

**MEMORANDUM OF UNDERSTANDING**  
**between**  
**the Government of the Kyrgyz Republic**  
**and**  
**the Asian Development Bank, Islamic Development Bank,**  
**KfW German Development Bank and the World Bank**  
**on 2007 Joint Country Portfolio Review**

**I. INTRODUCTION**

1. The Government of the Kyrgyz Republic and four international financial institutions (IFIs), namely, the Asian Development Bank (ADB), the Islamic Development Bank (IDB), KfW Development Bank (KfW), and the World Bank (WB) conducted their fourth joint country portfolio review (2007 JCPR) during 15-22 May 2007<sup>1</sup>. This review covers 2006 fiscal year.
2. The 2007 JCPR is of significant development importance for all five partners as the IFIs contribute a substantial part of the public investment program (PIP) directed at stimulating the economic growth and poverty reduction. The 2007 JCPR discussed the performance of the IFI-financed projects in the context of the result-based management and the progress towards achieving the development objectives. This review piloted an assessment of portfolio impact on development of health, education, roads, and irrigation sectors.
3. The 2007 JCPR findings will contribute to finalizing the joint country support strategy by ADB, WB Group, Department for International Development of the United Kingdom, Swiss Cooperation Office, and the United Nations Agencies.
4. The purpose of this Memorandum of Understanding (MOU) is to record the conclusions and agreements reached between the Government and the IFIs during JCPR. This MOU is subject to the approval of the higher authorities of the IFIs. The list of people met is at **Attachment 1**.

**II. MAIN FINDINGS**

5. The IFIs expressed general satisfaction with the portfolio performance, as only one of total 41 currently ongoing projects is rated at risk. This compares favorably with the 2006 JCPR data, when 3 of total 40 ongoing projects were rated unsatisfactory or at risk. The overall 2006 disbursement targets were met, while the procurement performance fell below expectations.
6. The IFIs expressed concerns over the fact that the Government *failed to conduct a semi-annual portfolio review in 2006. This most negatively affected the country portfolio monitoring, and prevented the Government and the participating IFIs to timely take necessary corrective measures to improve portfolio performance during 2006. The 2007 JCPR originally scheduled for mid-March 2007 was also significantly delayed.*
7. The IFIs noted that the Government and executive agencies (EA) strengthened their focus on ensuring the achievement of development impacts under the country portfolio. This includes a substantial progress made during the reviewed period in elaborating the

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<sup>1</sup>The joint review was conducted by a team comprising (i) ADB: M. Ashraf Malik, Country Director; Valeri D. Tian, and Asel Chyngysheva, Sr. Project Implementation Officers; Cholpon Mambetova, Project Implementation Officer; and Gulkayr Tentieva, Economics Officer; (ii) IDB: Nik Zainal Abidin, Director, and Rustam Eshonhujayev, Country Officer, Regional Office; (iii) KfW: Simone Wunsch, Director, Regional Office; and Olga Gorovenko, Local Expert; and (iv) WB: Roger Robinson, Country Manager; Dinara Djoldosheva, Sr. Country Officer, Miran Aldayarov, Ainura Kupueva, and Asel Sargaldakova, Operations Officers.

development strategies for roads, education, and agriculture sectors and preparing specific sector results matrixes. The latter enabled the Government and IFIs to start a more rational discussion on the focus and magnitude of portfolio contribution to achieving the country's development objectives at sector level. *This effort needs to be continued to cover all sectors.*

8. Notable progress was also observed in strengthening the Government's focus on capacity building in community-based institutions established under several projects for rural water supply, irrigation, and rural finance development. *This effort will substantially strengthen the sustainability of development impacts achieved under these interventions.*

9. The 2007 JCPR reviewed the status of the 2006 Joint Portfolio Management Framework<sup>2</sup> and found that the compliance with the agreed actions is mixed. The agreed document includes total 24 actions addressing all 10 portfolio performance areas. The progress in implementing these actions was poor, as only 11 actions were implemented, 6 are pending, one became irrelevant, and remaining 6 are being complied with. The pending actions relate to agreed improvements in *(i) sector policy reforms, (ii) portfolio monitoring at MOF level; (iii) procurement; and (iv) general project implementation environment.*

10. The pending two actions in the area of sector policies reforms include compiling *sector-wide inventories of pending policy and institutional strengthening measures, developing time-bound implementation plans, establish regular monitoring and assign clear responsibilities for its implementation.*

11. *The growing delays in project start up and implementation, which lead to erosion of project benefits,* also continue to generate concerns.

12. *The project implementation environment continues to have problems,* as no decisive action was taken by the Government to resolve the issue of discrepancies in taxation of project inputs and international consultants. The Government also needs to strengthen aid coordination at sector level.

### III. 2007 JOINT PORTFOLIO MANAGEMENT FRAMEWORK

13. The Government and the IFIs prepared the 2007 Joint Portfolio Management Framework (JPMF), aimed at improving the portfolio performance and ensuring the achievement of development objectives (**Attachment 2**). The 2007 JPMF is based on the 2006 JPMF review and the 2007 JCPR findings and recommendations as outlined in the joint background paper disseminated to the Government on 14 May 2007 (**Attachment 3**). The 2007 JPMF constitutes an integral part of this MOU and includes:

- (i) at portfolio impact level, a specific target to develop, update or refine the sector strategies and sector results-matrixes for specific sectors;*
- (ii) at outcome and output levels, updated portfolio performance indicators for portfolio risk factor, procurement and disbursements targets;*
- (iii) all pending actions agreed under 2006 JPMF; and*
- (iv) three new actions related to sector strategies development, merging PIUs at sector level, and refining the procedures for PIU staff remuneration levels.*

14. **Portfolio Impact.** The IFIs recommend the Government to further develop/update/refine sector strategies and sector results matrixes for *health, education, roads, irrigation, rural water supply and agriculture sectors.* The Government will expedite development of strategies for the remaining sectors. *The next JCPR will continue monitoring the portfolio impact at sector level.*

<sup>2</sup> approved by the Goscominvest Resolution №1, dated 26 July 2006.

15. **Key Portfolio Indicators.** The Government and IFIs agreed to pursue (i) reducing the number of projects at risk to zero, (ii) meeting the disbursement and procurement targets set for the fiscal year 2007, and (iii) ensuring timely effectiveness of total 10 new projects and closing of total 6 currently ongoing projects.

16. **Portfolio Monitoring.** The Government and IFIs will review the progress in implementing the 2007 JPMF and revise it as appropriate no later than September 2007. Ministry of Finance, jointly with agencies concerned, will be responsible for organizing the next JCPR and ensuring timely implementation of the 2007 JPMF.

17. **Project Implementation Environment.** The Government will finalize identification and implementation of necessary corrective measures to address discrepancies in taxation of development project inputs, particularly, with regard to international consultants.

18. **Consolidation of PIUs.** The IFIs generally support the Government's initiative for merging PIUs within each sector into a consolidated sectoral unit. However, a cautious approach needs to be applied to ensure PIUs consolidation will not cause interruption to project implementation. *The participating IFIs suggest considering consolidation of PIUs in the education sector, and in the roads, irrigation, and rural water-supply sub-sectors, as a first step in this direction. To implement this action, the 2007 JCPR recommends to the Government to (i) develop and agree with concerned donors the new consolidated PIUs structures, and (ii) review and amend the relevant loan/grant documents, if required, prior to taking final decision on consolidating PIUs.*

19. **PIU Staff Remuneration Rates Defining Procedure.** The Government revised the regulations for PIU staff salary levels to match the market rates. *However, the regulations do not provide for a clear and transparent mechanism for defining individual rates. The Ministry of Finance will issue a detailed instruction to address this irregularity by 30 September 2007.*

20. **Next Reviews.** The Government and IFIs agreed to conduct (i) 2007 semiannual review by 30 September 2007, and (ii) 2008 JCPR by 30 March 2008.

Signed in Bishkek on 29 May 2007.

for the Government

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Akylbek Japarov  
Minister of Finance of the Kyrgyz Republic

for the ADB

for the IDB

for the KfW

for the World Bank

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Attachments:

1. List of People Met
2. 2007 Joint Portfolio Management Framework
3. 2007 JCPR Background Paper

**LIST OF PEOPLE MET**

## 2007 JOINT PORTFOLIO MANAGEMENT FRAMEWORK

Design Summary	Performance Targets/Indicators	Data sources/ Reporting Mechanisms	Risks/Assumptions
<p><b>Impact</b></p> <p>The ongoing assistance effectively contributes to the country development through improved sector policies, institutions, infrastructure and services</p>	<ul style="list-style-type: none"> <li>2007 health, education, roads, irrigation, rural water supply sectors performance indicators are met</li> </ul>	<ul style="list-style-type: none"> <li>MOEF annual report</li> <li>National statistics</li> <li>IFIs and EAs project completion reports</li> <li>Annual sector development reports</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Political and economic situation is stable</li> <li>IFIs assistance is aligned with the Government development strategies</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Clear sector strategies with well-defined and easily monitored sector development indicators mostly do not exist or do not match the resources available</li> </ul>
<p><b>Outcomes</b></p> <p>Portfolio performance improved</p>	<ul style="list-style-type: none"> <li>No of projects at risk decreased from 1 to 0</li> <li>all WB and ADB projects have DO and IP rated as satisfactory or higher</li> </ul>	<ul style="list-style-type: none"> <li>2008 JCPR</li> <li>WB and ADB project performance monitoring systems</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Project designs are adequate and provide with sufficient timeframe for institutional and policy changes required</li> <li>Sector policy actions are timely and effectively implemented</li> </ul>
<p><b>Outputs</b></p> <p>1. <b>Sector policy reforms</b>, institutional capacity strengthening and legal changes agreed under the current portfolio are fully implemented.</p>	<ul style="list-style-type: none"> <li>All agreed policy actions due implemented</li> <li>At least 80% of community-based institutions established in rural water supply and irrigation are sustainable<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>MOTC, MOH, MoE, MAWR reports to 2008 JCPR</li> <li>The Department of Rural Water Supply and Department of Water Resources reports to 2008 JCPR</li> <li>IFIs review missions reports</li> <li>IFI's post completion audit reports</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Proposed policy changes and their timeframes are feasible</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>State budget may not be sufficient to accommodate the new O&amp;M costs</li> </ul>
<p>2. The Government <b>portfolio monitoring</b> improved</p>	<ul style="list-style-type: none"> <li>All PPMS systems in place by due date in all ongoing projects</li> </ul>	<ul style="list-style-type: none"> <li>EA report to 2007 JCPR</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Project design provide with adequate resources to develop and implement the PPMS</li> </ul>
<p>3. <b>Project start-up activities and physical implementation</b> are efficient</p>	<ul style="list-style-type: none"> <li>3 ADB loans (1 JFPR), 3 KfW, 1 IDB, and 3 WB funded projects are effective in due time</li> <li>3 ADB, 1 IDB and 2 WB funded projects closed by due dates</li> <li>average ADB portfolio age decreased from 4.6 years to at least 4.0</li> <li>average WB portfolio age sustained <math>\leq 4</math> years</li> </ul>	<ul style="list-style-type: none"> <li>semiannual portfolio review</li> <li>EAs reports to 2008 JCPR</li> <li>2008 JCPR report</li> </ul>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>The EAs might be affected by changes in the Government</li> <li>Unstable economic environment including price escalations</li> <li>Low capacity of local contractors</li> </ul>
<p>4. <b>Disbursements</b> are better planned and expedited</p>	<ul style="list-style-type: none"> <li>2007 total disbursements target (ADB \$38.8 million; WB \$52.0 mln) are met</li> <li>ADB and WB disbursement ratio (excluding program loans) <math>\geq 20\%</math></li> <li>EA's arrears to contractors = 0 by 31 December 2007</li> </ul>	<ul style="list-style-type: none"> <li>2008 JCPRs</li> <li>MOF's report</li> <li>IFI Missions' reports</li> <li>EAs' progress reports to IFIs</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>2007 PIP limit match the disbursement requirements</li> </ul>
<p>5. <b>Procurement</b> is executed timely and effectively</p>	<ul style="list-style-type: none"> <li>2007 contract award targets are met: <ul style="list-style-type: none"> <li>ADB \$46.0 million</li> </ul> </li> <li>Contract award ratio <math>\geq 20\%</math></li> </ul>	<ul style="list-style-type: none"> <li>2008 JCPR report</li> <li>MOF's report</li> <li>IFI Missions' reports</li> <li>EAs' progress reports to IFIs</li> </ul>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Interference of high officials into procurement process</li> <li>Government's low capacity in project implementation and particularly in procurement</li> </ul>
<p>6. Discrepancies in tax regulations for IFI-financed projects are resolved</p>	<ul style="list-style-type: none"> <li>By 30 September 2007 the necessary amendments to legal documents are agreed with IFIs</li> </ul>	<ul style="list-style-type: none"> <li>MOEF report to midyear JCPR meeting</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>The Government takes a proactive role in resolving the inconsistency of domestic tax regulations with international agreements signed with IFIs</li> </ul>
<p>7. IFIs procedures harmonized and aid coordination improved</p>	<ul style="list-style-type: none"> <li>ADB/WB harmonized procurement and disbursement documents apply</li> <li>By 31 December 2007 at least 2 joint missions fielded</li> <li>Minimum 4 single aide coordination committees and 4 sector PIUs established at sector level</li> </ul>	<ul style="list-style-type: none"> <li>IFIs' reports on harmonization activities</li> <li>IFIs' reports on joint missions</li> <li>2008 JCPR report</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>IFIs committed the harmonization exercise</li> <li>Government effectively fulfills its role in aid coordination</li> <li>EA assumes full responsibility for donor coordinating at sector level</li> </ul>

<sup>3</sup> Sustainability here means that the tariffs/fees/contribution collection matches the operational needs to eliminate the relevant governmental support/subsidies

Design Summary	Performance Targets/Indicators	Data sources/ Reporting Mechanisms	Risks/Assumptions
8. Portfolio supervision by IFI's strengthened.	<ul style="list-style-type: none"> <li>50% of total ADB and 20% of total WB portfolio administrated locally</li> <li>IFIs maintain average 2 missions a year per project</li> </ul>	<ul style="list-style-type: none"> <li>JCPR report</li> <li>IFIs missions reports</li> </ul>	<b>Risks</b> <ul style="list-style-type: none"> <li>IFIs may not have sufficient and qualified staff resources</li> <li>Schedule of individual staff of partner IFIs may not provide for sufficient flexibility</li> </ul>
Activities			Milestones
<b>Sector policies</b> <p>1.1 The Government will develop/update/refine sector strategies and sector results matrixes for health, education, roads, agriculture, irrigation, and rural water supply sectors</p> <p>1.2 The line ministries will prepare, maintain and timely update an inventory of all pending policy and institutional strengthening measures agreed with IFIs under all ongoing project (combined by sector), and develop a time-bound implementation plan, establish regular monitoring and assign clear responsibilities for its implementation, particularly, for the following sectors/sub-sectors: health, education, roads, agriculture, irrigation, rural water supply, and customs.</p> <p>1.3 The EAs and IFIs will jointly review the status of implementation of the sector's policy and institutional changes during semiannual portfolio review.</p>			<p>December 2007</p> <p>30 September 2007</p> <p>December 2007 (pending since 2006)</p> <p>30 September 2007</p>
<b>Portfolio monitoring</b> <p>2.1 MOF will submit a semiannual report to the IFIs on the status of Portfolio Management Framework, key portfolio performance indicators status (including status of compliance with loan covenants, submission of audit reports, implementation progress, disbursement status, timeliness of counterpart funds release, and other portfolio performance related issues ).</p> <p>2.2 MOF jointly with EAs and IFIs review and ensure that the adequate project performance monitoring systems (PPMS) in each ongoing project are place in due time</p>			<p>30 September 2007</p> <p>By respective projects due dates</p>
<b>Start-up activities and physical implementation</b> <p>3.1 The Government will take necessary actions for timely completion of start-up activities</p> <p>3.2 EAs develop and follow detailed time-bound project implementation project plans, review and update them regularly</p>			<p>regularly</p> <p>regularly</p>
<b>Disbursements</b> <p>4.1 MOF plan, allocate and reallocate available resources, in close consultations with PIUs and the EAs, and inform IFIs on decisions made.</p> <p>4.2 EAs carefully monitor the impact of price escalation factor on all large civil works contracts and plan the project implementation and disbursements accordingly</p> <p>4.3 IFIs maintain average processing time for w/a at <math>\leq 10</math> days with individual w/a delay <math>\leq 2</math> weeks</p>			<p>regularly</p> <p>regularly</p> <p>regularly</p>
<b>Procurement</b> <p>5.1 IFIs will conduct: <ul style="list-style-type: none"> <li>at least one operational training (projects preparation, supervision, and completion)</li> <li>2 workshops in procurement procedures for improving the knowledge of senior officials, staff of the EAs, PIUs and domestic consulting companies, contractors and suppliers</li> </ul> </p> <p>5.2 EAs will develop and implement the human resource management policy to retain the staff trained under development assistance projects for at least 2 years.</p> <p>5.3 EAs will implement the Regulations on establishment of tender commissions approved by MOF order №48-n of 9 May 2007.</p> <p>5.4 Except for large contracts, IFIs will respond to EA's procurement recommendations within 14 days</p>			<p>By end-2007</p> <p>30 September 2007 (pending since 2006)</p> <p>regularly</p> <p>Regularly</p>
<b>Implementation environment</b> <p>6.1 To address the discrepancy in regulations regarding VAT and income tax for international consultants the MOF working group will review the associated legislation and donor procedures and develop an efficient strategy for resolving the issues of taxation of goods, works, services, taking into account various privileges and exemptions and agree this strategy with IFIs</p> <p>6.2 The Government will review and harmonize the taxation procedures/ orders/ instructions issued by different government organizations and apply them uniformly to all projects financed by international organizations and donor countries.</p> <p>7.1 IFIs will field joint missions where possible as a part of the ongoing harmonization agenda.</p> <p>7.2 Each ministry will establish a single donor coordination structure replacing the steering committees for individual projects where possible</p> <p>7.3 The Government in consultations with concerned IFIs will establish single sector PIUs in the education sector, and the roads, rural water supply, and irrigation sub-sectors</p> <p>7.4 MOF will issue a regulation to establish clear procedures for determining individual PIU staff remuneration rate.</p> <p>8.1 IFIs will continue to decentralize portfolio administration to timely identify and resolve the project implementation issues, and decrease response time</p> <p>8.2 ADB and IDB will consider possibilities for EA to submit financial and procurement documents in electronic form to expedite their processing and reduce the mailing costs</p>			<p>30 September 2007 (pending since 2004)</p> <p>30 September 2007 (pending since 2006)</p> <p>Regularly</p> <p>30 September 2007</p> <p>30 September 2007</p> <p>30 September 2007</p> <p>By end-2007</p> <p>By end -2007</p>