



# THE KYRGYZ REPUBLIC

## POVERTY REDUCTION STRATEGY PAPER

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## **The Kyrgyz Republic Sustainable Development Program 2013- 2017**

### **Introduction**

The period 2009 through filled with symbolic events marked a new milestone in the Kyrgyz Republic development and will enter the country's history as the period of strength test for the Kyrgyz statehood and entire public administration system including sociopolitical, economic, environmental, financial and other areas of development management.

The country development background during that period included the world financial crisis and growing uncertainty on world markets which created risks for all market actors including the Kyrgyzstan's key trade partners such as Russia, Kazakhstan and China.

However, the crucial impact of social and political development inside the country in 2010 was determinative. The Kyrgyz Republic moved to the parliamentary system.

The most important result of that period for Kyrgyzstan as a whole was the overcoming of unpredictable economy fall against the background of the world financial crisis in 2008 and 2009, internal developments in April and June 2010, and technogenic accident at the country's largest gold mining company Kumtor in 2012.

The deep sociopolitical and economic shocks resulted in notable decrease in the country population's living standards. Thus, about 2.1 million people or 38 per cent of the total population were living beyond the poverty line, with about 66 per cent of them in rural areas.

In such a context, the arising issue concerned the country's future development and the urgency of mobilization and rational use of all reserves and resources including those human, natural, financial and other to reach sustainable development positions.

The government officially declared the country's sustainable development oriented policy. For Kyrgyzstan as a country with its still high poverty level, particularly in rural areas, and limited natural and financial resources, the sustainable development policy seems today's logically and politically justified choice.

The sustainable development concept has never seemed so in tune with traditions, spirit and mentality of Kyrgyzstan peoples and may play an extremely important role in consolidating the society since the Kyrgyzstan peoples, regardless of their ethnicity and parties preferences, are unanimous in their

commitment to overcome hardships and live in a country that has its future and sustainable development positions.

The sustainable development model itself suggests striving for systemacy, comprehensiveness and balance in development. Transition to sustainable development suggests considering economic growth through the prism of human values and reasonable use of natural resources.

The Kyrgyz Republic's policy line oriented at sustainable development was supported by formation of the Kyrgyz Republic President National Council for Sustainable Development on November 24, 2012, that began its activities by uniting efforts of all state power branches, private sector and civil society with respect to issues of the Kyrgyzstan's future development.

Establishment of the National Council for Sustainable Development (the Council hereinafter) headed by the President has become a timely step demonstrating the unity of the country and its peoples. The Council's work goal is to reach the consensus with regard to key positions of the Kyrgyz Republic's future sustainable development on the highest level policy platform.

On January 21, 2013, based on the Council's second meeting results, the Kyrgyz Republic 2013-2017 National Sustainable Development Strategy was approved by the Kyrgyz Republic President's Decree.

In general, the approved strategic document for the period up to 2017 is a framework. In this document, the Kyrgyz Republic President highlighted strategic landmarks of the new strategic development model and major priorities and proposed launching 78 major investment projects for that period.

Taking into account the fact that the implementation of the Kyrgyz Republic 2013-2017 National Sustainable Development Strategy requires a real administration tool for the next five years, the Kyrgyz Republic government has decided to develop the Kyrgyz Republic Sustainable Development Program 2013-2017.

These five years will be the Kyrgyzstan's first stage of transition to the new sustainable development model. It was the first time in the country's post-soviet history, that its government made an unconventional decision to revive the five-year planning practice.

It is supposed that objectives planned for this period will be implemented through the Kyrgyz Republic government's annual plans, which will allow saving long-term succession in promoting priorities and achieving target landmarks highlighted in the Kyrgyz Republic 2013-2017 National Sustainable Development Strategy.

The five-year plan 2013-2017 may become crucial in the context of radical transformation of approaches to the provision of quality services to population by government, as the human development and human capital are declared as the country development absolute priorities. The sustainable development ultimate goal is human being, each citizen of the Kyrgyz Republic with equal rights and opportunities for the self-fulfillment.

## I. CURRENT TRENDS OF THE KYRGYZ REPUBLIC DEVELOPMENT

The country's economic growth in years 2008 through 2012 reached 3.2% as annual average, per capita GDP increased by 20% (\$1,013 to \$1,209.7). The average annual inflation growth was 10.5% in 2008-2012. Average annual goods price growth was 11.9%, and service prices grew almost by 14.3%. By the end of 2012, the inflation reached 7.5%. Average annual population's real earnings growth rate for the period reached 13.3%. According to official data, overall unemployment level reached 8.4% within the period.

Table 1

**The Kyrgyz Republic's Key Economic Figures  
(2008-2012)**

	2008	2009	2010	2011	2012
GDP real growth (%)	108.4	102.9	99.5	106.0	99.1
Inflation (%)	20.0	0.0	19.2	5.7	7.5
Unemployment (%)	8.2	8.4	8.6	8.5	8.4
Current account transactions (% of GDP)	-13.7	-2.3	-7.3	-6.3	
Broad money growth (%)	12.6	17.9	21.1	14.9	23.8
External debt (% of GDP)	41.4	53.1	54.7	45.0	46.9

With the economy development parameters and sociopolitical background actually present in years 2008 through 2012, the national budget income was 26.9% of GDP that is 4.6% higher the level of years 2004-2008. The national budget expenditure in 2008-2012 were growing annually by 24.7% as average and reached 35.2% of GDP in 2012. The total volume of external financing for the State Investment Program reached 5.1% of GDP by 2012. The budget deficit, with account of the State Investment Program, was 3.4% of GDP as average in 2008-2012. Thus, the Kyrgyz Republic government succeeded in ensuring the fulfillment of one of the most macroeconomic stability objective that is to reduce and take over control of the national budget deficit.

The Kyrgyz Republic managed to achieve sustainability in controlling the external debt that reached 41.4% of GDP in 2008 and 46.9% in 2012, which is much lower than the economic security threshold values for this indicator that is 80% of GDP.

There was a stable growth trend in government social services financing. In 2008-2012, the specific weight of government spending grew from 5.2% to 7.1% of GDP for education services, from 2.4% to 3.7% of GDP for health, and from 2.5% to 5.7% of GDP for social welfare and insurance.

Notwithstanding the measures taken by the Kyrgyz Republic government in 2010 and 2011 to increase social benefits, financing and income level remains low for the beneficiary category. Average amount of monthly benefit in 2012 was 565 soms or 13% of the living wage. At the same time, as result of reforming the compensation system for education and health institutions employees, their average monthly salary increased two times as average and reached 184.3% and 220.3% of living wage in 2012.

During the last five years, the Kyrgyz Republic government was consistently taking steps to increase pensions. As a result, average pension amount reached 4,208 soms by the end of 2012 and increased three times comparing to 2008. The ratio of average pension amount to pensioner living wage increased from 45.7% to 110%. While in 2009, the number of persons of pension age receiving pension below the pensioner living wage was 452,9 thousand (86.6% of the total number), this figure was only 344 thousand by the end of 2012 (62.2% of the total number).

At the same time, the negative impact of the world financial crisis and sociopolitical tension inside the country led to the worsening living quality in general. Significant regional imbalance remains in poverty level. The highest poverty level has been noted in Jalal-Abad oblast (55.7%), Osh oblast (51.4%) and Naryn oblast (39.9%).

### **1.1. Urgency of and Prerequisites for the Kyrgyz Republic Transition to Sustainable Development**

Economic growth in the Kyrgyz Republic has so far been mostly occurring due to uncontrolled use of significant volume of natural resources. Huge losses and degradation of natural capital has also been taking place. In general, according to experts, over 75% of the country's area are exposed to increased risk of natural capital degradation.

Thus, the country's depths contain deposits of a wide range of minerals. Such deposits exploration, with account of ensuring environmental safety, contributes significantly to economic development. The gold mining share is about 11% in country's GDP, 40% in industrial production and 48% in export. However, the mineral raw material finiteness is already requiring the government to calculate benefits and costs of their extraction in the long-term, taking into consideration their drop-out of the country's natural capital.

A separate element to be considered in assessing benefits and costs is the toxic waste storages remaining within the country following closure of mining companies and requiring significant financial investments to maintain them in proper condition and prevent negative impact.

Water as a natural resource and a source of the country's internal stability and wellbeing may only be multiplied in context of protection of Kyrgyzstan's natural ecosystems and glaciers. The Kyrgyz Republic is the only Central Asian country with water resources completely formed within its area, which is its

hydrological peculiarity and advantage. However, a significant part of collected water is lost in process of use. During the period 2006 through 2010, average water loss in transportation reached 23% of the water intake.

Agriculture is the main sweet water consumer. The most significant part of water intake, 93%, is used for irrigation and agricultural water supply purposes. However, water resources are used inefficiently in this area and water losses are excessive. In general, this sector is developing outside the environment saving growth principles and has low production capacity, low efficiency and low ability to adjust itself to changing climate context. Crop rotation and structure are disturbed. The area of degraded agricultural lands including arable lands and pastures is increasing. All this impedes the growth of crop production and livestock sector output.

Since 1985, the area of degraded land has significantly increased, with about 80% of agricultural lands recognized at risk of degrading as of 2011, however precise monitoring has not been carried out since 1990. Average pasture productivity decreased to 40% and that of closest pastures to 10-20% of norm. The livestock structure and breed composition do not contribute to rational use of pastures.

Energy saving and power efficiency issues have become urgent as the forecasted power generation output deficit will reach 5 billion kW/h, and a problem arises related to stable power supply services delivery to population and economy entities functioning. Therefore, introduction of energy saving and power efficiency mechanisms, both at major production and household levels seems reasonable if carried out simultaneously.

Transition to sustainable development makes it necessary to include the environmental factor in the system of development main economic indicators. Presently, conventional macroeconomic figures (GDP, income per capita) ignore environmental degradation. These figures growth in the country is currently based on technogenic and natural resource intensive development. Thus, there is a risk of dramatic deterioration of economic figures in case of natural resources exhaustion and environment pollution.

Calculation of macroeconomic and microeconomic figures without consideration of the natural capital wear will lead to distorted economic outcomes which in its turn will result in environment degradation and unstable country development.

Taking into account the above far from being complete list of issues existing in the country due to the ruling priority of economic benefit by all means, the urgency of the Kyrgyz Republic transition to sustainable development is obvious and increasing many times in context of growing risks of natural resource depletion and environment pollution.

By the end of the 20<sup>th</sup> century, the struggle for resources became aggravated dramatically along with unprecedented income stratification throughout the world and substantial poverty increase. As a result, the world faced the unprecedented challenge of creating substantially new model of

civilization development, a sustainable development model that could resist the coming global sociopolitical, economic and environmental crisis.

The struggle for resources is expected to be more aggravated in the nearest future. The illusion of natural resources inexhaustibility is blowing over. Kyrgyzstan has not become an exception in this global view. Moreover, in the context of extremely limited resources and the need of their rational use, with the political problems existing in the country, the issues of future sustainable development have become urgent as never and come out to the foreground.

## **1.2. Overall View and Specifics of the Kyrgyz Republic Transition to Sustainable Development**

The Kyrgyz Republic's entire contemporary history has been developing under the mark of reforms which seem a response to the challenge of modern times. The advancement of such reforms is inevitable since everything is changing around including economy acquiring its global nature, living quality standards more and more based on the human rights aspect, and environment requiring us to make its development sustainable.

In its independent development history, Kyrgyzstan succeeded to overcome multiple deep shocks, prevent deeper economy collapse, and save its natural capital and base positions in economy in order to declare its intent to move to the sustainable development principles. In world practice, sustainable development is first of all understood as comprehensive and balanced public administration of the three interlinked development components: (i) economy; (ii) social development, and (iii) environment.

Human being or social development is the center and ultimate goal of such development. Therefore, the human capital development will remain the Kyrgyzstan's absolute national priority both at present and in the long term. It suggests that all the country citizens have an opportunity to obtain good quality education, maintain their health, buy a home, have decent earnings and live in health friendly environment using their knowledge and skills. This is the first time that the priority of human development and human capital is declared as the absolute national priority in development, with each Kyrgyzstan citizen equally empowered to develop.

Meanwhile, the Kyrgyz Republic's current development background includes global financial shocks, debt issues, signs of recession in some EU countries, and economic growth slowdown in the US. The capital inflow to developing countries has dramatically reduced. Many countries' ratings have been revised towards decrease. Global trends show growing risks and challenges including global climate changes leading to food deficit in the population growth context.

In practical respect, the sustainable development model is a way the society, the state and economy are organized and functioning on sustainability basis ensuring internal and external risks prevention and neutralization.

It is obvious that momentary and random actions will not take the country to the sustainable development vector as the sustainable development model itself suggests striving for systemacy and balance in development. The essence of the model is that the natural environment is considered a pool of resources required to meet economic needs and growing community demand.

Therefore, within this Program, the economic policy is developed with consideration of rational use of natural resources through the country's higher competitiveness, development intensification and advanced growth of labor capacity.

The degree of the Kyrgyz economy integration with the world economic system through the export diversification and retaining liberal foreign trade policies should definitely and substantially rise.

Ensuring the labor capacity growth, economy acceleration and export diversification will require more efficient elaborating of tools to regulate the business environment for the development of business and industries where Kyrgyzstan has potential relative advantages, particularly in agriculture and power industry, in key sustainable development priorities, as well as in mining sector, agroindustrial complex processing industries, and specific service areas including tourism.

One of favorable prerequisites in this process will be the public administration system reforms launched in Kyrgyzstan and aimed at minimizing the government interference with business, which already give initial results with respect to simplification of procedures for opening, licensing and running of business in Kyrgyzstan.

One of the most important investment policy areas will be the creation of most favorable conditions for domestic and international investors to include ensuring protection of rights of property owners and parties to economic relationships.

In general, the Kyrgyz Republic Sustainable Development Program 2013-2017 is based on the five new components.

First of all, three sets of the Program sections with relevant policy measures (economy, social development and environmental aspects) are closely interlinked with the sustainable development model components. The prevailing principle was used to formulate the policy of transition to sustainable development through the interrelation and mutual influence of economic, social and environmental processes.

In power industry, such transition is shown by certain measures to promote power saving, low-carbon development and expansion of non-conventional power sources. Therefore, the construction sector has already been considered through the measures to improve the attractiveness of projects oriented at power saving construction.

In agriculture, one of the prospective priorities is the organic agriculture and manufacturing of ecologically clean products. The processing industry priority is development of policy measures to gradual transition to resource saving technologies.



The environmental set considers measures aimed at reduction of economic activities harmful impact, ensuring access to drinking water, saving the biological diversity and restoring natural ecosystems, and reducing the disaster risks in the changing climate context.

Secondly, taking into account that sustainable development first of all means comprehensive and balanced public administration and that this Program is an administration tool, the policy contents has for the first time been formulated for all development areas through specific requirements to the key components of the public administration system: (i) institutional capacity; (ii) legislation; (iii) human resource capacity and the need of its improvement to promote sustainable development principles within the country; and (iv) reliability of information for reconciled policy solutions. Relevant policy measures have been proposed based on the critical evaluation of the current public administration institutes system capacity.

The third novelty feature of the Program in the context of the country's transition to sustainable development is the main section covering the human development policies with the Kyrgyz Republic government's detailed plans to improve the living quality for each population category by 2017 through specific commitments to the governments services quality improvements and indicators to measure progress within the next five years (see Annex 7).

For this purpose, new methodology principles were developed and used to formulate policy and asses the quality of government services oriented at specific population category, from the very moment of birth to the old age, including all social services guaranteed to population. Furthermore, a set of special meaningful indicators was developed to evaluate progress in this direction (see Annex 8).

The fourth and the most complex novelty feature of the Program is the cross-sectoral segments (see Annex 9) in providing government services to population which have never been mentioned in any program and have remained a weakness of the public administration system where in certain cases a line ministry alone, without support of local governance bodies, will not be able to address issues including the following: (i) working children; (ii) school students health; (iii) children with disabilities; (iv) unemployment among university graduates; (v) safe school environment; (vi) unemployment among illiterate adult rural citizens; (vii) issues of persons with disabilities who need special education, health and employment services; (viii) construction, development and infrastructure support of preschools, mainstream education institutions and medical facilities; (ix) energy efficiency and safety of the social infrastructure facilities.

The section of regional sustainable development has become the Program's prevailing one. This is the fifth element related to new approaches since there may not be entire country's sustainable development without regional economies input.

The local community development policy is based on the understanding of the fact that conventional approaches to regional development are today hampering

their development. The time has come to become oriented at regional specialization, interregional trade and cooperation.

The conventionally specialized, project-targeted model of regional local community sustainable development is proposed instead of the industry model of regional development.

At the same time, the two-level model of intergovernmental fiscal relations should become the encouraging factor for local governance bodies with respect to promotion of prospective projects locally. As for oblasts and districts, development foundations are proposed for them.

Through the above measures, the Kyrgyzstan's regions will become more recognizable both inside and outside the country and acquire stable and specific brands which have already been clearly identified such as 'beans of Talas', 'Batken dried apricot', 'Uzgen rice', 'Jalal-Abad mineral water springs, etc.

The Kyrgyzstan's five-year development vector (2013-2017) builds upon the existing economic basis with reaching stable development positions through the promotion of natural sustainable development priorities such as mountainous ecosystems, water resources, agriculture, power industry, and tourism.

### **1.3. Goals and Objectives at the State of the Kyrgyz Republic Transition to Sustainable Development**

The period 2013 through 2017 should become the one of change and determination in the Kyrgyzstan's transition to sustainable development. Within this period, the Kyrgyz Republic should become a country oriented at successful implementation of the Kyrgyz Republic National Sustainable Development Strategy, with improved governance institutes, effective laws, advanced human resource capacity willing to strengthen the basis of the country's sustainable development, people's advanced environmental and economic thinking and improved social and economic ratings in global development including significant rise of the Kyrgyz Republic's human development index.

### **1.4. Challenges and Risks in Transition to Sustainable Development**

Kyrgyzstan is situated almost in the center of the Eurasian continent, with long distances to all four oceans and with no direct access to powerful international transport communications. The Kyrgyzstan has population of 5,551,900 with 300 thousand to 1 million labor emigrants, according to different estimates. Rare earth and precious metals and coal are prevailing in rich mineral deposits. All this, with the country's mountainous landscape and sharply continental climate conditions specifics of production structure and substantially impacts export structure and capacities.

The world economy has been facing substantial problems for the last few years. Financial and economic crises cover not only economically weak countries but also devastatingly impact developed countries including the United

Stated, European countries and others. Some countries have been facing chronic internal conflicts. The growth of financial, economic, terrorism and ideological risks lead to necessity of measures aimed at economy and export diversification and higher competitiveness, creation of sustainable political system and achievement of interior harmony. Key importance has been given to the Kyrgyz Republic's membership with international alliances such as Commonwealth of Independent States (CIS), Collective Security Treaty Organization (CSTO), Shanghai Cooperation Organization (SCO) and others, as well as strategic cooperation with conventional development partners.

The Kyrgyz Republic is a part of global economy. The country's economy openness<sup>1</sup> reached 105 per cent in 2011. Economic relations have been deeper penetrating international and regional capital, goods, services and labor markets. Accordingly, the dependence on such markets is increasing. The global economy, along with the line of economic crises, witnesses the emergence of new centers of economic power. For the last few decades, several developing countries, first of all those of the Asian continent, have been demonstrating high economic growth and domestic market development rate. In the future, the economic development achievements, as well as setbacks will to significant degree depend on the country's ability to make use of competitive advantages and occupy advantageous positions within the international division of labor. Meanwhile, the national economy is oriented at export, mostly of raw materials and mineral products. The export specialization is characterized by low science intensiveness.

Furthermore, the country's economy has environment-intensive nature and develops in rather an extensive way. The existing limitations and stimuli insufficiently orient development at lower environment intensiveness of all human activities and, first of all, production processes. As a result, the accumulation of the mass of factors unfavorable for environment is taking place. This is expressed by growing environment pollution, degrading water and land quality and lower biological diversity. The country has some facilities inherited from the soviet era containing toxic and radioactive waste. Their destruction poses a threat to the entire region environment. Global climate changes represent a stable trend for which the entire humankind is getting prepared. Kyrgyzstan's nature and economy, due to geographic specifics and production structure, is very sensitive to such changes manifestations. The most serious threat to people's lives, production capacities, settlements and life support facilities are being posed by earthquakes, landslides, mud flows, avalanches and other natural phenomena. Potential extreme temperature values in global climate changes may pose threat to stable functioning of water, heat and power supply systems and have negative impact on crops growth and development and biological diversity.

Moreover, Kyrgyzstan as a mountainous country situated within the watercourse formation area is facing the threat of substantial decrease of water resources including almost full (64% to 95%) glacier extinction by 2100. More

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<sup>1</sup> Foreign trade turnover ratio to GDP.

serious consequences are expected for the water sector in the nearest 20 years when, according to forecasts, stable decrease of surface flow is expected. Such a situation may result in water supply deficit in Kyrgyzstan and the Central Asian region as a whole.

State regulation of economy, notwithstanding measures applied, still remains ineffective. On the one hand, the state systematically implements measures to reduce interference with companies' activities. On the other hand, the state taking business out of administrative pressure often increases risks for government, municipal and private property and environment without finding alternative ways to address the issue. The state's economic policy set forth in strategic and programmatic documents and actual practice of economy regulation are often torn away from each other. Transition to program budgeting is extremely slow. Lack of political responsibility for outcomes of adopted strategies and programs implementation remains a fundamental problem of public administration.

The Kyrgyz Republic's economy is characterized by high imbalance between production and consumption, accumulation and consumption, growth of employable population and the economy's capability of absorbing the labor resource. Territorial disproportions result in inefficient use of material, financial and human resources and reduce the national economy growth capacity.

The government sector of economy is regulated inefficiently. Government assets mostly include structure-forming strategic enterprises the overwhelming majority of which are monopolies in industries such as energy, mining, railroad transport, etc. To date, the enterprise management system is not adjusted to achieve high activity output, with their actually preserved management inefficiency and non-transparency. Some dishonest managers turn such situation to advantage which is then "sold" to users in form of production costs using the pricing mechanism.

The non-government sector of economy is characterized by significant share of informal economy reaching 39% of GDP according to expert estimates. A large number of business entities which actually stay within preferential tax niches undermine the fiscal policies, create unfair competition environment, produce false messages and stimuli for economic development, distort official statistics, and lead to inefficient administrative solutions in economy development. However, the main damage caused to the country through the informal sector is the investors' decreased trust to the country's investment climate and corruption promotion. Presently, Kyrgyzstan stands on inadmissibly low positions in a number of fundamental ratings, particularly on the 127<sup>th</sup> position in the Global Competitiveness Index 2012-2013 (126<sup>th</sup> position the year before), 71<sup>st</sup> position in the Doing Business 2012 index (73<sup>rd</sup> the year before).

The country's energy security level is under permanent threat. The country's own power resource production is mostly concentrated in production of electric power with over 90% generated by hydroelectric plants. The country imports over 90% of all consumed carbons. All this conditions country's high dependence on river water content and world prices for oil, petrol and gas.

The tariff policy in energy sector is excessively depending on social aspects of development. This circumstance is limiting the ability to accumulate resources for technical modernization which, combined with dishonest management, results in increased breakdown rate. The power equipment wear rate is as follows: 57.6% at Toktogul Hydroelectric Plants System, 64% at the Bishkek Heat and Electric Power Plant, and 77.8% at the Osh Heat and Electric Power Plant. Further development of energy sector as a competitive branch of the Kyrgyzstan's economy is complicated by lack of long-term regulations of region's water power resources use coordinated with other Central Asian countries.

The situation with excessive labor force in the Kyrgyz Republic is resolved by mass labor migration, particularly of the population's youngest and most energetic part. This trend combined with addressing urgent issues of employment and emerging stable resource of currency inflow to the country leads to degrading human capital inside the country. Mass migration leads to the tearing of family ties, actual fatherlessness and poses growing threat to the family institution. Socioeconomic problems also motivate increase in internal migration and population concentration in Bishkek and other large cities. Cities' limited capability of accepting incoming population created increased load on social infrastructure and causes tensions in socioeconomic and sociopolitical spheres.

Notwithstanding the government's efforts and donor support, quality health services become less accessible to people. Orientation at development of medical institutions and private clinic networks in Kyrgyzstan has allowed extending the range and improving the quality of services provided however increased their cost for those in need of medical assistance. Currently, the health system is to a significant degree concentrated on practical medicine while little attention is paid to disease prevention. Mass physical culture as a tool of human physical and spiritual health has not been properly developed. As a result, the level of physical condition of children and adolescents is low.

Education level is exposed to slow degradation in Kyrgyzstan. The quality of training is very low, particularly in village schools with Kyrgyz and Uzbek languages of instruction. Skills imparted to school and university students turn out to be quite ineffective in practice, and most of education institutions do not form personalities socially adjusted to sustainable development. Overall economic and cultural environment does not promote hardworking among students to master their curricula but rather encourages obtaining the university degree diploma by any means including those corruptive.

People's access to culture values and their cultural development level do not meet long-term concerns of society and economy development. Culture and its material and nonmaterial values and institutions are not of government's particular concern due to lack of resources. Kyrgyz culture is becoming less known abroad, to significant degree, due to decreasing number of international level works and culture values and insufficient popularization. Social consciousness is exposed to external ideological and cultural influence which to

some extent leads to declining from traditional moral, ethical and culture values and confuses the society and particularly the youth. Statements of the urgency of forming a national ideology remain unfulfilled. Cyber hazards constitute a growing threat throughout the world. Currently, internal political destabilization is more often linked to targeted use of social networks. The world statistics is fixing the growth of cyber crimes and increase in number of offences such as unauthorized access to funds, confidential information stored on electronic media, etc. Employment of information systems for production process control makes such processes vulnerable to exposure. Information security issues require focused government policies, highly qualified experts and means of protection against unauthorized access to information systems.

## **II. AREAS AND PRIORITIES OF THE KYRGYZ REPUBLIC'S TRANSITION TO SUSTAINABLE DEVELOPMENT**

### **2.1. Sustainable Development Policy Basis**

#### **2.1.1. Increasing the Public Administration and Local Governance Capacities**

The overall goal is to form an efficient and open public administration system within the country meeting people's needs and concerns and able to resist challenges and address sustainable development objectives.

Background. The current executive power system of public administration is growingly criticized both by society and the Kyrgyz Republic President and Jogorku Kenesh. It is less oriented at people's needs and concerns and unable to response adequately to challenges and risks and address urgent objectives, being at the same time perceived by people as scene and source of corruption. It is the administration system that the present failure of most reforms is hidden behind.

None of the steps undertaken to reform the public administration system has been completed. As a result, presently, the public administration system is facing lack of diverse models at which the reforms were oriented. The administration system functioning is not oriented at result and first of all that expected by society. Government bodies' programs and plans do not show specific goals to be achieved. The system is working for itself, without any elaborated programs. According to expert estimates, up to 70% of time is being spent on current tasks fulfillment rather than on development oriented planned work.

The administration system issues also include the functional confusion. There are no uniform approaches to functions formulation, content and implementation. Multiple excessive functions are still being fulfilled resulting in excessive influence on and interference with business environment and prevailing services commercialization. At the same time, many necessary administrative functions are not implemented at all or implemented partially. Other functions are incomplete and therefore futile. The 2012 practices have

revealed substantial problems related to the policy development functions, particularly those of control and supervision. There is a weak mastering of up-to-date management technologies suggesting transition from administering to development and implementation of specific public administration measures.

Negligent fulfillment of tasks and functions and inability to explore new activity areas are the issues dominating in the government bodies functioning (44%). Such a situation is directly pointing at the human capacity problem. The situation is aggravated the change of managerial generations, and mechanism of succession of professional experience, institutional memory and intergeneration ties are lost. The public service system is not able to saturate itself with appropriate staff, nor does the higher professional education system ensure adequate level of candidates for public service offices. In 2012, only 3,493 of 7,104 applicants (49%) passed the threshold.

Public administration is not organized integrally and consistently. As a rule, government institutions pursue narrow departmental concerns with prejudice to those of the state. The situation is being aggravated by management of different executive authorities implemented under different level regulations.

One of the current public administration system weaknesses is the lack of institutional mechanism to address issues of cross-sector/interdepartmental cooperation, therefore practically no attention is paid to the interdepartmental segment government services although there are specific population categories in need of such services (Annex 9).

Such situation contributes to low public trust to executive power bodies. The country's public trust score was -5.8 as of the 4<sup>th</sup> quarter of 2012. The lack of individual oriented approach in government bodies' activities and poor quality of government services also contribute to public mistrust. Actual mechanism for real public opinion consideration does not work in government solutions development and adoption.

Local governance is characterized by presence of all the above mentioned issues, however specific ones as well exist. There is still a gap between government and municipal service. The existing local budget support and cross-budget transfer systems require improvement with consideration of necessary increase of local governance bodies' accountability.

During the last 2-3 years the Kyrgyz Republic government implemented targeted measures to address the situation and bring the administration system into a compact and effective form. Substantial groundwork has been prepared to optimize the government service provision system and licensing system, as well as for the system functional and structural ordering. However all that is not enough. The current situation requires creation and introduction of an administration model that could serve its citizens based on population's social demand and ensure effective mechanism for public control over government. For this purpose, the Kyrgyz Republic government intends to correct substantially the process of the current public administration system reform.

First of all, a key role of ministries and agencies in modern world is provision of services to community and citizens. In this view, service provision

standards will be developed, agreed upon with public and approved and further enforced by government. Secondly, the public administration functions will be redistributed based on the principle of addressing all issues at administration levels and by organizations that will offer most rational, cost-effective and effective ways both for state and society. Thirdly, the Kyrgyz Republic government intends to make activities of all the public administration institutions result-oriented and increase the sense of responsibility for specific result achievement. Fourthly, the Kyrgyz Republic government will move from preferential administration practice to the government policy development and implementation with involvement of all concerned parts of society. Such involvement will be stipulated in relevant regulations.

All the above four components of the public administration system reform will become the policy basis designed to set the fashion and change the contents of public administration.

Hence, the public administration system reform will be implemented in the following four priority areas: (i) strengthening the capacity of executive power government bodies; (ii) improvement of vertical and horizontal manageability, integrity and consistency of the executive power system; (iii) development of human resource capacity of government and municipal service; (iv) development of sound local governance.

The priority area of strengthening the capacity of executive power government bodies will be focused on addressing the following objectives: (i) strengthening the executive power government bodies' capacity of task and function fulfillment and government property management, and government services' capacity of law enforcement and government services quality supervision; (ii) introduction of the outcome-based administration principle using the program budgeting tool; (iii) legislation improvement in line with this programmatic document.

The first objective will be addressed through the following policy measures implementation: (i) to develop and approve common government functions register; (ii) to develop administrative regulations on government functions; (iii) to develop and introduce the typification of government bodies based on the directed set of standard functions of and hierarchy within the executive power; (iv) to carry out stage-by-stage diagnostic of all government bodies' business processes; (v) to bring the structure and procedures in compliance with recommendations based on the said diagnostic findings; (vi) to develop methodology and instructive material on procedures of regulatory impact assessment with respect to all types of social relations needing government regulation; (vii) to introduce internal subdivision performance assessment system based on the government and municipal bodies' activity assessment methodology.

The second objective is intended to be addressed through the following policy measures implementation: (i) to form an umbrella model of the executive power structure with the leading role played by ministries as policy implementing bodies; (ii) to specify and impose binding goals for all executive



power bodies within the country's strategic document; to introduce every executive's personal responsibility for the specified goals achievement; (iii) to develop and introduce the system to promote economy in government expenditure.

The third objective suggests implementation of the following policy measures: (i) passing the Kyrgyz Republic draft law on government and municipal purchase; (iii) to develop legal mechanisms for transition to electronic services; (iv) to pass the regulation on optimization of government bodies' functions, organizational structure and tasks; (v) to develop and approve methodology and instructive material on subdivisions' activity internal assessment based on the government and municipal bodies' activity assessment methodology; to incorporate internal assessment procedures into government bodies provisions; (vi) to develop and approve government and municipal services standards; to approve the government services register; (vii) to decentralize the government's legislation function through the determining of competence level delegated to each ministry with respect to regulations development.

The second priority area that is related to improvement of vertical and horizontal manageability, integrity and consistency of the Kyrgyz Republic's executive power system will be focused on addressing the following objectives: (i) arrangement of standardized cooperation of ministries, state committees and administrative agencies with each other and other government bodies; (ii) development and introduction of common policy document development system providing for the following work sequence: strategic planning, budgeting, regulation development, design of regional development and local governance papers, and development of plans of professional training for government and municipal service staff; (iii) development of uniform and prevailing system of government and municipal bodies assessment; **(iv) development of mechanisms for effective cooperation with civil society;** (v) development of information support system for government bodies activities.

The first objective will be addressed through the following policy measures: (i) passing the Kyrgyz Republic government regulation providing for the introduction of new policy development procedures; (ii) establishing in the Kyrgyz Republic government regulation the norm of specific government institution's responsibility for the provision of specific government cross-sector service/function if the responsibility level is more than 50%, with delegation of extended powers to involve all concerned parties and coordinate the process in that direction.

The second objective will be addressed through the following policy measures: (i) development and introduction of the policy paper development stage-by-stage system model; (ii) development and adoption of the Kyrgyz Republic government decree on the common policy paper development system.

The third objective will be addressed through the following policy measures: (i) adoption of the Kyrgyz Republic government decree on approval of indicators for the assessment of activities of government bodies and local

governance bodies executives for 2013 and subsequent years; (ii) to conduct quarterly review of government bodies activities and publish reports on findings; (iii) to establish performance assessment procedures within the Kyrgyz Republic government regulation and government bodies provisions.

The fourth objective will be addressed through the following policy measures implementation: (i) to introduce the public monitoring system to evaluate the quality of public administration; (ii) to supplement regulations with the requirement of civil participation in all types of specialized regulation expert examination; (iii) to form expert councils at government bodies consisting of academicians, experts and civil society specialists; (iv) to regulate procedures of cooperation with public supervision councils (PSC hereinafter) of government bodies; (v) to develop and introduce government services standards and technical regulations; (vi) to ensure monitoring of the government and municipal services register implementation; (vii) to arrange for stage-by-stage transition to electronic services.

The fifth objective that is related to information support of government bodies activities will be addressed through the following policy measures: (i) to create a mechanism of database exchange between government bodies; (ii) to form the system for parallel document circulation within the administration system both inside government bodies and between them; (iii) to develop restrictions concerning the contents of information that may be requested, developed and provided.

The third priority area that is related to development of human resource capacity of the Kyrgyz Republic government and municipal service will be focused on addressing the following objectives: (i) development of an effective system for government and municipal staff professional development and retraining; (ii) improvement of the system of staff selection and allocation, and restoration of the staff reserve institution; (iii) development of the system for assumption of office and recruited staff adaptation and promotion; (iv) development of a new compensation system for government and municipal employees.

The first objective will be addressed through the following policy measures implementation: (i) to develop and introduce new and effective training management system; (ii) to strengthen the training system's institutional capacity; (iii) to update the approach to government and municipal employees training; to development a stable mechanism for adequate resource provision.

The second objective will be addressed through the following specific policy measures: (i) to introduce a government and municipal service career promotion system; (ii) to restore the staff reserve institution.

The third objective will be addressed through the following: (i) strengthening the role of secretaries of state in the public service system; (ii) development and introduction of government employee adaptation mechanism for assumption of office and promotion.

The fourth objective will be addressed through the following policy measures: (i) revision of the compensation plan with government and municipal

bodies; (ii) development and approval of government and municipal employees compensation practice reform strategy.

The fourth priority area that is related to sound local governance development will be focused on addressing the following objectives: (i) improvement of local governance organizational and legal bases with consideration of necessity to increase the local governance bodies' responsibility for their activities results; (ii) division of powers and responsibilities of government and local governance bodies; (iii) improvement of cross-budget relations, ensuring local governance financial sustainability and effective resource management at local level; (iv) increasing responsibility and role of local governance bodies executives, and improving forms of their reporting to local community and local councils deputies, as well as to government bodies with respect to delegated powers.

The following policy measures set is provided for addressing the above objectives: (i) to analyze division of functions, powers and responsibilities of government and local governance bodies; (ii) to amend the Kyrgyz Republic Law on Local Governance and other regulations; (iii) to develop and introduce the register of municipal services and municipal service standards; (iv) to develop standards of material, financial and other resources needed to exercise delegated powers; (v) to develop amendments to laws regarding the evening of cross-region budget provision; (vi) to develop proposals on improvement of laws for the purpose of local governance bodies' better flexibility and autonomy in tax matters.

### **2.1.2. Judicial System Reform**

The current Kyrgyz Republic development is characterized by increased civil society attention to state power bodies activities and first of all to those of judicial power.

Notwithstanding certain positive outcome of judicial system reforms implemented in years 1994 through 2009, the system failed to become a complete state power branch standing aside politics and providing for the rule of law.

Notwithstanding the measures taken to strengthen the status of judges, the justice administration quality and culture did not improve. The courts' authority and public trust in them decreased.

The judicial administration has preserved mechanisms contributing to corruption.

Reduced government funding of judicial system directly affects the justice administration quality.

The current stage of socioeconomic reforms requires moving courts to a new level of administration of justice and sets new objectives requiring revolutionary and quality changes in judicial system. This conditions the need in

substantial government support and employment of new additional resources in order to improve courts efficiency.

Goals and objectives set in the Kyrgyz Republic 2013-2017 National Sustainable Development Strategy<sup>2</sup> and the document on measures to improve justice in the Kyrgyz Republic<sup>3</sup> approved by the Kyrgyz Republic presidential decrees are of fundamental importance for the country's judicial system development. Creation of independent judicial power capable of reliably protect rights and freedoms of human and citizen has been determined as a strategic goal.

The above goals make its necessary to ensure addressing comprehensively the issues related to court system reform and development, justice administration procedures improvement, justice humanization, and law enforcement reform.

Based on goals and objectives set, the judicial system reform will be implemented through the following:

- development and approval of updated procedural laws and other ones regulating court arrangement and activities; alternative conflict resolution mechanisms; provision of professional legal assistance; execution procedures.

- justices selection process based on professionalism and impeccability, election of the Supreme Court and its Constitutional Chamber judges, appointment of local court justices, and improvement the process of justices self-purification and responsibility increase;

- judicial system financial support and logistic base improvement with account of actual needs through the government development and parliament approval of the State Program of Judicial System Development 2013-2017 (draft State Target Program "Judicial System Development 2013-2017"), and update of laws with respect to the judicial system funding<sup>4</sup>.

### **2.1.3. Country's National Security and Defense Capacity**

The overall goal is to reach national security and defense capacity that meets the country's needs as a necessary condition for the state and society sustainable development.

Background. Kyrgyzstan's national security is exposed to external threats including those of extremist organizations and origination from Afghanistan.

For the purpose of state border reinforcement, measures were taken to establish the south-west regional commandment. Additional military units were deployed in Batken and Jalal-Abad oblasts. However, as a whole, the current defense system is not capable of giving adequate response to external threats due to poor up-to-date arms provision and low professional training level of the country's Armed Forces staff.

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<sup>2</sup> Presidential Decree VII No. 11 of January 21, 2013.

<sup>3</sup> Presidential Decree VII No. 147 of August 8, 2012.

<sup>4</sup> More detailed description of activities is included in the draft State Target Program "Judicial System Development 2013-2017".

The public security sphere has also been facing growing issues related to law enforcement activities such as (i) low public trust in the Kyrgyz Republic Interior Ministry (MVD hereinafter); (ii) corruption; (iii) pursuing the crime detection rate and violation of human rights and freedoms; (iv) insufficient professional training and the system politicization; (v) high criminogenic level; (vi) established negative management forms and methods; (vii) lack of interior bodies activities transparency.

Low administrative level of interior bodies officers, frequent changes in the MVD senior personnel and unwillingness to introduce management innovations in law enforcement sphere have ultimately undermined trust in MVD both in civil society and among interior bodies staff.

In general, there is a negative image of law enforcement officer in population. There are facts of red tape in citizens' applications processing and ungrounded refusal to initiate criminal cases, low quality of criminal investigation, as well as offenders acquittals by courts and ungrounded placement to temporary detention centers (TDC hereinafter).

Based on goals and issues identified, ensuring national concerns protection and territorial integrity and counteraction against external threats to the Kyrgyz Republic will constitute the first priority area that will be implemented through addressing the following objectives.

First of all, the following measures will be implemented to ensure territorial integrity and reinforce the country's border guard: (i) optimizing the activities of government delegations for the Kyrgyz Republic borders with Uzbekistan and Tajikistan; (ii) engagement of the Kyrgyz Republic frontier area community members in Batken and Jalal-Abad oblasts in joint border security activities including formation of vigilante groups Sakchy, etc. (iii) completion of the bypass road construction in Batken oblast; (iv) timely allocation funds for engineering works (barbwire installation, trench excavation) along approved sections of Kyrgyz-Uzbek state border and certain parts of Kyrgyz-Tajik border where border sectors in Batken oblast will be considered a priority.

The second task is to reinforce protection of the country's water power strategic facilities with the following planned measures: (i) to deliver a proposal to the Kyrgyz Republic government regarding provision of up-to-date equipment to security services for protecting strategic water power facilities; (ii) to revise regulations and provisions on the Kyrgyz Republic strategic facilities and specially protected areas and make necessary modifications.

The third task is to organize the country's unified armed forces control system that will be addressed through the following measures: (i) to deliver a proposal to the Kyrgyz Republic President regarding the establishment of centralized command post at the Kyrgyz Republic Defense Council; (ii) to recommend strengthening analytical support for decisions to be made by the country's senior officials to the Kyrgyz Republic Defense Council.

The fourth task is to counteract against external religious and political projects that will be addressed through the following specific measures: (i) development of methodology of ideological counteraction against extremism,

terrorism and separatism; (ii) facilitation of dialog of the country's law enforcement and special services with religious communities and civil society regarding the counteraction against external religious and political projects.

The fifth task is combating illegal trafficking of drugs, psychotropic substances and precursors to include the following policy measures: (i) installation of fixed and mobile drug control posts and construction of barracks for the staff of the Kyrgyz Republic Government Drug Enforcement Service (GSKN hereinafter) in southern Kyrgyzstan; (ii) modernization of and full technical equipment supply for drug enforcement bodies; (iii) development and approval of the Kyrgyz Republic national drug combating strategy; (iv) bringing regulations in compliance with requirements of UN conventions ratified by the Kyrgyz Republic; (v) development of and modifying the Kyrgyz Republic laws related to cooperation with foreign and international organizations in drug control area.

The second priority area is related to ensuring public security through addressing the following tasks:

The first task is to develop and implement the Interior Reform Concept which will be addressed through the following measures: (i) to deliver proposals to the Kyrgyz Republic government regarding the establishment of the Kyrgyz Republic government Interior Reform Coordination Center; (ii) to develop a mechanism and methodology of the interior reform components implementation.

The second task is to strengthen cooperation between interior bodies and community that will be addressed by the following measures implementation: (i) to make modifications to the Kyrgyz Republic laws related to accelerated pretrial administration; (ii) to develop and approve the accelerated pretrial administration manual; (iii) to develop and submit for government approval the Provision on Community Prevention Centers in the Kyrgyz Republic; (iv) to develop and activity plan for the introduction of the Safe City system; (v) to introduce a mechanism for improving the quality of law enforcement services for citizens using international best practices (mobile police stations, neighborhood-watch, community policing, etc.).

The third task is to reinforce legislative, organizational, managerial and resource bases of the interior component reform anticorruption component that will be addressed through the following measures implementation; (i) to develop and introduce new criteria for assessing performance of interior body and each officer; (ii) to design an activity plan for the introduction of the Electronic Crime Register Log system<sup>5</sup>; (iii) to modify the Provision on Service of Interior Senior Officers and Staff; (iv) to develop and introduce state, financial and material stimuli within the interior system for area police officers in the country's regions; (v) to develop and introduce a stage-by-stage plan for interior

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<sup>5</sup>The Electronic Crime Register Log is an electronic log that allows fixing all phone calls, complaints and applications from citizens, as well as citizen tracking of complaints processing using communication technologies and ensuring process transparency. Applicant will be able to receive information via Internet, phone call or SMS.

system logistics base modernization; (vi) to develop formats and procedures of continuous cooperation with civil society.

The fourth task is to update the interior staff professional training system. The task will be implemented through the following measures implementation: (i) to develop and introduce interior staff training, retraining and professional development programs; (ii) to start the retraining process for the MVD education institutions faculty; (iii) to arrange for interior staff retraining and professional development; (iv) to introduce the retraining program for persons recruited by interior system for the first time; (v) to introduce the system for promotion of persons trained according to retraining results.

The third priority area will be the strengthening the country's defense capacity for which the following tasks have been set.

The first task is to improve the regulative framework for the military reform preparation. The following measures will be implemented to address this task: to develop and approve the Kyrgyz Republic Draft Military Doctrine in collaboration with the Kyrgyz Republic Defense Council Secretariat; (ii) to adjust the Kyrgyz Republic defense system legislature plan on annual basis.

The second task that is to establish the Armed Forces Uniform Control Center will be addressed by initiating modifications to the Kyrgyz Republic Law on Defense and Armed Forces based on results of discussions to be held at of the Kyrgyz Republic Defense Council meetings.

The third task is to improve the army professionalism. The following measures will be implemented to address this task: (i) to develop and approve the Plan of the Kyrgyz Republic Armed Forces Staffing on Contractual Basis; (ii) to implement stage-by-stage activities for transition to contract based staffing.

The fourth task is to strengthen territorial defense forces. The following measures will be implemented to address this task: (i) to pass a regulation on new reserve units formation; (ii) to pass a regulation on territorial defense service manual; (iii) to deliver proposals to the Kyrgyz Republic government regarding inclusion of appropriations in national budget for reserve units and territorial operations equipment; (iv) to take part in equipping territories for the benefit of the Kyrgyz Republic Armed Forces and territorial defense in cooperation with state administrations and local governance bodies; (v) to take part in territorial defense planning and arrangements.

The fifth task is to plan activities for the Kyrgyz Republic Armed Forces re-equipment with arms and military equipment. The following measures will be implemented to address this task: (i) to develop and approve the mechanism of targeted allocation of funds for the Kyrgyz Republic Armed Forces development; (ii) to develop and approve the Kyrgyz Republic Armed Forces National Development Program.

#### **2.1.4. Strengthening the Rule of Law in the Kyrgyz Republic for Sustainable Development**

The overall goal is to provide constitutional guarantees to society through the achievement of the rule of law.

Background. One of the legislation development conditions is the acquirement of the system of specific requirements set for the legislature process. Certain steps have already been undertaken in this area. The state has implemented measures that allow taking the legislature process to a new quality level. Such measures include the adoption of the new version of the Law on the Kyrgyz Republic Regulations, Guidelines on Legal, Human Rights, Environmental, Gender and Anticorruption Expert Analysis of the Kyrgyz Republic Bylaws and draft law development forward planning.

At the same time, the country's legislation still contains a number of outdated norm requiring update and comprehensive revision. In this view, further activities for the improvement of the state's legal basis should be built upon the Constitution norms development, actual needs of society and adherence to the Rule of Law principle. Therefore, the Kyrgyz Republic government intends to work for the improvement of quality of adopted regulations, identification of collisions and controversial norms through the legislation inventory mechanism, arrangement of specialized expert reviews, etc. The result of such work should be the elaboration of quality regulations.

Numerous regulations have been adopted with no proper elaboration of the financial and economic aspects thus being doomed for non-compliance. Furthermore, legislature bodies often develop regulations duplicating or contradicting each other which affect law enforcement practice increasing the number of controversial legal norms. As a result, the number of amendments to regulations grows witnessing poor quality of the legislature process.

Another issue related to development of quality and appropriate legislation is the lack of dialog platform on which the "architecture" of future regulation could be developed, its potential effects and prospects analyzed, and potential risks examined.

The existence of the listed issues witnesses the necessity of revising the state's legislature policy, increasing the capacity of government bodies involved in legislation and liability for poor quality legislation work, and increasing the capacity of the body responsible for government bodies' legislation activities coordination.

Therefore, balanced development of legislation system with account of the Kyrgyz Republic sustainable development up to 2017 will be the priority area, including the following objectives list: (i) legislation process modernization; (ii) development of quality legislation based on the set of human development and country's economy issues; (iii) citizens legal enlightenment and education.

The Kyrgyz Republic government intends to address the first objective by implementing the following activities: (i) to identify collisions and gaps, as well as corruptive provisions in legislation through legal, human rights, environmental, gender and anticorruption expert analysis; (ii) based on the inventory findings, draft regulations should be developed aimed at eliminating



collisions, gaps and corruptive provisions in legislation; (iii) to develop and approve accreditation procedures for individuals and entities which will carry out specialized expert review of draft regulations; (iv) to amend laws as to cessation of adopting regulations not provided with financial resources for enforcement.

The following measures are planned to address the second objective: (i) to develop activities coordination mechanism for government bodies involved in legislation process with respect to synchronic and coordinated planning and forecasting of legislation development; (ii) to establish and expert advisory council at the Kyrgyz Republic Ministry of Justice that will serve as a legislation think-tank in implementing the Kyrgyz Republic 2017 Sustainable Development Program and form a dialog platform for government bodies.

To address the third objective that is related to citizens legal enlightenment and education the Kyrgyz Republic government intends as follows: (i) to develop a legal promotion concept; (ii) to establish and launch central legal data bank; and (iii) to develop a set of regulations aimed at regulating practical measures for the legal promotion implementation by government bodies.

### **2.1.5. Anticorruption Policy**

The overall goal is to reduce corruption to the level at which it does not hamper the development of state and society (up to 15 positions annually, according to Transparency International).

Background. Corruption in Kyrgyzstan has become a serious threat to the country's national security. Corruption undermines public trust in government, destroys the entire public administration system, and leads to the fall of the state power authority and public service prestige.

According to expert data, the damage caused by corruption in Kyrgyzstan has reached 30 billion soms (\$70 million) per year, while the budget revenues reached \$1,83 billion in 2012. The phenomenon's multifactor nature and links to other criminal activities require strong political will for combating corruption. Such political will has recently been declared at the highest authority level. However, there is a number of problems affecting the anticorruption policy efficiency.

Lack of a specialized institution for development and coordination of an integral anticorruption policy within the public administration system is significantly decreasing the effectiveness of activities in this area. Functions performed by the Anticorruption Service of the Kyrgyz Republic State Committee for National Security are only oriented at further strengthening of law enforcement capacity for combating corruption, while corruption prevention objectives and functions remain overlooked.

Lack of real and effective mechanism for cooperation between bodies responsible for coordination and law enforcement bodies combating corruption implications makes it difficult to arrange a unified system for the anticorruption

policy implementation. Therefore, it is very important to establish an effective institutional mechanism for corruption prevention measures.

Presently, legislation basics have been developed for combating corruption. However, further improvement of anticorruption legislation is required for the strengthening of anticorruption expert analysis institution, public control mechanism development, and government and municipal administration system improvement. International practice also shows that substantial results may only be achieved in this area with public support.

The Kyrgyz Republic laws do not provide special methods of corruption crime detection and investigation. The institutional basis for corruption crime investigation and adequate anticorruption laws and bylaws are practically absent. The Kyrgyz Republic Criminal Procedural Code establishes uniform basis for investigation of all types of crimes including those related to corruption. Anticorruption laws provide the corruption combating mechanism although not quite efficient. Lack of details in legal infrastructure creates conditions for corrupted officials to subjectively and often incorrectly interpret articles of laws and other regulations.

In context of unprecedentedly large number of regulations, uncertainty of precepts of law, and duplicated or controversial legal norms, the law enforcement subjects often lack correct idea of how specific norms should be applied and how they actually work which significantly broadens conditions for corruption. Therefore, it is considered necessary to move to the stage of anticorruption laws interpretation and adjustment.

Another existing serious problem is that of access to official information and government documents. Kyrgyzstan has legal provisions on access to information which however are not implemented in full due to insufficient law enforcement and public awareness of the right to information. The analysis of existing legal basis and law enforcement practice allows making a conclusion that information availability is not only an important component of the struggle against corruption but also a fundamental principle of functioning of anticorruption system including government bodies activities.

Another issue of concern is the lack of professionals to implement anticorruption activities. Law enforcement bodies employ established anticorruption methods without introducing new approaches to corruption exposure and elimination. Independent anticorruption expert analysis is underdeveloped, and law enforcement officers responsible for anticorruption program implementation have not mastered methods of departmental anticorruption programs development and implementation. The issues of staff, technical and operating preparedness of law enforcement bodies responsible for the struggling against corruption remain unaddressed.

According to Transparency International, the Kyrgyz Republic held the 154<sup>th</sup> position among 174 countries in 2012 and is now in the high corruption level group.

Priority areas of the country's anticorruption policies for 2013-2017 will include the following: (i) strengthening of the anticorruption policy institutional

basis. This area suggests addressing the following objectives: (i) to establish an independent body for corruption prevention and development and coordination of the national anticorruption program implementation; (ii) to develop anticorruption legislation basis; (iii) to increase the efficiency of government bodies activities in reducing corruption risks and ensuring information openness of government bodies activities.

To address to first objective, the Kyrgyz Republic government intends to implement the following measures: to develop and approve a standard document regulating activities of the body responsible for corruption prevention; (ii) to procure financial resources for the said government body activities; (iii) to develop and introduce a systemic education mechanism for staff training and retraining; (v) to open anticorruption departments within government bodies and include their officers in education system; (vi) to develop uniform requirements for development and implementation of anticorruption programs; (vii) to develop and introduce the system of monitoring and evaluation of anticorruption activities efficiency.

The second objective will be addressed through the following measures: (i) inventory and review of regulations related to anticorruption activities with identification of missing norms and deviations in national legislation; (ii) development of regulations oriented at the implementation of international anticorruption legal standards; (iii) development and introduction of procedures for existing and developed regulations anticorruption expert review; (iv) development and introduction of the verification and validation system for anticorruption measures implemented by government bodies; (v) analysis and strengthening of corruption and bribery criminal liability provisions; (vi) normative consolidation of mechanisms to ensure transparency and accountability of government bodies; (vii) development of measures to join globally accepted international anticorruption conventions and the Anticorruption Group of Countries.

The Kyrgyz Republic government intends to address the third objective as follows: (i) to develop measures for reducing operating costs associated with business registration and running; (ii) to review powers of government bodies exercising supervisory and licensing functions, as well as regulations on their activities for availability of corruption conditions; (iii) to develop and introduce mechanisms to exclude to maximum possible degree contacts of individuals and entities with government bodies in government services provision by making a part of such contacts electronic; (iv) normative consolidation of government bodies executives responsibility for ensuring government bodies information openness; (v) to develop measures for introduction of a unified document circulation system that would allow keeping record of and supervising the document enforcement to prevent corruption risks in processing of applications of individuals and organizations; (vi) to develop and introduce formats and procedures of promotion and media coverage of the Kyrgyz Republic government anticorruption activities with the participation of concerned civil sector groups.

The second priority area in achieving the set goal will be the counteraction against corruption through the elimination of corruption risks. To implement this area, the following objective will be addressed: (i) to develop and introduce a uniform administration model for identification, monitoring and elimination of corruption risks in the government and municipal administration system; (ii) to develop and introduce anticorruption mechanism in human resources policy; to provide anticorruption education to government employees; (iii) to simplify administrative procedures and cut red tape in provision of government services; (iv) to develop and introduce the political corruption prevention mechanism.

The Kyrgyz Republic government intends to address the first objective by the following measures: (i) to research and analyze existing standards and practice of corruption risks and scheme emergence; (ii) to develop methods of identification of potential increased corruption risk areas and the scale to measure such risk in the government and municipal administration system; (iii) to develop mechanisms of corruption risks prevention and corruption scheme destruction methods; (iv) to develop and formalize the administrative model of corruption risk identification and assessment and provide recommendations on their decrease/elimination; (v) to adopt regulations on the development of institutional capacity for anticorruption expert review.

The following measures implementation is expected to address the second objective: (i) to introduce the mechanism of staff selection and promotion on merit basis; (ii) to develop procedures for introducing best practice of government employees management; (iii) to deliver regular anticorruption policy training for government employees; (iv) to develop basics of the new staff selection, rotation, training and retraining policies; (v) to stigmatize government employees found guilty of corruption/official crimes, prohibiting them from employment by government and municipal bodies for at least ten (10) years; (vi) to develop measures for promotion of corrupted official's negative image and popularization of corruption incompatibility with public service.

The third objective will be addressed through the following measures: (i) to develop procedures of online service provision and ongoing introduction of the one-stop-shop principle; (ii) to introduce mechanisms for limiting personal contacts between officials and clients, as well to reduce the number of established reporting forms and sanctions; (iii) to develop measures for improving the quality and reducing the period of service provision to citizens and organizations by introducing electronic government services and ensuring access to government electronic databases; (iv) to publish in media the facts of identified corruption risks and irregularities related to funds spending.

The Kyrgyz Republic government intends to address the fourth objective as follows: (i) to analyze institutional causes of conflict of interests and develop mechanism for the resolution of conflict of interests for persons holding political positions; (ii) to carry out analysis and develop a mechanism for ensuring political parties funding transparency; (iii) to develop mechanisms for ensuring supervision of political parties and election campaigns funding; (iv) to develop

mechanisms of monitoring and independent audit of parties' accounts; (v) to provide legal sanctions for the violation of rules of political parties and election campaigns funding; (vi) to develop mechanisms for preventing corruption among persons holding political positions; (vii) to introduce electronic document circulation for ensuring information transparency of the process of decision making by government bodies; (viii) to adopt regulations restricting immunities of country's senior officials in order to ensure investigation and prosecution of persons found guilty of corruption crimes.

As a part of the third priority area oriented at cooperation between government bodies and civil society, the following objectives are expected to be addressed; (i) to ensure public participation in anticorruption measures development and implementation monitoring, as well as in anticorruption promotion campaign; (ii) to introduce mechanisms of public supervision of government bodies activities.

The Kyrgyz Republic government intends to address the first objective through the following measures implementation: (i) to arrange for public consultations and hearings and publish draft laws with an option of online comments; (ii) to involve expert communities and public in identifying corruption schemes and ensuring transparency and openness of government bodies activities; (iii) to provide for media coverage of anticorruption activities of government bodies and public institutions; (iv) to develop and introduce mechanisms of public influence on government bodies activities; (v) to develop and introduce mechanisms of anticorruption activities promotion; (vi) to develop and launch database of complaints regarding corruption from citizens and entities.

The second objective will be addressed through the following measures: (i) normative consolidation of the mechanism for the functioning of anticorruption platform on regular basis with wide participation of the civil society institution; (ii) to develop and adopt a concept of reducing the exposure to corruption as a part of public-private partnership; (iii) to publish identified facts of corruption risks and irregularities in expenditures; (iv) to develop and introduce procedures and formats of government bodies accountability to civil society; (v) to develop and introduce procedures and formats of civil society alternative reporting on the anticorruption policy implementation; (vi) to develop and introduce a uniform methodology for hotlines in government bodies and their regional offices.

### **2.1.6. Informal Economy Legalization**

The overall goal is to facilitate informal economy legalization with its reduction by up to 25% of GDP by 2017.

Background. Informal economy is a chronic problem in Kyrgyzstan posing a real threat to the country's security, constituting a serious obstacle for small and medium-size business development, and creating unequal conditions for competition. This negative phenomenon reduces the taxable base

contributing to the country's budgeting sphere destabilization. No appropriate measures have been implemented by key government bodies. Currently, the role of judicial system in reducing informal economy is minimal. Where laws do not work and where business does not rely on power of law, it is more profitably for business to operate in informal sector with established customs and mechanisms.

According to recent studies, the informal economy volume reached 53% in 2006 in Kyrgyzstan. In 2012, new studies were conducted which showed that the informal economy level was 39 %<sup>6</sup>.

Major reasons forcing business to “move to the shadow” were found out to include the following: (i) corruption; (ii) lack of political stability; (iii) high percentage of petty cash circulation; (iv) incompleteness of legal and institutional basis to counteract against informal economy; (v) administrative barriers in legal operations; (vi) complicated procedures of tax reporting and business entities registration.

The segment of entrepreneurs who do not pay taxes, conceal their revenues, do not buy licenses and understate taxes was studied. The study findings may be considered optimistic, and it would be reasonable to conduct extended and deeper research from the point of view of all economy sectors in order to clarify the informal economy level in 2013-2017.

In global scale, the specific weight of informal economy is estimated as 5 to 10 % of GDP and the threshold is 40 to 50 %. The total of world informal economy (including criminal sector) is estimated as \$9 trillion exceeding 40 % of the total GDP in countries of the Organization of Economic Cooperation and Development. In Kyrgyz Republic, this figure exceeds 100 billion soms.

In general, the country undertakes sporadic attempts to legalize informal economy. The institutional base has not been formed, there is a lack of a unified government policy regarding legal pressure instrument to have economic entities coming out of “the shadow”.

Taking the above into account, the Kyrgyz Republic government intends to implement urgent measures as a part of this Program to eliminate conditions and causes of emergence of and to legalize informal economy.

Priority areas for the achievement of the set goal include the following: (i) facilitating the move of business entities out of informal sector; (ii) increasing the attractiveness of the government policy for business.

The first priority area that is related to facilitating the move of business entities out of informal sector is oriented at addressing the following objectives: (i) to modify laws as to fiscal administration; (ii) to create a simplified reporting system for small and medium business, first of all in tax authorities; (iii) to introduce the one-stop-shop principle in the foreign trade sphere.

To address the first objective, the Kyrgyz Republic government intends as follows: (i) to review existing regulations and identify factors forcing economic entities to move to “the shadow”; (ii) to use the review findings for development

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<sup>6</sup> 19.5% in 2011 according to National Statistics Committee data.

of proposals on modification of regulations related to fiscal administration and on abolishing some of them.

The second objective will be addressed through the following measures: (i) to develop and introduce simplified taxation system for small and medium business; (ii) to identify and make decisions for groups for which uniform tax is specified based on different criteria; (iii) to introduce computer-based tax reporting; (iv) to introduce a computer-based tax inspection system for small and medium business.

The third objective will be addressed through the following measures: (i) to develop and adopt regulations on electronic disclosure introduction; (ii) to establish normatively the maximum time amount (up to 60 hours in 2013) for customs procedures with account of electronic disclosure introduction, reducing the amount yearly to the optimal level.

The following objectives will be addressed as a part of the second priority area that is related to raising the attractiveness of the state policy for business: (i) to simplify business entity registration procedures; (ii) to prevent corruption schemes and “business patronage” by high level officials; (iii) to introduce institutions of joint regulation and self-regulation; (iv) to raise the business community trust in government bodies.

The Kyrgyz Republic government intends to address the first objective through the following activities: (i) to adopt regulations providing introduction of application-based (re)registration of business entities; (ii) to set normatively exact deadline for business entity closure; (iii) to introduce legally administrative liability of government bodies for delays in business entity liquidation process; (iv) to adopt regulations on introduction of one-stop-shop registration; (v) to bring administrative procedures in compliance with the one-stop-shop principle.

The second objective will be addressed through the following measures: (i) to adopt a regulation abolishing licenses for tobacco products import; (ii) to reduce the time of decision making by government body and service provision; (iii) to unify ministerial and departmental information bases for launching a specialized portal in order to provide government service in electronic format; (iv) to adopt a regulation abolishing exclusive right to collection, purchase and sale of ferrous and precious metal scrap and waste.

The third objective will be addressed through the following objectives: (i) to modify regulations for upgrading of penalties of officials for providing an informal immunity to certain business entities; (ii) to unite efforts of fiscal and law enforcement bodies in finding government structures providing patronage to business entities and employing informal schemes; (iii) to develop recommendations and make political decisions based on findings of monitoring and evaluation of the Kyrgyz Republic government’s 2012-2014 Anticorruption Plan implementation.

The fourth objective will be addressed through the following measures: (i) to conduct analysis and evaluation as to validity of excessive and inefficient government regulation of economy sectors with the participation of business

community; (ii) to use the analysis findings in developing and adopting a regulation stipulating principles of participative economy regulation (business + government) in sectors with unreasonable and inefficient government regulation; (iii) to adopt regulations providing for passing specific economy sectors to business for self-regulation.

The fifth objective will be addressed through the following measures: (i) to conduct an awareness campaign regarding outcomes of the Kyrgyz Republic government efforts to reduce informal economy; (ii) to create permanently active open platforms for development of informal economy legalization tools; (iii) to introduce a mandatory norm for the involvement of business community representatives in the process of making decisions regarding mechanisms of informal economy legalization; (iv) to open feedback hotlines and websites for counteraction against informal economy with key government bodies.

### **III. PEOPLE UNITY AS A CONDITION FOR THE SAFEGUARDING OF STATEHOOD AND SUCCESSFUL DEVELOPMENT**

#### **3.1. Ensuring Interethnic Harmony and Strengthening the People Unity**

The overall goal is to build a comprehensive conflict prevention system for the strengthening of stability and country's sustainable development.

Background. Conflicts pose a real threat to and constitute a challenge for the Kyrgyz Republic's sustainable development. During the period 2008 through 2012, some 254 conflicts of socioeconomic nature<sup>7</sup> were registered in Kyrgyzstan including more than 30 interethnic conflicts with 1,012 instances of violence. 17 current conflicts have been reported in the religious cooperation sphere including three directly associated with the threat of terrorism. Religious conflicts as a rule pose potential threat of their transformation into political and ideological confrontation.

Analysis shows existence of three major types of conflicts in Kyrgyzstan which may at the same time be "mixed" and "transform" into another form: (i) conflicts caused by unequal or unfair access to resources (water, land, pastures, mineral deposits, etc.) including border conflicts and conflicts with investors; (ii) identification conflicts: interethnic and interdenominational conflicts; (iii) conflicts caused by perceived discrimination or exclusion: local conflicts between communities and local governance bodies, between community groups and state power institutions, etc.

Priority areas in conflict prevention in the country will include the following: (i) development of an effective mechanism for conflict prevention both at national and local levels; (ii) reducing conflicts in interethnic relationships; (iii) broadening the participation of conflict vulnerable groups in administration and decision making processes.

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<sup>7</sup>Conflict Management Agency Egalitee.



The following objectives will be addressed as a part of the first priority area: (i) institutionalization of the conflict prevention and peace building mechanisms; (ii) increasing the capacity of human resources engaged in conflict prevention.

The following measures have been planned for the addressing of the first objective: (i) to form an effective system for early identification and prevention of social and other conflicts that may acquire ethnic nature at the newly established the Kyrgyz Republic Government Agency for Local Governance and Interethnic Relations; (ii) to form National Coordination Center for Conflict Prevention and Peace Building at the above said Agency; (iii) to develop and introduce coordination mechanism for cooperation between government and local governance bodies and civil society institutions; (iv) to introduce the practice of peace agreements in conflict communities; (v) to develop and introduce the conflict threats assessment methodology.

The following measures have been planned to address the second objective that is related to increasing the human resources capacity: (i) to audit competences of ministries, departments and local governance bodies staff in order to identify conflict prevention and resolution functions; (ii) to develop qualification requirements for staff involved in addressing conflict prevention issues; (iii) to incorporate conflict science issues into qualification requirements for staff selection and professional development; (iv) to develop and introduce staff professional development programs.

The following objectives will be addressed as a part of the second priority area: (i) to develop and implement the “Language of Peace” National Program; (ii) to employ capacities of cinematography, media, education and culture for promotion of initiatives of interethnic consolidation and religious tolerance.

The following measures have been planned to address the first objective: (i) to develop and introduce a uniform language standard for translating regulations into the state language; (ii) to develop and introduce the program of training, retraining and certification for the state language translators; (iii) to develop and introduce a standardized system for the state language skills assessment for government and municipal employees; (iv) to teach government and municipal employees the state language and national records management based on their language skills; (v) to develop and introduce effective curricula and manuals for intensive adult language teaching; (vi) to arrange short-term state language courses for government and municipal employees and law enforcement officers; (vii) to develop and introduce effective curricula and manuals for intensive language teaching in remote and monoethnic communities; to develop and distribute bilingual and trilingual state language-based dictionaries and phrasebooks for government and municipal employees working in polyethnic communities; (ix) to arrange short-term state linguistics courses for government and municipal employees working in polyethnic communities for teaching them languages of ethnic minorities.

The second objective will be addressed based on the following measures: (i) to support prospective research related to national culture development; (ii) to

propagate best samples of culture heritage of ethnic groups living in Kyrgyzstan; (iii) to arrange contests aimed at popularization of best cultural heritage of Kyrgyzstan peoples; (iv) to introduce simultaneous translation of news and information national TV channels broadcasting from the official into the state language and vice-versa; (v) to develop and disseminate methodological recommendations on editorial policy development for ethnic aspects media coverage; (vi) to convert all government bodies' official websites based on bilingual and trilingual standards; (vii) to compose a government contract for cultural products of theaters, cinematography and other arts in order to promote community interethnic consolidation initiatives; (viii) to reorganize regional libraries work with ethnic minority language literature.

The third priority area will be implemented by addressing the following two major objectives: (i) to develop and implement the National Staff pilot program oriented at conflict vulnerable ethnic groups in economic and political life; (ii) to introduce the system of record of vulnerable groups input in regional and nationwide economic and political development.

The following specific measures have been planned to address the first objective: (i) to develop and adopt the National Staff program; (ii) to develop and introduce formats and procedures for the involvement of vulnerable groups in economic and policy processes; (iii) to conduct awareness campaigns; (iv) to develop a plan of measures to encourage entrepreneurship in vulnerable groups and ethnic minorities.

The second objective will be addressed through the following measures: (i) to develop a methodology for recording vulnerable groups input in economy with particular focus on input of women and ethnic minorities in regional and nationwide development; (ii) to develop a methodology to estimate economic losses caused by conflicts.

#### **IV. ADDRESSING SOCIAL OBJECTIVES AND ISSUES**

Addressing issues related to human development and poverty alleviation will be a key area of the country's sustainable development policy. In this view, the poverty reduction policy will be closely linked to measures of ensuring economic growth and environment protection. As of 2012, 38 % of population live beyond the poverty line, and the poverty level has grown by 6.3 points since 2008, while the poverty depth has remained almost the same reaching 7.7 %.

The largest part of poor population lives in rural areas. Thus, while 2,153 million people lived beyond the poverty line in 2012 in the country 66 % of them were rural citizens. Livelihood and income of poor families in rural areas substantially depend on natural resources and environment, therefore the population's living standards largely depend on safe and productive environment. Poverty level in mountainous areas is more than in flat country (51 % against 37.4 % in 2012).

Child poverty is a matter of particular concern. Of the total number of children aged 0 to 17, 46 % lived in poverty context including 5.6 % in extreme poverty. The child poverty level in rural areas has reached 47.6 % which is 8.9 % higher than in urban communities. The percentage of children living in poor households exceeds the overall poverty level. This situation is explained by dependency rate that was higher in poor households and largely influenced by the number of children aged 0 to 17. Thus, while there are 1.9 children per non-poor household, this figure reaches 2.7 children in poor households.

Poverty alleviation is directly linked to issues of population's living quality. One of urgent issues associated with living quality is that of qualitatively and quantitatively balanced nutrition. The analysis of staple food consumption per capita in years 1990 through 2011 showed the fall in quality of nutrition. Thus, while meat and meat products monthly consumption was 3.5 kg per capita in 1990, this figure decreased to 1.7 kg per month by 2012. Consumption of milk and milk products also significantly decreased from 20.1 kg per month in 1990 to 6.1 kg by 2012.

Transition to sustainable development suggests not only review of environmental factors influencing population but human impact on environment as well. Insufficient accessibility of utility services leads to intensification of negative human impact on environment at the mundane level.

Taking into account the fact that the challenge of living quality improvement and poverty reduction requires a comprehensive approach, the Kyrgyz Republic government intends to implement the development policy aimed at reaching a balance between economic and social areas with account of environmental issues based on sustainable development principles.

#### **4.1. Labor Market and Employment**

The overall goal is to expand the range and improve the quality of employment services, as well as quality of workforce.

Background. The country's economically active population is 2.5 million people with 91.6 % employed. The number of unemployed has reached 210.4 thousand where 46.5 % are women. The overall unemployment rate is 8.4%. 68 % of economically active population are young people. The youth unemployment rate varies 8 % to 21 % in various age groups. The country's average monthly wage is \$228,2 that is 3-4 times less than in Russia and Kazakhstan. 500 thousand people leave the country each year as labor migrants. According to informal expert estimates, the figure reaches one million. About 500 thousand Kyrgyzstan citizens left the country for permanent residence and became Russia nationals during the independence period.

The informal economy sector, with its worst working conditions, poor legal and social protection, low productivity and limited opportunities for working skills development and training, is a serious challenge. Of the total number of employed, only 25 % or 571.6 people are employed in the formal sector while 76 % of economically active population are self-employed

including farmers and working migrants. Building of an integral institutionalized employment service system is incomplete. The five-year reform monitoring showed inconsistency of function division on domestic and external labor markets. There is no agency responsible for government regulation of labor protection. This leads to growing number of workplaces with poor working conditions, injury and occupational rate increase, and aggravation of employment issues for certain groups such as youth, persons with disabilities (persons with disabilities), women, etc.

Each country's district has employment services which directly provide services in the area of labor relationships, unemployed registration and records, unemployment benefit payment services, professional training for unemployed, as well as services to applying for international employment. Employment services cooperate with their respective community employers and update the vacancy bank that offers 50 to 70 thousand jobs per year. Nevertheless, poor cross-region communication and lack of a country's unified vacancy and job seekers databank show inefficiency of centralized operating regulation. Jobs offered are usually underpaid holding the vacancy filling rate at 60 % in Bishkek and 80 % to 100 % in other regions. The Youth Employment Office in Bishkek (YEO) delivers monthly job fairs where 10 to 15 thousand young people are consulted in professional guidance and employment annually. Furthermore, YEO also provides temporary and single jobs to juveniles and students including those abandoned.

Professional training for industries staff is provided through the basic vocational education and training system (VET) that includes 110 vocational schools in all regions. The VET system institutions train 30 to 32 thousand young people each year. Furthermore, the VET system also provides short-term training services to unemployed and those willing to have another specialty. Reforms and large scale international projects aimed at logistics and curricula modernization have not yet achieved VET system's flexible response to changing demand of workforce.

Due to limited resources allocated to support employment, reduce unemployment and implement active measures on the labor market, the service coverage is not more than 55 %. Thus, in 2012, activities (vocational education, paid public works, microcredits) covered 30.8 thousand unemployed or 51 % of those officially registered as unemployed and 21 % of those who applied to employment services. Employment services cooperate with microcredit organizations in offering new jobs through the system of preferential unsecured lending for unemployed. Thus, annually, 3.5 to 5 thousand unemployed people may receive preferential loan in amount of 15 to 30 thousand soms for 1 year with 10 % to 15 % interest rate. In 2012, 4,479 people had new jobs through microcredits facilitate by employment services. On average, 10 to 30 thousand soms per unemployed person are provided for one year with 15 % interest rate.

The International Employment Center has its own employers and job seekers databank and provides consultation and legal services, preliminary training, as well as training and testing services for potential working migrants

applying for organized employment. The center also monitors activities of private agencies. There are more than 20 private agencies in Bishkek providing international employment services to Kyrgyzstan citizens. On average, about 2 thousand people find jobs through government and private employment agencies annually. Annual migrant outflow has been varying from 30 to 50 thousand people the last five years. In 2012, the outflow of country's population decreased five times comparing to 2008.

Currently, personal contacts remain the main method of international employment witnessing limited resources for mass information and education for migrants and their families. Legal protection services to Kyrgyzstan citizens staying abroad as working migrants are provided by the Kyrgyz Republic's consular departments which have no labor law experts and are unable to cope with the large number of applications due to heavy workload and provide information on labor market. The labor attaché institute established in 2010 was then abolished as a part of reorganization of the Kyrgyz Republic Ministry of Labor, Employment and Migration. Thus, the state has to some degree lost the link with working migrants. This area is actively operated by various associations and public unions established in Kyrgyzstan citizens' communities abroad.

During the period 2006 through 2010, Kyrgyzstan implemented its National Employment Policy 2010, however the labor market policy measures provided within the program were rather aimed at mitigation of social implications of employment issues. During the last two years, there was not any specific national employment policy program in the country. The draft Kyrgyz Republic's Strategy for International Labor Migration Regulation for the Period up to 2020 has yet been discussed. The Kyrgyz Republic Labor Code has been many times modified for the last five years.

As for the cross-sector level, there has not been any practice of making comprehensive, economically reconciled and coordinated decisions in response to new developments and trends in labor area. The country's labor market forms spontaneously and with no appropriate demand and offer assessment by regions and professions in demand. No analysis has been conducted with respect to influence of regulative measures (business environment, trade and services) on labor market, income distribution and social rights in unstable economy context. In development of investment projects, no detailed assessment is conducted with respect to number and quality of new jobs, employment stability, and local workforce professional development.

The higher education system that has expanded with no account of economy demands, with prevailing enrollment to humanities and economic departments where no logistics base arrangements are required have already been contributing to deficit of engineering and technical staff. Pursuing larger enrollment figures has led to education quality loss, university degree devaluation, and potential staff outflow from the VET system. Almost every university graduates economists and managers, however there is no inflow of new generation professional managerial staff of medium and higher levels in all

spheres including public administration. There is also a growing problem caused by lack of effective measures and capacities to prevent brain drain. Notwithstanding the salary increase, the professional staff outflow cannot be stopped and the issue of weak inflow of qualified staff to social sphere remains urgent.

The available unemployment statistics that does not show true significant scale of unemployment cannot facilitate unemployment classification by qualifications, duration etc. There are no sufficient data to investigate causes of growing inactivity among population and study low-paid and substandard labor sector. The growing segment of population with low income verging on poverty should be assessed and so should be season and part-time employment and quick job change.

Taking into account the above issues, the country's mid-term policy will be focused on the following priority areas: (i) government support to employment; (ii) government support to Kyrgyzstan citizens employed at external labor markets; (iii) ensuring the right to work of vulnerable groups: women, young people, PwDs.

The following objectives should be addressed as a part of the first priority area: (i) to develop legislation framework aimed at implementing sustainable development principles on labor market; (ii) to facilitate employment rates increase among employable population; (iii) to arrange training for unemployed based on labor market demand; (iv) to ensure staff training based on domestic and regional labor market demand.

The Kyrgyz Republic government intends to address the first objective through the following steps: (i) to develop a long-term national program "The Kyrgyz Republic Employment Policy 2020"; (ii) to develop and introduce the map of forecasting economy's demand of workforce by specialties and country's regions; (iii) to develop the new version of draft Kyrgyz Republic law on employment and other regulations oriented at increasing the employment efficiency (coverage of all employment areas, participation forms, responsibility of all involved entities for addressing employment issues); (iv) to adopt regulations providing mechanisms for cooperation of government and private sector on labor market; (v) to develop quality-oriented social services standards/passports (13 standards); (vi) to develop and introduce methods for ensuring accounting of all indicators, with sufficient detail in all labor market segments and focus on informal sector.

The second objective that is related to facilitating the increase of employment among employable population will be addressed through the following measures: (i) to develop and implement project of paid public works at the country's social facilities; (ii) to develop projects for employment of unemployed from among women and young people trained in handicraft in remote, mountainous and border communities; (iii) to arrange activities of mobile employment services for career guidance, registration and employment consultation; (iv) to organize at least 15 job fairs per year aimed at employment of unemployed persons, young people, women and PwDs; (v) to develop and

distribute among employment services materials on consultations in microcredit business plan preparation; (vi) to arrange for regular local labor market surveys through employment services in order to study the demand of qualified workforce.

The third objective that is to train unemployed based on labor market demand will be addressed through the following measures: (i) to introduce simplified curricula for training unemployed women and young people in remote, mountainous and border communities on handicrafts, marketing and running business; (ii) to introduce simplified curricula for unemployed persons training based on local labor markets demand; (iii) to develop and introduce a short-term familiarization course for unemployed on professions for sustainable development in agriculture, small-scale energy generation, ecotourism).

As a part of addressing the fourth objective that is to provide qualified competitive staff based on domestic and regional labor markets demand, the following measures will be implemented: (i) to conduct regular assessment of needs of domestic and regional labor markers based on government and private sector partnership in order to adjust vocational education and training; (ii) to develop and introduce mechanisms of curricula/training module adjustment based on employers' large orders; (iii) to develop and introduce new curricula on professions in demand in the sustainable development context (agricultural production, new type power generation, ecologically safe product processing, ecotourism, etc.); (iv) to teach the faculty new teaching methods and disseminate positive experience of successful training institutions; (v) to develop and disseminate teaching and training manuals on new education standards application.

To address the second priority area oriented at government support to the Kyrgyz Republic citizens employed at external labor markets, the Kyrgyz Republic government intends to address the challenge of extending the capacity for standardizing procedures of international employment through the organized recruitment introduction. The following activities will be implemented within this priority area: (i) to study the impact of joining the Customs Union (CU hereinafter) on labor market and the agreement between the Kyrgyz Republic and CU countries on organized recruitment, social insurance and labor migrant protection; (ii) to develop draft laws regulating working migrants insurance and establish a foundation to support them; (iii) to develop, in cooperation with the Kyrgyz Republic Social Fund, mechanisms and forms of pension and social provision for the Kyrgyz Republic citizens engaged in temporary labor activities abroad; (iv) to initiate the agreement on establishing training centers in the Kyrgyz Republic for training and professional development in cooperation with host countries; (v) to introduce the system of mutual recognition of (profession) diplomas/certificates through initiatives within bilateral interstate agreements.

As a part of the third priority area that is to ensure the right to work for vulnerable groups such as young people, women and PwDs, the Kyrgyz Republic government intends as follows: (i) to develop and introduce, in cooperation with the Kyrgyz Republic Ministry of Social Development,

curricula for persons with disabilities short-term training for their further employment; (ii) to develop targeted regional employment programs/pilot projects for women, young people and PwDs; (iii) to conduct a survey in order to identify issues faced by working children; (iv) to develop and introduce mechanisms for supervision of enforcement of laws concerning the liability for children labor use and exploitation; (v) to develop a project of training, employment and leisure arrangement for street children aged 14 to 18 in Bishkek and duplicate practices of successful basic education curricula application for working children.

## **4.2. Education and Science for Sustainable Development**

The main goal of the education system development is to support, through efficient use of internal and external resources, individual's personal and professional competence and provision of the state with staff needed for country's sustainable development.

One of the most important goals for science is reorientation of fundamental and applied studies at agenda urgent for Kyrgyzstan's sustainable development and forming a model of Kyrgyzstan transition to sustainable development.

Background. Development of policies, administration in the education sphere and government supervision of its accessibility are the responsibilities of the Kyrgyz Republic Ministry of Education and Science (MoES) that works directly with more than 3 thousand education organizations, kindergartens to universities. However, administration of basic professional education is a function of the Kyrgyz Republic Ministry of youth, labor and employment, and isolation of administrative structures impedes development and implementation of an integral education policy. Education organizations management and control processes are implemented through district and municipal education departments which are also responsible for methodological support to teachers. Universities and vocational education institutions are controlled directly by MoES, without any intermediary structures. Education institutions are the immediate agencies providing services to citizens. Education services provision functions are also performed by local governance bodies responsible for the provision of preschool, school and professional education in accordance with government education standards and provision of buildings and other facilities for providing services at the said education levels.

The Kyrgyzstan's education system has a developed infrastructure, trained teaching staff (more than 80 % with university degree), and significant education and training traditions. However, all education levels are facing a number of issues: only 15 % percent of children enjoy support of preschool education institutions. With insufficient attention to children's early development, it impedes their socialization and further progress in schooling and life. The key issues of the school level include those related to education accessibility and quality. Schools location and infrastructure (although in



sufficient total number) do not meet in full population needs. According to surveys of international organizations, the number of school age children permanently or temporarily missing school has reached approximately 50 thousand. At the same time, according to the Kyrgyz Republic General Prosecutor Office, 3,981 children did not attend school in 2011. Lack of relevant statistics impedes provision of targeted education services to children. The existing education system is poorly adjusted to needs of students with disabilities and from poor families. As a result there is a risk of exclusion from education system for a significant part of Kyrgyzstan's young citizens which may further lead to degrading quality of the country's human resources. Children with special needs may receive education services in inclusive or specialized schools and children left without parental care stay in boarding schools.

Transition from education to employment represents a process facing difficulties due to lack of developed career guidance system and underdeveloped labor market on the one hand, and graduate's insufficient competence on the other hand. Basic, secondary and high professional education raises chances for employment. Thus, according to EFO survey conducted in 2012, 63.4 % of secondary and higher education institutions graduates and 26.9 % of persons with basic education were employed, and 12.4 % and 16.7 % respectively were unemployed. However, graduates of basic and secondary professional education institutions find job more quickly than university graduates. Adult training and/or retraining and professional development are provided both in formal (evening/shift/extramural schools) and informal (courses, training centers, etc.) sectors. To improve the quality of financing system management, conditions were created for transition to wide-sector approach suggesting direct budget support by donors. Allocated funding will come to the country as a part of Kyrgyzstan's fulfillment of general and special terms and conditions agreed upon with partners. Roughly, more than 50 million euros will be attracted to country's education system within the next five years under favorable conditions.

Education aspects are regulated by the Kyrgyz Republic Constitution, laws on education, on teacher status and on preschool education, as well as by strategic paper (the Kyrgyz Republic Education Development Strategy 2012-2020 (EDS 2020), EDS 2020 Implementation Action Plan 2012-2014, etc.), etc.

Education issues for sustainable development are covered by the key education system documents such as EDS 2020, Framework National Standard (curriculum)<sup>8</sup>, the Kyrgyz Republic Environmental Security Concept<sup>9</sup>, Education Concept for Sustainable Development, etc. Kyrgyzstan has also joined to the global process of the UN European Commissions for Europe's Strategy of Education for Sustainable Development and the UN Global Decade of Education for Sustainable Development. Although quite complete in general,

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<sup>8</sup>Adopted at the college of the Kyrgyz Republic Ministry of Education and Science in 2009.

<sup>9</sup>Adopted in 2007.

the legislation base weakly regulates cooperation between education authorities, education institutions and local governance bodies, as well as inclusive education and other aspects.

There is no an integral system of education regulatory institutions: supervision functions are included in competence of education authorities which still substitute supervision functions by administrative inspections. In 2013, the establishment of Finance and Quality Control Centers will begin with local education departments which will allow strengthening the supervision functions at the school education level. MoES has supervision functions at the secondary education level, and the internal and external quality control system (certification) exists in higher education. The accreditation system will be launched in 2013.

The education system employs 75,502 teachers, more than 5 thousand secondary vocational education teachers (VET teachers), and 12 thousand of university faculty staff. The quality composition of school teacher staff remain at a high level from formal point of view with 80 % of teachers having university degrees, however only 62 % of teachers passed a pilot test and the rest proved insufficiently competent in their subjects. No research has been conducted as to the quality of teaching skills. VET and university staff is often not quite aware of their areas up-to-date scientific and applied designs which impedes quality student training. Therefore, changes are needed in training of teachers, as well as in professional development system in order to diversify provided services and better meet teachers' needs through the introduction of professional development voucher. The professional development system should also be restored for VET teachers and university staff.

Information availability. Information of the education system is available to users through the MoES website that has been active since 2010, as well as through websites of the Kyrgyz Republic Ministry of Labor, Migration and Youth and a number of education institutions, annual publications of the MoES reporting college, Kut Bilim trade newspaper, etc. However, an integral information policy in education sphere has not formed yet and to be developed in 2013. Lately, MoES has been continuously monitoring and evaluating the strategic documents implementation to inform the policy decision making process. However, no system monitoring has been conducted as to the quality of the education system services quality. As a result, data of the Kyrgyz Republic National Statistics Committee, NGOs and international organizations working in the education system are used. However, due to different data collection methodologies, there is a significant gap in quantitative and, therefore, qualitative evaluation of various issues, such as drop-out rate. Lack or poor representativeness of information impedes decision making process.

Science. Ministry of Education and Science implements science policy aimed at strengthening the research and technical capacity and increasing the science and engineering input in addressing socioeconomic issues faced by the Kyrgyz Republic. However, there is no unified system for science management

that is distributed between the three institutions: MoES, the Kyrgyz Republic National Academy of Sciences, and Kyrgyzpatent.

In legislation regard, the science development is regulated by the Kyrgyz Republic laws “On Science and Fundamentals of the State Science and Technology Policy”, “On Scientific and Technical Information System”, etc. However, these laws mostly focus on institutional issues of science and provide no clear steps aimed at supporting innovations, new research organization forms, etc.

The personnel issues faced by science are, to significant degree, related to economic problems including outdated lab equipment and its unsuitability for up-to-date research, degrading prestige of research activities, weak system for search and selection of gifted young experts for research activities, and, as a result, research staff aging and weakening of existing scientific schools.

Other recent issues include difficulties faced by young research workers following their internship or training in foreign universities and other training and research institutions and other existing research facilities. Such problems force gifted young people to leave the country or change the activity area.

At the same time, Kyrgyzstan’s universities graduates do not always have competence needed for research work due to weak science development in the Kyrgyz Republic’s universities and insufficient faculty’s qualification where only 5 % of all faculty have doctor’s degree and 23 % of teachers have the “kandidat” nauk degree.

Due to weak scientific information base, insufficient contacts with foreign scholars, lack of references to Kyrgyzstan’s scientists in international citation index, Kyrgyzstan science has found itself in the shell of its narrow local issues. All that impedes familiarization with and introduction of new research methodologies and leaves the country broken away from up-to-date designs in areas important for development.

In the view of the necessity to reorient science at supporting innovations aimed at sustainable development, fundamental and applied studies should be reoriented at agenda urgent for Kyrgyzstan’s sustainable development.

The goal will be achieved through the following priority areas implementation:

- (i) increasing the efficiency of government regulation of the education sphere development;
- (ii) providing quality and accessible education in accordance with individual age-related needs;
- (iii) reorienting the science sphere, including that in universities, at working with specific clients oriented at the country’s sustainable development promotion.

The priority area of increasing the efficiency of government regulation of the education sphere development will be focused on addressing the following objectives:

- (i) ensuring institutional development of the government body responsible for education;

- (ii) improving the statistical recording and forecasting in education;
- (iii) providing access to reliable, attractive and high quality information on education opportunities for users and administrators;
- (iv) improving the decision making system in education sector based on monitoring and strategic planning.

To address the objective of institutional development of the government body responsible for education, the Kyrgyz Republic government intends to implement the following measures:

- (i) to conduct regular function analysis at MoES level and regional education authorities;
- (ii) to strengthen the capacity of MoES and regional education authorities;
- (iii) to analyze the system of cooperation between government education bodies in order to improve their activities.

The following measures will be implemented in order to improve statistical recording and forecasting in education:

- (i) to update (as agreed with the National Statistics Committee) the statistical reporting forms in order to improve recording in education as a part of transition to SWAp, per capita funding, etc.;
- (ii) to conduct regular surveys in education based on the sector needs;
- (iii) to study the demand for education institution graduates on labor market;
- (iv) to develop indicators for all levels such as preschool, secondary, and high professional education in order to establish the Kyrgyz Republic educational institutions database;
- (v) to develop and ensure functioning of education information management system.

The following measures should be implemented to address the objective of providing access to reliable, attractive and high quality information on education opportunities for users and administrators:

- (i) to regularly update websites of Ministry Education and Science and Agency for Vocational Education and Training;
- (ii) to develop education portal and incorporate that into the existing MoES website; the portal will contain databank of the Kyrgyz Republic education institutions, surveys, innovative designs, project, etc., and support the opinion exchange forum;
- (iii) to provide users with information on government services standards, activities of administrations, boards of trustees and other information through various media.

The following measures may be implemented to improve the decision making process in education based on monitoring and strategic planning:

- (i) to develop internal regulations that would integrate the monitoring and evaluation system with the decision making process, relevant strategic documents developed by MoES, and activities of MoES structural divisions and local authorities;

(ii) to train MoES in order to strengthen the analytical capacity in the monitoring data analysis process;

(iii) to draft action plans for implementation of the Education Development Strategy 2012-2020 for its second (2015-2017) and third (2017-2020) implementation periods in order to ensure reforms consistency and education system's sustainable functioning;

(iv) to involve concerned groups in discussions with education authorities and education policy elaboration.

The following objective will be addressed within the second priority area aimed at providing quality and accessible education in accordance with individual age-related needs:

(i) to ensure accessibility of services provided by preschool education organizations for all population groups through the alternative preschool education organizations system;

(ii) to improve emotional and pedagogical preparedness of children not attending preschool organizations for school;

(iii) to provide quality school education at primary (grades 1 to 4), basic (grades 5 to 9) and senior (grades 10 and 11) stages;

(iv) to address imbalance between competence of graduates of basic, secondary and higher vocational education institutions and labor market demands;

(v) to provide adult training in formal and informal sectors to have their skills meeting labor market demands;

(vi) to incorporate sustainable development issues in education contents at all levels in order to form the model of education for sustainable development;

(vii) to implement social and medical inclusion principles in education.

The following measures have been planned for addressing the first objective:

(i) to open alternative preschool organizations;

(ii) to ensure stable functioning of alternative preschool education organizations using methods such as ownership transfer to village administrations, etc.

The following measures have been planned for the second objective:

(i) to implement the 240-hour preparatory curricula for children not attending preschool organizations;

(ii) to develop a one-year program to prepare children for school;

(iii) to test the one-year program preparing children not attending preschool organizations for school and implement that in 2016.

The following measures have planned for implementation to address the third objective:

(i) to implement new generation curricula for the 3<sup>rd</sup> and other grades;

(ii) to develop new generation curricula for the basic (grades 5 to 11) and senior/profile (grades 10 and 11) levels;

- (iii) to deliver tests for grades 9 and 11 in comparable formats in order to assess each graduate training quality;
- (iv) to develop a school students education concept and introduce that with the Kyrgyz Republic's education organizations;
- (v) to implement the infrastructure project "100 Innovative Schools";
- (vi) to transfer school education to normative budget funding by 2015 in order to provide similarly quality education in all the Kyrgyz Republic regions (schools of Osh, Talas, Jalal-Abad and Naryn oblasts);
- (vii) to develop and introduce teachers professional development standards.

The following measures have been planned to address the fourth objective:

- (i) to develop new generation standards for VET institutions and universities in order to provide education based on market demands and sustainable development needs;
- (ii) to include employers in state certification boards in order to evaluate the quality of standard implementation;
- (iii) to create the accreditation agency and conduct accreditation at universities' requests.

The fifth objective that is to provide adult training in formal and informal sectors to have their skills meeting labor market demands will be addressed through the following measures:

- (i) to prepare appropriate modifications to the existing legislation base in order to ensure regulative basis for lifetime adult training;
- (ii) to arrange for teachers professional development with consideration of changing education contents including sustainable development issues;
- (iii) to provide opportunities for lifetime training and retraining.

The following measures have been planned for addressing the sixth objective that is to incorporate sustainable development issues and green economy principles in education contents at all levels, with gradual formation of the "education for sustainable development" model:

- (i) to introduce the Kyrgyz Republic national education standard "Preschool Education and Child Care" and updated curricula ensuring development of child's concept of human, environment, healthy lifestyle, etc., in preschool education organizations of all types;
- (ii) to incorporate the sustainable development issues in new generation standards at all education levels (climate change, power saving, renewable energy sources, environmental safety, emergencies prevention, etc.);
- (iii) to develop new generation teaching materials with consideration of sustainable development issues, and publishing of teaching materials for grades 3 to 6;
- (iv) to introduce materials of the School Project for the Use of Resources and Energy in mainstream schools and supplementary education structures;

(v) to incorporate agenda and/or modules on sustainable development issues into humanities, social and economic set of national standards and professional programs for training areas implemented by VET schools and universities.

The following measures will be implemented for addressing the seventh objective that is to implement social and medical inclusion principles in education:

(i) to develop methodological recommendations for parents and specialists of preschool and mainstream education organizations regarding the work with children with special education needs;

(ii) to provide for basic/secondary mainstream education using evening/shift/extramural training forms according to social or medical indications;

(iii) to provide constitutional guarantees for free basic/secondary education at evening/shift/extramural schools for children and adults;

(iv) to update the regulation framework (provisions, training plans, curricula, etc.) for evening/shift/extramural school;

(v) to increase the number of schools attended by children with disabilities for their better socialization;

(vi) ensuring preferential admission to mainstream education organizations left without parental care or children with disabilities.

Priority 3: Reorienting the science sphere, including that in universities, at working with specific clients oriented at the country's sustainable development. This are will be implemented through addressing the following objectives:

(i) practical introduction of fundamental and applied sciences achievements for ensuring the country's sustainable development;

(ii) research institutes function analysis;

(iii) training of young specialists for research activities.

The following measures will be implemented to address the first objective:

(i) to develop regulation framework that would allow universities to spend at least 10 % of special funds on research;

(ii) to develop priority areas of science development including sustainable development projects of national economy importance (within universities and their research centers).

The following measures will be implemented to address the second objective:

(i) to optimize the number and agenda of research studies;

(ii) to recognize PhD diplomas issued by foreign universities listed in international ratings;

(iii) to engage foreign experts and Kyrgyzstan citizens with international experience in teaching in Kyrgyzstan universities, postgraduate activities management and thesis boards activities within international projects;

(iv) to arrange for the science administration system modernization for its sustainable development and implementing consistent policies in the research area;

(v) to establish university-based research institutes;

(vi) to ensure regulation support for the establishment and functioning of Science Foundation in order to accumulate funds for research and support innovative studies on competitive basis;

(vii) to ensure documenting the outcomes of research activities and regular update of databases containing research, scientific and technical and human resource information.

The following measures will be implemented to address the third objective that is to train young specialists for research activities:

(i) to develop a system for search and selection of gifted young people in order to engage them in research activities;

(ii) to involve young scientists and scholars who passed internship at graduated from foreign universities or other education/research institutions, and research workers in studies;

(iii) to incorporate the citation index of Kyrgyzstan's scientists into the scientific project expert examination process and scientists' activities assessment.

### **4.3. Health**

The overall goal is to improve the quality of health services aimed at reducing prevalence of diseases including those associated with environmental factors influence.

Background. In 2008-2012, the health achievements were below the expected level. The health services quality was affected by political instability and frequent change of government that impeded consistent reform implementation. Population health was also impacted by insufficient attention to prevention, overall socioeconomic situation in the country, and poverty growth.

Other problems included high staff outflow from the Kyrgyz Republic Ministry of Health system to other organizations and decreasing attractiveness of public service for qualified specialists due to low stimuli and lack of motivation. The issue of medical staff outflow and uneven distribution conditioned by their high concentration in town and deficit in rural areas affected the accessibility and quality of medical assistance, particularly for vulnerable groups in remote rural communities. Furthermore, the specialist training system fails to meet health practice needs and up-to-date international standards.

The country has bases of information and communication infrastructure for medicine needs, and up-to-date information and communication technologies are growingly applied in the health sector. At the same time, the establishment of Unified Health Information System (UHS) has not been completed.



Sufficient funding is a necessary condition for ensuring maximum coverage by cost effective health services. One of the important achievements in the health system development has been the consistent yearly growth of the health share in the overall national expenditure from 10 % to 13 % within the period 2006 through 2011. Particularly, as a result of funding increase, the co-payment practice was abolished for delivery services and those for children under 5 and elderly. Moreover, in order to improve economic and physical accessibility of medication at the primary level, the supplementary medical insurance program for medicine support for persons insured at outpatient level was implemented throughout the country. However, the remaining problems include inefficiency and irrationality in resource use. The share of expenditures for salaries and infrastructure funding is more than 80 % of national budget funds allocated for health. Direct expenses for patients have reached 20-25% (medicine, catering). At the same time, amounts informally paid to medical staff continue growing.

The country has improved its infant and child mortality rates and retained their further decrease trends. Thus, the infant mortality rate decreased 27.1 to 21.1 cases per 1,000 live births within the period 2008 through 2011, and the child mortality rate from 31.5 to 24.5 cases per 1,000 live births within the same period. The country has a well established immunization system with timely child immunization against all major vaccine administered diseases.

With the overall primary health care coverage, the degree to which maternity and child health care services are used remains high. All pregnant women have the right to free of charge antenatal care services and 95 % of deliveries are administered at medical institutions. However, maternal mortality rate remains high and shows unstable dynamics. Thus, while maternal mortality rate decreased in general from 58.9 to 47.5 cases per 100,000 live births during the period 2008 through 2011, the rate dramatically increased to 75.3 cases per 100,000 live births in 2009.

A large part of high expenses associated with chronic disease treatment may be avoided through health and wellbeing strengthening measures, as well as effective preventive activities in health and other sectors. Such measures include those aimed at restricting risky behavior patterns, health improvement, physical activities, and reducing harmful environmental factors impact.

The infectious and parasitic disease prevalence remains a major factor of current sanitary and epidemic situation sustainability in the country which is largely conditioned by restricted access of a part of population to safe drinking water sources and incompliance with sanitary standards. Acute intestinal diseases prevalence remains high, particularly among rural children in southern Kyrgyzstan. Such a situation occurred as a result of water supply systems degradation and poor efficiency and unsatisfactory quality of drinking water in water supply sources used by people for domestic and recreational needs and drinking. As a result, the drinking water accessibility rate in the country was 87.8 % as of the beginning of 2013 including 70.8 % in rural communities. According to territorial disease prevention and expertise centers, 206 water

pipelines (19.1 %) fail to meet sanitary standards requirements and have no sufficient sanitary control areas, water purification facilities and decontaminating equipment.

No sufficient attention has been paid in the country in recent years to food safety control services, while more than 70 % of harmful substances may be taken by the human body with food. Rates of and expenditures associated with food poisoning treatment will probably increase as the environment temperature rises unless the situation with compliance with food safety requirements improves.

Based on the goal set for the period 2013-2017, the government policy in health sector will be aimed at addressing objectives within the following priority areas:

- (i) strengthening the health care system capacity aimed at provision of quality medical services to people;
- (ii) facilitating protection and improvement of health of population and each single person.

As a part of the priority area related to strengthening the health care system capacity aimed at provision of quality medical services to people, the Kyrgyz Republic government intends to address the following objectives:

- (i) to improve access of vulnerable groups to specialized medical assistance;
- (ii) to ensure rational and efficient use of financial resources allocated for preferential medication support to vulnerable groups;
- (iii) to guarantee free of charge basic health care services to socially vulnerable groups;
- (iv) to implement government-private partnership mechanisms;
- (v) to improve the quality of medical and pharmaceutical education for staff capacity improvement;
- (vi) to introduce unified and standardized medical information systems in health care practice.

The following measures have been planned to address the first objective:

- (i) to optimize the organizational structure and budget spending of specialized organizations (oncology, hematology, psychiatry) transferred to the single payer system;
- (ii) to integrate gradually specialized organizations into the single payer system;
- (iii) to develop funding standards for types of provided specialized health care services.

The following measures have been planned to address the second objective:

- (i) to revise and approve the amount to be reimbursed to patients for medicine served against prescriptions of the supplementary mandatory medical insurance program for socially vulnerable groups;
- (ii) to increase public awareness with respect to benefits and warranties within approved national health programs.

The third objective that is related to guarantees of free of charge basic health care services to socially vulnerable groups will be addressed through the development of the basic medical insurance system that suggests the following measures:

(i) to adopt regulations on procedures of the basic national medical insurance development;

(ii) to revise and introduce minimum standards for budget funding based on designed minimum health care standards;

(iii) to develop annual programs of national guarantees for providing the Kyrgyz Republic citizens with medical and sanitary assistance based on the basic national medical insurance terms and conditions.

The fourth objective that is related to implementing government-private partnership mechanisms in health care suggests development and implementation of pilot projects based on government-private partnership aimed at ensuring real input to the improvement of quality of health care services and efficiency of health care resources use.

The fifth objective that is related to the prevention of staff outflow and improvement of medical and pharmaceutical education quality will be addressed through the following measures:

(i) to develop and introduce new national education standards for university and postgraduate levels, new work plans, curricula and teaching materials designed for competence development;

(ii) to develop legal and economic mechanisms to claim refund of amounts invested by government in graduate's studying if such graduate refuses to work within compulsory internship;

(iii) to reinforce the Kyrgyz Republic government decree on measures for additional promotion for physicians employed by health care organizations in remote communities, small towns and villages of the Kyrgyz Republic;

(iv) to introduce the medical staff register to include all staff with university degree or secondary special education in medicine, regardless of medical institution status.

The sixth objective that is related to the introduction of unified and standardized medical information systems in practical health care will be addressed through the following measures:

(i) to develop strategies for IT development in health care sector;

(ii) to develop and introduce a unified standards system and provide that with information systems and resources;

(iii) to develop and introduce databases (registers for a range of nosologies) in order to design a personified recording system;

(iv) to develop and introduce secured multiservice departmental/corporate health care network with key user access.

As a part of the second priority area consisting in facilitating protection and improvement of health of population and each single person, the Kyrgyz Republic government intends to address a number of objectives both for specific categories and entire population. To achieve MDG 4, reduce infant and child

mortality and morbidity rates, efforts should be continued to improve the quality of health care services for children and ensure prevalence prevention among them. The following measure will be implemented to address the objective:

(i) to implement immunization campaigns among children under 2 according to the National Vaccination Calendar;

(ii) to develop, revise and introduce clinical guidelines/protocols on child diseases treatment;

(iii) to improve public awareness of child health care issues through the involvement of civil society and media, development and dissemination of information and education materials, and training of health care workers in rural communities;

(iv) to provide for micronutrient food enrichment with “Gulazyk” mixture;

(v) to arrange training sessions for health care workers on the standard recommended preventive service package for children under 5;

(vi) to purchase reanimobiles for oblast maternity departments;

(vii) to develop and introduce a mechanism to consult parents on important preventive measures and alarming symptoms of child diseases.

Efforts for the achievement of MDG 5 (maternity protection improvement) will be focused on addressing the following objectives:

(i) to improve quality of services provided by health care organizations;

(ii) to raise the awareness of women and their family members with respect to safe maternity and family planning issues.

The first objective will be addressed through the following measures:

(i) to develop, revise and introduce guidelines/clinical protocols;

(ii) to arrange training sessions for obstetrical institutions staff on efficient perinatal services;

(iii) to revise the registration mechanism in order to provide access to medical services to migrant women;

(iv) to improve equipment of maternity hospitals in Bishkek, Bishkek City Perinatal Center and Osh City Perinatal Center;

(v) to raise the awareness of women and their family members with respect to issues such as anemia, mother nutrition, alarming symptoms in pregnancy, necessity of timely requesting guaranteed health care service from the health system institutions through the involvement of civil society, media, development and dissemination of information and awareness materials, and training of village health committees and health improvement centers staff.

In order to achieve MDG 6, the Kyrgyz Republic government intends to improve the quality of medical services provided at various levels of health care system in preventing HIV and TB. Moreover, another priority area is the prevention of cardiovascular diseases.

This objective will be addressed through the following measures:

(i) to develop, revise and introduce evidence-based medicine clinical protocols and guidelines in health care practice;

- (ii) to revise and approve the list of illustrated warning messages on tobacco harm to health to be placed on cigarette and other tobacco products packs;
- (iii) to train health care workers on appropriate identification, registration and management and emergency medical aid;
- (iv) to purchase medical equipment for oblast cardiology departments;
- (v) to ensure early identification of persons with TB through medical examination of all those seeking medical assistance, in accordance with the TB diagnostics algorithm;
- (vi) introduction of up-to-date express lab TB diagnostics methods at all medical assistance levels;
- (vii) to develop and introduce the mechanism of cooperation between the TB service and public health care and primary health care service concerning TB prevention activities;
- (viii) to provide the 1<sup>st</sup> and 2<sup>nd</sup> line primary health care institutions with TB drugs;
- (ix) to build the National Reference Laboratory for better TB diagnostics;
- (x) to consult key groups and refer them to HIV test;
- (xi) to ensure ART coverage for HIV-positive women;
- (xii) to train health care workers in order to improve the quality of HIV patients treatment and care, HIV consultations and medical procedures safety.

The following measures have been planned to strengthen the public health care system:

- (i) to improve the efficiency of activities of public health care system oriented at people's needs;
- (ii) to tighten the government control of power supply facilities and arrange for enforcement of the Kyrgyz Republic Law "Drinking Water Safety Technical Regulation";
- (iii) to reduce the prevalence of diseases associated with food safety.

Addressing the objective of improving the efficiency of activities of public health care system oriented at people's needs suggests the following measures:

- (i) to develop regulations ensuring effective operation of the public health care service;
- (ii) to involve local communities in addressing issues of health protection and improvement through the establishment of village health committees and implementation of the Community Action for Health Program in six districts of Jalal-Abad oblast;
- (iii) to provide for flour enrichment with vitamin and mineral premix and salt iodization;
- (iv) to develop regulation on laboratory accreditation;
- (v) to purchase consumables (test systems, reagents including those for GMO) for laboratories;

(vi) to extend the range of research with regard to environmental factors influencing people through the introduction of the HELI methodology (health and environment linkage);

(vii) to develop and introduce the register of potentially toxic substances imported to the Kyrgyz Republic.

The following steps are required to tighten the government control of power supply facilities and arrange for enforcement of the Kyrgyz Republic Law “Drinking Water Safety Technical Regulation”:

(i) to extend the range of research with respect to drinking water safety indicators;

(ii) to develop and approve targeted indicators for water and health issues;

(iii) to develop and introduce integrated system of government control of diseases associated with water safety;

(iv) to develop and approve the program on water quality impact on health based on the water and health issues protocol;

(v) to implement public awareness campaigns on prevention of diseases associated with water.

The following measures have been planned to address the objective of reducing the prevalence of diseases associated with food safety:

(i) to develop regulations ensuring control of food safety in order to monitor biological, chemical and physical harmful factors associated with nutrition;

(ii) to develop public awareness and education materials on the home use of food products;

(iii) to develop recommendations to modify regulations with respect to extending the list of imported and domestically produced goods/products;

(iv) to develop and approve regulation on mandatory sanitary and epidemiologic expert examination for compliance with food safety requirements.

#### **4.4. Improvement of Efficiency of Social Protection and Pension System**

The overall goal is to provide quality services and guarantee equal opportunities to citizens as a result of establishment of a sustainable government social protection system.

Background. The Kyrgyz Republic Ministry of Social Development employs about 1.5 thousand people including 70 % in local divisions. During the last few years, the ministry implemented various structural reforms contributing to the human resource capacity instability. Currently, there is a serious challenge of establishing a modern social protection system including system of staff professional development and retraining, introduction of performance indicators, and material incentives and motivation for workers.

Another important element of the social protection functions fulfillment is the achievement of maximum information coverage. This goal will require a comprehensive information strategy aimed at gradual changes in public attitude towards the outcomes of activities of social work entities, necessity of social worker's new professional functions, and establishment of the social protection institution.

The effectiveness of social protection activities also depends on the availability of efficient information system. Such issues as insufficient funding and lack of developed skills and knowledge of information system operation affect the IT system operability and development within the social protection system.

As for pension payment, unlike social support providing budgeted benefits to persons in need, major funding sources for social protection include insurance fees deducted from all incomes. To implement such norms, insurer is required to provide high quality reliable information on each single insured person. Further development of the pension service provision system requires addressing such challenges as simplifying contacts between pensioners and government bodies and reducing the number of corruption facts through the introduction methods of interaction between citizens and government bodies of all levels without personal contact. To address such challenges, transition is needed from the printed social protection certificate to the Kyrgyz Republic citizen's uniform electronic social card.

In 2011, the number of children under 16 living in poverty reached 13.2 % of the country's total population. One of the social protection instruments designed for reducing the gap in incomes of poorest families with children to the minimum living wage level is the monthly benefit for low-income families with children. Currently, this benefit is provided for more than 340,000 children. Notwithstanding annual increase of the benefit amount (minimum wage was raised to 580 soms in November 2012), the benefit growth rate remains low only covering the inflation rate, with the benefit amount reaching 16 % of child's minimum living wage and 43.3 % of extreme poverty line.

The number of families unable to provide appropriate child care increases each year. The social orphanhood phenomenon has appeared where child is considered an orphan event with his parent alive. A significant number of children enter the unqualified workforce market or join street and abandoned children.

According to the first national children labor survey in Kyrgyzstan (2007), of 672 thousand working children 592 thousand were employed at works unacceptable for their age and development level. 57.9 % of working children were boys. The vast majority of children are employed as unpaid family workers. They are mostly engaged in domestic production (76.4 %) including agricultural works.

Currently, about 11 thousand children are placed in 117 government, municipal and private residential institutions, where 80 % of such children have one or both parents. Due to significant economic problems, the country has

restricted family support social services. Family substitution services such as foster families are almost absent.

Nervous diseases, inherited abnormalities and mental disorders have been leading in the structure of disability causes among children in recent years. Currently, the overall disability level in the country is about 2.6 % of total population.

Until recent times, the medical disability model was dominating considering disability a purely medical issue only attributed to individual and requiring medical interventions. The country is planning to introduce the biopsychosocial disability model that extends the disability concept and allows studying impact of medical, individual, social and environmental factors on person's functionality and disability. However, it should be noted that the existing social protection system fails to ensure full coverage and record of all PwDs.

Restricted access to infrastructure is a serious obstacle to PwDs integration in community. As of 2012, ramps and special devices were only installed in 172 government and municipal bodies and health care and education organizations in Bishkek. Repairs of buildings and shops were made in 25 VET schools in all regions taking into consideration students with disabilities. Nevertheless, violations of standards and rules of provision of conditions for PwDs were found in 17 design organizations in 2012.

Over 8 thousand single elderly persons receive social services at home free of charge. The social service organizations system also includes government residential social institutions such as nursing homes for the elderly and PwDs. There are 15 residential social institutions in the country including 6 for the elderly and PwDs that provide full government support to about 900 elderly citizens. Furthermore, underdeveloped social services provided locally and local budget deficit lead to lower accountability of local state administrations and local governance bodies for the service development within their communities.

As for the pension provision, the country has not had any pension debts since 2003. Pensions are paid for current month in monetary form only. Pension has been increased significantly in the last five years: the average pension amount was 1,426 soms in 2008 and reached 4,208 soms by the end of 2012, with average pension ratio to pensioner minimum living wage raising from 45.5 % to 110 %. The average monthly pension amount has first reached the pensioner's minimum living wage in 2011.

The mechanism of PAYG component increase within the context of the pay-as-you-go pension system allows addressing issues of not only the PAYG concept support but also of reducing the number of pensioners with pensions below the minimum living wage. While there were 452.9 thousand pensioners with pension below the minimum living wage in 2009 (86.6 % of the total number), their number decreased to 344 thousand (62.2 % of the total number) by the end of 2012.



The pension reform that started in January 2010 allowed introducing the funded pension component in the Kyrgyz Republic's pension system without rejecting the PAYG component. The insurance fee rate was decreased by 2 % for employers. The age qualification was introduced for the funded pension component: persons of pension and pre-retirement age are not involved in the funded pension accumulation process.

Issues of prevention and social rehabilitation for homeless people remain among the most serious and sensitive social problems of the society. Other problems include insufficient work with social protection of the homeless, lack of legislation initiatives regulating social protection of the homeless, lack of research and record of risk groups by regions; lack of free government social services of prevention and rehabilitation for risk groups at the local governance bodies level, lack of coordination and cooperation between the state, local governance bodies and non-profit organizations.

Based on the set goal, the government social protection policy 2017 will be focused on the following priority areas:

- (i) ensuring government guarantees in the area of social protection for the most vulnerable groups;
- (ii) developing the capacity of social protection and pension system for providing quality services to citizens.

To ensure government guarantees in the area of social protection for the most vulnerable groups, the Kyrgyz Republic government will concentrate its major efforts on addressing the following objectives depending on population groups:

- (1) Ensuring social protection for children:
  - (i) increasing the amount of social benefits for children from low income families;
  - (ii) reducing errors leading to exclusion from the scheme of social protection of families and children in difficult situations;
  - (iii) development of alternative social services and creating conditions for the establishment of non-government institutions network providing social services, particularly at local level;
  - (iv) optimizing residential institutions for children left without parental care;
  - (v) ensuring comprehensive approach to addressing the issues of prevention of child neglect and homelessness, juvenile delinquency, protection of child rights, social rehabilitation and adaptation;
  - (vi) improvement of access to social services for children with disabilities.

The following measures have been planned for addressing the objective of increasing the amount of social benefits for children from low income families:

- (i) to adopt a regulation on increasing the benefit for low-income families with children based on annual minimum living wage increase by 10 %;

(ii) to develop and introduce the procedure of forming the budget for monthly benefit payment to low-income families with children, with account of economic growth.

The objective of reducing errors leading to exclusion from the scheme of social protection of families and children in difficult situations will be addressed through the following measures:

(i) to develop and introduce a family's social passport mechanism to apply in completing the child protection individual plan and plan for individual work with family;

(ii) to develop a draft law providing for social protection provision locally.

The following measures will be implemented to address the objective of development of alternative social services and creating conditions for the establishment of non-government institutions network providing social services:

(i) to develop a draft regulation on introducing the social services commissioning mechanism locally;

(ii) to approve the provision on procedures of identification of children and families in difficult situation providing for primary assessment and development of plans for individual work with family and for child protection;

(iii) to adopt a regulation on accreditation of organizations providing services for children and families in difficult situation.

The following measures have been specified for the objective of optimizing residential institutions for children left without parental care:

(i) to develop a draft regulation on implementing the plan for optimizing children institutions funding;

(ii) to assess needs of children in residential institutions and institution capacity, and to develop a database of such residential institutions and centers providing social services;

(iii) to develop and introduce mechanisms for the integration of orphans into adopting/foster families;

(iv) to adopt a regulation on trusteeship providing the procedure of children placement to residential institutions and protection of rights of children left without parental care.

The following measures have been suggested for addressing the objective of ensuring comprehensive approach to addressing the issues of prevention of child neglect and homelessness, juvenile delinquency, protection of child rights, social rehabilitation and adaptation:

(i) to develop and introduce rehabilitation programs for children in conflict with law;

(ii) to conduct research for the assessment of needs of regional centers for rehabilitation of neglected and homeless children and those in conflict with law, and crisis centers' needs;

(iii) to support existing centers providing social services to children and families in difficult situation within the social services commissioning;

(iv) to develop and introduce programs for rehabilitation and social

reintegration for juveniles serving sentence in and leaving juvenile correctional facilities.

The objective of improving the access to social services for children with disabilities will be implemented through the following measures:

- (i) to develop the Kyrgyz Republic draft law on amendments to the Law on Education providing for development of inclusive education forms at all levels;
- (ii) to adopt a regulation on increasing the for budget funded quota for PwDs in universities and VET schools;
- (iii) to develop and introduce the compensation system for persons taking care of children with disabilities providing medical and pension insurance mechanisms.

The following is expected as a result of the above measures implementation: the minimum living wage will be increased for children from low-income families at least by 60 % by 2018; social benefits for children with disabilities will be raised to the child minimum living wage; national standards will be introduces for social services provided to families and children in difficult situations; the number of institutionalized children will decrease, and, as a result, the number of residential institutions may be reduced.

(2) The following steps have been planned for the social protection of persons with disabilities (PwDs):

- (i) to raise the level of PwDs social protection;
- (ii) to improve social services standards;
- (iv) to ensure access to physical infrastructure;
- (v) to facilitate and promote employment.

The following measures have been planned for raising the level of social protection:

- (i) to increase gradually the amount of social benefits for PwDs;
- (ii) to develop a software for the unified PwDs database;
- (iii) to conduct function analysis of the Medical and Social Expert Commission (MSEC) with its further structural modification;
- (iv) to develop a draft regulation on the persons with disabilities identification methodology with account of international standards;
- (v) to develop and introduce specialized rehabilitation programs with participation of PwDs and their families.

The following measures need to be implemented to address the objective of social services standards improvement:

- (i) to develop and approve minimum social standards for social protection institutions providing services to citizens;
- (ii) to develop and approve standard provisions of PwDs daily care centers and rehabilitation centers for children with disabilities providing minimum social service standards;
- (iii) to initiate professional development courses for the staff of local social protection departments, social workers, and staff of residential social institutions.

The following measures are needed for ensuring access to physical infrastructure:

(i) to amend the Kyrgyz Republic Code of Administrative Liability as to increase of penalties for legal entities failing to ensure necessary conditions for PwDs within their infrastructure facilities;

(ii) to include PwDs in the board for acceptance of newly constructed facilities;

(iii) to develop the Kyrgyz Republic draft law on amendments to the Kyrgyz Republic Code of Administrative Liability as to increase of penalties for legal entities failing to ensure access to their infrastructure facilities for PwDs.

The following measures have been planned to address the objective of employment facilitation and promotion:

(i) to develop methods of workplace adjustment, as well as workplace reservation and persons with disabilities return to the workplace after prolonged treatment course;

(ii) to establish consultation and training centers for PwDs to obtain knowledge and initial experience in the open labor market context.

(3) The following steps have been suggested for the elderly social protection and pension system:

(i) to introduce minimum standards for social services provided to the elderly;

(ii) to raise the responsibility of local state administrations and local governance bodies for development of services within their communities including that through the social services commissioning;

(iii) to ensure the pension system's financial sustainability;

(iv) to continue increase of pension amount based on the Kyrgyz Republic Social Fund and national budget capacities;

(v) to improve legal relationships in the national social insurance area.

The following measures have been planned to implement minimum standards of social services provided to the elderly:

(i) to develop and introduce standard provisions of daily care centers for single elderly persons;

(ii) to develop and introduce cost estimate methods and mechanisms for the funding of social services provided to single elderly persons by daily care centers.

The following measures will be implemented to address the objective of raising the responsibility of local state administrations and local governance bodies for development of community-based services for single elderly persons:

(i) to develop and introduce a continuous training and professional development system for social workers;

(ii) to develop and introduce forms and procedures for the cooperation between non-profit organizations in providing social services to single elderly persons through the social services commissioning mechanism;

(iii) to adopt a regulation providing step-by-step transition to per capita funding of social services provided to the elderly by residential institutions.

The following measures will be implemented to ensure the pension system's financial sustainability:

(i) to amend the Kyrgyz Republic Law on Procedures of Business Entities Inspections with inclusion of spot check provisions;

(ii) to amend the Kyrgyz Republic Law on Free Economic Zones in the Kyrgyz Republic as to inclusion of the Kyrgyz Republic Social Fund in the list of bodies authorized to financial and economic activities inspections;

(iii) to amend the Kyrgyz Republic Law on National Social Insurance Fee Rates as to gradual alignment of insurance fee rates for individual entrepreneurs operating on markets and in agricultural sector;

(iv) to develop and sign interstate agreements on inclusion of migrants in the national social insurance system.

The following measures are needed to address the objective of increasing the pension amount based on the Kyrgyz Republic Social Fund and national budget capacities:

(i) to maintain the base pension amount at least at 12 % of average wage for the preceding year;

(ii) to provide for yearly PAYG component indexation;

(iii) to amend the Kyrgyz Republic Law on National Pension Social Insurance as to improve the targeting of and approaches to national budget expenditure for the pension system, strengthen the PAYG principle, and enhance the rules for award of pension.

The objective of improvement of legal relationships in the national social insurance area suggests development of program for the further reforming of the Kyrgyz Republic pension system.

Implementation of activities within this priority area will have the following outcome:

(i) securing continuous pension growth;

(ii) pension system balance;

(iii) reducing the share of persons with pensions below the pensioner minimum living wage to 57.6 % by 2018;

(iv) development of comprehensive IT-system for management of the Kyrgyz Republic Social Fund financial resources of pension savings.

(4) Risk group social protection: needs based development of the social service network working with the homeless.

The following measures will be implemented to address this objective:

(i) to develop and introduce legislation framework for social services for the homeless;

(ii) to open temporary residence centers and shelters in regions on as needed basis;

(iii) to develop and introduce mechanisms for establishing first aid mobile groups for the homeless.

The Kyrgyz Republic government intends to address the following objectives within the priority area of increasing the capacity of social protection and pension systems for the provision of quality services:

- (i) to establish a staff professional development system;
- (ii) to develop a unified social protection information system;
- (iii) to computerize collection of insurance fees and award and recalculation of pensions.

Addressing the objective of establishing a staff professional development system suggests the following measures:

- (i) to develop a professional development curricula for social workers;
- (ii) to develop draft resolutions on establishing a training center for retraining and professional development at the Kyrgyz Republic Ministry of Social Development.

The objective of development of a unified social protection information system suggests implementation of the following measures:

- (i) to develop and introduce a network software for the social protection area;
- (ii) to develop and introduce software for establishment of a unified databank of citizens in need of social protection;
- (iii) to develop a draft law on securing the databank of citizens in need of social protection.

The following measures have been planned for computerizing the collection of insurance fees and award and recalculation of pensions:

- (i) to prepare the software for “Payments” and “Award and Recalculation of Pensions” for operation;
- (ii) to develop and launch the software for the PAYG component system and relevant financial reporting.

#### **4.5. Increasing the Cultural Capacity**

The overall goal is to facilitate the improvement of the quality of living, spiritual growth, and creation of country’s positive image based on culture environment development.

Background. Currently, Kyrgyzstan is integrating into the culture space. International relationships has been given new qualities, with bilateral agreements on cooperation in culture and arts spheres signed with many countries. Positive outcomes of the implemented national culture policy include preservation of the country’s network of cultural institutions and prevention of cultural facilities privatization. The country has 20 professional theaters, 3 philharmonics, 1,055 libraries, 700 fixed club institutions, 72 children music schools, 3 schools of painting, 11 schools of art, 58 museums, 7 recreation parks, 2 higher education institutions and 8 secondary special schools.

However, almost completely cessation of museums and libraries funding resulted in extremely difficult situation in main areas of their activities, particularly in stocking, security and user access. None of the country’s museums has a restoration lab and appropriate staff. Deficit of professional arts experts and museum specialists leads to lack of research, and the forms of collection management are outdated. The State Historical Museum has no

permanent exposition. Only 10 of 58 museums occupy specially designed buildings. Worn-out and obsolete books comprise more than 60 % of library stock.

The specialized children education system that was developed in years has been collapsing. Most of schools of music, painting and arts operate in non-suited premises that fail to meet standard requirements. Schools are lacking classrooms. One of the most serious challenges is provision of children music schools with instruments, printed music, guidebooks, manuals and up-to-date teaching methodologies.

The country has 583 registered monuments of national significance, and the UNESCO World Heritage List includes one of them, the sacred mountain of Sulaiman-Too. Files of three monuments in Chui valley were accepted in 2013 for consideration within the Silk Road transnational world heritage nomination, in cooperation with Kazakhstan and China. Nevertheless, the vast majority of monuments has been ruined dramatically and not included in modern culture processes. Major reasons for such a situation include lack of appropriate monitoring system, long intervals (15-20 years) in monument restoration and preservation, absence of secured areas around such monuments and legal execution of monument protection with security contracts. Unstructured development of surrounding areas leads to the loss of monuments' integrity and authenticity including those of natural landscapes.

In recent years, the Kyrgyz Republic passed the Law on Manas Epic and National Program for Manas Epic Preservation, Research and Popularization for the Period 2012-2017 (the Kyrgyz Republic government decree No. 67 of January 31, 2012). Amendments were made concerning terms of activities and responsibility to the Kyrgyz Republic laws on museums and museum stock, on historical and cultural heritage protection and use, and on library management.

The process of regulation framework adjustment to new cultural context has not been completed. Law enforcement mechanisms have not been developed. No cooperation has been established with local authorities, communities and private structures. The Kyrgyz Republic Program for Culture and Arts Development in Rural Communities up to 2010 (approved by the Kyrgyz Republic government decree No. 4 of January 11, 2005) has not reached its ultimate goal nor has it had any substantial impact of culture sphere development.

Notwithstanding the country's diversifying cultural life, the state of culture sphere can hardly satisfy its actors and overall community. No government purchase is practiced for drama, music and artistic works, which leads to poorly updated repertoire of theatres and philharmonics.

Funding is only provided to theaters within secured budget lines. Almost no funds are allocated for repertoire and inventory stock update. Furthermore, there is a deficit of advanced managers in theaters and other culture institutions. Staffing and professional development in culture sphere remain a serious challenge, particularly in rural communities. Professional specialists have little authority throughout the country, particularly in its regions and rural

communities. The culture sphere almost has no staff with planning and programming skills and trained on basics of marketing and fundraising methods.

No analysis has been conducted with respect to staffing issues. Mechanisms of attracting specialists have not been developed, particularly for district and rural cultural institutions. There is a lack of methods for assessment of effectiveness and productivity of local authorities, institutions and events.

Taking into consideration the above mentioned issues, the country's midterm policy will be based on the following priority areas:

- (i) structural reforms in culture sphere for the improvement of quality of services provided to citizens, and extending participation in cultural life;
- (ii) preservation of the country's cultural and natural heritage;
- (iii) forming the country's image based on the culture environment development.

The following objectives will be addressed in the culture sphere to implement reforms for service quality improvement and public participation expansion:

- (i) institutional assessment and reorganization in culture sphere;
- (ii) staff training and retraining;
- (iii) development of targeted strategic documents for the culture sphere sustainable development.

The following measures have been planned to address the objective of institutional assessment and reorganization in culture sphere:

- (i) to review efficiency of cultural institutions activities;
- (ii) to develop a system for inventory and monitoring of valued stocks in order to tighten the circulation control;
- (iii) to develop mechanisms for introducing government-private partnership in culture sphere institutions;
- (iv) to develop mechanisms for introducing the public purchase practice for professional arts works such as performances, circus programs, TV broadcasts, and literature works;
- (v) to develop and introduce new forms of film distribution and service in rural communities;
- (vi) to develop a plan for optimization and modernization of district and rural cultural institutions network including logistics and equipment;
- (vii) to extend the ranges of club and library services within the optimization plan for the purpose of children and adults creative development;
- (viii) to implement pilot projects for optimization and modernization of cultural institutions in all country's oblasts.

To address the objective of staff training and retraining, the Kyrgyz Republic government has planned the following measures:

- (i) to conduct inventory of culture education institutions for their compliance with standards and develop a plan for creating necessary conditions based on the inventory findings;



(ii) to publish guidebooks for children music schools, schools of arts and children schools of painting, and to develop a fundraising plan for extended circulation;

(iii) to develop a mechanism for the training of specialists referred by local governance bodies: to form annual order for grant funded training based on the country's needs in culture sphere specialists;

(iv) to sign contracts on targeted training/retraining of Kyrgyzstan specialists referred by the country to foreign education institutions within international agreements;

(v) to train/retrain managers in material and non-material heritage and cultural institutions financial sustainability management.

The following steps have been suggested to improve regulation basis for the culture sphere sustainable development:

(i) to develop draft Culture Development Strategy 2020 and draft Cinematography Development Strategy 2020, as well as Broadcasting Development Strategy;

(ii) to develop draft laws on amendments to the Kyrgyz Republic laws On Culture, On Museums and Museum Stock of the Kyrgyz Republic, On Library Management, On Government Support for the Kyrgyz Republic Cinematography, and On Patronage;

(iii) to develop a program for targeted strategic culture sphere funding;

(iv) to arrange inventory of the existing culture sphere regulation framework and prepare a uniform regulations code based on the inventory findings.

The following objectives have been planned within the priority area of preserving the country's cultural and natural heritage:

(i) to introduce comprehensive methods of recording, research and monitoring, as well as culture heritage sites protection and use;

(ii) promotion and formation of high culture of consumption and nature management.

The following measures have been suggested for addressing the objective of introducing comprehensive methods of recording, research and monitoring, as well as culture heritage sites protection and use:

(i) to develop programs aimed at attracting resources for the development of a unified database of culture heritage sites recording, documenting and monitoring;

(ii) to develop and approve long-term management plans covering secured areas, plans for reducing natural and anthropogenic factor impact, and for development of infrastructure for visitor reception and supervision;

(iii) to develop projects and activities aimed at local community involvement in protection and income-generating activities within management plans to attract resources for protective activities popularization;

(iv) to introduce stage-by-stage contractual relations with mineral developers with respect to terms and conditions of monuments protection and use;

(v) to prepare files for the World Heritage List nomination: Silk Road (2<sup>nd</sup> stage), Central Asian petroglyphs, and Western Tien-Shan (natural monument);

(vi) to prepare files for the World Non-material Heritage List nomination: Aitysh, Boz Ui.

The objective of promotion and formation of high culture of consumption and nature management will be addressed through the following measures:

(i) to cover and discuss comprehensively in media the sustainable development ideology;

(ii) to open information center for environmental public education in libraries, museums and other institutions;

(iii) to produce videos and popular science films for environmental enlightenment and education and development of responsible attitude towards nature in children and adults;

(iv) to establish children and youth local history movements/groups based on interest groups and clubs activities for cultural and natural sites studies;

(v) to develop and introduce projects for the local community involvement in ecotourism and protection of cultural and natural sites;

(vi) to organize resident lecture centers, interest groups and other activities at museums and libraries to develop children's creative activities and aesthetic and environmental world-view.

#### **4.6. Physical Culture and Sports Development**

The goal is to develop physical culture and sports.

Background. Physical culture and sports have been actively developing the recent years which is witnessed by successful performances by Kyrgyzstan's athletes on the international athletic arena attracting young people to physical exercises and sports.

Currently, there are about 100 physical culture and sports institutions in the country training about 50 thousand people. However, the physical culture and sports involvement rate is only 6-7 %. According to the World Health Organization, physical culture and sports involvement below 15 % constitutes a threat to the nation's gene pool.

No standard sports facility has been constructed in 20 years at the national budget expense. Funding allocated for sports equipment is insufficient. 48.3 % of mainstream schools are provided with gyms and 91.3% with stadiums and basic facilities, and 37 % of sports facilities are considered unsatisfactory. 70 % of school did not renew their sports equipment for 15-20 years. The provision of population with sports facilities is not more than 16%.

There are 1,500 coaches working in the country as average. With the total number of population younger than 21 is 1.6 million, the number of coaches and instructors is insufficient. The young staff retraining system is inefficient. About a half of coaches and instructors have no specialized education. Another

problem is the lack of up-to-date sports base. The capacity of Issyk-Kul region with its perfect conditions for training has not been realized in full.

The physical culture and sports sphere particularly needs sports medicine professionals.

Taking into account the above issues, the Kyrgyz Republic will implement the following priority areas:

- (i) physical culture and mass sports development;
- (ii) top-class sports development.

The following objective should be addressed within the first priority area:

(i) to improve the quality of school students physical training: for this purpose, normative fundamentals of physical education will be developed and introduced in the country's mainstream schools. Minimum standards will be developed for sports equipment supply;

(ii) to improve the efficiency of the use of budget funding allocated for the physical culture and sports sphere: for this purpose, the sports register will be developed specifying priority sports in which the country's athletes may really win awards on international arena. Such register should specify professional sports to be developed on their own expense, and mass sports to be developed by government in order to improve nation's health;

(iii) to involve the country's population, particularly in regions, in physical culture and sports. For this purpose, large-scale mass sports spectacular events will be organized. It is planned to build a power-saving physical culture and recreational center in each oblast center.

The following objectives will be addressed within the second priority area of the sphere development:

(i) to improve qualification of coaches and instructors. For this purpose, a high school of instructors will be established for their professional development. Furthermore, planned activities should be implemented in order to prevent non-professional staff from coaching and instructing;

(ii) to build a state-of-the-art sports base with medical dispensary on Issyk-Kul lake coast. Taking into account the budget deficit, one of the existing state-owned resorts should be chosen for the base construction, with already existing hotel and catering facilities;

(iii) to improve the quality of medical support. For this purpose, the a system for training of doctors in sports medicine will be developed and implemented at the Kyrgyz Medical Academy. A comprehensive medical group should be formed and equipped appropriately to provide support to the country's athletes.

#### **4.7. Raising the Role of Family and Ensuring Gender Equality**

The overall goal is to strengthen the institutional basis ensuring equal rights and opportunities for women and men for complete realization of country's human capacity in the course of the Kyrgyz Republic sustainable development.

Background. Gender equality issues are prevailing in all areas and levels of administration. Substantial gender policy outcomes are resulting from relevant efforts of ministries and agencies both at national and local levels emphasizing the importance of coordination of activities by a gender policy authorized body.

A formalized gender expertise instruments has not become a part of government bodies practices.

Women's sharply narrowed access to economic opportunities implementation is the most urgent and obvious issue related to gender inequality. Independent women's economic activity has decreased almost two times or even more in certain regions (to 30.6 % in Naryn oblast) within the two decades of the country's independence. Women are prevailing in informal labor market and certain service and trade sectors where there are high risks and lack of social guarantees.

Sample household surveys in the Kyrgyz Republic show that the specific weight of women engaged in two or more paid work areas, except household work, is much higher than that of men. However, women's work and input remain insignificant for community.

Home and gender violence is manifested by the growing spread of plural, early and forced marriages and sexual harassment. There is new type of gender violence such as women trafficking for labor and sexual exploitation. There is a lack of broad network of government and municipal institutions providing services violence victims. Gender imbalance still exists in administration bodies, particularly with respect to senior positions, which making it urgent to more broadly apply special measures and strengthen their enforcement.

Priority areas. Taking into account the above mentioned issues, the gender policy up to 2017 will be focused on the following priority areas:

- (i) improvement of efficiency of government regulation to ensure gender equality;
- (ii) extending women's economic opportunities;
- (iii) creating a system of functional education in order to ensure equal opportunities for women and men;
- (iv) struggling discrimination on gender basis and improving women's access to justice;
- (v) promoting gender parity in decision making and women's policy making input.

The priority area of improving the efficiency of government regulation to ensure gender equality will be focused on addressing the following objectives:

- (i) to procure the improvement of national institutional mechanism of achieving the gender equality at all administration levels;
- (ii) to improve regulation framework and law enforcement practice for the gender policy implementation;
- (iii) to optimize standardization of the national gender statistics and harmonize indicators with international commitments.

To address the objective of procuring the improvement of national

institutional mechanism of achieving the gender equality at all administration levels, the Kyrgyz Republic government has planned the following measures:

- (i) to develop and pilot of the improved model of institutional mechanism for gender issues (both vertical and horizontal);
- (ii) to develop and test tools for introducing the gender-based approach in developed policies and plans of government and municipal bodies;
- (iii) to approve standards for government services inventory for gender sensitization level;
- (iv) to modify the list of qualification requirements for government and municipal employees based on gender competence assessment criteria;
- (v) to develop and introduce a methodology for assessment of provided government services gender sensitization level;
- (vi) to develop gender-sensitive government service quality standards;
- (vii) to develop and pilot special projects for eliminating barriers in access to government services for women and men.

The second objective that is to improve regulation framework and law enforcement practice for the gender policy implementation will be addressed through the following measures implementation:

- (i) to harmonize and synchronize regulations with the country's international commitments;
- (ii) to strengthen parliamentary control of fulfillment of the gender equality international commitments;
- (iii) to modify the laws in order to make government services gender sensitive;
- (iv) to improve supervision and control, including those public, for gender related laws and regulations compliance through the development and introduction of control procedures and methodology.

To address the third objective that is to optimize standardization of the national gender statistics and harmonize indicators with international commitments, the Kyrgyz Republic government has planned the following measures:

- (i) to develop unified gender indicators within the development analysis, planning, monitoring and assessment;
- (ii) to introduce gender indicator (a check-list) in the regulatory impact analysis (RIA) system through the modification of the RIA provision, methodological recommendations and guidelines on government bodies policy development and analysis;
- (iii) to analyze correspondence and gaps between international standards and national statistics;
- (iv) to develop statistical indicators (including new ones) in accordance with the country development standards and needs.

The second priority area related to extending women's economic opportunities will be focused on addressing the following objectives:

- (i) to improve working conditions that allow combining employment and family responsibilities;
- (ii) to reduce gender-based labor market segregation

through women and men employment diversification; (iii) to ensure women's employment through the expansion of sources for women's economic empowerment; (iv) to ensure the record of women's input in public development through the national accounts optimization.

To address the first objective, the Kyrgyz Republic government intends to implement the following measures: (i) to pilot the program titled "The State is a Model Employer" in two ministries and two local governance bodies; (ii) to develop the infrastructure needed to maintain the balance of family and labor responsibilities; (iii) to introduce special measures aimed at integration of vulnerable group women into economic activities.

The second objective will be addressed through the following policy measures: (i) to encourage young men and women to study and master unconventional professions and specialties; (ii) to create conditions for women to train on specialties demanded at the labor market.

The third objective will be addressed through the following measures: (i) to develop and introduce new national policies for microcredit provision for women's entrepreneurship; (ii) to develop and implement measures for the support of women's entrepreneurship including development of regional infrastructure; (iii) to improve the access to credit resources through the provision of long-term loans and setting a threshold interest rate for women's entrepreneurship.

To address the fourth objective that is related to ensuring the record of women's input in public development, the Kyrgyz Republic government has planned the following measures: (i) to assess economic input of household and informal labor to community development; (ii) to implement media and advocacy campaigns for the coverage of women's input in community development.

The third priority area that is to develop a functional education system ensuring equal opportunities will be focused on addressing the following objectives: (i) to develop the functional education system in the area of literate parenthood; (ii) to develop functional education in reproductive health; (iii) to develop functional education in order to improve life skills in a diverse community context; (iv) to develop functional education in gender equality, women's leadership and political participation areas; (v) to develop functional education in computer literacy and IT skills for rural women and PwDs (in pilot communities).

The Kyrgyz Republic government has planned the following measures for addressing the above listed objectives: (i) to implement two functional education pilot projects for parents in Issyk-Kul and Osh oblasts; (ii) to implement two reproductive health functional education pilot projects in Talas and Batken oblasts; (iii) to implement two functional education pilot projects aimed at improvement of life skills in a multiethnic community context in Jalal-Abad and Chui oblasts; (iv) to implement two functional education pilot projects aimed at improvement of education skills in women's leadership and political participation in Osh and Naryn oblasts; (v) to implement two computer literacy

and IT skills functional education pilot projects for rural women and PwDs in Chui and Batken oblasts.

The fourth priority area that is related to struggling discrimination on gender basis and improving women's access to justice will be focused on addressing the following objectives: (i) to strengthen legal and institutional mechanisms ensuring access to justice in case of gender discrimination or gender violence; (ii) to develop capacities of law enforcement staff, health workers, and social protection and local governance bodies employees for prevention of and competent response to gender violence; (iii) to develop a system of assistance to victims of gender discrimination and gender violence; (iv) to develop a culture of intolerance towards discrimination and gender violence.

The Kyrgyz Republic government has planned the following measures for addressing the first objective: (i) to improve laws aimed at preventing and struggling the gender discrimination and violence; (ii) to develop and introduce standards of government and municipal services for the prevention of gender and family violence and assistance to victims.

The second objective will be addressed through the implementation of the following measures: (i) to conduct expert review of curricula used for law enforcement, health and social protection staff training; (ii) to incorporate specialized training modules into professional development curricula for law enforcement, health, local governance and social protection staff; (iii) to include tasks aimed to identify the gender competence level in law enforcement staff certification; (iv) to develop and publish information materials contributing to the improvement of gender competence of law enforcement, health, local governance and social protection staff.

To address the third objective that is to develop a system of assistance to victims of gender discrimination and gender violence, the Kyrgyz Republic government has planned the following activities: (i) to improve capacities of lawyers and community organizations for the protection of gender discrimination and violence victims; (ii) to develop and introduce a model of social services commissioning placement for assistance to victims of gender discrimination and violence; (iii) to develop and pilot programs for the working with gender and home violence offenders; (iv) to open hotline for gender violence victims.

The fourth objective that is to develop a culture of intolerance towards discrimination and gender violence suggests implementation of the following measures: (i) to develop free of charge legal consultancy services for gender violence victims in all regions through the social services commissioning; (ii) to develop a culture of intolerance towards gender discrimination and violence via media, opportunities for formal and informal education, and raising legal literacy of population; (iii) to develop and print information materials on liability for gender discrimination and violence through the social services commissioning; (iv) to include special lectures, courses and other education forms using interactive training methods in extra education curricula for students

of all education levels; (v) to establish a national web portal covering gender discrimination and violence issues.

The fifth priority area that is related to the promotion of gender parity in decision making and women's policy making input suggests addressing the following objectives: (i) to introduce gender-sensitive principles in human resource policies within government and municipal service; (ii) to form and introduce gender-balanced national and departmental staff reserve; (iii) to provide to information promotion of women's political participation and leadership; (iv) to introduce the social services commissioning mechanism for the support of women's political leadership at all levels and increase women leaders capacities.

To address the above objectives, the Kyrgyz Republic government will implement the following activities: (i) to approve legislatively norms and mechanisms for gender quoting of senior positions in government and municipal bodies; (ii) to introduce a gender audit mechanism in government and municipal service human resource policies; (iii) to establish national/departmental staff reserve as a gender-balanced mechanism for government/municipal employees rotation at all levels; (iv) to modify regulations on staff reserve formation and operation; (v) to develop and approve the concept of information strategy to promote women's political participation and leadership; (vi) to introduce a system for the public monitoring of women representation in decision making through the social services commissioning mechanism; (vii) to develop and implement a pilot project of the social services commissioning for women's political leadership development including training component for decision makers (based on examples of the Ministry of Youth, Labor and Employment and Ministry of Social Development); (viii) to introduce a social services commissioning mechanism based on recommendations provided following the pilot project assessment.

## **V. ENVIRONMENTAL ACTIVITIES FOR SUSTAINABLE DEVELOPMENT**

### **5.1. Environment Protection**

The overall goal is to protect environment favorable for living in context of economic growth.

Background. Kyrgyzstan held the 101<sup>st</sup> position in the Environmental Performance Index (EPI)<sup>10</sup> by 2012 being ahead of all the Central Asian Countries; However, objectively, the low environmental performance index showed high level of natural resources degradation which witnesses lower efficiency of government and local governance bodies activities with respect to rational use of natural resources.

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<sup>10</sup> «2012 - Environmental Performance Index and Pilot Trend Environmental Performance Index», Yale Center for Environmental Law and Policy.



During the Kyrgyz Republic independence period, the national environmental agency (the State Agency for Environment and Forestry – SAEF) underwent numerous structural reforms associated with the status degrading and functions change. Currently, SAEF, having no appropriate powers, develops environmental policies and provides service at the same time, while its environmental supervision and control functions are weakened.

There is still an uncertainty in allocation of authorities and environmental control implementation, and interdepartmental sabotage is also taking place. National and regional environment control bodies face deficit of permanent staff, significant specialists outflow and lack of knowledge and experience succession. Division of authorities related to environment control between government and local governance bodies remains unclear.

The sustainable development policy implementation requires interdepartmental cooperation and comprehensive approach to the implementation of both national and sector strategic documents. However, currently, such mechanisms, if existing at all, have no effect.

There is a trend of making policy decisions aimed at simplifying the requirements for business community with no consideration of environmental safety issues. Such collisions lead to conflicts between local population and economic entities. To prevent potential negative impact, environmental impact analysis and government and public environmental expert review are carried out. However procedural and technical aspects of such instruments need revision due to new “green development” challenges based on international practices.

Responsibility measures do not lead to the change of offenders’ behavior, nor do they promote implementation of preventive activities for environment control and introduction of new and more efficient technologies. Amounts of penalties and lawsuits are much lower than actual expenses needed for full recovery of the damage caused to environment through economic activities.

The country’s environmental monitoring system has been destroyed and uncoordinated. The program for government water monitoring in Issyl-Kul lake coastal zone has been reduced to 11 spots where water samples are only taken during summer holiday season. In 2012, the pollutant contents exceeded maximum concentration limit 4.6 times. There are significant problems associated with environmental data collection, processing and further application.

Environmental activities are substantially constrained due to low funding, with stable trend of decrease of funds allocated for environmental control from national budget. Thus, according to the Kyrgyz Republic Law on National Budget 2012 and Budget Forecast for 2013-2014, the amount secured in the Environment line for 2012 was 9.7 % less than that in adjusted budget 2011 and only reached 0.1 % of GDP or 0.4 % of the national budget total expenditure. Implementation of environmental activities is mostly supported by special funds and projects of international organizations of targeted and pilot nature.

The forested area is only occupying 5.61 %<sup>11</sup> of the country's total area, and specially protected natural reservations<sup>12</sup> only take 6.006%, and the current socioeconomic situation and poor environmental laws enforcement by local governance bodies result in mass deforestation, poaching, extensive arable land use, etc.

The deteriorating condition of environment and lack of natural resources pose a threat to health and safe development of people. The share of urban population exposed to polluted air harm is about 58.7 %<sup>13</sup>, and vehicles exhaust gas constitutes over 80 % of contaminants. Chemical agents are more and more intensively used in industrial, agricultural and consumer sectors of communities increasing pollution and waste. In 2010, there were 1,114.5 thousand tons of municipal waste, while only 1 % of all domestic waste are recycled.

Dramatic change of habitats and direct withdrawal of plants and animals from environment have led to extinction of 11 species and endangered the others. The Kyrgyz Republic's Red Book already includes 207 rare and endangered species and plants.

Global climate change issues are already affecting the country's development. However, in the nearest future, issues of food and power safety directly influencing the poverty level may become more urgent. In this view, a systematic work is needed to prevent climate change and adapt population to the changing environment.

Priority areas and policy measures. To achieve the set goal and address the above mentioned issues, the Kyrgyz Republic government activities will be focused on the following priority areas: (i) reform of the national environment and nature management system; (ii) reduction of harmful impact and minimization of negative environmental effects of the economic activities; (iii) preservation of biodiversity and revival of natural ecosystems in the changing climate context; (iv) low-carbon development principles promotion.

The first priority area that concerns the reform of the national environment and nature management system will be focused on addressing the following objectives: (i) to ensure institutional development of a government environment control body; (ii) to integrate aspects of environmental sustainability and climate change into sector and regional development programs with account of international commitments; (iii) to strengthen the capacity for environmental monitoring; (iv) to provide access to true and quality information on environment condition.

The Kyrgyz Republic government will address the first objective through the implementation of the following measures: (i) to raise the status of the government environment control body; (ii) to develop and introduce regulation of cooperation between SAEF and the Kyrgyz Republic Government Inspection

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<sup>11</sup>The Kyrgyz Republic National Forestry Inventory, the Kyrgyz Republic government decree No. 407 of July 26, 2011.

<sup>12</sup> Specially protected areas.

<sup>13</sup> The Kyrgyz Republic National Report on Environment, the Kyrgyz Republic government decree No. 553 of August 7, 2012.

for Environmental and Technical Safety aimed at ensuring environmental security; (iii) to develop and introduce a coordination mechanism for cooperation between government structures in environment management and rational nature resource use; (iv) to analyze and revise environmental regulations based on functional modifications of government and local governance bodies; (v) to modify regulations with respect to the raising of responsibility of local governance bodies for locally ensuring environmental security through the incorporation of the environment indicators system into criteria for their performance assessment.

To address the second objective, the Kyrgyz Republic government plans to implement the following measures: (i) to approve and coordinate implementation of the national strategy for the country adaptation to the changing climate context; (ii) to approve the strategy and action plan for conservation of biodiversity ; (iii) to approve the strategy and action plan for solid waste management; (iv) to approve the National Plan for Appropriate Chemical Agent Management 2017; (v) to develop a draft program for the Issyk-Kul environmental and economic system development; (vi) to train local community members and local governance bodies on issues of adaptation to climate change and environment control; (vii) to train government bodies staff on sustainable development and climate change issues integration into sector wide planning and current activities.

The third objective will be addressed through the following measures: (i) to carry out monitoring of the Issyk-Kul coastal area water and treatment facilities efficiency in summertime holidays period, with findings public reporting; (ii) to research the Issyk-Kul lake ecosystem condition for the Issyk-Kul oblast development strategic planning support; (iii) to provide for technical equipment and extended accreditation of the SAEF environment monitoring labs in Bishkek, Cholpon-Ata, Osh and Jalal-Abad; (iv) the SAEF certified lab in Bishkek to assess the impact of treated waste water discharge to surface basins.

The fourth objective will be addressed by implementing the following activities: (i) inventory and review of forms and methodologies of environmental statistical reporting; (ii) to revise the system of statistical record of specific species of animals and birds population including endangered and protected species; (iii) to develop the national report on environment status based on internationally agreed indicators of the UN European Economic Commission; (iv) to develop the Kyrgyz Republic Third National Report on the UN Climate Change Framework Convention; (v) to establish and maintain SAEF information center within the Aarhus Convention; (vi) to develop a project proposal to UNDP GEF for monitoring of the three RIO convention.

As a part of the second priority area that is related to reduction of harmful impact and minimization of negative environmental effects of the economic activities, the following objectives will be addressed: (i) to improve efficiency of environment management mechanisms in order to facilitate application of new environmentally safe technologies; (ii) to create a basis for proper production and consumption waste management.

To address the first objective, the Kyrgyz Republic government intends to implement the following activities: (i) to approve the environment impact assessment guidelines, with consideration of international commitments; (ii) to approve the guidelines on procedures of government environmental expert examination of conceptual design materials and documents in the Kyrgyz Republic with consideration of international commitments; (iii) to adopt a regulation for raising the responsibility for compliance with government environmental expert review requirements; (iv) to modify regulations as to raise the responsibility for violation of environmental laws; (v) to carry out an analysis and develop recommendations on introduction of regulating mechanisms for encouraging enterprises to introduce environment friendly, resource saving and low-waste technologies; (vi) to approve qualification requirements to regulate treatment of nuclear materials, radioactive agents, radioisotope sources of ionizing radiation, and radioactive waste.

To address the second objective, the Kyrgyz Republic government intends to implement the following measures: (i) to develop a draft new version of the Kyrgyz Republic Law on Production and Consumption Waste; (ii) to approve the provision of plastic waste collection and recycling; (iii) to develop procedures for power-saving mercury lamps collection and recycling; (iv) to approve technical regulations for safe treatment of polychlorinated biphenyls (PCB); (v) to prepare 150 tons of outdated pesticides for recycling; (vi) to develop and introduce a system of classification and marking of chemical agents based on the Globally Harmonized System (GHS); (vii) to arrange temporary (until 2025) PCB safe storage facilities; (viii) to adopt a regulation on the renewal of registration of hazardous chemical agents imported to the country; (ix) to rehabilitate drainage system and solid domestic waste (SDW) management in Issyk-Kul oblast; (x) to assess the impact of primary mercury extraction and prepare for reclaiming operations on pilot areas in Haidarkan.

The following objectives will be addressed to promote the third priority area that is related to conservation of biodiversity and revival of natural ecosystems in the changing climate context: (i) to facilitate conservation of natural ecosystems by expanding protected areas to 7 % and strengthening their capacity; (ii) to ensure forestry resource conservation for at least 5.62 % of the forested area up to 2017.

To address the first objective that is to facilitate conservation of natural ecosystems by expanding protected areas to 7 % and strengthening their capacity, the following measures have been planned: (i) to create Khan-Tengri natural park on 187 hectare area in Issyk-Kul oblast; (ii) to introduce the international system for the assessment of efficiency of specially protected areas (SPA) management (as an example, Sarychat-Ertash nature reserve or Khan-Tengri nature park); (iii) to develop a program aimed at supporting local communities' initiatives for the improvement of SPA functioning and creation of new livelihoods (as an example, Sarychat-Ertash nature reserve or Khan-Tengri nature park); (iv) to support the functioning of the specially protected areas network; (v) to arrange for inventory of wildlife preserves and their status

revision; (vi) to approve the national SPA cadastre; (vii) to develop and approve the provision on the Red Book procedures; (viii) to approve the activities plan for the snow leopard preservation; (ix) to develop the fifth national report on conservation of biodiversity.

To address the second objective that is to ensure forestry resource conservation for at least 5.62 % of the forested area up to 2017, the Kyrgyz Republic government intends to implement the following measures: (i) to support local communities in social cultivation of fast-growing breeds; (ii) to create forest plantations on the National Forestry Pool (NFP) areas, 1,000 hectares per year; (iii) to rehabilitate 27 hectares of flood plain forests in Osh oblast through the introduction of participatory forest management principles; (iv) to establish the forestry seed farming center and monitor forest pests in Frunze and Jalal-Abad forestry areas; (v) to implement measures aimed at sustainable development of mountain woods and land resource in the changing climate context on a 30 hectare area; (vi) to develop a program for rehabilitation of coastal flood plain forests and wetlands in Kyrgyzstan; (vii) to provide for forest management within the unified forestry pool and SPA in Issyk-Kul and Jalal-Abad oblasts; (viii) to approve the program for nut bearing plants cultivation in the Kyrgyz Republic up to 2025.

The fourth priority area that is related to the low-carbon development principles promotion will be focused on the objective of the development of Nationally Appropriate Mitigation Actions (NAMA).

To address the objective, the Kyrgyz Republic government will implement the following measures: (i) to train representatives of government bodies and expert community to develop sector-wide Nationally Appropriate Mitigation Actions based on international standards; (ii) to develop and implement sector-wide Nationally Appropriate Mitigation Actions based on international standards; (iii) to develop practical recommendations on improvement of municipal buildings power saving; (iv) to develop a program for coal boiler rooms modernization in order to increase the heat generation power efficiency by 38 %; (v) to develop a low carbon development concept.

## **5.2. Water Resources and Drinking Water Supply**

The overall goal is to create a reliable and successfully functioning system ensuring uninterrupted access to safe drinking water and improved sanitary conditions.

Background. 93.2 % of the Kyrgyz Republic population have access to household water pipelines, with 89.4 % access rate in rural areas. Only 26.9 % of population have stable access to centralized sewage systems, with 85.1 % access rate in Bishkek and 6 % to 17 % in other towns. Furthermore, the specific weight of some oblast and rayon centers population with access to sewage systems decreases by 1.5 % every year due to the infrastructure degradation.

1,272 of 1,891 villages, or 67 % do not have sufficient access to centralized drinking water supply, and in 396 villages without any pipelines

people take water from open sources. Regions most sufficiently provided with pure drinking water include Bishkek (100 %), Chui oblast (99.8 %) and Issyk-Kul oblast (99.0 %). Regions least sufficiently provided include Batken oblast (70 %), Osh oblast (88.7 %), Jalal-Abad oblast (96.0 %) and Talas oblast (97.6 %). There is still a gap in water supply between urban and rural populations. Rehabilitation and construction of water supply systems in rural communities will require funding in amount more than \$600 million (about 28 billion soms).

The system of government water management in the area of household water supply is currently in extremely difficult situation. The Drinking Water Supply and Drainage Department of the Kyrgyz Republic Ministry of Agriculture and Irrigation is the government body responsible for drinking water supply. This agency underwent numerous structural and functional reforms that led to professionals outflow and staff turnover due to low salaries and difficult working conditions. No separate division was established at the department for drainage systems. Since 2010, no budget funding has been provided for program activities. The education system does not train staff required for addressing the objectives set for the water supply and drainage sector.

Drinking water supply and sewage systems. Current projects related to water supply and drainage systems construction in rural areas are implemented by the Community Development Investment Agency ARIS that has the non-government organization status. ARIS reports to the Kyrgyz Republic government and the Kyrgyz Republic Ministry of Finance.

As a part of the World Bank supported project for rural water supply and sanitary implemented since 2002, Rural Public Association of Drinking Water Users (RPADWU) were established and act as the main organization responsible for water supply system management in rural communities. It was expected that by the project completion date RPADWU will be the main structure providing sustainability of water use and sewage systems. However, currently, due to institutional drawbacks of rural organizations responsible for drinking water supply (RPADWU), a part of pipelines has become inoperable. Thus, pipelines built with donor support do not work in 35 villages. There are no structures with sufficient capacity at oblast or rayon level to provide the water supply systems with service and maintenance.

Drinking water quality. In general for the country, divergence from standard quality of drinking water in pipelines was found in 2.2 % to 2.5 % of samples for sanitary and chemical indicators and in 10 % to 13 % for microbiological indicators in the last five years. However, the divergence from microbiological standards decreased in 2012 which may be explained by the effect of the Kyrgyz Republic Law “Drinking Water Safety Technical Regulation”.

Issues related to improper quality of drinking water are conditioned by the following:

- lack of plans for ensuring drinking water safety in the Kyrgyz Republic secured by sustainable funding and logistical resources;

- technical degradation of the drinking water supply infrastructure, first of all pump equipment, purification and decontamination facilities, and water mains and distribution network;
- incomplete regulation and technical basis for water quality monitoring, particularly in rural water supply systems, as well as weak human resource capacity of organizations engaged in monitoring;
- destroyed system of the water quality lab and large-scale control in rural areas.

The above data confirm the need to improve coordination between public administration authorities, local governance bodies, and organizations and enterprises responsible for the management of water resources, water supply and drainage systems, and water supply sources protection. The country's existing industry approaches are far from being always capable of ensuring effective addressing of urgent issues.

As for the policy decision making level, there is a steady trend of loosening the requirements for business including the service segment which leads to the lowered safety threshold both for population and environment. As for regulation framework, the Kyrgyz Republic Law on Drinking Water is currently under revision putting the drinking water quality under the risk of loosened requirements. There are no regulations for protective sanitary zones of drinking water sources. No sanitary expert analysis has been carried out with respect to water supply and drainage construction sites which leads to worse water safety level.

The issue of lab staff capacity remains challenging. The lab capacity fails to meet up-to-date standards due to low salaries, lack of succession and worn out equipment.

Priority areas. Taking into account the above listed issues, the country's policy for drinking water supply will be focused on the following priority areas: (i) development of an effective mechanism for water supply and drainage system management and operation; (ii) development of comprehensive approach to management in the water supply and drainage area and improvement of access to safe drinking water; (iii) drinking water quality and safety improvement.

The first priority area that is related to the development of comprehensive approach to management in the water supply and drainage area and improvement of access to safe drinking water will be focused on addressing the following objectives.

The objective of strengthening government institutions responsible for water management and staff training will be addressed through the following measures: (i) to establish the water management monitoring and evaluation department at the Government Agency for Architecture, Construction and Utilities; (ii) to establish a national training and professional development center; (iii) to develop and introduce the Young Engineers program; (iv) to increase the capacity of operating organizations (RPADWU) responsible for drinking water supply and drainage; (v) to establish district service centers for

water supply and sewage pipeline maintenance; (vi) to design methodological manuals on water supply and drainage system management for operating companies.

The second objective that is related to the improvement of standardizing quality in the drinking water supply and drainage area will be addressed by the Kyrgyz Republic government through the following measures: (i) to develop a draft technical regulation setting conditions for waste water intake by centralized sewage systems and discharge to water basins; (ii) to develop a draft technical regulation for choosing centralized household water supply sources; (iii) to adopt the technical regulation on safety of water-supply and drainage outdoor networks and structures; (iv) to approve sanitary standards and rules within 6 months.

The third objective that is to inform and involve public in water and sanitary decision making will be addressed by the Kyrgyz Republic government through the following measures: (i) to establish a national water supply and sanitary database; (ii) to design a website for public information; (iii) to design a methodology for public monitoring and evaluation of progress in improvement of water supply, sanitary and hygiene services quality; (iv) to develop financial management manuals for operating organizations.

The second priority area that is related to development of comprehensive approach to management in the water supply and drainage area and improvement of access to safe drinking water will be focused on addressing the following objectives:

The first objective that is related to development of the Kyrgyz Republic's comprehensive policy for drinking water and sanitary will be addressed by the Kyrgyz Republic government through the following measures: (i) to develop a water supply and sewage strategy 2013-2023 and implementation plan for the Strategy of Water Supply and Drainage Development 2013-2023, and safe drinking water plans for Bishkek and Osh; (ii) to incorporate issues of quality drinking water supply into strategic plans for socioeconomic development of settlements; (iii) to incorporate requirements of the Kyrgyz Republic Law "Technical Regulation on Drinking Water Safety" into plans of large-scale control of drinking water suppliers.

The second objective that is related to increasing the coverage of access to safe drinking water for rural population will be addressed by the Kyrgyz Republic government through the following measures up to 2017: (i) to develop and introduce the system for supervision of preparation and implementation of water supply systems rehabilitation and construction projects in order to improve access to safe drinking water for rural population (50 villages by 2017); (ii) to assess condition of and required investments for water supply system modernization in 100 % of schools and preschool institutions and, based on the assessment findings, to design system rehabilitation and development programs for the period up to 2020; (iii) to develop a comprehensive program of economic, administrative and technical measures for promotion of rational water use within drinking water supply systems.



To address the third objective that is related to increasing the access to improved sewage and sanitary facilities from 26.9 % in 2012 to 40 % in 2017 the Kyrgyz Republic government has planned the following measures: (i) to develop standard designs and operating rules to regulate issues of construction and operation of improved sanitary systems including those small-scale; (ii) to develop drainage systems in towns of Balykchy, Karakol and Cholpon-Ata through the ADB supported project “Issyk-Kul Sustainable Development”; (iii) to develop and introduce system of sewage system and sanitary facility monitoring and evaluation.

The fourth objective that is related to reducing the losses and rational use of water resources will be addressed by the Kyrgyz Republic government through the following measures: (i) to analyze drinking water losses and make the findings available to public and RPADWU; (ii) to promote timely current repairs of water facilities through the development of preventive works methods and schedule; (iii) to carry out wide organizational and awareness activities among population with respect to economic use of drinking water by printing information materials and medic coverage; (iv) to conduct public awareness activities in media in order to promote street water pumps practices replacement with household pipeline connection; (v) to require designers to include water meter installment in design documents and install such meters.

The third priority area that is related to drinking water quality and safety improvement will be focused on addressing the objective normative provision of water quality in household water supply systems. The Kyrgyz Republic government plans to address the objective through the following measures: (i) to develop and introduce procedures for separate recording of findings of lab tests for drinking water in centralized water supply systems for each figure exceeding the maximum allowable concentration; (ii) to arrange three large-scale and one mobile labs of the Water Supply and Drainage Department to control the drinking water quality in rural settlements; (iii) to design an interdepartmental mechanism for sample survey of protective sanitary zones of centralized household water supply sources and existing and potential sources of their pollution in the Chu river basin; (iv) based on the survey findings, to develop a comprehensive program for rehabilitation of household water supply sources in the Chu river basin; (v) to develop the register of centralized and decentralized drinking water inlets for the Chui river basin.

### **5.3. Ensuring Comprehensive Security of Population and Area against Natural and Technogenic Disasters**

The overall goal is to form, in accordance with international standards, the basis for disaster risk management ensuring beforehand and comprehensive safety of population’s vital activities and environment and the country’s sustainable development.

Background. According to findings of expert review and assessment, about 50 % of the country’s GDP are sensitive to natural disaster risks. Annual

economic damage caused by natural disasters has reached \$30 to 35 million according to experts with nearly 2 thousand affected families per year. Natural and technogenic risks are exacerbated by socioeconomic vulnerability. Main vulnerability factors include irrational land management planning, deteriorating infrastructure, incompliance with and obsolescence of construction standards and rules, deforestation, infringed slope stability, and remote areas with insufficient communication lines. Furthermore, environment degradation and inefficient management increase the exposure to natural and technogenic disasters. Consequences of natural disasters and technogenic catastrophes affecting human development, poverty reduction and economic growth require efficient disaster risk management as an integral part of development planning.

Currently, activities of government bodies are mostly limited to implementation of sector goals and objectives and missing the addressing of interlinked issues important from the point of view of CRB. This is conditioned by the fact that the comprehensive CRB concept, although important, has not yet been incorporated into sustainable development planning process and sector strategies and activities. This circumstance is exacerbated by the fact that decentralization reforms with respect to CRB have not been implemented in sector ministries. As a result, activities of government bodies in the CRB area are not divided, particularly at the local governance bodies level.

The model of natural disaster and technogenic catastrophe risk management will be based on principles of multilateral cooperation and risk analysis with the coverage of all hazard types for the purpose of consistent introduction of international standards which will finally contribute to the establishment of conditions for comprehensive security and transition to sustainable development. The model suggests transfer of the national disaster risk management system from emergency consequences liquidation to prevention of and improved preparedness for natural and technogenic disasters. Another distinctive feature of the proposed model is introduction of decentralized approaches to disaster risk management with clear division of functions of central and local governments.

Implementation of the following five priority areas is required for the building of stable risk management basis at the international standards level: (i) integration of disaster risk mitigation into the planning of sustainable development, poverty reduction and adaptation to climate change; (ii) strengthening the capacity of public administration and local governance bodies for disaster risk monitoring and evaluation and early warning system improvement; (iii) raising understanding and awareness among population and government employees with respect to disaster risk management; (iv) preventive activities (structural mitigation) in order to reduce disaster risks; (v) improving the preparedness for disaster for the purpose of effective response at all levels.

Implementation of the first priority area that is related to integration of disaster risk mitigation into the planning of sustainable development, poverty reduction and adaptation to climate change will require addressing the following objectives.

(i) to create an effective legal basis for the sustainable development planning with account of disaster risk reduction. The following measures are provided to address this objective: (i) to arrange inventory and review of regulations, sector programs and development strategies for the purpose of integration of disaster risk management aspects with consideration of adaptation to climate change and conflict prevention; (ii) to develop draft amendments to regulations with respect to division of functions and powers between central and local governments related to disaster risk management;

(ii) to incorporate the disaster risk management component into sustainable development planning. The following measures have been suggested to address the objective: (i) to design methodological recommendations for local governance bodies regarding sustainable development planning with consideration of disaster risk management, adaptation to climate change and conflict prevention; (ii) to design methodological recommendations for sector ministries and agencies regarding sustainable development planning with consideration of disaster risk management; (iii) to design socioeconomic development pilot plans considering disaster risk management for the most vulnerable local governance bodies.

The second priority area that is related to strengthening the capacity of public administration and local governance bodies for disaster risk monitoring and evaluation and early warning system improvement will be focused on the following objectives:

(i) to improve procedures of information selection, processing and exchange between public administration and local governance bodies in the civil defense area. The following measures should be provided to address the objective: (i) to develop and approve forms of national statistical and administrative reporting for relevant sectors of the National Civil Defense System; (ii) to design methodological manuals on data collection and analysis in the civil defense area with account of local budgeting and sustainable development planning; (iii) to modify regulations on hazard monitoring and forecasting including hydro-meteorological activities so that they are brought in compliance with international standards; (iv) to develop methods of natural disaster or technogenic catastrophe damage assessment;

(ii) to strengthen the capacity of hydrological, meteorological and avalanche services and baseline studies of atmosphere and surface water pollution for early forecasting of disasters conditioned by hydrometeorological phenomena which will allow elaborating effective solutions for climate change adaptation. The following measures are needed to address the objective: (i) to develop an activity program for the hydro-meteorological service development; (ii) to introduce GIS technologies (Geographical Information System) and computer-based hydro-meteorological data collection and processing and forecasting; (iii) to reequip key observation stations including 30 hydrological, 32 meteorological and 5 avalanche ones; (iv) to provide specialized hydro-meteorological information on systematic basis to 20 types of users (ministries and agencies, local governance bodies, private agricultural users, and media).

The objective related to the development of a national system for comprehensive monitoring and forecasting of hazardous natural processes based on GIS technologies and remote sensing will be addressed through the following measures: (i) to approve programs of comprehensive monitoring and forecasting of hazardous natural processes based on GIS technologies and remote sensing; (ii) to develop standards of disaster monitoring and forecasting based on advanced international methodologies and practices; (iii) to implement pilot areas (avalanches, landslides, etc.) of the Comprehensive Monitoring and Forecasting Program.

The third priority area that is related to the raising of understanding and awareness among population and government employees with respect to disaster risk management requires addressing the following objectives.

To strengthen the civil defense capacity of government and municipal employees. The following measures have been suggested to address the objective: (i) to develop and introduce methodological manuals on civil defense arrangement and implementation; (ii) to develop and introduce training modules and curricula for government and municipal employees civil defense training with account of the linkage between disaster risk management and sustainable development; (iii) to deliver regular training for government and municipal employees covering most vulnerable towns and villages.

To raise public awareness. The following measures have been provided to address the objective: (i) to develop a civil defense information and communication policies action plan; (ii) to develop and introduce curriculum on basics of vital functions safety for school grades 7 to 11 and universities; (iii) to launch broadcasting of social videos on natural disaster risks via broadcasting companies and other media.

The fourth priority area that is related to preventive activities (structural mitigation) in order to reduce disaster risks will be focused on the following objectives.

The first objective that is to carry out contingency and preventive/protective operations will be addressed through the following measures: (i) to examine and assess industrial and social facilities for resistance to various natural and technogenic influencing factors; (ii) to specify the list of priority protective activities at potentially dangerous facilities; to develop engineering solutions with finance and technical implementation input estimates; (iii) to implement priority activities aimed at disaster risk reduction according to developed plans (contingency operations and protective activities); (iv) to implement measures for the restructuring and rehabilitation of radioactive and toxic waste storage facilities (tailing dump contingency operations).

The objective of incorporating the green project into preventive activities system on pilot basis will be addressed through the following measures: (i) to develop methodological recommendations on design and implementation of projects aimed at disaster risk reduction with account of sustainable development and environment control; (ii) to implement projects on pilot basis within the areas most vulnerable to environmental risks.

The fifth priority area that is related to improving the preparedness for disaster for the purpose of effective response at all levels will be focused on the following objectives:

(i) to develop a unified information management system (UIMS) for emergencies and crises based on up-to-date information technologies. The following measures have been planned to address the objective: (i) to develop the unified information management system design ToR (Crisis Management Center, EGDDS, Russian National Integrated Population Notification and Warning System); (ii) to expand the unified telecommunication network of routine management structures (CMC) in seven oblast centers; (iii) to launch EGDDS (system 112) in Bishkek and Osh; (iv) to launch the Russian National Integrated Population Notification and Warning System in Bishkek and Osh.

(ii) to optimize the response service control service. The following measures have been suggested to address the objective: (i) to develop normative documents regulating fire service activities; (ii) to train existing units staff on fire and rescue operations; (iii) to establish 21 fire rescue services based on the existing fire and rescue units; (iv) to provide fire rescue services with equipment, tackle and property.

(iii) to develop humanitarian aid logistic system for natural and technogenic disasters with catastrophic effect. The following measures have been provided for the objective: (i) to develop minimum standards of humanitarian aid for affected population; (ii) to develop operating procedures for humanitarian aid reception, transportation and distribution; (iii) to enter agreements with potential donors represented by international humanitarian organizations; (iv) to adopt the Kyrgyz Republic government decree on providing key transportation hubs (air, railroad and motor transport) with cargo terminals; to open regional unified storage facilities.

## **VI. SUSTAINABLE ECONOMIC GROWTH AND MACROECONOMIC STABILITY**

### **6.1. Macroeconomic Policies**

The overall goal of the macroeconomic policy 2013-2017 will be the ensuring of macroeconomic stability for sustainable development. The following prerequisites and conditions have been laid in the basis for the macroeconomic policy 2013-2017 development.

External prerequisites and conditions associated with international development trends influence on Kyrgyzstan's economy.

Predicted favorable influencing factors: (i) political stability in the region and major trade partner countries; (i) gradual world economy recovery (forecasted economy growth up to 4 % as average per year); (iii) forecasted economic growth in neighboring countries: Russia (over 3.0 %), Kazakhstan (6.0 %), and China (7-8 %); (iv) low inflation forecasted in Kyrgyzstan's major

trade partner countries such as Russia and Kazakhstan (not more than 7.0 %); (v) foreign trade cooperation expansion within the Shanghai Cooperation Organization (SCO), Eurasian Economic Union, and CIS; (vi) active employment of WTO membership by Kyrgyzstan; (vii) political resolution on joining the Customs Union; (viii) extended cooperation with international economic and financial organizations; (ix) forecasted stabilization of world oil price at \$100-110 per barrel for the reduced demand due to economic growth slow down in China and some European countries; (x) world trend of innovation investment growth.

Negative external factors that may influence the country's economy and budget: (i) financial instability of some European countries and the US; (ii) economic growth slow down in the US and China; (iii) worsening conditions of trade with major trade partners and Customs Union member countries; (iv) high level of dependence on external loans to cover the national budget deficit; (v) high risk of the Kyrgyz Republic government default under social commitments due to failure to secure external loans to cover the budget deficit; (vi) forecasted world food price growth; (vii) gold price decrease.

Internal prerequisites and conditions for maintaining the macroeconomic stability.

Favorable: (i) resumed operations by Kumtor gold mine exploring companies after repairs and recovery operations; (ii) full start of sheet glass production; (iv) steadily developing trade relations with trade partner countries; (v) preferential crediting for agricultural development leading to the development of the overall agricultural sector and processing industry; (vi) forecasted agriculture sector development; (vii) joining the Customs Union; (viii) service sector stable development.

Negative prerequisites and conditions: (i) potential sociopolitical situation complication; (ii) unstable budget and tax spheres; (iii) persistently high deficit level for a prolonged period; (iv) risk of inflation increase due to food price growth; (v) unfavorable actually established economy development trends based on 2012 outcomes; (vi) risks of Kumtor gold extraction decrease; (vii) forecasted risks of low water level which may influence power generation output significantly; (viii) increase of gas purchase price in Uzbekistan; (ix) persistently high level of losses in the energy sector.

Based on the above mentioned external and internal development prerequisites and conditions, three macroeconomic development scenarios have been developed. The following macroeconomic figures have been forecasted for the basic scenario:

Table 1

	2012	2013	2014	2015	2016	2017	Cumulative of 2013-2017 against the 2012 level
	Preliminary, actual	Expected	Forecast	Forecast	Forecast	Forecast	

GDP in actual prices, million soms	304,350.1	355,470.3	414,501.4	483,032.2	566,779.2	659,163.9	
Actual growth rate, %	99.1	107.2	107.6	107.5	107.5	107.5	143.3
GDP deflator	107.4	109.0	108.4	108.4	109.1	108.2	151.2
GDP per capita	56.9	65.5	75.6	87.1	101.0	116.2	
Inflation	107.5	108.5	107.8	108.3	108.2	107.0	
Employment growth rate	100.4	101.9	101.6	101.8	102.1	101.2	108.9
Unemployment	8.4	8.2	8.1	7.7	7.1	6.5	
Labor productivity growth rate	90.3	105.2	105.9	105.6	105.3	106.3	131.5
Average monthly wage actual growth rate	112.1	104.7	104.2	111.3	114.1	116.3	161.1
Cash wages growth rate	108.7	118.0	117.1	117.3	116.5	116.0	229.1
Poverty	38.0	33.8	32.8	30.1	27.3	25.0	
Life span, years	70.0	71.4	71.8	72.3	72.7	73.2	

According to the basic scenario, the GDP growth is forecasted at 7.5 % per year as average in 2013-2017. The inflation dynamics will depend on remaining risks of external shock impact on macroeconomic situation, as well as factors such as external and domestic aggregate demand, changes in external market trends and budget and tax and tariff policies. It is expected that coordinated monetary and credit, budget and tax, investment, antimonopoly and social policies implementation will allow keeping inflation at single-valued level in 2013-2017.

The following measures will be implemented to contain inflation: (i) to promote goods offer and competition development (particularly on food and agricultural markets); (ii) to support the bank system efficiency, safety and reliability in order to promote people's savings growth; (iii) to provide economy with liquidity in volume corresponding to the cash demand.

In case of inflation pressure increase due to price shocks and if such shocks are prolonged, monetary and credit policy measures will be tightened. The floating foreign exchange rate policy will remain in 2013-2017. Currency interventions will be applied in amounts necessary for the leveling of sharp exchange rate variations.

Table 2

### GDP Use Pattern in 2013-2017

	2012 prelimin	2013 expekte	2014 forecast	2015 forecast	2016 forecast	2017 forecast
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	ary, actual	d				
GDP in market prices	100	100	100	100	100	100
Consumption	117.3	113.3	111.5	108.6	107.5	106.1
Government	19.8	19.2	18.2	17.3	16.4	15.6
Private	97.5	94.1	93.3	91.3	91.1	90.5
Gross investment	32.9	33.9	34.5	35.3	35.6	35.9
Government investment	6.3	5.2	6.2	3.8	1.5	1.2
Including those of the Government Investment Program (external)	5.1	4.2	4.0	2.2	0.8	0.5
Private investment	26.6	28.7	28.3	31.5	34.1	34.7
Export (goods and non-factor services)	49.5	54.1	52.8	51.4	48.9	46.9
Import (goods and non-factor services)	99.7	101.3	98.8	95.2	92.1	88.9
Net export	-50.2	-47.2	-46.0	-43.8	-43.1	-42.0

The gross investment share in the GDP use pattern will rise from 32.9 % in 2012 to 35.9 % of GDP in 2017 due to promotion of private domestic and foreign investments. The mid-term investment policy provides average annual gross investment growth at 18.7 %. The investment growth will be secured by increasing private investment as a result of: (i) elimination of all administrative barriers; (ii) creation of favorable customs and tax regimes; (iii) real confidence building and increasing stability of the finance system including banking sector and insurance market, which will raise the efficiency of the mechanism to protect investors against potential risks and become a long-term investment source. The share of government investment is forecasted at 3.6 % per year in 2013-2017.

External debt stability will be a significant factor influencing the country's investment attractiveness. In the budget policy context, the debt stability suggests the accumulated external debt and amounts of the regular debt servicing expenditure requiring payments without prejudice to other budget lines and economy as a whole. In order to reduce the external debt burden potentially threatening to stable economy growth, the Kyrgyz Republic government will consider all opportunities of the external debt further restructuring.

The private consumption growth at 6.0 % per year on average in 2013-2017 will be secured by people's cash wage growth due to the forecasted growth of real wage and business activities revenues. Taking into account the reforms aimed at the public administration optimization, the specific weight of government consumption will decrease from 19.2 % in 2012 to 15.6 % in 2017, with its growth restrained at 2 % per year as average (Annex 2).

The trend of goods and services export and import will persist in the mid-term period. The net export indicator will improve by 8.2 percentage points in 2017 comparing to that in 2012 and reach 42.0 % of GDP. The average annual



export growth will be 7.6 % and mostly secured by gradual increase of green agricultural products export share. The import increase (5.7 % per year as average) will mostly be determined by growth of energy products and other intermediate products import.

The volume of capital investment from all funding sources is expected to rise in 2013-2017 up to 120 billion soms per year as average which is 2.6 times higher the figure of 2008-2012 (46.3 billion soms). The national budget capital investment volume will be more than 8.2 billion soms per year as average in 2013-2017, which is 1.7 times higher than that in 2008-2012.

The midterm budget policy will be aimed at higher-than-anticipated growth of the consolidated budget revenues comparing to the budget expenditure leading to significant budget deficit decrease (with account of the Kyrgyz Republic Social Fund) to up to 5 % of GDP per year as average. Maintaining stable macroeconomic situation, improving tax and customs administration and increasing the taxable base will contribute to ensuring stable budget revenues. Further reforming of cross-budget relations will also have a positive impact on local budgets revenues. The government expenditure policy will be focused on development projects specified by this Program.

Three scenarios of the country's macroeconomic development for 2013-2017 have been developed: (1) optimistic, with 8.3 % average annual GDP growth rate; (2) basic, with 7.5 % average annual GDP growth rate set as basic for the 3-year budget 2014-2016; and (3) pessimistic, with 5.1 % average annual GDP growth rate, with account of potential influence external and internal negative factors may have on the country's economy.

## **6.2. Government Finance Administration**

The goal is to achieve budget stability, build efficient and transparent budget system, improve efficiency of the national budget funding use, and orient the budget system at economic growth promotion, effectiveness of budget expenditure and improvement the quality of provided services.

Background. During the last five years, the country's budget was facing serious risks related to its instability. Political developments in 2010 resulted in substantial growth of additional expenditures, mostly for recovery following April unrest and June violence in southern Kyrgyzstan and for social benefits to victims. Moreover, budget expenditure increased significantly due to social sphere and law enforcement employees salary growth and development projects funding increase.

As a result of constructive cooperation of the Kyrgyz Republic government with conventional development partners and donor community in the budget support area, as well as implementation of a number of steps to attract additional budget revenues sources, the national budget deficit was 4.9 % of GDP in 2010, which was 0.7 % lower than expected level. In 2011, with the forecasted budget deficit at 7.5 % of GDP, actual deficit reached 5 %. However,

due to the budget expenditure increase in 2012, the budget deficit reached the threshold affecting the budget stability.

In general, the government finance administration policy was characterized during that period by the following: (i) significant budget deficit; (ii) social sphere oriented budget (about 50 % of total expenditure); (iii) local budget reliance on the national budget (subsidized nature of cross-budget relations); (iv) significant dependence on external funding to cover the budget deficit; (v) restricted budget funding for development goals.

The country's budget remains socially oriented. Budget funding allocated for social services increase every year while its investment capacities reduce.

Laws regulating budget relations is outdated and requires update and systematization. The basic budget law is the Kyrgyz Republic Law on Main Principles of Budgetary Law in the Kyrgyz Republic. The law was amended many times during the period 1999 to 2012, only seven of 58 articles remain unaltered. All amendments and additions were made irregularly. Therefore, it is now topical to develop a single document to regulate the government finance administration process.

As shown by the presented program budgets review, further comprehensive training on sector analysis and program budget development is needed for ministries and agencies employees. Difficulties often occur in program-based budgeting and identification of program efficiency indicators.

In context of growing financial and economic autonomy of local governance bodies, their local budget administration capacity should be strengthened.

Public awareness activities and improved access to budget process information, as well as more active cooperation with public organizations with respect to budget transparency through the annual civil budget development are needed.

Priority areas. Based on analysis findings and identified issues, the country's budget policy will be focused on the following priority areas within the next five years: (i) ensuring budget stability; (ii) government finance administration system reform.

The priority area of ensuring budget stability will be focused on addressing the following objectives: (i) to increase the budget's resource capacity; (ii) to optimize government expenditure; (iii) to reduce the budget deficit.

To address the first objective that is to increase the budget's resource capacity, the Kyrgyz Republic government will implement the following measures: (i) to improve customs administration by transferring most of imported goods from the weight-based to price-based custom clearance; (ii) to continue implementation of effective excise tax policy; (iii) to implement non-tax proceeds reform aimed at optimization of government paid services and efficient management of state property and natural resources; (iv) to implement tax initiatives contributing to the budget revenues growth.

The second objective that is to optimize government expenditure will be addressed through the following measures: (i) to improve the budget planning process; (ii) to move from socially oriented budget to development budget; (iii) to reduce government expenditure and restrain approval of new expenditure initiatives with no appropriate funding secured.

To address the third objective that is to reduce the budget deficit the Kyrgyz Republic government intends: (i) to tighten budget discipline; (ii) to ensure budget balance based on the “pay way” principle; (iii) to toughen the government expenditure efficiency control.

The following objectives will be addressed within the second priority area aimed at government finance administration system reform: (i) to move gradually to program based budgeting; (ii) to improve budgetary laws; (iii) to continue the cross-budget relations reform; (iv) to renovate the treasury system; (v) to ensure public purchase efficiency.

The first objective that is to move gradually to program based budgeting will be addressed by the Kyrgyz Republic government through the following measures: (i) to arrange comprehensive training on sector analysis and program based budgeting for ministries and agencies employees; (ii) to identify fiscal and non-fiscal indicators to assess budget funding use efficiency; (iii) to develop and launch a system for monitoring and evaluation of budget spending efficiency.

The second objective aimed at budgetary laws improvement will be addressed by the Kyrgyz Republic government through the following policy measures: (i) to complete the draft Kyrgyz Republic Budget Code development; (ii) to arrange for specialized expert review, including that environmental, of the draft Kyrgyz Republic Budget Code; (iii) to initiate approval of the draft Kyrgyz Republic Budget Code by the Kyrgyz Republic Jogorku Kenesh.

The third objective that is to continue the cross-budget relations reform will be addressed through the following measures: (i) to raise the local governance bodies’ concern with respect to revenue capacity increase and improve expenditure efficiency; (ii) to raise the role and responsibility of local governance bodies for local budget administration; (iii) to reduce gradually local budget subsidizing.

The fourth objective that is to renovate the treasury system will be addressed through the following measures: (i) to develop and introduce treasure information management system; (ii) to centralize government finance administration by connecting the Treasury to package clearing system and introduction of single treasury account.

The following measures will be implemented to address the fifth objective aimed at ensuring the public purchase efficiency: (i) to revise the public purchase policies; (ii) to introduce e-procurement practices for public purchase; (iii) to integrate the e-procurement system into the budgeting process.

### **6.3. National Debt Administration**

The goal is to satisfy funding needs as a part of transition to sustainable development based on formation of an optimized national debt structure<sup>14</sup>.

Background. The external debt remains dominating in the Kyrgyz Republic's national debt structure. IN 2008-2012, the specific weight of external credits reached 90 %. At the same time, the external funding share dominating in the national debt structure also shows the Kyrgyz Republic's high reliance on external credits.

The main factors containing the growth of domestic borrowings include the low development degree and narrow stock market in the Kyrgyz Republic. IN 2008-2012, the Kyrgyz Republic government took steps to improve regulation frameworks for government securities issue, circulation and redemption (unification and simplification of government securities categories), gradual extension of maturity of government borrowing instruments (Treasure bonds issued 2009) and expansion of the government market securities share. However, the degree of the government securities market development is still insufficient to provide the national budget with substantial borrowings.

At present, moratorium on state guarantees is in effect in accordance with the Kyrgyz Republic's Mid-term National Debt Administration Strategy 2012-2014. At the same time, as a part of transition to sustainable development, significant financial resources are needed a part of which could be attracted through private government borrowings against state guarantees. Nevertheless, provision of state guarantees with no account of budget policy needs, restrictions and capacities and goals of effective national debt administration may create serious problems for the Kyrgyz Republic debt stability. In this view, further steps of the Kyrgyz Republic government in provision of state guarantees should be based upon well-considered and balanced decisions and deep risks and benefits analysis.

Lately, there is an uneven growth of bilateral borrowings share in the external debt structure. Thus, the external debt's bilateral component increases due to large loans provided by one or two creditors. Continuing borrowings concentration that has been observed for the last four years is associated with the risk of high debt dependence on such creditors and a possibility of considering of various aspects of cooperation with creditor countries (foreign policy, trade, etc.) in relation to such debts issues.

Priority areas are based on retaining the achieved positive outcomes in national debt administration and implementation of new priority areas in the country's government borrowings, particularly: (i) maintaining the national external debt stability; (ii) domestic borrowings share increase.

The priority area of maintaining the national external debt stability will be focused on addressing the following objectives: (i) to optimize the existing external borrowings; (ii) to optimize new external borrowings flow.

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<sup>14</sup> For the purpose of this Program, the optimized national debt structure is defined as one with optimized costs and risks combination. Costs may include, for instance, budget funding for the debt servicing. Risks include additional costs that may be incurred under unfavorable circumstances (as an example, increase of loan interest rates or foreign exchange rate variations).

To address the first objective that is to optimize the existing external borrowings, the Kyrgyz Republic government intends to implement the following: (i) bilateral external debt restructuring as a part of the Paris Club Protocol 2005 implementation; (ii) to initiate a mechanism of conversion transactions with the Kyrgyz Republic's bilateral debt; (iii) to prevent overdue repayment of the current external debt<sup>15</sup>.

The second objective that is to optimize new external borrowings flow will be addressed by the Kyrgyz Republic government through the following measures: (i) to attract new government external borrowings subject to minimum loan preferential level (grant element) at 35 %; (ii) to restrict annual amounts of newly attracted external borrowings with account of maintaining annual external debt balance not exceeding 60 % of GDP.

The following objective will be addressed as a part of the priority area of domestic borrowings share increase: (i) to change the domestic debt structure with increase of the share of domestic borrowing market instruments.<sup>16</sup> The following measures have been planned to address the objective: (i) to cover budget needs only through issue and placing of domestic borrowing market instruments; (ii) to issue domestic borrowing instruments with maturity over 2 years; (iii) to develop new regulations and amend those existing regulating activities on the government securities market.

## **VII. IMPROVEMENT OF BUSINESS ENVIRONMENT AND INVESTMENT CLIMATE**

### **7.1. Small and Medium-size Business Development**

The goal is to reduce the number of necessary licenses and permits almost two times by 2017 (from 240 to 101), liberalize government's supervisory functions and develop new approaches to the system of regulatory impact analysis in administrative decision making.

Background. The private sector continued its development in last few years, however not quite rapidly. In 2007-2012, the total number of employed in small and medium-size business sector increased by 35.6 %, from 284.2 thousand to 385.4 thousand. Accordingly, the number of functioning small and medium-size enterprises increased by one third, from 9,000 to 12,000. The small and medium-size business specific weight in GDP reached 42 % in 2012.

In 2011, the interdepartmental commission for the reform of government business regulation system completed the process of optimizing the licensing area. As a result, the number of required licenses and permits was gradually cut from over 500 in 2008 to 240 in 2012.

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<sup>15</sup>Except for so called technical arrears caused by payment suspension procedures associated with the debt restructuring.

<sup>16</sup>Market borrowing instruments mean government securities placed with the use of market pricing mechanisms such as auctions, etc.

However, notwithstanding the implemented reforms, a lot of barriers still exist impeding small and medium-sized companies' access to domestic and foreign markets and creating [problems for business such as unclear and vague licensing procedures and anticompetitive actions by larger market actors.

In order to reduce the bureaucratic pressure on business and raise the economic freedom level, the regulatory impact analysis procedure was introduced in 2008 to assess the influence regulations may have on business activities and provide for abolition of those restricting small and medium business development.

The legislation system and law enforcement in administrative area have a number of drawbacks including significant number of duplicating or contradicting regulations, legal collisions, adopted regulations incompliance with laws governing business relationships or distorting their norms. Passed laws regulating business activities were not analyzed to assess their regulatory impact. Incompleteness of the regulatory impact analysis methodology remains a problem, therefore RIA procedures are rather formal.

To protect business entities against unlawful interference with their activities, the number of inspection bodies was reduced from 21 to 12 in 2008. Risk assessment criteria and check lists regulating intervals between business inspections and prevent total inspections were actively introduced. Inspection period were reduced 2 times. Broad awareness campaign was conducted in regions to inform public on inspection rules and procedures. As a result of such activities, the number of actual inspections decreased nearly 2 times in 2012 (24.4 thousand to 13.5 thousand).

At the same time, the practice of arbitrary inspections of small and medium-size companies still exists. Government regulation in the supervisory and control sphere remain inefficient, expensive, duplicating and rather formal. Notwithstanding the introduction of risk assessment criteria, inspection bodies continue total inspections affecting business entities' activities. Violation of laws by inspection bodies often lead to creation of corruption schemes.

Priority areas. Taking into account the above listed issues, the business regulation policy will be focused on the following priority areas: (i) creating new approaches in the regulatory impact analysis of administrative decisions including those oriented at environmental safety; (ii) to reduce the level of government interference with business activities with regulation policy emphasizing issues of rational use of limited resources and toughening the environmental laws requirements.

The following objectives will be addressed within the first priority area: (i) to develop and introduce a new methodology of the regulatory impact analysis of administrative decisions; (ii) to involve actively business structures and civil society institutions in the regulatory impact assessment process.

To address the objective of develop and introduce a new methodology of the regulatory impact assessment the Kyrgyz Republic government intends: (i) to review the existing regulatory impact assessment methodology; (ii) to develop

and introduce a new regulatory impact assessment methodology also covering environmental safety issues.

The second objective will be addressed through the following measures: (i) to revise legislation related to entrepreneurship with the participation of business community and civil society institutions; (ii) to develop and propose to the Kyrgyz Republic government recommendations on the abolishment of regulations which are neither well founded nor market economy oriented.

The following objectives will be addressed within the second priority area that is oriented at government business activities regulation emphasizing rational environment management and toughening the environmental laws requirements: (i) to reform the licensing system emphasizing rational use of limited natural resources; (ii) to reform the supervision and control sphere as to tighten the requirement of environmental laws compliance.

The Kyrgyz Republic government intends to address the objective of reforming the licensing system through the following measures: (i) to develop and propose the new Kyrgyz Republic law on licensing system; (ii) to reduce the number of existing licenses and permits; (iii) to develop and propose new bylaws which allow specifying clear licensing procedures, rights and responsibilities of licensors and licensees, and other licensing norms emphasizing rational use of natural resources.

The second objective that is to reform the supervision and control sphere as to tighten the requirement of environmental laws compliance will be addressed through the following measures: (i) to arrange the supervision and control legislation inventory for government's duplicating and excessive control functions; (ii) to prepare proposals on reducing government's duplicating and excessive control functions; (iii) to introduce a new system of risk criteria assessment by inspection bodies emphasizing the environmental laws requirements tightening; (iv) to develop a new inspection mechanism based on the risk criteria system including those aimed at environment conservation; (v) to develop and introduce gradually automated inspections database.

## **7.2. State Property Management**

The goal is to build an effective government property management system meeting the economic and social efficiency criteria.

Background. Currently, the state is a shareholder in some 59 joint-stock companies including 22 ones of strategic significance and operating in most profitable sectors of economy. Companies' performance is evaluated base on general financial and economic indicators with major stress on their dividend and other budgetary payments plan fulfillment. No comprehensive analysis has been conducted with respect to activities of companies fully or partially owned by the state. No state-owned companies practice strategic planning. The government has not formulated any clear administration goals nor has it specified criteria of state-owned companies performance. There is no clear

position as to where the state should reserve its participation and which companies should be fully or partially privatized.

The situation with the excessive number of state-owned companies remains problematic. The issue of idle, subsidized, detrimental state-owned companies and those failing to perform socially important functions has not been addressed.

There are omissions in the state-owned companies functioning regulation framework. The Kyrgyz Republic Civil Code only vests main provisions on state-owned companies. There is no clear division of functions of the government property management authorized body and sector ministries and agencies responsible for state-owned companies. No proper control is ensured for financial and economic activities of state-owned companies and their government property use efficiency.

Due to lack of centralized government property record system, the Kyrgyz Republic government does not have reliable information regarding full value and size of government property. Information provided by statistics and justice authorities and State Registry Service is scattered and incomplete and may not present a real picture of the country's assets status. In the last few years, attempts were made to carry out country wide government property inventory, however the issue has not been resolved so far.

In 2011, a requirement was introduced for state-owned companies to pay a part of net profits to the national budget. Thus, state-owned companies paid 257.6 million soms in 2011 and 758.9 million soms in 2012. However, dividends on state-owned stock hold the major share in the structure of government property management revenues. The maximum dividend amount that reached more than 2.9 billion soms or 4 % of total national budget revenues was received in 2011. In 2012, state-owned companies paid 1.8 billion soms in form of dividends exceeding 6 times the amount of dividends received by the state in 2008.

Revenues from the government property privatization have been maintained at 170 million soms as yearly average in the last three years. Proceeds from rent of state-owned rooms and facilities have also been remained almost the same amounting to some 19 million soms per year as average.

In 2012, the total amount of proceeds from government property management reached more than 2.7 billion soms or 3.4 % of total national budget revenues. However, if measures are taken to toughen financial discipline in state-owned companies and strengthen the government property use control additional reserves may be found, in particular through the government property rent.

Thus, the following major issues may be highlighted in the government property management system: (i) lack of consistency of the government property management regulation framework and existing gaps and conflicts; (ii) lack of government property centralized recording and country-wide inventory; (iii) lack of methodology of control and analysis of the government property use efficiency; (iv) insufficient work of government agents in boards of companies



with the state participation; (v) lack of responsibility for state-owned companies management and their performance impartial assessment; (vi) non-productive use of public assets by state-owned companies and institutions.

Priority areas. Taking into account the above mentioned issues, the Kyrgyz Republic government activities will be oriented at the following priority areas in the next five years: (i) the government property structure optimization; (ii) facilitating the growth of the government sector profitability growth and sustainable development.

The priority area of the government property structure optimization will be focused on addressing the following objectives: (i) to approve the government property record and inventory mechanism for the functioning of the Single Government Property Register; (ii) to prepare well-founded proposals and adopt regulations on liquidation or privatization of the state-owned companies that fail to perform strategic and socially oriented state functions; (iii) to prepare solutions regarding the restructuring of secondary assets of state-owned companies, institutions and economic entities fully or partially owned by the state.

The following measures have been planned to address the first objective that is to develop and approve the government property record and inventory mechanism: (i) to develop a government property record and inventory methodology; (ii) to develop an interdepartmental communication mechanism for government bodies engaged in the government property record and inventory; (iii) to develop a ToR for the development of an interdepartmental automated information system “The Kyrgyz Republic Single Government Property Register”(IAIS SGPR); (iv) to develop IAIS SGPR; (v) to purchase software and hardware for launching the IAIS SGPR; (vi) to train staff on the IAIS SGPR support and maintenance; (vii) to carry out the government property inventory throughout the Kyrgyz Republic.

The second objective suggests the following measures implementation: (i) to carry out comprehensive review of state-owned companies activities; (ii) to adopt regulations on liquidation and privatization of companies considered unreasonable to be held within the government property; (iii) to implement practical activities for such companies liquidation and privatization.

To address the third objective that is related the restructuring of secondary assets of state-owned companies fully or partially owned by the state the Kyrgyz Republic government intends: (i) to carry out inventory of secondary assets of state-owned companies, institutions and economic entities fully or partially owned by the state; (ii) to prepare a set of measures for efficient management of identified secondary assets; (iii) to implement practical activities for the identified secondary assets disposal.

The following objectives will be addressed as a part of the second priority area that is related to facilitating the growth of the government sector profitability growth and sustainable development: (i) to tighten supervision of financial and economic activities of state-owned companies and economic entities fully or partially owned by the state; (ii) to facilitate efficient

management of non-operated government immovable property; (iii) to develop and introduce mechanisms ensuring the government property management transparency and openness.

To address the first objective that is to tighten supervision of financial and economic activities of state-owned companies and economic entities fully or partially owned by the state the Kyrgyz Republic government intends: (i) to develop and introduce a uniform management procedure for state-owned companies; (ii) to develop and introduce key financial and economic indicators of state-owned companies productivity; (iii) to develop and introduce mechanisms aimed at raising the accountability and motivation of management bodies of economic entities fully or partially owned by the state and regular assessment of their activities.

The objective of efficient management of non-operated state-owned facilities will be addressed through the following measures: (i) to carry out comprehensive review of rentals for state-owned facilities and market rates of similar facilities rent; (ii) based on the review findings, to develop and introduce state-owned property rental estimate methodology in line with market principles; (iii) to adopt a regulation on implementing competitive and open procedures for the government property rent.

The following measures have been planned to address the third objective that is to develop and introduce mechanisms ensuring the government property management transparency and openness: (i) to adopt regulations on electronic auctions for the government property disposal; (ii) to develop a software and purchase software and hardware for the launching of trading platform in Internet.

### **7.3. Investment Climate**

The goal is to improve the Kyrgyz Republic's investment climate attractiveness. This includes raising the environment oriented investment level to 10 % in newly launched investment projects.

Background. In 2008, the foreign direct investment (FDI) reached its peak of \$866.2 million. FDI significantly decreased during the next two years due to the world financial crisis reaching only \$660.9 million in 2009 and \$666.1 million in 2010. According to preliminary data, FDI reached \$521 million in 2012.

Currently, the existing system of investment policy issues regulation shows serious drawbacks directly affecting FDI inflow. Functions and certain powers are allocated to separate government institutions such as ministries, agencies and local governance bodies. There is no coordination of efforts to develop a single investment policy. The public administration system has no independent agency responsible for investment promotion and support that could promote the country's investment opportunities, provide reliable information and quality services to foreign investors based on the one-stop-shop

principle, and ensure investments security in the country in accordance with the Kyrgyz Republic laws.

Stability, including that political, legal, economic and social, is a fundamental factor for investment promotion. Currently, investors perceive the Kyrgyz Republic as a politically and socially unstable state with frequent change of government and laws and lack of succession and consistency in government decisions. Investment laws norms are often interpreted arbitrarily. Artificial barriers arise in investor activities accompanied by conflicts and corruption, particularly at local level. The poor protection of investor ownership rights is also a serious obstacle for FDI.

Furthermore, the country still does not have a database of existing and planned investment projects including those of regional level. Access of potential investors to information on the Kyrgyz Republic's investment opportunities is impeded. There is a need in a Multilanguage web portal that would provide access to the investment projects database and potential investment areas and ensure reception and urgent consideration of investors' complaints and messages.

Taking into account the above mentioned issues and objective factors impeding attraction of investments such as small market scale and lack of access to sea ports, it is an urgent challenge for the Kyrgyz Republic government to provide preferences to investors for better competitiveness of the country's investment market.

The human resource capacity for investment policies development and implementation shows serious drawbacks. Staff is selected on common grounds, with no additional qualification requirements such as language skills and experience. There is deficit of professionals specialized in new world development trends including issues of attracting environmentally oriented investments for the country's sustainable development.

Priority areas. Taking into account the above issues, the investment policies up to 2017 will be focused on the following priority areas: (i) improvement of the government investment policy efficiency; (ii) development of mechanisms to promote and support investments.

The first priority area activities will address objectives aimed at the following: (i) institutional capacity increase; (ii) improvement of access to reliable information; (iii) stable legislation development; (iv) human resource capacity building.

The following measures should be implemented to address the objective of institutional capacity increase: (i) to establish an institution to promote investments that will act as a coordinating body and work based on the one-stop-shop principle ensuring that any investor can have necessary information and assistance in starting and implementing a project; (ii) to introduce the institution of investment agents with diplomatic missions who will act as agents for local targeted campaigns for investment attraction.

The second objective that is related to access to information will be addressed through the following measures: (i) to conduct annually the country's

investment advantages surveys at regional and industry levels; (ii) to develop a single database of existing and planned investment projects; (iii) to provide open broadband access to the database via Internet for potential investors; (iv) to inform local communities on potential benefits of planned and existing projects.

The third objective suggests ensuring the investment laws stability through the following initiatives: (i) to modify laws as to clarify the provision of the investor's right to choose stable and favorable legal regime; (ii) to develop procedures for investors to exercise their right to choose most favorable regime in case of law modification through newly adopted regulations; (iii) to propose legislative limitations on regulations which deteriorate investor position; (iv) to secure legislatively clear grounds for forced seizure of property by government providing fair seizure and compensation mechanisms.

The fourth objective that is related to the investment process support will be implemented through the following measures: (i) to arrange a regular capacity development system for staff involved in investment policy development and investment promotion; (ii) to organize activities for the studying of best practices of international investment promotion agencies; (iii) to develop and introduce a mechanism of government order placement within education system for staff retraining.

Successful fulfillment of objectives within the first priority area will allow promoting the second one that is related to development of mechanisms to promote and support investments. The second priority area suggests addressing the following objectives: (i) to attract investments; (ii) to promote investments.

The first objective suggests the following measures: (i) to develop criteria for the identification of projects that will have preferences and incentives; (ii) to develop an investment incentives map (IIM) based on the following criteria: investment amount, area, economy sector, availability of environmental components in investment projects; (iii) to develop a draft regulation on procedures of the IIM-based preferences; (iv) to develop and distribute investment directories on incentives provided.

The following measures have been planned to address the second objective: (i) to lower the threshold amount required for investment visa; (ii) to abolish the commission for apartment purchase by investors that meet specific conditions; (iii) to develop and introduce a system for the assessment of activities of investors and encouragement with annually awarded title Investor of the Year as an example.

## **7.4. Finance and Credit Sector Development**

### **Banking Sector Development**

The goal is to form a stable and effective system of finance and credit institutions capable of efficiently mobilizing financial resources and satisfy the need of overall population and entrepreneurs in long-term and accessible credits.

Background. 23 commercial banks and their 278 branches operated in the Kyrgyz Republic as of the end of 2012. Commercial banks' capital<sup>17</sup>, being their main strength source, increased by 26%. While the main indicator characterizing the capital sufficiency reached 28 % as of the end of 2012 and exceeded the set normative (12 %) two times. Notwithstanding the impact of global financial crisis and developments in April and June 2010, there was annual growth of deposits in commercial banks witnessing growing public trust in bank system. Thus, the bank sector's deposit base increased from 29.6 to 50.6 billion soms, or by 71.4 % in 2008-2012. Its net profit grew by 33 % within five years, from 1.8 to 2.4 billion soms. Commercial banks' credit portfolio increased by 56.2 % within five years, from 25.6 to 40 billion soms.

However, specific weight of long-term credits (more than 3 years) remains low (24 % in the last five years). Crediting of economy by commercial banks shows that average specific weight of trade in the 5-year credit portfolio is 41 %, while agriculture, mortgage and consumer loans had 13.4 %, 11 % and 8.4 % respectively. Interest rates of credits provided by commercial banks remain high, although rates of credits in local currency for more than 1 year decreased 24.4 to 21.7 %, except for mortgage and construction loans where rates increased 19.1 to 21.3 % and 21.1 to 22.5 % respectively.

Thus, main issues associated with finance and credit services included the following: (i) high interest rates on credits; (ii) narrow long-term credit segment; (iii) not quite high level of trust of general population and entrepreneurs in banking system; (iv) low financial literacy of bank service users.

Priority areas. Main priority areas for the period through 2017 will include the following: (i) increase of the financial intermediation level and achievement of forecasted figures of the bank sector and non-bank financial sector by 2017; (ii) decrease of bank system credit interest rates to the forecasted 16.5 %; (iii) development of criteria for innovative projects and provision of crediting in 2014; (iv) increase of the long-term money share in the Kyrgyz Republic's economy.

The first priority area will be implemented in line with the forecast-based scenario. According to the scenario, the indicator "Ratio of Finance and Credit Sector Assets to GDP" will increase by 0.5 % per year until 2017.

The second priority area: weighted average interest rates of bank credits will fall to 16.5 by 2017 as the following developments occur: (i) annual growth of credit portfolio by 15 %; commercial banks' credits interest rate remains at 19 %; (ii) the Kyrgyz Republic government support to the real sector through crediting, at least 5 % (state funding in amount about 7 billion soms or interest rates subsidizing for credits in amount of at least 700 million soms, to be secured in the national budget) of the total amount of the entire bank system per year.

The third priority area: specific weight of credits for at least 3 years will remain at 24.0 % level until 2017, with account of the credit portfolio growth.

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<sup>17</sup> Paid up authorized capital

The financial market should be provided with long-term resources in order to increase the share of long-term credits. Pension savings are one of long-term resource sources globally, therefore the country's pension reform should be continued with respect to introduction of the funded pension component within the capacities of the Kyrgyz Republic Social Fund and Kyrgyzstan's economy.

At the same time, the Kyrgyz Republic government and relevant ministries should work to facilitate attraction of long-term loans by the finance sector entities both on external and domestic markets. Furthermore, capitalization is needed for the Kyrgyzstan-Kazakhstan Investment Fund (\$296,000) which would allow implementing the first installment in amount of \$30 million. Agreement should be signed with the European Investment Bank so that could start its operations in the country. The Kyrgyz Republic government will order the Ministry of Finance and Ministry of Economy to provide for subsidizing credits for agriculture and trade sectors.

As a part of the fourth priority area, criteria will be developed for environment oriented innovative projects. In 2014 crediting of environment oriented innovations will commence provided that funding is secured in the national budget to promote such crediting (subsidizing, funding, etc.).

### **Non-bank Finance Sector Development**

The goal is to transform and attract funding in order to ensure investment in the real economy sector. The non-bank finance sector is a part of the Kyrgyz Republic's financial market and consists of the securities market, insurance activities and funded pension system, and accounting and audit.

Background. 2,674 securities issues were registered as of December 31, 2012. The total emission amount was 64 billion soms. The amount of funds raised on the security market reached about 5 billion soms annually in the last five years.

Currently, the choice and variety of financial instruments are limited. The securities market capacities are used insufficiently for investment projects funding, particularly for those national. Many joint-stock companies fail to follow corporate management principle to sufficient extent. The stock market has not taken an adequate position as an instrument for capital mobilization and attraction to economy. Liquid stock are not circulated freely (companies fully or partially owned by the state). Weak public awareness on the market leads to non-confidence in stock market. People are not professionally prepared for investing.

There are 17 insurance companies operating on the market including two reinsurance ones. Their aggregate assets increased 2.5 times in the last five years and reached 1,376.5 million soms as of January 1, 2013. Premium payments increased 1.6 times and reached 51.2 million soms in 2012. However, practice shows that, due to lack of administrative measures mechanisms, not all entities comply with the law requirement on entering contracts on the four types of

obligatory liability insurance (their share is only 9.1 % of the entire premium amount).

The lion's share of premiums passed to reinsurance is transferred outside the country. In 2012, insurance organizations transferred 583.7 million soms for reinsurance (69.5 % of the total premium amount) including 576.1 million soms transferred to foreign countries (68.6 %). To protect the insurance market and reduce capital outflow abroad a reinsurance organization should be established in Kyrgyzstan, possibly partially owned by the state.

Currently, there is one non-government pension fund, NPF Kyrgyzstan, providing additional pension provision on voluntary basis. The fund's assets reached 23,697,300 soms by January 1, 2013. The funded pension system has been introduced in January 2010. The State Pension Savings Fund's account accumulated 980 million soms in 2010, 1.8 billion soms by January 1, 2012, and about 3 billion soms by January 1, 2013 (with the set 2 % fee). These funds are only invested in government securities and commercial banks deposits. Transfer of the funded pension component to professional actors (asset management companies) for trust management and expansion of investment areas are planned for 2016. To increase profitability and regulate risks, mechanisms should be provided for the safeguarding of pension savings. Pensions savings, being a sources of long-term money will allow further investing in long-term profitable projects and therefore contributing to economy development without the state's external debt growth.

With respect to IFRS introduction, the Kyrgyz Republic was one of the first CIS countries to determine its accounting policy strategy in line with IFRS and has been implementing the strategy so far with a number of achievements. For the purpose of practical assistance to companies accountants in conversion and IFRS application, a set of documents was developed for accountants to work under IFRS.

The Kyrgyz Republic government's auditors register includes 70 organizations. Four international audit companies of the Big Four operate on the country's audit services market along with domestic audit organizations. In 2011, two audit companies of the international top 10 started to operate in the Kyrgyz Republic witnessing progressive development of the audit market in the Kyrgyz Republic. The amount of proceeds of all domestic audit companies reached 103,101,800 soms in 2011, while international audit companies had proceeds in amount of 118,533,400 soms which shows the market's need in high quality audit. There is also the need to improve quality of domestic audit services and build a multistage audit quality control system in line with advanced international practice.

To implement comprehensive measures for further development and improvement of the accounting and audit system in the private sector, an accounting and audit development strategy and plan should be adopted.

Priority areas. Main priorities include the following: (i) improvement of efficiency of the national stock market to secure investments in the Kyrgyz Republic's economy sustainable development; (i) development of the Kyrgyz

Republic's insurance market and funded pension system; (iii) establishment of a financial reporting quality control system and development of audit quality control in the Kyrgyz Republic.

The first priority area will be implemented through addressing the following objectives; (i) to extend the range of financial instruments on the stock market; (ii) to improve people's financial literacy and ensure investors' rights protection; (iii) to promote the increase of investments through the stock market.

The following activities will be implemented to address the first objective; (i) to adopt a regulation on introduction of Islamic financial instruments; (ii) to prepare a set of regulations for government securities transfer to stock exchange for placement and circulation.

The following activities have been planned to address the second objective: (i) to approve Financial Literacy Improvement Program; (ii) to establish a stock market information center; (iii) to adopt a regulation ensuring protection of investors' rights.

The third objective will be addressed through the following activities: (i) to prepare proposals on ensuring free circulation of 5 % to 15 % of state-owned companies' stock on stock market; (ii) to introduce international principles of the Corporate Management Code in order to improve domestic companies' attractiveness.

The second priority area will be implemented through the addressing of the following objectives: (i) to introduce new types of obligatory insurance and further implement existing types of obligatory liability insurance; (ii) to facilitate reduction of capital outflow from the domestic insurance market to those foreign; (iii) to attract long-term pension money as an investment in the country's economy.

The first objective will be addressed through the following measures: (i) to develop a draft law on amendments to the Kyrgyz Republic Code of Administrative Liability; (ii) to adopt a regulation on introduction of new types of obligatory insurance.

The second objective will be addressed through the establishment of a reinsurance organization fully or partially owned by the state.

To address the third objective, a regulation should be adopted providing procedures of pension savings investment and mechanism to safeguard them.

The third priority area will be oriented at addressing the objective including development of a financial reporting quality control system and building of a multistage audit quality control system. The objective will be addressed through the following measures: (i) to approve the country's corporate financial reporting strategy and plan 2013-2020; (ii) to modify regulations on accounting; (iii) to modify regulations on audit as to improve the quality control system.

## **7.5. Tax and Customs Policies**



The goal is to create an effective fiscal regulation system in context of the Kyrgyz Republic transition to sustainable development.

Background. Tax and customs revenues increased from 36 billion to 64 billion soms or 1.8 times in 2008-2012. Their specific weight in GDP grew from 19 % to 21.0 %. According to expert estimates, fiscal performance in Kyrgyzstan has reached 70 % of the possible level.

Fundamental tax and customs administration enactments include Tax Code and Customs Code of the Kyrgyz Republic. The Kyrgyz Republic Tax Code provides liberal tax treatment in general, particularly for good faith taxpayers. The tax burden is 19 % as average that is relatively low comparing to trade partner countries. This figure is 35 % in Russia, 23 % in Kazakhstan, 32 % in Moldova, and 34 % in Belarus.

At the same time, the tax load is distributed unevenly between economy branches. The heaviest load is put on industry, while the agricultural sector is almost tax exempted except land and property taxes.

The current tax and customs services administration has serious drawbacks. Complex administrative procedures still exist in tax obligations fulfillment by business entities. Activities of fiscal bodies involved in corruptive schemes undermine business community's trust in government and pose threat to the financial system's stability as a whole. Frequent transfer of fiscal policy functions from one government body to another affects efficiency of fiscal bodies in general including their human resources capacity.

The regulation base has substantial gaps. It should be noted that, notwithstanding relatively low tax rates, almost 20 years of the Kyrgyz Republic independent development is characterized by a number of institutional and administrative barriers that forced a part of business to move to the shadow.

In this view, the main objective is to reduce areas and conditions for shady business development and create legislative and other barriers preventing its existence and spread. Furthermore, the lack of stable tax laws sends an alarming message to investors. Performance of tax and customs services is significantly affected by the lack of proper information exchange between agencies engaged in collection of taxes and other state fees.

Priority areas. Taking into account the above issues, priority areas for the period to 2017 will include the following: (i) development of an effective and stable tax system; (ii) simplification and improvement of tax and customs administration; (iii) improvement of transparency, identification and elimination of conditions for corruption; (iv) implementation of fiscal measures contributing to the environment pollution prevention.

The first priority area that is related to development of an effective and stable tax system will be focused on the following objectives: (i) to streamline tax and customs services; (ii) to improve human resources capacity of tax and customs bodies; (iii) to coordinate activities of law enforcement and other government bodies.

The following measures will be implemented to address the first objective: (i) to continue introduction of customs service automated information

system including the electronic customs bill submission; (ii) to continue introduction of the tax service automated information system including the electronic tax report submission; (iii) to modify regulations on introduction of new technologies in tax administration to facilitate tax obligations fulfillment by taxpayers (inspections based on risk criteria, wide practical use of taxes charged, mandatory patent, tax contract).

The second objective will be addressed through the following measures: (i) to amend laws as to promote or hold liable tax and customs service officers; (ii) to arrange training workshops for tax and customs service officers professional development.

The following measures have been planned to address the third objective that is to coordinate activities of law enforcement and other government bodies: (i) to conduct systematic inspections in cooperation with the Kyrgyz Republic government Service for Economic Crime Prevention, Tax Service and Customs Service in order to identify foreign trade entities involved in smuggling, taxpayers with tax debts, as well as to identify and register economic entities not registered with tax authorities.

The second priority area that is related to simplification and improvement of tax and customs administration will be focused on the following objectives: (i) to even tax load and improve investment climate; (ii) to ensure tax collection completeness.

The first objective will be addressed through the following measures: (i) to revise the list of activities run based on voluntary and mandatory patents; (ii) to develop a draft regulation preventing duplication of VAT and sale tax; (iii) to develop draft regulations on revision and optimization of the existing tax preference system; (iv) to develop a draft concept of fiscal policy for 2014-2017.

The following measures will be implemented to address the second objective: (i) to develop draft regulations aimed at tax and customs administration simplification; (ii) to introduce universal tax declaration; (iii) to develop draft regulations on non-cash payment of taxes and customs fees.

The priority area of improvement of transparency, identification and elimination of conditions for corruption will be promoted through the addressing of the objective that is to improve tax and customs administration and automate reporting system.

The above objective will be addressed through the following measures: (i) to establish electronic tax declaration processing centers; (ii) to interview taxpayers and foreign trade entities with respect to corruption in tax and customs bodies; (iii) to apply administrative measures to tax and customs officers involved in corruption activities; (iv) to implement continuous activities aimed at the tax reporting simplification.

One of the fiscal policy novelties will be the promotion of the fourth priority area oriented at fiscal policy measures contributing to the environment pollution prevention. The following measures have been planned for this area: (i) to adopt a regulation on environmental fee for foreign vehicles entering the Kyrgyz Republic customs territory as the air pollution compensation; (ii) to

adopt a regulation on the customs fee exemption of imported electrically driven and hybrid-engine vehicles; (iii) to adopt a regulation on raising the customs fees for imported goods posing threat to environment; (iv) to establish a system aimed at increasing customs officers' capacity for international conventions compliance.

## **7.6. Foreign Trade Activities Regulation**

### **Foreign Trade Activities**

The goal is to develop and improve regulation framework of foreign trade cooperation in order to facilitate the trade turnover growth and FDI inflow to the country's economy.

Background. Kyrgyzstan implements its most economically beneficial cooperation with countries of the Commonwealth of Independent States and Eurasian Economic Community and within the Shanghai cooperation Organization. Advantages of cooperation with CIS and EAC members are obvious. CIS countries citizens may enter, leave, travel through, move within and stay in other CIS countries without visa regardless of their permanent residence. Certain CIS countries signed intergovernmental agreements on streamlined citizenship procedures. The Commonwealth addresses issues such as provision of CIS countries citizens with equal access to mainstream education institutions, mutual recognition of education certificates, and free emergency medical assistance.

No customs fees are charged on goods produced in CIS countries and transferred through the Commonwealth's internal borders. Goods produced by the CIS countries become more competitive than those from third countries thanks to lower transaction costs. The opportunity of collaborative use of the CIS countries' innovative technologies and intellectual resources capacities also plays a significant role. Close neighborhood of countries such as Russia, Kazakhstan, Tajikistan and Uzbekistan contributed to intensive development of trade relationships and included them in the category of Kyrgyzstan's major trade partners.

Conference of the Central Asia Regional Economic Co-operation (CAREC), a program of the Asian Development Bank aimed at implementing projects in power generation, transport and trade sectors also contributes to substantial improvement of the CA region competitiveness and better integration into the world economic community. Thus, the project "Energy Sector Rehabilitation in the Kyrgyz Republic" has been designed to improve the reliability of national and regional power grids of Kyrgyzstan and Central Asia as a whole, and the "Energy Sector Improvement" project will contribute to increase the level of energy security, regional power generation efficiency and output, and reliability of power grids in the Kyrgyz Republic and Central Asia.

The CAREC transport projects contribute to regional trade turnover growth. Particularly, the project for rehabilitation of the national motor road Osh

– Batken – Isfana is aimed at providing reliable access to social services and economic activities for people and better road network management in the country. The CAREC Transport Corridor Project will increase the regional trade turnover, particularly between Kyrgyzstan and China.

The CAREC Project for Improvement of the Regional Motor Road Corridor will allow reducing transportation costs, contribute to regional cooperation between the CA countries, and improve access to regional markets and social services for people living along the corridor. The regional power project CASA 1000 is quite promising for the Kyrgyzstan's economy as it is designed to facilitate power export from Kyrgyzstan and Tajikistan to Pakistan and Afghanistan, increase the reliability of national and regional power grids of Kyrgyzstan and Central Asia, improve energy security and efficiency, and increase regional trade turnover.

Major foreign trade issue is the incomplete regulation base for investment and financial cooperation and avoidance of double taxation failing to meet present day requirements.

The priority area for the period up to 2017 in addressing the issue will be activation of integration processes within CIS, SCO, EurAsEC, and Cooperation Council of Turkic-Speaking States (CCTSS) through efficient development of integration relationships. The following measures have been planned: (i) to hold negotiations and consultations to coordinate intergovernmental agreement versions on establishment of development funds of SCO and CCTSS; (ii) to hold negotiations and consultations to coordinate intergovernmental agreement versions on investment promotion and protection and avoidance of double taxation in the CCTSS countries.

## **Foreign Trade Relations**

The goal is to build competitive export capacity for steady economic growth.

Background. In 2008-2012, the Kyrgyz Republic government's foreign trade policy measures were aimed at streamlining the trade procedures. A number of regulations were adopted necessary for foreign trade procedures reduction and optimization.

Taking into account the high level of integration in mutual trade with the Customs Union member countries, with its 45 % share in the KG's total foreign trade turnover, the Kyrgyz Republic government decided to initiate negotiations on joining the Customs Union and Common Economic Space in 2011. The activity plan for joining the Customs Union has already been coordinated. In 2012, according to the Plan, Kyrgyzstan carried out analysis of its laws for compliance with the Customs Union's contractual legal framework that included comparison of custom fee obligations of Kyrgyzstan and Russia in WTO, as well as package of regulations and international treaties. The goal of the Plan is

to prepare the road map for Kyrgyzstan to join the Customs Union's contractual legal framework.

Kyrgyzstan, although not a CU member, can feel the union's influence on trade. The CU countries apply various customs tariff and non-tariff restrictions in their mutual trade with the Kyrgyz Republic and toughen customs procedures on its outside borders.

In case of harmonization with the CU's common customs tariff (CCT), the Kyrgyz Republic's current customs tariff should be increased. Negotiations are expected within WTO to alter the Kyrgyz Republic's customs tariff obligations. Prices for goods imported from China are likely to grow significantly as customs fees will be applied to them based on their value and not their weight as it is practiced currently. Customs fees increase and the toughening of customs control will lead to reduced re-export from China and, respectively, reduced tax revenues from wholesale markets.

Tax revenue decrease due to reduced import will to some extent be compensated by increased customs fees. There is a risk that, at initial stage, domestic market will suffer deficit of goods and raw materials (food and raw materials necessary for production) as domestic products will be exported without limitations. When in the CU, the Kyrgyz Republic will not be able to apply any protective measures against goods from other CU countries, therefore there is a risk that domestic goods will not be able to compete on domestic market.

Advantages of joining the CU and CES include the following: (i) abolition of formalities, fees and customs control on the CU internal borders and freedom of transit will ensure reduction of costs incurred by importers/exporters and facilitate trade; (ii) positive impetus and border trade development previously constrained by customs control; (iii) border communities will be able to buy goods on the neighboring country area with no mandatory standards; (iv) other strategic goods and energy carriers will be supplied within communities without any export and import fees which is particularly important for Kyrgyzstan.

Particular significance is given to the CU countries on the railroad transportation common market, uniform approach to rate fixing without separation of export and import tariffs, and development of a uniform technical regulation system. Another advantage for manufacturers is products export clearance with the use of uniform CU certificates, without follow-up checks and control within the CU area. Kyrgyzstan membership in CU and CES will ensure free migration policy without quotas and limitations which will enable migrant workers to enjoy all social rights provided to host countries citizens.

The following major issues will impede foreign trade development: (i) change of conditions for foreign trade with main regional trade partners due to the CU establishment and development; (ii) reduced re-export activities and attractiveness of country's wholesale markets; (iii) adopted agreements and requirements for technical regulation and sanitary, veterinary and phytosanitary measures applied in the CU have complicated the access to the CU markets for Kyrgyzstan's products. Restrictions introduced by neighboring countries for

export of goods demand for which is met by import in Kyrgyzstan lead to their rise in price on domestic market.

Trade development has also been hampered by lack of well-developed government export support system including weak infrastructure, as well as incompleteness of export and import documents completion procedures, and limited capacity of testing lab base. Increased import competition forces domestic manufacturers to compete with imported goods that have price advantages. There is growing export of raw materials used by domestic manufacturers due to higher prices for such materials in neighboring countries.

Priority areas. To address the above mentioned issues and achieve the set goal, the following priority areas will be implemented: (i) the country's export capacity development; (ii) facilitating negotiations on and procedures of the Kyrgyz Republic's joining the CU and CES; (iii) ensuring harmonization of the Kyrgyz Republic's regulations and the CU documents related to technical regulation.

The following objectives will be addressed within the priority area of the country's export capacity development; (i) to create basis for the achievement of more attractive foreign trade regime; and (ii) to raise competitiveness of goods and responsibility of manufacturers for their products.

The first objective will be addressed through the following measures: (i) to develop the Kyrgyz Republic Export Development Strategy that will as well cover the export of fresh and processed fruits and vegetables, with focus on 'green' products; (ii) to obtain the status of beneficiary of the universal preferences system for the Kyrgyz Republic; (iii) to develop a regulation on extending the range of functions of the Foreign Trade One-Stop-Shop Center state-owned company of the Ministry of Economy; (iv) to hold negotiations with international organizations on issues of international standards application, and discuss application of international and regional standards as those Kyrgyz national with major trade and economy partners.

The second objective that is to raise competitiveness of goods and responsibility of manufacturers for their products will be addressed through the following measures:

(i) to develop and implement procedures of entering the international agreements on technical regulation and standardization in order to apply international and regional standards as those national in the country, as well as to apply CU technical regulations;

(ii) to ensure harmonization of national standards with international standards and rules;

(iii) to enter agreement with major trade partners with respect to mutual recognition of standard compliance assessment findings;

(iv) to reequip the testing lab and reference base with donor funding attraction;

(v) to modify laws on promotion of economic entities implementing product quality and safety management.

The second priority area will be focused on the objective of facilitating negotiations on and procedures of the Kyrgyz Republic's joining the CU and CES through the following measures:

- (i) to elaborate positions for negotiations with the CU and WTO;
- (ii) to assess and economic effects of joining the CU for the Kyrgyz Republic;
- (iii) to develop the road map for joining the CU and CES;
- (iv) to implement information and consultation activities for private sector with respect to the issues of access to the CU countries' markets.

The third priority area will be focused on addressing the objective of ensuring harmonization of the Kyrgyz Republic's regulations and the CU documents related to technical regulation through the following specific measures:

- (i) to elaborate positions for negotiations with the CU in line with agreements within the WTO;
- (ii) to apply international and regional standards as those national.

### **7.7. Forming the Innovative Activities System for the Economy Competitiveness Improvement**

The goal is to create an effective system of intellectual property protection and innovative activities for economy development and improved competitiveness.

Background. Kyrgyzstan holds the 127<sup>th</sup> position among 144 countries in the index of innovation use in business<sup>18</sup>, and the indicator continues lowering (122<sup>nd</sup> position in 2008). 48 industrial companies developed and introduced process innovations in the country in 2010<sup>19</sup> (1,8 % of the total number of companies). The most intensive innovative activities took place in 2010 in food production (13 companies), power, gas and water generation and distribution (8), metallurgy and finished metal items manufacturing (5), other nonmetal mineral products manufacturing (4), and pulp-and-paper production and printing (4).

The most of innovation-active companies are concentrated in Bishkek (89.5 %) and Chui oblast (9.0 %). All innovative products are produced by private companies. The major part of innovative activities is associated with technology purchase. Thus, in 2010, 32 companies purchased machinery and equipment with their expenditures amounting to 55 million soms. Companies' own resources reach 91.6 % and other funding sources 8.4 % of the total amount of expenditure associated with process, marketing and organizational innovations.

Expenditures for process innovations in industry are quite insignificant and incommensurable with the country economy's actual need in upgrade of

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<sup>18</sup>WEF: World Economic Forum: Global Competitiveness Report 2012-2013.

<sup>19</sup>NSC data on the Kyrgyz Republic industry 2006-2010 Bishkek 2011.

main production assets and expansion of totally new and competitive product range.

Development of innovative activities in the country is constrained by the following set of factors:

- (i) lack of an adequate system for innovative activities institutional support and development; science low productivity and isolation from industry;
- (ii) poor level of training and deficit of engineering and technical staff and other innovation development specialists;
- (iii) country's economy insensitivity towards innovations with reliance on imported innovations in form of equipment and technologies;
- (iv) lack of an effective technology commercialization system.

Currently, the country's innovation support and introduction system is in process of formation. In this view, actual development trends and nature of the country's industrial companies innovative activities should be taken into account as they are mostly focused on process upgrade issues rather than on innovative product development based on research and designs.

Innovations development is an expensive process that requires credit support or borrowed funding. Underdeveloped venture financing, lack of own resources for research, as well as lack of government system for new technologies support and introduction make the innovation development process inaccessible for the country's companies.

Taking into account the current situation and available resources, Kyrgyzstan should focus on development of system and mechanisms for search, borrowing, adaptation and distribution of technologies which are efficient and innovative for domestic companies.

Priority areas. Taking into account the issues mentioned above, the priority areas will be as follows:

- (i) to facilitate development of innovative activities and use of intellectual property assets;
- (ii) to build a system contributing to effective decision making in innovative activities development including power saving and power efficient technologies;
- (iii) to improve the regulation framework of innovative activities and protection of intellectual property rights;
- (iv) to facilitate training and professional development and raise public awareness of the role and significance of intellectual property and innovative activities.

The priority area of facilitating the development of innovative activities and use of intellectual property assets will be focused on the addressing of the objective of developing a system for search, selection and record of innovative power saving and efficient technologies.

The Kyrgyz Republic intends to implement the following measures to address the objective:

- (i) to develop criteria for inclusion of technologies in the list of those innovative, power saving and efficient;



- (ii) to create a register of innovative, power saving and efficient technologies;
- (iii) to create a list/register of industry needs and designs;
- (iv) to provide services of innovative technologies search, selection and marketing.

The second priority area that is to build a system contributing to effective decision making in innovative activities development including power saving and power efficient technologies will be focused on addressing the objective of developing a system for decision making and coordination of innovative policy implementation within the Kyrgyz Republic Government Innovations Council. The objective will be addressed through the following measures:

- (i) to carry out a comprehensive analysis of innovative activities in the country that contribute to the economy formation;
- (ii) to develop and present proposals on adaptation of national innovative development statistic indicators to international standards;
- (iii) to adopt a program for innovation development and technology transfer.

The priority area of improving the regulation framework of innovative activities and protection of intellectual property rights will be focused on addressing the objective of improving the innovative activities and intellectual property protection legislative base. The Kyrgyz Republic government intends to address the objective through the following measures:

- (i) to modify laws on intellectual property protection;
- (ii) to amend the Kyrgyz Republic laws including tax and customs codes to ensure support for companies applying innovative, power saving and efficient technologies.

The priority area of facilitating training and professional development and raising public awareness of the role and significance of intellectual property and innovative activities will be focused on the objective of establishing a training center to share innovations and knowledge within the Kyrgyzpatent's Technology and Innovations Support Center (TISC). The objective will be addressed through the following measures:

- (i) to arrange for the TISC specialists international training in areas such as innovation management, marketing and assessment and patent and information search and review;
- (ii) to develop the TISC curricula and training programs;
- (iii) to conduct innovation development training for target audience and other concerned parties;
- (iv) to arrange yearly competitions of innovative concepts for the innovation development promotion;
- (v) to conduct surveys and interviews among wide public and business communities for the innovation policy perception in order to adjust innovation policies;
- (vi) to implement information and education activities related to green innovations.

## VIII. DEVELOPMENT OF STRATEGIC ECONOMY SECTORS

### 8.1. Energy Sector

The goal is to ensure the Kyrgyz Republic energy security and develop export capacity.

Background. The Kyrgyz Republic has sufficient reserve of fuel and power resources. Estimated water-power capacity of 225 large and medium-size rivers is 18.5 million kW and over 140 billion kW/h. Power is generated by 7 hydroelectric power plants and 2 heat power plants of national scale and 11 small hydroelectric plants with various ownership, with total installed capacity of 3,784 MW and available output of 3,315 MW. 93 % of power is generated from renewable sources, mostly from water resources.

Power generation output increased by 28 % in the last five years and reached 15.3 billion kW/h. Power export increased almost 3 times and reached 1.6 billion kW/h. The specific weight of consumption by population has grown by 8 per cent points and reached 65 % due to increased prices for other energy carriers such as gas and coal and country's population growth by 4 %. The specific weight of other consumers is as follows: industry – 12 %; budget organizations – 10 %; service sector – 12 %; agriculture – 1 % (pump stations). Most of the generated power is consumed in northern Kyrgyzstan.

In fall and winter season, power supply system face overload due to 3 times increased consumption by population comparing to summer period. The emergency shutdown does not seem the best way to regulate the power distribution. Consistent activities have been implemented to reduce power losses. Outcomes of such activities have proven effective, with losses reduced from 31.6 % to 21.2 % in 2008-2012.

Power consumption per capita increased by 4 % in the last five years and reached 2.28 tons of equivalent fuel per 1,000 people that exceeds the European countries' figures 6 times. Although the GDP power intensity in current market prices has been reduced by 49 % to 43,300 kW/h per 1 million soms in the last five years it exceeds the European countries' figures 10 times.

The Kyrgyz Republic's energy sector has been facing numerous problems for several years. The energy sector's budget did not decrease in the last five years and amounts to more than 2 billion soms per year, and this cuts its capacity for stable functioning and main assets upgrade.

As a result, the existing power supply services system is based on fixed socially oriented rates for population in amount of 0.70 soms per kW/h while total power production cost that covers generation, transfer and distribution is 1.16 soms per kW/h. Domestic consumers have no stimuli for power economy. Consumers with different income level pay for power supply based on single rate, regardless of consumption volume. Imbalanced tariff policy reduces the necessary level of power companies' revenues and impedes attraction of

investment for the energy sector development. Electric power sale revenues subsidize the heat power generation.

For the purpose of better targeted service provision and benefit optimization, monthly monetary compensation was introduced in 2010 for 25 categories of citizens instead of benefits including those for electricity. The benefits monetization has made social benefits expenditure open and targeted. Replacement of benefits with monetary compensation has provided additional material support to families. The country spends about 1.5 billion soms per year as total amount of the national budget expenditure for the monetary compensation instead of benefits.

For 164 thousand power consumers living in difficult and disadvantageous natural and climate mountainous conditions and remote areas compensation was provided in amount of 50 % for electricity use for domestic purposes, within the following consumption limits: 100 kW/h in summer, May 1 to October 1, and 220 kW/h in winter time, October 1 to May 1. Annual amount of such compensations paid from the national budget is 117 million soms.

For the purpose of social support for pensioners, 83 % of them (532 thousand), in addition to their basic pensions, receive monthly compensation for electricity in amount of 200 soms from the country's budget, amounting in total to 1,8 billion soms.

The energy sector assets are 50 % to 70 % worn out putting the industry's stable operation under high risk and leading to the growing number of breakdowns and power equipment failures under season peak overloads. The problem of unstable power supply in winter time due to supply of up to 40 % of consumed power through the CA united power grid has not been addressed in full. Disturbed gas supply lead to the growing number of emergencies in the energy sector, increased public tension, which further affect people's health.

One of the key operational issues is the energy sector's non-transparent management. Adequate level of interchange and payments has not been achieved. Activities of the Department for Fuel and Energy Complex Regulation depend on political factors. Reforms resulted in reorganization of Kyrgyzenergo joint-stock company did not resolve issues related to quality and uninterrupted power supply, upgrade and restructuring of existing 35-0.4 kV lines and substations, and improvement of power accounting in distribution networks.

Power generation largely depends on hydropower engineering. Country's own fuel and power resources and non-conventional renewable energy sources have not been utilized to sufficient degree, with only 1 % of power generated by renewable energy sources.

Generation capacity deficit will reach 1,5 billion kW/h in the midterm prospective, by 2017, as new production facilities are launched including those in mining industry and GDP grows to 586.6 billion soms, with account of the GDP power intensity in current market values.

Power economy is one of the key factors of energy sector efficiency. The major source of heat losses in the country includes residential and public buildings heated by 60 % of all fuel and energy resources. Power consumption

figures in this segment exceed those of European countries more than 5 times. For the country in general, the real energy saving capacity through the improvement of residential and public buildings energy efficiency is 4 to 5 billion kW/h.

Based on the goal set and issues highlighted, the energy sector development policy will be focused on the four priority areas:

- (i) improvement of the energy sector development regulation;
- (ii) creating conditions for energy saving;
- (iii) renewable energy sources development;
- (iv) energy sector sustainable development through low-carbon energy and compliance with environmental safety standards.

The following objectives will be addressed within the first priority area:

- (i) to achieve regulating agency's independent status;
- (ii) to improve financial and economic stability of the energy sector companies;
- (iii) to improve efficiency of corporate management in energy companies;
- (iv) to improve transparency and accountability in the energy sector.

The first objective will be addressed through the following objectives:

- (i) to pass the law on amendments to the Kyrgyz Republic Law on Electric Power Industry in order to establish new rules of energy sector government regulation;
- (ii) to have the regulating agency and licensees sign agreements on pre-license and post-license obligations of energy sector entities;
- (iii) to establish a universal settlements center.

To address the objective of improvement of financial and economic stability of the energy sector companies (the second objective), the Kyrgyz Republic government intends to implement the following:

- (i) to approve a midterm tariff policy for electric and heat power for 2014-2017;
- (ii) to approve the program of targeted social support for domestic consumers, with the end user rate change for 2014-2017.

To address the third objective that is to improve efficiency of corporate management in energy companies, the Kyrgyz Republic government has planned the following activities:

- (i) to hold open and transparent competitions for senior positions;
- (ii) to analyze and assess the existing model of the energy sector management;
- (iii) to approve a regulation based on the assessment findings of further reforming the energy sector management model.

The following measures have been planned to address the fourth objective that is to improve transparency and accountability in the energy sector:

- (i) to develop and introduce a new design of the government information resource (website) integrating information on key decisions of government authorities regarding fuel and energy complex, and main outcomes

of energy companies' economic and administrative activities;

(ii) to have the Kyrgyz Republic Ministry of Energy and Industry and energy companies' executive bodies sign operating agreements.

The second priority area that is related to creating conditions for energy saving will be focused on addressing the following objectives:

(i) to provide for institutional development of a single body for energy saving policy implementation;

(ii) to ensure energy saving promotion.

To address the first objective, the Kyrgyz Republic government intends to implement the following measures:

(i) to analyze the existing system of cooperation between government bodies in regulating energy saving issues;

(ii) to develop a regulation on a single body for energy saving policy implementation.

The following measures will be implemented to address the second objective that is related to energy saving promotion:

(i) to develop and introduce electric power rates based on established social consumption standards;

(ii) to analyze potential investment projects for securing support from the UN international program "Sustainable Energy for All" and for greenhouse gas reduction mechanisms in order to assess energy saving capacity in various economy sectors;

(iii) to approve a comprehensive energy saving program;

(iv) to develop and launch a single energy saving information portal to inform power users on energy saving benefits and up-to-date technologies.

Main objectives of the third priority area that is related to renewable energy sources development include the following:

(i) to increase the renewable energy sources share in the country's energy balance;

(ii) to develop small hydropower facilities.

The first objective measures will include the following: (i) to develop and introduce a mechanism for tariff compensation in power generation using renewable energy sources; (ii) to develop the Kyrgyz Republic wind, sun and biogas atlas.

To address the second objective that is to develop small hydropower plants by 2017, the Kyrgyz Republic government intends to implement the following:

(i) to develop 2017 small hydropower industry development concept taking into account inclusion of small hydropower plants construction in every oblast in the regional development plan;

(ii) to hold an investment tender for construction of four small hydropower plants as a part of an EBRD project.

The fourth priority area will be focused on the following objectives:

(i) to satisfy economy's need in energy and achieve the country's energy independence;

- (ii) to improve power supply stability and ensure reliable record of generated and distributed power;
- (iii) to provide the country's fuel and power complex with professional staff.

As a part of addressing the first objective, measures have been planned to implement large-scale national projects:

- (i) construction of Datka 500 kV power line and 220 kV power line in southern Kyrgyzstan;
- (ii) construction of Datka – Kemin 500 kV power line and Kemin 500 kV substation;
- (iii) construction of Kambar-Ata hydropower plant 1;
- (iv) construction of four small hydropower plants;
- (v) construction of Verkhne-Narynsky hydroelectric power chain (4 plants);
- (vi) commissioning of the second hydraulic unit of Kambar-Ata hydropower plant 2;
- (vii) CASA 1000 project works continuation;
- (viii) seeking investments for feasibility study of Kara-Keche heat power plant with coal gasification option.

The following power industry projects will be implemented to improve power supply stability and ensure reliable record (the second objective):

- (i) improvement of Bishkek and Osh power supply;
- (ii) energy sector rehabilitation (Toktogul hydropower plant rehabilitation project);
- (iii) improvement of power distribution network efficiency (including delivery of 110,000 new generation electronic counters);
- (iv) At-Bashi hydropower plant restructuring;
- (v) Uch-Kurgan hydropower plant restructuring;
- (vi) Bishkek heat power plant 1 reconstruction including output increase and boilers upgrade for better efficiency of using Kyrgyz coal and introduction of environment friendly and energy saving technologies;
- (vii) energy sector development with installation of electricity commercial accounting automatic system.

The following measures will be implemented to increase the human resources capacity (the third objective):

- (i) to develop and implement a public contract for engineer staff training for the energy sector in the country's technical universities;
- (ii) to establish an interregional fuel and power complex training and retraining center for 500 students.

## **8.2. Agriculture Development**

The goal is to facilitate production growth, product quality improvement and country's food security achievement.

Background. Agriculture is the country's one of leading economy sector both in added value scale and number of people employed. In 2012, the sector's share in GDP was 17.5 %, with 31 % of employed population. However, the sector's annual average gross added value growth is substantially behind the relevant figures for the country, 2.1 % against 3.2 % in 2001-2012. The average wage in agriculture is lowest comparing to other economy sectors.

The agriculture development government regulation is mostly aimed at ensuring current activities and allocation of the sector's government support resources. The management institutions structure includes all necessary activity areas however the capacity of each one of them is low due to limited funding. The sector lacks highly qualified staff and has accumulated system problems that require reforms.

The first problem category is associated with implications of agricultural land reform implemented after 1991. The principle of social justice put in the basis of the land reform led to excessive land lot partition. The agricultural sector is currently represented by more than 334,000 farms with average arable area of only 2.7 hectares including 1.9 hectares of irrigated area. This has become a barrier for agricultural producers' production capacity growth. Institutions facilitating land lots consolidation do not work. Arable lands are being reduced due to land transformation and exclusion from agricultural turnover due to degradation. Works aimed at land fertility recovery has been carried out not quite effectively.

The second problem category is associated with limited access of rural producers to government services, logistic and financial resources. These problems are aggravated by the government body structure inability to meet needs of agricultural production arrangement. Formation of private structures to provide services is lagging.

The current level of arable land irrigation and funding of the existing irrigation system repairs and rehabilitation works do not allow appropriately providing agricultural production with water resources. The sector fails to address the challenge of providing a high-level protection for animals. Problems of agricultural production certification have not been resolved.

Seed and pedigree stock quality is low. The country does not produce fertilizers. The volume of fertilizers brought to soil decreases yearly. All this negatively impacts crop capacity and cattle breeding productivity.

Notwithstanding the measures applied, the access of rural producers to financial resources and agricultural machinery is limited. Finance and credit organizations operating in rural areas are unable to meet even medium need in funding.

The third problem category is associated with difficulties in agricultural products sale and poor level of their processing by domestic processing companies. Agricultural fresh or processed products are supplied to consumer markets by producers, intermediate companies, processors and others not bound by any long-term contractual relations. The government efforts to establish cooperation of agriculture with processing industry and trade and value chain

failed. As a result, the added value generated along the chain of product suppliers is distributed unfairly, with rural producers' interests infringed upon most.

Priority areas. The agriculture development will concentrate on the following priority areas:

- (i) development of efficient systems of agriculture management and staff training, as well as prerequisites for agricultural production concentration;
- (ii) facilitating the agricultural production and agricultural products export;
- (iii) providing services to agricultural production;
- (iv) improvement of efficiency of water and land resources rational use.

The first priority area that is related to development of efficient systems of agriculture management and staff training, as well as prerequisites for agricultural production concentration will be focused on addressing the following objectives: (i) to improve the agriculture sector management and staff training systems; (ii) to create prerequisites for cooperation and cluster development and product quality improvement.

The following measures will be implemented to address the first objective:

- (i) functional analysis of activities of the Kyrgyz Republic Ministry of Agriculture and Irrigation, with account of objectives of the Kyrgyz Republic National Strategy for Sustainable Development and this Program;
- (ii) formation of the ministry's optimal structure.

The following activities will be implemented to create a stable system of staff training and retraining for rural producers:

- (i) situation analysis of the agricultural professions labor market;
- (ii) placement of public order for staff training based on demand for specific number of specialists in various areas, order for training methods development, and research and development;
- (iii) development of farmer training and retraining and faculty professional development programs.

The following regulations will be developed and adopted to address the second objective:

- (i) on strengthening of ownership protection in agricultural land market transactions;
- (ii) on government cadastre assessment of agricultural lands;
- (iii) on methodological recommendations for the assessment.

The following measures will be implemented to enlarge farms and consolidate them into cooperatives:

- (i) proposals will be prepared on modification of the Kyrgyz Republic Land Code with respect to the use of government agricultural lands, particularly for their exchange to land lots as a part of consolidation, provision of degraded lands to private ownership for cultivation, and providing the right to limited use of lands other than those within border areas to both the Kyrgyz Republic's and foreign citizens;



(ii) provision will be approved regarding the procedure of the government agricultural lands exchange to private lands for consolidation.

The following activities will be implemented for cooperation development:

(i) the agricultural cooperative development government program will be approved;

(ii) amendments will be approved to regulation framework ensuring protection of property of potential cooperative relations parties, as well as a set of tax and other economic measures to promote cooperative development in agriculture;

(iii) training program will be developed for the cooperative sector, training provided to professional staff, and information and education activities package implemented;

(iv) provision will be developed regarding priority support for rural producers owning or managing substantial areas or livestock (approximately at least 100 hectares of land for plant growing and at least 500 sheep or 300 bovine animals for cattle breeding).

The CDS and cluster development will be supported as follows:

(i) agriculture CDS and cluster development program will be developed;

(ii) methods of CDS and cluster formation in agriculture will be developed, as well as mechanism of government-private partnership and public purchase applications as an instrument for agricultural CDS and cluster development support;

(iii) a regulation will be approved regarding government support (logistics, training) for CDS and cluster formation and development through the support of innovative cluster infrastructure development (incubators, technology parks, etc.), and formation and introduction of important cluster institutions (partnership, corporate culture, responsibility, etc.).

To develop and strengthen labs for the assessment of product safety parameters and improve the product certification procedure, the following regulations will be adopted:

(i) on establishment of and funding mechanism for an up-to-date lab unit for agricultural products and food safety parameter assessment;

(ii) on opening of product certification labs to improve access of rural producers to services.

The second priority area that is to facilitate agricultural production and export growth will be focused on the following objectives:

(i) development of large-scale agroindustrial complex production and export;

(ii) processing industry development;

(iii) organic agricultural production development.

To address the first objective, the following set of measures will be implemented to develop cooperative, clusters and enlarged farms:

(i) support will be provided for establishment of prospective cooperatives (“growth spots”) in each region through the government-private partnership mechanism;

(ii) activities will be implemented to launch agricultural clusters;

(iii) priority support will be provided to rural producers owning or managing large areas and livestock (approximately at least 100 hectares of land for plant growing and at least 500 sheep or 300 bovine animals for cattle breeding).

The following steps will be made to expand the geographic area of agricultural export:

(i) a set of measures will be approved to support the agroindustrial complex products promotion on foreign markets;

(ii) agreements will be achieved with regional state administrations in Russia and Kazakhstan for agricultural export from the Kyrgyz Republic.

The second objective that is related to processing industry development will be addressed through the following activities:

(i) agricultural product processing technical regulations will be approved;

(ii) regulations will be approved to ensure funding for direct government support for processing industry (forage production, meat and milk processing, product preserving, etc.), with the use of government-private partnership principles or provision of subsidies for credits and machinery lease.

The following steps will be taken to address the third objective that is related to organic agricultural production (OAP) development:

(i) the OAP Development Action Plan and the Kyrgyz Republic Law on Organic Agricultural Production will be approved;

(ii) organic agricultural production technical regulation will be approved;

(iii) regulation will be approved to establish a funding mechanism for certification centers in order to ensure compliance check;

(iv) a set of measures will be approved to support the development of technologies for organic plant-growing and dairy and meat production at all process stages;

(v) a regulation will be approved regarding implementation and funding of direct support for fertilizers biological preparations production with the use of government-private partnership mechanism, as well as technical and financial assistance;

(vi) a regulation will be approved regarding implementation of and funding for the development of organic agricultural production added value chains and pilot clusters in plant-growing and cattle breeding, through mechanisms of government-private partnership, technical and financial assistance, as well as through the support for “organic aimak” establishment.

The third priority area that is to provide agricultural production with services and market infrastructure will be focused on the following objectives:

(i) to improve quality and range of services for agriculture, and create

prerequisites for technical and technological upgrade of agricultural production;  
(ii) to establish an advanced market infrastructure for the agroindustrial complex.

The following measures will be implemented to address the first objective:

the following steps will be taken for veterinary development, including private practitioners, and plant protection support:

- (i) animals identification mechanism and program will be developed;
- (ii) regulative requirements will be adopted for private veterinary services;
- (iii) a set of practical activities will be implemented for plants and animals protection.

The following steps will be taken to ensure veterinary and phytosanitary wellbeing and bringing regulative requirements in accordance with those of the Customs Union:

- (i) regulation framework will be developed to gradually prohibit the access of meat not produced by specialized slaughter facilities to the market and toughen farmers' liability for incompliance with requirements of animal vaccination, concealment of dangerous animal disease, etc;
- (ii) practical activities will be implemented to harmonize Kyrgyzstan's technical regulations and sanitary standards with those accepted by the CU countries, as a part of the interdepartmental commission activities.

The following steps will be taken to rehabilitate the existing agricultural plant and animal breeds and raise those more productive and adapted to the country's climate conditions:

- (i) to place a government order through a tender for raising highly productive seed breeds, improvement of existing animal breeds and raising of new ones;
- (ii) regulation will be developed and adopted on implementation and funding of measures to support development and operation of the state center for plants breed testing and genetic resources and center will be established for arrangement and coordination of selection and stock-breeding and artificial insemination of agricultural animals;
- (iii) 12 support seed-growing farms and 7 breeding farms will be opened as a part of USAID funded projects;
- (iv) measures will be implemented for field inspections, strain testing and conservation of fishing stock.

The following steps will be taken to refresh seeds and live-stock:

- (i) government supplier's credits will be provided to seed-growing farms in form of wheat and barley superquality and elite seeds for strain renewal and changing;
- (ii) economic incentives will be developed and adopted for commercial stock renewal with highly productive breeds and efficient use of new breeds' biological capacity.

The following steps will be taken to improve accessibility of agricultural machinery and financial resources for rural producers:

(i) a regulation will be approved on implementation and funding of support for machine and technology stations with the use of government-private partnership mechanism;

(ii) a set of measures will be developed and approved to attract agents of machinery companies to the Kyrgyz Republic for their machinery sale;

(iii) economic incentives will be developed and approved to expand the finance and credit institutions network in rural communities;

(iv) government order will be placed through the tender for government leasing company feasibility study;

(v) an effective mechanism will be developed to provide direct funding support to rural producers and processing industry.

The following measures will be implemented to address the second objective that is related to development of an advanced agroindustrial complex market infrastructure:

(i) a mechanism will be developed for normative legal regulation and functioning of wholesale futures market;

(ii) a mechanism will be developed for public purchase and commodity intervention for market price stabilization;

(iii) a regulation will be approved for implementation and funding of measures to provide annual agricultural products demand and offer forecast for regional and local markets;

(iv) an action plan will be developed to ensure access of rural producers to retail markets in large settlements;

(v) a regulation will be approved for implementation and funding of measures to form government information resources with information necessary for rural producers;

(vi) a regulation will be approved for implementation and funding of measures to open a training and methodological center in each oblast to provide consultancy support to rural producers.

The following steps will be taken to support the land market:

(i) a regulation will be approved for implementation and funding of measures to arrange a trade platform under government and community control for agricultural lands deals through competitive tenders;

(ii) a strategy will be designed for the Kyrgyz Republic national spatial data infrastructure development aimed at facilitating the access to and efficient use of spatial data;

(iii) technical conditions will be provided for online access to the land market information.

The fourth priority area that is related to improvement of water and land resources use efficiency will be focused on the following objectives:

(i) yearly extension of irrigated areas, improvement of the existing irrigation systems operation and water resources use;

(ii) improvement of land resources use efficiency.

The objective of yearly irrigated area extension requires the following measures:

(i) waterworks facilities will be built and new irrigated area cultivated (implementation of an investment program for the irrigation system development);

(ii) implementation of the World Bank funded project Farm Irrigation 2 will be continued.

the following steps will be taken to support the operation of irrigation network and water use efficiency increase:

(i) a set of activities will be implemented on yearly basis to support irrigation system operation;

(ii) water resources and irrigation system will be assessed in order to prepare a package of measures for their efficient use;

(iii) activities will be implemented to introduce efficient water saving technologies.

The following steps will be taken to improve water use management:

(i) the process of bringing the regulation framework in compliance with the Kyrgyz Republic Water Code requirements will be completed;

(ii) establishment of basin water councils, identification of boundaries of all water consumers associations/federations based on hydrographic principle, and establishment of water consumers associations (WCA) and their federations on all irrigated areas will be completed;

(iii) irrigation system except the government's national irrigation facilities will be gradually transferred for ownership or long-term management to WCA/federations;

(iv) water use tariff policy draft regulations will be developed;

(v) legal norms and administrative and economic measures will be strengthened to prevent water misuse.

The following measures will be implemented to address the objective of the land use efficiency improvement.

The following steps will be taken to improve agricultural land record and monitoring:

(i) a regulation will be adopted for implementation and funding of measures to address unclear actual boundaries of government and private lands, pastures and village aimaks and indicate such boundaries in ownership documents;

(ii) a regulation will be adopted for implementation and funding of measures to form and effective land monitoring system, conduct agrochemical fertility assessment and land classification, identify areas, scale and level of land degradation, and establish a land databank;

(iii) transformation of agricultural lands particularly those arable will be completely terminated.

The following steps will be taken to improve agricultural lands fertility:

(i) a legal norms and administrative and economic measures will be developed to prevent land misuse and growing land degradation and create incentives and standards for land resource protection;

(ii) measures will be developed to strengthen regulative requirements for land protection, land and water pollution standards, and to tighten control and of measures for violations;

(iii) local programs for land fertility improvement will be implemented and advanced land use training programs developed; communities will be informed on necessity to protect land fertility;

(iv) implementation of the Agricultural Investments and Services will be continued;

(v) land management surveys and research will be conducted on yearly basis, as well as agricultural lands rehabilitation and fertility protection works.

The following steps will be taken to create an efficient system for government owned pastures management:

(i) a regulation will be adopted for implementation and funding of measures to train staff and strengthen the capacity of pasture users' organizations (jayit committees); pasture users will be trained on sustainable pasture management methods;

(ii) a regulation will be adopted for implementation and funding of measures to provide targeted financial support for rehabilitation of pasture infrastructure facilities of cross-sector and cross-district significance (bridges, roads, capping, culture centers, communication, transport, etc.), renovate pastures and prevent their degradation, and improve forage advantages of natural pastures (additional sowing, irrigation, fertilization, etc.);

(iii) measures will be applied to protect and improve pasture ecosystems.

### **8.3. Food Security and Nutrition Quality**

The goal is to provide all citizens with access to sufficient quantity of food products that includes ensuring food availability, efficient use and stability.

Background. Issues of food security are regulated by the Kyrgyz Republic Law on Food Security and a limited set of regulations.

The following 9 types of food were set as those basic for assessment of food security level (the Kyrgyz Republic government decree No. 138 of March 3, 2009):

- (i) bread and cereal products;
- (ii) potatoes;
- (iii) fruits and berries;
- (iv) vegetables and cucurbitaceous;
- (v) sugar;
- (vi) vegetable oil;
- (vii) milk and milk products;
- (viii) meat and meat products;
- (ix) eggs.

The existing institutional mechanism regulating food security issues does not ensure proper interdepartmental cooperation. With weakening capacity of the Kyrgyz Republic Ministry of Agriculture and Irrigation, key ministries and agencies have almost excluded food security issues from their agenda.

The Kyrgyz Republic government is unable to adequately influence the situation with unjustified growth of prices for socially important food products due to the lack of an efficient government supervision system to ensure antimonopoly laws compliance. The country has no government system for monitoring and early warning of food price growth.

Funding for grain purchase for the government material reserve compliant with laws is not planned at the initial stage. Actual funding is provided based on real budget capacity and leftover principle.

Food security is considered ensured by law if the government material reserve level allows covering at least 90-day need of socially vulnerable groups in basic food products. However, the government fails to meet this legislative norm year by year due to budget limitations.

Furthermore, the government material reserve range and accumulation standards are chronically outdated and require update. Therefore, the current logistic resource management system is unable to satisfy all needs in food, not only by quantity, but also by the quality and range of the stored products. No uniform standard and reserve renewal regulation have been developed.

The supervision of food products safety and compliance with technical requirements is poor posing threat to country population health. Extension of the Kyrgyz Republic's foreign trade relationships facilitated import of a wide range of agricultural fresh and processed products. The share of GM and infringing goods, some of which cause direct harm to health or do not have qualities indicated on the package, is growing. Kyrgyzstan has no veterinary, sanitary, food and diagnostic labs accredited in compliance with national and international standards. In this view, no food is examined for GMO, radiation, and antibiotic residues.

At the same time, the main food products self-sufficiency level remains low. The domestic market sufficiency was as follows in 2012: cereal products – 46.7 %, vegetable oil – 31 %, sugar – 12 %, eggs – 38 %, fruits and berries – 18 %, meat – 37 %. The country only achieved self-sufficiency with food security product such as potatoes (120 %), milk – (112.0 %), and vegetable (125 %).

The low food self-sufficiency level inevitably leads to high import reliance. In accordance with the food security commitments undertaken by Kyrgyzstan under the Rome Declaration, the recommended security level should be not more than 16 % of imported products in the overall consumption. The actual specific weight of import in the domestic market volume was as follows in 2012: flour – 45.7 %, meat – 26.2 %, sugar – 85 %, and vegetable oil – 65 %. In case of further global food problems aggravation, incomplete food self-sufficiency within the country and potential barriers for import may pose a real threat to Kyrgyzstan food market that is usually accompanied by uncontrolled inflation growth and growing social strain.

Efficient and systemic resolution of food security issues in the country require reforms of the government institutions regulating food security aspects including the following: (i) establishment of a new coordination mechanism; (ii) effective legislation; (iii) human resource capacity development; (iv) access to reliable information for verified policy decision making.

The government regulation system reform will take the country to a secure food level. According to the UN Food and Agriculture Organization Strategy, such level concept is based on the following four principles: (i) food availability; (ii) accessibility; (iii) efficient use that suggests food products quality and safety; and (iv) stability.

Based on the goal set and issues highlighted, the main priority area 2013-2017 will be the government regulation system reform with respect to food security that, according to the above conceptual principles, will focus on the following objectives with appropriate measures and activities.

#### 1. Availability

(i) To satisfy the country's internal demand of agricultural and processing industry products. The following measures have been planned for the objective: (i) to develop and introduce effective mechanisms of government support allocation to rural producers to ensure output growth; (ii) to develop and launch new programs for plant-growing development and soil fertility increase; (iii) to use government regulation measures for the achievement of 25 % specific weight of agricultural products processing and 20 % export specific weight in the total output; (iv) to extend winter wheat sown areas to 300,000 hectares per year; (v) to develop and introduce mechanisms for rehabilitating and strengthening the selection and breeding activities; (vi) to develop and start the implementation of the Food and Processing Industry Development Program 2017; (vii) to arrange training on advanced methods of agricultural business running; (viii) to develop and propose to the Kyrgyz Republic government recommendations on establishment of a risk insurance system for agricultural production.

To ensure timely allocation and spending of commodity stocks. This objective suggests the following measures: (i) to increase food stock (flour, grain) in the government material reserve to the level approved by laws; (ii) to develop and approve new ranges and standards of stocks accumulation in the government material reserve; (iii) to launch a new grain quality certification lab; (iv) to introduce the government purchase system for food purchase from local producers in order to reduce reliance on import.

#### 2. Availability

Antimonopoly regulation and government pricing policy improvement. This objective will be addressed through the following measures; (i) to develop and introduce a continuous system for government regulation of domestic market consumer prices; (ii) to adopt a regulation on tightening the antimonopoly law compliance control; (iii) to develop and introduce a



mechanism of interventions aimed at bread market price stabilization under roaring demand.

The objective of improving the government finance management policy efficiency to ensure food security will be addressed through the following measures: (i) to provide timely funding for spring and fall field works; (ii) to provide timely funding to the government material reserve for grain stocking in volume set by laws; (iii) to develop a regulation framework for government purchase system's efficient functioning; (iv) to maintain a financial environment facilitating food security provision for all; (v) to introduce and efficiently operate an electronic purchase system.

### 3. Use

To ensure government control of domestic and imported agricultural products safety. This objective will be addressed through the following measures: (i) to ensure government control of compliance with rules and requirements of seed and planting stock postharvest processing and storage; (ii) to organize research and review of biological, toxicological and environmental regulations on application of pesticides and agrochemicals safe for people and environment; (iii) to monitor and forecast phytosanitary and agrochemical situation; (iv) to ensure government control of compliance with norms and regulations in export, import and transit of goods subject to sanitary, veterinary and phytosanitary control at bonded warehouses; (v) to create a government control system for the quality of grain and its processing products purchased, delivered and loaded to the government material reserve or other economic entities regardless of ownership.

(ii) To ensure accessibility of safe food products. The following measures have been planned to address the objective: (i) to form a system of government epidemiologic control and preventive activities for prompt confinement and elimination of food poisoning outbursts; (ii) to develop and introduce a mechanism securing guaranteed adequate access to safe basic food products; (iii) to run systematic public awareness campaigns to foster balanced nutrition patterns in population; (iv) to introduce a continuous mechanism of animal product veterinary and sanitary expert examination in manufacturing and sale; (v) to adopt a regulation on toughening the rules of plant products market-based examination and ensuring food products safety.

### 4. Stability

To ensure food security for the sake of macroeconomic stability. This objective will be addressed through the following measures: (i) to develop and introduce new instruments of achieving the macroeconomic stability; (ii) to develop a continuous system for monitoring and evaluation of the food price change impact on inflation rate; (iii) to maintain a macroeconomic environment that facilitates ensuring the food security; (iv) to maintain food price stability through the monetary and credit regulation instruments.

The policy of measures for the provision of unprotected categories with food in accordance with norms will be aimed at: (i) introduction of social norms and guaranteed government minimum social standards; (ii) securing the

guaranteed income to provide access to sufficient food quantity in accordance with rational physiological norms; (iii) increase of the guaranteed minimum income.

Improvement of quality and accessibility of information on food security. This objective will be addressed with direct involvement of the UN Food and Agriculture Organization's project through the following measures: (i) to strengthen capacity of the Hydrometeorology Agency of the Kyrgyz Republic Ministry of Emergencies for preparation of annual crops harvest forecasts and food supply reviews; (ii) to provide assistance to the Kyrgyz Republic National Statistics Committee in improvement of the food security statistics; (iii) to develop and launch an information system for monitoring and evaluation of food prices change with account of world trends and internal impact factors; (iv) to provide assistance to the Kyrgyz Republic Ministry of Agriculture and Irrigation in development of the long-term Food Security Strategy.

#### **8.4. Resource Saving Technologies for Processing Industry**

The goal is to increase the capacity of processing companies by 20 % through the introduction of resource saving technologies.

Background. Currently, there is a trend of industry's growing input to economy witnessing the industry's capacity. Within the years of market reforms, certain industry sectors, despite difficult economic conditions (two world financial crises), managed to reorient themselves and not only survive but also increase their output and, importantly, organize export. Industry remains one of the most important economy sectors with respect to budget assessments and export and definitely needs close attention and government support.

Regular government bodies staff cut has led to development and implementation of government policies in 13 branches of processing industry by two structural divisions, and therefore it is impossible to develop and implement government industry policy in a proper way.

At the same time, industry lacks information succession, young staff training system and government body's institutional memory.

The processing industry is one of the key economy sectors with its 75 % specific weight in the country's total industrial output. There were significant structural changes in the processing industry in recent years, where some branches vanished and new ones emerged. Thus, cotton and silk fabric manufacturing branches were lost, rubber footwear is produced instead of that leather, and production of machinery including large electric devices, electric engines, metal cutting tools, balers, trucks and compression-type machines was practically ceased.

There has been decrease in textile production (ginned cotton and wool processing, silk production) due to obsolete equipment, poor seed quality and, as a result, products non-competitiveness. Textile companies that used to provide all knitwear manufacturers with yarn and clothes are currently idle or bankrupts. The market context led to development of new demanded production, in

particular, processing of mineral resources (gold, glass, mercury, antimony), sewing industry, wood processing, printing, plastic items manufacturing, etc.

Presently, the total range of industrial production has five economy forming branches including four processing ones such as metallurgy, food processing, textile and sewing, manufacturing of other nonmetal mineral products (construction materials), and power generation as a separate industry branch. In total, the listed branches produce over 90 % of industrial products.

The largest share in the country's processing industry export structure is held by gold, food products and raw materials, sewing industry, and construction material production.

Metallurgical production mostly represented by gold production has 44.5 % specific weight in industry. The industry's leading companies include Kumtor Gold Company closed joint-stock company and branches of Kyrgyzaltyn open joint-stock company such as Combinat Makmalzoloto, Solton-Sary Mine, and Tereksai Mine. The measures for metallurgy production development are described in the Mining Industry section.

The sewing production has a high social significance for the country since the branch is socially oriented and resource consuming with respect to workforce use. According to the National Statistic Committee, the industry employs over 60,000 people<sup>20</sup>, with rural citizens as the major workforce and women as most of employees ensuring positive impact on gender balance.

Main issues currently faced by processing industry companies include low resource efficiency and, particularly, high energy intensity. Outdated technologies and worn out assets increase resource consumption and reduce their use efficiency. The processing industry's equipment and technology deterioration rate is very high reaching 90 %. At the same time, the lack of finance resources for resource saving technologies introduction and improvement of processing industry companies resource efficiency remains one of the major obstacles for the industry. There is a need in export capacity increase with reduction of barriers for export, a swell as in specialist training system development and resource efficient technologies introduction. Stable and predictable tax policy is important in midterm prospective, and so is the development of accessible crediting vehicles.

Priority areas for achieving the goal include reduction of industry's energy consumption and establishment of a mechanism to promote introduction of resource saving technologies, appropriate use of local workforce and minimization of environmental impact.

The following objectives will be addressed within these priority areas: (i) to raise the processing industry employees' awareness of resource saving technologies; (ii) to develop standard instructions on industrial resource efficiency improvement; (iii) to analyze and compare resource efficiency of other countries' similar industries; (iv) to establish an industry platform for discussions and resource efficiency practice exchange; (v) to carry out

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<sup>20</sup> For 2012.

awareness campaigns on advantages of energy efficient technologies and environment friendly production.

To address the objective of establishment of a mechanism to promote introduction of resource saving technologies, the Kyrgyz Republic government intends to introduce preferences for sewing and textile companies employing resource saving technologies.

The next priority area suggests increase of the processing industry export capacity. To continue promotion of the sewing industry export, the Kyrgyz Republic government intends to build a technopolis. This suggests the following steps: (i) to adopt a regulation on implementation the Clothing Technopolis project implementation in Chui oblast with its legal status identified; (ii) to provide feasibility study and compliance with logistic, environment and energy saving requirements; (iii) to build a system for training medium and senior level staff for sewing industry.

On the meeting of Voенно-Antonovka village council (Sokuluk district, Chui oblast) held on October 11, 2012, the project of technopolis construction for sewing and textile production on 50 hectare area was approved as an environmentally safe and feasible facility. According to preliminary estimates, the Technopolis will be able to include over 35 industrial facilities and provide 10,000 jobs. Such project is effective for diversification of industrial production and product sales market as able to serve as a model industrial zone employing up-to-date technologies not only in textile and sewing production but also in other processing industry branches. The project's successful implementation will be ensured through preserving the patent-based taxation in midterm prospects.

The Kyrgyz Republic government intends to increase the export capacity through the following steps: (i) to establish a single logistic center within the Technopolis both for finished products export and raw and other materials import; (ii) to develop a strategy to promote and protect the Made in Kyrgyzstan brand; (iii) to form a flexible policy providing different customs fees for raw materials and readymade products.

To ensure the priority industry sustainable development and increase resource efficiency through the reduction of the volume of products defected due to interrupted power supply, the Kyrgyz Republic government intends to implement the following: (i) to ensure uninterrupted power supply to the Technopolis; (ii) to include the Technopolis in the strategic companies list; (iii) to develop recommendations supported by best international practices of industry's resource saving technologies introduction, efficient resource use, and waste minimization.

To develop the construction materials production export capacity and promote such products on the CU countries' markets, the Kyrgyz Republic government intends to implement the following: (i) to develop and adopt regulations and protocols on harmonizing the construction material safety technical regulations with requirements of the CU technical regulations; (ii) to apply an alternative fuel for cement production (Kant Cement Plant).

## 8.5. Mining Industry Development

The goal is to achieve the mining industry sustainable development with rational use of mineral reserve capacity and environmental impact minimization.

Background. Issues. Currently, responsibilities for development and implementation of the government subsurface use and control policies are divided between the following three authorized government bodies: (i) the Kyrgyz Republic Ministry of Economy developing the government subsurface use policies; (ii) the Kyrgyz Republic Government Agency for Geology and Mineral Resources implementing the government subsurface use policies; (iii) the Kyrgyz Republic Government Environmental and Industrial Safety Inspectorate exercising control of environmental and industrial safety. In general, such mechanism allows preventing corruption.

There is a competition between responsible government authorities in implementing the government policy for mining industry regulation. In addition to the public administration authorities, local governance bodies and local communities also act as independent institutions. As a result, there is a conflict of interests and an alarming message to investors. The existing law requirements are often not enforced due to corruption and institutional weakness of supervision and control bodies.

Since neither the government nor domestic business have necessary financial, technical and human resources to explore most of deposits, currently, the country's mining industry can only develop through the attraction of foreign direct investments. With its substantial capacity for the mining industry development, new companies launching and employment provision, Kyrgyzstan is unable to implement such capacity to the full degree.

Reasons for such situation are diverse and include the following: (i) the legal normative system regulating subsurface use needs further improvements. Legislation provisions are neither coordinated in different laws nor equal for different forms of government and investors relationships; (ii) government guarantees of investments payback remain low reducing the industry's investment attractiveness; (iii) the government regulation level is excessively high and promotes corruption; (iv) the country's investment attractiveness international rating positions are extremely low; (v) procedures of providing land allotments for subsurface use and documenting are complicated and require extensive coordination and expert examination; (vi) the mining industry development is impeded by energy resources limitations, the country's underdeveloped transport infrastructure, and professionals deficit; (vii) the government's unclear position and mineral developers irresponsibility have led to numerous trials which for a long time suspended the process of licensing and mineral deposits exploration; (viii) the lack of norms regulating relations of investors and local communities has led to conflicts between them; (ix) mining activities have been politicized, and there is a threat of some local communities turning into an independent political force uncontrollable by central government

and laws with respect to mineral deposit exploration projects implementation; (x) uncontrolled use of natural resources and direct damage to environment.

Notwithstanding the adoption of the Kyrgyz Republic Law on Subsurface in 1997, the mining sector has not been developing. The process of new deposits exploration has been almost frozen. At the same time, all areas subject to licensing are used by mineral developers however they do not strive for mining and profit generation. There have been no significant achievements in new deposits discovery and exploration in the country. Administrative regulation has not had any positive effect. The necessity is urgent to replace administrative regulation methods with those economic.

In 2012, the Kyrgyz Republic government initiated a number of measures to reform the industry including the new Law on Subsurface and bylaws passed. In addition to the new Law on Subsurface, laws were passed to introduce fees for retained license as an economic mechanism of subsurface use regulation, and the procedure of providing land allotments for mineral development was simplified. A new income tax was introduced for ore mining and processing companies engaged in extraction and sale of gold ore, concentrate and alloys and refined gold, and so was the “silence-means-consent” mechanism for mining operations plan approval, etc.

Furthermore, the subsurface use sector continues to face issues requiring balanced policy decisions, particularly, such as highly politicized local communities.

Where this is the case, in spite of obvious benefits the mineral deposit development may give the local communities, there are evident rejection and, in some cases, direct conflicts with investors locally.

The key issue here is the lack of balance between concerns of government, investors and local communities. To address the issue, appropriate rules should be developed within the existing laws.

The mining sector’s human resources capacity is quite low. Existing issues also include the following: (i) insufficient professionalism of government employees and managers; (ii) qualified technical and managerial staff deficit; (iii) insufficient young staff inflow; (iv) lack of staff succession; (v) incompetent specialists appointed to management; (vi) lack of internship programs for students at industrial companies.

Another issue is hardcopy storage of geological data and exploration and survey maps which may further lead to destruction of the entire geological archive. The data should be urgently saved on electronic media.

Priority areas. Taking into account the issues described above, the country’s midterm policy will be focused on the following priority areas: (i) institutional strengthening and establishment of an effective system for the mining industry government regulation; (ii) increase of contribution to the country’s socioeconomic development and national budget replenishment with the environmental impact minimization.

The following objectives will be addressed within the first priority area: (i) to improve and implement subsurface use laws through bylaws development;

(ii) to facilitate ensuring of licensing procedures transparency via tenders and auctions; (iii) to carry out outreach activities for communities and local governance bodies to explain significance of investments in the mining industry for specific locality development; (iv) to improve and toughen control of appropriate use of mineral resources in the Kyrgyz Republic and counteract the use of wasteful and environmentally harmful mining methods.

The following measures will be implemented to address the first objective: (i) to develop midterm and long-term mining industry development strategy; (ii) to develop and adopt a regulation on EIA procedures for the mining industry facilities which will also regulate communities' rights to participation in EIA<sup>21</sup> and full and timely information on planned activities; (iii) to develop and present a set of regulations on control of appropriate natural resources use including (i) instructions on subsurface use and protection in development, conservation and liquidation of coal mining companies within the Kyrgyz Republic's coal deposit areas, (ii) instruction on procedures of precious metals record and storage and uniform rules of subsurface protection in mineral development in the Kyrgyz Republic, (iii) oil and gas field development rules; (iv) methodological recommendations on technologies of gold sample preparation for gold concentration tests and rules of ore and concentrate testing during their exploration, extraction and processing in the Kyrgyz Republic, (v) rules of subsurface protection in non-metallic mineral resources deposit development in Kyrgyzstan; (vi) rules of subsurface protection in auriferous gravel exploitation in the Kyrgyz Republic; (vii) rules of subsurface protection in collecting and using subsurface fresh and mineral water in the Kyrgyz Republic.

The following measures will be implemented to address the second objective that is to facilitate ensuring of licensing procedures transparency via tenders and auctions: (i) to adopt regulations improving the tender and auction procedures by modifying the provision on procedures and conditions of auctions and tenders for subsurface use licenses; (ii) to provide media coverage of tender and auction procedures.

The following measures have been planned for the third objective: (i) to form outreach workgroups for information campaigns on reforms implemented and subsurface use novelties introduced; (ii) to design booklets and brochures informing on project significance, regional development and environmental aspects.

The fourth objective that is related to improve and toughen control of appropriate use of mineral resources will be addressed through the following measures: (i) to develop and introduce a transparent mechanism for the government's supervision and control functions and toughen requirements on compliance with national environmental regulations with the participation of a civil sector representative; (ii) to provide for inventory of requirements

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<sup>21</sup> Environmental impact assessment.

regarding import of machinery and process equipment not used currently in developed countries.

The second priority area that is related to increase of contribution to the country's socioeconomic development with the environmental impact minimization will be focused on the following objectives: (i) to increase the budget revenues through tax and non-tax proceeds, GDP growth, foreign direct investment attraction and mining industry diversification for the purpose of reducing the economic reliance on Kumtor project in 2013-2017; (ii) to reduce negative impact of mining companies on environment and implement systemic activities of government structures in cooperation with local governance bodies and mining companies administrations to prevent conflicts with local communities; (iii) to ensure regional socioeconomic development.

The following activities will be implemented to address the objective: (i) to facilitate commissioning of the following new large and medium-sized mineral deposits<sup>22</sup> in 2013-2017: gold and other deposits Jerui, Taldybulak Levoberezhny, Andash, Bozymchak, Ishtamberdy, Kuru-Tegerek, Shambesai, Zardalek, Taldy-Bulak-Talas, tin and tungsten deposits Trudovoe, Uch-Koshkon, Kensu, coal deposits Tuyuk-Kargasha, Kara-Keche, Min-Kush, Sulyukta field 11, Min-Teke. Kok-Kiya, Kara-Tobe area; oil and gas fields Mailisai, Mailisai III, Mailisai IV East Izbaskent, Izbaskent, Changyrtash, Chigirik, Suzak, Karagachi, Tamchi, Beshkent-Togap-Tashrabat, Severny-Karakchikum, Mailisu 111, areas Central and Eastern, Mailisu II, and Charvak area of Changyrtash oil field; (ii) to hold an open tender for the subsurface use licenses in order to commence Jerui and Togolok gold ore deposits in 2013-2017; (iii) to facilitate continued development of Kumtor, Makmal, Solton-Sary and Terekkan gold ore deposits; (iv) to recover mineral reserve through FDI to the geological industry; (v) to study practices of small mineral deposit development in countries with developed small mining industry.

The following measures will be implemented to address the second objective: (i) to monitor regular reports on activities for local communities' social conditions improvement; (i) government structures officials to take steps for preventing mining companies from environmental requirements breach, carry out regular inspections for compliance with environmental laws and publish such inspections findings; (iii) local governance bodies officials to carry out activities for informing their communities on project implementation significance for regional development; (iv) to create new jobs in launched mines for regional development purposes and, as agreed upon with investors, purchase goods, works and services solely within deposits location areas.

## **8.6. Construction Industry Development**

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<sup>22</sup>Development of these deposits and fields will allow increasing the gold production by 5-6 tons and, if full capacity is used, by 10-12 tons per year, and raising coal mining output to 1-1.5 tons.



The goal is to improve citizens' access to quake-proof homes in a favorable urbanized environment and ensure comfortable living and activities through the buildings' energy efficiency improvement.

Background. Residential buildings commissioning rate somewhat increased in Kyrgyzstan in recent five years with 39.7 thousand apartments and individual homes of total area 3,995.9 thousand square meters commissioned. The average annual growth rate is 6.5 %, however the residential houses commissioning rate is not more than 1 % of the existing housing stock and meets population's demand of housing to an insignificant degree. Lack of financial resources for housing purchase makes the accessible homes provision conditions development a priority task.

The area's high seismicity poses special requirements for the country's construction industry. 80 % of commissioned houses as average are represented by private buildings constructed at citizens' expense and largely with the use of local, non-quake-proof and non-energy-saving construction materials and technologies.

Settlements' long-term general layouts have been drawn up without consideration of territorial planning and urban zoning policies as the policy documents are only expected to be developed.

Main buildings existing in the Kyrgyz Republic were constructed 30 to 60 years ago, with no consideration of energy saving aspects. Currently, such buildings are worn out and do not provide minimum sanitary and comfort conditions for living. In general for the country, power consumption by buildings, including electrical and heat power, gas and coal is 16 to 18.5 billion kW/h per year. Energy consumption per square meter is 3 to 5 times higher than in the European Union countries and varies from 145 to 170 kW/h per square meter as average for the country, reaching 320 to 450 kW/h per square meter yearly in Bishkek.

Energy saving, quake-proof and economically accessible construction is one of key mechanisms to move the country towards sustainable development. Main issues containing this area development include the lack of an institution to form the policy and ensure development of appropriate legislation framework for the sector, weak professional training of public administration staff and almost complete lack of public awareness with respect to the industry development goals and objectives in the sustainable development format.

The objective of the industry transition to energy saving development path and consistent improvement of quake-proof home accessibility will be addressed through the following steps: (i) establishment of an institutional structure ensuring policy development; (ii) legislation framework improvement; (iii) development of capacity of professionals in the area of management, design and construction and innovative activities ensuring reduction of energy consumption by new buildings by 30-40 % by 2017 against the current state; (iv) outreach activities.

Priority areas, objectives and policy measures.

Establishment of an institutional structure ensuring development of a policy aimed at consistent improvement of quake-proof and comfortable home accessibility with energy efficiency improvement and buildings' carbon emission.

Objective 1: Establishment of an institutional basis that will facilitate changes with respect to housing accessibility, energy efficiency and seismic safety improvement in construction sector. Measures: (i) to establish an institutional structure that will ensure development of a policy for power saving and energy efficiency including those in construction sector; (ii) to establish the construction sector's system to implement the policy and regulate the practice of energy efficiency, seismic safety and economic accessibility of housing; (iii) to create a system of government supervision and control of energy efficiency, seismic safety and economic accessibility objectives implementation.

Objective 2: Legislation framework improvement. Measures: (i) to adopt new and ensure implementation of existing basic laws and bylaws that facilitate institutional changes with respect to housing accessibility, urban development, energy efficiency and seismic safety in construction sector; (ii) to approve the Housing Construction Program 2013-2017; (iii) to implement the National Program of Seismic Safety in the Kyrgyz Republic 2012-2015 with further development up to 2017; (iv) to develop mechanisms for implementing tough penalties for incompliance with quake-resistance and energy efficiency norms and standards; (v) to revise regularly (probably once in 3-5 years) the energy efficiency requirements level in construction standards; (vi) to introduce a system of power audit and mandatory energy efficiency certification; (vii) to introduce mandatory buildings energy efficiency classification provided by regulations; (viii) to introduce energy classification and marking for construction materials, items and equipment; (ix) to carry out mass audit of buildings, start a database and provide for monitoring.

Objective 3: Existing buildings' energy efficiency and seismic safety improvement. Measures: (i) to develop provisions that will set requirements for energy efficiency and seismic safety in restructuring and major repairs permitting such works subject to specific level of energy efficiency and seismic safety; (ii) to develop standard design solutions to improve the existing standard series houses energy efficiency and ensure broad access to such solutions; (iii) to develop and start implementation of programs for the existing houses upgrade in order to improve their energy efficiency and incorporate them in all national strategies and national and local programs.

Objective 4: Integration of energy efficiency aspects into strategies of area and space development and urban planning, as well as in construction practices. Measures: (i) to include buildings' energy efficiency aspects in the drafted Construction Code and processes of architecture and planning supervision of area development; (ii) to adopt and introduce regulations providing that licenses may only be issued for projects with optimal area and space parameters with respect to power consumption reduction; (iii) to introduce tender preferences for projects that provide a higher energy efficiency and seismic safety level.

Objective 5: To develop systems of energy pricing for buildings. Measures: (i) to establish an adequate and accountable system for setting energy tariffs for buildings sector; (ii) to abolish the fixed rate payment for power services in order for consumers to pay for actually consumed energy; (iii) to introduce a progressive tariff system providing that consumers exceeding specific threshold amount of energy will pay more per consumed energy unit; (iv) to consider and, if found reasonable, introduce a differentiated energy rate depending on day time and season.

Objective 6: To increase technological capacity for stable power consumption management in housing sector. Measures: (i) to ensure consistent installation of consumption measuring and regulation systems (electricity, gas, heat, hot water supply) and transition to “smart counters” providing information in real time mode including pricing data; (ii) to develop standards for obligatory installation of power consumption and indoor climate (microclimate parameters) control systems in new buildings; (iii) to approve the provision on competition among power suppliers so that consumer can have options to choose including alternative power sources.

To increase the capacity of professionals in management, design, construction and innovative activities ensuring 30-40% reduction of energy consumption by new buildings by 2017 comparing to the present state.

1. Ensuring the strengthening of capacity of construction sector specialists. Measures: (i) to develop and introduce Construction Sector for Sustainable Development curricula within the professional development system for construction government regulation specialists; (ii) to revise curricula of construction universities and colleges subjects and include the Construction Sector for Sustainable Development section; (iii) to incorporate the Buildings Heat Protection specialty in the vocational education system; (iv) to develop and publish a teaching manual on buildings energy efficiency improvement for the construction sector specialists professional development.

Information, awareness raising and education.

To provide for public awareness and information. Measures: (i) to provide free access of power services users to information on costs that build service tariffs and ensure transparency of the services actual production cost; (ii) to start on system base a national TV program that will cover the implementation of the Sustainable Development National Plan including appropriateness of and technologies ensuring energy efficiency and seismic safety of buildings; (iii) to develop and publish a booklet “DIY Warm Home”.

## **8.7. Tourism Industry Development**

The goal is to facilitate formation of a stable and competitive tourist product with the preserving of cultural and historical sites and minimum negative impact on environment.

Background. The tourist services specific weight in GDP varied 3.7 % to 4.7 %<sup>23</sup> in the last five years. According to the World Tourism and Travel Council (WTTC), tourism provided jobs to 180 thousand people in 2012, i.e. 7.8 % of the total number of employed economy including those employed indirectly<sup>24</sup>.

Tourists reception revenues reached \$677.7 million<sup>25</sup> in 2012 which was the highest figure in the last five years. The national budget tax revenues from tourist activities reached 96.1 million soms in 2012 which was 2.1 times as less than in 2011.

According to international experts, Kyrgyzstan only uses up to 15 % of its tourist capacity and this explains the tourism's insignificant share in GDP. According to WTTC, Kyrgyzstan holds the 103<sup>rd</sup> position in the index of tourism's direct input to GDP with its 3 percentage points while the world average figure is 5.2 percentage points<sup>26</sup>.

Although tourism was many times declared a priority at national level it actually was either a responsibility of a low status agency (government agency) or an adjunct to various ministries (ministries of culture, industry, sports, etc.). As a result, there is a lack of succession, qualified staff with institutional memory and young staff training system. The tourism development has almost not been forecasted, the statistics base has been incomplete, and, the most important, the regulation framework has significant gaps.

Incompleteness of the tourism industry regulative framework and lack of a unified system for the classification and standardization of collective accommodation facilities create barriers for the sector development and provision of the offered tourist product quality guarantee.

At the same time, the existing legislation requirements are often unfulfilled which is conditioned by corruption and institutional weakness of supervision and control bodies, first of all, with respect to compliance with fiscal laws requirements, and sanitary and epidemiologic, technical and environmental requirements. Such incompliance is primarily caused by requirements complexity, rare inspections, expensive compliance arrangements and a possibility to pay off<sup>27</sup>. Existing administrative barriers also facilitate corruption schemes where, as an example, a potential investor is required to pass several jurisdiction authorities (village, district, oblast, republic) to obtain a land allotment for a tourist facility. This is why informal activities are widespread in tourism and budget assessments are minimal and do not correspond to actual gross revenues.

Another alarming issue is the fact that limited financial resources cause weakness of government services that could significantly accelerate tourism sector development. Thus, the existing infrastructure (road and transport,

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<sup>23</sup>4,7 % in 2012, according to NSC.

<sup>24</sup>Travel&Tourism. Economic Impact 2013. Kyrgyzstan. WTTC publication.

<sup>25</sup>According to NSC.

<sup>26</sup>Travel&Tourism. Economic Impact 2013. Kyrgyzstan. WTTC publication.

<sup>27</sup>2012 Survey on Informal Economy in the KR. Data related to all economy sectors and cover both legal entities and individual entrepreneurs.

information, engineering services) is weakly developed, worn out and in many parts constructed with no account of tourism development needs. In particular, this is why Kyrgyzstan does not use its advantageous location along the Silk Road while, according to the UN World Tourism Organization, 27 % of international tourists are interested in tours along the route.

Treatment facilities in the Issyk-Kul area, particularly in towns such as Karakol, Cholpon-Ata and Balykchy, are scattered and worn out posing serious threat of pollution to the lake that is the country's main tourist resource.

The country has not had precise data of its tourist and recreation capacity so far therefore limiting its tourism investment capacity. The country did not assess its resort area natural recreation capacity in the last five years, and this may lead to excessive exploitation of natural resources and gradual degradation of the area ecosystem.

Weak coordination between government bodies, business community and education institution leads to poor level of tourist service and security. The international tourist market considers travels to Kyrgyzstan unsafe, and the extent of information on country's tourist services and products and investment opportunities are quite limited. The poor environment management culture provokes inappropriate and exploitative treatment of tourist and recreation resources. Unawareness of local cultural and historical resources and poor tourist reception culture in local communities affects the Kyrgyzstan's image of a country providing tourist services.

Priority areas. Taking into account the above facts, the country's midterm policy will be focuses on the following priority areas: (i) improvement of efficiency of the tourist industry government regulation; (ii) assistance in tourist services diversification and quality improvement.

The priority area related to improvement of efficiency of the tourist industry government regulation will be focused on the following objectives: (i) to ensure institutional development of the government body responsible for the tourism sector development; (ii) to improve regulation framework for tourism sustainable development; (iii) to improve tourist activities statistical recording and forecasting; (iv) to provide access to reliable, attractive and quality information on traveling to Kyrgyzstan.

The Kyrgyz Republic government intends to implement the following measures to address the first objective: (i) to increase the capacity of the authorized body responsible for development and implementation of the government tourism policy; (ii) to analyze the existing system of cooperation between government structures directly or indirectly responsible for tourist activities control and regulation; (iii) to use the analysis findings as the basis for development of recommendations on changing the system of government bodies cooperation in tourism area.

The second objective will be addressed through the following policy measures: (i) to develop and approve a range of tourism types; (ii) to approve a standardized method of tourist services recording in accordance with the tourism types range; (iii) to develop and approve a unified government system for

classification and standardization of collective accommodation facilities; (iv) to arrange for inventory of the tourism sector regulation framework in order to identify contradictions; (v) to prepare and present recommendations for the improvement of the tourism sector regulations; (vi) to develop and approve a simplified procedure of provision and use of land allotments for tourist facilities development and construction.

To address the third objective that is to improve tourist activities statistical recording and forecasting, the Kyrgyz Republic government intends to implement the following measures: (i) to introduce migrant cards; (ii) to specify the list and develop methodologies for collection and calculation of additional tourism sector indicators in accordance with methods applied by international organizations such as UNWTO and WTTC, and incorporate them to the statistical activities program; (iii) to develop the tourism sector development forecasting system linked to the government forecasting system in the Kyrgyz Republic and procedures of the Kyrgyz Republic socioeconomic development forecasting<sup>28</sup>.

To address the fourth objective that is to provide access to reliable, attractive and quality information on traveling to Kyrgyzstan, the Kyrgyz Republic government has planned the following steps: (i) to develop and launch the unified information portal including information on accommodation facilities reservation, available tours, maps, tour organizer, tourists feedback, forums, etc.; (ii) to design and publish annually a catalog of events that foreign tourists may be interested in; (iii) to design and publish printed information materials on the Kyrgyzstan's tourist resources oriented at specific target markets; (iv) to arrange for participation of domestic tourist companies in specialized tourist exhibitions and fairs in Berlin, Moscow, Novosibirsk, Ekaterinburg, Almaty, Tokio, Madrid, etc.; (v) to purchase interactive information systems and install them in airports and at border crossing points.

The following objectives will be addressed as a part of the second priority area that is related to assistance in tourist services diversification and quality improvement: (i) to upgrade the tourist infrastructure, based on government-private partnership as well; (ii) to facilitate tourist services diversification and quality improvement; (iii) to provide for the Issyk-Kul lake ecosystem protection.

The Kyrgyz Republic government intends to address the first objective through the following activities: (i) to assess road construction and reconstruction projects; (ii) to correct road construction and reconstruction projects for account of the tourism development concerns (roads to tourist facilities); (iii) to develop oblast and district 3-year programs (2015-2017) for the road infrastructure development (lavatories, service centers including catering, technical support and medical assistance facilities, as well as signs and guideboards in Kyrgyz, Russian and English); (iv) to develop a co-financing vehicle (the Kyrgyz Republic government and concerned tourism sector entity)

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<sup>28</sup>Approved by the Kyrgyz Republic government No. 711 of November 11, 2011.

for construction of roads of oblast and district significance and other necessary infrastructure (power and water supply, waste management, waste water treatment) for the existing and projected tourist facilities; (v) to design 2 tourist information centers (TIC); (vi) to hold negotiations on exclusion of national air carriers from the EU blacklist.

The second objective that is to facilitate tourist services diversification and quality improvement will be addressed by the Kyrgyz Republic government through the following policy measures: (i) to carry out a research and evaluation of the pilot oblast area to identify potential tourist zones through outsourcing; (ii) to develop a map of the pilot oblast's potential tourist zones combined with the map of specially protected natural areas and lands of mineral deposit exploration registered with the Kyrgyz Republic National Balance of Mineral Reserves; (iii) to prepare recommendations on amendments to the Kyrgyz Republic Land Code as to introduce a new land category that is the "land with travel and recreational capacity"; (iv) to develop and approve a methodology of assessing natural recreation capacity of existing and potential tourist and recreation zones; (v) to conduct at least two surveys, in 2015 and 2017, including interviews with tourists within target markets to identify their needs (accommodation, conditions, services, leisure, habits, etc.); (vi) to develop and approve the Sector's Tourism and Hospitality Qualification System; (vii) to develop and introduce national education standards in accordance with professional standards and the sector's tourism and hospitality qualification framework; (viii) to develop oblast and district 3-year programs (2015-2017) for solid waste disposal and utilization and waste water treatment; (ix) to carry out education and public awareness campaigns in regions to inform communities on specifics of tourism and recreation resources (regional brand) and arrangement of local ethnic and cultural and historical tours; (x) to develop and arrange courses to train local communities members on local tourism business projects development and funding application procedures; (xi) to approve legislatively obligatory insurance of tourists visiting the Kyrgyz Republic.

To address the third objective that is to provide for the Issyk-Kul lake ecosystem protection, the Kyrgyz Republic government suggests the following measures: (i) to include construction of centralized waste water treatment system in the Issyk-Kul coast general district layout<sup>29</sup>; (ii) to assess the natural recreation capacity of Issyk-Kul resort zone; (iii) to organize annual Issyk-Kul lake bottom cleaning within government and business partnership; (iv) to carry out a research in order to identify most challenging areas with respect to wetland complex conservation; (v) to create temporary wildlife reserves (2 to 5 years) on the identified challenging areas, with appropriate nature management regime.

## **8.8. Transport Infrastructure Development**

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<sup>29</sup>The general layout development was planned for 2013 to be executed by Kurortturizm Research Institute of the Government Agency for Construction and Regional Development in accordance with the Parliamentary decree No. 1738-V of March 15, 2012.

The goal is to improve accessibility of and satisfy people's need in transportation services through the reduction of transport's harmful impact on environment.

Background. The Kyrgyz Republic's transport infrastructure is represented by motor roads including the network of internal motor roads and international transport corridors, as well as by motor vehicles, railroad transport and aviation.

Highways form a 34,000 km road network including 18,700 km of intercity roads and 15,300 km of roads in towns, villages, agricultural, industrial and other companies, connecting the country's oblasts and districts and providing access to international transport corridors.

Of the total 2,700 km of transport corridors including the alternative road South to North, 1,400 km (50 %) have been rehabilitated so far. Rehabilitation have also been completed on roads such as Bishkek – Osh (except Bishkek – Kara-Balta and Madaniyat – Jalal-Abad sections), Bishkek – Georgievka, Sarytash – Karamyk, Osh – Sarytash – Irkeshtam, and two sections of Taraz – Talas – Suusamyр road. Rehabilitation is in process on sections of international corridors Bishkek – Naryn – Torugart and Osh – Batken – Isfana. The agreement on the 3<sup>rd</sup> phase of Taraz – Talas – Suusamyр road rehabilitation is currently in process of ratification. Feasibility study is discussed for the alternative South – North road.

Another important issue of the country's economic security is ensuring its transport independence which requires construction of bypass roads in border areas conjunction and detouring neighboring countries' areas. Currently, the Aigultash – Sogment – Tayan bypass road is under construction, and preparatory works are in process for construction of roads Bel – Sogot – Bojoi and Koktash – Aksai – Tamdyk and two bridges on Kulundu – Maksat road in Batken oblast.

To ensure stable functioning of the road sector, its reforms should be continued and include development of optimal road sector management structure, completed financing system providing full funding for road repairs and maintenance within standard timeframe, development and introduction of mechanisms of government-private partnership and private sector engagement in road construction and rehabilitation, as well as introduction of consultancy and supervision.

Taking into account difficult access to settlements, motor transport is a priority since it carries about 95 % of cargo and 97 % of passengers. Figures of motor transport cargo and passenger carriages that showed no dramatic drops in specific weight within the total carriages structure in recent years witness the sector's stable development. The vehicle stock is growing continuously. The number of vehicles that was 300,000 in 2008 has increased more than 2.5 times and reached 735,000. More than a half of all vehicles in the country are more than 10 years old. Before 2009, there was a growing import of vehicles with service life more than 10 years which were a source of air pollution to a higher degree comparing to those new.



In order to restrict the import of “older” vehicles, rates of single customs fee and taxes were increased more than 11 times in 2008 for vehicles older than 13. That measure had a positive effect reducing the import of vehicles older than 10 more than 4 times in 2009. Furthermore, in 2012, there was a positive trend of decrease in import of vehicles older than 10 which made 46.3 % of the total number, against 93.4 % in 2008, and increasing import of motorcars of operating age 5 to 10 years (50.8 %).

The sector’s issues include the vehicle stock aging leading to pollutant emission growth including that of GHG, insufficient coverage of the country’s settlements by route communication, and insufficiently developed legislation framework for the motor transport uniform policy implementation.

The Kyrgyzstan’s railroad that is 424.6 km long is represented by two geographically separated sections and characterized by absence of railroad transit. The northern section that is 323.4 km long connects Balykchy and Lugovaya (Kazakhstan), and the southern section is 101.2 km long. Analysis of railroad cargo and passenger carriages in recent years showed increase in cargo turnover and decrease in passenger carriage. The country’s figures of cargo and passenger turnover are low comparing to other transport types due to lack of railroad communication across the country area. Issues faced by the railroad sector include separated sections in the country’s northern and southern parts and underdeveloped transit capacities due to railroad transport and communication dead-end.

Civil aviation is one of the fastest, most comfortable and, in some instances, practically irreplaceable type of transport in the country taking into account the mountainous landscape. There was an increase in passenger carriages by 17 % as average in the years 2008 through 2012. The same period dynamics included cargo carriage decrease by 2 % as average in 2011 and increase to 22 % in 2012. There are 4 international airports (Manas, Osh, Issyk-Kul and Karakol) and 7 domestic ones (Isfana, Batken, Jalal-Abad, Kerben, Naryn, Kazarman and Talas) in the Kyrgyz Republic. At present, regular international flights are only operated from Manas and Osh airports. Regular domestic flights are operated to Osh, Isfana, Batken and Jalal-Abad airports. There are no regular flights to the other domestic airports due to lack of passenger traffic flow.

Issues faced by the civil aviation sector include infrastructure of Manas international airport (terminal, ground handling facilities, etc.) insufficiently developed for transformation into an international transit airport/hub. Infrastructure and specifications (runway, taxiways, aprons and other airdrome components, as well as terminal building, ground handling facilities) of some international and all domestic airports do not meet present day conditions. Vast majority of air navigation equipment operated in airports and throughout the country is outdated.

The transport infrastructure and environment priority areas will include the following:

Priority area 1: Improvement of domestic road network and ensuring of the country's transport independence will be achieved through the addressing of the following objectives:

The first objective that is to repair and support public roads will be addressed through the following measures: (i) development of annual work plans and design documents for public road repairs and maintenance; (ii) arrangement of at least 150 km of bituminous concrete pavement per year; (iii) arrangement of at least 300 km of no-skid surface per year; (iv) purchase of road construction machinery with further provision to road servicing companies.

The second objective that is to reform the road sector will be addressed through the following measures: (i) approval of activities plan for the country's road sector reform; (ii) regulations modification; (iii) institutional reforms in road sector.

The objective of domestic road network improvement suggests facilitation of alternative paid highway construction. The following measures will be implemented to address the objective: (i) to initiate the Kyrgyz Republic law on paid roads; (ii) to work with donors and international organization to attract potential investors for paid highway construction.

Ensuring the country's transport independence suggests rehabilitation and construction of road detouring neighboring countries' areas. To address the objective, works will be continued to construct roads Aigultash – Sogment – Tayan, Bel – Sogot – Bojoi and Koktash – Aksai – Aktatyr and two bridges on Kulundu – Maksat road.

Within the second priority area, international transport corridors should be rehabilitated in order to provide access to regional commodity and service markets (Annex 5).

The following steps will be taken to address the objective: (i) to prepare international corridor rehabilitation feasibility study and construction documents, coordinate and hold negotiations with donors on attracting investments, and enter agreements; (ii) to rehabilitate international transport corridors in accordance with agreements and contracts on corridors Bishkek – Naryn – Torugart, Osh – Batken – Isfana, Suusamyr – Talas – Taraz (75 to 105 km) and Karakol – Tyup – Kegen; to prepare and implement project for rehabilitation of Bishkek – Balykchy highways (147 to 172 km), Bishkek – Osh (phase 4), and Batken – Isfana – Hudjand (to the Tajikistan border). Cooperation with international donors is provided with respect to feasibility study funding and the North – South alternative road construction commencement.

The third priority area that is related to facilitation of motor transport sustainable development services with harmful emission minimization suggests the objective of minimizing emission of pollutants including GHG by motor transport. The objective will be addressed through the following measures: (i) to adopt regulations aimed at reducing GHG emission by motor transport; (ii) to conduct regular roundtables for better public awareness of activities to minimize GHG emission by motor transport.

The following measures will be implemented to address the second objective that is to develop bus route network: (i) to adopt regulations on motorcar passenger traffic; (ii) to launch new communication within the country's settlements; (iii) to arrange tenders for selecting bus route operators.

The fourth priority area is related to development of the country's transit capacity. It includes the objective of promotion of the China – Kyrgyzstan – Uzbekistan railroad project for the transit capacity development. The following steps will be taken to address the objective: (i) to adopt working documents for the feasibility study, review that for compliance with national planning standards and submit proposals on the railroad construction to the Kyrgyz Republic government; (ii) to conduct negotiations with potential investors and make decisions on issues of technical standards determining railroad gage, as well as on the project financing; (iii) to coordinate and adopt agreements; (iv) to provide for the China – Kyrgyzstan – Uzbekistan railroad construction commencement.

Another objective in the country's transit capacity development will be related to connection of the northern and southern railroad communication sections. The following activities will be implemented to address the objective: (i) to conduct negotiations with international institutions and other organizations with respect to financing of the feasibility study for the construction of a branch railway to connect the country's northern and southern parts; (ii) to prepare the railway feasibility study subject to environmental standard requirements following the commencement of the China – Kyrgyzstan – Uzbekistan railroad construction; (iii) to implement activities for the identification of funding sources for the north – south railway construction.

The fifth priority area is related to ensuring flight safety, international and domestic air traffic expansion and civil aviation sustainable development. This suggests the objective of the Kyrgyz Republic air transport transit capacity increase. The objective will be addressed through the following activities: (i) to prepare a plan of Manas international airport development and transformation into an international transit airport / air transport hub; (ii) to prepare the plan's feasibility study.

The following measures will be implemented to address the objective of international and domestic air traffic development: (i) to develop/update feasibility studies of Osh and Issyk-Kul international airports reconstruction and raise investments for their reconstruction and upgrade; (ii) to develop domestic airports reconstruction plan and feasibility study and accomplish their reconstruction; (iii) to amend regulations in order to facilitate promotion of import of up-to-date aircrafts and components and refresh the Kyrgyz Republic's airlines' aircraft fleet.

The following measures will be implemented to address the objective of upgrade of air navigation equipment for the national air traffic service system: (i) to purchase and upgrade air navigation equipment for the air traffic service system; (ii) to complete construction of control tower in Manas airport.

## **Communication Development, Informatization and Introduction of Electronic Public Administration**

Background. New telecommunication services are introduced all over the Kyrgyz Republic. The number of Internet users reached 3.2 million in 2012. The number of mobile communication subscribers reached 6.3 million (113 connections per 100 residents). The mobile communication market moves from qualitative development to quantitative level of subscriber acquisition. As a result, prices for mobile communication operators' services are among those lowest in the CIS countries. In accordance with the International Telecommunication Union's digital plan, the country should complete the digital broadcasting introduction process by June 17, 2015. In this view, the Kyrgyz Republic government adopted the Digital Broadcasting Introduction Program and commenced construction of the digital TV broadcast network. The current society informatization processes set higher requirements for the quality and efficiency of telecommunication infrastructure as an information transport medium. As a part of Digital Future project, construction of fiber optic transmission highway completed by the end of 2012, with installation of necessary equipment for broadband data transmission. The total highway length in the country is 2,444 km. The postal communication market is represented by the state-owned company Kyrgyzpochtasy and six commercial post operators. The widest range of services in the country is provided by Kyrgyzpochtasy with its most branched network consisting of 923 post offices all over the country. Although the postal communication bears significant social load by providing services to wide population of the country, the Kyrgyzpochtasy gross revenue increased 4.3 times in 2012 comparing to 2003 and reached 506.9 million soms.

At the same, the IT development area and communication sector are facing numerous issues including the following: (i) weak IT development processes in government sector, lack of electronic interdepartmental interaction and mechanisms for integration of government information systems and resources, and use of diverse technological solutions by agencies impeding the introduction of electronic government; (ii) the country's government bodies practically do not provide government and municipal services in electronic format; (iii) incomplete coverage of the country area by digital broadcasting; current state of TV and radio broadcasting in rural areas does not meet present technical requirements; (iv) uneven telecommunication infrastructure development throughout the country's regions; (v) poor level of postal services automation and weak development of postal communication infrastructure.

To address the above listed issues, the country should actively continue construction and development of communication infrastructure and ensure introduction of the electronic government system for the purpose of efficient provision of government and municipal services in electronic format.

Sustainable development of information and communication services will be implemented through the following priority areas: (i) introduction of the Kyrgyz Republic electronic government system; (ii) transition to digital

broadcasting; (iii) provision of optic fiber data transmission highway to country's regions; (iv) improvement of services quality and broadening of the post offices services range throughout the Kyrgyz Republic; (v) ensuring environmental and information sustainability with the use of IT technologies; (vi) ensuring efficient use of frequencies range to develop competitive communication market.

Introduction and development of the Kyrgyz Republic electronic government infrastructure subject to set of measures and principles of its architecture will be implemented through the following steps: (i) to develop concept of the electronic government development and upgrade and appropriate regulations (standards, rules, etc.) including those for the country's information security; (ii) to develop and introduce electronic government web portal; (iii) to create and integrated information center for data processing in order to ensure common access to information resources by integrating them; (iv) to create a common information environment of government bodies as the base for the government broadband telecommunication network.

The priority area of transition to digital broadcasting will address objectives of upgrade and replacement of analog transmitters and equipment and provision of quality broadcasting services to population with the use of energy saving technologies through the following measures: (i) to build land-line networks for broadcasting of mandatory TV and radio channels with free access for population; (ii) to provide socially unprotected groups with analog-to-digital converting equipment; (iii) to facilitate upgrade of government broadcasting companies infrastructure, including oblast level companies, for transition to digital technologies; (iv) to adopt regulations on digital broadcasting introduction.

All the country's regions will be covered by broadband telecommunication network as a result of implementation of FOCL projects and installation of up-to-date equipment, and this will facilitate ensuring reliability, precision and promptness of information delivery and increase of the data transmission volume and speed.

The priority area of improvement of quality and extension of range of post office services throughout the country includes the objective of developing a postal and savings system on the basis of the state-owned company Kyrgyzpochtasy to provide postal financial and other services with coverage of remote communities. The following measures have been planned for further development of Kyrgyzpochtasy: (i) to adopt regulations for institutional reforms; (ii) to upgrade fixed and production assets; (iii) to extend the range of postal and banking, postal and finance and other services using information technologies.

To ensure environmental and information sustainability using information technologies, the Green Economy and IT interactive web resource will be developed to be based on the electronic government web portal. The resource will include information on environmental sustainability and efficient disposal of outdated equipment, as well as electronic industry products, to raise public

awareness of issues related to drinking water supply, fresh air, resource and power saving and food security issues.

The following objectives will be addressed within the priority area of ensuring efficient use of frequency range for the communication sector competitive market promotion: (i) to extend coverage of the radio monitoring system aimed at ensuring electromagnetic compatibility of radioelectronic equipment and high-frequency devices; (ii) to ensure international legal protection for the national radio frequency range; (iii) to raise the telecommunication market investment attractiveness through the guaranteed radio frequency range clarity.

The following measures will be implemented to address the above objectives: (i) to adopt the Program of the Radio Monitoring System Development in the Kyrgyz Republic in 2013-2017; (ii) to automate the radio frequency range control process; (iii) to introduce national standards and technical regulations on new communication technologies; (iv) to introduce the national radio monitoring system consisting of 11 fixed and 5 mobile radio monitoring stations by 2017.

## **IX. THE POLICY OF REGIONS' TRANSITION TO SUSTAINABLE DEVELOPMENT**

The goal is to provide the Kyrgyz Republic's regions with necessary capacity for transition to sustainable development.

Background. Within the 22 years of independence, Kyrgyzstan failed to develop regional policy and an effective local administration system. Administrative approach prevailed in public administration forming the image of local governance bodies as of the government machinery lower level. With only a few exceptions, local governance bodies do not orient themselves at their own resources in local communities development, but continue practicing wait-and-see attitude.

Previously developed regional and local communities development strategies included many priority issues to ensure comprehensive regional development. However, they could not be implemented in context of lacking resources and insufficient coordination with sector policy makers, therefore the situation remains difficult in local communities.

Only 20 % of the total number of *ayil aimaks* (village districts) are not subsidized, while others' incomes are insufficient to cover their budget expenditure. This means that of most of the 22 activities of local significance specified by laws are implemented in limited volume and some are not implemented at all including provision of economic growth, drinking water supply, local roads support, etc.

All this affects the access to and quality of government and municipal services provided to communities particularly in small towns and villages where women, children and young people are the most vulnerable groups.

Other always urgent issues faced by regions include the limited and worn out infrastructure. Local budgets do not allow launching and controlling development processes. Such a situation leads to social tension.

The economic policy's sector principles have not brought any structural shifts to regions' economies. Uneven allocation of main industrial capacities aggravated disproportions in regional development where 77.4 % of GDP are as usually formed by the gross regional product of Bishkek and Chuil, Jalal-Abad and Issyk-Kul oblasts. Such a situation causes specific problems faced by border communities turning them into depressive areas.

The current conditions including uneven allocation of large industrial facilities among regions, sector and geographic specifics, inefficient crediting system, etc., impede promotion of business activities in regions and, therefore, creation of sufficient number of jobs with fair wages.

Thanks to a number of regulations adopted<sup>30</sup>, local governance began to develop in Kyrgyzstan and therefore play growingly significant role in support of activities of local communities and their members. At the same time, the existing norms fail to ensure necessary conditions for complete decentralization including that fiscal.

The existing tax rules do not promote development of border and depressive areas, introduction of "environmentally clean" technologies and provision of job opportunities.

The policy of including regions in sustainable development requires the strengthening of regional and local government staff capacities, raising of government and municipal service prestige, and elimination of gender prejudices.

The current situation at local level is characterized by high staff turnover and lack of professionals and career opportunities for municipal employees. Gender disbalance in government structure staff at local level should be particularly noted.

Serious implications of persistent poverty in regions include internal and external migration. According to the employment center of the Kyrgyz Republic Ministry of Labor, Migration and Youth, at least 700,000 of Kyrgyzstan citizens were working abroad. The level of internal migration from rural to urban areas is also high particularly in Bishkek as the destination of 26 % of internal migrants. The active population outflow from regions to the capital city and abroad leads to deficit of qualified specialists practically in all sectors, as well as to social orphanhood, border area desertification, etc.

Insufficient information on development opportunities and efforts of central and local government to address urgent issues nationwide and locally causes mistrust in government and sense of social injustice.

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<sup>30</sup> The Kyrgyz Republic laws on local governance, on local councils deputies elections, on municipal service, on municipal ownership, on financial and economic fundamentals of local governance, on status of local council deputies, on access to information of central government and local governance bodies of the Kyrgyz Republic , etc.

Unresolved local development problems cause conflicts of investors and communities that should be resolved locally. Nine significant conflicts took place in 2012 impeding the growth of regions' economic capacity, such as conflicts related to Kumtor mine, Shambesai field in Batken oblast, and those in Kemin, Chon-Alai and other districts. Another example is the situation with the oil refinery in Kara-Balta.

Regions sustainable development is one of the most important conditions for the country's sustainable development. The following grounds for transition to sustainable development do exist and will be used to launch regional sustainable development processes: (i) the key development resource is a human being, a country citizen with qualities and features such as flexible thinking, adaptability, tolerance, hard working, initiative, education, nature comprehension, patriotism and freedom; (ii) political will for reforms, the country's government and sociopolitical groups committed to sustainable development principles; (iii) laws that, although with some reservations, allow launching regional sustainable development processes; (iv) developing local governance and other administration institutions; (v) projects attractive for investors, not only those in energy and mining sectors; (vi) availability of certain regional products in demand on domestic and external markets able to form brands of oblasts, districts and single communities; (vii) unique ecosystems, first of all those mountainous; country's membership with various international organizations, etc.

Transition of regions to sustainable development will include policy measures based on actual situation in regions, market specialization, and interregional trade, with consideration of environmental, social and political features of each single region.

Reliance on the above provides unique opportunities to strengthen regions' capacities and financial autonomy, retain environmental advantages, and ensure growing quality of living through the development of regional economies' priority areas as sustainable development engines.

This program will consider changes that will accompany optimization of ayil aimaks and oblasts provided by the Administrative Territorial Reform Concept and will by 2017 allow considering a region as an economic unit with borders not necessarily fitting into those administrative.

Priority areas. The set goal will be achieved through the following priority areas implementation: (i) effective administration in transition to sustainable regional development; (ii) regional economies development management; (iii) social development administration.

The priority area of effective administration in transition to sustainable regional development will be focused on addressing the following objectives: (i) to provide regulative conditions for the sustainable regional development administration; (ii) to strengthen regional capacity for sustainable development administration.

The first objective that is to provide regulative conditions for the sustainable regional development administration will be addressed through the



following measures: (i) to amend the Kyrgyz Republic Law on Local Governance and other regulations for clear division of functions, powers and responsibilities of central government and local governance bodies; (ii) to develop and approve government and municipal services standards; (iii) to develop and approve norms of material, financial and other resources necessary to exercise delegated authorities; (iv) to develop a new transparent methods to estimate categorical and leveling grants that will facilitate leveling of regions' budget support and ensuring better flexibility and financial autonomy of local governance bodies; (v) to introduce revenue charges for ecosystem services that will serve as an effective economic mechanism that allows retaining and rationally using all functions of natural capital and an economic incentive for employing renewable energy sources, power saving construction and environmental research.

The second objective that is to strengthen regional capacity for sustainable development administration will be addressed through the following measures: (i) assessment of needs, restrictions, capacities and expectations of people in communities committing themselves to sustainable development; (ii) to develop and pilot regional projects introducing community-based resource management linked to nationwide projects launched in all the country's regions; (iii) development of methodological recommendations on "green" jobs projection with an emphasis on women and young people; (iv) to develop a module and arrange systematic training of government and municipal employees on essence and methods of management of transition to sustainable development; (v) to introduce of midterm planning of local budgets with consideration of introduction of project target development model considering each region's strengths and specifics, and to accumulate resource for implementation.

Another government policy priority is the regions' economies development management that suggests the following objectives: (i) broader introduction of market principles in government regulation of regional development and regulative support for the use regional economies priority areas as engines for each region; (ii) coordination of concerns for regional economic development.

The following measures will be implemented to address the first objective: (i) to carry out regional research to identify the main conventional priority that would become a local development engine; (ii) to develop (based on research findings) strategies for transition to sustainable development for each region, town or ayil aimak which will fix midterm and long-term sustainable development prospects and economic growth capacities; to coordinate implementation of sector programs through the promotion of regional projects, creation of jobs within border and depressive areas, special measures aimed at supporting communities and environmentally disadvantaged areas; to use competitive advantages of each oblast or district including green production in agricultural regions; (iii) to introduce project target model of regional sustainable development based on resource capacity and climate specifics, with maximum inclusion of recognizable competitive advantages of each oblast and

district both inside and outside the country, including green agricultural production; (iv) to specify legislation with respect to identification of responsibility of government structures and local governance bodies for coordination and mobilization of budget and non-budget funding and thus allow concentrating resources to support priority sectors in regions; (v) to establish local communities foundations in each region to support sustainable development projects implemented, as well, based on government-private partnership in each region; (vi) to provide targeted resource support for job creation in border and depressive areas.

The second objective that is to coordinate concerns for regional economic development suggests the following measures: (i) to supplement laws with a norm raising the responsibility of local government administrations and local governance bodies for ensuring favorable conditions for honest investors; (ii) to develop a regulation aimed at broader use of mediation in conflicts at various levels and first of all in communities where investors operate; (iii) to carry out regular information campaigns in communities to ensure understanding of the sustainable development essence and importance of civil participation in decision making process; (iv) to draft a standard Corporate Social Responsibility Code that will be offered to companies operating in regions.

The third priority area in regions transition to sustainable development that is related to social development administration includes the following objectives: (i) to broaden cooperation between government structures, local governance bodies and civil society institution for the management of transition to sustainable development; (ii) to manage the improvement of Kyrgyzstan citizens' living conditions and quality.

The objective of broadening the cooperation between government structures, local governance bodies and civil society institution for the management of transition to sustainable development suggests the following measures: (i) to establish local sustainable development councils as an effective mechanism for coordination of mutually beneficial relationships between local communities, business, and regional and central government structures; (ii) to develop and introduce procedures of monitoring and evaluation of decisions related to sustainable development in order to provide recommendations on adjustments in the process of implementation of the Program and regional strategies; (iii) to introduce practices of mandatory public hearings at all the budgeting process stages in order to ensure expenditure transparency and public control of funds received by the local budget; (iv) to introduce the social services commissioning mechanism for local governance bodies; (v) to develop a training module and train local administrators and heads of organizations of all ownership types locally on sustainable development issues in order to strengthen the regional development human resources capacity.

The following measures will be implemented to address the objective of managing the improvement of Kyrgyzstan citizens' living conditions and quality: (i) to develop the sustainable development map for each region that will reflect common issues in local communities development, specific problems

faced by certain groups (infants, preschool age children, school students, employed and unemployed young people, students, employable population, elderly, pensioners, PwDs, abandoned children, etc.), and initiatives of government, commercial and non-profit organizations to address such issues in order to ensure comprehensive approach to social development administration; (ii) to create a sustainable social development model for each region that will include concepts, methods, designs, products, services, as well as research, organizational, marketing, financial, commercial and production activities and consider regional specifics; (iii) to develop a mechanism to provide the widest possible range of government and municipal services within single facility, including the one-stop-shop principle and use of information and communication technologies that will improve the access to and quality of services, minimize time and money spending for citizens, and reduce conditions for corruption; (iv) to prepare the list of municipal services and ensure such services standardization by each local governance body; (v) to introduce methods for local governance bodies performance outcome-based assessment.

## **X. IMPLEMENTATION PROCESS**

### **10.1. Process Management**

This program will be implemented through the development and execution of annual plans linked to the set of national projects with budget and non-budget funding sources.

Decisions of the Program adjustments will be made based on findings of monitoring and evaluation of annual Program plans implementation.

The Program implementation process management suggest the following activities: (i) systematic review and evaluation of annual plan implementation in order to make policy decisions regarding the Program implementation progress; (ii) validity of necessary expenditures for implementation of projects and sector programs; (iii) identification of potential funding sources for measures and investment projects; (iv) facilitation of sector programs and projects implementation; (v) creation of regulation and administration environment required for successful Program implementation; (vi) launching the monitoring and evaluation system, identifying deviation from stated goals and objectives and reviewing its causes, and making necessary adjustments.

Main objectives to be addressed by government bodies will include the following: (i) to mobilize necessary budget funds; (ii) to coordinate borrowings attraction; (iii) to coordinate efforts of central, sector and regional government bodies; (iv) to create institutional conditions for private sector and civil society to take part in the Kyrgyz Republic government Program and Plan implementation; (v) to coordinate implementation of sector programs and projects as a part of this Program.

### **10.2. Monitoring and Evaluation**

Regular monitoring and evaluation of implementation of sector programs and projects included in this Program's plan will be an effective instrument to assess the Program implementation progress and allow (i) making preceding decisions through adjustments in implementation process, and (ii) assessing their impact on the country's overall development.

The annual Plan implementation schedule (2013-2017) including indicator system coordinated with all stakeholders will be an integral part of monitoring and evaluation of progress in promotion of economic and social priorities set for years 2013-2017 within this Program. Indicators of the Plan and annual schedules monitoring and evaluation will include both qualitative and quantitative parameters (Annex 3).

The set of indicators for monitoring and evaluation will allow tracking and measuring the following: (i) interim results of the Program implementation with account of input; (ii) outcomes, through the set goals and objectives implementation indicators; (iii) national indicators showing the Kyrgyz Republic's development dynamics at macroeconomic level, including MDG.

The Program implementation progress will be evaluated regularly based on the monitoring data. As a part of such evaluation, the progress achieved will be analyzed in detail and weaknesses and drawbacks in the Program's activities and projects implementation identified. Based on the evaluation findings, decisions will be made as to selecting alternative options of further steps in the Program implementation, resources reallocation and optimal use, improvement of efforts coordination with the donor community, and better satisfaction of the community's expectations.

### **10.3. The Country's Needs in and Capacities for the Program Financing**

All available funding sources will be mobilized for the achievement of the Program goals. These will mostly be funds provided by the country budget which will in midterm prospect be integrated in the Plan of specific measures and projects within the set priorities, as well as the development budget supported by international donors as a part of the Government Investment Program (GIP).

To implement the Program efficiently, requirements for budget transparency should be toughened and extended. For this purpose, the shift from line-item budget to the program-based budgeting process will continue, with assessment of budget institutions expenditure efficiency. Activities of agencies and their program funding will be closely linked to the Plan measures policy.

At the same time monitoring and assessment of implementation of the Plan through the annual plans of the Kyrgyz Republic Government will become a real management tool designed to establish relationship between the amount of funds provided and the degree of achievement of the goals set within the Plan.

Other important funding sources will include program credits and grants of international donors allocated for budget deficiency payment and technical assistance.

The Plan implementation will also be supported by local budgets and private investments including those foreign. Measures will be implemented consistently to improve access to bank and microfinance organization resources.

Annex 4 “The Kyrgyz Republic Sustainable Development Transition Program 2013-2017 Budget” includes data of funding needs and capacities for the seven major sections: (i) areas and priorities of the Kyrgyz Republic’s transition to sustainable development; (ii) addressing social objectives and issues; (iii) environment protection for ensuring sustainable development; (iv) sustainable economic growth and macroeconomic stability; (v) business environment and investment climate improvement; (vi) economy’s strategic sectors development; (vii) policy of regions transition to sustainable development.

The Plan also includes estimates of deficit funding, a finance gap that might be a subject of constructive cooperation with international donors as a part of development of the Joint Strategy for Donor Support to the Kyrgyz Republic 2017.

The overall need in financing of the Plan’s activities, programs and projects amounts to some 791.8 billion soms. Capacities are estimated at 419.2 billion soms as average. The part of the Plan not covered by funding is 372.6 billion soms or 47.1 %.

The need in funding is 320.8 billion soms from local sources (national budget) and 471.1 billion soms from external sources (development budget, private investments). Secured financing for the Plan’s activities, programs and projects will be 214.1 billion soms in general (51.1 % of the total capacity). The donor community and private investors will provide funding in amount of 205.1 billion soms (48.9 % of the total capacity).

The current budgeting figures in the key priority breakdown are as follows:

1) The required amount of funding for areas and priorities of the Kyrgyz Republic’s transition to sustainable development is estimated as 3.2 billion soms. The national budget and other funding sources capacities amount to 113.6 million soms. Thus, this priority is covered by funding in amount of 88.2 % of the estimated needs. The remaining part of funding in amount of 15.1 million soms should be raised from the national budget.

2) 236.0 billion soms are needed for the financing of priorities aimed at addressing social objectives and issues within the Plan. Secured capacity amounts to 187.7 billion soms or 79.5 % of the estimated needs. About 20.5 of the funding required will be raised from the national budget and international donors.

3) The funding needed for the financing of priorities of environment protection for sustainable development amounts to about 10 billion soms and is almost completely secured (9.6 billion soms, or 96.1 %).

4) Funding in amount of 36 million soms is needed to ensure sustainable economic growth and macroeconomic stability. The secured funding amounts to 35.5 million soms, or 98.6 %.

5) Funding in amount of 3.2 billion soms is needed for priorities of business environment and investment climate improvement. 48.3 % (1.5 billion soms) of the needed funding have been secured. More than a half of the needed amount should be raised from the national budget and international donors.

6) The need in funding for priorities aimed at the economy's strategic sectors development amounts to 531.4 billion soms. The national budget and other funding sources capacities amount to 216.4 billion soms, or 40.7 % of the estimated needs. The remaining part in amount of 315 billion soms should be raised through private investments and international donor funding. To attract direct investment in the priorities development, the Plan provides for activities aimed at the business environment and investment policy improvement.

7) The government is willing to allocate 2.2 billion soms (including funds from the development budget) for activities and projects aimed at regional development. This amount covers 88.9 % of the funding needed for the area that has been estimated as 2.5 billion soms.

8) Funding in amount of 260.3 billion soms have been provided for the national budget's other expenditures<sup>31</sup> in 2013-2017.

As for figures related to the investment projects financing (Annex 5), the estimates are as follows: the total funding needed for 70 national projects implementation in 2013-2017 amounts to 354.8 billion soms. Capacities have been estimated as 187.6 billion soms on average. The part not covered by financing amounts to 167.2 billion soms, or 47.1 %.

The Kyrgyz Republic government is concerned about the fact that it is difficult to raise finances resources in full amount for the Program's goals and objectives and therefore expects support from international donors within the Joint Strategy for the Country Donor Support (JSCDS) that will be closely linked to objectives of the Kyrgyz Republic government's Program 2017.

Activities of the JSCDS partners will completely fit the framework of the Program's major priority areas, while the principle of new debt growth containment will be that fundamental in attracting external support. It means that the international donor support will be mostly provided to the country through the program grant system.

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<sup>31</sup>(other expenditures including budgets of the Kyrgyz Republic parliament, president's staff, government staff, Chamber of Accounts, ombudsman's staff, and social infrastructure support)