

Development Forum for the Kyrgyz Republic

Chairmen's Concluding Remarks

Bishkek, May 31, 2007

Your Excellency, distinguished members of the delegations, ladies and gentlemen:

We know all participants agree that the Development Forum for the Kyrgyz Republic discussing the Government's three year Country Development Strategy (CDS) for 2007-2010, as well as governance and aid effectiveness, and including active participation by Donors, the Government, civil society and private sector representatives, has been a great success. Participants express their appreciation to the Kyrgyz Government for hosting this event. Special tribute is due to President Bakiev for his participation throughout the day. The President's highly impressive and insightful statement set the scene for a day of open and candid discussion that was taken forward in the spirit of partnership and cooperation.

We would summarize our conclusions as follows:

Participants noted that since the last meeting two and a half years ago the democratic process in the Kyrgyz Republic has further evolved. While to some extent all structural reforms planned during this period have not materialized, partners acknowledge that the Government and society have been engaged in a very important process. A vibrant discussion has been taking place on national development priorities, and partners encourage the Government to continue the discussions on the Country Development Strategy with all segments of society and to gain broad support for the medium-term reform agenda. The Kyrgyz Republic boasts the region's strongest civil society and freedom of press, and participants welcomed the active participation of civil society in the discussions.

The Kyrgyz Republic has much to be proud of in terms of its recent economic accomplishments. Growth has accelerated recently; in the first four months of 2007, the respective GDP year-on-year growth rates were 9.1 percent (total) and 11.1 percent (non-gold). This growth has been underpinned by prudent macroeconomic management, a stable exchange rate and single-digit inflation. Furthermore, the fiscal performance was the strongest in over a decade, with commendable improvements in public revenue mobilization. Even more importantly, the poverty headcount has fallen from an all time high of 55 percent in 1999 to 43 percent in 2005, and impressively, this reduction has been broad-based across the country.

Looking forward, this Development Forum has helped to clarify key priorities and challenges for the Kyrgyz Republic to make progress on pro-poor reform, with this concluding statement providing impetus and direction. Much work needs to be done to implement the Country Development Strategy and achieve concrete outcomes and results of our mutual efforts for the benefit of the people of the Kyrgyz Republic. This is a critical moment on the development path for the country, and partners fully support the

Government's commitment and efforts to create stronger governance, tackle corruption, and improve the environment for business and investment to promote economic growth and accelerate progress on poverty reduction.

Today's Development Forum focused on three priority areas and we will now summarize the main conclusions of these discussions:

The Country Development Strategy for 2007-2010 (CDS) and discussion of the Government's ambitious reform program.

The Kyrgyz Society, including the Government, Parliament and civil society, under the leadership of President Bakiev, has initiated an important partnership towards the implementation of the Country Development Strategy. Despite political tensions, different sides have shown capacity to define effective compromise solutions. Now, people expect the debate to focus on the development challenges the country must face, and on addressing these. Resolving inequalities between rural and urban areas, between men and women, and adults and children should receive priority attention. The Government will continue to lead the process of CDS implementation; the donor community will align its programmes around the CDS and would welcome opportunities to support outreach and greater understanding of the CDS towards a participatory and effective achievement of its objectives.

There was a broad consensus that the CDS provides an appropriate general roadmap for alleviating poverty and improving living standards. Going forward, credible implementation of the CDS, with close cooperation and monitoring of civil society, is key to elicit tangible financial and technical support from Donors and bolstering investor confidence. Macro economic stability is a vital and necessary requirement, but needs to be complemented by sustained reform for long-term sustained growth. Donors emphasized that the Joint Country Support Strategy (JCSS) reaffirms their strong joint commitment to help the country to implement reforms identified in the CDS.

Participants noted with pleasure the Government's commitment to improve the investment climate and, in particular, they were encouraged by the ongoing negotiations on the Kumtor gold mine. An important signal to investors is the need for predictability and participants were encouraged by Government steps to reduce barriers for business development, including reducing business licenses and enforcing contracts.

Participants underscored the importance of regional cooperation for sustained growth and recognized the Central Asia Regional Economic Cooperation (CAREC) program as the main engine for achieving greater integration, including specifically through their initiatives in the areas of transport, energy and trade facilitation. In addition there are two European Commission programs (Traceca and Inogate) looking at transport corridors and the energy sector.

Participants agreed that civil society has a vital role to play in helping Government to raise awareness of the CDS and development priorities. It was agreed that their participation will be particularly important in the monitoring and evaluation process.

There was a discussion and agreement on the next steps and these include:

1. The Government confirmed the need to establish and implement a monitoring framework that is widely shared. There is a need for a strong action plan section that should stipulate more clearly who does what, with definition of timelines. This effort should include Parliament and civil society, which will help in defining respective roles to strengthen national capacity and ownership to achieve the development objectives outlined in the CDS;
2. Participants agreed on the need to draft and secure passage of key pieces of legislation, especially in areas of energy, mining and governance, and provide in due time a roadmap for reform in the energy sector highlighting next steps;
3. Participants agreed on the need for costed action plans to be defined precisely and to be linked closely with the Medium Term Budget Framework/Medium Term Expenditure Framework and annual budgets;
4. It was agreed that the Government should define and initiate an advocacy and outreach campaign that is aimed at its own internal structures; as well as the Parliament and civil society, to deepen public ownership and understanding of the CDS. The donor community would sincerely welcome the opportunity to assist this effort;
5. Participants agreed on the need to design and implement social safety nets to cushion the effects of essential reforms, such as in energy, on vulnerable groups;
6. Participants agreed on the need for a comprehensive pension fund strategy that will put the Social Fund on a sustainable and firm footing for the long term;
7. Participants agreed on the need to accelerate momentum for public financial management reforms to change the quality and targeting of pro-poor spending;
8. Participants agreed on the need to design a civil service reform covering all government tiers, aimed at creating a professional and merit-based civil service, streamlining government bodies, and reducing the size of the civil service.
9. Participants recognized the importance of strengthening the financial and banking sector and welcomed the Government's efforts to introduce a deposit insurance scheme.
10. Participants recognized the importance of investments in infrastructure, utilities and communications in rural areas to ensure connectivity and improve service delivery.
11. Donors welcomed the intentions of the Government to develop a new debt management strategy and expressed their willingness to provide support in this area.
12. Participants agreed on the importance of increased levels of financing in order to successfully implement the CDS.

Aid Effectiveness, Efficiency and Harmonization

The Government, represented by the Minister of Economic Development and Trade, reiterated the principles of national ownership and leadership, the primacy of the CDS, and economic growth to reduce poverty. Effective and efficient implementation of the CDS with good coordination was called for, with an outcome-focus and sustainability of assistance. The Government welcomed new donors to join the process.

The Donor Community, represented by DFID, outlined the Paris Declaration on Aid Effectiveness and what this meant in practice for the Kyrgyz Republic. The Kyrgyz Republic was praised for actively applying these principles in the health sector, leading to a transformation in public administration practices, better use of national and donor resources, and eventual impact on the health outcomes of the poor.

There was a discussion and agreement on the next steps which include:

1. The Government and Donors re-affirmed their commitment to implement the Paris agenda and monitor progress based on mutual accountability ;
2. The approach used in the health sector will be expanded to other sectors and cross-cutting issues. International experience shows two prerequisites: (i) a clear national strategy; and (ii) strong leadership from the Ministry in charge of the issue;
3. Emerging donors (as confirmed by the delegation from the Russian Federation) will look to apply aid effectiveness principles to their programmes;
4. The Joint Country Support Strategy (aligned to support CDS implementation) will be made more inclusive to all interested donors on the specific request of the German Government and the EU will join the process to increase alignment of donor programs with the CDS;
5. The Government and Donors will review the CDS implementation and donor contributions in a newly established Joint Annual Review process, building on the example of the successful Joint Portfolio Performance Review; the latter will be made more inclusive to all interested donors;
6. The Donor Coordination Council will work more closely with the Government, working towards joint chairpersonship;
7. A specific commitment was made to reduce the number of donor missions;
8. The Government and Donors will look to positively communicate joint ways of working and the positive impact of joint programmes in obtaining the predicted results;
9. It was recognized that aid involves accountability on both sides. There are no Government accounts outside the treasury system and the same transparency is needed on the part of donor governments. The Ministry of Finance encouraged Donors to increase the use of the treasury and budget system for channeling aid resources.

Good Governance and the Fight Against Corruption

The session discussed the critical importance of good governance for private sector investment, including foreign direct investment, and the achievement of the ambitious targets for economic growth stated in the CDS. Participants noted that issues of governance were also discussed at the previous sessions.

The less than perfect situation in the area of governance is reflected in the international ratings, including Transparency International (Kyrgyz Republic is rated 143rd out of 160 countries in 2006) and weaknesses shown in the latest Doing Business and Business Environment and Enterprise Performance Survey ratings.

The participants shared the view that limitations in the system of governance put constraints on the economic growth and the attraction of private investments, including foreign direct investment. Participants stressed the importance of addressing the “implementation gap”, for example, to move effectively to execute the good policies and decisions, and laws and regulations already adopted, and the importance of political will to address governance issues. Participants supported the recent actions by the Government to limit various unwarranted inspections of business entities, and to support the development of small- and medium-sized enterprises.

The importance of the diversification of the economy was also highlighted. The foreign representatives stressed the importance of systematically curtailing rent-seeking behavior; protecting property rights, including intellectual property rights; ensuring existence of solid transparent public financial management; and continuing progress in budget execution. The Government remains committed towards moving to fiscal decentralization, however this process is still underway and needs to be implemented carefully in order to safeguard overall fiscal discipline. The participants also highlighted the importance of reforms in the key sectors, including energy, mining, and agriculture.

The session highlighted the need of engaging the whole society in the prevention of corruption. The Donors asked the President and Prime-Minister not to change the civil servants too often, as aid effectiveness will benefit from stability in the civil service. Stability in senior government positions, in particular, will help to accelerate progress.

To attract investors, there are several success factors, including predictability, credibility, clarity and precision of the rules of engagement, and strong systems. The policy framework needs to be strengthened; more experienced personnel are needed; and follow-up needs to be improved. The session also discussed political and judicial issues, such as constitutional reform and the reform of the courts.

There was a discussion and agreement on the next steps which include:

As the country moves forward, genuine reforms bringing credibility and lowering risks for private investors, particularly in mining and energy, are important. The future priority areas of focus include establishing and executing of a sound policy framework, and

importantly, the “change management” needed to implement it. It is not possible to implement everything overnight; actions need to be divided into short-term, medium-term, and long-term;

The Government indicated that it will, in a transparent manner, discuss in the Parliament issues relevant to investment in the power stations Kambarata-1 and -2;

Policy- and decision-making will be undertaken in a transparent way – a law on constitutional changes was already drafted and will be submitted shortly to the Parliament;

E-Government could help to increase transparency;

1. There is a need for more women in leadership positions;
2. The Government’s anti-corruption strategy needs public participation and participants welcomed civil society’s willingness to help in the implementation. This will be an important ingredient in ensuring its success;
3. In the area of judicial reform an independent judiciary with adequate funding is necessary.

Conclusion. This Development Forum has proven to be a productive enterprise and foundation for launching the Government’s Country Development Strategy. Much work remains to implement the strategy, but as revealed during the discussions, there is both strong commitment from the Government and the donor community to ensure that this strategy has successful outcomes. Donors strongly indicated their long-term financial commitment to the development of the Kyrgyz Republic. Accountability on the part of the Government and Donors demands that we all work in close collaboration and with determination to improve our effectiveness and impact on the ground. Furthermore, it was recognized by all participants that the CDS is a living document that will be adjusted over time and fine-tuned to ensure that the envisaged development outcomes will be achieved.

The President of the Kyrgyz Republic and all participants have set an impressive example for future meetings by the open, inclusive and positive discussion on difficult, but highly important issues.