all these contributed to smoothing of the country's economy. Assuming all the aforementioned, the Government of the Kyrgyz Republic views cooperation with the World Bank in its entirety as highly tolerable.

Consequently, over the period of 1996-1998 the Kyrgyz Republic managed to solve the main task – it achieved the macroeconomic stabilization and ensured sustainable economic growth. Real GDP growth over these three years footed up to 20.2 percent while the average real GDP growth worked out at the level of 6.7 percent. 1997 rate of inflation dropped down to the floor level of 13 percent – lowest over the period. Agricultural reforms allowed the corresponding sector to increase the real production volume by one third over the three years under review (annual growth was ca. 10 percent).

Unfortunately, the Russia crisis of 1998 revealed fragility and high dependency of the Kyrgyz economy on external factors. Indeed, the Russia crisis had adverse effect on macroeconomic and financial stability of the Republic. In particular, there was a slump in the national currency exchange rate along with the major sharp decrease of all macroeconomic indicators (drop in exchange rate in 1998 was 40 percent and in 1999 the indicator was 36.3 percent; inflation rates over the two years were 16.8 and 39.9 percent correspondingly). This drop was followed by expansive price surge.

In 1999-2000 the Government responded to external shock with a score of immediate measures, including the Program on stabilization of the social and economic situation in the Kyrgyz Republic.

The fundamental result of the year 2000 was consolidation and reinforcement of the trends of macroeconomic stabilization and ensuring sustainable growth in the real sector of economy, which is shown by development of the following principal macroeconomic indicators:

- in 2000 inflation rate was 9.6 percent (compare to 39.9 percent over the corresponding period of 1999), the lowest figure over the past few years;
- during the period of January-December 2000 average official exchange rate was KGS 47.72 per USD 1. Thus, there is a sign of certain stabilization of exchange



rate: national currency devaluated as little as 6.7 percent in 2000 against 54.6 percent in 1999. The foreign trade situation over the period since January till November 2000 shows some significant positive movements that have had unambiguous impact on reinforcement of the macroeconomic stability in the country;

- external turnover of the Kyrgyz Republic during the period of January-November 2000 was USD 951.4 million (present value), which meant it grew 2.8 percent against corresponding period of the previous year;
- attainment of macroeconomic stability facilitated sustainable growth and development of the real sector of economy in the period under review. In 2000 real GDP growth was 105 percent against 103.7 percent in 1999.

Growth policy of the Government of the Kyrgyz Republic is obviously going to keep on being adherent to the course heading for establishment of a democratic society with market economy.

Within the framework of implementation of the present Public Investment Program, the medium-term strategic goal of the state-power institute shall consist in achieving and ensuring sustainable economic growth (including increase in social standards and standards of livelihood through promotion and enhancement of the public sector industries along with development of the private sector) for the convenience of the poor categories of the people.

At present the volumes of external financing of the running and estimated projects of the Public Investment Program are high enough. Gaining further momentum of the borrowings development shall necessarily lead to aggravation of the situation with external debt repayment, for domestic sources of finance are limited to the extent of scarce financial capabilities of the Kyrgyz national budget investment component.

The task of ensuring sustainable economic growth with a view to alleviate poverty may require promotion of substantial volumes of additional finance. It is expected that utilization of the budget funds shall decrease mainly in (potentially) commercially viable industries, including electric power supply, fuel and energy infrastructure, telecommunications, commercial aviation, some of the branches of housing and communal services, as well as some of the agrarian complex infrastructures, as they move to strategic investors from the private sector.

Considering the aforementioned factor, the Government of the Kyrgyz Republic proposes to revise and evaluate performance of all of the projects currently running under the Public Investment Program. As a result, those of the projects that are inefficient shall be discontinued, while the new ones shall be attracted to benefit the poor groups of the population. In this connection, we find the World Bank initiative regarding simplification of the projects, facilitation of further analytical study of the Kyrgyz economy aimed at optimization of the priorities of public and donor spending, and reform of the economic policy very timely and relevant.

The problem of international terrorism to the Southern part of the country reveals the issue of the national security threat. Having approved a law to separate part of the Osh oblast lying right on the line between Tajikistan and Uzbekistan and turn it into a new, seventh oblast, the Government of the Kyrgyz Republic with a heavy heart acknowledges the fact that the problem of terrorist attacks and sallies to the territory of Kyrgyzstan (one of the reasons is creation of drug trafficking through the Kyrgyz territory) has become a matter of permanent external threat. That is why contest for the national interests by means of policy and diplomacy is the core basis of the foreign policy of the Kyrgyz Republic concerned about ensuring internal security and stability in the country and barring the conflict from escalation throughout the region.

Following are the goals to be achieved at pursuing the foreign policy:

1. ensuring stability and security in the region;
2. launching activities aimed at detection and suppression of drug trafficking through the territory of the Kyrgyz Republic;
3. entering into good neighborhood with the contiguous countries and foster the process of integration in the Central-Asian region;
4. consolidation of dealings with the developed western and eastern countries;
5. promotion of cooperation with the UN organizations and specialized agencies, regional international organizations, financial and economic institutions.

In conclusion, I would like to express my deepest and kindest appreciation to you one more time for opening the opportunity of considering such issues of importance as cooperation between the Kyrgyz Republic and the World Bank.

Yours sincerely,

K. Kanimetov  
Deputy Minister

КЫРГЫЗ  
РЕСПУБЛИКАСЫНЫН  
УЛУТТУК БАНКЫ



НАЦИОНАЛЬНЫЙ БАНК  
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Current issue № 14 – 03 / 1165 of «09» March 2001  
In reply to: № \_\_\_\_\_ of «\_» \_\_\_\_\_ 2001

**To: Mr. Mohinder Mudahar  
Resident Representative  
in the Kyrgyz Republic**

*Subject: Draft Report on “KR: Country Assistance Evaluation”*

Dear Mr. Mudahar,

Let me express my appreciation for a copy of the “KR: Country Assistance Evaluation” draft report submitted to us for comments. We have got acquainted with the given draft report and thoroughly studied it, and now we would like to notify you that we have neither significant remarks nor objections on the whole.

However, it is noteworthy there are some insignificant differences between figures on external support lent by the World Bank to the Kyrgyz Republic that are shown in the report and the National Bank data. We believe this difference occurred due to diverse SDR exchange rates used by the World Bank and the National Bank of the Kyrgyz Republic in their calculations (refer to the tables 1, 4 and 6). There are also some insignificant variances between the data provided in the report (table 1, “Key Figures on the Kyrgyz Republic”) and the NBKR data regarding information on the balance of payments and amount of the external debt. Data presented in table 3 “Kyrgyz Republic. Key Economic Indicators, 1998 – 1999” over the period of 1998 – 1999 require update.

There is also a certain need of making some adjustments to the report. We believe the finding of the report in which they state there has not been a gleam of progress in the area of monetary policy and financial system reforms since publication in 1998 of the previous version of appraisal report (see p. 9, paragraph 6) is far too hypercritical. In fact, there are some problems in terms of ensuring efficiency of the monetary policy and the banking system performance, yet we believe this is not quite correct when one draws a conclusion that nothing at all has been done over the period under review.

We expect the aforementioned comments to be taken into consideration at drawing up the final version of the Report.

Looking forward to further effective cooperation with you.

Yours respectfully,

U. K. Sarbanov  
Chairman

**STATE COMMITTEE ON STATE PROPERTY  
AND DIRECT INVESTMENTS  
KYRGYZ REPUBLIC**

March 22, 2001

No. 01/953

**Re: Draft “Country Assistance Evaluation” Report as of December 19, 2000**

World Bank Office  
Kyrgyz Republic

This is to inform you that the State Committee on State Property and Direct Investments does not have any comments or recommendations on the draft CAE Report.

Deputy Chairman

Anatoliy Makarov

## **Kyrgyz Republic Country Assistance Evaluation Comments by the Europe and Central Asia Region**

1. The Europe and Central Asia Region (the Region) agrees with much of the analysis and conclusions of the Kyrgyz Republic Country Assistance Evaluation (CAE). However, there are some critical points on which we would differ. Admittedly, and in hindsight, the initial reform programs supported by the IDA were too ambitious requiring implementation of complex policy and institutional reforms. Nevertheless, successive governments have maintained the broad thrust and pace of reforms, and the Kyrgyz Republic has made greater progress towards the transformation of its economy than most other CIS countries. The role of the IDA has been critical to catalyzing and supporting this process.
2. The first decade of transition for the Kyrgyz Republic was marked by major exogenous shocks that could not have been predicted. However, the economy has shown a significant response to the reforms. Real GDP growth has averaged almost 6 percent each year since 1995, despite the regional financial crisis of 1998. Although income and consumption levels are not as high as once projected, much of the foundation has been laid for sustained private sector-led growth.
3. The CAE raises questions about the appropriateness of IDA policy prescriptions and whether the Government actually effected the agreed reforms. These questions are addressed below. We conclude with some lessons for the next CAS.

### ***Was Policy Design Appropriate?***

4. The Region believes that the strategy, sequencing, and content of its assistance program between 1993 and 2000 were appropriate to the challenges of the Kyrgyz Republic's transition to a market economy. At the outset, the strategy focused on establishing a framework that would sharply differentiate the respective roles of the public and private sectors and ensure an adequate flow of resources to facilitate economic recovery. To this end, early emphasis was given to price and trade liberalization and the shift of ownership of key state assets to the private sector, including land and most SOEs. In parallel, directed credits were phased out, domestic financing of the budget deficit was sharply curtailed and large loss-making state banks were closed. A framework for rural credit was established, and reforms and investments made to support critical telecommunications, energy and irrigation infrastructure. Pension and health reforms were initiated. Core economic legislation appropriate to a market-based economy was developed. A comprehensive reform of budgetary procedures (including the introduction of mechanisms for financial control and transparent procurement) was also put in place.
5. In hindsight, greater attention should have been paid to addressing problems associated with the weak capacity of the government and deficiencies in the institutional environment, notably those relating to the entry of new businesses.

### ***Were the Reforms Actually Implemented?***

3. By end-2000, the Kyrgyz economic landscape had changed profoundly and irreversibly. Change has been most pronounced in the agricultural sector where 62,000 single and joint family farms evolved from the former large-scale state farms and cooperatives through the land reform process. These farms cultivate about 49 percent of all cropped land and show yields that are 20-30 percent higher than state and collective farms. Profitability in the enterprise sector also improved, reflecting a better performance of fully private or privatized enterprises.

6. Significant progress has been achieved in improving social assistance schemes, and the health and pension systems. The development of a corpus of modern economic legislation has been an important achievement, although judiciary capacity to interpret and enforce needs to be strengthened. There has been considerable success in small and medium enterprise privatization. However, enterprise restructuring and business start-ups have been slow, and regulatory and licensing reforms need to be accelerated. Reforms and restructuring of the key utility sectors also needs greater attention.

### ***What Are the Key Lessons Learned?***

7. The Region concurs with the CAE's assessment and recommendation that greater attention needs to be given to institutional development and capacity building. Both public and private sector institutions need to be strengthened and, in some instances, built from scratch. The development of civil society and roles and responsibilities of sub-national and local institutions should be promoted. Building on the priorities emerging under the CDF/I-PRSP, the next CAS will provide for intensified but selective capacity building, and a more focused and informed community-driven development approach.

8. The Region also agrees that IDA should increase its focus on governance and transparency. To this end, and at the Government's request, IDA has begun preparation of a Governance adjustment operation and an accompanying capacity building project. The Region has identified inadequate fiduciary accountability as another area of focus for the next CAS.

9. In the context of the CDF/I-PRSP, the Region has been working closely with the IMF and other donors to improve public expenditure management and has introduced a program of capacity building in monitoring and evaluation. The next CAS would continue support for strengthening poverty monitoring.

10. We recognize the complex regional challenges facing Kyrgyz Republic and the other Central Asian countries, including drug trafficking, security problems, and regional trade and environmental issues. In areas where IDA has the expertise and comparative advantage, such as water, energy and environment, we will take the leadership in analysis and in promoting a more effective regional dialogue in concert with other donors.

**KYRGYZ REPUBLIC  
COUNTRY ASSISTANCE EVALUATION  
MANAGEMENT ACTION RECORD**

<i>Major monitorable OED recommendations requiring a response</i>	<i>Management response</i>
<p><b>Kyrgyz: Country Assistance Evaluation</b></p> <p><i>Until recently, the Bank considered the Kyrgyz Republic a successful case of reform and recovery, with good growth prospects and low risk. The CAE takes a less sanguine approach, assessing the Kyrgyz Republic to be at high risk for political and economic instability and uncertain growth prospects. The Bank should:</i></p> <ul style="list-style-type: none"> <li>• Develop assistance strategy in a more realistic context, taking into account the country's vulnerability to potential shocks from internal conflict and economic destabilization, drug trade, and with due attention to governance issues and implementation capacities;</li> <li>• Focus on governance, institutional development, and capacity building, with an emphasis on creating a better environment for private business.</li> </ul> <p><i>In the late 1990s, lending and budgetary pressures crowded out adequate diagnostic work. The Bank should:</i></p> <ul style="list-style-type: none"> <li>• Increase AAA, geared in particular to: improving monitoring and evaluation of project outcomes and development impact; establishing priorities for government and donor expenditures, for policy reforms, and for improving public sector management.</li> </ul>	<p><i>Despite major exogenous shocks that could not have been predicted, the economy has shown a significant response to the reforms. Moreover, successive governments have maintained the broad thrust and pace of reforms, and the Kyrgyz Republic has made greater progress towards the transformation of its economy than most other CIS countries, particularly in agrarian reform. However, in hindsight, the initial reform programs supported by the IDA were too ambitious requiring implementation of complex policy and institutional reforms. (IDA has prepared a separate more detailed statement on its views on the CAE.)</i></p> <ul style="list-style-type: none"> <li>• <i>IDA recognizes the complex regional challenges facing Kyrgyz Republic and the other Central Asian countries, including drug trafficking, security problems, and regional trade and environmental issues. In areas where IDA has the expertise and comparative advantage, such as water, energy and environment, we will take the leadership in analysis and in promoting a more effective regional dialogue in concert with other donors.</i></li> <li>• <i>IDA concurs with the CAE's assessment and recommendation that greater attention needs to be given to institutional development and capacity building. Building on the priorities emerging under the CDF/I-PRSP, the next CAS will provide for intensified but selective capacity building, and a more focused and informed community-driven development approach.</i></li> <li>• <i>IDA agrees on the need to increase its focus on governance and transparency and creating a better climate for private business. (i) IDA is preparing a governance adjustment operation and an accompanying capacity building project likely focussing inter alia, on judicial reform. (ii) A proposed Financial and Business Development operation has been identified and (iii) IDA and the IFC are collaborating on an initiative to promote small and medium enterprise development.</i></li> <li>• <i>IDA concurs with the need to increase AAA in general but notes complex program trade-offs given the significant proportion of available funding that will be needed to meet core fiduciary AAA requirements. The next CAS will make full provision for update/completion of all required fiduciary work. (i) In the context of the CDF/I-PRSP, the Region has been working closely with the IMF and other donors to improve public expenditure management. (ii) Building on the FY01 Social sector finance study, IDA will complete a public expenditure review in FY02. (iii) IDA has introduced a program of capacity building in monitoring and evaluation that will extend over multi-years; (iv) IDA will provide continued support for strengthening poverty monitoring.</i></li> </ul>



# Report from CODE

## Informal Subcommittee to the Committee on Development Effectiveness

### *Kyrgyz Republic: Country Assistance Evaluation*

October 15, 2001

CODE2001-93

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1. The Informal Subcommittee (SC) met on September 17, 2001 to discuss the OED report “Kyrgyz Republic: Country Assistance Evaluation (CAE)” (CODE2001-0032). The review covered the period between FY93 and FY2000. OED informed the Subcommittee that although Kyrgyz had been an early and active reformer, good covenant compliance had not translated into good reform implementation or growth and poverty reduction. IDA had appropriately focused its assistance on support aimed at moving the country from a command to market economy and the sequencing of early operations also appeared to have been appropriate. However, the CAE highlights several weaknesses in IDA’s assistance that made it less relevant than it might have been. These included (a) over-optimism in IDA’s projections for growth; (b) inadequate risk assessment at both the project and strategic levels; and (c) insufficient attention to governance issues and follow up of implementation of reforms. Sources of future growth remain uncertain and the country now faces serious debt-servicing problems and remains vulnerable to shocks. Given the mixed results, OED rated the outcome of IDA’s program in Kyrgyz as moderately successful. OED’s recommendations for future Bank lending include: more realistic risk analysis; better monitoring of reform implementation; and a focus of assistance on improving the environment for business and on public sector management.

2. The SC welcomed the CAE and thanked OED for a well-written study and suggested that Management apply the lessons learned from Kyrgyz’s experience to inform Bank engagement in other CIS countries. The main points coming out of the Subcommittee deliberations included:

- a. ***Linking Bank Performance to Outcomes.*** The Subcommittee Committee underlined the need to find ways to better assess the Bank’s performance in terms of outcomes. Members were particularly concerned about the disconnect between staff’s optimistic prospects for growth and the perceived progress in undertaking reforms and the dramatic declines in the country’s performance and subsequent poor development outcomes. They noted the increase in poverty and income inequality and stressed that good Bank performance ratings alongside poor outcomes were confusing. Some speakers called for early ESW on debt sustainability to counter over-optimism and others called for a greater focus on context and implementation. OED responded that the focus of its assessment was on whether the Bank did its best with what the information and resources it had at the time and that it was possible for the Bank strategy to have been assessed as “satisfactory” even when some outcomes of the lending program had not been as positive as anticipated.
- b. ***Approach.*** Some members questioned the CAE finding that IDA’s assistance had overall been appropriate and relevant given the dramatically different scenario from what had been anticipated in the 1998 CAS. The Subcommittee wondered if the Bank had tried to do too much and urged the Bank to be more selective in its future engagement. Members noted that they would have liked a clearer picture of what Management would have done differently in light of the report findings and also sought Management’s view on whether a deeper analysis of the political economy could have helped to further sharpen the focus and the content of the lending program.

Members noted that over half of IDA lending had been for adjustment and believed that the review would have benefited from a more in depth analysis of the quality of adjustment operations, including the timing and sequencing of the loans. Regarding adjustment lending, OED noted it was reviewing its approach to assessing adjustment lending, including a shift from a focus on compliance and immediate effects to a focus on assessing mid to longer term outcomes.

3. **Comments by Management.** Management welcomed the CAE and agreed with much of its analysis, conclusions and recommendations. But it emphasized three specific points on which it differed from OED. First, Management noted that the report did not fully reflect the developments of the past two years or fully capture the impact of IDA Second, regarding optimism, Management believed that the Bank had reduced the errors of prediction on all macroeconomic indicators over time and its growth projections were relatively accurate, despite the regional financial crisis of 1998. Management noted that the inconsistencies between growth and poverty data (which are also common in other low income CIS countries) are being analyzed in the ongoing poverty work this year. Management also noted the ongoing country-specific and regional work on debt sustainability issues. While acknowledging that the Bank could have traced out more specific risk scenarios, Management remarked that the 1998 CAS did include a number of the risks cited. Moreover, the OED report understated the importance of the impact of the Russia crisis on border trade and the very critical role that donor assistance played in supporting and maintaining peace. Management indicated that it would have liked to have seen the counterfactual addressed more fully with regard to these areas. Third, Management also believed that the 1998 CAS had explicitly identified governance issues and outlined selective areas of focus, including transparency in budget management and public procurement reforms. Moreover, the CAS was based on adequate gender analysis upon which a number of IDA interventions have been designed and implemented. Management concluded that lessons from the CAE would inform the full country assistance strategy.

4. **Additional Comments by the Subcommittee.**

- a. **Role of IFC.** Members noted the apparent lack of a coordinated and consistent Bank- IFC strategy and believed that the CAE would have benefited from an assessment of IFC's program, especially given the critical role that the private sector must play in supporting future growth. The Subcommittee welcomed the shift of the Bank's focus from privatization as the means to private sector development to a focus on creating an enabling environment for private sector development, and asked that the upcoming CAS progress report take this into account.
- b. **Aid Coordination.** Members noted that Kyrgyz was a small country with few active donors and wondered why effective aid coordination and relations between the consultative groups and government remained problematic. Management noted that coordination had improved and a memorandum of understanding had been reached with the Technical Assistance for the CIS from the European Union (TACIS). The Bank was also working with the Asia Development Bank to improve regional cooperation on cross border issues. Under the CDF umbrella, the Government has attempted to improve donor coordination but progress has been slower than envisaged. It is expected that improvements in coordination will be a key focus of government attention during the coming year.
- c. **Bank Portfolio.** Members asked how robust the risk assessment ratings were given that a significant amount of approved funds remained undisbursed. OED noted that that, overall, the investment portfolio and risk ratings compared well with the regional and Bank averages. Management clarified that despite problems meeting counterpart financing requirements, all approved IDA projects are under active implementation. Moreover, QAG accounts for rates of disbursement in its risk assessments.

- d. OED concluded that it believed that the issues related to capacity building, resumed AAA activities and a focus on improving the environment for private sector development had been incorporated into the new lending program.

5. **Next Steps:** The Board will discuss the country assistance strategy for the Kyrgyz Republic in Q2 FY2002.

Matthias Meyer, Chairman  
CODE Subcommittee

Distribution

Executive Directors and Alternates

President

Bank Group Senior Management

Vice Presidents, Bank, IFC and MIGA