

KYRGYZ REPUBLIC

**Interim National Strategy for Poverty Reduction  
Progress Report**

Prepared by the Kyrgyz authorities

November 1, 2001

1. The Comprehensive Development Framework of the Kyrgyz Republic to 2010 (CDF) has become a concentrated expression of the general development vision of the Kyrgyz Republic. The National Strategy of Poverty Reduction (NSPR) is a medium-term program for implementation of the first CDF phase. Both of these documents identify poverty reduction as the top priority.
2. The government continuously emphasizes the unique process of designing and implementing these programs, which are based on constructive dialogue between all government branches, the civil society, private sector and the donor community for attainment of the identified objectives. Achievements in this area were highly praised by the international organizations. Many donor-assisted international and national workshops, round table discussions and meetings were held as part of this dialogue. Among others, this includes recent held workshops on promotion of private direct investments; improvement of budgeting process and tax policy; and development of mining industry.
3. In the period from June to October this year, the government has been implementing measures for preparation of the final NSPR document. The interim NSPR (I-NSPR) document, which will be discussed by the Boards of the World Bank and IMF, is already being implemented, while we are taking steps to finalize a final NSPR.
4. A number of important developments occurred in the period between *June and October 2001*. The government undertook important measures to actively continue implementation of reforms, consistent with the IMF-supported PRGF economic program and the World Bank Country Assistance Strategy Progress Report.
5. Favorable conditions were being developed for promotion of entrepreneurship and the private sector. Several legal documents were approved to simplify taxation of small and medium enterprises, to eliminate a number of excessive registration and licensing procedures, unjustified inspections, and to eliminate other obstacles for their development. These are considered to be important measures since the contribution of the entire private sector to GDP has recently exceeded 85 percent.
6. Licenses have been canceled for insolvent commercial banks to facilitate reforms of the financial system and recovery of the banking sector. Jointly with the National Bank, the Government has developed a Regulative Response Policy.

7. Substantial work was conducted on budget-tax adjustments that take into account amendments to the 2001 budget. In August, the government prepared draft state budget for 2002 which was developed using elements of program budgeting. Further steps in this direction included September discussion of budget parameters with IMF mission, as well as submission for review by both parliament chambers of draft budget law and package of draft legislature on amendment of Tax Code and amendments aimed at increasing the budget revenue. On 18 October 2001, the draft budget was approved in the first hearing of the Assembly of People's Representatives of the Jogorku Kenesh. The parameters of the projected budget expenditures for 2002–05, for inclusion in the final NSPR, will be corrected after the adoption of state budget and the draft legislature. The government is making considerable efforts to enhance the Social Fund budget and, starting from 2002, integrate its reporting into the consolidated state budget.

8. Government measures and active implementation of reforms have substantially improved macroeconomic indicators. The inflation rate for January–September 2001 averaged 1.5 percent and compared to December of last year, stabilization of the Som to U.S. dollar exchange rate is also notable. The GDP growth rate for 9 month of 2001 amounted to 6.7 percent over the same period of 2000. High growth rate is noted in agriculture and service sectors. The country experienced positive balance of trade for January–September 2001. Nevertheless, number of sectors are still stagnating.

9. To improve institutional framework for finalizing development and later implementation of the CDF and NSPR strategies, Presidential Decree established a National CDF Council and Secretariat. Close coordination of CDF and final NSPR priorities will be one of the principal areas of Secretariat activities. A Task Force to finalize the NSPR document was developed; it includes representatives of the President's Administration, Prime Minister's Office, state agencies, as well as nongovernmental organizations.

10. The following key issues on poverty reduction will be addressed by the government in the period to 2005 under NSPR: ensure annual GDP growth rate of 4–5 percent; reduce annual inflation rate to 5 percent; achieve a primary fiscal surplus of 3.5 percent of GDP while increasing the allocations for social spending in real terms; increase tax revenue to 15 percent of GDP. Besides, we will further improve budget management processes.

11. We are intending to increase volume of private micro-lending as one of the mechanisms for social mobilization and reduction of poverty. The government guarantees to meet all its social obligations under the approved budgets and will take measures to annually increase real income of people.

12. However, in addressing these issues we face real problems which we hope to successfully tackle, in close cooperation and interaction with international donor organizations. One of the tasks is to reduce by 2005 volume of the Public Investment Program (PIP). The Kyrgyz Republic began active cooperation with international donors to analyze the efficiency of implementing specific projects in order to bring PIP volume in accordance with country's capacity to service external debt. By the end of 2001, we will

develop clear criteria for prioritizing various types of capital investments on the basis of their potential impact on growth, export potential and reduction of poverty.

13. With ADB technical assistance, we are completing the analysis of the PIP projects. But much remains to be done in development of a system to monitor project implementation. We hope to address this issue with WB support.

14. Due to reduction of the PIP volume we are in the process of improving the investment climate and thus increase inflow of direct private (both foreign and domestic) investments and grants for economic and social development.

15. High level of external debt is one of the main problems and a principal obstacle to poverty alleviation. The government will continue to put much effort to reduce the level of external debt. We have adopted a comprehensive strategy for reduction of external debt. Key elements of this strategy include requesting concessional external debt restructurings in the context of the Paris Club.

16. Another complex task for finalization of the NSPR document is an assessment of the total cost of the program. The solution of this problem includes identification of priorities that would correspond with available resources. In relation to this, we have to finalize Medium-Term Financial Framework to 2005 that will become a foundation for identification of resources necessary for implementation of the final NSPR strategy. We hope to receive World Bank assistance in addressing this issue.

17. Another important issue is the need to undertake of poverty analysis for the latest available survey data. In preparation of the final NSPR we will use updated poverty data received from the surveys carried out by the National Statistics Committee. WB support in carrying out complete poverty analysis will be a major contribution to determining reasons for the depth and structure of poverty, and will help in elaboration of the effective measures for reduction of poverty, that will be included in the final NSPR.

18. The government also considers development of the Monitoring and Evaluation system to monitor the progress in CDF and NSPR as well as to monitor and assess development of the country in view of the internal and external threats and risks. This is very important issue, along with elaboration of effective preventive measures, to reduce their negative impact on planned programs. In this area we also hope to receive assistance from the World Bank and other international organizations.

19. The government plans to complete the development of the final NSPR document by September 2002. However, all efforts will be made to finalize the document earlier (by June, 2002). The process will be carried out in close cooperation and interaction with major international donor organizations such as IMF, WB and ADB.

20. To finalize the NSPR document the government needs technical assistance in the following areas:

- Evaluation of the total cost of the program, including identification of priorities that correspond to available resources;
- Review and analysis of poverty situation in the country; and
- Setting up a systematic PIP Monitoring and Evaluation System as part of the budget cycle.

21. Finalization of the NSPR will be carried out by taking into account developments of the international as well as national situation. The impact of September terrorist attacks in the United States and anti-terrorist military operations in Afghanistan could substantially effect economic development in Central Asia, including The Kyrgyz Republic over the medium-term. The experience of our country in the last few years in fighting international terrorism, armed groups and drug trafficking has caused reduction in foreign trade, reduction in tourism and service sectors. The attractiveness of the country for foreign investors and inflow of direct investments have been directly affected by these developments. Besides, the country will need considerable additional financial and technical resources to enhance national security and strengthen borders. Other consequence of military actions in Afghanistan could include inflow of refugees that will also require additional financing. At present, we are assessing the possible impact of these events on the Kyrgyz Republic. Therefore the building of the system to monitor and evaluate threats to development is necessary for our country.

22. We are fully support and ready for active cooperation for implementation of the statement made by leaders of IMF, World Bank and other leading international financial organizations of October 5, 2001 due to the deterioration of the world economic situation after events of September 11 in USA.

23. To ensure general coordination and effective response to the changes in the economic situation as well as to ensure consistency in national economic policy we have established Economic Policy Council, which is led by the Prime Minister.

24. The government intends to adopt necessary measures for mobilization of domestic resources to address these issues, but we need the full and continuous support of the international community in this endeavor.