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# Staff Country Reports

## **Kyrgyz Republic: Poverty Reduction Strategy Paper Progress Report**

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**KYRGYZ REPUBLIC**



**National Poverty Reduction Strategy  
2003-2005  
(NPRS)**

**FIRST PROGRESS REPORT**

**April 2004**

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## INTRODUCTION

1. The Kyrgyz Republic is one of 13 pilot countries, where a Comprehensive Development Framework (CDF) paper for the Kyrgyz Republic has been developed to the year 2010, which was approved in May 2001.

2. The National Poverty Reduction Strategy, 2003-2005 (NPRS) is the first phase in the implementation of the CDF in the Kyrgyz Republic. It was adopted as a medium-term action program for the Government of the Kyrgyz Republic in conducting dynamic economic, social, and political reforms that will ensure human development and the reduction of poverty and avoid food insecurity in the country.

3. The CDF and NPRS were formulated on the basis of a partnership involving all branches of state authority and civil society of the Kyrgyz Republic, working in close cooperation with the World Bank, IMF, and other international institutions and on the basis of the National Food Security Policy approved in October 1999.

Partnerships developed by the Kyrgyz Republic with all representatives of the donor community became an important factor in raising the level of coordination and effectiveness of foreign aid, mobilizing domestic resources for the purpose of development and poverty reduction. This initiative was supported by the resolutions adopted at the October 2002 Consultative Group meeting in Bishkek, where the NPRS paper was endorsed.

In February 2003, the IMF Executive Council and World Bank Board of Directors approved three-year country assistance programs for Kyrgyzstan, which were developed in consideration of NPRS priorities. The NPRS was also endorsed at that time. Programs with other multilateral and bilateral donors are developed in a similar manner, which fully meets the agreements reached in Johannesburg, Monterrey, London, and Rome.

4. The goals and objectives of CDF and NPRS are consistent with the Development Goals of the Millennium Declaration, which was signed by the Kyrgyz Republic together with other 191 countries of the world during the Millennium Summit in September 2000. This is further evidence of Kyrgyzstan's commitment to the human values and strategic goals defined by the international community. Prepared in September 2003, Kyrgyzstan's National Report on the Achievement of Millennium Development Goals (MDGs) also reflects positive achievements in the social and economic development of the country.

5. The paper presented here is the first progress report on the implementation of the NPRS in the Kyrgyz Republic. It includes the main outcomes of the reforms conducted in 2002-2003. The report reflects the implementation of policy measures envisaged in agreements signed in the framework of the Poverty Reduction and Growth Facility (PRGF) between the Government of the Kyrgyz Republic and International Monetary Fund, as well as the World Bank Country Assistance Strategy for the Kyrgyz Republic and the accompanying memorandums.

6. The analysis shows that in spite of some difficulties and as yet unresolved issues, the comprehensive measures undertaken as part of the CDF and NPRS have helped to create a sound foundation for achieving promising results in economic growth, a better quality of governance and poverty reduction. These results are described in the appropriate sections of this report.

7. At the same time, in 2004 the Government intends to make additional efforts to prioritize measures in accordance with the NPRS goals and objectives and raise the effectiveness of the use of available financial resources.

In his October 2003 address to the nation, the President of the Kyrgyz Republic, Askar Akaev, declared 2004 a year for social mobilization and good governance. In pursuit of those objectives, all planned measures will be focused on the maximum mobilization of the country's capacity to implement the basic priorities outlined in the CDF and NPRS.

8. This report was prepared by ministries and state agencies, as well as CDF/NPRS expert working groups. Materials were discussed by the expert working groups, reviewed and approved at the meetings of CDF/NPRS coordination committees and regional councils.

The report is also based on the studies and other analytical materials developed by the World Bank, IMF, other international institutions and non-government organizations (NGOs) in the framework of CDF/NPRS partnership participation process.

## I. REDUCTION OF POVERTY IN 2002-2003

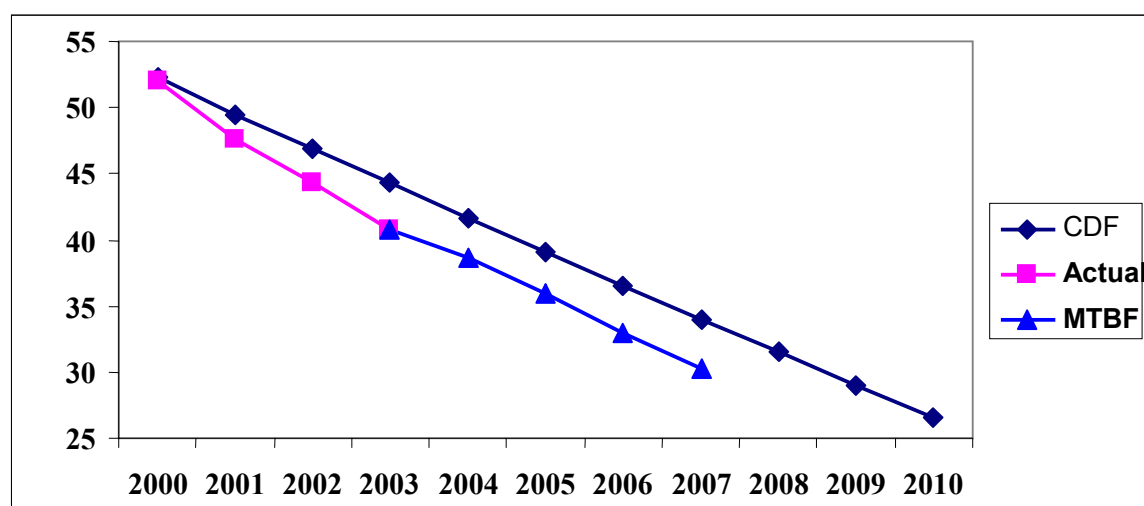
9. All NPRS activities are based on the concept of human poverty. This concept uses a number of monetary and non-monetary poverty measures that reflect, from different perspectives, the progress the country makes towards raising the quality of living standards and human development. Specific policy measures envisaged in the NPRS fully meet the goals and objectives of the CDF and MDGs.

10. Monetary poverty indicators use the data of the selective survey of over 3000 households conducted by the National Statistics Committee (NSC) using a methodology agreed to with the World Bank. This methodology and situational poverty analysis in the republic are described in the joint WB and NSC paper "Pro-Poor Economic Growth in Kyrgyzstan." This methodology uses the following parameters as welfare measurement criteria: a) per capita expenditures (baseline criterion), b) per capita consumption, and c) per adult equivalent consumption. Main poverty indicators – poverty level and extreme poverty level – are calculated for all three criteria, which strengthens the validity of these measurements.

11. **The change in the poverty level** during the past three years is displayed in Chart 1. The chart clearly shows a significant reduction in poverty under any criterion. In 2002, the poverty level<sup>1</sup> declined by 3,2%; poverty reduction in relation to 1999 - when the peak poverty level was recorded - amounted to 10,9%. The poverty gap and severity figures also declined. In 2002, the poverty gap declined by 0,7% compared with 2001 and by 6,6% compared with 1999; the reduction in poverty severity was 0,1% relative to 2001 and 4,3% relative to 1999. The actual rate of poverty reduction noticeably exceeds the rate envisaged in the CDF (please see Chart 1), which gives hope for achievement of the key target - halving poverty by 2010.

12. These expectancies are supported by preliminary 2003 data according to which the poverty level amounted to 40,8% and declined by 3,6% compared with 2002. The final data on the poverty level will be ready in the end of April of this year.

**Chart 1. Planned and Actual Rate of Poverty Reduction (Poverty Level, %)**



13. A notably substantial **reduction of poverty** was registered in **rural areas**, where the poverty level in 2002 amounted to 47% (compared to 60% in 1999 and 51% in 2001). Urban poverty has also declined, although to a lesser degree, 39,6% in 2002 compared to 42,4% in

<sup>1</sup> Herein poverty figures are based on the criterion of per capital expenditures, with the longest time series available.

1999 and 41,2% in 2001. Most of the poor still live in rural areas. The poor in rural areas account for 70% of the total number of poor (the share of the rural population in the population of the country is 65,3%). In 2002, compared with 2001, poverty reduction was recorded in all oblasts (regions) of the country, except for the Batken oblast (which is related to measurement problems in 2001, rather with than deterioration of the situation in 2002). Much progress in poverty reduction (over 10%) was achieved in the Issyk-Kul oblast and in the traditionally poor Talas oblast.

14. **The level of extreme poverty** in 2002 (13,8%) has remained practically the same as in 2001 (13,5%) (The increase of 0,3% is within the limits of measurement accuracy.) At the same time extreme poverty in rural areas declined from 15,6% in 2001 to 14,7% in 2002, while in urban areas the level of extreme poverty rose from 9,6% in 2001 to 12,0% in 2002 (mostly due to Bishkek, which has mass concentrations of internal migrants – one of the poorest social strata).

15. The apparent **differences between changes in poverty indicators**, on the one hand, and extreme poverty, on the other, suggest that reforms and changes in the social and economic situation in Kyrgyzstan affect different groups of poor in different ways. The poor, who are closer to the poverty line, are better able to benefit from the changes that are taking place in the country; many members of this social group managed to break away from poverty in 2002 and during the years before. At the same time, the status of the poorest strata of the population, especially people living in urban areas, has improved less noticeably. In many ways these differences explain the increase in inequality figures measured by statistics. Thus, the Gini coefficient of expenditures increased from 0,320 in 2001 to 0,328 in 2002 (for the urban population it rose from 0,313 to 0,336, while for rural areas the value of this coefficient declined from 0,351 to 0,321), while the quintile coefficient showing the ratio of the average expenditure level of the wealthiest 20% of the population to the average expenditure level of the poorest 20% increased from 4,8 in 2001 to 5,2 in 2002. The situation is also related to the continued internal migration from rural areas into towns, with migrants unable to adapt rapidly, find work and increase their incomes.

16. Analysis of the changes in key **non-monetary poverty indicators** and living standards of the population also provides evidence of poverty reduction. Thus, the results of first nine months of 2003 report an increase in the average nutritional value of the food consumed by the three poorest quintiles of population. **Infant mortality** - one of the key integrated poverty and human development indicators - declined by 0,5‰ in 2002 and amounted to 21,2‰<sup>2</sup>. In 2003, compared to 2002, it has further declined by 1.4%. The decline in infant mortality occurred during a period of a rising birth rate (from 19,8‰ in 2001 to 20,2‰ in 2002), which makes this decline an even larger indicator of poverty reduction, and not merely a technical reduction that would be due to a reduced birth rate, which, in turn, would be attributable to a longer interbirth interval, as it was in 1990s.

17. There are conflicting developments in the area of access to basic services (please see Table 1). Although the literacy rate of the population remains traditionally high, coverage of the school age children with basic education has declined slightly. Access to clean drinking water has remained almost unchanged.

**Table 1. Accessibility of Basic Services**

Indicator	2001	2002
Literacy, %	98,7	98,7
Coverage of children with basic education (grades 1-9), %	95,0	94,6
Access to clean drinking water, %	79,6	78,9

<sup>2</sup> One must remember that methodology of measuring infant mortality in Kyrgyzstan still differs from that of the WHO; thus, absolute figures cannot be used for making international comparisons.



18. For the purpose of improving poverty statistics starting from 2003, the National Statistics Committee of the Kyrgyz Republic has commenced a restructuring of the existing household survey - the main source of poverty data in the country. This restructuring is being implemented in the framework of the «Development of Statistics in Support of the CDF/NPRS Process», a project funded by the UK Department for International Development (DFID). Measures to improve the household budget survey include: 1) increasing sample selection from 3000 to 5000 households with simultaneous transition from monthly to quarterly survey frequency; 2) changing the procedures for registering income and expenditures by households; 3) introduction of new survey questionnaires and including in the survey issues concerning the use of labor and various poverty indicators; 4) improved methodology of sample selection and rotation of households; 5) revamped methods of organizing and conducting field work. The expected results from these changes should include better quality of data; greater accuracy and consistency of indicators (especially at the oblast level); new information on poverty aspects, employment and living standards of the population; as well as an expansion of analytical opportunities. At the same time, the possibility of obtaining data in the old format is being considered. This will ensure comparability of the findings over time. The first results for the expanded household survey will become available in 2004.

## II. FUNDAMENTAL AREAS OF NRPS DEVELOPMENT

19. In its NPRS implementation activities the Government of the Kyrgyz Republic is guided by the priorities outlined in the NPRS paper. It clearly realizes, nevertheless, that the best results can be achieved only with the concentration of all efforts and resources on the most important, **fundamental areas of development**.

Policy priorities are grouped around the three main NPRS objective - promoting sustainable economic growth, the formation of an effective state, and building a fair society providing protection and human development.

### 20. **Financing requirements for the implementation of the Poverty Reduction Strategy**<sup>3</sup>.

In the Consultative Group meeting held in Bishkek in October 2002, the donors pledged \$700 million of foreign assistance to support the Kyrgyz Republic's Poverty Reduction Strategy. Most of these pledges are being materialized (about \$500 million) but further identification of projects is still needed, in particular for the Public Investment Program and balance-of-payments support. At the same time, for resolving of the external debt problem, further debt relief is needed.

21. The overall financing need for the period 2005-2010 amounts to \$900-1000 million, including a further Paris Club debt relief on concessional terms. In addition, to ensure that our external debt becomes sustainable during this decade, as much as possible of the donor assistance should come in the form of grants. The financing envelope presented in the Appendix 1 is consistent with our Medium-term Fiscal Framework (Chapter II.1.2) which is based on a gradual decline in the overall fiscal deficit to 3 percent in the second half of the decade and a moderate increase in tax revenue relative to GDP. It would ensure a level of public investment at about 4.5 percent of GDP, which is necessary to support our ongoing efforts to upgrade infrastructure that would positively affect the private sector growth. Also, covering the financing gap through donor assistance would allow us to increase spending on social programs and poverty reduction relative to GDP and cover expenses in our priority sectors—health, education, and agriculture—as discussed in more detail in Section III of this report.

22. Finding donor assistance to cover these financing needs would allow us to maintain gross official reserves at around 4.5-5 months of imports which is necessary in view of our vulnerability to external shocks, volatile gold and oil prices, and future external debt obligations. Imports of goods, however, would decline from 37 percent of GDP in 2003 to 30 percent in 2010. This requires that our domestic producers will be able to maintain their cost competitiveness and gain market shares. With sound macroeconomic policies, imports should increasingly concentrate of capital goods and technological transfer which would support investment and growth.

## II.1. PROMOTING SUSTAINABLE ECONOMIC GROWTH

### II.1.1. Implementation of Policy Measures Envisaged in the NPRS

23. **The growth of the national economy in 2002** was affected by unfavorable external factors that included the accident at the Kumtor Gold Mining site and heavy atmospheric precipitation in the region that led to a sharp reduction in neighboring countries' demand for irrigation water releases and for electric power generated during such water releases. Reduced agricultural output - low compared to the level envisaged in NPRS - was another adverse factor affecting overall economic growth. Consequently, real GDP growth equaled zero. It should be noted, however, that this decline affected mostly the gold mining and electric power sectors, which experienced external shocks. In 2002, real GDP growth excluding these two sectors increased by more than 3,9%. The most notable growth (8-10% per annum) was in light

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<sup>3</sup> Quantitative figures are provided in the Appendix 1: Balance of Payments and External Financing.

industry, the food industry, and trade. Developments in the components of GDP by end-use were also different in 2002, compared with 2001 – gross fixed capital accumulation and government consumption declined by 7,4% and 0,2% respectively, while private consumption rose by 4,7%. Thus, despite the absence of GDP growth, the welfare of the population in 2002 was still increasing, which is confirmed by the increase in private consumption. This observation corresponds with a recorded reduction of poverty (please see Section 1).

24. GDP developments in 2003 were marked by growth in the sectors that were forced into recession in 2002 (gold and electric energy production). In 2003, real GDP growth amounted to 6.7% that exceeded the level stipulated in the IMF third year agreements by 1,5% (within PRGF framework). Excluding the Kumtor Gold Mining enterprises, real growth equaled 4,9%, which testifies to the increase in economic activity. Strong production growth of 22,6% was registered in the hospitality and catering sector, processing industries (19,2%), trade (11,8%), financial sector (6,0%), transport and communications (5,5%).

25. Growth in the agricultural sector was not strong. Real value added increased by only 3,8%.

This can be partly explained by unfavorable weather conditions. In general, one can observe a tendency of slowing growth rates in this sector, which may have negative implications for future economic developments.

26. **Low inflation** was a major characteristic of Kyrgyzstan's economic development in recent years. In 2002, the consumer price index rose by 2,3% (December 2002 to December 2001); in 2003 it increased by 5,6%. The increase in the rate of inflation in 2003 was caused by the October-November inflation jump when there was increase in the price of bread due to a bad harvest in the whole central Asian region and in the price of oil due to other external factors. The general slowdown in inflation was partly due to the strengthening of the som by 3,4% - US dollar exchange rate - in 2002 and by 4,2% in 2003.

27. Inflation in Kyrgyzstan remains low despite substantial **increases in the money supply**. In 2002, the narrow money supply increased by 42,9%, while the broader monetary aggregate M2X – rose by 34,1%. In 2003, there were further increases in these stocks, by 31,6% and 33,5% respectively. Greater demand for money increased the monetization of the economy (as measured by M2X at year end) from 11,1% of GDP in 2001 up to 14,6% in 2002 and 17,6% in 2003. Remonetization of the economy indicates lower inflationary expectations on the part of businesses and households and increased confidence in the national currency and in the economic policy of the State as a whole.

28. The NBKR continued conducting the policy of managed floating of the exchange rate by intervening in currency markets for the purpose of moderating temporary fluctuations. Ongoing currency inflows to the republic, an increase in the demand for soms, and a decrease in the burden of external debt service enabled the NBKR to substantially expand currency reserves through net foreign exchange purchases<sup>4</sup>. Anti-inflationary monetary policy will be maintained and may need to compensate for the price effects of urgent fiscal and structural policy measures such as the extension of the VAT to large agricultural enterprises or changes in administratively regulated prices. Due to the deceleration of inflation, the strengthening of nominal exchange rate of the som did not cause any substantial changes in the real exchange rate with respect to the currencies of countries which are importers of Kyrgyzstan produced goods and services and, accordingly, did not change the price competitiveness of exported products. The share of cash increased in the composition of the money supply. This suggests that a rise in the demand for soms is caused not so much by a willingness on the part of the population to hold additional savings in national currency as by rising settlements needs due both to a partial displacement of a dollar from cash in circulation and a general expansion of monetary transactions.

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<sup>4</sup> For first nine months of 2003 currency purchase amounted to 18.1 millions of US dollars

29. Another important feature of macroeconomic stabilization is an **improvement in the fiscal situation and state budget deficit**. The deficit of the consolidated state budget (including current consolidated state budget, PIP, and Social Fund budget) amounted to 5,8% GDP in 2002, a 0,4% reduction relative to 2001. In 2003, there was a further reduction of the budget deficit down to 5,0% GDP. Increased revenue in the consolidated state budget was one of the sources of a reduced budget deficit in 2002 –2003. The main components of this increase include the growth of tax revenues from 12,4% GDP in 2001 to 13,9% GDP in 2002, and to 14,8% in 2003, as well as improved collection of insurance fees by the Social Fund. After a sharp reduction in 2000-2001, aggregate expenditures of the consolidated state budget increased in 2002. This increase was due to a rise in current social expenditures, which rose from 8,0% to 10,1% of GDP, as well as PIP expenditures, which climbed from 5,3% GDP in 2001 to 5,9% GDP in 2002. Such a substantial increase in social expenditures was made possible by reduced payments on the public debt (US\$99 million cut in 2001-2004), which was a result of debt restructuring by the Paris Club of creditors in March 2002. It is expected that state expenditures in 2003 will decline slightly, mostly as a result of a reduction in PIP spending, which is related to the need to curtail external borrowing by the Government in order to avoid excessive growth of foreign debt.

The implementation results of such key NPRS measures as further reductions in the deficit on the consolidated state budget and increases in social expenditures were achieved mainly due to the **budgetary** policy conducted by Government. Reduction of the deficit was achieved as a result of strict control over state current and capital spending. A rise in the pay for state sector workers will be balanced by optimizing the number of people working in civil service. It is necessary to undertake specific steps to optimize expenditures for the maintenance of government administration and declare a moratorium on increases in government spending. Additional expenditures in the budget will need to be balanced by economizing on other debit items. The cash deficit of the consolidated state budget decreases due to a reduction in the scale of PIP spending. The total volume of spending for PIP investment projects amounted to 3366.6.2 million Soms in 2003 (81% relative to 2002 level). Realized external funding of investment projects (without grants) was 97% of planned levels and realized internal co-financing was 99% of planned levels. Priority sectors such as agriculture (37% of all PIP expenditures), education and healthcare (25%), as well as transportation and communication (25%) dominated the structure of PIP expenditures in 2003.

30. Actions on the prioritization of state expenditures are complemented by measures on **improving the budgeting process**. The transfer of the Republican budget to a program basis continues, though insufficiently. The transparency of the budget is increasing - extended Parliamentary hearings of the draft Republican budget for 2002 (for the first time) and 2003 were conducted in the last two years with the participation of civil society representatives. Information about budget expenditures is available on the Ministry of Finance website and is published in the quarterly Financial and Economic Bulletin. The practice of budget hearings at the level of local communities is expanding.

31. Reductions in the budget deficit took place due to **improvements in collecting taxes and other revenues of the state budget**. In 2003, total revenues of the consolidated budget, including official transfers, has increased by 12,1% in nominal terms compared with 2002. Tax revenues in the same period increased by 13,8%, whereas revenues of budget organizations obtained from rendering paid services (special funds) rose by 16,6%. As a result, the total income of the consolidated state budget reached 19,4% of GDP, with tax revenues at 14,3% of GDP.

32. Strong measures on **reforming the tax and customs system** contributed to improvements in revenue collection in 2003. Significant changes were introduced to the tax legislation. The single profit tax rate at the level of 20% was introduced from the start of the year. A new real estate tax replaced the inefficient tax on unused production and trade facilities. One hundred percent of the revenue from the collection of the real estate tax will go to the local budgets. Jogorku Kenesh (the parliament) and local councils (keneshes) have not yet issued all

the necessary regulatory acts required for administering the tax. It is expected that they will be passed in the first six months of 2004. The value added tax (VAT) for supply of agricultural products was introduced with the simultaneous abolishment of the fixed VAT offset for agricultural products. Existing problems in tax administration and the unwillingness of large agricultural producers to register as VAT payers explain the unsatisfactory results of the extension of the VAT. The government will make the registration process more inclusive on the basis of recommendations of IMF missions. Another measure for the improvement of tax administration was the introduction of VAT invoices as forms to be used for stricter reporting. It has now become obvious that changes in tax legislation made in previous years damaged the integrity of the tax system, caused discrepancy and left a number of areas subject to taxation (those, for example, based on the patent system and in the SME sector) without adequate legislation. Therefore, a decision was made to develop a new edition of the Tax Code. It needs to be drafted and passed in 2004.

Changes have also taken place in the system of state bodies responsible for state revenue collection. The Committee on Revenues replaced state tax and customs inspections. A Division on Control over Large Tax-Payers and Participants of External Economic Activity was established within the structure of the Committee. The Division should improve tax administration activities with respect to the largest enterprises that pay the major share of taxes collected in the country. Other important reforms are also being pursued. These include adoption of the new Customs Code, introduction of the tax on exploration of mineral resources, introduction by the Committee of Revenues of a one-stop-shop company registration mechanism, creation of common VAT payer personal accounts in order to simplify payment and the offsetting of VAT for imports and domestic production.

33. While remaining high, foreign debt has stabilized due to the abovementioned restructuring of public foreign debt and related implementation of the complex of negotiations and measures, as well as the strengthening of the national currency, the som. During 2001-2003, overall external debt, including Government debt, debt to the IMF and private sector debt has remained at the level of around 110% of GDP (132% of GDP in 1999), with public foreign debt equaling 94% of GDP at the end of 2003. The Government conducts debt-restructuring negotiations with almost all bilateral creditors in the framework of the Agreement signed with the Paris Club creditors on March 7, 2002. (The agreement with India is at the signing stage, negotiations over the agreement with Kuwait continue). The main achievement of the Paris Club Agreement is a possibility provided by creditors to convert debt into social, environmental and other programs. Thus, Germany agreed to swap half of the Kyrgyzstan's consolidated debt (Euro 350,000) into the obligation of the Kyrgyz Government to increase the funding of the program to fight tuberculosis. In case of successful implementation of the PRGF program and approval of the next program on economic reforms coordinated with the IMF, the government of the Kyrgyz Republic plans to appeal to the Paris Club, in accordance with "the good will stipulation", with a request to additionally lessen the debt burden.

34. **External trade** in 2002 was marked by increased exports as well as imports. Exports of goods increased by 3,7%, while exports of services increased by 72,4%; imports of goods (in CIF prices) rose by 25,2%, and imports of non-factor services by 15,1%. These developments were influenced by various external forces. On the one hand, the volume of exports was negatively affected by the abovementioned shocks in the production of gold and electric power; on the other hand, the presence of the international coalition military airbase has stimulated an increase in exports, as well as imports of goods and significant growth in exports of services. Positive export developments were also supported by agricultural production and larger volumes of tourist services. The rise in imports was due to increased procurement of capital goods in the framework of PIP and private investment projects. The strengthening of the som to dollar exchange rate in real terms stimulated greater import of consumer goods. Greater growth of imports than exports led to some increase in the current account deficit – from 1,2% GDP in 2001 to 2,2% GDP in 2002.

35. The trend in foreign trade in 2003 has remained broadly similar to that in 2002. In 2003, exports of goods increased by 18,5%, and imports by 21,9%. Exports increased mainly because of a rise of gold supply. Without the production of the Kumtor enterprises, the rate of export growth amounted to -0,2%. As the preliminary data suggest, the deficit of the current account relative to GDP declined to 1,6% as a result of improving services and factor income balances.

36. With regard to capital flows and financial operations, growth in gross direct foreign investment from US\$90,1 million in 2001 to US\$115,7 million in 2002, which continued into 2003 with a rise from US\$62.1 million in the January-September of 2002 to US\$77,5 million in the same period of 2003, was one of the main factors underlying this increase. As a result of the all abovementioned changes in the payment system in 2002, the NBKR managed to raise the level of gross foreign reserves to 5,7 months of imports. According to preliminary data for the first nine months of 2003, the level of reserves amounts to 5,6 months of imports.

37. For the reporting period, there is some improvement in the functioning of a financial sector, which has reduced interest rates and increased lending and the bank deposit base. The average rate of the National Bank of the Kyrgyz Republic (NBKR) dropped from 7,95% in 2001 to 4,4% in 2002 and 4,0% in 2003; the weighted average interest rate on commercial bank loans in the national currency went down from 36,4% in 2001 to 30,2% in 2002 and 25,1% in 2003. The interest rate on loans in foreign currency dropped from 25,0% in 2001 to 22,6% in 2002 and 19,2% in 2003. The Kyrgyz Agricultural Finance Corporation (KAFC) – the principal lender for agriculture - reduced its rate by 3% starting from 1 July 2003. Lower interest rates triggered larger volumes of lending. The volume of bank loans in national and foreign currencies issued in 2002 jumped by 26,6%, compared with 2001; in 2003, bank lending increased by 44% compared to 2002. Despite a decrease in deposit interest rates, the deposit base increased, by 29,6% in 2002 and by 30% in 2003. This testifies to an increasing trust by population in the banking system of the country and greater role of the system in the economic growth. However, the scale of financial intermediation, as well as quality and range of available financial services are still far from the level required for acceleration of economic growth. A system of non-cash settlements through bank accounts is being created to address the issue of public access to quality banking services. This move will create advantages both for the players of the system and its users. Regions of the country observe an expanding practice of collateral-free crediting by various credit institutions. Volume of microfinance increases. Protection of commercial bank clients and support of the stability of the banking system, remain burning issues. The Concept of the Deposit Protection System and the appropriate Law are being elaborated to address that.

38. The Government and NBKR continue their work on the **development of the financial (banking and non-bank) sector** of the country. Regulation of the banking system by the NBKR is carried out in accordance with the Banking Reform Strategy and aims to strengthen the capital base of banks in order to ensure their stability and solvency<sup>5</sup>, increase the efficiency of commercial banks, create a system for protection of depositors' interests (including enactment of the Law on Protection of Deposits), and strengthen bank supervision. Measures to privatize the state financial institutions are being implemented. Bids to buy the Kairat bank have been invited and three commercial proposals have been received to date. The Kyrgyz Agricultural Financial Corporation (KAFC) and the Savings and Settlements Company are planned to be restructured and reformed. The improvement of the payment system continues. An automated clearing system, including the use of e-documents, was made operational in 2003. Currently, the Central Treasury is being connected to this system. Assistance provided by the World Bank for the development of the payment system has been extremely important.

39. The Kyrgyz Agricultural Financial Corporation (KAFC) - the largest **non-bank financial institution** - continues to increase its lending operations. In 2003, its loan portfolio increased by 27,6% and reached Soms 1276,2 million. In fostering the development of microfinance organizations (MFO), procedures for their registration and regulation have been simplified. As of

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<sup>5</sup> As of September 1, 2003, aggregate capital adequacy coefficient for the total capital of all banks amounted to 33.8% with the lowest admissible level of this coefficient at 12% for one bank.

January 1, 2004, 72 MFOs were registered. Their total loan portfolio amounts to Soms 433,9 million soms, or 0,5% of GDP. As of January 2004, 303 credit unions were registered, bringing together some 24,7 thousand people. The credit portfolio and assets of credit unions amounted to 288,8 million soms and 317,2 million soms respectively. The levels of these indicators of credit union activity are 15-19% higher than last year, which reflects a strengthening their capacity. For the purpose of expanding one other component of the financial sector – the securities market - a number of legislative acts are being developed in order to increase the attractiveness of this market, integrate the corporate and state securities markets, expand the range of financial instruments, and protect investors. EuropeAid project under the TACIS program is expected to contribute to the development of the non-bank financial sector.

40. Already the Third Investment Summit was chaired by the President of the Kyrgyz Republic. Three investment matrices, representing short-term priority plans for Government actions targeted at **improvement of the investment climate**, have been fulfilled. Investment Matrix IV is currently underway. The implementation of the investment matrix involves the cooperation of government bodies with representatives of the private sector, including business associations, the general public, foreign investors, and international organizations. The Advisory Council on Foreign Investments under the President of the Kyrgyz Republic was transformed into a regular working body. The normative and legal framework in the investment area has significantly improved in 2003 as a result of implementing the investment matrices. Sixty-five laws were drafted, 40 of them were passed, including the laws of the Kyrgyz Republic On Investments in the Kyrgyz Republic, On Introduction of Amendments and Addenda to the Law of the Kyrgyz Republic On Licensing, On External Migration and others. These laws and certain other legislative normative acts aim to create a fair and equitable environment and provide guarantees for the protection of investment capital for foreign and domestic investors, and reduce regulatory, technical and customs barriers to investments. A moratorium on drafting and adopting new regulatory legal acts that limit business activity was introduced. However, much remains to be done. Unfortunately, positive changes in the legislation do not always lead to tangible improvements of the business environment. However, efforts in this area have already produced some results. Foreign direct investments grew by 28% in 2002 compared to 2001. According to the results for the first nine months of 2003, this indicator increased by 24,8% compared with the corresponding period last year.

41. In order to make investment more attractive and competitive and to facilitate financial recovery, **privatization** of state property and improvement of management at state enterprises continues. International tender for sale of 51% of state shares of JSC Kyrgyztelekom took place in June 2003.

42. Together with World Bank experts, activities transferring the property of the JSC Sevelektro into a concession or transferring the state shares to trustee management are underway. Tender on transferring the state shares to trustee management of JSC Kyrgyzneftegas is being invited.

43. The Program of Privatization of State Property for 2004-2006 has been finalized by the government of the Kyrgyz Republic and will soon be sent to the Jogorku Kenesh for approval. At the same time, amendments are being introduced to certain laws in order to eliminate the constraints on the privatization of facilities in the service sector; namely to the Land Code of the Kyrgyz Republic, laws of the Kyrgyz Republic "On Education", "On State Support of Cinematography of the Kyrgyz Republic", and "On Extra-budgetary Activity of State Health Care Institutions." Due to the adoption in 2002 of Regulation "On Conduction of Competition for Vacancy Replacement in Management Bodies of Joint Stock Companies and Enterprises of the Kyrgyz Republic", civil servants have been withdrawn from the management of these joint-stock companies and have been replaced by the state representatives who are competitively elected and have been approved at the general meetings of shareholders with the proper signing of agreements and contracts. As a result of these activities, as of January 1, 2004, the share of privatized enterprises in the economy amounted to 70,7%, and the share of the GDP produced by the private sector reached 85%.

44. The situation in the electric energy sector - one of the most important sectors of the economy - is complicated by the high **quasi-fiscal deficit** (QFD), which threatens macroeconomic stability and economic growth, and, as a result, the implementation of social programs. The Government considers reduction of the QFD an integral part of its stabilization program and NPRS implementation activities. In 2003, quantitative parameters on the QFD in the electric energy sector were successfully established within PRGF program. To implement the series of measures targeted at reduction of QFD in 2004, it is necessary to lower commercial losses and to raise the level of cash payments.

45. Thus, in 2002-2003, the country moved towards the achievement of macroeconomic stability and major structural reforms. At the same time, the results of the two last years underline the sensitivity of the country's economy to unfavorable external factors, the existence of a large external debt and insufficient growth rates for exports and investment.

### II.1.2. Medium-term Budget Framework, 2005-2007

46. **The Medium-term Budget Framework** (MTBF) for 2005-2007, approved by the Economic Policy Council, is a key tool for social and economic planning, which is intended to ensure the focusing of state resources on priority NPRS areas and increase the efficiency of resource utilization. This section provides information on the macroeconomic strategy for the projection period, including the strategy for the QFD and the external debt reduction, and information about prospects for increasing state revenues. Detailed analysis of trends in state expenditures stipulated in the medium-term framework is provided in section VI.

47. Pursuant to the MTBF, the rate of economic growth during the projection period will be 5% per year on average (please see Table 2). It is assumed that growth will take place in all sectors of economy, especially in industry (excluding gold production), construction and the service sector. The principal driving forces of economic growth are expected to be 1) private investment – both domestic as well as direct foreign investment and 2) exports. The anticipated downturn in gold extraction at the Kumtor deposit should be partly offset by the launching of Taldy-Bulak Levoberezhnyi and Jerui deposits. It is expected that electric power supply to Russia will be growing rapidly. The export of tourism services will also grow significantly. The increase in exports will be facilitated by a significant reduction in foreign trade barriers owing to the agreements reached with Kazakhstan. It is expected that, in real terms, private and government consumption will increase at a moderate pace, and government investments, as a result of cuts in the externally funded PIP, will gradually be reduced.

**Table 2. Medium-term Budget Framework Figures, 2005-2007**

	2003	2004	2005	2006	2007
	Actual	Expected	Forecasted		
Nominal GDP, bln. Soms	83.4	91.8	100.5	110.5	121.47
Real GDP growth rate, %	6.7	4.0	4.5	5.3	5.2
GDP composition, %					
Private consumption	68.3	69	68.5	67.4	66.0
Government consumption	17.5	17.9	17.7	17.7	17.1
Gross investments	18.0	18.1	19.8	20.3	20.6
Public investment	5.3	3.9	3.5	3.1	3.2



	2003	2004	2005	2006	2007
	Actual	Expected	Forecasted		
PIP (external funding)	4.4	3.5	3.2	2.9	2.8
Private investment	12.7	14.2	16.3	17.2	17.4
Net export	-0.3	-5.2	-6.1	-5.4	-3.7
Export of goods and services	36.7	37.4	36.3	35.3	35.2
Import of goods and services	37	42.6	42.4	40.7	38.9
Rates of production growth by industries, %					
Agriculture	3.8	4.2	4.6	4.6	4.4
Industry	-17.4	0.1	0.0	5.3	5.8
Construction	-6.8	6.0	7.0	7.0	8.0
Services	6.0	5.6	6.2	5.9	5.9
Inflation rate, CPI, %	5.6	3.8	4.0	4.0	4.0
Public foreign debt, % of GDP	93.1	85.1	82.6	79.3	74.0
Poverty level, %	40.8	38.6	36.0	32.9	30.2
Consolidated state budget deficit, % of GDP	5.0	4.4	4.0	3.2	2.9
Quasi-fiscal deficit in electric power, % of GDP	10.4	9.2	7.7	6.2	4.8

48. **State economic policy in 2004-2006** will be aimed at securing macroeconomic stabilization and ensuring sustainable economic growth. This assumes continuation of a strict monetary policy that will help to keep annual inflation at 4%. A managed floating exchange rate will be maintained, which, on the one hand, should avoid a decrease in the price competitiveness of domestic goods and services in foreign markets and, on the other hand, should prevent an excessive rise in the cost of external debt servicing. Activities to attract direct foreign investment and improve the investment climate will be carried forward. Implementation of financial sector development policy will strengthen its role in the area of financial intermediation, which transforms internal savings into productive investments. The implementation of structural reforms will be a key factor in increasing the productivity of the factors of production required for enhanced competitiveness of domestic goods on foreign and domestic markets.

49. **Governance reform** activities (including activities under the WB GSAC/GTAC), with increased transparency and efficiency of public administration, improvement of corporate governance and judicial reform, will have paramount importance for the economic development of the country and poverty alleviation.

50. **Social policy** will try to make the social security system more targeted and efficient, improve the sustainability of the social insurance system, promote employment, ensure accessibility of education and healthcare services for all strata of society and support the financial sustainability of these sectors. It is expected that the implementation of social and economic policies will help to reduce the poverty level to 30.2% by 2007.

51. To maintain macroeconomic stability and meet the resource requirements of state programs, the MTBF projects a **reduction of the consolidated state budget deficit** to a level below 3% by 2007. This should be achieved by maintaining state revenue approximately at 2003 levels while increasing the share of internal income and lowering the share of external grants, and simultaneously decreasing state spending through more effective use of budgetary processes and a reduction in the scale of the PIP. Measures to increase internal budget

revenues include improvements in tax administration and a reduction of corruption in tax and customs agencies, expansion of the tax base, improvements to the tax system through step-by-step abandonment of the production tax and reductions in payment rates to the Social Fund, with a simultaneous increase in the role of indirect taxes and revenues from compulsory patent-based activities.

52. A sharp **decrease in the volume of the quasi-fiscal deficit** is required in order to ensure sustainable social and economic development for the country. The MTBF envisages QFD reduction to 4.8% of GDP in 2007. To this end, a set of measures are planned (please see para. 53), many of which are to be implemented within the World Bank GSAC credit.

53. The MTBF envisages implementation of a **comprehensive strategy for external debt management**. One of its components is a reduction of the PIP to 3% of GDP by 2006. This will help to reduce the deficit of the consolidated state budget and current account. All new funds will be borrowed only on sufficiently concessional terms, with at least a 45% grant element. Three quarters of the revenues from the privatization of state enterprises, including the four largest ones – JSC Kyrgyztelekom (telecommunications), JSC Kyrgyz Aba Joldoru , JSC Kyrgyzgaz and JSC Kyrgyzenergo - will be used for advance payments to meet the obligations to creditors.

The Government will also look at the possibility of settling non-concessional loans in exchange for the assets of state-owned enterprises. It should be noted that even under optimistic assumptions the net present value of debt to export ratio is not expected to fall below the threshold value of 150% until 2010. Improvement of debt indicators to levels consistent with debt stability can only be achieved upon restructuring of Kyrgyzstan's debt by the Paris Club creditors under Naples terms in December 2004.

54. The abovementioned figures on economic growth and poverty reduction in 2005-2007 correspond to the base case scenario for social and economic development of the country based on relatively optimistic assumptions as to the direction, frequency and strength of external shocks. It should be recognized, however, that the country may face increased difficulties in servicing external debt (even upon partly debt amortization by the Paris Club) in case of an unfavorable confluence of circumstances or insufficient efforts on the part of the Government, especially in the case of weak export growth or low levels of state revenues. This might lead to reductions in the economic growth rate and adversely affect full-scale implementation of public social programs and poverty reduction in the country. Recognizing the cost of such scenario, the Government attaches the highest priority to measures aimed at maintaining macroeconomic stability and achieving the targeted figures of economic growth, budget and exports, outlined in the CDF/NPRS and detailed in the MTBF.

## **II.2. FORMATION OF AN EFFECTIVE STATE**

For successful implementation of the state development policy it is necessary to reform public administration system. The reforms carried out in this area in the past two years created a solid basis for building modern state institutions. United Nations decision to support the republic's initiative and declare 2003 as the Year of Kyrgyz Statehood to commemorate the 2200 years of Kyrgyzstan's development history, became one of the most important stimuli for further governance reforms. Specific activities, implemented in the Year of Kyrgyz Statehood, and as part of the CDF and NPRS actions for enhancement of overall system of state, aimed at improvement of quality of civil service and public goods.

In his annual address to the Kyrgyz nation in October of the current year, the President of the Kyrgyz Republic declared year 2004 as the Year of Social Mobilization and Good Governance. All these facts indicate a strong political will and commitment to build effective and democratic state.

### **II.2.1. Raising the Effectiveness of the Legislature**

55. Adoption of the new version of the Constitution of the Kyrgyz Republic was the main event in legislature in 2003. The amendments to the Constitution transferred many powers from the President to other government branches - the Jogorku Kenesh, the Government, the judicial system, and local self-government bodies.

More than 1,5 million citizens participated in the discussion of the proposed Constitutional amendments during open public hearings, TV debates, roundtables, and via mass media. Representatives of legislative, executive, and judicial powers of the State, local self-government bodies, civil society, academia and professionals participated in revision and adjustment of current laws and regulations to the new Constitution and further development of legislation.

A wide range of both legislative initiatives and administration activities on realization of the new version of the Constitution of the Kyrgyz Republic was set up by Decree of the President of the Kyrgyz Republic "On Measures for Practical Implementation of the New Constitution of the Kyrgyz Republic and Targets for Sustainable Development and Poverty Reduction for 2003". Norms set by the new Constitution ensure legal base for a successful implementation of the CDF/NPRS.

A task for today is to consider and pass the laws, which provide a solution of the most important economic issues facilitating good governance and directed to the social support of citizens of the Kyrgyz republic.

56. At present, the National Council on Good Governance develops a strategy of reforming of public administration system. The main goal of this strategy is to increase the effectiveness of the state supply of social benefits and services to population within the framework of constitutional guarantees.

57. The Legislative Assembly of Jogorku Kenesh of the Kyrgyz Republic (parliament) passed a Law on Regulations of Jogorku Kenesh of the Kyrgyz Republic with the aim of strengthening the performance and efficiency, ensuring transparency, increasing quality and discipline in adoption of laws by the parliament. However, due to conflicts of some parts of the Regulation with the existing legislation, the President returned it with comments to the parliament.

The Kyrgyz Government approved Regulation on Law Drafting in order to improve law drafting practices, techniques, and raise the quality of draft laws. This Regulation proposes improvement in law drafting activities of ministries and state bodies in terms of administrative issues and procedures. Main thesis of the Regulation is directed to prevent delays in drafting and coordination of the strategically important laws. Moreover, the Center for Coordination of the Government Law Drafting was established in the Ministry of Justice with the aim to strengthen planning, monitoring and coordination of law drafting in the Government. Jointly with the legal departments of government agencies the Center carries out various activities aimed at improving law drafting on regular basis. A State Commission for Revision of Laws and Regulations has been established by a Government Resolution. This measure provides a basis for systematic and program-based approach to revision of the legislation and identification of priorities.

58. It is proposed that draft laws that directly affect citizens and regulate business activities must be published. Other important laws may be published in accordance to the decision of the legislative body to stimulate public discussions and involve the civil society. In December 2003 some amendments to the Law<sup>6</sup> were made with purpose to give a certain period of time to raise public awareness on Law and prepare comments to draft laws.

59. The Ministry of Justice of the Kyrgyz Republic has built a centralized database of legislative information to ensure public access to state legal information systems of government agencies. The activity has been conducted with support of the World Bank-financed Legal Information System Project. The database is accessible to unlimited number of users. The database currently holds over 24,000 laws and regulatory documents.

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<sup>6</sup> "On Normative and Judicial Acts"

## II.2.2. Improving the Judiciary and Law Enforcement Agencies

60. Aimed at effectiveness and independence of the judicial system the new Constitution of the Kyrgyz Republic envisages:

- merger of Supreme Court and Highest Arbitration Court;
- election of local court judges by Jogorku Kenesh of the Kyrgyz Republic;
- introduction of right of citizens to participate in administration of the law;
- procedure for dismissal of judges;
- introduction of the right of the Supreme Court to reconsider a sentence of lower-level courts and pass the final sentence in accordance with the established procedures defined by law.

61. The Consultative Commission on Judiciary and several working groups have been established for development of practical activities of the reforms. The Commission and working groups include representatives of judicial, legislative and executive power branches, independent lawyers, scholars and academia as well as private sector representatives. The Consultative Commission on Judiciary and Supreme Court of the Kyrgyz Republic suggested conducting a diagnostic study on the judicial system and related legal reform issues. The purpose of the study was to identify development needs and problems that need to be addressed during the judicial system reform. This study paper has been prepared with the technical assistance from the Asian Development Bank under the Corporate Governance Reform II Program. The study pointed at such issues to be addressed during the judicial system as transparency and openness of the appointment procedure for court staff, independence of judges, logistical support to the judicial system, and improvement of legal procedures.

62. The concept paper on establishment of a unified legal information database of courts of the general jurisdiction is being developed to ensure openness and transparency of the legal process. Grant agreement has been signed between the Kyrgyz Republic and the World Bank for implementation of such system. This project will help to automate work in several pilot courts, provide court judges with access to electronic database of laws, regulations and court decisions. It will help to increase transparency of legal proceedings by opening an access to court decisions for broader population. Positive pilot experience will be then disseminated throughout the judicial system.

63. For improving the judicial system and legal proceedings a Law<sup>7</sup> was developed and passed. The Law has defined scope, arrangement and procedures of the Supreme Court and local courts of the Kyrgyz Republic in connection with the judicial system reform. It is directed towards integration of Arbitration Courts system into the common judicial court system, improving the activities of all degrees of jurisdiction and local courts and extension of Supreme Court authorities.

64. To facilitate democratic settlement of disputes in accordance with the Law<sup>8</sup> an institute of Third Party Arbitration Courts has been established. The new Constitution of the Kyrgyz Republic has also created a strong foundation for extrajudicial settlement of economic disputes. A new Law<sup>9</sup> was developed in 2003; with the provisions mechanism for enforcement of decisions passed by foreign and local third-party arbitration courts.

65. Draft laws that regulate issues of court organization and performance are in the process of active preparation. The Constitutional Law<sup>10</sup> is directed to creation of new specialized –

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<sup>7</sup> Law on Supreme Court of the Kyrgyz Republic.

<sup>8</sup> Law on Third-party Arbitration Courts.

<sup>9</sup> On amendments to the Civil Code for Legal Procedures.

<sup>10</sup> Law on the Status of Judges.

administrative courts in a system of courts of common jurisdiction. The administrative courts will consider cases arisen from administrative or other public relations. To improve further court administration and court procedures the appropriate laws<sup>11</sup> have been prepared. Preparation of amendments and addenda to procedural rules is being finalized, namely to the Arbitration Procedural Code, Criminal Procedural Code and Criminal Execution Code. This particular include adoption of amendments into the Civil Code for Legal Procedures and the Criminal Code for Legal Procedures.

66. A number of Presidential decrees addressed disciplinary responsibility of court judges, introduction of qualification categories and salary raise for judges to ensure greater independence and adequate remuneration. In particular, the Qualification Boards to consider disciplinary responsibility were formed. To achieve financial independence of the court system and create incentives program certain steps have been performed. State budget expenditures for maintenance of the judicial system increase from year to year. In 2003, the expenditures allocated for this purposes were by 32% higher than in 2001 and by 45% higher than in 2001.

67. Draft concept paper on reforming the system of interior bodies in the Kyrgyz Republic has been developed with the aim of improving their effectiveness and ensuring public security. Moreover, the Chief Division for Penalty Execution was transferred from the Ministry of Internal Affairs under the administration of the Ministry of Justice of the Kyrgyz Republic, which was done as part of the reform of law-enforcement agencies, penitentiary system and bringing the legislation of Kyrgyz Republic into line with the unified human rights and freedoms.

68. The concept paper for development of the prosecution bodies was approved by the Presidential decree. The concept aims to strengthen the General Prosecutor's Office and focuses special attention on its cooperation with courts and proper representation of state prosecution in courts.

### **II.2.3. Reforming the executive branch**

69. In the reporting period, the Government of the Kyrgyz Republic has focused on changing the overall structure of the executive power, its form and performance to reflect the new political, economic, and social environment. Thirty ministries and state agencies underwent functional reviews for better justification and comprehensiveness of the governance reform. Establishment of working groups in state agencies serves the practical implementation of the recommendations elaborated as a result of the functional reviews. Technical assistance to these working groups was provided by the UNDP, European Commission, and UK Department for International Development.

70. The practical measures resulted in substantial rationalizations in most central ministries and state agencies. Thus, management structures were formed based on the functional approach. All laws and legal documents that regulate government agencies have been reviewed. Measures were taken to eliminate overlapping and obsolete functions in state agencies; some functions have been transferred to affiliated agencies, subsidiaries and local self-government authorities; the staff in government agencies was reduced. Nine divisions, 57 departments and 39 subunits have been eliminated as a result of such measures.

71. Practically, 110 functions have been eliminated as not corresponding to market developments, 125 functions have been transformed to other Ministries, departments and local authorities. Accordingly, staff reductions in government bodies were carried out at the same time with functions reductions. Future plans of staff rationalizations on the local level, particularly, in the health care and education sectors include completion of functional review by March-April of this year.

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<sup>11</sup> "On the Constitutional Court of the Kyrgyz Republic", "On Constitutional Legal Proceedings", "On State Legal Charges", and "On the Status of Bailiffs"

72. Jogorku Kenesh has adopted a Law<sup>12</sup> according to that the government structure includes twelve ministries and two State Committees. The most important functions of complex development of economics have been integrated into one structure in order to strengthen institutional capacity of economic reforms and conducting strong economic policy. The Law envisages establishment of the Ministry of Economic Development, Industry and Trade. To realize this Law, a respective Decree of the President of Kyrgyz Republic has been issued. The Ministry is formed on the basis of the former Ministry of Industry and Trade, the State Committee on Anti-monopoly policy, the State Committee on Development of Entrepreneurship, the Center of Economic and Social Reforms under the Ministry of Finance, the Center of Attraction of Direct Investment of the State Committee on Management of State Property and Attraction of Direct Investment, the Center of Corporate Government of the Apparatus of the Prime-Minister of Kyrgyz Republic. The next step to improve the executive branch will be reorganization of such key structures as Ministry of Agriculture and Ministry of Labor and Social Security.

73. The state and sector goals of development are considered to be the most important. Based on them, to achieve the goals functions are selected. Then, in accordance with functions, the structure of management bodies is formed. Selection of functions of certain ministries and departments, which are directed to implementation of specific strategies is the most well-grounded. For example, functions of the Ministry of Economic Development, Industry and Trade are directed to the strategy of export promotion, of the Ministry of Labor and Social Security - to the strategy of providing employment, of the Ministry of Agriculture – to the rural development strategy and etc. Due to the insufficient institutional capacity many ministries make such changes with law quality. Donor aid on reforming of public administration also requires better coordination.

74. The Government of Kyrgyz Republic issued Decree the plan of administrative procedures in order to improve administrative procedures affected private sector and exclude repeating. Activities on improving of regulative and resolving functions of the executive branch continue within the framework of investment matrices.

75. Staff rationalizations in government agencies in 2002 were carried out with an individual approach to each ministry and agency. As a result of functional reviews the government staff was cut by 7,3%. This move has saved some Soms35,0 million for the state budget.

At present the functional reviews are being carried out in regional government agencies, in particular, in the territorial departments of Ministries of Health Care, Education and Labor and Social Security. Based on the functional reviews of these ministries, it is planned to develop and implement the staff rationalization actions.

76. The Governance Structural Adjustment Credit (GSAC) and Governance Technical Assistance Credit (GTAC), supported by the World Bank, have been launched in order to carry out structural changes in public administration sector. It is to be noted, however, that their implementation is hampered because the previous agreements within the GSAC/GTAC missions were not fully executed. There are also problems in the organizational structure and lack of collaboration between working groups exist in the projects.

77. The Kyrgyz Government has approved a State Action Plan for Implementation of the Information and Communication Technologies Program in the Kyrgyz Republic. The Action Plan aims to achieve tasks set by the President of the Kyrgyz Republic on gradual transition to e-government model. A draft of Law on Electronic Signatures was developed to shorten time for decision making and provide a legal basis for electronic operations. The U.S. Government has provided a grant to support transition to e-government model.

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<sup>12</sup> "On Government of Kyrgyz Republic"

78. In 2003, the State Agency of Information Resources and Technologies was created under the Government. It will support provision, establishment and service of the unified state information resources, form the national information infrastructure and improve the system of the documentation turnover.

#### **II.2.4. Decentralization**

79. Targeted activities have been conducted in the reporting period on furthering the development of local self-governments (LSG). A National Strategy for Decentralization and Development of Local Self-Government until 2010 was approved by the Presidential decree on December 17, 2002. Corresponding Action Plan sets concrete tasks for the ministries, state agencies, local state administrations and LSGs on democratization of the governance and improvement in performance of LSGs. A Coordination Council, chaired by the First Vice Prime Minister of the Kyrgyz Republic, has been established to control the implementation of the Action Plan.

80. Improvement of the legal framework for LSG development has continued. Two main laws<sup>13</sup> were adopted in accordance with which real estate tax will be levied in urban areas of the republic. These two laws directly affect effectiveness of the local self-government system. Moreover, the Government has developed a draft Law<sup>14</sup> and has submitted it for consideration to the parliament. To improve the employment terms of staff of local self-governance bodies, salaries of heads of *aiyl okmotu* were increased by two times, and of other specialists of the sector by 30%

81. Following the Government Resolution, Finance & Economic Departments have been established in all *aiyl okmotu* (village governments) with the aim of improving the organizational structure of LSGs and ensuring a more effective use of budget funds.

82. Measures for increasing motivation of members of local councils and municipal employees have been envisaged. It includes measures for building a necessary material and technical foundation in terms of office supplies, maintenance, equipment, etc. These measures will create necessary conditions for effective performance of local self-governance bodies.

83. To improve the knowledge and skills of LSG staff, trainings were carried out in accordance with the programs developed by the Congress of Local Communities.

84. Rural Investment Project is being implemented jointly with the World Bank. Studies are being conducted on social and institutional assessments of LSGs. Pilot projects in local communities will be carried out based on the study findings.

#### **II.2.5. Managing and Reforming State Financial Management**

85. With technical support of the International Monetary Fund the Government has developed a Concept paper on Reforming the Ministry of Finance System and Central Treasury for 2002-2005. The paper's main goal is to build an effective public finance management system through medium-term forecasting and program-based budgeting. The first and foremost tasks relate to strengthening administrative and institutional capacities of the Ministry of Finance, strengthening the budgeting process, building capacity of the Treasury, and raising effectiveness of state budget revenue collection.

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<sup>13</sup> "On Financial and Economic Foundation of Local Self-Governments" and "On Amendments to the Tax Code"

<sup>14</sup> "On Municipal Service"

86. The Central Treasury has improved cash flow forecasting, control of obligations and putting state financial accounts in order. Modernization of the Treasury will continue under the Governance Technical Assistance Credit (GTAC), which will fully automate treasury operations.

87. The Government Budget Commission instructed ministries and state agencies to submit their budgets as program-based budgets. As a pilot project, a 2-year Resource Agreement was signed between the Ministry of Education and Culture and the Ministry of Finance. In accordance with the Agreement, the Ministry of Education and Culture has more rights to reorganize its structure, carry out its human resource policy, and allocate budget funds. The Ministry of Education and Culture received a right to pay bonuses to most outstanding employees beyond the salary scale originally set by the law.

88. The format of budget that used at present does not demonstrate the resources for realization of sector measures and providing services. This creates impediment to develop line programs.

To eliminate this, the appropriate formats developed by DFID specialists will be included into 2005 budget. It will facilitate integration of capital and current resource allocations to institutions and programs.

89. The Economic Policy Council has approved a Medium-Term Budget Framework (MTBF) for 2004-2006 which will contribute to increasing adequacy and timeliness of resource allocations for social and economic reforms, as well as to making the state financial system more transparent and accountable. The MTBF was used as a basis for the development of the 2004 state budget by the Kyrgyz Government. It was also coordinated with the IMF and approved by Jogorku Kenesh. According to it and as NSPR envisages social expenditures will be growing there faster than GDP. Realization of this position in the context of gradual budget consolidation requires thorough selection of prioritized expenditures in other areas.

90. To strengthen the state financial flows control the Committee on forming of financial plan was created under the Central Treasury. It regulates cash in Central Treasury as well as inclusion of the off-budget accounts of such bodies as the State Property Fund, the State Fund of Material Reserves, the Economic Development Fund and Small and Medium Enterprise Support Fund there.

Measures to ensure transparency of state procurement system are envisaged. To date, restructuring and strengthening of functions of State Committee on State Procurement and Material Reserves have been conducted. A respective bulletin is regularly published.

91. To strengthen external audit, restructuring of the Chamber of Accounts is being conducted. The restructuring is directed towards defining its role and organizational structure as supreme audit body in accordance with a new edition of a Law<sup>15</sup>. Adoption of standards of International Organization of Supreme Audit Institutions (INTOSAI) is envisaged. Ministries of Finance, Labor and Social Security, Agriculture have already created departments of external audit. It is necessary to develop strategy of establishment of effective function of internal audit in all state bodies.

92. To improve the customs and tax legislation in order to make it more regulative and stimulating and strengthening of tax administration the Strategy of Fiscal Reform in Kyrgyz Republic to 2005, the concept paper of improving of tax policy have been approved, and a new edition of the Tax Code has been prepared.

To increase transparency of the tax collection process there are substantial changes were made into the Tax Code of Kyrgyz Republic. They include the measures directed towards strengthening of tax administration and editorial amendments excluding double interpretation of some articles of the Code.

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<sup>15</sup> "On Chamber of Accounts of the Kyrgyz Republic"



In order to create predictable terms for making business by internal and external investors a Law on Entering of Amendments into the Tax Code of Kyrgyz Republic was adopted. It envisages that any law or decree which enters changes and amendments into the Tax Code, including adoption of new taxes and other compulsory payments into the budget, change of existing rates and tax base, may be approved not later than 1 of November of the current year and enforced not earlier than 1 of January of the following year.

Given that revision of the tax legislation as well as customs legislation is to be made, a draft of a new Customs Code worked out to be harmonized and unified with the International standards and directed towards improving, concrete definition and simplifying of customs procedures was approved by government and submitted to the Legislative Board of the Jogorku Kenesh for consideration.

## **II.2.6. Professional, Effective, Accountable Civil Service**

93. The National Committee on Civil Service was created by the President Decree on February 7, 2004. Its activity will be a basis of reforming of the civil service system and improving of professional skills of the specialists of civil service. The National Committee on Civil Service will shorten arbitrariness of heads of ministries and departments and provide fair conditions for the hiring and promotion of civil service workers.

94. To improve the institutional capacity of civil service, increase its transparency and accountability before the civil society two Laws<sup>16</sup> have been prepared. They are closely inter-related. A main idea of the first law is to divide civil service positions into political and public careers. A new institution of the state secretaries is being adopted in order to provide stability of functioning of state departments even in case if the Government or any minister will be dismissed. The second law envisages creation of institutional mechanism to facilitate honesty of persons on high state posts. Adoption of the laws will provide succession, stability and independence of civil service and recruitment of the most professional staff, which together will raise an effectiveness of management. At present the abovementioned laws are being coordinated with the World Bank and then will be submitted to Jogorku Kenesh of Kyrgyz Republic.

A mechanism of accurate regulation of political impact to the civil service, reducing a level of the political involvement in the decision-making process on human resources management, and providing effective guarantees of protection of civil service workers from unjustified dismissals has to be developed further.

95. Issues of the reform of salaries structure of civil servants are being considered. In 2005-2007, the fund of salaries financed by the state budget will be growing slower than GDP rates. However, improving of the civil service employment structure will provide a real growth of salaries to civil service workers.

96. Commissions for Attestation and Competitive Selection have been widely established throughout the system in order to incorporate up-to-date human resource policy principals. Competitions for filling vacancies are now held regularly; there were improvements in formation and functioning of the civil service staff reserve. As a result, the share of specialists hired through competitive recruitment made up 70% in the total number of vacancies in central ministries and state agencies; for regional government agencies this share reached 57% and for government administration and local self-governance bodies the share reached 69,3%. The government web-portal regularly posts information on vacancies in state agencies.

More attention was paid to the quality of conducted attestations of civil servants. In 2003, around 7000 civil servants worked in 31 ministries, state committees, administrative

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<sup>16</sup> "On a New Edition of the Law on Civil Service" and "on Declaration and Publishing of Income and Property by Persons on High and Other State Positions as well as members of their family".

departments and state commissions were certified. 1179 specialists of central departments and 5776 specialists of regional government agencies participated in the attestations. 513 people worked in local government administrations and self-governance bodies were certified as well.

97. There was improvement in the quality of newly hired specialists - 74% of them have higher education degree in technical sciences, economics, agriculture, or law. More attention is paid to promotion of women in the civil service. Women account for 43% of all specialists hired through competition procedure in 2002. 33,9% of women held management positions in local state administrations and 30,4% of women - in mayor offices in Kyrgyz Republic.

The requirement to promote young promising specialists in public administration sector is being implemented gradually. The Government has developed and approved Regulation for Competitive Selection of Graduates of Higher Educational Institutions. The Regulation defines qualification requirements for hiring talented youth in government agencies. Most ministries and state agencies have quotas for hiring young specialists.

98. A Program of Training and Qualification Advancement was approved. Two learning centers were created under the Academy of Management under the President of Kyrgyz Republic in Bishkek and Osh cities. 15 mln. soms envisaged for training of civil service workers and municipal employees in the 2004 state budget.

### **II.2.7. Development of Corporate Governance**

99. Activities aimed at strengthening corporate governance principles and financial management during 2003 continued in the framework of the program, Corporate Governance Reform II, financed by the Asian Development Bank.

100. The Law<sup>17</sup> was enacted in the framework of the activities aimed at improving legislation regulating corporate relations. This Law has set high standards for corporate governance; it has filled the gaps in regulation of joint stock company management as well as with regard to management competencies. The Law has expanded the rights of shareholders for management supervision and control; increased protection of rights of shareholders and investors. Amendments to this Law are being currently drafted since the practical enforcement of the Law has revealed certain conflicts with other laws and regulations.

101. To provide legislative support to the process of introducing international accounting standards (IAS) in economic entities of the country the Laws<sup>18</sup> have been adopted in 2002. The laws secure legal basis on conducting accounting and set International Standards of Financial Reporting to use in the republic.

However, not all enterprises of the republic have transited to these standards. This causes certain problems with providing transparency in their activities.

102. The Kyrgyz Government has developed a draft Law<sup>19</sup> with the aim of developing valuation activities, further development of the real estate market, introducing the mortgage system and market-based principles for valuation of property; the draft Law has been submitted for consideration to the parliament.

103. The activities are being implemented to reconsider the order and procedure of selecting candidates to serve as state representatives in joint stock companies. In connection with a prohibition imposed on civil servants to represent the interests of State in enterprises, a gradual

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<sup>17</sup> "On Joint Stock Companies"

<sup>18</sup> "On Accounting" , "On Auditing Activities"

<sup>19</sup> "On Valuation Activities"

process is carried out for withdrawal of civil servants from management boards of joint stock companies.

Managers of enterprises study principles of effective management. A program “Advisory and Management Support of Enterprises” envisaged a wide-ranging training of managers of joint stock companies is being prepared for realization.

104. Amendments have been made to the Law<sup>20</sup> aimed at strengthening corporate governance practices in commercial banks, protection of creditor rights and development of valuation activities. The role of boards of directors has been strengthened by establishing of corresponding committees. Clear and precise rules have been defined in order to avoid conflict of interests between bank officials and large shareholders. Preconditions have been created to make bank transactions with affiliated entities more transparent and controlled.

105. A draft Concept Paper on Development of Corporate Governance in the Kyrgyz Republic until 2006 has been developed with the aim of defining main development priorities in corporate governance. The draft is being currently reviewed by the Government of the republic.

### **II.2.8. Fighting Corruption**

106. The Government has been constantly undertaking measures to fight corruption and raise effectiveness of public administration. To this end, the Government has been regularly updating a State Program for Strengthening Public Order and Fighting Corruption in the Kyrgyz Republic. Such program was developed for 1995 – 1996, 1997 – 2000, and 2001 – 2003.

107. Relevant practices of fighting corruption in other countries and international organizations are being studied. An International Conference on Fighting Corruption was held in 2002, together with the Transparency International. Surveys have been conducted to study the corruption problems in Kyrgyzstan. The results have been discussed at conferences and round tables that were organized by the Administration of the President of the Kyrgyz Republic, the Kyrgyz Government, and the World Bank Country Office. The results of surveys show that a size of corruption in the republic remains still high.

108. Legal framework is being improved for effective anticorruption actions. Laws and regulations regulating the Government, ministries, and other government agencies are being revised to comply with the new Constitution. An examination of legislation by experts has been started to propose amendments to strengthen fighting corruption efforts.

The Law of the Kyrgyz Republic<sup>21</sup> has come into force; it was developed taking into account international practices of fighting corruption. A draft Law on “Fighting financing of terrorism and laundry of income received by dishonest way” has been prepared.

109. On February 21, 2002, parliamentarian Assembly of People’s Representatives has established a Committee on Fighting Corruption, Shadow Economy and Organized Crime. One of the main tasks of this Committee is to develop anticorruption laws, regulations and programs to support enforcement of anticorruption laws and implementation of anticorruption programs.

110. The session of Security Council of the Kyrgyz Republic that took place on March, 2003 discussed issue on “Measures for strengthening anticorruption efforts”. The Plan for implementation of the National Strategy “Kyrgyzstan is a Country with Good Governance” (which is an anticorruption strategy of state policy measures) has been adopted. The measures undertaken within the framework of the Strategy are aimed at elimination of unjustified and excessive interference of state agencies in business and economic activities. They are aimed at

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<sup>20</sup> “On Banks and Banking Activities”

<sup>21</sup> “On Fighting Corruption”

openness and accessibility of public services, building anticorruption attitude in the public, increasing responsibility of civil servants and managers to the State and civil society.

111. Events for discussion of anticorruption issues which were carried out in the regions helped to identify main directions for anticorruption activities. The Plan of Organizational and Practical Measures for Fighting Corruption in state agencies is being developed with aim of overcoming the syndrome of impunity observed among those who practice corrupt activities. Legal and economic measures are being undertaken to bring business activities from shadow economy into legal practices.

112. The Ministry of Internal Affairs (MIA) of the Kyrgyz Republic is being reformed. The functions that do not correspond to the nature and mission of the militia (the police service) have been transferred from the MIA to other ministries and state agencies.

113. Agency of the Kyrgyz Republic for Drug Control has been established. Cooperation is being expanded and extended between law-enforcement agencies and fiscal bodies of the Kyrgyz Republic with similar organizations and agencies in foreign countries.

114. According to the Concept Paper for Development of Prosecution Bodies in the Kyrgyz Republic until 2005, fighting corruption has been identified as one of the most important tasks for law-enforcement agencies and prosecution bodies. Measures are being developed to coordinate activities and joint efforts of law-enforcement agencies on revealing, exposing, halting, and preventing corruption-related crimes, and eliminating causes of corruption and corruption-favorable environment.

115. Interdepartmental Committee on Public Security and Fighting Corruption in the Kyrgyz Republic was established to coordinate actions of the executive power agencies in rendering public security and fighting corruption.

116. However, anticorruption activities conducted by the Kyrgyz Government have not achieved their goals and the work must be substantially intensified. In this connection, establishment of the National Council for Good Governance has become a new driving force in fighting corruption and ensuring good governance. The Council, established by the Decree of the President of the Kyrgyz Republic, is chaired by the Prime Minister of the Kyrgyz Republic and consists of 25 members representing government agencies, NGOs, and business community. The National Council has a legal status of a consultative body, acting on the basis of close cooperation with government bodies, local self-governments, civil society, economic agents (private sector), and international organizations. The main purpose of the Council is to form and introduce new mechanisms that will ensure good, open, and responsible governance - the aim of the state anticorruption policy. The main tasks of the National Council include development and implementation of concrete measures on forming and developing good quality public administration system as an effective anticorruption strategy. Openness of the Council sessions for all interested media representatives ensures transparency of Council's activities (close sessions are decided by the National Council members). Secretariat for Good Governance - an executive body of the National Council – has been created.

117. Decrease of various types of interference of state agencies in business and economic activities is one of the fundamental directions of fighting corruption. Special attention is to be paid to work of the interior, tax and customs structures, where concrete facts of corruption were recorded.

118. Additional measures on further implementation of the state policy on area of supporting of investment and other business activities as well as eliminating any barriers for their development have been envisaged. To create favorable terms for business development a concept paper of the state policy in area of regulation of economic activities of enterprises has been approved by the Presidential Decree (Concept of economy deregulation). Its goal and main objectives include realization of constitutional rights of citizens on private property and

economic freedom, defining types of state interference in business and economic activities and denial of excessive bureaucratic regulation.

119. The key progress in economic deregulation will be provided by the Law on basics of technical regulation in the Kyrgyz Republic. The law will facilitate a process of full transformation of the system of technical regulation. An adequate institutional framework and capacity will be required for effective implementation of planned activities.

120. One of the most important directions of the prosecutors' offices activities is the immediate taking measures in accordance with the appropriate laws on the actions of civil servants working in state departments, local state administrations and self-government bodies who break the Decree.

A need for strict observance of legislation in area of investment and business activities was defined. This includes dismissal of civil servants breaking the legislation.

121. The government took such a strong measure as reorganization of the Central Department on fighting economic crime and corruption of Ministry of Internal Affairs of Kyrgyz Republic. It is related to the facts that its employees and workers of other state departments often interfered into the business activities of enterprises without any justification and demonstrated abuse of their power.

Appropriate documents envisage that one of the main objectives of the Ministry of Internal Affairs is fighting abuse of power, precautions and decrease of crime.

122. In order to create intolerable environment for corrupted officials and increase their responsibility for illegal actions the further improving of mechanism of declaration of income of civil servants is envisaged. According to the "Provision on a procedure, conditions and terms of submitting of information by the civil servants on received income and belonged property" it is planned to make tougher requirements to appropriate categories of civil servants. The Law<sup>22</sup> facilitated the process is being prepared for submission to Jogorku Kenesh.

## **II.2.9. Democratic Institutions**

123. Democratic institutions have significantly increased their capacity and developed further over the reporting period. Their activities, independence, and institutional capacity are growing. There are more than 4500 nongovernment organizations and public foundations in the republic. They render active assistance to the State in addressing many social problems. They are involved in such areas as support to the most vulnerable groups of the population, protection for women and children, enforcement of human rights, environmental protection, education, gender issues, and other.

124. Because of the exceptional importance of observation of human rights and freedoms for a successful development of the country, Askar Akaev, the President of the Kyrgyz Republic, proposed a national idea - Kyrgyzstan is the Country of Human Rights. An appropriate Human Rights National Program has been developed and is being implemented. Democratic Security Council has been established to coordinate the overall efforts on strengthening the democracy. This Council includes representatives of the civil society. A draft Democratic Code has been prepared and published for an open discussion with the civil society. It was approved at the Second World Kurultai of the Kyrgyz People, in August 2003.

The legal base for further building of the democratic institutions and conducting reforms in social and political sphere has been significantly strengthened.

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<sup>22</sup> "On declaration and publishing of information on income and property by persons on high government positions"

125. The new Constitution of the Kyrgyz Republic has advanced the principles for building a democratic state, advanced freedoms and rights guaranteed to all citizens of the country. It secures the Government duty to work in cooperation with the civil society. The role and status of political parties have been significantly increased. They have gained a right to promote their candidates for position of parliament members. Political parties received real possibilities to work directly on the local level to gain their supporters.

126. The institute of Ombudsman was established in 2002 in the Kyrgyz Republic in compliance with the Constitution and the Law on Ombudsman; the office of Ombudsman is now functioning. The Ombudsman supervises observance of human rights and freedoms granted by the Constitution on the territory of Kyrgyzstan, within his powers and in accordance with the international agreements.

127. The Presidential Decree on Measures for Development of Social Mobilization for Poverty Alleviation was adopted with the aim of increasing participation of the civil society in the CDF/NPRS implementation. The Decree envisages large-scale and active dissemination of positive experience in social mobilization for poverty reduction.

To strengthen inter-action of the Government with community the Law<sup>23</sup> was developed. The law has been passed in Jogorku Kenesh in the beginning of March if 2004.

Creation of Social-Information Center (SIC) will also promote intensification of participation of civil society in decision-making process. At present, the issues on sources of its financing and finding a right location are being considered.

Drafts of new editions of laws furthering democratization of the election procedures such as Code on the Elections in Kyrgyz Republic, on Central Commission on the Elections and Conducting Referendums in Kyrgyz Republic, on the Government of Kyrgyz Republic are developed and submitted to Jogorku Kenesh.

## **II.3. BUILDING A FAIR SOCIETY**

128. Comprehensive reforms conducted in social area in the framework of CDF and NPRS activities have established a solid basis for building a fair society with effective social security and human development. Concrete policy measures have been adopted to ensure access to quality healthcare and education services, development of the retirement pension benefits system and social security for target groups, creation of new jobs, rational environmental management, as well as gender equity.

### **II.3.1. Development of Targeted Social Security**

129. To raise the social protection level and promote its targeting the following steps have been taken:

- social security benefits and allowances were increased by 20%;
- several Government Resolutions defined privileged target groups that are eligible for cash compensations for medicines and coal were approved;
- a draft Law<sup>24</sup> envisaged a system of providing benefits to low income people getting in order;
- a draft Law<sup>25</sup> was developed and submitted to Jogorku Kenesh of the Kyrgyz Republic. This draft law stipulates targeted principle of rendering social benefits for employees of the Ministry of Interior Affairs and the Ministry of Defense for energy and utilities tariffs.

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<sup>23</sup> "On Administrative Procedures"

<sup>24</sup> "On State Social Benefits in the Kyrgyz Republic"

<sup>25</sup> "On Amendments to Several Laws of the Kyrgyz Republic"

130. However, a problem of incomplete recording of family or individual's income when calculating the uniform monthly benefit (UMB) exists in the republic. To solve the problem, it is planned to develop a Methodology of defining income from agricultural activities and implement pilot projects in several regions. Taking the results of their implementation a draft Regulation<sup>26</sup> stipulating consideration of land plot sizes and cattle breeding activities (against the norms) will be revised.

It has to be noted, that the share of population received UMB in 2003 (in the beginning of the year) increased by 1,1% in comparison with 2002 ((in the beginning of the year). Preliminary calculations show that the abovementioned regulation will decrease a number of the UMB recipients by 17%, and the total allocated for this purpose sum – by 21%. The saved resources will be allocated to increase of the guaranteed minimal consumption level (GMCL), which directly defines a size of social benefits. In 2003, the ratio of GMCL to minimal consumption budget amounted to 8,6% in comparison to 10,1% in 2001 or decreased by 1,5%.

131. A system of social identity papers (“social passportization”) is being used to strengthen the social security benefits for target groups. The system currently covers almost 100% of the poor families (more than 650 thousand families). An enhanced social identity paper (“social passport”) form has been developed and will be introduced in 2004 for even more effective calculation of incomes of low-income citizens.

132. Low-income families receive compensations aimed at their social protection from a rise in energy tariffs. In 2003, the resources directed to the compensations increased by 78% in comparison with the previous year. An experiment with simplified application procedure for electric power compensations based on social passports is being carried out in three pilot districts of the republic. Taking the results of experiment the simplified application procedure will be disseminated in rural areas all over the republic. Low-income families in Bishkek receive subsidies for public utility services. In 2003, 5000 people received the subsidies.

133. To alleviate children poverty, the State Program “New Generation” to 2010 has been realized. The Family Code has been adopted. Because of insufficient legislation in area of the children protection, the Code on Children is being developed. It will become a mechanism of realization of children's rights. To soften the problem of insufficient financing of children institutions, some measures on attraction of the off-budget resources have been envisaged. Pilot projects are implemented for establishment of Family and Children Support Units in several regions of the republic. These units will provide residential care for children and their families. Rehabilitation and Patronage Centers for neglected children are being created.

134. Rehabilitation centers for disabled people are being established as part of the National Program for Support of the Disabled People. Vocational training of the disabled people is being conducted in vocational education schools and lyceums. Syllabuses are being developed for vocational education of children with special needs. Despite the measures taken to mobilize external and internal resources, a problem of providing the disabled people with wheelchairs is still remaining.

135. A draft of the Law<sup>27</sup> directed at the unified approach to forming of social sector budgets will facilitate a resolving of the problem of absence of the unified social standards.

136. Social mobilization implies development of credit unions, self-help groups and their associations, community based organizations, public foundations and charities. Moreover, with support of international organizations, poor families receive humanitarian aid. 88,1 thousand families were able to improve their economic conditions by using mechanisms of Social

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<sup>26</sup> “On Procedure of Defining Aggregate Family Income for Allocation of Uniform Monthly Benefit to Poor Families and Citizens”

<sup>27</sup> “On the state minimal standards”

mobilization. A declaration of year 2004 as a Year of Social Mobilization and Good Governance will give a long-lasting impetus for social mobilization efforts.

### **II.3.2. Improvement of the Retirement Pension Benefits System**

137. Substantial work was done to increase the living standards for pensioners. The president has decreed an average of 10% increase of the level of retirement pension benefits and 15% increase of the minimum size of retirement pension benefit to servicemen. The payments extra to retirement pension benefits for the disabled and participants of the World War II have been also raised. Savings accumulated at personal retirement pension accounts were subject to inflation indexation and were increased by 11,8%. Recalculation of the size of retirement pension benefits is being made annually for working pensioners in accordance with social insurance fees that have been paid and accumulated at their personal social insurance accounts. As a result, growth rates of the general size of retirement pension benefit amounted to 100% in 2003 in comparison with 101% in 2002. In 2004, it is planned to increase the average size of retirement pension benefit by 9%.

138. Pension system laws and regulations are being improved in order to ensure decent living standards for the elderly. The recently adopted Concept Paper for Further Reform of the Retirement Pension Benefits System provisions a phased transition to the accumulative pension system. It is proposed that every employed person pays additional retirement insurance fees for the accumulated share of the personal retirement benefits. The accumulative principle will not apply to those who have less than 10 years to reach the retirement age. These people will receive retirement pension benefits based on the existing collective pension system. The Kyrgyz Government has approved a concrete Action Plan in the framework of this Concept Paper. A set of draft laws have been prepared to define mechanisms of introducing principles of accumulative pension system and ensure adequacy of pension benefits.

139. Draft law<sup>28</sup> outlining measures for protection of worker's contributions, control over formation and investment of pension savings, and setting basis for the institutional and legal framework for investment of pension funds has been recently developed.

140. During the process of preparation for transfer to the accumulated principle a problem of absence of the qualified specialists - actuaries who are able to make necessary calculations of a new model of pension system appeared. The problem will be partly solved by the GSAC/GTAC project financed by the World Bank. A law simplifying a procedure of calculation and payment of retirement pension benefit was adopted.

141. At present, one Non-Government Pension Funds operates in the republic. So, a draft law<sup>29</sup> was prepared and submitted to the parliament with the aim of developing non-government pension insurance services in the Kyrgyz Republic. According to the draft law non-government pension funds gain the status of commercial (i.e. profit making) organizations.

142. Measures taken to ensure the financial stability of the Social Fund of the Kyrgyz Republic resulted in a 10,8% increase in the total volume of collected social insurance premiums in 2003 compared to the previous year. Payments of retirement pension benefits are being made without any delays and paid in kind only according to pensioners wish.

143. Starting from 2000 to 2003, a ratio of the base part of the retirement pension benefit to the minimal consumption budget of a pensioner decreased from 19,7% to 17,0%. In relation to this, since January 2004 a size of the base part of retirement pension benefits has been set up to the level of 226,6 soms based on the resources of social insurance. The increase has amounted to 11%.

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<sup>28</sup> "On investment of funds to finance accumulative pension component under the state social insurance."

<sup>29</sup> "On amendments to the Law on non-government pension funds."



144. At present, existence of debts of enterprises on social insurance payments became a problem. To solve it, notifications are being sent to the debtors monthly and agreements on deferred payments are being made. Changes that envisage application of penalties on the evasion of mandatory insurance fees and non-execution of legal requirements of the Social Fund have been included to the Criminal Code of Kyrgyz Republic.

### **II.3.3. Labor Market and Job Creation**

145. Continuously high unemployment level of 8,7%, forces the government to take additional measures for improvement of the employment legislation. Labor Market Policy Paper to 2010 is being drafted with support from the European Commission - Tacis Program. The parliament has passed a Law<sup>30</sup>, which simplifies the eligibility requirements for unemployment benefits. It, therefore, increases the social protection of the unemployed citizens. A selective survey of households on employment problems was conducted with support of the UK Department on International Development.

146. Legal framework is being enhanced for wage reform and improvement of labor relations. The Law<sup>31</sup> development of social partnership among government bodies, employer associations and labor unions when carrying out social and economic policy in the country. New version of the Labor Code was developed and adopted in the first reading by the parliament. The new Labor Code will foster liberalization of labor relations, development of the private sector and creation of more jobs. The Concept Paper on Wage Reform in the Kyrgyz Republic for 2003-2010 has being implemented. The Concept Paper envisages restoration and development of the stimulating, reproducing, regulating and social functions of wages and development of market mechanisms of its regulation.

147. Active measures are implemented to create conditions for increased employment of the population. Unemployed people are being trained in demanded skills and professions. Paid public and community works have been organized to rehabilitate social infrastructure. A system of micro-lending for the unemployed is being developed to provide micro credits for starting up new businesses and creating more jobs. Business incubators have been organized in most regions of the republic and proved a good initiative for creation of permanent jobs.

148. A mechanism of social partnership among the State, employers' associations and labor unions is being used to improve regulation and coordination of employment issues. Training courses, round tables, and seminars are being conducted to provide the unemployed with information and advisory services. Various mechanisms are used to motivate employers - employer contributions to the Social Fund are getting lower for every person hired, for each new job created the employers receive a lump-sum payment equal to six months unemployment benefits for one person.

149. The unemployed young people account for 53% of all unemployed and remain one of the most problematic issues. To address this, youth labor exchanges are functioning in big towns of the republic to provide young people with employment opportunities. The issues of employment of higher educational institution graduates are being addressed by establishment of appropriate departments that will foster employment of graduates. This matter is also being tackled through targeted contracted education.

150. A lack of reliable determination of real needs for specialists of different qualifications in the labor market and their following respective training have the considerable negative effect on the employment situation. This issue will be addresses to the Ministry of Labor and Social Security,

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<sup>30</sup> "On Amendments to the Law on Promotion of Employment"

<sup>31</sup> "on Social Partnership in Labor Relations in the Kyrgyz Republic envisages"

which will provide a detailed study of the labor market and forecast the forthcoming needs for human resources.

#### **II.3.4. Access to Quality Education**

151. An Education Development Concept until 2010, which defined main development priorities in the education sector is being implemented with the aim of ensuring accessibility and quality of education in the Kyrgyz Republic. Based on the Concept goals the Law<sup>32</sup> was adopted setting multiplicity of sources of education financing, search for new forms and technologies of the learning process and functioning of non-government education. The National Action Plan Education for All, which is also aimed at improving access to good quality education, is currently being implemented.

152. In 2003, 9,9% of children of appropriate age were receiving preschool education, compared with 9,5% in 2001. Community-Based Early Childhood Development Project, financed by the Asian Development Bank, is implemented for further increasing of access to preschool education. Different forms of pre-school institutions including community, family and private types with the part-time schedule of children attendance (incomplete day or incomplete week) are being developed.

153. Rural School Program was adopted to support and develop rural schools. To achieve this goal the World Bank is planning to implement a US\$15 mln. grant project. The Rural Education Project will develop a new performance-based evaluation scheme for teachers and an associated new salary scale to induce better performance. To solve the issue of shortage of teachers a mechanism of sending higher educational institution graduates whose study was paid from the state budget to secondary schools is used. Measures will be taken to provide these graduates with housing and increased salaries and, thus, increase attractiveness of teacher work. Following the law<sup>33</sup>, the republican budget annually provisions categorical grants to supplement salaries. GSAC/GTAC program will help to formulate minimum standards for provision of services in the educational sector, which will be used as a basis for calculation of categorical grants. This will help to increase effectiveness of the education funding. It is planned to form a state order for training of the required specialists based on labor market study to the education system.

154. Jetkinchek National Program on Access to Education is being implemented to address the issues of non-attendance of schools by children and overcrowded classes as well as increase of a number of children receiving incomplete basic secondary education (1-9 grades). In 2003, 94,8% of children were receiving basic secondary education compared to 94,6% in 2002. Significant measures taken for constructing and repairing schools, provision of schools with necessary materials, supplies, equipment and furniture resulted at decrease of a number of children not attending school by 22% in 2003 and increase of a figure shown provision of schools with textbooks by 14%. ADB, UNDP and other international organizations provide much support in this area. In 2004 it is planned to publish 800 000 textbooks for secondary schools.

155. A nationwide testing of school graduates, conducted in 2003 with USAID support, was one of the most important measures for ensuring accessibility of higher education and assessing quality of school education. Highest scoring school graduates have been granted admission to leading national universities without having to pass entrance examinations and demonstrate now excellent results. In some universities their progress in study reaches 90-95%. USAID has also helped to establish an independent testing agency, which will become fully self-financed starting from 2005.

156. Levels of training and the material and technical basis in the system of vocational education are beyond of modern requirements. There are 113 vocational schools in the country.

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<sup>32</sup> "On education"

<sup>33</sup> "On the status of teachers in the Kyrgyz Republic"

Measures on reforming of the system of vocational training will be taken within the Development Strategy for Vocational Education.

157. A Development Strategy for Higher Professional Education was adopted in the country. A system of credit hours is being gradually introduced into the educational process. It is envisaged that it will improve education quality. Transfer to a multilevel education system is being carried out in the republic: bachelors are trained in 20 universities and masters - in 13 universities. A distance teaching is introduced to the learning process. To work out concrete measures on development of high school the information database including potential of universities to supply specialists and demand of employers and a working group (the Brain Center) consisting of representatives of government agencies, rectors of universities, international organizations and civil society will be created. These measures will ensure good quality of education in Kyrgyzstan and its compliance with international standards.

158. The State Program on Reforming Sciences and Research in the Kyrgyz Republic for 2003-2005 has been developed and approved by the Government. Measures are taken to integrate science and research, education and industry, form competitive state orders for conducting research on main social and economic development priorities, human resource development, and increase of wages in science and research sectors.

159. Measures for support and development of culture are taken within the framework of the State Program for Development of Culture and Arts in the Kyrgyz Republic, 2001-2005. For the same purpose a draft Law<sup>34</sup> has been developed to define the state policy on cultural development. Measures are taken to repair cultural institution buildings and supply them with materials, equipment, furniture, etc.

160. To ensure a complex development of the system of libraries in Kyrgyz Republic it has been decided to work out the Concept Paper on Development of Libraries and Policy on Books.

### **II.3.5. Access to Quality Health Services**

161. National Program aims to provide fair and equal access to good quality medical services. The Program "Healthcare of Kyrgyzstan in XXI Century" defining fundamentals of healthcare policy until 2010 has been approved. Family medical centers and family group practitioners successfully operate along with obstetrical-medical centers. In 2003, the number of in-patient medical institutions and hospitals has reduced from 175 to 153. Healthcare Reform II Program, financed by the World Bank, helps to train practicing doctors and medical nurses in family medical services and rehabilitate and computerize healthcare institutions. The reforms made it possible to reach a stable trend of increasing life expectancy index (0,73 in 2002 compared with 0,728 in 2001).

162. The Healthcare Funding Reform Concept until 2006 and Healthcare Development Concept until 2010 have been developed to address the issue of underfinancing of the health budget, which is one of the causes of the recent quality and access problems.

163. In 2003, health sector funding from the state budget accounted to 2.0% of GDP, compared to 2.1% in 2000. New financing approaches have been introduced in Jalal-Abad and Batken oblasts and in Bishkek and Osh cities effective January 1, 2004. Earlier, such work has been conducted in other regions. Introduction of the new financing approach resulted on increase of spending for medicines provision by 2,2 times in average and the rate of growth of wages of medical workers in hospitals by 1,7 times and the primary level – by 1,3 times. The Law<sup>35</sup> directed at provision of stability and transparency of financing of healthcare system has been approved. Mandatory Medical Insurance Fund under the Ministry of Health possesses the rights

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<sup>34</sup> "On Protection and Support of Cultural Activities in the Kyrgyz Republic"

<sup>35</sup> "On Single Payer System in Healthcare Finance in the Kyrgyz Republic"

and responsibilities of the Single Payer. The realization of this law ensured more stable financing, transparency, flexible planning and use of funds. In 2003, health care funding from the local budgets was at the level of 96,1% of the planned amount, compared to 92,6% in 2002.

164. In 2003, the system of Mandatory Medical Insurance (MMI) covered 81,8% of population compared to 86,2% in 2002. It is explained by the fact that the number of working population decreased from 1.598 million people in 2002 down to 1.470 million in 2003, while total size of population increased. Necessary provisions were made in the 2004 republican budget for medical insurance of pensioners in accordance with the newly enacted law<sup>36</sup>.

165. Additional MMI program for provision of medicines to citizens with medical insurance has been introduced throughout the republic. As a result, the population paid on the average 46.1% of the total cost of medicines, compared to 50.8% в 2002. The problems of delayed transfers of insurance fees from the Social Fund to MMI and arrears for 2002 have been almost solved.

166. During the process of reforms in the healthcare system problems hindered from their speeded implementation have been defined. The situation has changed at present and the healthcare system will continue to be fundamentally modified within the agreed policy.

167. Two pilot projects implemented in two regions try to introduce new criteria of live births statistics recommended by the WHO. Their implementation resulted on a decision to disseminate new criteria of live births statistics all over the republic. Family planning activities are being carried out in all regions.

168. National Preventive Immunization Program for 2001-2005 helped to vaccinate 96-97% of children against the planned level. No new cases of poliomyelitis, tetanus, and diphtheria have been registered. However, there is a problem of increasing number of brucellosis cases. To address the issue, a National Program "Brucellosis" is being developed. There is a stable number of echinococcus cases. A Targeted Complex Program on Fighting Parasitical Illnesses is being implemented. Legislation on improving of supervision on parasitical illnesses is being worked out.

169. The share of population suffering from iron deficiency has increased to 4,0% in 2003 compared to 3,0% in 2002. There was an increase in the share of population with iodine deficiency (4,7% in 2003 compared to 4,2% in 2002). To address these issues the Decree of the President of Kyrgyz Republic<sup>37</sup> directed to provision of population with food enriched with microelements and vitamins was passed. For the same purposes to prevent iodine deficiency and iron deficiency anemia, the equipment is being installed at flourmills to enrich flour with iron additives, training seminars are conducted for practicing doctors, TV and radio programs are organized, leaflets and booklets are published.

170. The State Program on HIV/AIDS, Sexually Transmitted Diseases and Diseases Transmitted by Blood for 2001-2005 and the National Tuberculosis-II Program for 2001-2005 are being implemented to prevent spread of HIV/AIDS and tuberculosis. It is worth mentioning that 132 new HIV/AIDS cases (including 125 citizens of the Kyrgyz Republic) have been registered in 2003 in the republic; 160 cases – in 2002 (including 146 citizens of the Kyrgyz Republic).

171. Property rights of rural water consumer associations on water supply systems are being secured in order to ensure supply of clean potable water. State control over supply of water to residential areas continues. Measures will be taken to i) improve material and technical infrastructure of the Center for State Sanitary and Epidemiological Supervision; ii) create a unified system of monitoring quality of potable water; and iii) train necessary personnel.

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<sup>36</sup> "On amendments and addenda to the Law on Medical Insurance of the Citizens of the Kyrgyz Republic."

<sup>37</sup> "On National Council (alliance) on fortification of food under the President of Kyrgyz Republic".

172. The Council on Physical Training and Sports under the Government of the Kyrgyz Republic was established for implementation of the Physical Training and Sports Development Concept until 2010. The Government Resolution on Accreditation of Physical Training and Sports Associations (federations, unions, and associations) was adopted in the Kyrgyz Republic for the same reasons. Material and technical basis of sports institutions is being strengthened in terms of supply of materials, equipment, maintenance of buildings, etc. Mass sports events are being organized. Kyrgyz teams take part in international sports competitions.

### **II.3.6. Rational Environmental Management**

173. Environmental legislation is being improved and harmonized with international legislation in order to improve rational use of natural resource and environmental management. Draft Law<sup>38</sup> was developed to introduce environmental tax instead of existing system of collected fees and payments. The Charter of the International Atomic Energy Agency (IAEA) has been ratified by the Kyrgyz parliament as part of joining to the Nuclear Safety Convention (IAEA).

174. Air pollution is among the priority environmental issues to be addressed by the country. The first National Communication on Climate Change has been prepared as part of implementing UN Framework Convention on Climate Change, with the support of the Global Environmental Fund and UNDP. The Communication has outlined scenarios of climate change and proposed measures to control greenhouse gas emissions. The Ozone Center was established to coordinate the State Program on Abating Use of Ozone-Destructive Substances in the Kyrgyz Republic on 2002-2005. Measures for increasing the share of alternative and renewable energy sources from 0,15% of the total energy produced in 2001 to 3,5% in 2005 include development of solar heating systems, production of solar energy collectors for heating and hot water supply.

175. Development of legislation for protection of water resources is being carried out. A draft Water Code promoted rational use of water resources and regulation has been developed. Water Resource Management Information System is being introduced on the level of regions and district of the republic for the same purposes. Development of Water Cadastre promises a more effective monitoring and supervision over water resources. To ensure rational use of surface and underground waters Information and consulting Systems are being established in the regions.

176. A Land Survey (Cadastre) is being developed for a better registration of land resources. Around 25% of pasture became more or less degraded, their average productivity decreased by 15%. To address these issues, a draft of Water Strategy has been prepared. The strategy will aim at more productive use of water resources and increase productivity of watered land by 10% to 2010.

177. When applying for permits for development of mineral deposits, legal entities and individuals are now required to submit financial guarantees for reclamation activities as well. New requirements have been set for development of medium and large deposits. It includes submission for a state environmental examination before the start of works of design papers for closing the mines after use and reclaiming destroyed lands.

178. Measures are being taken to create nature reserves and training programs are being conducted with the aim of securing biodiversity. One of the problems is that more than 90% of the territory of the republic tends to desertification. To fight this various projects are being developed. One-month long forest planting activities are being organized every year. In 2003, the share of specially protected territories in the total territory reached 4,2% compared with 4,1% in 2001. The share of forests in the total territory, in 2003, was 4,32%, compared with

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<sup>38</sup> "On Single Environmental Tax"

4,25% in 1998. Collaboration with European Union and its member countries is being developed aimed at securing biodiversity and monitoring environment.

179. Central Asia Mountains Charter was signed in Bishkek by Kyrgyzstan, Kazakhstan, and Tajikistan during the Global Mountain Summit organized as one of the Year of Mountains events. Implementation of the Charter will help to coordinate actions addressing issues of sustainable development of mountains in the Central Asia region. Kyrgyz-Tajik Regional Mountains Center was set up in Bishkek to study pollution of air, glaciers, lakes and water resources for taking required measures.

180. Consumption residue and production waste cause particular concern. In 2002, 62.2 mln tons of toxic wastages were accumulated in the republic. 75% of them is the most harmful waste. As part of addressing this problem, Law<sup>39</sup> now requires state expert examinations of land development plans and various social, economic, research and development programs that can affect the environment. Appropriate legislature is being developed to implement a Law on Production wastage. Measures are taken to monitor districts prone to emergencies (man-caused emergencies, floods, mudslides, snowfalls, landslides, avalanches, and earthquakes); preventive measures are taken to forecast natural disasters at a nationwide level. Several state programs are being drafted on protection of the population and areas from floods, and seismic security of population and infrastructure. Central Asian Institute of Applied Earth Studies was established in Bishkek to work in such fields as geodynamics, geocatastrophe studies, environmental protection and water studies.

### II.3.7. Gender Equity

181. The new Constitution of the Kyrgyz Republic secured the principle of gender equity in all areas of life. For the same purposes National Plan for Gender Equity for 2002-2006 is being implemented in Kyrgyzstan. Measures are being taken to improve relevant legislation and regulations. The Law<sup>40</sup> aims to regulate social and legal protection of victims of domestic violence. In order to implement it respective government resolutions are being prepared, state crisis centers for victims of domestic violence, advisory and prophylactic centers are being opened. The Law<sup>41</sup> which came into force, outlines state guarantees on ensuring equal rights and opportunities of women and men. The Commission, which will make a gender examination of legislation and programs is being created. The Law<sup>42</sup> provides women of Kyrgyzstan the opportunities of accessing international human rights protection systems. As a result of undertaken measures Development Index taking into account gender factor is steadily increasing and has reached 0,723 in 2003 compared to 0,718 in 2002.

182. The situation with education of women remains stable. Girls account for 49% of students in primary schools, and 50,2% of students in secondary schools. Girls account for 64,4% and 53,9% of students in secondary special vocational schools and higher educational institutions, respectively. The employment of women in various sectors of economy is described by the following figures. 74,5% of workers in healthcare and social sectors are women; women also account for 73,9% of education sector. Employment of women is high enough in agricultural sector (42,8%), and trade (45,7%).

183. Men are prevailing in mining industry, energy sector, construction, transport and public administration. So, measures are being taken to involve women in public administration as part of implementing the Presidential Decree<sup>43</sup>. Assessment of personnel composition by gender is conducted on a regular basis in government agencies and local self-government bodies.

<sup>39</sup> "on Environmental Examination"

<sup>40</sup> "On Social and Legal Protection against Family Violence"

<sup>41</sup> "On Basics of State Guarantees for Gender Equity",

<sup>42</sup> "On Joining the Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women"

<sup>43</sup> "On Further Enhancement of Human Resource Policy to Involve Women in Public Administration".

Gender equity approach is being integrated into activities of ministries and curricula of several higher educational institutions.

184. To solve the problem on women who become victims of illegal trade a Program of Measures on Fighting Illegal Export of People and Trade on 2002-2005 envisaged a complex of preventive, researching, legislative and organizational measures. Crisis centers, shelters, advisory and prophylactic centers render free legal advice, psychological and other services to victims of illegal trade.

185. There are over 150 women-led nongovernment organizations that focus on the issue of women. Training programs are being organized especially for unemployed women; special television and radio programs exist; statistical booklet "Women and Men of the Kyrgyz Republic" is being published.

### III. COST AND CONSISTENCY OF POLICY MEASURES OF THE NPRS

186. The priorities and principal policy measures of the NPRS are reflected in the state spending programs envisaged by the MTBF. The forecast for the total value of spending is based on a realistic assessment of existing internal resources, the necessity to reduce the state's external debt and further possible debt restructuring by the Paris Club at the end of 2004. It is expected that the total value of spending will gradually decrease, but that expenditures on social needs will continue to grow.

187. To define the ceiling of expenditures for ministries and administrative agencies in 2005-2007 the Government has followed the CDF/NPRS goals in prioritizing their expenditures. Major changes in expenditure distribution will be limited, while the total expenditures in the state budget with consideration of PIP will grow by 4% a year in real terms, taking into consideration the strict budget restrictions in 2005-2007. Reform measures in various sectors will most likely require substantial short-term expenses, which will need to be compensated by a possible saving of resources. A total sum assigned to an industry will be divided into current expenditures and investment, which will be considered in the context of priorities and scarce resources.

188. **The distribution of state spending programs** in 2004-2006 (please, see Table 3) needs to change substantially to conform to NPRS priorities. The most important changes include the following: a) an increase in the share of expenditures on education and healthcare, b) an increase in expenditures on maintenance of the infrastructure created within the framework of PIP projects, c) a decrease in the share of expenditures used to maintain the government bureaucracy and to finance the industrial sector, and d) a reduction in the PIP. To formulate the spending strategies for the largest components of the budget, the results of the study "Public Expenditure Review for the Kyrgyz Republic" conducted by the World Bank were taken into consideration.

Table 3. State Expenditures in 2004-2007<sup>44</sup> (% of GDP)

Sector	2004	2005	2006	2007
	Expected	Forecasted		
Social services	15.4	15.9	16.3	16.5
• Education	4.2	4.6	5.0	5.3
incl. investment expenditures	0.3	0.4	0.7	0.8
• Health care	2.0	2.1	2.3	2.4
incl. investment expenditures	0.4	0.3	0.3	0.4
• Social insurance and social security	7.6	7.6	7.5	7.5
Government services	1.0	1.0	0.9	0.8
Economic services	6.2	6.0	5.5	5.2
• Agriculture	2.1	2.0	1.9	1.4
incl. investment expenditures	1.6	1.4	1.0	0.9
• transport and communications	2.0	2.0	1.8	1.7
incl. investment expenditures	1.1	1.0	1.1	0.9
Payment of interest on public debt	1.2	0.9	0.9	0.7
Total	27.4	27.2	26.8	26.1
incl. investment expenditures	4.4	4.6	4.6	4.5

189. A substantial increase in funding is projected for **the education sector** – 46% over three years in real terms. Rapid growth in investment spending is envisaged for this sector to help prevent the degradation of the infrastructure of educational institutions. The increase in the total

<sup>44</sup> Including PIP and Social fund.



volume of resources allocated to this sector will be accompanied by changes in financing conditions aimed at improving expenditure efficiency. The role of special means in the financing of basic secondary education will be decreased in order to provide unhindered access to education for children from the poorest strata. Teachers' wages are to rise substantially, predicated on an increase in the standard teaching load.

190. During 2004-2007, expenditures on healthcare will grow by 39%. The increased financing will be directed at conducting major reforms, the key elements of which will be the following: a) the completion of the restructuring of the medical institutions network; b) a transfer to the "single payer system" in all regions of the republic; c) improvement in the quality of medical assistance; and d) reform of the epidemiological service. In addition, the healthcare sector reforms will be directed at the formulation of a new policy on the provision of medicines, an increase in mandatory medical insurance and a trial involving new methods of financing. Changes in the funding conditions for the sector will be aimed at balancing the expenditure levels with the number of people seeking healthcare services.

191. **Expenditures on social insurance and social security** will grow by approximately 14% over the three-year projection period. The rise in allocated resources will be directed mainly to increasing the unified monthly benefit and other benefits to the poorest strata of the population and will offset anticipated increases in electric power tariff rates.

192. In general, **the social expenditures of the consolidated state budget** will grow by 1.1% of GDP in 2004-2007 or by 24% in real terms. Their share in the consolidated state budget will increase from 56% in 2004 to 63% in 2007. This testifies to a significant re-orientation of state spending programs to human development needs and poverty reduction.

193. **The budget expenditures on the state services** (maintenance of the government administration, defense, and public order) will be decreased by 0.2% of GDP in 2007 in comparison to 2004. This reduction of expenditures reflects a policy of improving public administration and the public service, a reduction in overlapping and duplicative functions of ministries and government agencies. In 2004-2006, reforms are planned in the area of labor remuneration in the government sector. The reforms will include an increase in wages and a reduction in the number of civil servants. The reforms also envisage the creation of new incentives to improve professional qualifications and the quality of labor services, a bigger differentiation of wages depending on labor productivity and levels of responsibility.

194. **The budget expenditures on the economic services** (fuel and energy facilities, transport and communications, agriculture and water industry) will decrease by 1% of GDP in three years. This reflects a policy of privatization of enterprises in these sectors and a gradual transition of enterprises that remain a state or communal ownership to self-financing status, as a result of increases in efficiency and productivity and a rise in the tariffs charged for their services (conditional upon appropriate offsetting measures for the poorest population strata).

195. As noted above, a decrease in PIP expenditures is needed to help reduce the state's external debt. It is expected that PIP loans will be equal to US\$ 60-80 billion per year, which conforms to the terms and conditions of the PRGF program. During the projection period, 18 new projects will be initiated, which will be financed by loans and 7 grant projects. Infrastructure projects in agriculture, transport, energy, as well as in education and healthcare will be prominent in the structure of the PIP. A substantial share of new projects will facilitate regional development and the growth of villages and small towns, where the poverty level is extremely high. The resources extended by the World Bank and Asian Development Bank will continue having a major role in the PIP. The need to co-finance the PIP in a timely and fully funded manner from the state budget or, sometimes, using the means of population, is acknowledged in the MTBF. This co-financing will include resources to maintain and repair the new infrastructure created within the framework of the PIP. One of the important mechanisms for obtaining funding from the state budget for PIP needs will be development grants, which will provide real support for projects proposed and developed by local authorities and civil society.

#### IV. COORDINATION WITH THE DONOR COMMUNITY

196. International financial organizations and countries-donors continue to provide financial aid and technical assistance to Kyrgyz Republic in different sectors.

197. International Monetary Fund. In February of 2003, the Executive Council of Directors of International Monetary Fund approved a Program of aid to Kyrgyz Republic and gave a positive assessment to NSPR. It was underlined that a complex approach reflected in the document adequately will be supported by IMF within the framework of the three year program of Economic Growth and Poverty Reduction (PEGPR). Measures realizing within the PEGPR will be based on the strategy of NSPR developed by Kyrgyz Republic on the basis of cooperation and participation of civil society.

Based of the surveys on realization of agreements within the framework of PEGPR by the Kyrgyz side, the Executive Council if IMF twice made decision on provisions of periodical installments to Kyrgyz Republic. The total sum of credits provided by IMF amounted to 21,2.mln SDR in 2003. The first installment amounted to 11,7 mln. CDR was extended on March 5, 2003, and second one amounted to 9,6 mln. SDR – on July 30, 2003.

198. **World Bank.** Board of Directors of the World Bank reviewed and approved a Strategy of Assistance of the Group of the World Bank to Kyrgyz Republic on 2003-2006 on May 15, 2003. The total sum of the provided aid for three years will be amounted to 171 mln. It should be pointed at a very important change in the mechanism of financing of programs of the World Bank: US\$ 65,0 mln. of the total sum of financial aid will be given on a grant basis. The projects on a grant basis will be mainly directed to development of associations and in social sectors. One of central directions of the Strategy of Assistance of the Group of the World Bank is its directivity at the priorities defined in NPSR.

199. **Asian Development Bank.** On June, 2003 a Memorandum on Understanding was signed between the government of Kyrgyz Republic and the Mission on a Strategy and Programs on the country of the Asian Development Bank on 2004-2006. Within the framework of the Strategy it is envisaged a provision of US\$ 90 mln. to Kyrgyz Republic by Asian Development Bank in a form of the loans with privileged terms. An annual size of technical assistance to Kyrgyz Republic will be equal to around US\$ 2 mln. A Program of Technical Assistance will be focused on the areas defined for assistance within the new strategy. A Memorandum on Understanding between the Government of Kyrgyz Republic and the Joint Mission on Survey of Portfolio of the Asian Development Bank and the World Bank was signed on September 4, 2003.

200. **European Union,** since 1996 and within the framework of Food Security Program (FSP) is providing an annual grant amounting 9,5 mln. Euro to the Kyrgyz Republic. This grant in form of budget support aims to provide impetus to the Governments' structural reforms in policy and public expenditure management areas with an important bearing on food security and poverty alleviation. The FSP is consistent with the objectives of the European commission development policy, namely (i) sustainable development, (ii) integration of the country into the world economy and (iii) commitment to fight against inequality. FSP is a direct macroeconomic assistance as well as support for economic reforms in the agriculture and social sector. According to the new orientation of the European Union, FSP budget support is shifting from a macroeconomic approach towards sector programme i.e. sector-based policy approach.

201. **European Union, within the framework of TACIS Program,** changes in approach of aid provision to the country were made. European Commission moved from the project approach to the program one and focused its assistance not on solving of single problems but on the prioritized directions of development of the republic. TACIS by means of projects provides assistance in the reforming of legislation, small and medium size enterprise development, infrastructure and trade as well as financial sector.

**202. United Nations Development Program.** In March 2003, the UNDP conducted a medium-term survey on a program of the second frame basis of cooperation of the country on 2000-2004. The survey shown remarkable results in the program realization.

Efforts on poverty reduction taken within the framework of the second frame basis of cooperation of the country brought to substantial increase of potential of low-income people and raise in income of households. As to the UNDP assessment, around 100 000 people were jointed into the Self-Help Groups. Creation of these groups is directed to ensure social mobilization of population, SME development and micro-financing people.

In 2003, a new Country Program on 2005-2010 was developed. The program set up basic priorities in directions of the strategy CBD/NSPR.

**203. Ministry of International Development (MID).** In 2003 the Department of International Development in conference with ministries and departments continue working on realization of 10 projects of technical assistance in sum of 9,7 mln. pounds of sterling. The aid of MID is provided in a form of technical assistance only and focused on such sectors as health care, agriculture, public administration and social sector. A nature of aid provision and a content of projects haven't been changed compared to the last year. In general, the projects of technical assistance of MID are directed to development of policy and strategies in the abovementioned areas. An insignificant part of the projects envisages realization of specific measures of aid provision to population and assigning of financial resources for infrastructure of the regions of the republic.

**204. Islamic Development Bank** plans to provide aid to Kyrgyzstan in a form of direct investment on development of private sector and entrepreneurship. In 2003, the Islamic Development Bank provided technical assistance in a form of grant in sum US\$ 130 000 for development of micro-financing in Kyrgyz Republic.

**205. The Government of Switzerland** is one of a few donors providing grant assistance on support of the state budget through co-financing programs of the World Bank. Thus, in 2002-2003, Kyrgyz Republic received a grant amounted to US\$ 5 mln. directed at support of the budget in a part of social security.

The Government of Switzerland continue to support development of such sectors as healthcare, energy, improvement of national statistics, agriculture and timber industry, support of private initiatives in rural and mountainous regions of the country as well as regional cooperation.

In 2003 the Government of Switzerland provided around US\$19 mln. for implementation of the projects.

**206. The Government of Germany** continues to actively provide aid to such important sectors of economics as agriculture, education and environment protection. In May 2003 the Inter-Government Agreements on Financial and Technical Cooperation on 2003-2004 were carried out. The Agreements resulted in approval of a Strategy of Aid to the country until 2005. In the area of technical assistance additional resources amounted to 4 mln. Euro were assigned on 2003-2004. Thus, a total sum of assignments in the area of technical cooperation amounted to 43,44 euro.

In the area of financial cooperation, the government of Germany assigned 16,0 mln. Euro, from which 9,0 mln. Euro constitutes a loan with privileged terms, 7 mln. Euro – grant and 3 mln. Euro – on attendant measures.

**207. The Government of Japan** provided a grant aid amounted to US\$ 10,5 within the framework of Official Assistance on Development in 2002 and which was realized in 2003. Thus, medical equipment was supplied to the healthcare sector within the Common Grant on the project "Improvement of medical equipment of birth-giving institutions of Kyrgyz Republic". A

fleet of agricultural technical means and municipal vehicles was increased within the Non-Project Grant on Increase of Food Production (KP-2). In particular, a number of refrigerator trucks, seeding machines, tractors, combine harvesters and trolleybuses has been grown.

The government of Japan with support of Japanese International Cooperation Agency (JICA) provides large technical assistance, in particular, in training of Kyrgyz specialists and civil servants in Japan, provision of Japanese experts for work in Kyrgyz ministries and departments and of volunteers in universities and regional schools.

## **V. REGIONAL COOPERATION**

208. The main trade partners from the CIS countries have erected numerous barriers on the development of free trade for many years. During 2003, some positive changes took place in the process of economic integration of the CIS countries including countries of Central Asian region.

209. To ensure extension of foreign economic opportunities of Kyrgyzstan in 2003, activities of the Inter-Government Trade and Economic Commissions were intensified. Twelve inter-government actions conducted in 2003 resulted at signing of covenants and achieving two-sided agreements in such areas as trade and economic, scientific and technical, tourism, education, energy, transport and use of hydro-energetic resources.

210. The agreements with Kazakhstan on the off-permit order of crossing Kazakh territory by Kyrgyz transport, on application of the in-Kazakhstan rail-road tariffs to transit shipments of Kyrgyzstan goods, on regulation of disputable issues of possession of Kazakhstan on property located in Kyrgyzstan have great importance. The agreements were achieved in December 2003. Under the issue of interaction of the customs bodies of the both countries, the Kazakhstan side initiated a question on introduction of the procedure of joint customs control in a zone of the Kyrgyz-Kazakh border. This initiative was supported by the Kyrgyz side and, during the first quarter of 2004, it is planned to complete all preliminary activities for its realization.

211. As a member of WTO, Kyrgyzstan carries on negotiations with the countries entering this organization with the purpose to receive preferential terms of access for the locally produced exported goods to markets of these countries and eliminate the existing trade barriers. Kyrgyzstan completed negotiations with Russia and Kazakhstan and continues negotiations with Ukraine and Vietnam.

212. The most important foreign trade partner of Kyrgyzstan is Russia. Closing the agreement on and beginning of export of electrical power from Kyrgyzstan to Russia became one of the most important evidence of cooperation between the both countries.

213. Within the framework of inter-government commissions the activities on development of trade and economic cooperation with Uzbekistan, Tadjikistan, Ukraine, China, India, Turkey and Iran have been continued.

214. Kyrgyzstan welcomes adoption of regional programs of cooperation and development by many donor organization such as the World Bank, ADB, UNDP, EBRD, European Union and others and take active part in their implementation. Holding of the Economic Forum of the states—members of Central Asian community in May 2003 exemplifies such cooperation. Setting the effective regional cooperation in the area of water industry, energy and trade remains to be an important problem.

215. At present, the government of Kyrgyz Republic with support of the government of Switzerland initiated a National Strategy on promotion of export of Kyrgyzstan made goods and

services within the realization of Comprehensive Development Framework of Kyrgyz Republic till 2010.

## **VI. INSTITUTIONAL ASPECTS OF NPRS IMPLEMENTATION**

### **VI.1. Partnership and Participation in Implementation of the NPRS**

216. The major goal of the participatory process in implementation of the NPRS was consolidation of the efforts of the government, civil society and international organizations, based on a constructive partnership and cooperation in the framework of the Matrix on Partnership and Participation presented in the NPRS.

The consolidation was realized by means of the following main aspects:

- Participation in legislative activities;
- Development of sectoral and regional policy;
- Participation of non-government, non-for-profit organizations, government agencies and local self-government agencies in tackling social and economic issues;
- Participation in monitoring and assessment of measures.

217. Cooperation and participatory dialogue with the civil society based on extensive consultations with nongovernment organizations and local communities, domestic and foreign experts, were principal mechanisms of partnership and participation.

218. Inclusion in the new Constitution of norms that make Government of the Kyrgyz Republic interact with the civil society was fundamental factor for a more effective partnership between the government structures and non-government organizations. It creates additional opportunities for a fuller and more effective participation of non-government organizations in formulation and implementation of the CDF and NPRS, other national and state programs.

219. To foster the constructive dialogue and partnership cooperation between the State, public organizations and private sector, the Government of the Kyrgyz Republic, Federation of Labor Unions of Kyrgyzstan and Republican Union of Employers have signed a tripartite General Agreement for 2002-2004.

220. Several activities were conducted in the reported period in the framework of NPRS implementation on the basis of partnership principles with participation of non-government organizations and civil society.

These important activities included the following:

- Second Poverty Reduction Forum (February 2003) identified poverty reduction tasks for the Government, republican and local agencies. Forum participants discussed mechanisms of monitoring and evaluating quality of work of local government agencies, with engagement of non-government organizations by means of conducting surveys and extending questionnaire to population.
- «Peace and Stability in the Year of Kyrgyz Statehood» - *Kurultai* (Convention) of the Kyrgyz people (March 2003) discussed issues of constructive dialogue, public consent and partnership of the State and the society.
- April 2003 round table on discussion of the Kyrgyz Republic's progress report on achievement of Millennium Development Goals (MDGs) organized jointly with United Nations Development Program (UNDP) explored the links between MDGs and the CDF/NPRS. The process of discussing the report, prepared by CASE-Kyrgyzstan non-

government organization, reviewed specific mechanisms of implementing MDGs in the Kyrgyz Republic, monitoring and evaluation of their achievement, and indicators.

- International seminar entitled «Poverty Reduction Course: Role of the Civil Society in the CDF–NPRS Program in Central Asia» (June 2003). The main goals of the seminar included strengthening the capacity of the civil society in making publicly responsible decisions, defining key factors in the areas of implementing, monitoring and evaluating results of conducted reforms.
- First International Forum of Businesswomen (June 2003) reviewed matters of consolidating efforts of non-government, government, and international agencies for assistance and development of entrepreneurship among women, improving the image and status of female entrepreneurs.
- Kyrgyz Statehood of the Third Millennium: News Ways and Mechanisms of Partnership of State Power and Civil Society - Partnership Forum (July 2003). Representatives of all branches of state power, political parties, NGOs, and media discussed policies and forms of NGO participation in public decision making, role of political parties in development of the society, transparency of governance and responsibility of the media. Declaration adopted at the Forum reflected main ways of developing democratic institutes in the Republic.
- Hearing on financial support to implementation of NPRS at the regional level (August 2003). Initiated by the parliamentary Budget and Economic Policy Committee with participation of non-government organizations, private sector, international organization, oblast state administrations, and other state bodies the hearing contributed to greater transparency of the budgeting process and its focus on poverty reduction.
- Forum “Shady Kyrgyz Republic or sunny Kyrgyzstan” was initiated by Bishkek Business Club and Institute of Economic Policy “Bishkek Consensus” in March 2004. Heads of government agencies and representatives of diplomatic corps, international organizations, non-government organizations, business structures and media exchanged opinions on problems of legalization of shadow segment of the economy of the republic and finding new mechanisms to exit from shadow.

221. An important contribution in implementation of the CDF/NPRS is made by mass media. The results of the contest among journalists and authors for the best coverage of the topics of the CDF and the NPRS until 2010 have been summarized and awards have been given to the winners.

Participation of Kyrgyzstan’s Media in Implementation of the CDF and NPRS - round table (May 2003) was organized with the aim of taking concrete measures for improving partnership participation of media in implementation, supervision, monitoring and analysis of existing problems and effectiveness of measures undertaken as part of the CDF/NPRS. Discussants included heads and representatives of 45 media agencies, as well as international and non-government organizations.

222. Many nongovernment organizations actively participate in the monitoring and evaluation process. Some NPRS indicators were formed and evaluated with the involvement of NGOs.

223. Constant work is conducted with youth and student organizations. Issues include youth policy, rural youth employment, establishment of youth computerized information centers, creation of regional youth centers to ensure open and effective partnership in implementation of the CDF and NPRS.

Role and participation of youth in the implementation of the CDF and NPRS were discussed at The Voice of the Youth TV debates (*Jashtar Unu*) organized in 2002 by youth non-government organizations.

224. Non-government organizations and civil society inform population on the progress of the CDF and NPRS activities, planning and implementation of programs and projects at the level of local authorities as well as budgeting.

225. From the rich to the poor people's initiative that reflects a truly Kyrgyz traditional spirit of mutual help through charity and natural crediting (cattle, seeds, etc.), and assistance related to entrepreneurship and support of the needy has widely developed throughout the country. Local state administrations and local communities in many regions set up extra-budgetary savings funds to address specific social problems.

226. "New Prospects" Journal of the National CDF Council is being published from the start of 2003 on a quarterly basis, with financial support of the World Bank, and aims to clarify and popularize reform policy, monitor practical effectiveness of the CDF and NPRS.

227. By conducting the abovementioned measures it became possible to work out systems of measures and mechanisms of effective partnership between state agencies, self-government agencies and non-government organizations.

Coordination Committees headed by governors in oblasts, working commissions and working groups in *aiyl okmotu* were created to carry out a complex work on coordination of large-scale social mobilization. Their main activities included job creation and decrease in unemployment by means of provision of micro-lending resources, training of unemployed and low-income people as well as increase of access to healthcare and education services and creating of social infrastructure. The *jaamats*, self-help groups (SHG) and community associations are the major forms of public associations in the republic. The work conducted on the social mobilization resulted on establishment of 6000 *jaamats*, 3500 self-help groups and 4400 community associations.

228. Further work on raising effectiveness of partnership and participation in implementation of the NPRS will focus on creation of effective mechanisms for tapping the potential of the civil society and non-government organizations in implementation of socially important programs and innovative projects and formation of public social order.

The work envisages improvement of existing principles of social partnership between government agencies, local self-governments and non-government organizations.

## **VI.2. Monitoring and Evaluation System**

229. The CDF/NPRS monitoring and evaluation system (MES) was developed for monitoring and supervising the implementation of the programs, and making timely adjustment and clarification of target parameters. The monitoring and evaluation system offers more accurate coordination of the activities of all organs of public administration, the civil society and donor community within the framework of the chosen priorities of the NPRS.

230. The basic structure of the system includes the following main components of monitoring and evaluation: tracking NPRS indicators, approved and implemented line programs, legal regulatory documents, conducted analytical surveys and research of non-government organizations, distribution of financial resources by priority CDF/NPRS areas, a donor aid database, media materials, seminars and round tables conducted jointly with non-government organizations and other organizations.

231. To complement the MES, corresponding information files on all the abovementioned components have been created. The files are expanded and updated in accordance with a set of regulations established by executive specialists. Organs of public administration will fill out the files on mandatory basis, and non-government organizations – on the basis of partnership and participation. Specially designed working groups using public access centers, which now number twenty, will conduct this work. Representatives of government agencies, civil society and private sector will be represented in the working groups. Special technical tasks for all

executive specialists on filling out the respective information files of the system of monitoring and evaluation have been developed. The tasks include detailed instructions and responsibilities of each participant of the process.

232. An information system on the “indicators” component includes two databases. The information that is necessary for data collection and analysis on the indicators is in the first database. Additional information on the key indicators for publication on the Internet is in the second database. The National Statistics Committee is included in the information system. The National Statistics Committee fills out its component on indicators at a particular time. All the line ministries and regions of the republic that are planned to be included in the system will have the opportunity to fill their components on indicators within the MES.

233. It should be noted that an appropriate information system for some components of the MES, which would enable executive workers to fill out their components in real time, have not yet been created. On these MES components, a traditional paper-based technology is being used. It should result in receiving timely information on which measures of the NPRS are either being carried out or not being performed out by established institutions.

234. A corresponding MES structure will be created step-by-step by the administration of five information rings covering Bishkek city and Osh city, oblasts, rayons, aiyi okmotu and villages including the private sector, nongovernment organizations and population. Users of the information rings will include the state agencies, association of the private sector and nongovernment organizations and population.

235. Development of the information rings envisages use of both electronic working sites in local public administrations, linear ministries and departments and the information network in the system of education (universities, technical schools, secondary schools, libraries), public sector (corporate information network, Internet-cafe, etc.), NGO on the principle of partnership and participation.

236. Special software will be installed to conduct and manage the processes of monitoring and evaluation.

237. Lack of knowledge and skills on the methodology of data collection, analysis and a further interpretation of the basic directions of the NPRS by the administrators, and an inadequate understanding of existing functions in conformity with the monitoring and evaluation system are considered to be fundamental problems in Kyrgyz Republic at present.

238. To ensure improvement in the process of monitoring and evaluation of the NPRS, using international experts within the framework of implemented projects, it is planned to conduct a number of seminars and training sessions on the methods of analysis and interpretation of data and adoption of monitoring and evaluation skills to all participants of the process of the MES.

239. An official web-site of the CDF/NPRS including the key elements of the system of monitoring and evaluation was established and functions at present. The main results of the system of monitoring and evaluation of the implementation of the NPRS will be demonstrated on a regular basis. A forum for discussion of program projects with the population of the republic has been organized on the web-site.

240. The results of monitoring and evaluating the realization of the CDF/NPRS are being provided to all interested parties for wide-ranging discussion. This creates a real foundation for improving the feed back mechanisms between the administrators and final users of the program.

241. A concrete plan of measures on further development of the system of monitoring and evaluating the realization of the NPRS is being developed at present. Within the framework of



the plan, coordination of donor aid on monitoring and evaluating the realization of the NPRS is being envisaged.

## VII. CONCLUSION AND NEXT STEPS

242. The experience of formulating and implementing the CDF program has shown that the whole process has become a strong impetus for the development of new visions, priorities, and modern methods of development. A rich experience of partnership cooperation between the State, civil society, the private sector, and the donor community was gained. As a result of this process implementation tools are being constantly refined. The CDF process has created a sound framework for the coordination of the efforts of all its participants. It has helped to systematically improve the focusing of internal resources of the country on quality reforms. The donor community has increasingly taken account of the national interests in formulating its assistance programs and is striving to increase the effectiveness of their implementation. The overarching CDF goal of halving the level of poverty by year 2010 reflects the commitment of the Kyrgyz Republic to the achievement of the Millennium Development Goals. As well, the CDF process, which is fully consistent with the Millennium Declaration, helps to monitor developments in the Kyrgyz Republic in comparison to other developing countries, and to adopt positive and successful poverty reduction experiences.

243. In the area of forming an effective public administration, the policy of the NPRS will be directed to intensification of the reform of all branches and levels of public administration. Their structure, functions and responsibilities have to be optimized taking into consideration the experience gained during the reforms and need to be clearly defined by legislation.

244. Reforming the central and local executive organs of public administration on the basis of implementation of the principle of management de-centralization and the highest possible strengthening of local communities will be continued. This will provide an effective and transparent execution of public functions and transforming a part of them to the private sector and NGO.

245. Promotion and further development of the potential of government and non-government organizations and local communities on the joint development and implementation of the development programs remains an important task.

246. Trends in economic development, in 2003 indicate generally strengthened macroeconomic stabilization and an improvement in the economic situation. The enhancement of macroeconomic stabilization and the recovery of economic growth, after the recession in 2002, correspond to the goals and targets of the IMF three-year economic program.

247. In 2004, a main part of economic policy conducted in accordance with NPRS will focus on:

- A further strengthening of macroeconomic stabilization;
- Support of sustainable pro-poor economic growth;
- Significant improvement in the coordination of budgetary and monetary policies;
- Improving the transparency of state financial management;
- Reduction of the external debt burden;
- Creation of a favorable investment environment.

248. The strategy of ensuring economic growth will be aimed at enhancing structural policy measures, specifically the reduction of the level of quasi-fiscal deficit in the electric power sector.

249. Budgetary policy in 2004 will focus on supporting macroeconomic balance and ensuring financial stability in the republic. The steps envisaged for this purpose include: exercising strict control over expenditures, focusing financial resources on priority NPRS tasks; improving the effectiveness of social expenditures; the introduction of program-based budgeting at sectoral and local levels; an effective system of inter-budgetary relations, reform of the Treasury, and the introduction of international standards for state financial statistics.

250. The key objective of revenue policy is to ensure predictability and transparency of the tax system. To this end, measures will be taken to improve tax collection, expand the tax base, and raise the effectiveness of tax administration, including through the simplification of the tax system and transferring the authority to collect some taxes to local authorities.

251. With regard to state expenditures, measures will be taken to optimize the system of transfers and grants, raise the effectiveness of investments and the funding of priority development areas.

252. The monetary policy under NPRS will be aimed at keeping inflation under 4%. The National Bank of the Kyrgyz Republic will continue pursuing the policy of a floating exchange rate, with interventions in the currency market to alleviate temporary nominal exchange rate fluctuations and strengthen foreign currency reserves.

253. To alleviate the foreign debt burden measures will be undertaken to improve the effectiveness of the implementation of the comprehensive debt strategy. The country will continue to restructure its foreign debts jointly with the Paris Club creditors and trim the Public Investment Program. Kyrgyzstan is working on improving the coordination of donor assistance and the effectiveness of external borrowings.

254. In accordance with the goals and tasks set out in the NPRS, concrete measures will be undertaken for the creation of a favorable investment climate through improvement of governance and reform of the financial sector, which will be aimed at attracting both foreign and domestic investments.

255. Reforms conducted under the social policy have resulted in improving the main indicators of human development. This is a testimony to the appropriateness of the course of social reforms chosen by the country. Human Development Index has grown to 0,728 in 2003 from 0,724 in 2002. The Lifetime Index has exhibited a tendency to increase. Infant Mortality in 2003 declined by 1,4% in comparison to 2002. Development index taking into account gender factor shows steady growth. But most importantly, the reforms carried out in these areas resulted in economic growth that had a real impact on poverty reduction.

As a result of the CDF/NPRS process, more and more people in the country feel the positive influence of policies in their daily lives. Their welfare is improving; employment and personal income are growing.

People are learning to work under market conditions and to expand their opportunities. The processes of mobilization and self-development of the population are being vigorously expanded.

256. In 2004, concrete policy measures that will ensure further development of a dynamic social policy that will stimulate sustainable economic growth and poverty reduction need to be implemented. These measures include:

- Creation of new jobs and liberalization of the labor market and labor relations. This will be based on the State Labor Market Policy to the year 2010, which is currently under development, as well as other line programs;
- Further improvement in focusing social security on the poorest strata, together with social mobilization of population;
- Effective implementation of the concept paper for further reform of the retirement benefit system; raising the level of pensions and development of a non-government pension insurance system;
- Effective implementation of the Education Development Concept to 2010 and other educational projects and programs for improving the accessibility and quality of education; raising teacher salaries;
- Increase the accessibility of quality healthcare services through realization of the Manas National Healthcare Reform II Program, Healthcare of Kyrgyzstan in XXI Century Program, as well as other projects and programs in the healthcare sector;

- Development of the legal framework for rational environmental management; building capacity of government agencies in monitoring and forecasting emergencies;
- Fostering conditions that ensure gender equity in all areas through active implementation of the National Plan for Gender Equity for 2002-2006.

257. The development of infrastructure and the improvement of monitoring and evaluation will continue throughout the country. There are plans to improve feedback mechanisms for the active participation of the population in the CDF/NPRS process.

258. Additional efforts will be made in 2004 to prioritize activities in accordance with the goals and tasks set out in the NPRS, and to raise the effectiveness of using financial resources for priority CDF/NPRS areas.

## APPENDIX 1. BALANCE OF PAYMENTS AND EXTERNAL FINANCING

(in millions of US dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Bcero
<b>Current Account</b>	-121	-104	-133	-173	-150	-122	-165	-198	-198	-1365
Trade Balance	-54	-83	-116	-160	-161	-144	-200	-245	-266	-1429
Exports	498	590	633	658	703	766	770	784	827	6230
Imports	-552	-673	-749	-819	-864	-911	-970	-	1029	-7659
Services (Net)	-67	-38	-38	-38	-17	-6	4	17	33	-149
o/w interest	-32	-26	-38	-52	-48	-46	-44	-43	-42	-370
Private Transfers (Net)	0	17	21	25	28	28	30	30	35	214
<b>Capital Account</b>	23	-1	4	-46	-27	-15	9	29	61	38
Amortization	-58	-99	-64	-80	-91	-76	-71	-77	-65	-681
FDI and Other <sup>45</sup>	81	98	68	34	64	61	80	106	126	718
<b>Increase in Gross Reserves (-)</b>	-57	-54	-65	4	8	-25	-16	3	-20	-223
<b>Financing Requirement</b>	154	159	194	215	169	162	173	166	157	1550
<b>Identified Financing</b>	154	159	194	140	27	-4	-10	-20	-22	618
Existing Bilateral Commitments	133	111	122	126	55	20	10	0	0	576
Loans	74	65	73	80	50	20	10	0	0	373
Grants	19	9	14	12	5	0	0	0	0	58
Grants in kind	40	36	36	34	0	0	0	0	0	145
Balance of Payments Support from IFIs <sup>46</sup>	2	5	23	14	-28	-24	-20	-20	-22	-69
Debt Rescheduling (Paris Club Flow Relief)	19	44	48	0	0	0	0	0	0	111
<b>Additional Financing Needed</b>	0	0	0	76	142	166	183	186	179	932

<sup>45</sup> Includes errors and omissions, net foreign assets of commercial banks, other net assets, and release of pledged reserves.

<sup>46</sup> Includes Balance of Payments support from the World Bank and ADB, and (net) purchases from the IMF.

**APPENDIX 2. NPRS MONITORING INDICATORS<sup>47</sup>**

<b>INDICATOR</b>	<b>Measuring unit</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>International Indicators</b>					
Human development index	index	0,719	0,723	0,724*	0,728*
Population poverty index	index	8,4	8,7	13,4*	
Development index taking into account gender factor	index	0,715	0,717	0,718*	0,723*
<b>National Indicators</b>					
Real GDP growth rate	%	105,4	105,3	100,0	106,7
Real GDP growth rate per capita	%	104,4	104,5	99,2	105,7
Poverty level	%	52,0	47,6	44,4	40,8
Extreme poverty level	%	17,8	13,5	13,8	9,4
Poverty depth	%	17,7	13,9	13,2	9,0
Unemployment level:					
– total	%	7,5	7,8	8,6	8,7
– official	%	3,0	3,1	3,1	2,9
Gini coefficient	index	0,449	0,441	0,419	...
Consumer price index	(% to the same period of previous year)	118,7	106,9	102,0	103,1

<sup>47</sup> The indicators not included into the table are defined on the yearly basis or on the basis of special research conducted periodically

\* Preliminary data

INDICATOR	Measuring unit	2000	2001	2002	2003
<b>Formation of an Effective State</b>					
Level of optimization of the public administration structure (number of central government entities)	units	42	31	33	33
<b>Building a Fair Society</b>					
<b>Targeted Social Protection</b>					
Share of the population receiving UMB of the total number of the population	%	9,8	10,3	9,5	10,6
Share of poor families who received a lump-sum UMB for the whole year in the total number of UMB recipients	%	0	0	0,02	0,08
Ratio of the guaranteed minimum consumption level to the minimum consumer budget per capita	%	8,3	9,1	10,1	8,6
Volume of funds allocated for payment of compensation to poor strata of the population in connection with increased energy tariffs	mln. soms		0,126	27,3	48,8
<b>Integration of the Disabled into the Society</b>					
Number of the disabled who use the services of rehabilitation centers	persons	500	600	849	...
Number of the disabled who received wheel chairs	persons	128	95	191	151
<b>Poverty Among Children</b>					

INDICATOR	Measuring unit	2000	2001	2002	2003
Level of poverty among children living in pilot areas, where the systems of social and family support will be formed:					
– Issyk-Ata district	%				10,4
– Jumgal district	%				58
Number of homeless children rehabilitated through social establishments	persons	2708	2978	2982	976
Volume of funds allocated for protection of children					
– education	mln. soms	1,3	1,6	1,8	1,0
– medical insurance of children under 16		20,0	24,7	46,3	9,5
Presence of expenditure items for childhood protection in the Law on the Budget		14	14	14	14
<b>Retirement System Reform</b>					
Ratio of the average pension to the average wage	%	37,7	40,1	33,3	
Ratio of the base pension to the minimum pensioner's consumer budget	%	19,7	18,2	17,5	17
Growth rate of the total size of the pension	%	120	121	101	110
Number of nongovernment pension funds	quantity	1	1	1	1



<b>INDICATOR</b>	<b>Measuring unit</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Changes in the number of social insurance premium payers:					
– legal entities	%	73	117	95,9	117
– individuals		72	108	129	122
<b>Labor Market and Job Creation</b>					
Number of newly employed:					
to the total number of registered unemployed	%	42,3	46,5	54,5	45,3
to the number of retrained persons		55,9	64,8	77,8	68,7
Coverage of unemployed by temporary public works	%	30,3	29,0	28,0	23,7
Average duration of unemployed citizens' participation in public works	months	9,4	3,2	2,7	2,5
Share of newly employed youth in the total number of young people who applied to employment services	%	37,1	44,7	53,4	45,0
Share of employment of unemployed women in the total number of women who applied to employment services	%	45,2	47,4	54,5	53,4
<b>Access to Quality Education</b>					
Coverage of children of appropriate age by pre-school education	%	8,7	9,0	9,5	9,9

INDICATOR	Measuring unit	2000	2001	2002	2003
Coverage of children of appropriate age by incomplete secondary education (grades 1-9)	%	95,9	95,0	94,6	94,8
Literacy rate among persons aged 15 and above <sup>48</sup>	%	98,7	98,7	98,7	98,7
<b>Access to Quality Medical Services</b>					
Percentage of the population with no access to healthcare services (due to expensiveness and remote location)	%	11,4	9,3	26,0	...
Access of the population to clean potable water <sup>49</sup>	%	81,5	79,6	78,9	...
Share of the population covered by mandatory medical insurance	%	73,0	83,7	86,2	81,8
Share of children by age groups who fell ill with certain diseases (diphtheria, whooping cough, tetanus, measles, hepatitis B, poliomyelitis, rubella, parotitis).	%	0,06	0,02	0,06	0,1
Share of the population with:					

<sup>48</sup> Data of population census as of 1999

<sup>49</sup> Data have been recalculated since 2000 taking into consideration the international standards according to which spring water is not considered to be a source of clean water

<b>INDICATOR</b>	<b>Measuring unit</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
– iodine deficiency	%	0,4	3,4	4,2	4,7
– iron deficiency		3,0	3,4	3,0	4,0
Number HIV/AIDS cases (total/citizens of the Kyrgyz Republic )	persons	16/4	149/134	160/146	132/125
<b>Promoting Sustainable Economic Growth</b>					
<b>Macroeconomic Policy</b>					
State budget deficit /GDP	%	-2,0	0,4	-1,0	-0,8
– plus PIP	%	-9,2	-4,0	-5,6	-5,8
Current account in % to GDP	%	-5,8	-1,2	- 2,0	2,6
Average official US\$-som exchange rate	soms to 1 US\$	47,7	48,4	46,9	43,7
Consumption /GDP	%	85,8	82,3	86,2	88,4
State consumption /GDP	%	20,1	17,5	18,6	19,6
Private consumption /GDP	%	65,7	64,8	67,6	68,8
Share of value added by industry /GDP	%	25,0	23,1	17,9	18,0
Share of value added by agriculture /GDP	%	34,2	34,5	34,4	35,2
Share of services /GDP	%	31,8	31,7	35,8	35,1
<b>Budget Policy</b>					
State budget revenue /GDP	%	15,3	17,0	19,1	18,3

INDICATOR	Measuring unit	2000	2001	2002	2003
State budget expenditure /GDP	%	17,3	16,6	20,2	20,3
<b>Tax Policy</b>					
Tax inflows /GDP	%	11,7	12,4	13,9	14,3
Number of :					
– registered small enterprises	quantity	20 863	26 597	31783	31503
– reporting small enterprises		9 184	13 324	10432	13921
Number of reporting SMEs	quantity	8568	8579	7759	7512
<b>Development of the Financial System</b>					
Gross volume of foreign reserves of the NBKR	mIn. US\$	261,1	285,2	316,7	389,0
Level of monetization (average annual)	%	10,6	10,0	12,5	15,1
Share of loans /GDP	%	3,4	3,7	4,5	14,6
Share of deposits to M2X	%	44,1	38,8	37,5	36,5
<i>Interest rates of commercial banks</i>					
on deposits and accounts (weighted average for the period)					
- in the national currency	%	14,5	8,1	4,1	2,5
- in the foreign currency	%	2,6	1,0	0,6	0,5
on loans (weighted average for the period)					
- in the national currency	%	46,8	36,4	30,2	25,1

<b>INDICATOR</b>	<b>Measuring unit</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
- in the foreign currency	%	30,6	25,0	22,6	17,4
<i>NBKR rate</i>	%	38,3	8,0	4,4	4,0
Number of financial reports published by NBKR in mass media	quantity	12	12	12	12
Share of investment credits in the total credit portfolio	%	0	37	56	46
Changes in the cost of banking services	%				
Number of privatized entities	quantity	168	88	102	64
Volume of tax receipts transferred to the budget from privatized enterprises	mln. soms	925,4	1048,9	1099,2	225,1
<b>Investment Policy</b>					
Investments in fixed capital /GDP	%	16,6	13,3	12,5	10,5
<b>Stimulating Private Enterprise</b>					
SME production /GDP	%	42,7	42,9	44,3	47,5
Changes in the number of unjustified inspections	%			17,3	
Share of poor strata of the population and unemployed in small cities and towns, remote and alpine areas, who received micro-credits in the total number of credit recipients	%	39,8	38,6	29,5	32,2
<b>Foreign Economic Activities and Development of Exports</b>					
Changes in the volume of export	%	111,2	94,4	102,0	119,8

INDICATOR	Measuring unit	2000	2001	2002	2003
Changes in the volume of foreign trade turnover	%	100,5	89,1	113,7	121,1
Trade balance	mln. US\$	-49,6	8,9	-101,3	-135,2
<b>Financial Rehabilitation and Bankruptcy of Loss Making Economic Entities</b>					
Changes in the volume of production output (physical volume of output to previous year)	%	106,0	105,4	89,1	114,0
<b>Security of Development</b>					
Number of registered violations of law connected with drug abuse and drug trafficking	cases	3539	3205	3018	3106
Number of refugees	1000 persons	10,6	9,2	7,6	7,5
Internal migration (incoming + outgoing)	persons	44728	43645	49235	51780
Number of reported employment accidents	persons	309	282	263	...
Expenses for compensation of damage from employment accidents	mln. soms	24,6	11,3	8,3	...
Budget funding /total expenditures for:					
– ensuring external security	%	3,5	4,3	4,5	2,7
– prevention of natural calamities	%	2,0	1,6	1,5	1,8
Level of juvenile delinquency	%	3,2	2,5	5,3	3,3*

\* Data of 2003 is preliminary

<sup>50</sup> Number of personal computers in legal entities in year 2001

**APPENDIX 3. LINKS BETWEEN NPRS AND MILLENNIUM DEVELOPMENT GOALS -2004**

<b>Indicator</b>	<b>1999 (Actual)</b>	<b>2005</b>
Reduce poverty level, percent	55,3	38,9
Ensure universal basic education (grades 1-9), percent from the number of children	89,5	97,0
Reduce infant mortality (per 1000 live births) (under one mortality rate), in per mille	22,7	22,0
Reduce child mortality (per 1000 live births) (under five mortality rate), in per mille	35,5	28
Reduce maternal mortality (per 100 000 live births)	42,3	40
Reduce mortality from infectious diseases, (per 100 000 population)	32,9	25
Increase proportion of population with access to healthcare services, percent	85,6	90,0
Increase proportion of population with access to safe drinking water, percent	85,9	87,8
GDP growth rate, percent at year end	100	128
Private sector input in GDP, percent	82,7	84,3
Reduction of external debt - percent to GDP	134,0	78,0
- percent to total public expenditures	4,4	3,6
- percent to total exports	279	231,2
General unemployment, percent to economically active population	7,2	8,4
Telephone lines subscribed per 1000 population	78	80
Personal computers in use per 1000 population <sup>39</sup>	25997 <sup>50</sup>	37000 <sup>52</sup>

<sup>52</sup> Number of personal computers in legal entities

#### APPENDIX 4. LIST OF ABBREVIATIONS

ADB	Asian Development Bank
bln.	billion
CDF	Comprehensive Development Framework of the Kyrgyz Republic to 2010
CIF	Cost, insurance, freight
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
DFID	UK Department for International Development
EBRD	European Bank for Reconstruction and Development
EPC	Economic Policy Council
ES	Electronic Stations
EU	European Union
FCSDCU	Financial Company for Support and Development of Credit Unions
FLU	Federation of Labor Unions
FSP	Food Security Program
GDP	Gross Domestic Product
GEF	Global Environment Fund
GKR	Government of the Kyrgyz Republic
GMCL	guaranteed minimum consumption level
GSAC/GTAC	Governance Structural Adjustment Credit/Governance Technical Assistance Credit
GTZ	German Agency for Technical Cooperation
HEI	higher educational institution
HPP	hydroelectric power plant
IAEA	International Atomic Energy Agency
IAS	International Accounting Standards
ICT	information communication technology
IDA	International Development Association
IDB	Islamic Development Bank
IMF	International Monetary Fund
JK	Jogorku Kenesh of the Kyrgyz Republic (parliament)
JSC	joint-stock company
JV	joint venture
KAFC	Kyrgyz Agricultural Finance Corporation
KR	Kyrgyz Republic
LSA	local state administrations
LSG	local self-government
MAWRPI	Ministry of Agriculture, Water Resources and Processing Industry
MCB	Minimum Consumer Budget
MDG	Millennium Development Goals
MEC	Ministry of Education and Culture of the Kyrgyz Republic
MEES	Ministry of Ecology and Emergency Situations
MF	Ministry of Finance of the Kyrgyz Republic;
MFA	Ministry of Foreign Affairs of the Kyrgyz Republic
MEDIT	Ministry of Economic Development, Industry and Trade
MH	Ministry of Healthcare of the Kyrgyz Republic
MIA	Ministry of Internal Affairs of the Kyrgyz Republic
MID	Ministry of International Development
MJ	Ministry of Justice of the Kyrgyz Republic
mln.	million
MLSS	Ministry of Labor and Social Security of the Kyrgyz Republic
MFO	micro-financing organizations
MMI	mandatory medical insurance
MMIF	Mandatory Medical Insurance Fund
MES	Monitoring and evaluation system



MRDLSG	Ministry for Regional Development and Local Self-Governments
MTBF	Medium-Term Budget Framework
MTC	Ministry of Transport and Communication of the Kyrgyz Republic
NAS	National Academy of Sciences of the Kyrgyz Republic
NBKR	National Bank of the Kyrgyz Republic
NCGG	National Council on Good Governance
NESK	National Electric Network of the Kyrgyz Republic
NGO	Non-government organization
NOC	National Olympic Committee of the Kyrgyz Republic
NPRS	National Poverty Reduction Strategy of the Kyrgyz Republic, 2003-2005
NSC	National Statistics Committee of the Kyrgyz Republic
NSS	National Security Service
ODS	Ozone-Depleting Substances
OSCE	Organization on Security and Cooperation in Europe
PIP	Public Investment Program
PIC	Public information center
PJSC	public joint-stock company
PRGF	Poverty Reduction and Growth Facility
QFD	Quasifiscal deficit
SAE	State Agency on Energy of the Kyrgyz Republic
SAGMR	State Agency for Geology and Mineral Resources
SC	Supreme Court of the Kyrgyz Republic
SCAMP	State Commission on Antimonopoly Policy
SCE	State Commission on Entrepreneurship
SCI	State Customs Inspection
SCS	State Commission on Securities
SCSFAA	State Commission on Standards of Financial Accounting and Audit
SCSPDI	State Commission on State Property and Direct Investment
SCTS	State Commission on Tourism and Sports
SF	Social Fund
SFS	State Forestry Service
SME	small and medium enterprise
SSC	Settlement and Savings Company
State Register	State Agency for Registration of Real Estate Rights and Related Transactions
TACIS	Technical Assistance for the Commonwealth of Independent States
UMB	unified monthly benefit
UN	United Nations
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
US	United States
USAID	United States Agency for International Development
VAT	Value added tax
WB	World Bank
WHO	World Health Organization
WLO	World Labor Organization
WTO	World Trade Organization