

Comprehensive Development Framework of
the Kyrgyz Republic to 2010

***EXPANDING THE
COUNTRY'S
CAPACITIES***

National Poverty
Reduction Strategy

2003-2005

FOREWORD

The current phase of Kyrgyzstan's development clearly requires quality changes in both the State and the society. Practical steps must be taken in the implementation of the Comprehensive Development Framework of the Kyrgyz Republic to year 2010 (CDF) and the National Poverty Reduction Strategy (NPRS). Timely achievement of high quality results in priority development areas will be the proof of the effectiveness of our actions. Swift adjustments of society and the State to progressive changes will become the key to our common success. Our vision of the future must be kept in mind, together with our history. We must continuously learn and improve ourselves, and work hard to keep up the pace of development. Comprehensive actions, based on modern management methods, are needed. We cannot afford to make mistakes. The loss of time and opportunities is inexcusable in the development of the people, the society, and the history of our nation.

We must abandon illusions, overcome inertia and complacency. The community will support the initiatives of the authorities only if plans and actions benefit ordinary people and ensure fuller and more consistent implementation of human rights and freedoms proclaimed in the Constitution of the Kyrgyz Republic.

This document, detailing the NPRS, sets out our nation's approach to dealing with our most immediate and difficult problem – human poverty.

Poverty manifests itself in many forms. These include violation of human rights. Poverty, coupled with inequality, increases the vulnerability of social, economic, and political freedoms, generates social tension. For this reason, we have identified implementation of basic human rights and freedoms, and development of democracy as key factors for the successful implementation of CDF and NPRS programs.

We must consistently and emphatically reduce poverty in all its forms because it infringes human dignity and creates an obstacle to its adequate development.

An intensive pace of reform requires effective management. We urgently need a strong, upright, and fair public sector administration that works in the interests of the people. Its activities should be transparent and accountable. We must take a strong position on eradication of corruption, bureaucracy, and all forms of crime. The country needs professional managers and progressive reformers who will apply world standards in implementing new initiatives for the development of society, while protecting the interests of the State abroad. It is necessary to optimize the structure of administrative institutions in order to achieve reasonable distribution of responsibilities between the State and the private sector. We need well-developed democratic institutions committed to constructive development. We must build a state where protection of human rights is unshakable law.

We must achieve sustainable and dynamic economic growth. We must give a new impetus to economic development through an aggressive export policy. We must secure stable traditional markets for our domestic goods, promote our goods in new markets, and make use of our WTO membership. Extensive processing of domestic produce should be promoted in all regions of the Republic.

We must strengthen the stability of the banking system. It should provide a full set of necessary financial services to the real sector, ensure safety and profitability of people's deposits and be customer friendly. The non-bank financial institutions must also be actively promoted; they remain an untapped resource of which we should learn to make effective use.

We need to upgrade and expand the nation's economic infrastructure in order to accelerate the development of the whole economy. The energy sector should be developed on principles of fair competition, effective corporate management, reduction of losses and costs, and accessibility of services to people. Each residence must be warm and have light.

All the natural resources offered by our mountains that occupy over 90 percent of our country's territory, should be wisely managed for the good of the nation. Rural territories and small towns should be actively developed in order to ensure employment and higher living standards. We will accelerate the development of towns and the service sector and make them the beacons of successful reform. With competition, the quality of our services will rise to the world standards. Towns should become clean and attractive.

Nature offers us unique conditions for the development of tourism. We must fully take advantage of this and create conditions attractive to tourists from all over the world.

Through development of telecommunications and information technology, we intend to build an information society. This kind of environment will help society to be more aware of national issues. Citizens, towns, villages and remote and mountainous areas, will be able to participate directly in the creation and implementation of measures related to the development of the Republic. We should be known throughout the world as a country that has set its course on democratic and sustainable development and alleviation of poverty.

In order to ensure sustainable development, we should concentrate our efforts on achievement of identified goals. It is necessary to:

- Direct state budget funds only for the support of priorities under the regional and sectoral development programs.
- Achieve effective implementation of the Public Investment Program.
- Ensure quality development of human resources.
- Use material resources rationally and introduce new technologies.
- Eliminate all obstacles and create new competitive advantages for the nation in order to attract direct investment into economy.

We must ensure economic growth for the benefit of each and every citizen of the Kyrgyz Republic. We need to ensure pro-poor economic growth. The State must fulfill its social obligations to the population in a timely manner. We need to provide adequate and targeted social assistance to the population. It is necessary to achieve fair redistribution of income in the interests of the poor and needy. Special attention should be given to pensioners, disabled, and children. We must provide all possible support for the family – the foundation of any strong society.

It is necessary for people to receive accessible and high-quality education. Science and education should become a single process, oriented to acceleration and quality development of priority areas. The population should be healthy and be provided with accessible and high-quality health services. It is important to promote healthy life styles. We must safeguard cultural traditions. It is important to create incentives for development and change of mentality towards quick adaptation to the development process. People must be encouraged to develop themselves. We will increase employment through effective development of the labor market and creation of new jobs. People must feel confident in their strengths, believe in the reality of opportunities for creating a better life for themselves and their children.

Deepening integration processes necessitates consolidation of our efforts and the assistance of the international community for a more successful development of Kyrgyzstan. We express our gratitude to donor-countries and international agencies for their intention to continue constructive assistance to our reform processes and participation in the implementation of Kyrgyzstan's development strategies on equal partnership principles.

The National CDF Council urges all stakeholders in the development process – public sector administration, the private sector, local communities and civil society – to unite all efforts in purposeful and persistent work for the reduction of poverty throughout the nation.

We call on the people of Kyrgyzstan to maintain civil peace and unity and to support the reforms provided for in the CDF and NPRS programs.

We are to jointly implement the National Poverty Reduction Strategy, a Strategy that identifies clear priorities and provides for the rational management of all available resources and growth reserves. This Strategy envisages effective mechanisms for the development of the private sector, protection of the socially disadvantaged, revival of the key economic sectors and strong social partnership.

We are strongly confident that active, free, and constructive participation of each citizen in Kyrgyzstan's development will help to overcome difficulties and obstacles. We will use our comparative advantages to make Kyrgyzstan a prosperous democratic state.

**A. Akaev,
President of the Kyrgyz Republic,
Chairman of the National CDF Council**

CONTENTS

INTRODUCTION	3
EXECUTIVE SUMMARY.....	5
CHAPTER I. THE SCALE OF POVERTY.....	27
CHAPTER II. SUSTAINABLE STABILIZATION AND DYNAMIC NATIONAL DEVELOPMENT	32
1. Expanding National Potential through NPRS.....	32
CHAPTER III. FORMATION OF AN EFFECTIVE STATE	34
1. Democratic Institutions	34
2. Raising the Effectiveness of the Legislature.....	37
3. Refining the Judiciary and Law Enforcement Agencies	38
4. Reforming Central and Local Public Administration.....	41
5. Decentralization and Local Self-Government.....	43
6. Reforming State Financial Management.....	47
7. Creating an Effective Civil Service	49
8. Electronic Government.....	52
CHAPTER IV. BUILDING A FAIR SOCIETY.....	54
1. Targeted Social Protection.....	54
2. Integration of the Disabled into Society	55
3. Poverty Among Children	55
4. The Retirement Pension Benefits System	56
5. The Labor Market and Job Creation.....	57
6. Reform of Wages and Labor Agreements	58
7. Access to Quality Education.....	59
8. Science	62
9. Culture	63
10. Access to Quality Health Services	65
11. Physical Culture and Sports	67
12. Gender Equity.....	68
13. Rational Environmental Management	71
CHAPTER V. PROMOTING SUSTAINABLE ECONOMIC GROWTH	75
1. Macroeconomic Situation.....	75
2. Economic Policy.....	76
3. Budget Policy and the Public Investment Program.....	79
4. Tax and Customs Policy.....	81
5. Management of External Debt.....	83
6. Development of the Financial System	85
7. Privatization	88
8. Investment Policy.....	92
9. Stimulating Private Enterprise	94
10. Corporate Governance	96
11. Foreign Economic Relations and Development of Exports.....	98
12. Development of the Real Sector of Economy	100
CHAPTER VI. REGIONAL DEVELOPMENT IN THE KYRGYZ REPUBLIC	119
Balanced Development of the Regions.....	119

Batken Oblast	119
Jalal-Abad Oblast	122
Issyk-Kul Oblast	124
Naryn Oblast	127
Osh Oblast	129
Talas Oblast	131
Chui Oblast	133
Bishkek City	136
CHAPTER VII. SECURITY OF DEVELOPMENT	140
Strengthening of the Country's Defensive Capacity	140
Anti-Corruption Activities	141
Drug Control	143
Strengthening the System of Personal and Property Security of the Citizens	144
Prevention of Social Conflicts	145
Reduction of Natural Calamities and Technogenic Catastrophes and Hazard	145
CHAPTER VIII. PARTNERSHIP AND PARTICIPATION IN IMPLEMENTATION OF THE NPRS	147
CHAPTER IX. RESOURCE REQUIREMENTS OF NPRS	151
CHAPTER X. SUPPORT BY THE INTERNATIONAL COMMUNITY	154
CHAPTER XI. MONITORING AND EVALUATION	158
APPENDIX I.1. MACROECONOMIC INDICATORS, 2003-2005	163
APPENDIX I.2. GDP STRUCTURE	164
APPENDIX II. MAIN TARGET PARAMETERS OF HUMAN DEVELOPMENT AND ECONOMIC GROWTH AS A RESULT OF IMPLEMENTING NPRS	165
APPENDIX III. MIDTERM BUDGET	166
APPENDIX IV.1. HEALTHCARE EXPENDITURES	167
APPENDIX IV.2. EDUCATION EXPENDITURES	168
APPENDIX IV.3. SOCIAL PROTECTION EXPENDITURES	169
APPENDIX IV.4. PENSIONS	169
APPENDIX V. ACTIONS MATRIX FOR ACCELERATED DEVELOPMENT	170
APPENDIX VI.1. ONGOING PUBLIC INVESTMENT PROGRAM (PIP) PROJECTS	231
APPENDIX VI.2. PLANNED PUBLIC INVESTMENT PROGRAM PROJECTS	235
APPENDIX VI.3. PROGRAM LOANS AND GRANTS FOR SUPPORT OF BALANCE OF PAYMENTS ..	236
APPENDIX VII. BALANCE OF PAYMENTS, 2000-2010	237
APPENDIX VIII. DIRECT INVESTMENT	239
APPENDIX IX. EXAMPLES OF PARTNERSHIP AND PARTICIPATION	240
APPENDIX X. MATRIX ON PARTNERSHIP AND PARTICIPATION IN IMPLEMENTATION OF THE CDF/NPRS	242
APPENDIX XI. LIST OF INDICATORS	248
APPENDIX XII. SOURCES	254
APPENDIX XIII. GLOSSARY	258
APPENDIX XIV. LIST OF ABBREVIATIONS	260

INTRODUCTION

The National Poverty Reduction Strategy (NPRS) is the first phase in implementation of the Comprehensive Development Framework of the Kyrgyz Republic to year 2010 (CDF).

The CDF strategy was approved on 29 May, 2001 by the National CDF Council with participation of the President of the Kyrgyz Republic, leaders and representatives of all state agencies, various nongovernment organizations (NGOs), political parties and public associations, local communities and media.

The document reflects a ten-year national development vision. The overarching goal of the CDF is to achieve political and social well being, economic prosperity together with freedom, human dignity and equal opportunities for all the people of Kyrgyzstan.

The development and implementation of the long-term strategy has been a unique experience for Kyrgyzstan. Participation of all segments of the society made the CDF a truly national strategy. The strategy defined the main areas of country's development:

- Effective and transparent administration of the State;
- Building a fair society;
- Ensuring sustainable economic growth.
- Reducing poverty.

The donor community has supported the CDF document, having confirmed this in numerous memoranda, statements and addresses. Donors have indicated that investments and grant assistance will be provided to Kyrgyzstan within the framework of such a strategy, primarily aimed at poverty reduction. This approach –will help donors to clearly see the main directions for country's development and define assistance areas. It also allows the Republic to concentrate external and internal resources for implementation of the CDF objectives.

The principal objective under the CDF is to reduce poverty in the Kyrgyz Republic by half by 2010. The main CDF and NPRS spheres reflect the UN Millennium Declaration and the Millennium Development Goals adopted by the Kyrgyz Republic at the UN General Assembly in September 2000 together with other 190 countries of the world.

At the National Forum, "Poverty Alleviation: People's Initiative and the Responsibilities of the State", held in January 2002 the President outlined specific tasks on activation of reforms and mobilization of national resources to support consistent reduction of poverty and improvement of living standards for Kyrgyz citizens.

CDF and NPRS acquired institutional status through the establishment of the National CDF Council and its executive unit, the CDF Secretariat.

Coordination committees have been established to supervise areas of sustainable economic growth, social protection and human development, and effectiveness and transparency of state governance. The coordination committees have formed 23 working expert groups. All regions and Bishkek City have regional councils that coordinate the activities of expert working groups. Members of these coordination and working units include representatives of all elements of government and the civil society.

NPRS was developed in two stages. The first stage covered interim NPRS which was developed concurrently with CDF. The CDF and NPRS programs have been thoroughly evaluated by national and international experts, and several international financial organizations. At the end of 2001, the interim NPRS (I-NPRS) was endorsed by the World Bank's Board of Directors and the Executive Council of the IMF.

However, September 11 events, new donors' approach to poverty reduction processes, experience with development of CDF, as well as first successes in implementation of CDF necessitated revision of attitude towards poverty reduction strategy.

Practically all donors are now changing their assistance strategies, and shifting the focus to consideration of country development priorities, equal responsibility for the outcomes, as well as enhancing effectiveness of the aid.

Kyrgyzstan welcomes and supports the decisions adopted in Monterrey and Johannesburg, as well as recommendations made at international forums and conferences, including the International Poverty Reduction Strategy Conference that took place in Washington D.C. in January 2002, February 2002 London meeting of government officials and international organizations on debt servicing and fostering of economic

growth in CIS countries, CIS-7 Initiative, as well as at a number of other international meetings on various poverty-related issues.

The Consultative Group Meeting (Bishkek, October 9-11, 2002) has also reconfirmed the general understanding and support of the NPRS process by Kyrgyzstan and the donor community.

Kyrgyzstan considers NPRS as a real opportunity to move to development platform that will make better use of domestic resources and increase the Republic's potential.

It is important to make actions undertaken by the State transparent, concerted, timely and oriented on result. Modern, dynamic and flexible management systems must be introduced in the country. The sustainable economic growth will be achieved through effective management of all country resources and active attraction of direct investment. That is why the second phase of NPRS finalization viewed NPRS as a holistic process. This means that all actions under the strategy must be clearly thought out from the beginning to the end, prioritized, provided with necessary resources, and implemented in a timely manner by all involved parties. NPRS is a unified strategic program of country's development for the medium term. All other programs – regional, sector, country assistance and other – must be coordinated within the NPRS resource framework.

In relation to this, NPRS was developed as a process in which all progressive aspects are used as catalysts for adjustments, and a synergy of actions is ensured among all implementation participants with full focus on NPRS mission. It was this process-oriented approach that was used in finalizing the NPRS. This approach was approved at the National CDF Council in January 2002.

NPRS development and implementation principles have been set on a uniform methodological platform with application of modern business process design principles. This will help to create a ground for effective and comprehensive country development programs: on international, national, sectoral, and regional levels as well as on the level of economic entities.

The key aspect is that all development policies were developed using the same logical scheme:

- outline of the current situation;
- defining reform objectives;
- developing a strategy;
- selecting development priorities;
- developing implementation mechanisms;
- defining activities;
- assessing resource requirements and sources;
- elaborating monitoring and evaluation indicators.

It is important to note that prioritization of actions was made considering the impact of actions on poverty reduction, preparedness for the activity, and availability of resources. Implementation of priorities will be done through realistic and progressive mechanisms that accelerate country development process.

The activities were developed in the form of programs, projects, and studies. The programs are directed at development of policy in those spheres that require clear vision for the future. Projects will be implemented to realize the policies. Studies are meant to seek new development prospects for the future.

Hierarchy of goals was formulated from the basic point of identifying goals to elaboration of specific activities necessary for attainment of goals. This set of activities is represented in the form of action matrix with defined calendar and resources plans. The matrix will be continuously improved and adjusted.

Due to comprehensiveness and large size of the document, it includes the Executive Summary section. This section outlines main priorities and areas of forthcoming activities with reflection of discussions held at the Bishkek CG meeting on October 9-11, 2002.

The NPRS is accompanied by a set of appendices containing, *inter alia*, forecast of macroeconomic and financial indicators, provisioned policy measures and actions necessary for their implementation.

NPRS has been finalized in close contact with government agencies, civil society and with the support and advice of multilateral and bilateral donors.

NPRS has been finalized using updated data on poverty profile and structure.

EXECUTIVE SUMMARY

THE SCALE OF POVERTY

The National Statistical Committee (NSC) continued to improve poverty measurement methodology and in 2002, jointly with World Bank experts, has identified several methods that can be used for assessment of welfare in measuring the level of poverty in the Republic.

Poverty surveys have been conducted in the Kyrgyz Republic since 1996. In order to ensure data comparability, the NPRS document used information on poverty levels and profiles based on average per capita expenditures of the population. In 1999 the incidence of poverty was 55.3 percent of the population, with over 23 percent of population in extreme poverty. Since then there has been some reduction in the poverty level, and in 2001 less than 50 percent of the population was classified as poor, while extreme poverty went down to 13 percent.

Along with reduction of poverty, indicators of poverty gap (from 19.8 percent in 1999 to 13.9 percent in 2001) and severity of poverty (from 9.8 percent to 5.6 percent respectively) declined. Rural poverty is higher than it is in urban areas. Poverty incidence is uneven throughout the Republic. The highest poverty incidence is noted in Naryn oblast and Talas oblast. The population of Bishkek City and Chui oblast is less poor.

Poverty

In 2001, the registered unemployment level was 3.2 percent, 0.3 percent higher than in 1999. However, according to International Labor Organization (ILO) methodology, unemployment estimates fluctuate in the range of 7 to 11 percent. Birth rate remains relatively high. In 2001 the fertility rate¹ was 2.4 children. Despite the relative reduction in the mortality rate, infant mortality remains high (28.2 deaths per 1000 live births in 1997, down to 21.7 in 2001). There was a slight increase in life expectancy from 66.9 years in 1997 to 68.7 in 2001. Internal migration has intensified in the Republic. The main movement from rural areas to the cities has created a number of problems. There have been several changes in the literacy situation in the period under review. Among people aged 7 years and older, 1.2 percent² was illiterate. Of these, 51.4 percent were elderly, 16.7 were children aged 7 to 10 years who live in poor families and could not attend schools, 32 percent were children with mental and physical deficiencies and naturally handicapped.

The number of pensioners (retirees) is declining. In 2000 - 2001, the average pension rose by 50 percent. Level is still not high enough to provide pensioners with essential goods and services. In the year 2001, 470,300 people received a unified monthly benefit (UMB), the average size of which equaled 65.67 soms per month (approximately US\$1.42). There is an increase in the number of social benefit recipients, especially recipients of benefits for the loss of family breadwinner (by 80 percent compared with 1999). A simultaneous rise is observed in the average size of all social benefits (1.8 times increase compared with 1999), except for age benefits, which have declined by 25 percent.

STRATEGIC VISION

The **mission of NPRS** is to expand the opportunities for citizens to have an adequate and equitable living standards in the Kyrgyz Republic.

It is considered that Kyrgyz people are poor because they lack opportunities. The NPRS process aims to provide and expand these opportunities. On the whole it is directed at:

- systemic impact to reduce poverty
- enhancement of sustainable development;
- preventive action;
- self-mobilization process;
- active use of domestic resources; and
- unifying the society.

This strategy implies a quality leap in development through mobilization of domestic resources, effective use of structural reforms and good management. The objectives of the strategy also include bringing in professional managers to foster the development of economy, improvement of infrastructure, introduction of

¹ Average number of children born to one woman of reproductive age.

² According to results of the First National Census, March 1999.

new technologies and information systems, as well as active involvement of civil initiatives, including in the development of the country's image.

The NPRS will be implemented on the basis of CDF principles of partnership and participation, separation of powers, rule of law, larger participation of the private sector, realism, complementarity, innovation, focus on results, and openness to the global community. In the long-term, this will help to expand nation's development opportunities through the following:

- development of human resources.
- improvement of infrastructure to help to reduce the geographic barriers of the country.
- improving the economic structure so that the service sector will provide most of the employment.
- building an information society in the republic that will help citizens to be active participants in the reforms.

EFFECTIVE ADMINISTRATION OF THE STATE

Under the structural policy the main efforts will be directed at public administration reform. It is envisaged to develop and implement an action plan on raising the quality of public administration.

The key attention will be attached to the following five areas: 1) enhancement of state agencies in order to raise the quality of governance; 2) public awareness campaign; 3) raising effectiveness of state administration; 4) improving quality of public administration; and 5) judicial reform.

The main goal of public administration reforms is to ensure effectiveness, transparency and accountability of all state agencies to the civil society. Attainment of this goals will be supported through:

- development of democratic institutions;
- raising effectiveness of legislature;
- judicial reform;
- reforming central and local public administration;
- decentralization and local self-government;
- effective civil service;
- reforming state financial management.

Democratic Institutions

Improvement of the elections system and the procedures for forming elected government bodies will support development of democratic institutions. Implementation of the national idea, "Kyrgyzstan – a country of human rights," will become the key direction of the democratization process. It is provisioned to ensure effective operation of the institute of the ombudsman, and implementation of activities provided for in the National Human Rights Program, 2002 – 2010.

The main goal is to create a system of democratic institutions that will ensure effective participation by all competent elements of the community in NPRS process. It is necessary to ensure wide accessibility of information on the operation of state agencies to civil society. All state government agencies must continue to seek socially accountable procedures for making and implementing decisions. The distributive functions of the State must be transparent and balanced, and their execution accompanied by effective control mechanisms.

A special role is to be played by reforms of the judiciary, the institution of advocacy, and the law enforcement bodies that must provide legal support and means of public control over observance of laws and human rights.

The most numerous democratic institutions – aiyi okmotu (village governments) - should be empowered and supported by necessary resources. Participation by the people in the use of financial resources, land, real estate, and public infrastructure is not always fair and controlled. Quite often, state agencies and officials either violate or ignore the constitutional rights and freedoms of people. A gender policy that provides for the integration of gender equity principles into state administration, support for women's organizations, and protection of women's rights will be actively promoted. In addition to state measures on protection of children's and youth's rights, implementation of New Generation Program up to 2010, support should be provided for development of children's and youth movements.

Along with other actions for the promotion of economic activities and favorable conditions for free competition, development of corporate governance culture, a strategy for the creation of associations of commodity producers will be pursued.

Development of civil society institutions and enhancing their role in public administration, development of state policy, and control over state agencies remain priorities of the democratization process. There are real opportunities for redistribution of functions and responsibilities between the State and NGOs. Many state functions should be transferred to the nongovernmental sector.

Raising the Effectiveness of the Legislature

Political, economic and social reforms carried out in Kyrgyzstan have necessitated intensive law making. The rapid pace of reform forces the State to provide a quick legislative response to the new public relations. This, in turn, affects the quality and consistency of legislature. Political, social and economic changes often move ahead of the law-making. Many adopted legal documents contain outdated regulations and do not comply with Kyrgyzstan's obligations under international and inter-government agreements.

The main issues in the legislative process include lack of an overall concept of law-making; lack of specialized assessment of draft laws, clear mechanisms for their implementation; duplication of norms in various laws; lack of activities on improvement of legal culture in the society. Weakness of legal services in central and local state administrations also affects the law implementation quality. The capacity of NGOs is still not fully utilized, especially the capacity of professionals that can assist in preparation of draft laws and their assessment.

The objective in the legislative area is to stabilize and create a favorable legal and institutional environment; raise the effectiveness of law making; streamline existing laws.

The priority areas of the forthcoming legal reform include:

- development of the law-making concept;
- improving coordination of law-making activities among public administration bodies;
- active cooperation in the process of law-making with the civil society;
- training and retraining of legal personnel; and
- analysis of the existing legislation, draft laws, and other legal documents.

Refining the Judiciary and Law Enforcement Agencies

The law enforcement and judiciary system of the Kyrgyz Republic have accumulated serious problems that require solution. There are cases of violation of the constitutional rights of citizens and economic entities by governmental bodies. Such facts are not always addressed adequately and in a timely way by law-enforcement bodies and courts. There are cases of corruption, embezzlements, bureaucracy and professional incompetence of the staff in law enforcement agencies and courts. The judiciary system is not always accessible to the poor. These phenomena undermine the citizens' confidence in the judicial bodies. These factors indicate a need for drastic reforms in the law enforcement and judiciary system of the country.

The goal of the envisaged reform of judiciary and law enforcement institutions for the coming years will be to ensure through the institutions of the State, protection and strict observance of the human rights and freedoms, as established by the Constitution of the Kyrgyz Republic. A strong, self-sustainable and really independent judiciary system, which is completely open for the community should be established. Law enforcement bodies must act strictly within the law, promptly and efficiently preventing any violations of the law.

All government institutions, the judiciary and the law enforcement system will be oriented to work to:

- draft laws on introduction of amendments and addenda to the Constitution of the Kyrgyz Republic, Laws On the Status of Judges of the Kyrgyz Republic and On the System of Arbitral Courts of the Kyrgyz Republic.
- introduce the Institute of Associated Judges that will become an effective mechanism of public control over courts' activities.
- change the procedure of levying state fees in order to ensure equal opportunities for access to the protection of the courts.
- reduce duration of court proceedings. All lawsuits shall be considered strictly within the timeframe envisaged by the legislation.
- create conditions for formation and effective work of the third party arbitration courts.

- introduce public control over activities of judges, strengthen internal systemic judicial control, and strengthen the role of higher courts on elaboration of a uniform court judicial practice, uniform application of the legislation.
- Another important aspect is granting a right to the juridical community (qualified panels of judges) to apply disciplinary measures in relation to non-diligent judges. This will become an effective tool for eradication of corruption, reduction of court delays, and obviously inadequate application of the law when considering cases.
- radically reform in the execution of court decisions, to introduce stricter measures of enforcement, including tightening of criminal prosecution, attachment of special law enforcement subdivisions to the service of court executive officers, providing them with more freedom on the issue of independent execution of court decisions.

Reforming of the judiciary system will be implemented with the support of the Asian Development Bank within the framework of the project, Corporate Governance – 2.

Much attention is paid to the issues of legal information of the judiciary system. It is intended to considerably develop the established electronic system of dissemination of legal information, ensure broad access to it for the community. Law enforcement bodies will also take measures to strengthen law and order, to ensure more completely the safety of citizens, strengthen the fight against corruption, organized crime, and theft and bribe taking. Preventative capacity to deal with all types of violations will be strengthened, aimed at elimination of causes and conditions of crime. Measures will be undertaken to strengthen the material and technical support of internal affairs bodies, public prosecution bodies, courts, to improve living conditions, special welfare of their staff and raise in their salaries. In addition, measures are planned to further improve the penitentiary system. The bar will be strengthened significantly. At the same time, the standards set by the Law on Advocacy, shall be complied with in full. Finally, it is planned to develop and implement a mechanism of labor compensation for attorneys for the assistance provided by them to poor citizens, to establish a system of training and refresher courses for advocates, to promote the development of principles of self-governance in the bar.

Reforming Central and Local Public Administration

The Government has failed to fully resolve problems related to implementation of the public administration reform. Not all of the undertaken measures have been conducted in an organized manner and they have not always been effective. In a number of ministries, the reduction in the number of staff has been only nominal. Executive discipline of central public administrative bodies is not yet strong enough, so that decisions are delayed.

A comprehensive program-based approach is weakly applied when conducting sectoral and regional reforms. potential of public administrative bodies remains low. Interference of executive bodies in the economy is not always lawful and discourages the level of business activities of entrepreneurs. A flexible, compact management system has not yet been established. The level of salaries of civil servants is insufficient to stimulate the staff to carry out their work effectively. The level of transparency and accountability remains low.

work will continue on optimization of the system and structure of the central, oblast and local authorities. Reallocation of functions of state regulation among executive levels and bodies with a simultaneous transfer of a part of regulatory functions to the private sector and NGOs is important. Capacity building of the staff, creation of an effective system of labor payment and stimulation will be strengthened.

Decentralization

The existing legal documents do not fully provide the conditions for optimal decentralization of public administration. Effective management on the level of local authorities is yet to be developed. There are gaps in legislation in regard to municipal services and development of social mobilization. The authority, as well as responsibilities between the bodies of state government and local self-government (LSG) are not clearly delineated. Finances and local budgets are still centralized and significantly constrained. Professional level of municipal employees is inadequate. There is a need for effective mechanisms for constructive cooperation, methodological recommendations for effective partnership and interaction system between state power, LSG, NGOs, private sector in addressing local community issues. These and other issues require a balanced administrative reform and decentralization of public administration. Creation of effective management mechanisms on the level of local communities should create conditions for independent resolution of local issues, ensure gradual transition to economic self-sufficiency and encourage poverty

reduction. Specific actions on implementation of the provisioned policy measures will be reflected in the National Strategy for Further Decentralization and Development of LSG in the Kyrgyz Republic (2002-2010).

Policy for decentralization of public administration and development of LSGs will be oriented at the following:

- formation of harmonious legislation;
- continuation of political and administrative reforms;
- economic and financial decentralization;
- improving effectiveness of property management on community level;
- developing municipal services;
- enhancing human potential of LSG structures;
- increasing openness and accountability of agencies;
- building civil society partnership; and
- enhancing social mobilization in local communities.

Reforming State Financial Management

To ensure sufficient and timely financial support for social and economic transformation in the country, there is a need for a comprehensive reform of state financial management. Reforms will target ensuring financing for priority areas of development. The ministries and departments, oblast administrations and other governmental structures will be stimulated to form program budgeting. It is important to broaden the powers of ministries, departments and regions in managing state funds and simultaneously strengthening responsibility for and control of their expenditure. Securing predictable inflow and expenditure of funds through formation of the budget on a medium-term financial basis.

Achieving effective expenditure patterns at all levels of public administration will be carried out through transfer of all state accounts to the Treasury system. It is important to ensure transparent, accountable and timely expenditure of funds allocated by the budget. In future transfer of cash in a real time mode, using information and communication technologies will be secured. Successful development of the major principles of the budgetary process reform will be implemented based on the example set by the Ministry of Finance as the chief financial body in the country.

Creating an Effective Civil Service

Improvement of the civil service of the Republic is an important component of administrative reform. Legislation still does not make a clear differentiation between civil servants and politically appointed officials, which impedes conducting an effective policy of social protection of career civil servants, allows for their unjustified dismissals and appearance of frequently changed political appointees. Inadequate professional level of the staff of the civil services is demonstrated by a low efficiency of their work – many of them are not competent enough, inert, slowly adapt to rapidly changing conditions and needs of the society.

An effective mechanism for screening unskilled and unqualified workers has not yet been formed in the system of public administration. The management of government bodies does not always adequately support implementation of the system of competitive selection of civil servants; the competitions are often held only nominally. All this results in deterioration of the capacity of public administration bodies, and low-quality execution of the tasks assigned to them.

The number of young people with modern education, especially in local administrations, is still small. The system of training and qualification upgrading of civil servants has not been well established. Government bodies continue to preserve bureaucratic methods when resolving the pressing problems of citizens, resulting in deterioration of the quality of public services provided to the population, and corruptive nature of some government officials. This has an especially negative impact on development of the private sector and improvement of the investment climate.

Notwithstanding some increase in the salaries of civil servants and their differentiation, salaries remain low compared with salaries in the private sector.

Key priorities for development of the civil service are the following:

- raise effectiveness of state services;
- strengthen the institutional base of the civil service;
- improve public confidence in the state machinery;
- ensure attraction of professional staff to the civil service;
- improve the level of protection and prestige of civil servants;

- introduce preventative anti-corruption measures; and
- strengthen executive discipline of civil servants.

A new concept of personnel policy will be developed and adopted that will serve as a basis for a civil service structure. Salaries of the staff of public administration bodies will be increased in parallel with the rationalization of the structure of government bodies. Quotas will be introduced to attract young personnel to the civil service on the basis of open and transparent competition. Regulatory and legal instruments will be improved, developed and adopted to ensure a clear differentiation between political and administrative posts, improve personnel management practices, openness and accountability of civil servants to the society. It is planned to develop and adopt the Law on Administrative Procedures.

It is intended to conduct purposeful and active work on fighting against corruption among civil servants. For this purpose, a broad anti-corruption coalition will be established with participation of NGOs, entrepreneurial circles and mass media. Comprehensive reforming of the civil service will be carried out with the support of the IMF and the World Bank within the framework of the PRGF and the GSAC/GTAC.

Electronic Government

Information and communication technologies will be actively used to reduce bureaucracy and increase transparency of decision making and implementing on all levels of public administration. This will help to enhance and expand direct communication and ensure effective feedback between the society and the public administration, introduce social control over the activity of the State machinery, stimulate business activity and initiative of the private sector and the civil society in reduction of poverty.

BUILDING A FAIR SOCIETY

Achievement of fair society includes the following main priorities for action:

- targeted system of social protection;
- integration of the disabled into society;
- prevention and reduction of poverty among children;
- improvement of the pension system;
- ensuring employment, creation of jobs;
- accessibility of quality education;
- accessibility of quality health services.

Targeted Social Protection

The process of strengthening social protection and making it more targeted has revealed certain problems. Ten percent of Kyrgyzstan's population receives state benefits, and 33 percent of families have access to some form of subsidy. This puts an enormous burden on the national budget. The funds provided in the budget are disbursed in an incomplete and untimely fashion. In spite of the growth in the level of benefits, state support for poor segments of population remains inadequate. Compilation of the social identity database is difficult due to outdated computer equipment in the responsible agencies.

The effectiveness of the social protection system will be ensured through reforms targeting:

- Fostering the principle of targeted assistance through streamlining of the existing system of benefits, improving the methodology for identifying citizens who need state support. Improving social mechanisms for the support of citizens for energy tariff increases, and developing a social identity database.
- Raising the level of social protection through gradual increase in the guaranteed minimum consumption level (GMCL), in the long run, its level should reach the cost of the minimum consumer budget; upgrading the methodology for calculating minimum social standards; timely and full (mainly cash) payment of state social guarantees; further structural adjustments in state agencies on social protection.
- Social mobilization envisages association and cooperation activities as well as access to training, support services, information, financial and material resources.

Integration of the Disabled into Society

The main issues in the provision of effective social assistance to the disabled include:

- insufficient measures for social and labor rehabilitation;

- limited access of the disabled to public facilities;
- insufficient provision of vocational training;
- difficulties with employment of the disabled;
- lack of state financial support of enterprises that provide employment for the disabled; and
- inadequate supply of wheel chairs.

These issues should be addressed through better social and labor rehabilitation of the disabled and access of the disabled to vitally important services and facilities. Mechanisms for rehabilitation of the disabled will include quotas for employment of the disabled by state enterprises and agencies; a system of state procurement of goods produced by enterprises employing the disabled; developing a system for rehabilitation of the disabled, which would include training of labor therapists in socio-medical and professional rehabilitation of the disabled; expanding production and procurement of technical facilities and devices facilitating life of the disabled.

Access of the disabled to services and facilities requires designing buildings and facilities with consideration of the disabled citizens' needs; addressing the issue of public transportation accessible for the disabled; ensuring access of the disabled to the public and cultural life of the country, sports, and education for their comprehensive integration into the society.

Poverty Among Children

There has been an alarming increase in "social orphanhood", "hidden dropout" rates from schools and a rise in number of working children and neglected children. The main issues hindering effective eradication of poverty among children include absence of a state agency dealing with family and children affairs, lack of monitoring of families and children from risk-groups, absence of a special budget for children, as well as inadequate legislation.

The main priority measures to alleviate poverty among socially vulnerable children will include ensuring sustainable livelihood of families and support to children; and full involvement of families and children in poverty alleviating activities. The sustainable livelihood of families is to be done with the help of Family and Children Support Services (microcrediting, guidance and monitoring of families, provision of children with accessible education and health services). Support to children of problem families (violence, alcoholism, drug addiction) is directed mainly at the child, rather than the family (daycare and 24-hour mini kindergartens, provision of food and clothing in schools, targeted humanitarian aid). A network of family children's homes and patronage families is provided to support neglected children. Greater involvement of disadvantaged families and children in poverty reduction activities will be implemented with the use of peer-to-peer methods, self-support groups, children's organizations, and public organizations. In the long run, this approach helps to raise public responsibility for each child.

The Pension Benefits System

Reform of the pension benefits system aiming to alter it from a distribution system to a funding pension system based on the personal savings of each citizen faces a number of issues. The Social Fund's budget has become light as a result of 4 percent reduction in employers' insurance payments rates. There was a reduction in the number of pension fund contributors per pensioner. Arrears in the payment of pensions and in-kind payment of pensions are also among the issues. Effective functioning of the system is hindered by the number of pensioners qualifying for long-term retirement benefits.

The pension system is expected to be improved through strengthening financial sustainability of the Social Fund facilitating a gradual increase in the living standards of pensioners, improvement of the management in the state social insurance system, and preparation for the introduction of an accumulative retirement benefits system

The Labor Market and Job Creation

Structural adjustments in the economy have resulted in discrepancy between the labor demand and supply and higher unemployment. In the period from 1999 to the first half of 2002, the number of the unemployed registered with employment services increased from 54,700 to 62,700 people. The following issues require attention in the medium term:

- Official unemployment figures do not fully reflect the situation in the labor market. Consequently, a serious problem is determining an unemployment indicator that adequately reflects the real situation.

- The number of citizens released from enterprises and organizations is on average 30 percent higher than the number of newly employed.
- The Social Fund of the Kyrgyz Republic is in arrears in paying even the insignificant amount of funding set aside under employment policy.
- Each year, over 34 percent of graduates of various educational institutions (secondary schools, higher educational institutions, special colleges and vocational schools) cannot find employment due to their inexperience and a lack of demand for the skills and training that they have acquired.

Adoption of effective measures envisages development of conditions for raising employment and ensuring effectiveness of measures in the labor market, creation of jobs. Condition for raising employment level will be supported through comprehensive analysis of the labor market, establishment of business centers for the unemployed on the basis of idle industrial enterprises, creation of legal framework in the area of labor migration, optimization of training and education in secondary and higher education with consideration of actual labor market needs, and expanding forms and methods of fostering employment. Effectiveness of measures in the labor market will be attained through creation of jobs in priority economic areas; development and improvement of active policy mechanisms in the labor market; raising the role of the Tripartite Employment Council in implementation of the employment policy through establishment of regional councils; and improvement of human resource management.

Access to Quality Education

The education system has undergone significant transformation on all levels over the past several years. The transformation revealed a number of serious obstacles. Currently, pre-school education covers only 10 percent of children, this indicates lack of access to pre-school education for the majority of the population. Another serious issue of the transition period has been lack of accessibility of secondary education, especially for children from poor families. Other issues include inconsistency between the standards set and the curricula, inadequate supply of modern textbooks, and problems with supply of teaching staff. Licensing, accreditations and attestation of higher educational institutions (HEIs) have not been fully instituted. The number of unemployed HEI graduates rises every year. With the adoption of market principles and transition of HEIs to contract forms of financing, there has appeared a possibility that some youth will be excluded from higher education due to the high tuition fees. Systems of life-long education and qualification upgrading of adults are yet to be developed.

Funding of the education sector from the state budget has declined from 6.1 percent GDP in 1991 to 4.2 percent of GDP in 2001. Such a drop in state funding had serious negative implications for the budgets of educational institutions. Inefficient distribution of allocated state funds creates an environment conducive to corruption. The goal in the education sector has been identified as maintaining a high educational level in society through improved accessibility and quality of education. Education sector reforms will be implemented in the framework of the Education Development Concept of the Kyrgyz Republic up to 2010. The legal framework of the education sector will be improved to enhance the reform achievements.

In pre-school education it is important to develop alternative forms of pre-school education through greater involvement of state, municipal, and alternative budgets, increasing coverage of children with pre-school education.

In general secondary education the State must ensure accessibility of basic education through targeted support of children from socially disadvantaged families; creating equal educational opportunities for both genders and expanding inclusive education; developing infrastructure in schools; developing various forms of education funding, encouragement of charity and sponsorship; improving state educational standards with greater orientation on abilities and skills; introducing a national test that will replace the school graduation exams and HEI entrance exams. The system of training and retraining of teaching staff and system of textbook and teaching materials provision will be improved.

In higher education the State will ensure grant assistance to students from poor families, setting quotas for budget funding of graduates from rural schools; improving administration and management targeting quality training with consideration of labor market requirements; introducing accreditation, improvement of licensing and attestation; ensuring financial transparency on all levels of education; enhancing social partnership with the private sector and non-for-profit organizations; developing and improving the research base of HEIs and the creating new scientific research centers

Access to Quality Health Services

Starting in 1996, the Government has been conducting work on health care reforms under the "Manas" National Health Program. The following issues have been revealed in the reform process. A growing incidence has been recorded of diseases such as tuberculosis (127.3 cases per 100,000 of the population in 2001 compared with 114.4 cases in 1999), brucellosis (21.0 cases per 100,000 1999 compared with 37.6 cases in 2001), echinococcosis (477 cases in 2001 compared with 310 cases in 1995). An AIDS/HIV epidemic has started in 2001 and, as of July 1, 2002 there were 200 registered cases, mostly among drug addicts of Osh region. Another unresolved issue is the problem of viral hepatitis in southern regions of the Republic. The consumption of alcohol has increased in the past five years by 28 percent, and mortality rate due to the abuse of alcohol has jumped by 130 percent. In the past ten years, drug addiction has increased almost four times. The rate of iodine- and iron-deficiency diseases has sharply increased. Despite progress made with family planning, use of contraceptives and abortions remain burning issues.

Financing of the health sector from the national budget was reduced from 2.3 percent of GDP in 1999 to 1.9 percent in 2001. The resources allocated from the budget for health services cover only 50 percent of the actual needs of the sector. The lack of funds accumulated through the mandatory medical insurance system is due not only to the low medical insurance fees but also to the transfer arrears by the Social Fund. The low and undifferentiated wages and salaries for health workers and the lack of incentives for improvement of skill and service quality have also negatively affected the quality of medical assistance and lowered the prestige of the medical occupation.

In connection to this the principal goal in the health sector is to ensure fair and equal access for all, including the most vulnerable layers of the society, to free medical services under the program of state funding. The policy of the Government in maintaining access to public health services will be focused on formation of an effective system of medical assistance oriented at primary medical services, development of new funding methods, and strengthening the role of public health care.

Health care reforms envisage:

- clarifying sources of paying insurance premiums on behalf of pensioners, involvement of students and the military in the mandatory medical insurance system, expanding funds for mandatory medical insurance of children.
- full liquidation of Social Fund's arrears to the Mandatory Medical Insurance (MMI) Fund.
- improvement of the system of collecting MMI insurance premiums.
- defining the level of co-payment by the population for certain types of medical services provided by medical institutions under the state guarantees program.
- spreading the new health sector funding mechanisms throughout the Republic in 2002-2003.
- preparation for, and the introduction in the year 2004 of, the new WHO live birth criteria.
- promotion and enhancement of family planning activities.
- encouraging and improving production of iodine- and iron-rich food products.
- improvement of physical infrastructure of health institutions.

ECONOMIC POLICY

Main directions

The economic policy goal of the Kyrgyz Government is to ensure sustainable economic growth in the interests of poverty reduction. Macroeconomic strategy will aim to achieve high and stable pace of economic development, which is viewed as the main source of poverty reduction. Achievement of economic growth is possible with macroeconomic stability and increased competitiveness of Kyrgyz enterprises that will require concerted actions on improving productivity of all resources. A key role in achieving macroeconomic stabilization lies with fiscal policy. The consolidation policy aiming to reduce state budget deficit and limit increase of external debt will be continued. State poverty reduction programs must be supported by increased tax revenue. The effectiveness of these programs would significantly increase if the country received more of the external grant assistance.

Efforts will continue to be taken to hold the inflation rate at the level of about 4 percent a year. The average growth rate of real GDP will be 5 percent, at the same time, GDP per capita will increase on average by 4 percent per year. Provided that the existing level of inequality in income distribution does not increase, this will allow reduction of poverty in the Republic by approximately 3 percent each year. It is assumed that GDP growth will be mainly secured by agriculture, non-gold industry and the services sectors; gross value added in these sectors will grow by 6-8 percent per year.

Increased investment into economy, expanded exports and domestic demand for internal products will be the main sources of economic growth.

To ensure both macroeconomic stability and attraction of private investment, it is necessary to provide maximum opportunities for an increase in, and diversification of, exports. The Government will intensify its efforts to create conditions in external markets favorable for exports of products of Kyrgyz enterprises and reduction of expenses for their transit through third countries. For this purpose, it is planned to use fully the potential related to the Republic's membership in the WTO, which is growing now with the accession of China and, in the foreseeable future, some other neighboring countries joining as well. A priority task in the area of foreign economic relations is regional cooperation, where it is necessary to achieve a considerable improvement of export opportunities for Kyrgyz enterprises. Export growth will be also promoted by development of the transport infrastructure, marketing and information support for local export-oriented enterprises.

Expansion of exports is possible only with strong competitiveness of Kyrgyz enterprises. The only sustainable way of achieving such competitiveness is to increase productivity that in turn provisions implementation of a concerted program of deep structural reforms. These reforms will help to raise effectiveness of commodity, capital, labor, and other markets, stimulate technical improvement of production, reduce non-production costs, make infrastructure more economically viable. A simultaneous objective of structural reforms is to ensure that economic growth does not increase income inequality.

The realistic aim is to achieve a level of gross investments not lower than 20 percent of GDP in 2003 - 2005. There should be a significant change in the structure of investment. In order to avoid an increase in external public debt, the share of public investment at the expense of borrowed resources must be decreased as compared to the level of 1999-2000. It is expected that by 2005 the size of the Public Investment Program (PIP) will be 3.9 percent of GDP. At the same time, the allocation of public investment to critically important areas of production and social infrastructure, will be continued. In parallel, private investment must grow (from 11.5 percent of GDP in 2002 to 17.5 percent of GDP in 2005) as a result of both domestic and foreign direct investment. Obviously, this will require significant reforms aimed at improvement of the investment climate.

When attracting foreign investment, special attention needs to be paid to the issues of the extent that such investments promote employment growth and poverty reduction in the country, the degree to which they make use of domestic resources and produce a demand for the products of local enterprises, and whether they promote an improvement in a technological level of production in Kyrgyzstan. Development of domestic investment will require major efforts on mobilization of domestic savings, which is directly connected with radical improvement of the financial sector.

Fiscal Policy and External Debt

The reform of the fiscal system will be realized following the agreements reached with the IMF. It is envisaged that during the period under consideration it will be aimed at providing the necessary quantity and quality of public services, with a simultaneous reduction of the risks related to external debt servicing. For this purpose, coordinated measures will be aimed at:

- increasing the social focus of budgetary expenditures, ensuring their targeted impact on the poor, and radical improvement of the efficiency of expenditures on public sector administration;
- introduction of amendments to the taxation system, allowing an expansion of the tax base and, as a result of an increase in the central government tax collection rate to 15.5 percent of GDP by 2005, to relieve the tax burden on compliant taxpayers, creating incentives for economic growth; and
- reduction of the budget deficit as a result of reducing the volume of Public Investment Program (PIP) borrowings, with a simultaneous increase in the efficient use of budget resources applied to development.

Thanks to the restructuring of the external debt of Kyrgyzstan by the Paris Club, the situation with debt servicing has been significantly relieved. This permits the expectation that all government debt commitments will be fulfilled, and necessary resources will be accumulated in the budget for this purpose including at the expense of the proceeds received from privatization of state property.

Monetary Policy

The Government and the National Bank of the Kyrgyz Republic (NBKR) will continue the policy targeting elimination of sources of macroeconomic instability. Appropriately, tight monetary policy will limit growth of prices. It is assumed that a low inflation rate, development of the financial sector of the country, and increased output will encourage monetization of the economy. The Government and the NBKR will attempt to strengthen confidence in the national currency and to expand the level of modern payment settlements. The policy of a floating exchange rate will be continued. The NBKR intends to intervene in the foreign exchange market only to support the international reserves at the safe level and to smooth out fluctuations in

the som exchange rate. Reduction of the current account deficit of the balance of payments, achieved in recent years, and debt relief as a result of restructuring of the external public debt of Kyrgyzstan by the Paris Club, has allowed the policy of a floating exchange rate of the som to not have any significant inflationary consequences.

ECONOMIC GROWTH AND STRUCTURAL REFORMS

Much attention under the NPRS will be attached to dynamic growth of economy through effective implementation of structural reforms. In future, to ensure more stable and secure reduction of poverty, it is necessary to diversify the structure of economy and mobilize savings to finance investment. To lay the ground for this transition special attention in structural policy will be paid to public administration reform, further adjustments in the banking sector, as well as development of quality management in export-oriented sectors. Structural reforms are necessary also to create favorable investment climate, increase external and internal financing of economy, and enhance export capacity of the country. A strategy of developing exports of goods and services will be developed in the framework of NPRS to expand the opportunities and potential of priority sectors.

Reform of the Financial System

The banking system of the country has a number of problems:

- low level of confidence among the population and the businessmen in the banking system;
- inadequate quality of management and internal control and audit in the commercial banks;
- inadequate protection of interests and rights of the commercial banks and other financial institutions as creditors;
- impossibility of efficient enforcement of the banking supervision sanctions stipulated in the legislation due to difficulties arising from legal proceedings;
- underdeveloped system of early warning and prompt response to the problems arising in the commercial banks; and
- imperfection of the payment system.

The goal of banking system development is to create a steady and reliable system of financial institutions capable to mobilize efficiently the internal financial resources of the country and meet the requirement of the population in loans and good-quality banking services. The banking system reform provisions enforcement of corporate governance standards and principles, increasing responsibility of banks' management regarding managing the attracted resources, strengthening banking supervision and control, denationalization of state banks, enhancing effectiveness of the Debt Restructuring Agency (DEBRA), improvement of the accounting and audit foundation, and modernization of the payment system.

The short-term strategy for the development of the banking sector consists of three basic elements. First, measures will be undertaken that will result in increased capitalization of commercial banks. Given the importance of strengthening market discipline, the second important measure is to strengthen the capacity of the Debt Restructuring Agency (DEBRA). The third main element of the reforms in the banking system will be increasing the efficiency of banking supervision. The methodology used to analyze the financial status of the commercial banks will be improved, and also the system of early identification of problems in commercial banks will be formed. Various options for the creation of a system of deposit protection needed for strengthening public confidence in the banking system and mobilization of domestic savings, are also being studied. Such system should be based on the Law on Deposit Protection and is aimed, first of all, at protection of interests of the small depositors.

The National Bank intends to transfer stock of the Settlements and Savings Company (SSC) into the ownership of the Government. Considering its importance as the only financial institution with wide branch network providing settlements and quasi-fiscal services, the SSC will continue to be a specialized bank, which will be allowed to place its assets mainly in state securities. The SSC will have to improve operation of its branch offices and raise their effectiveness in provision of settlement services with possible involvement of postal offices. Also, there is a need to elaborate SSC development strategy, including provision of microcrediting, and participation of foreign financial agencies in the SSC's capital. In regard to the Kairat Bank the NBKR and the Government will review the possibility of selling the Government's stock to a strategic investor.

The State will continue to provide support to credit unions. As a result the country should develop a network of effective financial institutions in all regions of the Republic. The Law on Leasing and Law on Letters of Credit will help to expand the range of services offered by commercial banks. Various forms of mortgage

lending will develop after creation of appropriate legal framework for development of the real estate and land market, as well as necessary securities.

A State Action Program for 2003-2005 will be elaborated to introduce non-cash payments system and create an infrastructure capable of ensuring effective execution of recurring payments (salaries, pensions, communal services and taxes). Main Directions of Payment System Development for 2002-2005, will be implemented in order to increase the share of non-cash payments and the efficiency of the payment system, through creation of conditions for the development of payment services and their availability for the payment services users.

The non-bank financial sector

The non-bank sector is presently characterized by insufficient development of its elements - insurance companies, non-state pension funds, and the securities market.

Insurance Activities

In order to develop and strengthen the market for insurance services legislation will need to be developed to improve the regulatory and legal framework of such activities. An analysis of the range and sufficiency of the list of essential forms of insurance will also need to be carried out. At the same time, there is a need to strengthen the system of financial supervision over insurance companies.

Non-state Pension Funds

The Republic will continue to develop and improve the regulatory and legal framework of non-state pension funds, promote a system of supervision and introduction of individual pension schemes and individual accounts.

Securities market

The securities market will be further developed. In order to protect against violation of investors' rights, the effectiveness of supervision on the part of the regulator of the securities market will need to be increased. The principle of equal market access for all participants of the SM, state, legal entities and individuals, shall be observed. All participants shall have equal conditions for carrying out activities in the SM, including implementation of the rights provided by securities, conducting operations with them, etc. It is necessary to draft a special law establishing the mechanisms for protection of investors. Improvement of corporate governance should also promote protection of investors' rights and strengthen their confidence. An important direction is compulsory introduction of international accounting and financial reporting standards at enterprises.

GOVERNANCE REFORM

The Investment Climate

The development of Kyrgyzstan has been effected by a number of external challenges. First, there was the crisis that took place in 1998 in Russia, a country that is the major trading partner of Kyrgyzstan. Then there were the events of 1999-2000, connected with invasion of guerillas in the southern parts of the country. These events had an immediate impact on direct investment inflow, the volume of which decreased almost by 31 percent in 2001.

A decline in investment activity is noted. In 2001 the volume of investment in fixed assets went down by 2 percent. As in the case with all transition economies, infrastructure, trade, institutional, administrative and legal issues, as well as informational barriers impede promotion of investment in Kyrgyzstan. Low volume of domestic investment due to low paying capacity of the population and lack of confidence in the banking system does not stimulate inflow of foreign private investment. Heavy taxation does not stimulate investment in priority sectors of economy, problems with export-related VAT refunding due to limited budget resources, the presence of off-set operations in the financial system, ambiguity and inconsistency of customs legislation, are all factors that discourage investors.

The existing state regulatory and licensing system is a serious impediment to the creation of a conducive investment climate. Some of the most significant barriers are the problems of technical regulation (technological standards on products and evaluation of compliance). The major goal of the new investment

policy is creation and utmost use of the comparative advantages of the nation in order to ensure active attraction of direct investment.

The “open door” policy envisages, among other things, creation of a mechanism to ensure liberal visa regulations for citizens of countries that are potential investors. An action plan will be implemented to eliminate barriers to investment:

- a clear and transparent legislative base will be established and further improved to ensure a conducive investment climate;
- measure will be taken for a maximum reduction and simplification of the regulatory system and clear and transparent procedures on administrative regulation will be developed;
- administrative regulations on foreign direct investment will be improved to ensure insurance of investments risks;
- it is necessary to bring technical standards into compliance with the standards set by the WTO and other international organizations’
- a special analytical center should be established to provide analysis and development of business projects.

To promote investment, necessary amendments will be introduced into tax legislation to increase the level of neutrality of the tax system in relation to foreign and local investors, as well as to stimulate inflow of investments into the country. Certain amendments will be introduced to simplify and clarify customs legislation. The Republic will continue to develop effective free economic zones (FEZs), using them as export centers and centers of investment growth. It is necessary to bring the activities of free economic zones into line with international standards. It is necessary to strengthen institutions attracting direct investments, attaching a priority to quasi-public structures. Special attention will be paid to providing training for professional managers when preparing investment projects and carrying out marketing for them. It is intended to develop the office of trade and investment representatives of the Republic abroad that can be entrusted with these tasks.

Privatization of Enterprises in Strategic Sectors

Regulations have been prepared in recent years and approved by the Jogorku Kenesh of the Kyrgyz Republic and the Government, and a program of privatization in strategically important sectors of the economy (energy, telecommunication, oil-and-gas sector, air transport, gold mining sector) has been started. Enterprises in these sectors have been reorganized, restructured and separated into independent joint stock companies. At present, the State is the largest shareholder that owns a controlling package of shares in the companies of these sectors. At the same time, a purposeful gradual reduction of state ownership is taking place in basic, strategic sectors. Joint stock companies work on the basis of market principles.

Improvement of effectiveness of state property management still remains one of the most important problems. Weakness in quality and relevant skills of personnel, poor procedures, ill-defined relationships between state representatives and joint stock companies, do not permit the establishment of an effective organization for state assets management. It is necessary to improve the regulatory and legal framework for regulating processes of state property management, including leasing, concessions and dividend policy.

The major goals of state property privatization policy to the year 2005 are strengthening and development of the private sector and improvement of the effectiveness of state property management. The priorities in the strengthening of the private sector of economy will be the improvement of the legal framework, privatization and attraction of investments in the base sectors, improvement of effectiveness of state property management and rehabilitation of enterprises.

In compliance with the approved action plan and schedule of implementation of concrete measures on privatization of state-owned packages of shares of the JSC KyrgyzGas, JSC KyrgyzTelecom, air transport companies and distribution companies of the electric power sector by 2005, it is necessary:

- to work out optimal ways for further development of the energy sector and privatization of distribution companies with a detailed elaboration of various privatization models. State packages of shares of electric and thermal power distribution companies will be privatized by 2005;
- to develop, approve and start implementation of the program of reorganization and privatization of the gas sector. Reorganization of the gas sector will be carried out by privatization of the state package of shares of gas distribution companies and companies selling liquefied gas;
- to privatize the state package of shares of the joint stock company, National Air Carrier Kyrgyzstan Aba Joldoru; and
- to conduct a tender on sales of 51 percent of shares of the JSC KyrgyzTelecom.

- to privatize resort and recreation facilities.

Development of Infrastructure

In spite of the high costs on rehabilitation, construction, and maintenance of infrastructure facilities, the development of the transport system remains an important area for economic growth and carries a significant potential for the creation of new jobs and reduction of poverty.

Motor roads are the most important sector in the unified transportation system of the Kyrgyz Republic. Motor roads bear the main load of passenger and cargo transportation. The technical condition of general motor roads remains extremely unsatisfactory. The road maintenance indicators and road conditions do not meet the modern standards of safe transportation and traffic. Of all the roads, over 60 percent do not have improved paving and less than 20 percent of roads have pavements suitable for heavy trucks.

Continuous deterioration of motor roads is directly connected to unstable financing. The annual budget appropriations satisfy only 18 to 20 percent of the motor road sector's need. Rehabilitation of 4,594 kilometers of main motor roads is an important factor in the nation's development. Of that, priority attention should be given to 2,682 kilometers of traffic intensive interstate and regional roads. These include: Bishkek – Kara-Balta – Osh – Sary-Tash – Ishkertam; Bishkek – Naryn – Torugart; Suusamyr – Talas – Taraz; and others.

It is important to study the opportunities and develop mutually beneficial regional cooperation in order to integrate Kyrgyzstan's motor and railroads into the existing international transportation networks, in order to take advantage of the strategic geographical location of the country.

The scarcity of budget allocations has led to the critical condition of the rolling stock, equipment, and other assets of the railroad sector. Most of these facilities are being operated beyond the allowed service life periods, and many are close to that condition. The complex financial situation in the Kyrgyz railroad sector makes it impossible to renew the rolling stock and improve technical facilities with the available internal funds.

The following needs to be done in the railroad sector:

- develop a comprehensive rehabilitation plan for Kyrgyzstan's railroad sector in order to increase the share of cargo transportation in the structure of external trade.
- increase reconstruction of the rolling stock (freight cars, passenger cars, engines).
- provide a system of guaranteed transportation under agreements and long-term contracts.

Air transportation is a promising area of transit transportation due to Kyrgyzstan's location in the center of trans-Eurasian communication network. Using Bishkek City's Manas airport as a transit link for air routes (refilling planes, storage of cargo, etc.) is a promising area not only for the air transportation sector but also for the country's economy in general. Kyrgyzstan must be a link between the East and the West, the South and the North. These considerations make ongoing projects on reconstruction of Manas Airport in Bishkek City and Osh City airport very important for the development of Kyrgyzstan's infrastructure. The airports, management of air transportation and commercial aviation must clearly specialize in types of activities and services. The decision on radical restructuring and privatization of Kyrgyz Airlines and further development of its structure and technical facilities has been the most important step in this direction. The indicated actions will reduce the burden from the state budget and upgrade the effectiveness of the sector.

Installation of telephones in rural and remote settlements of the Republic is still one of the most acute problems. In 2001, more than 30 percent of populated areas did not have access to telephones. The situation with rural telephone communications is eloquently reflected by statistical data on density of telephone installation: on average, there are only 2.8 telephones per 100 inhabitants and 17.2 in the cities. Modern mobile and paging communication is still not affordable for a major part of Kyrgyzstanis because of their low income. Unreliable quality of television and radio broadcasting in the Republic and obsolescence of the technological base of the whole television and radio broadcasting system, does not provide the population with timely and high-quality information. The population and economic enterprises are weakly equipped with information equipment. The situation is aggravated by a lack of personnel possessing basic skills necessary to work with information equipment and technologies.

Provision of information and communication services to the population in the whole territory of the country will be expanded thanks to information communication technologies (ICT) infrastructure development in the country. It is necessary to provide all population with equal, affordable and high-quality access to information services in all regions. In order to forestall unjustified increases in charges for products and services by

organizations that are natural and permitted monopolies, the Tariff Policy Plan for 2000 – 2003 has been developed, which envisages a phased rebalancing of existing tariffs for telecommunication services.

Safe operation of the existing and newly established information infrastructure, including telecommunication systems, television and radio broadcasting systems, publishing systems, information resources of the country will be ensured. For the steady promotion of reforms in ICT, it is intended to develop an adequate regulatory and legal framework. It is necessary to create favorable conditions for the development of local production of computer equipment, software and information services, enhancement of staffing and development of national science in the sphere of information and communication.

Within the framework of development of an optimum ICT infrastructure its modernization will be carried out in accordance with international quality standards. A uniform information space will be created by introducing digital communication in all regions. The Government will focus on improving investment attractiveness of the information and communication sector, establishment of an effective mechanism for attracting investment.

Energy sector reform

The electricity production sector is one of the basic sectors of the nation's economy. The share of electric energy in the structure of industry has almost tripled since 1990, reflecting the increased share of hydroelectric power plants (HPP) in electricity production. KyrgyzEnergo has been restructured and replaced by seven independent joint stock companies that specialize in energy production, transmission, and distribution. The Tash-Kumyr HPP and Shamaldy-Sai HPP have reached their planned production capacity, new power transmission lines have been built.

A survey of the energy system in 2001 showed that the first stage of restructuring of the energy system has not improved the financial situation in energy companies. The growing debt of electric distribution companies to the Electric Stations Public Corporation has created large arrears of salaries as well as of payments to the state budget, halted planned reconstruction of electric stations and hindered procurement of spare parts and chemicals. At the same time, the collection rate on electricity and heat energy charges is 80-85 percent, of which only 20 percent is paid in cash, the balance being covered by barter transactions and offsets.

Significant dependence of the Republic on energy imports necessitates the development of an energy conservation policy along with improvement of economic efficiency in the energy sector. Conservation could become a significant factor in enhancing energy security of the Republic, improving competitiveness of domestic industry, and addressing environmental concerns. At present, energy losses in the household consumption sector amount to 55 percent, 45 percent in industry, and 50 percent in agriculture. According to some estimates, the overall potential for energy conservation ranges from 33 to 55 percent of the total energy consumption.

Main sources of problems in the sector - obsolete equipment and lack of resources for equipment repairs and replacement lead to growth in the number of accidents and further losses of energy. Unbalanced tariff policy is another major issue.

The main mission of the energy sector is to ensure stable, reliable, and reasonable supply of all types of fuel and energy. This goal necessitates:

- moving to the energy-saving way of economic development;
- promoting rational user attitudes;
- further development of energy sector;
- reduction of technical and commercial losses in the system;
- renovation of technical facilities and reforming the infrastructure;
- ensuring manageability of energy resources;
- streamlining the tariff system (with necessary consideration of social aspects); ensuring energy security; and
- optimizing the legal framework.

Main actions in this area will include equipping energy enterprises and consumers with modern metering devices; connecting the electricity meters installed in the households to the accounting systems of distribution companies. The reduction of technical losses would be achieved primarily through reconstruction of distribution networks and modernization of the equipment.

Better management requires a number of measures to improve financial flows and their transparency as well as timeliness and fullness of payments of salaries, energy bills, and payments to the state budget. Introduction of international accounting standards together, with modern information technologies, will become an important aspect of energy sector reforms. Under market conditions, management first of all requires well-educated managerial staff, and that necessitates the development of a system for training, retraining, and qualification upgrading of managerial and technical personnel.

A well thought-out medium-term tariff strategy needs to be developed on which to base an energy policy that will stabilize financial condition of energy companies, encourage energy saving and reduction of costs. Under such a policy, provisions will be made to include in the tariffs all actual costs, eliminate cross subsidies, minimize commercial losses, ensure timely payment of energy bills, and eliminate practice of offsets and barters.

Ensuring full independence of the country envisaged maximum use of domestic energy resources with decentralized supply of energy to the regions of the country, as well as stable and mutually beneficial energy export-import policy.

The increased use of domestic energy resources provides for further development of hydropower capacity through construction of Kambarata HPPs 1 and 2 with simultaneous construction of 500 kV Toktogul-Kambarata-Kemin power transmission line to cover energy needs of cities, large enterprises, and increased export. Direct investment will be attracted for development of small HPPs and renewable energy sources that can significantly improve the situation with the supply of energy to remote areas.

Mining Industry

Mining and refining are basic industries in the Republic, undertaking highly profitable export-oriented production. These sectors account for about 60 percent of the total industrial output of Kyrgyzstan and are based on mineral resources represented by large proven deposits of gold, tungsten, tin, antimony, mercury, rare earth metals and other minerals.

The major problems in the development of the mining industry are:

- Lack of financial resources for development and rehabilitation of production processes.
- A high capital-output ratio of mining projects.
- Technical and technological backwardness of production processes, especially in the coal and oil-and-gas sectors.
- Imperfect taxation system and regulatory and legal acts regulating the area of mineral resource use.
- Weak development of private enterprise.
- Insufficient preparation or lack of deposits for a mid-term and long-term development of oil and gas and gold mining sectors.
- Insufficient level and quality of management in the sector.

A mining sector development strategy will need to be developed taking into account recommendations of the World Bank that has surveyed this sector. This strategy will outline the development of metallurgy, coal, as well as oil and gas industries.

In the area of gold mining, Kumtor gold mine, which currently provides nearly 40 percent of country's exports and which has supported the industrial growth in the past five years, will continue to be developed. Stable operation of the refinery by joint stock company, Kyrgyz Mining Industrial Complex, will be ensured.

It is important to intensify exploration and development of other large and small deposits, involving small and medium businesses. A number of effective measures will be implemented on financial and economic rehabilitation and increase in production output at the Khaidarkan Mercury and Kadamjai Antimony Plants within the framework of specifically developed individual programs. It is also important to stimulate development of enterprises on production of uranium oxides, molybdenum and other.

It will be necessary to attract direct investments in order to ensure strengthening of the existing capacities of the mining and refining industrial complex and further development of enterprises by developing additional deposits.

In spite of significant reserves of all grades of coal in the territory of Kyrgyzstan, the volume of coal production remains insignificant with a declining trend. As a result, the Republic must import coal that, in turn, affects the nation's financial and economic situation. At the same time, growing demand for energy

resources, and the prospect of higher energy tariffs, necessitate the revival of domestic coal production by opening up the large Kara-Keche coalfield.

Reduced coal production reflects the general decline in industrial production in the Republic and the deteriorating financial status of enterprises that have led to reduced coal consumption in the real sector. Other serious problems are the movement of some consumers to other types of energy; reduced demand in the Central Asian market; high transportation costs that are up to three times the cost of mining coal; there has also been a considerable deterioration of equipment in coal mining enterprises.

A significant increase in the volume of coal production can be attained in the near future due to:

- Technical reequipping of the existing open-pit mine at the Kara-Keche deposit.
- Putting into operation the mine under construction at the Beshburkhan deposit.
- Reconstruction of the Jergalan mine.
- Attraction of direct investment.

The oil and gas industry is at present based on 15 explored oil and gas deposits. Problems in the sector are related to gradual depletion of reserves at oil and gas deposits, wear of technological equipment, and lack of funds for development of new wells. Although there are domestic gas deposits, Kyrgyzstan is a net consumer of imported gas. Households are the largest consumer of natural gas in the Republic; their share in 2001 was 61.5 percent of the total gas consumption. Significant quantities of energy resources are supplied to the Republic on barter conditions or are paid for in hard currency, which affects the economic potential of the sector.

Domestic production of oil and gas products meets only 30 percent of the domestic requirements. However, studies on the possibility of exploring new oil and gas fields suggest that the use of modern production technologies and methods can significantly increase the output. According to the Program of Development of the Oil and Gas Sector of the Kyrgyz Republic until 2010, as a result of prospecting for new oil and gas deposits using seismic exploration and well drilling in prospective areas, restoration of non-operating wells, resuming of drilling of additional operating wells at proven deposits, should significantly increase the volume of oil and gas production in 2005.

The most important condition for attracting investments to the mining and geological complex is the creation of a conducive legal and taxation climate. For this purpose it is planned to introduce amendments to the Law on Mineral Resources and the Tax Code related to the area of the use of mineral resources. On the whole, the planned work will be carried out pursuant to the Plan of Measures on the Reform of the Mining Sector approved by the Government.

Technologies of computer processing of geological materials will be introduced and improved for prompt provision of illustrative and objective geological information, development of economically substantiated and effective business-plans. Establishment of electronic data bases on various types of mineral resources and deposits will allow intensifying advertising and informational work through Internet, attracting investors interested in geological prospecting and development of mineral resources of Kyrgyzstan. Local private structures will be widely involved in development of numerous small and medium-size deposits of various mineral resources.

Agro-Industrial Production

Notwithstanding the results achieved, the agricultural sector has not provided a sufficient increase in the income of the rural population. The poverty level in rural areas is still high, making up 51 percent in 2001. Poverty reduction in rural territories is hindered by serious problems in the sector. The share of financing provided from the national budget to agriculture is decreasing every year. The national system that facilitated the whole agricultural cycle has been significantly degraded, starting with production of agricultural produce and ending with its processing and further sales. The level of support services in the Republic for rural producers is insufficient. In terms of economic performance the agricultural sector and processing industry operate under different conditions. This engenders a lack of cooperation among them and, as a result, instances of overproduction of agricultural produce have become more frequent. Export of agricultural raw materials is impeded by high costs of access to external markets. All these factors have resulted in a weakness in the incomes of rural workers and problems in supplying processing industry with raw materials.

The major objectives in the development of the agro-industrial complex (AIC) for the current and perspective periods, is revival of industrial agricultural production aimed at providing the population with foodstuffs and ensuring sustainable development of the processing sector. It is necessary to increase exports of processed agricultural products. For this purpose it is required to solve the priority tasks related to support of domestic

industries processing agricultural products, rational import replacement, as well as ensuring competitiveness of the country's production in the world market.

In order to stabilize the situation in the agricultural sector, it is necessary to solve the problem of self-reliance of the population in relation to basic products, strengthening of all positive tendencies that developed as a result of reforms in agriculture through:

- organization of a complete technological cycle of production of export-oriented agricultural produce;
- active development of the processing industry;
- establishment of an effective system of marketing for agricultural products;
- stimulation of domestic and external investments;
- ensuring adequate legislation;
- intensification of production;
- establishment of commodity cooperatives and associations;
- development of the education system and advisory services on modern methods of agribusiness management; and
- ensure access to information on domestic and international commodity markets.

Further development of agricultural production in the Republic is closely related to increase in the level of irrigated farming, irrigation network development and improvement of irrigation methods. Development of livestock breeding will be focused on meat and milk production to attain production volumes satisfying not only the local market, but sufficient for partial selling of these products on external market. To ensure growth of agricultural production, it is also necessary to improve the activities of agricultural support services. For this purpose measures will be taken to establish agro-chemical and agro-technical services in each village government. It is planned to pay special attention to the formation of economic and social infrastructure in rural areas – rehabilitation of roads and communications, ensuring of access to healthcare and educational services, safe potable water for rural inhabitants.

Small and Medium Enterprises

Nearly 60 percent of the population is currently engaged in the small and medium enterprise (SME) sector. The sector, producing over 43 percent of the national product, is constantly growing. In the year 2001 compared to 2000, the number of SMEs increased by 25,800 entities (11.5 percent). While the number of employed in the same period increased by 58,500 people or 6 percent. However there are still problems hindering development of small and medium enterprises. Due to the still excessive control over business activities by state agencies and corruption, the environment for development of private enterprise remains restrictive. The inadequate financing infrastructure in the Republic does not satisfy the need of SMEs for low cost and long-term financing. General tax rates remain high while complicated administration create opportunities for corruption. The barriers created by the neighboring countries for transit of cargo on their territories create additional costs. Entrepreneurs are weakly associated and have not learned to effectively defend their legitimate rights. Professional and managerial skills of entrepreneurs are yet to improve. Marketing information is not readily available to entrepreneurs.

The main goal in the private enterprise sector is to create an enabling environment for active and dynamic development of small and medium enterprises with the aim of increasing employment and reducing poverty. Priority measures for creation of the enabling business environment include:

- Optimal minimization of state intervention into SME activities.
- Improvement of fiscal policy to stimulate activity of private enterprise.
- Provision of SMEs with borrowing and investment resources.
- Development of private enterprise support services (information, etc.).
- Promoting all forms of producers' associations.

Tourism

Tourism is one of the priority sectors of the Kyrgyz economy. The sector has been steadily growing since 1999. In that year, tourism accounted for 2.5 percent of GDP, while in 2001 it rose to 3.9 percent. There remain, however, several major issues in the Kyrgyz tourist industry:

- poor quality of services;
- undeveloped tourism infrastructure;
- difficult access to the country for potential tourists due to the mountainous terrain;
- administrative barriers and unnecessary interventions by regulatory agencies in activities of tourists companies;
- lack of information abroad on tourist opportunities in Kyrgyzstan.

The main development goal of Kyrgyzstan's tourist sector is to form an environmentally friendly, socially oriented, profitable, and competitive tourist industry that will cater for the needs of tourists and create new jobs. Priority areas for attention in the Republic's tourist industry till 2005 include refining the legal framework; developing tourism infrastructure; attracting direct foreign and domestic investment. Their implementation provisions amendment of tax legislation, creation of a favorable legal environment for tourists entering the Republic. Other provisioned measures include construction of new and reconstruction of existing tourist facilities (mostly of small and medium capacity), development of state standards for the activities of tourist companies, as well as quality requirements for the services offered, facilities provided, etc. In the area of information, wide-scale advertising campaigns will be implemented to create and develop Kyrgyzstan's image as a country with conditions favorable for tourism.

In the area of attracting direct foreign and domestic investment it is planned to stimulate investment generally into the sector; attract foreign and domestic investors for participation in tenders for procurement of tourist facilities improvement of investment attractiveness of tourist facilities available for privatization. Further development of the tourism sector should focus on expanding traditional areas (recreational resorts) as well as development of alternative areas of tourism (high class resorts, adventure mountaineering, Great Silk Road tourism, eco and business tourism).

REGIONAL POLICIES

Uneven and unbalanced regional development is a significant factor contributing to the spread of poverty throughout the Republic. Uneven development of the regions reflects geographic characteristics and differences in production infrastructure, as well as limited access to resources (including financial) and communication and information services. The existing structure and system for collection and accumulation of tax revenue leads to subsidization of six out of eight regions of the Republic. Inefficient use of local budget resources leads to arrears in the payment of salaries and social payments. A system of special equalization and categorized grants is allocated from the national budget to regions in order to ensure even distribution of social payments. Various forms of compensation and subsidies are provided to the population living in mountainous and remote areas.

Much work is being undertaken with the assistance of the World Bank, Asian Development Bank, and other international agencies and donor countries on development of local self-government, capacity building of rural NGOs, rehabilitation and construction of irrigation and water systems, as well as reconstruction and equipping of schools and hospitals. The situation in small towns and town centers is aggravated by the closure of large enterprises that once provided employment to local communities. Unemployment has forced many residents to migrate, while lack of funds in local budgets does not permit proper maintenance of infrastructure in these localities.

Reducing the development gaps in the country's regions and bringing down the poverty level in the most backward regions are key areas of the Government's regional policy.

Main areas of the regional policy include:

- comprehensive development of villages, small towns, town centers, high mountainous remote areas;
- rehabilitation and construction of irrigation and water supply systems, processing of agricultural produce, as well as expansion of educational, health, and financial services;
- promotion of private enterprise.

Socio-economic programs will be developed with consideration of the potential and specifics of each area. During the formation of these programs, special attention will be paid to their feasibility, financial soundness, effective use of local resources, development of cooperatives and consistency with sectoral development programs. Micro-financing, well-developed private enterprise and social mobilization should significantly contribute to a higher employment levels.

The highest priority in investment policy and PIP will be given to projects oriented on the creation of jobs, rehabilitation and construction of irrigation and water supply systems, processing of agricultural produce, as well as expansion of educational, health, and financial services. Economic growth and measures for increased employment will lead to reduction of unemployment and higher incomes. Together with active promotion of social mobilization, such measures will reduce poverty. Expansion of foreign economic ties and reduced trade barriers will promote exports. Rehabilitation and construction of water facilities will improve accessibility to clean water and prevent disease. Construction and upgrading of schools and a better supply of textbooks and computer classes will increase access to education and improve the quality of educational

services. Increased budget revenue, streamlined benefits, and improved targeting will help the State to provide needy families and citizens with adequate social support.

PARTNERSHIP AND PARTICIPATION

The process of preparation and implementation of the CDF and the NPRS is based on a constructive dialogue and partnership interaction of all branches of government, civil society and the private sector with the support of the donors' community in attainment of identified goals.

The major goal of the participatory process in preparation and implementation of the CDF/NPRS formulated in their initial stages back in 1999, is consolidation of the efforts of government and non-government structures and international organizations directed at the gradual reduction of poverty together with sustainable economic growth, based on a consensus for active and constructive partnership and cooperation.

Effective forms of partnership and participation, mechanisms and methods, have been developed in the Kyrgyz Republic within the CDF/NPRS. The most effective forms include:

- National forums and national meetings, round tables with participation of representatives of all branches of government, NGOs, private sector, international organizations.
- Regional forums, village meetings, community meetings.
- Educational seminars, training activities, meetings.
- Participation of representative of state administration structures, NGOs and the private sector in working experts' groups on preparation of the full version of the NPRS both at the national and regional levels.
- Participation of non-government organization in drafting of laws and regulations connected with implementation of integrated reforms in the state and the society.
- Participation in monitoring and evaluation of the CDF/NPRS implementation process.
- Development and implementation of specific projects related to poverty reduction, human development, carried out on a grant basis with the support of international organizations.

While preparing the various sections of the full version of the NPRS, the working experts' groups, the CDF Secretariat held close consultations with representatives and missions of international organizations and donor countries, which were of a constructive partnership nature and very useful for development of policy measures. Also were used surveys and reports on various aspects of the NPRS and the CDF prepared by foreign experts and missions of international organizations as technical assistance to the Kyrgyz Republic and support for the conducted reforms. This has allowed better use of positive experience of poverty alleviation accumulated in various countries, as well as improved substantiation of the planned measures.

A series of round tables has been conducted in all oblasts of the Republic with the purpose of identifying the inputs of the civil society in the process of implementation of the NPRS and the CDF. Representatives of the civil society see their participation as that of informing the population of the progress of implementation of the NPRS and the CDF, of defining the needs of the population, of strengthening the democratic foundation of the society and of building of a lawful state, assisting in development of social sphere.

The Matrix of Partnership has been prepared to identify the basis for future partnership of all structures in implementation of the NPRS and the CDF; it envisages the following areas of partnership and participation:

- dissemination of information;
- conducting regular consultations and discussions;
- broad involvement of all structures in implementation, monitoring and evaluation;
- increasing of responsibilities of concerned structures;
- orientation to the result attaining; and other.

RESOURCE REQUIREMENTS

Successful achievement of the objectives established under the NPRS in many ways depends on a realistic assessment of the financial resources necessary for successful implementation of the whole program, as well as on the proper prioritization of policy directions and efficient management of the limited financial resources available for public expenditures. Availability of resources in general under the NPRS is based on projections of a midterm budget framework until 2005. However, the work on prioritization of the planned policy measures and assessment of the financial needs was rather difficult because of the absence of a

program budget structure. Given the limited financial resources available, major policy priorities have been selected when forming the action matrix, their implementation will promote more effectively the attainment of the major goal – reduction of poverty.

The volume of financing envisaged for the public administration sector for 2003-2005 in the midterm budget framework totals Soms14.9 billion (US\$310.4 million). Of this amount, Soms93.1 mln. are to be covered from external sources. Additionally needed external grants amount to Soms230.3 mln.

The midterm budget framework for 2003-2005 envisages Soms27.4 bln. for the social sphere (social protection, education, healthcare), of which Soms 809 Mln. are to be covered from external sources.

In order to attain the established objective of an annual reduction in the poverty level by 3 percent, additional financing is required in the amount of Soms3.7 bln. in the form of grants. Additional resources will be required to cover the villages that were not included in PIP projects. Besides, additional funds are needed to reform pension system, support on guaranteed minimum consumption level for the poor, and to ensure social assistance to the poor, especially during increase in the electricity and heat tariffs.

For the development of the real sector, the midterm budget framework for 2003-2005 envisages Soms15.7 bln. Including grants and direct investments, of which Soms11.4 bln. are to be covered from external sources. To achieve accelerated economic growth rate an additional financial support required from external sources (including grants and direct investment) totals about Soms19.4 bln. For the next three years, it is assumed that additional volumes of direct investment will be attracted to the energy sector, mining industry, oil extraction, processing industry, the sphere of services and communication technologies.

At the same time, in order to broaden opportunities for the creation of new job opportunities, successful development of small and medium business, and an increase in the volume of micro-financing for the unemployed and the poor, additional resources will be required for development of financial services, especially in rural areas, rehabilitation and construction of irrigation networks, local roads, expansion of public services for rural commodity producers. It is assumed that the major sources could be grant funds of donor countries and international financial institutions allocated to local communities, associations, NGOs and farmers.

The financial support for the NPRS will be adjusted each year within the budget framework, reflecting the results of reforms already carried out, implementation of the PRGF, as well as the agreements reached in the process of negotiations with the Paris Club on regulating the external debt. Because of the importance of the linkage between policy directions and specific measures within the NPRS framework on the one hand, and identification of realistic volumes of financing required on the other, the government intends to continue the work on prioritization and assessment of the cost of sectoral and regional programs.

INSTITUTIONAL ARRANGEMENTS

A partnership network, uniting government and non-government participants and stakeholders, will be developed to ensure effective implementation of the Strategy. The NPRS implementation process will be coordinated by the National CDF Council chaired by the President of the Republic. The Council, comprising representatives of government agencies, civil society and the private sector, makes key policy decisions related to CDF/NPRS. Three coordination committees have been created to implement decisions of the National CDF Council in three main areas: sustainable economic growth, social protection and human development, effectiveness and transparency of public administration. The coordination committees, headed by the Prime Minister, First Vice Prime Minister, and the Head of the President's Administration, respectively, include representatives of government agencies, civil society and the private sector.

The CDF Secretariat, the Council's executive body, coordinates implementation of the Council's decisions and prepares materials and proposals for its meetings. Being a working unit of the Council, the Secretariat will coordinate NPRS monitoring and evaluation activities carried out by ministries, departments, as well as local state administrations. The CDF Secretariat will actively cooperate with NGOs and will coordinate assistance provided by donor organizations to the NPRS process. The NPRS process will involve all ministries, departments, and local state administrations. Institutional arrangements for coordination of the NPRS process will be regularly improved.

The NPRS creates a framework for implementation of all regional and sectoral programs. Line strategies need to be elaborated for the sectors, where improvement of state policy is most needed. Many strategies will be revised with consideration of prioritization and resource limits of the NPRS. Each of these strategies

must have a clear mechanism and action plan for its implementation. One of the key factors in the success of NPRS is clear association of state finances with results achieved under the program. In connection with this, state budget funding of different priorities will be carried out with consideration of program-based budgeting. Jointly with donors the Government must develop mechanisms on distribution and control over the external aid provided for implementation of NPRS. Reports and studies will be used by the CDF Secretariat and other agencies as sources of information necessary for monitoring and evaluation of program's success and will be taken into account during adjustment of policies and preparation of final reports.

MONITORING AND EVALUATION

The monitoring and evaluation system - an integral part of NPRS implementation process – is required in order to raise the effectiveness and quality of Strategy's implementation. The system of monitoring and evaluation will be based on the participatory principle involving all stakeholders of the NPRS process, - civil society, government instrumentalities, businesses and certainly the poor who are the primary beneficiaries of the NPRS.

The NPRS monitoring and evaluation system will use quantitative as well as qualitative methods. These indicators will be systematically collected by various state and non-state agencies and provided to CDF Secretariat for further analysis and evaluation. An information network uniting the CDF Secretariat, ministries, departments, and local state administrations, will be established for effective monitoring and evaluation.

Interaction within this network will be carried out on principles of electronic government. To this end, interlinked websites will be created in ministries, departments, and regional state administrations. The network will be accessible via the Internet to the private sector, civil society, government agencies and the donor community. All information systems available in the country will be used to build this information system; however, its development and effective operation will require additional investments. Ministries, departments, and regional administrations will be trained in modern management based on the principles of electronic government.

The success of NPRS implementation will be connected with funding of the program's monitoring. Funding of CDF Secretariat's monitoring activities from the state budget will ensure sustainability of NPRS monitoring and evaluation system and will demonstrate national commitment to its implementation. The funding of the NPRS monitoring and evaluation system will be carried out in accordance with an approved schedule. The CDF Secretariat will invite independent NPRS studies and will tender for evaluations to be conducted by independent NGOs. Donor grant funding will be sought for these and other purposes including preparation of reports, organization of presentations, seminars, round tables, dissemination of information through mass media, etc. These funds will be used to modernize and expand monitoring and evaluation infrastructure.

One of the key factors in the success of NPRS is clear association of state finances with results achieved under the program. In connection with this, funding of different types of activities by ministries and departments must be carried out with consideration of monitoring and evaluation results and program-based budgeting. Transparency of results, their wide dissemination, and consideration in further work is a critical component of monitoring and evaluation. Results of NPRS monitoring and evaluation will be available to all stakeholders, will be widely published in mass media and available on Internet. It is important to build an adequate human potential in state and non-state agencies capable of professionally monitoring and evaluating the program on different levels. The CDF Secretariat will organize nation-wide courses to train all participants of the NPRS process in monitoring and evaluation. The Secretariat will also attract donor agencies for improvement of the CDF/NPRS monitoring and evaluation system, capacity building on local level, integration of the best international practice with adjustment to Kyrgyzstan's situation. Progress reports on implementation of CDF/NPRS will be published annually.

CHAPTER I. THE SCALE OF POVERTY

1. The Kyrgyz Republic's household survey data played a key role in the prioritization of the measures taken under the NPRS. In order to ensure data comparability, the survey has used information on poverty levels and profiles based on average per capita expenditures of the population.

In 1999 the incidence of poverty increased to 55.34 percent of the population, with over 23 percent of population in extreme poverty.

Since then there has been some reduction in the poverty level, largely the result of economic and social measures taken by the State in order to raise living standards.

In the year 2000, poverty declined to 52 percent, while extreme poverty went down to 17.8 percent. In 2001, 47.6 percent of the population was classified as poor and 13.5 percent as extremely poor. The poverty gap index was 13.9 percent.

2. A notable feature of poverty distribution is that rural poverty is higher than it is in urban areas.

Table 1: Poverty in urban and rural areas
(percent)

Year	Poor			of these, extremely poor			Poverty gap ³	Severity of poverty ⁴
	Total	Urban			Urban	Rural		
1999	55.3	42.4	60.0	23.3	17.1	25.6	19.8	9.8
2000	52.0	43.9	56.4	17.8	12.7	20.5	17.7	7.7
2001	47.6	41.2	51.0	13.5	9.6	15.6	13.9	5.6

3. In 1999, the expenditure level of the wealthiest strata of the population was almost seven times higher than that of the poorest. This gap shrank to 4.8 times in 2001. Reduction in expenditure inequality is explained primarily by a more than 10 percent increase in the income of the poorer levels of society. As a result, the Gini index has declined. These positive trends have helped to alleviate social tension in the country.

Table 2: Gini index (consumption)
(shares)

	1996	1997	1998	1999	2000	2001
Total	0.370	0.410	0.360	0.372	0.326	0.320
Urban	0.370	0.380	0.364	0.371	0.322	0.313
Rural	0.350	0.360	0.341	0.362	0.323	0.351
Ratio of Consumption Level of the wealthiest quintile of the population to the poorest quintile.	6.8	7.5	6.1	6.8	5.5	4.8

4. No improvement has been observed in the level of unemployment - an important poverty factor. According to the Employment Department of the Ministry of Labor and Social Protection of the Kyrgyz Republic (MLSP), in 2001, the registered unemployment level was 3.2 percent, 0.3 percent higher than in 1999. The unemployment rate among women remains higher than that of men. The highest rate of unemployment is noted among people 18-49 years of age.

³ Poverty gap (or deficit) is calculated as average amount by which the expenditures (or consumption) of all poor households fall below the poverty line

⁴ Poverty severity index (or squared poverty gap) is calculated as average squared consumption shortfall of the population as proportion of the poverty line.

Table 3: Registered unemployment, by age groups and gender
(percent)

	1999			2000			2001		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Number of unemployed	54749	24156	30593	58329	27082	31247	60522	27985	32537
<i>of these, aged:</i>									
16 - 17	3.9	3.9	3.8	4.4	4.2	4.6	5.0	5.1	4.9
18 - 21	11.9	11.3	12.4	11.4	11.4	11.3	10.6	11.2	10.1
22 - 28	20.4	19.9	20.7	24.0	23.5	24.5	21.5	21.0	22.0
29 - 39	36.1	36.2	36.1	35.5	35.8	35.3	33.6	33.6	33.6
40 - 49	21.3	19.7	22.6	19.9	19.6	20.2	22.8	21.9	23.6
50 - 54	4.9	5.7	4.3	3.6	3.4	3.8	5.0	5.0	5.0
55 - 60	1.5	3.3	0.0	1.1	1.9	0.4	1.3	2.0	0.7
Over 60	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.2	0.0

Box 1: Poverty Measurement Methodology

In the year 2002 the National Statistical Committee (NSC) jointly with World Bank experts have identified several methods that can be used for assessment of welfare in measuring the level of poverty in the Republic. For the past several years, NSC has been publishing poverty data using the information on the level of average per capita expenditures as a welfare measurement criterion. Other poverty criteria recommended by foreign experts are per capita consumption and per adult equivalent consumption.

Per capita expenditures include expenditures for food, cost of home-produced and home-consumed food products, nonfood commodities, including consumer durables and personal services.

Per capita consumption is measured using per capita expenditures of estimated cost of consumer durables available in the household, regardless of the product's service life, except for the cost of real estate. International methodology includes in consumption only those expenditure items that are consumed by a household within a year. Hence, expenditures such as acquisition of real estate, livestock, assistance and gifts to other people, taxes and other payments are not included in consumption.

A number of issues related to size and composition of households arises in the process of calculating aggregate expenditure or consumption indices. Lack of adequate adjustment can lead to overestimation of poverty in large households and underestimation in smaller ones. Since there are many large families in Kyrgyzstan there appears to be the need to make an adjustment for equivalent size of households.

Per adult equivalent consumption generally determines the share of adult population, including women, children and elderly, with equivalent scale coefficient for calculation of the general size of the "equivalent in relation to the able-bodied man" in a household. The equivalent scale coefficients have been calculated on the basis of consumption norms developed for the Kyrgyz Republic by the University of North Carolina using the household survey data of the 1993 poverty study. Equivalent adult consumption was applied to measure poverty level in particular households, in order to see whether they qualify as poor or not.

NSC and foreign experts have recalculated general poverty levels using data from the household survey for the year 2001. The results of this survey were evaluated using all three welfare measurement methods. All three methods indicated reduction of poverty in 2000 and 2001. The following table summarizes the results.

Welfare indicators	General poverty line, soms per year	Poverty level, percent	
		2000	2001
Per capita expenditures	7491	52.0	47.6
Per capita consumption	6975	62.5	56.4
Consumption per adult with adjustment for equivalent size of a family	6975	51.8	45.0

5. Official unemployment is uneven throughout the Republic. In 1999-2001, there was a reduction in the number of registered unemployed in the Osh region (by 6.6 percent), Bishkek (by 3.7 percent), Jalal-Abad region (by 2.4 percent), with increases in unemployment in Naryn, Chui and Batken regions, ranging from 1.4 to 2.5 percent (see Table 4, below).

Table 4: Unemployment by regions
(percent)

	1999	2000	2001
Kyrgyz Republic, number of people	54749	58329	60522
Jalal-Abad oblast	21.1	19.0	18.7
Issyk-Kul oblast	8.8	7.7	8.3
Naryn oblast	9.3	11.4	11.8
Osh oblast	22.9	15.1	16.3
Talas oblast	3.5	3.3	3.0
Chui oblast	13.9	17.5	16.0
Bishkek	20.6	18.4	16.9
Batken oblast		7.7	9.1

6. It must be noted that official figures do not fully reflect the situation in the labor market. According to International Labor Organization (ILO) methodology, unemployment estimates can fluctuate in the range of 7 to 11 percent.

7. Unemployment is the primary cause of intensified internal migration in the Republic. The main movement has been from rural areas to the cities. Such relocation creates problems of increased numbers of unregistered unemployed in cities, reduced access of migrants to health and education services, marginalization of the population and increases in crime.

8. Despite the high incidence of poverty, a relatively high birth rate has remained. In 2001 the fertility rate was 2.4 children.

9. The mortality rate in recent years has declined from 6.8 deaths in 1999 to 6.6 deaths per 1000 people in 2001. In 2001, 47 percent of deaths were due to cardiovascular diseases, 11 percent to respiratory diseases, 10 percent to accidents, poisoning and other external causes, and 9 percent to tumors.

Despite the relative reduction in the mortality rate, infant mortality remains high (28.2 deaths per 1000 live births in 1997, down to 21.7 in 2001). It must be borne in mind that national criteria for live births and infant mortality differ from internationally accepted standards, so that the infant mortality rate is understated in the Republic. Declines in infant mortality are mainly attributed to reduction in the number of deaths due to respiratory, infectious and parasitic diseases. Diseases of the perinatal (post birth) period are the leading cause of infant death, representing 38 percent of infant deaths. High infant mortality in the perinatal period is closely connected with the health of mothers, whose mortality rate is also high (43.8 maternal deaths per 100,000 live births in 2001).

10. Starting from 2001, for the first time, diseases of the perinatal period topped the list of causes of death among the newly born (which was earlier led by the respiratory diseases that accounted for 43.5 percent of infant mortality in 1997).

11. Reduction in the incidence of poverty has positively affected life expectancy in the Republic. There was a slight increase in life expectancy from 66.9 years in 1997 to 68.7 in 2001. Life expectancy of men was 65 years and that of women was 72.6 years. Male mortality is 1.5 to 1.6 times higher than female mortality. Thus, women outnumber men; in 2001 there were 1000 women per 975 men.

12. There have been several changes in the literacy situation in the period under review. Among people aged 7 years and older, 1.2 percent was illiterate. Of these, 51.4 percent were elderly, 16.7 were children aged 7 to 10 years who live in poor families and could not attend schools, 32 percent were children with mental and physical deficiencies and naturally handicapped. In spite of the high literacy rate, there were certain differences in educational coverage of children by age groups and poverty status. The proportion of children with primary and middle (incomplete secondary) education remains high. However, a reduced proportion of children aged 16 and 17 years, especially boys, with complete secondary education raises concerns. This reflects the earlier departure of school children for technical education, rather than remaining to complete secondary school.

Table 5: Children enrolled by level of schooling
(percent of corresponding age group)

	1999	2000	2001
<i>Primary education (grades 1-4)¹</i>			
Total	97.7	97.2	96.6
Boys	98.6	98.6	97.9
Girls	96.8	95.8	95.3
<i>Middle education (grades 5-9)²</i>			
Total	82.8	94.9	93.6
Boys	82.0	95.1	93.5
Girls	83.7	94.6	93.7
<i>Complete secondary education (grades 10-11)³</i>			
Total	75.6	47.0	48.9
Boys	70.5	43.4	45.6
Girls	80.8	50.6	52.3

¹ (grades 1-4) - 7-10 year old

² (grades 5-9) - 11-15 year old

³ (grades 10-11) - 16-17 year old

13. Poor groups have limited access to public utility services. Due to the inadequate development of infrastructure, utility services are less available to poor households and to families living in rural and mountainous areas. Electricity is practically the only utility provided to the whole population.

14. Service quality does not always meet established standards and many households receive these utilities in limited amounts or inconsistently. As regards access to clean drinking water, nearly 20 percent of the rural population and 30 percent of population living in high mountainous areas use water from rivers and canals, which poses health risks.

Table 6: Access to utilities, by poverty status, 2001
(percent)

	Running water	Natural gas	Central heating	Telephone
Total	33.9	30.6	22.6	24.2
Non-poor	43.5	39.3	29.5	32.2
Poor	23.4	21.0	15.0	15.4
of these, extremely poor	16.9	9.5	8.8	11.9
Urban	72.4	54.5	55.9	47.6
Rural	13.3	17.8	4.7	11.8
High mountainous areas	5.1		3.0	15.5
Lower mountainous areas	19.8	24.3	8.8	24.8
Plains	40.8	36.3	28.0	25.4

15. The poverty profile analysis for the year 2001 raises concerns about the number of children living in poverty. Children under 17 years of age constitute nearly 40 percent of the total population of the Republic. Of these, nearly 55 percent live in poor families.

Table 7: Sources of water, by residence and poverty status, 2001
(percent)

	Total	Centralized running water	Street water tap	Well	Spring	River, canal
Total	100.0	33.94	45.63	3.36	1.06	16.01
Non-poor	100.0	43.50	40.57	2.30	1.20	12.43
Poor	100.0	23.43	51.20	4.52	0.91	19.94
<i>of these, extremely poor</i>	100.0	16.91	54.62	6.04	0.66	21.77
Urban	100.0	72.42	26.00	1.04	0.06	0.48
Rural	100.0	13.29	56.17	4.61	1.60	24.34
High mountainous areas	100.0	5.09	55.35	2.75	5.81	31.00
Lower mountainous areas	100.0	19.77	63.78	3.07	1.30	12.08
Plains	100.0	40.82	40.92	3.50	0.30	14.46

16. According to the Social Fund of the Kyrgyz Republic, the number of pensioners (retirees) is declining. In recent years, the average pension rose 1.5 times. However, its level is still not high enough to provide pensioners with essential goods and services.

17. MLSP data shows that in the year 2001, 470,300 people received a unified monthly benefit (UMB), the average size of which equaled 65.67 soms per month (approximately US\$1.42). Although the average UMB size was 1.3 times higher in 2001 than in 1999, households receiving this benefit can barely avoid extreme poverty.

Table 8: Recipients of social benefits and UMB

	Number of recipients, persons			Total monthly outlay '000 soms			Average size of benefit, soms per month		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Social benefits	36021	38736	41975	5325.0	5929.6	10973.4	147.83	153.02	261.43
Benefits to naturally handicapped	14315	15122	16223	2314.6	2422.0	4724.8	161.69	160.17	291.24
Benefits to handicapped children under 16 years of age	13622	14839	15718	2296.3	2485.1	4787.4	168.57	167.47	304.58
Benefits to handicapped due to general diseases	1003	1103	1287	104.1	113.3	243.1	103.81	102.72	188.89
Age benefits	4110	3740	3483	292.0	284.6	187.3	71.05	76.10	53.78
Benefits to mothers with many children	152	160	160	24.1	26.2	46.1	158.39	163.80	288.13
Benefits for children to families with lost breadwinner	2819	3772	5104	293.9	398.3	984.7	104.25	105.59	192.93
	<i>'000 recipients</i>			<i>Mln. soms</i>					
Indigent citizens	476.8	503.4	470.3	23.92	24.29	30.88	50.16	48.25	65.67

18. At the same time, it must be noted, the increase in the number of social benefit recipients, especially recipients of benefits for the loss of family breadwinner (1.8 times increase compared with 1999). A simultaneous rise is observed in the average size of all social benefits (1.8 times increase compared with 1999), except for age benefits, which have declined by 25 percent.

CHAPTER II. SUSTAINABLE STABILIZATION AND DYNAMIC NATIONAL DEVELOPMENT

1. Expanding National Potential through NPRS

19. Initial achievements in the implementation of the CDF have provided the basis for the further strengthening and acceleration of positive developments. They have also shown that, in order to ensure the sustainability of the reform process, continuing issues must be effectively tackled. Poverty reduction has emerged as a real need in the integrated implementation of the main CDF measures.

20. **The mission of NPRS** is to expand the opportunities for each citizen to have an adequate, equitable, and comfortable life in the Kyrgyz Republic.

21. This suggests that Kyrgyz people are not poor because they cannot provide for themselves, but more because they lack opportunities. The NPRS process aims to provide and expand these opportunities. On the whole it is directed at:

- systemic impact on poverty factors;
- enhancement of positive developments;
- sustainable development;
- preventive action;
- self-mobilization process;
- active use of domestic resources; and
- consolidation of the society.

22. Two strategies are envisaged for implementation of the mission. These are: the stabilization strategy and the development strategy.

The main goals of the stabilization strategy are to achieve predictability of life and manageability of resources.

23. These goals cover a set of objectives targeting political, economic and social stability. This implies provision of various forms of security (food, energy, financial, information and ecological security), as well as safeguarding of spiritual and cultural values and traditions. The strategy also provides for the reorientation of donor assistance to country development priorities, fulfillment of Kyrgyzstan's obligations to the donor community, and partnership-based participation of donors in implementation of specific projects. Grant assistance from the donors will be welcomed. All activities included in the stabilization strategy will, above all, focus on building a strong foundation for sustainable development of the nation.

The main goal of the development strategy is to ensure that the present supports the future, while the efforts for the better future support the present.

24. The goal of this strategy implies a quality leap in development through mobilization of domestic resources, effective use of structural reforms and quality management. The objectives of the strategy also include bringing in professional managers to foster the development of economy, improvement of infrastructure, introduction of new technologies and information systems, as well as active involvement of civil initiatives in the development of the country's image.

Sustainable stabilization and dynamic development of the country for the well being of all citizens is the way towards Kyrgyzstan's prosperity.

25. The NPRS will be implemented on the basis of CDF principles of partnership and participation, separation of powers, rule of law, larger participation of the private sector, realism, complementarity, innovation, focus on results and openness to the global community. In the long-term perspective, the comprehensiveness of the NPRS will help to expand the nation's development opportunities through the following:

- Development of human resources by means of education and training will ensure inflow of mobile professional managers for identification of country priorities.
- Improvement of infrastructure, using new technologies, will help to transcend the geographic barriers of the country.
- Focusing the economy on development of the service sector without denying the continuing importance of agricultural and industrial types of production.
- Building an information society in the Republic will help citizens to be active participants in the dynamic processes of reforms in all areas.

26. Through the determined efforts of all citizens of Kyrgyz Republic, the successful implementation of the activities provided for in NPRS will produce the conditions necessary for a major breakthrough in priority reform areas to provide for better life for each citizen. This, in turn, this will help transform Kyrgyzstan into a dynamic and progressive state that will harmoniously integrate into the positive global processes.

CHAPTER III. FORMATION OF AN EFFECTIVE STATE

1. Democratic Institutions

27. The process of democratization is gaining increasing importance in the new situation in the Kyrgyz Republic. New social strata and active groups, as well as the new relationships between the community and public sector instrumentalities emerge as a result of systemic changes in society. Growing social activity and independence foster the development of existing institutions as well as the emergence of new democratic institutions and mechanisms.

28. Decentralization of state administration and the growing practice of appointment to office by election are among the most important areas of democratization. In 2001, all localities of the Republic, 460 aiyl okmotu (village governments), 12 towns of districts, 9 towns of regional subordination, and Bishkek city, adopted the principles of local self-government (LSG). Several measures have been taken to enhance the economic foundations of local communities. The Government's decisions have increased the rights of LSG agencies to collect taxes and form local budgets.

29. An important aspect of growing democratization have been the peoples' conventions (kurultai), which were held throughout the villages, towns, and districts of the Republic in the fall of 2001 and gathered over 90,000 delegates, selected by local community meetings and gatherings. In January-February 2002 all aiyl okmotus, villages, towns, districts, and regions held village meetings and gatherings on discussion of prospects for social and economic development, and enhancing effectiveness of administration under the CDF/NPRS programs. These peoples' forums encourage citizens to take an active part in the managing of local communities and enhance accountability of local authorities to the population.

30. Measures have been adopted to expand activities and democratic principles in the Government of Kyrgyz Republic. The Government now includes representatives of various public and political formations that share the ideology of reforms. Positive developments are noted in the style of its work. The Government depends more and more on the opinion of members of parliament, entrepreneurs, and the general public.

31. Steps have been taken to form a more socially engaged and accountable parliament - the Jogorku Kenesh of Kyrgyz Republic. Political parties are now able to directly participate in elections. The existing Elections Code reflects the best democratic practices and is continually improved.

Active measures are being implemented to improve transparency and openness of decision making through further expansion of information technologies in management, and gradual transition to the system of "electronic" government.

32. Special consideration has been accorded to promotion of democratic principles in economic activities of people, development of free competition, spreading of corporate principles and encouragement of producers' cooperatives. Another fast growing area is establishment of local associations of users of financial, water, energy, and other resources and expansion of production and social infrastructure in local communities. Emergence and strengthening of the new public force represented by nongovernmental organization is evidence of growing democratization in society. Intensive formation of civil society has helped to set conditions for effective social partnership of the State and public initiative. There are currently over 3,500 registered, public organizations, political parties, and movements of various sorts in Kyrgyzstan. Their social demands made in a great variety of forms, represent the interests of communities and individual citizens. The number and the role of independent mass media that represent a wide spectrum of opinion are also growing.

A new direction in the democratization of society is implementation of the new national idea expressed by the President of Kyrgyz Republic, "Kyrgyzstan - a country of human rights". The President has approved the National Human Rights Program for 2002-2010 and the corresponding action plan.

33. There are still many issues that need to be resolved to promote the development of democratic institutions.

The elections system and the procedures for forming elected government bodies will benefit from further improvements. In particular, this refers to further increase in representation of political parties, local communities, and in the Jogorku Kenesh, appointment of judges by election, and greater political responsibility of elected bodies to voters. The most numerous democratic institutions - aiyl okmotu - should be empowered and supported by necessary resources. The newly elected LSG leaders find themselves in a difficult position. Many of them lack basic experience in managing local communities.

Local communities are in need of financial and technical resources that are necessary to address local issues, while government bodies lack competent and professional staff capable of organizing activities to foster development of villages and towns. People lack information on the operation of government agencies, while the authorities are unaware of the social mood and state of things in local communities. As a result of insufficient use of social management technologies on the part of management bodies at various levels, there appear instances of uncivilized forms of opposition and confrontation (political, interethnic, social, and so forth) in resolution of debates and disputes.

Participation by the people in the use of financial resources, land, real estate, and public infrastructure is not always fair and controlled. Quite often, state agencies and officials either violate or ignore the constitutional rights and freedoms of people. Due to ideological vagueness and organizational weakness, the role that political parties have in social affairs, state policy formation, and protection of constructive interests of various social groups, is quite insignificant.

Lack the fund-raising skills necessary for survival and development and, thus, are greatly dependent on donors and sponsors. The use of available resources for support of ethnic development and enforcement of human rights of ethnic groups is still inefficient.

Mass media do not have an adequate financial basis. Some newspapers underestimate the legal and economic implications of their publications and do not have the legal skills to protect their rights. There is much room for development as regards the professionalism and ethics among mass media workers. An effective mechanism of public control over the state media is needed. There is no legislation regulating activities of electronic media and the Internet.

34. **The main goal** is to create a system of democratic institutions that will ensure effective participation by all competent elements of the community in addressing poverty issues, ensuring sustainable development of individuals, society and the State.

35. **The expansion of the public base and transparency of the state governance.** It is necessary to ensure wide accessibility of information on the operation of state agencies to civil society. This will provide for and encourage better informational transparency of all state government agencies. Free access to publicly relevant information will foster fair public administration and a free society. Publicity by the authorities on their activities will promote greater public awareness; help people make knowledgeable choice on ideological preferences; address economic, social, and other issues; opportunities of public participation in assessment of state decisions and control over their execution. Not a single state decision should be made without wide discussion with the community and consideration of public opinion. The authorities, especially local government and civil servants, must learn not only to listen to public opinion but also to make decisions based on valid public demands. All state government agencies must continue to seek socially accountable procedures for making and implementing decisions.

The distributive functions of the State must be transparent and balanced, and their execution accompanied by effective control mechanisms. The creation of an effective LSG system with adequate financial and economic foundation is one of the other key tasks. A procedure should be developed to include local community leaders in the decision making process of regional and state importance. It is necessary to strengthen the role of LSG in addressing local community issues, formation and implementation of comprehensive development plans, and carrying out activities with donors and investors.

36. **Implementation of the national idea, "Kyrgyzstan - a country of human rights".** The following measures should help to realize the national ideal: elaboration of the Democratic Code and Concept for the Development of the Democratic Security Council, effective work of the institute of the ombudsman, and implementation of activities provide for in the National Human Rights Program. A special role is to be played by reforms of the judiciary, the institution of advocacy, and the law enforcement bodies that must provide legal support and means of public control over observance of laws and human rights. Community based human rights organizations must be adequately supported. Ethnic development and protection of the rights of ethnic minorities should be given priority attention. To this end, new state guarantees and mechanisms should be developed to support ethnic development, regulate interethnic relations, and expand opportunities for participation of ethnic groups in state administration.

Observance of religious rights and legislative regulation of religious affairs should be given serious consideration. It is necessary to cooperate with religious movements and groups that have significant spiritual influence among the poor, and actively resist religious extremism. A gender policy that provides for the integration of gender equity principles into state administration, support for women's organizations, and

protection of women's rights will be actively promoted. In addition to state measures on protection of children's and youth's rights, implementation of New Generation Program up to 2010, support should be provided for development of children's and youth movements.

37. **Democratization of economic institutions.** Along with other actions for the promotion of economic activities and free competition, development of corporate governance culture, a strategy for the creation of associations of commodity producers and service consumers will be pursued and some regulatory state functions will be gradually delegated to community associations and trade unions. In view of the formation of new forms of ownership, as well as the emergence of joint stock companies and private firms and farms, it is necessary to restore the system of trade unions designed to democratize internal management and protect workers' rights. Community control should be exercised over the execution of state and local budgets, activities of banks, pension and investment funds that manage financial resources of people.

Special consideration has been accorded to promotion of democratic principles in economic activities of people, development of free competition, spreading of corporate principles and encouragement of producers' cooperatives.

38. **Improving the role of political parties in public life.** Political parties representing the interests of large social groups should strengthen and their representation in the parliament should increase. They should gain access to the state decision-making process carried out by the President and the Executive.

39. **Development of civil society institutions and enhancing their role in public administration,** development of state policy, and control over state agencies remain priorities of the democratization process. One of the objectives is to achieve better involvement of the nongovernmental sector in national affairs and move from confrontation to reasonable cooperation on principles of domestic unity. There are real opportunities for redistribution of functions and responsibilities between the State and NGOs. Many state functions should be transferred to the nongovernmental sector. The community should participate in and control the state systems of social assistance, education and health care.

NGOs should receive assistance in fund-raising to support their operation and development, and ensure their independence. Society and the State must find ways of supporting the mass media. At the same time, there should be legal and public mechanisms keeping the media within the rule of law and common moral principles.

40. **Key mechanisms for the implementation of priorities.** The legislation should be reviewed and made more favorable for development of democratic institutions (elaboration of draft laws on electronic media and public broadcasting, introduction of amendments to the Elections Code, laws on political parties and LSG, etc.).

New social partnership mechanisms must be introduced together with effective models of cooperation between the state and civil institutions. Regular public hearings will be held, bringing together representatives of professional and specialized community organizations, parliament members, local councils, and members of the Government. Most of the important national issues should pass through a procedure of public hearings.

Positive results can be gained from organizing public examination of legislation related to LSG and activities of NGOs, as it is being considered by parliament. Similar arrangements can be made in regions - public examination of compliance of regional legislation, charters, and other legal documents developed by local authorities, with the European Charter of LSG, other international documents, as well as the Constitution of the Kyrgyz Republic. Systematic public discussion of such matters must become a widespread national and regional practice.

It is intended to continue the practice of conducting community discussions involving experts on various state policies (the pension system, support payments, energy tariffs, communal services, land and state property privatization, and so forth). Resident working groups will be established comprising representatives of state government, LSG, community and not-for-profit organizations. These working groups will review legislation related to social partnership, develop methodological materials, analyze and spread positive experience of addressing socio-economic issues by the LSG.

The Government must hold systematic political consultations with political parties.

It is envisaged to create a system of support for NGOs, establish foundations and programs to assist NGOs with seeking resources and ensure implementation of various specific projects. The tradition of constructive

dialogue, social partnership, and cooperation between the branches of government and the community will be further developed. Such cooperative mechanisms will be implemented through conventions, forums, rural meetings, round tables, and private meetings of state officials with citizens.

41. The impact of measures for the development of democratic institutions will have a multiplying effect as a result of the anticipated increase in social activity and involvement of various strata of the society in the implementation of NPRS and CDF programs.

2. Raising the Effectiveness of the Legislature

42. Building a harmoniously developed democratic society requires substantial legal reform, which should cover the whole legal system. Political, economic and social reforms carried out in Kyrgyzstan have necessitated intensive law making. The Constitution serves as the basis for active renewal and improvement of the legislation to make it consistent with human rights, democratization of state administration, and to ensure success of market adjustments.

Over 1,100 laws were passed in Kyrgyz Republic in the period from January 1, 1991 to July 1, 2002.

43. At the same time, political, social and economic changes at times move ahead of the law-making process. Many legal documents adopted at the dawn of radical reform contain outdated regulations and do not comply with Kyrgyzstan's obligations under international and inter-government agreements. This, in turn, directly affects the timeframe and effectiveness of measures meant to support economic growth and social development.

Much work has been done in recent years to eliminate issues, analyze and streamline legal documents and ensure their enforcement. In the period from March to July 2001 alone, over 150 laws, 30 Presidential decrees and over 300 Government decisions were reviewed. In August 2001, a Government decision established an inter-departmental commission in the Ministry of Justice to review proposals on improvement of legislation and submit appropriate legal drafts to the Government. Thus, the analysis and improvement of legislature is now done on a continuous basis.

44. The legislative process in the Republic is carried out in very complex conditions. The rapid pace of reform forces the State to provide a quick legislative response to the new public relations. This, in turn, affects the quality and consistency of legislature. The main issues in the legislative process include:

- lack of an overall scientific concept of law-making in the Republic;
- inadequate legal culture, lack of clear reference points for amendment of existing laws;
- declarative nature of many laws without clear implementation mechanisms; duplication of norms in various laws; adoption of new norms along with the operation of the old ones;
- the rule on immediate effectiveness of laws, decrees, and decisions from the moment of publishing does not allow officials and citizens to carefully study the new legal documents, and thus leads to their adequate and timely application;
- absence of the analysis on the legal activity of citizens; lack of the system for processing of population's proposals on improvement of legislation; lack of activities on improvement of legal culture in the society;
- lack of clear guidelines in legislative regulation leads to a confusion of laws and sub-law documents (often the drafting instruction are only at the level of department instruction); and
- lack of specialized assessment of scientific, economic, and social validity of laws and forecast of their impact.

The instability of existing laws negatively affects their implementation quality and causes confusion and legal collision. There are cases of contradictory parallel legal documents.

45. Weakness of legal services in central and local state administrations affects the law implementation quality.

46. The availability and accessibility of existing legal documents is limited for citizens, state agencies (especially in remote areas), the private sector and NGOs. The National Computer System of Legal Documents, Toktom, has limited public access, and legal documents are printed in insufficient quantities.

47. The capacity of NGOs is still not fully used, especially the capacity of professional that can assist in preparation of draft laws and their assessment.

There is little coordination of legislative activities among the parliament deputies, Government and other agencies that, according to the Constitution, have the right for law-making initiative. The consultations held by the newly established coordination commissions have not brought about the expected result.

48. **The objective in the legislative area** is to stabilize and create a favorable legal and institutional environment; raise the effectiveness of law making; streamline existing laws; and in general improve the legislative framework.

Legal reform is based on the priority of human values, democratic principles of public administration, encouragement of the civil society and development of the legal framework for promotion of reforms in the interests of human development and reduction of poverty.

49. The priority areas of the forthcoming legal reforms include:

- development of the law-making concept, streamlining of existing legislation;
- elaboration by the participants of the law-making process of consistent action plans and schedule of reviewing draft laws with consideration of goals identified in CDF/NPRS;
- active work of the joint commission on coordination of law-making activities of state agencies comprising representatives of the parliament, the Government, courts, and President's Administration;
- active cooperation in the process of law-making with the civil society;
- establishment of a law drafting institute;
- improvement of the legislative methodology and procedures, substantiation and forecasting of implementation effectiveness;
- improvement and revision of the second generation market regulations - laws and other legal documents adopted in the period between 1995 to 1999;
- accessibility of all legal documents for citizens, private sector, , and local authorities;
- training and retraining of legal personnel, capacity building in the parliament and legal units of the executive and judicial power; and
- financial analysis of the existing legislation, draft laws, and other legal documents.

3. Refining the Judiciary and Law Enforcement Agencies

50. Kyrgyzstan declared itself a democratic state that will ensure the rule of law, inviolability of basic human rights and freedoms, protection of lawful interests of the individual and mutual responsibilities of the state and citizens. Relevant legal mechanisms and national programs that are constantly being improved and supplemented support the provisions of the Constitution of the Kyrgyz Republic on human rights and freedoms. Thus, in 2001 the Decree of the President, On Measures to Strengthen the Effectiveness of Ensuring the Rights and Freedoms of the Human Being and the Citizen in the Kyrgyz Republic, was adopted, and in early 2002 the National Program, "Human Rights", was approved for the period of 2002-2010, as well as the Action Plan for its implementation.

51. In recent years, the judiciary system of Kyrgyzstan, which includes the Constitutional Court, Supreme Court and local courts of general jurisdiction, Highest Arbitration Court and local arbitration courts, has been subjected to changes in quality. Fundamental codes and laws regulating economic and social processes under the new conditions have been drafted and put into force. The Decree of the President, "On Measure to Ensure Operations of the Judiciary System of the Kyrgyz Republic", stipulates that one of the major directions of the legislative policy is drafting and adoption of regulations and laws by:

- envisaging effective measures of implementation of unconditional judicial protection of citizens' rights and freedoms in accordance with Article 38 of the Constitution of the Kyrgyz Republic;
- establishing a guarantee for implementation of citizens' interests in the sphere of constitutional civil, administrative and criminal court proceedings; and
- ensuring an effective mechanism for independent and responsible administration of justice by judges of the judiciary system of the Kyrgyz Republic.

The constitutional laws, On the Status of Judges of the Kyrgyz Republic and On the Status of Courts of the Kyrgyz Republic, legally establish the status of judges and courts of Kyrgyzstan, the laws, On the Supreme Court of the Kyrgyz Republic and Local Courts of General Jurisdiction and On the System of Arbitration Courts of the Kyrgyz Republic, regulate the procedure of organization and activities of corresponding courts. Laws of the Kyrgyz Republic establish the independence of judges.

There are no restrictions imposed on citizens to address the courts for protection of their violated rights. New categories of cases have appeared, on the protection of the right to private property, the right to vote, on appeal against regulatory and legal acts, as well as on actions and decisions of government bodies. New

procedural standards have been adopted that regulate the relationship of the parties to civil, criminal and arbitration proceedings, establish the principles of justice administration, an adversary character of the judicial process, and the right of appeal has been introduced.

Decrees of the President of the Kyrgyz Republic have been issued to improve financial, material and technical support for the judiciary system. The Training Center of Judges of the Republic has been established, which provides training and refresher courses for judges and the court staff. Positive developments have been registered recently in terms of financing and material and technical support of courts, salaries of judges and court staff have been increased significantly.

Under the market economy, the role of the arbitration courts has increased considerably. At present, the system of arbitration courts includes 7 oblast arbitration courts, the arbitration court of Bishkek City and the Highest Arbitration Court, which integrates three judicial instances (original, appellate and supervisory).

In recent years, with the support of the Asian Development Bank, within the framework of the project, Corporate Governance-1, the technical capacity of arbitration courts has been strengthened significantly. Arbitration courts are mainly provided with the buildings corresponding to their status, courts machinery operates rather effectively, working places of the judges are computerized. Decisions of the arbitration courts are published electronically on the Internet.

An analysis of arbitral practice shows that each year the number of individuals addressing arbitration courts to protect violated rights and legal interests is growing; new categories of civil and legal conflicts appear that did not exist in the times of planned economy, and that impede the development of entrepreneurship. The number of lawsuits filed by legal entities and individual entrepreneurs against public administrative bodies, foreign investors against non-diligent local business partners, is increasing. The number of creditors' demands of debtors on establishment of their insolvency and conducting bankruptcy procedures has increased.

52. Congresses of Judges of the Kyrgyz Republic and the Congress of Barristers of the Kyrgyz Republic have become important public institutions considering major directions of the judiciary reform, improvement of the level of protection of rights and freedoms stipulated by the Constitution of the Kyrgyz Republic. During recent years, 4 congresses of judges have taken place, which discussed the most pressing problems of development of the judiciary system, improvement of its efficiency, and outlined the plans on priority directions of forthcoming reforms. The first Congress of Barristers, which took place in July 2002, considered a complex of issues on protection of rights, freedoms and legal interests of citizens. Recommendations of the congresses are put in practice through drafted and adopted laws.

53. Adoption of the Law on the Third Party Arbitration Courts in the Kyrgyz Republic became a principally important step in ensuring the rule of law, prompt and justified resolution of economic disputes. This will allow plaintiffs to overcome the monopoly of state courts on resolution of all types of disputes between citizens, legal entities and public administration bodies.

54. However, the law enforcement and judiciary system of the Kyrgyz Republic have accumulated serious problems that require solution. There are cases of violation of the constitutional rights of citizens and economic entities by governmental bodies. Such facts are not always addressed adequately and in a timely way by law-enforcement bodies and courts. There are cases of corruption, embezzlements, bureaucracy and professional incompetence of the staff in law enforcement agencies and courts. The judiciary system is not always accessible to poor strata of the community. These extremely negative phenomena, underlined in annual addresses of the Constitutional Court about the situation on constitutional lawfulness, as well as in surveys and public polls carried out by local and international organizations, undermine the citizens' confidence in the State. A negative image of our country is being created that hinders the attainment of the objectives of sustainable development and poverty reduction. The population's trust in law enforcement and judicial bodies has decreased drastically. This is proved by complaints and appeals of the citizens, publications in mass media, reports of non-governmental organizations on the situation of legal safety in the society.

Decreasing trust in the judicial system and its inefficiency is connected with the following basic factors:

- non-transparent mechanism of formation of the judiciary establishment;
- non-transparent actions of judges when executing administration of justice;
- insufficient qualification of judges in certain categories of court cases;
- lack of necessary capabilities to confront arbitrariness on the part of judges;
- insufficient legal framework of pre-trial settlement of disputes, including those with involvement of the court;

- lack until recent time of extra-judiciary forms for resolution of economic disputes, in particular, third party arbitration courts;
- limited accessibility to justice for individuals and legal entities due to financial reasons; and
- weakening of the authority of higher court actions when carrying out judiciary supervision and forming uniform judiciary practice.

These factors indicate a need for drastic reforms in the law enforcement and judiciary system of the country.

55. The goal of the envisaged reform of judiciary and law enforcement institutions for the coming years will be to ensure through the institutions of the State, protection and strict observance of the rights and freedoms of human beings, as established by the Constitution of the Kyrgyz Republic. The following should be established:

- strong, authoritative, powerful, self-sustainable and really independent judiciary system, which is completely open for the community; and
- law enforcement bodies acting strictly within the law, promptly and efficiently preventing any violations of the law.
- all governmental institutions, the judiciary and the law enforcement system will be oriented to:
- real ensuring of rights and freedoms of the citizen;
- further development of civil society institutions, ensuring implementation of human rights;
- establishment of a lawful state as a mechanism of protection of human rights and freedoms and promotion of further development of the civil society; and
- ensuring equal opportunities for carrying out entrepreneurial activities and protection of the rights and legal interests of both domestic and foreign investors.

56. In 2001, a specially established advisory group with participation of lawyers of government agencies and NGOs, with the support of the Asian Development Bank, conducted a survey that developed recommendations aimed at further reforming of the judiciary system. This survey has been approved by the order of the President of the Kyrgyz Republic and has become the basis for implementation of future reforms in this sphere.

57. The Program of court reforms envisages the following major measures.

Establishment of the principle of an elected judiciary. According to the existing legislation, all judges in the Kyrgyz Republic have an equal legal status. In this connection, the mechanism of formation of the judiciary establishment should be uniform. All local judges to be elected by a representative body of the State, the Assembly of People's Representatives of the Jogorku Kenesh of the Kyrgyz Republic, will be introduced. At the same time, it is planned to liquidate the system of attestation of practicing judges and introduction of a preliminary qualification exam for those aspiring to the post of judge. Such measure will serve as a positive factor for both selection of the most professionally trained candidates to the judge's position, as well as strengthen judges' independence from possible influence by public administration bodies. Draft laws on introduction of amendments and addenda to the Constitution of the Kyrgyz Republic, Laws On the Status of Judges of the Kyrgyz Republic and On the System of Arbitral Courts of the Kyrgyz Republic will be prepared.

Re-establishment of the principle of direct participation of people's representatives when administering justice. Citizens are objectively interested in substantiation and lawfulness of court decisions, and their fairness. Introduction of citizens to court hearings, given their increased activities in public and political life, should objectively serve as a factor to promote the trust of the community in courts, protecting professional judges from taking unscrupulous and unjustified decisions. Introduction of the institute of associated judges will become an effective mechanism of public control over courts' activities. Amendments and addenda will be introduced to the Arbitral Proceeding Code and the Law on the System of Arbitration Courts, while the Law on Arbitration Judges has been introduced.

Ensuring accessibility of justice for all strata of the population, including all entrepreneurship subjects. Pursuant to Article 38 of the Constitution of the Kyrgyz Republic the State shall guarantee judicial defense of all right and freedoms of citizens. This protection shall be complete, unconditional and immediate. In order to ensure equal opportunities for access to the protection of the courts, the procedure of levying state fees will be changed. State fees will be levied upon completion of court proceedings on the guilty party in civil and legal conflicts. Corresponding amendments will be introduced to the legislation.

Reasonable reduction in duration of court proceedings. All lawsuits shall be considered strictly within the timeframe envisaged by the legislation. In this connection the following will be considered:

- granting to the Supreme and Highest Arbitration Courts the authority, in terms of arbitration cases considered by the first and appellate instances, to take new final decisions that will not be subject to appeal; and
- introduction into arbitral proceedings of specialization of judges, panels of judges of the Highest Arbitration Court, panels of judges of the Highest Arbitration Court, injunction (simplified court proceedings) and the position of the assistant judge.

Promotion of activities on establishment and development of extra-judicial forms for resolution of economic disputes. It is planned to create conditions for formation and effective work of the third party arbitration courts. It is intended to consider the issue about establishment of quasi-judicial institutions, set up within fiscal bodies for the purpose of pre-trial settlement of disputes arising with payers of taxes and fees.

Introduction of public control over activities of judges, strengthening of internal systemic judicial control. Existing judiciary rules and procedures, imperfection and contradiction of the legislation objectively create the grounds for possible judiciary arbitrariness. Without rejecting the right of the judge of moral certainty and understanding of the legal standards to take decisions on court matters, it is necessary to strengthen the role of higher courts on elaboration of a uniform court judicial practice, uniform application of the legislation. Another important aspect is granting a right to the juridical community (qualified panels of judges) to apply disciplinary measures in relation to non-diligent judges. This will become an effective tool for eradication of corruption, reduction of court delays, and obviously inadequate application of the law when considering cases.

Strengthening responsibility for non-compliance with court decisions. It is planned to radically reform in the execution of court decisions, to introduce stricter measures of enforcement, including tightening of criminal prosecution, attachment of special law enforcement subdivisions to the service of court executive officers, providing them with more freedom on the issue of independent execution of court decisions. Reforming of the judiciary system will be implemented with the support of the Asian Development Bank within the framework of the project, Corporate Governance - 2.

58. Much attention is paid to the issues of legal information of the judiciary system. It is intended to considerably develop the established electronic system of dissemination of legal information, ensure broad access to it for the community. To establish an effective judiciary system, it is necessary to publish all court decisions and ensure that the community has free access to these decisions (except for those containing a state secret, as well as on the cases considered in camera). In this connection, the Supreme Court of the Kyrgyz Republic, with the support of the World Bank, will implement the concept of uniform information and legal base of the courts of general jurisdiction and its implementation as part of the judiciary reform being conducted in the Republic.

59. Law enforcement bodies will take measures to strengthen law and order, to ensure more completely the safety of citizens, strengthen the fight against corruption, organized crime, and theft and bribe taking. Preventative capacity to deal with all types of violations will be strengthened, aimed at elimination of causes and conditions of crime. The measures connected with implementation of the state program on combating crime, as well as identification and eradication of corruption among the staff of law enforcement bodies will be strengthened. For this purpose, it is intended to carry out organizational and functional changes in the structure of law enforcement bodies in order to improve prevention of crime, operation and search and investigation activities. Measures will be undertaken to strengthen the material and technical support of internal affairs bodies, public prosecution bodies, courts, to improve living conditions, special welfare of their staff and raise in their salaries.

60. To democratize society, a more complete observation of citizens' rights and ensuring compliance with international standards, a decision has been taken to transfer the penitentiary system from the Ministry of Interior to the Ministry of Justice. Measures are planned to further improve the penitentiary system.

61. The bar will be strengthened significantly. At the same time, the standards set by the Law on Advocacy, shall be complied with in full. It is planned to develop and implement a mechanism of labor compensation for attorneys for the assistance provided by them to poor citizens, to establish a system of training and refresher courses for advocates, to promote the development of principles of self-governance in the bar.

4. Reforming Central and Local Public Administration

62. Reform of public administration in the Republic is one of the most important elements of economic reform. In recent years, direct measures have been taken to fundamentally reorganize and improve all levels

of government. The major directions of the measures taken have been to bring the structure, forms and contents of work in the public sector into compliance with new political, economic and social relationships required for building an independent democratic lawful state with an open economy. Reforming the system of public administration has been conducted in accordance with the Decrees of the President of the Kyrgyz Republic On Reorganization of Central Public Administration Bodies and On Measures on Further Improvement of State Administration Structures of the Kyrgyz Republic.

In order to increase the effectiveness of public administration by eliminating overlapping and duplicated activities, reallocation of certain functions and authorities, 11 public administration bodies, including ministries, state committees, agencies and commissions, have been abolished, representing 30 percent of their total number. The maximum number of deputy managers of central and regional bodies has been determined. As a result, the number of deputy heads of public administrative bodies has been reduced by 41 percent, deputy heads of oblast state administrations by 56 percent, those of rayon state administrations by 7 percent. The minimum number of administrative structures (departments, units, sectors of oblast, rayon and city territorial structures) has been established. This has enabled their amalgamation, decrease overlapping and duplication of activities, and reduced the number of middle level managers. As a result, 70 departments and 157 units have been reduced. In the Ministry of Finance alone, 37 units been abolished that contained 3 or 4 employees in each. Last year, the total number of employees of state administration bodies was reduced by 1,754 persons, or by 6.4 percent.

63. With the support of international organizations, a functional review of central government instrumentalities is being carried out in order to conduct an effective and justified reform of public administration bodies. The DFID have provided financial assistance to carry out functional and organizational reviews to implement the established objectives. The EU, IMF, World Bank, UNDP, TACIS and other donors also provide their assistance. Experts' advisory groups with participation of national and international consultants have been established.

64. An important component remaining in the reform of public administrative bodies is improvement of their regulatory and licensing functions. These functions should be as transparent as possible, taking full account of the interests of the individual, society and the State. Notwithstanding all efforts and measures taken on streamlining regulatory documents, in some cases regulatory, licensing and controlling functions remain excessive, contradictory, and difficult to control. This has the effect of preserving bureaucracy, corruption and embezzlement in public administrative bodies, undermining the confidence of the population in the reforms being conducted. Studies, reports and public opinion polls prepared by national and international organizations, in particular, UNDP, World Bank, European Bank for Reconstruction and Development, reflect the respondents' opinion about a high level of corruption, bureaucracy and bribe taking in establishments carrying out controlling and regulatory functions.

65. Certain work is being conducted to ensure transparency and openness of decisions made and development and implementation of measures of social and economic policy. Use of information technologies for management is being broadened, with a gradual transfer of activities to the principles of "electronic government". There are more than five thousand computers used within the system of public administration, of which about one thousand are connected to the Government Computer Network. Several centers of public access to this network have been established in the regions. In total, there are about 100 thousand users of the Internet in Kyrgyzstan.

Establishment of interdepartmental experts groups and commissions with participation of representatives of non-governmental organizations is being widely used for development of national, regional and sectoral programs, as well as of draft laws connected with reforms. Similar work is being conducted within the framework of various advisory and steering councils established under the President, Prime Minister, Government of the Kyrgyz Republic, other central public administration bodies, where representatives of all branches of government and civil society participate. Regular meetings are held between the heads of the Government and other central bodies with representatives of the public and non-governmental organizations, where information is exchanged and specific issues are discussed on stabilization and development. All measures undertaken by public administrative bodies are widely covered in the mass media.

66. At the same time, the Government has failed to resolve completely issues related to implementation of the public administration reform. Not all of the undertaken measures have been conducted in an organized manner and they have not always been effective. In a number of ministries, the reduction in the number of staff has been only nominal. Executive discipline of central public administrative bodies is not yet strong enough, so that decisions are delayed with the resulting loss of acuteness of the problems being dealt with and a diminution of the authorities' prestige.

67. There are still unresolved issues in relation to the public administrative bodies:
- Work by public administrative bodies on analysis and forecasting of the situation in the social sector, development of the economy and its sectors, as well as regions, is of a low quality.
 - A comprehensive program-based approach is weakly applied when conducting sectoral and regional reforms, and when developing and implementing defensive measures for the prevention of crises connected with possible fluctuations in international market conditions, or in response to strictly protectionist measures taken by adjacent countries.
 - Personnel potential of public administrative bodies remains low, which significantly reduces the efficiency and effectiveness of work of ministries and departments as well as of local government administrations.
 - The discipline exercised by executive authorities is not adequate, so that many decisions taken are not properly implemented, and the quality of their implementation is low.
 - Public administrative bodies have failed to restructure the principles on which they work in line with the new political and economic situation. They have not become equal partners with non-government organizations.
 - Interference of executive bodies in the economy is not always lawful and decreases the level of business activities of entrepreneurs.
 - A flexible, compact management system has not yet been established. Expenses for administration, including for the maintenance of public administrative bodies, remain significantly high.
 - The level of salaries of civil servants is insufficient to stimulate the staff of public administrative bodies to carry out their work effectively. The issue of state guarantees has not been resolved completely.
 - The level of transparency and accountability remains low. Not all decisions of public administrative bodies are informed to the community. Executive authorities do not always report on their activities to the community and many of the reports are formal in nature. The coverage of work of executive authorities in the mass media is of a low quality. This does not engender confidence of the population in the authorities.
68. A major objective of reforming public administrative bodies is a significant increase in the quality and effectiveness of their work. This is to be achieved on the basis of new technologies and methods of public administration, ensuring preventative political measures and attainment of the established objectives on poverty reduction, sustainable economic growth and social development, strengthening of transparency and accountability of central and local bodies to the society, and strengthening the confidence of the community in the executive authorities.

The priorities in this area are to be the following:

- Clarification of the role, functions and obligations of executive authorities at all levels and interrelations among them.
 - Continuation of work on optimization of the system and structure of the central, oblast and local authorities, establishing the criteria of responsibility for the results and ensuring effective management, compliance with the requirements on democratization, openness and accountability.
 - Reallocation of functions of state regulation among executive levels and bodies with a simultaneous transfer of a part of regulatory functions to the private sector.
 - Ensuring continuous analysis and forecasting of the situation in the social sector, development of economy and its branches, as well as regions, on the basis of a comprehensive program approach to implementation of sectoral and regional reforms, on development, adoption and implementation of preventive measures to prevent crises.
 - Direct fighting against corruption and bureaucracy at all levels.
 - Capacity building of the staff, creation of an effective system of labor payment and stimulation.
69. Public administration reforms shall provide for the establishment of effective mechanisms:
- Timely preparation and effective implementation of policy measures aimed at ensuring sustainable human and economic development, poverty reduction.
 - Prevention, identification and elimination of the circumstances leading to corruption and embezzlements in the civil service.
 - Accountability and openness of the civil service to civil society, including the use of modern technologies in activities of state bodies and the civil service.
 - De-bureaucratization of relations among government bodies, civil servants and citizens, structures of the civil society.

5. Decentralization and Local Self-Government

70. Since declaring its commitment to democratic principles, Kyrgyzstan has been consistently empowering institutions of civil society that are capable of implementing certain state functions with greater efficiency than can government agencies and structures. Decentralization of public administration has been implemented in two main areas:

- the economy (privatization, development of private property, promotion of corporate governance, formation of independent economic entities and so forth); and
- administration of regional and local government that implies balanced local development through formation of the system of local government.

71. Radical institutional adjustments have ensured an overall successful decentralization in the economic sector. At present, over 85 percent of GDP is produced in the private sector, compared with 25.8 percent in 1991.

72. Decentralization of public administration, one of the most important areas of administrative reforms, has helped to develop a truly democratic institution, local government units elected and managed at the local sub-rayon level, called in Kyrgyzstan, "local self-government (LSG).

In 2001, all localities of the Republic adopted principles of LSG. There are now 487 village governments, city administrations and councils, and the same number of local councils throughout the Republic. The core of LSGs is to be found in the local councils (keneshes) that coordinate activities of public administrations, territorial self-government and private structures. A total of 8,184 deputies of various levels were elected throughout the country. The Law on Local Councils and other LSG bodies has significantly raised their role in the conduct of democratic government administration.

73. LSG has become an important aspect of the development of civil society and an important part of public administration. LSG bodies provide sizeable support to state agencies in stabilization of local political and social situations, resolution of social and economic issues, and reduction of poverty. These positive developments are largely the result of implementation of the LSG Development Concept for 1999-2001 and Programs of State Support to LSGs. International agencies, UNDP, World Bank, ADB, USAID, Soros Foundation and others have also rendered invaluable assistance with promotion of LSGs.

The new state laws on LSG and Law on Communal Property adopted in 2002 gave additional impetus to development. These laws more accurately define the scope of competence of LSG agencies and set preconditions for further decentralization of public administration.

An important progressive step towards greater transparency of LSGs was the new practice of public hearings on development and implementation of local budgets.

74. Along with their growing capacity and responsibilities, LSG agencies are gaining more rights and authorities, and are even assigned some formerly national functions.

75. LSG agencies have gained more power in budgeting and collection of taxes. Legislation has established the basic approaches to local budgeting, revenue and expenditures, and outlined rights of LSG agencies in economic and financial activities. The main sources of revenue of LSG bodies are taxes on land and property, rental payments and other earnings. However, the minimum budget of local communities is fixed through the system of transfers, specific grants to finance national services on the local level and equalization grants to level regional differences. The end of restrictions on purchase and sale of land was a step toward democratization of land tax. District councils are now allowed to vary the size of the land tax within 30 percent of the base rate. Besides, local councils have received the right to lease out land held by the Land Redistribution Fund at their discretion.

Box 2. Additional functions of village governments in the Kyrgyz Republic

Rural councils are now responsible for the following functions and authorities previously performed by the Ministry of Labor and Social Protection:

- establishing the social identity of each family and compiling poverty maps;
- identifying the needs of the local community for targeted social protection;
- studying the living conditions of the poor eligible for targeted social assistance;
- collection of applications for receipt of state benefits; and
- preparing lists of indigent residents eligible for humanitarian aid and control over its distribution

76. In accordance with the Constitution of the Kyrgyz Republic, local communities possess communal property in the form of land and other facilities. To strengthen the economic foundation of local communities the Government has transferred over 9,300 social facilities for the total amount of nearly 8 billion soms for communal property. Transfer of land from the Land Redistribution Fund has also contributed to financial and economic stability of LSGs. State registration of communal facilities has enhanced property rights in towns and villages. The Law on Communal Property has introduced order into the transfer and use of communal facilities.

77. Social mobilization and cooperation on the level of local communities has experienced significant growth in recent years. Social mobilization at the community level supported by rural councils has stimulated development of self-help units and initiatives, encouraged rational use of available resources, and concerted elimination of local problems. The most important decisions related to development of local communities are made at rural meetings and conventions. Social mobilization has played an invaluable role in implementation of many local development projects, such as construction and renovation of schools, bath houses, water systems, roads, bridges, etc. This, in turn, has contributed to formation of local social capital. The Decentralization Program implemented by the United Nations Development Program (UNDP) has played a significant role in promoting social mobilization on the community level. In towns self-organization has led to the formation of condominiums by property owners. Other forms of self-government and self-organizations have also appeared in Kyrgyzstan.

78. In the year 2000, a new post of Minister of Local Self-Government and Development was introduced in the Government. Congress of Local Communities, an Association of Villages and an Association of Towns have been established and functioning. Together they make a sizeable input into development of the decentralization policy, protection of the interests of the towns and villages, capacity building in LSG, and monitoring and evaluation of development of LSG.

79. At the same time, there are number of problems that constrain decentralization of public administration and development of LSG. These include:

- *Weak legal framework.* The existing legal documents do not fully provide the conditions for optimal decentralization of public administration. Effective management on the level of local authorities is yet to be developed. There are gaps in legislation in regard to municipal services and development of social mobilization.
- *Insufficient state support to LSG, limited decentralization of power.* The functions and authorities, as well as responsibilities between the bodies of state government and LSG are not clearly delineated. Mechanisms for the transfer of power and responsibility need to be refined.
- *Ineffective financial budget regulation.* Finances and local budget are still centralized and significantly constrained. Legal framework and other mechanisms of economic and financial decentralization are still limited. Transfer of appropriate financial resources does not accompany transfer of authority and functions.
- *Inadequate professional level of municipal employees.* The Law on Municipal Service is to be developed. There is a need in the system for training, retraining, and qualification upgrading of municipal employees, their motivation and social protection. There is a lack of informational, technical, and methodological support to LSG staff.
- *Limited scope for social mobilization and development of human potential in the new conditions.* Multiple resources need to be used to further various forms of social mobilization. People must actively participate in decision-making in local communities.
- *Weak partnership and interaction of government agencies with LSG and the private sector.* There is a need for effective mechanisms for constructive cooperation, methodological recommendations for effective interaction system, supervision by local communities; community organizations still lack the skills and knowledge necessary for adequate partnership with the local authorities.
- *Ineffective management of communal property.* There are still problems with property rights and privatization mechanisms.

- *Insufficient scientific, methodological and informational support to LSG.* There is a need in development of a scientific framework for decentralization and development of LSG that would take into account international experience, historic and geographic conditions, modern status and the national statehood. The system of informational support in methods and advanced experience of managing budget, communal property, municipal farms, social and economic development of territories has not yet formed. Little attention is paid to informational and political support of LSGs in explaining to the population their constitutional foundation, the state policy, achievements and problems.

80. The decentralization of public administration will be actively continued with consideration of the issues and positive experience. The main objective of the forthcoming work is optimization of decentralization processes and development of the LSG; creation of effective management mechanisms on the level of local communities

81. Policy for decentralization of public administration and development of LSGs will be oriented at the following main priorities:

- formation of harmonious legislation on LSGs and decentralization;
- continuation of political and administrative reforms in decentralization and state support of LSGs;
- economic and financial decentralization, program-based development of local communities;
- improving effectiveness of property management on community level;
- developing municipal services and enhancing human potential of structures, their scientific, methodological and informational support;
- increasing openness and accountability of agencies, building civil society partnership; and
- human development and enhancement of social mobilization in local communities.

82. The following tasks will be addressed in the process of developing LSGs.

Harmonization of legislation on decentralization and LSGs implies:

- the possibility of independent legal regulation of organizational, financial, and economic activity in LSG within their competence;
- addressing contradictions and incompleteness of legislation on LSGs;
- development of accountability mechanisms for inadequate implementation of legislation on self-government, and legal documents of LSG agencies.
- Delineation of functions, authorities, and responsibilities among government agencies and LSGs implies:
- clear separation of authorities and responsibilities among government agencies and LSGs on various self-government issues, including health, education, culture, social protection, order, ecological security, private enterprise and other;
- elaboration of principles and order of delegating authorities and transferring managerial functions of ministries and administrative departments to agencies, and devising control mechanism over their implementation;
- continuing improvement of government structures implementing state policy on development of LSGs;
- transition from administrative management to normative regulation with the use of economic and political management tools and separation of authorities among all levels of power;
- formation of a sustainable cooperation system, including wide use of agreement procedures in addressing issues that arise in the process of interaction among republican government agencies, regional government agencies, and LSGs.

Continuing economic and financial decentralization and transfer program development of LSGs envisages:

- budget and tax regulations that would allow to form balanced program-based minimal local budgets, create conditions for optimization of the taxable base of local agencies;
- bringing the level of local budget revenues to the level that will guarantee financial independence of LSGs and provide a ground for medium- and long-term social and economic forecasting and planning in municipal entities;
- development and introduction of minimum state social standards, as well as normative minimum budget security;
- development and introduction of inter-budgetary relations to stimulate socio-economic development of municipalities;
- ensuring minimum level of local budget revenues to cover the expenditures of local communities necessary for execution of transferred authorities and implementation of minimum state social standards;
- elaboration and adoption of the Law on Financial Economic Foundation of LSG agencies; and

- co-financing and attraction of alternative financial resources for local development.

Improving management of communal property provisions:

- adequate maintenance of basic social and technical infrastructure, stimulation of economic activity;
- improved accounting of property, legal enforcement of property rights;
- competitive procedures for provision of management rights and direct agreements with the communal property users;
- optimization of communal property by 1) transfer of facilities not related to fulfillment of LSG functions and 2) receipt into municipal ownership or management state facilities necessary for fulfillment of LSG powers.

Development of municipal service and enhancement of human potential of LSGs; provision of scientific, methodological and informational support envisages:

- raising the status of employees, measures on their legal and social protection, promotion; competitive filling of vacancies;
- amendment of the state educational standard on requirements to the courses on Public and Municipal Management to bring them into concordance with new tasks and functions of municipal employees;
- completing formation of the state system for training, retraining, and qualification upgrading of municipal employees, as well as the staff for LSGs; qualification upgrading of elected officials, training candidates and participants of election campaigns in election procedures;
- introduction of the system for scientific and methodological support to LSG; development and introduction of innovative technologies of managing economic, social, and political development on local level; municipal property; budgeting; and comprehensive development of territories;
- creation of the state information system, including establishment of public Internet-access centers and introduction of information technologies into municipal management;
- dissemination of advanced experience; explaining to people the constitutional framework of LSG; disseminating information on progress and problems in LSG;
- studies on various issues of decentralization and development of LSGs, formation of scientific and methodological ground for reforms.

Increasing openness and accountability of LSGs, promotion of their partnership with the civil society envisages:

- the practice of open public hearings in local communities, public accountability of officials;
- simple and clear operation regulations and procedures;
- legal and organizational framework for interaction with the population to ensure people's participation in LSG;
- open public access to the information on activities: decisions, progress reports, condition of communal property and financial status.
- Human development and enhancement of social mobilization in local communities provisions:
- partnership with community organizations, local , and businesses;
- capacity building of community organizations, local , business associations to ensure their active participation in elaboration and implementation of local policy, social mobilization;
- joint elaboration and implementation of projects by LSG agencies, nongovernmental organizations, and businesses;
- training and dissemination of best practice of social mobilization and partnership.

83. Specific actions on implementation of the provisioned policy measures will be reflected in the National Strategy for Further Decentralization and Development of LSG in the Kyrgyz Republic (2002-2010), which is currently being developed.

6. Reforming State Financial Management

84. To ensure sufficient and timely financial support for social and economic transformation in the country, and functioning of the financial system as a whole in a transparent, controlled and accountable manner, there is a need for its drastic and comprehensive reform in the following areas:

- Reforming state financial management in strict compliance with transformation of the overall system of public administration to implement the mission of the National Poverty Reduction Strategy.
- Ensuring financing for priority areas of development based on transfer to financing of only national, sector and regional development programs. It is necessary to stimulate the transfer of ministries and departments, oblast administrations and other governmental structures to a form of program budgeting.

- Broadening the powers of ministries, departments and regions in managing state funds and simultaneously strengthening responsibility for and control of their expenditure.
- Securing predictable inflow and expenditure of funds through formation of the budget on a medium-term financial basis, using projections of the country's macroeconomic indicators.
- Ensuring transparent, accountable and timely expenditure of funds allocated by the budget. Transfer of cash to a real time mode, using information and communication technologies will be secured. For this purpose it is intended to update and strengthen the Treasury system.
- Achieving effective financial expenditures at any level of public administration through transfer of all state accounts to the Treasury system.

85. Successful development of the major principles of the budgetary process reform will be implemented based on the example set by the Ministry of Finance as the chief financial body in the country. This should serve as a model for conducting reforms in other ministries and departments. The main purpose of reforming the Ministry of Finance is to assist in building an effective system of state financial management by streamlining the functions of all its subdivisions. Financial system reform will be accompanied by reforming the structure of the Ministry of Finance. This will ensure synergy in the mechanisms of structural and financial transformations. Besides, the costs for a transfer to up-to-date practices of financial management will be reduced.

To ensure improvement of tax collection and coordination of revenue collecting activities of various departments, the State Customs Committee, State Tax Inspection, Financial Police, and Social Fund's departments dealing with social insurance fees have been united into a single state revenue agency under the Ministry of Finance.

86. To improve coordination between different ministries and departments, and to increase their responsibility for the expenditure plans, budgeting will be gradually transferred to a program basis and a relevant classification through the Medium Term Budgeting Framework (MTBF) for 2003-2005.

Starting in 2003, the Ministry of Finance will start establishing "program budgeting" procedures in the sectors and regions. Thus, branch and regional expenditures will be linked with the budgetary process through scheduled volumes of expenditures allocated for implementation of relevant programs.

87. It is intended to introduce the practice of concluding resource agreements between the Ministry of Finance and budget-funded instrumentalities. This approach will be a flexible instrument of resource management that gives broad opportunities to the ministries, departments and regions in implementing government policy within existing financial capacity. It is intended to conduct a more in-depth and complete functional review of budget funded instrumentalities and develop recommendations for reforming their structure and activity.

88. Medium term macroeconomic forecast that takes into account the priorities of the Republic's development within the framework of the NPRS will serve as a mandatory basis to reinforce the projected plans through the budget. Issues that are raised in the development policy of the country, its regions, sectors of economy will be brought to the forefront. Within the framework of this approach, the budget will become an effective instrument of implementation of planned prioritized activities, foremost among which will be those targeted at poverty reduction.

89. The processes of project planning and prioritization will be reinforced and improved in order to reduce the overall cost of external borrowings under the Government's guarantee. Timely co-financing of all projects will be ensured.

90. The existing legal base that regulates the activity of the Treasury system meets, on the whole, its contemporary objectives. However, the low level of technical equipment and lack of a computerized information system is hindering further development of the Treasury in accordance with international standards. Treasury transactions and procedures are only partially computerized, and in the remote areas all the functions are performed manually.

91. Reforming of the Treasury system will include full computerization not only of the Central Office, but also its regional divisions. It is planned that technical equipment upgrading and the development of the payment system will be implemented within three years. This assumes a gradual transfer to the modern classification system for government finance. It is intended to improve budgetary classification and accounting of expenditures. It is necessary to improve the Treasury's chart of accounts, and correspondingly develop a uniform system of codification. It is planned to strengthen internal control over proper execution of

treasury transactions, accounting and reporting of completed payments, and projections of cash flows. It is necessary to transfer the Treasury's reporting system to international standards.

92. To intensify participation of the Treasury in the process of transparent and effective budget execution at all levels, it will be assigned the status of a legal entity within the structure of the Ministry of Finance. The Treasury system shall ensure timely and quality management of budgetary resources and strict control over their spending.

93. To improve the efficiency of information exchange, an information network will be created with the support from the international donors (ADB, Switzerland and others).

94. Within the framework of finance and budgetary decentralization it is planned to strengthen the powers of state local administrations and aiyi okmotu on revenue collection and expenditure. To reinforce budgets at the lower levels, it is planned to revise the norms of deductions on regulated types of taxes. As well, it is planned to transfer the regional financial bodies of the Ministry to the jurisdiction of the state local administrations.

7. Creating an Effective Civil Service

95. A serious effort has been made in recent years to improve the civil service of the Republic as an important component of administrative reform. Assistance in civil service reform is being provided by the TACIS, UNDP, ADB, World Bank and other international organizations.

96. On the whole, the legal basis for the reforms has been established. In 1999, the Law on Civil Service was adopted, establishing the structure of the civil service and the legal status of civil servants. The following documents have been approved:

- The Register of Civil Service Positions aimed at improving effectiveness of state personnel policy, ensuring uniform qualification requirements for civil servants. According to this, the number of senior positions has been decreased, which provided the opportunity to decrease an excessive bureaucratic superstructure, as well as to reduce the number of "political appointees".
- The regulations on the attestation of civil servants, competition for filling in vacancies of government posts and qualifications exams.
- The regulations on the procedure for formation and functioning of the civil service staff reserve, on promotion of civil servants, as well as on the procedure for awarding civil service grades.
- As a result of implementation of these decisions, the competitive system for filling civil service vacancies and their attestation has become mandatory. Announcements about the competition on filling vacancies are published in central mass media and on the Internet.

97. An improved system of salaries paid to civil servants has been introduced. Motivation for career promotion has been increased through linking salaries and the level of responsibility, the link to the minimum salary has been eliminated and salaries have become differentiated depending on the status of the government body. Supplementary payments have been introduced. At the end of 2000, the minimum staffing norms of civil servants in management structures, formal structure of government posts, maximum number of deputy heads of government bodies and local government administrations have been approved. These measures have promoted further optimization of the operations of government bodies.

98. Issues of a moral and ethnical nature are the most important for improvement of the civil service. In the beginning of 2001, the Decree of the President of the Kyrgyz Republic, On the Principles of Ethics of the Civil Servants of the Kyrgyz Republic, was signed. Ethics Commissions have been established in all government bodies, the Code of Ethics of Civil Servants has been adopted. Commissions on Ethics carry out preventive work, as well as official investigations of the facts of violation of professional ethical standards of managers and civil servants. To increase the accountability of local authorities for observance of ethical standards, as well as for the purpose of coordination of this work, oblast, city and rayon commissions on ethics of civil and municipal servants have been established. They include representatives of local administrations, LSGs, non-government organizations and the public.

99. Civil servants have begun using broader information and communication technologies in their activities. A unified Internet website of the civil service of the Kyrgyz Republic has been put in place. Centers for public access to the State Information Network has been established in the regions, which creates conditions for greater openness of the civil service, direct contacts with the public and feedback. Civil servants, including top-level officials, are provided with training in the new information technologies. At the same time, the use of new information management technologies in management is still inefficient. "Paper

technology" still remains to be the major one for many public administration bodies. With the reduced number of personnel, this results in reduction of effectiveness of civil servants.

100. Nevertheless, it is becoming more obvious, that the whole system of the civil service requires deeper reforms. Legislation still does not make a clear differentiation between civil servants and politically appointed officials, which impedes conducting an effective policy of social protection of career civil servants, allows for their unjustified dismissals and appearance of frequently changed political appointees. A not sufficiently high professional level of the staff of the civil services is demonstrated by a low efficiency of their work - many of them are not competent enough, inert, slowly adapt to rapidly changing conditions and needs of the society. The potential for analytical work by civil servants remains low, including the analysis of consequences and results of decisions making at the level of central public administrative bodies. Their knowledge and skills in the area of forecasting economic, social and political processes are extremely inadequate. These problems are more typical for civil servants working in local administrations and at the level of local communities.

An effective mechanism for screening unskilled and unqualified workers has not yet been formed in the system of public administration. Reduction in the number of civil servants in administrative organs results in aggravation of the problems of personnel recruitment and retaining. At the same time, the civil service still maintains a significant number of employees who demonstrate their inability and lack of readiness to work under new market conditions. The management of government bodies does not always adequately support implementation of the system of competitive selection of civil servants; the competitions are often held only nominally. All this results in deterioration of the internal capacity of public administration bodies, and low-quality execution of the tasks assigned to them.

The number of young people with contemporary education employed in the civil services, especially in local administrations, is still small.

There is a gender misbalance due to inadequate representation of women in various posts of the civil service.

101. The system of training and qualification upgrading of civil servants has not been well established. At present not all civil servants have the opportunity for professional development, as a majority of government bodies do not allocate financial resources for training and re-training of their staff.

102. Government bodies continue to preserve bureaucratic methods when resolving the pressing problems of citizens, resulting in deterioration of the quality of public services provided to the population, and persistent corruptive nature of some government officials. The existing procedures for direct payment for licenses, penalties and execution of other regulatory functions, promote corruption among civil servants. This has an especially negative impact on development of the private sector and improvement of the investment climate. Arbitrariness of officials, their negligence when carrying out their official duties, form a negative image of the civil service, and create an atmosphere of mistrust in the effectiveness of reforms.

Existing capacities, in particular, improvement of the regulatory and legal framework and support from the public and mass media are not fully used when fighting against corruption. Anti-corruption activities are weakly coordinated, as there is no body independent of the executive authorities dealing with the issues of corruption. A majority of embezzlements committed by civil servants are connected in particular with the fact that the size of their salaries is significantly lower than that of the competitive level in the private sector. Notwithstanding some increase in the salaries of civil servants and their differentiation, they remain low compared with salaries in the private sector.

103. The institutional base for conducting personnel management policy is weak, which is the reason for insufficient coordination of development of the civil services at the central and local levels. A comprehensive, nation-wide system of personnel management has not been established yet. There are no effective schemes of training and re-training of specialists, or a fair procedure of selection and their carrier promotion and guaranteed social protection. A uniform databank on the personnel and human resources of the country has not been established yet. Personnel units of government bodies mainly execute passive functions of record keeping.

104. The major goal of reforming the civil service is establishment of an open, professional, accountable body of public servants effectively executing functions of the State for the benefit of its citizens.

105. Key priorities for development of the civil service are the following:

- strengthen the institutional base of the civil service;
- improve public confidence in the state machinery;

- ensure attraction of professional staff to the civil service;
- improve the level of protection and prestige of civil servants;
- orient the civil service to service provision and upgrade the quality of services;
- introduce preventative anti-corruption measures; and
- strengthen executive discipline of civil servants.

106. A new concept of personnel policy will be developed and adopted that will serve as a basis for a civil service structure that envisages:

- Establishment of an effective system of continuous training, re-training and upgrading qualification of civil servants, including organization of permanent training courses on modern methods of management, development of leadership qualities, techniques of public dialogue and conflict resolution, use of ICT capacities. Assistance of international organizations, in particular, TACIS, UNDP, World Bank will be used for this purpose.
- Development and implementation of mechanisms of financial support for all areas of the civil service reform, including professional training and qualification upgrading.
- Inventory taking of regulatory and legal instruments on conditions of labor compensation, identification of outdated provisions, preparation of necessary draft laws and reforming the salary system for civil servants that includes the introduction of the system of competitive recruitment and promotion of civil servants. A possibility of a transfer from the standard system of labor compensation to a contract based one will be considered.
- Implementation of measures aimed at improvement of the level of partnership and confidence of the community in the state machinery and civil servants, increase of the prestige of the civil service.
- Consideration of the issue on feasibility of establishment of a government structure responsible for the management of human resources of the civil service, coordination of efforts on development of the civil service system in the country. It is planned to restructure the personnel units of government structures into personnel management services, making them responsible for forecasting and planning of the needs for personnel, organization of work on assessment and formation of the reserve, training, attestation, professional carrier planning, rational use of the staff.

107. Salaries of the staff of public administration bodies will be increased in parallel with the rationalization of the structure of government bodies. Budgetary funds, released as result of abolition of duplicating and ineffective government bodies, as well as reduction in the number of civil servants, will be used to increase salaries to civil servants and arrange for the process of their re-training.

108. Quotas will be introduced to attract young personnel to the civil service on the basis of open and transparent competition. National competitions for recruitment to the civil service will be held for university graduates and youth.

Conditions will be created to provide for growth of women's employment in the civil services.

109. Regulatory and legal instruments will be improved, developed and adopted to ensure a clear differentiation between political and administrative posts, improve personnel management practices, openness and accountability of civil servants to the society. It is planned to develop and adopt the Law on Administrative Procedures. In order to ensure stability of a professional civil service and protect civil servants from administrative arbitrariness, the procedure of appeal against subjective personnel decisions will be improved.

110. It is intended to conduct purposeful and active work on fighting against corruption among civil servants. For this purpose, a broad anti-corruption coalition will be established with participation of NGOs, entrepreneurial circles and mass media. The work of commissions on observance of ethical standards by the staff of government bodies and LSGs will be intensified. These committees will conduct meetings with participation of representatives from the public. ICT capacities will be used actively to reduce bureaucracy and increase transparency of the processes of adoption and implementation of management decisions at all levels of public administration, including with the use of new information technologies. This will provide the possibility for strengthen two-way communication between public administrative bodies and the community, introduce public control over activities of the government machinery, will stimulate business initiatives of the private sector and the civil society, and reduction of poverty in the country.

111. Comprehensive reforming of the civil service will be carried out with the support of the World Bank within the framework of the projects GSAC/GTAC.

8. Electronic Government

112. Changes in external and internal influences on the formation of national prosperity, replacement of state by private ownership, active development of the private sector and dynamic growth of LSGs, all require the State to adopt new principles on which to guide the formation of the nation's social character; develop its infrastructure and reform its economic, and political systems.

113. The inadequacy of the State's role in the present conditions, the mingling of political and economic administration, a lack of modern administrative infrastructure, discord amongst central, sectoral and regional administrations, the shortage of administrative personnel, and the low professionalisms of personnel even in line ministries, are among the main problems in the public administration system.

114. The aspiration for fundamental democratization of society has been accompanied by an imbalance in the system of public administration. Ministries and departments continue to cling to old thinking, making state documents ineffective or, at times, negative in the process of poverty reduction.

115. The low quality of public administration is a cause of:

- hindrances to vital reforms;
- irrational use of available resources;
- unnecessary economic losses due to social and political destabilization in the society;
- irrational decision making and inadequate implementation of state policy measures; and
- imbalance between the country's demand for professionals and the supply of professionals by the educational system.

116. Violation of social equity principles, caused by uneven distribution of the national wealth and worsening corruption, lead to greater social stratification of society.

117. Inadequate systems of feedback between government bodies and society reduce the efficiency of the State's responses to the needs of the people.

118. Lack of an effective monitoring and evaluation system prevents adequate control over the progress of plans.

119. The new principles to be used in the public administration reform under the NPRS include:

- separation and transparency of economic and political governance in the country;
- highest quality of public administration at minimal cost;
- clarity and relevance of work in the new management environment for professional managers and the population at large;
- high adaptability to external and internal changes;
- maximum elimination of subjectivity in making and implementing decisions at all levels of public administration;
- involvement of socially active groups of population in the process of country management;
- effective feedback among the participants of the administration process; and
- open access to political and economic information for the population.

120. It is important to move from management characterized by excessive state regulation to quality management that encourages development. This requires flexibility and readiness of all participants in the NPRS process to reforms.

121. Modernization of public administration will be promoted through the requirement of greater impact and efficiency. A system for control and calculation of outcomes and costs will be created and introduced in all government bodies.

122. The State will ensure greater transparency of management in order to ensure greater involvement of the community in resolution of general issues. To this end, public administration will gradually start to provide services using information technology and principles of electronic government.

123. Process and project management technologies will be introduced. The medium-term development plan envisages development of the new basic management infrastructure based on modern telecommunication technologies. New managerial staff will be trained and the system of electronic interaction amongst the participants in the country management process will be introduced. It is intended to create a national information network that will reflect the situation with main tasks and objectives, the

country's resource base, the situation in the regions and sectors, and related conditions in various areas of human activity.

124. The following steps will be taken to reform the public sector system of governance by using new information technologies and process-oriented methods under the CDF/NPRS process:

- Systemic analysis of public administration. This phase will describe the current architecture of the governance system. It will cover all state agencies and will start with identifying the modern role of the State. The activities carried out simultaneously in all state agencies will be monitored by the Administration of the President of Kyrgyz Republic. The process will make use of the functional analysis carried out by UNDP and TACIS experts in several ministries. The analysis should identify the actual role each state agency has in the system of public administration. The analysis will identify actual business processes, fixed information and documentation flows and other relevant information. This will help to see the gaps between the mission, role, and means of achieving tasks in each studied organization and actual interaction of state agencies among themselves and with other participants of the public administration process.
- Development of a process-oriented public administration system. This phase will deal with the development of the future architecture of the management system. This will be done in parallel with the systemic analysis of the present system of public administration. It will cover all state agencies and will be carried out by a group of analysts - architects of management systems. This phase will identify the role of the State in managing the country in the present conditions and principles of reforming public administration. The content and structure of a business processes necessary for ensuring achievement of state objectives will be created. The tasks for this phase include developing an organizational structure of public administration, identifying quality standards, etc.
- Development of a transition strategy to move from the current architecture of public administration to the new architecture oriented at implementation of the NPRS mission. Activities of this phase will be carried out by a unified group of analysts engaged in the previous two phases of reforms. The activities will include development of a detailed calendar and resources plans of reforming public administration, preparing training plans and methodological materials, developing documents for selection of human resources, and other materials.
- Implementation of the action plan. The activities of this phase will be carried out jointly by analysts, management of state agencies, and relevant sub-units of these agencies. This work will require active support on the part of leaders of all state agencies. The personnel will be trained in new business processes, information technologies, and collective work in corporate networks, computers skills, and fundamentals of process and project management.
- Development and introduction of the national information network (NIN). Development of information platforms will lay the ground for state marketing activities. To spread the network, an appropriate infrastructure will be built throughout the country ensuring access of the system to the general public.
- Development and introduction of CDF/NPRS monitoring and evaluation system. The activities in this direction have begun in 2001. The system will include a basic package on project management, a package on coordination of donor assistance and a package on collection and processing of primary information necessary for calculation of key performance indicators.
- The system will be mandatory for use in all government agencies, as well as enterprises and projects implementing state assignments. Development of NIN architecture. The architecture will be developed right after the approval of the full structure of the future state governance system. * Development and introduction of sectoral and regional information networks.

125. All activities under public administration reform will require concentration of all available resources. The process will also consolidate efforts under all ongoing and future projects dealing with public administration reforms, strategies/concepts, and information databases of regional and sectoral management. In addition to that, to fully implement the plans on transferring public administration to principles of electronic government, Kyrgyzstan will need grant assistance.

CHAPTER IV. BUILDING A FAIR SOCIETY

1. Targeted Social Protection

126. The system of social protection in the Republic comprises payment of social benefits (a unified monthly benefit and a social benefit), special assistance provided to some categories of citizens, and the provision of social services to needy families and individuals. These activities have brought about several significant changes. The gradual evolution of the social protection system to more targeted forms of assistance has raised the general quality of state benefits. A system of social identity papers (called "social passports") has been established throughout the Republic. At present nearly 500,000 poor families have social passports.

Because of the rise in the energy tariffs, indigent families (except for Bishkek families) receive compensation for the payment of heat, hot water and natural gas charges. In Bishkek, indigent families are entitled to housing subsidies for utilities. In 2002, compensation for electricity charges was also introduced. However, the process of strengthening social protection and making it more focused has also revealed the following issues.

- Ten percent of Kyrgyzstan's population receives state benefits, and 33 percent of families have access to some form of subsidy. This puts an enormous burden on the national budget.
- The funds provided in the budget are disbursed in an incomplete and untimely fashion.
- In spite of the growth in the level of benefits, state support for poor strata of citizens remains inadequate.
- Compilation of the social identity database is difficult due to outdated computer equipment in the responsible agencies.

Given the present situation in the social protection system, the principal aim is to achieve an effective and targeted system of social protection.

Inadequate budget resources hinder further development of the system of social protection. Thus, available resources are mainly directed at stabilizing living standards.

127. The main priorities/objectives for achieving this aim and for stabilizing the situation are:

- fostering the principle of targeted assistance;
- raising the level of social protection; and
- social mobilization.

Targeted assistance will be achieved through the following implementation mechanisms:

- Streamlining the existing system of benefits through the adoption and implementation of a special state benefits law.
- Improving the methodology for identifying citizens who need state support through the adoption of new standards for income from land and livestock.
- Improving social mechanisms for the support of citizens for energy tariff increases through the introduction of compensatory payments for poor families, simplifying procedure of applying for such compensation, and developing a social identity database that will be able to provide an accurate picture of regional poverty.
- The improvement in the level of social protection will be effected through the following mechanisms:
- Gradual increase in the guaranteed minimum consumption level (GMCL). In the long run, its level should reach the cost of the minimum consumer budget. However, this will bring the benefit to a level of only 12 percent of the cost of the minimum consumer budget.
- Upgrading the methodology for calculating minimum social standards will help to ensure better social orientation of the budget and regulation of limited budget resources.
- Timely and full (mainly cash) payment of state social guarantees.

128. Further structural adjustments in state agencies on social protection.

- Social mobilization envisages association and cooperation activities as well as access to:
- support services;
- information services;
- financial resources;
- material resources;
- training.

2. Integration of the Disabled into Society

129. There are currently nearly 114,000 disabled citizens in the Republic. The main causes of the growing number of disabled people include a general decline in living standards, deteriorating ecology, inadequate labor environment, increased traumatism, lack of adequate living conditions and unhealthy life styles. A network of state houses for elderly and handicapped citizens exists in the Republic. Recent measures in this sphere include establishment of Presidential Council on affairs of disabled citizens and approval of the National Program for State Support of the Disabled. The Danish and British organizations, Save the Children Fund, Know-How Fund, Russian-European Foundation, Soros-Kyrgyzstan Foundation, and the Counterpart Consortium have assisted in the establishment of five rehabilitation centers in Bishkek and the Chui region.

130. The main issues in the provision of effective social assistance to the disabled include:

- inadequate realization of measures for social and labor rehabilitation;
- limited access of the disabled to public facilities;
- insufficient provision of vocational training;
- difficulties with employment of the disabled;
- lack of state financial support of enterprises that provide employment for the disabled; and
- inadequate supply of wheel chairs.

131. The following priorities and their implementation mechanisms should be targeted in order to ensure state support of the disabled:

- Social rehabilitation;
- Access of the disabled to vitally important services and facilities.

Mechanisms for rehabilitation of the disabled will include quotas for employment of the disabled by state enterprises and agencies; a system of state procurement of goods produced by enterprises employing the disabled; developing a system for rehabilitation of the disabled, which would include training of labor therapists in socio-medical and professional rehabilitation of the disabled; expanding production and procurement of technical facilities and devices facilitating life of the disabled.

Access of the disabled to services and facilities requires designing buildings and facilities with consideration of the disabled citizens' needs; addressing the issue of public transportation accessible for the disabled; ensuring access of the disabled to the public and cultural life of the country, sports, and education for their comprehensive integration into the society.

The State will continue implementation of the National Program for State Support of Handicapped and the State Program on Protection and Improvement of Labor Conditions for Workers , 2002-2005

3. Poverty Among Children

132. The problem of the poverty among children has much greater adverse consequences for society than does adult poverty. The "New Generation" state program on the rights of the child was developed to address the issues of alarming "social orphanhood", "hidden dropout" rates from schools and a rising number of working children and children without family care.

133. The main issues hindering effective eradication of poverty among children are the following:

- *Inadequate legislation.*

There are certain groups of children who are not covered by existing legislative support. These are neglected children, children living in state institutions and orphanages, graduates of such institutions (including specialized institutions), juvenile delinquents after serving terms of detention and underage convicts on parole. Legal documents are not analyzed from the point of considering children's rights and interests.

- *Absence of a state agency dealing with family and children affairs*

There is an absence of a holistic approach in addressing the issue of poverty among children and child neglect. In part, this function is carried out by the Ministry of Internal Affairs (raids to identify neglected children, sending children to their homes via state distribution centers), the Ministry of Education and Culture (guardianship and custody, school attendance), the Commission on Affairs of the Underaged, and the Ministry of Labor and Social Protection (payment of benefits and social pensions). A post of inspector for the affairs of the underaged has been eliminated. Guardianship agencies have been transferred to the jurisdiction of local self-governments but were not included in the staff.

- *Lack of effective monitoring of children and families from "risk groups"*

Various agencies provide inconsistent data on the number of children from "risk groups". The reported number of neglected children varies from 2,000 to 15,000. Information provided by various agencies on the "hidden dropout" rate of children of school age varies from 10 to 20 times.

- *Absence of a special budget for children*

The unified monthly benefits for indigent families and individuals are allocated without consideration of the number of children in the family. It is hardly possible to carry out preventive measures in families and eliminate child neglect without allocating separate items of budget funding directed at the support and development of children.

134. The main goal in this area of support and development of children is to alleviate poverty among socially vulnerable groups of children. In this connection, the main priority measures will be:

- Ensuring sustainable livelihood of families and support to children;
- Full involvement of families and children in poverty alleviating activities.

135. Stabilization strategy envisages self-support of families and support for particular categories of children outside the families as well as children in families who do not have the opportunity for self-development, including through means of social and family patronage. This is to be done with the help of Family and Children Support Services, guidance and monitoring of families, and through provision of children with accessible (including free) education and health services. Children of problem families (violence, alcoholism, drug addiction) are supervised by social workers and, when deemed necessary, are taken into state custody. In such cases, support (daycare and 24-hour mini kindergartens, provision of food and clothing in schools, targeted humanitarian aid) is directed mainly at the child, rather than the family. According to the Convention on the Rights of the Child, children without families also have the right to a family upbringing. A network of family children's homes and patronage families is provided to address this. In exceptional cases, adolescents may be assigned to boarding-type institutions with compulsory vocational training. Vocational technical schools around the Republic should also be used for this purpose.

The development strategy provides greater involvement of disadvantaged families and children in poverty reduction activities. In this area, the strategy engages peer-to-peer methods, self-support groups, children's organizations, and public organizations. In the long run, this approach helps to raise public responsibility for each child without involvement of state agencies.

4. The Retirement Pension Benefits System

136. Reform of the retirement benefits system aims to alter it from a distribution system through the Social Fund to a retirement benefits system based on the personal savings of each citizen. Some of the important developments in this area include:

- A change in the benefits formula to take into account the length of service, salary rates and retirement benefits premiums paid, as well as the introduction of a registration system of insured employees and employers.
- Establishment of a unified self-managing system for the collection and accumulation of social insurance payments and the assignment, accrual, recalculation and payment of retirement benefits.
- Introduction of new budget planning principles; daily monitoring of the movement of financial resources based on a national electronic database.
- Regular indexing of personal retirement benefits accounts at 75 percent of the actual average national salary.
- Gradual reduction in employers' contributions and increases in the contributions paid by employees. In 2002 compared to 2001, retirement benefits premiums declined by 4 percent.
- The issues that require attention in the medium-term include:
- reduction of the Social Fund's budget to 5.6 percent GDP in 2001 as a result of 4 percent reduction in employers' insurance payments rates;
- reduction in the number of pension fund contributors per pensioner;
- low pension levels that do not fully satisfy the social needs of elderly people;
- arrears in the payment of pensions;
- in-kind payment of pensions;
- amounts accumulated in personal retirement benefits accounts do not in fact accrue and are not invested but are rather used for current financing of pensions;

- the number of pensioners qualifying for long-term retirement benefits amount to 7.2 percent of all pensioners.

137. Hence, further reform of the pension system must focus on ensuring adequate living standards of elderly people, establishment of a financially sustainable pension system, and introduction of the elements of accumulative system.

138. The key priorities of pension reform that will help to secure positive development are:

- strengthening financial sustainability of the Social Fund;
- * gradual increase in the living standards of pensioners;
- improvement of the management in the state social insurance system; and
- preparation for the introduction of an accumulative retirement benefits system

139. The following mechanisms are anticipated in order to achieve the desired stabilization and development priorities:

- Enhance requirement for people engaged in business activities to pay social insurance premiums.
- Allow only cash payment of insurance contributions.
- Introduce a differentiated regressive social insurance contribution scale for all types of payments accrued annually by employers on behalf of employees.
- Develop a pension indexing system.
- Develop mechanism of premiums fees for mandatory medical insurance of pensioners.
- Expand the category of persons eligible for social benefits to include pensioners receiving labor pensions with incomplete insurance records and that are below the level of the social benefit.
- Maintain the ratio of the base pension to the average salary in the Republic at the level of 12 percent and gradually transfer its payment out of the national budget.
- Ensure transparency of the Social Fund's revenues and expenses.
- Develop a system of collecting insurance premiums from rural producers.
- Starting from 2003 gradually increase the level of oldage pensions;
- Develop legal documents to support the development of the state social insurance system.
- Build a legal framework for the introduction of accumulative elements into the pension system and provision of guarantees for securing pension assets in future.

5. The Labor Market and Job Creation

140. For the past several years, the supply of labor has continued to be excessive. Structural adjustment in the economy and recession in many production sectors have resulted in the growth of unemployment. Unemployment growth has reflected the following:

- Workers discharged due to staff redundancies. These have averaged 20,000 over the past three years. Over one third are registered with the employment services.
- Workers voluntarily quitting their jobs. Over 70 percent of this category is looking for work and registered with the employment services. Workers often leave their jobs because of the long periods of enforced vacation due to cessation of production.
- As a result, in the period from 1999 to the first half of 2002, the number of the unemployed registered with employment services increased from 54,700 to 62,700 people. In 2001, the level of registered unemployment was 3.2 percent, 0.3 percentage points higher than in 1999. Analysis of the labor market situation suggests the following:
- The state sector of economy plays an insignificant role in creation of jobs. The real potential for job creation lies with the private sector.
- Unemployment growth continues.

141. In these circumstances, the role of the State is to create the necessary conditions for the development of the private sector and the adoption of social protection measures with respect to unemployed citizens. The active policy measures undertaken in the labor market over the period from 1999 to 2002 helped to bring about positive developments.

- The Law on Promotion of Employment of the Population was passed.
- The number of unemployed participating in paid public works increased 1.4 times. These works have provided an opportunity to identify poor families, reconstruct and rehabilitate irrigation networks and water pipes, and make other improvements.
- Vocational training of the unemployed increased by 128 percent.
- The number of the unemployed recipients of microcredits has increased three fold.
- The number of jobs created, using all sources of financing, grew at over 116 percent.

142. Along with these developments, the following issues have required attention:
- Official unemployment figures do not fully reflect the situation in the labor market; consequently, a serious problem is determining an unemployment indicator that adequately reflects the real situation. The level of general unemployment estimated in accordance with the World Labor Organization (WLO) methodology is currently in the range of 7 to 11 percent.
 - The number of citizens released from enterprises and organizations is on average 30 percent higher than the number of newly employed. More than 40 percent of these unemployed citizens seek assistance from the employment services each year.
 - The Social Fund of the Kyrgyz Republic is in arrears in paying even the insignificant amount of funding set aside under employment policy.
 - Each year, over 34 percent of graduates of various educational institutions (secondary schools, higher educational institutions, special colleges and vocational schools) cannot find employment due to their inexperience and a lack of demand for the skills and training that they have acquired.

143. Given the situation in the labor market and the issues raised, the mission in the labor market has been identified as raising the employment of the population through creation of new jobs. The mission envisages adoption of effective measures in the following priority areas:

- Development of conditions for raising employment.
- Ensuring effectiveness of measures in the labor market, creation of jobs.

144. Condition for raising employment level will be supported through implementation of the following mechanisms:

- Comprehensive analysis of the labor market;
- Establishment of business centers for the unemployed on the basis of idle industrial enterprises;
- Creation of legal framework for organized export of labor resources;
- Development of adequate measures in the area of labor migration
- Optimization of training and education in secondary and higher education with consideration of actual labor market needs;
- Expanding forms and methods of fostering employment.

145. The following mechanisms will be used to stabilize the situation in the labor market and attain priority goals:

- Creation of jobs in priority economic areas;
- Development and improvement of active policy mechanisms in the labor market
- Raising the role of the Tripartite Employment Council in implementation of the employment policy through establishment of regional councils;
- Improvement of human resource management;

6. Reform of Wages and Labor Agreements

146. Economic reforms in the Republic have significantly affected labor relations and the wages system. New sources of income from business activities have emerged in the economy. Wages and salaries, however, remain a principal source of income for the majority of the population.

The Republican Trilateral Commission for the regulation of labor relations, the signing of the General Agreement for 2002-2004, as well as several sectoral and collective agreements, have had a bearing on labor relations in the Republic. The Social Partnership Development Concept has been recently approved. A Draft Law on Social Partnership in the Republic is being developed for the same purpose.

Main problems in the sphere of labor remuneration and labor relations include:

- Sharp differentiation in the labor remuneration level among the various sectors, regions and enterprises. One of the lowest labor remuneration levels is to be found in the social sector (education, science, health), where social sector workers are paid 50 percent of the average wage in the economy.
- Low labor remuneration has decreased real income of the population and expanded poverty.
- Lack of active cooperation between employers' associations and employees in addressing social issues such as the regulation of wage rates due to the imperfections in the legal framework.
- Insufficient involvement of employees in designing and signing of agreements related to labor relations.

147. The following are priority areas in the labor remuneration and labor relations system:

- Development of market-oriented mechanisms of regulating wage and salary levels through improvement of legislation.
- Establishment and implementation of state guarantees in the labor remuneration system through development of appropriate legal documents and elimination of unjustified differentiation in labor remuneration, gradual rise of salaries in the state sector.
- Creation of conditions for effective regulation of labor relations through accelerated development of legal documents regulating labor relations and promotion of the social partnership; * * * *

7. Access to Quality Education

148. The education system has undergone significant transformation on all levels over the past several years. Reflecting a balanced education reform policy, the Republic has been able to maintain stable development of the education system, ensure diversity of educational programs, foster alternative forms and new education technologies, and achieve multi-source financing of the system.

149. Accessibility and quality are the key priorities in the area of education in the Republic. These priorities have always been and remain the center of attention. The following strategic tasks will be addressed under these priorities:

- guarantee accessibility and equal opportunities in access to education at all levels; and
- create effective education quality control mechanisms.

150. At present, the primary and secondary levels of the educational system of the Republic comprise 407 pre-schools with 51,914 children, 2014 schools which cover nearly 1,117,000 students, as well as 400 schools of the new type (gymnasiums, lyceums, experimental schools, etc.), that play the role of catalyst in dissemination of innovative educational methods and promotion of individual-oriented educational processes. There is also a well-developed network of additional education, which covers nearly 76,000 children and adolescents.

151. In the system of higher education, there are presently 43 educational institutions with over 180,000 students. In comparison to the pre-reform period the number of specialties offered by higher educational institutions (HEIs) has doubled to 200. Multi-level educational programs have been introduced. The bachelor program is offered in 16 HEIs, masters programs in 5 HEIs. Conditions have been created to ensure competitiveness of HEIs in the market for educational services. Links have been established and developed with CIS and 28 other countries in the education sphere. Nearly three thousand young people use the opportunity to study abroad offered by the Presidential program, Cadres of the XXI Century, and other international agreements in the education sector. New technologies promoting active forms of education and an orientation to the development of individual students' inclinations and talents are being introduced throughout the sector. Higher and vocational technical education is starting to gradually respond to economic conditions and labor market requirements.

152. The non-state education sector is expanding. Currently, the sector is represented by 31 private secondary schools educating 3,077 students and 14 HEIs offering education to over 12,000 students.

153. A number of serious issues have emerged in the process of economic adjustment in the education sector.

The system of pre-school education has turned out to be the most vulnerable level. Currently, pre-school education covers only 10 percent of children of appropriate age. Such a low level reduces children's preparedness for school and indicates lack of access to pre-school education for the majority of the population. The hope that the requirements at the pre-school level would be covered by the private sector has not been realized. Private pre-school institutions are few, and systematic management has not take root.

Another serious issue of the transition period has been accessibility of secondary education. While the general level of secondary education coverage has remained quite high, the Republic has not been able to ensure that all school-aged children and adolescents have access to secondary education. A number of studies carried out by UNESCO, UNICEF, Save the Children Fund and other agencies indicate that the number of out-of-school children is in fact much higher, because the figure indicated above does not take into account the "hidden dropout" rate (long-term non-attendance of school by children). This is especially characteristic for low-income families that are not able to provide their children with books, school appliances, uniforms, and other educational necessities and to help the child with education by creating a favorable family and school environment.

The decline in the level of education negatively affects the country's development and efforts to reduce poverty. The newly introduced curricula have raised several more issues, namely, the excessive educational load on children, inconsistency between the standards set and the curricula, and the inadequate supply of modern textbooks for the new approaches. The textbooks, training manuals and other teaching materials have not been renewed for a long time. The increased demand for alternative textbooks has not been satisfied. Technical facilities at pre-school and secondary educational institutions have significantly deteriorated.

Market reforms have significantly changed the rural schools that account for over 80 percent of all schools of the Republic. As a result of reforms, rural schools have been made the responsibility of regional authorities. Regional budgets, in many cases, have turned out to be incapable of bearing the load of maintaining educational institutions. Therefore, a share of financing education has been transferred to the families of school children, and this has seriously affected poor families and reduced accessibility of quality education for children from poor families. The growing spread between the rich and the poor have increased the gap in the quality of education between students from rural and urban schools. The inadequate remuneration of teachers and low social prestige of the pedagogical occupation have reduced the supply of teaching staff, which has seriously affected the quality of secondary education in particular.

The problems of quality in higher education require urgent attention. Licensing, accreditations and attestation of HEIs have not been fully instituted. Receipt of higher or secondary vocational education does not guarantee later employment to the graduates. The number of unemployed HEI graduates rises every year. They numbered 15,100 people in the year 2000, increasing 17,900 in 2001. These figures indicate that the educational system is still unresponsive to changes in the labor market. With the adoption of market principles and transition of HEIs to contract forms of financing, there has appeared a possibility that some youth will be excluded from higher education due to the high tuition fees. To address this, new principles of admitting students to higher and secondary special educational institutions, as well as provisions of educational grants are being tested. The problems of aging pedagogical staff and the low innovative potential of working teachers affect quality of education and require attention. Systems of life-long education and qualification upgrading of adults are yet to be developed.

154. Funding of the education sector from the state budget has declined from 6.1 percent GDP in 1991 to 4.2 percent of GDP in 2001. Such a drop in state funding had serious negative implications for the budgets of educational institutions.

155. Management in the education system is built on a functional principle. The reforms have cut down the number of regional subdivisions and altered the responsibilities of the central ministry. The new approaches to education require adjustment of education goals as well as improvement of teaching methods. Unfortunately, inadequate remuneration levels limit the attraction of the educational sector to qualified and progressive professionals, foster high turn over of staff and deficiency of the qualified professional staff. The availability of teacher trainers at all levels of the new approaches to education as well as in information and management technologies is another serious problem in the sector.

Inefficient distribution of allocated state funds creates an environment conducive to corruption. Diversification of educational programs and educational institutions has raised the issue of defining education quality. Continuous monitoring and evaluation of the educational process and relevant adjustment of educational programs are vital needs of the present period. Decentralization of management without effective control on the part of the central ministry has led to the deterioration of education in rural areas. Management communication between the central and regional levels has declined. Weak marketing has led to a supply and demand imbalance in the labor market, and has been an indirect factor in increased unemployment.

156. The goal in the education sector has been identified as maintaining a high educational level in society through improved accessibility and quality of education.

157. Development of mechanisms and ways for successful solution of the problems is the foundation of the education sector reform policy for the period of 2003-2005. Stabilization strategy in the educational sphere is directed at ensuring that the constitutional rights of all citizens to access and equal opportunity in the receipt of quality education on all levels are met and that the educational needs of a developing individual are provided for.

The following measures are envisaged in the education sector in order to strengthen the reform achievements:

- Strengthen the legal framework of education to ensure equal educational opportunities for all categories of the population.

- Restore and develop the network of pre-school institutions by the attracting state, municipal and alternative funds.
- Create equal opportunities for both genders and for children with special needs.
- Improve the system of teacher training and qualification upgrading.
- Improve curricula and educational programs, reduce the educational load on students, develop an educational environment favorable for the child.
- Improve evaluation and quality control mechanisms.
- Ensure financial transparency on all levels of education.
- Elaborate mechanisms for state financial support of students through targeted allocation of grant assistance in the system of higher education.
- Support the rural school infrastructure.
- Improve management and administration in the education sector.

158. Mechanisms for the implementing the stabilization strategy include:

- Develop and adopt the new Law on Education, model laws at all levels of education, the Law on Education of People with Limited Capabilities, Law on Out-of-School Education, and the Law on Adult Education.
- Improve the social partnership in educational matters between the private and not-for-profit sectors.
- Strengthen cooperation with international and donor agencies in the development of educational programs.
- Carry out regular local public hearings about the condition of education, and establish financial reporting on educational activities, with the involvement of the general public, NGOs and private businesses.

159. The education sector development strategy is directed at ensuring high quality educational services and modern standards. It is necessary to train new, highly professional staff, for the education sector, professionals who will foster economic recovery of the country and ensure sustainable human development.

160. The future policy measures in the education sector will focus on:

In pre-school education:

- Development of alternative forms of pre-school education through greater involvement of parents, local communities, social partners, sponsors, and international organizations.
- Improving state standards of pre-school education.
- Increasing coverage of children with pre-school education.
- In general secondary education:
- Ensuring accessibility of basic education through targeted support of children from socially disadvantaged families through public education support funds as well as attraction of local community and sponsors' funds.
- Expanding inclusive education through the establishment of alternative secondary educational institutions; ensuring admission of children with special needs to general schools.
- Developing infrastructure in schools.
- Improving state educational standards with greater orientation on abilities and skills.
- Introducing a national test that will replace the school graduation exams and HEI entrance exams.
- Gradual integration of general secondary and vocational education.
- In higher education:
- Quality training with consideration of labor market requirements.
- Introducing accreditation, improvement of licensing and attestation.
- Integrating into the global educational environment through the expansion of international links and agreements.
- Ensuring grant assistance to students from poor families, setting quotas for budget funding of graduates from rural schools.
- Implementation mechanisms:
- Creating an adequate legal environment for development of the education system and the export of educational services.
- Transition to a 12-year school program within the funding allocated for secondary education; attraction of funds from international agencies.*
- Ensuring transparency of the financial system through establishment of councils of trustees and financial committees.
- Strengthening quality guarantee mechanisms through the introduction of unified national testing, establishing independent testing organizations

- Developing all forms of funding, encouraging donations and sponsorships.
 - Developing and improving the research base of HEIs and the creating new scientific research centers, and laboratories that meet international standards.
 - Improving telecommunication technologies, developing and introducing distance education.
161. Consistent policy of education sector reforms will help to:
- Ensure accessibility of quality education to all categories of the population.
 - Bring the education system into compliance with the world standards.
 - Change education contents and technologies for sustainable human development.
 - Achieve quality changes in the training and professional activities of teachers.
 - Reduce functional ignorance of the adult population.
 - Raise the quality of life through improvement of education quality.
 - Education sector reforms will be implemented in the framework of the Education Development Concept of the Kyrgyz Republic up to 2010.

8. Science

162. There has been significant reduction in the volume of research and development work (R&D) in the Republic over recent years. While in 1990 R&D revenue represented 0.7 percent of gross domestic product, its share in 1998-2001 was only 0.21 percent. At present, the scientific potential of the Republic is concentrated in 92 separate establishments, organizations, enterprises, higher educational establishments, production research centers and temporary research teams. The highest qualification level is that of specialists in academic and higher educational sectors of science: 42 and 43 people, respectively, with degrees of doctor and candidate of sciences are to be found for each 100 specialists with higher education.

163. A decrease in investment in science has changed the allocation of financing for R&D. The share of funding from the state budget spent on fundamental research has increased, while similar support for scientific and technological services has practically ceased. At the same time, expenses from extra-budget funds have been reduced from 7 percent in 1996 to 0.3 percent in 2000. This suggests that in recent years there has been a decrease in the establishment of various (public, private, regional) funds to support science. The share of financing of R&D from own resources of scientific organizations earned from carrying out paid activities is insignificant. These resources, as well as the money received from lease of their premises are practically all spent on paying salaries and covering current expenses.

164. The share of clients' investments in research has decreased from 32.4 percent in 1996 down to 18.8 percent in 2000, while funding by foreign investors has increased 12 times. The share of R&D for the development of new types of materials, products, processes, designing of new experimental equipment, goods and products decreased, mainly explained by a lack of demand for such work due to the lack of resources on the part of potential clients.

165. The cessation, for all practical purposes, of new investment in research has resulted in serious aging and depreciation of machinery and equipment used in scientific research. Centralized investment for procurement of instruments, equipment, consumables, etc. is provided in minimal volumes. Foreign currency support to information centers and research libraries to provide the scientific sector with research and development information from abroad has reduced.

166. There are other problems and threats in addition to those mentioned above, and a majority of them are related to the financial resources deficit for science. The technology research complex has been traditionally one of the areas supported by the state and, in principle; it cannot exist and develop properly without such support.

167. To reform the area of scientific R&D, it is necessary to improve the efficiency of use of limited financial and material resources allocated from the state budget in recent years by:

- competitive financing of R&D and technology research projects in priority directions of social and economic development of the Republic;
- conducting state research and technology expert examination of research work to be completed, as well as the projects proposed for financing;
- introducing project financing on a repayment basis; and
- targeted support for R&D and technology research work, which is at the stage of introduction for commercial development.

168. The volume of funding for science from the state budget during 2003-2005 shall be increased to 1 percent of GDP, against the present 0.21 percent and the funding shall be extended on a program basis. Some relief of the budget shall be achieved by increasing the share of extra budgetary resources attracted to finance R&D activities, including grants from foreign foundations, which it is hoped will increase to 50 percent of the total volume of science financing by 2005.

169. Salary levels in science need to be increased in order to attract a greater number of people employed in this area to 0.5-0.6 percent of the total number of those employed in economy as compared to 0.3 percent employed at present. The increased expenditure on science should also be used to attract young people to research and technology activities by organizing and conducting scientific contests of young scientists and students, conferences, seminars, etc. Postgraduate and doctoral studies shall become prestigious occupations; it is necessary to increase the value of scholarships paid to post-graduate students. Integration of science and education shall promote an increase in the total number of people employed in the area of science and engagement of youth in scientific activities. A tried and true method of such integration is the establishment of scientific and research institutes and scientific centers within leading universities of the Republic. An effective promotion of innovation would also be supported by the formation of independent scientific and research and technical centers.

170. For the future, it will be necessary for science development strategy to concentrate efforts on fundamental research that ensures a linkage to NSPR priorities - energy, information technology, modern methods of production management, development of mountain territories, etc. Critical problems at the state level need to be identified for each of these directions, the solution of which shall become top priority. At the same time, a major share of public resources allocated to science should be spent on solving these problems according to the priorities for financing fundamental scientific research, as well as research in the humanities on the reasons for poverty and recommendations for its reduction.

171. The following measures will need to be taken in the implementation of the science development strategy:

- Integration of science, education and production is the imperative of our era. The Republic's higher education establishments should become the centers of both fundamental research and applied science.
- Creation of conditions for development of a technology transfer system should significantly reduce the time between obtaining the results of scientific research and its practical application to production.
- The establishment of the State Innovation Fund should ensure introduction of a system of financing applied research. The financial resources of the fund can be sourced from the state budget, the Kyrgyzpatent and line ministries and departments interested in using the results of scientific research. It is also advisable to stimulate financial institutions to provide science with financial resources.
- Improvement of the legislative base in the sphere of research and intellectual property envisages introduction of amendments to the Law of the Kyrgyz Republic "On Science and on the Basis of the State Scientific and Technical Policy" for the purpose of adapting it to the new economic conditions in which science functions.
- Establishment of a telecommunication infrastructure for research, maximum integration of new information technology.
- Development of international cooperation should become an indispensable part of scientific and technical research.

9. Culture

In recent years, a diminishing volume of budgetary financing has been directed towards cultural activities, with the result that there has been a significant decrease in the volume of directly productive activity by establishments responsible for culture and art. The expenditure part of the state budget in the area of culture remains at a minimum level, providing only for its survival. According to the Law On Culture the share of its financing in the state budget shall be 3 percent. However, the actual share of expenditure for culture was only 0.4 percent of GDP in 2000-2001.

172. At present, libraries and club that are important to the population as elements of cultural infrastructure, are in an extremely difficult situation. For an overwhelming majority of the population of the Republic, especially for the inhabitants of remote areas, these establishments, as well as schools, are the only cultural oases.

173. Today only 28 percent of the population is served by public libraries. In recent years, the funds of the Republic's libraries have decreased by 7.6 percent, the average rate of subscription to periodicals in the Republic have decreased 12 times, while about 30 percent of rural libraries have not received a single book,

including periodicals. The supply of books to the population is decreasing. The problem is aggravated by the fact that 394 libraries (34.5 percent of their total number) have been closed in the Republic for the last 10 years and, as a result, the number of people attending libraries has decreased by 66.5 percent, children by 27 percent. Many libraries have been forced to reduce the number of staff and their working hours. 48 percent of library staff, mainly in rural areas, works for half a day for half a salary, which is about 150-200 soms a month. Libraries have practically no modern computer hardware, while electronic communication is not being developed. Not a single public library has direct access to the CIS or international information databases. Out of 1,010 existing libraries 280 require capital repairs, 31 libraries are in an emergency condition.

174. The network of permanent clubs has been reduced by 32 percent. Today there are about 300 populated areas in the Republic that do not have recreation centers. For example, they number only 36 in Batken oblast, 51 in Osh, 43 in Issyk-Kul, 23 in Chui, 31 in Talas, 59 in Jalal-Abad and 12 in Naryn. 310 clubs in the Republic are in need of capital repairs, most of which were constructed during the 1950-70s, and 45 of them are in an emergency condition.

Under the present conditions, the population of the Republic, in particular rural inhabitants, is trying to practice cultural self-development through national folklore and vernacular arts. At the same time, the number of clubs and amateur talent groups has decreased by 42.7 percent, the total number of their participants having decreased by more than one half (57.8 percent).

175. Republican level cultural establishments are in need of capital repairs, including the National Library, the Kyrgyz National Drama Theater named after Abdumomunov, the Russian Drama Theater, the Republican Arts School, the Central State Archive of Political Documents and some others.

176. Today, the major problems associated with culture are the following:

- a weak regulatory and legal framework so that, as a result, the sector continues to be "unattractive" for investors, sponsors, white knights;
- poor adaptation of cultural establishments to market conditions;
- inadmissibly low salaries of workers in culture and their social vulnerability that has led to the outflow of personnel;
- reduction in the quality and variety of services provided by cultural establishments- in fact, a number of such establishments are moth balled as there are not sufficient material and financial resources to provide for their proper functioning;
- a slump in attendance because people cannot afford to pay and because of the low quality of cultural services provided;
- preponderance in the network of cultural establishments of outdated objects and technologies of cultural activity, that are poorly adapted to new social and economic conditions;
- lack of funds to carry out capital and current repairs, reflecting in an abrupt decrease in expenses for procurement of supplies and equipment for cultural establishments;
- lack of mechanisms to disseminate new achievements in the area of culture.

177. The main goal of reforms in the area of culture is to preserve the existing cultural potential of the country, ensure constitutional guarantees of access to cultural values, and adapt culture area to market conditions.

178. The primary task for government is to promote the development of culture under market conditions. In order to fulfill this task, the following continuous activities will need to be undertaken:

- formation of a sustainable system of cultural education, in particular of the younger generation;
- restoration and broadening of new cultural relations and integration in the world's culture;
- preservation of original traditional directions of culture;
- development of local cinematography, theatrics, musical and fine arts;
- opening of production workshops in order to create jobs related to cultural activities;
- development of a rational system to train the staff of the culture sector; and
- improvement of the legal framework promoting the development of culture, beneficial interaction of culture establishments with business environment to broaden sponsors' assistance.

179. The Government has submitted to the Jogorku Kenesh a new edition of the Law On Protection and Support of Cultural Activities in the Kyrgyz Republic; the Law On State Support to Cinematography of the Kyrgyz Republic and other regulations have been adopted; the State Program, Culture - the Source of Intellectual Wealth and Heritage of Generations, is being developed. The adoption of these will allow cultural

establishments, cinematography and archives to objectively and purposefully solve actual issues in the development of culture, preservation of historical monuments and protection of cultural values.

Given the objectives set up the area of culture, cultural establishments will conduct charitable events providing invalids, pensioners, students, schoolchildren and poor people with a possibility to attend concerts, exhibitions, and performances free of charge.

10. Access to Quality Health Services

180. Starting in 1996, the Government has been conducting purposeful work on health care reforms under the "Manas" National Health Program. A number of demographic indicators have improved as a result of the reforms. After a period of decline the average life expectancy has increased to 68.6 years, which is comparable to the level of the 1970s. The general mortality rate has gone down from 6.8 (1999) to 6.6 (2001) deaths per 1,000 people. The infant mortality rate has declined from 22.7 deaths per 1,000 live births in 1999 to 21.7 in 2001. However, an increase in the infant mortality figure is expected due to the adoption of new criteria for live births counting used by the World Health Organization (WHO) member countries. A reduction in the overall morbidity rate is noted along with progress in combating some infectious diseases.

The main outcomes of the short- and medium-term strategies of the Manas Program implemented with the technical and consultative support of the international donor organizations, include participation of both the medical community and the population in its implementation, establishment of the family group practices and the universal introduction of mandatory medical insurance (MMI) throughout the Republic. By the year 2002, 83.7 percent of the population was covered by the mandatory medical insurance system.

181. In January 2001, several pilot areas of the Chui and Issyk-Kul regions have introduced new funding mechanisms for general health institutions. These include formal co-payment for medical services by patients and official bodies and implementation of the Program of State Guarantees to provide citizens with medico-sanitary services. The objective of the Program is to exercise the rights of citizens to receive free or concessional medical treatment and preventative assistance.

New methods of funding and the Program of State Guarantees were launched in Talas and Naryn regions on March 1, 2002. The new methods of funding accumulated health sector funds at the regional level, and encouraging rational use of limited resources for targeted social assistance to the most vulnerable groups of the population. The use of new methods ensures transparency of financial flows, improved provision of medicines and food to patients. The introduction of the pilot programs in combination with restructuring and reinvestment of saved funds, has resulted in almost the doubling of average per patient expenditures. Out of that, expenditures for food rose 1.8 times and supply of medicines 2.2 times. Salaries of doctors has risen on average 2.8 times, and those of middle and lower medical personnel, 2.5 times. The number of indigent patients who have received free medical treatment has increased five times. These measures, according to WHO estimates, have led to a decline of informal payments in the health care sector.

182. Along with these achievements, the following issues have been revealed in the reform process:

- A growing incidence has been recorded of diseases such as tuberculosis (127.3 cases per 100,000 of the population in 2001 compared with 114.4 cases in 1999), brucellosis (21.0 cases per 100,000 1999 compared with 37.6 cases in 2001), echinococcosis (477 cases in 2001 compared with 310 cases in 1995). It is important to emphasize that diseases such as brucellosis and echinococcosis must be tackled on intersectoral level in close interaction with the Ministry of Agriculture, Water Resources and Processing Industry.
- An AIDS/HIV epidemic has started in 2001. As of July 1, 2002 there were 200 registered cases, mostly among drug addicts of Osh region.
- Another unresolved issue is the problem of viral hepatitis in southern regions of the Republic. There is high incidence of infection with viral hepatitis B among medical personnel that come into contact with the virus.
- The consumption of alcohol has increased in the past five years by 28 percent, and mortality rate due to the abuse of alcohol has jumped by 130 percent. The number of alcoholic psychoses has increased four fold.
- In the past ten years, drug addiction has increased almost four times. Opium drug addiction (and recently heroin) compared with the hashish addiction is on the rise. In 95 percent of cases the opium is used intravenously. Growth can therefore be predicted in parental forms of viral hepatitis and the spread of HIV infection among this category of drug addicts. The growing number of adolescents consuming alcoholic beverages and narcotic substances is alarming.
- The rate of iodine- and iron-deficiency diseases has sharply increased. Sampling studies have shown that 52 percent of children and adolescents in the northern regions have some kind of iodine-

deficiency disease, while in southern regions this figure has reached 87 percent. This situation has urged the Government to pass a Law on prevention of iodine deficiency in the Kyrgyz Republic. Artificial supplementing of for the natural iodine deficiency with the help of iodized salt has not happened. The share of iodized salt consumed by only 17-20 percent of the population.

- In recent years, the number of diseases related to blood and haematogenic organs has doubled, 92.4 percent of that is accounted for in the form of iron-deficient anemia. The anemia plagues 60 percent of women of childbearing age and 50 percent of children less than three years of age.
- Despite progress made with family planning, use of contraceptives and abortions remain burning issues.
- Financing of the health sector from the national budget was reduced from 2.3 percent of GDP in 1999 to 1.9 percent in 2001. The resources allocated from the budget for health services cover only 50 percent of the actual needs of the sector. The patient covers the other half of the cost of medical services. Insufficient financing of the health sector fosters growth of informal payments for medical treatment. The problem is aggravated by inefficient use of the scarce resource available to the health sector. The multilevel system (republican, regional, city, district and village) of financing and service provision, as well as the cumbersome infrastructure add a significant share to the irrational use of resources. The lack of funds accumulated through the mandatory medical insurance system is due not only to the low medical insurance fees but also to the appropriation of accumulated funds by the Social Fund and the Ministry of Finance for other purposes.
- The low and undifferentiated wages and salaries for health workers and the lack of incentives for improvement of skill and service quality have also negatively affected the quality of medical assistance and lowered the prestige of the medical occupation.
- All of these factors have significantly reduced accessibility of medical assistance, especially for the poorest layers of the population; negatively affecting the quality of medical assistance and epidemiological situation in the country.

Goals and Priority Areas in the Health Sector

183. The principal goal in the health sector is to ensure fair and equal access for all, including the most vulnerable layers of the society, to free medical services under the program of state guarantees. The policy of the Government in maintaining access to public health services will be focused as follows:

- formation of an effective system of medical assistance oriented at primary medical services;
- development of new funding methods; and
- strengthening the role of public health care.

184. Further activities in the health sector will be directed at the creation of a sustainable and transparent system of primary medical and sanitary assistance, mobile ambulance and flexible and effective in-patient assistance. This will become possible only with sustainable funding of the health care system. Hence, measures requiring attention include:

- Gradual increase of health sector funding through greater state financing and further development of mandatory medical insurance. Clarifying sources of paying insurance premiums on behalf of pensioners, involvement of students and the military in the mandatory medical insurance system, expanding funds for mandatory medical insurance of children. The aim is to achieve a level of annual state funding of the health sector of 2.5 percent of GDP.
- Full liquidation of Social Fund's arrears to the Mandatory Medical Insurance Fund.
- Improvement of the system of collecting MMI insurance premiums that would ensure their automatic entering into MMI accounts.
- Annual revision of the state guarantees program to adjust the level of co-payment by the population for certain types of medical services provided by medical institutions.
- Spreading the new health sector funding mechanisms throughout the Republic to provide for fair distribution of resources, restructuring of the medical assistance system, and introduction of new labor remuneration mechanisms in the health sector.
- Improvement of physical infrastructure and adequate equipping of family medicine centers, general hospitals, as well as several maternity houses (under the Public Investment Program).
- Promotion of the private sector in the health care system.
- Preparation for, and the introduction in the year 2004 of, the new WHO live birth criteria to improve medical assistance rendered to pregnant women, upgrade nursing of under-weight newly-born, and bring medical statistics into compliance with international standards.
- Promotion and enhancement of family planning activities to reduce the number of abortions and increase the use of contraceptives.

- Prevention of diseases, including infectious, sexually and intravenously transmitted diseases. Immunization of children; ensuring state independence of vaccine supply.
- Encouraging and improving production of iodine- and iron-rich food products.
- Social mobilization, rationalization and optimization of sanitary and epidemiological services; involvement of the population, local communities, not-for-profit organizations, mass media and the State TV and Radio Corporation in addressing issues of promoting and improving health.
- Targeted attraction of direct foreign investment and rational use of limited PIP resources.

185. The following activities will be continued to further the reforms under the development strategy:

- Formation of a comprehensive medical care system. The development strategy provides for improvement in physical infrastructure of the special health agencies (ambulance, oncology, ophthalmology, vascular surgery, etc.). Thus, efforts will focus on attracting and coordinating donor grant funding and mobilized domestic funds. Financing of the High Technology Fund of the Ministry of Health will be increased.
- Further expansion of the mandatory medical insurance system through higher insurance premiums and participation of employees in the payment of the premiums.
- Active development of additional MMI programs to supply insured citizens with medicines at the outpatient level.
- Expanding state financing capacity in order to increase the scope of the State Guarantees Program for the provision of free and concessional medical assistance.
- Introduction of incentives to secure medical personnel in rural areas in order to provide people living in remote areas with accessible and good quality medical services.
- Large-scale development of a health care information system.
- Taking into account the main goal of the State in the health sector and based on the measures provided in the stabilization and development strategies, it is intended to:
- Strengthen public health and promote a healthy life style and behavior for the people in order that they might fully realize their health potential and play an active role in society.
- Improve the main demographic indices and reduce the level of infectious and parasitic diseases through holistic intersectoral coordination.
- Expand access to quality primary medical services based on the family medicine principle and improve the quality of in-patient medical care.
- Achieve fair and effective distribution of health sector resources with better coverage and equality.

11. Physical Culture and Sports

186. Within the poverty reduction strategy, physical culture and sports should be regarded as forms of social activities that are aimed at comprehensive balanced development and physical perfection of the individual, as a basis for the formation of a healthy life-style, as well as the prevention of youth criminalization. Surveys show that more than half of infants, schoolchildren and students have psychological and physical abnormalities. Physical fitness of many young men is unsatisfactory. As for the adult population, the physical health of 70 percent of adults is considered to be low and below the medium level.

187. The level of development of physical culture and sports depends to a significant extent on material and technical support and staffing. The number of children and youth's physical culture schools is falling each year. From 1989 to 2002, their number decreased by 41 percent. Educational establishments have only 10 percent of basic implements and equipment required for implementation of their relevant curricula. From 1991 to 2001 the major indicators of the development of physical culture and sport have decreased by 50-60 percent.

Since the very beginning of economic reform, the existing sporting base of the Republic has found itself in a difficult situation, as the increasing tariffs for electricity, water and heating have not allowed the maintenance of sporting activity, let alone its development. Increasing rents and prices of season tickets that cannot cover a significant part of expenses for maintenance of sports facilities have deprived students of physical culture schools, educational establishments, pensioners, poor families and children of the possibility of actively practicing physical culture and sports. There are practically no facilities for providing invalids and orphans with acceptable forms of physical culture.

188. The volume of resources allocated currently from the state budget and local self-government bodies for development of physical culture and sports covers only 10 percent of real needs. The state budget allocated for these purposes was 0.04 percent of GDP in 1999, 0.5 percent in 2000 and 0.06 percent in 2001.

189. The main goals in this area include introduction of a healthy life-style, establishment of a system of continuous physical education of the population, access to physical culture and sport for all citizens of the Kyrgyz Republic, regardless of their age, social status and living standards.

The mechanisms to attain this objective include:

- establishment of a system of monitoring and adjustment of physical fitness of children, adolescents and youth;
- improvement of legislation in the area of physical culture and sports;
- support for programs aimed at formation of a health life-style, development of physical culture and sports, in particular among children-invalids and orphans; and
- deepening of cooperation with international organizations for implementation of programs of physical education of the Republic's population of different age groups.

In future, the effort will be focused on improvement of physical health of children, adolescents, youth, formation of the basis for physical and intellectual culture of the young generation and adult population. For this purpose it is necessary to develop and implement science-based programs of physical training of the population, training of top-caliber sportsmen, improvement of the regulatory and legal framework, state standards, regulations and rules, introduction of modern forms of activities of physical culture and sports establishments and organizations, establishment of a system of continuous physical education of the population and children and youth's sports. Significant attention will be given to development of infrastructure of state-owned enterprises and physical culture and sports facilities, state support to the facilities of educational establishments, physical culture schools, clubs, strengthening of the material and technical base of sports establishments. It will also be necessary to create conditions for the introduction of healthy physical and sporting technologies in the practice and improvement of the system of training and re-training of the staff for physical education organizations and children and youth's sporting activities. A state program on development of a network of children and youth's physical culture schools and centers for Olympic training will be implemented in cooperation with local self-government bodies, concerned ministries and departments.

190. Special emphasis will be placed on the creation of conditions for poor people, those who do not have material and financial possibilities, orphans and invalids to practice physical culture and go in for sport.

191. The outcomes of the implementation of planned measures will include:

- significant improvement of physical health of children, adolescents, youth;
- reduction in the level of drug addiction, alcoholism and criminality among youth and introduction of a healthy sporting life-style among them;
- development of a network of physical health and sports facilities;
- introduction of a healthy life-style among adult population;
- establishment of a modern science-based and practical basis for developing a reserve of athletes from which to select sporting teams to represent Kyrgyzstan; and
- improvement of efficiency of activities of state establishments and public organizations participating in development of physical education and children and youth's sports.

12. Gender Equity

192. The Kyrgyz Republic is actively carrying out a gender equity and development policy. One of its aspects has been development and implementation of the Ayalzat National Program for Support of the Women (1996-2000). The Program took into account basic provisions of the Platform of Actions adopted at the Forth World UN Conference on Women (Beijing, 1995), which was accepted by the world community as a human rights program for women. The development and implementation of the gender policy is being carried out with active support of such international agencies as UNDP, OSCE, Soros Foundation, UNFPA, USAID, the Adenouer Foundation and many others. Due to the successful implementation of the Ayalzat National Program, at the special meeting of the UN Commission for Women, Kyrgyzstan was named as one of the top ten countries successfully implementing the obligations accepted at the Beijing conference.

193. Trainings are carried out on implementation of the gender equity policy. A growing number of citizens realize that gender equity, social protection and other forms of assistance to the women in the conditions of free market directly relate to the formation of gender equity and development ideology.

194. However, despite the legislatively declared equality in the rights of both women and men, equality of opportunities and their implementation is still inadequate. Men still predominate in government agencies. Women, representing 51 percent of voters, account for only 6.7 to 16 percent of employees in representative

bodies of all levels. There are only 14.7 percent of women occupying managerial positions in government bodies, and 24.4 percent of female managers of structural subdivisions, departments and directorates.

195. From 1996 to 2001, the level of economic activity among women dropped by 4.9 percent, while the equivalent figure for the men was 1.9 percent. Women account for 53.3 percent of all illiterate citizens, of which 15,000 (45 percent) are unemployed living in rural areas. Together with indigent and single women, they account for almost one third of all women who need various forms of social assistance. The idea of self-employment through the financial system - particularly microfinance - has been widely developed as a means of reducing poverty among such categories of women.

Nevertheless, of the 49.2 percent of families living in poverty, the families headed by women are less likely to be poor than families headed by men. The new economic conditions have made women become more mobile. A significant share of women has moved into the private sector employment. However, the gap in the remuneration of men and women remains. The salary of a woman is on average 67.6 percent that of a man. This is partly due to the fact that women take any kind of work and mainly occupy the lowest positions in low-paying sectors - agriculture, education, health care, and social sector. In addition to that, absences for childcare reduce women's pension savings by 10 to 30 percent. As a result, the average pension size of the women is 94 to 95 percent that of the men.

In the structure of the employed population, 75.1 percent of women work as hired workers, 15 to 18 percent are owners of private businesses and farm leaders, and 46.3 percent work for family business without payment. 50.8 percent of women have land shares but in spite of the formally equal legal rights on private land ownership the existing traditional stereotypes limit the legal capacity of women in this issue. Lack of development and deterioration of the social infrastructure, especially in the rural areas, has led to the situation that household labor is mostly performed by women. Working women allocate on average 4-5 hours a day to household activities using 19 percent of daily time, while unemployed women spend twice as much time at household activities as do working women. For men, this figure does not exceed 5 percent and accounts for little over an hour a day.

196. Poverty and related social issues directly affect the health of citizens. Unbalanced nutrition and inadequate access to health services, along with the increased labor load, negatively impacts on the health of women. The incidence of anemia among pregnant women is on average 54.7 percent, climbing in some regions to 70 to 90 percent. Only 40.3 percent of births go normally (without pathologies). A notable achievement is the reduced level of maternal mortality. During the years of independence, it has been reduced by 38.6 percent and in 2001 was 49.9 per 100,000 live births. This significant reduction was conditioned by successful implementation of health sector reforms and modernization of obstetric facilities that was carried out with the assistance of the World Bank, the Asian Development Bank, the European Union, the governments of Germany, Japan, and Switzerland; and other donors. However, the maternal mortality rate in Republic is still almost 2.5 times higher than the average European level. Adoption of the Law on Reproductive Rights was an important step towards the gender equality.

Socio-economic difficulties and poverty create a favorable environment for the growth of alcoholism, drug addiction, tuberculosis (TB), and sexually transmitted diseases. In the past five years, the number of TB cases among women has doubled, while the incidence of venereal diseases has increased five fold. Men account for 67 percent of patients with active form of tuberculosis, and 86.5 percent of patients with alcohol dependence. The number of HIV-infected has sharply increased, with 173 of the infected being men and 16, women.

197. Poverty is also one the factors contributing to growing violence against women and among women. Only ten crisis centers and shelters founded with the support of international organizations operate in the Republic at present. The number of such facilities is much below the need for them. Nearly 30,000 women have turned to these crisis centers in the past three years to receive assistance after suffering various forms of violence. According to some independent estimates, nearly 4,000 women annually become victims of human trade in Kyrgyzstan. In comparison to the year 1994, the level of crimes committed by women has almost doubled, with most of the crimes being related to illegal drug trafficking. Military conflicts have also increased the importance of protecting women in such areas and promoting their participation in peacemaking activities.

198. The main issues hindering promotion of gender equity and development of families and women include:

- Weak legislation and its inconsistency with the gender equity and development policy.

- Absence of an active ideology promoting gender equity and development, improving the role of women, and supporting the institution of the family (the main foundation for full implementation of human rights, reduced social tension, and basic condition for sustainable human development).
- Remaining patriarchal attitudes promoting a traditionally dependent position of the women.
- Lack of financing needed for the implementation of gender policy and associated national and sectoral programs.
- Absence of gender balance on all levels of decision making; insufficient use of gender approaches in economic and social policies and state governance reform.
- Low awareness of the issues of gender equality and development.
- Lack of adequate responsibility and accountability of elected officials on the issue of promoting gender equity inhibit implementation of related policy measures.
- Lack of available financing and other resources needed for the support self-employment and creation of individual small and medium businesses.
- Remaining inequality in the remuneration of men and women.
- A growing volume of unpaid household labor of women due to performance of reproductive functions and deteriorated social infrastructure (especially in rural areas).
- Increased incidence of sexual exploitation and violence against women (including children and adolescents), forced trafficking of women.
- Lack of state support in development of crisis shelters and information advisory centers rendering assistance to the victims of violence.
- Presence of gender stereotypes in the mass media.
- Insufficient development of methodology for gender analysis and mechanisms for introduction of gender approaches into public practice.
- Lack of an effective system of gender monitoring and evaluation.

199. To support the active and consistent implementation of gender equity and development policy, the President has approved the National Action Plan for Achievement of Gender Equity for 2002-2006 and a corresponding action matrix. The National Council on Affairs of Women and Gender Development was established under the President of Kyrgyz Republic, with the Council's Secretariat as a structural division of the President's Administration.

200. The issue of ensuring gender equity and development is a complex matter. This important factor in reducing poverty in all its manifestations has defined the following main priorities:

- Improvement of the institutional framework for the achievement of gender equity.
- Maintenance of gender balance on all levels of decision making.
- Development of the gender component in the area of labor, employment and social protection.
- Consideration of gender aspects in the health sector*, education and culture.
- Reduction of all forms of violence against women includes comprehensive measures on prevention of gender violence in society, eradication of human trade, as well as protection of and support for the victims of human trade; promotion of greater public awareness of the issue of violence.
- Institutional framework. There is a need to build the capacity of the National Council on Family, Women and Gender under the President of Kyrgyz Republic; enhance its coordinating role on the national level; and ensure sustainability and continuity of its activities.
- National legislation. It is provided that national legislation will be brought into compliance with the Republic's gender-related obligations under various international conventions and agreements. Various procedures and mechanisms for carrying out mandatory gender assessment will be developed to this end. The gender related examination of existing and new draft laws would be continued. The draft laws On State Guarantees of Gender Equality in the Kyrgyz Republic and on Social and Legal Protection from Violence in Families will need to be passed as a priority matter. The new laws on civil and municipal services should be developed with full integration of gender issues. Measures will be undertaken to raise the awareness of the population (especially the poor) in regard to the national legislation, international conventions, and treaties on gender equality.
- Socio-economic sphere. It necessary to define the role and responsibilities of the State, labor unions, and employers in the introduction of measures ensuring equal employment opportunities for women and men. The idea of joint management of family finances should be developed and promoted through better access to property and resources by women. A thorough analysis of gender issues in domestic migration and immigration should be carried out in order to develop a more balanced approach to the creation of jobs and labor markets. Other measures include support of pre-school and child-nutrition institutions, as well as provision of equal rights for social assistance to both parents in the reproductive activity.
- Reducing violence against women. The State should provide greater support to the existing network of crisis centers and shelters for the victims of violence. The system of shelters should be disseminated

throughout the Republic. Staff of law-enforcement agencies should continue to be trained in gender sensitivity. Measures will be undertaken to establish and develop violence prevention units such as self-help groups; ensure participation of women in conflict resolution; promote greater public awareness of these issues.

201. Elimination of existing gender disparities together with full and comprehensive integration of gender aspects into all levels of society will become the next important steps in improving gender equity policy.

The second phase of gender policy development envisages the following measures:

- Full integration of gender consideration methodologies into national, sectoral, and regional programs, as well as in the budget process and functioning of state agencies. Implementation of specific action to ensure gender balance at all levels of decision making in government instrumentalities.
- Expansion of scientific studies on gender development and consideration of the findings in the planning and elaboration of strategies and policies. Wider use of gender-specific statistics to facilitate monitoring and evaluation of gender aspects. Annual renewal of the National Report on Gender Development and promotion of its wide discussion.
- * Development of measures on integration of the informal sector into the formal economy in order to ensure protection of the rights of women and men employed in the informal sector.
- Development and introduction of mechanisms for the elimination of gender disparity in retirement pension benefits due to the performance of the reproductive function by women. Defining the economic value of the household (reproductive) labor and provision of relevant compensation through the system of state benefits.
- Gender related education of state and municipal employees on all levels, local authorities and self-government officials, judicial bodies, and the staff of law-enforcement agencies.
- In the area of health, provisioning increased accessibility of quality medical services and preventive programs to men and women.
- Introduction of a gender component into state educational standards and changing the traditional model of raising boys and girls in the family and society.
- Organization of public information campaigns to raise the awareness of the national gender policy.
- All-around support to implementation of the National Program on Prevention of Human Trade and development of measures relating to the protection of women living in conflict zones.
- Improvement of accessibility of free legal assistance to the poor who have suffered violence; development of social advocacy.
- Consideration of establishing an independent criminological center to explore the opportunities of reducing and preventing crime (including the crime committed by women and youth), rehabilitation of ex-convicts.
- Undertaking specific actions for separate placement of women and girls in penal institutions, development and introduction of rehabilitation programs for people who have committed crimes.
- A general unified approach of intersectoral response the violence against women should be developed. Gender-specific crime statistics should be maintained in order to ensure effective monitoring and evaluation of measures in this sphere.

Ensuring gender equality and development should become an important component in the comprehensive process of ensuring full implementation of human rights.

13. Rational Environmental Management

During 1999-2001 the environmental situation in the Kyrgyz Republic deteriorated, reflecting economic problems that provoked the population, in particular inhabitants of poor rural areas, to severely exploit natural resources (forest felling, poaching, intensive use of arable land, ignoring ameliorative and other measures), in ways that resulted in further deterioration of the situation. Nevertheless, unique landscapes have been preserved in the Republic that have not been seriously affected by such activities, and that, in addition, have an economic value since they represent a particular commodity of international importance, the price of which will be increasing.

202. Reflecting natural and climatic conditions, out of 199.9 thousand km² of the total area of the Republic, only 30 percent is fit for permanent habitation, while only 20 percent comprises areas of relatively comfortable conditions where the majority of the population lives. The main concerns are raised by the condition and used of the resources vitally important to the Republic - water resources, land, fauna and flora, forests and specifically protected territories.

203. The fresh water of Kyrgyzstan is a vitally important resource for sustainable development. Fresh water reserves are significant: the Republic has about 50 cubic kilometers of surface river run-off, 13 cubic kilometers of potential underground water storage, 1,745 cubic kilometers of lake water, 650 cubic kilometers of glaciers. Actually, only 12-17 percent of the existing surface and underground run-off is used. At the same time, total losses make up about 23 percent because of imperfect irrigation networks, intensive irrigation methods and for other reasons. There are 7,628 glaciers and snowfields in the Republic, occupying 4.1 percent of its territory. They contribute to the run-off of 5 independent river basins. The glaciers of Kyrgyzstan are accumulators of pure fresh waters, influence the climate, reduce air temperature, increase precipitation, as well as being the objects of esthetic, sportive and recreational use. Reduction in the size of the glaciers and permafrost of Tien-Shan ranges started in the second half of the XIX century, but this process has become especially active during the past 30 years.

204. The most dangerous factor that has resulted in the depletion and degradation of water resources, especially of potable water - a strategic resource - is pollution by various chemical and organic substances. Increasing volumes of dangerously polluted waters containing nitrites, chlorides, chromium, sulfates, oil and oil products are discharged into open water reservoirs and watercourses without any treatment. The volume of discharge of polluted waste water has significantly increased and sewage disposal in 2001 amounted to 11.8 million m³, compared with 3.8 million m³ in the year 2000. The most acute problem is pollution of underground water of the Chui, Osh and Jalal-Abad oblasts. The major reason for pollution of underground water reserves is the absence of proper sanitary protection of water intake zones or non-observance of standards by economic activities in these zones.

205. Significant problems arise from the lack of development of the regulatory and legal framework regarding water use and the ineffective functioning of associations of water users. There is no clearly defined national strategy on water use. Advanced irrigation technologies are introduced slowly.

206. Deterioration of public utilities, especially in rural areas, has resulted in declining living standards and aggravation of the social situation. Only 56 percent of the total number of cities, towns and rayon center in the Republic has centralized sewerage networks with treatment facilities. At present, there are 350 sewerage treatment facilities in the Republic of which only 30 percent comply with sanitary requirements, 40 percent do not function completely. At the same time, the effectiveness of sewerage treatment is low and does not satisfy standard requirements. A noticeable lag in the development of systems supporting vital activities has had a significant impact on the sanitary and epidemiological and environmental situation in the regions. Many populated areas of the Republic lack water supply networks, while the supply of potable water to the population provides only 15-20 percent of the needed volume. Use of water from open water sources results in disease. In urban areas, 90.2 percent of the population has access to tap water, while in rural area, only 19 percent. Only 15 percent of the population has access to sewerage networks. The volume of capital investment for protection and rational use of water resources is annually decreasing.

There are only 0.26 hectares of arable land per capita, hardly enough to provide for the minimal food requirement of a typical citizen. A necessary legal basis has been established for sustainable rational land use in Kyrgyzstan. Private land ownership has been introduced and experience has been gained on distribution and transfer of natural pastureland to be leased by local communities responsible for the condition of pastures and the degree of their degradation, rotation and reclamation. Nevertheless, crop capacity of arable land is declining every year.

207. Out of 10.6 million hectares of agricultural land, more than 88 percent is recognized as degraded and subjected to desertification. The area of secondary soil salinity makes up 75 percent of the total arable land of the Republic. Kyrgyzstan acceded to the UN Convention on Fighting Desertification and developed and Action Plan to fight desertification. Agricultural land that is used and owned by agricultural commodity producers occupies 5,788.0 thousand hectares, of which 888.0 thousand hectares are irrigated land. Privately owned land comprises 1,242.0 thousand hectares, communal property land 55.0 thousand hectares and state-owned land 9.0 thousand hectares.

208. Degradation of pasture is a serious problem in the Republic. The total area of natural pastureland is 8.9 million hectares. Types of vegetation used as natural forage crops are extremely diversified and differ in terms of crop yield. According to available data, the average cropping capacity of grassland decreased by 14 percent during the period from the 1970s to the 1990s. A significant part (about 25 percent) of pastureland is affected by medium or high-level degradation. The abrupt reduction of the number of cattle in the Republic that has taken place in recent years did not solve environmental problems connected with cattle grazing. Although Kyrgyzstan occupies only 0.13 percent of the earth's surface, the country is inhabited by about 3 percent of the world fauna, and more than 7,400 types of plants grow here.

209. The Red Book of the Republic protects 71 species of plants, 32 species of birds, 3 reptile species, 2 fish species, 19 species of insects, 12 species of mammals. Since 1985 the Red Book was supplemented by 10 plant species, 1 fish species, 11 species of birds, 4 species of mammals and 13 species of insects, which attest a continuous reduction of biodiversity because of human pressure. Kyrgyzstan has signed the Convention on Biological Diversity, developed a set of laws to support biodiversity and at present is implementing a cross-border project on preservation of biodiversity of the Western Tien-Shan ranges, supported by TACIS. The project, Preservation of the Snow Leopard, is being implemented (since January 1999) jointly with the German Nature Protection Union (NABU); a special task group, "Bars", has been established. The major goal of this project is to protect the snow leopard and other endangered animals. As well, it is planned to establish a scientific station in the biosphere territory of Issyk-Kul under this project.

210. During the past 20 years, 50 percent of forests have been exterminated in the Republic so that at present the forests of the country cover only 4.25 percent of the land. A clear tendency of forest aging can be observed. The aging process forestalls the process of forest renewal and at present the area of mature and overmature forests is 49.9 percent or 350.3 thousand hectares of the total territory covered by forests.

In Kyrgyzstan, where more than 60 percent of the population lives in rural area, the impact of human activities is one of the major factors negatively affecting forests. Thus, changes in agricultural policy have resulted in increased numbers of private cattle grazing on grassland adjacent to villages, and often in forests, including fruit and nut forests.

Local population is unable to buy expensive fuel and in a majority of cases firewood is the only solution to this problem. For example, 13 thousand people harvest not less than 20 thousand cubic meters of wood for their own needs in the Arstanbap-Ata forest area. Such a situation should not be allowed to persist, as the Republic has great opportunities to use non-traditional and renewable energy sources (NTRES). The use of the energy of sun, wind, small rivers and chutes, as well as the products of livestock waste processing, including production of biogas and organic fertilizers, can become an effective method of poverty alleviation in the Republic, taking into account practically unlimited energy resources. The use of ecologically pure NTRES would provide remote areas with electric and thermal power, and to restore village infrastructure (schools, clubs, bathhouses). By using biogas, farmers' associations would be able not only to produce gas and fertilizers for their own needs, but also to sell any surplus to the population.

211. The Republic is among 200 priority ecological regions of the planet. Specifically protected natural territories have a well developed network and cover, basically, all types of ecosystems of the Tien-Shan and the Pamir-Altai ranges. According to the classification adopted by the International Nature Protection Union, specifically protected natural territories of the Republic are divided into 4 categories, which include reserves, national and natural parks and natural monuments with a total area of about 850 hectares.

212. Since 1997, within the framework of the UNESCO international program, Man and the Biosphere, the Republic has been implementing a project on the establishment of a specifically protected biosphere territory, Issyk-Kul, in cooperation with the German Center of Technical Cooperation. In September 2001, Kyrgyzstan became the 91st country officially recognized by the UNESCO. In 2001, the project Regional Cooperation in the Sphere of Mountain Development in Central Asia, was implemented with technical assistance provided by the Asian Development Bank and the Government of Switzerland. National Strategies and Action Plans of Central Asian countries (Kyrgyzstan, Kazakhstan, Uzbekistan, Tajikistan and the Xing Jian autonomous region of China), were developed at the national and regional levels, a Central Asian Mountain Charter was developed. In recent years, given the importance of above mentioned priority directions, the Republic has ratified 9 international Conventions in the area of environment protection and started to revise the regulatory framework in the area of environment protection for the purpose of harmonization legislation on nature protection with international approaches.

213. The major principle underlying the strategy for stabilizing the use of nature is a comprehensive rationalization of the use of natural resources without any damage to sustainable long-term development. Methods of water use and land cultivation with a view to biodiversity preservation should be beneficial for all strata of society, in particular the poor. In this regard, as envisaged under CDF, the International Year of Mountains and the Year of Tourism, a set of measures have been implemented, aimed at stabilizing the environment.

214. To improve the efficiency of water resource use, the following actions need to be taken:

- Develop measures to reduce the level of agricultural water intake to the amounts biologically required by various agricultural crops.

- Develop the National Water Resources Strategy, complete the formation of the Cadastre of Water Resources of the Kyrgyz Republic, and establish a unified national database on the condition and use of water resources in the Republic.
- Implement a step-by-step transfer to advanced technology of arable land irrigation; introduce economic instruments for transfer to an effective use of water resources, water saving and water resources conservation technologies; introduce modern water management systems.
- Ensure access to high-quality potable water for 100 percent of the urban population and 45 percent of the rural population.
- Ensure access to sewerage networks for 40 percent of the population by 2005.
- Increase the volume of capital investment for the purposes of water resources conservation to 10 million soms by 2005.

215. To promote the rational use of land resources, it is necessary:

- to develop the cadastre of the quality of land resources in order to encourage the formation of an orderly market for;
- to carry out a series of measures to reduce degraded lands by 5 percent each year;
- to carry out monitoring and evaluation of pasture lands in order to introduce a rational pasture land rotation system and regulated cattle grazing;
- to increase the volume of processing and neutralizing of solid waste to 1 million tons each year, starting in 2003; and
- to increase the volume of capital investment for soil conservation to 60 million soms by 2005.

216. In order to preserve and broaden the area of forest-covered and specifically protected territories, it is necessary:

- to broaden and develop the national network of specifically protected territories, increasing them by 25 percent by 2005; and
- to increase the area of forestland in the Republic up to 6 percent by 2010 (State Forest Program).

The Republic's Constitution provides for the right of each individual to an environment favorable to life. The environment conservation development strategy is to be based on two fundamental principles: the principle of integration of economic and environmental policies and the principle of individual responsibility. Within the framework of adapting the legislation on nature conservation to the conditions of the transition economy on one hand, and on the other hand, for harmonization of the national legislation of the country with international legal documents, it is intended to draft new laws in the area of environment protection and revise the regulatory and legal framework in compliance with international standards. In this connection it is planned to draft the Law of the Kyrgyz Republic on Environmental Insurance.

Environment protection, biodiversity conservation as the basis of the very nature of the biosphere, the fauna and flora gene bank, will remain the Republic's goal and task for the coming period.

CHAPTER V. PROMOTING SUSTAINABLE ECONOMIC GROWTH

1. Macroeconomic Situation

217. The macroeconomic situation in Kyrgyzstan during 1999-2001 has been stabilized significantly, although it remains to be seen whether the situation is sustainable.

218. The GDP growth rate during 1999-2001 was on average 4.8 percent a year, and in 2000 and 2001 GDP increased by more than 5 percent each year. This growth was attained mainly as a result of increased output in agriculture (average growth rate 5.9 percent per year) and in services (average growth rate 3.8 percent per year). Development in agriculture has taken place mainly as a result of radical restructuring and land reform, as well as a broader inflow of financial resources into the sector during recent years. At the same time, agriculture has started to experience an acute lack of long-term capital investment as well as the detachment of agricultural producers from markets for their products, production resources and services. Growth in the services sector has reflected a stronger private sector, including small and medium-scale entrepreneurship. Developments in the industrial sector during recent years have mainly reflected the influence of technical and climatic factors that are capable of significantly changing the volume of production in the two most important industries - production of gold and power generation, that have fluctuated widely in recent years. The remaining areas of secondary industry have developed slowly, although some quite recent revival has become noticeable in light and food industry.

219. Growth of GDP and, in particular, agriculture has provided the necessary conditions for growth in private consumption (by 5.2 percent in 2001); as a result, the population's living standards have somewhat increased, and the poverty level decreased.

Government consumption during this time has fallen from 19.1 percent of GDP in 1999 to 17.5 percent in 2001, primarily reflecting increased payments on external public debt. This has served as a serious incentive to start rationalization of government expenditures but, at the same time, it has forced the government to reduce expenditures for strategically important social programs in education and health care.

220. In the period from 1999 to 2001, the volume of gross investments in the Republic stayed at the level of 18.0 percent of GDP. This period was marked by a decrease in the scale of the Public Investment Program and a decrease in the inflow of foreign direct investments that, undoubtedly, was an alarming development. At the same time, private domestic investment has increased, which might reflect a sound tendency for an increase in private domestic savings and their transformation into investments.

Of all the components of GDP, the largest increase has been registered in net exports (from -14.7 percent of GDP in 1999 to -0.3 percent of GDP in 2001). This has reflected stagnation of exports of goods and services (which still have not recovered the level of 1998) and a sharp decrease in imports volume (almost twofold compared with 1998). The reasons for problems in the area of exports were restrictions in trade with neighboring countries and transition of exported goods through their territory, as well as the composition of exports and their concentration on a few raw materials the prices of which fluctuate in international markets. The decline in imports is connected with a decrease in imports of capital goods within the PIP but, to a major extent, is a consequence of import substitution, particularly in the production of consumer goods and agricultural produce.

The performances of exports and imports, as well as a general trend of reduced foreign aid receipts, have produced significant changes in the balance of payments. Whereas earlier large current account deficits had reached 16.2 percent of GDP, in 2001 this deficit was only 3.3 percent of GDP. At the same time, previously significant capital inflows and financial operations by which the current account deficits were financed, became zero in 2001, i.e., there was no net inflow of funds to the country on this account. As a result of all these developments, and the restructuring of the external debt of the Republic by donor countries, the nation's international reserves increased both in absolute terms and in terms of months of imports, reaching the amount of 4.1 months of imports of goods and services by the end of 2001.

Improvement in the trade balance and the current account of the balance of payments, together with a tight monetary policy pursued by the NBKR, have resulted in stabilization of the som exchange rate. During 2001, the nominal exchange rate of the som even firmed by 1.2 percent against the US dollar. In turn, stability of the som, tight monetary policy and decreased public expenditures resulting in a smaller budget deficit, have created conditions for a significant reduction in the rate of inflation. In 1999, the inflation rate was 39.9 percent, and in 2001 it dropped to only 3.7 percent, which is the lowest rate indicated for the entire history of independent Kyrgyzstan.

221. Many changes that took place in the economy during 1999-2001 reflected development of the situation with the state budget and the external public debt. Before that, economic development of the country was characterized by very large government external borrowings, the proceeds of which were spent on financing both current expenditure and investment projects. As a result, the State rather quickly accumulated significant external debt that, after devaluation of the som in 1998-1999, became comparable with the country's GDP, and its servicing became rather problematic. Solution of the problem with debt required a significant reduction in the budget deficit (from 11.9 percent of GDP in 1999 to 5 percent in 2001), financed mainly by external borrowings. This affected loans raised to finance the PIP, with the result that its size decreased from 9.4 percent in 1999 to 4.4 percent of GDP in 2001.

On the whole, government expenditures had decreased radically - from 30.4 percent of GDP in 1999 to 22.8 percent of GDP in 2001. Such a considerable reduction in state expenditures was also required because the government could not manage to increase budget revenues that even fell from 17.7 percent of GDP in 1999 to 17.0 percent in 2001. This painful budget adjustment resulted in a number of undesirable changes in the country's economy, but the stabilization of other macroeconomic parameters allowed the conclusion of an agreement with the IMF on the PRGF Program and the negotiation of a restructuring of a part of the external public debt with the Paris Club.

2. Economic Policy

222. **Major directions of the economic policy.** According to the CDF, the economic policy goal of the Kyrgyz Government is ensuring sustainable economic growth in the interests of poverty reduction. Therefore, economic regulation is to be aimed both at attaining high and sustainable rates of economic development, while the benefits of growth would flow to all layers of the population and, in particular, its poorest strata.

223. Sustainable economic growth is possible only under the conditions of macroeconomic stability. An unstable economy, and its vulnerability to external and internal shocks, can cause the greatest damage to the poorest elements of the population. As a result, continuation of the policy of macroeconomic stabilization is considered to be a necessary component of the NPRS.

224. Given the nature of poverty in Kyrgyzstan, economic policy is to be aimed at every possible support for the development of agriculture and small and medium-scale business enterprises. Because a necessary condition for sustainable long-term growth is the largest possible diversification of economy, support will be provided to the development of industry and the services sector. An especially large significance will be attached to the attraction of domestic and foreign investment, and promotion of establishment of new and expanded activities of existing enterprises producing export products. It is clear that, for this purpose, the Government should continue and significantly strengthen its efforts to ensure a favorable climate for entrepreneurship and investment, to create and maintain reasonable rules on economic activity for all participants, as well as to provide all possible support for the effective functioning of labor, capital, land and natural resources markets.

225. Realizing that economic growth as such is a necessary, but not sufficient, condition for poverty alleviation, resulting in poverty reduction only if it is combined with a relatively even distribution of income, the Government will undertake special measures to prevent growth of income inequality. This task will be carried out through both social and economic policy.

226. The open economy of Kyrgyzstan is exposed to many negative and positive external shocks that can affect the country's economic performance. In these circumstances, the strategy considers two scenarios of economic development: a basic scenario, based on relatively conservative assumptions about the overall impact of external factors and the effectiveness of the policy approach under the strategy; and a scenario of accelerated growth, envisaging more successful mobilization of internal resources of the country, lack of negative shocks and, possibly, development of positive external impacts (for example, in a form of expanded external assistance without increasing the public debt of Kyrgyzstan).

227. **Ensuring macroeconomic stability.** The Government and the National Bank of the Kyrgyz Republic (NBKR), continue adhering to a policy aimed at the eliminating the causes of macroeconomic instability. Given the significance of price stability for the growth of economic activity, as well as for the protection of the incomes of the poor, efforts will continue to be taken to hold the inflation rate at the level of not more than 4.4 percent a year. A tight money policy will continue to be pursued. The Government and the NBKR will attempt to strengthen confidence in the national currency and to expand the level of non-cash settlements. The policy of a floating exchange rate will be continued. The NBKR intends to intervene in the foreign exchange market only to support the international reserves at the safe level (not less than three months of imports) and to smooth out fluctuations in the som exchange rate. Reduction of the current account deficit of the balance

of payments, achieved in recent years, and debt relief as a result of restructuring of the external public debt of Kyrgyzstan by the Paris Club, has allowed the policy of a floating exchange rate of the som to not have any significant inflationary consequences.

A decisive role in achieving macroeconomic stabilization lies with fiscal policy. It is envisaged that during the period under consideration it will be aimed at providing the necessary quantity and quality of public services, with a simultaneous reduction of the risks related to external debt servicing. For this purpose, coordinated measures will be aimed at:

- increasing the social focus of budgetary expenditures, ensuring their targeted impact on the poor, and radical improvement of the efficiency of expenditures on public sector administration;
- introduction of amendments to the taxation system, allowing an expansion of the tax base and, as a result of an increase in the tax collection rate to 15.5 percent of GDP by 2005, to relieve the tax burden on compliant taxpayers, creating incentives for economic growth; and
- reduction of the budget deficit as a result of reducing the volume of Public Investment Program (PIP) borrowings, with a simultaneous increase in the efficient use of budget resources applied to development.

All government debt commitments will be fulfilled, and necessary resources will be accumulated in the budget for this purpose (including at the expense of the proceeds received from privatization of state property).

It is assumed that, due to the reduction of government borrowings, reduction in government debt payments and export promoting measures, the situation with the balance of payments will remain stable, and that the current account deficit will not exceed 2 to 4 percent of GDP. This deficit will be more and more financed by the inflows of foreign direct investments. It will also contribute to the stability of the exchange rate and relief of the burden on the nation's international reserves.

Investment as an important source for growth. One of the necessary conditions for long-term economic growth in the Republic is a rather high level of investment inflow. The realistic aim is to achieve a level of gross investments not lower than 20 percent of GDP. As mentioned above, in order to avoid an increase in external public debt, the share of public investment at the expense of borrowed resources must be decreased as compared to the level of 1999-2000. It is expected that by 2005 the size of the PIP will be less than 3.9 percent of GDP. At the same time, the allocation of public investment to critically important areas of production and social infrastructure, will be continued. In parallel, private investment must grow (from 11.5 percent of GDP in 2002 to 17.5 percent of GDP in 2005) as a result of both domestic and foreign direct investment. Obviously, this will require significant reforms aimed at improvement of the investment climate.

228. Development of foreign economic relations. To ensure both macroeconomic stability and attraction of private investment, it is necessary to provide maximum opportunities for an increase in, and diversification of, exports. The Government has intensified its efforts to create conditions in external markets favorable for exports of products of Kyrgyz enterprises and reduction of expenses for their transit through third countries. For this purpose, it is planned to use fully the potential related to the Republic's membership in the WTO, which is growing now with the accession of China and, in the foreseeable future, some other neighboring countries joining as well. A priority task in the area of foreign economic relations is regional cooperation, where it is necessary to achieve a considerable improvement of export opportunities for Kyrgyz enterprises. Export growth will be also promoted by development of the transport infrastructure, marketing and information support for local export-oriented enterprises. Active assistance will be provided to expand export of services, that is considered one of the most prospective sources of economic growth.

Decisive measures will be taken to strengthen the customs services and prohibit illegal imports of goods in order to protect domestic producers and replenish the budget.

229. Measures to ensure growth that results in greater income equality. For this purpose it is intended to stimulate first of all such forms of economic development that encourage employment growth and the involvement of the poor in economic activity. In particular, this includes establishment of enterprises in the poorest and most remote areas of the country, development of small and medium-scale entrepreneurship. An important component for adjustment of conditions of economic development for the poor will be further development of the microfinancing system.

230. Economic growth in sectors of economy. Agriculture is a sector that is the most important for continuation and acceleration of economic growth from the viewpoint of poverty reduction. This is because, on one hand, it is the largest sector of economy and, to a significant extent, leads many other sectors while, on the other hand, it provides much of the employment for a majority of the poor. Ensuring sustainable

growth in agriculture requires continuation of drastic reforms aimed at significant facilitation of access for agricultural enterprises to markets for finished products and production resources, including:

- formation of a sustainable land market;
- implementation of measures on comprehensive development of processing industry;
- increasing the area of irrigated farming due to rehabilitation of irrigation networks;
- improvement of water resources management at the local level;
- promotion of development of private enterprises providing technical and sales services to the agricultural sector;
- broadening and improvement of informational and educational services provided to farmers, promotion of seed farming and improved animal breeding.

It is assumed that development of secondary industry will take place mainly in traditional sectors (electric power, light, food and mining industry, construction materials) as a result of expanding production output by existing enterprises, as well as due to new production capacities that can appear as a result of expected inflows of private investment. It is necessary to take into account that during the period under consideration (2003-2005), a significant reduction of gold mining can take place at the Kumtor deposit for technical reasons that will result in a reduction in industrial production growth and exports. This reduction should be compensated for by development of other industrial sectors; thus in 2005 the positive growth rate of the total volume of industrial output will be restored.

It is expected that the services sector will become an important source of growth, and a major sector of economy. Developments in this sector will take place mainly because of increased internal demand for paid services and services for trade supported by growth of real income of the population. Another actively growing sector of services shall be tourism, which will make a significant contribution to an increase in the country's exports. Development of other sectors of economy will stimulate growth of transport, telecommunication, financial, information and hotel sectors.

231. Scenarios of economic development for 2003-2005. According to the basic scenario (see Appendix I) the average growth rate of real GDP will be 5 percent; at the same time, GDP per capita will increase on average by 3.5 percent per year. Provided that the existing level of inequality in income distribution does not increase, this will allow reduction of poverty in the Republic by approximately 3 percent each year. It is assumed that GDP growth will be mainly secured by agriculture and the services sectors; gross value added in these sectors will grow by 4.9 percent per year. The share of tourism in the service sector will gradually increase (from 4 percent of GDP in 2002 to 4.5 percent - in 2005). The growth rate of value added in industry (without enterprises of the Kumtor deposit) will be 6 to 8 percent per year. There will be a gradual increase in the share of gross investment (from 16.4 percent in 2001 to 22.8 percent in 2005) in the structure of GDP use, with stable share of private consumption (68-69 percent), a simultaneous decrease in government consumption (from 17.5 percent in 2001 to 15.6 in 2005) and net exports (from -0.3 percent of GDP in 2001 to -4 percent of GDP in 2005). The situation with the government budget should improve significantly due to growth in budget revenues from 17.0 percent in 2001 to 20.0 percent of GDP in 2005 and reduction in the budget deficit during the same years from 5.0 percent to 3.7 percent of GDP. There will be some reduction in public expenditures (from 24.4 percent in 2002 to 24.2 percent in 2005) due to a reduction in PIP volumes and a simultaneous increase in expenditures for social needs (education, health care and social protection). Thus, the given scenario reflects the country's capability of moving towards poverty reduction and economic growth, on the moderately optimistic assumptions with regard to key exogenous factors, that include sustained inflows of private investment and foreign aid, the extent of mobilization of internal resources and the effectiveness of economic policy measures.

Should the situation in relation to these exogenous factors be more favorable, i.e.: there is success in creating a radical improvement in the investment climate; facilitating export opportunities (for example, by succeeding in regional economic integration, which does not depend on the Kyrgyz side alone); reforms in the sphere of public administration producing a maximum effect; there is significant progress in the development of market institutions; and, in the end, the country receives additional external assistance which does not increase the public debt, it is possible to postulate the scenario of accelerated growth.

This scenario assumes that the GDP growth rate will be 7 percent each year. Such a GDP growth rate could be achieved because of the higher share of both private and public investment, as well as additional growth of exports allowing the avoiding of the drop in net exports expected in the basic scenario. In these circumstances, more active development is expected on the part of industry, construction and services, and this would contribute to the modernization of the structure of economy of Kyrgyzstan. Faster growth in these sectors would provide for an increase in state budget revenues and expenditures and expanded financing of government social and investment programs. All these would create a solid foundation for more rapid poverty reduction and sustainable economic growth.

3. Budget Policy and the Public Investment Program

232. **The current situation.** Over the period 1999-2001, state budget expenditures decreased from 30.4 percent of GDP to 22.8 percent of GDP. So significant a reduction was necessary so as to reduce the budget deficit and to meet obligations on external public debt. Practically all items of government expenditure were affected, including expenditure for social needs (including education, health care, social insurance and social protection) that have been reduced from 9.5 percent of GDP to 8.0 percent of GDP. Further reduction of such expenditures cannot be made, as this will create a threat to the accumulation of human capital, a major requirement for the long-term development of the nation. It would also severely undermine the efforts to reduce poverty.

Reduction in the volume of budgetary resources has raised a serious question as to their efficient use. The absence of program budgeting, inadequate budget transparency and accountability of budgetary organizations, still weakly targeted social programs (notwithstanding the efforts undertaken recently in this direction), incompleteness of social insurance reform (including that of the pension system), all reflect the fact that limited budget resources are not always spent efficiently. A significant portion of the cost of government services to the community is financed by special means (i.e., by direct payment for services to the population rendered by budget funded organizations), that in practice means weak state control over the transfer and use of the funds involved.

233. All this is also applicable to the Public Investment Program (PIP). Its reduction in 1999-2001 by 5.0 percent of GDP aggravated a long-standing issue on prioritization of the projects included in the PIP, their economic and social impact and efficiency of the resources used. An insufficiently developed mechanism for prioritization of PIP projects leads to systematic under-execution of the plans for co-financing from the state budget. Project management, decision making on clarification of project goals and design, changes in implementation periods and project scale, coordination with donors, are all carried out slowly that do not allow for a promptly response to changes in the needs of social and economic development. Due to the incomplete integration of the PIP into the national budget, an adequate level of transparency and efficiency of expenditures has not been ensured.

234. **Major directions of government expenditure policy.** According to medium term budget projections for 2003-2005, total expenses of the state budget will increase from 24 percent in 2003 to 24.2 percent of GDP by 2005. This is closely connected with the policy of macroeconomic stabilization that assumes, in particular, a reduction in the budget deficit and reflects the presence of two major tendencies envisaged in the policy of government expenditures: an increase in expenditures for social needs and a reduction in the scale of the PIP. A reduction in total government expenditures will also reflect a reduction in external debt servicing payments.

It is planned that budget expenditures in the social sector will be increased from 9.0 percent of GDP in 2003 to 9.6 percent of GDP in 2005. During these years, expenditures will be approximately as follows: 3.7 percent of GDP for education (3.4 percent in 2002), 2.5-2.7 percent of GDP for health (2.2 percent in 2002), and 3.0-3.1 percent of GDP for social insurance and social protection (3.0 percent in 2002). The most important measures for increasing efficiency of expenditures in this sector and for raising the quality of services provided include:

- Increase of wages to workers with a gradual transfer from the uniform wage structure to a contract-based system of wages.
- Allocation of sufficient budgetary resources to educational and medical establishments by means of reduced expenditures on activities with low priority.
- Annual increases in the size of state benefits to the poorest strata of society (disabled, elderly citizens, those who do not receive pensions), by increasing the guaranteed minimum level of consumption; continuing the work on social documentation that will allow better targeting of social assistance provided to the community.
- Streamlining existing social benefits, their transfer to the principle of targeted allocation and transformation into monetary payments; adopting the Law on Special State Benefit in the Kyrgyz Republic, aimed at providing support for those in the community who really need such support, and envisaging a reduction in the number of benefits granted.
- Continuation of the experiment with lump-sum payments of the annual amount of the uniform monthly benefit, in order to provide the poor with starting capital to initiate entrepreneurial activities.
- Undertaking preparatory measures to transfer to accumulative financing of the pension scheme and, as a result, gradual reduction in the subsidies allocated to the Social Fund from the state budget.

235. In the light of the need to continue fighting against international terrorism and extremism, expenditures on public order and security will be increased from 0.9 percent of GDP in 2002 to 1.2 percent of GDP in 2005. With regard to this sector, it is planned that the reforms in the judicial and law enforcement systems will be continued, aimed at optimization of law enforcement structures, reduction of duplicating subdivisions and ensuring the observance of human rights. Expenses for defense will remain at the level of 1.4 percent of GDP; it is intended to conduct the reform on transfer to a contract-based military service, as well as to carry out modernization and technical equipping of the Armed Forces.

236. Expenses for public administration will be reduced from 2.8 percent of GDP in 2002 to 2.5 percent of GDP in 2005. This reduction shall take place within the framework of the governance reforms currently being conducted. A staged strategy will be developed and implemented aimed at increasing salaries to civil servants with a parallel rationalization of their numbers. Financing will be provided for measures to change the structure of government, based on a comprehensive functional review of ministries and departments.

237. Government expenditures in the fuel and energy sector and the housing and communal services sector of the Republic will decrease from 0.7 percent of GDP for each of the sectors in 2002 to 0.1 percent of GDP and 0.4 percent of GDP, respectively, in 2005. In the long term, it is planned to transfer to full payment for these services by users and cessation of budget subsidies. This will reflect structural reforms being implemented in maintenance and housing utilities organizations that are aimed at:

- financial rehabilitation of these sectors and attraction of investments;
- reliable and quality provision of services in these sectors at affordable prices;
- creation of a transparent and competitive environment in the energy market;
- conducting an efficient tariff policy based on the principles of user-pays in the energy sector and housing and communal services;
- user-pays will be attained by developing a more effective tariff structure and elimination of cross subsidizing for various categories of consumers, reduction of technical and commercial losses, development of competition with simultaneous creation of a mechanism providing adequate targeted assistance to socially vulnerable strata of the population;
- gradual transfer of boilers of the Kyrgyzzhilcommunsoyuz (Kyrgyz Housing Communal Services Union) to local self-government or their privatization, implementation of the programs for reducing the costs connected with generation and supply of thermal energy by boiler units of the Kyrgyzzhilcommunsoyuz by conducting comprehensive resource saving measures, transfer of the boilers from expensive to cheaper and local types of fuel;
- introduction of energy "passports" for budget funded organizations, that will set actual financial limits on consumption of electric and thermal energy by them; budget funded organizations will be given the right to use the resources allocated under the item "Utility services" for carrying out energy-saving measures.

Such changes in the structure of government expenditures will allow the budget to be socially-oriented and provide more effective and precisely targeted social assistance to the poor, promote market reforms in the economy and improve effectiveness of public services.

238. **The Public Investment Program.** A key aspect of fiscal policy will be reduction of expenditures for the PIP to the level of 3.9 percent of GDP by 2005. The strategy of the Government on PIP financing envisages a complete refusal of commercial loans. Attraction of extremely soft loans will not be on the scale of previous years. Formation of the PIP will be based on the principles of strict selection of a limited number of new investment loans. Restrictions on the volume of borrowing will be determined by the need to reduce external state debt and the budget deficit, and as formulated in the Poverty Reduction and Growth Facility (PRGF) adopted by the Republic. According to this program, the PIP volume shall be reduced from US\$ 90 million in 2002 to US\$ 65 million in 2005. When selecting investment projects to be included in the PIP, the following criteria, that establish their priority, will be strictly observed:

- compliance with the CDF goals and objectives;
- strategic importance of the project and its ability to promote attraction of private and foreign direct investment; and
- internal rates of return of not less than 12 percent and economic rates of return of not less than 10 percent.

The most important priorities of the PIP will remain: development of the transportation system, telecommunication and energy infrastructure, agriculture and processing of agricultural products, mining industry, irrigation, as well as further development of the social infrastructure (health care, education and culture). It is planned to carry out the rehabilitation of and to complete the construction of regional and interregional electricity transmission lines and hydroelectric power plants.

Improvement of the Budgetary System. In order to improve the efficiency with which government expenditure is made, it is necessary to implement a series of measures to improve the procedures for budget planning, allocation of budget resources and control over their use. It is planned that during 2003-2005, the transfer to a system of program budgeting will be fully completed. The basis for budget planning will be a medium term projection, and it is planned to improve the methodology of its preparation. The information system of the Treasury will be strengthened, as a result of which transparency and accountability of budgetary organizations will be improved, and the accuracy and timeliness of budgetary reporting will be perfected. An important step in this direction will be abolition of "special means" of financing budget funded activities and a complete transfer to the state budget of all funds received by budget funded organizations for rendering paid services. Strengthening financial reporting by budget funded organizations will be promoted by improvement of internal and external audit. International Government Finance Standards will be adopted gradually. Within the period under consideration, the PIP will be fully integrated in the budgetary and treasury procedures of the Ministry of Finance.

The system of budget relations between central and local government will be further improved, particularly at the lower levels of local administrative bodies, allowing improvement in local budget management and the quality of work of local budgetary organizations. Budgetary financial resources and authorities will be reallocated between the central government and local administration bodies in such a way that the capacities and responsibilities of local governments will increase significantly. In particular, a mechanism for stimulating (shared) grants will be introduced starting from 2003. This form of financing has been envisaged in the existing legislation but it has not been applied in budgeting processes until now. Such a mechanism shall become an important instrument for mobilization of resources at the local level, adaptation of government expenditure programs to the needs of the poor.

4. Tax and Customs Policy

239. **The current situation.** The level of tax receipts by the state budget in 2001 increased, reaching 12.4 percent of GDP against 11.7 percent in 2000. In spite of that, the total level of tax collection in the country remains insufficient, although tax rates in Kyrgyzstan are low. The level of budget revenue does not provide for the financing of necessary public expenditure programs and the reduction of state debt.

240. At the same time, the tax system is far from favorable for the support of economic development. It is known that the tax burden is distributed unevenly among economic sectors and regions, as well as within them, thus creating a heavy burden on compliant taxpayers. Some economic enterprises practically pay no taxes, either because of legal exemptions or by hiding from taxes in "shadow business", the scale of which is impossibly large. The development of market principles and improvement of efficiency of the country's economy is impeded by the continuing practice of offsets among tax bodies and taxpayers, and by the payment of taxes, pensions and benefits in kind. Tax incentives for investment and export, which are a priority for economic development of the country, are practically absent. This is especially the case in relation to the largest tax, value added tax, that is theoretically the most appropriate form of tax for stimulating such activities. Unfortunately, due to numerous amendments introduced to tax legislation in recent years, the logic of this tax has been distorted as, incidentally, have almost all other taxes and the Tax Code as a whole. The inability of the customs service to stop the flow of smuggled goods, many of which are subject to excise tax, hinders creation of equally competitive conditions in the economy and significantly reduces state revenues from a source with the greatest revenue potential.

The effectiveness of the tax and customs system is reduced significantly by the lack of adequate coordination and electronic information exchange among the departments dealing with collection of taxes and other state revenues, a bulky administrative system of these agencies, their non-transparency and existing corruption.

241. Aware of these problems, the Government and the Jogorku Kenesh recently initiated a number of reforms aimed at improvement of state revenue collection. In 2002, the Strategy of the Fiscal Reform in the Kyrgyz Republic until 2005 was adopted. The Concept of Improvement of the Customs Policy and a new draft of the Customs Code have been prepared. Actions have been undertaken to ease the situation of compliant taxpayers, to stimulate economic activities, to simplify taxation and simultaneously increase budget revenues, including those of local budgets, by eliminating unjustified tax exemptions and broadening of the tax base. These measures include:

- reduction of the income tax rate for legal entities from 30 to 20 percent, except for the subjects of natural and permitted monopolies, for which the tax rate of 30 percent has been preserved for 2002;
- reduction of the highest marginal income tax rate from 33 to 20 percent;
- increase of the minimum amount subject to income tax from 400 to 650 soms per month;

- annulment of excise tax on fermented tobacco;
- annulment of VAT exemption on imported fixed assets;
- introduction of excise tax on jet fuel and increase in the excise tax rate on jewelry;
- introduction of tax on interest payable to individuals at a rate of 10 percent and an increase in the tax rate on interest payable to legal entities from 5 to 10 percent;
- increase in the tax rate on rendering paid services to the population and retail sales from 3 to 4 percent;
- introduction of mandatory payment of patent-based taxes on certain types of activities, where tax administration is rather complicated due to prevailing circumstances;
- annulment of financial sanctions in case of non-payment, incomplete or untimely payment of taxes by economic entities as a result of untimely financing of works within the allocations envisaged for them by the budget for these purposes;
- permission to establish lending and leasing loss provisions for all financial and crediting establishments and to deduct them from the aggregate annual income; and
- introduction of a uniform tax for small businesses that replaces profits tax, sales tax, road tax, emergency tax for legal entities, and income tax and sales tax for individuals.

The integration currently under way of the Tax and Customs Inspectorates with a subdivision of the Social Fund in charge of contributions collection, into a single fiscal body responsible for ensuring budget receipts, will improve effectiveness and transparency of tax and customs administration. It is clear that these measures are not exhaustive for reforming the tax and customs system, and significant additional efforts and decisive actions will be required to improve the tax climate in the Republic.

242. Goals and priorities of tax policy. The Republic's tax policy will be aimed at increasing state revenues necessary for effective provision of public services and for increasing the pace of economic development of the country. It is obvious that without increasing the tax collection rate, achievement of macroeconomic stability in the country cannot be expected, nor can public investments critically important for the economy be financed or the social sector be supported. At the same time, only a growing economy, in which the tax burden is evenly distributed among various economic agents, is it possible to generate sufficient budget revenues for such purposes. It is in principle important to achieve a level of tax receipts of 15.5 percent of GDP by 2005.

The priority directions of the policy to achieve this objective are broadening of the tax base, elimination of taxation inequalities and improvement of taxation and customs administration. The result of implementation of this policy should be significant improvement of the conditions for economic development, a decreased tax burden and reduction in a scale of the shadow economy. The attainment of these results will require significant amendments in both legislation, and operations of tax and customs bodies.

243. Improvement of tax and customs legislation. It is planned to implement the following reforms in the legislation aimed at broadening of the tax base:

- introduction of a tax on real estate;
- introduction of a tax on the use of mineral resources with a simultaneous annulment of deductions for restoring production and development of the mineral resource base;
- streamlining and broadening the list of types of activities subject to patent-based taxation, with a simultaneous improvement of the mechanism on determining the patent cost;
- cancellation of tax exemptions for certain economic entities, as well as sectors; and
- phased cancellation of certain existing exemptions for VAT.
- In a medium term, it is planned to increase land tax rates and in future to move to determining the rate of this tax on the basis of market value of land. This would eliminate distortion in taxation and create equal economic conditions for all economic agents. With the same purposes in mind, the rate of insurance contributions for state social insurances payable by employers will be reduced and the rate payable by employees will be increased from 8 to 9 percent.
- Reduction in administrative costs and reduction in the tax burden will be promoted by:
- full refunding of paid VAT directly from the budget to all taxpayers exporting and/or investing in enterprises, when the offset amount exceeds the tax liability;
- approximation of the allowed deductions against profit tax and income tax to the real expenditures of economic entities;
- annulment of ineffective local taxes and fees; and
- when it becomes possible in terms of budget capacities, phased annulment of cascade taxes - road tax and emergency tax.

Particular importance is attached to elimination of discrepancies and simplification of legal provisions regulating activities of tax and customs bodies. Improvements will be made to ensure that the Tax Code is the only legal document regulating taxation issues; all instructions and by-laws will be made compliant with the Code. It is intended to adopt and introduce a new Customs Code integrating provisions of the revised International Convention on Harmonization and Simplification of Customs Procedures (those of the Kyoto Convention).

244. Reforming tax and customs administration, as well as collection of insurance contributions to the Social Fund, will be implemented by:

- establishing and strengthening the organization for collection of taxes and other government revenues;
- creating a uniform registration and information system unifying the Ministry of Justice, National Statistical Committee, Social Fund and the new revenue department, so as to improve the registration of taxpayers and establish uniform accounting for taxes and other mandatory payments;
- implementing Government decision on restructuring of the directorate on control of large tax payers;
- improving the authority of the tax services over observance of tax legislation;
- strengthening the sanctions for failure to use cash registers;
- giving documents reporting VAT the status of strictly accountable invoices and making them available only through tax bodies;
- strengthening the liability of employees of fiscal bodies for abuse of power or inadequate execution of their official authority; and
- ensuring a more complete coverage by the individual registration of persons subject to state social insurance, carrying out information and explanatory work among payers of insurance contributions and strict control over accrual and payment of insurance contributions.

245. Improvement of customs administration will be promoted by the development of customs infrastructure, including restructuring of the Directorate on Technical Development of Customs Infrastructure in Northern and Southern Zones merging them into a joint stock company of a closed type.

5. Management of External Debt

Nature of the problem

246. Economic transformation of the Kyrgyz Republic has been to a significant extent achieved through borrowed resources and the provision of technical and financial support from external multilateral and bilateral donors. These borrowed funds were used to finance the Government's growing Public Investment Program (PIP), sectoral reforms and budget support. On the budget side, during the early years of transition, the Government embarked on a short-lived fiscal adjustment program but, faced with exogenous shocks that started from the first days of independence, fiscal policies became too loose.

247. The response to the shocks was a rapid build up of external debt. As a result, public external debt rose from 36 percent of GDP in 1995 to over 132 percent in 2000. At the end of 2001 the ratio of debt outstanding to GDP accounted for 125 percent, while debt to export earnings over the past three years has been 211.5 percent. By the end of 2001, debt service to budget revenues reached 27.9 percent, putting into question the capacity of Kyrgyz Republic to meet its external debt-service obligations in full, without recourse to debt rescheduling, accumulation of further arrears, and/or without unduly compromising economic growth. In other words, the high level of state budget revenue devoted to servicing total debt, represents a serious risk to the achievement of fiscal sustainability and severely limits the Government's willingness to provide social services and achieve the goals set by NPRS.

248. Furthermore, attainment of debt sustainability for Kyrgyz Republic suffers from the downside risks of other factors. These include the country's high level of dependence on official grants and concessional loans, the country's high dependence on exports of gold, high vulnerability to external shocks.

249. In past few years, the Government's debt strategy has often been directed towards removing arrears with bilateral creditors, easing short- to medium-term cash flow difficulties and improving concessionality of the existing portfolio of external debt. Achievement of success in improving concessionality has been mixed, as some successive rescheduling agreements, often with the same creditor, have not in fact improved concessionality of amounts outstanding and have only resolved arrears and cash-flow situations.

250. On March 7, 2002, Paris Club creditors agreed to provide a more comprehensive rescheduling of debt flows for the period 2002-2004. This agreement consolidates roughly US\$99 million due on loans and prior

rescheduled debts contracted by the Kyrgyz Republic before August 31, 2001. This amount consists of principal and interest falling due from December 6, 2001 up to December 5, 2004 (of which US\$23 millions are ODA loans). The rescheduling is conducted according to the following terms :

- ODA credits are to be repaid over 20 years, with 10 years of grace, at interest rates at least as favorable as the concessional rates applying to those loans ;
- commercial credits are to be repaid over 20 years, with 5 years of grace with progressive repayment, at the appropriate market rate (the repayment profile of the restructured amount is attached); and
- moratorium interest on the consolidation is capitalized up to 50 percent for the first year, 60 percent for the second year and 70 percent for the third year.

251. This agreement is expected to reduce debt service due to Paris Club creditors during 2002, 2003 and 2004 from US\$101 million to US\$5.6 million, which consists mainly of payments of interest on the rescheduled amounts. On a voluntary and bilateral basis, each creditor may also undertake debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps. By this agreement with Paris Club, the Government is committed to seek debt treatment on comparable terms from all other non Paris Club member bilateral creditors. After a comparable effort from other creditors, this rescheduling will satisfy the Kyrgyz Republic's financing requirements for 2002, 2003 and 2004.

252. Although the agreement achieved with Paris Club in March 2002 has allowed the Republic to resolve the short-term liquidity problem, it is clear that, unless the Republic continues determined efforts in effective debt management, the nation will face a serious solvency and debt sustainability problem in the medium and long-term horizon.

253. In July 2001, the Government adopted a comprehensive external debt strategy aimed at **reducing the debt burden and re-establishing debt sustainability** in the medium term. Elements of the strategy which have been later amended include:

- A significant fiscal adjustment leading to a primary fiscal surplus (excluding the PIP) of 3.5 percent of GDP by 2005.
- Streamlining the PIP with an aim of reducing its scope to 3.9 percent of GDP in 2005. This amount could be higher to the extent that grants, instead of loans, can be attracted to finance the PIP. Thus, a five year rolling PIP plan is to be updated annually. Clear guidelines will be established for prioritizing alternative public investment projects on the basis of their impact on growth, export potential, and poverty reduction.
- Achieving a comprehensive debt stock treatment from Paris Club on concessional terms at the end 2004. (This stock reduction has been put on the agenda by Paris Club creditors as a good will clause in the Paris Club Agreed Minute dated March 7, 2002.)
- There is to be an increasing reliance on foreign direct investment (FDI) to ensure the desired increase in the level of private sector investment. Unlike portfolio investment that requires servicing, retention of earnings by enterprises receiving foreign direct investment would help alleviate the difficult situation with respect of debt sustainability. The action needed to attract FDI is set out in the section entitled "Investment Policy", below.
- The privatization of the four large state-owned strategic enterprises (KyrgyzTelecom, National Airlines, KyrgyzGas, and the four distribution companies of KyrgyzEnerg) by 2005 and depositing 75 percent of these proceeds in a special Privatization Account in the NBKR to be used for debt reduction (starting in 2002, all other privatization receipts will also accrue to this special account).
- To the extent fiscal resources become available, the repayment of selected government debts ahead of schedule, provided that such early repayment are consistent with Paris Club Agreed Minute dated March 7, 2002.
- Limiting the contracting of new public or publicly guaranteed debt to loans with a grant element of at least 45 percent.
- In the framework of agreements reached with Paris Club, pursuing actively debt-for-equity swaps for state-owned enterprises; as well as debt for environmental, social, and other conversion programs.
- Take further measures to improve the external debt management capacity. In particular, the Republic will continue strengthening its public debt management capacities in the MOF and NBKR through technical assistance regional projects of the Swiss authorities and the IMF for four neighboring countries in Central Asia.

254. The recent detailed debt sustainability analyses conducted jointly and/or separately by the World Bank and IMF, as well as an analysis made by the Government, all point to a similar conclusion. The main message is that, only a comprehensive approach to debt stock treatment from all bilateral creditors on concessional terms (at the end 2004), topped up by efforts to improve the fiscal balance and to implement all the other elements of external debt strategy set out above, will enable the Republic to resolve its long-term

solvency and sustainability problem by the end of the decade (when it is expected that the NPV of debt-to-export ratio will drop to 120 percent). However, even assuming this is achieved, the debt-to-revenue ratio will stay above 150 percent by end 2010. Thus, the Government will try to enforce all the elements of the current external debt strategy and, to the extent possible, intensify it.

6. Development of the Financial System

The banking system

255. In 1999-2001, a package of measures on removing the problem banks from the banking system was undertaken to make the banking system healthier, to improve its quality and reliability. These banks were subject to special administrative procedures through liquidation on the grounds of unsatisfactory management and internal quality control, as well as violation of the banking legislation that led to deterioration of their financial status.

256. As a result of these measures, the viable banks were preserved, and a systemic risk in the banking system was neutralized. After removal of the problem banks, the banking system ended 2001 fiscal year with net profit amounting to 70.6 million soms, whereas the financial output for 2000 was negative (the losses amounted 52.7 million soms). Despite this, the ratio of the assets of the commercial banks, as well as deposits, to GDP remain low and constitute about 8 and 4 percent, respectively. Apart from this, during the last 1.5 years, the quality of the banks' assets has not improved for all practical purposes, the share of "problem" and/or "non-working" assets in total assets making up 11.5 percent as of July 1, 2002.

257. Tightening of the regulatory requirements for the minimum own capital of the commercial banks has encouraged growth of the aggregated capital of the banking system. The total capital of the commercial banks increased by 74.9 percent from the beginning of 2001 and amounted to 1,563.4 million soms as at July 1, 2001. However, it should be noted that increase in requirements for the minimum statutory capital has not led to consolidation of the banking system. A positive trend of changes in the structure of the commercial banks' income and expenses has been observed over the last two years, resulting in significant reduction in both interest and operating expenses, as well as in an increased share of interest income from lending. These facts reflect the completion of the process of overcoming the crises that have taken place in the banking system in 1998-2000, and the formation of the prerequisites for further rehabilitation and strengthening of the financial condition of the banking sector.

258. At the same time, it should be noted that a number of problems persist, the following being the key ones:

- low level of confidence among the population and the businessmen in the banking system;
- inadequate quality of management and internal control and audit in the commercial banks;
- inadequate protection of interests and rights of the commercial banks and other financial institutions as creditors;
- impossibility of efficient enforcement of the banking supervision sanctions stipulated in the legislation due to difficulties arising from legal proceedings; and
- underdeveloped system of early warning and prompt response to the problems arising in the commercial banks.

259. Resolution of these problems and further strengthening of the banking system remains a priority task of the Government and the National Bank of the Kyrgyz Republic. A number of measures will be taken to increase confidence of the population and entrepreneurs in the banking system and increase the level of financial intermediation. In order to raise the responsibility of major shareholders and commercial banks' management regarding managing the attracted resources, relevant amendments to the Law on Banks and Banking and other legislative acts have been developed and submitted to the Jogorku Kenesh. These amendments also provide for strengthening the bank supervision. The measures will be undertaken to introduce realistic corporate management principles and culture, standards of disclosure of financial reporting by commercial banks that should result in increased management and internal control efficiency in banks and increased transparency and reliability of the data on their financial condition.

260. For the purpose of promptly identifying and the neutralizing problems arising in commercial banks, the measures laid down by Regulatory Response Policy, approved by the Government and the National Bank, will be strictly applied. In order to provide access for the population and businessmen of the country to quality banking services, the National Bank will continue to work on formation of a system of anti-monopoly regulation of commercial banks' activity. A simplified registration procedure for branches and savings banks in the regions will remain. Preservation and further development of the branch network of the banking

system in the regions and expansion of the range of services provided by the commercial banks will also be ensured.

261. Creation of a favorable climate for business development in the Republic will contribute to reduction of financial organizations' credit risks, which will lead to increased lending. Protection of the interests of banks as creditors and increased borrowers' responsibility for targeted use of credits, and their timely repayment, will also contribute to this process. For this purpose, it is necessary to amend legislation regulating collateral and introduce principles of corporate management and international accounting standards into borrowing enterprises. It is also important to ensure competence and objectivity of court proceedings and significantly reduce costs and time taken up by litigation, as well as to ensure enforcement of the court decisions related to repayment of the loans by the borrowers. In order to increase the role of borrowers' positive credit history, an independent Credit Bureau will be developed.

262. Further utilization of the financial resources from the credit lines of the IDA, EBRD, German Bank for Reconstruction and Development, the World Bank project, Rural Financing-2, and other sources, through the commercial banks, will facilitate increase in lending to priority sectors of the economy, financing of small and medium business development in Kyrgyzstan.

263. Expanding the activity of the Kyrgyz Investment Credit Bank (KICB) on lending to the enterprises of the country on a medium and long-term basis, will promote development of the real sector of economy and creation of new jobs. Further continuation of the successful performance of the Kyrgyz Agricultural Financial Corporation with preservation of its operative independence is also important, as the Corporation now is the main source of credit resources in the agricultural and agro-industrial sector of the country

264. **The goal of banking system development** is to create a steady and reliable system of financial institutions capable to mobilize efficiently the internal financial resources of the country and meet the requirement of the population in loans and qualitative banking services.

265. The short-term **strategy for the development of the banking sector** consists of three basic elements. First, measures will be undertaken that will result in increased capitalization of commercial banks. Starting from July 1, 2001, the requirement for the minimum authorized capital for existing banks was raised to 100 million soms. For new banks, the required minimum authorized capital was established at 300 million soms. In addition, the National Bank set the additional requirement for the minimum capital (own capital) of a bank at 25 million soms. Strict compliance with these requirements will result in strengthening of the banking sector and increase in its stability. In order to consolidate the banking system, further increases in the minimum size of commercial banks' capital will be considered.

266. Given the importance of strengthening market discipline, the second important measure is to strengthen the capacity of the Debt Restructuring Agency (DEBRA). DEBRA was transferred to the Ministry of Finance, with preservation of the status of noncommercial self-governing organization. Pursuant to amendments to the Law on Bankruptcy, DEBRA is the body authorized to carry out bankruptcy procedure against commercial banks. In order to strengthen the Agency, measures will be taken to increase the professional skills of its staff, improve activity planning and introduce modern information technologies, improve a system of financial reporting and methods of study of credit files and debt collection. These reforms should provide a convincing signal as to the intentions of the Government and the NBKR to recover financial assets from the debtors and thus provide the banks with strong incentives to reasonably manage their attracted financial resources. A separate law will be developed to regulate the processes of restructuring and bankruptcy of commercial banks and other financial institutions.

267. The third main element of the reforms in the banking system will be increasing the efficiency of banking supervision. The methodology used to analyze the financial status of the commercial banks will be improved, and also the system of early identification of problems in commercial banks will be formed. These measures will ensure that shortcomings in banks' performance will be detected at an early stage and prompt actions will be undertaken to eliminate these problems in line with the Regulatory Response Policy to protect the investors' interests. The legal framework and court proceedings related to the commercial banks activity will be improved to make the banking system healthier and to ensure its steady development, as well as to enforce efficiently and timely banking supervision sanctions in order to protect the interests of the commercial banks' depositors, primarily, small depositors. Measures will be taken to ensure competent and objective consideration of such cases. Various options for the creation of a system of deposit protection needed for strengthening public confidence in the banking system and mobilization of domestic savings, are also being studied. Such system should be based on the Law on Deposit Protection and is aimed, first of all, at protection of interests of the small depositors. The system of deposit protection will be introduced when the revival and soundness of the banking sector is effected.

268. In order to activate the development of the banking system, to attract modern banking technologies and management methods and also to improve a competitive environment, the National Bank will continue to work on attracting a strategic investor for privatization of the Settlement Savings Company (SSC). The privatization strategy for SSC should take into account the fact that the Company carries out the socially important function of servicing cash flows of the state budget and the Social Fund and, in some regions, is the sole banking institution. A specially set up government working group will prepare scenarios for the creation of a postal bank to ensure availability of the banking services in all regions of the Republic, in particular, in the remote areas, and to support the payments system. In order to encourage competition in the banking sector, various scenarios of "Kairatbank" development will be considered.

269. The program for support and the development of credit unions will be continued that will result in creation of a system of effective financial institutions in all regions. Sustainable credit unions will be licensed to provide banking services. Such development of the system of credit unions, preservation of a SSC branch network, future conversion of the Kyrgyz Agricultural Financial Corporation into a rural bank, and creation of a Postal bank, will raise competitiveness in the market for financial services in the regions and increase their quality and reduce cost, i.e. make them available to the rural population and entrepreneurs.

270. Based on the Laws On Financial Leasing and On Letters of Credit, the range of services provided by the commercial banks will be expanded. Upon creation of the appropriate regulatory and legal basis for development of the real estate and land market, as well as the securities market, various forms of mortgage lending will be developed. Implementation of these measures will:

- facilitate increased efficiency of the commercial banks' performance as financial intermediaries;
- mobilize domestic financial resources and increase lending to the economy;
- provide access to qualitative banking services over the entire country; and
- ensure efficient banking supervision in order to provide security and reliability of the banking system and its steady development to achieve the goals of the NPRS.

The payment system

271. Currently, the payment system participants in the Kyrgyz Republic are the National Bank of the Kyrgyz Republic, 18 commercial banks with 140 branches located within the Kyrgyz Republic and the National Automated Clearing House. Interbank payments are executed on the basis of documentary payment orders. Apart from the payment order forms adopted by the NBKR, other forms of the payment order that are incompatible with each other have been adopted by the Central Treasury, State Tax Inspectorate and Social Fund, consistent with their own individual requirements. Payments are made through either a clearing system or a gross settlement system. Manual processing and the need for physical transfer of the paper payment orders, limit the opportunities of the existing payment system. It also restrains the further development of the system in ways that will accelerate remittance of payments and growth in the number of payments. This situation has a direct impact on the value and volume of transactions in the financial markets. Besides, it limits the possibilities of the banks and their branches in the remote areas, and narrows the range of their services.

272. Payment systems based on bank credit cards are at the initial stage of their development in Kyrgyzstan. As of July 1, 2002, 2,826 cards were in circulation, 130 terminals were installed. The value of payments was 278.5 millions soms, which constitutes an insignificant share in total value of transactions made. There are no settlement systems based on the electronic trade. Thus, at present, settlements systems based on bank credit cards do not have a noticeable impact on the deposit base and the value of non-cash settlements.

273. The mechanism of money remittances through the state instrumentality, "Kyrgyz Pochtasy", is specified in the agreements between the postal administrations of the parties on exchange of remittances. Under the World Postal Union document, Rules of the Agreement on Postal Payments Services, approved in 1999, postal, cable transfers, and remittances through electronic mail can be used. "Kyrgyz Pochtasy" foreign exchange settlement accounts with commercial banks acting as agents. The bank/agent converts the cash received and credits it in som to the account of the "Kyrgyz Pochtasy". The communication enterprises receive and pay out cash in national currency. At the same time, there are problems related to the time frame of remittances, cost and quality of the provided services.

274. To increase efficiency, reliability and security of the payment system, and to determine the general principles of non-cash settlements in domestic currency in the Kyrgyz Republic, a new Regulation on Non-Cash Settlements in the Kyrgyz Republic will be introduced. The development of this draft regulation was brought about by the need to bring into compliance the procedures for non-cash settlements, with the

changes that have occurred in the financial system since the Republic gained independence. A joint decree of the Government and the NBKR, On Amendments and Addenda to the Decree of the Government of the KR and the NBKR #370, June 22, 1998, On Measures of Providing Efficient Payment System of the KR and Raising Responsibility of Commercial Banks for Timely Payments, was drafted and approved to raise the responsibility of the commercial banks for timely clearing of payments. To further encourage development of the plastic cards market a Regulation, On Bank Payment Cards in the KR, was approved by the NBKR Board. This regulation is a first step in establishing a regulatory and legal basis in the payment cards area, aimed at maintenance and enhancement of the card market and its further development in the Republic.

275. To improve the technology on international payments, the NBKR has conducted preliminary work on installation of the shared SWIFT node. Availability of the shared SWIFT node will enable the commercial banks with least cost to join the international network and make payments based on international standards. Expansion of the SWIFT network in the Kyrgyz Republic will also provide the possibility for making domestic payments in the Republic, using electronic payment documents in the SWIFT format. In view of this, corresponding amendments have been introduced to the regulations on the interbank gross settlement system. In addition, under the conditions of expanding trade and economic relations with the FSU and non-FSU countries, the shared SWIFT node solves one more important task for the banking system of the Kyrgyz Republic, by providing conditions for the integration of the payment system of the Republic with the international systems and payment systems of the CIS countries. In order to increase the share of the non-cash settlements in the economy and to attract additional resources to the banking system, the joint decree of the Government and the NBKR, On Measures for Improving the Procedures for Disbursement of Salaries to Government Employees and Customs and Tax Payments Through the Accounts with the Commercial Banks in the Kyrgyz Republic and other corresponding regulations will be implemented.

276. An interdepartmental working group will work out a national program on measures for 2003-2005 for the introduction of a non-cash payments system and on creation of the infrastructure capable of ensuring effective execution of recurring payments (salaries, pensions, communal services and taxes). In order to increase the share of non-cash payments and the efficiency of the payments system by creating conditions for the development of payment services by using various payment instruments and ensure their availability for the payment services users, the law, Main Directions of Payment System Development for 2002-2005, will be implemented. The share of non-cash payments as a basis for timely salary and pensions disbursements and collection of regular recurring payments, which provides a free choice of the banks for the individuals in making payments, will be increased mainly through a clearing system for recurring payments (bulk clearing) that will work in parallel with the card clearing infrastructures.

277. Within the framework of anti-monopoly regulation of the payment services market, a regulatory and legal framework governing the activity of the payment system operators, such as clearing houses, card-clearing centers, transportation of valuables, including delivery of cash, etc., will be developed. Besides, the measures on development of tariff policy on payment services will be undertaken, that will provide the pricing mechanism aimed at reduction of payment system costs as a whole and processing costs of each separate payment document.

278. In order to implement the provisions of the joint decision of the Government and the National Bank, it is intended to develop a system for the processing of retail and recurring payments of the population. The measures assume creation of a clearing institution to process batches of clients' recurring payments. The presence of such systems in the market will considerably simplify the banks' servicing of their customers, as well as collection, processing and accounting for payments to large corporations that provide recurring services to the population (such as "KyrgyzGas", "KyrgyzEnergo", "KyrgyzTelecom etc.). In addition, these systems will result in cost savings on cash in circulation and will ensure increases in the number of the accounts of the population with the banks and increases in the volume of non-cash settlements.

7. Privatization

279. Reforms of recent years have actively transformed state property to the private sector, drastically changing its structure and its forms of ownership. A mixed economy based on a market system has been formed. The foundations have been established for the development of the local stock exchange, for small and medium-scale entrepreneurship and the infrastructure of an effectively functioning market economy has been established. As a result of the reorganization of state property and the privatization of small enterprises and housing, real owner have appeared in the country, and the basic conditions have been created for attracting foreign and local investors to the economy.

The share of state property in all sectors of economy has decreased significantly. As at 1 July, 2002 the level of privatization was 69.7 percent. A large number of state-owned facilities have been transferred to

communal property and local communities. The level of privatization by sectors is as follows: in industry - 89.2 percent, construction - 58.9 percent, transport - 57.6 percent, trade and public catering- 97.5 percent, in public amenities - 99.9 percent, in non-production sphere - 44.2 percent. At present, the State owns packages of shares in 222 joint stock companies, including majority holdings of shares of 142 joint stock companies. Active further reduction of state ownership of joint stock companies is being pursued by the sale of state-owned packages of shares, through the stock exchange, on the basis of investment tenders, by auctions and so forth.

280. The legal framework regulating the procedure and mechanisms of restructuring and privatization of state property has been developed significantly. A new Law on Privatization of State Property of the Kyrgyz Republic has been adopted, that clearly regulates major issues of privatization and the procedures for alienation of state property to be owned by individuals and legal entities. The law sets down clear standards related to procedures and methods of property reorganization. When privatizing state-owned packages of shares of joint stock companies, the possibility of selling them through the stock exchange market has been envisaged. When assessing state property, not only balance sheet evaluation methods have been envisaged, but a market-based approach as well. Transparency of the privatization process has been strengthened. The Jogorku Kenesh of the Kyrgyz Republic approved the Concept and the Program of Denationalization and Privatization of State Property for 2001-2003.

281. Regulations have been prepared in recent years and approved by the Jogorku Kenesh of the Kyrgyz Republic. The program of privatization in strategically important sectors of the economy (energy, telecommunication, oil-and-gas sector, air transport, gold mining sector) has been started, their assessment has been carried out and privatization schemes have been selected. Enterprises in these sectors have been reorganized, restructured and separated into independent joint stock companies. At present, the State is the largest shareholder that owns a controlling package of shares in the companies of these sectors. At the same time, a purposeful gradual reduction of state ownership is taking place in basic, strategic sectors. Joint stock companies work on the basis of market principles. In order to successfully conduct the sale by tender of the State's shares in the JSC KyrgyzTelecom, the attractiveness of the company was increased by allowing it to issue licenses for mobile telecommunication services. The Government has approved a tender commission. A consultant on privatization has been selected on a competitive basis.

282. The legal structures for bankruptcy has been developed significantly, creating conditions and possibilities for the rehabilitation of economic enterprises, clearing the market of weak, insolvent and non-operating enterprises, as well as enabling the sale of unused assets to effective owners. The developed legal framework provides for the possibility of restoring and rehabilitation of enterprises, and of attracting direct investments to the real sector. During 1995-2001, as a result of bankruptcy procedures, 526 enterprises were recognized bankrupt; during 1999-2002, 80.9 percent of bankruptcy procedures were initiated by creditors. The bankruptcy mechanism involves several public administration bodies authorized to ensure collection of taxes and other compulsory payments. Bodies of the State Tax Inspectorate and the Social Fund of the Kyrgyz Republic have become especially active in this regard. During this period they initiated bankruptcy procedures against 245 enterprises (65.7 percent of the total number of enterprises, the bankruptcy procedures against which were initiated by creditors). Over the past three years, the number of enterprises against which procedures of rehabilitation and restructuring have been applied, has increased three times. This has allowed their preservation as legal entities, or their assets have been preserved as a single functioning whole. During recent years within the bankruptcy framework, glassworks, a cotton spinning plant, a tannery and a starch production factory were restored as large joint stock companies with the participation of foreign investors, and a significant number of jobs have been created. These joint stock companies also have a large export potential.

Certain amendments and addenda have been introduced into existing legislation in order to overcome problems arising from insufficient control, embezzlements and corruption of some special administrators during the process of bankruptcy.

283. The Kyrgyz Republic has become a pilot country for implementation of the program, Corporate Governance and Enterprise Reform, financed by the Asian Development Bank. The first phase of this program helped to establish basic legal, regulative and institutional framework for corporate governance and legal framework for bankruptcy. The reform has been undertaken of managing bodies of joint stock companies, while the principles of corporate governance have been introduced in practically all enterprises. Members of the board of directors of joint stock companies and ordinary shareholders have attended training courses. Charters of joint stock companies have been made compliant with the principles of corporate governance and reregistered. As a result, legal education and consciousness of shareholders with regard to corporate governance have been changed radically. Reform has been conducted in the area of accounting and audit. Introduction of the principles of corporate governance in the real sector of economy ensures

maximum transparency of the most important decisions taken, with direct participation of shareholders in their discussion and adoption. The first project implemented on development of corporate governance has been recognized as a model for countries with transition economies. At present, the Asian Development Bank provides assistance in implementation of a second project on further corporate governance development.

284. The process of privatization currently faces a series of problems impeding effective reform that need to be resolved. Being an owner of packages of shares in a significant number of joint stock companies, the State cannot sell its holding due to:

- the low paying capacity of potential buyers,
- a lack of investment attractiveness of the enterprises involved,
- ineffective measures taken to promote shares in the market, and
- in a number of cases, a low proportion of state shares offered for sale that does not give the buyer the right to fully participate in the management of the joint stock company.

It is necessary to reassess the existing regulating and legal framework, develop new mechanisms of privatization, valuation of property in the process of privatization and bankruptcy, in compliance with the new Law on Privatization.

285. An important problem is an insufficient level of development of the institute of valuers of real estate and property. Inadequacies reflect:

- insufficient experience and qualification of personnel in the issues of market valuation of property,
- lack of financial resources to acquire professional knowledge on property valuation and its upgrading, certain amendments and addenda have been introduced into existing legislation for the purpose to increase their responsibility.
- limited possibilities for qualitative preparation of corresponding documents, and
- development of an organized real estate market.

This problem becomes particularly significant in connection with the introduction of real estate taxes that presupposes an adequate valuation of the property of legal entities and individuals.

The insufficient development of a valuation institute, as well as the absence of licensing and registration processes, also impede development of the real estate market, including mechanisms for leasing and mortgage of land that are new for the country. This creates the grounds for poor quality of valuations services and their corrupt nature.

286. With introduction of private land ownership, legislation provided for portions of land to be transferred to owners of buildings and facilities free of charge, while other portions were not to be included into the cash surrender value during privatization and did not belong to the owners of the structures located in the plot. In this connection, it is necessary to regulate the transfer of ownership rights and assessment of land plots during privatization, the relationship between the state/owner of the land plot and the owner of the structures situated in it.

287. Improvement of effectiveness of state property management still remains one of the most important problems. Weakness in quality and relevant skills of personnel, poor procedures, ill-defined relationships between state representatives and joint stock companies, do not permit the establishment of an effective organization for state assets management. It is necessary to improve the regulatory and legal framework for regulating processes of state property management, including leasing, concessions and dividend policy.

288. The major goals of state property privatization policy to the year 2005 are strengthening and development of the private sector and improvement of the effectiveness of state property management. The priorities in the strengthening of the private sector of economy will be the improvement of the legal framework, privatization and attraction of investments to telecommunication, energy, air transport, oil and gas sectors, improvement of effectiveness of state property management and rehabilitation of enterprises.

289. In compliance with the approved action plan and schedule of implementation of concrete measures on privatization of state-owned packages of shares of the JSC KyrgyzGas, JSC KyrgyzTelecom, air transport companies and distribution companies of the electric power sector by 2005, it is required:

- to work out optimal ways for further development of the energy sector and privatization of distribution companies with a detailed elaboration of various privatization models. State packages of shares of electric and thermal power distribution companies will be privatized by 2005;

- to develop, approve and start implementation of the program of reorganization and privatization of the gas sector. Reorganization of the gas sector will be carried out by privatization of the state package of shares of gas distribution companies and companies selling liquefied gas;
- to privatize the state package of shares of the joint stock company, National Air Carrier Kyrgyzstan Aba Joldoru; and
- to conduct a tender on sales of 51 percent of shares of the JSC KyrgyzTelecom.

290. Active privatization of objects of the resort and recreation sector, as well as state packages of shares of medium enterprises of various sectors of the economy will be continued, envisaging attraction of direct investments for their development. To increase investment attractiveness of enterprises, several companies will be selected in which it is intended to carry out procedures of anti-crisis management (analysis, restructuring, renewal of technical, technology park, introduction of know-how, and so forth).

291. Active work will be conducted on establishment of joint enterprises and production operations with participation of foreign companies on the basis of state assets and enterprises in which there is an equity holding by the State.

292. Certain work will be done to increase effectiveness of state property management, introduction of an effective system of financial rehabilitation of enterprises. With a view to reforming state property management, mandatory conclusion of contracts will be required between state representatives in managing bodies of economic enterprises and other elements in the partnerships or associations. The program on manager's activities will become an integral part of the contract, stipulating the procedure and requirements for reporting, forms of control, manager's responsibility. A clear and unified system of selection, preparation and evaluation of managers will be developed. It is intended to upgrade the professional skills of companies' managers and members of boards of directors. For this purpose, it is necessary to establish a system of education and refresher courses for the managers of state shareholding, members of boards of directors that will require technical and financial support from international organizations. Open contests will be conducted among managers and commercial structures to transfer them the right to manage state shareholding, to represent the state on boards of directors. Corresponding regulating and legal acts will be drafted and adopted for the purpose of regulation of this process.

293. The newly established Interdepartmental Council on Bankruptcy will be conducting a justified, active and coordinated examination of economically and socially important enterprises that are indebted to the State. It is necessary to improve the legal basis of bankruptcy procedures and mechanisms, to develop proposals for determining the procedure for taxation of economic subjects in the process of bankruptcy. In relation to insolvent economically and socially important economic enterprises, it is intended to conduct some work on coordinated decision-making by the concerned ministries and departments collecting mandatory payments (bodies of the STI, Social Fund, Ministry of Finance). A policy of a single creditor on behalf of the state will be implemented, and realization of bankruptcy of a missing debtor will be ensured. Control over the observance of legislative requirements by special administrators will be strengthened, including those relating to possible preservation of production or a part of production, its restructuring or rehabilitation. In order to increase the responsibility of special administrators for committing illegal actions in the process of bankruptcy, legislative measures will be taken to increase their criminal and administrative responsibility.

294. Stock-taking and updating of the regulations on privatization, creation of new documents on the procedure and conditions of conducting auctions, bidding, transfer into management with further purchasing, direct sale, etc., will be conducted in connection with introduction of the Law on Privatization of State Property in the Kyrgyz Republic.

295. For the purpose of developing the quality of valuation activities in the Republic, it is necessary to adopt the Law on Valuation Activities and Valuation Standards that will apply to the activities of valuers. Development will be undertaken of an institute of private independent valuation of land, business and real estate in accordance with market requirements. It is intended to prepare a set of documents regulating and developing this process, to study and introduce international standards of valuation activity in the Republic. It is planned to review the legal framework regulating the process of privatization of land owned by the State when privatizing the structures located on it, its assessment during privatization and a mechanism of transfer of the land ownership into private property.

296. Conducting open tenders - auctions, contests, tenders, will carry out completion of privatization started previously. This will include auctions without establishing the reserve price, sales of facilities at the place of their location, broad advertisings, direct negotiations, transfer of property assets to repay the debts.

Solution of the above tasks will promote optimization of the ownership structure, development of entrepreneurship, further development of market relations, rehabilitation of enterprises, inflow of investment into the Republic, and increased employment.

8. Investment Policy

297. Kyrgyzstan's geographic location has provided the nation with some comparative strengths such as pleasant natural surroundings and climatic conditions, as well as an ecologically pure environment. The Republic has the potential for the development of energy, mining industries, agro-industry and tourism. The country has a small market, so that any successfully implemented investment project can make a significant contribution to the development of the whole economy and provide the investor with the possibility of "quick wins". Many sectors of the economy have not been efficiently developed, so there is almost no market competition. It is therefore possible for the investor to quickly increase production efficiency and reduce costs by replacing old technologies that still exist in key sectors of the economy.

The presence of large neighboring countries, provides future potential for investors to expand the market for their goods and services. Cheap and qualified labor can provide investors with good opportunities for making profits. Adaptability of Kyrgyz citizens to change provides investors with an opportunity to use the human resources of the country effectively when applying modern technologies and new methods in management. These advantages make the country attractive to potential investors.

298. In recent years, the Republic has done a lot to create a conducive investment climate. Some of the major achievements are as follows:

- political stability;
- consistent pursuit of market reforms and macroeconomic stabilization;
- a liberal trade regime and an unrestricted foreign currency exchange and capital markets have been put in place;
- the Republic is a member of the World Trade Organization;
- a liberal investment regime, under which almost all sectors of economy are open to foreign investors;
- private land ownership has been introduced;
- a road network covers the whole country and is being gradually improved; and
- privatization and development is proceeding in important sectors of economy such as telecommunications, energy, transport and tourism.

299. Despite these advantages, there are a number of difficulties that need to be resolved if both domestic and foreign private investment is to be encouraged in the Republic.

The development of Kyrgyzstan has been effected by a number of external challenges. First, there was the crisis that took place in 1998 in Russia, a country that is the major trading partner of Kyrgyzstan. Then there were the events of 1999-2000, connected with invasion of guerillas in the southern parts of the country. These events had an immediate impact on direct investment inflow, the volume of which decreased from US\$ 135.8 million in 1998 to US\$ 93.8 million in 2001.

According to a UNDP study, the index of economic freedom in the Republic is on the same level as that of China and Russia. As in the case with all transition economies, infrastructure, trade, institutional, administrative and legal issues, as well as informational barriers impede promotion of investment in Kyrgyzstan. The domestic market is small, the country is remote from international railways and shipping routes and faces barriers to its international trade through dumping and restrictive policies of neighboring countries. Transportation costs, combined with regional transportation problems, underdeveloped economic infrastructure represent only some of the economic difficulties faced by the country when attracting direct foreign investment.

State institutions dealing with investment policy are weak. General and financial managers are not well qualified. There are insufficient numbers of professionally developed sectoral and regional strategies, as well as attractive investment projects. These factors result in insufficient use of domestic savings and a small volume of domestic investment. Low incomes and a lack of confidence in the domestic banking system result in low levels of private investment in the country at present. Existence of the informal "shadow" economy diverts capital away from priority areas of investment.

300. Unfortunately, few in the world know about Kyrgyzstan. Many maps still bear old names of the country and its capital city. Kyrgyzstan is more associated with the former USSR. There are not enough books,

brochures, articles, web sites about the country, and weak public relations campaigns. The policy on attraction of investment to the country and its regions is not yet adequately developed.

301. Studies have revealed that the major deterrent to both foreign and local investment in Kyrgyzstan is the instability of the legal framework in the area of investment activity. Regular amendments to the Tax Code, changes in the Law on Foreign Investments in the Kyrgyz Republic, revocation of a number of investment initiatives of a taxation and legal nature, have significantly reduced the attractiveness of existing free economic zones (FEZs). Heavy taxation does not stimulate investment in priority sectors of economy, problems with export-related VAT refunding due to limited budget resources, the presence of off-set operations in the financial system, ambiguity and inconsistency of customs legislation, are all factors that discourage investors.

The level of reinvestment in the country is very low because it cannot depend on the system for protection of investment.

302. Official regulation of direct investment does not permit ready and quick entry of investors into the Republic. A large number of expensive licenses and permits that are subject to annual renewal represent an additional financial burden on investors. The existing state regulatory and licensing system is a serious impediment to the creation of a conducive investment climate. Some of the most significant barriers are the problems of technical regulation (technological standards on products and evaluation of compliance).

303. Excessive regulation in the economy leads to growth of corruption. According to surveys conducted by international organizations, the level of existing corruption in the country sometimes neutralizes all the efforts taken by the State to attract foreign direct investment. Corruption is present in judicial, law-enforcement, financial, customs instrumentalities, as well as in taxation and other public administration bodies.

304. Starting in 2001, the Kyrgyz Republic began formulating a new investment policy. Annual investment summits are key events, defining major directions of state policy for the attraction of investment, and developing proposals for immediate action on elimination of investment barriers. The summits are held with the participation of the President of the Republic, key managers of economic agencies, as well as involvement of large-scale direct foreign investors. The first such summit, held in July of 2001, specified basic conceptual directions of the new policy on attraction of investment in the form of a range of measures on elimination of existing barriers and strengthening of the marketing policy. In order to coordinate implementation of decisions taken at the summit, the Advisory Council on Foreign Investments was established and the office of a special representative of the President of the Kyrgyz Republic on attraction of foreign investments was introduced in August of 2001.

305. As a result of the decisions of the summit of 2002, the new draft Law on Investments in the Kyrgyz Republic, regulating activities of investors, has been prepared and submitted to the Parliament. It establishes basic principles aimed at improvement of the investment climate. It ensures a fair and equal investment regime for both local and foreign investors, as well as guarantees on protection of the capital attracted by them. A one-year moratorium has been introduced on adopting new regulations and laws limiting business activities of entrepreneurs. The "One Stop Shop" system (a government agency designed to facilitate foreign investors' entry into the Republic) has started functioning.

306. **The major goal of the new investment policy** is creation and utmost use of the comparative advantages of the nation in order to ensure active attraction of direct investment.

307. For further liberalization of the country for investors Kyrgyzstan will be applying an "open door" policy in order to attract direct investment. Amendments will be introduced to the legislation on migration, to optimize the regulations on entry, exit and stay of foreign citizens.

The State will actively continue the process of privatization in order to reduce sectoral barriers and functional restrictions for the inflow of foreign capital. Programs on development of sectors and regions will be prepared. It is necessary to establish databases on specific investment projects in energy, mining processing industries, tourism, information and telecommunication spheres, as well as in the services sector. These projects will be very attractive to direct foreign investment. The country's economic infrastructure will need to be further developed and improved.

308. A clear and transparent legislative base will be established and further improved to **ensure a conducive investment climate** to provide for a sustainable basis for investment policy, legal guarantees for investors and protection of their capital. Measure will be taken for a maximum reduction and simplification of the regulatory system and clear and transparent procedures on administrative regulation will be developed

that will be strictly complied with by the responsible public administration bodies. Administrative regulations on foreign direct investment shall be adapted to ensure free and quick entry of investors into the Republic. It is necessary to bring technical standards into compliance with the standards set by the WTO and other international organizations.

309. It is necessary to secure reinvesting of capital. The State should guarantee that investment disputes between the State and investors will be considered impartially and fairly. Such guarantees should be confirmed by law and be strictly observed. It is necessary to strengthen the investors' confidence in the Republic's courts and judicial proceedings in general.

310. In addition, the situation will be improved by the signing agreements on protection of investment with the countries of potential investors. Protecting the investors' right and reduction of possible risks when they undertake investment in the Republic, will become a firm characteristic of the attitude of Kyrgyzstan towards investors.

Against the background of measures to improve the investment climate, the most important task will be to create the image of Kyrgyzstan as a small country with very attractive possibilities for capital investments. This implies giving top priority to the development and continuous conduct of public relations campaigns to spread information about investment opportunities of the country.

To address these issues, a plan of informational work for 2002-2005 will be developed for coordination of activities of all ministries and government agencies on presentation of investment opportunities.

311. **To promote investment** necessary and possible amendments will be introduced into tax legislation to increase the level of neutrality of the tax system in relation to foreign and local investors, as well as to stimulate inflow of investments into the country. Certain amendments will be introduced to customs legislation for the purpose of its simplification, transparency and clear interpretation.

312. The Republic will continue to develop effective free economic zones (FEZs), using them as export centers and centers of investment growth. It is necessary to bring the activities of free economic zones into line with international standards. In order to improve the attractiveness of FEZs that already operate successfully, incentives and motivation shall be provided through improvement of the regulatory and legal framework. In future, Kyrgyzstan will have to use FEZs to stimulate inflow of new technologies, output growth and production for export of modern products.

313. It is necessary to strengthen institutions attracting direct investments, attaching a priority to quasi-public structures. Special attention will be paid to providing training for professional managers when preparing investment projects and carrying out marketing for them.

314. It is intended to develop the office of trade and investment representatives of the Republic abroad that can be entrusted with these tasks.

315. An important measure will be establishment of a specialized analytical center of expertise to provide assistance with the development of business plans and projects. A major goal of this center will be improvement of the literacy of the local business population, as well as assistance to entrepreneurs on further development of their business plans. Another function of the center will be reviewing the regulatory and legal framework for further improvement of the legislation related to investment activity and coordination of national priorities with sectoral and regional ones.

9. Stimulating Private Enterprise

316. Nearly 60 percent of the population is currently engaged in the SME sector. The sector, producing over 43 percent of the national product, is constantly growing. In the year 2001 compared to 2000, the number of SMEs increased by 25,800 entities (11.5 percent). While the number of employed in the same period increased by 58,500 people or 6 percent.

317. A number of concrete steps have been taken by the State to stimulate private enterprise in the country. Much work has been done to refine the legal framework regulating private enterprise. One of the principal actions has been adoption of the Law on Protection of the Rights of Entrepreneurs, has become the key legal document promoting the development of the private enterprise.

318. Many measures have been directed at streamlining and curtailing the system of permits. These include

amendment of existing legal instruments and adoption of several new ones that all together facilitated a reduction in the number of licenses by almost ten times (down to 30 types), as well as streamline procedures and reducing the waiting period. Several rules have been approved to eliminate the conflict of interests in the area of state regulation of private enterprise. In accordance with these rules, entities operating under a certain license cannot issue licenses for the same type of activity to other entities.

319. Other developments have included introduction of a differentiated taxation system for SMEs; reduction of profit tax for legal entities from 30 to 20 percent; reduction and differentiation of individual income tax down to 10 and 20 percent; cutting the insurance contributions to the Social Fund from 29 to 25 percent. The list of activities for which a simplified system of patent taxation applies has been expanded. Moreover, those entities paying tax on a patent basis are exempt from inspections for the patent validity period. An automated information system has been developed to monitor inspections and analyze the activities of inspectors.

320. A one-stop-shop mechanism has been introduced for official registration of legal entities. Measures have been taken to rationalize the activities of state inspection agencies, including adoption of a unified order and inspection procedure. A one-year moratorium has been announced on adoption of new legal instruments that limit business activities.

321. Due to the still excessive control over business activities by state agencies and corruption, the environment for development of private enterprise remains restrictive.

322. The inadequate financing infrastructure in the Republic does not satisfy the need of SMEs for low cost and long-term financing. Credits provided by commercial banks, including those flowing from international donors, are not attractive for SMEs because of high interest rates, hard currency repayments, complicated procedures, short period of lending and other reasons.

323. In spite of the measures taken on reduction of the tax burden, general tax rates remain high while complicated administration create opportunities for corruption. The barriers created by the neighboring countries for transit of cargo on their territories create additional costs.

324. Entrepreneurs are weakly associated and have not learned to effectively defend their legitimate rights. Professional and managerial skills of entrepreneurs are yet to improve. Marketing information is not readily available to entrepreneurs.

325. **The main goal in the private enterprise sector** is to create an enabling environment for active and dynamic development of small and medium enterprises with the aim of increasing employment and reducing poverty. **Priority measures** for creation of the enabling business environment include:

- Optimal minimization of state intervention into SME activities.
- Improvement of fiscal policy to stimulate activity of private enterprise.
- Provision of SMEs with borrowing and investment resources.
- Development of private enterprise support services (information, etc.).
- Promoting all forms of producers' associations.

326. Stabilization in the private enterprise sector will be ensured through the following mechanisms:

- Revision of the principal state functions on regulation of business activity to assess their relevance, adequacy, and effectiveness. Optimization of the system of permits (licenses, certificates, permits) and elimination of duplication and irrelevant regulative norms. Streamlining of control and inspection function of state regulatory agencies. Increasing the responsibility of officials for unlawful intervention into activities of private sector business enterprises. Only standards related to security and health issues must remain.
- Universal introduction of a simplified taxation system for business enterprises. Reduction of the tax burden with concurrent expansion of the taxable base. Rationalizing the customs control system with the aim of simplifying procedures and reducing their cost to protect the interests of domestic producers. Improving the legal framework and strengthening the system of enforcing the legal instruments regulating lending operations and the use of collateral. Gradual introduction of a mechanism of pledging land as collateral.
- Increasing the availability of financing to SMEs operating in priority areas of economic development. Expanding SMEs' access to capital funds and unclaimed property (after bankruptcy procedures), leasing of equipment and technical know-how. Expanding financing, including through international credit lines, by reducing interest rates, simplifying the procedure of reviewing applications and issuing credits. Developing the microfinancing system.

- Finding ways of eliminating barriers related to transportation costs for transit of cargo through the neighboring states. Strengthening private enterprise support infrastructure in regions.
- Providing SMEs with accessible information services. Creating a system for training and qualification upgrading of entrepreneurs in business planning, marketing, management, finances, etc.
- Assisting with establishment and development of private enterprise support associations in order to coordinate the decision making related to the private enterprise.

327. Further development of SME sector envisages:

- Further refinement of the taxation system to stimulate the legal private enterprise.
- Development of the legislative framework to support alternative types of investment (leasing, franchising, venture funding, etc.).
- Development of a system for informational, innovative, and technical support to the private enterprise.

10. Corporate Governance

328. The Corporate Governance and Enterprise Reform Program, supported by the Asian Development Bank, was the most important program of institutional reforms and structural adjustments carried out in the real sector in recent years. The newly developed corporate governance guidelines aim to improve the legal and regulatory framework of corporate relations, increasing responsibility, transparency and accountability of corporate management in joint stock companies (JSCs). The guidelines were developed together with a standard charter for JSCs. Amendments and addenda were made to the legislation related to corporate governance issues.

Over 500 JSCs have revised, adopted, and reregistered their charters in accordance with the principles of corporate governance. These included the country's three largest joint stock companies, KyrgyzTelecom, KyrgyzEnergo, and Kyrgyzstan Airlines (the last two were restructured in 2001 and several JSCs emerged as a result). Clear distribution of authority and decision making functions among various management units of JSCs were the most important aspects of the introducing of corporate governance principles in local companies. The Corporate Governance and Enterprise Reform Program paid special attention to raising shareholders' awareness of corporate issues and their rights, and encouraged greater participation in the management of joint stock companies. Another useful measure was the introduction of the position of a Company Secretary, the office responsible for JSC's relations with their shareholders.

The Program has helped to establish a basic legal and institutional framework for development of corporate governance, and a legal framework for bankruptcy. Principles of corporate governance were applied to key areas of the production sector. An environment has been created to ensure practical implementation of legislative requirements on issues of financial insolvency and bankruptcy. All objectives of the Program were achieved and the outcome was highly praised by international experts. Moreover, the Program was named a model program for development of corporate governance and enterprise reform in transition economies.

329. In spite of these significant achievements, a number of issues requiring urgent attention were identified in the course of program implementation.

The institutional environment and the legal framework for effective corporate governance need to be further developed. The existing mechanisms for protection of the rights of small shareholders are insufficient. Shareholders and JSC management bodies have limited capacity and skills to adequately monitor the completeness and correctness of applying legal norms regulating JSC activities. Many JSCs have the problem of poor management.

The policy and environment necessary for monitoring corporate governance are weakly developed. Large shareholders are not always aware of their powers or, if aware, prefer to neglect them. Insufficiently strict criteria for appointment of Board members lead to conflict of interest. Lack of clear corporate policies in joint stock companies negatively affects management. The capacity of the State to monitor and regulate legal aspects of corporate governance needs to be considerably enhanced, especially in the companies with state shareholdings in them.

Corporate governance principles are still weakly applied in the banking sector. Interventions of commercial banks' shareholders into banks' decision making on lending are becoming frequent incidents that lead to issuance of credits to the people affiliated with bank's large shareholders and subsequent deterioration of the financial situation in the bank. Despite the enhancement of banking regulations, some legislative flaws and problems on resolving disputes have prevented the National Bank of the Kyrgyz Republic (NBKR) from effectively carrying out its banking supervision functions.

There is a lack of reliable and transparent information on the condition of various enterprises. Some reporting requirements are complex and hinder effective analysis of the financial condition of the enterprises.

Implementation of international accounting and audit standards is still insufficient. Although USAID has assisted in retraining accountants and financial specialists of more than one thousand economic entities, the following problems remain:

- many enterprises have not adopted international accounting standards, including many large joint stock companies with the state shareholding in them;
- lack of adequately trained specialists in the State Tax Inspectorate who can work with financial statements prepared on the basis of international standards of financial accounting; and
- legislative contradictions related to international standards of financial accounting.

Operational and financial activities of many enterprises are weak. Many joint stock companies operating in such strategically important sectors as machinery building, light and food industry, as well as in the extracting industry, are in great need for working capital. This, along with poor financial discipline and low competitiveness of final products, is the main reason for bankruptcy of many business enterprises. It is critical to urgently assess the viability of companies and assist with development of appropriate recovery and restructuring programs.

330. Given the existing situation, the Government and ADB have developed the Second Corporate Governance and Enterprise Reform Program, which was launched in 2001.

The goal in the area of corporate governance and enterprise reform is to enhance the corporate governance and financial management of business enterprises in order to strengthen the confidence of investors and raise the effectiveness of such enterprises. To achieve this goal the state policy should focus on the following priority areas:

- development of political, institutional, and legal environment for enhancement and application of effective corporate governance;
- broad introduction of international standards of financial accounting, audit, and assessment;
- strengthening management in commercial banks; development of legal regulations for the protection of creditors' rights;
- promoting judiciary and legal reforms in the area of commercial dispute resolution, simplifying judicial process and procedures; and
- restructuring inefficient but viable enterprises, liquidation of nonviable enterprises.

331. These measures envisage:

- elaboration of a corporate governance development concept to the year 2006;
- independent assessment of corporate governance practice in companies listed by the Kyrgyz Stock Exchange;
- removal of civil servants from the management of joint stock companies that have state shareholdings in them, and replacing them with professional managers selected on a competitive basis; each management position should be assigned a duty statement that sets out the requirements for a position and the responsibilities to be assumed in the joint stock company
- implementation of proposed measures should later be monitored by the State;
- developing qualification upgrading system for state representatives participating in management of joint stock companies with a state shareholding in them;
- development of standard corporate regulations on management, codes of ethics, and other aspects of corporate governance using the principles of corporate governance developed by the Organization of Economic Cooperation and Development (OECD), and ensure their wide dissemination;
- bring legislation into compliance with the international accounting standards; raising the quality of control and monitoring carried out by state regulatory agencies over conformance with legislation by the corporate managers and boards of directors;
- enhancing the financial and operational transparency in public joint stock companies;
- adoption by joint stock companies of the international standards of financial accounting by the year 2004;
- transferring some state functions on regulation of corporate relations to self-regulating entities; developing a system of extrajudicial resolution of corporate disputes;
- strengthening corporate governance in commercial banks;
- further improvement of legislation on bankruptcy and protection of creditors' rights; encouraging voluntary restructuring and bankruptcy of unprofitable enterprises that have arrears to the state.

332. Promotion of reforms under the corporate governance development concept for 2003-2006 envisages:

- raising the effectiveness of corporate governance systems (refining the principles, expanding the scope, and creating adequate implementation mechanisms);
- encouraging establishment of noncommercial organizations (associations, funds, and community associations), protecting the rights and legal interests of shareholders in such organizations;
- extra judicial resolution of corporate disputes;
- training professional managers; and
- encouraging development of internal corporate relations systems in joint stock companies.

11. Foreign Economic Relations and Development of Exports

333. Intensive investment policy and measures for improvement of the economy can result in high economic growth and social development only with significant increase in the export of goods and services. There remain some serious problems in Kyrgyzstan's foreign economic activity. Export and import levels fluctuate widely. Despite the positive trade balances in 2000 and 2001 (US\$4 million and US\$39.9 million, respectively) the trend of foreign trade and exports is in decline. Although export grew by 7.5 percent in the first five months of 2002, compared to the corresponding period of 2001, the balance of trade was negative. The situation is largely explained by the fact that the principal export items are:

- gold, with its volatile world prices and unstable production; and
- electricity, the export of which is directly related to a fluctuating water/energy balance and the situation regarding agreements between Kyrgyzstan and other states.

Foreign trade is also hindered by various barriers such as customs duties, tariffs, and non-tariff limitations imposed by traditional trading partners.

334. In this situation, it is necessary to develop a new external economic policy in order to ensure positive movement of the economy of Kyrgyzstan towards the world market. Active participation of Kyrgyzstan in all global economic relations will promote its status as a state with a stable and reliable trade policy. This would have a positive impact on both business and investment activities of commodity producers.

335. Kyrgyzstan has a geographically advantageous location in the center of Asia that is a natural junction of the shortest transportation routes, trade, financial and informational flows between West and East. It is also important that some of the largest countries of the world, such as China, India and Russia, with an aggregate population of almost 3 billion people, are located within 3 to 5 flight hours from Bishkek. Therefore, according to the opinion of Japanese experts, it is quite feasible to establish in future a regional business center that will allow Kyrgyzstan to become a service oriented country. With the technical support of the Government of Japan, it is planned to conduct studies on the development of export-oriented production of light and food processing industries (2002-2003), on development of export and import infrastructure (2002), and on development of information technologies (2003). In addition, it is intended to take a series of specific steps to develop the services sector. As for the finance industry, attraction of major foreign banks is envisaged, and creation of the relevant infrastructure and supporting production processes will be started in the area of tourism. At the same time, priority will be given to the study of systems of distribution and material and technical support, starting with supplies of raw materials and ending with satisfying the demand of the consumers of finished products. A very effective distribution network, including terminals, warehouses, transportation links and connections, will serve as a foundation for the modern trade infrastructure and primarily for the export of local goods and services.

336. The Kyrgyz Republic should pursue an aggressive policy of export promotion, focusing specific efforts on increasing the volume of exports of:

- processed products;
- gold and non-ferrous metals by developing new deposits;
- electricity by supplying it to neighboring countries and attracting investment to the sector;
- tourism industry services by developing its various forms (regional, elite, ecological, hunting, etc.); and
- export of information technology software, in which the Republic has the necessary potential.

337. Advertising campaigns will be launched to promote local goods in both domestic and external markets.

338. One of the key aspects of penetration in global markets is participation of Kyrgyzstan in various regional and interregional agreements on free trade and investment. Therefore the State must promote the activities of international representative offices with such unions as APEC, EU, FTAA, and AFTA.

339. Kyrgyzstan will actively participate in the work of regional unions to pursue an active external economic policy on promotion of exports of local goods and services and attraction of investment.

340. In order to create conducive conditions for export as one of the determining factors for economic growth, the State will use its WTO membership broader to search for alternative trading partners with a sustainable payments system. In particular, it is necessary to carry out a thorough review of barriers impeding development of trade relations of Kyrgyzstan with other countries.

341. The Republic must focus its activities on active use of supplementary trade preferences according to the General System of Preferences, ensuring predictability of access to external markets, elimination of trade discrimination, acquiring of an international legal basis to protect the interests of local commodity producers, and to resolve the issue of unhindered transit of Kyrgyz goods through the territory of neighboring states.

342. The nearby presence of the large market of China, a member country of the WTO, promises significant prospects for the development of export of local goods and services. Kyrgyzstan will seek trading opportunities in the potentially huge market of Afghanistan that is being opened up. The State should focus efforts on export of its products to this country, experiencing an acute deficit in essential commodities.

343. Kyrgyzstan has certain geographical advantages. The Republic will make every effort to transform Manas airport in one of the most strategically important points in the Central Asia region for handling air cargo. Kyrgyzstan shall become a transit country for transportation of cargo by air. The Republic shall become a service-oriented country providing tourism, communication, banking and other services for the global market.

344. It is necessary to speed up the work on concluding bilateral agreements with countries that are partners in trade and economic cooperation. Practical experience shows that such agreements are the most effective in interaction with trading partners in terms of harmonization of taxation and customs regimes, avoidance of double taxation, removal of existing discriminatory barriers, and so forth.

345. The State will make all the efforts to create a unified marketing network in the Republic. The possibility will be considered of establishing a center similar to the JETRO in Japan, that would provide information on potential sales markets, market conditions, provide adequate training of production managers in foreign markets, and so forth.

346. The state will stimulate the introduction of electronic principles of trade and business management among entrepreneurs.

347. The taxation system will undergo reforming towards reducing the tax burden for industrial enterprises and promotion of export of their products. Amendments and addenda will be introduced to the Tax and Customs Codes aimed at promotion of export of local goods and services.

348. Systems of bar coding will be introduced for Kyrgyz goods for the purpose of export development. It is planned that the full-scale introduction of bar coding will be started from January 1, 2003 under the technical support of the Government of Japan. The Republic will speed up the transfer to international standards of quality of the products produced. It is necessary to search for investments to establish and modernize the laboratory-testing base for the purpose of the transfer to international standards of all types of goods produced in the Republic.

349. Legislation will be further improved in order to stimulate the development of free economic zones, their transfer to international operation standards. Special attention will be paid by the State to the establishment of specific zones, such as export industrial and innovation zones. In the future, all such zones will become sustainable model zones on application of new management approaches and methods in industry, where foreign direct investments and innovative technologies will be actively attracted.

350. In the longer term, Kyrgyzstan will need to carry out structural reforms according to global trends in demand, when secondary industry and services represent the dominant sectors of the economy. Special significance should be attached in future to the production of services that can become a consumer of the results of manufacturing production, helping this sector to adapt more quickly to the standards of global demand.

351. The main objective in the area of production is to create new export-oriented capacities. This implies:

- upgrading and further development of existing productions of goods and services oriented on exports and replacement of imports; increasing the role of processing enterprises;
- exploring new production areas, especially intellectual, such as production of software, technologies, etc.;

- further improvement of taxation and customs policies; ensuring encouragement of investment in all levels of production (R&D and production) regardless of the source of investment; stimulating application of high technologies for better quality;
- elaboration and implementation of a comprehensive industry development program;
- building state system of informational support to industrial enterprises and productions (scientific information, marketing and promotion of goods and raw materials on world markets); and
- elaboration of the strategy for modernization of the system of training and retraining of technical personnel with consideration of world trends in technology and the needs of the real sector.

12. Development of the Real Sector of Economy

352. According to experts of the Japanese International Cooperation Agency (JICA), that provides assistance to Kyrgyzstan on development of industrial policy, secondary or manufacturing industry should be considered in the context of other major production sectors, agricultural production and production of services. The level of the Republic's development and therefore its poverty reduction capabilities, depends on these three economic sectors. The share of agricultural output in developed countries contributes only one to three percent of GDP, while the share of secondary industry is about 30 percent of GDP, meaning that the largest share of output is contributed by the services sector. Thus, the latter two sectors produce the highest value added in developed economies.

353. The history of the development of secondary industry in Kyrgyzstan since 1991 indicates that this sector has been a weak contributor to the formation of GDP. Secondary industry's contribution to the total volume of GDP dropped down from 27.4 percent in 1991 to 11.1 percent in 1996. After the development of the Kumtor gold deposit with the support of foreign direct investments in 1997, gross industrial output started to grow, its share reaching the level of 21.3 percent of GDP in 2001. At the same time, the situation in other major sectors of the economy has been stable and sustainable growth has been observed. Thus, the share of agricultural output in the total volume of GDP on average has been about 38 percent, while the share of services has increased from 31 percent of GDP in 1991 to 39 percent of GDP 2001.

354. It is worth noting that in the Republic, more than 50 percent of state budget revenue is provided by the manufacturing sector, the services sector contributes 35 percent, and the agricultural sector, only about 4 to 5 percent.

355. The process of privatization has been most successful in agriculture, where 99 percent of inputs of this sector to GDP are produced by the private sector. Private enterprises of the services sector, where many public utilities such as telecommunication and transportation services have not been fully privatized yet, or are at the initial stage of privatization, are responsible for 68 percent of the sector's contribution to GDP. As for the manufacturing sector, the given indicator is about 90 percent, and a decline in production by local private enterprises can be observed. This suggests that not much can be hoped for from existing manufacturing enterprises by the process of privatization, particularly as many of the privatized enterprises have become bankrupt due to non-competitiveness of their products.

356. It should be emphasized that, at present, the presence of one large investor in non-ferrous metallurgy (Kumtor), dominates the development of practically the whole manufacturing industry sector where, according to the data for 2001, its share was more than 45 percent of the sector's total contribution to GDP. This indicates that local manufacturing industry has not yet been able to adapt to market reforms. This view is also supported by statistical evidence on changes in the shares of large industrial sectors, such as energy, power and the food industry. From 1997 to 2001, the share of the energy sector fell from 13.2 percent of GDP to 11.9 percent of GDP, the power industry from 11 percent of GDP to 5.6 percent of GDP, and the food industry from 16.1 percent of GDP to 13.9 percent of GDP.

357. Thus, the structure of Kyrgyzstan's economy, and the level of its development, are determined by:

- A high level of dependence of the industrial sector on the performance of one large gold-mining enterprise, Kumtor, incompleteness of the sector's structural reforms, as well as the large share of the tax burden borne the sector.
- Development of the services sector, where the private sector is gradually taking the initiative over the public sector, with tangible revenues flowing to the state budget.
- Minimal receipts by the state budget from the agricultural sector, that is basically private and developing steadily.

358. In future, it will be necessary to change the structure of the economy to shift its orientation to the development of services and manufacturing industry for a more stable and reliable reduction in poverty.

Development of agriculture and rural territories

359. Agriculture is a priority sector of economy, providing nearly 40 percent of GDP. Sixty five percent of the total population of the Republic lives in rural areas.

360. In recent years, significant progress has been achieved in agricultural and land reforms and the average annual growth of gross agricultural output has averaged 6 percent. In 2001, more than 90 percent of agricultural products were produced by the private sector, and the share of peasants' farms and farming enterprises was more than 44 percent. More than 241,200 farming enterprises and peasants' farms, and about 600 various unions and associations, including 462 cooperatives have been established.

Radical changes in production have resulted in the formation of a new economic environment based on market principles. A significant body of rural inhabitants possessing land and other means of production has been formed. Market mechanisms of land use are being developed, private land ownership has been introduced by the Constitution, the Law on Agricultural Land Management has been adopted, providing for land purchase and sale, and work on the development of the land registration system has been started. The agricultural sector is exempt from all types of taxes except for land tax. The agricultural sector is also supported by allocation of seeds and commodity credits. Thanks to the active support of donor organizations, agriculture is successfully financed through the Kyrgyz Agricultural Financial Corporation (KAFC), credit unions and microfinancing institutions. A network of educational, advisory and information services is being developed. The World Bank, Asian Development Bank, European Commission, Swiss Cooperation Office, Government of Japan and other donors, provides significant assistance to the agricultural sector.

361. As a result of agricultural reforms, there is stable growth and the volume of agricultural output now exceeds the level of 1990. During recent years, self-reliance has been attained in certain types of food products that have solved major problems in the country's food security.

362. Notwithstanding the results achieved, the agricultural sector has not provided a significant increase in the income of the rural population. The poverty level in rural areas is still high, making up 51 percent in 2001. Poverty reduction in rural territories is hindered by serious problems in the sector.

363. The share of financing provided from the national budget to agriculture is decreasing every year. The national system that facilitated the whole agricultural cycle has been significantly degraded, starting with production of agricultural produce and ending with its processing and further sales. The level of support services in the Republic for rural producers is insufficient. In terms of economic performance the agricultural sector and processing industry operate under different conditions. This engenders a lack of cooperation among them and, as a result, instances of overproduction of agricultural produce have become more frequent. Export of agricultural raw materials is impeded by high costs of access to external markets. The level of real income of the population limits growth in the volume of domestic consumption.

364. Institutional reforms in the agricultural sector, together with some positive developments, also have resulted in some negative side effects. Existence of a large number of small farms that produce up to 47 percent of the total agricultural output (on some types of products they retain a dominant position), has in many ways promoted a reduction in the quality of production. Presence of a large number of economic units in agriculture (241,200 in January 1, 2002) has resulted into a significant decrease in the level of management qualifications in rural areas and, as a result, primitive methods of management have become prevalent. It is difficult to introduce new technologies and increase labor productivity on small farms. Modern technologies that enable intensification of rural production are not taken advantage of because of the lack of necessary financial resources and low technical skills of personnel. Modern marketing and management systems are practically absent in agriculture. All these factors have resulted in a decrease in the incomes of rural workers and problems in supplying processing industry with raw materials.

The major objectives in the development of the agro-industrial complex (AIC) for the current and perspective periods, is revival of industrial agricultural production aimed at providing the population with foodstuffs and ensuring sustainable development of the processing sector. It is necessary to increase exports of processed agricultural products. For this purpose it is required to solve the priority tasks related to support of domestic industries processing agricultural products, rational import replacement, as well as ensuring competitiveness of the country's production in the world market.

Effort is being directed, with donors' support, to ensure food security. Thus, an agreement has been signed, according to which in 2002 the Republic will be allocated a grant of EURO 9.5 million by the European

Community Commission aimed at establishment of a sufficient government grain reserve, and effective implementation of social and agricultural policies. The Program, Food Security-2000, assumes further reforming of the agricultural sector and is a continuation of previous similar programs of international organizations.

365. The goal of official policy on food security is to ensure stable access for all citizens of the Kyrgyz Republic to a sufficient quantity of food products in all regions of the country.

366. Official policy on establishing a food reserve will be aimed at further strengthening of market relations in agricultural production, agro-processing and the in the area of agricultural services, supplemented by measures on social protection of vulnerable layers of the population.

367. Achievement of food security requires:

- ensuring of stable production growth, establishment of the market system of providing rural commodity producers with machinery, fuel and lubricants, fertilizers, protection devices, bio-preparations, etc. on a tender basis;
- development of a science-based agricultural policy;
- improvement of a legal framework regulating activities of AIC enterprises of all property forms;
- formation and strengthening of market infrastructure of the agricultural sector;
- improvement of interaction of the AIC with other sectors of the economy;
- expansion of agricultural production capacities based on application of technological achievements;
- food reserve development strategy; and
- measures on social protection of vulnerable layers of the population.

368. Ensuring food security will create the basis for development of the agricultural sector by more intense methods, providing for:

- attraction of new technologies and equipment;
- stimulation of production of ecologically pure products;
- introduction of effective management; and
- aggressive promotion of exports.

369. In order to stabilize the situation in the agricultural sector, it is first of all necessary to solve completely the problem of self-reliance of the population in relation to basic products, strengthening of all positive tendencies that developed as a result of reforms in agriculture through:

- organization of a complete technological cycle of production of export-oriented agricultural produce;
- active development of the processing industry;
- establishment of an effective system of marketing for agricultural products;
- stimulation of domestic and external investments;
- ensuring adequate legislation;
- intensification of production;
- establishment of commodity cooperatives and associations;
- development of the education system and advisory services on modern methods of agri-business management; and
- ensure access to information on domestic and international commodity markets.

370. Short-term crop rotation would further improve productive capacity of cultivated crops under the condition of the limited land resources of peasants' farms and farming enterprises. Such a crop rotation will be developed for small-scale peasants' farms by relevant institutions and introduced in practice. These measures should ensure a high level of employment and production profitability, a significant gross output per unit of land area.

Further development of agricultural production in the Republic is closely related to increase in the level of irrigated farming, irrigation network development and improvement of irrigation methods. Sufficient budget subsidies and credit resources necessary for maintaining irrigation infrastructure at a proper level will be allocated each year. These funds will be used to conduct rehabilitation works of the most important irrigation facilities of the country, and establishment of new institutional forms of water resources management.

371. Development of livestock breeding will be focused on meat and milk production to attain production volumes satisfying not only the local market, but sufficient for partial selling of these products on external market. For this purpose, it is necessary to restore breeding farms, because it is impossible to ensure high productivity in the livestock sector without highly productive cattle. The Republic also has all the conditions

for development of yak breeding and production of wool. The revival of profitable sectors such as poultry breeding and fish farming have also significant potential.

372. To ensure growth of agricultural production, it is necessary to improve the activities of agricultural support services. For this purpose measures will be taken to establish agro-chemical and agro-technical services in each aiyl okmotu. Arrangements will be made to provide for unlimited sales of mineral fertilizers, agricultural chemicals and pesticides, agricultural tools and spare parts for agricultural machinery through specialized centers and shops. Projects implemented with the help of international donors will play a great role in the development of agricultural support services.

373. These problems will be addressed during the forthcoming stage of agricultural and land reforms. It is necessary to continue working on improvement of the existing legal framework, as well as on land relations promoting an improved use of land and other natural resources. Leasing arrangements for land should be developed further. For the purpose of obtaining of adequate information, the prospective introduction of primary record keeping and analysis of conducted land and agricultural reforms, will be streamlined at the level of economic agents and aiyl okmotu. Free access to necessary information will be provided to farmers and peasants through organization of advisory and informational services and establishment of centers of agricultural development throughout the country. A uniform state system of rural land registration will be introduced and closely linked to the real estate; improvement of the land cadastre will be continued.

374. Establishment of a stable agricultural market based on short-term or long-term contracts between agricultural producers and consumers will have a major impact on growth of agricultural production. At the same time, an important role will be attached to an effective system of procurement of agricultural products, as well as establishment of a marketing system. In future, wholesale food markets will be organized in the large cities of the Republic for the purpose of maximum involvement of peasants and farmers in the process of selling of agricultural products and creation of certain facilities.

375. It is planned to pay special attention to the formation of economic and social infrastructure in rural areas - rehabilitation of roads and communications, ensuring of access to healthcare and educational services, safe potable water for rural inhabitants. For these purposes it is intended to attract investments from interested donor countries and international organizations. A key factor for the revival of the agricultural sector and development of rural areas, is restoration of integration between cities and rural settlements under new mutually profitable conditions.

376. The issues of future development of the agricultural sector will be addressed by strengthening the structures engaged in agricultural production, reforming and retraining existing personnel in order to orient them to a market economy, as well as the development and introduction in practice of science-based recommendations and progressive technologies for profitable management of agriculture.

Development of industrial production

377. Over the past decade, the share of industry in GDP has more than halved and is now only about 21.3 percent of GDP. The average number of workers in industry has decreased during this period by more than half. Notwithstanding the measures taken, the decline in production has not been overcome. In fact, the country has shifted its status from an industrial and agricultural economy to an essentially agricultural one.

The largest enterprises have been the ones most affected, including those manufacturing defense products, and products oriented to consumers within the former USSR. Industry, being the major sector of the economy, to a significant extent satisfied the need of the Republic for jobs, made a great contribution to maintenance of the social infrastructure, providing workers and their families with medical services, housing, pre-schooling, children's establishments, and so on. A decline in industrial output has seriously affected the living standards of the population, resulted in unemployment growth, migration of qualified workers and specialists.

The share of machine building and metal working, food industry and light industry has decreased. At the same time, the share of mining, metallurgy sectors and electricity generation has increased.

378. Many **problems** have accumulated in the manufacturing industry of the Republic, solution of which could significantly contribute to an increase in employment and personal incomes. The major problems are as follows:

- Weakness in public administration units that are responsible for development and implementation of the industrial policy. It is impossible to conduct a unified state industrial policy because of the existing

complexity of state structures that result in duplication of certain functions of ministries and departments,

- Presence of corruption and regular interference by the State in activities of business enterprises.
- Insufficient professional capacity of the staff of government agencies, their inability to manage under market conditions.
- Lack of professional managers at production sites.
- Lack of sufficient skills in corporate management.
- Weak cooperation and association abilities of local enterprises.
- Insufficient development of bankruptcy procedures and practice.
- A frequently changing taxation regime that does not stimulate industrial development. Heavy rates of major taxes have been preserved and impede active development of the industrial sector. The existing Customs Code is cumbersome and not effective for practical application. The corrupt nature of the system of tax and customs inspectorates.
- Insufficient attention is paid to improvement of the system of standardization and certification of industrial products.
- Continuous introduction of amendments to the regulatory and legal framework on special economic zones, that results in unsustainable work of FEZs and discourages potential investors from investing capital in the Republic.
- Ineffectiveness of the existing system of financing of production. The banking system is still unable to finance local producers on acceptable terms and conditions. Ineffective servicing of attracted foreign investors, including those guaranteed by the Government.

379. The situation found in the manufacturing industry sector requires the development of a clear industrial policy, the goal of which should be stabilization and further step by step development of priority sectors of industry.

380. **The major goal of industry development** is creation of jobs, significant increase in the level and extent of processing of local raw materials, import replacement and increase in the share of local products in the domestic market, growth in the volume of export of finished products.

To implement this goal **the priority directions** of the work will be the following:

- legal support aimed at promotion of free development of industry, including with the use of new technologies for production of competitive products;
- assistance in attracting direct investments to the private sector;
- promotion of local industrial products to markets, including with the use of mechanisms of concluding intergovernmental agreements on supply of goods and serves for export;
- using the system of competitive state assignment for locally produced products;
- promotion of association of local commodity producers, including on the basis of establishment of closer cooperation links of large enterprises with small and medium businesses.

381. The priority sectors for industrial development are those industries that are the most competitive, do not require large capital investments, are base on the use of local raw-material, and can create a branch network of local small enterprises.

They include:

- The energy sector, that is a source of industrial development and has of strategic importance for ensuring economic independence of the Republic. The State should concentrate all its efforts on electricity generation, coal mining, development of non-traditional renewable energy sources.
- The mining industry, particularly the refining sector, producing non-ferrous and precious metals, that contributes almost 60 percent to total exports and significantly replenishes foreign currency reserves of the country;
- Light industry, which is gaining momentum gradually, ensuring a growth rate within the last two years by 105.4 percent and 110 percent, respectively;
- The processing industry, which has huge growth potential and requires radical restructuring;
- Production of construction materials, as a sector providing for quick return to invested capital and possessing a significant export potential. Proof of the effectiveness of such an approach is recommencement of production processes at the Tokmak Glass Factory, which has started production of export products.

382. It is necessary to reorganize the state structure dealing with industry in the light of the outcome of a thorough functional review of the Ministry and the objectives on implementation of the new industrial policy of Kyrgyzstan. It is necessary to ensure institutional development of this Ministry, orienting it to modern

methods of work, building up the staffing capacity of the Ministry of External Trade and Industry by attracting young trained specialists. It is necessary to strengthen the Ministry by granting it the status of an economic agency responsible for major production spheres of the economy.

Energy

383. Hydroelectric power is a natural monopoly in the energy sector of the Republic. This leads to distortion in the relations between energy consumers and producers as well as a distorted energy tariffs policy. Another issue is the high influence that energy policy has on state foreign economic policy. The policy regulates exports of Kyrgyzstan's energy and hydro resources and imports of gas and coal. Barter transactions of these energy resources create cash flow problems in the sector. An important factor is the serious social impact of electric power tariffs on the living standards of the poor.

384. The electricity production sector is one of the basic sectors of the nation's economy. The share of electric energy in the structure of industry has almost tripled since 1990, reflecting the increased share of hydroelectric power plants (HPP) in electricity production. KyrgyzEnergo has been restructured and replaced by seven independent joint stock companies that specialize in energy production, transmission, and distribution. The Tash-Kumyr HPP has reached its planned production capacity, construction of Shamaldy-Sai HPP continues and construction of new power transmission lines has begun. At the same time, due to the lack of funds, the construction of Kurpsai HPP -1 and HPP -2 remains incomplete.

A survey of the energy system in 2001 showed that the first stage of restructuring of the energy system has not improved the financial situation in energy companies. The growing debt of electric distribution companies to the Electric Stations Public Corporation has created large arrears of salaries as well as of payments to the state budget, halted planned reconstruction of electric stations and hindered procurement of spare parts and chemicals. At the same time, the collection rate on electricity and heat energy charges is 80-85 percent, of which only 20 percent is paid in cash, the balance being covered by barter transactions and offsets. Increase in domestic consumption of electric power and an unsustainable payment system have posed great problems for the sector.

The main internal issues in the sector include obsolete equipment, lack of sufficient financing to carry out repairs and rehabilitation of facilities (which leads to accidents and energy losses), and an unbalanced tariff policy.

385. The hydroelectric potential of small rivers and canals estimated at 5 to 8 billion kilowatt-hours annually, is practically untapped. The present use of solar, wind, and geothermal energy sources is also insignificant. At the same time, Kyrgyzstan possesses almost unlimited renewable energy sources. Using agricultural waste products, biogas devices can generate over one billion cubic tons of biogas and more than two million tons of organic fertilizers. Another potential area for expansion of power production would be resuming the operation of small hydroelectric power plants that were closed after the launching of larger HPPs.

386. Significant dependence of the Republic on energy imports necessitates the development of an energy conservation policy along with improvement of economic efficiency in the energy sector. Conservation could become a significant factor in enhancing energy security of the Republic, improving competitiveness of domestic industry, and addressing environmental concerns. At present, energy losses in the household consumption sector amount to 55 percent, 45 percent in industry, and 50 percent in agriculture. According to some estimates, the overall potential for energy conservation ranges from 33 to 55 percent of the total energy consumption

387. In addition to these issues, there is the problem of hidden cross subsidies among various groups of energy consumers. These include subsidized supply of electric and heat energy to domestic consumers due to the state export of electric energy, as well as state subsidies to the consumers of natural gas, subsidizing of household and agricultural consumers by industrial consumers, and subsidizing of rural consumers by urban consumers.

The existing mechanisms of hidden cross subsidies, coupled with the practice of barter transactions and the system of offsets, distort the general situation in the sector and thus, consumers lose the incentive to save energy and reduce costs.

388. The main mission of the energy sector is to ensure stable, reliable, and reasonable supply of all types of fuel and energy.

389. The following priorities were identified as means of addressing this goal:

- ensuring energy security;
- achieving energy independence; and
- optimizing the legal framework.

These priorities defined the following areas of actions.

As regards economic stabilization, the effectiveness of the energy system mostly implies two directions of energy security. First, is security against internal factors (in relation to the energy system), such as technical, technological, and economic factors. Secondly, is security against the influence of external factors, prevention of possible accidents, protection from emergencies and various calamities.

Ensuring security against technical and technological factors. Raising the efficiency of fuel and energy consumption should become one of the key areas for action. Having a considerable energy potential, Kyrgyzstan, at present, imports nearly 50 percent of consumed energy. Thus, transferring the economy to the energy-saving way of development will become the first important step. Main actions in this area will include equipping energy enterprises and consumers with modern metering devices; connecting the electricity meters installed in the households to the accounting systems of distribution companies. A database would be created to collect information on the consumption level. Further development of the energy sector requires promotion of the mentality of an economical user.

Significant technical losses of energy due to obsolete equipment, coupled with the growing tariffs, lead to the higher production costs of goods produced by all energy consuming sectors, making Kyrgyz products uncompetitive on foreign and domestic markets. The reduction of technical losses would be achieved primarily through reconstruction of distribution networks and modernization of the equipment. Measures on prevention of energy losses will require accurate, complete, and timely information on energy flows and technical capacity of the system. This requires development of a system of monitoring and evaluation of technical capacities. The analysis of the technical condition of the system needs to be carried out in order to identify those parts of the network that need to be reconstructed or replaced. Another important activity is establishment of an independent dispatcher center that will work on optimization of electricity supplies, reduction in electricity blackouts, and reduction of technical and commercial losses.

Professional and efficient management of various segments and the energy system at large is the most important objective of the stabilization period. This provides for the development of a model of the optimal energy system and an effective energy management system that will ensure the best coordination of all segments for further development and profitability of the system. Under modern market conditions, management first of all requires well-educated managerial staff, and that necessitates the development of a system for training, retraining, and qualification upgrading of managerial and technical personnel. Secondly, better management requires a number of measures to improve financial flows and their transparency as well as timeliness and fullness of payments of salaries, energy bills, and payments to the state budget. Introduction of international accounting standards together, with modern information technologies, will become an important aspect of energy sector reforms.

A well thought-out medium-term tariff strategy needs to be developed on which to base an energy policy that will stabilize financial condition of energy companies, encourage energy saving and reduction of costs. Under such a policy, provisions will be made to include in the tariffs all actual costs, eliminate cross subsidies, minimize commercial losses, and ensure timely payment of energy bills. In order to recover the real economic costs, the end-user tariff will be based on the actual cost of producing, transmitting, and distributing electricity and heat energy to the end user. The adjustment of the tariff policy should be carried out together with targeted social assistance by the state to the poorest groups of the population. Minimization and gradual liquidation of cross subsidies call for transparent and focused management mechanism under the tariff policy. Ways of optimizing the system of discounts, installments and benefits; development of the system of discounts for advance payments and for users' participation in regulation of the load; as well as development of the system of extra charges for higher quality to some demanding consumers would become the most important areas of attention. A special commission to be created in the future would revise the actual cost of electricity coming from energy companies. As an additional factor for reduction of commercial losses, the system of payments by household consumers will be simplified and the practice of offsets and barter transactions will be abandoned.

Up to now, the supply of electricity has been treated as a public service, making the responsibility for stealing electricity and non-payment for it a formality. It is necessary to change such practices through changes of the existing energy legislation, optimization of the legal framework of the energy sector and giving energy status of a commodity. It is necessary to provide comments on the legislation and develop methodological

recommendations on application of legal measures for forced collection of energy payment debt. All these measures will help to reduce commercial losses.

390. Ensuring full independence of the country in the energy area is viewed as the main goal in the energy sector. This envisaged maximum use of domestic energy resources with decentralized supply of energy to the regions of the country, as well as stable and mutually beneficial energy export-import policy. The increased use of domestic energy resources provides for further development of hydropower capacity to cover energy needs of cities, large enterprises, and increased export. Better use should be made of small HPPs and renewable energy resources, together with simultaneous expansion of domestic coal, oil, and gas production. The use of small HPPs and renewable energy sources can significantly improve the situation with the supply of energy to remote areas, especially those that are far from power transmission lines. This could address many social and ecological problems. Bio-fertilizers and biogas produced in the course of processing agricultural wastes can fully satisfy agricultural needs in these resources.

A mechanism needs to be developed to partially replace the import of gas and oil with increased domestic production. The increase in oil production would be accomplished through introduction of new technologies and attraction of direct investment for exploration of new oil fields.

Extractive industry

391. Mining and refining are basic industries in the Republic, undertaking highly profitable export-oriented production. These sectors account for about 60 percent of the total industrial output of Kyrgyzstan and are based on mineral resources represented by large proven deposits of gold, tungsten, tin, antimony, mercury, rare earth metals and other minerals.

It will be necessary to attract direct investments in order to ensure strengthening of the existing capacities of the mining and refining industrial complex and further development of enterprises by developing additional deposits.

392. The major problems in the development of the mining industry are:

- Lack of a national comprehensive strategy for development of the mining industry.
- Lack of financial resources for development and rehabilitation of production processes.
- A high capital-output ratio of mining projects.
- Technical and technological backwardness of production processes, especially in the coal and oil-and-gas sectors.
- Imperfect taxation system and regulatory and legal acts regulating the area of mineral resource use.
- Weak development of private enterprise.
- Insufficient preparation or lack of deposits for a mid-term and long-term development of oil and gas and gold mining sectors, as well as the need to prospect for deposits of new mineral resources and to organize production of competitive and science-intensive products.
- Insufficient level and quality of management in the sector.

393. Gold mining at the Kumtor deposit is very significant since it provides about 40 percent of the total exports of the Republic and growth of industry generally in recent years. The output of the mining and refining industries from 1996 to 2001 increased 25 times as only the result of putting into operation the Kumtor gold deposit and refinery by joint stock company, Kyrgyz Mining Industrial Complex. However, gradual depletion of reserves at this deposit requires intensifying exploration and development of other large and small deposits, involving small and medium businesses.

Development of the gold deposit Kuran-Jailoo will be resumed this year, and construction of the underground mine will be started at the Makmal deposit, that will allow to continued operations at the site for 10 more years. Projects on development of the deposits at Terekskoe and Ishtamberdi in the Jalal-Abad oblast have been studied. In the near future preparatory organizational and technical measures will be completed and practical development will be started at gold deposits at Taldy-Bulak Levoberezhnyi and Jerui.

Kadamjai Antimony Plant that worked steadily until now, reduced its production in the first half of 2002. The major reason is the lack of working capital. Several measures that were undertaken to the moment have stabilized the situation and in 2002 the production at Kadamjai Antimony Plant and Khaidarkan Mercury Plant is expected to grow at the planned rate.

It is important to stimulate development of such enterprises as the Russian-Kazakh-Kyrgyz joint venture on production of uranium oxides, Kyrgyz-English joint venture on production of molybdenum and the Kyrgyz-

Russian joint venture Poluprovodnik (semi-conductors), as well as to resolve the problem of high dependence of the enterprises of this sector on imported raw materials and inventory, external sales markets and a possibility of restoring former links with CIS enterprises.

Heading works and other types of works will be continued by the Tien-Shan-Olovo (Tien-Shan Tin) joint venture with the activation of a second concentrating mill. Construction of the factory for processing of uranium oxides by ground leaching at the Zarechnoe deposit will allow an increase in the volume of processing of uranium concentrates at the JSC KMIC.

Explored reserves of the tin-and-tungsten deposit at Trudovoe will fully provide for the operation of the concentration mill of the JV Tine-Shan-Olovo in the Enylchek village; as a result of the reconstruction work under way, its capacity will be increased to 140-150 thousand tons.

Implementation of the project to resume production of poly-crystal silicon by the joint stock company Crystal will ensure production of finished products in 2002 and further increase in poly-silicon production both for export and production of mono-silicon by the JSC Kyrgyz Chemical and Metallurgy Plant. A number of effective measures will be implemented on financial and economic rehabilitation and increase in production output at the Khaidarkan Mercury and Kadamjai Antimony Plants within the framework of specifically developed individual programs.

394. Coal industry. In spite of significant reserves of all grades of coal in the territory of Kyrgyzstan, the volume of coal production remains insignificant with a declining trend. As a result, the Republic must import coal that, in turn, affects the nation's financial and economic situation. At the same time, growing demand for energy resources, and the prospect of higher energy tariffs, necessitate the revival of domestic coal production by opening up the large Kara-Keche coalfield.

Reduced coal production reflects the general decline in industrial production in the Republic and the deteriorating financial status of enterprises that have led to reduced coal consumption in the real sector. Other serious problems are the movement of some consumers to other types of energy; reduced demand in the Central Asian market; high transportation costs that are up to three times the cost of mining coal; there has also been a considerable deterioration of equipment in coal mining enterprises.

A significant increase in the volume of coal production (up to 1,035,000 tons a year) can be attained in the near future due to:

- Technical reequipping of the existing open-pit mine at the Kara-Keche deposit (reserves within the area of open-pit mining total 190 million tons).
- Putting into operation the mine under construction at the Beshburkhan deposit (primary reserves amount to 2.6 million tons).
- Reconstruction of the Jergalan mine.

In 2005, the volume of coal production by the Kara-Keche mine will amount to 550 thousand tons, the Jergalan mine up to 70 thousand tons and the Beshburkhan mine up to 35 thousand tons. Should the agreement on coal supply to the Xin Jian Uigur Autonomous Region of the Chinese People's Republic be concluded, the volume of production at the Kyzyl-Bulak deposit in the Alai rayon can be increased up to 200 thousand tons a year.

395. The oil and gas industry is at present based on 15 explored oil and gas deposits.

Although there are domestic gas deposits, Kyrgyzstan is a net consumer of imported gas. Households are the largest consumer of natural gas in the Republic; their share in 2001 was 61.5 percent of the total gas consumption. Significant quantities of energy resources are supplied to the Republic on barter conditions or are paid for in hard currency, which affects the economic potential of the sector.

Domestic production of oil and gas products meets only 30 percent of the domestic requirements. However, studies on the possibility of exploring new oil and gas fields suggest that the use of modern production technologies and methods can significantly increase the output.

According to the Program of Development of the Oil and Gas Sector of the Kyrgyz Republic until 2010, as a result of prospecting for new oil and gas deposits using seismic exploration and well drilling in prospective areas, restoration of non-operating wells, resuming of drilling of additional operating wells at proven deposits, the volume of oil and gas production in 2005 can be increased up to 140-145 thousand tons and 50 million m³, respectively.

396. The most important condition for attracting investments to the mining and geological complex is the creation of a conducive legal and taxation climate. For this purpose, according to recommendations of the World Bank experts, it is planned to introduce amendments to the Law on Mineral Resources and the Tax Code related to the area of the use of mineral resources. On the whole, the planned work will be carried out pursuant to the Plan of Measures on the Reform of the Mining Sector approved by the Government.

397. Technologies of computer processing of geological materials will be introduced and improved for prompt provision of illustrative and objective geological information, development of economically substantiated and effective business-plans. Establishment of electronic data bases on various types of mineral resources and deposits will allow intensifying advertising and informational work through Internet, attracting investors interested in geological prospecting and development of mineral resources of Kyrgyzstan.

Local private structures will be widely involved in development of numerous small and medium-size deposits of various mineral resources. Each year 80-100 small deposits of gold, poly-metals, coal, construction materials, mineral waters can become the objects of interest of small and medium businesses.

In order to improve the living standards of the population in the remote areas, it is planned to create conditions for the development of individual free mining activities at non-industrial gold deposits. The legal base for this type of activity has been already established. Up to 2,000 people can be involved in individual mining activities each year.

Other industries

398. **Light industry** in the Kyrgyz Republic is represented by more than 350 large, medium and small enterprises, as well as workshops and departments, possessing significant productive capacities for processing local raw materials. An important factor here is that these sectors use up to 90 percent of local natural raw materials. They include wool, cotton and silk, animal skins, non-metallic minerals, natural stones, herbs and mineral waste. There is sufficient capacity to process these raw materials and produce woollen and cotton fabrics, stockings and socks, knitted products, shoes, fabricating materials. These sectors are the most flexible, mobile and socially important, as they provide the largest number of jobs for the population.

399. More than 80 percent of light industry comprises the textile sector. In a majority of cases outdated technology, very obsolete equipment and the seasonal nature of raw materials storage do not allow the products of this sector to fully compete in the market. Development of a number of leading sectors of the textile industry, primary wool processing and yarn and fabric production, is difficult because of unregulated export of wool from the Republic and a lack of raw materials. At the same time, lack of working capital in enterprises and inflexible procurement systems do not allow them to compete with buyers from China and Turkey. On the whole, a majority of the larger enterprises are faced with large accounts payable and receivable and unstable financial situations. In the last 10 years, the share of the sector in the total volume of industrial output decreased from one third to a little bit more than 5 percent. A similar situation has developed in leather and shoe production.

Growth in light industry will be assured by stable work of enterprises in the textile area, in particular, in cotton processing. Certain measures will be taken to stabilize production and economic activities of the joint stock companies Kyrgyz Woolen Worsted Factory and Tekstilschik, that will allow increased production of woollen and cotton fabrics by 40 and 30 percent, respectively. The joint stock companies, Edelweis, Baipak, Kasiet and Jyldyz-Shparta, will implement corresponding individual development programs. It is planned to resume production by joint stock companies of the Bishkek Sewing Factory named after the VLKSM.

Housing Construction

Availability of housing in the Republic is low. At present, over 166,000 families need housing or its improvement, over 17,000 families live in dormitories. Houses of 16,000 families are located in potentially dangerous zones, these families need to be resettled to safer territories. Such state of things does not allow to ensure protection of these families and support the poor.

Unstable financial situation, insufficient budget funding, and increased cost of construction materials in recent years have led to a decline in housing construction. The investment process in the Republic is in a deep recession.

The following tasks need to be addressed in order to provide the citizens with housing:

- find necessary financial resources for construction of housing for citizens who are entitled for its free acquisition and citizens entitled for state housing assistance;
- form housing market; treat housing as an essential commodity, the most important consumer good, and store of value.

In the framework of the Presidential Decree on the Concept of Developing Housing Construction in the Kyrgyz Republic till 2010, the Government has developed and approved the State Housing Construction Program till 2010. The main goal of the Program is to provide citizens with affordable housing through raising of sufficient internal and external investment, improvement of legislation, and development of housing market infrastructure making the utmost use of the capacity of the construction complex and related industries.

The following is provisioned to attain this goal:

- Expand housing construction, ensure improvement of quality and accessibility of housing through modernization of construction industry and improvement of construction technologies.
- Increase volume of construction industry and related industrial production, raising through this employment and budget revenue on all levels;
- Increase solvent demand for housing on the part of the majority of the population (mainly of the population with average and low income), through development of mortgage lending in combination with various forms of state support for procurement of housing and housing construction.
- Achieve average availability of 12.9 m² of housing per person in 2005.

Under the Housing Construction Program, it is intended to bring the volume of housing construction to 78 million m² of total floor space, i.e. ensure a 27 percent growth rate by year 2010. To this end, during 2002-2010 it is necessary to commission 16.63 million m² of floor space of housing.

400. **Production of construction materials** has been developing rather steadily because it is the least capital intensive sector, based on small and medium businesses enterprises. On the whole, this industry provides the Republic with bricks, local matrix materials, reinforced concrete, joinery and other products, as well as developing some other types of construction materials that are new to the market of the Republic, paving blocks, roofing tiles, metal structures and furnishing materials.

Sales to private investors of a controlling interest in strategic enterprises such as the Tokmak Glass Factory and the Kant Cement and Slate Factory, the products of which have a significant share in the regional market, will ensure restructuring of the production process, that will have an impact on growth of production output and export volumes in the near future. However, the absence of the necessary direct investment has not allowed the exploitation of the capacities of large enterprises producing linoleum, construction earthenware products and basalt products, that could have made a significant contribution to development of the sector and have an impact on the structure of export and import.

However, promising production of wollastonite, porcelain clay, porcelain stone, rare deposits of which are located in the Republic, has not been properly developed. The work on attraction of private investments to the joint stock companies involved in such deposits will be continued.

401. In terms of ensuring import replacement and export growth, there are large mineral reserves to support development of the **chemical sector** (mineral fertilizers, salts, soda, etc.) and production of poly- and mono-crystal silicon for an electronic industry.

Transport infrastructure

402. In spite of the high costs on rehabilitation, construction, and maintenance of infrastructure facilities, the development of the transport system remains an important area for economic growth and carries a significant potential for the creation of new jobs and reduction of poverty.

403. In the period from 1999 to 2001, all forms of transport functioned regularly and generally satisfied the needs of the economy and the population. In 2001, compared to the year 2000, passenger turnover of all types of transport increased by 5.3 percent, including 9.6 percent increase for motor transport, and 11.8 percent increase for transport by rail. The system of air transportation and international communication has been improving. In the year 2001 alone, 113 licenses and over 800 permits were issued to foreign aircrafts to use Kyrgyzstan's airspace.

Motor roads

404. Motor roads are the most important sector in the unified transportation system of the Kyrgyz Republic. Motor roads bear the main load of passenger and cargo transportation. Many roads built through mountain passes are often the only transportation means available to connect economic districts of the Republic. Kyrgyzstan has a basic network of motor roads, which connects all regions of the Republic, linked with the motor roads of neighboring Central Asian countries that are further linked with Russia, European countries, as well as China, Pakistan, and India. The total length of all motor roads in Kyrgyz Republic is over 34,000 kilometers, of which, nearly 19,000 kilometers are general roads. Of the total network of motor roads, internationally important highways are the most critical for the country's economy. Due to constant expansion and improvement of economic ties, the load of motor transportation on motor roads has been constantly increasing. Practically the whole network of motor roads remained open for all types of vehicles passing through or coming to Kyrgyzstan from other countries.

405. The Government has undertaken a number of measures to improve the condition and maintenance of general motor roads. The Bishkek-Osh motor road is being successfully reconstructed with financial assistance from the Asian Development Bank, Islamic Bank of Reconstruction, and the Government of Japan. A regional project on rehabilitation of Bishkek-Almaty motor road is to start soon. The World Bank is assisting with the urban transportation project, which provides for reconstruction of motor roads in Bishkek, Osh, and Jalal-Abad cities.

406. However, the technical condition of general motor roads remains extremely unsatisfactory. The road maintenance indicators and road conditions do not meet the modern standards of safe transportation and traffic. Of all the roads, over 60 percent do not have improved paving and less than 20 percent of roads have pavements suitable for heavy trucks. Roads of the fourth and fifth technical categories, mostly with gravel and dirt surfaces, prevail in the Republic. The wear and tear factor of motor road network is currently 72 percent and over half of road facilities require capital reconstruction and repairs. More than 75 percent of the existing road maintenance machinery is obsolete and over half must be replaced. Continuous deterioration of motor roads is directly connected to unstable financing. The annual budget appropriations satisfy only 18 to 20 percent of the motor road sector's need.

407. The main goal of the sector is to ensure sustainable motor communication throughout the nation, and bring the condition of motor roads into compliance with the international technical norms. At least 150 kilometers of motor roads should be repaired in the year 2002, 250 kilometers in 2003, 300 kilometers in 2004, and 400 kilometers in 2005. Rehabilitation of 4,594 kilometers of main motor roads is an important factor in the nation's development. Of that, priority attention should be given to 2,682 kilometers of traffic intensive interstate and regional roads. These include: Bishkek - Kara-Balta - Osh - Sary-Tash - Ishkertam; Bishkek - Naryn - Torugart; Balykchy - Cholpon-Ata - Karakol - Bokonbaevo - Balykchy; Osh - Isphana, including the by-pass road Kok-Talaa - Pulgon - Burgandy - Batken; Suusamyr - Talas - Taraz; Almaty - Bishkek - Tashkent, Georgievka (Kordai) - Chaldovar section; and Kochkor - Dyikan - Kara-Keche road.

408. The plans for the sector include:

- Development of motor road development strategy.
- Development of legal and institutional measures to involve the private sector in collection of road tax.
- Creation of mechanisms to ensure sufficient technical servicing of the road network and its gradual upgrading.
- Identification of road segments and road assets attractive for private investment and establishment of joint enterprises.
- Ensuring higher efficiency of the sector through promotion of entrepreneurship.
- Undertaking measures to ensure year-round operation of rural motor roads.
- Providing the urban poor with affordable transportation through development of cheap public transportation.

409. It is important to study the opportunities and develop mutually beneficial regional cooperation in order to integrate Kyrgyzstan's motor and railroads into the existing international transportation networks, in order to take advantage of the strategic geographical location of the country.

Railroads

410. The railroad sector is an integral component of Kyrgyzstan's transportation system. Together with the other types of transportation, this sector should provide timely and good quality transportation services to satisfy the needs of the population and the economy. The scarcity of budget allocations has led to the critical condition of the rolling stock, equipment, and other assets of the railroad sector. Most of these facilities are being operated beyond the allowed service life periods, and many are close to that condition. Due to an

insufficient number and the inadequate condition of the rolling stock, some of the international routes have become unprofitable and traffic has declined. The complex financial situation in the Kyrgyz railroad sector makes it impossible to renew the rolling stock and improve technical facilities with the available internal funds.

411. The main goal in the railroad sector is to ensure Kyrgyzstan's participation in the international market of railroad transportation services in order to promote the development of trade.

412. The following priority tasks should be addressed in the railroad sector:

- Develop a comprehensive rehabilitation plan for Kyrgyzstan's railroad sector in order to increase the share of cargo transportation in the structure of external trade.
- Increase reconstruction of the rolling stock (freight cars, passenger cars, engines).
- Provide a system of guaranteed transportation under agreements and long-term contracts.
- Organize a system of special transportation services using modern information technology.
- Make railroad transportation attractive for small and medium businesses.
- Ensure a flexible tariff policy.

Air transportation

413. Air transportation is a promising area of transit transportation due to Kyrgyzstan's location in the center of trans-Eurasian communication network. Besides, Kyrgyzstan finds itself in the center of two main air routes: between the Europe and Japan, and between South-East Asia and Russia (and on to the Eastern coast of USA). These are the shortest routes between the mentioned destinations. Using Bishkek City's Manas airport as a transit link for the two air routes (refilling planes, storage of cargo, etc.) is a promising area not only for the air transportation sector but also for the country's economy in general. With the favorable geographic location and highly educated human resources, Kyrgyzstan should become a regional business center offering services of banking, business insurance, storage, air connections, logistic support to international transportation, and so forth. In other words, Kyrgyzstan must be a link between the East and the West, the South and the North. These considerations make ongoing projects on reconstruction of Manas Airport in Bishkek City and Osh City airport very important for the development of Kyrgyzstan's infrastructure.

Improvement of air communication is also very important for the expansion of direct foreign investment and development of closer relations with Central Asian neighbors, CIS and other countries. This requires large investments and rapid completion of institutional reforms that promote effectiveness of the sector. The airports, management of air transportation and commercial aviation must clearly specialize in types of activities and services. The decision on radical restructuring and privatization of Kyrgyz Airlines and further development of its structure and technical facilities has been the most important step in this direction. The indicated actions will reduce the burden from the state budget and upgrade the effectiveness of the sector.

Priority tasks in the air transportation infrastructure include:

- Improvement of navigation and meteorological equipment.
- Modernization of airport infrastructure and upgrading maintenance of aircrafts.
- Improvement of the civil aviation management system.
- Modernization of operating aircrafts and improvement of their technical characteristics.

Telecommunications and information technology

414. In recent years, the Kyrgyz Republic has made progress in the development of an information infrastructure and information technology has been introduced into both government organizations and private companies, together with the development of appropriated legislation. There is a high educational level in the Republic. The first telecommunication project, the project of the Trans-Asian-European Optic Fiber Communication Line (ÔÁÁ) has been completed, the state computer network (SCN) has been established, Internet pages of government and non-government organizations as well as of commercial structures are being created. The National Strategy, Information and Communication Technologies for Development of the Kyrgyz Republic, and the Program on ICT Development have been adopted this year.

Conditions for development of telecommunications have been created mainly as a result of free competition and changes in the operation of this market. In 1998, the Law of the Kyrgyz Republic, On Electric and Mailing Service, was adopted. At the same time, the Ministry of Transport and Communications has established an independent state regulatory body, the State Agency of Communications under the Government of the Kyrgyz Republic. Other operators of electronic communications, including those with participation of foreign capital, have appeared in addition to the national communication operator, the JSC

KyrgyzTelecom. Today there are 115 operators in the market, providing various communication services throughout the Republic.

415. **The mailing service** of the Kyrgyz Republic is one of the important socially oriented structures of the State providing socially important services to the population, including services to pensioners and benefits recipients. The network of the mailing service consists of the government department, "Kyrgyz Pochtasy", and more than 870 post offices, state courier communication, as well as the government enterprise, "Kyrgyz Markasy". Major problems in the development of the mailing service of the Kyrgyz Republic are related to an obsolete and insufficient material and technical basis, including logistics techniques and transportation means. A uniform infrastructure of mailing, telegraph and other simple forms of dissemination of necessary public information is developed insufficiently. The services offered in the area of mailing and saving operations, various types of utility service payments and operations with securities are developed rather poorly.

416. **Telecommunications.** Installation of telephones in rural and remote settlements of the Republic is still one of the most acute problems, as commercial operators, in contrast to the national operator, the JSC KyrgyzTelecom, focus their efforts on the most solvent clients of the capital city and large towns. In 2001, more than 30 percent of populated areas did not have access to telephones. The situation with rural telephone communications is eloquently reflected by statistical data on density of telephone installation: on average, there are only 2.8 telephones per 100 inhabitants and 17.2 in the cities. A low density of telephone installation and its uneven distribution in rural areas and cities is accompanied by technological aging of cabling. Mobile, paging and trunk communication is also unevenly developed within the country. Besides, these types of communication are still not affordable for a major part of Kyrgyzstanis because of their low income.

At present, in order help solve some of the acute social and administrative problems of remote areas, permission has been granted for the provision of licensed telecommunication services on data transmission throughout the Republic. At the same time, significant attention will be paid to the charges being made for these services in order to make them affordable for a broad range of consumers. It is also worth noting that, in order to forestall unjustified increases in charges for products and services by organizations that are natural and permitted monopolies, the Tariff Policy Plan for 2000 - 2003 has been developed, which envisages a phased rebalancing of existing tariffs for telecommunication services. The plan does not envisage an increase in tariffs for such socially important communication services as telegraph communication, the tariffs for which are being maintained at a minimum level.

Unreliable quality of television and radio broadcasting in the Republic and obsolescence of the technological base of the whole television and radio broadcasting system, does not provide the population with timely and high-quality information. In addition, alternative sources of information, such as satellite and cable television and commercial radio broadcasting are not developed beyond the major population centers.

417. **Information technology.** Development of information technologies in the Kyrgyz Republic provides a unique opportunity for comprehensive development of the country and its integration with the international community. Kyrgyzstan has all the necessary pre-requisites for building an information society: a high level of education of the population and a basic telecommunication infrastructure. State policy in the sphere of development of information technologies is regulated by the Law on Informatization adopted in 1999 and the National Strategy, Information and Telecommunication Technologies for Development of the Kyrgyz Republic, approved in 2002.

Kyrgyzstan also develops rather promising positive trends on the issue of education of specialists in the area of information technologies. Within 10 years the number of graduates in the ICT sphere has increased 6.4 times, while the total number of university graduates in Kyrgyzstan has increased 2.9 times. The educational system of the Republic mainly prepares specialists in the development of software applications, providing the local market with a large number of software products. At the same time, the country practically lacks specialist designers of information systems that would allow optimization of activities of economic enterprises and adapt their business activities to international standards.

At present, there are 10 Internet providers, about 10 commercial structures operating in the market for information services in the Republic. They provide various information products and supply and assemble computers in the Republic. The State Computer Network is being developed for the purpose to ensure information exchange among government structures and establish on its basis the infrastructure for "electronic government". Presently, more than 40 governmental agencies, all oblast and rayon administrations are connected to the SCN. However, the infrastructure for high-speed data transmission is still weakly developed. In terms of telecommunication, not all territory of the Republic is covered by digital

services, there remains a "digital gap" between urban and rural territories. Due to uneven development of the Internet system in cities and villages, the population is still not well aware about possibilities of Internet and other information technologies.

418. An electronic payment system, including interstate money transfer, has been established in the Republic. International payments are made by financial and crediting institutions of the Kyrgyz Republic by means of:

- direct correspondent accounts, Loro-Nostro, with correspondent banks of the states of the Eurasian Economic Union (EurAsEU), using standard telecommunication systems: facsimile, telex, e-mail, SWIFT;
- payment and settlement plastic card systems: VISA, EUROPA, Master Card, JCB, Diners Club, Union Card, Cirrus Maestro;
- money transfer systems: Western Union, Money Gram, Contact; and
- Kyrgyz Pochtasy.

At the same time, due to the lack of mechanisms stimulating the use of ICT, a low level of financing for development of information technologies at the national level, inefficient use of donors' assistance aimed at informatization of governmental structures, the use of information technologies in activities of government and private structures in the market of Kyrgyzstan is still far from being adequate. A low level of equipping of the population and economic enterprises with information equipment does not allow the development of a management culture applying ICT. The situation is aggravated by a lack of personnel possessing basic skills necessary to work with information equipment and technologies.

Studies carried out with the UNDP for the purpose of objective assessment of the situation in the ICT sphere have indicated to the presence of the above problems in the nation.

419. **A major goal** of ICT development is establishment of the foundation for creation of an information society.

420. For the steady promotion of reforms in ICT, it is intended to develop an adequate regulatory and legal framework. At present, there are more than 20 laws and 20 bylaws in this area. State standards on information and communication technologies that are compliant with international standards have been developed. The existing legislation will be systematized through improvement and development of the legal framework for the information society, while new laws ensuring effective development of ICT will be drafted.

421. It is necessary to expand technical and infrastructure capacities of ICT in order to provide information and communication services to rural and remote areas. Television and radio broadcasting will be ensured in remote settlements by modernization of the existing television and radio broadcasting infrastructure to overcome "information hunger".

422. Modernization of the existing mailing service infrastructure, effectiveness of the work of the state postal services will be ensured to provide for timely delivery of correspondence, newspaper, magazines, pensions and benefits to all regions.

Modernization of the existing telecommunication infrastructure will be implemented under corresponding financial support of donor organizations. Within the framework of development of an optimum ICT infrastructure its modernization will be carried out in accordance with international quality standards. A uniform information space will be created by introducing digital communication in all regions.

423. A transfer of the public administration system to the principles of e-government will be ensured by the use of ICT.

Provision of information and communication services to the population in the whole territory of the country will be expanded thanks to ICT infrastructure development in the country. It is necessary to provide all population with equal, affordable and high-quality access to information services in all regions.

A competitive electronic economy will be built in the Republic by developing information business, electronic commerce, establishment of information business center, and so forth.

424. It is necessary to create favorable conditions for the development of local production of computer equipment, software and information services, as well as national science in the sphere of information and communication technologies.

425. The Government will focus its attention on improving investment attractiveness of the information and communication sector, establishment of an effective mechanism for attracting investment.

The system of education will be oriented to preparation of specialists in ICT, given the market demand. Distant education methods will be introduced actively; the area of providing information technology training to the population will be expanded.

Kyrgyzstan will be actively striving to become integrated into the international information community.

426. Development of ICT will be implemented through active promotion of establishment of an information society in Kyrgyzstan. Modern culture of the ICT use will be developing. The partnership of business, civil society and the State will be broadened by means of ICT development.

427. Coordination of work on informatization of public administration bodies, various programs and projects on ICT development will be ensured for the purpose of accumulation and strict control of resources allocated for ICT development.

428. Safe operation of the existing and newly established information infrastructure, including telecommunication systems, television and radio broadcasting systems, publishing systems, information resources of the country will be ensured.

429. A series of political measures will be taken on development and approval of the Concept of Information Security of the Kyrgyz Republic with participation of representatives of the civil society, mass media, private business and government agencies. The document will be aimed at utmost possible promotion and protection of the rights of the individual and society.

Tourism

430. Tourism is one of the priority sectors of the Kyrgyz economy. The country possesses rich environmental and recreational features that are potentially attractive to tourists from both domestic and foreign sources. Kyrgyzstan has such well-known mountain peaks as the 7,439 meters-high Mount Victory (Peak Pobedy), Mount Lenin (7,134 meters), and Khan-Tengri (6,995 meters). Enylchek, one of the longest glaciers in the world, is also found in the Republic. There are 14 resort/recreational areas and 10 mountain tourist areas in the country. The availability of medicinal mud, mineral and thermal springs, clean and practically untouched landscapes, all attest to the recreational value of the country. In addition to natural resources, Kyrgyzstan has a rich history. The ancient Great Silk Road passes through the Republic and there are over five thousand historical and cultural monuments scattered over it.

431. The recent upsurge in tourism has been largely encouraged by the Law on Tourism and the Tourism Development Concept to the year 2010. The announcement of the year 2001 as the Year for the Support and Development of Tourism also played a significant role in the growth of the sector. The sector has been steadily growing since 1999. In that year, tourism accounted for 2.5 percent of GDP, while in 2000 it rose to 2.9 percent and in 2001 reached 3.9 percent. In the period from 1999 to 2001, the number of registered enterprises offering recreational services increased by 36 percent. The number of organizations providing tourist services also went up. In 2001, 98,600 foreign tourists visited Kyrgyzstan, twice as many as in 1999.

432. There remain, however, several **major issues** in the Kyrgyz tourist industry:

- poor quality of services;
- undeveloped infrastructure;
- difficult access to the country for potential tourists due to the mountainous terrain and insufficiently developed transportation infrastructure;
- administrative barriers and unnecessary interventions by regulatory agencies raising the cost of tourist services in Kyrgyzstan;
- lack of information abroad on tourist opportunities in Kyrgyzstan; and
- growing competition on the international tourist market.

433. **The main development goal** of Kyrgyzstan's tourist sector is to form an environmentally friendly, socially oriented, profitable, and competitive tourist industry that will cater for the needs of tourists and create new jobs.

434. **Priority areas** for attention in the Republic's tourist industry include:

- refining the legal framework;

- developing tourism infrastructure;
- attracting direct foreign and domestic investment;
- carrying out an active information campaign on international markets;
- developing alternative forms of tourism that accommodate national, cultural, socio-economic, and natural features of the Republic's different regions; and
- raising the quality of services.

435. It is envisaged that the actions proposed below will help to stabilize the tourist sector and set the stage for its further development.

In the area of refining the legal framework:

- elaboration and introduction of amendments of the tax code in order to provide tax incentives to enterprises and individuals engaged in the tourist sector;
- development of proposals for attracting foreign investment into the tourist sector;
- creation of a favorable legal environment for tourists entering the Republic (streamlining visa regulations, reducing the time taken by border and customs controls, ensuring safety of tourists in the country); and
- elaboration of the Law on Social Tourism.
- In the area of tourism infrastructure:
 - construction of new and reconstruction of existing tourist facilities (mostly of small and medium capacity), development of transportation (airports and motor roads), communication systems and other elements of the tourism infrastructure;
 - encouragement of formation of unions and associations of tour operators; establishment of partnerships between tourist companies and state agencies;
 - creation of a multi-level system of training and qualification upgrading of workers in the tourist sector; and
 - development of state standards for the activities of tourist companies, as well as quality requirements for the services offered, facilities provided, etc.
- In the area of information provision:
 - carrying out wide-scale advertising campaigns to create and develop Kyrgyzstan's image as a country with conditions favorable for tourism; increasing dissemination of information about Kyrgyzstan through diplomatic channels, foreign and domestic mass media; and
 - provision of state support to Kyrgyz tourist agencies participating in annual international tourism markets.
- In the area of attracting direct foreign and domestic investment:
 - development of measures to stimulate investment generally into the sector; attraction of foreign and domestic investors for participation in negotiations, auctions, and tenders for procurement of tourist facilities; and
 - improvement of investment attractiveness of tourist facilities available for privatization; privatization of facilities in the sector should improve economic effectiveness of recreational facilities.

436. Further development of the tourism sector should focus on expanding traditional areas (recreational resorts) as well as development of alternative areas of tourism (high class resorts, adventure mountaineering, Great Silk Road tourism, eco and business tourism). The high-class tourism will require development of adequate infrastructure and investment of considerable funds, which are not presently available in Kyrgyzstan. Given this situation, it is preferable for Kyrgyzstan to specialize on high-class non-conventional services. These could include hunting, skiing, mountaineering, and recreation in the Issyk-Kul Lake area. The expansion of recreational tourism is closely connected with the extensive network of resorts, rest homes, and other recreational facilities of the Issyk-Kul Lake area. The quality of services must be improved and brought to the international level. Direct investment and use of modern service technologies should help to address this.

The mountainous territory of Kyrgyzstan makes mountains the greatest attraction for foreign tourists. Mountain-related adventure tourism is in high demand on the world tourism markets. Sky-touching mountain peaks, glaciers, caves, lakes, and rivers are all attractive natural sights that give Kyrgyzstan an opportunity to develop mountaineering, speleology, skiing, and other tourist-attractive sports. The most popular mountain areas of the Republic should have adequate housing and recreational facilities. Special territories with limited access to tourists and mountaineers (mountain tourist zones) should become base areas for development of other types of adventure tourism. Organizing transit tours on the Great Silk Road is especially promising since it gives Kyrgyzstan an opportunity to enter the sphere of interests of such countries as Japan, Malaysia, PRC, Korea, as well as a number of European countries.

437. A Tourism Coordinating Council has been established to oversee the activities of state agencies, local communities, and the private sector in the area of tourism. Realizing the importance of the sector, the Government has approved the Tourism Development Action Program to the year 2010. This Program should help Kyrgyzstan join the world tourism market, while the subsequent growth of the country's tourism industry should improve the general economy and, in the longer-run, help to reduce poverty.

Development of service industries and towns

438. In recent years, service industries have grown steadily by an average annual growth rate in gross output of over 5 percent.

439. The service industries contribute to establishment and expansion of links with other countries. New contacts bring new technologies and modern methods of management, change people's mentality. The use of information technologies helps to overcome the geographic isolation of the country. In future, the service industries should become one of the key economic sectors and address poverty issues through active changes in all areas of human activity.

Residents of Bishkek, regional cities, and town centers throughout the Republic, are the principal consumers of services. This concentration of demand creates conditions for development of other economic sectors through development of service provision and employment of the population.

440. However, the service sector in small towns is very weakly developed. This could be explained by the fact that traditional activities in these towns were usually connected with the existence of large industrial enterprises that once played a role in town development. Life in such towns directly depended on the economic and financial condition of their enterprises so that, once many such plants closed, and reflecting generally the unstable situation in the industrial sector, the employment and income levels in these towns became much lower than the average throughout the Republic.

Closure of large enterprises that were once the economic centers of many towns, has resulted in significant migratory flows. Highly skilled engineers and specialists, doctors and teachers have migrated in search of employment to the capital or abroad. The fact that the majority of migrants have been young people motivated by employment opportunities raises special concern. Spontaneous internal migration heightens social tension in the capital of the Republic and reduces urban population in the regions.

The situation is aggravated by the unfavorable environmental situation in towns, affected by the discharge of pollutants; presence of tailing pits and mining dumps left after closure of mining and refining enterprises. Moreover, unsatisfactory or lack of water supply, sanitary systems and inadequate municipal services generally, add to the adverse sanitary situation in cities and town centers.

Many types of social and cultural services have become inaccessible for the majority of the population. Health indicators and access to health and educational services to disadvantaged groups of population have significantly declined.

At the same time, the remaining operating enterprises in small towns still possess substantial unused productive capacity, human potential, and the necessary infrastructure.

441. The Government has approved many programs and measures to address the difficult situation in small towns. However, insufficient funding has limited adequate implementation of the majority of these measures.

Further development of small towns and villages under the new CDF approach is envisaged under the State

Concept for Development of Small Towns and Town Centers. Its implementation envisages revival of small towns through stabilization of existing capacities, active development of new forms of livelihood for the population, introduction of modern methods of management, and mobilization of human, material, and financial resources.

442. Availability of basic conditions makes possible reorientation of many town economies to production of services. The State will assist with upgrading of operating industrial enterprises or their reorientation to more flexible and effective forms of production.

Because many regions of the Republic specialize in agriculture, the development of agriculture support services, including related processing and marketing units is required. Development of food catering, consulting, transportation, and other services for rural residents could also provide employment.

443. In future, these towns could become regional centers for development of tourist business, promotion of technologies, and provision of financial services to regional businesses. They will also play the role of catalyst for development of private enterprise and social mobilization. Active employment through promotion of support services for development of various economic sectors is the main goal in development of small towns.

444. Increased state revenues will help to ensure better delivery of state social services to the populations of small towns. Besides, decentralization of public administration will further empower urban authorities and local communities to address social and economic issues. Special attention should be given to ensuring provision of basic health and educational services.

445. The Government will develop appropriate mechanisms to stimulate development of small towns. The State will encourage direct investment and grants for implementation of effective projects, increase in exports of goods and services, etc. Specific programs are being developed, taking into account regional specifics, in order to revive small towns. The activities aim to mobilize all resources of small towns in order to raise living standards of the population.

446. Development of service industries in small towns will help to accelerate the adjustment process in regions and start a new phase in implementation of economic reforms throughout the country. Reduction of poverty and improved wellbeing is the final objective of focused measures on development of service industries in small towns.

CHAPTER VI. REGIONAL DEVELOPMENT IN THE KYRGYZ REPUBLIC

Balanced Development of the Regions

447. Uneven and unbalanced regional development is a significant factor contributing to the spread of poverty throughout the Republic. Uneven development of the regions reflects geographic characteristics and differences in production infrastructure, as well as limited access to resources and communication and information services. The existing structure and system for collection and accumulation of tax revenue leads to subsidization of six out of eight regions of the Republic. Inefficient use of local budget resources leads to arrears in the payment of salaries and social payments.

A system of special equalization and categorized grants is allocated from the national budget to regions in order to ensure even distribution of social payments. Various forms of compensation and subsidies are provided to the population living in mountainous and remote areas.

448. Much work is being undertaken with the assistance of the World Bank, Asian Development Bank, and other international agencies and donor countries on development of local self-government, capacity building of rural NGOs, rehabilitation and construction of irrigation and water systems, as well as reconstruction and equipping of schools and hospitals. Medium-term regional and town development programs prepared by the Government and local authorities have been undertaken without much success due to the lack of adequate funding.

449. The situation in small towns and town centers is aggravated by the closure of large enterprises that once provided employment to local communities. Unemployment has forced many residents to migrate, while lack of funds in local budgets does not permit proper maintenance of infrastructure in these localities. Strong growth of agriculture has somewhat lessened the spread of poverty in rural areas. Nevertheless, poverty in rural areas remains higher than in urban areas. Rural residents still lack adequate access to medical assistance, financial services, communications and information.

450. Reducing the development gaps in the country's regions and bringing down the poverty level in the most backward regions are key areas of the Government's regional policy. Further refinement of the legal framework to stimulate the system of local self-government and budget decentralization will create the necessary conditions for greater use of NGO and community potential in resolution of regional issues. Thus, the UNDP Decentralization and Poverty Alleviation Program will gain greater significance with its objectives of building the capacity of communities through effective use of internal and external resources, active participation in decision-making and implementation and strengthening of the confidence of the poor in their capabilities.

451. Socio-economic programs for comprehensive development of villages, towns, mountainous and remote areas to be developed during 2002-2003 under the NPRS program, will take into account the existing potential and specifics of each region. During the formation of these programs, special attention will be paid to their feasibility, financial soundness, effective use of local resources, development of cooperatives and consistency with sectoral development programs. The highest priority in investment policy and PIP will be given to projects oriented on the creation of jobs, rehabilitation and construction of irrigation and water supply systems, processing of agricultural produce, as well as expansion of educational, health, and financial services. Micro-financing, well-developed private enterprise and social mobilization should significantly contribute to a higher employment levels.

452. Implementation of the regional stabilization policy is expected to result in a 5 percent rate of economic growth, while development policy will ensure a growth rate of 7 percent. Economic growth and measures for increased employment will lead to reduction of unemployment and higher incomes. Together with active promotion of social mobilization, such measures will reduce poverty. Expansion of foreign economic ties and reduced trade barriers will promote exports. Rehabilitation and construction of water facilities will improve accessibility to clean water and prevent disease. Construction and upgrading of schools and a better supply of textbooks and computer classes will increase access to education and improve the quality of educational services. Increased budget revenue, streamlined benefits, and improved targeting will help the State to provide needy families and citizens with adequate social support.

Batken Oblast

453. The Batken oblast was formed in 1999 from three former rayons of the Osh oblast and occupies an area of 17 thousand square miles. The population of the oblast is 8.0 percent of the total population of the

Republic and mainly lives in rural areas. The level of poverty had declined there in recent years and in 2001 was 41.2 percent of its population that was 6.5 percent lower than that of the Republic as a whole. Annual income per capita in 2001 increased by 18.5 percent compared with 2000, but it is still rather low and constitutes 30.6 percent of the average republican level. Subsidies for utility services, electric and thermal power, natural gas and sanatorium and spa treatments are provided to 18.7 percent of the inhabitants, while 22.2 percent of families receive state benefits.

Social Sphere and Social Mobilization

Community organizations have been established within the local government structures in Batken oblast for self-mobilization of the population, participation in decision-making processes and rendering effective assistance to the poor. They carry out active work on improvement of rural infrastructure, securing clean drinking water for the population, identification of poor and extremely poor families, providing them with targeted assistance.

The program, Political and Administrative Governance at the Level of Local Governments, is being implemented in the Batken Oblast with UNDP support. Representatives of local communities have established 92 self-governing community organizations, which unite 2,776 people. They have already accumulated 326,700 soms as their own resources, as well as having raised 3.14 million soms for implementation of mini-capital grant projects. In 2001 they completed 15 projects and 5 projects are still under implementation, of which 13 projects involved construction of water pipelines. Improvement of access to clean water will be promoted through implementation of the project, Community-Based Sector of Infrastructure Services, financed by the ADB, under which it is planned to rehabilitate and construct water pipelines in 100 villages of the oblast and Kyzyl-Kiya City within several years.

The Batken oblast is one of the few where the number of secondary schools increased by 5.6 percent within the last two years and at present it has 207 schools. Three schools are to be repaired under the ADB project, Development of the Educational Sector. At the same time, the number of teachers has remained practically unchanged, which is indicative of their shortage, in particular in villages. Schools are not sufficiently supplied with textbooks; they badly need equipment for computer classrooms.

There are 74 clinics and obstetric points, 30 hospitals, while Family Group Practitioners (FGP) are being established in the oblast. Nonetheless, the existing system is still unable to provide the population with necessary access to health care services. Within the framework of the World Bank project, Health Care-2, it is planned that 7 facilities for the FGP and Sanitation and Epidemiological Stations (SES) for the amount of 1.3 million soms will be repaired.

As of October 1, 2002 employment services of the oblast registered 9,916 unemployed looking for work, of which the official status of unemployed have been granted to 5,988 people. To reduce the level of unemployment, in September of 2002 the employment services engaged 216 unemployed in paid public works and provided training for 125 people. During the first half of 2002 the employment services allocated micro-credits for the amount of 800 thousand soms to 107 unemployed, the KAFC approved 73 applications for loans totaling 3.8 million soms. In 2001 total loans of 10.1 million soms was provided to 2.1 thousand unemployed in the Batken oblast.

Real Sector

The Batken oblast produces 3.8 percent of the total GDP of the Republic. The shares of industry and agriculture are 1.9 percent and 6.1 percent, respectively, of the total republican output. The industry of the oblast consists mainly of nine large enterprises producing mercury, antimony and coal. Their share in total industrial output of the oblast is 56 percent. The share of the largest enterprise, JSC Kadamjai Antimony Industrial Complex, is 13.1 percent of industrial output of the region. Processing industry of the oblast is mainly represented by such large enterprises as JSC Tort-Gul PVK, Kyzyl-Kiya Tobacco Fermenting Factory, agricultural cooperative Agroplast, which process grapes, tobacco, and tomatoes.

A sustainable growth rate of industrial output in the medium term will be assured through development of mining enterprises, food and processing industries, small and medium businesses, as well as by increasing production of mercury and antimony, coal, agricultural produce processing.

The agriculture sector mainly grows cash crops (tobacco, cotton), grain (wheat, corn, rice), fruit (grapes, apricots). In the medium term, it is expected that production output would grow by 7 percent due to cultivation of unused land and increasing yield capacity of agricultural crops. Livestock breeding (cows, yaks,

sheep and goats) and poultry farming are carried out. The Batken oblast has 10.6 percent of cows and 11.6 percent of sheep and goats out of the total number of stock in the Republic.

Financial services for agricultural commodity producers are provided by credit unions, KAFC and various international funds. The KAFC has significantly increased lending volumes; in the first half of 2002 it extended loans for a total amount of 26.7 million soms, against 24 million soms in 2001.

Twenty-one associations of water users have been established in the oblast under the project, On-Farm Irrigation, financed by the World Bank. Members of these associations take an active part in distribution and effective use of irrigation water, as well as rehabilitation and construction of irrigation networks.

Small and medium business is developing dynamically. Thus, the share of industrial products produced by SME in total industrial output increased from 28.2 percent in 1999 to 45.4 percent in 2001, and for January-June of 2002 reached the level of 42.2 percent. Development of SME is significantly promoted by financing programs established at the level of the Republic, including micro-finance. Further development of SME will be supported by simplification of registration procedures, reduction in the number of inspections by state regulatory bodies, creation of a favorable investment climate. In addition, the Government of Germany will provide special assistance to the Batken oblast, including assistance for the processing industry.

Development of transport, communications, including local airports, as well as access to regional large markets for selling local products, has a significant impact on development of the oblast.

In the last two years, the volume of capital investment in the Batken oblast almost doubled. According to preliminary estimations they will amount to 135 million soms in 2002. About 8-9 percent of the financing envisaged for capital construction in the oblast is allocated from the national budget. The volume of attracted direct investments to the Batken oblast significantly increased from US\$30,000 in 1999 to more than US\$1 million in 2001. At the same time, potential investors are impeded by its geographic remoteness, underdeveloped communications, and lack of services, including financial services.

There are a number of problems hindering development of the Batken oblast and the process of poverty reduction. They include low income per capita, limited access to clean potable water, underdeveloped infrastructure and services, remoteness from large markets. Lack of irrigation water limits effective land use. The extent of processing of agricultural products is low. Large enterprises require improved management and investments for ensuring stable operations. There are cases of illegal trafficking of fuel.

To solve the existing problems and attain the major goal, creation of conditions for sustainable economic growth and reduction of poverty in the oblast, the Program on Development of the Batken Oblast for 2000-2005 have been adopted and is under implementation. The program envisages that activities of government bodies, local self-government of the Batken oblast shall be focused on the following priority directions:

- Increase access to clean potable water by means of rehabilitation and construction of water pipelines in villages and cities of the oblast.
- Broaden and improve the quality of services in the area of education and healthcare by repairing and equipping schools and FOP, improvement of the system of management and financing.
- Develop transport, including construction and rehabilitation of the highways Kok-Talaa-Pulgon and Pulgon-Burgondu, rehabilitation of roads in Batken city, construction of a bridge across the Sokh river, transfer of the airports located in the territory of the oblast as the responsibility of local self-governments.
- Construct irrigation networks that will allow many inhabitants of the oblast to have irrigated land, increase agricultural output and, consequently, higher income.
- Create a favorable investment climate and search for investors to develop cattle farming (for example, goat breeding and production of goat fluff), grape growing (production and export of high-quality wine), mini-processing enterprises, especially in small cities and towns.
- Support development of small and medium business, individual entrepreneurship.
- Establish and develop cooperation among farming enterprises and peasants' farms, broaden services, marketing and financial service centers.
- Carry out timely preventive measures to anticipate natural calamities.
- Fight illegal trafficking of fuel.
- Develop broadcasting, install telephones.

Jalal-Abad Oblast

454. The population in the Jalal-Abad oblast represents 18.3 percent of the total population of the Republic. Its area is 33.7 square kilometers. The level of poverty decreased by 12.9 percent and comprised 55 percent, but it is still higher than the average republican level by 7.4 percent. Per capita income in 2001 increased by 13.2 percent and amounted to 3,854 soms or 37.4 percent of the average republican level. Benefits for utilities, electricity and heating, natural gas and health treatments are granted to 12.7 percent of inhabitants; 27 percent of families receive state allowances allocated for the poor.

Social Sphere and Social Mobilization

The Jalal-Abad oblast is one of the few where new schools have been established each year. Basically this is the result of the consistent work conducted by local governments, assistance from donor countries and international financial organizations. Under the projects Educational Sector Development and Provision and Financing of Social Services supported by the ADB, schools have been repaired and constructed, equipment and textbooks have been procured. At the same time, general problems in the sphere of education connected with insufficient financing and ineffective management systems remain. Low salaries and lack of proper incentives lead to the loss of qualified specialists to other occupations so there is a shortage of teachers, in particular, in rural areas. Shortage of textbooks and educational and methodological manuals significantly decreases the quality of and access to educational services. Further reforming of the educational system will be mainly connected with a transfer to new methods of financing.

The oblast has a well-established system of health care, 55 hospitals and 163 FOPs. There were 139 FGPs established in the oblast, of which 78 work under the system of mandatory medical insurance. A branch of the Center of Family Medicine has been established in Jalal-Abad City where family group practitioners from the whole oblast are trained. Starting from July 1, 2002, a phased implementation of a supplementary program on mandatory medical insurance on medication provision at the primary level is envisaged for all cities and rayons of the oblast. It is assumed that poor citizens with medical insurance will be able to buy medical preparations at reduced prices at the expense of the Fund of Mandatory Medical Insurance. Hospitals and FOPs are repaired, equipment is procured within the projects, Healthcare Reform-2 and Provision and Financing of Social Services.

One of the pressing problems in the oblast is supply of clean potable water. At present, only 81.2 percent of the population has access to clean potable water. In order to expand access to clean water under the ADB-supported project, Water Supply and Sanitation, it is planned to rehabilitate and construct water pipelines in 224 villages of the oblast and Jalal-Abad City, starting in 2003. Resources of the republican and local budgets, non-governmental organizations, including co-financing from aiyl-okmotu and local communities, will be attracted for rehabilitation and construction of water pipelines in 191 villages that have not been included into the above project. Hundreds of community-based organizations, associations of inhabitants and other forms of citizens' self-government actively participate in the solution of these problems and other social issues. A significant assistance in expanding this work is provided by the Congress of Local Communities of the Kyrgyz Republic, which implements the pilot project, Decentralization, supported by the UNDP.

As of October 1, 2002 there were 16,771 citizens looking for job registered in the Jalal-Abad oblast, of which 68 percent have an official status of the unemployed. In the first half of 2002 the Employment Service Fund allocated micro-credits to 163 unemployed for the amount of 900 thousand soms. The KAFC extended micro-credits without any collateral for the amount of 5.9 million soms. Community-based organizations established with the assistance of local governments, international organizations take an active part in the solution of the tasks on self-employment of the population.

Real Sector

The Jalal-Abad oblast produces 14.2 percent of the total republican GDP and it is one of the more industrially developed oblasts of the Kyrgyz Republic. More than 100 industrial enterprises are located here, they represent practically all industrial sectors: production of electricity, electronics, garments and shoes, extraction of coal and other mineral resources, processing of agricultural products. There is the Toktogul HPP cascade located at the Naryn River in the oblast that produces over 80 percent of the electric power. The JSC Mailuu-Suu Electric Bulb Plant, JSC Kyrgyzneftegaz, Makmal Gold Mining Industrial Complex, JV Kyrgyz Petroleum Company, dealing with oil processing. Processing industry of the oblast consists of 27 large enterprises that produce cotton fibers, fermented tobacco, canned vegetables and fruit, liquors, wine, soft drinks, mineral water, flour, bakery and confectionery products, meat and dairy products and vegetable oils. The construction of a factory for production of canned vegetables and fruit, natural juices, preserved

fruit, jams was completed in 2002. It is planned that a Kyrgyz-Turkish joint venture will start production of vegetable oil. In a medium term, sustainable growth of industrial output will be ensured by an increase in the volume of crude oil extraction and processing, production of electric bulbs, completion of construction and putting in operation of HPPs under construction, expanding of SMEs engaged in processing of agricultural products.

In 2001, the share of industrial output produced by SMEs in total industrial output of the oblast was 27.8 percent. The Program for Entrepreneurship Development for 2001-2003 has been approved in order to develop SMEs in the oblast. Development of SMEs in the oblast is promoted by the financial system, as well as creation of favorable conditions as a result of simplification of registration procedures, reduction in the number of inspections and permits for conducting business activities, transfer to a simplified taxation system, including by introducing a patent-based tax. Unique Arslanbob fruit and nut forests, Besh-Aral and Sary-Chelek reserves located in the oblast, create opportunities for tourism development and other services activities.

The agricultural sector grows gains, cotton, tobacco, potatoes, vegetables, and grapes. In term of livestock breeding the share of the oblast is 16.5 percent of cattle, 15.6 percent of sheep and goats out of the total cattle stock of the Republic. Growth of agricultural output is possible as a result of increasing crop capacity, involvement of unused and new lands in agricultural turnover. In this connection it is planned to construct a number of irrigation channels and a water reservoir that will ensure irrigated water for an additional 8,659 hectares. Under the project, "On-Farm Irrigation", financed by the World Bank, there have been 41 associations of water users established, responsible for distribution of irrigation water and participation in rehabilitation and construction of irrigation systems.

Development of agriculture and SMEs in the oblast is promoted by the financial system. The KAFC has significantly increased its volume of loans, amounting to 90.5 million in the first half of 2002 soms, while in the whole of 2001 the amount was 77 million soms. The volume of credits extended to the real sector in January-July of 2002 from all sources totaled 167.5 million soms.

The total volume of capital investments in the Jalal-Abad oblast in 2001 amounted to 1,380.5 million soms. Basically this is connected with the funds spent for implementation of the projects included in the PIP, as well as own resources of enterprises aimed at development of production. In 2001 the oblast attracted foreign direct investment for the amount of US\$4,896,400, and in the first quarter of 2002, US\$1,064,900. In general it is necessary to significantly increase the inflow of investment, in particular private investment, to ensure sustainable development of the oblast.

It is necessary to ensure broad export opportunities for sustainable growth of production. Elimination of barriers in trade and movement of goods among neighboring countries will allow access to large markets of Uzbekistan, Kazakhstan and Russia. In addition, it is necessary to take measures to combat smuggling.

To resolve the existing problems and attain the major goal of poverty reduction, the work of local executive bodies, local self-governments of the Jalal-Abad oblast will be focused on the following priority policy directions:

- Finalise and implement Jalal-Abad oblast development strategy with reflection of NPRS priorities
- Broaden access to clean potable water by means of rehabilitation and construction of water pipelines in villages of the oblast, including at the expense of credit resources provided by the Asian Development Bank.
- Increase access of the population to high-quality services of health care and education by means of repair, construction and equipping schools, medical units, improving the system of financial management.
- Reduce the total level of unemployment by supporting and developing small and medium businesses, individual entrepreneurship, retraining of unemployed in specialties demanded by the labor market.
- Rehabilitate and construct irrigation networks in villages of the oblast with participation of the associations of water users established within the project "On-Farm Irrigation" financed by the World Bank. This will allow rural inhabitant to increase agricultural output and their own income.
- Conduct timely preventive works to prevent natural calamities, including measures on removal of the population from territories exposed to environmental risks.
- Create a favorable investment climate and search for investors for development of electric power generation, processing industry (tobacco, cotton, forestry products), in particular mini-processing production in small cities and towns.
- Intensify processing of vegetables and fruit by means of cooperation of processing enterprises with peasants' farms.

- Establish and develop cooperation among farming enterprises and peasants' farms, broadening of service maintenance, marketing and financial services.
- Assist in selling products, promotion of their export.
- Increase electricity generation and export by completing construction of the Kamar-Ata HPP cascade, * development and implementation of the program on development of small HPPs.
- * Increase coal production by replacing obsolete equipment; and
- Strengthen customs services, create necessary infrastructure.

Issyk-Kul Oblast

455. The Issyk-Kul oblast is situated in the east of the Republic. In the west it borders on the Naryn and Chui oblasts, in the north on the Republic of Kazakhstan and in the south-east - on the People's Republic of China. Only 8.5 percent of the whole population of the Republic lives in the Issyk-Kul oblast. The oblast occupies 43.5 thousand square kilometers or 21.7 percent of the whole territory. Land suitable for agricultural activities is only 10 percent, the remaining part of the territory is occupied by mountains and the Issyk-Kul lake. One of the country's largest gold deposits developed by the joint venture Kumtor Gold Company is located in the oblast.

In the last two years the level of poverty in the oblast has been falling, in 2001 this indicator decreased by 5.7 percent. Nonetheless, the level of poverty in the oblast is still rather high, and it exceeds the average republican indicator by 7.6 percent. The level of extreme poverty is 21.3 percent. Annual income per capita in 2001 as compared to 2000 increased by 16 percent and totaled 8,325.3 soms (without taking into account the JV Kumtor Gold Company, 5,975.3 soms). In spite of the fact that the income per capita increased, its value is still low - 79.4 percent of the average republican level (without taking into account the income from the JV Kumtor Gold Company, 60 percent).

Social Sphere and Social Mobilization

As compared to other regions, the oblast has a relatively favorable situation in terms of medical services. The Issyk-Kul oblast is one of the two oblasts where the first pilot project on reorganization of the system of medical services has been rather successfully implemented with the support of the World Bank. Since 2001 the scheme of a "uniform payer" has been put in practice in the oblast, co-financing by the population of medical preparations, meals and other types of extended services has been introduced. The positive aspects of the reform implementation are reduction of hospital beds by 30 percent, establishment of centers for family medicine in the cities of Karakol and Balykchy and in all rayon centers, increased wages for physicians and maintenance staff, appearance of incentives to improve the quality of services and attaining final results. Reforms in the sphere of health care under the second stage of the National Program, Manas, and the project, Health Care-2, are being continued in the oblast. As a result of implementation of these programs it is planned to ensure financial sustainability of medical establishments and improve quality and access to the health care services. At the same time, the introduction of co-financing for medical services reduces the possibilities of the poor and the people with low income to secure timely and qualitative medical assistance.

For the purpose to improved access to clean water, water pipelines will be rehabilitated and constructed in 7 villages of the oblast within the framework of implementation of the project, Rural Water Supply and Sanitation, supported by the World Bank. Rural Public Associations of Potable Water Consumers will take an active part in rehabilitation of the water pipeline networks in 61 settlements during 2002-2003. Clinics and obstetric stations are being repaired within the framework of the project Health Care-2.

There is rather wide access to educational services in the oblast: 190 schools are attended by 98,574 children. As a result of purposeful work conducted by representatives of schools, ayyl-okmotu, local state administrations during the last two years, the number of children who do not attend schools has decreased a quarter. Each school keeps a record of orphans and children from poor families.

The quality of education suffers due to lack of textbooks and educational and methodological manuals. Low salaries of teachers are an impediment for attraction of qualified staff, especially in rural areas, where there are also teacher shortages. Children with psychological and physical problems do not have an opportunity to obtain proper education.

In recent years, the number of families in the oblast receiving state benefits has been reducing. Thus, as of July 1, 2002, 8.4 percent of families received a monthly uniform benefit, which is 2.7 percent less than in 2000. Such a reduction depends on measures undertaken to expand the opportunities for overcoming

poverty and improving the provision of targeted assistance. Commissions identifying the financial situations and the degree of needs of each poor family have been established in each ayil okmotu. Regional poverty maps have been compiled based on the results of surveys. Regular work is being carried out for the issuing of social passports.

Real assistance to the poor is provided by various financial organizations extending micro-credits. During 6 months of 2002 the Issyk-Kul Oblast Center of Micro-Finance extended micro-credits through employment centers to 858 unemployed for the amount of 5.1 million soms and to 105 rural inhabitants for the amount of 590 thousand soms. The KAFC extended loans aggregating 2.4 millions soms to rural inhabitants for spring field works. Poor families also receive micro-credits from the Meerim International Charitable Fund, the Civil Unions Fund, American Fund for Support for Women, credit unions and other public foundations. Patronage of poor families has been wide spread, for example, establishments, organizations, enterprises and public associations took 372 extremely poor families under their patronage. Implementation of the programs, Decentralization and Poverty Alleviation, have been started with the support of the UNDP. In total 199 self-help groups have been formed, which drew down credits for the amount of 22.4 million soms since the time the program, Decentralization, started to be implemented. The amount estimated for the project, Poverty Alleviation, for 2002 totals 6.7 million soms.

As of October 1, 2001 there were 4,907 unemployed citizens registered, of which 280 people received unemployment benefits, 1,232 were employed in various paid public works. During nine months of 2002 the number of unemployed involved in paid public works was 1,717 people, training has been provided to 438 people, and micro-credits have been extended to 858 people. Thanks to all sources of financing, 4,305 jobs have been created within 6 months, of which 219 were in the agricultural sector. On average, more than 6.5 thousand jobs are created each year, and about half of these jobs are created by small and medium businesses. Development of agriculture and individual entrepreneurship created 56 percent of the jobs in 1999, 47.9 percent in 2000, 40.8 percent in 2001 and, in the first half of 2002, 39.7 percent.

Real Sector

The oblast produces 17 percent of GDP of the Republic (without the JV Kumtor Gold Company, 7.9 percent). The share of the JV Kumtor Gold Company in the oblast industrial output is nearly 90 percent. The remaining industry is mainly represented by enterprises processing agricultural produce, producing foodstuffs, construction materials and coal mining enterprises. Due to a temporary decline in production at the JV Kumtor Gold Company in 2002 it is expected that the volume of industrial production will be reduced by 30 percent. It is projected that in 2003 growth rate of the industrial sector in the oblast will be 19 percent mainly due to the JV Kumtor Gold Company, an increase in coal mining, food stuff and processing sectors.

In agriculture the major types of products are grain, potatoes, sugar beet, vegetables and fruit, and their share in the total republican volume is the following: grain - 16.5 percent, potatoes - 36.0 percent, vegetables - 6.3 percent. There are 5,155 peasant's farms and farming enterprises registered in the oblast. The existing capacity (in particular, cultivation of unused land) will, in the medium term, ensure an annual growth rate at the level of 6 percent by increasing production and export of grain, potatoes, vegetables, fruit and improvement of livestock farming production capacity. In the longer-term, due to limited land resources suitable for agricultural activities and a short growing period, development of livestock farming is considered to be the most favorable. At present the oblast has 13 percent of large horned cattle, 16 percent of sheep and goats out of the total number available in the Republic, and it produces 12.8 percent of meat, 12.6 percent of milk, 18.0 percent of wool. Financial support to agricultural commodity producers is extended by credit unions and the KAFC, which allocated credits for the amount of 114.2 million soms within 7 months of 2002, while the total amount allocated in 2001 was 95.8 million soms. Within the framework of the project, Rehabilitation of Irrigation Networks, repair and rehabilitation works are being conducted at the sites "Jon" (9.2 million soms have been drawn down) and "Jerui" (18.9 million soms have been drawn down). There are 21 associations working on distribution of irrigation water over an area of 26.5 thousand hectares.

There are more than 400 subjects of small and medium business enterprises operating in the territory of the Issyk-Kul oblast. They produce over 40 percent of industrial products (without the Kumtor Gold Company). Individual entrepreneurship is widely developed in the sphere of trade and services.

Tourism and effective use of opportunities of the unique alpine lake Issyk-Kul for summer vacation of numerous inhabitants of the Kyrgyz Republic, Kazakhstan, Uzbekistan and Russia are the priorities for development of the region. Tourism development will ensure demand for the products of food industry, agriculture and services.

The volume of capital investments in 2002, according to preliminary estimates, will be 85.7 million soms or about 1 percent of the total volume of capital investments. With interregional projects the volume of capital investments will be about 6 percent. It is planned that 27.2 million soms or 3.4 percent of the total amount of budget expenditures for capital construction would be allocated from the republican budget for 2002. Basically, public investment is allocated for construction and maintenance of infrastructure facilities and coal mines. Private investment is used for construction of facilities for services and tourism. The existing volume of investments is clearly insufficient for sustainable development of the region. At the same time, underdeveloped transport communications, existing restrictions on cargo transit and administrative barriers inhibit an increase in the volume of direct investment. Access to telephone communication in rural areas is limited, TV program reception is complicated due to the mountainous terrain.

Of all the problems, the most important and specific for the Issyk-Kul oblast are the following:

- a relatively high level of poverty;
- limited access to the services of health care, education, clean potable water;
- insufficient volume of investments for attaining sustainable economic growth;
- poor development and condition of communications, including transportation and telecommunications;
- ineffective use of recreational capacities of the Issyk-Kul lake and a low quality of tourism services;
- poor condition of irrigation networks; and
- a low degree of processing of agricultural products.
- To reduce poverty and attain sustainable economic development, the oblast developed an action plan on support of the Comprehensive Development Framework of the Issyk-Kul Oblast for 2002-2003, which was approved at the kurultai of representatives of local communities as of February 9, 2002. The Issyk-Kul oblast has realistic pre-requisites for overall rehabilitation of the socio-economic situation. Given the specifics of the region, special attention will be focused on:
 - development of the mining complex, processing industry;
 - development of small and medium business, especially in the areas of processing of agricultural products and tourism;
 - privatization of sanatoria and spas located at the Issyk-Kul, which will serve as a basis for appearance of proprietors, increase in the volume of investments for infrastructure development, improvement of tourism services, increase in budget revenues;
 - preservation and development of the landscape and biodiversity of the unique Issyk-Kul basin, as an asset of not only Kyrgyzstan, but an object of a global importance;
 - continuation of the agrarian and land reform given the specifics of the region and mentality of its inhabitants;
 - rehabilitation of the irrigation network;
 - rehabilitation and construction of surface roads; and
 - increase of access to telecommunication services for the population.

Under the system of social protection, certain measures will be undertaken to improve its targeted nature and provide support to poor families. Approaches connected with the provision of micro-credits, training and engagement in paid public works will be widely used as active policy measures to increase employment and ensure sustainable income generation.

Special attention will be paid to strengthening of primary medical and sanitary assistance. Measures will be implemented on optimization and saving of budgetary expenditure and upgrading the level of medical providers' knowledge. Construction and rehabilitation of water pipeline networks in villages will allow increased access to clean water and improved resistance to diseases. Repairs and construction of hospitals, in particular in rural areas, will be continued.

Access to educational services will be expanded by creating incentives and conditions for attraction and retaining of teachers in rural schools. The quality of services will be upgraded as a result of reforms in the educational system within the framework of the approved Concept. The educational process will be improved by equipping schools with textbooks and educational and methodological manuals, repairs of premises and construction of new schools.

Given the potential of the Kyrgyz Republic on providing transit services in international trade, the Issyk-Kul region has realistic perspectives of gaining the largest benefit. Implementation of the Doctrine of the Great Silk Road will have the most positive effect on development of the Issyk-Kul oblast, as historically the Great Silk Road connected West and East, passing through the Issyk-Kul basin. A significant step in this direction will be rehabilitation and construction of the highways Barskoon-Bedel and Karakol-Enilchek with an exit to the Chinese People's Republic, as well as Tyup-Kegen with an exit to Kazakhstan and Russia, modernization and construction of new airports of the international level.

Cooperation with the Aga-Khan Foundation on establishment of a zone for elite tourism at Lake Issyk-Kul can be a rather promising direction of development.

Naryn Oblast

456. The Naryn oblast occupies 22.6 percent of the whole territory with only 5.2 percent of the total population of the Republic. The low population density reflects the fact, that mountains occupy a major part of the territory. In 2001, the poverty level in the Naryn oblast fell by 9 percent, but it still remains the highest in the Republic, 70.4 percent; it is 22.8 percent higher than the average republican indicator. Poverty in the cities of the oblast is higher than in rural areas. Per capita income in 2001 increased by 16 percent and totaled 5,018.8 soms, but this is only half the average republican level. Weak development of the oblast, low living standards of the population, unfavorable natural and climate conditions require some radical measures to be taken for accelerated development of the oblast.

The whole territory of the Naryn oblast is located at more than 1,500 meters above the sea level. In this connection 37.2 percent of the oblast's population enjoy various benefits connected with payments for electricity, gas, coal, utilities, public transportation. Many of them receive supplements to salaries and pensions for living in alpine areas, remote areas and those difficult for access. There is the privilege of earlier pension retirement. There are 34.7 percent of families in the oblast who receive a uniform monthly benefit allocated to the poor. As of July 1, 2002 "social passports" have been issued to 59,622 poor families.

Social Sphere and Social Mobilization

In 2001 and the first half of 2002, the number of poor families has been reduced by 7.7 percent thanks to the social assistance provided within the framework of implementation of the regional program, Social Development of the Population till 2004. All state administration bodies, community and other organizations, provide assistance to poor families; micro-credits are extended to the very poor.

A method of social support, such as patronage of organizations, enterprises, and wealthy people over extremely poor families has been widespread. 300 poor families of Naryn cities are supported by the administration of the oblast, city enterprises, organizations, economic agents and sales outlets. Since the beginning of 2002, there were 125 charitable collections conducted in the oblast villages; the resources collected are allocated to support poor families in case of an urgent need.

At present there are 141 secondary schools in the oblast, which are attended by 67.4 thousand schoolchildren. In the last three years some school equipment has been procured at with the support of ADB financial assistance and the heating systems have been rehabilitated in 15 schools of the oblast. At the expense of the republican and local budgets, using the method of people's construction activities "ashar", as well as with the financial support of UNICEF and the ADB, 7 new schools and 8 additional buildings have been constructed with a capacity of 1 thousand schoolchildren. By the beginning of the 2002/2003 academic year, capital repairs will have been completed in 7 schools. Since the beginning of 2002, 4 schools have been constructed, funded by the Ministry of Ecology and Emergency Situations. At the same time there are 12 schools in need of emergency repairs and 48 schools require capital repairs. There is a shortage of textbooks and computer classrooms in schools.

The health care system of the oblast includes 5 hospitals, 6 FMCs, 45 FGPs, 69 FOSs. 8 FOPs out of 69 FOPs are in need of emergency repairs, 15 need capital repairs. Out of 45 premises, where the FGPs are located, 4 are in an emergency condition, 17 require capital repairs. At the expense of grants provided by the Swiss Government, UNDP and the World Bank funds, 13 hospital buildings, 4 FGP offices have been refurbished in the oblast, including the Naryn Educational Center on Family Medicine. The repairs of 5 more buildings are currently being completed.

Access to pure drinking water is provided to 89.3 percent of inhabitants of the oblast. Under the project, Rural Water Supply and Sanitation, it is planned to rehabilitate and construct water pipelines in 10 populated areas of the oblast. Public associations of potable water consumers have been established in 6 villages; after the construction is completed, they will provide for the maintenance of the water pipelines.

As of July 1, 2002, the number of unemployed citizens registered with the employment departments and seeking jobs was 11.3 thousand people, of which 72.6 percent had an official status of unemployed. During the first half of the current year 2,927 people have been provided with jobs and 123 people have been trained, 858 unemployed have been engaged in public paid works. The Inter-Rayon Center of Micro-

Financing, local development funds, credit unions, KAFC all together allocated micro-credits totaling 11.3 million soms to 3,367 unemployed. Notwithstanding the measures undertaken in the labor market, the level of official unemployment was 7.3 percent, which is almost 2.5 times higher than the average republican level. It is obvious, that it is necessary to intensify the activities on SMEs, individual entrepreneurship in order to significantly change the situation.

Real Sector

The Naryn oblast produces 4.1 percent of the republican GDP. The share of industrial output of the oblast is only 1 percent of the republican volume. Industry of the oblast is mainly represented by 23 large enterprises producing electricity, foodstuffs, sewed and leather items and coal mining. One of the future directions for industry development is increase in coal production at the Ak-Ulak open-pit mine. In this regards, construction of the railway Balykchy-Kochkor-Kara-Keche is of great significance.

In 2001, out of 344 SMEs registered in the oblast, only 19 percent were operating, they produced 6.6 percent of the total volume of industrial output. Such a low level of activity of SMEs is indicative of the presence of significant problems, which shall be addressed in the near future when existing barriers will be eliminated. At the same time, entrepreneurial activities of the population, cooperatives, and private enterprises are widely developed in the oblast, their share in total industrial output being 38 percent.

Grains, potatoes, vegetables are grown in the agricultural sector. Development of plant growing in the oblast is possible by increasing the crop capacity, but in the long run it is limited by the natural and climate conditions, as well as by the small area of arable land. Given the availability of vast pastures, the most promising direction for development of the agricultural sector of the oblast is livestock breeding. The oblast has 11.9 percent of cattle, 16.5 percent of sheep and goats out of the total stock of the Republic. Growth in livestock breeding is possible by both increase in the cattle stock and improvement of production capacity. In 2001 as compared to 2000, the stock of cattle increased by 7.6 percent. At the same time, a real threat is being presented by a growing number of wolves that are significantly damaging livestock farming. The oblast has a favorable future for development of fishing at the Son-Kul Lake.

Cross-border trading with China and development of tourism, in particular, given the interest to the ancient Great Silk Road, are rather important for the Naryn oblast. In 2001, the Naryn oblast was visited by 2,500 tourists as a result of which the contribution to the budget from tourism activity increased.

Addressing of the problems existing in the Naryn oblast will be promoted by implementation of the regional Program, Social Development of the Population till 2004 Araket-Namys, the major objectives of which is creation of conditions for sustainable economic growth and reduction in the poverty level. Major priority areas till 2005 are the following:

- Increase access of the population to pure drinking water through rehabilitation and construction of water pipelines.
- Improve access and quality of educational and healthcare services by continuing reforms in these spheres, effective use of credits and grants for refurbishment of buildings, procurement of equipment and textbooks.
- Provide targeted assistance to poor families, completion of the issuance of social passports.
- Creation conditions for SME development, in particular in the area of processing of agricultural products.
- Develop tourism and tourist business.
- Take active measures in the labor market, promotion of new jobs creating, increase in the volume of micro-financing for the unemployed.
- Create conditions for increase in the stock of sheep and goats, cattle, horses, yaks, expansion of veterinary services in rural areas, taking measures on extermination of wolves.
- Create conducive conditions and attraction of direct investments for:
 - further development of the Kara-Keche coal deposit;
 - reconstruction of the At-Bashi HPP, rehabilitation of small HPPs, construction of new HPPs at the Naryn River; and
 - construction of the railway Balykchi-Kochkor-Kara-Keche.

Osh Oblast

457. The Osh oblast is one of the largest southern regions in Kyrgyzstan, occupying an area of 29.2 square kilometers or 14.6 percent of the whole territory of the Republic. 24.5 percent of the total population lives there. The oblast center, the city of Osh has the status of the southern capital of the Kyrgyz Republic.

The poverty level in 2001 constituted 56.1 percent (11 percent lower than in 1999), which is 8.5 percent higher than the average republican indicator. Poverty in rural areas is wide spread. Per capita income in 2001 increased by 15 percent and totaled 6,933.1 soms, but it is still only 80 percent of the average republican level.

Social Sphere and Social Mobilization

The Osh oblast is one of the few where the number of schools has increased in the recent years. At present there are 545 secondary schools, attended by 31.3 thousand children. 217 extra-budgetary funds have been established for education support, extending financing of 316.8 thousand soms to provide free hot meals for 1.6 thousand children. During 2001 and the first six months of 2002, about 5 thousand schoolchildren received clothes and shoes for the amount of 1.4 million soms. Library funds provided 21.1 thousand children with an opportunity to use textbooks for free. There are 250 various social units functioning within schools. Notwithstanding an increase in the number of teachers, the issue of retaining qualified staff in schools, in particular, rural schools, is very acute. There is a shortage of textbooks, the level of equipping with implements, equipment and computer class-rooms is insufficient.

The network of the healthcare system in the Osh oblast comprises 7 central rayon and 1 city hospitals, 18 oblast therapeutic establishments, 239 medical obstetric stations, 8 sanitary and epidemiological centers. As of today, 166 family group practices and 14 family medicine centers have been established. FGPs serve 1,042,800 people, of which 535,400 have medical insurance.

Only 35.6 percent of the population in the oblast have access to clean potable water, about 80 percent of water pipelines in rural areas are out of operation, which leads to high risks of spreading diseases related to the use of low-quality water. Access to clean water will be expanded as a result of implementation of the project, Community-Based Sector of Infrastructure Services, within the framework of which it is intended to rehabilitate and construct water pipelines in 250 villages of the oblast within 5 years. During 2001, more than 1,800 kilometers of water pipelines with 121 main intake facilities were constructed and put into operation. In 2002, it is planned to rehabilitate and construct new water pipelines in 56 populated areas. At present, construction works are in progress in the settlements of the Kara-Suu and Uzgen rayons.

Improvement of the quality of education and healthcare services will be promoted through implementation of the projects, Development of Educational Sector and Health Care -2, as well as the program, Motherhood and Childhood Protection-2. These projects and programs envisage implementation of further reforms in the education sector, formation of an effective and sustainable system of provision of medical services, procurement of textbooks, equipment and repairs of schools and hospitals. In 2001, within the framework of the ADB project, Provision and Financing of Social Services, capital repairs will be conducted and equipment and furniture will be procured in 22 schools of the oblast. 16 schools and 123 medical establishments will be repaired in 2002.

An obvious tendency towards reduction in the number of families receiving state benefits is being observed in the Osh oblast thanks to effective measures undertaken to strengthen the targeted nature of social assistance. As of July 1 2002, social passports have been issued to 130,200 poor families, which is 86 percent of the total number of families subject to survey. As a result of the survey and preparation of social passports, an oblast database has been established and 43,481 families have been identified as those in need of state support.

Pilot projects within the framework of the program, Political and Administrative Governance at the Level of Local Governments (components Decentralization and Poverty Alleviation) are being implemented with the support of the UNDP in three aiyl-okmotu; their goal is to support self-development initiatives of local communities using their own fund and resources.

1,279 community organizations and 1,579 self-help groups have been established and function in the oblast using the experience of a number of international organizations. During 2001 and the first half of 2002 they undertook projects at their own expense on construction and putting in operation of more than 50 social infrastructure facilities costing 13.5 million soms. These given facilities have been constructed by the efforts of communities.

The Center on Micro-Finance works with the unemployed of the oblast. From the beginning of 2002 vocational training courses have been provided to 927 people. In 2001 the Center extended micro-credits to 1,305 unemployed for the amount of 5.2 million soms, within the first half of the current year to 376 unemployed for the amount of 1.9 million soms. During this period 7,012 jobs have been created, of which 2,135 jobs were created by the employment fund, and the development of small and medium business created 3,028 jobs. In 2001 the loans extended by the KAFC totaled 16.2 million soms, and in the first half of 2002, 4.2 million soms. On the whole, the measures taken alleviate the tensions in the labor market, but do not provide a radical solution for the problem of unemployment. This problem needs to be resolved by significant expansion of the scale of small and medium business and revival of the real sector.

Real Sector

The Osh oblast produces 11.7 percent of GDP of the Republic, 6.1 percent of industrial output, 17.9 percent of gross agricultural output, 19.7 percent of retail commodity turnover and 17.0 percent of paid services to the population. Light industry is the leading sector in the region. Large enterprises of the light industry sector are: JSC Tekstilschik, JSC Osh-Jibek, JSC Ak-Bula in Aravan rayon, JSC Ak-Altyn in the Kara-Suu rayon. Over 30 percent of light industry products of the Republic are produced in the Osh oblast. Light industry products are mainly textiles. The share of food stuff production in the processing industry is 30.0 percent; these are mainly bakery products, liquors and meat and dairy products. Tobacco, flour and cereal sectors are also well established.

A dominant position in the economy of the oblast belongs to the agriculture sector, the major products of which are grain, cotton, tobacco, vegetables, fruit and oil crops. Activities in livestock breeding are mainly related to horned cattle, goat and sheep breeding. The oblast has 23.3 percent of the cows and 22.6 percent of the sheep and goats of the Republic. Slow but stable growth in the number of livestock provides for an increase in production of meat, milk and wool. Notwithstanding the limited land resources suitable for agricultural purposes, the oblast has a sufficient potential to increase agricultural output, in particular by increasing yield capacity as a result of applying new technologies (for example, gowning cotton under plastic covering). In the medium term, such measures will allow attainment of a growth rate of 6 percent. Growth in agricultural output will generate raw materials for enterprises of the processing and light industries. It is necessary to stimulate work in rural areas on establishment and development of small processing enterprises to maximize use of local raw materials. This work will be also promoted by implementation of the USAID project, Development of Agribusiness, in the Osh oblast.

Small and medium business of the oblast is developing dynamically. This ensures positive growth rates of the industrial products produced by small and medium businesses. In the first half of 2002 industrial output of small and medium enterprises increased by 17.3 percent as compared to the corresponding period of the last year. The share of industrial products of small and medium business enterprises in total industrial output is about 41 percent. The number of individuals engaged in individual patent-based entrepreneurial activities is increasing. In the first half of 2002 there were 50.7 thousand (taxation) patents issued for the total amount of 12.0 million soms, which is 5.6 thousand patents more than in the corresponding period of 2001.

There are more than ten financial and crediting institutions, various public foundations and centers, branches of 9 commercial banks operating in the oblast. In 2002 they extended credits to enterprises and individuals for the total amount of 328.2 million soms, which is 85.2 million soms more than in the corresponding period of the last year. In the first half of 2002, the amount of credits approved by the KAFC throughout the oblast totaled 116.3 million soms, and during the whole year of 2001, 130 million soms.

Special attention is paid to development of tourism infrastructure, upgrading the level of services, strengthening the material and technical basis of the existing facilities. For this purpose the oblast Program on Development of Tourism till 2010 have been developed and approved, the Steering Committee is working on its implementation.

Rehabilitation of the highway Bishkek - Osh has become an additional impetus for development of the oblast. The flows of cargo between the northern and southern regions have increase significantly, and relevant infrastructure has started developing. At the same time, the underdeveloped road network within the region, its poor condition, low quality of services, and limited access to telecommunication, negatively affect the oblast's attractiveness for potential investors.

Osh oblast has a number of problems impeding sustainable development and poverty reduction. This is connected with a low income per capita, limited access to clean potable water, underdeveloped infrastructure and services, in particular financial services, remoteness from large markets, and a shortage of

irrigated land. Lack of adequate management and marketing promotion of agricultural products has led to a decrease in the farmers' incomes. The extent of processing of agricultural products is still low. The Program of the state administration of the Osh oblast, Improvement of the Living Standards of the Population, and the State Program, Comprehensive Social and Economic Development of Osh City for 2001-2010, are aimed at solution of these problems.

Priorities for development of the oblast for 2003-2005 will be agriculture, light and food industry, service sector, transport and communications.

In order to solve the existing problems and attain the major goal, poverty reduction, the activities of public administration bodies and local self-government of the Osh oblast shall be focused on the following policy priorities:

- Increase access of the population to clean potable water, high-quality health care and educational services. It is necessary to continue with repairs and construction of water pipelines, hospitals and schools, in particular in rural areas.
- Broad use of internal potential of the population in poverty reduction. For this purpose it is necessary to intensify the work on social mobilization of the population, establishment of community-based organizations and self-help groups, carry out explanatory work among the population about the role of community-based organizations and self-help groups.
- Broaden and strengthen the role of social partnership among government structures, local self-government and international and non-government organizations in a comprehensive approach to poverty reduction. For this purpose it is necessary to use widely the work experience on poverty reduction of a number of international organizations. With the support of international organizations working in the region to continue the work on preparation of national volunteers on rendering targeted social assistance.
- Provide the population with access to basic social and cultural facilities. It is necessary to prepare a plan on construction of social and cultural facilities in all populated areas. To organize joint work of local self-government bodies, international, non-governmental and community-based organizations. It is intended to use the resources of the local budget, international, non-governmental and community-based organizations.
- Broaden the variety and improving the quality of financial services (credits and micro-credits). To continue the work on conducting explanatory work among the population about crediting and micro-finance, by organizing presentations of financial establishments and meeting with the heads of managing structures dealing with extension of financing (to reduce the interest rate, simplify the mechanism of submission of the documents, to prolong the period of repayment).
- Reorganize the structure of primary medical and sanitary assistance. Formation of the family group practices. Retraining of medical personnel in the area of family medicine. Equipping of newly established centers of family medicine with modern medical diagnostic equipment.
- Secure qualified pedagogical staff for schools, especially in rural areas. To promote the work on upgrading professional skills of teaching staff. The heads of local self-governments should provide for necessary housing conditions and utility services for arriving young specialists.
- Attract foreign direct investment and promote development of small and medium business by creating conducive environment for entrepreneurship and an attractive investment climate.
- Increase the extent of processing of agricultural products by establishing and developing a cooperation network, wholesale markets, improvement of marketing.
- Reconstruct and broaden the roads of local importance, increasing access to telecommunication services, including television and telephone communication, Internet.

Talas Oblast

458. The Talas oblast occupies an area of 11.4 square kilometers or 5.7 percent of the whole territory of the Republic. It is the most sparsely populated of all the regions with 4.2 percent of the total population of the Republic. In 2001 the poverty level decreased by 5.4 percent and comprised 67.3 percent of the populations, 19.7 percent higher than the average level for the Republic. Poverty is spread more in cities than in rural areas. In 2001, income per capita increased by 13.6 percent and averaged 4,447.60 soms, but this represents only 52 percent of the average republican rate.

Social sector and social mobilization

In the oblast 12,101 persons, or 6 percent of the population, receive different benefits, while 24.9 percent of families obtain state social benefits. As a result of a survey and the issue of "social passports" it had been determined that 43.5 percent of families fall into the low-income category.

To extend a comprehensive assistance to the poor under the Araket National Program, funds for poverty alleviation have been established in each rayon and in Talas City. A variety of 223 non-commercial organizations are active in the Talas oblast. Moreover, with UNDP assistance (Decentralization and Poverty Alleviation programs), 85 community-based organizations have been created that have their own savings funds with which they lend to the poorest members in the community and organize different self-initiative activities. Such funds are also used to improve populated centers, expand water supply systems, repair and maintain schools and kindergartens and medical institutions, assist in development of small and medium enterprises, and support poor families, lonely people (without families) and the elderly. The Civil Fund, Soros Foundation and others provide great assistance on poverty alleviation. Such forms of social support as help extended by wealthy people to the poor families through provision of animals, tillage of land plots and other forms of assistance is widely spread in the oblast.

At present there are 109 secondary schools in the Talas oblast, which are attended by 52,144 children. Continuous activities on strengthening logistics of educational institutions are being conducted. Under the ADB funded project, Education Sector Development, the heating system has been repaired and equipment and textbooks have been procured for 9 pilot schools. In all, schools repairs and preparation for the 2002/2003 academic year has been completed. More than 4 million soms were spent from extra-budget funds, resources from sponsors and the community for the current repairs. One of the factors limiting children's access to education is insufficient supply of textbooks that is currently about 60 percent. Shortage of teachers is observed in the rural areas.

To implement the objectives of the "Manas" National program for reforming health care and the project, Health Care-2, funded by the World Bank, 31 Family Group Practices and 1 Center of Family Medicine have been organized in the oblast, hospitals are being repaired. In Talas city, an Educational and Methodological Center of Family Medicine, a branch of the Institute for Upgrading the Skills of Physicians and Medical Employees has been opened where doctors and nurses for groups of family practices are trained. In accordance with the national program, Tuberculosis-2, monitoring of the situation on the incidence of tuberculosis is regularly carried out. The Oblast Sanitary Department continually controls 53 water pipelines. The level of access to pure drinking water is insufficient in the oblast, and water pipeline supply is 77.6 percent. Under the project, Water Supply and Sanitation, funded by the World Bank, rehabilitation and construction of water pipelines in 9 villages of the oblast is expected. In Talas City it is planned to purge drainage systems.

As of October 1, 2002, the number of unemployed citizens registered with the employment departments and seeking for jobs was 3,188. During the month of September 111 of them were employed. In 2001 more than 6,733 unemployed were provided with training, paid community activities, available position openings and new jobs. Expansion of micro-financing services is one of the most important policy trends to increase employment and reduce poverty rate. During the first six months of 2002 the micro credits for a total of 11.9 million soms were disbursed to 800 citizens, including the micro credits by the Employment Fund line for 700 thousand soms to 86 unemployed in the oblast. For the same period, KAFC disbursed loans amounting to 2.1 million soms. To support the Ayalzat National program, the Women's Initiative Center has been established and 95 unemployed women obtained micro credits totaling 58 thousand soms. A branch of the Ak-Peiyil Foundation is operating, which has extended micro credits in the amount of 384.0 thousand soms. Currently, 11 lending sources operate in the oblast, including associations of credit unions, oblast micro credit center, other community non-governmental organizations and unions. In 2001, 716 families that obtained micro credits improved their welfare.

Real Sector

3.8 percent of the Republic's GDP volume is produced in the Talas Oblast. Industry is mainly represented by agricultural produce processing and food production enterprises. In the medium term, some growth is possible in industrial production by attracting investments, introduction of new technologies and equipment revamping in processing enterprises, creation of necessary conditions to develop mini-production for processing agricultural produce in small towns. Considering an increase in the world prices for gold it is very promising to develop the Jerui gold mine.

Grains, sugar beet, potatoes, vegetables, tobacco and oil crops are the main agricultural crops. Growing french beans is a promising venture. During the past years growth in agricultural output exceeded 10 percent. Further sustainable growth will be ensured by increasing yields, turnover of unused lands and improving irrigation systems. Associations of water users have been established in all populated areas to effectively use water for irrigation. There is a potential for growth in livestock by increasing the number of cattle and productivity.

Small and medium businesses and entrepreneurial activity comprise a significant part of the real sector with a share of about 50 percent of industrial production. SME development is more promising in the agro-processing sector, increasing the extent of processing and bringing it to finished product. Further SME development by creation of favorable conditions will establish a sustainable basis for economic growth, population employment and poverty reduction.

At present, financial services in the Talas oblast are provided by 25 credit unions, KAFC, State Fund for Support of Small and Medium Businesses, NGOs and community organizations. In 2002 it is planned to increase the number of credit unions by 40 with authorized capital of 10.1 million soms. During the first half of 2002, KAFC allocated 36.2 million soms against 30 million soms in 2001. Essential support comes from international financial organizations, in particular the UNDP extended technical credit totaling 5.2 million soms for rural poverty reduction.

The main problems in the Talas oblast are a low level of access to pure drinking water, inadequate quality of services in education and health care, unemployment and insufficient SME development. Lack of marketing channels in agriculture and cooperation among rural commodity producers often leads to overproduction in certain type of crops and revenue losses by farming enterprises and peasants' farms. Existing internal and external barriers hinder trade development. Underdeveloped telecommunication restricts public access to communication services, and does not permit wide use of information technology, in particular to improve efficiency of governing bodies.

The oblast has a potential for exporting agricultural products to Kazakhstan and Russia. To improve interregional trade, the road Taraz (Kazakhstan) - Talas - Suusamyrlar is being rehabilitated. Together with that, it is necessary to rehabilitate and widen roads of local importance and telecommunication services. It is also crucial to lift trade and administrative constraints for transiting cargo through Kazakhstan.

The Manas Ruhu program has been adopted and is being implemented, the major objective of which is to achieve stable social and economic growth in the oblast and reduce poverty. This program is closely linked with goals and objectives of (CDF) and also takes into account the particular character of development of the region. The program undertakes activities related to:

- Expand access to pure drinking water by rehabilitating and constructing water pipes.
- Improve quality of services in education and health care by further extension of reforms, repairs and construction of schools and hospitals, equipping with necessary equipment and textbooks, creating conditions to retain qualified personnel, in particular, in rural areas.
- Create favorable conditions to carry on business activities, attract direct investments, increase the number of SMEs and create jobs.
- Assist agricultural producers in establishing cooperatives for processing and marketing of agricultural commodities, expand network of credit unions, attract loans and direct investments, procuring seeds, fuel and fertilizers.
- Strengthen the logistics base of 16 seed farms to obtain high-yield and qualitative grades of wheat, corn, barley and other varieties of agricultural commodities.
- Rehabilitate and construct local roads, develop telecommunication networks and expand access to communication services.

Chui Oblast

459. The Chui oblast occupies an area of 20.2 square kilometers or 10.1 percent of the territory of the Republic. It is inhabited by 16.1 percent of the total population. The oblast is the most economically developed of all regions. The largest industrial center, the capital of the Republic, Bishkek City and Tokmak City are located within the territory of the oblast. Favorable climatic conditions, presence of natural resources, developed industry and infrastructure have provided the conditions for a higher standard of living for the oblast's population as compared to other regions. The poverty level over the last two years has remained practically unchanged, and in 2001 it was 29.2 percent, which is 18.4 percent lower than the

aggregate republican level. Per capita income in 2001 increased by 10.1 percent and totaled 10,965.8 soms, which is 6.3 percent higher than the average republican level.

Social Sphere and Social Mobilization

As of January 1, 2002 the oblast had 2.6 percent of families who received uniform monthly benefits, 0.8 percent of inhabitants, a major part of whom are invalids since childhood, receiving social allowances. "Social passports" have been issued to 90 percent of families qualifying for them by the social protection services and local self-governments. In the process of passportization, more than 8 thousand people have been identified and referred to be registered with the employment services, 715 adolescents have been sent for training in vocational educational establishments. Explanatory work is being conducted among the population about the policy on social support for the poor, invalids, on types and procedure of payment of state benefits.

Positive experience based on implementation of the pilot project, Poverty Alleviation, implemented within the framework of the program, Political and Administrative Governance at the Level of Local Governments, supported by the UNDP has been widely spread throughout the oblast. Since implementation of the project, 189 community-based organizations have been established that have been able to accumulate 21.7 million soms and used them for improvement of rural social infrastructure and creation of jobs. Using resources of the local budget, foreign loans and grants and various international agencies, with active participation of NGOs and the population, work is proceeding in rehabilitation and construction of water pipelines, sewerage networks and treatment facilities. Under the project, Provision of Infrastructure Services at the Level of Populated Area, it is planned to rehabilitate and construct water pipelines in 148 villages with a population of 550.2 thousand people in the cities of Kara-Balta and Kant.

There are 317 schools in the Chui oblast attended by 156.6 thousand schoolchildren; 5.0 thousand children attend 56 pre-school establishments. About 13 percent of schoolchildren from poor families use textbooks free of charge. Thanks to the financial support provided by aiyl-okmotu, sponsors, various foundations, including international ones, clothing, shoes and foodstuffs have been purchased for 2.8 orphans and children from poor families. Starting from September of 2002, schoolchildren of junior grades of remote schools in mountain areas will be provided with free hot breakfasts.

About 56 percent of schools have computer classrooms, but all of them are mainly equipped with outdated computers, half of which need repairing. During the 2001/2002 academic year, 225 computers of a new generation have been installed in 45 schools. Within the same period, new equipment have been established in 13 schools, and heating systems have been repaired and 28 titles of test books with the total circulation of 66,520 copies have been distributed among 31 schools under the project, Educational Sector Development, financed by the ADB. From contributions made by schoolchildren's parents (fees for education and rent for textbooks), as well as grants attracted from NGOs and international agencies, schools carry out repairs, procure equipment and textbooks. At the same time, the demand for textbooks is satisfied by only 80-90 percent. There is a shortage of teachers, especially in rural areas. Due to low salaries, many teachers, including those with high qualifications, are forced to change their job and go to other sectors of the economy. There are children who do not attend schools.

The Chui oblast has 10 medical-prophylactic establishments, 10 family medicine centers, 7 FGPs. The Chui oblast is one of the two oblasts that have successfully implemented the pilot project on introduction of state guarantees for providing citizens with medical and sanitary assistance. At the same time, co-financing by the population for medicines, meals and certain types of medical services has been introduced. A scheme of a "single payer" has been introduced to improve the efficiency of financing, which has allowed an almost twofold increase in daily expenses for each patient and improved the quality of medical assistance provided. Citizens, who have medical insurance, can buy prescribed medicines at a lower price due to the compensations provided by the Mandatory Medical Insurance Fund. In order to ensure accessibility to medical services by socially vulnerable citizens having medical insurance, 8.5 thousand applications have been filed to the Social Fund of the Kyrgyz Republic. 8.3 thousand of MMI policies have been issued to pensioners, school children, and citizens receiving social benefits. For the purpose of a full coverage of the oblast's population with the MMI network, some preparatory work has been started in the pilot Issyk-Ata rayon on dissemination of MMI policies for the individuals paying MMI contributions independently. Within the framework of the project, Health Care Reform-2, health facilities are being refurbished in the Chui oblast (Ysyk-Ata, Moskovskiy, Chui, Jaiyl, Alamudun, Panfilov, Kemin, Sokuluk rayons), medical and laboratory equipment is being procured.

Against this background of successful reforms in the health care system, there remain persistent unresolved problems connected with a low quality of medical treatment, especially for in-patient hospital care.

As of October 1, 2002, the employment services of the oblast registered 12.2 thousand citizens looking for a job, of which 79.8 percent have the official status of the unemployed. Since the beginning of 2002, jobs have been provided to 4,400 unemployed. The Employment Service Fund (ESF) has created 2,200 jobs. It dispatched for training 1,141 unemployed, of whom 75 percent were able to find permanent jobs, which is a good indicator of the employment service's performance. Paid public work has been provided for 2,600 unemployed.

In the first half of 2002, the ESF allocated micro-credits for the amount of 1 million soms to 111 unemployed, the KAFC extended loans to 27 applicants for the amount of 1.9 million soms. Given the "hidden" unemployment, which is estimated at a level of about 12 percent, the capacity of the employment service is obviously insufficient to improve the situation in the labor market. Internal migration to the Chui oblast from other regions also contributes to an increase in the number of unemployed. Creation of a sufficient number of jobs in the near future is possible only under the condition of dynamic development of SMEs, the private sector as a whole.

Real Sector

The share of the Chui oblast in total GDP is 21.2 percent. In 2001 the oblast produced 63 percent of the total agricultural output of the Republic and 31.2 percent of industrial output. Refinery of the alloys mined by the Kumtor Gold Company by the Kara-Balta Mining Industrial Complex, accounts for almost 60 percent of the industrial output of the oblast. The oblast produces a broad spectrum of industrial products, including electronics, construction materials, garments, shoes and various foodstuffs.

In recent years, positive changes have been noticeable in the industrial sector. With the support of the EBRD the only sheet glass producing factory in the Central Asian region have been rehabilitated and put into operation, a factory for production of cotton threads has been constructed. A factory for leather processing has been constructed; a loan from the Chinese Government allocated under Kyrgyz government guarantee helped to complete the construction of a paper factory.

At the same time, many of the oblast enterprises still face problems connected with a low level of corporate governance, marketing and management. Due to high actual interest rates on long-term loans, enterprises are unable to borrow from the financial markets. A rather unfavorable investment climate impedes the inflow of investment in the volumes required for production upgrading and introduction of new technologies. A majority of manufactured products are not competitive in both quality and price. The depth of processing of a majority of agricultural products remains low, in particular with regard to vegetables, fruit, meat, milk, wool, leather and cotton.

Promising directions for development of industry in the Chui oblast are food and light industries, non-ferrous metallurgy, and machine building and construction materials. Growth of the industrial sector (without gold refinery) for 2003-2005 is projected at the level of 3-5 percent. Development of the light and food industries will be based on the use of cheap local raw materials. It is envisaged to produce high-grade grain spirits, which will allow an increase in the volume of production and improve the quality of liquor products, to export spirits. Production of electricity will be increased due to the reconstruction of the Kemin HPP, modernization of the Alamedin cascade of small HPPs and construction of new small HPPs. Development of the gold deposit Taldy-Bulak Levoberezhnyi, the loam deposit in the Kemin rayon and that of gypsum in the Chui rayon will allow an increase in the output of the mining industry and the sector of construction materials. The Glass Factory and the Paper Factory will increase their production to the full capacity.

The Chui oblast has 32 percent of irrigated land, therefore the agricultural sector is well developed here and the oblast is one of the major producers of sugar beet, grain crops, vegetables and fruit. Favorable climate conditions and availability of irrigated water promote the development of plant growing. A significant degree of attention in livestock breeding is focused on cattle farming (the share of the oblast makes up 20 percent of the total republican cattle stock), in this connection production and processing of meat, milk, leather is more developed there. Further growth of agricultural output of the Chui oblast will be promoted through implementation of the projects, Rural Area Development and Rural Financial Institutions, supported by the ADB, as well as the projects, Agricultural Service Support, Rural Finance-2, Rehabilitation of Irrigation Networks, and On-Farm Irrigation, financed by the World Bank. Within the framework of implementation of these projects 41 credit unions and 54 associations of water users have been formed.

It is assumed that the problems related to provision of necessary services to farming enterprises and peasant's farms, supply of machinery, seeds, fertilizers, conducting of marketing and sales of products will be resolved based on cooperation and establishment of associations. The types and volumes of provided

financial services in rural areas are increasing. The KAFC has allocated loans for the amount of 93.1 million soms within only the first half of 2002; the amount for the whole 2001 totaled 98.2 million soms. In the medium term, the annual growth of agricultural output is projected at the level of at least 5 percent.

The oblast pays much attention to development of SMEs, individual entrepreneurship, and tourism. The major sphere of SMEs is represented by services, processing of agricultural products, commerce, and production of garments, foodstuffs. Successful development of SMEs is based on the efforts taken to simplify registration procedures, to reduce the number of inspections by regulatory bodies, to reduce a tax burden, to introduce a uniform tax on gross income. Financial support of SMEs is provided from various sources, including the credit lines of the Government of Germany (23 projects have been approved for DM5.25 million) and the World Bank (the project Private Initiatives Support, 14 projects have been approved for the total amount of US\$1.66 million). Development of tourism in the oblast is based on picturesque mountain gorges of particular beauty and numerous historical monuments preserved to the present day. Close location of mountain peaks attracts mountain climbers, and numerous mountain skiing camps are in operation on mountain slopes during the winter season. At the same time the tourism sector needs investments in order to improve infrastructure, provide training for specialists and improve the quality of the services provided.

The program, Comprehensive Development Framework of the Chui Oblast, has been developed and is under implementation in order to solve existing problems and successfully attain the tasks set up for sustainable economic growth and poverty reduction. This program envisages a series of measures aimed at fulfillment of the most important objectives, including the following:

- Increase access to clean drinking water and improve its quality.
- Increase access to educational and healthcare services by further reforming, improve the management structure and financing system, provide a better supply of textbooks, refurbish school buildings.
- Create favorable conditions to attract direct investment into the mining sector, develop SMEs and tourism, processing of agricultural products, rehabilitation and construction of small HPPs, rehabilitation and development of irrigation networks.
- Further land reform.

Bishkek City

460. Bishkek city is the capital of the Kyrgyz Republic, its political, administrative, scientific, technical and cultural center. A majority of large enterprises and higher educational establishments of the Republic are located there. 15.9 percent of the total population of the Republic lives in Bishkek but given the existing degree of internal migration, this figure may be somewhat higher. The poverty level in Bishkek City during recent years has remained practically unchanged and in 2001, it comprised 29.5 percent, which is 18.1 percent lower than the average republican level. Per capita income is the highest in the Republic; in 2001 it increased by 31.2 percent and totaled 28,445.2 soms, which is 2.8 times more than the national average.

Social Sphere and Social Mobilization

There are only 1.3 percent of families in Bishkek who receive the state benefits allocated to the poor. Various types of benefits are granted to 18 categories of citizens. Among the poor, 73 percent are people of active working age, as a rule, employees of budget funded instrumentalities, while the rest are pensioners and disabled. In order to provide social assistance to budget funded workers who receive low salaries, the Mayor's Office of Bishkek City, jointly with the city of Kenesh, made a decision on establishing supplements to salaries at the expense of the local budget. Pensioners have been granted the right to travel by city public transport for free. On the whole, more than 40 types of benefits are provided as a social support for pensioners and disabled. Given large expenses related to the payment for housing and utility services in Bishkek, poor citizens are provided with assistance in the form of allocation of housing subsidies. Social passportization of poor people was carried out in the city by the end of 2001 in order to clarify the scale of poverty; as a result, more than 35 thousand needy families have been identified and included in the database.

As of the beginning of the 2001/2002 academic year there were 116 secondary schools in Bishkek attended by 105,300 children. In order to ensure access to education for children, in particular from poor families, a survey has been conducted to identify the reasons for dropout. The survey review indicated that the major reasons for drop-out are: low family income that does not provide for the necessary conditions for the children to attend school and forces engagement of children in income-generating activities; lack of interest on the part of parents to educate their children, in particular, due to alcohol abuse; internal migration. More

than 12 thousand schoolchildren from Bishkek schools have been registered as those in need of social support. Free meals have been arranged for junior schoolchildren from poor families.

Schools are repaired, equipment and computers are procured at the expense of the local budget, sponsors, contributions payable by parents for education, textbook lease, contributions for repairs. In May 2002, 169 computers were installed in 29 schools at the expense of the local budget. Within the framework of the Education Sector Development Project, supported by the ADB, 28 titles of textbooks with a circulation of 90,200 copies have been published and disseminated among the schools in Bishkek; computers, furniture and equipment are being procured.

At the same time, 40 percent of schools are equipped with personal computers of the first generation that are obsolete and almost cannot be repaired, while textbooks are available to only 84-87 percent of school children. Equipment in the physics and chemistry classrooms has not been renewed for a long time due to insufficient financing. A low level of teachers' salaries results in high personnel turnover, forces qualified pedagogues to go to other sectors of economy looking for better-paid jobs.

The system of healthcare of Bishkek city is represented by 17 hospitals and 24 out-patient clinics, of which 22 establishments work under the MMI scheme. There are a number of specialized medical establishments operating in the city - an orphanage for 110 beds, a tuberculosis hospital and a tuberculosis dispensary, and so forth.

The healthcare reform conducted in Bishkek city is aimed at improving the quality of services provided to the population through rational use of financial resources and introduction of new methods of financing health facilities, and creation of incentives to be interested in the output. At present, certain preparatory work is being carried out: estimates have been prepared, two options for health facilities restructuring have been developed, including the one on transformation of groups providing medical services into Centers of Family Medicine and establishment of in-patient diagnostic units within hospitals. Training has been provided for medical workers. To improve the quality of medical assistance, FGP physicians are being retained in family medicine; clinical protocols are being introduced.

In order to improve access to primary medical and sanitary assistance for the population living in newly constructed areas in the city, where a majority of migrants from other regions of the Republic have settled, 7 outpatient medical facilities have been established. They have been equipped with necessary implements and medical equipment. Under the project, Healthcare Reform-2, financed by the World Bank, 9 medical establishments are being restructured and repaired.

At the same time there are problems related to:

- insufficient resources when estimating financial requirements for providing medical services because of high internal migration;
- low salaries of medical workers that result in high personnel turnover, resignation of highly qualified specialists;
- untimely and insufficient financing within the mandatory medical insurance scheme and delayed transfer of resources from the Social Fund;
- reduced access of students to medical services, especially to the services provided by hospitals, as students are not included into the category of insured citizens; and
- poor condition of the infrastructure of health facilities in Bishkek that does not support an improvement of the quality of medical assistance.

At present, the city is supplied with drinking water from 33 water supply intakes located at the Orto-Alysh and Ala-Archa deposits of underground water. There are 276 water wells in operation of which 160 are subject to liquidation due to expiry of the normative operation period. Given growth of the population in the city and appearance of new residential districts, it is necessary to construct a new water intake to provide the townspeople with high-quality drinking water. At the same time, the condition of water pipeline and sewerage networks require annual capital expenses for repairs and rehabilitation in the amount of not less than 4.0 million soms. As a result of an increase in the city's population, construction of new residential districts, it is necessary to resolve the issue on extension of the sewerage and treatment facilities network. At present, the northern parts of the city and newly built residential districts have no sewerage, which has a negative effect on the environment.

As of October 1, 2002, the number of unemployed citizens registered with the employment services as those looking for a job totaled 13.2 thousand people, of which 90.4 percent have an official status of the unemployed. From the beginning of 2002, 1,026 unemployed were put through training, 1,873 given paid public work and 8,800 provided with employment. The ESF allocated micro-credits for the total amount of 3.3

million soms to 353 unemployed. In 2001 micro-credits were allocated to 2.1 thousand people in Bishkek for the amount of 84.1 million soms. In addition, micro-financing was also expended to unemployed by non-government organizations, including the International Mercy Corps, FINCA, Crossroads Asian Company, etc.

Real Sector

Bishkek produces 24.3 percent of the national GDP. A major share in the structure of value added is contributed by the services sector. Industry mainly consists of food and processing (33.1 percent of gross industrial output of Bishkek city), electricity (22.6 percent), machine building and metalworking (12.7 percent), light industry (6.3 percent). The free economic zone "Bishkek" produces 17 percent of industrial output. In recent years, industrial development is mainly based on foreign investment. Many joint ventures have been established with participation of foreign capital. The most significant foreign investments have been made when establishing the JSC Reemtsma-Kyrgyzstan (construction of a factory for production of cigarettes with a capacity of 8 billion cigarettes a year), restructuring of the JSC Bishkek-Syut (production of new types of dairy products - frosted cake cheese, yogurts, sour dairy products, fruit juices). A number of enterprises with participation of foreign investors have been established on the basis of the JSC Avtomash. It is planned to establish joint ventures with the Phillips company at the JSC Elektrotekhnik and the Kiev Factory Traktordetal at the enterprise, Usta. The issue is being considered on establishment of a joint venture on the base of the JSC Auto Assembly Plant with participation of Belorussian factories to produce mini-tractors for the agricultural sector of the Republic. It is planned to open a trading house of the JSC "Oremi", JSC Dastan in Kiev city to solve the issue of selling the products of these companies. With participation of the German company Cronos the JSC Arpa, LVZ Ltd., carry out reconstruction of the beer production line and installation of equipment for bottling liquid products. By using the credit resources allocated by the KAFC, the JSC Tattuu has reconstructed its production line and started producing new products. A production line for production of iodized salt is being assembled at the JSC Bishkek-Nan.

Many enterprises produce export-oriented products. But there are tariff and non-tariff barriers, high fees for cargo transit, which significantly reduce exports of goods. There are also problems related to a low level of marketing and management skills at certain enterprises, high level of tear and wear of equipment, inefficient production processes that result in high costs and non-competitiveness of the goods produced.

In the short-term, the volume of industrial output will be increased by means of food and processing, light industries, machine-building. Production of foodstuffs, liquors, tobacco products, woolen fabrics, knitted items, garments, shoes, vehicle radiators, electric ovens, will be increased, as well as production of new products will be developed - iodized salt, juices, drinks, coat fabrics and plaids.

A dominating position in economy of the city belongs to SMEs and individual entrepreneurship that produce more than 40 percent of industrial products and provide more than 70 percent of services to the population. A liberal external trade regime is attractive for development of wholesale commerce. At the same time, exiting administrative barriers, such as numerous duplicating and unjustified inspections on the part of supervisory bodies, tax and customs services, high fees for services provided by various government bodies impede further development of SMEs and individual entrepreneurship. Long-term bank credits are still not affordable for SMEs due to high interest rates.

One of the potential directions of entrepreneurship is tourism. The number of tourists coming to the Kyrgyz Republic increases by 12-14 percent each year. At present there are 150 private tourism companies operating Bishkek alone. In recent years, infrastructure has been improved significantly - the Manas airport has been reconstructed, several hotels have been built in accordance with international standards. Shops, restaurants, cafes appeared which provide high-quality services, roads are being rehabilitated, communication means, including mobile communication, are being developed.

Bishkek absorbs 50 percent of all the investment in the Republic, as well as a half of all direct foreign investment. External financial assistance received under the Government's guarantee from donor countries and international financial organizations is mainly allocated for reconstruction of the Manas airport, rehabilitation of highways, electricity and heating supply networks, gas pipelines, development of telecommunications, as well as procurement of equipment of educational and health facilities, and support of SMEs. Financing provided by the Government of Germany supports a project for the transfer to the use of electricity for cooking purposes in order to reduce natural gas consumption.

Direct foreign investment is used in construction of hotels, facilities in the sphere of services and establishments of joint ventures. A significant degree of assistance in attracting direct investment is provided by the EBRD that provides advisory and financial support to private enterprise and for construction of a number of large facilities in Bishkek. Although Bishkek absorbs a major share of the investments made in

Kyrgyzstan, it remains insufficient for developing the city's potential and resources in full. Investments are necessary for further development of SMEs and a higher degree of processing of agricultural products. One of the major directions is development of export-oriented production. In this direction a significant assistance can be provided by a new EBRD credit line, under which the loans will be extended to private enterprises through commercial banks without a government guarantee.

One of the problems that remain, is a lack of municipal housing, in particular, for poor families. In the last three years, 289,000 square meters of housing or 2,400 flats have been constructed mainly by the private sector. To solve this problem, the Office of the Mayor of Bishkek envisages an allocation of resources from the city budget to provide finance for construction of new dwellings for poor families as well as for completing construction of buildings that have not been completed due to various reasons. In addition, the Mayor's Office buys apartments to be allocated to poor families in accordance with an official waiting list.

A significant problem is internal migration from other regions to Bishkek. More than 83 percent of the total internal migration in the Republic over the last decade has flowed into Bishkek. This has necessitated creation of communication and social infrastructures necessary for migrants' settlements that have appeared in the vicinity of the city. Resources allocated from the budget permit the satisfaction of only the minimum needs. Because this problem is growing, it is necessary to take radical measures related to employment of migrants, ensuring access to high-quality educational and healthcare services.

An interim version of the City's Strategy on Poverty Reduction has been prepared within the CDF/NPRS and the Program of Poverty Alleviation for 2002 has been developed, which envisages a series of specific measures, the implementation of which will decrease the poverty level by 5 percent in the current year and lift about 10,000 people out of poverty. Taking into account that the problem of poverty cannot be solved without development of the real sector, the efforts of the Mayor's Office and rayon administrations will be focused on creation of favorable conditions for and support of SMEs, individual entrepreneurship, attraction of investments, and promotion of educational and healthcare reforms. Active measures will be continued in providing targeted social support for poor inhabitants of the city.

With the aim of attaining the major goals and objectives of the CDF, the Mayor's Office has developed programs aimed at development of food and processing industry, production of consumer goods, small and medium business, attraction of foreign direct investment, development of communal utilities of the city, and so forth. The major development priorities in these programs are as follows:

- strengthening targeted social assistance to the poor, conducting annual social passportization, preparation of poverty maps, expanding the micro-financing network;
- social support for homeless children;
- continuation of education and healthcare reforms;
- improving the system of local self-governance in Bishkek;
- promoting development of small and medium business;
- tourism development;
- development of infrastructure and communal property;
- increasing inflow of investments by creating a favorable climate;
- development of the financial sector; and
- support and promotion of export-oriented and import-substitution industries.
- municipal house building.

CHAPTER VII. SECURITY OF DEVELOPMENT

Strengthening of the Country's Defensive Capacity

461. Development security of the Kyrgyz Republic will depend on the military and political situation in Central Asian region. The presence of a threat to national sovereignty, territorial integrity, as well as to the political, social and economic stability of the Republic, from international terrorism, religious extremism and all types of crime and drug trafficking, determine the priorities of security policy aimed at the reduction and prevention of the impact of these threats on the Republic.

462. In 1999-2000 the southern territories of the Kyrgyz Republic were invaded by the armed international terrorist groups. The related military actions have necessitated a major reorganization and strengthening of the Republic's Armed Forces. Much assistance in this respect was provided to the country by the international community.

463. A major external threat to the military security and stability of Kyrgyzstan still lies in the perseverance of the core leadership and certain armed units of international terrorist organizations, which, after the defeat of the Al-Qaeda, have infiltrated the countries of the Central Asian region (CAR) and tried to restore their bases. They will be striving to reactivate with the help of their supporters acting underground in the territories of the CAR countries, to detect strengths and weaknesses in the security systems of the countries of the region, to divert significant forces of these states to maximally facilitate transportation of drugs through newly established as well as traditional channels. The vulnerability and uncertainty of borders between adjacent states and certain non-regulated issues on water and land management, may also have an impact on the situation in the region.

464. In this connection, the Republic places emphasis on strengthening interaction with law enforcement bodies from CIS and other countries, international organizations carrying out law-enforcement activities and primarily with other Central Asian countries. At present, law enforcement bodies of the Republic are the participants in 33 bilateral and 17 multilateral treaties and agreements. A regional anti-terrorist structure of the SOC is being established in Bishkek, the OSCE International Conference "Strengthening Security and Stability in Central Asia: Building Universal Efforts to Confront Terrorism" was conducted in December of 2001 in Bishkek. The Republic supports the anti-terrorist coalition, having provided it with temporary location of its military units and supporting services. The Republic takes an active part in extending assistance to Afghanistan for restoring a peaceful life and maintaining stability in this country.

465. At the same time, insufficient military and economic support for the Armed Forces of the Republic creates difficulties in their effective reorganization and training for the protection of national sovereignty and the citizens of Kyrgyzstan from actual and potential military threats.

466. At the same time, former problems persist, reflecting inadequate financing of the Armed Forces by the state budget:

- Weapons and military equipment become obsolete and unfit for tactical employment.
- The interaction between command bodies and the training of military units is steadily decreasing due to insufficient financial and technical support. In turn, this does not allow sufficient training of servicemen on active duty who, when they retire, become part of the reserve for the Armed Forces.
- Insufficient reserves of military supplies to meet emergencies and mobilization for active duty.

467. In order to guarantee territorial integrity, national sovereignty and the constitutional system; protect the citizens of the Republic from external military threats and prevent armed conflicts; and ensure favorable conditions for sustainable development of the Kyrgyz Republic, it is necessary to establish compact, mobile military units, equipped with modern weapons and equipment, provided with necessary material resources for conducting military operations in mountain territories and capable to fulfilling the tasks of military security within a short period of time.

468. Further reforming of the Armed Forces of the Kyrgyz Republic will be carried out on a comprehensive basis and presupposes:

- improvement of the legal framework regarding military security on a national scale and within the framework of the Treaty on Collective Security;
- optimization of staff numbers and quality of existing and newly-established command strength and troops, reflecting the economic capabilities of the state, as well as potential and existing external military threats;
- maintaining military operational and mobilization readiness for rapid deployment in response to external military threats; and

- establishment of material reserves for the Armed Forces on the basis of targeted program financing.

469. The scale and diversity of obvious and concealed threats to national security require significant strengthening of relevant services. The Republic has a long borderline with complicated natural conditions that is being practically reestablished anew. Organization of border control requires significant strengthening. The National Security Service (NSS) has to deal with the internationalization of criminal groups and action patterns. Their forms and methods of operation are changing dramatically and have become more complex.

470. A major problem is insufficient capacity for the early detection of threats to security and informational and analytical support for such a work. There is no law that could define the procedures of state administrative bodies to ensure the national security of a democratic state. There are problems with staff training.

471. Thus, a key objective for the period ahead will be ensuring national security, capacity building of existing government entities through the introduction of modern technology by technical upgrading and effective adaptation of international structures and forms of work.

472. The Law on National Security should be developed in order to strengthen national security and improve its effectiveness.

473. The Kyrgyz Republic will continue to participate actively in fulfillment of commitments undertaken under multilateral and bilateral agreements on ensuring collective security, fighting against international terrorism and extremism, and drug trafficking.

474. International terrorism and religious extremism are real and significant threats to Kyrgyzstan. There is still a risk of external invasion of terrorist groups from northern areas of Afghanistan. Activities of the radical Islamic party "Hizbut-Tahrir" are gaining momentum.

One of the priority directions will be broadening and development of military-and-technical cooperation of Kyrgyzstan with other states, active participation in international and religious organizations ensuring collective security and joint efforts to fight international terrorism and religious extremism. Serious attention will be paid to anti-terrorist information, organization of TV and radio programs, and publication of literature for the purpose of regulating religious influence on younger generations. Anti-radical information will be dissemination with the assistance of the Religious Department of Moslems of Kyrgyzstan, where a special unit has been established to prevent penetration of religious extremism in the Moslem community of the nation, in partnership with non-government organizations.

475. A principally new system of defense and security that meets strategic objectives and country's capacity, must be created in the Republic.

Anti-Corruption Activities

476. Economic and social reforms carried out since the independence of Kyrgyzstan, have been significantly outrun the capacities of the system of public administration. Gaps in regulatory instruments, incompleteness of reforms of public administration bodies, inability of civil servants to work using advanced international management methods and their insufficient motivation, have led to excessive bureaucracy and interference of the state in all aspects of life in ways that have created opportunities for corruption.

477. Corruption and inadequate outdated forms and methods of management counteract the achievements of economic and social reforms, reducing their potential for sustainable and accelerated development. This, in turn, severely slows down the rate of poverty reduction.

478. Economic crimes have become more dangerous, penetrating all spheres of the society; contraband is growing, also creating a conducive environment for corruption. Studies and public opinion polls conducted by the UNDP, EBRD, as well as non-governmental organizations, express the opinion of respondents about existence of high-level corruption in the country, including in central and local executive bodies, in public establishments carrying out supervisory and regulatory functions, as well as fiscal and law-enforcement bodies.

479. The State Program on Fighting Economic Crimes, Contraband and Corruption for 2000-2003, as well as a series of measures envisaged by the Decree of the President of the Kyrgyz Republic on Additional Measures to Strengthen Fighting against Economic Crimes, Contraband and Corruption, have been developed and are under implementation. The Law of the Kyrgyz Republic on Ombudsman has been

approved. The draft Law on Fighting Corruption has been prepared and submitted to the Jogorku Kenesh for consideration. With the support of the Asian Development Bank, active work is being carried out to implement the Corporate Governance-2 Program, the most important component of which is judicial system reform, improvement of its transparency, adequacy and capacity building on protection of the rights of legal entities and citizens and improvement of their protection, including from corruption. At present, the preparation for implementation of full-scale reform of public sector governance is being completed within the framework of the World Bank program credit GSAC/GTAC, aimed at improvement of effectiveness and transparency of public administration, capacity building of the civil service, reallocation of functions among various public administration bodies and transfer of some elements to local communities and non-governmental organizations.

480. Appropriate and progressive processes of economic cooperation with other countries and the strengthening of foreign contacts has, at the same time, resulted in growth of smuggling that has created a conducive environment for the development of corruption. To deal with this, a special component for fighting corruption and economic crimes has been strengthened. Steady growth of customs violations is being observed. In 2001 the number of customs violations identified increased by 6.3 percent, goods valued at 33 million soms were confiscated, which is almost three times the value confiscated in the year 2000. Over the period from 1999 to 2001, state prosecuting agencies investigated 152 cases of crimes related to the misuse and non-repayment of state credits, the amount of damage revealed totaling 20.8 million soms or US\$105,300. Investigation recovered a total amount of 12.6 million soms or US\$73,100 and property of the accused was arrested to the value of 9.4 million soms. In order to improve the operational effectiveness of the Department on Fighting Economic Crimes, part of the Ministry of the Internal Affairs, it has been reorganized into the Chief Department on Fighting Economic Crimes and Corruption (with similar structures in public prosecution bodies).

481. A number of problems are encountered when fighting corruption and economic crimes. Awkward, difficult to understand and inconsistent customs and tax legislation, a complex system of tax administration and customs regulation and control, artificial administrative barriers and excessive discretionary powers, result in the preservation of a high level of activity in the shadow economy, illegal movement of goods, and contribute to the rise and preservation of corruption. Customs units desperately need strengthening and being provided with heat-insulated facilities, special equipment and searching instruments, as well as communication and control devices. The level of performance is also affected by insufficient experience of young employees with fighting smuggling. At the same time, the subjection of specialized government structures for fighting corruption to political pressure and interference by elements of executive branches of government, remains high. A high level of coordination of anti-corruption work of law-enforcement bodies has not been arranged; their authority with executive government, local governments and non-government organizations is not strong. The level of salaries of the staff of law-enforcement bodies and related organizations is still low, which has a negative impact on the outcomes of fighting corruption, economic and official embezzlements and crime. Punitive measures in the fight with corruption remain more prominent than do preventive measures and an integrated anti-corruption policy.

482. It is necessary to ensure active implementation of anti-corruption policy, which should include:

- Development and further improvement of legal instruments to eliminate gaps and ambiguities that promote corrupt practices.
- Establishment of a strong and adequate judicial system capable of dealing with corruption.
- Development and active implementation of anti-corruption concepts and program documents.
- Establishment of joint state and community institutions for the prevention and development of corruption (centers, councils, etc.).
- Regular surveys of corrupt practices and publication of incidents in the mass media.
- Promotion of public attitudes that are intolerant of corruption through programs of continuous information and training.
- Elaboration of the state Law on the Conflict of Interests to ensure maximum transparency and execution of budgets of all levels of government, openness, transparency and accountability on cash flows, including state administrative bodies at all levels, local state administrations, local communities, as well as establishments that carry out supervisory, registration and licensing functions.

483. A major priority and objective when fighting corruption is to change society's attitudes, to create intolerance of economic crimes, instances of corruption and embezzlement. It is necessary to establish a broad public coalition with sound elements of society as the most important condition for a successful fight against corruption and economic crimes. It is necessary to carry out radical reforms in the systems of fiscal administration, law-enforcement bodies and management at the oblast and rayon levels. As part of their activities in fighting against economic crimes and corruption, responsible agencies should work on the

prevention of corruption and enlightenment of the public. Preventive anti-corruption policy would include measures such as expertise in drafting legislation with a view to eliminating the conditions facilitating corruption. It is necessary to improve legislation, undertake expert reviews of existing legislation and provide the population with broader access to government information. At the same time, the system would be strengthened through timely detection and professional investigation of criminal cases related to economic crimes and corruption, undertaking all measures envisaged by the law to compensate for the damage caused by such crimes, the proper use of budget funds, and observation of financial discipline and legitimacy in activities of governmental bodies and other organizations that use budget funds.

484. It is necessary to take the wind out of corruption's sails, to make the actions of government bodies and government officials more transparent and accountable. To these ends, activities will be continued for the implementation of the administrative reform program, introduction of a competitive procedure of recruitment to the civil service and the increasing informational transparency of the work of government structures. Certain measures will be taken to provide for continuous interaction of law-enforcement bodies with executive government bodies and local government on the issues of crime control in the area of economic crimes and corruption. The work will be continued on studying and application of foreign experience, international norms and sanctions, concluding bilateral agreements between corresponding bodies of various countries, as well as organization of interaction on providing assistance. It is planned to work out the second state anti-corruption program and a plan of anti-corruption measures covering the period to the year 2005.

485. Implementation of a series of measures connected with reduction of corruption and economic crimes will require attraction of significant resources, first of all to strengthen the system of control over cash flows, movement of goods and cargos, the system of public procurement, as well as for preparation of qualified personnel and conducting explanatory work among the population.

Drug Control

486. During 2001-2002 work was undertaken in order to improve the regulatory and legal framework on control over the circulation of narcotic substances, psychotropic substances and precursors in compliance with the provisions of the Law of the Kyrgyz Republic "On Narcotic Substances, Psychotropic Substances and Precursors". The State Program of Countermeasures against Drug-Addiction Spreading, Drug Trafficking in the Kyrgyz Republic for 2001-2003 has been approved.

Nevertheless, the situation is not getting better. Social conditions in the Republic produce drug-related crimes, and push certain strata of the population into drug trafficking. Four and a half tons of various drugs were confiscated from illegal drug circulation, although the number of drug-related crimes resolved in 2001 was 3,205, which is 9.44 percent less than in 2002. A special survey has indicated that the number of drug addicts in Bishkek is 15 times higher than the official data of the narcological services. There is a concern about the broadening of the social base of organized crime related to drugs. The least socially protected strata of society, pensioners, women and young people, are being involved in the drug business. The age of more than 60 percent of those charged with illegal cultivation of opium is above 50 and below 30.

487. The major problems are:

- the presence of social grounds for drug business and drug addiction;
- lack of resources for the implementation of planned programs;
- unsatisfactory efforts made by government bodies, local state administrations and local governments against drug-addiction;
- growing transit of drugs through the territory of the Kyrgyz Republic; and
- growth in the incidence of AIDS.

488. A priority goal for future action is stabilization and further reduction of drug-related crimes and the incidence of drug addiction, the protection of the nation's genetic pool.

To achieve this goal it is necessary to:

- build capacity of law enforcement and healthcare bodies;
- assist in elimination of drug trafficking;
- protect socially vulnerable strata of the population from involvement in drug business and the illegal use of drugs; and
- suppress corruption among those taking countermeasures against drug addiction.
- conduct prophylactic work with socially vulnerable strata of the population and risk groups;
- increase the level of protection of the borders of the Kyrgyz Republic from growing drug transit through its territory, participation in international cooperation combating drug trafficking;

- further improve the regulatory and legal framework in the area of drugs control.

Strengthening the System of Personal and Property Security of the Citizens

489. Law enforcement bodies of the Kyrgyz Republic as well as social protection bodies have taken measures to ensure internal security of the state, personal and property security of the citizens, to enforce the rule of law, protect citizens' rights and freedoms, and to ensure the observance of state and financial discipline by officials. The number of crimes registered during the past period of 2002 has decreased by 9.5 percent as compared to the corresponding period for 2001. In recent years, organizational and practical measures have been taken to increase the role of procuracy supervision in strengthening the rule of law and crime control. The Decree of the President of the Kyrgyz Republic on Measures to Improve Procuracy Supervision and Further Assertion of the Rule of Law in the Kyrgyz Republic, approved the coordination of activities of law-enforcement bodies. One of the priority directions was protection of the rights of small and medium business enterprises. Supervision over the investigation of criminal cases by public prosecution bodies and other law-enforcement organizations has been strengthened, procedures have been established over investigation, protection of constitutional rights and freedoms of the individual involved in criminal proceedings, and protection of citizens from criminal offence.

490. Implementation of the State Program on Improvement of Protection and Conditions of Labor, ensuring protection of workers' life and health for 2002-2005 has been started. The number of injured workers per 1,000 workers during the last three years decreased from 0.6 per 1,000 workers in 1999 to 0.4 in 2001. At the same time, the number of deceased remained constant at the level of 0.1 per 1,000 workers. The State Labor Inspectorate has examined and inspected about 2.8 thousand enterprises and organizations, in the process of which it identified about 15,200 infringements of labor legislation, investigated 173 group, severe, and fatal accidents. The level of traffic accidents still remains high.

491. However, the existing system of ensuring citizens' personal and property security does not ensure fulfillment of its tasks in full. The problems and major reasons are the following:

- ineffective work of law-enforcement bodies;
- a low level of analysis and prevention of threats to the security of citizens;
- a low level of state and legislative discipline in management;
- a high level of technogenic threats to security of the individual;
- lack of mechanisms of active social participation in law-enforcement activities;
- flaws in legislation, weak systems of court proceedings and legal profession; and
- inferior legal framework, in particular in the area of regulation of property and labor relationships.

In the period ahead, there will be radical reform in the area of personal and property security of citizens.

492. A major priority will be the establishment of an effective system of legislative, organizational, civilian and other mechanisms ensuring risk reduction, effective monitoring, prevention and response to threats to citizens' security. For these purposes it is proposed:

- Implement reform of law-enforcement instrumentalities, the judicial system, organs of interior affairs, prosecution bodies and the bar, in order to make significant efforts to strengthen their material and technical bases, establish effective structures, introduce modern technologies in their activities and upgrade professional skills of their staff.
- Improve and develop the legal framework, establishing landmark regulations and legislation governing the activities of law enforcement bodies and creating the necessary conditions for combating crime.
- Measures to strengthen supervision over enforcement of legislation in the social sphere, to execute continuous control over enforcement of legislation on timely payment of salaries, pensions, benefits and other welfare payments, as well as timely and complete payment of contributions to the Social Fund by economic agents, and the purposeful use of the resources of the Social Fund.
- Measures to significantly increase the level of law culture and education of the population, ensure active social participation in law enforcement activities and control over activities of law enforcement bodies, establish a system of protection for infringed citizens' social rights and freedoms, especially for poor and weakly protected strata of the population.
- Develop social partnerships in social and labor relations among executive bodies, employers, trade unions and other non-governmental organizations.
- Implementation of reforms in the sphere of ensuring citizens' personal and property security will require significant financial and other resources. In particular, there will be a great need for technical assistance.

493. It is planned to implement the following important measures aimed at improved security and protection of citizens:

- Introduce an effective system of response to offences by law enforcement bodies.
- Draft and approve a new Criminal Procedure Code and Labor Code, laws "On Labor Protection", "On Mandatory Social Insurance from Production Accidents and Occupational Disease" (workmen's compensation insurance), "On Social Partnership".
- Establish an effective system of crime prevention and protection, reduction in the level of juvenile and adolescent crime, ensure development of the Center of Juvenile Justice under the Academy of the Ministry of Interior of the Kyrgyz Republic, and establishment of centers for adaptation and work with juveniles in oblast centers.*

Prevention of Social Conflicts

494. Problems with the difficult socio-economic situation of a significant part of the population and disproportions in regional development, promote growth of discontent and an increase in the number of those supporting radical public and political movements within the country. These may result in, and lead to the appearance of, extreme forms of social and political activity, and eventually to the possibility of escalation of social conflicts. During the recent years, the number of social conflicts in the country has increased significantly. Some of these involve large groups of the population in their own areas of activity, creating economic problems, as well as problems of security of citizens both at the local and national levels. The existing positive work experience on monitoring, analysis and early prevention of conflicts under the project "Preventive Development" is limited to the Batken oblast only.

At the same time, the authorities lack proper training, technologies and means to prevent and resolve social conflicts. The system of monitoring, analysis and prevention of social risks, special resources for resolution and action plans within the framework of developing social conflicts, as well as qualified specialists to carry out such work, are missing. Detailed mechanisms and procedures of a social dialogue have not been formed.

495. In this connection, there is an acute need to form a nationwide system of monitoring, prevention and resolution of social conflicts. Such systems envisage:

- Establishment of a nationwide social conflict prevention monitoring network in a format and within the geographic information system.
- Development of a methodology for the evaluation of social risks and creation of analytical command instructions to analyze and project social situation developments.
- Drafting of necessary legislation on the formation of a sufficient legal framework for prevention and resolution of social conflicts.
- Conducting an information program aimed at supporting social stability and optimism, positive psychological impact.

496. Financing needed for such a system cannot be provided only from the budget. It is necessary to attract technical and grant-based assistance within the framework of international cooperation on prevention and localization of social and other conflicts at regional and inter-regional levels. As a result of implementation of such a package of measures, there would be the possibility of conducting timely analysis and detecting the risks of social conflicts and taking preventive measures for their elimination, as well as establishment of effective mechanisms for resolution of social conflicts and minimization of their impact on the economy and security of the nation, society and the individual.

Reduction of Natural Calamities and Technogenic Catastrophes and Hazard

497. Conservation of the ecological balance, prevention of emergency situations of a technogenic nature and reduction of the consequences of natural calamities are also important for secure development. The Republic continues to face the destructive effects of natural phenomena and the threat of technogenic catastrophes. There are several sources of technogenic threat to security. Mudflows in particular damage the life and health of citizens. There is a great probability of large and small-scale earthquakes. Great efforts are being undertaken to prevent the possibility and consequences of natural disasters and technogenic catastrophes. Forecasts on emergency situations in the territory of the Kyrgyz Republic have been prepared. They have been brought to the notice of rayon and village administrations. Gamma radiation surveys have been conducted around the country in order to detect anomalies and establish the degree of their threat to the population. Complex radio-ecological surveys of uranium tailings in Mailuu-Suu city are being conducted under a UNIS Program. A two-year program on rehabilitation and reconstruction of flood-control and major irrigation facilities in the Batken, Jalal-Abad and Osh oblasts is under implementation within the framework of

the World Bank project "Emergency Measures in Case of Flooding" to eliminate the existing risk connected with flooding.

At the same time, the lack of effective natural disaster and technogenic catastrophe risk analysis and forecasting, as well as insufficient resources for prompt neutralization and liquidation of consequences, still remains an acute problem. There are no regulations for ensuring the possibility of reduction of damage caused to the population by natural hazards.

498. Three major priorities have been set up in this direction for the coming years:

- increase effectiveness of forecasting natural calamities and catastrophes;
- ensure quick response in liquidation of the consequences of natural calamities and carrying out damage-control works at sites; and
- build capacity and provide institutional development of the Ministry of Ecology and Emergencies* .

499. Financing the program for the establishment of an emergency response system will be provided from the state budget, as well as special credits and grants allocated for the prevention and liquidation of the consequences of emergency situations of a natural and technogenic character. A part of works on prevention of emergency situations on educational and healthcare facilities, irrigation facilities, water pipelines and transportation infrastructure networks, will be carried out under the credits extended by the Asian Development Bank, the World Bank and other donors.

A system of monitoring and evaluation of catastrophic technogenic factors will be developed. Control over potential source of technogenic catastrophes (tailings, transportation of poisonous and explosive cargo, and so forth) will be tightened. The development of a law on ecological insurance is envisaged that will create a legal basis for minimizing economic consequences and damage caused by natural calamities.

CHAPTER VIII. PARTNERSHIP AND PARTICIPATION IN IMPLEMENTATION OF THE NPRS

500. The problem of poverty is of national importance. Its solution is possible only on the basis of well-directed efforts by the State, society and each citizen of Kyrgyzstan. Support and assistance provided by the international community is of vital importance when fighting poverty. The process of preparation and implementation of the CDF and the NPRS is a unique experience for Kyrgyzstan. Attainment of these programs' goals requires a constructive dialogue and partnership interaction of all branches of government, civil society and the private sector with the support of the donors' community.

501. The major goal of the participatory process in preparation and implementation of the CDF/NPRS formulated in their initial stages back in 1999, is consolidation of the efforts of government and non-government structures and international organizations directed at the gradual reduction of poverty together with sustainable economic growth, based on a consensus for active and constructive partnership and cooperation.

Effective forms of partnership and participation, mechanisms and methods, have been developed in the Kyrgyz Republic within the CDF/NPRS. The most effective forms include:

- National forums and national meetings, people's conventions (kurultai), round tables with participation of representatives of all branches of government, NGOs, private sector, international organizations, where the problems of the national level are discussed, and the planned policy measures in various directions for national development are considered.
- Regional forums, kurultais, village meetings, meetings of local communities that consider the problems of regions and local communities.
- Educational seminars, training activities, meetings conducted in all regions with participation of representatives of state administrative structures and NGOs and their associations, where specific sector, regional problems are discussed and measures for their solution are developed; such activities also promote growth of the participants' professional potential.
- Establishment of councils under the President, Prime Minister, Government of the Kyrgyz Republic and various state administration bodies on priority directions of comprehensive development.
- In the process of preparation and implementation of the CDF/NPRS the following have been the most effective mechanisms and methods of partnership and participation in Kyrgyzstan:
- Participation of representative of state administration structures, NGOs and the private sector in working experts' groups on preparation of the full version of the NPRS both at the national and regional levels.
- Participation of non-government organization in drafting of laws and regulations connected with implementation of integrated reforms in the state and the society.
- Conducting research, studies, reviews and surveys on major directions of the CDF/NPRS jointly with government structures, as well as independently, that have served as a basis for preparation of proposals and policy measures.
- Participation in monitoring and evaluation of the results of implementation of the CDF/NPRS.
- Development and implementation of specific projects related to poverty reduction, human development, carried out on a grant basis with the support of international organizations.
- Active participation of NGOs, private sector in social mobilization of citizens, establishment of associations, self-help groups, charitable acts aimed at poverty reduction, support for the needy and creation of conditions for development.
- Conducting various events with the participation of schoolchildren, university students and scientists to study the problems related to the CDF/ NPRS.
- Conducting of creative events to propagate the ideas of sustainable human development and cover the progress of preparation and implementation of the CDF/NPRS with participation of mass media, etc.

502. A series of round tables has been conducted in all oblasts of the Republic with the purpose of identifying the inputs of the civil society in the process of implementation of the NPRS and the CDF. Representatives of the civil society proposed their own forms and mechanisms of participation in implementation, monitoring and evaluation of the NPRS and the CDF. Representatives of the civil society see their participation as that of informing the population of the progress of implementation of the NPRS and the CDF, of defining the needs of the population, of strengthening the democratic foundation of the society and of building of a lawful state, by promoting development of education, science, healthcare, employment, agriculture, micro-financing, small and medium-scale business, in support of socially vulnerable and poorest layers of the population, as well as in the solution of environmental problems. In addition, they proposed their assistance in joint planning and implementation of programs and projects at the level of local administrations and in preparation of the budget, as well as expressed their great interest in joint monitoring and evaluation

of the results of implementation of the NPRS and the CDF. Based on the results of the process of participation and partnership of all layers of the society, the Plan of Partnership has been prepared, which describes in detail the process of participation of various structures in development of the NPRS and the CDF, as well as forms and mechanisms of stakeholders' participation in implementation and monitoring of the program that have been proposed on the basis of the round tables conducted with participation of the civil society.

503. The Matrix of Partnership (see Appendix G) has been prepared to identify the basis for future partnership of all structures in implementation of the NPRS and the CDF; it envisages the following areas of partnership and participation:

- dissemination of information;
- conducting of regular consultations and discussions;
- broad involvement of all structures in implementation, monitoring and evaluation;
- ensuring of transparency and accountability;
- increasing of responsibilities of concerned structures;
- stakeholders' capacity building;
- developing and strengthening of the ownership feeling towards the programs;
- reaching of a consensus among the society; and
- orientation to the result attaining.

The Matrix of Partnership will be used at all stages of the NPRS implementation as a basic document for planning of joint measures of government bodies, NGOs and the private sector.

504. NGOs and the private sector can make a large contribution in development at the level of local communities. Patterns of constructive interaction of the society, NGOs and the authorities have become well-established in the process of implementation of projects on water supply, rehabilitation of social-and-cultural objects, social mobilization, etc. Engagement of the community in management is deep rooted in local traditions of the Kyrgyz Republic. The use of this experience will help to establish modern forms and methods of participation of the community in development of territories and control over activities of local authorities, for example, on the basis of tripartite commissions, which include representatives of local authorities, aksakals (old men) and NGOs.

505. Within the framework of implementation of the NPRS, one of the tasks to be solved with the help of NGOs, is the broadening of feedback between state administrative bodies and the society by the information support to the NPRS conducting public relations campaigns to explain and popularize the contents of the document among the population. NGOs will inform the community of the attained results, participate in the NPRS monitoring and evaluation, study public opinions on existing problems for the purpose of further introduction of relevant amendments to the program. NGOs have accumulated significant experience and can conduct successfully regional (oblast), city, rayon informational and consultative meetings with representatives of all participants of the NPRS implementation process.

506. NGOs will promote the support of socially vulnerable layers of the society by:

- participating in surveys with involvement of the poorest and poor layers of the population in the research process to jointly reveal socially vulnerable layers in order to support them with targeted social assistance;
- conducting PR campaigns to draw the attention of the wider public and the Government to the existing problems of socially vulnerable layers of the population;
- supporting the priorities of gender equality through participation of women's NGOs;
- integrating invalids into the society by establishing public employment centers and rehabilitation centers for invalids;
- promoting interests of socially vulnerable layers of the population by drafting and proposing amendments to the existing legislation and bylaws on pension security, on the methodology of identification of the needy citizens, on targeted social protection; and
- participating in the process of monitoring of humanitarian aid allocation with participation of representatives of all sectors of the civil society.

507. Experience of NGOs will be useful when solving social and economic problems on the local level, by providing consultative services, joint planning and implementation of partnership projects with local administration bodies, including social mobilization of local communities with attraction of local and external resources.

508. Strengthening of democratic principles and building a lawful society is one of the priority activities of NGOs, expressed in their participation in the following areas:

- improvement of the legal competence of the population by conducting round tables, workshops, educational projects and programs upgrading civil education of the population;
- establishment of public legal advice centers;
- introduction in practice public discussions of draft laws related to major aspects of vital activities of the population, participation of NGO representatives in sessions of the Jogorku Kenesh of the Kyrgyz Republic when these draft laws are to be discussed and approved; and
- improvement of public and state mechanisms of realization of human rights and freedoms by their joint evaluation.

509. Within the framework of such strategic directions of the NPRS as introduction of public control over activities of state administration and local self-government bodies and involvement of the civil society in decision-making processes, NGOs will participate in conducting public budget hearings on a regular basis with participation of all sectors of the community and, subsequently, in ensuring public control over budget expenditures in accordance with the earlier approved budget, by participating in activities of auditing committees and other anti-corruption measures.

510. NGOs play an important role in the decentralization process participating in monitoring over transparency of elections to local self-government bodies. This work can be done by establishing public watch committees with participation of NGOs, which will conduct surveys to assess the performance of government bodies for the purposes to further improve their work.

511. NGOs will make a contribution in dissemination of positive micro-financing experience by providing consultations to citizens, representatives of individual and small-scale businesses on financial issues, supporting self-help groups and credit unions.

512. The role of NGOs in the healthcare sector is to ensure access by the population to high-quality free primary medical services by monitoring allocation of the resources from the Fund of Mandatory Medical Insurance and monitoring the process of providing free medical services for the purpose to reveal its qualitative level, by developing partnership relations between state healthcare establishments and NGOs working in the sphere of healthcare and protecting patients' interests, participating in the process of law drafting on healthcare issues, as well as joint projects in the area of sanitation and hygiene.

513. In the area of ecology and environment protection NGOs will participate in ensuring long-term ecological sustainability by establishing a national system of ecological monitoring, promotion of effective protection of environment, conducting explanatory work among the population, participation in implementation and evaluation of environmental projects on biodiversity conservation, production and export of ecologically pure products, as well as organization of PR campaigns among the population and government structures on advantages of the use of alternative energy sources.

514. Participation of NGOs in solution of agricultural problems is expressed in promotion and protection of farmers' interests through establishment and development of public associations in the agricultural sector, promotion of efficiency of agricultural production and product processing by improving the legal framework of market reforms, organization of trainings for farmers and provision of consultative services with participation of all concerned institutions of the society.

515. Public employment centers and new jobs are planned to be created in cooperation with the private and public sector through elaboration of projects on development of income-generating activities.

516. State administration bodies and the civil society have to take joint efforts to create such a social and political climate, where the advantages of the policy aimed at protection of interests of the poor will be recognized by the whole society. Institutional reforms of state administrative bodies shall ensure transparency and accountability of these institutions to the community. This is connected with providing the society with more complete information necessary for monitoring and evaluation of activities of state administration agencies. The policy of transparency of state administration bodies, NGOs and the private sector work will be strengthened.

517. Regular NPRS progress reports will be published in the media. The most successful practices of poverty reduction will be widely disseminated through an information campaign.

Broad civil liberties, cooperation among all sectors of the society, independent press and a strong civil society are fundamental conditions for successful implementation of the National Strategy for Poverty

Reduction. Drawing attention the plight of the poor and the poorest layers of the population, and promoting open discussion of related problems, press and the civil society in a close cooperation with the State develop socially acceptable ways to fight poverty.

CHAPTER IX. RESOURCE REQUIREMENTS OF NPRS

518. Successful achievement of the objectives established under the NPRS in many ways depends on a realistic assessment of the financial resources necessary for successful implementation of the whole program, as well as on the proper prioritization of policy directions and efficient management of the limited financial resources available for public expenditures.

519. Availability of resources in general under the NPRS is based on projections of a midterm budget framework until 2005 that defines revenue flows. Expenses on major development directions have been specified in the light of the major NPRS priorities. It is intended that general expenses of the budget will be allocated first of all to implement the reforms aimed at poverty reduction.

520. A significant resource constraint for the budget is the need to reduce the PIP to 3.9 percent of GDP by 2005 in order to deal with the external debt situation. A methodology of prioritization of the PIP projects has been developed with the assistance of the Asian Development Bank, based on the criteria of the impact on economic growth, export potential and poverty reduction. Using this methodology, a list of projects that are recommended for inclusion in the PIP for 2003-2005 has been prepared. The selected projects are connected with the NPRS priorities. (See Appendix D)

521. The financial needs of the measures included in the NPRS are based on the proposals submitted by 23 working groups and 8 regional councils of sectoral and regional experts that included representatives of all branches of government, the private sector, NGOs and local self-government. In preparing their analytical materials, each working group identified a block of specific measures to meet NPRS objectives and specified the estimated cost of their implementation.

522. The work on prioritization of the planned policy measures and assessment of the financial needs was rather difficult because of the absence of a program budget structure within which such work could be undertaken. Although some preliminary action has been taken to place government activities on a full program budget basis, several years might be required before it is completed. In addition to this, ministries, departments, organizations and oblast administrations simply do not have sufficient capacity to use contemporary methods of prioritizing and costing of development programs, or for linking the proposed policy measures with poverty indicators.

On the whole, this problem is related to the need for further improvement of the system of public resource management and improvement in the efficiency with which budget resources are used. In this connection, technical assistance from international financial organizations is still needed in order to assess the resource requirements and to prioritize policy measures, as well as to develop the skills of those responsible for designing national, regional and sectoral programs. Such assistance had been requested by the Government of the Kyrgyz Republic earlier when preparing the interim NPRS in September of 2001.

523. This NPRS document provides a detailed description of all existing major problems that to some extent impede the attainment of the major goal of poverty reduction. Given the limited financial resources available, major policy directions (priorities) have been selected when forming the action matrix, their implementation will promote more effectively the attainment of the major goal.

524. Specific activities on implementation of the policy measures have been focused on the three major directions established under CDF:

- formation of an effective state;
- building a fair society; and
- promoting sustainable economic growth.

525. **The need to optimize and improve the efficiency of the system of public administration** requires first the further development of democracy to ensure the rights and freedoms of the citizens of the Kyrgyz Republic.

Major priority directions have been identified for the development of democratic institutions, improvement of law drafting activity, reforming public administration bodies (at the national and local levels), establishment of an efficient civil service and improvement of the system of public finance (in particular, the system of Treasury under the Ministry of Finance of the Kyrgyz Republic).

The financial needs of these measures will be mainly covered at the expense of the budget, by credits of the World Bank and the Asian Development Bank, with the technical support of the TACIS, UNDP and other international financial organizations, as well as by the mobilization of internal resources. One of the intended

directions of public sector administration reform is the move to the principles of "electronic government". Successful implementation of such measure requires the support of donor countries and international financial organizations. Additional financial resources will also be required to carry out measures aimed at fighting against corruption, economic crimes, drug-trafficking and international terrorism

The volume of financing envisaged for the public administration sector for 2003-2005 in the midterm budget framework totals Soms 14.9 billion. Of this amount, Soms 93.1 mln. are to be covered from external sources.

Additionally needed external grants amount to Soms 230.3 mln.

526. **Building a fair society** is based on ensuring the delivery of social guarantees such as social protection in the form of pension schemes, state benefits to poor families, allowances for disabled, inhabitants of alpine and remote areas, ensuring access to clean potable water and educational and health care services. The size of benefits and pensions will be increased in order to support the living standards of needy families and pensioners, taking into account the impact of inflation. At the same time, based on the results of social passportization, the targeted approach of state social assistance will be improved. Together with the measures on social mobilization of the population, this will lead to a reduction in the number of recipients of state social benefits. The salaries of workers of the educational and health care sectors and civil servants will be also need to be increased in order to create the necessary incentives to retain and attract highly professional staff, improve the quality of services rendered.

The major source of funds for increased benefits, pensions and salaries will be the budget economies that will result from improved targeting of social assistance, reforms in the area of public administration, health care and educational systems. A large share of expenses related to the financing of measures on expanding access to clear potable water, improved access and quality of educational and health care services (repairing and construction of water pipelines, schools, hospitals, medical units, supply of equipment, textbooks, etc.) will be covered by credits from donor countries and international financial organizations and the state budget (within the PIP). At the same time, additional resources will be necessary to cover those villages that have not been included under PIP projects.

527. Besides, additional resources will be required to reform the pension system, maintain the guaranteed minimum level of consumption of the poor strata of the population at a necessary level, as well as ensure social protection for the poor, in particular, when increasing tariffs for electricity and heating.

528. The midterm budget framework for 2003-2005 envisages Soms 27.4 bln. for the social sphere (social protection, education, healthcare), of which Soms 809 mln. are to be covered from external sources.

In order to attain the established objective of an annual reduction in the poverty level by 3 percent, additional financing is required in the amount of Soms 3.7 bln. in the form of grants. (See Appendix V)

529. According to preliminary estimates, to attain sustainable economic growth at a level of 4.9 percent (the scenario for implementation of a stabilization policy), it is necessary to ensure a volume of investment of at least 20 percent of GDP. The envisaged reduction in the PIP by 3.9 percent by 2005 will need to be compensated for in part by an increase in both domestic and foreign private investment (as a result of a more favorable investment climate), support of SMEs, improved market conditions and elimination of trade barriers for export, as well as by increasing capital expenditure from the budget, including co-financing of PIP projects. In order to attain a sustainable annual economic growth rate of 7 percent (the scenario for implementation of the development policy), the rate of investment will need to be at a level of 25 percent of GDP.

530. For the next three years, it is assumed that additional volumes of direct investment will be attracted to the energy sector, mining industry, oil extraction, processing industry, the sphere of services and communication technologies.

531. At the same time, in order to broaden opportunities for the creation of new job opportunities, successful development of small and medium business, and an increase in the volume of micro-financing for the unemployed and the poor, additional resources will be required for development of financial services, especially in rural areas, rehabilitation and construction of irrigation networks, local roads, expansion of public services for rural commodity producers. It is assumed that the major sources could be grant funds of donor countries and international financial institutions allocated to local communities, associations, NGOs and farmers.

For the development of the real sector, the midterm budget framework for 2003-2005 envisages Soms 15.7 bln., of which Soms 11.4 bln. are to be covered from external sources including grants and direct investment.

Additional financial support required from external sources (including grants and direct investment) to achieve accelerated economic growth rate totals about Soms 19.4 bln. (See Appendix V).

The financial support for the NPRS will be adjusted each year within the budget framework, reflecting the results of reforms already carried out, implementation of the PRGF, as well as the agreements reached in the process of negotiations with the Paris Club on regulating the external debt.

532. Because of the importance of the linkage between policy directions and specific measures within the NPRS framework on the one hand, and identification of realistic volumes of financing required on the other, the government intends to continue the work on prioritization and assessment of the cost of sectoral and regional programs. For this purpose, the government will approach donor countries and international financial institutions for technical and advisory assistance. Such assistance will be also necessary to assess the nature and impact of the various risks that might impede successful implementation of the NPRS.

CHAPTER X. SUPPORT BY THE INTERNATIONAL COMMUNITY

533. Major financial institutions of the donors' community are taking purposeful efforts to increase the volumes of financial and technical assistance allocated to the countries of the Central Asian region in order to stabilize the economic and social situation. Kyrgyzstan is among the countries of the region that will be provided with the assistance aimed at growth of economy, promotion of direct investments for improving living standards of the population and poverty alleviation. A majority of donors and countries highly appreciate democratic reforms of the Kyrgyz Republic and believe that development of economy and strengthening of democratic institutions is a secure means of protection from extremism. It is worth noting that the international community is also striving to develop regional cooperation in Central Asia and many donors consider that the Kyrgyz Republic plays an important role in the given cooperation.

The **IMF, World Bank, EBRD, ADB** and many other donors have appealed to the international community to increase grant-based support to poor countries situated in the area of Afghanistan events (Statement of October 5, 2001).

In addition, the **IMF** and the **World Bank** have addressed donors to restructure existing credit lines, transferring them on a grant basis in poor countries that have large external debts.

534. Many donors were supportive of a decision made by the Paris Club in March of 2002 on restructuring of external debts of Kyrgyzstan by the club members. As a result, the credits under bilateral agreements signed before August 31, 2001 have been restructured between Kyrgyzstan and members of the Paris Club under the "Hewston conditions".

535. **The European Union Commission (EUC)** has increased its assistance to Kyrgyzstan almost twofold. In terms of the Memorandum of Understanding for 2002, the EUC extends grants to Kyrgyzstan for the program of food security in the country. The funds are allocated to support the balance of payments of the Republic, to finance food imports, to promote a number of reforms undertaken in the agricultural sector, as well as to support the social sector. The program promotes poverty reduction in the country.

Approaches to rendering assistance to the country through the **TACIS Program** have been changed. The European Commission changed to a program-based approach from a project-based approach, having focused its assistance not on addressing certain problems, but on priority directions of development. In future, TACIS intends to invest its funds in institutional and legislative reforms, development of small and medium-size business, infrastructure and trade, as well as the financial sector. It is necessary to note that, starting with the TACIS budget for 2003, the assistance provided envisages implementation of projects of a Central Asian regional importance. This approach will take three directions: promotion of institutional, legal and administrative reforms; assistance in overcoming social consequences of the transition period; development of infrastructure networks.

536. **The UN Development Program** has also switched from a project-based to a program-based approach and this has resulted in some organizational changes in the UNDP representative office in Kyrgyzstan. The UNDP provides significant assistance on a grant basis for promotion of and improvement in effectiveness of public sector governance. It works on governance, decentralization and development of local communities. An important direction in the UNDP's activities in Kyrgyzstan is support for social mobilization of the population, promotion of individual, small and medium-scale entrepreneurship, microfinancing for citizens, as well as creation of conditions for development of the poorest rural settlements. Certain work has been started to support the development of information and communication technologies, to attract direct investments and develop investment projects. Great assistance is being provided for the development of a monitoring and evaluation system for measures connected with poverty reduction within the CDF/NPRS, as well as on studying acute problems of sustainable human development in Kyrgyzstan. Large contributions in human development and human right defending are being made by other UN organizations: **UNESCO, UNICEF, UNIDO, UNFPA, UN AIDS Organization, UN Higher Commissioner on Refugees, UN Program on Drug Control and some others.**

537. **The Asian Development Bank** has reformed the structure of its central office to provide more effective assistance to poor countries. A Memorandum of Understanding has been signed between the Government of the Kyrgyz Republic and the Asian Development Bank on the strategy of assistance to the Kyrgyz Republic for another three-year period that will be mainly aimed at addressing urgent social problems such as poverty and unemployment. ADB assigns the highest priority in rendering assistance to reduction of poverty. In 2002, ADB is implementing programs on improvement of regional cooperation and trade, assisting in modernization of the customs system of the Republic, development of an effective and viable regional mechanism of electric power distribution in order to facilitate electricity transmission from the regions

with excessive energy output to the regions with a deficit. By 2006, the ADB expects to implement projects on early childhood development in the area of education reform. It will implement the project on financing the construction of roads connecting the Kyrgyz Republic with neighboring countries, such as the Chinese People's Republic, Tajikistan and Uzbekistan. The Program "Financial Mediation and Mobilization of Resources" will provide assistance in reforming the banking sector, financial restructuring of viable enterprises, and development of the stock market and insurance market. Regional projects will be implemented for the effective distribution of electricity in poor regions, as well as development of agriculture. ADB intends to provide technical assistance in the sphere of external assistance coordination, as well as institutional development of the Republic.

538. For more effective work with Central Asian countries, the **World Bank** has moved the department responsible for this region from Washington to Almaty (Kazakhstan). The Program of the World Bank in the Kyrgyz Republic is aimed at providing assistance for poverty reduction and protection of vulnerable layers of the population. Within this assistance, the World Bank supports efforts to attain sustainable economic growth, in particular in rural areas, to provide many regions of the country with clean water, promote development of local communities and financing for the rural population, assist in the development of the legal and regulating base for development of the private sector, as well as improvement of public sector governance and institutional capacity building. During April 8-9 of 2002, the President of the World Bank Mr. James Wolfensohn paid an official visit to Kyrgyzstan. The President of the Bank mentioned the high level of economic and social reforms being conducted in the Republic, successful implementation of projects financed by the World Bank in the health care sector, agricultural sector and other areas. He praised highly the level and quality of preparation of the Comprehensive Development Framework of the Kyrgyz Republic till 2010 and the interim National Strategy for Poverty Reduction. Mr. Wolfensohn assured the nation that in future Kyrgyzstan can count on assistance and support from the World Bank Group.

539. **The UK Department for International Development (DFID)** has significantly increased its effort in Kyrgyzstan, having increased the volume of financing almost 2.5 times as compared to 1997. The annual volume of DFID financing under the program of bilateral cooperation totals 2.5 million pounds sterling. The DFID works in partnership with the Government of the Kyrgyz Republic at the national, oblast and rayon levels, as well as with international organizations and the civil society. The assistance of the DFID is focused on agriculture, health care, social sectors and the environment. The DFID implements projects on public sector governance and public utilities reforms. Substantial grant-based assistance is extended to provide the population of rural areas with clean water, to raise employment of the population and income for rural inhabitants. For the purpose of strengthening the system of monitoring and evaluation, DFID has provided technical assistance to the National Statistical Committee of the Republic. In addition, active assistance has been provided for preparation of the CDF and related documents by conducting conferences, seminars, and involvement of foreign and local experts, publication of brochures. Practically all projects implemented by the DFID are aimed at reduction of poverty in the country.

540. **The European Bank for Reconstruction and Development (EBRD)** implements large investment projects in agriculture, energy, and telecommunications. An important step was taken by the EBRD this year when it decided to open a credit line for US\$15 million as direct investments in the private sectors, not requiring any guarantees from the Government of the Kyrgyz Republic.

541. **The Islamic Development Bank (IDB)** has also expressed an intention to provide assistance to Kyrgyzstan in the form of direct investment in development of the private sector and entrepreneurship. In July of 2001, a three-year program of cooperation was approved during the visit of the IDB mission to the Kyrgyz Republic. Assistance will be provided to industry, energy and health care sectors, as well as to reconstruction of road surfaces.

542. **Switzerland** has started to assist the Kyrgyz Republic in 1996 and has since 1998 more than doubled its financial and technical assistance. While technical assistance is provided through the State Secretariat for Economic Affairs (SECO), technical assistance is provided by the Swiss Agency for Development and Cooperation (SDC). In 2002, the annual volume of Swiss assistance – entirely in the form of grants – amounts to about USD 12 million. In line with the general objectives and legal base of Swiss ODA, practically all Swiss activities are aimed at the reduction of poverty. Financial assistance is focusing on budgetary support, and measures to improve the macroeconomic situation of the country, in particular through providing assistance for debt management. SECO also supports the further integration of Kyrgyzstan in the regional and world economy. Other projects are supporting land registration, improvement of national statistics. The development of the private sector – in particular SMEs – is supported through a series of projects of both financial and technical assistance. Substantial inputs are also provided for agriculture and forestry development, for legal advice in rural areas, for the provision of clean drinking water in both urban and rural areas, for the implementation of the Manas Health Reform Plan, and for supporting private initiative

and decentralization in mountain areas. Additionally, the Kyrgyz Republic is a key partner and beneficiary in a number of regional programs of Swiss financial and technical assistance, whose volume is about US\$6 million per year for the period 2003-2005. These focus on regional trade promotion, regional water management and hydrometeorology, the training of journalists and the promotion of local level capacities for the management of tensions, disputes and conflicts.

Large assistance is provided to Kyrgyzstan by the Swiss International Cooperation Office to conduct the International Year of Mountains in Kyrgyzstan, to implement projects on water management, development of small and medium enterprises, energy and social sectors.

543. **The Government of Germany** has practically doubled the volume of its assistance to Kyrgyzstan. It will provide assistance for development of processing industry in the Batken oblast, for development of the private sector, small and medium-scale entrepreneurship, construction of electricity transmission lines, agriculture, industry, biosphere territories, for health care support particularly for the protection of maternal and infant care, and tuberculosis control, as well as urban infrastructure development. Significant consultative assistance is provided on a grant-basis through the GTZ representative office.

544. **The Government of Japan** has provided grant assistance to Kyrgyzstan to purchase agricultural machinery for farmers, to reconstruct roads and the "Manas" airport, to develop the social sector. At present, programs on development of information systems, programming and electronic engineering are being carried out in a number of universities. In future, the Government of Japan intends to provide assistance for establishment of the National Center of Information Technologies in Kyrgyzstan. Large technical assistance is being provided. In particular, during the current year proposals on development of industry and industrial policy have been prepared with the support of the Japanese International Cooperation Agency (JICA).

545. **The governments of the Scandinavian countries (Sweden, Finland, Norway and Denmark)** also intend to assist Kyrgyzstan as a country that meets the criteria adopted by these countries for providing assistance to poor countries. Scandinavian countries are especially interested in promoting development of the social sector, issues that are very pressing for Kyrgyzstan.

546. **USAID** has initiated a project on agribusiness development that will be implemented in the Osh oblast over two years. Implementation of the project will promote strengthening of agricultural entrepreneurship in the south of the Republic. As well, USAID is supporting a number of projects related to development of entrepreneurship and attraction of foreign investment to the Republic.

547. Large humanitarian, technical and advisory assistance is provided by international organizations and foundations - **WHO, ILO, Aga-Khan Foundation, Ebert Foundation, Adenauer Foundation, Soros Foundation, Peace Corps and Mercy Corps, Save the Children Fund (Netherlands and Great Britain), TICA, FINCA, Helvetas, foreign universities and other foreign non-governmental organizations and volunteers.**

548. The Asian Development Bank, World Bank, UK Department for International Development, UNDP, TACIS and a number of other donors provide significant experts support to ministries and departments. A group of such experts conducted the important work of defining the scope of poverty in the Republic. Important work has been carried out in this context by missions of the IMF, World Bank, ADB, UNDP, and DFID from April to August of this year. During their work, the missions specified a new methodology to determine the indicators of poverty and extreme poverty levels, discussed the issues of social protection of the population (given the increased tariffs for energy sources), concepts of the pension system and educational system reforms, development of the agricultural sector, as well as other issues related to the implementation of the CDF and preparation of the full version of the NPRS.

549. Many prominent international private companies, such as the **IBM, IDS SCHEER (Germany)** have supported the CDF/NPRS process in Kyrgyzstan. In particular, IBM has supported the idea of comprehensive development of the country on a basis of building an information society and has given its principal agreement to participating in the building of the state electronic information network in Kyrgyzstan. To develop the system for CDF/NPRS monitoring on the principles of e-government, the company has provided, on a gratis basis, equipment based on technology developed by the IBM Corporation in the areas of hardware and software platforms, as well as communications systems.

The company **IDS SCHEER** has indicated its full support to approaches by Kyrgyzstan on development of the NPRS and a desire to help the country to work out effective management approaches to support the processes. The company has provided its software products that define the principles of development and implementation on a unified methodological basis, using modern methods of business process design. In

prospect, this will allow the creation of a platform for an effective management system at all levels of development and implementation of the programs for the comprehensive development of the country at the international, national, sectoral and regional levels, as well as on the level of specific activity. This software will enable the transformation of public sector governance to the principles of e-government.

550. An agreement by donors to conduct another Consultative Group meeting in Kyrgyzstan for the first time, indicates the great support that they have for the CDF/NPRS process, efforts exerted by Kyrgyzstan on poverty reduction, active conducting of reforms, ensuring economic growth and effective public sector governance. Kyrgyzstan welcomes the shift to a higher level of cooperation with all the donors based on principles of equal partnership and participation.

CHAPTER XI. MONITORING AND EVALUATION

551. Monitoring and evaluation techniques will be used in the management of NPRS to ensure implementation quality.

The monitoring and evaluation system - an integral part of NPRS implementation process - is required in order to raise the effectiveness and quality of Strategy's implementation. Monitoring and evaluation instruments will help to gauge the progress in achievement of program's objectives, effectiveness of measures and resource utilization. The system will provide NPRS executing agencies with data that will indicate any adverse developments that, in turn, will help to identify the need for timely policy adjustments.

552. From the start, the NPRS monitoring and evaluation system will be oriented at the main objective of the Strategy - gradual reduction of poverty in the Kyrgyz Republic. The system of monitoring and evaluation will be based on the participatory principle involving all stakeholders of the NPRS process, - civil society, government instrumentalities, businesses and certainly the poor who are the primary beneficiaries of the NPRS.

553. The NPRS monitoring and evaluation system will use quantitative as well as qualitative methods. A system of quantitative indicators will be used to track the results and outcomes of the Strategy's three-year implementation period. These indicators will be systematically collected by various state and non-state agencies. A significant share of these indicators will be developed by the National Statistical Committee, ministries and departments. The involved government agencies will be responsible for the validity and accuracy of the data. After consolidation, the data will be provided for evaluation and analysis to the CDF Secretariat and later the analytical materials will be submitted for consideration to the National CDF Council.

554. In order to study the key poverty factors and evaluate effectiveness of the measures taken, the quantitative methods will be complemented by qualitative studies, as well as evaluations, recommendations and proposals prepared by government agencies, NGOs and the private sector.

555. **Institutional arrangements.** A partnership network, uniting government and non-government participants and stakeholders, will be developed to ensure effective implementation of the Strategy.

The NPRS implementation process will be coordinated by the **National CDF Council** chaired by the President of the Republic. The Council, comprising representatives of government agencies, civil society and the private sector, makes key policy decisions related to CDF/NPRS. Three coordination committees have been created to implement decisions of the National CDF Council in three main areas: sustainable economic growth, social protection and human development, effectiveness and transparency of public administration. The coordination committees headed by the Prime Minister, First Vice Prime Minister, and the Head of the President's Administration, respectively, include representatives of government agencies, civil society and the private sector.

The **CDF Secretariat**, the Council's executive body, coordinates implementation of the Council's decisions and prepares materials and proposals for its meetings. Being a working unit of the Council, the Secretariat will coordinate NPRS monitoring and evaluation activities carried out by ministries, departments, as well as local state administrations.

The CDF Secretariat will actively cooperate with NGOs and will coordinate assistance provided by donor organizations to the NPRS process. Non-state participants of the monitoring and evaluation process (civil society, private sector, research organizations) can use data collected under the NPRS monitoring and evaluation system to conduct independent studies and analysis, prepare reports on effectiveness of program execution. This involvement will increase accountability of the management, increase objectiveness of program's assessments and will help to use expertise of independent analysts. Institutional arrangements for coordination of the NPRS process will be regularly improved.

556. **An information network** uniting the CDF Secretariat, ministries, departments, and local state administrations, will be established for effective monitoring and evaluation.

Interaction within this network will be carried out on principles of **electronic government**. To this end, interlinked websites will be created in ministries, departments, and regional state administrations. Gradually, the network will be expanded to the level of districts and aйл okmotus. The network will be accessible via the Internet to the private sector, civil society, government agencies and the donor community. All information systems available in the country will be used to build this information system; however, its development and effective operation will require additional investments.

557. Ministries, departments, and regional administrations will be trained in modern management based on the principles of electronic government. On-line monitoring and evaluation will ensure timely adjustment of measures.

558. Reports and studies containing feedback on actual implementation of programs will be used by the CDF Secretariat and other units as sources of information for monitoring and evaluation and will be taken into account during development of measures, adjustment of policy and final reporting.

559. **Financial framework.** The success of NPRS implementation will be connected with funding of the program's monitoring. Funding of CDF Secretariat's monitoring activities from the state budget will ensure sustainability of NPRS monitoring and evaluation system and will demonstrate national commitment to its implementation. The funding of the NPRS monitoring and evaluation system will be carried out in accordance with an approved schedule.

The CDF Secretariat will invite independent NPRS studies and will tender for evaluations to be conducted by independent NGOs. Donor grant funding will be sought for these and other purposes including preparation of reports, organization of presentations, seminars, round tables, dissemination of information through mass media, etc. These funds will be used to modernize and expand monitoring and evaluation infrastructure.

It is important to note that prioritization of actions was made considering the impact of actions on poverty reduction, preparedness for the activity, and availability of resources. Implementation of priorities will be done through realistic and progressive mechanisms that accelerate country development.

The activities were developed in the form of programs, projects, and studies. The programs are directed at development of policy in those spheres that require clear vision for the future. Projects will be implemented to realize the policies. Studies are meant to seek new development prospects for the future.

Hierarchy of goals was formulated from the basic point of identifying goals to elaboration of specific activities necessary for attainment of goals. This set of activities is represented in the form of action matrix with defined calendar and resources plans. The matrix will be continuously improved and adjusted.

560. One of the key factors in the success of NPRS is strict association of state finances with results achieved under the program. In connection with this, funding of different types of activities by ministries and departments must be carried out with consideration of monitoring and evaluation results and program-based budgeting.

561. **Transparency of NPRS result and their dissemination.** Transparency of results, their wide dissemination, and consideration in further work is a critical component of monitoring and evaluation. Results of NPRS monitoring and evaluation will be available to all stakeholders, will be widely published in mass media and available on Internet. Progress reports on implementation of CDF/NPRS will be published periodically.

562. A feedback system will be established at the policy level between program executing agencies and final beneficiaries. In the end, feedback, transparency, and accountability of parties will contribute to the effectiveness of the whole program.

563. **Human potential.** It is important to build an adequate human potential in state and non-state agencies capable of professionally monitoring and evaluating the program on different levels. The CDF Secretariat will organize nation-wide courses to train all participants of the NPRS process in monitoring and evaluation. The Secretariat will also attract donor agencies for improvement of the CDF/NPRS monitoring and evaluation system, capacity building on local level, integration of the best international practice with adjustment to Kyrgyzstan's situation.

APPENDIXES

APPENDIX I.1. MACROECONOMIC INDICATORS, 2003-2005

	Factual			Prognosis			
	1999	2000	2001	2002	2003	2004	2005
GDP							
GDP in current prices, mln. soms	48.7	65.4	73.9	77.5	85.3	93.4	102.3
GDP in current prices, mln. US\$	1 226	1 367	1 530	1 649	1 815	1 987	2 175
Real GDP growth rate, %	3.7	5.4	5.3	0.8	5.2	5.0	5.0
GDP per capita, US\$	252	278	309	330	359	390	422
Prices and wages							
GDP Deflator	37.6	27.2	7.3	4.0	4.6	4.3	4.2
Consumer Prices, % end of period	39.9	9.6	3.7	3.6	4.4	4.2	4.1
Consumer Prices, % average *	35.9	18.7	6.9	2.4	4.2	4.1	3.8
Exchange rate, som/US\$	39.0	47.7	48.4	47.0	47.0	47.0	47.0
Nominal monthly wage (in US\$)	26.9	25.7	30.0	36.2	38.3	40.4	42.6
	(% of GDP)						
State finance							
Total revenue	17.7	15.1	17.0	18.4	18.8	19.3	20.0
Tax revenue	12.3	11.7	12.4	13.6	14.6	15.2	15.5
Total expenditures	30.4	24.5	22.8	24.4	24.0	24.0	24.2
Interest payments	2.9	2.8	1.7	1.8	2.0	2.2	2.6
PIP (external)	9.4	6.5	4.4	5.1	4.5	4.4	3.9
Deficit (incl. PIP)	-11.9	-8.9	-5.0	-5.6	-4.7	-4.2	-3.7
	(average changes in %, if not noted otherwise)						
Money and credit							
Reserve money (end-of-period)	23.4	12.3	11.3	38.7	6.5	...	...
Broad money (end-of-period) M2X **	33.9	12.1	12	29.8	13.3	15.3	13.4
Velocity of broad money	8.5	8.9	9.3	7.6	7.2	7.0	7.0
Money multiplier	1.52	1.53	1.5	1.4	1.5	1.57	1.6
External Sector							
Export growth (good and services, in US\$, %)	-11.8	8.6	-2.1	5.8	12.9	2.5	6.5
Import growth (good and services, in US\$, %)	-24.3	-14.8	-13.3	15.5	11.7	6.5	5.5
Current account balance (in % GDP)	-16.2	-6.6	-3.3	-2.8	-4.2	-4.5	-4.1
Reserves in months of import	3.4	4.4	4.1	4.4	4.5	4.4	4.2
External debt/GDP	109	111.1	99.7	96.1	92.2	77.3	68.0
Note:							
* -							
Energy prices index, % to December	31.5	47.8	31.1	14.7	11.9	14.9	13.3
Non-Energy prices index, % to December	40.2	8.0	2.6	3.1	4.1	3.8	3.7

** - Broad money M2X include cash money outside of banking system and deposits in national and foreign currencies

APPENDIX I.2. GDP STRUCTURE

Indicators	Factual			Prognosis			
	1999	2000	2001	2002	2003	2004	2005
National Accounts (% of GDP in market prices)							
GDP in market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture + forestry	34.3	34.2	34.3	34.9	34.3	34.2	34.2
industry+construction	24.8	27.1	26.3	26.1	25.3	24.6	23.9
Incl.:							
energy	5.6	6.3	4.5	5.8	5.8	5.9	6.0
Kumtor	10.1	9.0	9.0	6.3	7.5	6.5	5.4
services	33.3	31.8	32.2	30.5	31.6	32.0	32.8
Incl. tourism	2.5	2.9	3.9	4.0	4.2	4.3	4.5
Other	7.4	7.0	7.2	8.6	8.8	9.2	9.2
Share of SME in GDP	42.0	42.7	42.9	44.0	44.8	45.6	46.3
of which, farms	14.6	16.1	16.4	17.0	17.3	17.5	17.7
non-farm	27.4	26.6	26.5	27.0	27.5	28.1	28.6
Consumption	96.5	86.1	83.9	86.0	84.0	82.7	81.2
Public	19.1	20.0	17.5	17.9	17.5	16.7	15.6
Private	77.4	66.0	64.8	68.1	66.5	66.0	65.6
Gross investments	18.0	20.0	16.4	17.6	19.3	21.8	22.8
Public	9.5	7.9	5.1	6.1	5.3	5.7	5.3
Private	8.5	12.1	11.3	11.5	14.0	16.1	17.5
Exports (goods&nonfactor services)	43.0	41.9	36.8	36.0	36.9	34.6	33.6
Imports (goods&nonfactor services)	57.5	48.0	37.1	39.6	40.2	39.1	37.7
Net exports (% of GDP)	-14.5	-6.1	-0.3	-3.7	-3.3	-4.5	-4.0
GDP in current prices, mln. soms	48 744	65 358	73 883	77 500	85 300	93 400	102 200
GDP excl. Kumtor, mln. soms	43799	59 453	67 213	72 826	79 116	87 407	96 589
Real GDP growth rate excl. Kumtor, %	4.6	4.9	4.1	3.7	3.7	6.1	6.1
BOP current operations items, (mln. USD)							
Trade balance	-199.1	-90.8	-51.1	-46.7	-76.2	-89.4	-88.5
FOB Export	462.6	510.9	480.3	476.6	543.0	548.5	576.7
Export of goods							
gold	173.0	182.7	215.0	156.3	208.5	179.2	153.8
energy	52.0	79.8	46.8	20.1	36.9	38.9	45.0
agriculture	56.8	46.9	45.3	50.0	52.0	55.0	57.0
Export of service	64.9	61.8	80.5	116.5	126.8	138.1	154.5
Tourism	...	...	...	...	...	...	...
FOB Import	551.1	506.9	440.4	529.3	572.7	607.4	643.8
Import of goods							
Consumer goods	194.8	209.8	168.1	187.2	205.9	226.5	242.5
Raw materials & intermediate goods	136.6	112.5	120.8	125	137.7	151.8	162.8
Capital goods	160.2	107.2	57.7	98.4	108.2	119	127.5
Energy products	122.8	129.2	121.0	150.9	167.2	168.5	180.6

APPENDIX II. MAIN TARGET PARAMETERS OF HUMAN DEVELOPMENT AND ECONOMIC GROWTH AS A RESULT OF IMPLEMENTING NPRS

Indicators	1999 (actual)	2005
Reduce poverty, percent	55.3	38.9
Ensure universal primary education (grades 1-9), percent from the number of children	89.5	97.0
Reduce infant mortality (per 1000 live births) (mortality rate of children under one years of age), in per mille	22.7	22.0
Reduce child mortality (per 1000 live births) (under five mortality rate), in per mille	35.5	28
Reduce maternal mortality (per 100 000 live births)	42.3	40
Reduce mortality from infectious diseases, (per 100 000 population)	32.9	25
Increase proportion of population with access to healthcare services, percent	85.6	90.0
Increase proportion of population with access to safe drinking water, percent	85.9	87.8
GDP growth rate, percent at end of period	100	128.7
Private sector input in GDP, percent	82.7	84.3
Reduction of external debt - percent to GDP	134.0	78.0
- percent to total public expenditures	4.4	3.6
- percent to total exports	279	231.2
General unemployment, percent to economically active population	7.2	8.4
Telephone lines subscribed per 1000 population	78	80
Personal computers in use per 1000 population ¹⁾	25997 ¹⁾	37000 ²⁾

1) Number of personal computers in legal entities in year 2001.

2) Number of personal computers in legal entities

APPENDIX III. MIDTERM BUDGET

(% of GDP)

	2001	2002	2003	2004	2005
		approved	project.	project.	project.
Revenue and grants, of which	17.0	18.4	18.8	19.3	20.0
Tax revenue	12.4	13.6	14.6	15.2	15.5
Nontax and capital revenue	3.7	3.6	3.7	3.6	3.6
Grants	0.8	1.1	0.5	0.5	0.9
Expenditure (economic classification)	22.8	24.4	24.0	24.0	24.2
Current (other than interest)	15.9	16.4	16.7	16.9	16.9
Interest payments	1.7	1.8	2.0	2.2	2.6
Capital	5.3	6.2	5.3	4.9	4.7
Net lending	-0.7	-0.7	-0.5	-0.5	-0.5
Fiscal balance	-5.9	-6.0	-5.2	-4.7	-4.2
Accrual surplus(+)/deficit (-)	-5.2	-5.3	-4.7	-4.2	-3.7
Total arrears and rescheduling 1/	0.2	-0.3	0.0	0.0	0.0
Cash deficit	-5.0	-5.6	-4.7	-4.2	-3.7
Memorandum items:					
GDP real growth (%)	5.3	0.8	5.2	5.0	5.0
Consumer prices (average)	7.0	2.4	4.2	4.1	3.8
GDP per capita (in U.S.dollars)	308	330	359	390	422

Note: Budget project for 2002-2003 is at the Jogorku Kenesh of the Kyrgyz Republic. Data before 2002 outlined without external PIP.

APPENDIX IV.1. HEALTHCARE EXPENDITURES

(mln. soms)

	1999	2000	2001	2002	2003	2004	2005
Primary healthcare	135.05	137.84	156.07	167.81	343.42	482.34	588.30
Secondary healthcare	841.94	991.72	1 040.31	978.92	1 668.04	1 815.87	1 764.90
Public health	65.40	68.92	72.43	83.91	147.18	198.61	235.32
HIV prevention	3.25	4.11	4.35	4.42	4.48	4.55	4.62
Tuberculosis	61.14	77.10	89.82	102.40	116.73	133.07	151.70
Immunization	2.69	3.36	2.25	5.10	4.71	5.47	6.34
Wages	628.98	641.07	705.60	703.11	1 245.85	1 439.48	1 489.62
Medicaments and medical supplies	173.98	179.49	168.71	209.23	331.92	388.27	410.16
Utilities	149.97	256.09	261.17	252.76	457.16	527.07	543.42
Capital expenses	89.11	111.49	118.57	471.95	176.04	203.44	210.59
Public Investment Program	257.82	117.49	101.18	372.42	459.21	374.22	350.00

**Per capita expenditures by regions in 2001 and
projected state budget expenditures on healthcare by regions, 2003-2005**

Per capita expenditures by regions, 2001 (soms)	Bishkek city	Chui oblast	Issyk-Kul oblast	Jalal-Abad oblast	Naryn oblast	Osh oblast	Talas oblast	Batken oblast	Kyrgyz Republic
Republican budget*	297.40	47.24	34.41	18.69	2.75	4.64	2.04	6.64	61.95
Local budget	198.14	158.86	197.60	169.46	266.30	176.54	234.15	153.69	182.90
MMIF** funds	36.42	32.02	20.46	16.26	12.08	16.70	19.20	9.35	21.66
Total, per capita	531.96	238.12	252.47	204.41	281.13	197.87	255.39	169.68	266.50
Indicator reflecting allocation of state budget expenditures on healthcare by regions ***									
2003	1.86	0.89	0.96	0.80	1.05	0.78	0.97	0.70	1.00
2004	1.70	0.90	0.97	0.84	1.05	0.82	0.99	0.76	1.00
2005	1.50	0.91	0.98	0.89	1.05	0.87	1.00	0.85	1.00

* Republican budget does not reflect medical education, scientific activity, AIDS centers, transfers to MMIF, other centralized functions

** Mandatory Medical Insurance Fund

*** The indicator should not be less than 0.85 in each oblast by 2005.

Memorandum item	1999	2000	2001	2002	2003	2004	2005
% of local healthcare budget used through the "single payee" system	0.0%	23.0%	36.0%	68.0%	100.0%	100.0%	1553.47

APPENDIX IV.2. EDUCATION EXPENDITURES

(mln. soms)

	1999	2000	2001	2002	2003	2004	2005
Expenditures on primary education (grades 1-4)	12.45	10.27	12.80	518.31	683.79	723.41	760.78
Expenditures on secondary education (grades 5-11)	2179.53	1349.82	1652.98	870.99	1107.47	1171.27	1197.40
Expenditures on tertiary, secondary professional and vocational education	...	582.12	741.07	1095.94	1424.72	1503.95	1591.16
Wage	1548.56	992.19	1245.08	1550.84	1875.54	1915.53	1961.75
Repairs and maintenance	288.33	382.07	496.04	965.34	1424.81	1584.31	1671.20
Capital spending	56.55	44.37	65.37	52.92	...	...	...
Memorandum item:							
Expenditures on children aged 5-15							
Kyrgyz Republic, total	...	...	...	1053.72	1407.82	1484.07	1553.47
Osh oblast	...	...	...	235.55	315.18	332.13	347.50
Jalal-Abad oblast	...	...	...	200.47	267.92	282.41	295.59
Batken oblast	...	...	...	81.35	108.77	114.64	119.97
Issyk-Kul oblast	...	...	...	88.71	118.61	125.01	130.83
Talas oblast	...	...	...	53.96	72.15	76.04	79.58
Naryn oblast	...	...	...	87.90	117.57	123.91	129.65
Chui oblast	...	...	...	167.88	224.52	236.62	247.61
Bishkek city	...	...	...	137.90	183.10	193.31	202.75

APPENDIX IV.3. SOCIAL PROTECTION EXPENDITURES

(mln. soms)

	1999	2000	2001	2002	2003	2004	2005
Unified Monthly Benefit (UMB)	365.2	185.2	394.9	689.5	640.5	890	890
Social assistance to privileged groups	171.4	293	305	401.7	452.5	543.1	536.1
Housing allowances	9.6	16	23.7	24.2	23.5	22.7	21.7
Protection against tariff increases				100.2	127.7	132	135.8
Memorandum item:							
UMB benefits som/month	48.91	49.57	64.15	88.8	...	...	...

APPENDIX IV.4. PENSIONS

(mln. soms)

	1999	2000	2001	2002	2003	2004	2005
Memorandum item:							
Base level pension	200	200	200	200	200	209	215
Average pension level	385	462	559	602	642	661	686
Average pension/minimum consumer budget ratio	35	38.3	42.5	43	43.7	...	...

APPENDIX V. ACTIONS MATRIX FOR ACCELERATED DEVELOPMENT

	Executing agencies	Timeframe, years	Expected outcome	External Financing Available (mln. soms)	External Financing Needed (mln. soms)
1	2	3	4	5	6
Formation of Effective Public Administration					
Development of Democratic Institutions					
Develop a procedure for holding public hearings	GKR, NGOs, local communities	2003-2005	Transparency and efficiency of public administration ensured.		
Establish mechanisms for inclusion of community leaders in the processes of adopting regional and national-level decisions	GKR	2003-2005			
Elaborate an integral concept on development of the civil society and democratic institutions, including development of non-government organizations and creation of conditions for their efficient performance; development of mass media; development and strengthening of local communities; mechanism of implementation of civic initiatives. Ensure participation of democratic institutions in the CDF monitoring and implementation.	APKR, GKR, JK	2003	Civil society organizations participate in public and political life, the civil society involved in decision preparation and making processes		
Draft the Democratic Code	APKR, GKR, JK, NGOs	2003	A uniform regulatory base for development of democratic institutes and the civil society established.		
Draft a Concept on the Activity of the Democratic Security Council	APKR, GKR, JK, NGOs	2003	Constructive partnership between the state and the civil society developed in formulation and implementation of the policy aimed at development and poverty reduction.		
Implement the measures envisaged in the National Program Human Rights	according to the Program	according to the Program	The level of protection of the rights of the human being and the citizen increased.		

1	2	3	4	5	6
Develop mechanisms of the civil control over the work of law enforcement bodies	GKR, JK, law enforcement bodies, NGOs	2003-2005			
Develop the Concept of Ethnic Policy and the National Program of Ethnic Development	Assembly of Peoples of Kyrgyzstan	2003-2004	International norms on observance of minorities' rights complied with, state and non-state systems of guarantees of ethnic development established.		
Ensure protection of children and youth's rights by means of establishment and development of a network of children and youth 's organizations, implementation of the Program New Generation till 2010	NGOs, State Committee on Tourism, Sport, and Youth Policy	2003-2005	Public systems and mechanisms of representation and protection of children and youth's rights formulated.		
Improve performance and the role of political parties when representing interests of large social groups	APKR, political parties, NGOs	2003-2005	Participation of the civil society in managing political, economic and social processes increased.		
Ensure public participation and control over state systems of social protection, education, health care	NGOs, MLSP, MEC, MH	2003-2005	Participation of the civil society in managing political, economic and social processes increased.		
Develop a draft Law on electronic mass media	NGOs, MJ, JK	2003			
Improve efficiency of law making activity					
Develop a uniform conceptual approach to law drafting activity, ensure a systemic nature of the existing legislation	AGKR, GKR, JK	2003-2005	A systemic approach to law drafting activity introduced.		
Ensure monitoring of legislative sphere	GKR, JK	2003-2005			

1	2	3	4	5	6
Improvement of Judiciary, Law Enforcement Institutions of the State					
Prepare a new draft of the Code on Criminal Proceedings of the KR	MJ	2003-2005	Coordination of law drafting activity improved.		
Implement organizational and functional changes in the structure of law enforcement bodies, strengthen the material-and-technical base of law enforcement bodies, prosecutors' offices, courts	GKR				
Liquidate the attestation system of current judges	APKR, GKR, Supreme Court	2003-2005	Protection of citizens' rights and freedoms increased based on efficient court proceedings.		
Introduce a qualification examination for people applying to position of judges	APKR, GKR, Supreme Court, Higher Arbitration Court				
Prepare and introduce amendments to the Law on the Status of Judges in KR	GKR, Constitutional Court, Supreme Court, Higher Arbitration Court, JK				
Prepare and introduce amendments to the Law on the System of Arbitration Courts in KR	GKR, Higher Arbitration Court, JK				
Adjust the procedure of levying state legal duties	GKR, Supreme Court				
Require that all decisions be justified in writing and published	GKR, Supreme Court				
Streamline significantly appeal system	Supreme Court, Higher Arbitration Court, Constitutional Court, GKR	by end June 2003			
Review the court fee system with a view to reduce fees to 3 percent of par value of collateral	Supreme Court, Higher Arbitration Court, GKR	by end December 2003			

1	2	3	4	5	6
Implement appropriate parts of the Corporate Governance Program -2	GKR, Higher Arbitration Court	2003-2005	Protection of citizens' rights and freedoms increased based on efficient court proceedings.		
Attach special law enforcement subdivisions to the service of court executive officers, provide them with more freedom on the issue of independent execution of court decisions	GRK, Supreme Court				
Develop and adopt new Code on Criminal Proceedings of the KR	GRK, Supreme Court, General Prosecutor's Office, National Security Service, JK				
Amend the Code on Arbitral Proceedings of the KR	Higher Arbitration Court, GKR				
Reforming central and local public administrations					
Clarify the role, functions and obligations of executive authorities at all levels and interrelations among them	GKR	2003-2005	Functions of executive bodies streamlined.		
Optimize the system and structure of the central, oblast and local authorities, establishing the criteria of responsibility for the results and ensuring effective management, compliance with the requirements on democratization, openness and accountability	APKR, GKR, JK, NGOs	2003-2004	Efficiency of public administration increased.		

1	2	3	4	5	6
Decentralization					
Adopt and implement the National Strategy on further decentralization and development of local self-governance in the Kyrgyz Republic for 2002-2010	APKR, GKR, local state administrations, local communities, NGOs	2003-2005	Processes of decentralization and local self-government development optimized, effective management institutes established at the level of local communities.		
Develop and adopt the Law on Financial Economic Foundation of Local Self Government	GRK, LSG, JK				
Make amendments to the state educational standard on state requirements to the educational course on State and Municipal Governance to streamline it with new tasks and functions of municipal employees	MEC, MJ				
Reforming State Financial Management					
Strengthen the role of financial officers in line ministries	GKR	2003- 2005	Efficiency of the use of public resources for development purposes improved.		
Ensure financing for priority areas of development based on transfer to financing of only national, sector and regional development programs	GKR				
Modernize project planning and prioritization mechanism	GKR				
Carry out reorganization of the central office of the Ministry of Finance, reduce by 10 percent its staff number	GKR	2003	Efficiency of activities of the Ministry of Finance improved.		
Formulate program policy in sectors and regions	MF	2003-2005	Efficiency of the use of public resources for development purposes improved.		
Introduce practices of concluding resource agreements between the Ministry of Finance and budget funded instrumentalities	MF	2003-2004			

1	2	3	4	5	6
Reform the Treasury in compliance with international standards, improve the Treasury's chart of accounts, and develop a uniform system of codification	GKR	2003-2004	Efficiency of operations of the Treasury improved.		
Grant the Treasury legal entity status within the system of Ministry of Finance	GKR				
Create an information system among fiscal bodies	MF				
Automate the Treasury's central office and regional department, establish an information network	MF				
Review the charter of the Economic Development Fund in view to consolidate its loan recovery operations with DEBRA	GKR	2003-2005			
Publish annually the Chamber of Accounts audits of state finances	Chamber of Accounts	2003-2005			
Introduce International Accounting Standards (IAS) 2001 for all enterprises listed on the Kyrgyz Stock Exchange (KSE)	GKR, enterprises	by January 2004			
Accept 2002 financial statements from KSE listed enterprises based on International Accounting Standards 2001	Ministry of Finance	2003-2005			
Train inspectors on IAS 2001	Ministry of Finance	2003-2005			
Amend the relevant regulations on pledges as recommended by the ADB	GKR, NBKR	2003-2005			

1	2	3	4	5	6
Creating an Effective Civil Service					
Conduct a National Workshop on integrity of civil servants	APKR, GKR, local state administrations	2003-2005			
Submit to parliament a conflict of interest law	GKR	by end March 2003			
Develop and adopt a new concept of personnel policy in the civil service system	APKR, GKR	2003	New system of work with civil service staff put in place and corresponds to the objectives and tasks set up for the state.		
Create the system of labor compensation for civil servants adequate to professional and other requirements	APKR, GKR	2003-2004	The level of protection and prestige of civil servants increased.		
Develop and adopt the Law "On Administrative Procedures"	APKR, GKR	2003-2004	The quality of works and services provided improved, awareness of the population about the work of state machinery increased.		
Improve the procedure of appeal against subjective personnel decisions	APKR, GKR	2003	Protection of the civil servants' rights improved.		
Develop and implement an anti-corruption program till 2005, which envisages involvement of NGOs, business circles and mass media	GKR, public administration bodies, NGOs	2003-2005	Effectiveness of fighting against corruption increased.		
Ensure adoption of the Law on Fighting Corruption	GKR, General Prosecutor's Office, JK, National Security Service	2003			
Create a holistic state system of human resource management	APKR, GKR	2003-2005	Effectiveness of fighting against corruption increased.		
Introduce quotas to attract young personnel to the civil service on the basis of open and transparent competition	APKR, GKR	2003-2005			

1	2	3	4	5	6
Improve the Law On Civil Service	APKR, GKR	2003			
Reduce the number of civil servants by 5 percent	APKR, GKR	2002	Functioning and development of the civil service system improved.		
Prepare justification for establishment of the state agency responsible for development and operation of the civil service	APKR, GKR	2003			
Revise legislation with the aim of clear distinction of political and administrative (carrier) posts, determine the list and status of political posts	APKR	2003-2004	Political and professional principles in public administration put in balance. Legal protection of civil servants increased.		
Electronic Government					
Establish a geo-information system of the country, reflecting in a real-time mode the implementation status of set up objectives and tasks	APKR, GKR	2003-2005	The level of performance of public administration bodies improved, their transparency and accountability ensured.		
Introduce the system of controlling, performance and cost evaluation, which will become a system for all public administration bodies					
Transfer to the forms of rendering services using information technologies					
Construct basic management infrastructure based on modern communication means					
Establish information databases throughout the country	APKR, GKR	2003-2005	Full and reliable information necessary for effective cooperation of governmental structures with representatives of the private sector and the civil society available.		

1	2	3	4	5	6
Develop and introduce the system of monitoring and evaluation of the CDF/NPRS implementation progress	APKR, GKR	2003-2005	The level of performance of public administration bodies improved, their transparency and accountability ensured.		
Develop and introduce sectoral and regional information systems					
Carry out a complex of works on preparation and transfer to the principles of electronic government					
Develop proposals on engagement of resources of all projects (under implementation and planned for implementation) in elaboration of development strategies/concepts	APKR, GKR	2003	Efficiency of elaboration and implementation of development strategies increased.		
Create a group of analysts - architects of management systems in close contact with heads and experts of public administration bodies		2003-2005			
Building a Fair Society					
Development of targeted social protection					
Ensure adoption of the Law of the Kyrgyz Republic On Special State Benefit in the Kyrgyz Republic	MLSP, MF	2003	Efficiency and targeted nature of the system of social protection aimed at providing assistance to the poorest strata of the population increased. The number of benefit recipients decreased by 54.5 percent (2372 thousand people)		
Benefits to be paid in cash	MLSP, MF	2003-2005	Benefits transferred into cash payments and budgetary resources have been saved in the amount of 454 million soms, which have been allocated for other types of social protection	0.00	0.00

1	2	3	4	5	6
Ensure adoption of the Regulation On the Procedure of Definition of the Aggregate Family Income for Allocation of the Uniform Monthly Benefit to Poor Families	MLSP	2003	Number of beneficiaries reduced by 16 percent and the amount needed for the payment of benefits - by 21 percent due to strengthening of the targeted approach. Saved resources are planned to be allocated to increase the amount of benefits		
Develop and implement pilot project on establishment of a computerized database on the basis of the information contained in social passports	MLSP	2003 - 2005.	Access for responsible state structures, NGOs, international projects to information on families below the poverty line ensured. The level of social protection of such families increased	14.70	14.70
Compensate the difference in energy tariffs for the purpose of social protection of vulnerable strata from increased tariffs on major types of energy sources	MLSP, MF	2003 - 2005	Level of social protection of vulnerable strata of the population ensured under increased tariffs for energy sources	0.00	0.00
Annually revise the amount of the guaranteed minimum consumption level (GMCL)	MLSP, MF	2003 - 2005	Social protection for poor families ensured by maintaining the real size of the GMCL at a level of 12 percent of the minimum consumer budget (MCB)	0.00	0.00
Conduct experiments in pilot aiyl-okmotu on lump-sum payment of uniform monthly benefits (UMB) for 12 months for 12 months	MLSP	2003	Poor families provided with the possibility of overcoming their poverty through self employment If the experiment yields positive results, the practice shall be continued	0.00	0.00
Develop draft Law On State Minimum Social Standards	MLSP, MoH, MEC, MIA, SCTS	2003, Q II	A minimum volume of social guarantees ensured Possibilities for the citizens to acquire material values and services equalized	0.00	0.00

1	2	3	4	5	6
Integration of the disabled into society					
Open rehabilitation centers in 2003 - in Osh, Naryn oblasts, in 2004 - in Jalal-Abad, Talas oblast, in 2005 - in Issyk-Kul oblast for the purpose of social protection of the disabled	MLSP, local state administrations, NGOs	2003 - 2005	Social protection for the disabled improved	3.80	3.80
Satisfy the demand of the disabled for wheel chairs	Ministry of Labor and Social Protection, NGOs	2003 - 2005	Wheel chairs provided in 2003 - for 770 disabled, in 2004 - 921 disabled, in 2005 - 1115 disabled	4.40	4.40
Poverty among children					
Create services for support of families and children in two pilot rayons (Issyk-Ata, Jumgal)	MLSP, State Program New Generation, local state administrations	2003 - 2005	Poverty among children reduced by supporting 233 thousand children from poor families in the Issyk-Ata rayon and 52 thousand children in the Jumgal rayon. Coordination when solving the problems of childhood protection at the rayon level	22.20	16.10
Establish a rehabilitation center for street children within the Mercy Center in Bishkek city	MLSP, MJ, State Program New Generation, MoH, MIA	2003 - 2005	Access for homeless children ensured to social services, education, healthcare	14.00	13.00
Develop a system of financial planning in the area of childhood protection, form a special budget for children	MF, MLSP, Congress of Local Communities	2003-2005	Enhance targetedness of allocated funds; efficient and transparent funding	1.00	1.00
Train and retrain social workers, train in methods of family conflict prevention and family crisis resolution	MLSP, MEC, New Generation State Program	2003-2005	Professional social workers to deal with family and children's issues	8.00	6.00
Develop a Code on Protection of Childhood	MLSP, State Program New Generation, Bishkek city administration	2003 - 2004	Legal protection of children's interests improved	4.60	2.30

1	2	3	4	5	6
Retirement Pension Benefits System					
Revise the base pension as the average salary grows according to the legislation	MF, MLSP, Social Fund	2004, Q III	The level of pensions paid to citizens increased The base pension increased in 2004 by 3 percent, in 2005 - by 45 percent	0.00	0.00
Adopt the Law On Introduction of Amendments and Addenda to the Law On State Pension Social Insurance, envisaging pension indexation	MF, MLSP, Social Fund	2003, Q III	The total amount of pension increased according to annual increase of consumer price index	0.00	0.00
Develop regulatory and legal documents on implementation of the Law of the KR On Non-State Pension Funds in the KR	MF, NCSM, NGOs, MLSP	2003	The system of non-state pension funds, ensuring additional income for pensioners introduced	0.00	0.00
Ensure adoption and implementation of the concept of further reforming of the pension system	MLSP, SF, MF, NGOs	2003, Q III	Accumulative elements introduced in the pension system of the Republic	25.33	25.33
Reduce the pension insurance contribution rate levied on employers: in 2002 by 3 percent, in 2004 by 1 percent, in 2005 by 1 percent. Increase the contribution rate levied on the employee: in 2003 - by 1 percent, in 2004 - by 1 percent, in 2005 - by 1 percent	MF, MLSP, SF	2003-2005	Incentives for employees to participate in pension schemes increased; employers encouraged to make contributions to pension schemes	0.00	0.00
Ensuring of employment, creation of new jobs and wage reform					
Annual increase by 5-7 percent of the number of unemployed citizens, who had been trained in vocations and specialties demanded in the labor market	MLSP	2003-2005	Increased possibilities for employment	66.94	65.00
Annual increase by 5-7 percent of unemployed citizens engaged in paid public works	MLSP, oblast state administrations, employers	2003-2005	Unemployed assisted by the availability of temporary employment	95.00	95.00
Annual increase by 9 percent of the indicator of employment of unemployed through the system of micro-financing	MLSP, oblast state administrations, employers	2003-2005	Enhanced potential for escaping poverty	92.00	92.00

1	2	3	4	5	6
Establish a necessary regulatory and legal base for labor migration; establish a subdivision on the issues of labor migration within the employment service	MLSP	2003 Q IV	Employment of unemployed citizens abroad promoted	1.81	1.81
Annual increase by 5 percent of the number of employed youth by establishing branches of youth labor exchanges in the Issyk-Kul, Naryn, Talas and Batken oblasts	MLSP, oblast state administrations, employers	2003 - 2005	Increased possibilities for youth employment	0.00	0.00
Increase by 2005 the level of employment of unemployed women up to 50 percent of registered unemployed women through their participation in self-employment, supported by micro-finance	MLSP, oblast state administrations, employers	2003 - 2005	Increased opportunities for unemployed women	0.00	0.00
Further automate the employment service's operations and replacement of the outdated stock of computers	MLSP	2003	Efficiency of the data base on unemployed citizens improved	0.00	0.00
Development of social partnership to regulate the issues on employment promotion by establishing regional tripartite councils	MLSP, trade unions, employers	2003 - 2005	Employers and trade unions participate in measures aimed at employment of unemployed citizens to observe effectiveness of legislation on labor and employment	0.00	0.00
Ensure adoption of the new Labor Code	MLSP, Labor Unions Foundation, MJ	2003-2005			
Develop draft law on Collective Agreements	GKR, Labor Unions Foundation, employers	2003-2005			
Elaborate draft law on Associations of Employers	GKR, employers	2003-2005			
Ensure adoption of the Concept of the Salaries Reform in the Kyrgyz Republic	MLSP	2003	The stimulating role of salary in increasing labor productivity and production output, reducing the number of poor citizens restored	0.00	0.00
Total Social Protection				353.78	340.44

1	2	3	4	5	6
Access to quality education					
Increase access to pre-school and secondary school education (by creating alternative forms of pre-schools, opening inclusive groups, establishing mother schools)	MEC	during 2003-2005	The number of children covered by the programs of pre-school education increased by 5 percent each year	9.00	9.00
Ensure targeted support for children from socially vulnerable strata, orphan children: (a) to supply clothes, shoes, school books within the program Access to Education Jetkinchek»; (b) to relieve 10 percent of schoolchildren of the Republic from the payment for using textbooks	MEC	during 2003-2005	Conditions created for acquiring high-quality educational services for children from socially vulnerable strata and orphans	4.80	0.00
Carry out capital repairs of secondary educational establishments (150 school buildings at the expense of the local budget and of the MEES; 10 boarding schools subordinate to the MEC,- at the expense of the republican budget)	MF, MEC, MEES, state administrations	annually, 2003-2005	The educational environment in public general educational schools improved	682.70	675.00
Carry out construction of secondary schools and additional buildings (to construct 15 schools, 45 extensions)	MF, MoE, MESC, state administrations	annually, 2003-2005	The educational environment in public general educational schools improved	450.00	450.00
Use new computer technologies in the educational process - continuation of a phased computerization of secondary schools with the annual coverage of 100 schools	MEC	2003-2005	Computer literacy among schoolchildren increased	182.00	141.00

1	2	3	4	5	6
Publish textbooks: 2002 - 47 titles; 2003 - 45; 2004 - 50 titles; 2005 - 38 (each year about 1 million copies)	MEC	2003-2005	Textbooks supplies increased, the quality of education upgraded	347.60	204.00
Improve the system of refresher courses and re-training courses for teachers: to cover about 7000 teachers and 1,200 kindergarten educators each year	MEC, educational establishments and units	2004-2005	The level of teaching improved: teachers' professional skills upgraded, innovative methods of teaching disseminated	181.30	147.00
Improve the state educational standards of pre-school and general secondary education	MEC	2003-2005	Overall literacy among schoolchildren improved, skills to apply knowledge and experience in everyday situations developed	5.00	3.40
Evaluate and monitor the quality of educational services on a permanent basis with involvement of NGOs	MEC, NGOs, international organizations	2003-2005	The quality of education and ensuring accessibility of education improved	9.00	9.00
Establish an automated library and information system of Kyrgyzstan	MEC	2003-2005	The level of information services provided to the population of the Republic, quick and quality response to information demand, possibilities to get connected and have access to international sales markets improved	50.00	50.00
Equip and renew schools' furniture with the annual coverage of 100 schools	MEC, educational establishments and units	2003-2005	Educational environment, the quality of education improved	294.40	261.00

1	2	3	4	5	6
Development of culture					
Equip clubs with equipment and musical instruments for each of 20 clubs, 0.2 mln soms	MEC	2003-2005	Conditions created and access for rural population to cultural values ensured	12.00	12.00
Replenish the funds of rural libraries with printed publications	MEC	2003-2005	Conditions for increased awareness of rural population created	4.50	4.50
Develop state program on maintenance and development of culture	MEC	2003-2005			
Ensure adoption of Law on Protection and Support of Cultural Activities in KR	MEC	2003-2005			
Developing science					
Improve activities of the Center of Innovation Technologies Tabyлга	Kyrgyzpatent, line ministries	2003-2005	The results of scientific and technological activities introduced in real production processes	12.00	12.00
Improve the legal framework in the sphere of intellectual property, science and technology. Consider adherence to the Hague Treaty on International Depositing of Industrial Samples and the Budapest Treaty	Kyrgyzpatent, line ministries	2003-2005	The national legislation in the sphere of intellectual property, science and technology put in compliance with the international standards	0.00	0.00
Develop international cooperation within the ISTC, INTAS, COMTECH Program and other programs within the CIS	Kyrgyzpatent, NASKR, MEC, SRI, higher educational establishments	2003-2005	Efficiency of scientific, research and design work improved by attracting and using international experience and direct investment	200.00	200.00
Total Education				2444.3	2177.9

1	2	3	4	5	6
Access to high-quality health care services					
Strengthen the institute of family medicine through establishment of family group practices and centers of family medicine throughout the Republic	MoH, local state administrations	2003 – 2005	Not less than 90 percent of the population of the Kyrgyz Republic covered by the system of family group practice	7.21	0.00
Optimize hospital establishments while decreasing operating expenses	MoH, local state administrations	2003-2005	The share of expenses to cover operations decreased to 65 percent, while efficiency of in-patient hospitals' performance improved	0.30	0.00
Rehabilitate and equip medical facilities and laboratories located mainly in rural areas with necessary medical equipment	MoH, local state administrations	2003 – 2004	Repaired: 38 in-patient hospitals, 48 CFMs/FGPs; 20 laboratories of the sanitary-and-epidemiology service and 2 educational centers Equipped: 40 in-patient hospitals, 48 CFMs/FGPs, 53 laboratories of the sanitary-and-epidemiology service, 36 laboratories of the immunology prophylaxis service. Additional equipment provided to the Central Control-and-Analytical Laboratory and the Osh Control-and-Analytical Laboratory	208.87	0.00
			Capital repairs completed, medical equipment provided and existing equipment repaired in 4 in-patient hospitals in the Naryn oblast	8.02	0.00
			In case of receiving additional financial resources from yet non-confirmed volume of financing, the number of hospital and medical facilities rehabilitated and equipped will be increased	1014.60	1014.60
Improve activities of ambulance services in remote rural areas	MoH	2003-2005	Effectiveness and mobility of ambulance services, access to emergency medical assistance improved	31.98	31.98

1	2	3	4	5	6
Develop and introduce the most affordable and effective methods of treatment	MoH, professional medical associations, public associations	2003-2005	The quality of provision of medical services, including services to socially vulnerable strata of the population, improved	2.05	0.00
Training and refresher courses for the medical providers of the primary level	MoH	2003 – 2005	815 doctors and 2,160 medical nurses trained in family medicine	26.69	15.24
			In case there is additional financing available, training will be provided to 820 family practitioners and 6,500 family medical nurses	89.25	89.25
Improve the regulatory and legal framework on licensing and control over the quality of state and public medical, pharmaceutical activities in the KR	MoH	2003-2005	Quality and safety of medical services ensured		
Annually draft the program of state guarantees on ensuring the population with medical and sanitary assistance according to the available means of financing	MF, local state administrations, MoH	2003-2005	Medical services to the population are provided on favorable and gratis terms		
Broaden the population coverage with mandatory medical insurance	SF, MF, MoH, MMIF	2003-2005	90 percent of the population of the Republic are covered by mandatory medical insurance		
Introduce contribution tariffs for mandatory medical insurance (MMI) payable from salaries of employed citizens	SF, MF	2003-2005	The volume of medical assistance provided to employed citizens under the mandatory medical insurance schemes increased	0.00	0.00
Identify the source and develop a mechanism of payment of insurance contributions for mandatory medical insurance of pensioners, including pensioners from law enforcement bodies	MF, SF, MoH	2003-2005	Payments under mandatory medical insurance for pensioners ensured by 80 percent	0.00	0.00

1	2	3	4	5	6
Develop and introduce a mechanism of splitting insurance contributions payable by employers to the MMI Fund through banks	SF, MF, NBKR, MoH, MMIF	2003	Transparency, complete and timely receipts of contributions under the MMI and their purposeful use ensured		
Phased dissemination of the Supplementary MMI Program on supplying medications to insured citizens at the level of in-patient clinics	MoH	2003-2005	Access to medical preparations increased and the financial burden on the population's expenses for medications at the hospital level reduced on average by 50 percent		
Phased introduction of the system of a single payer ensuring a sustainable and transparent system of financing for the healthcare sector	MoH, local state administrations	2003-2005	Resources evenly distributed by regions		
Take measures on family planning, improvement of mothers' and child's health	MoH	2003 – 2005	Covered with contraceptives: 55 percent of women of reproductive age in urban areas and 40 percent of women of reproductive age in rural areas. The number of women aware about the methods of contraception and knowing how to use contraceptives increased up to 90 percent	25.37	25.37
Transition to the World Health Organization's criteria of live births	MoH	2003-2005	Medical services provided to pregnant women, care of low-weight neonates improved, medical statistics put in compliance with international standards	3.43	0.00

1	2	3	4	5	6
Provide children with prophylactic immunization and reduce the incidence of manageable infections among children	MoH	2003-2005	Coverage of children with immunization maintained at the level of 96 percent. The level of manageable infection incidents decreased to single cases	117.16	0.00
Establish and improve production processes enriching food stuff with iodine and iron	MAWRPI, MFTI, MoH	2003-2005	Not more than 66 percent of the population use iodized salt supply. Flour production enriched with iron increased up to 33 percent		
Conduct prophylactics and improve diagnostics of HIV/AIDS	MoH, public associations, international donor organizations	2003-2005	Two laboratories for diagnostics of HIV/AIDS established, laboratory specialists trained. The population's awareness about the measures on HIV/AIDS prophylaxis improved	116.48	0.00
Combat infectious and parasitogenic deceases	MoH, MAWRPI, public associations	2003-2005	Brucellosis, echinococcosis incidence rates stabilized, TB mortality rate decreased		
Improve awareness of the population through publication and dissemination of information and educational materials	MoH, MEC, State Television and Radio Corporation, public associations	2003 – 2005	Access of the population to information on formation of a healthy life style, prophylaxis of diseases increased	15.79	0.00
				4.26	0.00
Restructure the sanitary and epidemiologic service (SES) Rationalize the laboratory services of the SES	MoH	2003-2005	Volumes and types of research optimized, the material and technical base strengthened Duplication eliminated	34.33	0.00
Total Healthcare				1705.87	1176.43

1	2	3	4	5	6
Physical culture and sport					
Ensure access to physical training and sports activities for all citizens of the KR independently of their age, social status and living standards (when implementing the Program of Physical Training and rehabilitation) (very important)	State Committee on Tourism and Sports	2004-2005	Morbidity rate reduced by 10 percent and population's life expectancy increased, high level of working ability being supported The maximum number of children, adolescents and youth are involved in systemic physical training and sports, fighting against drug-addiction, alcoholism, preparation of physically healthy defenders of the motherland	0.00	0.00
Develop a science-based program of physical education for children	State Committee on Tourism and Sports, MEC, MoH, MLSP	2003	State Program for 2003-2010 approved	0.00	0.00
Gender equity					
Provide professional training for specialists from all sectors of the society in gender development issues - 5 workshops a year	Secretariat of the National Council on Gender	2003-2005	Gender specialists present in all sectors of the society, gender-focused approaches introduced in the sphere of their activities	0.00	0.00
Establish a permanent program «Gender and Poverty» at the STVRC	Secretariat of the National Council on Gender and STVRC	2003-2005	Gender stereotypes impeding poverty alleviation and development of democratic relations eliminated	0.00	0.00
Provide training for women-leaders from villages and poor categories of urban population through leadership schools and other mechanisms	Secretariat, NGOs	2003-2005	Poor women participate in decision-making processes, and women-managers appeared in urban and rural areas	0.00	0.00
Publish newsletters of the Secretariat of the National Council on the Issues of Family, Women and Gender Development, covering the problems of interrelationship of gender and poverty	Secretariat of the National Council on Gender	2003-2005	The state printing body established covering the issues of interaction of the state, non-governmental and international sectors on gender and poverty interrelationship solutions	0.00	0.00

1	2	3	4	5	6
Develop the methodology of gender-based approaches in activities of ministries and departments	Secretariat of the National Council on Gender	2003-2005	Science-based guidelines developed for introduction of gender-sensitized approaches in activities of ministries and departments of the Kyrgyz Republic	0.00	0.00
Promote women's initiatives in the area of entrepreneurship, small and medium business by conducting seminars on introduction of gender-based approaches to the strategy of organizations dealing with financing	Secretariat of the National Council on Gender	2003 – 2005	Gender bias in the system of crediting eliminated, urban and rural poor women involved in the system of self-employment, micro-financing and other financial institutions	0.00	0.00
Rational environmental management					
Develop Land Resource Cadastre	GKR, local state administrations, LSG	2003 – 2005	Environmental legislation optimized based on the principles of environmental safety: «Integration of Environmental and Economic Policy», «Polluting Agent Is to Pay»	0.00	0.00
Develop national water strategy	GKR, local state administrations, LSG	2003 – 2005		0.00	0.00
Complete formation of the water cadastre	GKR, local state administrations, LSG	2003 – 2005		0.00	0.00
Elaborate draft Law on Environmental Insurance	MEES, MJ	2003 – 2005		0.00	0.00
Implement Bishkek Mountain Platform	GKR	2003 – 2005		0.00	0.00
Harmonize the existing regulatory and legal acts of the Kyrgyz Republic on environment protection activities, develop mechanisms for their implementation	MEES, MJ, PA «Independent Ecologic Expertise», Ecological NCOs	2003 – 2005			
Draft the Environmental Code of the Kyrgyz Republic	MEES, MJ, PA «Independent Ecologic Expertise», Ecological NCOs	Starting from c 2005			

1	2	3	4	5	6
Draft the Central Asian Mountain Charter (CAMC)	National Center for Development of Mountain Territories, MEES, MFA	2003, Q III	Draft CAMC agreed with the CA countries, ministries and departments of the Kyrgyz Republic The CAMC signed (Germany, Berherstgaden, 2003)	0.00	0.00
Conduct nature protecting measures by mining enterprises Control over reclamation of the land used in mining industry	MES&DC, State Agency on Geology and Mineral Resources, Kyrgyzaltyn, mining enterprises	2003-2005	The level of anthropogenic impact on environment decreased	0.00	0.00
Establish a monitoring system at the national and regional levels over: atmospheric air quality; pollution of surface and underground waters; radioactive contamination of localities	MEES	2003-2005	The Concept of Environmental Monitoring developed	5.01	5.01
Develop and introduce the State Program on Ceasing the Use of Ozone Depleting Substances (ODS)	MEES, UNEP, UNDP, MFMP (Multilateral Fund for Montreal Protocol)	2003-2005	Commitments of the Kyrgyz Republic under the Vienna Convention of the Montreal Protocol (Rejection from the Use of ODS) fulfilled		
Prepare the National Message on Climate Change	MEES, SEF/UNDP	2003, Q IV	Contribution of the Kyrgyz Republic in relation to the commitments under the Convention on the Climate Change made		
Transfer motor-vehicles to the use of alternative types of fuel (Liquefied gas)	JSC «Kaindygaz» Ltd., investor, Bishkek city hall, Chui oblast administration	2003 - 2005	A network of LPG refueling stations constructed and the stations on installation and maintenance of gas bottle equipment established in the Chui oblast (6 LPGRS) and Bishkek city (3 LPGRS)		
	JSC «Kaindy-Kant» Ltd.	2004-2010	Conversion of motor-vehicles of the Chui oblast and Bishkek city to LPG		

1	2	3	4	5	6
Introduce non-traditional and renewable sources of energy using the energy of mountain streams (mini-HPPs), solar and bio-stations	Center for Research and Design of Renewable Energy Sources, Bishkek city hall	2003-2005	The shares of non-traditional and renewable sources of energy increased from 015 percent (2001) to 35 percent (2005) in the total volume of generated energy Bio-gas stations introduced in villages, field crop capacity increased by 20 center/ha	1.01	0.00
Develop the Regulation on the State Waste Cadastre. Provide for a detailed inventory taking of waste from ore-dressing and metallurgy production	MEES, State Agency on Geology, Kyrgyzaltyn, mining enterprises	2003	The State Waste Cadastre of the mining industry of Kyrgyz Republic developed	0.00	0.00
Involvement in development of technogenic deposits (tailings and pilings) which have been positively assessed, by introducing low-waste or waste-free technologies	MEES, State Agency on Geology, Kyrgyzaltyn, mining enterprises	2004-2005	Waste-free production, new science-based production technologies and raw materials recovery considered	15.35	15.35
Prepare for signing of the Convention on Nuclear Safety of the Kyrgyz Republic (IAEA)	MFA, MEES	2003	The principles of attaining environmental safety «Polluting Agent Is to Pay» implemented	0.00	0.00
Reduce the level of land degradation					
Improve the efficiency of use of water resources, amelioration of agricultural lands					
Review the status of legislation on water resources and prepare draft amendments and addenda to be submitted to the JK of the Kyrgyz Republic; Draft the Code on Water Resources of the KR and submit it to the JK of the KR for approval	MAWR&PI	2003-2005	Water resources legislation streamlined given international legal standards	0.00	0.00
Establish the information and advisory system «Resources of Surface and Underground Waters of the Kyrgyz Republic»	MAWR&PI, Kyrgyz SRI on Irrigation	2003	Accounting for the use of water in the Kyrgyz Republic improved	0.00	0.00

1	2	3	4	5	6
Carry out organizational measures on introduction of the recommendations of the UN Commission for Comprehensive Development of water use	MAWR&PI	2003-2005	Use of irrigated land assessed and improved	0.00	0.00
Introduce water resources management information systems at the rayon level	MAWRPI, Kyrgyz Scientific and Research Institute on Irrigation	Q 2 of 2003	Agricultural crop capacity increased by 10 percent of 160 thousand ha by increasing water supply for land irrigation within the framework of the joint WB on on-farm irrigation	1,20	0.00
Preserve and reproduce bio-diversity					
Develop small grants to reduce the load on nature reserves. Prepare the population living in the vicinity of nature reserves for carrying out alternative activities	State Forestry Service	2003-2005	New National Parks, reserves and other nature sites established	35.60	0.00
Conduct a forest planting month each year	MEES, State Forestry Service (to agree the volumes of financing with the MF)	2003 -2005	The forest fund of the Kyrgyz Republic preserved, local communities involved in rehabilitation and effective use of forest resources	45.43	0.00
Improve the population's capacity on the use of plantations to combat desertification and rural poverty. Establish pilot modules and training of local communities in: slope fixation; reduction in the level of underground waters	National Center on Desertification Fighting, MAWR&PI, State Forestry Service	Q I of 2003, Q IV of 2004	Experience effective use of forest plantations gained and disseminated		
Compile maps on the status of biological resources	NAS, State Forestry Service, MEES, MAWR&PI, State Register	2003	Enhanced use of biodiversity resources ensured	40.43	40.43

1	2	3	4	5	6
Promoting Sustainable Economic Growth					
Macroeconomic Policy					
Keep inflation under 5 percent	NBKR, MF	2003-2005	Enhanced macroeconomic stabilization		
Reduce budget deficit from 4.9 percent GDP in 2003 to 2.9 percent GDP in 2005	MF	2003-2005	Enhanced sustainability of the budget		
Carry out concerted measures of monetary and budget policies	MF, NBKR	2003-2005	Enhanced macroeconomic stabilization		
Achieve annual real GDP growth rate of 4.4 percent, comprising 4.0 percent for industry (without Kumtor Gold), 5.6 percent for agriculture and 5.2 percent in service sector	MFTI, MAWRPI, MF, NBKR	2003-2005	Sustainable economic growth		
Achieve annual growth rate of GDP per capita of over 3.5 percent	MFTI, MAWRPI, MF, NBKR	2003-2005	Sustainable economic growth		
Improve balance of payments and achieve growth of exports under the Exports Development Program for 2002-2004	MFTI, MF, NBKR	2003-2005	Enhanced macroeconomic stabilization		
Convene regular interdepartmental consultations on reconciliation of budgetary and monetary policies	MF, NBKR	Regularly	Regular exchange of information between the Ministry of Finance and the National Bank to coordinate monetary and budget policies		
Budget Policy					
Introduce international classification standards for the state budget expenditures	MF	2003	Full adoption of international standards for classification of state expenditures		
Improve functional and administrative classification of the budget	MF	Regularly	Улучшение управления государственными расходами, повышение прозрачности бюджетных операций		

1	2	3	4	5	6
Consolidate the Social Fund and other extra-budgetary funds with the state budget	MF, ministries, departments	2004 - 2005	Complete inclusion of Social Fund and other extra-budgetary funds in the state budget		
Publish financial bulletin, reporting on the budget to the Jogorku Kenesh (JK)	MF, ministries, departments	Quarterly	Publication of financial bulletins for first and second quarter of 2002; publication of the Collection of legal documents, methodological manuals, and other materials related to local budgeting		
Refine medium term budget framework (MTBF), revise budget drafting timeframe	MF, ministries, departments, LSAs	Annually	Refined medium-term budget forecasts (MTBF) 2003-2005; improved control over state expenditures introduction of the Budget Code		
Introduce program-based budgeting	MF, ministries, departments	Annually	Functional information network for program-based budgeting in ministries and departments		
Effective Implementation of the PIP					
Improve activities of commercial banks on informing the population about their lending policies	NBKR, commercial banks	2003 – 2005	Increased employment, reduction of poverty, economic growth, and macroeconomic stability		
Create conditions for participation of local companies on implementation of the Public Investment Program	Ministries and departments, oblast state administrations, Bishkek City Administration	2003-2005	Increased employment, reduction of poverty, reduced imports		

1	2	3	4	5	6
Improve control over targeted use of funds and improve principles and criteria for evaluation of project effectiveness	Ministries and departments, oblast state administrations, Bishkek City Administration	2003-2005	Constant monitoring and evaluation of investment projects, increased quality of selected projects, effective use of loan funds to achieve CDF goals		
Discontinue ineffective project components and reject the use of consequent loan savings	Ministries and departments, oblast state administrations, Bishkek City Administration	2003-2005	Reduction of debt burden		
Promote replacement of loans under the government guarantee by grants	Ministries and departments, oblast state administrations, Bishkek City Administration	2003 – 2005	Reduction of debt burden		
Enhance donor aid coordination, including that within PIP	MF	2003 – 2005	Better coordination of international donor assistance; improved cooperation		
Taxation policy					
Raise the level of tax collections. Improve administration of taxes	STI, MF	2003	Increased and timely tax collection		
Introduce royalties on mineral extraction	MF, State Inspection on Mineral Resources under the State Geology Agency, STI	2003	Increased taxable base; new mechanisms of regulating extractive industry to promote domestic and foreign investment into geological and industrial exploration of mineral resources, and to increase tax collection		
Implement and refine the Law «On simplified taxation of private enterprise» and make proposals for its improvement	STI, MF	2003	Legal, economic, and organizational conditions enabling accelerated development of private enterprise and simplified administration of taxation		

1	2	3	4	5	6
Introduce property tax	STI, State Register	2003	- expanded taxable base like in other countries where property tax is the main source of revenue for local governments		
			- increased revenue for local governments to be used by local councils for social and economic development of town centers		
			- cancelled tax on unused production and trade premises after introduction of the property tax		
			- effective use of property by owners		
Raise land tax level and gradually apply it on the basis of land market values	MF, STI, State Register	2003 – 2005			
Gradually eliminate road tax and tax for the Fund for Prevention and Liquidation of Emergencies	MF	2004 - 2005	Gradual elimination of non-market taxes such as the road tax and payments to the Fund for Prevention and Liquidation of Emergencies is to be carried out in 2002-2004 after establishment of alternative sources of funding in accordance with the Action Plan on implementation of the Taxation Policy Concept		
Publish annually a list of the 50 largest delinquent tax payers and energy users	GKR	2003-2005			
Approve and publish the 2004-2006 medium-term fiscal framework	GRK	2003-2004			
Revise the protocols for tax and customs inspections as recommended by the ADB	GRK	by end 2003			
Eliminate the backlog in VAT refunds and streamline VAT refund regulation	GRK	2003-2005			
Limit the maximum number of annual enterprise inspections	GRK	2003-2005			

1	2	3	4	5	6
Management of External Debt					
Carry out significant budget and tax adjustments that will lead to 3.5 percent surplus of budget by the year 2005 (excluding PIP)	MF	2003-2005	Debt sustainability is attained (moderate debt level)		
Streamline PIP and reduce its volume from 6 percent GDP in 2001 to 5.5 percent GDP in 2002, and to 3 percent GDP in 2005	MF	2003-2005	Debt sustainability is attained (moderate debt level)		
Privatize strategic state enterprises (KyrgyzTelecom, Kyrgyz Airlines, KyrgyzGas, and the four distribution enterprises of KyrgyzEnergo) by the year 2005 and deposit 75 percent of the funds from privatization on the special NBKR account; the funds will be used for debt repayment (starting from 2002 the account will be replenished from privatization of other enterprises)	SCSPDI, MF	2003-2005	Debt sustainability is attained (moderate debt level)		
Early repayment of some non-confessional loans without breach of Paris Club of Creditors' conditions	MF	2003-2005	Debt sustainability is attained (moderate debt level)		
Propose some creditors to exchange the debt for assets of some Kyrgyz state enterprises (along with the privatization efforts mentioned earlier)	MF, SCSPDI	2003-2005	Debt sustainability is attained (moderate debt level)		
Attract only those new loans guaranteed by the government that meet the minimum level of concessionality of 45 percent	MF	2003-2005	Debt sustainability is attained (moderate debt level)		
Continue further measures to improve the potential of external debt management	MF	2003-2005	Debt sustainability is attained (moderate debt level)		

1	2	3	4	5	6
Development of the Financial Sector					
Introduce IAS 2001 for all banks	NBKR	by January 2004			
NBKR to periodically publish trends in the bank system	NBKR	2003 -II	Increased confidence of the population and the market in monetary policy and banking system		
Complete revision of legal documents of the NBKR on bank supervision	NBKR	2003	Enhanced bank supervision; new directions for refinement of the legal framework of bank supervision		
Amend legislation on bank activities	NBKR	2003	Increased confidence in the banking system security and sustainability of the banking system		
Commercial banks to publish financial statements monthly with extended information	Commercial banks	Regularly	Increased role of public supervision over financial institutions; transparency and reliability of financial statements		
Amend legislation to prevent lending to board members, managers and employees of commercial banks, their relatives and other insiders	NBKR	2003	Elimination of unfair banking practice of lending to people affiliated with banks; reduced risk of bad loans		
Train commercial bank board members in basics of corporate management	Association of Banks, commercial banks, NBKR	2003	Effective application of corporate governance principles in commercial banks	2.52	2.52
Create system for early detection and localization of problems in commercial banks	NBKR	2005	Improved analysis of financial situation in banks; good methods for prevention of defaults in commercial banks		
Continue activities under the draft Law «On Introduction of Amendments and Addenda to Some Legal Acts of the KR» and «On Bank Bankruptcies»	NBKR	2003	Increased corporate culture; early detection of problems in commercial banks; increased effectiveness of commercial banks, increased financial sustainability of banks; expanded scope of banking operations		

1	2	3	4	5	6
Amend legal documents to improve responsibility of managers and shareholders	NBKR	2003 after adoption of amendments in the legislation			
Introduce system for protection of depositors after rehabilitation of the banking system and adoption of relevant law	NBKR, Association of commercial banks, commercial banks	According to the decision of the concilia-tory commission	Increased volume of funds in the banking system and the economy;		
Bring credit unions into compliance with relevant amendments introduced to regulatory documents of the NBKR	FCSDCU, NBKR	2003 -I	Growth of SMEs; better use of the community's financial resources		
Expand the range of banking services	Commercial banks, Association of commercial banks	Regularly	Better banking services for the population and businesses		
Expand financing of agro-industrial sector, especially agro-processing	KAFC	2003- 2005-	Increased volume of lending: year 2002 - 805.9 mln. soms; 2003-1100.0 mln. soms; 2004-1300.0 mln. soms; 2005-1500.0 mln. Soms		
Amend the law on collateral and appropriate court proceedings	Government, NBKR	2003	Increased responsibility of borrowers for timely repayment of credits		
Enforce adoption of international accounting standards by companies	State Commission on Standards of Financial Accounting and Audit	2005	Reliability, accessibility, and transparency of financial reporting; possibilities for commercial banks and other financial institutions to adequately assess the financial status of borrowers and reduce lending risks		
Increase the share of long-term loans in the general loan portfolio	KAFC	2005	Increased share of investment crediting: 2002- to 62 percent of the total lending portfolio; 2005 - 80 percent, and 20 percent - for replenishment of the working capital		
Encourage commercial banks to utilize credit lines under the World Bank project, Rural Lending-2	MF, NBKR, commercial banks.	2003 -I	Increased effectiveness of resource utilization		

1	2	3	4	5	6
Establish criteria and procedures to ensure transparency of selection of commercial banks to service credit lines from Government concessional borrowings	MF	2003 -I	Transparent selection process of commercial banks for implementation of credit lines		
Simplify procedures for establishing branch offices and settlement and savings terminals of commercial banks	NBKR	2003 -I	Increased financial flows in the economy; expanded payment system; increased competition and new jobs		
Delegate authority to KAFC branch offices	KAFC	2005 -IV	KAFC branch offices with greater lending power		
Expand and enhance regional KAFC network	KAFC	2004 - I	Establishment of branch offices in Balykchy, Toktogul, and Nooken towns		
Develop privatization plan for FCSDCU; consider mechanism for transformation of the FCSDCU into a cooperative bank	FCSDCU, NBKR	2003 - IV	Improved quality and reduced cost of banking services due to greater competition		
Revise legal framework of credit unions to facilitate their development, as well to establish viable and effective rural financial institutions	FCSDCU, NBKR	2003	Sustainable Republican network of credit unions		
Expand the application of new forms of using accelerated settlements using Manigramm and Anelik systems, increasing circulation of Alai-Card, Master and Visa credit cards	Commercial banks, Association of commercial banks	Regularly	Improved quality and reduced cost of financial services		
Introduce a law on microfinancing organizations and develop an appropriate legal framework	NBKR, Government	2003	Operating micro-crediting system facilitating regional social mobilization	10.02	10.02
Prepare and conduct training programs for rural residents in microfinance and entrepreneurship	State Administration, micro-credit organizations	2003	Increased economic literacy and credit culture of the population in regions		

1	2	3	4	5	6
Improve payment instruments	NBKR, MF	2003-2005	Improved forms of payment documents and adoption of new forms to satisfy consumers' needs in accordance with the state classifications and standards; adoption and development of electronic payment forms		
Transfer to electronic payment for large transactions (gross system of settlements on the basis of electronic payment documents)	NBKR	2003-2005	Improved gross system of settlements; quicker settlements and mechanisms for management of liquidity; integration into trade systems; reduced risks; settlements under the principle of delivery after payment		
Develop and introduce package clearing system for processing of retail and regular payments Develop draft State Action Program for 2003-2005 on introduction of a system and infrastructure for clearing regular payments	NBKR, MF	2003 -I	Coordinated implementation of pilot projects on payment of state salaries through commercial bank accounts; market analysis for increase of transfer payments in the economy; analysis of possibilities for retail payments of the population through commercial bank accounts		
Develop legal base for the payment system of the KR. Develop the pricing and tariff policy on settlement services	NBKR, MF	2003	Tariff policy on settlement services provisioning a pricing mechanism to reduce costs of the payment system as a whole and on processing of each separate payment document developed.		
Develop and introduce package clearing system for processing of retail and regular payments	NBKR, MF	2003-2005	Conditions and infrastructure for free selection of banks for transactions and settlements by the population established		
Adopt the Law on Mandatory Civil Liability Insurance for Owners of Motor Vehicles	MF	2003-II	"Financial protection of people in case of traffic accidents; strengthened insurance market due to mandatory insurance contributions"		

1	2	3	4	5	6
Establish a Guarantee Fund	MF	2003- II-III	Payment to people who have suffered traffic accidents and who cannot be compensated by guilty party due to absence of mandatory insurance		
Adopt the Law on Mandatory Civil Liability Insurance for Motor, Railroad and Air Transport Operators to Passengers	MF, MTC	2003-IV	"Financial protection for people who have suffered traffic accidents; strengthened insurance market; additional investment funds from sale of state securities"		
Adopt the Law on Mandatory Civil Liability Insurance of Employers	MF, MLSP	2004-IV	"Real financial and social assistance to people who suffered accidents during employment, as well as families who have lost breadwinner; enhanced confidence of people in the insurance market; investments of funds by insurance companies into the real sector of the economy and public programs"		
Establish an Actuarial Center	MF	2004	"Creation of a large database of national and regional demographic, insurance, pension and socio-economic data; conduct of actuarial training courses; actuarial evaluation of risks and calculation of adequate tariffs for new products of the non-bank financial sector; identification of risk groups and recommendations for development of the underwriting procedure for the sector"		

1	2	3	4	5	6
Privatization					
Implement the current Privatization Program					
- for sale of unused premises and buildings vacated as a result of the restructuring of medical institutions	SCSPDI	2003	Increased effectiveness of using state fixed capital; optimized budget expenditures for their maintenance; growing private health care system		
- for restructuring and selling part of the state share holding in monopolies of basic economic sectors	SCSPDI	2003	Increased volume of investment; competitive environment in monopolized sectors of the economy		
- for privatization of facilities in the tourist-recreational sector;	SCSPDI	2003-2005	Competitive tourist-recreational sector		
- for transfer of state property sites into communal property	SCSPDI	2003	Developed local self-government		
Develop the Privatization Program for 2004-2005	SCSPDI	2003	Enhanced legal framework for management of the privatization process		
Concession state property management on a competitive basis, including further purchasing	SCSPDI	2003-2005	1) Management costs optimized; 2) Non-tax receipts increased		
Improve corporate governance standards	Corporate Development Center, SCSPDI	2003-2005	Shareholders, corporations' and society's interests coordinated		
Approve new law on national standards for asset valuation	GKR, JK	2003-2005			
Complete a revaluation by State Property Fund of physical and financial assets of three large SOEs	State Property Fund	2003-2005			

1	2	3	4	5	6
Effective anti-monopoly policy					
Adopt the Law on Competition	JK; SCAMP	2003 -I	Improved legal framework for policy on competition	0.00	0.00
Amend the Law on Natural and Approved Monopolies in accordance with the Law on Competition	SCAMP	2003	Reduced intervention into economic activities of approved monopolies	0.00	0.00
Improve the legal framework for implementation of the Law on Protection of Consumers' Rights	SCAMP; local authorities	2003 -I	Decentralization of control functions; enhanced protection of consumers' rights		
Gradually curtail paid services rendered by the authorities	Government; SCAMP	2003-2005	Fifty percent reduction of paid services by 2005	0.00	0.00
Introduce a unified rate for the system of permits	SCAMP	2003	Simplified procedures of issuing permits and transparent payments		
Develop a legal framework for self-regulation of the advertising industry	SCAMP	2005	Self-regulation of advertising industry	0.00	0.00
Financial rehabilitation and bankruptcy of unprofitable economic entities					
Carry out financial analysis of economic entities in which the State has an equity holding	SCSPDI	Quarterly	Improved financial situation in economic entities		
Carry out financial analysis of enterprises undergoing bankruptcy procedures using a restructuring method with the aim of defining effectiveness of bankruptcy procedures	SCSPDI	2003	Effective application of bankruptcy procedures using a restructuring method	2.00	2.00
Preserve strategically and socially important enterprises					
Apply a comprehensive approach in bankruptcy procedures in strategic and economically and socially important economic entities	SCSPDI, MF, Social Fund, MFTI	2003-2005	Concerted decision-making on the use of bankruptcy procedures		

1	2	3	4	5	6
Improve control over activities of administrators in bankruptcy procedures	SCSPDI; General Public Prosecutor, MIA, state administrations	2003-2005	State protection of rights and interests of participants of bankruptcy processes; increased responsibility of administrators in bankruptcy procedures		
Develop and adopt legal documents governing assessment activities, including mandatory standards; study and analyze possibility of introducing international assessment standards	SCSPDI	2003	Effective development of assessment activities	1.00	1.00
Enhance legal framework for provision of services in the housing and communal area	KJKS jointly with regional state administration, Bishkek City Administration, SCAMP	2003	New Housing Code		
Create information and marketing centers at the republican, regional, and district levels	Regional state administrations, Bishkek City Administration	2003-2005	Favorable conditions for development of service and commodity markets		
Create legal framework for development of information services	Regional state administrations, Bishkek City Administration	2003-2005	Increased accessibility of information services		
Investment policy					
Introduce limits on the investment of funds received by investment funds	SCS	2003	Secured investment fund assets		
Develop legal documents regulating management of non-state pension fund assets	MF, SCS	2003	Developed non-state pension funds (NSPFs); long-term investments in the economy		

1	2	3	4	5	6
Develop legal documents regulating circulation of derivative securities	SCS	2003	New kinds of securities in the equity market as additional financial instruments for attraction of financial resources	0.45	0.45
Develop legal documents regulating circulation of municipal securities	SCS, MF	2003	New kinds of securities in the equity market as additional financial instruments for attraction of financial resources		
Make legislative proposals on establishment of unified requirements for the circulation of issued securities (including state securities)	MF, SCS	2004	Unified and streamlined circulation of securities		
Develop legislative proposals for cancellation of re-registration of founding documents at the change of authorized capital stock in joint stock companies and at the change of the composition of participants in limited corporations;	Ministry of Justice, SCS	2003	Simplified re-registration of founding documents at the change of authorized capital stock in joint stock companies and at the change of the composition of participants in limited corporations;		
Draft the Law on Issued Mortgage Securities	SCS	2005	Draft Law on Issued Mortgage Securities	0.15	0.15
Develop legal documents regulating circulation of housing certificates	SCS	2003	Existence of legal framework regulating circulation of housing certificates		
Develop the market of corporate bonds; design standards for issuance of bonds	SCS	2003-2005	Increased opportunities for attraction of investment		
Introduce changes into the Tax Code canceling profit tax on long-term bonds	MF, SCS	2004	Increased attractiveness of long-term bonds		
Develop proposals to amend Criminal Code regarding responsibility for violation of legislation on securities	SCS	2003	Draft Law on Amendment of Criminal Code		

1	2	3	4	5	6
Stimulating private enterprise					
Develop legal documents regulating transfer of unused and unclaimed fixed assets to small and medium enterprises (SMEs)	SCSPDI, regional state administrations, Bishkek City Administration	2003-2005	Expanded SME sector and increased employment		
Create the automated database documenting inspections of private enterprises and developing a republican computer network	SCE	2003	At least a 30 percent reduction in the number of unjustified inspection of private enterprises	1.72	1.72
Priority-based microfinancing for disadvantaged groups in the community and unemployed in villages, town centers, remote and mountainous areas in order to develop small and medium enterprises	SCE	2003-2005	Reduced unemployment, increased actual monetary income of the population	15.20	15.20
Expand and modernize Business Portal of Kyrgyzstan (web-site) through procurement of computer equipment to ensure informational support to SMEs	SCE	2003-2005	Better knowledge and skills among businessmen in business operation	1.85	1.85
Professional retraining in business principles of civil servants released from state employment as a result rationalization	SCE, Academy of Management under the President of KR	2003-2005	Reduced unemployment among redundant state employees by finding employment for retrained state employees	0.50	0.50
Total for Development of Entrepreneurship				19.27	19.27

1	2	3	4	5	6
External economic activity and promotion of exports					
Implement the Export Development Program for 2002-2004	MFTI	2003 - 2004	Active export activities among economic entities; annual 7-10 percent growth of exports		
Establish the Republican Center of Electronic Trade under the Ministry of Foreign Trade and Industry	MFTI	2003	Active external trade activities. The process of export and import operations and deals simplified and accelerated.	32.57	32.57
Create export-oriented industrial zones to develop industrial and export capacity of the Republic	MFTI, MAWRPI, SCSPDI, regional state administrations	2003 -II	Industrial and export capacity increased, industrial infrastructure developed.		
Negotiate on transit of cargo through Kazakhstan and elimination of barriers imposed by Azerbaijan and China for Kyrgyz products	MFTI, MT, Kyrgyz Standard, SCI, SCAMP	2003-2005	Active foreign trade; annual 3-5 percent increase of export-import operations	0.00	0.00
Creation in border areas free trade zones in order to diversify and activate exports and simplify trade regulations;	MFTI, MAWRPI, regional state administrations	2003 - I-II	Trade infrastructure put in place, active external trade activity.		
Establish an advisory center to assist exporters under the Ministry of Foreign Trade and Industry	MFTI	2003 -I	Information support for economic entities related to domestic and external markets, External commercial activities increased.	10.02	10.02
Introduce bar coding of exported goods	MFTI	2003	Increased competitiveness of domestic goods on internal and external markets; annual 3-5 percent increase in export-oriented production; reduced illegal export and import	10.02	10.02
Improve of customs tariffs to protect and support domestic producers	MF, MFTI	-2003	Growing domestic production and exports; stabilized trade balance of the Republic		

1	2	3	4	5	6
Develop the legal framework for refinement of non-tariff measures on imported goods	MFTI, MF, MAWRPI	Annually III-IV quarters			
Complete formation of the free trade regime by member-countries of the Eurasian Economic Council	MFTI, SCI, STI	2003	7-10 percent export growth	0.00	0.00
Address the granting of preferences by EU member-countries to Kyrgyzstan	MFTI	2003-2005	Better cooperation with EU countries	0.00	0.00
Implement measures to attract direct foreign investments with the assistance of diplomatic representative offices	MIA, Kyrgyz diplomatic offices abroad, MFTI	2003-2005	Increased role of diplomacy in attraction of investment		
Develop and utilize the capacity of the SJSJ Crystal, ensuring industrial production of poly-crystal silicon	MFTI, SJSJ «Crystal»	2003	Production of 720 tons of poly-crystal silicon per year	200.40	200.40
Undertake research into exports, the Republic's comparative advantages and export potential	MFTI	2003	Better understanding of the Republic's capacity for improving its external trading relations for the purpose of policy development		
Implementation of State housing construction program to 2010	SCAC, MF, contractors	2003-2005	Attaining average level of 12.9 sq. m. of housing per person by 2005		
Total Development of Industry				253.01	253.01

1	2	3	4	5	6
Development of agriculture and rural territories					
Refine legal framework for market reforms in agriculture				15.74	10.23
1) Monitor progress of land and agriculture reform, adoption of measures on conflict resolution	MAWRPI	2003	Eliminated flaws in the agriculture and land reform		
2) Conduct seminars on legal issues of agriculture reform and privatization for rural residents, heads of village governments, members and leaders of rural cooperatives; promotion of cooperative movement and arbitration procedures in agriculture			Improved legal knowledge of peasants and farmers		
3) Promotion of agrarian reform through mass media					
Develop the Rural Cooperation Development Program; extensive explanation of cooperation issues, dissemination of experience of existing rural cooperatives through seminars		2003-2005	Increased income of agro-producers	2.29	2.29
Develop advisory and marketing services, rural insurance system	MAWRPI	2003 - 2005			
1) Restructure Advisory Services Fund and merge it with the Swiss Helvetas Project; uniting activities of all advisory services under the PVSU project	MAWRPI	2003	Better skills of peasants and farmers in processing and marketing of agricultural produce	144.78	97.19
2) Develop informational services of Kyrgyz Agricultural Research and Information Service; determine its financing method		2003 – 2005	Increased quality of information services	38.03	23.00
3) Develop the Law on Agricultural Insurance		2003	Protection of peasants and farmers against calamities		

1	2	3	4	5	6
Stimulate production of ecologically clean products	MAWRPI, regional and district state administrations	2003-2005	Observance of international standards, better quality of produce, increased opportunities for export	1.30	0.00
1) Organize seminars on the use of ecologically clean production technologies	MAWRPI, regional and district state administrations	2003 – 2005			
2) Improve technical foundation of MAWRPI inspection services; ensure timely conduct of anti-epizootic and agrochemical activities					
3) Enhance quality inspection and control mechanisms					
Stimulating inflow of domestic and foreign investment into agricultural sector	MAWRPI, regional and district state administrations	2003-2005	Increased export-oriented production and expanded opportunities for attraction of investors		
Stimulating activities of private enterprises and provision of agricultural machinery	MAWRPI, SJSC «Aiyitech service»	2003-2005	Greater intensiveness of production; operating cooperatives for technical maintenance and leasing companies; increased productivity and reduced losses	3300.98	2234.18
1) Continuing procurement of agricultural machinery using grant funds, credit lines; bartering Kyrgyz cotton, tobacco, etc. for Byelorussian agricultural machinery					
2) Adopting measures to lease agricultural machinery from CIS countries					

1	2	3	4	5	6
Stimulation of intensive agricultural development					
1) Organizing training of peasants and farmers in new production technologies;	MAWRPI, state administrations	2003 – 2005	Improved production technology; increased income of farmers		
2) Growing cotton under plastic cover to increase the raw cotton productivity by 25 to 30 percent;			Less dependence on external market; improved supply of mineral fertilizers and increased productivity	30.48	0.00
3) Growing potatoes using the virus-free seeds in order to double production of potatoes;			Improved water supply; increased productivity of crops on 224,000 hectares	32.00	0.00
4) Streamline seed-production and ensure planting only of conditioned seeds; promote private seed farms and their associations;			Improved export potential, production, employment, and income level	76.20	51.15
5) Increase number of units for artificial insemination of animals;			Better supply of sugar; creation of 2,000 jobs	6.09	0.00
6) Undertake measures on construction of a plant for production of mineral fertilizers;	MAWRPI, MFTI	2003-2005	Producers and agricultural processing units united into cooperatives, associations, etc.; increased sale and export of agricultural produce; increased income of producers	690.00	690.00
7) Complete rehabilitation of irrigation systems and reform of management of intra-farm irrigation network under the ADB and WB projects. Capital and current repairs of water facilities	MAWRPI, WB Projects: «Irrigation Rehabilitation», «Emergency Project»	2003-2005	Improved water supply; increased productivity of crops on 224,000 hectares	974.50	309.00

1	2	3	4	5	6
Development of food and processing industries					
1) Seek potential markets for sale of fruit and vegetable produce, meat, dairy products, fermented tobacco, and potatoes	MAWRPI	2003-2005	Improved export potential, production, employment, and income level	5.00	0.00
2) Revive sugar production from sugar cane; create favorable conditions for such production	MAWRPI, MF, Chui regional state administration	2003-2005	Better supply of sugar; creation of 2,000 jobs	0.00	0.00
3) Promote establishment of agricultural production and processing associations	MAWRPI, regional, district, and city state administrations	2003	Producers and agricultural processing units united into cooperatives, associations, etc.; increased sale and export of agricultural produce; increased income of producers	6.00	0.00
4) Increasing the volume of financial resources allocated for development of food and processing industries	KAFC	2003-2005	Increased procurement and processing of agricultural produce; new jobs; reduced poverty	900.00	0.00
5) Establish the Republican Raw-Material and Commodity Exchange and its regional outlets; hold trade and procurement fairs in Osh and Chui regions	MAWRPI, state administrations	2003-2005	Increased sale and export of agricultural produce; increased income of producers	7.50	7.50
Analyze the condition of water-related legislation and draft amendments for submission to the parliament; develop Water Code and submit to the Parliament (important)	MAWRPI	2003-2005	Streamlined interaction of economic entities; increased effectiveness of water use; stable supply of irrigational water		
Rehabilitate on-farm irrigation networks (160.000 hectares); create viable water user associations (WUAs) capable of maintaining and repairing internal irrigation systems	MAWRPI, regional and district state administrations	2003-2005	10 percent increase in productivity of crops on 160.000 hectares due to better water supply		
Restore the state and on-farm collection and drainage network (very important)	MAWRPI	2003-2005	Land productivity increased.		

1	2	3	4	5	6
Rehabilitation of 30 percent of hydro-technical facilities in the Republic on the balance of the Department of Water Resources Management (very important)	MAWRPI	2003-2005	Water supply to irrigated land increased		
Rehabilitation of vertical drainage wells (very important)	MAWRPI	2003-2005	Amelioration land status improved		
Creation of model plots on irrigation and drainage technologies in the Chui oblast	MAWRPI, Kyrgyz Scientific and Research Institute on Irrigation	2003-2005	Agricultural producers trained in modern irrigation and drainage technologies under the ADB project «Regional Development of Agriculture»		
Develop tariffs for the use of water resources	MAWRPI	2003-2005	Non-rational water resources use reduced, degradation of irrigated land decreased		
Total Development of AIC and territories				14349.26	10610.13
Energy					
Develop and implement Energy Conservation Program	State Agency on Energy, energy distribution enterprises	2003-2005			
Improve supply of electricity to Osh and Batken regions		2003	Stable supply of electricity in Osh and Batken regions		
Launch 220 kV Alai-Batken power transmission line (very important)	PJSC «NES»			163.00	0.00
				5.00	0.00
Launch 220/110/10 kV Aigul-Tash substation, reconstruct open distribution device of 220 KV Alai sub-station, reconstruct 110 kW Batken substation in Batken region	PJSC «NES»			126.00	0.00
				21.00	0.00
Replace transformer at the 220 kV Uzlovaya substation in Osh city	PJSC «NES»	2003	Stable supply of electricity in Osh City	67.00	0.00

1	2	3	4	5	6
Replace transformers at 110 kV Center substation, 110 kV Osh-6 substation in Osh city, and 110 kV Karavan substation in Jalal-Abad region	ОАО НЭС	2003 -I	Stable supply of electricity in Osh City and Jalal-Abad region		
Reconstruct 110 kV Izbasken substation in Jalal-Abad region	PJSC «NES»	2003	Stable supply of electricity in the Jalal-Abad region	22.00	0.00
Complete construction of 110 kV Archa-Beshik substation in Bishkek	PJSC «NES»	2003	Stable supply of electricity in Archa-Beshik district of Bishkek City		
Construction of 500 kV Datka substation with 220 kV PTL (important)	PJSC «NES»	2004-2005	Stable supply of electricity in the south of the Republic	2080.40	2080.40
Construction of 220 kV PTL Frunzenskaya- Ala-Archa (very important)	PJSC «NES»	2005	Stable supply of electricity in the north of the Republic	772.50	772.50
Construction of 500 kV PTL Toktogul HPP - Kamarata - Kemin with a substation in Kemin	PJSC «NES»	2005-2008	Improve supply of electricity and increase export potential		
Construction and rehabilitation of:	JSC ES	2003 - 2005	Improved supply of electricity to the population		
Toktogul Hydro Power Plant (HPP)	JSC ES			60.00	0.00
Kurpsai HPP	JSC ES			60.00	0.00
Tashkumyr HPP	JSC ES			140.00	0.00
Shamaldy-Sai HPP	JSC ES			220.00	0.00
Uch-Kurgan HPP	JSC ES			200.00	0.00
Reconstruct Bishkek Thermal Electric Station	JSC ES			377.00	0.00
Kamarata HPP-1, 2	JSC ES	2005 – 2010			
Complete development of Small Hydro Energy Sector Development Program to year 2010	JSC «Chakan HPP»	2003 -I	Rehabilitation of 20 old small HPPs with capacity of 18.6 megawatt; construction of 17 new HPPs with capacity of 40 megawatt; improved supply of electricity to 100 rural localities		

1	2	3	4	5	6
Restore, reconstruct, and construct small HPPs					
Rehabilitate Issyk-Ata HPP	PJSC «ARK»	2003 -I	Stable supply of electricity to Rot-Front and Sary-Tash villages	305.70	0.00
Construct seven small HPPs in Batken region with the capacity of 20 megawatt	Local administration	2003-2005	Supply of electricity; new jobs	1016.70	1016.70
Construct Sokuluk HPP-1 with capacity of 1,200 kW	Private businesses	2003 -II	Supply of electricity to Tashbulak village; new jobs	40.10	40.10
Rehabilitate Bashkaindy 1,600 kW HPP	Private businesses	2003 -IV	Supply of electricity to Bashkaindy village; new jobs	60.60	60.60
Construct Minkush 1.000 kW HPP	Private businesses	2004 -IV	Supply of electricity to Minkush village; new jobs	40.70	40.70
Rehabilitate Chaek 800 kW HPP	Private businesses	2003 -IV	Supply of electricity to Chayek village; new jobs	45.10	45.10
Reconstruct KAHPP	JSC «Chakan HPP»	2003 -2004	Eight stations of the cascade reconstructed	31.00	0.00
Construct Naiman Canal HPP in Naukat district	Local administration	2003 -2004	Eski-Naukat village, new jobs	25.50	0.00
Construct Kudurgu 800 kW HPP	Private businesses	2004	Supply of additional electricity to Issyk-Kul; creation of jobs	41.66	41.66
Total Energy Development				5920.96	4097.76
Mining Industry					
Increase coal production	MFTI, «Kyrgyz Komur» Corporation, SMEs and joint ventures	2003-2005	Improve supply of coal	0.00	0.00
Development of the Kara-Keche coal mine deposit	MFTI, State Agency on Geology	2003-2005	Demands of the northern part of the republic, including the Bishkek TPP satisfied		
Expand the existing base of oil production	SCSPDI, JSC «Kyrgyz neftegaz», JV «KPK»	2003-2004	Improve supply of locally produced petroleum products	3342.60	917.60

1	2	3	4	5	6
Improve Tax Code (amend the section IX «Taxation of the Use of Mineral Resources»)	MFTI, MF	2003 -II	Enabling environment for investment into prospecting works and extractive industry	2.50	2.50
Continuous monitoring of tax legislation of foreign countries in mining industry using their experience when perfecting the Tax Code of the Kyrgyz Republic	State Geology Agency	2003	Enabling environment for investment into prospecting works and extractive industry		
Improve the Law of the KR on Mineral Resources and bring it closer to international standards	State Geology Agency, MEES	2003 -II	Simplified reporting and licensing procedures in extractive industry; expanded rights for mineral exploration; reduced intervention of state agencies into mining projects		
Attract foreign and domestic investment for exploration works in the amount of 40 percent from budget financing	State Geology Agency	2003-2005	Annual creation of 2 to 3 new production structures; increased output of gold and non-metallic resources in the period from 2003 to 2010; creation of new jobs; additional inflows into state budget	54.00	36.00
Carry out field prospecting works on the area of 5.000 square kilometers with assessment of forecasted resources	State Geology Agency	2003-2005	Transfer of new prospective territories and sites for further study to foreign and domestic investors	0.00	0.00
Total Mining Industry				3399.10	956.10
Integration in international information, transportation and telecommunication infrastructure					
Initiate legal, regulatory and institutional steps on engagement of the private sector, including adopting the Laws of the KR «On Road Services», «On Paid Highways»	MTC	2003-2005	Private sector engaged in development of the Republic's transport infrastructure		
Ensure 24-hour traffic through major national highways and local roads	MTC	2003-2005	Closure of roads reduced up to 100 days each year		

1	2	3	4	5	6
Ensure all-year traffic by-passing the territory of neighboring countries (enclaves), improve transport communication between rayons of the Osh and Batken oblasts	MTC, MF	2003-2005	Transport communication between the Osh and Batken oblasts improved	0.00	0.00
Improve technical condition of general purpose roads by means of capital repairs, reconstruction and rehabilitation, overcome geographic isolation of the rayons, provide access to economic centers:	MTC, MF	2003 – 2005	Capital repairs of internationally important highways completed. Traffic capacity increased, services and traffic safety improved. 700 jobs created.	0.00	0.00
1) Phase II, project on rehabilitation of the Bishkek- Osh road				412.96	213.16
2) Phase III, project on rehabilitation of the Bishkek - Osh road				837.52	787.42
3) Project on rehabilitation of the Bishkek - Georgievka road				341.00	221.00
4) Project on rehabilitation of the road Susamyr - Talas - Taras, Package 1, project implementation.				127.83	127.83
5) Project on rehabilitation of the road Osh - Sary-Tash - Irkeshtam, project implementation.				12.80	12.80
Improve the technical status of local roads. Increase the volume of financing for repairs of local (rural) roads by at least 10 percent each year at the expense of the Road Fund and local budgets.	MTC	2003-2005	Communication improved and the volume of transportation among regions increased, economic activities intensified and poverty reduced	0.00	0.00
Develop urban passenger transport in Bishkek, Osh, Jalal-Abad cities. Implementation of the Urban Transport project.	MTC, MF	2003	The condition of urban road improved, the quality of passenger services increased	355.70	0.00

1	2	3	4	5	6
Carry out Phase II of the Manas airport reconstruction	MTC	2003-2006	The quality of air navigation improved, airport infrastructure broadened and modernized, flight safety and the level of services improved, commercialization of the airport promoted	1023.80	1023.80
Reconstruct the Osh city airport	SCSPDI	2003-2005	The quality of air navigation improved, airport infrastructure broadened and modernized, flight safety and the level of services improved, commercialization of the airport promoted	894.50	459.00
Implement the project «Cargo Kyrgyzstan». Establish a modern cargo transit terminal at the Manas airport. Carry out corresponding marketing in the countries of concern. Open relevant Web-pages in Internet. Open new air corridors with the CPR to be used by air carriers of all countries.	GKR, MF, MTC	2003-2005	Transit increased, state budget tax receipts from foreign air companies for carrying out economic activities increased (US\$ 1.5 billion, of which P - (direct investments) – US\$ 1 billion, G - (grants) – US\$ 300 million, O - US\$ 200 million)	0.00	0.00
Modernize and develop postal and telecommunication networks of the Republic, develop communication services.	MTC, State Department «Kyrgyz Pochtasy», JSC «Kyrgyztelecom»	2003-2004	The state postal-saving (postal-banking) system established on the basis of postal enterprises and the crediting and financial institution determined by the Government (there is a proposal of the MTC, MF, SDKP on engagement of the Settlement and Saving Company in this system)	0.00	0.00
Ensure access of the population to global information resources.	MTC	2003-2005	Provision of integrated ICT services (Internet, telephone, fax and other services) ensured on the basis of postal enterprises	0.00	0.00
Total Transport development				4006.18	2845.01

1	2	3	4	5	6
Development of Tourism					
Improve legal framework for tourism					
Introduce amendments and addenda into the existing legislation on the system of permits	SCTS	2003	Increased quality of tourist services		
Develop proposals on amendment of taxation legislation	SCTS, MF, STI, SCI	2003	Increased number of tourist companies and taxable base		
Create a favorable climate for inflow of tourists, including simplified procedures for visa obtaining	SCTS, MFA	2003	Increased number of tourists		
Introduce Issyk-Kul tourism development model developed by Aga Khan Foundation	SCTS, SCAC, Issyk-Kul State Administration, MF, SCSPDI	2003-2005	Improved quality of tourist services, increased income from tourism; inflow of investment	1477.95	1477.95
Develop a master scheme of Issyk-Kul tourist zone	SCTS, SCAC, Issyk-Kul State Administration	2003	Effective use of recreational and tourist potential of the region; development of the region in line with the environmental strategy of biosphere reserve	0.00	0.00
Create tourist-recreation map of Kyrgyzstan	SCTS, SCSPDI, NSC, local state administration, Bishkek City Administration	2003	Effective use of recreational and tourist potential of the region; development of the region in line with the environmental strategy of biosphere reserve	0.00	0.00
Carry out certification of tourism facilities and services	Tourism Services Certification Body under the National Fund of Tourism Development	2003-2005	Quality of provided services increased		
Improve a system of training and retraining of tourist sector workers	MEC, MLSP, SCTS	2003-2005	Improved quality of education	22.97	22.97
Carry out short-term training courses for state employees involved in the tourism area	SCTS, Academy of Tourism	2003-2005	Increased quality of tourist services		

1	2	3	4	5	6
Create Bishkek City Tourism Training Center with branch offices in Jalal-Abad, Osh, and Issyk-Kul regions	MEC, MLSP, SCTS	2003	Adequate number of skilled staff in the tourist sector		
Promotional campaign					
Involve Kyrgyz embassies in informational and marketing campaigns on promotion of Kyrgyz tourism in foreign countries	SCTS, MFA	2003-2005	Awareness of Kyrgyzstan's tourist opportunities in the international markets	0.00	0.00
Ensure Kyrgyzstan's participation in international tourist fairs and exhibitions	SCTS, MFA, Association of Tour Operators	2003-2005	Awareness of Kyrgyzstan's tourist opportunities in the international markets	1.50	1.50
Carry out informational campaign: organize promotional TV programs, produce advertising brochures, informational booklets, videos and CDs in various languages and distribute them through diplomatic channels	SCTS, MFA, Representative offices of the MFTI, Association of Tour Operators, National Fund for Development of Tourism	2003-2005	Improved image of Kyrgyzstan; awareness of Kyrgyzstan's tourist opportunities in the international markets	25.05	25.05
Develop investment projects in tourist area and make them available for potential investors in the form of informational packages through www.kyrgyzinvest.org website	SCSPDI, local state administrations, SCTS	2003	Increase of investment inflow into tourist sector	25.05	25.05
Total Tourism Development				1552.52	1552.52

1	2	3	4	5	6
Security of Development					
Establish the National Center of Information, Analysis and Forecasting within the State Commission on Drug Control under the Government of the Kyrgyz Republic (important)	State Commission on Drug Control under the Government of the KR	2003 – 2005	Law enforcement structures are provided with operation and analytical information which allows to find more effective and urgent measures in the sphere of fighting against drug trafficking closely connected with international terrorism, corruption, money laundry, etc.	4.38	4.38
Establish a modern kinology service for anti-drug subdivisions of law enforcement bodies of the Kyrgyz Republic (very important)		2003 – 2005	Growth of drug trafficking through the territory of the KR prevented; the level of confiscated drug in the KR increased; the level of drugs trafficked to the Republic decreased; the level of drug-related crimes reduced.	15.19	15.19
Establish a network of rehabilitation centers for drug-addicts and drug abusers in the Kyrgyz Republic (very important)		2003 – 2005	Narcologic assistance, social and psycho-physiological rehabilitation provided to drug-addicts.	35.39	35.39
Exterminate wild growing cannabis (very important)		2003 – 2005	The area of wild growing cannabis in the Republic reduced; unemployed citizens secured with jobs; the level of drug-related crimes reduced.	3.20	3.20

1	2	3	4	5	6
Establish an educational and methodological center within the State Labor Inspection (important)	Ministry of Labor and Social Protection	2003 – 2005	On average, according to statistics, employers, including entrepreneurs, pay each year from 11 to 12 millions to compensate damage from injuries and occupational diseases related to production activities. As a result of the given measures, based on the experience of a number of countries, traumatism rate decreases by 60-70 percent. As a result, during the period of 2002-2005 employers will save about 34 million soms or approximately US\$ 0.7 million. In addition, favorable social climate will be ensured in organizations, conflict escalation will be eliminated.	1.50	1.50
Establish two specialized laboratories to conduct expert examination of on-site work conditions (very important)	Ministry of Labor and Social Protection	2004 – 2005		3.07	3.07
Improve the regulatory and legal framework on labor and labor protection: - adopt a new Labor Code of the KR; - adopt a new Law «On Labor Protection»; - adopt the Law «On Social Partnership»; - adopt the Law «On Mandatory Social Insurance against Accidents at Production Sites and Occupational Diseases»	MLSP, State Labor Inspectorate, Federation of Trade Unions of Kyrgyzstan	2003 - 2005		1.22	1.22

1	2	3	4	5	6
Provide education and re-training for managers and specialists, workers of enterprises and organizations in the issues of labor protection	MLSP, State Labor Inspectorate, Federation of Trade Unions of Kyrgyzstan	2003 - 2005		4.21	4.21
Ensure effective implementation of prosecutor's authority as established by the law by means of consideration and adoption by the JKKR of the Law «On Introduction of Amendments and Addenda to the Code of Administrative Responsibility» on establishing the responsibility of officials and citizens for a failure to appear upon summons of the prosecutor, non-compliance with his lawful requirements and preventing execution of the lawful activity by the prosecutor's office / the draft law has been developed	General Prosecutor's Office	2003	Implementation of the prosecutor's powers put in practice; an effective mechanism of bringing action against offenders, ensuring citizens and entrepreneurs' rights and freedoms in place. Permanent control over actual elimination of offence established. The principle of inevitability of the punishment for any law violation ensured.		
Ensure adequate material and social guarantees to the workers of prosecuting bodies by developing and adopting the Law «On Introduction of Amendments and Addenda to Some Regulatory and Legal Acts of the Kyrgyz Republic», on introduction of amendments to the Tax Code of the KR, the Law «On Pension Security for Military Man» in the part of prosecutors' rights being to those of military men in terms of the pension for long service, exemption of income tax	General Prosecutor's Office, Ministry of Finance, MLSP	2003	Guarantees and benefits equal to those established for the staff of other law enforcement bodies; experienced personnel is retained; activities of prosecuting bodies improved; a complex of measures on strengthening and developing the system of prosecuting bodies implemented.		

1	2	3	4	5	6
<p>Improve the system of refresher courses and professional skills upgrading for the prosecuting bodies' personnel by means of further development of the Center of Upgrading the Skills of Prosecutors and Investigators, conducting interactive workshops, providing technical equipment for training class-rooms, including computers and equipment for simultaneous translation, legal and specialized literature /a business-plan has been developed/</p>	<p>General Prosecutor's Office</p>	<p>2003</p>	<p>Staff of prosecuting bodies and young specialists trained in modern advanced methods of work; professional skills improved; efficiency of prosecutor's supervision improved significantly; a high level of investigation of criminal cases and the quality of public persecution support in the court attained; a testing system to assess professional knowledge established.</p>	<p>0.40</p>	<p>0.40</p>
<p>Equip prosecuting bodies with modern computers, e-mail (modem-connected) communication, connection to the information-and-legal system «Toktom», equip each structural unit of the prosecuting bodies with modern computers - 134 pieces, printers - 134 pieces, modems - 67 pieces, ILS «Toktom» packages - 67 pieces /a business-plan has been developed/</p>	<p>General Prosecutor's Office</p>	<p>2003-2005</p>	<p>Efficiency of professional activities of persecuting bodies: supervision, investigation, public persecution support increased; interaction and prompt coordination among all subdivisions and structures of persecuting bodies, responsiveness improved; actual accountability and subordination ensured; permanent access to new legislation put in place, and as a consequence - qualification skills of prosecution and investigation staff improved.</p>	<p>8.32</p>	<p>8.32</p>
<p>Organize refresher courses for the personnel of interior affairs bodies every 5 years at the Academy of the Ministry of Interior of the KR and the Specialized Secondary School of the Ministry of Interior of the KR.</p>	<p>Ministry of Interior of the KR</p>	<p>2003</p>	<p>New legislative acts, advanced methods of work considered on a timely basis. Professional skills of the staff of interior affairs bodies improved.</p>		

1	2	3	4	5	6
Draft the Law on introduction of amendments and addenda to the Code of Criminal Proceedings of the KR in the part of introduction of investigation forms (to envisage a protocol form of pre-trial preparation of materials, seizure without the prosecutor's sanction, etc.).	Ministry of Interior of the KR	2003	Efficient decision-making in relation to minor offence ensures; violation of defendants' rights excluded by means of accelerated conclusion of investigation.		
Make the salaries of the staff of interior affairs bodies and military personnel of internal troops of the Ministry of Interior to be equal to those of civil servants of law enforcement bodies, given the specifics of their service. Increase the size of monetary compensations instead of the ration to the level of other law enforcement structures.	MF, MLSP, MIA of the KR	2003	Social protection of the staff of interior bodies and military men of internal troops of the MIA and their family members improved.		
Organize on-job training for investigation staff in law enforcement bodies of the CIS (Russia) and foreign countries. Ensure their participation in international seminars on the issues of crime control.	MIA, MF of the KR	2003-2004 and afterwards permanently	The quality of criminal investigation improved. Efficiency of decision-making on criminal cases increased.		
Pay benefits for sanatoria-and-resort treatment of the staff of interior affairs bodies in the full volume of the estimated needs.	Ministry of Finance of the KR	2003	Incidence rate among the staff of interior bodies decreased by 10 percent. Trainees encouraged to promote independent creative activity, obtain profound knowledge.	0.00	0.00
Allocate loans, grants for research to be conducted by cadets. Develop the contract payment options for poor cadets and the cadets from alpine areas of Alai, Batken, At-Bashi, Toguz Toro.	Ministry of Interior of the KR	2003	The quality of the cadets' self-dependant work improved; access to education for citizens from alpine territories and poor families ensured.		

1	2	3	4	5	6
Exchange curricula with similar educational establishments of Kazakhstan, Russian Federation, broader use of the capabilities of Internet.	Ministry of Interior of the KR	2003	Advanced methods of crime fighting and protection of public safety introduced in the educational process. The quality of staff training improved.		
Provide the staff of interior affairs bodies, military men of the interior troops of the MIA and their family members with free medical services based on medical insurance.	Ministry of Health, Ministry of Finance, MLSP, MIA	2003	The level of social protection of the staff of interior bodies and interior troops of the MIA, pensioners of the MIA and their family members improved.	0.00	0.00
Repairs, rehabilitation and refurbishment of buildings and structures.	Ministry of Interior of the KR	2003-2004	Service activity of the staff of interior bodies improved. Norms on provision of office premises for the staff of interior bodies observed.	0.00	0.00
Establish within the system of the Ministry of Interior the Institute of Refresher Courses and Skills Upgrading under the Academy of the MIA of the KR by reorganizing Faculty 1 of the Academy of the Ministry of Interior on training of management staff for interior affairs bodies.	Ministry of Interior of the KR	2003	Transparency of court proceedings and decision making ensured. The system of refresher courses for the staff formed in compliance with the requirements of the judiciary and legal reform.	0.00	0.00
Broaden cooperation with other countries on fighting against international terrorism by establishing the Center «World Free of Extremism» under the Academy of the MIA (on conflict study, training in the methods of conflict prevention).	Ministry of Interior of the KR	2003	Crime rate decreased. Law enforcement staff trained in methods on reduction of conflict escalation, their prevention, studying the problems of fighting against terrorism and extremism.	150.30	150.30
Develop and introduce a comprehensive program on prevention of juvenile offence on the basis of the Center of Juvenile Justice of the Academy of the MIA.	Ministry of Interior of the KR	2003-2005	Early prevention of juvenile offence put in place. The level of child's and juvenile crime reduced.	304.80	304.80

1	2	3	4	5	6
Construct a new building for the Center of Adaptation and Activities with Juveniles of the MIA of the KR.	Ministry of Education and Culture, oblast and local state administrations, MIA, state administration	2003	Crime rate decreased. Necessary conditions for maintaining homeless children created.	7.32	7.32
Establish a legal clinic within the Academy of the MIA on rendering free legal advisory services to the population.	Ministry of Interior of the KR	2003-2005	Legal competence of the population improved. Legal competence of various categories of the population (adolescents, women, poor, etc.) improved.		
Establish an effective network of dissemination of law knowledge among the population. Establish lecturers' groups in each unit and subdivision of law enforcement bodies and provide for lectures in working collectives, condominiums, schools, universities and specialized educational establishments on legal topics; to establish special classes of legal education within the education establishments of law enforcement bodies based on the experience of the Specialized Secondary School of the Ministry of Interior of the KR. The educational period is 3 years. The curriculum is envisaged to teach fundamentals of the Law to students.	Ministry of Interior of the KR	2003	Responsibility of the citizens of the Kyrgyz Republic tightened. Citizens aware of their rights and obligations in relation to the society.		
Total Security of Development				539.30	539.30

APPENDIX VI.1. ONGOING PUBLIC INVESTMENT PROGRAM (PIP) PROJECTS

Title of the credit and its major goals	Creditor	Implementation years	Credit amount (US\$ thousand)		including by years (US\$ thousand)			
			total	Including received	2002	2003	2004	2005
1	2	3	4	5	6	7	8	9
Governance Sector								
Project on registration of land parcels of land users	WB/IDA	2000-2004	9 425	1 539	1 800	1 750	2 996	
Project on introduction of corporate governance and bankruptcy procedures	ADB	1998-2003	4 000	2 896	273	122		
CSAC TA	WB/IDA	2000-2004	5 000	1 011	900	1 600	982	
Total Governance Sector			18 425	5 446	2 973	3 472	3 978	0
Social sector								
Motherhood and Childhood Protection Program - 2.	KfW	2002-2004	4 500	0	1 000	3 000	500	
Healthcare 2.		2001-2004	15 000	200	4 500	4 000	4 500	
Social services provision and financing	ADB, OPEC	1999-2004	13 580	2 625	3 631	3 000	2 810	
ADB			10 000	2 175	2 165	1 827	2 777	
OPEC			3 580	450	1 466	1 173	33	
Educational sector development	ADB, OPEC	1993-2003	18 700	6 162	3 100	3 882		
ADB			13 700	2 877	1 704	3 882		
OPEC			5 000	3 285	1 396			
Total Social Sector			51 780	8 987	12 231	13 882	7 810	0

1	2	3	4	5	6	7	8	9
Sustainable Economic Development								
Agriculture and Water Resources								
Development of sheep-breeding	WB/IDA, IIFAD	1996-2002	12 106	7 406	557			
WB/IDA			8 606	5 465	373			
IIFAD			3 500	1 941	184			
Support of agriculture support services	WB/IDA, IIFAD	1998-2003	22 880	7 585	2 460	3 500		
WB/IDA			14 980	4 544	1 817	2 500		
IIFAD			7 900	3 041	643	1 000		
Project on development of the agricultural region	ADB	2000-2007	36 000	626	2 540	4 500	7 500	12 250
Project on Rehabilitation of the Irrigation Network	WB/IDA	1998-2007	35 000	11 128	8 200	6 650	6 350	
Emergency measures in case of flooding	WB/IDA	1999-2003	10 000	4 760	3 800	1 000		
On-Farm Irrigation	WB/IDA	2000-2007	20 000	377	1 150	2 500	4 500	6 025
Sector of community-based infrastructure services	ADB	2000-2006	36 000	1 286	3 600	4 200	7 620	15 050
Support and rehabilitation of water supply in rural areas	WB/IDA	2002-2007	15 000	0	250	1 500	3 000	3 250
Rehabilitation after flooding	ADB	1998-2002	5 000	4 429	570			
Total Agriculture and Water Resources			191 986	37 597	23 127	23 850	28 970	36 575

1	2	3	4	5	6	7	8	9
Transport, Communication, Energy								
Reconstruction and rehabilitation of the highway Bishkek - Osh	ADB, Japan, IDB	1996-2005	220 800	127 201	20 118	15 500	18 150	12 650
ADB (Phase I)			50 000	45 990				
ADB (Phase II)			50 000	30 976	12 942	3 000		
ADB (Phase III)			40 000	0	0	6 200	18 150	12 650
Japan (Phase I)			30 000	20 835	207			
Japan (Phase II)			40 800	24 044	4 477	6 000		
IDB (Reconstruction of the highway «Jalal-Abad - Uzgen»)			10 000	5 356	2 493	300		
Reconstruction of the highway Bishkek – Giorgievka	ADB	2002-2004	5 000	0	100	2 000	2 400	
Urban Transport	WB/IDA	1999-2004	20 000	4 691	6 000	6 511	1 798	
Electricity Transmission Line "Alai-Batken"	IDB	1998-2004	10 080	888	2 400	3 569	286	
Substation in Batken	Kuwait Foundation	1998-2004	10 200	1 395	500	516	6 235	
Supplementary credit under the project "Reconstruction of Heating and Electricity Supply Networks"	WB/IDA	2000-2004	15 000	212	500	3 000	7 013	
Total Transport, Communication, Energy			281 080	134 387	29 618	31 096	35 882	12 650
Industry Sector								
Construction of a paper factory	China	1996-2005	18 000	6 027	6 300	0	0	5 673
(Phase I)			6 000	6 027				
(Phase II)			12 000		6 300			5 673
Total Industry Sector			18 000	6 027	6 300	0	0	5 673

1	2	3	4	5	6	7	8	9
Financial Sector								
Support for private enterprises	WB/IDA	1996-2003	6 000	1 871	1 450	500		
Technical support under FINSAC	WB/IDA	1996-2002	3 300	2 544	85			
Rural financial institutions	ADB	1998-2002	12 500	3 740	650	700	3 852	
Rural Financial Services 2	WB/IDA	2000-2004*	15 000	1 243	6 300	4 800	1 750	
Kyrgyz Investment Credit Bank	KfW	2001-2004	2 250	700	500	500	550	
Credit line for Private Sector Development (Phases 1-2)	KfW	1996-2002	8 700	7 632	1 000			
Credit line for private sector development (Phase - 3)	KfW	1997-2003	4 500	0	0	1 500	3 000	
Total Financial Sector			52 250	17 730	9 985	8 000	9 152	0
Total Credits under Implementation								
			613 521	210 174	84 234	80 300	85 792	54 898

APENDIX VI.2. PLANNED PUBLIC INVESTMENT PROGRAM PROJECTS

№	Title	Creditor	Year the project implementation begins	Credit amount (US\$ thousand)
Sustainable Economic Development				
Agriculture				
1	Agribusiness and marketing	WB/IDA	2004	10 000
2	Regional agriculture development - 2	ADB	2005-2006	15 000
3	Investments in local communities	WB/IDA	2003-2004	10 000
INFRASTRUCTURE SECTOR				
4	Manas Airport reconstruction - II	JBID	2005	20 000
5	Reconstruction of the Osh city airport	IDB, Kuwait	2003	20 000
6	Reconstruction of the highway Taraz – Talas - Suusamyr	IDB	2004	9 500
7	Project of the Southern Regional Corridor (Phase I)	ADB	2004-2005	20 000
Energy Sector				
8	Chakan HPP	KfW	2004	10 000
9	Electricity for cooking purposes	KfW	2004	10 000
10	Regional Electricity Transmission Project	ADB	2004	5 000
11	Batken-Karabulak Phase II	IDB	2005	10 000
12	Distribution of electricity in poor regions	ADB	2005	15 000
SOCIAL SECTOR				
13	Early child development at the level of communities	ADB	2003-2004	10 000
14	Third project on development of education	ADB	2004	10 000
PUBLIC SECTOR				
15	GTAC (technical assistance)	WB/IDA	2003	5 000
16	Regional Program on Customs Cooperation	ADB	2003	5 000
Financial Sector				
17	FINBUS	WB/IDA	2004	10 000
18	CICB (supplementary)	KfW	2004	2 250
19	Micro-crediting	IDB	2004	1 000

APPENDIX VI.3. PROGRAM LOANS AND GRANTS FOR SUPPORT OF BALANCE OF PAYMENTS

№	Donor	Loan/Grant	Type	Actual	Projections				
				2001	2002	2003	2004	2005	
1	ADB	Financial Intermediation and Resource Mobilization	Loan	16 099 954					
2	ADB	Regional Trade Facilitation and Customs Cooperation Program	Loan		7 500 000		7 500 000		
3	ADB	Financial Intermediation and Resource Mobilization - 2	Loan				20 000 000		
4	ADB	Corporate Governance and Enterprise Reform Program - 2	Loan	17 340 000			17 500 000		
5	WB	Consolidated Structural Adjustment Credit - CSAC	Loan	7525200			16 846 200		
6	WB	Governance Structural Adjustment Credit - (GSAC)	Loan			5 000 000		10 000 000	
	Total Loans:			40 965 154	7 500 000	5 000 000	51 846 200	10 000 000	
7	Netherlands	Co-financing CSAC	Program Grant	1 229 699					
8	EU	Food Security	Program Grant	4 200 000	11 826 000	9 025 000	9 025 000	9 025 000	
9	Switzerland	Co-financing CSAC	Program Grant	5 000 000	3 500 000	1 500 000			
	Total Program Grants:			10 429 699	15 326 000	10 525 000	9 025 000	9 025 000	
	Total:			51 394 853	22 826 000	15 525 000	60 871 200	19 025 000	

APPENDIX VII. BALANCE OF PAYMENTS, 2000-2010

(Mln. USD)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	Project.	Project.	Project.	Project.	Project.	Project.	Project.	Project.	Project.
Current account balance	-90.8	-51.1	-46.7	-76.2	-89.4	-88.5	-95.9	-101.4	-127.0	-144.6	-148.7
Trade balance	4.0	39.9	-52.7	-29.8	-58.9	-67.1	-89.5	-97.6	-138.1	-162.4	-172.2
Exports, fob	510.9	480.3	476.6	542.9	548.5	576.6	610.4	653.2	658.8	679.8	726.8
CIS countries	213.7	172.2	164.4	174.7	191.0	226.4	251.2	282.7	318.0	357.4	400.8
of which : Energy	82.0	51.5	25.4	29.9	35.5	53.9	57.7	61.7	66.1	70.7	75.6
Other countries	297.2	308.0	312.2	368.3	357.5	350.3	359.1	370.5	340.7	322.4	326.0
Of which: Gold	195.3	224.6	156.3	206.8	187.1	163.9	157.1	148.9	93.6	55.7	37.9
Imports, fob	506.9	440.4	529.3	572.7	607.4	643.8	699.9	750.8	796.8	842.2	899.0
CIS countries	279.7	250.0	307.4	323.9	345.6	367.4	400.2	433.8	466.8	502.2	540.4
Other countries	227.2	190.3	222.0	248.8	261.7	276.3	299.7	317.0	330.1	340.0	358.6
Services (net)	-170.9	-110.1	-46.2	-91.8	-81.9	-78.0	-51.3	-40.3	-29.4	-21.6	-11.9
Non-interest service	-86.9	-44.6	-7.3	-29.6	-30.8	-20.8	1.4	10.0	18.9	26.5	35.3
Receipts	61.8	80.5	116.5	126.8	138.1	154.5	173.0	191.9	211.4	230.2	251.7
Payments	-148.8	-125.1	-123.7	-156.4	-168.8	-175.3	-171.6	-181.9	-192.4	-203.7	-216.5
Interest payments (scheduled)	-51.3	-39.4	-28.1	-33.6	-38.4	-47.8	-45.6	-43.9	-44.0	-43.8	-43.8
Of which moratorium interest	0.0	0.0	-1.7	-4.4	-7.1	-7.1	-7.1	-7.1	-7.1	-7.1	-7.1
Other net income	-32.6	-26.2	-10.9	-28.6	-12.7	-9.4	-7.1	-6.4	-4.3	-4.3	-3.4
Transfers (net)	76.0	19.1	52.2	45.4	51.3	56.7	45.0	36.5	40.5	39.5	35.5
Official	61.7	34.2	59.1	58.2	62.2	63.0	48.9	36.0	36.0	34.0	29.0
Private	14.4	-15.1	-6.9	-12.9	-10.9	-6.3	-3.9	0.5	4.5	5.5	6.5
Capital account balance	64.3	-9.6	84.0	52.8	24.2	22.7	48.6	90.0	105.5	124.1	159.5
Commercial banks	-1.9	-12.5	-6.4	-9.4	-11.7	-10.0	-8.0	-8.0	-8.0	-7.0	-7.0
Medium-and long-term loans, net	40.6	-23.6	15.3	12.5	-5.8	-28.2	-15.4	19.0	22.4	24.9	42.5
Disbursement -Projects	131.3	73.6	89.0	82.0	79.4	82.0	75.3	86.3	91.9	105.2	113.3

(Mln. USD)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	Project.	Project.	Project.	Project.	Project.	Project.	Project.	Project.	Project.
of which foreign financed PIP	92.3	67.8	82.0	82.0	79.4	76.0	71.3	78.3	85.9	94.2	103.3
Amortization (scheduled)	-90.7	-97.1	-73.7	-69.5	-85.2	-110.3	-90.7	-67.4	-69.5	-80.4	-70.8
Foreign direct investment	-6.9	-1.1	15.8	30.7	30.7	48.9	60.0	65.0	76.1	90.2	107.0
Other assets (incl. accounts payable and receivable)	32.5	27.6	59.4	19.0	11.0	12.0	12.0	14.0	15.0	16.0	17.0
Errors and omissions and short term capital	10.3	19.0	-18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-16.2	-41.7	19.2	-23.4	-65.2	-65.8	-47.2	-11.4	-21.5	-20.6	10.7
Financing	16.2	41.7	-19.1	23.3	65.2	-25.6	-48.0	-53.0	-28.0	-31.0	-49.4
Net international reserves	-13.9	-18.4	-56.9	-23.8	-26.5	-25.6	-48.0	-53.0	-28.0	-31.0	-49.4
Gross official reserves (- increase)	-21.2	-16.3	-49.0	-36.0	-23.0	2.2	-23.2	-31.6	-8.5	-12.0	-28.4
IMF (net)	7.3	-2.1	-8.0	12.2	-3.5	-27.8	-24.8	-21.4	-19.5	-19.0	-21.0
Purchases and disbursements	18.7	14.9	14.8	40.8	25.4	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases and repayments	-11.4	-17.0	-22.8	-28.7	-28.9	-27.8	-24.8	-21.4	-19.5	-19.0	-21.0
Release of pledged reserves			13.2								
Exceptional Financing (including arrears)	30.1	19.1	17.1	42.1	51.2	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of Arrears (net)	0.8	-14.7	1.5	-2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	33.8	15.6	44.5	51.2	0.0	0.0	0.0	0.0	0.0	0.0
on arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
on principal	0.0	16.2	4.4	28.5	31.8	0.0	0.0	0.0	0.0	0.0	0.0
on interest	0.0	17.6	10.4	13.4	14.4	0.0	0.0	0.0	0.0	0.0	0.0
on moratorium interest	0.0	0.0	0.8	2.6	5.0	0.0	0.0	0.0	0.0	0.0	0.0
BOP support loans (ADB)	0.0	33.4	7.5	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0
BOP support loans (WB)	0.0	7.5	0.0	5.0	15.5	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (-)	0.0	0.0	0.0	0.0	0.0	-91.4	-95.2	-64.4	-49.5	-51.6	-38.7

APPENDIX VIII. DIRECT INVESTMENT

	Title and objectives of the project, investment recipient	Volume of investments. mln. US\$
Projects under implementation in 2002		
Oil and gas extraction		
1	Conducting repair and rehabilitation works and obtaining of technological equipment for non-operating wells (Chinese company «Gung I» and JSC «Kyrgyzneftegaz»)	1.50
2	Establishment of a joint venture and starting development of oil and gas deposits in the Jalal-Abad oblast, import of technology equipment (JSC «KNG-Gidrokarbons»)	2.00
Mining Industry		
3	Renewal of fixed assets of the JSC «MAKMAL-Zoloto»	0.12
Development of the Tourism and Recreation Complex		
4	Reconstruction and modernization of the Nariste spa in the Issyk-Kul oblast	0.16
5	Reconstruction and modernization of the Rokhat spa in the Issyk-Kul oblast	1.00
6	Reconstruction and modernization of the Dilorom spa in the Issyk-Kul oblast	0.60
7	Reconstruction and modernization of the Almata hotel in the Issyk-Kul oblast	0.32
8	Reconstruction and modernization of the Tulpar spa in the Issyk-Kul oblast	0.13
9	Reconstruction and modernization of the Solnechnyi Bereg spa in the Issyk-Kul oblast	0.13
10	Reconstruction and modernization of the Akun-Issyk-Kyl spa in the Issyk-Kul oblast	0.57
11	Reconstruction and modernization of the Chaika spa - construction of a school, reconstruction of fixed assets, installation of special equipment, in the Issyk-Kul oblast	2.50
12	Construction of a health promotion complex in the Issyk-Kul oblast at the site of the Kainar spa by the Korean company «Khanon»	0.30
Education Development		
13	Construction of the Herman Gmainer's school in Bishkek city	3.00
14	Construction of the university campus of the Kyrgyz-Kuwaiti University in Bishkek city	1.00
Processing of Agricultural Products		
15	Putting in operation by the end of 2002 a new production line for production of dairy products (JSC «Bishkek-Syut» - investments by the Corporation «Wimm-Bill-Dan»)	4.80
16	Construction of a cotton processing factory in Suzak rayon, Jalal-Abad oblast (Company «SAPPO» - Turkey)	0.11
17	Modernization of the existing capacities and broadening of the variety of produced products (JSC «Issyk-Kul Syut» - investments by the Canadian company «Maxi-Lion»)	1.90
18	Modernization of the existing capacity for production of fruit juices «Rostek-Torg» Ltd., Karakol city)	0.15
19	Construction of a factory for cotton processing and production of cotton threads («Teviz - Torg» Ltd., Alamudun rayon, Chui oblast)	1.70
20	Modernization of production equipment and improvement of the quality of produced products (JSC «Kyrgyz Woollen and Worsted Factory» - investments by the company «Sibresursy»)	0.50
	Total:	22.48

* data of the State Committee on Property Management and Attraction of Direct Investments of the KR

APPENDIX IX. EXAMPLES OF PARTNERSHIP AND PARTICIPATION

A large contribution to development and implementation of the CDF/NPRS was made by a number of events held at the nation level. These included the National Assembly on Discussion and Approval of the CDF (May, 2001), the National Forum on “The Role of Social Mobilization and Micro-Financing in Poverty Alleviation”, the National Forum on “Poverty Alleviation: the People’s Initiative and Responsibilities of the Authorities”, the National Forum on “The Role of Science, Education and Culture in Sustainable Development of Mountain Regions of the Kyrgyz Republic”, and the National Forum on “Education for Everybody”. The “Concept of Development of Education in the Kyrgyz Republic till 2010”, congresses of judges and congresses of advocates, the International Forum on Tourism, the National Summit on Information Technologies, the people’s forum “Peace and Concord in the Society – the Basis for Poverty Alleviation and Ensuring Well-Being of Everyone” organized by the People’s Assembly of Kyrgyzstan, three nation-wide Round Tables on “Interaction and Mutual Cooperation in the Name of Kyrgyzstan” conducted in the second half of 2001 and 2002, as well as a number of other events of the national importance.

An important stage for further development of governance democratization were people’s *kurultais* held in the autumn of 2001 in villages, cities and rayons of the Republic that were attended by more than 90 thousand delegates selected at gatherings and meetings of citizens conducted at the places of their residence and work. These people’s forums actively engaged local population in managing local communities and to fully employ the principles of accountability of local authorities to them.

In February-March of 2002, the problems of sustainable development and measures for poverty alleviation were discussed in all *aiyl-okmotu* (local communities) at village gatherings, as well as at the meetings in all cities, at regional *kurultais* in all oblasts and in the capital, Bishkek City.

A number of republican scientific and applied conferences and meetings have been conducted on problems and prospects of development of rural entrepreneurship, education, judicial system reforms, administrative reform and development of local self-governance, deepening and development of a real democracy in Kyrgyzstan.

Representative international seminars, round tables, meetings and workshops were conducted in the context of an open, equal partnership dialogue with the support of international financial organizations, including:

- Two summits on attraction of foreign investments (July of 2001, July of 2002).
- The seminar on streamlining of the budget process and tax policy.
- The seminar on development of mining industry.
- The two-day seminar with newly elected heads of *aiyl-okmotu* and towns of rayon subordination “On Development of Local Self-Governance within the Framework of Implementation of the CDF”.
- A series of television debates organized by NGOs at the national TV channel “*Jashtar Unu*” (“The Voice of Youth”) dedicated to participation, the role and place of youth of Kyrgyzstan in implementation of the Strategy on Comprehensive Development Framework of Kyrgyzstan till 2010.
- The international scientific and applied seminar “Development of Business Education and Market Needs”, which considered the issues of internationalization of the educational process under the conditions of globalization, introduction of information technologies into education, perspectives of the Comprehensive Development Framework of Kyrgyzstan till 2010.
- The round table conducted by the National Bank of the Kyrgyz Republic and the Committee on the Budget and Finances of the Legislative Assembly of the Kyrgyz Republic “Issues of Micro-Financing in Kyrgyzstan” dedicated to discussions of the draft law on micro-financing organizations.
- Parliamentarian hearings in the Jogorku Kenesh of the Kyrgyz Republic on the concept of education reforms.
- The round table “Women’s Rights to Property” initiated by the Congress of Women of Kyrgyzstan, Swedish non-government organization “Swedsurvey”, UNDP, Swiss Coordination Bureau.
- The national round table of volunteers dedicated to the International Day of Youth Movement, where they exchanged opinions on implementation of the CDF and the NPRS, development of youth volunteer movement in Kyrgyzstan, issues on improvement of the interaction with government and other structures on social mobilization.
- The round table to discuss the measures connected with integration of efforts of government agencies, NGOs and international organizations aimed at development of the social sphere and poverty alleviation.
- A series of meetings, round tables and workshops on gender policy organized with the support of the UNDP and other international organizations.
- A series of round tables on attraction of foreign investments with participation of the members of the Steering Council on Foreign Investments, educational workshops on the subject “How to Improve

Investment Attractiveness of Regions of the Republic” organized by the Secretariat of the Special Representative of the President of Kyrgyzstan on attraction of investments.

- A series of meetings and round tables to discuss the problems connected with organization of participatory implementation of the CDF /NPRS organized in all regions of the republic by the Association of NGOs and NCO, other non-government organizations.
- Round tables and workshops on the issues of environment conservation, ecology and safe development organized with the support of the World Bank, Asian Development Bank.
- The National CDF Coordinator and the CDF Secretariat conduct regular consultations and meetings with representatives of the donors’ community, heads and members of the working experts groups on improvement of the NPRS where they discuss the current and perspective issues related to coordination of the efforts of donors and national participants of the CDF /NPRS implementation.

A series of workshops has been organized, including the following:

- “IBM Technologies in Implementation of the Comprehensive Development Framework of the Kyrgyz Republic to year 2010 and the National Strategy for Poverty Reduction (NPRS)” with participation of representatives of the leader of the IT market - IBM Corporation and its local partner – “Shinrai” company.
- Training courses “Poverty Analysis and Monitoring” conducted jointly with the World Bank Institute Center of Social and Economic Studies in Kyrgyzstan (CASE – Kyrgyzstan), National Statistical Committee, attended by representatives from all regions of Kyrgyzstan, who directly participate in preparation of the full version of the NPRS.
- A practical workshop on the use of monitoring technologies in the process of implementation of the CDF/NPRS, with the financial, technical and informational support of the UNDP representative office in Kyrgyzstan.
- A number of meetings with university representatives, young scientists, teachers and students, where they discussed concrete directions of possible participation in implementation of the CDF till 2010 and additional work on the NPRS.

The consultative meeting of the heads and members of experts’ groups “National Strategy for Poverty Reduction: Priorities, Implementation Mechanisms, Financing, Expected Output” with participation of the heads of coordination committees, representatives of the civil society and donor organizations conducted with the support of the World Bank.

The consultative meeting with members of the Government, heads and members of working experts’ groups, representatives of donor organizations on new methodologies and information technologies used when preparing and implementing the CDF /NPRS.

In June 2002, in all oblasts and Bishkek City, the CDF Secretariat conducted meetings with wide participation of representatives of government structures, NGOs, private sector, members of regional working groups to discuss the measures adopted for implementation of the CDF, as well as the progress of preparation of the full version of the NPRS.

An important contribution in preparation and implementation of the CDF/NPRS is made by mass media. The results of the contest among journalists and authors for the best coverage of the topics of the Comprehensive Development Framework of the Kyrgyz Republic till 2010 and the NPRS have been summarized and awards have been given to the winners. Pursuant to the resolution of the Government of the Kyrgyz Republic the Creative Council and the Contest Commission considered the submitted published or broadcasted materials. According to the decision made, diplomas and rewards of different values have been awarded to 28 authors. Incentive awards have been given to 26 authors and journalists.

The Government of the Kyrgyz Republic again announced the contest on the best coverage of the progress of implementation of the Comprehensive Development Framework of the Kyrgyz Republic for the period till 2010 and the National Strategy for Poverty Reduction. With the support of the Foundation named after Ebert the Press Service of the Government has conducted regional seminars for journalists and NGOs “The Role and Possibilities of Local Mass Media in Implementation of the CDF and the NPRS Objectives” in the Batken, Jalal-Abad, Naryn, Issyk-Kul, Talas, Osh oblasts. These seminars have been also attended by representatives from a number of ministries, departments, local state administrations.

APPENDIX X. MATRIX ON PARTNERSHIP NAD PARTICIPATION IN IMPLEMENTATION OF THE CDF/NPRS

GOALS	MECHANISMS	FORMS	EXPECTED OUTPUT	TIME FRAME	PARTICIPANTS
I. Maintenance of an Informed Community	1. Annual large-scale campaigns to discuss the amendments to be introduced to NPRS.	Coverage in the mass media of the results of NPRS discussions and recommendations of the participants.	Introduction of amendments to NPRS.	Annually	Government bodies, local state administrations, non-government organizations, private sector, mass media
	2. Public campaigns to cover the processes of implementation, monitoring and evaluation of CDF/NPRS on a regular basis.	Public hearings, TV and radio programs on the implementation progress, publications in newspapers and magazines.	Information for the community on implementation, monitoring and evaluation of NPRS and CDF.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media
	3. Preparation and dissemination of bulletins, press releases and other forms of public information.	Bulletins, press releases, interviews, news, etc.	Information for the community about implementation, monitoring and evaluation of NPRS and CDF.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media
	4. Wide use of the Internet to cover the processes of CDF/NPRS preparation and implementation.	Development of a web site for CDF/NPRS, linking to the web sites of various organizations.	Information for the community about implementation, monitoring and evaluation of NPRS and CDF.	2002-2005	Government bodies, local state administrations, non-government organizations, private sector, mass media
	5. Use of the potential and capacities of existing resource centers, including the centers for support of the civil society (CSCS) for information dissemination and, when necessary, establishment of the national and regional centers of NPRS and CDF.	Establishment of public computer centers, development of resource centers.	Information for the community about implementation, monitoring and evaluation of NPRS and CDF.	2002-2005	Government bodies, local state administrations, non-government organizations, private sector, mass media

GOALS	MECHANISMS	FORMS	EXPECTED OUTPUT	TIME FRAME	PARTICIPANTS
II. CDF/NPRS to Reflect Community Values and Aspirations	1. Discussion of the results of the CDF/NPRS implementation at the central and local levels and the necessity to introduce amendments to the programs.	Round tables, seminars, conferences, kurultais, and national forums.	Introduction of justified amendments to the programs.	2002-2005	Government bodies, local state administrations, non-government organizations, private sector, mass media
	2. Exchange of experience on topical aspects for exchange and enrichment of experience.	Round tables, training courses and workshops, publication of informational bulletins, press releases, etc.	Capacity building of participants in the implementation of NPRS; dissemination of positive experience.	2002-2005	Government bodies, local state administrations, non-government organizations, universities and academic institutions, private sector, mass media
	3. Discussion of amendments in the process of implementation of sectoral and regional programs and projects with representatives of ministries and departments at the central and local levels.	Meetings for consultations on a regular basis; establishment of joint commissions and consultation groups.	Introduction of amendments to sectoral and regional programs and projects.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media
	4. Training at central and local levels in project preparation and management within the CDF /NPRS framework, and on establishment of trade unions and professional associations.	Training workshops; participation in educational programs.	Skills acquired in project preparation and management; formation of trade unions and associations.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media with the support of international organizations

GOALS	MECHANISMS	FORMS	EXPECTED OUTPUT	TIME FRAME	PARTICIPANTS
III. Partnership responsibility of all stakeholders	1. Transfer to joint planning of CDF/NPRS activities for providing targeted assistance to vulnerable strata of the population as well as for solution of urgent problems at a local level.	Mechanisms for participation of NGOs in local budgeting. Preparation and implementation of pilot projects on participation with NGOs in preparation of draft budgets at the local and regional levels.	Standardized regulatory documents formed. Allocation of authorities and responsibilities for preparation, execution and control of budgets.	2003 2003 -2004	Government bodies, local state administrations, non-government organizations, private sector, mass media with the support of international organizations
	2. Participatory planning and implementation of social and economic programs and projects within the CDF/NPRS.	Joint work in working and experts' groups; use of government system for contract work; competitive allocation of grants, private donations and volunteers.	Improved application of developed measures; more effective implementation of programs and projects.	2002-2005	Government bodies, local state administrations, non-government organizations, private sector, mass media with the support of international organizations
IV. Involvement of broad layers of the population in the process of implementation, monitoring and evaluation of the CDF /NPRS	1. Partnership participation of the state and civil society in implementation, monitoring and evaluation of the CDF/NPRS.	Joint conducting by public organizations and NGOs, as well as independent conducting by NGOs of sociological polls, surveys, audits, analytical reviews, etc.	Society attitudes revealed to effectiveness of programs being implemented and development of measures to increase levels of partnership and effectiveness of activities.	Permanently, 2002-2005	Government bodies, local state administrations, non-government organizations, private sector, mass media with the support of international organizations
	2. Action to ensure two-way communication between those responsible for implementing programs and representatives of civil society.	Informing executives of public organizations about the results of monitoring and evaluation of programs at regular meetings.	Constructive partnership relations among participants of the program.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media

GOALS	MECHANISMS	FORMS	EXPECTED OUTPUT	TIME FRAME	PARTICIPANTS
V. Transparency, openness and accountability	1. Regular reports by the national Government, other state administrative bodies, and non-government organizations on the implementation of the CDF and the NPRS through mass median and Internet.	Publication of reports through mass media, press releases, brochures, TV-reels, radio programs.	Maximum transparency during program implementation.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media
	2. Evaluation of transparency and openness of the programs.	NGOs polls, surveys, audits, analytical reviews, etc.	Maximum transparency during program implementation.	Permanently	NGOS, private sector, mass media with the support of international organizations
VI. Capacity building for all stakeholders	1. Participation in joint projects during their implementation. Monitoring and evaluation of the programs.	Preparation and implementation of joint projects.	Establishment of equal partnership relations among the program participants.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media with the support of international organizations
	2. Training in planning, implementation, monitoring and evaluation of CDF /NPRS projects and programs at the central and international levels.	Training, workshops, practical traineeship.	Acquisition and development of skills on project management, planning, evaluation and implementation.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media with the support of international organizations
	3. Professional development of NGOs' members in communication skills, exchange of experience.	Training, workshops, on-the-job training, in CIS and other countries.	Acquisition and development of skills.	Permanently	Non-government organizations, private sector, mass media with the support of international organizations
	4. Exchange of experience at the local, oblast, central and international levels to summarize annual results and develop proposals to improve activities within the framework of the CDF /NPRS for next years.	Round tables, workshops.	Improvement of effectiveness of the programs.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media

GOALS	MECHANISMS	FORMS	EXPECTED OUTPUT	TIME FRAME	PARTICIPANTS
VII. Strong feelings of ownership of CDF/NPRS programs and projects.	1. Involvement of broad layers of the population in implementation, conduct, monitoring and evaluation of CDF/NPRS projects.	Joint projects, questionnaires, interviews, audit, regular non-financial control, and selective analysis.	Development of patriotism, ownership feelings, overcoming feelings of dependency.	Permanently	Government bodies, local state administrations, NGOs, private sector, mass media
	2. Joint planning at the local level to provide targeted assistance to vulnerable layers of the population and solving urgent problems at the local level.	Participation in development and implementation of local community development programs, planning of local budgets.	Amendment of legislation, simplified registration, growth in number of newly established SMEs, creation of new jobs.	2002-2005	Government bodies, local state administrations, NGOs, private sector, mass media with the support of international organizations
	3. Development of market oriented management mechanisms.	Creation of conditions for development of entrepreneurship, small and medium businesses.	Amendments to legislation, broader access to financial and other resources.	2002-2005	Government bodies, local state administrations, NGOs, private sector
VIII. Community consensus and consent.	1. Conducting of meetings to optimize decision-making and attain the effectiveness of the measures taken.	Round tables, workshops, and annual conferences.	Improvement of effectiveness of programs and projects.	Permanently	Government bodies, local state administrations, NGOs, private sector, mass media with the support of international organizations
	2. Training in conflict resolution, image building, business communication skills and skills of presentation of CDF/NPRS projects.	Seminars, practical training.	Ability to forecast, prevent and resolve conflict situations.	Permanently	Government bodies, local state administrations, NGOs, private sector, mass media with the support of international organizations
	3. Establishment of an association of NGOs expressing and protecting common interests of civil society.	An association of elements of civil society with a legal status.	Registration and active work of the Association of civil society.	2002-2003	NGOs, public funds, the poor, associations, scientific and academic institutions.

GOALS	MECHANISMS	FORMS	EXPECTED OUTPUT	TIME FRAME	PARTICIPANTS
IX. Orientation to achievement of results and final goals and objectives of the CDF/NPRS.	1. Organization of meetings for development of optimal and effective activities.	Round tables, workshops, and annual conferences.	Achievement of CDF/NPRS goals and objectives.	Regularly	Government bodies, local state administrations, non-government organizations, private sector, mass media
	2. Analysis of macro-economic indicators characterizing the improvement of living standards of the country's population, growth of targeted social protection, dynamics of micro-economic indicators, as well as changes in the poverty scale, profile and structure.	Joint, alternative surveys and interviews, used as a basis to develop corrective measures.	Achievement of goals and objectives of CDF /NPRS activities, improvement of qualitative macro-economic and social indicators.	Permanently	Government bodies, local state administrations, non-government organizations, private sector, mass media with the support of international organizations
	3. Analysis of the economic situation of the country as compared to other developing countries, including those developing and implementing their own CDF /NPRS.	Preparation of analytical reviews using materials of local and foreign organizations.	Use of positive experience to adjust the programs.	Permanently	Government bodies, local state administrations, non-government organizations with the support of international organizations

APPENDIX XI. LIST OF INDICATORS

Indicator	Measuring unit	Method of measurement	Data source
<i>International indicators</i>			
Human development index	index	Estimation	UNDP, NSC
Population poverty index	index	Estimation	UNDP, NSC
Gender factor development index	index	Estimation	UNDP, NSC
Corruption index	index	Estimation	Transparency International
<i>National Indicators</i>			
Real GDP growth	%	Statistical	NSC
Poverty level	%	Survey	NSC, NGOs
Extreme poverty level	%	Survey	NSC, NGOs
Poverty depth	%	Estimation	NSC
Unemployment level: total	%	Statistical, Survey	MLSP, NSC
official	%		
Gini coefficient	index	Estimation	NSC
CPI growth	%	Statistical	NSC
Formation of an Effective State			
Democratic Institutions			
Level of optimization of the public administration structure	units	Assessment	MF, NGOs
Level of the population's confidence in public administration (legislative, executive and judicial)	%	Social survey of the population	NSC, NGOs
Level of the population's confidence in local self-government	%	Social survey of the population	NSC, NGOs
Level of execution of judicial decisions	%	Specialized survey	MIA, MJ, NSS
Level of legal literacy of the population	%	Social survey of the population	NSC, NGOs
Building a Fair Society			
Targeted Social Protection			
Share of the population receiving the UMB of the total number of the population	%	Statistical, estimation	MLSP, NSC
Share of poor families who received a lump-sum UMB for the whole year in the total number of UMB recipients	%	Statistical, estimation	MLSP
Volume of funds assigned for provision of privileged benefits	mln. soms	Statistical	MLSP, NSC
Ratio of the guaranteed minimum consumption level and the minimum	%	Statistical, estimation	MLSP, NSC

consumer budget per capita			
Volume of funds allocated for payment of compensations to poor strata of the population in connection with increased energy tariffs	mln. soms	Statistical	MLSP, NSC
Integration of the Disabled into the Society			
Number of the disabled who use the services of rehabilitation centers	quantity	Statistical	MLSP, local state administrations
Number of the disabled who received wheel chairs	quantity	Statistical	MLSP, NGOs
Poverty Among Children			
Level of poverty among children living in pilot areas, where the systems of social and family support will be formed	%	Statistical	MLSP, NSC
Number of homeless children rehabilitated through social establishments	quantity	Statistical	MLSP, Mayor's office of Bishkek city, Program «New Generation»
Volume of funds allocated for protection of children	mln. soms	Statistical	MF, MLSP, Congress of Local Communities
Presence of expenditure items for childhood protection in the Law on the Budget		Statistical	MF, MLSP, Congress of Local Communities
Retirement Pension Benefits System			
Ratio of the average pension to the average wage	%	Statistical	Social Fund, NSC
Ratio of the base pension to the minimum pensioner's consumer budget	%	Statistical	Social Fund, NSC
Growth rate of the total size of the pension	%	Statistical	Social Fund, NSC
Number of non-government pension funds	quantity	Statistical	MLSP, MF, NGOs
Volume of funds of mandatory contributions for the accumulative system	mln. soms	Statistical	MLSP, Social Fund, MF, NGOs
Changes in the number of the social insurance contribution payers: - legal entities; - individuals	%	Statistical	MF, MLSP, Social Fund
Labor Market and Job Creation			
Number of newly employed: • of the total number of registered unemployed; • of the number of retrained persons;	%	Statistical	MLSP

Coverage of unemployed by temporary public jobs	%	Statistical	MLSP
Average duration of participation of unemployed citizens in public works	Number of months	Statistical	MLSP
Share of unemployed citizens employed abroad out of the total number of those who applied to the employment services	%	Statistical	MLSP
Share of employed youth in the total number of young people who applied to the employment services	%	Statistical	MLSP
Share of employment of unemployed women in the total number of women who applied to the employment services	%	Statistical	MLSP
Access to Quality Education			
Coverage of children of appropriate age by pre-school education	%	Statistical, survey	ME&C, NSC
Coverage of children of appropriate age by incomplete secondary education (grades 1-9)	%	Statistical, survey	ME&C, NSC
Literacy rate among persons aged 15 and above	%	Statistical, survey	ME&C, NSC
Access to Quality Health Services			
Percent of the population who do not have access to health care services (due to expensiveness and remote location)	%	Statistical, survey	NSC
Share of expenses for health care services in total expenses of poor households	%	Statistical, survey	NSC
Access of the population to clean potable water	%	Survey	NSC
Share of the population covered by mandatory medical insurance	%	Statistical	MH
Share of children by age groups, who fell ill with certain diseases (diphtheria, whooping cough, tetanus, morbilli, infantile paralysis, roseola, parotitis).	%	Statistical	MH, NSC
Share of the population with iodine and iron deficiency	%	Statistical	MH, NSC
Number of people infected with HIV/AIDS	number	Statistical	MH, NSC
Access of the population to adequate sanitary and hygienic conditions	%	Survey	NSC
Rational Environmental Management			
Promoting Sustainable Economic Growth			
Macroeconomic Policy			
State budget deficit to GDP	%	Statistical	MF

Current account in % to GDP	%	Statistical	NBKR, MF, MFTI
GDP growth rate by sectors of the economy	%	Statistical	NSC
Budget policy and PIP			
Share of the population informed about credit lines	%	Social survey	NBKR, commercial banks, NGOs, NSC
Imports and exports to GDP	%	Statistical	NSC
External debt	mln. soms	Statistical	Government of the KR, MF
Tax policy			
Number of registered and reporting small business enterprises	number	Statistical	STI, MF, MJ, NSC
Average size of property tax	soms	Statistical	STI, MF, NSC
Development of the Financial System			
Gross volume of international reserves of the NBKR	mln. soms	Statistical	NBKR
Volume of SWAP operations made in the financial market	mln. soms	Statistical	NBKR
Number of financial reports published by the NBKR and mass media	number	Statistical	NBKR, mass media
Number of bankrupt commercial banks	number	Statistical	NBKR
Share of investment credits in total credit portfolio	%	Statistical	KAFC
Changes in the cost of banking services	%	Statistical	NBKR
Number of SSC units established in the regions of the Republic	number	Statistical	NBKR, KAFC
Privatization			
Volume of tax receipts transferred to the budget from privatized enterprises	mln. soms	Statistical	STI, NSC
Investment Policy			
Gross investment to GDP	%	Statistical	MF, NSC
Total investments	mln. soms	Statistical	MF, SCS
Stimulating Private Enterprise			
Changes in the number of unjustified inspections	%	Statistical	SCE
Share of poor strata of the population and unemployed in small cities and towns, remote and alpine areas, who received micro-credits in the total number	%	Statistical	SCE

of credit recipients			
Number of civil servants retrained after staff reduction and employed with the financial assistance of the State Commission	persons	Statistical	SCE
Foreign Economic Relations and Development of Exports			
Changes in the volume of export	%	Statistical	MFTI, NSC
Changes in the volume of external commodity turnover	%	Statistical	MFTI, NSC
Trade balance	\$	Statistical	MFTI, NSC
Volume of investments attracted to the Republic through Kyrgyz diplomatic missions	mln. soms	Statistical	MFTI
Financial Rehabilitation and Bankruptcy of Loss Making Economic Entities			
Changes in the volume of production output	%	Statistical	MFTI, MF, NSC
Volume of tax received by the state budget	mln. soms	Statistical	MFTI, MF, STI
Number of bankrupt enterprises	number	Statistical	MFTI, MF, STI
Development of Regions, Cities and Villages			
Poverty in regions	%	Survey	NSC, NGOs
Extreme poverty in regions	%	Survey	NSC, NGOs
Poverty depth	%	Survey	NSC, NGOs
Total unemployment in regions	%	Statistical, survey	
Human development index by regions	index	Estimation	UNDP, NSC
State budget subsidies by regions to total expenses	%	Statistical	MF
Net internal migration	persons	Statistical	NSC
Ratio of the average per capita income in regions to the average republican level	%	Statistical	NSC
Food energy value	Kcal per day	Survey	NSC
Minimum consumer budget by regions	som	Estimation	NSC
Access to clean potable water by regions	% of population	Survey	NSC
Security of Development			
Number of registered violations connected with drug-addiction and drug trafficking	number	Statistical	MIA
Waste water spill (non-treated and insufficiently treated)	mln. m ³ /day	Statistical	MEES, NSC
Number of refugees	persons	Statistical	NSC
Internal migration	persons	Statistical	NSC

Share of seismically-stable buildings and structures	%	Survey	SCAC
Number of reported employment accidents	persons	Survey	MLSP
Expenses for compensation of damage from labor injuries	mln. soms	Statistical	MLSP, MF
Budget funding for: <ul style="list-style-type: none"> • ensuring external security; • preventing natural calamities; to total state budget expenditures	% %	Statistical	MF, MD MF, ME&ES
Level of legal literacy of the population	%	Social survey of the population	NSC, NGOs
Level of children's and juvenile crime	%	Statistical	MIA, NSC

APPENDIX XII. SOURCES

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- materials developed by international and local experts and missions under various projects and country assistance agreements signed with international agencies;
- publications and studies carried out by scientists and specialists of ministries, departments, universities, and scientific research institutes;
- materials of conferences, seminars, round tables, and studies conducted by nongovernment organizations in the Kyrgyz Republic.

APPENDIX XIII. GLOSSARY

Bio-diversity – range of living organisms including ecological systems and ecological complexes they constitute.

Civil society - the aggregate of non-governmental structures, organizations and institutions that manifest interests and will of citizens, and which are protected by law from interference by state authorities and independently determine form of relations with the state. Civil society includes different permanent and temporary associations (professional, political, interest groups, other organizations with fixed or free membership). As a result of long development there is modern understanding of a civil society based on human values. Its main elements are: diversity and equality of ownership forms, freedom of labor and entrepreneurship, ideological diversity and freedom of information, firmness of human rights and freedoms, developed self-governance, family as a main social group. Civil society expresses dynamic and multisided range of viewpoints and values that exist in the society.

Current account – a section of country's balance of payments, which reflects volume of export and import of goods and services, income from investments and volume of transferred payments.

Decentralization - the process of delegating part of authorities and responsibilities from top state agencies to lower levels of government or to non-governmental institutions.

Economic and social effectiveness – ratio between results obtained (effect) and costs incurred. Quantitative indicators of social and economic effectiveness enable to determine the size of the effect and to select the best options in addressing economic and other issues.

Forward transactions (contracts) – an individually concluded non-standard contract, according to such contract, profit and losses are determined by the time of its execution. The most popular contracts are forward foreign exchange rate contracts and forward interest rate contracts. This type of financial contracts is closely linked to swap transactions and is one of the instruments of hedging foreign exchange and other financial deals.

Globalization - the aggregate of international processes that became possible due to internationalization of political, social, financial, scientific, technological, informational, ecological and other changes taking place in the world. This process makes boundaries of states more transparent and increases links between countries in the course of global development.

Human capital – represents unique creative and innovative potential of an individual, and is the aggregate of productive qualities, obtained knowledge and skills of a worker, as well as motivation and energy used in production of economic, social and other benefits. Human capital is directly related to aggregate expenditures that went into development and reproduction of human potential, including knowledge of general educational and special nature, skills, accumulated experience, health status, etc. In this relation, spheres of activities which form human capital, (educational, scientific complex, first of all) are regarded as investment sectors of intangible production.

Illegal (shadow) economy – unlawful economic activity of individuals and legal entities or concealment of legal economic activities in order to evade taxes and other mandatory payments.

Infrastructure - sectors, enterprises and organizations that create conditions for normal functioning of production and turnover of goods, support activities and development of people, enterprises, organizations and the country as a whole.

Investment policy – an integral part of an economic policy pursued by the state and legal economic entities in the form of establishing structure and range of investments, determining priorities, usage, and sources.

Gini coefficient – is a commonly used measure of inequality of income (or consumption expenditure). Coefficient characterizes the range of actual deviation of income from absolute equality or absolute inequality. With perfect equality, the Gini ratio would equal zero; with perfect inequality, it would equal one. Thus, the coefficient is established between 0 and 1. The closer this coefficient is to 1, the more uneven is distribution of income in a society.

Local community – a group of rural or urban people unified by common interests in resolving issues of local importance through their representative and other bodies.

Local self-government - arrangement of activity of people for an independent, initiative decision-making process with regard to issues of local significance and undertaking responsibility for such decisions, based on people's interests, its national, ethnic, historical and other peculiarities. Local self-governance is enforced by people through its representative bodies of power (councils, committees, etc.), relevant bodies of governance (local administrations), meetings, rallies of people, other territorial forms of democracy. In accordance with legislature local self-government agencies can have certain government powers and functions.

Macro-economic policy - actions of the government aimed at the regulation of the economy for the purposes of supporting its stable condition and ensuring its reliable functioning and development.

Monetary policy – an economic policy, based on capacities of a monetary-lending system to affect functioning and development of an economy, assure market balance and reduce inflation.

Monitoring – process of collecting and analyzing data related to performance of a project, and comparing the findings with expected results.

Net export – value of domestic goods sold abroad (export) less import.

Program – a set of political, legislative, social, economic, research and other organizational activities, tied with resources, terms, executors and sources of finance, aimed at addressing priority development tasks of the state and society, an instrument for regulation of economic and social relations.

Prudential norms – a system of limits and restrictions, imposed on banks in order to ensure their stability and protect depositors' interests.

Safe development - the aggregate of living conditions under which possibilities of development are not limited or threat is reduced to a minimum.

State governance – execution of political and administrative power, carrying out economic and social regulation at all levels for the purpose of providing development of the country and the society. It includes formal institutions, mechanisms and procedures by which citizens can express their interests, enforce their legal rights, perform obligations and resolve contradictions.

Strategy - qualitative determination of long-term development directions related to the sphere, means and types of activities that ensure achievement of targets.

Sustainable human development – a comprehensive approach to development in which the society plays the central role by means of integrating social, economic, environmental purposes. “Sustainable human development is a development that protects the poor, guards the nature, supports women and creates job opportunities” (Source – National Strategy for Sustainable Human Development).

Swap transaction – an exchange transaction in which conclusion of a deal for purchase or sale of securities, foreign exchange, etc. is accompanied by a conclusion of a reverse deal on the same or other conditions after certain period of time.

Syndicated credit – a credit rendered by two or more creditors-syndicates (consortiums) of banks to one borrower; a syndicated credit is usually used when credit volume or risk is too large for one bank.

Transfer – payments not ending in direct receipt of goods; a sort of economic transactions between agents or social payments from one agent to another without any compensation.

APPENDIX XIV. LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AIC	agro-industrial complex
APKR	Administration of the President of the Kyrgyz Republic
BCD NSS	Border Control Directorate, National Security Service
CAMC	Central Asia Mountain Charter
CDF	Comprehensive Development Framework of the Kyrgyz Republic to 2010
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
DEBRA	Debt Resolution Agency
DFID	UK Department for International Development
EBRD	European Bank for Reconstruction and Development
ESF	Employment Service Fund
EU	European Union
FCSDCU	Financial Company for Support and Development of Credit Unions
FDI	foreign direct investment
FEZ	free economic zone
FGP	family group practices
FMC	family medicine center
FOS	field obstetrical station
FINCA	The Foundation for International Community Assistance
GDP	Gross Domestic Product
GMCL	guaranteed minimum consumption level
GSAC/GTAC	Governance Structural Adjustment Credit/Governance Technical Assistance Credit
GTZ	German Agency for Technical Cooperation
HEI	higher educational institution
HPP	hydroelectric power plant
ICT	information communication technology
IDA	International Development Association
IDB	Islamic Development Bank
IMF	International Monetary Fund
I-NPRS	Interim National Poverty Reduction Strategy
IT	information technology
JK	Jogorku Kenesh of the Kyrgyz Republic (parliament)
JSC	joint-stock company
JV	joint venture
KAFC	Kyrgyz Agricultural Financial Corporation
KR	Kyrgyz Republic
LSG	local self-government
MAWRPI	Ministry of Agriculture, Water Resources, and Processing Industry
MCB	Minimum Consumer Budget
MD, MoD	Ministry of Defence of the Kyrgyz Republic
MEC, ME&C	Ministry of Education and Culture of the Kyrgyz Republic
MEES, ME&ES	Ministry of Ecology and Emergency Situations of the Kyrgyz Republic
MF, MoF	Ministry of Finance of the Kyrgyz Republic;

MFA	Ministry of Foreign Affairs
MFTI	Ministry of Foreign Trade and Industry
MH, MoH	Ministry of Healthcare of the Kyrgyz Republic
MIA, Mol	Ministry of Internal Affairs of the Kyrgyz Republic
MLSP	Ministry of Labor and Social Protection of the Kyrgyz Republic
MMI	mandatory medical insurance
MRDLSG	Ministry for Regional Development and Local Self-Governments
MTBF	Medium-Term Budgeting Framework
MTC	Ministry of Transport and Communication
NBKR	National Bank of the Kyrgyz Republic
NGO	Nongovernment organization
NSPF	Non-state Pension Fund
NIN	National Information Network
NPRS	National Poverty Reduction Strategy of the Kyrgyz Republic
NSC	National Statistical Committee of the Kyrgyz Republic
NSS	National Security Service
NTRES	non-traditional and renewable energy sources
OSCE	Organization on Security and Cooperation in Europe
ODA	Official Development Assistance
PIP	Public Investment Program
PRGF	Poverty Reduction and Growth Facility
PTL	Power Transmission Line
R&D	research and development
SCAC	State Committee on Architecture and Construction
SCAMP	State Committee on Antimonopoly Policy
SCE	State Committee on Entrepreneurship
SCI	State Customs Inspection
SCS	State Committee on Securities
SCSPDI	State Committee on State Property and Direct Investment
SCTS	State Committee on Tourism and Sports
SES	Sanitary and Epidemiologic Station
SJSC	state joint-stock company
SME	small and medium enterprises
SSC	Settlement and Savings Company
STI	State Tax Inspection
TACIS	Technical Assistance for the Commonwealth of Independent States
TES	Thermal electric station
TICA	Turkish International Cooperation Agency
UMB	unified monthly benefit
UN	United Nations
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
US	United States

USAID	United States Agency for International Development
VAT	Value added tax
WB	World Bank
WHO	World Health Organization
WLO	World Labor Organization
WTO	World Trade Organization