



Centre for Development Policy and Research

KYRGYZ REPUBLIC CASE STUDY

**EC-PREP COMMISSIONED STUDY:
IMPLEMENTATION OF POVERTY REDUCTION STRATEGIES IN THE NIS**

(JULY 2004)

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ACRONYMS AND ABBREVIATIONS

CDF	Comprehensive Development Framework
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
MTEF	Medium Term Expenditure Framework
NIS	Newly Independent States
PRSP	Poverty Reduction Strategy Paper

TIME LINE OF THE PRSP PROCESS IN THE KYRGYZ REPUBLIC

Stage in PRSP Process	Date
Interim-PRSP	
JSA of I-PRSP	
I-PRSP approved by IDA/IMF Boards	
PRGF approved by IMF Board	
Full PRSP launched at national conference chaired by the President	
PRSP approved by Presidential Decree	
JSA of PRSP	
World Bank discusses CAS and JSA of PRSP Boards	
IMF Boards?	
PRSP Progress Report	

PREFACE

EC-PREP is a programme of research to enhance collaboration between the European Commission and the UK Department for International Development (DfID). Its objective is to enhance the poverty impact of the European Community's development assistance and contribute to achieving the International Development Target of halving the number of people living in extreme poverty by 2015. DfID has assigned £1,750,000 to EC-PREP for research projects which will be funded on a competitive basis. A further £250,000 has been set aside to fund Commissioned Studies. The Studies are designed by DfID or the European Commission and aim to respond to specific and topical issues.

This document has been prepared as an input into the EC-PREP commissioned study "Implementation of Poverty Reduction Strategies in the NIS". PRSPs are being prepared by seven Newly Independent States (NIS) of the former Soviet Union and, of these, five countries have completed full PRSPs and have started implementation. This overall study will identify the key challenges facing NIS governments in implementing full PRSPs and set out recommendations for addressing them. The purpose of the study is to provide useful insights to be used by the EC in the policy dialogue with partner governments in the NIS on PRSPs, and as input for the preparation of the next generation of Indicative Programmes (2007-12) and for the development of Action Programmes from 2004 onwards.

The consulting process involves the preparation of (a) five desk studies - Azerbaijan, Georgia, Tajikistan, Moldova and Uzbekistan – with shorter versions of the latter two that have yet to complete PRSPs; (b) two in-depth case studies (Armenia and the Kyrgyz Republic); (c) a comparative study examining global experience with implementation of PRSPs (d) a synthesis report bringing together the findings, lessons and recommendations from the other reports.

1. BRIEF OVERVIEW OF THE PRSP PROCESS IN THE COUNTRY

1.1. The Country Background

1. The Kyrgyz Republic (Kyrgyzstan) is a landlocked country situated in Central Asia. The country is mountainous (93% of the country's territory) with poorly developed transportation infrastructure and limited access to the world markets, which is possible only through territories of neighbouring countries. The country has a population of five million people. It is relatively (in comparison to neighbour countries) poorly endowed with natural resources. Main natural resources are gold and water. Agriculture is largely concentrated in two fertile valleys – Chui on the north and Fergana on the south, where the majority of population lives. Agriculture is completely dependent on irrigation, so water resource management is of critical importance for the country.

2. The Kyrgyz Republic became independent in 1991 after the break-up of Soviet Union. The Soviet legacy is significant for the country in terms of inherited economic structure, institutions, the relatively high level of social and cultural development (for example, literacy rate is about 100% and basic secondary education is mandatory), etc. The transition period to market economy systems was painful with large losses in terms of production, human capital¹ and deterioration of infrastructure.

3. The economic recovery in the country started in 1996; since that time GDP has grown at the average annual rate of 5%. In recent times the economy faced such important challenges as (i) the necessity to diversify sources of economic growth, which has been driven so far by few sectors (gold mining, agriculture, hydropower production), all vulnerable to exogenous shocks (climate, external demand, natural disasters); (ii) high foreign debt resulting from excessive borrowing in 1990s; (iii) insufficient level of investments, especially private; (iv) difficulties in expanding of exports.

4. The main sector of the economy is agriculture (approximately 35% of the country's GDP and up to 50% of total employment); the second important sector is industry, which is dominated by gold mining (40% of exports and 50% of total industrial output) and hydropower production. Other important sectors include trade, especially retail trade, which is the largest source of urban employment, and non-market services.

5. Widespread poverty is characteristic of the country; its GDP per capita is just USD380 at market exchange rate²; almost half of the population are considered as poor according to the national

¹ While the literacy rate remains high, the educational and professional skills structure of the population established in soviet times does not match current economic structure. As a result there are too many skilled engineers, industrial workers, etc., who has no chance to find job on their specialty; essentially their professional education has lost a larger part of its economic value.

² Increases several times accounting for PPP.

poverty line. However, in recent years a remarkable progress in term of poverty reduction has been achieved – the poverty level dropped from 55.3% in 1999 to 40.7% in 2003³.

6. Because of the relatively short period of time post-independence and the necessity to make a transition from socialist to market economy, many institutions in the country are only just emerging and require further development. Examples of these institutions are the Government, which is continuing to adjust its functions, structures, tools and skills to the new realities; civil society; financial markets, etc.

1.2. The National Development Planning Framework

7. The Government has inherited an approach of comprehensive planning from Soviet times which covers virtually all aspects and assumes the Government's responsibility for and ability to influence every aspect of economic and social development. At the same time, the Government has had no experience of a holistic approach to planning, because all strategic decisions were previously made in Moscow. This was reflected in the planning practice of 1990s, when different national programs were adopted with low levels of coordination and an extensive role for the Government, which was inconsistent with its real resources. The so-called indicative planning, which has been used till the very recent time as a background for annual budget planning, was essentially an attempt to establish production targets for the economy becoming increasingly private.

8. Since 1999, the Government (encouraged by the IFIs) began its transition to utilization of new planning instruments. During the last few years a completely new national planning structure has been created consisting of: (a) the Comprehensive Development Framework of the Kyrgyz Republic till 2010 (CDF), (b) the National Strategy for Poverty Reduction. 2003-2005 (NPRS), (c) the three-year Mid-Term Budgetary Framework (MTBF), which is updated on rolling basis, the latest one is for the period 2005-2007, (d) the Public Investment Program (PIP) including donor-funded public investment projects. These documents are used as a basis for preparing annual government budgets and for development of sectoral and regional strategies and programs.

9. The CDF was adopted in 2001. It is a long-term development strategy of the Kyrgyz Republic, which is one of pilot countries for this approach initiated by the World Bank. The document establishes a national development vision and goal, which has three main components: (i) Effective and transparent administration of the state; (ii) A fair and secure society; (iii) Sustainable economic growth and development. The CDF contains a general description of the development strategy, indicates main areas of activity and policy directions for the Government, discusses roles of all stakeholders

³ According to the official data based on personal expenditure per capita. The poverty indicators are very sensitive to the measuring methodology, use of different welfare measures (personal consumption or something else) results in different poverty levels. However, the trend is similar for any welfare indicator used (see [17]).

(including private sector, NGOs, donors) in the strategy implementation, provides for an indicative macroeconomic and financial framework, and establishes some basics (including an indicator set) for its monitoring and evaluation. The CDF recognizes poverty reduction as a primary goal. The document has been developed in a participatory way, which was the first experience of that kind in the country. The CDF has been approved by the National Forum and its implementation is supervised by the National Council on CDF chaired by the President and including the government and civil society representatives.

10. NPRS was prepared in parallel with the CDF (see details in the next chapter) and was considered the first of three steps in its implementation. It basically repeats the CDF in terms of structure and ideology putting greater emphasis on poverty reduction and providing more details on concrete policies; therefore, it is now common to speak of a single CDF/NPRS policy and approach. Currently it is considered as a main mid-term policy document in the country.

11. The MTBF is becoming increasingly important planning tool, which plays a role of linking sectoral development policies to annual budget allocations. The MTBF 2005-2007 for the first time provides a complete picture of all government resources including republican and local budgets, PIP and off-budget (but receiving transfers from the budget) Social Fund. It also provides representation of all current and investment budget expenditures by sector, which is a large step forward in comparison to all previous national planning documents. Finally, it contains three sectoral strategy (education, health, and agriculture) with clear division of funding by programs and not by spending items, which is still the case with regard to majority of budget expenditures (with health⁴ being the only exception).

12. The annual budget consists of a series of budgets: republican current budget; PIP, which exists as a separate part of the republican budget; local budgets with the following levels: oblast (province), raion (county), aiyl akmotu (rural municipality) or small town. All these budgets are linked by a complicated system of massive transfers often going simultaneously in opposite directions. The republican budget is the only document, which should be formally approved by Jogorku Kenesh (Parliament) and which functions as a law. Large efforts are now underway in order to make transition to the budget formation on program basis, which is considered as a way to improve linkages between policies and budget spending.

13. The national planning system also includes sectoral programs in education, health, agriculture, export promotion, rural development, etc. These programs are connected to the NPRS in terms of goals

⁴ See paragraph 74.

⁶ In terms of aid per capita Kyrgyzstan holds one of the first places in the whole NIS region: according to the World Bank's World Development Indicators 2004 in 2000-2002 Kyrgyzstan has received annually USD40 per capita, which is third large number in the region after Armenia and Georgia.

and broad directions of action. Many of the sectoral programs are linked to and developed in connection with donor funding programs.

1.3. The Aid Regime

14. Before independence Kyrgyzstan was very much dependent on direct and indirect transfers from Moscow; cancellation of these transfers after the break-up of the USSR was an important reason for a dramatic decline in production and living standards in the country.

15. Massive borrowing from international financial organizations and bilateral donors, which started in early 1990s, allowed partial replacement of Soviet subsidies and saved the social infrastructure of the country from total collapse in 1990s. In certain years volumes of foreign aid exceeded 10% of GDP and the total amount of aid received by the country since independence is close to 2 billion USD. Despite the concessional nature of a large part of the aid, such high levels of borrowing resulted in the rapid accumulation of foreign debt, which has become unsustainable after the national currency devaluation in 1998-1999. In order to stabilize the foreign debt situation the Government has had to reduce further borrowing; it requested and received the debt rescheduling from the Paris Club in 2002. The Government also hopes to achieve writing-off of a significant part of the debt in 2005.

16. Aid consists of the following main components: (i) loans and, to a lesser extent, grants to support the government budget and the balance of payments, which are usually connected to policy conditionality; (ii) loans and grants for investment projects; (iii) technical assistance; (iv) humanitarian aid. The main sources of structural adjustment loans are the World Bank, the International Monetary Fund, and the Asian Development Bank. The WB, ADB and EBRD are also the most important sources of investment loans and technical assistance. The UN system organizations (UNDP, UNICEF, UNFPA, etc.) play an important capacity building role and provide wide range of technical assistance programs. Bilateral donors (USA, Japan, EU, Germany, UK, Switzerland and others) provide the technical assistance, investment and budget support mainly on grant basis. Some international NGOs (for example, Soros foundation) are also active in the country.

17. Apart from the general budget support, the aid is mainly directed to agriculture, energy production and distribution, transportation and telecommunication infrastructure, financial sector; some donors (EU and Switzerland, in particular) support targeted social assistance programs, for example, benefits for poor families with children and other vulnerable groups of the population. Most part of TA programs was targeted towards the Government; however, a considerable portion has been allocated to the development of the civil society.

18. With this large-scale foreign aid⁶ and activity of many donor organizations in the country, donor coordination has become a big issue. Both the Government and the donors are now making

efforts to harmonize the aid flows in order to avoid further growth of the foreign debt, donor duplication and use of inconsistent approaches.

2. THE INITIAL PRSP PROCESS AND THE PRSP DOCUMENT

2.1. Start of the Process

19. The preparation of PRSP started along with work on the CDF in 1999. Sectoral working groups were created in order to develop different components of the PRSP. While the CDF drafting process, which had to lay out core development policies of the country, was very inclusive and based on broad consultations with all stakeholders, PRSP drafting at this stage had more of a technical character⁷ and was implemented by the Government. As a result of this work, I-PRSP or I-NPRS was prepared by the Government in May 2001, i.e., simultaneously with the CDF. I-NPRS was used as a background document for concluding the Poverty Reduction and Growth Facility (PRGF) agreement with the IMF in December 2001.

20. The process of preparation of the full NPRS was long (2001-2002). It was coordinated by the Administration of the President. There were 30 working groups for different sectors and issues to draft the NPRS. In addition to government officials, members of Parliament, representatives of civil society and the private sector were invited to participate in the working groups. Donors however, were not usually part of these working groups; on one hand, the limited involvement of donors on this stage increased local ownership of the document, on the other hand however, it somewhat complicated consultations with donors during later stages of the process. In August 2002, drafts of major parts of the NPRS were available but without budgets. Selected NPRS issues were discussed in seminars, with participation of representatives of the government, donors and civil society. While the thematically focused working groups usually assembled much of the know-how available in the country, the overall structure putting together the different contributions remained rather weak, leading to a draft document of 250 pages. The full draft NPRS was completed in September 2002 in Russian. By early October 2002, the Government made the entire draft NPRS available in Russian and English. It was discussed at the Consultative Group (CG) meeting mid-October 2002. While the participants of the CG meeting praised the Kyrgyz Government for its efforts in formulating a strategy, the text of NPRS was criticized for the lack of focus, prioritization and costing. In response to this criticism, the Government announced its intention to revise the draft version taking into account the comments received, to prepare a summary of some 40 pages including prioritization, and invited the donor community to comment. The short NPRS version was submitted to the World Bank and the IMF, which considered them during meetings of their Executive Boards in February 2003. The World Bank intended to revise its Country Assistance Strategy (CAS) and base it on the NPRS. The final (longer) version of NPRS was formally approved by the Government in May 2003.

⁷ The development strategy had been discussed in the CDF context.

2.2. Poverty Analysis

21. The Government made a clear attempt to base the NPRS on a sound poverty analysis. The NPRS contains a special section analyzing the poverty profile of the country. Understanding of poverty in the document is broad, which is reflected in the use of both, material welfare indicators (expenditures and consumption) and non-monetary indicators, such as infant and maternal mortality, access to education and to clean water. The NPRS poverty concept is thus consistent with the Millennium Development Goals.

22. Despite the wide variety of poverty indicators used, the poverty level and the extreme poverty level, both based on monetary valuation of expenditures, are the main performance indicators of the NPRS. The methodology of calculation of these indicators has been developed with support from the World Bank; it utilizes data from LSMS and the household budget surveys (HBS). Generally these data allow for producing reliable poverty indicators providing convincing trends in the measurement of poverty dynamics.

23. While general poverty trends do not create disagreement, many stakeholders question the level of poverty itself. This issue is closely related to the poverty line definition. According to the character of income (and expenditure) distribution in the country the majority of people is concentrated around the line, so even small changes in the incomes/expenditures of the population cause significant increase/reduction in poverty.

24. The sample-based methodology of poverty measurement places natural limits on the disaggregation of poverty indicators. While the methodology provides acceptable poverty estimates on national and oblast level (with further disaggregation by rural/urban households, gender and education of the household head), there is no way to receive poverty indicators based on this technique at a narrower administrative level. This creates some difficulties in NPRS implementation at the local level. The problem is now being solved by the use of the so-called “social passports”. This is a simplified technique of poverty measurement based on almost complete coverage of poor families in rural areas. This technique has many drawbacks⁸ however, which are partially corrected by local knowledge of people responsible for filling in the passports.

25. So far the poverty analysis has relied on quantitative data from government agencies (the National Statistical Committee (NSC) and the Ministry of Labour and Social Protection); qualitative data on the nature of poverty, its public perception, etc. have not been in demand (and are in a very limited supply) despite their obvious usefulness for proper poverty diagnostics. There could be at least

⁸ The social passport rely on information on household incomes rather than expenditure data used in the HBS, the income-based indicators are less stable and associated with higher risks to be biased and insufficiently accurate; the technique uses the poverty line calculated by the NSC on the basis of expenditure data, so welfare indicator and poverty line are not consistent; etc.

two possible reasons for the low demand for qualitative studies: (i) qualitative data are not a handy performance indicator for different government agencies and this lowers interest in them; (ii) these data could be particularly useful at the stage of policy intervention design, but this type of activity is not of interest to the Government yet, and this task is often implemented by international organizations.

26. The poverty profile provided in the NPRS and further documents⁹ gives a more or less adequate picture of who is poor in the country and allows for aiming the NPRS goals and priority actions on those categories of the population. In practice, however, the linkage between poverty diagnosis and the strategy priority actions is not spelled out clearly enough.

2.3. Participation in the Process

27. The full NPRS formulation process has been inclusive. The Joint Staff Assessment of the WB and the IMF states, “It consisted of a large number of well-attended seminars, conferences and workshops, regular *kurultai* (people’s conventions) between government officials and civil society across the country, extensive discussion with NGO groups, with private sector (in particular private sector representatives from Chambers of Commerce and Industry) and frequent consultation with donors. The participatory process created substantial public interest in the NPRS. The government emphasizes that their approach helped stakeholders participate both in the identification of objectives and in the formulation of policies to achieve them.”

28. The NPRS assumes that the participatory process will be central to its implementation, monitoring and evaluation and future updates. A large role (including participation in local budget formulation, monitoring and service delivery) has been allocated to the civil society and local self-governments in the NPRS implementation; to make this possible the NPRS emphasizes the need to institutionalise participation of non-governmental actors in the strategy implementation. However, it does not provide details as to how this is to be achieved.

29. Wide information dissemination on NPRS development was characteristic of the preparation stage, and the NPRS plans to use a broad spectrum of tools (systematic electronic and published media coverage, regularly updated web-site with analytical and discussion materials) in order to keep the public updated with all the useful experiences and problems encountered in the process of strategy implementation.

2.4. Ownership of the Process

30. There is much evidence that the Government takes the CDF/NPRS much more seriously, than many previously developed country- or sector-wide strategies, which were obviously donor-driven.

⁹ The Millennium Development Goals Progress Report and the Annual NPRS Progress Report.

Both political leadership and many government officials have displayed their perception of the document as a necessary country management tool. The NPRS should provide the government with an internally consistent action plan for the next three years. Representatives of the Ministry of Finance would like to see the next NPRS substituting for the IMF-authored PRGF document.

31. While the document could be considered as government-owned, there is richer palette of perceptions of the NPRS. Many mid-level officials, parliamentarians, civil society representatives still see the NPRS as the next effort to please donors and secure further foreign aid. The attention paid to foreign aid in the context of the NPRS adoption and implementation and reduced emphasis on domestic resource mobilization could, indeed, serve as a basis for such views.

32. To verify the degree of the government's actual ownership of the document, it is worth examining actions, which require commitment to making hard decisions for NPRS implementation. These include actions on practical priority setting in the form of concentrating budget allocations on the various policy areas. Insufficient prioritisation is a major point of criticism of the NPRS by donors and many local commentators. Ironically, the limited prioritisation of the strategy results in part from the Government's attempts to build broad-based ownership in the country and to be responsive to the ideas generated in the consultation process with local authorities and civil society.

33. One simple test for ownership is the preparedness of the Government to provide the required co-financing for projects included into PIP¹⁰. In general, the Government has a mixed record in this area and delays in project implementation because of insufficient domestic co-financing are not unknown. However, one can see progress in co-financing disbursements. In 2001, 90.5% of the PIP domestic co-financing plan has been fulfilled, in 2003 this figure has went up to 99.8% (see [14]). A step forward is the latest MTBF, which provides numerical estimates of co-financing and further recurrent costs on the investment projects integrated into the overall government expenditure framework.

2.5. Donor Support for the Process

34. Donors played an important role in the NPRS preparation. Their involvement had many forms: (i) policy consultations in order to coordinate the NPRS policies with the ongoing and forthcoming aid projects; (ii) analytical work aimed at providing timely support to the NPRS development; the World Bank and the UNDP were the most active contributors, (iii) technical assistance provided for the document drafting and discussions; (iv) extensive commenting on the NPRS contents and providing concrete proposals for the document improvement.

¹⁰ Usually it is 10% of total project costs; other 90% are covered by donors.

35. The World Bank and the IMF are considered the main partners¹¹ of the Government in the NPRS preparation and implementation. The ADB and UNDP also play an active role during the strategy preparation and implementation, being important stakeholders in the process. Some bilateral donors (DFID, in particular) provided significant technical assistance in the process of developing the NPRS.

36. Importantly, the draft full NPRS had been discussed during the donors' Consultative Group meeting, which took place in the country's capital Bishkek in October 2002. As it is noted above (section 2.1), this discussion influenced the form and contents of the document.

37. All donors expressed clear commitment to align their future strategies¹² with the NPRS, thus making it the main aid coordination tool. While the very intention of donors to coordinate their efforts around the country-owned strategy is highly commendable and illustrates their understanding of development problems related to insufficient aid coordination, in practice this commitment resulted in a pressure, which many donors put on the Government in order to secure their interests and include their traditional activity areas as priorities into the document. The limited capacity of the Government to resist this pressure also contributed to the too broad policy agenda of the NPRS.

2.6. Implementation Plan

38. In general, the NPRS pays due attention to different implementation issues. The document contains separate parts on (i) "Partnership and participation", which describes the possible role of and methods of collaboration with the civil society (understood mainly as NGOs), (ii) "Support by international community", providing some general directions of current and future aid programs by donor, (iii) "Monitoring and evaluation", where basics of institutional set-up of the M&E system, its financing, plans of information gathering and dissemination, intentions for further strategic planning work are provided; (iv) "Introduction", with its description of the general scheme of the NPRS management.

39. The NPRS also contains the "Action matrix for accelerated development" as an attachment, which is the longest single part of the document (70 pages or one-fourth of the whole document in Russian). The matrix is an attempt to provide a detailed description of the activities to be implemented during the three-year period covered by the Strategy including information on the organization(s) in charge, implementation period, expected results, available and required external financing. However,

¹¹ Sometimes they are seen as customers of this document.

¹² Current donor activities are also being brought into accord with the NPRS policies. For example, the need to bring the foreign debt of the country under control resulted in partial reduction of the loan-based aid programs. However, it might be that this policy change would still be implemented, even if no NPRS process had taken place.

actions included into the matrix are very heterogeneous: some of them are, indeed, actions, which the Government has capacity to plan and implement, but some are wishful thinking, their implementation depends much more on the foreign investors or local private sector, than on the Government resources. As a result, the estimated additional financing requirement¹³ for the whole action matrix is about 24 billion soms or more than 30% of the country's GDP in 2002. Obviously, from the very beginning this action plan had no chance (and was not expected) to be fully implemented. The intention was to attract the attention of potential donors/investors to the resource-consuming projects, rather than to base the whole strategy on expected positive outcomes of these projects. In fact, macroeconomic forecast included into the NPRS is pretty conservative and in full compliance with the IMF's PRGF program.

¹³ I.e., having no confirmation by donors/private sector.

3. IMPLEMENTATION OF THE PRSP

40. The NPRS implementation is based on the understanding that the NPRS has to be a core of all activities of the Government and non-governmental stakeholders. This way of action differs much from the previous poverty alleviation programs implementation experience of the country (and current experience of some other countries), when narrowly understood poverty reduction had been considered as only one component of the Government's agenda together with economic growth, etc. Now the Government tries to link (successfully or not) its every activity with the CDF/NPRS; this ensures consistency and complementarity of the implementation activities and increases the chances of achieving better progress towards the country's development and poverty reduction.

3.1. Institutional Set-Up and Responsibilities

41. The highest body overseeing the whole CDF/NPRS process in Kyrgyzstan is the National Council on the CDF chaired by the President of the KR. The Council includes representatives of the Government, local authorities and civil society. The Council convenes once or twice per year and considers and approves implementation reports on the CDF and NPRS. It also appoints the official responsible for the CDF and NPRS implementation – the CDF coordinator.

42. The working body of the National Council is the CDF Secretariat. The Secretariat functions as a unit within the Economic Policy Department of the Administration of the President of the KR and reports directly to the CDF coordinator, who is the head of this department. The staff of the Secretariat consists of 5 people. The position of the CDF Secretariat within the President's Administration provides it with sufficient authority to coordinate activities of all government agencies and communicate to all donor organizations. The CDF Secretariat is directly responsible for drafting of all NPRS-related documents including annual progress reports, methodological notes on NPRS implementation for other government agencies, overseeing all strategic planning work in the sectors and regions of the country, etc. One of the Secretariat's functions is the maintenance of the dialogue with non-government stakeholders – private sector, NGOs and donors. The Secretariat coordinates TA directed by donors to support the NPRS implementation. Taking into account its staff limitations, the Secretariat is to delegate many of its functions to the Ministries and other government bodies.

43. The governmental body responsible for detailed consideration and official approval of the NPRS is the Economic Policy Council chaired by the Prime Minister. This body also considers and approves all other relevant government decisions and the Mid-Term Budgetary Framework and the Public Investment Program, in particular.

44. Everyday coordination of all NPRS-related activities is split between the Office of the Prime Minister, which is responsible for two of three main pillars of the CDF/NPRS – economic growth and social issues, and the President’s Administration, which bears responsibility for the third main components of the development strategy – good governance.

45. Key coordination functions related to costing of and budgeting for NPRS implementation programs belong to the Ministry of Finance. It prepares the MTBF, PIP and annual budgets, coordinating all activities on budget planning and implementation by the government line agencies and regional authorities. The ministry is also responsible for coordination of all foreign aid directed to the Government.

46. Line ministries are responsible for preparing and implementing sectoral strategies. Regional authorities and local self-governments have responsibility for the implementation of the NPRS within their territories.

3.2. Political Commitment

47. The CDF/NPRS process has been initiated by the President of the KR and constitutes the core of the current political agenda in the country. As a result, commitment is clearly expressed at the highest political level. This commitment is obviously translated to the lower levels of the Government.

48. Another factor strengthening the commitment to NPRS implementation is the continuing dialogue with the World Bank, IMF and other donors. Their interest in this strategy and the political leverage these organizations possess (structural adjustment and investment loans, other forms of aid and, importantly, their voice at the Paris Club meeting scheduled now for spring 2005) contribute to keeping the level of the Government’s commitment high.

49. The reform agenda in the country is far from being completed and many necessary decisions in order to ensure achievement goals of the NPRS still need to be made (see examples in the section 4.1). These decisions will necessarily affect many vested interests and require politically painful measures. In practice, commitment is not always sufficiently large enough to overcome these interests or bear short-term political losses caused by the potentially unpopular reforms.

3.3. Intra-Government Coordination

50. The intra-government coordination has two main dimensions: sectoral and regional. The responsibility for coordination belongs to three main bodies: the President’s Administration, the Office of the Prime Minister, and the Ministry of Finance. The line of division between the President’s Administration and the Office of the Prime Minister is not quite clear, which is recognized by many experts as one of the governance problems in the country. Basically both bodies are responsible for the

coordination; with the PM Office doing the day to day running and the Administration concentrating on mostly strategic issues. The Ministry of Finance is responsible for sectoral and regional budget allocations.

51. Sectoral coordination is complicated by the fact that many line ministries have no well-developed sectoral strategies with clear priorities, implementation tools and credible assessment of required funding. Therefore, inter-sectoral budget allocations are not always based on a strategic approach and may reflect short-term fiscal circumstances. For example, reforms in the health sector provide health institutions with the right to charge patients' co-payments for services; these funds are to supplement budgetary money, provide some necessary discretion to the institutions and cover some important gaps in funding. However, in recent years the health part of the budget allocations has been reduced, because it became possible to re-direct some resources to other suffering sectors without reduction of total funding (including co-payments) for the health sector.

52. The latest MTBF 2005-2007 made significant progress in putting mid-term budget estimates for all the main sectors of the economy, with more or less detailed allocation, in specific sectoral programs. In general, the Ministry of Finance is now implementing a transition to program budgeting; the 2005 budget will be compiled on this basis¹⁴.

53. The transition to program budgeting and more transparent budget allocation methods is hampered by the unclear functions and responsibilities of the line ministries. UNDP and TACIS made a large effort in functional analysis of several ministries, which was generally supported by the country's authorities. However, the recommendations of this analysis are being implemented slowly.

54. Inter-regional policy and budget coordination has two important aspects: (i) inter-government transfers, and (ii) PIP implementation. The fiscal system of the country¹⁵ makes massive transfers from the republican to local budgets unavoidable. There are two main forms¹⁶ of transfers – categorical (payment of salaries to teachers and doctors) and equalizing grants. While, in general, these grants redistribute money to the poorest regions, the way it is being done now is non-transparent. Neither of these grants is based on clear and verifiable formulae, and the grant amounts are dependent on the central authorities' discretion. The same situation exists at lower levels, where all funds are centralized on oblast/raion level and then redistributed to raions/towns/municipalities.

¹⁴ The MF with USAID support had prepared two pilot (having no mandatory status) program budgets for 3003 and 2004.

¹⁵ In particular, the prevalence of VAT and taxes on imports, which by their nature should not be attributed to any particular region of the country and are to be channeled to the central budget.

¹⁶ The third transfer category – stimulating grants to local communities has appeared recently, but so far it is not big in terms of budget share.

55. The recently adopted (in 2003) law on “financial and economic basics of local self-government” provides new opportunities as it increases the degree of financial independence of local self-governments providing them with more rights in managing communal property, etc. However, so far it has not made a cardinal change in the situation, as the transfers constitute much larger share of local budgets.

56. An important part of the resources available for the NPRS implementation is the PIP. The PIP strongly affects those parts of the country, where its projects are implemented. Regional development, therefore, depends on the inter-regional coordination of PIP. However, the PIP is implemented by line agencies (ministries or PIUs) through the republican budget only and geographical distribution of funding and its impact are often unclear, especially with the projects, which are not targeted toward a specific region.

3.4. Capacity for Implementation

57. The capacity of all domestic stakeholders of the NPRS process should be neither under-, nor overestimated. Despite donor support, the NPRS had been prepared locally, in participatory way with contributions from all government agencies, civil society organizations and experts. This makes the Kyrgyz situation different from some other PRSP countries, where representatives of IFIs wrote the whole document. At the same time, large gaps exist in the implementation capacity of all stakeholders.

58. For the Government, the major capacity issues are strategic vision, management style and technical skills. Despite extensive ongoing strategic planning work in the country, many representatives of the Government (especially in the line ministries and on the regional/district/local level) experience difficulties with identification and formulation of priorities and finding appropriate implementation tools. Too often the old mentality “the Government is responsible for everything and have power and capacity for that” and corresponding management style, with an accent on strong subordination, attempts to issue orders to private sector and poor control over implementation of adopted decisions reveals itself, leading to the obvious lack of focus and problems with prioritisation. Of course, this is an issue not only of capacity, but also of politics.

59. Technical skills, especially in strategic planning and costing, are another area of concern. The Government receives significant assistance directed toward capacity building. While some progress is visible, much more needs to be done. The MTBF states: “there is a risk that if the ministries’ potential would not be strengthened, there will be difficulties with resource allocation corresponding to MTBF.”

60. Another important task in NPRS implementation is decentralization. While there are many problems with policies in this direction, the capacity issue is especially urgent. The majority of self-government and community leaders have little or no governance experience and training. Importantly, the understanding of poverty and its causes and possible cures on the sub-national level is still too often

based on a soviet-style redistribution approach with emphasis on forced fundraising “marathons” and direct food/consumer goods deliveries to the poor. Therefore, the policy shifts, which are potentially attractive and beneficial for development (for example, redistribution of some budget and foreign aid funding to the community level¹⁷), are at risk of being ineffective and inefficient. Large capacity building programs for local self-governments and community organizations have been planned and are already being implemented.

61. The capacity of non-governmental stakeholders is also limited. So far, in the majority of cases non-governmental structures (including Parliament, NGOs, academia, private sector, etc.) have no sufficient knowledge of policy details, which prevents them from being equal counterparts to the Government in the policy discussions. While civil society has a much better record in awareness raising and advocacy activities (and this makes the civil society a partner of the Government), it is not always focused on the NPRS implementation issues.

3.5. Consultation with Other Stakeholders

62. The process of consultations with civil society on NPRS issues is ongoing. The CDF Secretariat and other government bodies often hold seminars and various public events, where they discuss NPRS implementation problems in general and in specific thematic or geographical areas. The extent to which these consultations influence shaping of the Government policy is not clear, but, generally, the Government has a chance to hear from different layers of the civil society about their concerns.

63. There are several examples of a widening of the consultation process. Budget hearings are becoming increasingly popular both on republican and on local levels, where the NPRS implementation and the budget coherence to it are put on the agenda. Issues of investment climate in the country are now extensively discussed with the representatives of business community; such forms of dialogue as the so-called Investment Summits attended by the President, the Government, IFI representatives and largest foreign and local businessmen operating in the country, have become traditional. The latest example relates to the revision of the Tax Code, which is now under way. It is being done in a participatory way with a number of working groups drafting different parts of the Code; each of these groups is staffed with a mix of Government representatives, businessmen and local and foreign experts.

64. Consultations with donors, of course, are also permanent on all important NPRS implementation issues. To a large extent these consultations concentrate on the aid-related

¹⁷ For example, multi-million World Bank’s Village Investment Project and Small Towns Infrastructure & Capacity Building Project.

conditionality, which covers very broad areas of public policy. Another big consultation area is the set of issues of technical implementation of different sectoral policies. The IMF has regular missions coming to Kyrgyzstan in order to overview the progress of PRGF implementation. The World Bank, the ADB and many other donors also have regular missions on sectoral issues. In cases where the implementation progress is especially problematic (energy sector reform, in particular) the World Bank has established not regular, but a permanent mission in the country to support the WB Resident Mission with specialists in energy issues.

65. In several cases the consultation process allowed the resolution of some potentially dangerous problems at an early stage. For example, in 2003 the public campaign initiated by Kyrgyz business associations resulted in stopping new legislation, which would have introduced licensing for tourism companies with associated high transaction costs for them. In 2004, protests by environmental NGOs attracted the attention of the Government to and allowed to the prevention of imports of radioactive waste from other countries into Kyrgyzstan.

3.6. Donor Support for Implementation

66. Donor support for the development of the Kyrgyz Republic continues to be massive, in the NPRS implementation context. The main support forms remain the same: structural adjustment and investment loans, different forms of technical assistance.

67. Some recent changes include an increase in grant funding of the development projects by the World Bank and the ADB. This reflects global trends of switching to grant forms of assistance in human development in order to achieve the MDGs. However, this shift fits well into the current situation of the Kyrgyz Republic with its unsustainable foreign debt and is a timely contribution to NPRS implementation.

68. The World Bank and the EU provided the Kyrgyz Government with technical assistance grants directly aimed at supporting the CDF/NPRS process. These TAs allow for developing monitoring and feedback systems for the CDF/NPRS including information dissemination, expanding dialogue with civil society, hiring necessary consultants etc. Some other donors (UNDP, in particular) also provide support on selected topics directly related to the NPRS implementation; examples include development of regional poverty reduction strategies, monitoring of the NPRS implementation on sub-national level and deeper analysis of different aspects of poverty.

69. Donor coordination, which was a major problem some time ago, is now gradually improving. At the High Level Forum on Harmonization in Rome, Kyrgyzstan was identified as a pilot country for donor harmonization. The harmonization program is currently at an early stage. Initial harmonization efforts are concentrated on three main areas: Financial Management Harmonization, Harmonization of Procurement Procedures, Harmonization of Project Implementation Units. On-going donors' activities

include: (i) Joint supervision (ADB & WB, WB & DFID), (ii) Joint Financial Reporting & Audit Assessment (led by ADB, EBRD & WB), (iii) Joint Portfolio Review (WB & ADB).

4. CHALLENGES TO IMPLEMENTATION

4.1. Challenges so far

4.1.1. *Depth of integration of the PRSP in the budget process*

70. Costing of NPRS activities, which is essential to translating the strategy into a realistic action plan for the Government, has been recognized as one of the major weaknesses of the NPRS. The extent to which the Government budget reflects the NPRS goals and priorities is still limited. This is partially explained by the insufficient prioritisation of the NPRS itself and partially by technical problems with costing.

71. Current budgeting mechanisms are inherited from previous times and are built around financing of inputs (staff, facilities, supplies, etc.), not results. These mechanisms are rigid in the sense that they do not provide line agencies with any flexibility with regard to input composition most suitable for attainment of NPRS goals. Very often the budgeting policy is directed towards the maintenance of an achieved level of financing of activities (with possible small adjustments) without making hard decisions about resource redistribution and concentration. Once again, this is a commitment issue, but also a capacity problem, because costing techniques are often absent.

72. One of the technical issues which complicate better integration of policy priorities into the budget process is the old budget classification. It does not allow for clear presentation of spending on specific poverty-alleviating activities (support to childhood and maternity, clean water supply, etc.), which are spread over many budget items. While the problem should disappear with transition to the program budget, the transition might take several years covering the current and the next NPRS period; so, it would be worth investing some effort into an immediate increase in budget transparency by adopting classification more suitable for monitoring pro-poor policies.

73. The situation is not static, however. The MTBF 2005-2007 provides for significantly better costing of development programs. The following features of the MTBF are important in this context: (i) clear explanation of inter-sectoral resource distribution with a description of all government expenditure programs on priority areas (education, health, social protection), for which budget funding has to increase considerably¹⁸ in coming years, second priority sectors (transportation infrastructure, security and defence), for which funding has to remain constant, and non-priority expenditures (subsidies to the enterprises in energy and housing sectors, quasi-fiscal operations in energy sector), which are to be reduced during the period 2005-2007; (ii) detailed description of expenditure strategies for three main sectors (education, health, and agriculture).

¹⁸ 40-50% increase for education and health during three years.

74. In the health sector, which underwent a major reform during last years, the budgeting mechanisms have changed very significantly and are now based on expected outputs of the sector (for example, number of patients served), not inputs (number of doctors or beds in hospital). These mechanisms resulted in a sizable increase in doctors' salaries, better supply of medicines, etc.

75. A significant change in budgeting principles in education is now planned. It assumes that the Ministry of Finance and the Ministry of Education will conclude the so-called resource agreement providing the latter with freedom in expenditure-related decision making within funding ceilings and clear monitorable performance criteria. The process of development of this scheme is slow however, reflecting problems in the selection of proper performance indicators and estimation of unit costs.

76. Apart from budget funding, the Government has other resources, which also have to be aligned with NPRS priorities. This is especially applicable to TA projects, which are many in number and operate in almost every government agency. Typically, these projects are coordinated by line ministries, and very limited inter-agency coordination exists. This makes the assessment of the impact of these projects on the Government's capacity building almost impossible and creates difficulties in improving the use of these resources.

77. Another problem is realistic accounting of private funds, which are to be raised in order to complement public sector efforts. This is becoming increasingly important with the expansion of new budgeting mechanisms assuming joint financing of different local infrastructure development programs.

78. A new and increasingly important feature of the budget process is public participation in budget formulation. Budget hearings on central level and in some town/rural municipalities provide non-governmental actors with a voice in setting budget priorities. While the capacity of the civil sector somewhat limits the real impact of these hearings, the very existence of open discussions on these issues is a step forward in increasing the budget transparency and the Government's accountability, which are clear priorities for the NPRS.

79. Strengthening accountability and financial management on local and community level is another important issue to be resolved. Both the Government and donor organizations are now developing different instruments of channeling increasing amounts of money and responsibilities to local authorities, which has the potential for improved effectiveness of public expenditures. Without the proper institutional set-up and capacity on local level this potential, however, may be lost.

4.1.2. Sector strategies/work plans with clear priorities

80. Together with costing, prioritisation is one of two major shortcomings of the NPRS. Too many sectors are considered as priorities in the strategy, and action plans are either absent, or represented

only by wish lists with no clear understanding of what should be done by the Government. It is possible to say that only the health sector has a credible mid-term strategy.

81. With regards to the prioritisation problem, the Government distinguishes between budget-related programs (current budget expenditures and PIP), for which setting funding priorities is considered to be a large issue, and programs funded by foreign grants, which are often directed to the sectors not included into the first priority list for budget financing (culture, science, sports), but still requiring public support. The Government's attitude towards this grant assistance is based on an assumption that it can partially fill in the gap in funding of those sectors. To indicate the interest of the Government in attracting grant financing to such sectors, they have been included in the NPRS as priority areas.

82. The Government and/or its ministries are now developing several sectoral strategies, which are explicitly based on the NPRS; these strategies provide necessary details on the NPRS policy implementation, partially correcting general wording and addressing existing gaps in the current NPRS. The following strategies are now either being discussed or have been submitted for approval by authorities: (i) strategy for reform of the governance system, (ii) strategy for rural development, (iii) concept of the government policy in the area of employment¹⁹, (iv) concept of tourism development, (v) vision for (foreign) trade development, (vi) concept of deregulation of economy, (vii) concept of agrarian policy, etc. All these strategies are being prepared with the participation of all governmental and non-governmental stakeholders and generally provide much more consistent set of sectoral policies.

83. The situation has been somewhat further improved in the MTBF, where some ranking of sectors with regards to the degree of their priority has been provided (see paragraph 73). The MTBF also contains an outline of sectoral strategies in education and agriculture. Still the link between the proposed actions and allocated funding is not clear enough.

84. An important issue is that prioritisation has to go beyond the sector level to the sub-sector level. For example, for education, which is generally the top priority in poverty reduction, various components are not equally important. While primary and basic secondary education services are to be supported, this is not necessarily the case for tertiary education, because its link to the poverty reduction is not obvious. However, the MTBF provides for a quite a sizeable increase in funding for this sub-sector.

¹⁹ Development of this concept has been supported by the EU TACIS project.

85. The program budget, which has now been developed, should not just mimic the current spending pattern based on existing administrative units²⁰. So far, the MTBF still follows the strict sectoral approach and does not provide enough flexibility to address inter-sector problems, such as the task of reduction of child mortality, which requires concerted effort in the areas of health care, education, mass media and food production²¹.

86. Many sectoral strategies suffer much from the attempt to provide the Government too interventionist a role in many development issues, especially in the area of economic growth. While the general policy of the NPRS is that the private sector is to be an engine of economic growth, and the role of the Government consists of removing barriers for the private sector and helping its development, on lower levels of strategic planning and decision making one can observe repeated attempts to introduce additional regulations or to intervene directly in production activities. In part, this is the consequence of a persistent Soviet style of management, but it could also be partially explained by political economy considerations, i.e. by vested interests of some powerful groups.

87. Political economy has another way of influencing the priority setting process. Sometimes political interests effectively prevent efforts of the Government or civil society to concentrate funds on priority directions with simultaneous outflow of finding from non-priority funding items. For example, it is a common knowledge that the existing system of social benefits is not well targeted or effective. In other words, too many people receive cash payments that are too small. The Government has made several attempts to modify the system in a way that improves its targeting, but influential groups in the Parliament have always blocked adoption of these proposals, which could reduce the support they receive from their constituencies.

4.1.3. Indicators, monitoring and feedback arrangements

88. The NPRS puts a proper emphasis on a monitoring and evaluation system, considering it a necessary tool for keeping the policy formulation process ongoing. Many feedback arrangements (seminars and other forms of dialog with all stakeholders, mass media coverage of all important NPRS-related events, etc.) are in place and functioning. The strategy includes a broad set of indicators, which more or less reflect the main goals of the CDF/NPRS. Many of these indicators are measured with a necessary disaggregation by region, gender, education level and so on.

89. Poverty indicators are provided and analysed in the strategy and used for defining of broad target groups (rural population, families with many children, etc.) and priority sectors (agriculture, primary health care etc.). Nevertheless, the analysis of poverty, used for the purpose of strategy

²⁰ This pattern, which basically follows the existing administrative structure, is characteristic for the pilot versions (see footnote 12) of the program budget.

²¹ Salt iodination and micro-element additions to food products

implementation, is not complete. There is too strong an accent on the use of poverty level figures as universal performance indicators for different agencies and the Government as a whole; too little attention is paid to reformulating policies in accordance to new developments in the poverty situation.

90. While the poverty diagnosis is sufficiently elaborate and properly addresses many complicated poverty measuring issues (accounting for non-monetary incomes from subsistence farming, etc.), it does not cover some very important aspects of social and economic situation in the country, which require upgrading of household budget survey methodology or use of other techniques. These issues include but are not limited to: (i) the impact of labour migration and remittances from migrants on the poverty; (ii) the link between employment and poverty; (iii) tracing the mechanism of influence of macro- and sectoral policies on poverty.

91. For the purpose of improving poverty statistics, the National Statistics Committee of the Kyrgyz Republic began a restructuring of the existing household survey in 2003. This is the main source of poverty data in the country. The restructuring is being implemented within the framework of the «Development of Statistics in Support of the CDF/NPRS Process», a project funded by the UK 's Department for International Development (DFID). Measures to improve the household budget survey include: 1) increasing sample selection from 3000 to 5000 households with a 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 issues concerning the use of labour and various poverty indicators in the survey ; 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 include better data quality; greater accuracy and consistency of indicators (especially at the oblast level); new information on various aspects of poverty, 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.

92. Many indicators currently in use suffer from measurement problems, which limit their reliability for the purpose of monitoring the NPRS. Even the main economic indicator, the GDP, is too sensitive to production results of just one very large enterprise (gold mine Kumtor), and these results have a minimal impact on other sectors of the economy and the actual poverty situation. For example, because of an accident in this mine in 2002 the GDP growth rate appeared to be zero, while the National Statistical Committee registered a sizeable reduction in poverty, which seems to be a contradiction. More careful analysis does confirm, however, that the poverty reduction has grounds in macro-indicators.

93. Other partially, and at times completely, misleading indicators, used for NPRS monitoring, are the unemployment rate²², the share of private sector in GDP²³, the primary and secondary school enrolment²⁴, etc.

94. In the case of school enrolment it is not sufficient to follow traditional quantitative measures, which need to be complemented with different quality indicators. This could be, for example, testing of knowledge and skills of the primary or secondary school graduates. The pilot survey of this kind was conducted by local poll company for UNICEF and showed large problems in quality of education even for those children, who did not have problems with attendance during their study. The use of such quality testing (which should not be limited to the education sector) is facilitated by the fact that the country already has some domestic capacity for these surveys created in previous years in the non-governmental sector²⁵ by different donor organizations (UNDP, USAID, EU, etc.).

95. The use of surveys, which are organized now on ad-hoc basis, should be institutionalised and built-in as a regular element of the monitoring system. There are no formal barriers for the direct and formal involvement of the civil society organization in monitoring activities as the NPRS clearly provides for this option. The CDF Secretariat and some other government structures already request²⁶ different studies on the problems of the NPRS implementation from local research institutions. At the same time, the issues of subject areas, funding, calendar, reporting on the findings of such surveys need to be widely discussed and spelled out clearly.

4.2. Potential Future Challenges

96. There are other challenges to the NPRS implementation, which are not much on the agenda now, but may become crucial issues in coming years within the framework of the current or the next NPRS. These challenges are related to the required structural changes in the economy and social sphere.

97. Previous sources of economic growth are now being slowly exhausted. The notable slowdown of growth in agriculture, which was the largest source of poverty reduction in 1999-2003, demonstrates

²² When calculating this rate, people that have any piece of land (i.e. almost everybody in rural areas) are automatically considered as employed whether farming on the plot is their primary occupation or not and whether or not it provides them with sufficient funds for living; it often does not.

²³ When calculating this share, all joint-stock companies are considered to be private entities despite the fact that the Government owns almost 100% shares in many of them (in particular, in all natural monopolies – electricity, gas suppliers, telecom, etc.).

²⁴ Showing the formal enrolment in the beginning of the year, but not real attendance of pupils at school

²⁵ This is even better for the monitoring purposes as it increases chances of getting unbiased estimates.

²⁶ With financial support from donors

the limits of growth based on small semi-subsistence farming; further growth is obviously possible only through scaling up of agricultural enterprises. Another source of growth in previous years was enterprises in the service and manufacturing sectors largely belonging to the shadow economy. This “shadow” status of service enterprises, however, prevents them from expanding (and becoming visible), being involved in exports, i.e., from activities which are unanimously recognized in Kyrgyzstan as critical to achieve sustainable economic growth. There is a need to promote growth in agriculture, services and manufacturing on a new basis allowing for their healthy development and associated poverty reduction.

98. The set of policies needed for that is basically clear; it includes the continuation of macroeconomic stabilisation and effective foreign debt management, levelling the tax burden between various sectors of the economy, deregulation of the economy and radical improvement in governance, etc. However, these measures require making hard choices (expanding the tax base, streamlining government expenditures, dramatically increasing the Government’s transparency and accountability, etc.), which the Government has managed to avoid so far, but which are absolutely critical for further poverty reduction. The issue of political commitment is also currently at the forefront. The coming presidential and parliamentary elections, which are scheduled for 2005, do not provide for a very comfortable environment for making these hard choices, and this is an important challenge.

99. To establish public support for these tough measures, large efforts are required in increasing transparency of Government activities. This assumes a continuation of the ongoing budget reform, which includes the integration of PIP into the general budget, the transition to program budgeting, improvement of treasury procedures, and strengthening of internal and external audit in the government agencies. The previous reform experience has shown that even reforms that began successfully may not produce expected results, if they are slowed down (this relates to health sector reforms in particular).

100. The recent years have been characterized by a generally favorable external environment for the country; however, it is quite clear that the development of the country is still subject to big risks and vulnerable to exogenous shocks (such as unfavorable climate conditions, price shocks on the few world markets important for the Kyrgyz economy, political instability on the borders, decline in foreign aid inflows, etc.). This vulnerability, which is an unavoidable reality, calls for a direct accounting for these risks. So far the Government does not have a clear risk management strategy²⁷, and the NPRS does not have any provisions to this end. All potential shocks need to be carefully identified, and a sensitivity analysis is to be implemented. Insurance or assistance mechanisms for the poorest and the most vulnerable part of the population need to be designed and put in place.

101. Another emergent issue is the regional aspect of the NPRS. The regional and local authorities have a significant role in NPRS implementation, and their efforts require careful strategic planning. Preparing regional poverty reduction strategies and community level plans for social and economic development has just begun in Kyrgyzstan, and there are huge difficulties in adjusting country-wide strategies to the local circumstances and in setting priorities for regional development.

4.3. Assistance Needs to Address Key Challenges

102. Ongoing donor efforts in areas of capacity building and technical assistance need to be continued, as practice shows that capacity accumulation is a long-term process and provides required results if a consistent approach is adopted. The recent, welcome trend is the expansion of capacity building projects for local-level officials and civil society organizations, which are to gradually become real counterparts to the Government.

103. Donor coordination and harmonization is an important input even if the NPRS does not provide well defined priorities to coordinate donor activities. Moreover the Government is gradually narrowing its priority action set, and the donors should not miss this opportunity.

104. To increase the level of commitment, the donors should reinforce the consistency of the aid-related conditionality²⁸ and avoid situations when violation of these conditions becomes something normal.

105. Even more attention needs to be paid to the monitoring of the aid effectiveness. The monitoring mechanisms should be institutionalised and kept independent from implementing agencies.

²⁷ Apart from a very simple mechanism of division of all budget items into the so-called “protected” (salaries, contributions to the Social Fund, etc.), which have to be covered in any case, and “non-protected” (municipal services, capital expenditures and others), which could be cut in case of budget shortages.

²⁸ There are situations, when implementation of conditionality imposed by one donor is a pre-requisite for implementation of another donor’s conditionality; under such circumstances non-compliance with the first donor’s conditionality should result in formal non-compliance with the conditionality of the second donor. In practice, however, the second donor may ignore the problems with implementation of the conditions imposed by the first donor.

5. CONCLUSIONS: RECOMMENDATIONS AND LESSONS LEARNED

5.1. Lessons Learned

106. The experience of implementation of the NPRS in the Kyrgyz Republic shows that it is the first serious attempt of the Government and the society to concentrate available resources for the purposes of poverty reduction.

107. The largest implementation problems appeared to be the political commitment and the capacity of implementing agencies, in particular, on the local level. While both are limited, they are not fixed and demonstrate some trend for improvement. At the same time, the risks of their decline also need to be accounted for.

108. The key problem is not the change in legislation, which would provide for solution of various problems, but rather law implementation/enforcement, which is often insufficient.

109. In the strategy design the interests of different groups of population are to be directly accounted for. Even the best policies will not be implemented properly, if they do not fit with interests of all important stakeholders. Therefore, a candid stakeholder analysis is needed as a component of the PRSP process.

5.2. Recommendations

110. The following issues have to be considered in the process of the NPRS implementation:

- ◆ A clear message should be sent that the NPRS is not strictly a Government-donor deal and that the participation and feedback of other stakeholders is mandatory; for example, an annual implementation report has to be complemented by a summary of consultations on its content with the civil society; this summary could also describe the lessons, which the Government learnt from these consultations;
- ◆ More attention could be paid to the link between the poverty analysis and the action plan in the strategy; for every priority activity area in the strategy there should be a description of the mechanism transmitting the activities into poverty reduction with all the assumptions clearly defined;
- ◆ The issue of costing is also very relevant as it is impossible to prioritise without good cost estimates, and the Government requires support in this area; it is important that the capacity of all major stakeholders – the Ministry of Finance, line ministries, regional authorities and local self-governments – be improved;

- ◆ There is a need not only for prioritised sectoral plans, but also for a well-developed regional component of the strategy, describing all the approaches and links between resources and activities of the Government and the sub-national (including local) authorities.

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ANNEX 2: PERSONS INTERVIEWED

Name	Organization	Position
Mr. Kubat Kanimetov	Administration of the President of the KR	Head of the Economic Policy Department, CDF Coordinator
Mr. Jetigen Bakirov	Administration of the President of the KR	Head of the CDF Secretariat
Mr. Emirlan Toromyrzaev	Ministry of Finance of the KR	First Deputy Minister
Mr. Tsoi Man-su	Office of the Prime Minister of the KR	Head of the Department of Economy, Investments and Regional Cooperation
Ms. Dinara Djoldosheva	The World Bank	Deputy Resident Representative in Kyrgyzstan
Mr. Bhaswar Mukhopadhyay	The International Monetary Fund	Resident Representative in the Kyrgyz Republic
Ms. Toktaim Umetalieva	Association of Non-Governmental and Non-Commercial Organizations	Chairman
Mr. Leonid Komarover	United Nations Development Programme Office in Kyrgyzstan	Senior Policy Advisor
Mr. Omurbek Almanbetov	State Administration of Osh oblast (province) of the KR	Deputy Governor

ANNEX 3: OVERVIEW OF THE EU ASSISTANCE TO THE KYRGYZ REPUBLIC²⁹

The Partnership and Co-operation Agreement (PCA) between the EU and the Kyrgyz Republic was signed on 9 February, 1995 and entered into force on 1 July, 1999.

The EU is one of the important donors for the Kyrgyz Republic. The EU channels aid to the country mainly through TACIS Programme and the EC Food Security Programme (FSP). Some funding goes to the country from the European Commission Humanitarian Aid Office (1 project) and from the EC horizontal and thematic budget lines (10 projects).

Kyrgyzstan has received € 85 million through TACIS national allocations since 1991. From the budgetary year 2002 onwards, the Tacis assistance for Kyrgyzstan is based on the Strategy Paper 2002-2006 and the Indicative Programme 2002-2004 for Central Asia, which are based on the following “three-track” approach; 1) regional programme, 2) regionally identified priorities implemented at national level and 3) poverty alleviation. According to Action Programs 2000-2004 €33 million have been disbursed to the country as well as €30 million intended for regional programmes benefiting all 5 countries of the Central Asia. Currently 12 TACIS national projects are being implemented including “Support to the Partnership and Cooperation Agreement (PCA) implementation – Phase 2,” “SME Development Programme in Kyrgyzstan,” “Strengthening the CDF Implementation in the Kyrgyz Republic,” etc. Other vehicles of the TACIS programme are Policy Advice Projects (5 ongoing or starting projects), Bistro program (4), Institution Building Partnership Programme (4), Statistical Cooperation projects (3), Tempus projects (6), Poverty Alleviation programme (2).

The Food Security Programme focuses on the poorest of the population through budget support combined with technical assistance (policy advice) to the Ministries of Agriculture and the Ministry of Labour and Social Protection. Between 1991 and 2003 Kyrgyzstan has received €104 million under the FSP.

²⁹ The contents of this section is based on information from the web-sites of the EC and the EU Delegation in Almaty, Kazakhstan.

ANNEX 4: ANALYTICAL FRAMEWORK

Issues Features of good PRSP	Institutional set-up	Political commitment/ ownership	Intra- governmental coordination	Capacity	Consultation with other stakeholders	Other issues
Depth of integration of the PRSP in the budget process	<ul style="list-style-type: none"> ◆ The role of the Ministry of Finance in coordination of the PRSP implementation has to be sufficiently large 	<ul style="list-style-type: none"> ◆ There should be sufficient commitment to redistribute budget funding according to the PRSP priorities ◆ Important factor affecting the commitment is donors' conditionality related to loans/grants channelled to the budget. Therefore, the practice of off-budget implementation of some aid programs does not contribute to the PRSP integration into the budget process 	<ul style="list-style-type: none"> ◆ Better delineation of functions of different agencies has to ease incorporation of the key PRSP features into the budget ◆ Larger rights and responsibilities of line agencies and regional authorities would help to concentrate better budget resources on the most important activities 	<ul style="list-style-type: none"> ◆ Costing skills are now one of the main bottlenecks in the PRSP-budget integration 	<ul style="list-style-type: none"> ◆ Parliament, which approves the government budget, should be consulted at early stages of the process in order to achieve reflecting policies in the government spending ◆ Civil society could play a very important role in increasing of the budget transparency 	<ul style="list-style-type: none"> ◆ Not only institutional set-up is important, but also the planning structure and proper relationship between different documents (e.g., CDF-NPRS-MTBF-PIP-annual budget) ◆ Some PRSP policies (economic deregulation, anti-corruption, different governance reforms) have indirect relationship to the budget; still their budgetary impact is to be examined
Sector strategies/work plans with clear priorities	<ul style="list-style-type: none"> ◆ Functions and responsibilities of line ministries and regional authorities should be clear 	<ul style="list-style-type: none"> ◆ Commitment issue is a key in the process of priority setting as it is necessary for making hard choices 	<ul style="list-style-type: none"> ◆ As priority areas of the PRSP do not necessarily conform to sectoral division of administrative agencies, inter-agency 	<ul style="list-style-type: none"> ◆ Skills in strategic planning and sequencing of policy measures are important for proper prioritisation 	<ul style="list-style-type: none"> ◆ Consultations with non-governmental stakeholders are necessary for legitimisation of the priority setting, but at the same time the 	

Issues Features of good PRSP	Institutional set-up	Political commitment/ ownership	Intra- governmental coordination	Capacity	Consultation with other stakeholders	Other issues
			coordination is very important		consultations may result in some smearing of the policy agenda	
Indicators, monitoring and feedback arrangements	<ul style="list-style-type: none"> ◆ Monitoring system is to be a responsibility of a special body (CDF Secretariat) and not implementing agencies ◆ Activities of line ministries should be judged against outcome indicators 	<ul style="list-style-type: none"> ◆ Commitment is required in order to respond on the signals coming from the monitoring mechanisms 	<ul style="list-style-type: none"> ◆ Ideally, the monitoring system has to provide feedback on the contribution of each agency into achievement of the planned PRSP outcomes 	<ul style="list-style-type: none"> ◆ While data collection capacity is basically in place, the analytical capacity requires further development 	<ul style="list-style-type: none"> ◆ Civil society could and should play a very important role in the PRSP monitoring providing independent control over activities of the government agencies 	

ANNEX 5: MAP OF THE KYRGYZ REPUBLIC



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