

**National Council for Sustainable Development of the Kyrgyz  
Republic**

**NATIONAL  
SUSTAINABLE DEVELOPMENT STRATEGY  
FOR THE KYRGYZ REPUBLIC**

**For the period of 2013-2017**

## TABLE OF CONTENTS

<b>PART ONE: TO SUCCEED AS A STATE AND TO ESTABLISH FOUNDATION FOR SUCCESSFUL DEVELOPMENT OF THE KYRGYZ REPUBLIC .....</b>	<b>5</b>
Chapter 1. KYRGYZSTAN AND MODERN CHALLENGES .....	5
1.1. Nation without priorities or twenty years in survival mode.....	5
1.2. Expectations and realities of the post-April period .....	6
1.3. National Development Project – Strategic Vision .....	7
1.4. Five constructive years (2013-2107): to succeed as a state and lay the foundation for successful development of Kyrgyzstan.....	8
Chapter 2. ESTABLISHING A STATE GOVERNED BY THE RULE OF LAW AND ENSURING SUPREMACY OF LAW .....	10
2.1. Strengthening of the legal system as a basic prerequisite for creating a country governed by the rule of law. ....	10
2.2. Ensuring stability of the Constitution and laws, implementation of their potential .....	11
2.3. Respect to the law and increase in legal culture of citizens.....	12
2.4. Ensuring free democratic elections.....	13
2.5. Combating corruption .....	14
2.6. Increasing effectiveness and ensuring transparency of governance Strengthening cooperation between the government and the civil society .....	16
2.7. Development of local self-government.....	18
2.8. Reforming the judicial branch, ensuring that its activities are governed by the rule of law .....	20
2.9. Reforming the law-enforcement branch, ensuring that its activities are governed by the rule of law .....	24
2.10. Establishing a comprehensive system of national security.....	25
2.11. Ensuring military security .....	26
2.12. New understanding of foreign policy .....	27
Chapter 3. UNITY OF THE NATION AS A PREREQUISITE FOR PRESERVING STATEHOOD AND SUCCESSFUL DEVELOPMENT .....	30
3.1. Ensuring inter-ethnic accord through increasing unity of the people.....	30
3.2. Optimizing relations between the state and denominations and among denominations.....	32
3.3. Ensuring freedom of speech and formulating state information policy.....	34
Chapter 4. RESOLVING SOCIAL ISSUES AND CHALLENGES .....	36

4.1. Reform of the Education and Science System .....	36
4.2. Health Care Reform .....	39
4.3. Increasing effectiveness of social protection and pension coverage.....	41
4.4. Improving cultural environment, developing sports and youth initiatives.....	42
4.5. Increasing the role of the family and gender development .....	46
Chapter 5. ENVIRONMENTAL PROTECTION TO ENSURE SUSTAINABLE DEVELOPMENT .	48
5.1. Environmental security and objectives of economic growth .....	48
5.2. risk reduction and improvement of preparedness for emergencies.....	51
<b>PART TWO: ECONOMIC DEVELOPMENT PRIORITIES FOR THE KYRGYZ REPUBLIC FOR 2013-2017 .....</b>	<b>54</b>
Chapter 6. ECONOMY AS PRINCIPAL DRIVER OF SOVEREIGNTY AND NATIONAL SECURITY .....	54
Chapter 7. SUSTAINABLE ECONOMIC DEVELOPMENT AND MACROECONOMIC STABILITY	58
7.1. Monetary Policy .....	60
7.2. Fiscal policy and public debt management.....	61
7.3. Foreign Trade Policy.....	62
Chapter 8. IMPROVING BUSINESS ENVIRONMENT AND INVESTMENT CLIMATE.....	64
8.1. Reduction in the informal economy .....	64
8.2. Tax and Customs policy .....	64
8.3. Investment Policy .....	66
8.4. Small and Medium Enterprise Development.....	67
8.5. Managing State Property and Public-Private Partnership.....	69
8.6 Development of Intellectual Property and Innovations .....	70
Chapter 9. FINANCIAL SECTOR DEVELOPMENT .....	72
9.1. Banking sector .....	72
9.2. A project to create “long-term money” .....	78
9.3. Micro-financing .....	79
9.4. Insurance Activity .....	81
9.5. Private Pension Funds .....	83
9.6. Securities market.....	84
Chapter 10. DEVELOPMENT OF STRATEGIC INDUSTRIES OF THE ECONOMY .....	86

10.1. Agri-industrial sector .....	86
10.2. Energy .....	91
10.3. Mining .....	94
10.4. Transport and communications .....	98
10.5. Tourism and services industry .....	100
Chapter 11. ECONOMIC DEVELOPMENT OF THE REGIONS .....	102
Chapter 12. FROM DISPERSING INVESTMENTS TO THEIR CONCENTRATION (NATIONAL PROJECTS) .....	104
<b>EXPECTED RESULTS .....</b>	<b>107</b>

## **PART ONE: TO SUCCEED AS A STATE AND TO ESTABLISH FOUNDATION FOR SUCCESSFUL DEVELOPMENT OF THE KYRGYZ REPUBLIC**

### **Chapter 1. KYRGYZSTAN AND MODERN CHALLENGES**

In recent years, the social, economic and political life of Kyrgyzstan has been undergoing important changes that shape the future of the country. The people have paid a high price for the opportunity to build on our land an independent and strong, prosperous nation.

In the latest history of Kyrgyzstan the first steps towards restoring statehood and establishing our own economy and reviving our national culture were made in the XX century, under the former Soviet Union. Our people have achieved a great deal in the Soviet period of development, but that era is long gone now.

In the 1990s all fundamental state institutions were created in Kyrgyzstan. Our country takes part in the activities of many international organizations.

At the same time, the inconsistency in the policy that was being implemented until recently, resulted in the fact that many international experts and observers still classify Kyrgyzstan as a “failed” state. There is doubt about the future of the Kyrgyz statehood itself.

#### **1.1. Nation without priorities or twenty years in survival mode**

Kyrgyzstan should find its place in a rapidly changing new world. The people of Kyrgyzstan spent the two decades following the collapse of the Soviet Union were spent in the "survival" mode and are assessed by many as a time of "lost opportunities". There were multiple attempts to improve the situation, including those with significant support from donor countries and international organizations (programmes such as “Comprehensive Development Framework” (2001), “National Poverty Reduction Strategy” (2003), “New Economic Policy” (2009), multiple industry-specific development programmes, etc.) However, due to bad governance, corruption and criminalization of certain state institutions during the rule of the first two presidents of the country these undertakings did not give sufficient positive impetus to national development and have largely failed to achieve their objectives.

The lack of consistency and focus in public policy did not help the development of priority sectors of the economy. As a result, in contrast to many other former Soviet republics, in these 20 years Kyrgyzstan failed to find its rightful place in global economic processes. Kyrgyzstan's economy did not become independent, let alone become a harmonious part of the Central Asian region or the CIS.

Even before the Revolution of April 2010, international studies undertaken in 2009 ranked Kyrgyzstan as the poorest state in the entire CIS. 32% of the country's population, or more than 1.7 million people, lived below the poverty line, of whom about 76% lived in rural areas; the level of unemployment, according to official estimates, was more than 8%, and according to unofficial – at around 14-16%

The factors listed above, as well as many other factors, indicated the inability of the until-recently-existing system of public administration to ensure the rule of law and put the country on the path of sustainable development.

At the same time, no serious conclusions about the condition of the Kyrgyz statehood and the country's prospects have been drawn for quite a long time. Furthermore, the destructive tendencies intensified due to the absence of the rule of law, unresolved issues in the economy, social sector, regional policy and inter-ethnic relations.

Expectations of positive changes after the March (2005) revolution were not met, which again led to the people's revolution and change of government in April 2010.

## **1.2. Expectations and realities of the post-April period**

The adoption of a new Constitution and the first in the history of independent Kyrgyzstan free democratic elections in 2010 and 2011 have revived the hopes of the people for justice and prosperity.

At the same time, the stability that has been achieved throughout 2011 and 2012 is not sufficiently robust. The ability to manipulate the political situation in the country, including that by the external forces, should still not be ruled out. The state and the processes in the country are still susceptible to the influence from outside. Without having its own, strategic development project, Kyrgyzstan will remain highly prone to negative impacts of external projects.

A significant part of the society is still in a depressive state, the country's class of intellectuals has thinned down significantly over the past two decades. There are no effective mechanisms of creating and nurturing social, political and professional elite.

Kyrgyz legal system does not meet modern requirements and challenges. Its condition has given rise to legal nihilism in the society, as well as in the institutions of the state itself.

To date, public administration is in the transition period. As an outcome of multiple reforms, the form of public administration has changed, but the methods used by public authorities in their work, decision-making and implementation have remained unchanged. There is no regular communication within public authorities themselves. Too often, the decisions are formulated based on narrow or corporate interests; the solutions themselves are short-term.

The governance system is susceptible to breakdowns, both horizontal and vertical. Communication between central and local authorities remains weak and ineffective. The functions and powers of the authorities at the Oblast and Raion levels are blurred and not supported by effective mechanisms of implementation. The resources of most local authorities are limited, which does not allow them to fully implement their respective functions and powers.

The platforms for finding solutions, which are now being created with more frequency, are not yet effective enough, which prevents from developing uniform approaches to resolving problems at the national level.

### **1.3. National Development Project – Strategic Vision**

The society has formed a consolidated position with respect to the need to draft and implement a national strategic project - an integrated strategy ("roadmap") for the development of the Kyrgyz Republic. In this case, resolving the most urgent social, political, economic, social, ideological, regional and ethnic issues is inherently linked with the objective of preservation and strengthening of Kyrgyz statehood and national security.

The fact that economic growth is not robust, that social policy lacks certainty are vivid indications that in the twenty years the country is yet to select such a development factor that would be supported by the majority of its people. During the years of independence no public consensus has been found with respect to what country we all intend to build, what is the future of Kyrgyzstan?

The country can no longer continue without clearly defined target indicators, shared by the people; the society cannot be stable without values shared by the majority. Kyrgyzstan acutely needs a strategic document that reflects the common vision of the future, that shows major development vector of the country for the five-year period.

It is important to define such a goal, the path to which will naturally fit into the mindset of Kyrgyzstanis and which will utilize the knowledge and experience that has been accumulated in the previous historical periods of development. Moving forward towards this goal should be a clear-cut necessity for and shared by the majority of Kyrgyzstanis, it should fit into their personal and corporate plans and interests and help in the implementation of these plans.

In this regard the National Sustainable Development Council of the Kyrgyz Republic proposes its vision of the nation's future, outlines key vectors and priorities in activities which should remain unchanged even after changes in governments. The five-year National Sustainable Development Strategy for the Kyrgyz Republic is the first public document outlining key vectors of political, economic and social development of the country that has been developed in the new format of the country's political system.

**Our strategic vision of Kyrgyzstan in the long term is of a strong and independent country that is part of the developed countries, a place that is comfortable for living, a place where their rights, freedoms and security are ensured, a multi-lingual and friendly domestic environment governed by the rule of law, a country with high level of education, healthy natural environment, public stability, international image of state with stable background, robust economic growth and high attractiveness for investors.**

**In the next five years (period of 2013-2017) Kyrgyzstan faces a task of succeeding as a democratic state with stable political system, dynamically growing economy and stable growth in the incomes of its citizens.**

**This National Strategy of Sustainable Development for the Kyrgyz Republic for the period 2013-2017 ("the Strategy") is designed to ensure achievement of this task.**

The actions contained in the Strategy – in various sectors of policy, as well as specific implementation measures are intended to be coordinated with the budgeting process, with provision of sufficient financial and other resources. We should not rely on pure fantasies and make unrealistic plans. There is no need to copy somebody else's

model, to become "the second Switzerland" or to carbon copy anybody. It is only Kyrgyzstan that we all can be, we should find our own development paths and we should rely on our own capabilities.

The Sustainable Development Strategy should become a reference for adoption of preventive measures with respect to internal and external development risks in the medium term and for formulating foundations for sustainable development in the long term.

Having a strategic vision of the country's future will allow implementing projects and plans of the medium-term programmes that feed into long-term development targets of the country. Coordinating medium-term programmes with long-term goals will help with ensuring sustainable development of the Kyrgyz Republic and the country's successful integration into global economy. This strategy is designed to indicate the vector of collective progress forward for the government and for the society towards building a new nation.

#### **1.4. Five constructive years (2013-2107): to succeed as a state and lay the foundation for successful development of Kyrgyzstan**

In the next five years, Kyrgyzstan has to succeed as a state, while the nation's society should gain confidence in the success of the country's development. This is possible only if the state and the society, as part of the implementation of the Strategy, concentrate their efforts on three mandatory conditions, which are:

- **relying on our own resources;**
- **ensuring supremacy of law and rule of law;**
- **ensuring unity.**

In 2012, the public authorities of the Kyrgyz Republic, including those under the auspices of the Defense Council of the Kyrgyz Republic, have initiated development and implementation of a number of strategic documents (concepts, programmes, doctrines, etc.) in the field of national security, foreign policy, ensuring rule of law, ensuring protection of human rights, fighting corruption, addressing ethnic, inter-regional, religious and inter-denominational issues, establishing a workable system of public administration system and effective public service, developing local self-governance.

This work is based on the provisions of the Constitution of the Kyrgyz Republic, universally recognized principles and norms of international law and international treaties of the Kyrgyz Republic, and is reflected in the system of laws, Acts of the President of the Kyrgyz Republic, of the Government of the Kyrgyz Republic.

These strategic documents are based on this Strategy and, together with this document will create a coherent, comprehensive plan for nation building for the coming years, indicating ways, directions and steps to achieve the stated goals. The policy measures, as well as specific implementation measures and development programmes are intended to be coordinated with the budgeting process, with provision of sufficient financial and other resources. Implementation of the Strategy should involve all government agencies, local self-government, civil society and all active Kyrgyzstanis.

It is important for the socio-political and professional elites to realize that without counting only on our own capabilities, without ensuring the supremacy and rule of law and

the unity of citizens, we cannot expect the country to prosper or provide a decent standard of living for its citizens.

## **Chapter 2. ESTABLISHING A STATE GOVERNED BY THE RULE OF LAW AND ENSURING SUPREMACY OF LAW**

### **2.1. Strengthening of the legal system as a basic prerequisite for creating a country governed by the rule of law.**

Kyrgyzstan's legal system – overall, as well as all of its individual components (legislation, the entirety of government and non-government legal institutions, the entirety of legal ideas and positions (legal culture, legal ideology, legal science) are inadequate for modern challenges and needs.

The legislation is characterized by lack of balance and structure (inner contradictions), permanent fluidity, caused by immediate and ill-justified special interests of individual groups.

Such legislative basis disorganizes the operations of the government - including its superior bodies and of non-government legal institutions (public professional associations and citizens). Complying with contradictory and fluid legislation becomes a heavy burden both for the government itself and for ordinary citizens. Such environment gives incentives to those public officers that apply the law and oversee its implementation by others to use their authority at their discretion and in their personal interests, which gives citizens ample justification to openly disregard the law and the state.

This situation is further complicated by weak legal culture – both in the law-making institutions themselves and in the society, and by lack of a robust contact with [legal] science. These conditions have given rise to legal nihilism in the institutions of the state itself; to lack of rule of law in the operations of state institutions, in the behavior of the government and its officials, as well as in the society and in the behavior of citizens and their associations.

Ensuring the rule of law that is based on the principles of observing, protecting and safeguarding human rights in all spheres of public, political and economic life of the country is the main factor in ensuring stability, sustainability of the state and successful development of Kyrgyzstan. Lack of the rule of law and disregard to the legitimate interests of Kyrgyz citizens have twice led to revolutionary changes in government in Kyrgyzstan.

Therefore, the most important emphasis in the work of all branches of government should be on establishing a state that is truly ruled by law, on strengthening legal system of the state and on ensuring supremacy and rule of law in all spheres of life. Kyrgyzstan is only at the beginning of this path and rectifying the existing situation in the next five years will require concentration of efforts in the following areas:

- to achieve a real rule of law, when laws and other pieces of regulation, as well as their implementation practice fully comply with the spirit of the Constitution;
- to achieve supremacy of law, where no public authority, no local self-government or government official could act outside the limits established by the law;
- to ensure real priority of human rights and civic liberties, including through improvement of the work of the institute of the Ombudsman;
- to overcome the alienation between the authorities and the population, to achieve significant increase in public confidence in the government, local governments and in their officials;

- to create a system of such separation of powers that ensures their coordinated functioning and day-to-day cooperation in the matters of sustainable national development, observing the principles of autonomy and independence of the branches of government;
- to increase accountability of the government, local self-government and government officials to the people so that the government discharges its authorities for the benefit and in the interests of the people;
- to complete the judicial reform, to strengthen the independence and authority of the judiciary and its role in protecting rights, freedoms and legitimate interests of citizens and legal entities, as well as of the legitimate interests of the state and the society;
- to create a robust system of public governance; to ensure precise and coordinated operations of the state, efficient, effective and coordinated operations of central and local branches of the government and local self-government;
- to ensure coordination of actions of the legislative and the executive branches, other bodies of the government, local self-government, civil society institutions - including business community, as related to objectives and paths of the country's development; to ensure that these entities are ready to share the accountability for jointly-made decisions.

We must begin the process of consolidating the state bodies, of ensuring their internal unity, strengthening the vertical power structure of the executive. At the same time, we need to establish proper conditions for decentralization of some government functions and authorities, with local self-government or public associations taking over such delegated functions; to ensure proper environment for development of public-private partnership.

The state governed by the rule of law must evolve as a holistic living organism, in which all systems are functioning smoothly and consistently. Each reform – be it political, judicial, administrative, economic - must be a step in the overall chain of legal reforms that fit into a single integrated strategy for sustainable development in Kyrgyzstan.

## **2.2. Ensuring stability of the Constitution and laws, implementation of their potential**

The experience of constitutional reforms in Kyrgyzstan shows that the balance of political forces that was reflected in the previous constitutions was merely an indication of fluctuations of power that existed at that time. At the same time, social and political processes in the country are developing rapidly. What might have been cast in stone and was natural yesterday, today may become an anachronism. Thus, by yielding to the temptation to make hasty changes to the Constitution, we risk to continue the vicious circle of "constitutional reform." Therefore:

Of paramount importance is the increase in the authority of the Constitution of the Kyrgyz Republic. The criticism relating to ineffectiveness of certain provisions of the Constitution should not jeopardize the stability of the constitutional order. Conformity with the Constitution should be the main criterion for evaluation of all actions and decisions made by public bodies.

The main emphasis in the improvement of the constitutional-legal relations should be made not on the constitutional amendments, but rather on adopting an internationally accepted practice of the flexible development of the Constitution's principles and standards to meet the changing needs of real life.

There should be more than good reasons to justify any constitutional amendment and any such amendment should be undertaken with maximum caution.

The same approach should be made with respect to other existing laws and regulations. Frequent changes to the "rules of the game" have a particularly negative impact on the investment climate, it is not conducive to stability in different spheres of life, and paves the way for a variety of violations and abuses.

### **2.3. Respect to the law and increase in legal culture of citizens**

Inconsistencies in the legislation, its fluidity and weakness, as well as corruption in public and private institutions are understandable reasons for lack of respect to the law. In all spheres of life one can observe abuse of authority, neglect to public duty and plain to discharge duties and plain contempt for the law.

At the same time, historic experience shows that the countries that nurture the culture of respect for the law, where the rule of law is viewed as a higher cultural value are able to utilize this as a significant resource for growth and development. Living by law should become a norm for citizens who want to succeed in a nation ruled by law.

To ensure the rule of law in the society, the public authorities should develop and actively introduce into practice legal ways of resolving disputes; further, the authorities should communicate such information to the citizens. This should discourage the conflicting parties from using the rule-of-mob methods: road closures, damage to property, violation of legal rights of other citizens, mob pressure on the opponents and the government.

In order to enhance the legal awareness of citizens and the level of their confidence in legislation, there is a pressing need to adopt a comprehensive national program on legal education of citizens, including the following elements:

- Increasing the awareness of citizens about current legislation, including through creating and developing appropriate institutions and information resources;
- facilitating the access of citizens to laws and regulations;
- improving the methods of teaching the fundamentals of law in secondary schools, universities and specialized secondary and post-secondary schools and in the professional development courses of public and municipal officers;
- increasing requirements relating to the level of knowledge of the law for candidates for state and municipal offices;
- providing a visible confirmation of the effectiveness of legal methods in resolving problems faced by the citizens and, at the same time, illustrating the dead end that the mob pressure methods represent;
- consolidating in the minds and daily life of the Kyrgyzstanis an understanding of the fact that in a free democratic country, the rights and freedoms of every citizen are fully realized and are effective only when such do not violate the rights and freedoms of others;
- providing a visible confirmation of the inevitability of punishment for any crimes and offenses.

## 2.4. Ensuring free democratic elections

The power in Kyrgyzstan must be elected by its people. Rule of the people means the ability of every citizen to freely participate in addressing critical issues of public life, including through the constitutional right to elect and be elected to the bodies of state power and local self-government.

One of the major responsibilities of a democratic state governed by the rule of law is to ensure free and democratic elections. The society and political organizations of Kyrgyzstan have to get used to the fact that the path to power lies only through elections. Only fair elections can serve as the basis for building a strong and prosperous Kyrgyzstan and forming a fair political system in the country.

Holding, for the first time in the history of independent Kyrgyzstan, free and competitive elections resulted in increased political competition. This makes the election ever more transparent, and helps with detecting the use of the so-called “administrative resource” and dirty technologies to which the participants of the election process have become so used to in the previous years.

In order to prevent further use of unfair methods of political competition, the Jogorku Kenesh, the Government, the Central Commission for Elections and Referendums of the Kyrgyz Republic have to conduct a deep analysis of the outcomes of the elections held on the basis of the new Constitution of the Kyrgyz Republic, including the election to local councils in the spring and fall of 2012.

It is necessary to introduce appropriate changes to legislation that ensure the following:

- further reduction (to a point of complete prevention) of the ability to use the "administrative resource" by the officials of state authorities and local self-government in preparing for and holding of the elections;
- effective detection and prevention of use in the election process of those election technologies that are prohibited by the law;
- exclusion of the provisions that allow individual participants of the election more favorable treatment for election campaigning;
- strengthening the enforcement of election laws. The inevitability of punishment for the participants of the election process for any committed violations and abuses;
- improvement in the standards of election campaigning, to ensure respect for the rights of the media to cover the elections, and respect for the rights of voters to obtain a balanced and accurate information, backed by facts and figures;
- Improvement in the legal framework of the election process to accommodate introduction of further checks and balances mechanisms for the purposes of fair, transparent and impartial election administration, proper election monitoring by independent observers, the civil society and free media;

It is also seen as necessary to continue improving the legislation so that the right to elect and be elected can be adequately exercised by the vulnerable, women, ethnic minorities, people with disabilities.

In terms of practical means it is proposed to equip the election process with proper technological means of monitoring (surveillance cameras, biometric passports, e-voting,

etc.). This will be one of the most effective ways of ensuring fairness of elections. Fair elections produce trust and confidence, which translates into stability and security.

## **2.5. Combating corruption**

The National Anticorruption Strategy of the Kyrgyz Republic, adopted in February 2012, and its subsequent implementation steps have allowed the state and the society to deliver the first serious blow to corruption. The positive changes, when it was shown that even the members of the political elite can be brought to criminal persecution, revived the hope for justice among citizens. A series of modifications to the Law of the Kyrgyz Republic "On Fighting Corruption" were passed on August 8, 2012; these modifications aim to implement Kyrgyzstan's international anti-corruption treaties. Also a number of significant changes were passed to other regulations. A number of inter- and intra-agency anti-corruption programmes and plans have been developed.

Sociological surveys suggest that there is more reluctance to take bribes and commit other acts of corruption. For example, at the end of 2012 Kyrgyzstan improved its rating, moving from 164th to 154th place in the Corruption Perception Index rankings of the Transparency International.

However, the reduction in the level of corruption is slow.

The current state of the law enforcement and law implementation systems indicates that they are not able to fight corruption, as they themselves are frequently plagued by the corruption. Positive changes here are slow.

At the same time, combating corruption using only law enforcement and other special agencies means fighting the consequences, not the causes of this social evil. The existing situation requires initiation of strict laws and radical punishments for corruption and abuse of public authority and implementation of effective mechanisms that ensure that punishment for crimes is inevitable.

The legal and institutional side of preventive anti-corruption measures also requires strengthening and involvement of the civil society institutions as an integral part of any anti-corruption measures.

Corruption is still a real threat to the national security of Kyrgyzstan, as it: 1) discredits or hinders economic and social transformation, 2) expands the informal (shadow) economy, reduces tax revenues and reduces the efficiency of the budget, 3) negatively impacts the nation's image in the eyes of its political and economic partners, worsens the investment climate, 4) increases income inequality among citizens, 5) forms in the public consciousness the idea that the citizens are defenseless against crime and against the government, 6) is a breeding ground for organized crime, terrorism and extremism 7) leads to the degradation of moral and ethical values of the society, its traditions and customs, 8) has a negative impact on the formation of the political elite, election process, activities of government, local administrations and civil society institutions, 9) inhibits positive development of society and the state.

In the years 2013-2017 the implementation of the National Anticorruption Strategy will be continued. Priority areas in this activity are:

- Improvement of the legislation in order to effectively detect and prevent corruption among officials;

- continuation of the fundamental reform of the judicial system, strengthening of the rule of law, compliance with the principles of justice, equality of all before the law and the court and transparency of justice. Ahead there is a great deal of concentrated effort towards ensuring ethical behavior of judges, increasing the level of trust in the judicial system, drafting and passing appropriate changes to the law; Changes to the legislation will not jeopardize independence of the judiciary, with the judiciary branch acquiring greater self-regulating authority to ensure compliance with judiciary ethics;

- radical reform of the law-enforcement system of the Kyrgyz Republic, including the bodies of the prosecution and the police. Adoption of a range measures to reduce (to point of complete eradication) the corruption component in the work of law enforcement officers; to support and promote professional advancement of honest and ethical officers. Ensuring better access to resources, implementation of modern information technology, re-alignment of the content of the training programmes for investigators and operational search officers;

- mandatory anti-corruption review of existing and future laws, normative legal acts. A systematic review of existing legislation to detect incentives for corruption, introduction into practice of a mandatory anti-corruption analysis of all bills, draft laws and regulations of the Government and local authorities, departmental legal acts;

- detection and eradication of corruption schemes or of arrangements that breed or are associated with corruption; identification of actual socio-economic root causes of corruption; popularization of law-abiding lifestyle and incompatibility of corruption with the cores of democratic and law-abiding nation; better guarantees that are associated with the implementation of anti-corruption policy of the state in social, economic and legal spheres;

- protection of the public service from destructive influence of corruption; development and implementation of anti-corruption programmes and ethics and conduct codes for government and local self-government officials. Bribes must become unattractive and dangerous to public servants. Career advancement, pay and pensions of public servants should be made directly dependent on the integrity of their conduct and performance;

- improvement of human resources policy, to include selecting senior management based on their respective professional and ethical qualities;

- increasing the level of legal awareness among the citizens of the Kyrgyz Republic, including through the educational system;

- unification of efforts of government and civil society in combating corruption;

- conducting active anticorruption information policy, creating, through the media, a sharply negative image of corruption, forming among the youth an understanding that corruption is flawed, that it is a dead end and that the offenders will inevitably be punished.

The key indicator of success of implementation of anticorruption policy will be the “confidence indicator” of the civil society - its confidence in the results of the national anti-corruption policy, which shall be constantly measured.

## **2.6. Increasing effectiveness and ensuring transparency of governance Strengthening cooperation between the government and the civil society**

The current state of public administration deservedly causes criticism from the Kyrgyz people. The analysis of the previous governance reform measures indicates not only inadequacy of efforts of bringing the operations of government into compliance with the requirements of a state governed by law, but also shows the inadequacies and inconsistencies in the approach to the reform itself. The changes were aimed not at truly reforming operations of ministries and agencies, but mostly at giving new appearance to old contents. There were functional analyses undertaken, there were changes in the number of government bodies, but there was no tangible improvement in the quality of their work, in the quality of their management of socio-economic development processes.

Government agencies still lack the citizen-centered and quality-first approach in their services, which continues to disorient ministries and agencies. The primary objective is not results, but continuation of existence. By concentrating on current tasks, many government authorities lose focus on emerging challenges and sometimes fail to timely develop specific measures to achieve priority goals.

The capacity of the staff of the government and local self-government is still weak. Professionalism, competence and morals and ethics of some government and municipal officers fall short of what is required of them.

The main objective of the Strategy with regard to public administration is to restore confidence of citizens in the institutions of government: legislative, executive and judicial. The task is to:

- to create a robust system of public administration;
- to modernize the government apparatus, including the law-enforcement bodies and the judicial system of the country;
- to improve the quality of the services that the government provides to its chief consumer – Kyrgyzstani citizens;
- to overcome the negative effects in governance, including corruption, lack of professionalism and accountability, as well as overlapping functions, tribalism and regionalism.
- to ensure optimal utilization of not just tangible state property, but also of the intangible, human [humanitarian] assets: through passing norms, rules, designs, strategies and through their respective implementation.

The current Constitution defines the structure of the government of Kyrgyzstan, headed by a popularly elected President. However, the Constitution lays down only the basics of governance, with the specifics to be provided by respective laws and other regulations.

At the moment, many aspects of the relationship among the branches of government, as well as of the relationship between the executive branch and local administration, remain unaddressed. There is still a custom of confrontation between the executive and the legislative branches. There are several unaddressed issues in terms of limits of functions and authority.

There will be a full “inventory count” of the authority and accountability of government agencies, local self-government and an assessment of their efficiency and effectiveness and introduction of actions to remedy the dysfunctions revealed [during such inventory count].

It is necessary to create a system of checks and balances to define accountability of public authorities, including central authorities, for the consequences of their decisions.

The task is to improve implementation practice in government and municipal authorities, because many progressive pieces of legislation are often not left unimplemented. In this regard there are plans for actions aimed at improving legal literacy among government and municipal officers and at improving their professional education and training system.

Particular emphasis in the work to increase effectiveness and efficiency of governance will be made on strengthening and developing vertical and horizontal communications among government bodies, on ensuring efficient, effective and coordinated operations of central and local government agencies, local administrations and self-government bodies.

Multifaceted work will continue to develop and implement administrative and territorial reform, which aims to create an effective and balanced system of national and regional governance. The powers of local authorities will be strengthened in parallel with increased accountability and accountability to achieve the balance required for the effective management and delivery of quality and timely services to the people living in the regions.

Increase in public confidence in the government, as well as improvement of its image in the eyes of the people directly depends on the level of partnership between state agencies and civil society institutions. There is an urgent need to design a programme for successful collaboration.

State agencies and local governments must operate under the close supervision of the civil society. Increased collaboration with civil society, inclusion of citizens and their associations into discussion and making coordinated decisions, constant informing of the public about their work should become integral elements of the work of public authorities, local governments and their officials.

There are also plans for measures to facilitate collaboration between state bodies and civil society (including the business community) with respect to the development and achievement of strategic objectives and paths of the country's development. In order to improve the transparency of public administration, the role of public expert councils and public supervisory boards in government agencies will increase.

It is necessary to formalize, both in terms of legal requirements and in administrative practice the acceptable methods of collaboration between government and civil society. In order to ensure direct feedback it is necessary to introduce the practice of civic involvement in assessing the quality of government and municipal services, using best international and national practices.

For each government body there will be goals for industry policy and indicators of success of the policy. The targets and indicators should be specific for each agency and should be understandable for citizens.

In the years 2013-2017 the Internet will play a greater role in the activities of government bodies, there will be a modern system of "e-government" for the efficient and cost-effective administration, improvement in democracy and increase in the accountability of the government to its people.

One of the priorities for the next five years will be in laying down a foundation for a uniform system of public administration. Its goal should be to create a compact and professional state apparatus that can effectively perform the functions of the state, that provides quality services to the population, that resists corruption and that has the confidence of the society.

It is important to build the human capacity of the state and municipal bodies, to create a uniform database and a system whereby career advancement is encouraged, where it is legally required to rotate government officials to prevent manifestations corruption and tribalism.

## **2.7. Development of local self-government**

One of the most important steps towards establishing a state governed by the rule of law is fostering local self-government. In the past years its development lacked consistency. Along with the successes achieved by the decentralization of public administration and local government development in Kyrgyzstan, there have been periods of stagnation and even some setbacks.

It should be noted that the formation of the legal framework of local government in the past has been inconsistent, making it occasionally at odds with existing industry legislation.

Another problem is the improvement of existing legislation, its development is often initiated without understanding the overall concept of the development and nature of local self-government.

In the nearest future the the reform of local self-government should focus on the following tasks:

- 1. Improvement of organizational and legal framework of local self-government.** This involves the harmonization of legislation in the sphere of local government and ensuring its supremacy over other industry regulations.

The laws and regulations relating to local self-government should be drafted and adopted with consideration to the views of local self-government, so it is proposed to establish an effective mechanism of coordinating such bills with local self-governments or their associations.

## **2. Separation of functions and authorities of government agencies and local self-government (LSG), with delegation of government authority.**

This measure is necessary in order to achieve the proper balance, to prevent the practice of unjustified expansion of functions of local self-government without providing the required financial backing for such expansions. Since all of this impacts the results to be achieved by local self-government and the quality of the services they provide to the population. Here we need to define a clear mechanism for the delegation of state powers and funding for their implementation; this mechanism should be designed to incorporate the views of local authorities.

## **3. Improvement of the system of delivery of municipal services by local self-government bodies.**

This involves improving the functional and territorial aspects of the organization of local self-government, where the key is the realization of the concept of administrative-territorial reform in the years 2012-2017. It is also necessary to optimize municipal services through the formation of a single basic register of and establishment of standards for municipal services, their delivery and application procedures as well as of a mechanism of social procurement order, including the transfer of some powers to implement social services to civil society organizations or businesses.

## **4. Improvement of inter-budget relations, ensuring financial sustainability of local government and effective management of resources at the local level.**

Improving state fiscal policy in local self-government should be directed at strengthening the revenue capacity of local budgets through phased increase of their share in proceeds from national taxes, through including other taxes and revising the allocation mechanism for distribution of stimulating grants and funding for delegated state functions.

There is a need to develop mechanisms that encourage development of municipal-private partnerships and provide state support to partnerships between businesses and local self-government in rural and urban economic development.

Ensuring comprehensive development of a city or village requires the local authority to develop and implement medium-term development strategies (programmes) that are based on the particulars of the situation and given development advantages.

In the matters relating to the control over financing for state projects in the regions it is desirable to increase the role of local government administrations.

**5. Increase in the accountability and role of bodies of local self-government, improvement in the formats of their reporting to local communities and local legislatures.**

**6. Increase in professionalism and capacity building for the municipal service.**

Addressing this matters requires development and implementation of new mechanisms for training and professional development of municipal servants, development and implementation of performance assessment systems for municipal servants, with direct correlation between pay and impact; development and implementation of a Code of Ethics for Municipal Servants.

In order to ensure the proper functioning and further development of local self-government it is seen as necessary to create, within the structure of government, a specialized high-ranking body that will be responsible for developing and implementing state policy in the field of local self-government and will be overseeing matters related to comprehensive development of local communities.

### **2.8. Reforming the judicial branch, ensuring that its activities are governed by the rule of law**

The existing judicial system is largely inconsistent with constitutional principles and international standards of delivery of justice, both in terms of its institutional side and in terms of administering property and procedural law.

The changes that were carried out in the years 1994-2009 did not allow the judiciary to become a full-fledged branch of the government that stays out of the politics and guarantees the rule of law.

Despite the measures that were undertaken to strengthen the status of judges, there were not improvements in the quality and culture of administration of justice. The authority of the courts and the society's faith in the judges have actually decreased.

Some judges and candidates for judges fail to fully comprehend that the status of a judge is about responsibility, rather than about having power or other opportunities.

There is yet to emerge and become effective a self-cleansing mechanism within the judiciary branch that would free the branch from incompetent or corrupt judges.

The judges' accountability mechanism is not properly defined, particularly as related to miscarriage of justice, failure to properly discharge judiciary functions and to judiciary red tape.

The existing court system does not provide adequate access of people to justice and to opportunity to correct judicial errors.

The quality of administration of justice has decreased due to insufficient specialization of judges, stretching of the courts beyond their designed capacity due the courts having expanded authority (arrests sanctions, etc.) and lack of effective mechanisms of out-of-court mitigation.

The practice of administration of justice still contains mechanisms that encourage corruption.

Court proceedings fail to achieve their main task of providing access to fair and open trial.

Court proceedings are not sufficiently transparent, while court acts are not sufficiently available to the public; the legislation does not regulate public access to court documents and archives.

Criminal proceedings have a bias towards conviction, even though legislation gives the freedom of discretion to the judges, higher standards for explanation of the use of such freedom of discretion should be implemented.

Decrease in the public funding for the court system directly impacts the quality of the administration of justice.

The people of Kyrgyzstan, when voting for the 2010 Constitution, have made their choice of having an independent and affective judiciary system. The branches of government and civil society agree on the need to continue the reform of the judiciary branch.

This vector becomes one of the priority directions of the governance reform efforts. The society is expecting positive changes in the judiciary.

The state and the society are putting efforts into creating adequate environment for an independent judiciary.

Further progress in the reform of the judicial system requires updating the existing administrative, criminal, criminal-procedure, civil-procedure laws and laws governing the organization and operation of the courts, the police and other pieces of legislation that is directly or indirectly related to the administration of justice. Its form and contents should meet public needs, scientific knowledge and international practice and standards.

The judiciary system should be transparent, with the information on the activities of its institutions being accessible for the purposes of oversight by the civil society. Eventually, the judiciary branch should become independent, free of corrupt interests, political affiliations and ideological bias, it should become an institution that is a guarantor of the rule of law and justice in the nation.

Having a strong judiciary will ensure the stability of economic relations and ensure competitiveness of the economy.

In the current situation of Kyrgyzstan, the most reasonable and efficient approach is to modernize the existing judiciary and law-enforcement systems, avoiding complete destruction through facilitating their transformation and evolution into completely new institutions. Structural changes in the judiciary system should be gradual, based on or continuing existing institutional framework, with gradual filling of the framework with substantially new contents.

Presidential Decree "On measures to improve justice in the Kyrgyz Republic" dated August 8, 2012 # 147 identified key objectives and vectors of judicial reform in Kyrgyzstan. This Decree has set as the strategic goal the creation of an independent judiciary branch that is capable of reliably protecting the rights and freedoms of individuals and citizens.

This requires completion of the following key objectives:

- reforming the court system;
- improvement in the order of judiciary proceedings;
- humanization of justice;
- reform of the law-enforcement agencies.

The judicial reform should be evaluated depending on the achievement of specific results. Among such results the following are priorities:

- better access to justice;
- rejuvenation of the judiciary through transparent selection of judges on the basis of their professionalism and integrity, as well as through self-cleaning and increase in the accountability of judges;
- ensuring transparency of the judicial system and accessibility of information on its activities for the civil society;
- ensuring actual competitiveness of the sides to legal proceedings;
- encouraging development of alternative dispute resolution mechanisms, in addition to the existing government institutions;
- overcoming the guilty bias in the activities of law-enforcement system and of the courts and ensuring fair administration of justice;
- protecting the people from the threat of torture, from inhumane treatment;
- ensuring that everyone has access to qualified legal assistance;
- effective rehabilitation of the affected and actual implementation of court decisions in shortest time;
- implementing in practice criminal liability for those who attempt to prevent comprehensive, full and objective considerations of cases by the courts;
- systematic approach to capacity building for judges, officers of the court and of the Court Department of the Supreme Court of the Kyrgyz Republic;
- providing proper funding to the judiciary system at a level that meets its actual needs.

Structural changes in the judicial system should be gradual, while ensuring open and inclusive discussion and participation process for all stakeholders, based on the gradual evolution of administrative, criminal, court and procedural laws with the following aims:

- improving judicial review;
- reforming the investigative activities;
- reforming investigative activities;
- competitiveness of judiciary proceedings.

The main objectives in the development of administrative and criminal law, law on the judicial system, procedural law are implementation of the following measures and mechanisms:

- ensuring actual implementation of the principles of publicity and openness of justice;
- organization of the judicial system on the constitutional principles in order to ensure accessibility of the courts, full access to procedural rights of trial participants, and introduction of a mechanism for mandatory correction of judiciary errors.
- ensuring effective and efficient defense and restoration of violated rights of natural and legal persons through court proceedings;
- establishment of a uniform court practice by the Supreme Court of the Kyrgyz Republic;
- creation of a database of all court verdicts (with the exception of verdicts in closed trials) that is accessible to any citizen;
- introduction of robust mechanisms for imposing disciplinary sanctions against judges; legal assignment of responsibility of judges for the quality of their decisions;
- brining the legislation into conformity with the requirements of the UN Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, adopted on 10 December 1984 and the requirements of other undertakings of the Kyrgyz Republic in the field of human rights;
- liberalization of criminal law and decriminalization of offenses that do not pose a significant threat to society, including those in the economic sphere, with their transfer into to the category of administrative violations, while at the same time introducing stricter administrative punishments for these acts, as well as re-evaluation of the severity of certain crimes;
- expansion of the scope of punishments that are not related to imprisonment, including by means of a fine, triple *ayip*, public works and other alternative measures of restraining freedom alternative to incarceration;

- further improvement of the pre-trial proceedings in criminal cases, improving its promptness, including through the introduction of incentives for those who cooperate with the investigation, provided that effective legal protection is provided against unlawful pressure from investigative authorities and oversight by the prosecutor general over such arrangements.

- expansion of reconciliatory instruments in criminal proceedings, including the development of mediation, as well as the expansion of the category of criminal cases of private and private-public prosecution, with the exception of cases of violence against women and minors, cases of torture and cruel treatment;

- documentation of the procedures for release of persons from criminal liability due to reconciliation of the parties, limitations for the application of arrests to perpetrators of minor economic or less serious offenses; exemption from criminal liability in the case of voluntary compensation of damages; - Improvement of law enforcement and public safety based on the best international practices.

- creating environment that is conducive to expansion of out-of-court dispute resolution mechanisms;

- reforming law-enforcement and public security bodies based on best international practice;

- and other directions of judiciary reform that ensure effective protection of rights and liberties of humans and citizens, of the society and the state.

## **2.9. Reforming the law-enforcement branch, ensuring that its activities are governed by the rule of law**

The system of law enforcement which has emerged throughout the years of independence, the organization and activities of the bodies of the Interior, Prosecutor's Office, national security and investigative bodies (hereinafter - the law enforcement agencies), as well as their structure, do not meet the new political and economic conditions of the state and the society, enshrined in the Constitution of the Kyrgyz Republic.

Law enforcement agencies in their current form are inadequately effective in fighting crime. Corruption, lack of professionalism, inadequate resources and financial support – this is the diagnosis that defines the current critical state of the system of law enforcement.

The reform of the law enforcement agencies is expected to be based on the following principles:

- Increased transparency of law enforcement agencies, their accessibility for external public and social control;

- removal of excessive, overlapping functions and authorities;

- Concentration of efforts on protection of the individuals, citizens and the society from criminal infringements;

- overcoming negative trends in the staffing policy, recruitment that is based on professional and ethical qualities of applicants; ensuring advancement of professional and ethical officers, proper representation of ethnic minorities, women and other vulnerable groups among the law enforcement officers, including by means of temporary special measures;

- legislative documentation of uniform approaches towards evaluating criminal persecution aspect of the activities of the law enforcement bodies;

- implementation of the principles of inter-budgetary relations in determining the structure of funding for law enforcement agencies;

- redistribution of powers among central government bodies and local authorities in the field of law enforcement and public safety.

One of the priorities of a comprehensive reform of the system of law enforcement agencies should be legislative consolidation of a uniform approach to issues of social and legal protection of law enforcement officers.

It is also necessary to specify in the legislation the authority and duties of local self-governments as related to protecting public order and in the area of establishing legal, organizational and financial means for implementation of such duties.

## **2.10. Establishing a comprehensive system of national security**

Meeting the challenges of establishing a state governed by the rule of law, preserving and strengthening of statehood, of putting Kyrgyzstan on the path of sustainable development, requires a holistic, comprehensive approach to the matters of national security.

Recent events in the world and in the Central Asian Region clearly show the increasing influence of solutions by force, both to global problems, and to tensions in some regions of the world.

To date, the national security in Kyrgyzstan has been positioned as a separate field and it was a closed-circuit system, concentrated within the defense and law enforcement sector. However, in today's world there are now threats to national security that are not related to violence against the state or a specific individual.

Such sectoral approach to national security reduces its value and prevents from taking into account the threats that exist outside the scope of the defense and law enforcement matters: national security, under this approach, is understood to be only as a protection of the external borders of the state, fighting against or protecting from various destructive forces.

A holistic view of national security problems and ways of addressing them is outlined in the National Security Concept, passed by the Council of Defense and approved by the President of the Kyrgyz Republic.

In order to establish a comprehensive system of national security in the country, the following priority tasks should be implemented:

- protection against external and internal threats to the Kyrgyz state and of our national interests in the international arena, while complying with fundamental human rights principles;

- ensuring territorial integrity and national border security (the work to strengthen borders of the Kyrgyz Republic will continue);

- creation of a special, multi-purpose government system that has wide authority and resources to ensure comprehensive protection of the interests of the country on its borders; completion of construction of and further improvements to border infrastructure, introduction of modern border control methods and technologies.

- protection of the constitutional order. Ensuring due capability of government institutes and operation of the legal system;

- protection of public processes and of social development processes within the framework of domestic cultural and traditional values; shaping social processes in the interests of national development and security;

- Fighting nationalism and ethnic intolerance, overcoming ethno-regionalism in the system of social relations, formation of the civic identity among the population of the Republic;

- Development of government policy in the field of religion and a set of preventive measures to ensure the secular nature of the state and to prevent potential offenses on the basis of religion, while respecting civic freedoms of conscience and religion and international undertakings of the Kyrgyz Republic;

- carrying out systematic combat against corruption, organized crime and drug trafficking. Establishing incentives for legalization of informal (shadow) economy;

- ensuring security of the individuals and their property;

- reformatting the entire law enforcement and defense sector. The main emphasis in the reform must be on clear separation of functions, depending on the objectives of the national security system and on ensuring compliance of these functions with the principles and rules of a rule of law.

## **2.11. Ensuring military security**

In 1992 the Kyrgyz Republic inherited a small part of the defense complex and individual military units of the Soviet Union; this legacy did not meet the requirements of the military security of the independent state. Creating a robust and effective system of armed defense of the country required establishing the country's own national system of ensuring military security.

Until now, Kyrgyzstan failed to achieve significant results in the field of creating proper defense system. Today, almost all components of this system are in poor condition. The command, control and communication systems should be revised and require drastic improvement. There are many unaddressed problems within the Armed Forces themselves.

Today Kyrgyzstan needs to lay a foundation of a modern state military policy that ensures adequate protection against existing and projected military threats. This requires having a core foundation document – the Military Doctrine, which is now being drafted.

The strategic goal in this area for the years 2013-2017 should be systematic improvement of legislative, regulatory, financial and technical foundation for implementation of military reform in the Kyrgyz Republic, which will eliminate the existing challenges in the national defense capabilities and improve the operational capability of the Armed Forces.

Achieving this strategic objective requires agreement in terms of views and approaches to military policy and evolution of the Kyrgyz Armed Forces, to military science and planning and to ensuring succession and uninterruptedness of military reform.

In the next five years the defense sector will receive improved funding, both from the national budget and under strategic international partnerships and cooperation under the auspices of international organizations. Complete re-equipment of the Armed Forces of the Kyrgyz Republic with modern weapons and hardware will commence.

There will also be a Unified Command and Control Centre for the National Armed Forces; this center will be responsible for addressing the following issues:

- increasing professionalism of the army to a necessary level. As a result, we should have an optimal mix in terms of manning our armed forces both through conscription and through volunteers;

- strengthening our territorial defense forces, including on the basis of an effective mobilization reserve. They must become a truly effective means of ensuring the military security of the country, as they fit the principles of self-defense the most. Similar steps should be taken in the field of civil defense;

- Elimination of hazing from the military, which has truly become a plague of the military. To this end, a set of measures will be adopted, providing a legislative toughening of penalties for perpetrators of these shameful crimes, as well as providing for measures to improve protection of the rights of military personnel. It is necessary to ensure robust civilian control of the army;

- increase the effectiveness of work in terms of addressing social problems of military personnel and their families and of the discharged military personnel. First and foremost, this is the housing problem.

## **2.12. New understanding of foreign policy**

Foreign policy of the Kyrgyz Republic should be completely subordinated to the interests of the people of the nation. In this area a search for an international identity should be undertaken, which should be based on national interests, foreign policy resources and effective implementation mechanisms.

There is a need to have a new understanding of foreign policy, which should be based on an informed analysis of the situation in the country, the region and the world, and on the idea that national interests are strategic, long-term and global, going beyond the current political development.

The foreign policy of the Kyrgyz Republic should become predictable, consistent and economically beneficial [cost-effective]. It is important to subject it to the domestic needs and expectations of our citizens.

The principal criteria for evaluating success of the foreign policy should be based on the promotion of domestic products in international markets, on the amount of investments attracted into Kyrgyzstan, on protection of rights and interests of citizens of Kyrgyzstan abroad.

The international community must see the Kyrgyz Republic as a strong and reliable partner that strictly adheres to its international obligations and international law and, at the same time, is capable of protecting its own national interests.

Foreign policy should be based on stable, friendly relations with our neighbors and major powers of the world, as well as with international organizations.

For this purpose it is necessary:

- to conduct an effective and active foreign policy aimed at creating favorable external environment for the development of Kyrgyzstan;

- to develop and adopt a new Foreign Policy Concept of the Kyrgyz Republic;

- to deeply reset relations with our neighbors - Kazakhstan, China, Tajikistan and Uzbekistan, as well evolution to a new level of strategic cooperation with the Russian Federation - the main actor in the increasing integration processes within the CIS. These are the priority vectors in foreign policy;

- when developing good neighborly relations and partnership with neighboring countries, actions should be based on the principles of mutual understanding, mutual benefit and partnership;

- cooperation with external partners should be based on the principles of equality, respect of mutual interests and strict adherence to international law. At the same time, Kyrgyzstan's partners should comply with their own respective undertakings;

- to ensure robust collective security system through the CSTO. Promptly and decisively respond to challenges and threats: international terrorism, religious extremism and drug trafficking;

- to complete legal delimitation of the national borders of the Kyrgyz Republic;

- to create favorable conditions for the free movement of goods, services and labor between Kyrgyzstan and Russia, within Central Asia and with Turkey;

- to support the country's integration into the economy of the EurAsEC countries through Kyrgyzstan's accession to the Customs Union; simplification of border and customs formalities;

- to continue the policy of simplified entry and visa-free travel between Kyrgyzstan and the developed countries of the world;

- to promote and protect interests of Kyrgyz citizens abroad through using all available diplomatic, legal and other means in accordance with international law. Continue development of inter-governmental cooperation mechanisms to protect labor migrants abroad;

- to search for new forms of effective economic and political cooperation with the U.S., the European Union, South East Asia and the Arab region;

- to develop mutually beneficial economic international relations, to improve economic diplomacy.

## **Chapter 3. UNITY OF THE NATION AS A PREREQUISITE FOR PRESERVING STATEHOOD AND SUCCESSFUL DEVELOPMENT**

### **3.1. Ensuring inter-ethnic accord through increasing unity of the people**

The multiethnic people of Kyrgyzstan has a multi-century experience of peaceful co-existence of various ethnicities. The brightest periods in the history of the country were due to the unity of the people, the friendship between people of different ethnic groups.

Kyrgyzstan is a multi-ethnic nation. Apart from Kyrgyz, the country is home to more than 100 various ethnicities, which account for 27.8% of Kyrgyzstan's population. However, the ethnic component in the state policy is inadequate. The task of forming civic identity has been neglected for many years.

Against the background of political instability in recent years, nationalist rhetoric has been on the rise, with decreasing levels of social participation; there is an isolation of ethnic communities, there is still mistrust among them, which considerably weakens the human and social capital of Kyrgyzstan.

The unresolved problems that caused the ethnic conflict in 1990, the complex socio-economic situation, the political crisis and the weakness of the state led to the tragic events in southern Kyrgyzstan in June 2010, which resulted in many casualties.

Problems of inter-ethnic relations are exacerbated by lack of an effective and efficient language policy. The country did not produce a generation that could speak the state, official and foreign languages. Language discussions are heavily politicized and yield little results.

There is no system for managing interethnic relations at the central and local levels, which does prevents from carrying out continuous monitoring and preventive work.

One of the principal conditions for further successful and sustainable development of the Kyrgyz Republic is the formation of civic identity and national unity through the consolidation of all ethnic communities, while preserving their cultural heritage and nurturing tolerance.

State policy towards achievement of this goal will be based on the following principles:

- adherence to democratic values, including rights of various ethnicities. Affirming the rule of law, creating conditions for realization of individual, social, economic, cultural and political rights of citizens, while preventing activities aimed at sowing discord and violating the sovereignty of the country, inciting inter-ethnic, inter-religious strife, division on the basis of regional origin;

- strengthening of the state and formation of civic identity. Development of a common understanding among citizens of the country as a democratic, rule-of-law nation, finding balance between strengthening the common values for all citizens and respecting the differences between ethnic groups. Strengthening the unity of the people of Kyrgyzstan through systematic efforts of the state, local authorities and civil society

institutions aimed at ensuring social cohesion.

- recognition of unity through diversity. Encouraging efforts of government and local authorities, political parties and other institutions of civil society that aim to implement the principle of unity through diversity in all areas, starting from human resources policy to long-term plans of urban development and architecture;

- respect for the historical and cultural heritage of the people of Kyrgyzstan. Promoting respect for the history of the state, and preservation of the tested-by-centuries values and ideals of unity, identity, ethnic and cultural diversity of the country, promotion of intercultural dialogue and tolerance;

- promoting the integrating value of the state language. Understanding by citizens of the need to master the state language as one of the most important fundamentals of consolidation of the society;

- Integration into the global community. Further development of multi-lingual environment as an achievement of the society and an important competitive advantage of Kyrgyzstanis. Formation of a new generation of “tri-lingual” Kyrgyzstanis, that can speak the state, official and one of the global languages, while guaranteeing preservation of mother tongues of ethnic minorities.

Achieving this goal involves development of a set of measures aimed at strengthening the statehood and the rule of law, improving the work of the state bodies, local self-government, supporting civil society initiatives; such measures will address the following tasks:

- building a system of accountability for the implementation of policies to manage ethnic relations and language policy, to prevent conflicts; establishment of an authorized national government agency, establishment of the necessary infrastructure in the center and the regions;

- creation of a system of conflict prevention, based on a comprehensive approach and cooperation among state agencies, local governments, civil society, including through establishing consultative and advisory bodies within the auspices of government agencies;

- implementation of balanced language policy as means of effective promotion of the unifying and integrating role of the state language, creation of adequate infrastructure for learning the language, preserving linguistic diversity of the country through the ability of Kyrgyz citizens to speak the official and other languages;

- establishing a common civic identity, adoption by the society members of a concept of *Kyrgyz Jarany* (citizen of the Kyrgyz Republic), of ideals of patriotism, inter-ethnic accord and tolerance; fostering the culture of peace and zero tolerance towards any violence and discrimination.

Achieving the goals outlined in the Concept requires that each of the proposed measures is included in relevant plans and programs of the Government of the Kyrgyz Republic and local administrations (with adequate state budget funding).

The expected outcome - strengthening of Kyrgyzstan as a nation-state, a state that is based on civic identity, not on ethnicity.

Achieving the stated goal is a long-term process that requires coordinated and persistent work of government and non-government institutions of the country, of all its citizens.

Among the priority actions is the Concept that aims to ensure unity of the multi-ethnic people of Kyrgyzstan and improvement of ethnic diversity management. This Concept is now being developed, following the Decree of the President of the Kyrgyz Republic "On urgent measures to strengthen public security in the Kyrgyz Republic" (Decree # 24 of 1 February 2012) and the Resolution of the Parliament of Kyrgyz Republic "On the Draft State Concept of National Policy of the Kyrgyz Republic» (#891-V dated June 30, 2011). After the Concept's approval, the implementation plan, with specific actions, indicators, time frames and implementation oversight mechanisms will be presented.

### **3.2. Optimizing relations between the state and denominations and among denominations**

With the democratization of the society and transition to market economy there was a significant increase in the number of people who have turned to religion, which is due to unresolved social and economic problems, lack of clear national ideology and due to active work of denominations.

The nature of the religious situation existing in the Kyrgyz Republic at the moment is contradictory. On one hand, citizens can freely exercise and propagate their religions. At the same time, there are a number of problems: radicalization of the representatives of certain religions, its politicization, poor interaction between the state and religious organizations, defects in the system of religious education, lack of state and public control over them.

Kyrgyzstan today is being transformed into a place of clash of interests of various external religious and political projects; these projects are sowing discord both between the state and religious communities, and among believers of different faiths.

In recent years the situation is becoming more complicated due to increase in religious extremism throughout the world and in the Central Asian region itself, which poses danger of terrorist acts and poses threatens national security.

It should also be emphasized that religious extremism can not be equated with religion as a whole. Therefore, the problem is not actually with religion, but only with its radical forms, where ideology is used to justify the means, including violent means. Activities of government agencies to curb extremism must be directed against certain those specific religious groups or individuals that adhere to extreme forms of interpretation of beliefs that are in conflict with the Constitution of the Kyrgyz Republic, that denounce democratic norms and rules accepted in the society, human rights and freedoms.

The Concept of National Security of the Kyrgyz Republic, approved by Presidential Decree # 120 dated June 9, 2012, specifies goals of joint actions by the state and the religious community to fight radical religious groups.

The actions of law-enforcement agencies in detecting and preventing religious extremism should be conducted strictly within the limits prescribed by the law and should be proportionate to the threats they are designed to prevent. Otherwise such actions may lead to radicalization of certain religious groups. Prevention of religious extremism should focus on education and awareness, on analysis and eradication of the root causes of radicalization.

One of the causes of radicalization of some religious movements is the inadequacy of the Islamic religious education system, which does not meet modern requirements and the needs of the society. Our nationals travel abroad to get their religious education. Some of them fall under the influence of various extreme beliefs and, upon returning to homeland, bring alien ideals, controversial customs and foreign outlook and behavior norms.

It is necessary to legally define the standards of religious education, to streamline religious education of our citizens both at home and abroad.

Order is required in the organization and conduct of the pilgrimage (Hajj), which rightfully gets criticized in the society.

The purpose of the state policy in the sphere of religion is to create a system of cooperation among the government, religious and social institutions; to strengthen inter-denominational harmony, tolerance and to develop effective forms and methods to counter religious extremism.

Achieving this goal should be based on the following key principles:

- mutual respect for religious beliefs, protection of fundamental rights to freedom of conscience and religion, equality of all citizens;
- responsibility and transparency of the state and religious denominations for constructive cooperation;
- protecting national security for the benefit of the society as a whole, zero tolerance to religious extremism, while strictly complying with the law and observing rights of citizens.

Achieving this goal involves development of a set of measures aimed at improving the functioning of central and local authorities and supporting civil society initiatives; such measures will contribute to the following tasks:

- Increased effectiveness of cooperation between the government authorities and religious organizations;
- realization of the civic rights to freedom of religion, support to ideas of consent, and tolerance in all spheres of public life;
- Effective countering and reduction in the level of extreme religious threat to the society, prevention and eradication of the root causes of radicalization.

As a result of implementation of policy in the sphere of religion, Kyrgyzstan should remain a secular democratic state, and develop along that path, with traditional beliefs and religions practiced privately, without violating human rights.

Given the new realities and threats, as part of implementation of this Strategy, there will be review the Concept of the State Religious Policy of the Kyrgyz Republic (approved by the Resolution of the Government of the Kyrgyz Republic # 324 dated May 6, 2006) and amendments to religious regulations.

### **3.3. Ensuring freedom of speech and formulating state information policy**

The right to freedom of speech is one of the principal achievements of the people of Kyrgyzstan and protecting this right in our country is enshrined in the Constitution of the Kyrgyz Republic, and in a number of international instruments, including the Universal Declaration of Human Rights.

Kyrgyz Republic has created adequate conditions for independent mass media. However, there is a need to develop an effective public information policy, which should feature a range of political, legal, economic, socio-cultural and organizational activities by the state for the purposes of protecting the constitutional right of citizens of access to information; formation of a unified information and telecommunications space of the nation as a basis for addressing socio-economic, political and cultural development needs of the country and ensuring its security. The main vectors of the state information policy in the years 2013-2017 will be:

- continuing the policy of protecting freedom of speech, protection of constitutional rights of citizens to freedom of expression, freedom of speech and freedom of the press;

- ensuring openness and transparency of the central and local government authorities;

- Improving the legislation and practice of central and local government authorities to ensure the rights of citizens to seek, receive, store, and use information and disseminate it orally, in writing or otherwise;

- ensuring, in accordance with the law, guarantees of citizen's access to information held by central and local governments and their respective officials;

- interaction with the media, public and independent professional organizations and associations in the field of information in order to: (1) ensure freedom of speech, (2) ensure compliance with the law on the rights of citizens to access information, (3) ensure security of the journalists; (4) ensuring prompt response of central and local governments and their officials to criticism in the media, (5) mutual respect and mutual accountability of the officials and the media; (6) ensuring compliance with the legislation for the purposes of preventing propaganda of national, ethnic, racial, religious hatred, gender and other social supremacy, (7) ensuring compliance with the laws for the purposes of preventing spreading of information that incites discrimination, hostility or violence;

- develop and implement effective projects and activities in order to raise awareness of citizens of Kyrgyzstan on the main areas of public policy. To include in the National Budget, beginning from 2014, funds for information projects of government authorities to support implementation of the national information policy;

- to design capacity building and professional development programmes for the press officers and officers of other units of government responsible for liaising with the

public, given the growing role of information and need for prompt response to informational needs of the society;

- support to and further development of public TV and radio-broadcasting in Kyrgyzstan;

- active preparation for and introduction of proper infrastructure for timely transition to digital broadcasting – as one of the priority national projects. Falling behind in development of digital television may result in irreversible losses in terms of creating informational space at this new technological age. In accordance with the approved plan of activities, due to the transition to digital broadcasting, Kyrgyzstan will enter the global information space, the state will fulfill its social functions in the field of culture, education and enlightenment, which will also create a common information space in our country; the TV-broadcasting network will be reorganized into a sustainable industry that has potential for further growth and development.

- the spread of internet-access – by 2017 all inhabited points in the country will have full-scale access to Internet, is one of the priority tasks in terms of human capacity development, ensuring economic growth and fostering development of culture, education, health care and individual growth.

## **Chapter 4. RESOLVING SOCIAL ISSUES AND CHALLENGES**

The main directions of the state social policy of the Kyrgyz Republic in the years 2013-2017 will be focused on the implementation by the state of constitutional provisions on social guarantees for citizens of the country, the implementation of the tasks of human development in Kyrgyzstan consistent with modern requirements and capabilities of the state, as well as in compliance with respect to international commitments to social rights.

In 2000, Kyrgyzstan, as most of the international community by adopting the Millennium Development Declaration and the Millennium Development Goals (MDGs), has expressed its commitment and has undertaken to address the eight key tasks that appear in this document. In Kyrgyzstan the MDG indicators have become a part of the system of basic indicators for medium- and long-term development of the country. They have been included in the national monitoring system for national strategic documents and assessment of the implementation progress of the MDG.

However, despite certain progress in the achievement of the undertakings contained in the Millennium Development Declaration, there are many areas where progress has to accelerate. According to the official data, almost half of the children (48.5 percent) still live in poverty, and one in eight children suffer from extreme poverty and deprivation. Unfortunately, infant and maternal mortality rates are not decreasing.

The presented strategy aimed at ensuring sustainable development of the Kyrgyz Republic, and its implementation will also help to achieve the Millennium Development Goals. Creating new jobs and increasing revenues will expand the abilities of the Government of the Kyrgyz Republic to improve the lives of Kyrgyzstanis, including through solving social problems, improving social assistance to pensioners and other low-income groups.

In the social sphere, there are a number of areas and challenges that will have to be addressed as a priority, concurrently with the economic development objectives.

### **4.1. Reform of the Education and Science System**

Analysis of the current state of the education system of the Kyrgyz Republic indicates presence of numerous problems hindering progressive development towards quality education.

The current situation is characterized by a constant lagging of the education system behind not only global needs, but even behind the needs of the Kyrgyz society. Therefore, the appropriate answer to this challenge lies only in reforming the education system.

The education sector employs and trains about 1.5 million Kyrgyz people. The most important step in the reform of the education system in Kyrgyzstan is the adoption of the Education Development Strategy for 2012-2020. Its implementation is aimed at creating a flexible, open, and modern national education system, combining the best national traditions of education and international experience.

The fundamental principle of the reform should be that the education system should ensure competitiveness and economic prosperity of the country, and also add value and improve the quality of human capital.

The main priorities in the field of education is a pre-school and secondary school education, i.e. the functions for which the state is responsible.

For pre-school education the main objective is to improve psychological and educational readiness of children for secondary schools. To ensure equal opportunities for children at secondary schools, there is a need to adopt measures aimed at implementing pre-secondary school preparation programmes for children.

Given the acute shortage of pre-school institutions, there is a need to create enabling environment for introduction of alternative models of pre-school institutions, to mobilize the private sector under public-private partnership arrangements. This requires making enabling amendments to existing legislation.

There is a set of inter-related problems that have to be addressed at the secondary school level. Emphasis should be placed on review of the contents of secondary education, on introduction of a new generation of content standards, on providing textbooks and also on creating conditions for the development of information technology, especially in remote schools. It is necessary to create a safe, tolerant and multicultural learning environment in every school, ensure inclusiveness of the education system, including education for children with special needs and children from vulnerable families. Strengthening the principles of public-private approach to managing education and reducing corruption in educational institutions there is a need to establish Boards of Trustees.

The priority in educational activities at this stage should be the formation of ethical and moral foundations of a personality through the moral and cultural values and traditions of the people. Upbringing and education should be naturally interrelated processes.

The role of the state in professional education also requires review. The main problem is the weak link between standards of professional education and actual requirements on the domestic, regional and global labor markets. The institutions of primary and secondary professional education are still not adequately collaborating with the labor market and the private sector.

The review of the economic performance of the education system in 2011 shows unjustifiably high maintenance costs for the infrastructure of primary vocational education. At the same time, every year, more than 3 thousand students of such institutions fail to find employment.

Significant shortcomings in the system of secondary vocational education are the lack of clear definition of the status and role of secondary vocational education in the multi-tier education system and the obsolete state of learning facilities and laboratories that are not adequate for the task.

Increasing the status and quality of professional education – vocational education above all, requires:

- eliminating the gap between the structure of professional education and the requirements of the labor market, which will require active involvement of the employers in drafting new educational standards, assessing the skills of graduates and establishing certification and appraisal centers.

- improve the quality of human resources of the primary and secondary professional education institutions – including through cooperation with the business through the implementation of joint projects.

- make every possible effort to update the upgrade equipment and facilities of the professional education institutions to bring it into compliance with the expectations of the labor market from the graduates.

The quality of education is one of the most reliable indicators of the future development of any nation. According to the "Review of the Cost-Effectiveness of the Education system of Kyrgyzstan," as of 2011 there were 52 higher education institutions in the country, which, if one takes into account branches of the HEI's, translates into 20 HEIs per 1 million people. This is significantly higher than in many developed countries. For example, in the United Kingdom - a country that provides a very high standard of education, there are only 2 HEIs per 1 million of population; in Russia the figure is 6 HEIs per 1 million population, in Kazakhstan the figure is 10 HEIs.

Many higher education institutions in Kyrgyzstan do not meet the requirements of quality higher education providers. The HEIs, chasing greater revenue, increase the number of the so-called "contract" student groups, which results in the over saturation of the labor market with the graduates that the market does not want. The facilities of the HEIs themselves do not allow for obtaining quality higher education, the professional level of faculty is extremely low.

The most acute problem is the wide-spread corruption in the higher education sector, which, eventually, erodes and destructs the national foundation, by limiting the ability of the nation and the people to carry out transformations.

Establishing an environment that allows for production of highly qualified professionals requires:

- improving the quality assurance system in the higher education system, including through accreditation and rankings for the HEIs.

- removing the gap between the expectations of the labor market and the quality and content of the output of the higher education system, which requires education to be based on the analysis of national priorities and economic development strategies for the nation's regions;

- review the existing mechanisms for funding for higher education (calculation of actual minimal expenditures per one student and use this amount as a basis for allocation of funding to HEIs, to develop mechanisms for the refund of public funds should the state-sponsored student decides to change field of study, leave the university or finds employment in a field different from the field of specialization;

- carry out constant struggle against corruption by improving mechanisms for the selection of university applicants, introduction of new forms of quality control in education, establishing supervisory boards;

- developing university science, including through applied science, which will ensure involvement of students and faculty in developing economically significant projects for the nation.

Higher education, eventually, should be governed by market principles, with some element of state procurement for the output of the sector. This mechanism should be based on the studies that identify the state of the market and of the education system itself, that monitor development trends in economic and other spheres of life, and that allow for prompt response and modification to the education system, based on the development priorities of the country.

Any new content in the education sector, even the most progressive, will be absolutely useless if it is not accompanied by the introduction of new technologies in education. Today we need to focus the system of secondary, specialized secondary and higher education on producing a new generation of specialists in the fields of information and communication technologies, which could be one of the keys to fostering rapid economic, scientific and cultural development in the future.

One of the key conditions of increasing the quality of higher education is ensuring its close connection with science and research. Today we have a situation where education and science exists mostly separately from each other, which is one of the reasons of the stagnation both in science and in the higher education systems.

There are multiple problems in the theoretical science as well. We should stop the erosion of the prestige of scientific ranks, which is caused by a number of reasons, including the corruption in the system of training of scientific personnel. Most of the fields of Kyrgyz science are isolated from global science, there are no major scientific projects in the country. This causes lack of innovations, the falling behind of the Kyrgyz science both in fundamental research and in applied sciences. The proposed science policy should be aimed at achieving competitiveness and balance in the science system so that the system ensures generation, preservation and transmission of the knowledge that is required for sustainable development of the country and at increasing the prestige of scientific occupation. New approaches are required to organization of science by the National Academy of Science, so that domestic science can break into a new level of development, integrate with education and ensure utilization of scientific achievements in the economy, education and in other fields.

## **4.2. Health Care Reform**

The current state of the health care indicates not only lack of funding, but profound problems within the country itself.

Almost all current official indicators of public health show deterioration of the situation; at the same time, there is a growing realization that even this gloomy data fails to capture the true magnitude of the crisis in the sector.

One of the key problems is the ineffective and inefficient spending of allocated resources. Of all public allocations to the health care, 80% goes towards covering the

labor and maintenance costs. Direct costs per patient (pharmaceuticals, nutrition) is 20-25% of these allocations. At the same time, the unofficial payments to medical staff are continuing to grow.

The majority of medical equipment needs to be upgraded and replaced. All of this affects the quality of health care services. In this sector, the quality of service is even more critical than in the education sector.

The problem of the lack of qualified health care professionals in the rural and remote regions of the Kyrgyz Republic is becoming more and more acute. The problem is not in the absolute number of personnel available, but in the number of medical personnel that is ready to serve in rural areas. There are no social and economic incentives to attract young medical professionals to the rural areas.

There is also a major problem with supplies of drugs. Very frequently, the drugs that are needed to maintain a stable health are expensive. There are many cases where doctors sell the drugs that they should have been issuing for free.

Corruption in the health care sector prevents the most vulnerable from having access to basic medical services, it increases discrimination of citizens by their social status, has an adverse impact on governance and reduces opportunities for economic development.

Given the economic situation in the country, the state health care policy should be aimed at

- ensuring effective and efficient use of the resources available to the health care sector;
- Optimizing the structure, the network and expenditures of the health care institutions, promoting competition in the sector through attracting investment into the industry, promoting public-private partnership in the sector, and handover of non-clinical services to private suppliers (outsourcing).
- carrying out coherent, comprehensive work towards designing and implementing new legal, organizational and other mechanisms for combating corruption and increasing the responsibility of health care providers;
- increasing the quality of medical services, especially in the regions;
- Improving staffing policy, improving the quality of training in medical schools and colleges;
- improving disease prevention;
- Enhancing control over compliance with sanitary and hygienic norms;
- development of medical science.

There is a need to attract more investment in the modernization of hospital care, into construction and equipping of new health centers that meet international standards,

further expansion of best practices to the regions. The modernization of hospitals should progress in such a way that both significantly increases the quality of services, without negatively impacting the affordability of the services for common people.

At the same time, there is a need to implement modern health care management methods, with greater autonomy in making internal decisions while increasing accountability for the results.

There is a need to revise the content of medical education, to develop new tactics to training medical and pharmaceutical professionals.

Considerable efforts of the public health care system should focus on issues of public health and sanitation, and on the development of measures to address primarily the issues of health promotion.

Access to safe water and adequate sanitation also largely influences the effectiveness of healthcare. Greater attention should be paid to issues of water supply, sanitation and hygiene, which are vital for the entire population of Kyrgyzstan, especially for children.

It is necessary to define, at the government level, the water-supply, sanitation and hygiene policy, especially in the regions, to study the needs in and ways to improve access to water, sanitation and hygiene in education and health care institutions and to promote the principles of hygiene as a key element of the public health strategy.

It is imperative to increase the quality of health care services and to influence the population to change its attitude towards its own health. These tasks are to be addressed by the National Health Care Reform System “*Den Sooluk*” for 2012-2016.

#### **4.3. Increasing effectiveness of social protection and pension coverage**

The 2012-2014 Social Protection Development Strategy of the Kyrgyz Republic is the first document that contains a comprehensive vision by the state of the future of the social protection system. The implementation of this Strategy should be supported by all necessary measures. The support that the state provides should be targeted and effective.

There is a need to establish a comprehensive system of social and economic relations that aims to provide multi-lateral support to people with disabilities and senior citizens, to children from low-income families, to mothers of children of disabilities, to households with incomes below the socially accepted subsistence minimum.

Kyrgyzstanis have access to pension coverage: they all have the right to either years-of-work, social or other pensions. In 2011, for the first time the average pension exceeded the minimum subsistence level.

The government will continue its policy of annual pension increases to ensure a decent standard of life for all senior citizens. To date, a significant portion of the pensioners is still unable to cover their needs through their pensions.

In 2012, the number of pensioners was 551 976 people, which is a slight increase compared to previous 4 years. Of these pensioners 413 958 pensions are age-based; 89 216 are disability-based and 48 802 pensions are paid to households that have lost breadwinners.

The current pension system does not meet modern requirements and in the future could become unbearable. It does not encourage citizens to save for retirement, it does not take into account the real contribution of working citizens in the creation of the pension fund.

In addition, according to various estimates, more than 10% of the total population of Kyrgyzstan are now working and living abroad. Their incomes are not registered, they are not making contributions to the state social insurance system and they will not qualify for pensions in the future.

There is also a deteriorating ratio of employed citizens to retired citizens. At the moment, given significant outward labor migration, the number of those citizens who are contributing to the social fund is slightly more than the number of pensioners. However, in accordance with the recommendations of the International Labour Organization, there should be at least three contributors per each pensioner.

Achieving effective and efficient pension system requires implementation of a number of measures aimed at improvement of the following key parameters:

- tariff policy of the state social insurance in order to achieve its adequacy in relation to the different segments of the economically active population to ensure their access to meaningful pension in the future;

- the policy of funding pensions from the state budget;

- the policy of indexing pensions which should be based on the inflation levels and average pay dynamics in the economy;

- improvement of investments of the assets of the accumulative component. There is a need to define uniform approaches to and methods of investment, control, and management of investment of pension assets. The key tasks here should focus on preservation of assets and achieving maximum return while maintaining acceptable levels of risk;

- efficient use of investment resources of the accumulative component. Prudent investment of pension accumulations could fuel economic development;

- improvement in security of non-government pension insurance. There should be measures taken to encourage development of non-government pension funds, with preserving safety of investors.

#### **4.4. Improving cultural environment, developing sports and youth initiatives**

Creating and developing cultural environment should be one of the most important elements of the overall improvement of the quality of life in Kyrgyzstan. Culture plays a leading role in the development of human capital.

Kyrgyzstan's transition to a market economy in 1990s was characterized by the absence of a sound policy for conservation and development of culture. This has led to the destruction and depletion of considerable intellectual and professional resources of the sector, qualitative and quantitative reduction in the network of cultural and educational institutions in the field of culture, a shift in focus of the culture actors: from intellectual and enlightenment activities to mass and entertainment.

Today there is a need to develop a Concept of Culture Development that would define priority tasks, including such tasks as: development of the creative potential of the nation, preservation of cultural values and traditions of the people, tangible and intangible cultural heritage and its use as a resource for future development, upbringing of the younger generation in the spirit of civic duty and patriotism, introduction to the world and national culture.

Culture is an important resource for development of the nation. The state culture policy should concentrate on shifting emphasis from the top-down approach to creating enabling environment for the culture's self-evolution. Cultural policy should be aimed at identifying the needs of the population structure in the products of culture and ensuring access of the people to basic services through the implementation of infrastructure projects and development of cultural institutions and bringing the network of culture providers in accordance with the actual structure and dynamics of the population of the country and integration of the functions of cultural institutions.

There are also unresolved problems in physical education and sports that demand solutions. Physical education should form the basis for healthy lifestyle. The analysis of the current situation as well as the outcomes of development and implementation of the Concept called "Priorities for Development of Physical Education and Sport for 2011-2016" reflect crisis in this sector.

Health indicators among various groups of population, including children and adolescents are deteriorating; only 6-7 % of the population is engaged in physical activities and sports, which is below the critical threshold of the security of the gene pool of the nation (15%); more than half of the young men of the age of conscription is unable to meet the physical fitness requirements. Successes of our athletes on the international scale are now extremely rare occurrences. The Olympic movement in the country is very poorly developed.

The strategic goal in terms of physical education and sport are to create conditions that focus citizens on a healthy lifestyle, including through physical education and sports, development of sports infrastructure, improving competitiveness of Kyrgyz athletes.

Achieving the targets will require execution of the following activities:

- development and implementation of a special programme for development of physical culture and sports, including regional components;
- reintroduction of a physical condition norms for students of secondary schools. The criteria which will form the basis for the physical fitness norms should be based on, first and foremost, suitability for secondary schools, including for those schools that do not have modern sports facilities and equipment;

- developing a programme for separation of sports into various competition levels for better financing and successful development.

At the same time, the sports should be classified into following:

- priority sports, which can give actual results in the Olympics, if public funding or additional public-private partnership funding is provided.

- promising sports, that can be successfully developed in our country, given the natural and climatic environment and other factors;

- sports that are popular with the people (sports that can successfully develop on their own);

- mass sports (those that can be funded by local budgets).

At the moment, 32% of Kyrgyzstan's population is youth. According to research undertaken by international organizations more than 35% of the youth is studying and 50% are employed. A significant part of the youth that is neither studying nor employed is a social risk group.

The youth is an important development resources for the society, because it is highly mobile, intellectually active, it has good health, it is open to new things and are willing to make their contribution towards betterment of the country.

At the same time, the youth, being socially active, needs effective support from the government and the state so that it can fulfill its existing potential. Therefore, it is particularly important that the youth policy in Kyrgyzstan is implemented based on the principle of encouraging active participation of the youth itself, on the principle of creating enabling environment for the youth to independently resolve the challenges faced by it.

Due to this, the principles of the state youth policy are as follows:

- ensuring rights and freedoms of young citizens;

- supporting progressive youth initiatives;

- creating a new generation of professional elite of Kyrgyzstan from the representatives of today's youth;

- taking into account the interests and needs of various groups of youth, regardless of their gender, ethnicity, social status or religious affiliation;

- targeted protection and support to the vulnerable groups of youth, including to the youth with disabilities, orphans and adolescents from large and dysfunctional families.

The main feature of the of youth policy is the inclusion of the young people in all development processes in the nation, opening new opportunities for them. The priorities in the state youth policy have been defined as follows: patriotic, moral and ethical development of the youth; fostering constructive activities of the youth and support to socially significant youth initiatives; promote economic independence of young people and

support in their right to work; popularization of healthy lifestyle among the youth, of proper upbringing and education.

A positive trend of recent years is the increase in political activity of the youth and its desire to have an impact on the state policy. Young people should have guaranteed access to social and state development processes, they should be able to realize their potential in education, culture, leisure and sports activities.

There is a need for effective measures to bring the youth to the public service at all levels of local government; to involve them in the work of legislative bodies at all levels so that the interests of the youth are taken into account by the executive and legislative branches. One of the major challenges facing society and the state is to prepare highly qualified specialists that are in demand in the labor market, that have high level of professional competence and possess knowledge of modern production technologies.

Therefore, there is a need in measures to provide better access to education for all young people. Therefore, one of the priorities in the work of education bodies should be providing formal and informal adult education.

An important problem faced by the youth in Kyrgyzstan is unemployment, which results in high levels of migration.

Analysis of the situation in the field of labor migration shows that the causes of the continued high rates and scale of migration directly relate to the situation on the domestic labor market and to demographic changes in the population structure of the country. Over the last years, the growth in working age population has outpaced the growth in employment by more than two times.

The government policy in the fields of labor and migration in Kyrgyzstan should be aimed at streamlining internal migration and at creating conditions of civilized development of labor outward migration and increasing competitiveness of the economically active population.

For this purpose it is necessary:

- to create socio-economic background and proper conditions for accelerated development of the real sector of the economy that would be adequate for development of national and regional labor markets and implementation of active employment-promotion measures;

- create adequate conditions for civilized entry into the global labor market through increasing the skills of the labor resources.

There is a need to build a system to work with migrant workers, which would ensure the protection of their economic and social rights, as well as their access to education and building a career in the country of residence.

#### **4.5. Increasing the role of the family and gender development**

Strengthening the family as one of the main institutions where the foundations of patriotism, tolerance, civil behavior are inoculated, is essential for sustainable development of the society. The socio-political situation in the country directly depends from the economic situation and the outlooks of each family living in our villages and towns.

Over the past years, due to of increased internal and external migration, the traditional family ties have dramatically weakened. The economic crisis and changes in the ownership relations have led to the crisis of the family as the foundation of the society. This indicates that over the years of independence the share of children born out of wedlock has almost tripled: If in 1989 the share of such children was 12.7%, today it is 31%. The indicators of maternal and child mortality have increased, there is greater occupational segregation in the labor market.

Women are more likely to make a choice in favor of education, which is later transformed into lower-paying occupations. The pay in traditionally “female” occupations is 2.5 times lower than in traditionally “male” occupations, as “female” occupations are mostly funded by the state budget and have been to a lesser extent affected by the onset of the market economy.

Men have also experienced negative consequences of socio-political and economic stereotypes, with the prevalence of stereotypes that view men only “bread-winners”. Today, the suicide rate among men in Kyrgyzstan is four times higher than among women. Average life expectancy of men is only 63.5 years, women, on average, live almost nine years longer. There is a decline in the level of education of men, which can lead to more conflicts in the family and society, lack of tolerance to differences, and greater willingness to use brute force.

However, in the years of Kyrgyzstan’s independence support to and development of family were never the focus of state policy, there was not a single government programme in this area. Some aspects of this problem were reflected in the Comprehensive Program for the Support of Family and Motherhood for the years up to 2015 and in the National Strategy for Gender Equality 2020, adopted in 2012.

These documents contain isolated measures to support the institute of family. Support to motherhood and children boils down to payment of miniscule entitlements. The situation is compounded by the critical condition of the state services that are supposed to facilitate domestic work and child care. Currently, pre-school education covers only 14% of children, which limits the ability of women with children to seek jobs and advance career-wise. In the recent years there has been an increase in the supporters of religious beliefs, customs and traditions. This is manifested in the form of early marriages and childbirth at early age, which inevitably may lead to deterioration in the status of women, limit the ability of girls to get education and professional training. One manifestation of this trend is the “exodus” of women from government, which has reached a critical level in 2005-2007, when not a single woman was elected to the Parliament. Introduction of temporary special measures into the Election Code of the Kyrgyz Republic has had a positive impact only on the country’s external image, but is still far from having a significant effect on the advancement of women and improvement of the family situation in general.

Today we need to take real, effective government measures to support families, to expand the range of tasks and priorities of the Comprehensive Program for the Support of Family and Motherhood - 2015 and of the National Strategy for Gender Equality. However, this primarily depends on the state of the national economy. At the same time, investments into family, into expanded economic opportunities for women produces very high returns. According to research data, women spend up to 90% of their income towards their families, which leads to the improvement of the society as a whole.

Implementation of this policy should be based on the following principles:

- respect for human rights and gender equality;
- public guarantees for the protection of family, childhood, parenthood and increased responsibility of parents for children upbringing;
- cooperation and collaboration between government authorities and the civil society.

The goal of the public family and gender policy is to create a framework for enhancing the role of family as a basic unit of the society, for expansion of economic opportunities available to family and advancement of women and men.

There is a need in special government measures to support families and gender development that would achieve the following objectives:

- analysis of the true situation of family-related matters in the Kyrgyz Republic and development of comprehensive government measures aimed at strengthening the institute of the family, increasing its role in the society in comparison to other traditional institutions;
- shift in the focus from political involvement of women to increased economic opportunities for women through the expansion of female employment into traditionally non-female occupations and expansion of women entrepreneurship support programmes;
- adoption of measures to reduce the number of early marriage, reduce violence against women, consolidate positive traditions, support mothers and fathers in their exercise of parental functions and combining of career with family duties.

Implementation of such policy will strengthen the family as one of the major institutions where the foundations of sustainable development are laid down

## Chapter 5. ENVIRONMENTAL PROTECTION TO ENSURE SUSTAINABLE DEVELOPMENT

The conceptual framework for sustainable development consists of satisfying the needs of current generations without endangering the satisfaction of needs of future generations. Today it is obvious that the country can only remain in the channel of global development if itself changes and revises old approaches and methods of the resolution of economic, political, and environmental problems and forms a contemporary model of sustainable national development based on interrelation and interdependence of all these components.

### 5.1. Environmental security and objectives of economic growth

**Current status:** Kyrgyzstan's ecosystems ensure geographical space which enables the biodiversity to develop. Today, amidst the ever-increasing population, one can notice a major pressure on natural ecosystems. This growing pressure is underlain by growing poverty, increasing resource consumption, lack of infrastructural development, and demographic growth exacerbated by irrational management of natural resources and environmental pollution.

Economic growth and structure of the national economy are mostly based on man-made extensive and natural resource-intensive development. In this regard, the country fully depends on the state of its ecosystems. This situation creates risks of a rapid deterioration of economic indicators in case of depletion of natural resources and environmental pollution.

Adverse consequences of the operation of the existing "brown" economic system are significant: (i) environmental problems and depletion of the natural capital (climate change triggered by anthropogenic activity and, firstly, emissions of greenhouse gas, carbon-containing gasses, pollution with hazardous chemical substances, loss of biodiversity, degradation of agricultural land resulting in desertification, lack of irrigation and fresh water); (ii) increase in poverty; (iii) threats to food security and (iv) energy security; (v) inequality of people and countries.

Prospectively, one needs to take into consideration that a historically raw materials-based economy depletes itself as demonstrated by the problems in the development of a sustainable balance with environment and inability to ensure quality of human development.

Transition to sustainable development makes it necessary to include the environmental factor into the system of primary economic development indicators. Underestimation of the environmental factor in decision making is largely related to the conventional economic development indicators' lacking cost of the use of the natural capital, the so-called balance of natural resources reflecting their use (disposal) and economic assessment of damage from the environmental degradation.

The Kyrgyz Republic is a party to 13 international environmental treaties and conventions obligations under which facilitate the support of environmental sustainability and enable the country to prevent the degradation of its natural resources.

At the UN RIO+20 Sustainable Development conference in 2012, Kyrgyzstan expressed adherence to long-term sustainable development via promotion of “green economy” priorities that combine the growth of revenues and public employment thanks to foreign and domestic “green” investments aimed at promoting new technologies to improve the energy and resource efficiencies of both the production and consumption, reduce emissions and pollution of the environment, and prevent the loss of biodiversity. The strategy of a “green” economy stresses resource saving, labor productivity increases, and profitable ways to mitigate the load on the environment to transition to new growth schemes without overstepping critical local, regional and global environmental thresholds of sustainability.

The “green economy” strategy takes into account all values of the natural capital as factors of production and provides for a transition to a resource-efficient and low-carbon development based on rational nature use and promotion of low-waste or no-waste approach to production and consumption as well as the a growing introduction of renewable energy sources: solar energy, wind, water, geothermal sources and biofuel.

Since the planning of sustainable development implies taking into account environmental threats and risks, adaptation to climate change is becoming more relevant these days, which results in the weakening of food and energy security and questions the uninterrupted water supply, and unfavorably affects public health, thus becoming another burden on the population, especially its poorer strata.

Servicing the Kyrgyz Republic’s foreign debt is also one of the adverse factors affecting rates of transition to sustainable development. At the same time, the country already has some experience in implementing socio-environmental projects the implementation of which will enable the country to reduce the burden of foreign debt thanks to mechanisms of exchange of foreign debt for sustainable development. The exchange of foreign debt for environmental protection has become particularly relevantly.

**Policy and measures.** Economic activity ensuring the reduction of poverty and social progress on the one hand, and not exceeding levels of environmental sustainability of natural ecosystems on the other hand, requires more efficient planning and management of the national transition to sustainable development via various elements of “green” development.

In order for that to happen, the government plans to form and consistently implement the uniform state policy in environmental security and protection covering all aspects of ecosystem’s sustainability. Here, it is important that the environmental policy be oriented at sustainable use of natural resources to ensure sustainable economic growth via improvements in national competitiveness, intensification of development and growing labor productivity.

In order to ensure growth of labor productivity, economic diversification and exports potential, the government plans to more effectively work on tools of business environment regulation and development of industries including the production of environmentally sound products with regard to which Kyrgyzstan possesses potential comparative advantages. Firstly, this is agriculture and energy, as key priorities of green development, and the ever-important mining sector, resource-efficient processing sectors of agriculture, environmental tourism and several areas of services.

Therefore, the investment policy will gradually transition to principles of rationalization of natural resources-intensiveness. Reductions in natural resources-intensiveness will organically help combine two processes in the economy: (1) reduce the consumption of natural resources and pollution; (2) and simultaneously increase quality of economic growth via modernization and improvement of technologies, introduction of low-waste and resource-saving production, and recycling. Both these directions provide for an in-depth structural reconstruction of the economy toward more nature-saving and science-intensive technologies.

Taking into account the issues of adaptation to climate change in the strategic planning, including: potential of water and energy resources, energy industry, agriculture, disaster risks will bring Kyrgyzstan a notable economic benefit and will enable it to minimize hazards to human health, human property, and public infrastructure by reducing a corresponding economic damage.

Taking into account the retention and restoration of natural ecosystems must become one of the priority directions in state and public activities since it is this direction that will ensure connection of generation and will guarantee opportunities for future economic growth.

**The new state policy** in environmental protection and ensuring energy security is aimed at:

- a gradual shift to a system of strategic planning of sustainable development by all subjects of economic, social and environmental activity irrespective of their form of ownership providing for equal attention to its economic, social and environmental components;

- minimization of adverse environmental consequences under economic growth by assessing the environmental impact of planned commercial and other development projects;

- a fee basis for the use of nature and reimbursement of damages to the environment inflicted as a result of violations of the environmental legislation;

- accessibility and openness of environmental information;

- participation of all interest groups in decision making on environmental protection and rational use of nature at both national and local levels.

Primary **objectives** of the implementation of the state policy in environmental protection and ensuring environmental security will include:

- improvement of legislation in nature use and economic mechanisms for nature use to create favorable conditions for the application of technologies, attraction of “green” investments and adaptation to climate change;

- ensuring environmental impact assessment among planned commercial and other development projects;

- improvement of a system for accounting for, and reporting on, parameters of environmental pollution;

- creation of a sustainable system of environmental control and monitoring and rational nature use for balanced managerial decision making;

- introduction of new financial tools to promote green technologies via green taxes, customs duties, green procurements, and green investments;

- rational use of renewable natural resources which precludes the degradation thereof by way of incorporating monitoring and evaluation of indicators of environmental state and security into the practice of industry-specific nature use;

- increase in energy efficiency and reduction of losses especially heat and electrical energy and promotion of renewable energy sources;

- state support of sectors of the economy aimed at creating “green” jobs.

## **5.2. Risk reduction and improvement of preparedness for emergencies**

The Strategy provides for the improvement of work of state bodies and their interaction with the civil society in comprehensive safety of population and territories from the risk of natural and man-caused disasters.

The Kyrgyz Republic, due to unique natural and climatic conditions of its mountainous terrain, is a state prone to numerous natural calamities. Fluctuating elevation and temperatures, groundwater, precipitation, water balance and water horizon, as well as geomorphology of soils, tectonics and seismic activity create serious natural threats to sustainability of development and render an ongoing adverse impact on the country’s public and economy.

At the same time, let us note that no lesser number of development threats was caused by man. Kyrgyzstan boasts 92 radioactive and toxic sites of the mining industry, including 36 dumping grounds, with 31 of which containing radioactive waste. The location of the majority of them in the vicinity of the formation of cross-border water flows in territories with high seismicity, proneness to mudslides and landslides represents a major danger to the entire Central Asian region. Hazardous chemical substances are still used in industrial companies and in agriculture. In addition, one needs constant monitoring of levees and other hydrological facilities of water reservoirs. All these issues need a proper system of monitoring and control.

Annually, the country registers about 200 emergencies of various nature, whose direct damage, according to the Ministry of Emergencies of the Kyrgyz Republic, totals around USD 30-35 million while the government only allocates USD 6 million to prevent and manage them, with the number of emergencies occurring in the country annually growing steadily.

All of this makes the government look for new solutions to the protection of population and territories from emergencies and foresee future threats, risks and hazards and develop methods for forecasting and preventing them.

The National Strategy for Ensuring Comprehensive Security of the Public and Territories of the Kyrgyz Republic in Emergencies and Crises for 2010-2015, as adopted by the Government of the Kyrgyz Republic in 2012 is the main document that determines the public policy at this stage as aimed at ensuring a guaranteed level of protection of the country's population and territories from emergencies within the range of reasonable risk.

In order to achieve the main goal – ensure comprehensive security – the country plans to follow the five priority actions of the Hyogo Platform for Action for 2005-2015: “Create disaster management capacity at the state and community level:”

1. Ensure that disaster risk reduction is a national and a local priority with a strong institutional basis for implementation.

Goal: create a legislative framework to effectively manage disaster risks.

Objective: improve the legal and institutional framework for effective disaster risk management.

2. Identify, assess and monitor disaster risks and enhance early warning.

Goal: improve the risk assessment, monitoring and early disaster warning in the Kyrgyz Republic.

Objective: identify threats, vulnerabilities and disaster risks for all populated territories of the Kyrgyz Republic.

3. Use knowledge, innovation and education to build a culture of safety and resilience at all levels.

Goal: reduce consequences of disasters by improving education and sharing knowledge.

Objective: create a national infrastructure to raise awareness about opportunities and methods for disaster risk reduction via information sharing.

4. Reduce the underlying risk factors.

Goal: Measures to reduce disaster risks are included into the Kyrgyz Republic development strategy.

Objective: create mechanisms to identify and include disaster risk mitigation and management into the Kyrgyz Republic's development policy, programs and projects.

5. Strengthen disaster preparedness for effective response at all levels.

Goal: reduce human and material loss resulting from disasters.

Objective: enhance capacity in preparedness for, and responding to, disasters at the national regional, district levels and the local government level (including the development of early warning systems), as well as improving capacity in disaster risk mitigation.

The implementation of this strategy is aimed at solidifying the national sustainability by preventing and significantly reducing losses from natural calamities, decreasing the number of possible victims and casualties and volume of social, economic and environmental damage taken.

## **PART TWO: ECONOMIC DEVELOPMENT PRIORITIES FOR THE KYRGYZ REPUBLIC FOR 2013-2017**

### **Chapter 6. ECONOMY AS PRINCIPAL DRIVER OF SOVEREIGNTY AND NATIONAL SECURITY**

The priority of the economic development component of the Strategy stems from recognition of an objective fact that, at present stage, it is the state of the economy that is the principal driver of sovereignty and national security.

Last leaders of the former Soviet Union had failed to apprehend the importance of the economy and hastily shifted priorities towards political reforms, which caused disorganization of the country's livelihood systems and disintegration of the Soviet Union.

Kyrgyzstan's economy should become independent and yet, at the same time, an integral part of the regional and global economies. It is important to understand that the priority industries of the economy will bring tangible benefits to the people of Kyrgyzstan only if their outputs and services will be in demand, competitive and recognizable in other countries, first and foremost – in the neighboring countries and members of the Customs Union.

The major focus of the public authorities in the years 2013-2017 will be to create in Kyrgyzstan such environment that is most attractive for domestic and foreign investors. Special attention will be paid to development of mining, energy, tourism, agriculture, transport, financial sector, as well as to those ventures that are based on new and environmentally-friendly technologies.

The Strategy also calls for re-orientation of the part domestic business due to the prospect of joining the Customs Union.

Successful implementation of the Strategy will allow Kyrgyzstan, by the end of 2017, to achieve significant progress towards achieving energy independence, and make a serious bid for the acquisition, in the near future, of a status of a major exporter of electricity.

With the commissioning of new energy facilities, Kyrgyz citizens should forget the concept of "rolling blackouts." Additional production of low-cost electrical energy will expand the number of businesses, increase production output and create new jobs in the small and medium business sector and will revitalize regional economies.

The mining industry is an important strategic sector of the economy and as such, it requires the government to create favorable environment for attracting investments into development of the natural resources of Kyrgyzstan. The outcome of this work should be effective protection by all state institutions, including local authorities of the law-abiding investors. Relationships between investors and local community should be based entirely on the law. We must ensure that the population is aware that investors bring in significant funds and create new jobs, contribute to regional development and higher standards of living and therefore, the attitude towards investors has to be positive and constructive.

At the same time, when creating favorable environment for domestic and foreign business, social responsibility norms for the businesses should not be overlooked. Such an approach should be employed with respect to all investors - domestic and foreign, regardless of the magnitude of their investment. An important role in this regard can be played by business associations, which should actively promote interests of the business community and fight corruption.

There is a need to sharply reduce the scope of controlling and licensing functions of public authorities. Recognizing the importance of providing economic freedom, you must use the regulatory powers of the state to control the private sector over its compliance with labor, pension, tax and environmental legislation.

A significant part of the Strategy is devoted to agriculture. Kyrgyzstan should not only ensure its own food safety, but it should also regain the status of a major supplier of organic agricultural products and processed goods to the international market that meets international standards and requirements.

Rural areas are home to more than half of the population of the country; therefore, development of agriculture is both an economic and a social task. For a farmer the quality of natural resources used in the industry is of vital importance. First and foremost, this is land and water. By 2017, rural residents will have access to 50 thousand hectares of new and reclaimed irrigated land; with irrigation and potable water provided to additional 80 thousand farms, or 200 thousand people. There will also be allocations of funds and mobilization of external loans for rehabilitation of irrigation systems in the area. Water will bring life to the fields and significant improvements to the lives of those who are engaged in the agricultural sector.

The Strategy contains specific infrastructure measures to turn Kyrgyzstan from a "transport deadlock" into a "transit" country. Planned construction of railways will give impetus to the development of regional economies, will address the problem of access to mineral deposits. All this will increase employment and improve economic well-being of the population. This will provide additional transport links between the North and the South of the country. It is also envisaged that every year more than 300 km of automobile roads with asphalt/concrete pavement will be constructed and at least 150 km of roads will be repaired, with complete resurfacing of the asphalt. In the telecommunications sector a number of projects will be implemented, including the fiber-optics trunk line and conversion to digital TV and radio broadcasting, which will allow Kyrgyzstan to integrate into global informational space.

One of the most important priorities of Kyrgyzstan is tourism industry and the acquisition by our country of a status of a large, regional center of tourism and recreation that meets modern requirements.

Economic development is impossible without development of competition in the financial services system; therefore, the state will use its power to facilitate access of entrepreneurs and citizens to financial resources, as well as to increase public confidence in the financial system. For entrepreneurs it is important that banks take into consideration the needs and interests of customers. However, the customers themselves need to improve their financial literacy and knowledge of the law so as to avoid conflicts. The country has all the necessary prerequisites to become a regional financial center in the future.

It is important to use the advantages that the nation had acquired in the XX and XXI centuries. Kyrgyzstan is well-positioned to become an integration platform in many areas of cooperation and interaction in Central Asia. Create environment to establish an International Banking and Finance Centre in Kyrgyzstan, a Regional Modern Arts Center in Central Asia and fostering development of knowledge-based industries.

At the moment the state is not fully performing its function of a regulator. Here, there are still major challenges caused by bureaucracy, corruption, and the cumbersome, expensive and ineffective licensing system.

The share of public sector in the economy is still significant, government spending accounts for about 30% of GDP. The budget deficit is growing. Increasing the stability of the state budget and ensuring discharge of social undertakings in full requires the government to focus on fostering economic development, as the level of tax revenue and insurance proceeds to the Social Fund are in many ways restrained by the sluggish economic growth.

The 2013-2017 economic development policy that has been outlined in this document, will be aimed at ensuring efficient use of national natural resources, overcoming the social consequences and bringing the economy on a stable course of development in an environment of improving political situation in the country.

The document identified those economic priorities that, in the next five years, should have a significant impact on the state of the economy, of the national budget and the labor market. Therefore, the main criteria which drove selection of economic priorities for the years 2013-2017 were: (1) high added value, (2) tax revenue capacity, (3) job-creation and unemployment-reduction capacity.

Accelerated implementation of the economic priorities contained in this document will, in the next five years, have a positive impact on reducing the budget deficit and reducing social tensions through increasing employment.

The business environment for the medium future should be focused on the restoration and strengthening of healthy investment climate in the country, de-bureaucratization of government regulation and provision of economic freedom to economic entities. Starting from 2013 and in the next five years it is necessary to carry out persistent and systematic work to ensure that in 2017 Kyrgyzstan is ranked in the top 30 of the Doing Business ratings, with Kyrgyzstan becoming the top performer in the economic freedom rating, with a ranking of no less than 40<sup>th</sup>.

Systematic fight against corruption and legalization of the shadow economy, coupled with de-bureaucratization of the governance will, by 2017, allow the country to achieve a ranking in the top 50 of the international corruption perception index.

Implementation of those regional investment projects that are being envisaged hereby, will have a positive impact not only on the economic recovery of the regions, but also in the socio-political situation in general.

Given the conceptual approach to the formulation of policies for economic development of the Kyrgyz Republic for 2013-2017, the specifics of measures and political actions should be detailed based on the timeframes of the budgeting process, as part of annual and three-year detailed economic development plans of the Government of the Kyrgyz Republic for the implementation of the economic development policy outlined in this document.

Coordination of the implementation of economic reforms, effective response to changes in economic environment should be vested with the National Council for Sustainable Development of the Kyrgyz Republic.

## Chapter 7. SUSTAINABLE ECONOMIC DEVELOPMENT AND MACROECONOMIC STABILITY

Kyrgyzstan should ensure sustainable economic growth and construction of an efficient social market economy. The main role in the development of the country should be played by private sector, the task of the state should be, in the first place, to create an enabling environment for private sector activity.

The key target will be macroeconomic stability. Achieving in the medium term of sustainable economic growth, balanced budget, predictable inflation and life "within own means" and not "at the expense of future generations" will be essential prerequisites for economic stability.<sup>3</sup>

Public investments (Public Investment Program) should be focused on the development of those sectors of the economy whose growth promotes to the greatest extent economic development of remote Oblasts and has the highest multiplier effect on the development of allied (supplying) industries.

Macroeconomic stability should be evidenced by achieving and maintaining the following key quantitative indicators:

**Table 1. Key quantitative indicators of macroeconomic stability for 2013-2017.**

Indicator	Target value
Average annual real GDP growth rate	Not less than 7%
Inflation rate	5%-7% interval (from 2015)
Budget deficit	No more than 5% of GDP
External public debt	Up to 60% of GDP

The most significant constraints to economic development of the Kyrgyz Republic are:

- geographical location: lack of access to the sea and remoteness from the main economic centers;
- service and agrarian structure of the economy
- lack of easily extractable energy and mineral resources;
- lack of extensive experience with developing a market economy;
- transition nature of the economy.

After independence, the above-listed factors have coincided with the effects of macroeconomic instability (inflation, serious shortage of consumer goods) of the late *perestroika* period. The collapse of the Soviet Union led to the termination of subsidies from the central budget, termination of supplies of cheap energy from other resources, crisis in trade with other Soviet republics, a collapse in the demand for military products,

sharp change in prices, massive increase in transport costs, and the need to respond to entirely new types of challenges which the new country was facing.

As a result, there have been dire social and economic consequences:

- hyperinflation and serious decline in industrial output caused the GDP to shrink by half and industrial output by two-thirds;
- reduction of real value of wages and social benefits, growing unemployment and lack of experience of living in a market economy led to increasing poverty and inequality, which was a consequence of outward migration;
- noticeable deterioration of the education, health care, culture and other social services.

However, in the early stages of the transition period Kyrgyzstan was able to quickly adapt to new conditions. Comprehensive institutional and socio-economic reforms in the first half of the 1990s helped to create basic state institutions, overcome decline in industrial production, while the introduction of the national currency allowed to achieve initial macroeconomic stabilization, and prevent the government from defaulting on its social obligations to its citizens. Price liberalization, privatization of state-owned enterprises, collapse of large collective and state farms in the agricultural sector, land reform – that was carried out at the time in the country, and foreign trade liberalization have been painful for the society; however, the consequence of this transitional period was the emergence of and increased contribution by the private sector - represented mainly by small and medium business. These changes contributed to the emergence of new social groups, such as business community, private farmers and traders (including the so-called "shuttle traders").

Unfortunately, these reforms have not always been consistent or comprehensive enough. The state budget remained unbalanced, many structural reforms (privatization, restructuring of the infrastructure) were not completed. As a result, social obligations exceeded the nation's realistic financial capabilities.

All of this shortcomings have undermined social and economic stability in the country, while the negative impact of the global economic crisis of 1998-1999 led to increasing poverty in the country, macroeconomic destabilization and increased foreign debt. Since the crisis, social and economic situation in Kyrgyzstan has improved somewhat, while poverty level has reduced significantly. This was a result of the work of many people who were able to adapt themselves to the new conditions and to take the responsibility for themselves and their families.

Formation of a market economy in the country's first years of independence required introduction of radical institutional changes and market mechanisms in all sectors of the economy, which caused growth in the GDP.

As a result, average rate of economic growth in Kyrgyzstan in the period of 1996-2000 was 5.6% per year, which was one of the best performances in the CIS. However, during the subsequent decade, economic growth was less robust. For example, average annual economic growth rate for the years 2001-2011 was less than 4.3%. However, in 2007-2008 the real rate of economic growth peaked at more than 8.0%. Kyrgyzstan's economic performance over the past decade has been the poorest among all of the CIS countries.

However, principal internal causes of economic instability are the incompleteness and inconsistency of structural reforms in the country, including public administration reform, rudimentary development of the banking and finance markets, unclear and ever-

changing business and investment environments. Further, the economy is very susceptible to negative external factors: high level of dependence from global food and finance markets, remoteness from major international commodity and finance markets and neighborhood with the countries that implement protectionist economic policies.

High budget deficit in recent years is one of the major economic problems of the country. Public debt servicing is becoming one of the largest line items in public expenditures and it requires cuts in the already meager expenditures on key governance functions. In order to ensure sustainable development of the country in the coming years, it is necessary to sharply reduce external borrowing. Imbalance in the budget is also a result the establishment of a significant informal economic sector, which, according to the estimates of the National Bank of the Kyrgyz Republic, amounts to 18% of GDP (according to estimates of international finance institutions the size of the unofficial economy is as high as 30-60% of the GDP).

Macroeconomic situation in Kyrgyzstan in recent years is still not sufficiently stable.

The key vectors of the medium-term economic policy will be:

- achieving and maintaining macroeconomic stability through reduction of the budget deficit, external debt and inflation;

- promoting economic growth through even distribution of the tax burden on the economy, attracting foreign and domestic investment in infrastructure, improving business and investment climate, and integration of the economy into the regional economic system, and implementation of structural reforms in key sectors of the economy (energy, mining, agriprocessing, transport, financial services, etc.);

- ensuring an average annual economic growth rate at a level of at least 7% to achieve the indicated socio-economic development objectives of the country. This requires achieving and maintaining macroeconomic stability through close coordination of macroeconomic policies to promote comprehensive development of the economy.

- ensuring food safety through increases in domestic production and productivity in agriculture and through creating sufficient government reserves.

## **7.1. Monetary Policy**

The most important contribution of the monetary policy in terms of establishing enabling environment for achieving growth targets is to ensure price stability. It is necessary to achieve and maintain inflation in the interval of 5%-7% per year, starting from 2015. This policy, together with financial sector reforms and efforts to reduce investment risks, should allow to significantly increase in the future the monetization of the economy to 50% and reduce interest rates, which will result in better long-term affordability of financial resources for the real sector.

One of the factors that determines the level of prices in the country, is the foreign exchange rate of the Kyrgyz Som. We need to continue the use floating exchange rate of the national currency, determined by the supply of and demand for foreign currency on the domestic market. Sharp fluctuations of the foreign exchange rate of the Kyrgyz Soms will be smoothed out using instruments of monetary control.

The steady priority should be maintaining reserves of foreign currency at a level of at least four monthly imports.

To increase effectiveness of the monetary policy and its ability to positively influence economic development, measures will be undertaken aimed at developing the financial market, increasing the spread of financial intermediaries, recovery and strengthening of

the banking system, improving of the monetary policy instruments and increasing monetization of the economy by increasing the availability of loans for the economy.

An important element of ensuring operational transparency of the national Bank will be increasing awareness of the goals, contents and outcomes of the monetary policy, given that one of the criteria of assessing the effectiveness of the policy and of its individual components is the credibility that it has among the public and market participants. It is necessary to enhance the National Bank's capacity in conducting relevant applied research and studies and expanding the range of its publications and periodicals. This will be achieved through establishing a Center for Economic Policy Analysis.

## **7.2. Fiscal policy and public debt management**

In recent years there has been an extremely negative trend in the fiscal sustainability of the budget. Fiscal authorities often fail to perform the functions that have been vested with them. There are still cumbersome administrative procedures for implementation of the business tax liabilities. Fiscal authorities are tainted with corruption themselves and this undermines confidence of the business community in the government system and jeopardizes the stability of the financial system as a whole.

**Current status:** The budget deficit in 2012 has reached very high levels - 21.7 billion Soms or 462 million U.S. dollars (7.1% of GDP) and public debt has exceeded \$ 3.1 billion or 47.7% of the GDP. However, the strong dependence of the government on external aid – which amounts to 25% of the budget revenues, as well as rising debt burden increases the risks related to financial stability of the state.

In this situation, the government has limited ability to increase pensions, benefits and wages, and virtually no free resources to fund economic projects and programs. There is a very acute need for funding repair and rehabilitation of roads, schools, hospitals, kindergartens, theaters, universities, and museums. Therefore, today it is more important than ever to reform the public finance system in such a way that it is oriented towards serving the needs of the society.

In the matters of public debt servicing it is essential to, on the one hand, strictly comply with our obligations related to debt servicing, and on the other hand, to ensure that the debt servicing burden does not threaten vitally important state expenditures in the social and national security sector. However, the principal source which can help resolve the public debt issue is generating more revenue for the state budget. Decrease in government spending must occur in parallel with increase in the effectiveness of spending, with concentration of resources on providing only those services where the state can not be substituted by private sector providers, particularly , particularly education services, health care, targeted social protection. There will be actions taken to further improve consistency of fiscal policy and its coordination with monetary and other public policies, transition to programme-based budgeting, improvement of fiscal discipline and maximization of transparency of the budget process and public procurement.

Steps will be taken to ensure actual fiscal decentralization. For this purpose, local governments will have expanded financial resources through completely taking over a number of local taxes and splitting the proceeds from a number of national taxes between national and local budgets. This will allow for significant improvement in effectiveness of the tax system and will greatly improve tax administration. At the same time, subsidies from the national budget to local budgets will be significantly reduced. Local authorities will acquire full responsibility for financing those activities that have been exclusively vested with local governments.

The main vectors of macroeconomic policy will be annually updated and detailed, based on the actual state of the economy and reflected in the joint statements of the Government and the National Bank of the Kyrgyz Republic, while the matters of coordinating the implementation of the macroeconomic policy will be handled by the Coordination Council for Macroeconomic and Investment Policy under the Government of the Kyrgyz Republic.

### **7.3. Foreign Trade Policy**

Foreign trade of the Kyrgyz Republic is characterized by chronic prevalence of imports over exports, with the disbalance reaching a high point in 1998 - 21% of GDP (if one excludes gold, the disbalance was even higher - 32%). Such high trade deficit caused serious macroeconomic consequences, because the government failed to find means to cover the deficit without incurring more external debt.

In 2011 the economy openness index (*calculated as the ratio of the country's total external trade to the country's GDP*) reached 105% of the GDP. The high dependence of the Kyrgyz Republic on foreign economic relations is primarily due to the small size of the domestic market and lack of inputs and capital goods. At the same time, the high degree of openness of the nation's economy makes Kyrgyzstan very vulnerable to global price fluctuations. Today, the situation is exacerbated by the tightening of the borders of the countries of the Customs Union, which may lead to a significant reduction in the exports of agricultural products, reduction in output of garment and processing factories. There is already a reduction in the volumes of trade in the major wholesale markets.

There have been unfavorable trends in Kyrgyzstan's exports in recent years. Weakening export capacity is manifested through reduction in supplies to traditional markets in the CIS countries, increase the share of raw products among the exports, with increasing reliance on few commodity items and export markets. The main exports of Kyrgyzstan are nine commodity groups (fruits and vegetables, tobacco, cotton, textiles, inorganic chemicals, electrical energy, cement, slate, incandescent light bulbs), which amounted to 52% of all country's exports in 2011, and if you add gold, the share increases to 96% of total exports.

There is a high degree of integration in the mutual foreign trade between the Kyrgyz Republic and the countries of the Customs Union. In aggregate terms, the countries of the Customs Union - Republic of Belarus, Kazakhstan and the Russian Federation amount to 45% of Kyrgyzstan's foreign trade. Russian Federation alone accounts for 27% of Kyrgyzstan's foreign trade.

At the same time, most of the country's labor migrants (by various estimates – from 500 to 800 thousand people) work in the countries of the Customs Union – Russia, Kazakhstan. Realizing that the Kyrgyz Republic will have access to new opportunities from acceding to the Customs Union (CU) and joining the Common Economic Space (CES) - primarily due to duty-free movement of goods, free movement of capital, services and labor among the Member States, in 2011 Kyrgyzstan initiated negotiations process for accession to the Customs Union.

Given the advantages of expanding cooperation and foreign trade, Kyrgyzstan should complete the necessary sequence of procedures and accede to the CU and the CES. Thus, in 2013 the country should achieve agreement with other member states with respect to sensitive and preferential commodity groups and economy sectors to ensure proper protection of the national interests of the country.

In order to strengthen the country's export position, Kyrgyzstan will, as part of the accession negotiations, fully take advantage of its status as WTO member state. Growth in exports will be supported by the development of transport infrastructure, marketing and information support for domestic export-oriented enterprises and implementation of the "one-stop-shop" principle for obtaining necessary clearance documents. Therefore, of particular importance to the country is producing an export development strategy that improves competitiveness of domestic products on external markets and promotes exports of services.

## Chapter 8. IMPROVING BUSINESS ENVIRONMENT AND INVESTMENT CLIMATE

The country's attractiveness for investment is inadequate; many international rankings show that the country's attractiveness is declining. According to World Economic Forum (WEF) data, in 2012 Kyrgyzstan was ranked 110 – 111<sup>th</sup> in Global Enabling Trade Report. According to the aggregate ranking of the Global Competitiveness Report for 2011/2012 Kyrgyzstan is in 126<sup>th</sup> place out of 187 countries. In the World Bank's Doing Business 2012 report Kyrgyzstan is ranked 70<sup>th</sup>, which indicates weak performance of the country in the ease of doing business ranking.

The existing fiscal system does not sufficiently encourage reinvestment, development and growth of small and medium businesses. Despite a number of changes in the legislation and a series of institutional reforms, Kyrgyz small and medium business were unable to improve their competitiveness.

There is widespread illegal interference of government officials into business operations, which is directly linked to corruption. There is virtually no confidence in public authorities among economic actors and investors.

Local governments, instead of attracting investors, are discouraging investors and sometimes are engaged in blatant extortion.

Therefore, ensuring favorable business environment, creating conditions for the protection and guarantee of property rights, attracting direct investments, ensuring effective management of our country's own assets are necessary conditions to encourage development of the priority sectors of national economy.

### 8.1. Reduction in the informal economy

High level of corruption and significant tax burden push the businesses to go into the shade, which reduces the taxable bases, contributes to destabilization of the public finances and encourages growth of the informal economy, which, according to various estimates, amounts to 18 to 60% of the GDP. All of this creates quite serious obstacles to enterprise development and makes the competition uneven.

Results of the studies of the informal economy indicate that a significant portion of the population and business do have relations with the shadow economy; therefore, it becomes quite important to transform the entities of the informal economy into the official economy. A decisive role in this process belongs to the government as the principal setter of legislative norms, rules and restrictions.

It is also very important to design and implement ways and methods that inhibit the growth of the informal economy, reduce its expansion and strengthen the legal economy. It is necessary to design a range of measures aimed at reducing the level of the informal economy.

### 8.2. Tax and Customs policy

**Current status:** Since 2009, the country is using a new edition of the Tax Code. The most significant changes in the Code relate to: (1) reduction in rates for principal taxes, (2) reduction in the total number of taxes and duties from 16 to 8; (3) elimination of non-

market cascading taxes; (4) liberalization of the tax administration for good faith taxpayers and (5) introduction of partnership mechanisms. At the same time, this tax system is not favorable for economic development. The tax burden is unevenly distributed across sectors and regions, creating a heavy burden on good faith taxpayers. On the other hand, multiple other economic actors almost completely avoid paying taxes using either allowed exemptions or by evading taxes in the informal economy.

Tax incentives for investments and exports – fundamental priorities for economic development, virtually non-existent.

The revenues of the state budget from taxes have increased in 2012 and have amounted to 21.7% of GDP. Despite this, the overall level of tax collection in the country remains low, due to deficiencies in administration.

Effectiveness of the tax and customs system is to a great extent reduced by the lack of proper coordination and electronic information exchange among the agencies collecting taxes and other government revenues, cumbersome administrative system within such agencies themselves, lack of transparency and corruption in such agencies.

There are still cumbersome administrative procedures for implementation of the business tax liabilities. Fiscal authorities are tainted with corruption themselves and this undermines confidence of the business community in the government system and jeopardizes the stability of the financial system as a whole.

The major **goal** of the tax policy should be fostering economic development through improvement of business and investment climate by means of simplifying taxation, under the auspices of the Medium Term 2013-2017 Fiscal Policy Concept, which is now being finalized.

This goal shall be achieved through a number of **objectives**: (1) equalization of the tax burden and improvement of the investment climate, (2) ensuring completeness of tax collection; (3) modernization of the tax and customs services, and (4) improvement in and automatization of tax reporting.

Evening out the distribution of the tax burden and ensuring completeness in collection of taxes will be achieved through the following measures: (i) development of draft regulations aimed at simplifying tax and customs administration; (ii) reassessment of the activities that are carried out on the basis of voluntary patents, including through gradual increase in the costs of patents and optimization in the range of patents available; (iii) optimization and prevention of overlapping of the VAT and Sales Taxes; (iv) transformation of tax on movable property into the petroleum excise tax, with the proceeds to finance road infrastructure.

A dedicated effort within the tax policy will be put towards optimizing the existing system of tax exemptions and benefits, prohibiting unjustified benefits and exemptions and closing the available tax loopholes. A special system will be designed, that will provide tangible incentives for business development in the country - "paying taxes is cheaper and gives you better status". The work of the fiscal authorities should be based on the principle - "we help to pay taxes, not extort them".

In terms of modernization of tax and customs services, the following tasks are to be completed in 2013: (i) implementation of an automated customs information system, that allows for electronic filing of customs declarations; (ii) introduction of an automated tax information system that allows taxpayers to submit tax reports in electronic form; application of modern technology in tax administration to simplify compliance with tax requirements.

In order to increase public confidence in the tax and customs services and to reduce corruption, it is planned to: (i) establish tax returns processing centers; (ii) equip customs checkpoints with video surveillance systems; (iii) introduce corruption-prevention measures in the tax and customs services; (iv) introduce a practice of systematic surveying to identify corruption perceptions among taxpayers and traders.

There will be a “one stop shop” system for foreign trade. Tax reporting system will be improved in order to reduce the number of reports and streamline the frequency of submission, which will significantly reduce the time and other costs that the businesses spend in complying with tax procedures.

### **8.3. Investment Policy**

The key to addressing the main objective of restoring economic growth, including through establishing enabling conditions for sustainable socio-economic development of the country is conversion of the nation’s economy from consumption orientation to investment orientation.

**Current status:** According to 2011 data the country’s consumption exceeds its production by 3%. This gap is mostly covered by imports and external borrowings.

Another problem is the lack of sufficient financial resources and sustainable economic development institutions that mobilize and direct subsequent use of investments.

The state must play an active role in creating a favorable investment climate and attracting resources. There is no doubt that at the moment the state has more resources and capabilities than the business community in terms of attracting major resources for development. There is also a problem of ensuring prudent use of such resources, especially repayment of the loans that were guaranteed by the Government.

Of particular importance are the direct foreign investments (FDI), as they bring technology and management practices, they open up new overseas markets. Despite the ongoing efforts to improve the investment climate, FDI has been limited for many years already, with the national economy remaining unattractive. The main reason for the volume of FDI is low economic development and extremely low competitiveness of the nation’s industrial sector. Therefore, attracting investment requires having a transparent and well-functioning legislation that provides actual protection to rights of ownership, reduces interference from the state and eliminates corruption, having a stable finance system, ability to provide benefits to the investors and similar treatment for both foreign and domestic investors.

The Public Investment Program (PIP) is, to a great extent, funded through external borrowing, which leads to an increase in foreign debt burden and in the state budget. There is still inadequate selection of and control over the PIP projects.

**The goal** is to enhance investment image of the country and ensure prudent use the national-scale investment projects.

The **following policy measures** will be undertaken to implement the goals indicated above: (i) creating sustainable centers of accelerated economic development for the purposes of enhancing the country’s economic potential. A **Development Bank** and a series of specialized investments funds will be established. The state resources should be channeled to those sectors of the economy that are not attractive enough for the businesses, but are of great social importance: national projects, mortgages, including social housing; leasing operations; (ii) an institution will be established, whose function will be to carefully assess investment opportunities in the various sectors of the economy and

the private sector, to select priority projects and to supply businesses with relevant information and services; (iii) introduction of regulatory, tax, administrative and other stimulate for Kyrgyzstan's labor migrants that decide to invest their savings into domestic small and medium enterprise; (iv) the Public Investment Program (PIP) will be reduced and re-focused on supporting and improving only strategically important national infrastructure.

Significantly greater control should be exercised over the implementation of PIP projects (both loan and grant-based) and their selection; public co-financing procedures need to be further optimized. In this regard it is necessary to establish a specific mechanism for attraction of and utilization of external borrowings, for assessment of their impact on the economy and for ensuring transparency in the use of such funds.

Measures will be developed to ensure that (i) increase in the participation of local construction and other companies in the implementation of the PIP projects, increasing the share of the investment component and reducing the share of imports of goods and services in these projects; (ii) regular monitoring to maintain and improve positions in international rankings related to business and economy and undertaking prompt response measures to address challenged that are identified during monitoring; (iii) development and approval of respective regulations to ensure efficient and effective administration of the PIP.

#### **8.4. Small and Medium Enterprise Development**

Each active Kyrgyzstani must feel the support of the state, if he or she wants to open own business. Creating enabling environment for entrepreneurial activity should become a priority vector for government agencies. The basis of any market economy is the private sector, where small and medium-sized enterprises play an important role. Such businesses do not require large upfront investments, they have a very high ratio of asset turnover and are able to quickly and efficiently solve the problem of the formation and saturation of the consumer market.

**Current status:** Small and medium enterprise development in Kyrgyzstan is far from the desired level. The contribution of small and medium enterprises (SMEs) is slightly more than 40% of the GDP.

Kyrgyzstan's SMEs mainly operate in retail trade, services and agriculture and to a much lesser extent are engaged in manufacturing. This development trajectory of small and medium enterprise is not a driving force of economic recovery, but rather a process which leads to inefficient use of natural, labor, intellectual and other resources.

The most challenging issue in SME development is its competitiveness, the country has no large companies (with a few notable exceptions) that have the necessary industrial, human or scientific capacity.

In the last three years, FDI in SME development has been decreasing. In 2011 FDI fell by 15%.

In previous years a series of radical reforms has been undertaken in the enterprise sector. There is considerable legal and regulatory framework that specifically outlines and limits the rights and responsibilities of the government and of the businesses. However, the implementation of the legislation has a number of shortcomings, which include a significant amount of redundant, inconsistent implementing bylaws, legal contradictions, incompliance of certain bylaws with their superior enterprise laws.

The highest risk to domestic and foreign business is posed by the fact that the government is unable to legally project rights and freedoms of entrepreneurship, of lawful

property rights. There is criminal asset takeover, including takeover of private property by corrupt officials and in the interests of unscrupulous entrepreneurs. Therefore, the investors see no reasons for making long-term commitments or bringing significant financial resources investments.

Despite the reforms that have and are being undertaken, there is still a lot of barriers for SMEs that prevent them from entering domestic and international markets, or create operational problems (unclear or vague licensing procedures). At the moment, there are about 240 types of various licenses and permits; this number, according to the business community, should be reduced.

There is still a practice of unjustified inspections of SMEs by the authorities. Reducing state regulation to just control and oversight is inefficient and ineffective, it is overly costly, redundant, and in many cases, simply formal only, creating a significant risk of corruption.

In addition, small and medium business, in most cases are forced to hide their true income to survive; they are forced to adapt to criminal and corrupt environment.

The primary **goal** is ensuring sustained SME development through creating enabling environment for improving SME competitiveness.

Achieving this goal involves achieving the following **complex tasks**: (1) strengthening of legislation on security of private property (2) reducing government interference in business regulation (3) providing financial, loan and insurance support to enterprise; (4) becoming a top-30 country in the Doing Business rankings.

Strengthening of legislation on security of private property should be accomplished through: (i) adoption of a series of normative legal acts that fight criminal asset take over and property redistribution (ii) government insurance and government guarantees for major foreign investors involved in national priority projects (iii) introducing harsher criminal penalties for those government officials that violate private property protection and investment laws.

Creating a stable legislative environment that fosters economic development incorporates the opinion of the business community will be accomplished through both repeal and prevention of those normative legal acts that do not comply with enterprise protection laws. This will be accomplished by means of: (i) reforming the regulatory impact analysis system for formulating and implementing policies; (ii) conducting an inventory of business legislation and developing recommendations aimed at repealing unjustified or not market-oriented normative legal acts (based on regular meetings with the business community).

For the purposes of reducing government interference in business regulation a number of measures (that will be operationalized on a legal and procedural level), will be undertaken.

The reform of the licensing and permits system, of the control and oversight and of the technical regulation system will continue through: (i) reducing the number of existing licenses and permits; (ii) removing the excessive control and oversight functions; (iii) creating an improved, risk-based inspection mechanism;

There will be decisive action taken to reduce bureaucratic licensing and permit procedures; to reduce to the greatest extent possible the number of inspections that economic entities are subject to; eradicate corruption incentives through encouraging transparency and accountability, and, at the same time, tightening of control over the work

of the executive branch and government officials that are involved in regulating businesses.

Policies regarding providing financial, loan support will include: (i) simplification of taxation procedures and increase in the availability of loans for private sector support (ii) increase in the affordable microfinance resources; (iii) extending medium-term exemptions and other preferential treatment to new small and medium businesses in the industrial sector (iv) supporting and encouraging production of environmentally safe goods and services.

### **8.5. Managing State Property and Public-Private Partnership**

The current system of managing state property is not sufficiently effective, there are a number of problems that characterize this system: (i) low yield, (ii) lack of interest among management of government entities in producing better results, (iii) domination of the system by interests of narrow groups, agencies and ministries, (v) low profitability or even loss-generation, excessive ownership of non-core assets. In addition, government officers frequently lack capacity to ensure proper management of state assets, while the system itself is plagued by excessive bureaucracy and corruption.

There is a strong popular belief that the government is an inefficient owner and that only the private sector is able to produce maximum yield. At the same time, global experience shows that some sectors of the economy in any country can be effectively and efficiently managed only by government-owned entities: such as railroads and others. Implementation of nationwide strategic projects also requires state companies, as private investors are focused on extracting quick yields and frequently ignore creating enabling environment for improvement of the welfare of the citizens and of the related industries.

**Current status:** In 2012 the state budget received KGS 2.7 billion of revenues from transactions with state property. Despite this being an increase, the returns are still inadequate and obviously too low given the total value of the assets at state's disposal. Revenues from renting out buildings amounted only to KGS 19.6 million, which is a mere 076% of total revenue.

In addition, a significant share of the nation's economy – which give employment to a large number of Kyrgyzstanis, is of little attraction to and of too high risk for private investors.

The **goal** of the management of state property is to create an effective system for management of public assets and property.

**Objectives:** (1) to improve the quality of management of state property and to increase incomes from state property; (2) to conduct a full-scale inventory count of all state assets; (3) to establish economic performance indicators for state companies; (4) to introduce PPP principles into management of government enterprises.

For the first objective, there will be a new, more appropriate mechanism of controlling operations of state companies, since the existing directions of control – over costs and pricing, exercised by the anti-monopoly authority, do not take into consideration the need to generate operating profits. The control over state-owned companies will be comprehensive, while at the same time protecting the companies from undue interference from external entities: overseeing ministries and controlling agencies.

There will be a full-scale inventory of state assets and a Registry of State Property will be prepared. There will also be developed a classifier for the state property.

An effective and efficient strategy for managing state property will be developed; it will feature centralization of asset management and dividend distribution functions. A specific example of a better mechanism of control will be introducing economic performance indicators for state-owned companies. Such key performance indicators have to be clearly outlined and described, with their target values set and properly documented. Monitoring of the performance of state-owned companies is to be based on performance against such key performance indicators.

The state property management system will be updated: (i) executive personnel of state-owned companies will be selected on a competitive basis, through an open nomination and selection by the overseeing ministries and agencies, as these entities already have the knowledge and skills to address tasks specific to the given industry; (ii) audit commissions will be appointed by the state property authority, because audit commissions should be independent and autonomous from executive bodies; this will create a system of checks and balances in decision-making; (iii) control over compliance with performance indicators will be vested with the body that is responsible for managing state property.

The priorities in managing government assets will also be reviewed. The mechanism of public-private partnership will see more widespread application.

At the moment, the approved mechanism of public-private partnership (PPP) for managing public enterprises is not being widely used. The use of the PPP mechanisms stems from a critical state of the infrastructure of certain state enterprises and a chronic shortage of funding. At the moment, Kyrgyzstan is making only first steps towards implementation of the public-private partnership, with the outlook for the implementation of this mechanism being quite favourable.

**The main goals** of the implementation of the PPP mechanism are:

- to ensure economic growth through concentration of physical and financial resources of the public and private sector for the implementation of investment projects;
- to reduce the burden on the state budget and re-distribute budgetary funds.

Achieving goals in the PPP field requires completion of the **following objectives**:

- to create adequate environment for effective and efficient collaboration between the state and the private sector;
- to ensure efficient operation of the assets in state property through mobilization of off-budget sources of funding by means of attracting the private sector;
- to ensure effective and efficient administration of and control over implementation of the PPP-based projects;
- to institute approach whereby effectiveness of project implementation is assessed through the quality of services to the population;

## **8.6 Development of Intellectual Property and Innovations**

One of the key resources of sustainable economic development is transformation of the national scientific and research capacity for the purposes of technological modernization of the economy and improvement of its competitiveness.

**Current status:** Implementation of innovations by domestic businesses is at a low level and does not meet the requirements of sustainable economic development. Lack of innovations is, to a large extent, explained by lack of key resources, such as: (1) knowledge; (2) access to stable financing; (3) scientific capacity; (4) qualified labor force.

In the years of Kyrgyzstan's independence the country did not create a system for supporting and managing development and commercialization of innovations, including the system's institutional and structural elements.

It is evident that intellectual property and innovation could play a crucial role in development of the regions, many of which experience shortage of inputs. The country is rich in traditional knowledge, which can be a basis for creation of new small and medium enterprises in the regions, which will, in turn, foster regional development.

**The goal** is to create an effective system for intellectual property and innovation activity to increase the competitiveness of the national economy.

**Objectives:** (i) establishment of enabling environment for development of innovative activity and use of intellectual property; (ii) contribution to modernization of the economy through advanced technologies; (iii) increasing public awareness about the role and importance of intellectual property; (iv) creation of an effective system for protection of intellectual property.

Implementing these tasks will be accomplished through improvement of normative legal base in the field of legal protection of intellectual property and innovation activity. Legislative changes will be aimed at reducing level of offenses in the field of intellectual property, including through fighting counterfeit and pirated imports and encouraging creation and use of innovations.

There will be projects implemented aimed at encouraging, supporting and revitalizing intellectual and creative activity through encouraging inventions and innovations, as well as through active involvement of the youth in the sector of scientific and technical creativity and introduction of intellectual property courses in the education curricula.

A programme will be developed that will be aimed at efficient use of intellectual property and increasing returns therefrom for the business and investors. The program will also feature implementation of a number of measures that encourage technological transfer from scientific research centers to the market, import of advanced international technology for the purposes of modernizing domestic economy and providing new products and services to the consumers.

## Chapter 9. FINANCIAL SECTOR DEVELOPMENT

### 9.1. Banking sector

The banking system is an important component of the nation's financial sector, significantly affecting effectiveness of the monetary policy and achievement of a sustainable economic growth as a basis for improvement in the standard of living of the population of the Kyrgyz Republic.

**Current status:** The development of the Kyrgyz Republic's banking system between 2008 and 2012 was accompanied by the influence of events of both foreign and domestic political nature. Despite the global financial and economic crisis and political instability in the country, the Kyrgyz Republic's banking system, overall, based on the accumulated strength reserves yet again demonstrated a certain degree of resistance to both foreign and domestic shocks.

Based on results of 2012, there were 22 commercial banks and 272 branches of commercial banks operating in the territory of the Kyrgyz Republic.

Despite the impact of the global financial crisis and the well-known events of April and June of 2010, there has been a steady increase in deposits held with the commercial banks, which indicates increase in confidence of the population to the banking system. The banking system closed Year 2012 with a net gain. Nevertheless, the ratio of commercial banks' assets and deposits attracted to GDP remains low.

The facts above characterize the completion of the overcoming of crisis phenomena that took place in the nation's banking system in 2010-2011 and of the formation of preconditions for further rehabilitation and strengthening of the banking sector's financial state.

At the same time, one needs to note that there is a series of problems that include the following **primary** issues:

- Low public confidence in the banking system, including due to poor financial literacy of the consumers of banking services;
- Insufficient quality of management and internal control and audit in commercial banks;
- insufficient protection of interests and rights of commercial banks and other finance and credit institutions as creditors;
- lack of opportunities to effectively apply the legislation-provided penalties by the banking supervision system due to difficulties arising in the course of court proceedings;
- underdevelopment of the early identification system and prompt resolution of problems emerging in commercial banks.

Resolution, based on the principle of maximum liberalization, of the problems identified must become a priority objective for the National Bank and the Government of the Kyrgyz Republic.

In the medium run, one needs to continue improving the system for consolidated supervision, introducing an adequate system for managing risks inherent to banking operations, improving the system for assessment, analysis and early responding to, and prevention of, risks, further improving the internal governance system in commercial including corporate governance, as well as continuing implementation of elements of risk-based supervision.

As part of this activity, efforts will be made aiming not only the improvement of social protection of citizens, but also the strengthening of opportunities for institutional investors capable of ensuring long-term financing of the country's economy.

In order to ensure the country's public and businesses' access to quality banking services, one will continue to work to form a system for anti-trust regulation of commercial banks, retain the simplified procedure for registration of branches and saving offices of banks in the nation's rural areas. One will also ensure the retention and further development of the branch system of the banking system in rural areas and expansion of services rendered by commercial banks.

The formation of a favorable climate for business development in the country will facilitate the reduction of risks for finance and credit institutions and, accordingly, an increase in loaning. This will also be facilitated by ensuring protection of interests of banks as creditors and an elevation of responsibility of borrowers for intended use of loans and timely repayment thereof.

This will require introduction of corresponding changes to legislative acts that regulate collateral-based relations and development of an effective mechanism to counter dishonest borrowers.

It is also important to ensure competence and objectivity, as well as a significant reduction of costs and timeframes of court proceedings and enforcement of court rulings pertaining to the repayment by borrowers of loans received.

The expansion of activities of joint funds and foreign banks (such as, for instance, Kyrgyz-Kazakh Investment Fund, European Investment Bank, etc.) to extend loans to the country's businesses on the medium- and long-term basis will facilitate the development of the non-financial sector of the economy and creation of new jobs.

**The goal of development** of the banking system is to form a sustainable and reliable system of finance and credit institutions capable of effectively mobilizing national domestic financial resources and satisfy the Kyrgyz public and businesses' needs for loans and quality banking services.

Primary directions of development of the Kyrgyz banking sector in the medium run pursues the following **main goals**:

- Increase and strengthen sustainability of the banking system;
- create conditions for the improvement of quality and accessibility of banking services including rural and remote areas;
- create conditions for a progressive growth of the banking sector;
- enhance the role of the banking sector in the national economy and increase in the volumes of loans in the Kyrgyz Republic;
- support efficiency, security and reliability of banking and efficiency of functioning of the banking sector;
- increase the degree of transparency of the entities of the Kyrgyz banking sector by way of disclosing their financial reporting including information about quality of loan-based assets of each operational Kyrgyz bank;
- Create conditions for a further growth of financial intermediation;
- increase the share of non-cash payment and transactions;
- solidify right of creditors and raise awareness of consumers of banking services.

Main objectives are:

- solidify protection of interests of depositors and other creditors of banks;
- enhance efficiency of the banking sector's efforts to accumulate cash of the public and organizations/enterprises and transform it into loans and investments;
- Prevent the use of commercial banks for bad-faith commercial activities and for illegal purposes (firstly, such as terrorism funding and legalization of revenues obtained in criminal ways);
- develop a competitive environment and ensure transparency in activities of commercial banks;
- improve trust of the national banking sector on part of investors, creditors and depositors;
- improve access to banking products for people at large;
- improve the payment system;
- resolve the situation with problematic commercial banks operating in the conservation mode.

After the achievement of goals provided for by the present document, the National Bank of the Kyrgyz Republic and the banking sector will pursue a priority objective of effective positioning of the Kyrgyz banking sector in international financial markets including a opportunities for future securing of a domestic (independent) credit ratings from world credit rating agencies.

In order to achieve the goals above and implement the respective objectives, one will implement the **following measures** in:

- increasing the volume and accessibility of loaning and financial services for organizations/enterprises and the public, especially in the periphery, including:
  - developing the financing and banking in the Kyrgyz Republic including based on Islamic principles of financing;
  - introducing amendments to the Kyrgyz legislation aimed at ensuring a voluntary registration of collaterals for movable property with the Central Collateral Registration Agency or aimed at increasing the threshold amount;
  - creating favorable conditions for the attraction of long-term and cheap financial resources into the banking sector, including foreign ones, to facilitate further development of the Kyrgyz financial sector and support competition;
  - creating conditions for the enhancement of investing attractiveness of the banking sector including by submitting suggestions on optimization of tax legislation;
  - creating conditions for the development of leasing and mortgaging including by submitting suggestions to be incorporated into the Tax Code of the Kyrgyz Republic in the part of taxation of these directions of banking activities;
  - strengthening the public trust of the banking system and increasing savings (mobilizing domestic resources), including:
    - improving the system of deposit protection in the Kyrgyz Republic;
    - improving the supervisory function of the National Bank of the Kyrgyz Republic and the internal governance system in commercial banks;

- further harmonizing the banking supervision in the Kyrgyz Republic in compliance with principles of the Basel Committee on Banking Supervision, developing and improving the system for a consolidated supervision and introducing elements of risk-oriented supervision;
- improving the legal support of banking activities;
- ensuring transparency in operations of commercial banks;
- increasing requirements set for quality of corporate governance, risk management and internal control in commercial banks;
- shaping favorable conditions for banks' participation in financial intermediation;
- improving measures to counter the legalization (laundering) of revenues obtained in criminal ways and funding of terrorism;
- strengthening market discipline in the banking sector and ensuring equal terms of competition for all commercial banks.

A successful implementation of these activities will also facilitate the stabilization and reduction of interest rates for credit resources extended to the public.

The National Bank will apply impact measures provided for by legislation including license revocation from banks that pursue unsafe and unsound banking practices. Members of Boards of Directors and Management as well as other bank-employed decision makers will be held liable for sanctioning and exercising illegal and/or suspicious and dubious transactions and operations and for unjustified losses of banks. In the event the bank-employed decision makers fail to comply with the established requirements, the National Bank will have the right to reject these individuals for posts at any finance and credit institutions licensed by the National Bank and will apply measures and penalties including demands for replacement of such bank officials.

One suggests enhancing measures and penalties for bank's failure to provide consumers of banking services with truthful and full information about terms of loan receipt, use and repayment, firstly, about the interest rate and the procedure for accrual thereof.

Tools for assessing and reducing credit risks include banks' receiving information about borrowers' good-faith honoring of their obligations before banks as part of the development of a database of credit histories with mandatory ensuring of rights of subjects of credit histories (both legal entities and individuals).

A system for the exchange of credit information is one of the important instruments for assessment and reduction of lending risks of financial and credit institutions for the implementation of fair lending and responsible financing.

Introducing and implementing normative and regulatory requirements by the National Bank of the Kyrgyz Republic that require provision of credit information will facilitate further expansion of the credit history database and will ensure completeness, accuracy and timely update of the information contained therein.

The facilitation of the growth of the demand for bank loans to the real sector of the economy by means of monetary policy lies in implementing measures to contain inflation at an acceptable level, and lowering interest rates in the financial market, as well as in ensuring predictability of macroeconomic parameters and smooth dynamics of KGS exchange rate.

In the area of legal support of banking activities, one will firstly improve legal conditions for the functioning of commercial banks in compliance with international norms

defined, in the first place, in Basel Committee on Banking Supervision's "Core Principles for Effective Banking Supervision," including by:

- strengthening creditors' rights, especially their right to claim secured by the pledge, including the improvement of the institute extrajudicial foreclosure of the collateral;
- strengthening the responsibility of the Board of Directors and Management of banks for all the activities of banks and end results of their work, as well as employees of the National Bank in their performance of their functional responsibilities;
- improving the legal mechanisms to liquidate commercial banks whose licenses for banking operations were revoked;
- strengthening the legal framework for competition and prevention of actions to restrict the freedom of commercial activity in the banking sector;
- improving the legal mechanisms to counter the establishment by dishonest people of control over commercial banks;
- improving the legal framework for the identification and verification of beneficiaries (benefiting owners) of the bank, bank customers, operations and transactions of customers, operations and transactions of banks.

In the area of strengthening of banks' role in the system of financial intermediation, one needs to ensure:

- openness of operations of economic entities on the basis of the disclosure of the financial status and indicators of economic activities in accordance with international financial reporting standards;
- improvement of the mechanisms of refinancing and liquidity management of banks;
- use by the banks of modern information and banking technologies to enhance their competitiveness.

In the area of banking regulation and supervision major vectors are:

- using measures and supervisory response measures based on risk assessment as performed by commercial banks, and the quality of risk management;
- maintaining an early warning system and applying a comprehensive assessment of the activities of commercial banks, including the assessment of the quality of governance and internal control systems;
- improving the promptness and effectiveness of the decisions taken in the framework of banking supervision.

As part of the policy to ensure transparency of the banking sector, the National Bank of the Kyrgyz Republic will continue to publish indicators of the basic parameters of the banking sector on the official site of the National Bank and will oversee financial disclosure by commercial banks for current and potential customers in accordance with the legislation of the Kyrgyz Republic. Efforts will be made to further disclose information characterizing the main parameters of the activities of commercial banks. In addition, the National Bank should to continue to inform the public about the decisions taken via the official website of the National Bank.

In the area of competitive environment and strengthening of market discipline one needs to:

- create favorable conditions for the development of the banking services market, including effective mechanisms for exchange of credit information;
- ensure transparency of credit institutions, including the transparency of the structure of owners (shareholders, stockholders).

In the area of corporate governance in commercial banks, special attention will be paid to:

- improving the management of risks emerging in the course of banking activities, including transactions with related-party transactions;
- improving the efficiency of internal control systems;
- achieving the transparency of corporate governance, which will provide all categories of stakeholders, including shareholders (stockholders) with the timely and full disclosure of the information provided for by the legislation on the activities of commercial banks, including information about their financial status, ownership structure and governance;
- considering certification of risk managers, compliance officers and supervisory body of commercial banks.

In order to strengthen the Agency for Reorganization of Banks and restructuring of debt, measures will be taken to improve the qualifications of staff, improve the planning, implement modern information technology, improve the system of financial reporting and improve the methods of study of credit affairs and debt collection. These reforms should give a strong signal of the intent of the Kyrgyz Government to ensure return financial assets by debtors, and thus provide banks with strong incentives for prudent management of capital raised.

In order to ensure a full recovery and sustainable development of the banking system, efficient and timely application of penalties of banking supervision for purposes of protection of the interests of depositors of commercial banks, especially small ones, one will improve the legal framework and procedures of review of court cases related to the activities of commercial banks. Measures will be taken to ensure a competent and objective review of such cases.

One of the significant tools to increase confidence in the banking sector and a contributing factor facilitating the attraction and accumulation of resources is the deposit protection system (DPS) which guarantees individual investors a return of a certain amount of money in case of bank bankruptcy. One needs to pay attention to improving the regulatory framework to ensure the participation of the Deposit Protection Agency at the early stages of the settlement of bank insolvency. This will allow the bank supervision body to focus on public policy and goals of supervision, i.e. on the issues of ensuring financial stability and protection of the interests of depositors and creditors.

The development of Islamic Principles of Banking and Financing in the Kyrgyz Republic, along with traditional banking, is considered an enabling measure facilitating the improvement of economic legal relations and development of competing systems of financing and is implemented as a pilot project based on a Memorandum of Understanding between the Kyrgyz Republic and the Islamic Development Bank.

The implementation of a project to create a Postal Bank will commence, to ensure accessibility of banking services in all regions of the country, and in remote areas in particular, and to support a payment system.

The program to support the development of credit unions will continue. Its results will include the creation of a system of effective financial institutions in all regions of the country. Sustainable credit unions will be provided with a license to offer basic banking services. Such a development of the system of credit unions, retention and development of a branch network of RSK Bank and of the Ayil Bank, creation of Postal Bank will facilitate the enhancement of competition and reduction of costs, i.e. the facilitation of their accessibility for rural population and businesses.

## **9.2. A project to create “long-term money”**

In order to modernize and diversify the economy and increase international trade in the region, the issue of availability of “long-term money” in the Kyrgyz economy needs to be addressed.

One needs to effectively use the following opportunities that, under minimum intervention, will facilitate that, namely:

- capitalize the Kyrgyz-Kazakh Investment Fund (USD 296 thousand), which will enable one to start implementing the first installment of USD 30 million;

- intensify activities of the Eurasian Development Bank, particularly with regard to the extension of credit lines for commercial banks, with one condition – the term of a loan for end borrowers must total at least 3-5 years. This will enable to use long-term funds by applying a market mechanism – for all commercial banks in the Kyrgyz Republic (in the amount of USD 30 mio.)

- enter into an agreement with the European Investment Bank (EIB) on the introduction of their operations into the territory of the Kyrgyz Republic (for an amount of USD 10 million).

The measures above will enable one to, within a year, resolve the issue of extension of “long-term money” to priority projects. This will also help proceed with the creation of a Financial Center (FC) in the country. This will require implementing the following steps:

- legislatively identify the list of countries in whose territories supervision requirements of the Basel Committee on Banking Supervision are enforced;

- legislatively identify criteria for foreign banks and bank groups with countries that comply with requirements of the Basel Committee on Banking Supervision to perform certain banking transactions in the territory of the Kyrgyz Republic and/or in the territory of Free Economic Zones (FEZ);

- run negotiations and sign agreements with regulators of 10 leading nations complying with requirements of the Basel Committee on Banking Supervision with regard to a consolidated supervision of foreign banks and bank groups to perform certain banking transactions in the territory of the Kyrgyz Republic and/or in the territory of FEZ and agree upon capital adequacy ratios;

- create a working negotiation group to locate, and run preliminary negotiations with, prospective interested large financial players;

- run an analytical research with the engagement of international financial consultants to investigate feasibility and further technical and economic justification of introduction of the FC in the Kyrgyz Republic;

- based on findings of the analysis above, create a working group with the engagement of commercial banks, Association of Banks, state banks, ministries and agencies, that, within the timeframe provided, will prepare a package of draft laws required to create the FC;

- run a further analysis of the existing legislation and prepare a package of draft laws required to open the FC;
- submit appropriate draft laws for consideration of the Government of the Kyrgyz Republic;
- as necessary, run consultations and agreement sessions with representatives of neighboring countries and international financial institutions.

### **9.3. Micro-financing**

The non-banking sector is an integral part of the financial system and is intended to promote the attraction of domestic financial resources for investment in the real economy. Micro-finance organizations, credit unions, specialized finance and credit institutions, insurance companies, private pension funds and the securities market are major non-bank financial institutions that have an impact on economic development.

The current legal and regulatory environment is the basis for the dynamic growth of microfinance in Kyrgyzstan. However in order to overcome the existing problems, the government should apply a new strategic approach based on the development of the financial sector on the basis of market-oriented growth of socially responsible institutions, on the basis of improved access of the socially vulnerable to a variety of quality financial services and the supporting role of the state.

A consistent policy of government's non-interference in market processes will be a future foundation of successful development of the microfinance sector and provide a favorable investment climate in this area. The state's efforts should be directed at establishing a level playing field for all market participants and to achieve transparency in their activities.

One will respond with appropriate policy actions and set the rules in order to improve public financial literacy. Development and implementation of a comprehensive program to improve the legal and financial literacy of the public will have a lasting positive impact on economic development.

The microfinance sector attracts direct foreign investment and mobilizes domestic resources. The main steps are to be taken to ensure a favorable investment climate for domestic and foreign investors in the financial sector. Registration process (registration, re-registration) of finance and credit institutions with foreign capital in justice bodies should be simplified. One will provide favorable conditions of entry into market of socially oriented investors.

Further improve the legal and regulatory framework for microfinance institutions will create more favorable conditions and will make full use of this tool to promote sustainable development of microfinance providers, based on market principles.

Appropriate regulatory standards for microfinancing reduce uncertainty and increase the attractiveness of investments in the sector. In this case, the regulation of microfinance should not be limited to a mere use of traditional methods of regulation of the banking sector. Regulation and supervision of microfinance require the development of its individual approach, since the risks in the micro-finance organization activities change depending on the technologies and techniques of provision of services that are different from those of the standard banking service.

In order to stimulate microfinance providers, in terms of serving low-return markets in remote areas, it is necessary to expand the list of authorized financial services, which will reduce the cost of delivering services in a single package of several financial services. It

will also create the basis for a more widespread use of innovative technologies. Allowing deposit microfinance institutions to accept deposits will enable them in the future to expand the list of loan and deposit products, develop products using bank cards and mobile phones. Microfinance institutions should be able to provide a wide range of services as agents for commercial banks, other micro-finance organizations and insurance companies. The concept of regulation of mobile banking, electronic money and rendering of banking services through the agent network should be a part of the regulatory environment.

One of the critical problems in the development of microfinance is shortage of resources due to the regulation that limits the sources of funding. For meaningful changes in the resolution of this problem to happen one needs to provide more opportunities to raise funds from local investors, as well as to stimulate the activities of wholesale suppliers of resources through financing apex institutions. Encouraging the mobilization of domestic savings is the main approach to solve the problem in the long run. Improving the legal and regulatory framework for the apex institutions will create the preconditions for the expansion of the resource base of microfinance sector in the shorter term.

Measures of non-prudential regulation should include a variety of measures, such as the disclosure of interest rates or inadmissibility of people with a dubious reputation for executive positions and requirements for transparent reporting.

Creating opportunities for MFIs to transform from one type of provider of microfinance services into another financial institution with expanded operations will encourage financial institutions to achieve quality growth and will create conditions for the harmonious development of the financial system and provide the foundation for a sound competition. Transformation models for financial institutions should be developed and should provide an opportunity to expand existing operations and should ensure the evolutionary growth of financial institutions.

A strategic focus should be on mobilizing savings as a long-term foundation for sustainable financing. One needs to conceptually resolve the question of accession of deposit MFIs to the existing Deposit Protection Fund of commercial banks or the creation of a similar a parallel system.

Improving the legal and regulatory requirements governing the activities of credit bureaus will improve the quality of services rendered and ensure the completeness and timeliness of information about credit history. A system for the exchange of information on credit history is one of the components for the implementation of fair lending and responsible financing. MFOs, along with other financial institutions, must submit reports on their clientele to complete the database of credit histories. The strategic goal in this area is to facilitate credit bureau services to financial institutions across the country. Improvements in the infrastructure are necessary to provide effective and affordable information exchange on credit histories, which will increase the lending standards in the microfinance sector. One needs institutional development for organizations providing competitive, efficient and affordable services to exchange information on credit history.

Consumer protection in the microfinance sector, as well as throughout the financial system, is the most important part of ensuring transparency. Consumer protection can be achieved by improving the quality of transparency and ethical business. This will ensure that clients receive good services and products and have a choice of mechanisms of protection if their rights are violated. Regulators should take steps to ensure that the rights of consumers are protected and to identify effective mechanisms to address complaints of consumers of financial services in conjunction with the second-tier institutions (associations, apex institutions).

MFOs should be focused on the financial health and long-term solvency of clients, because that's when the welfare of the very MFOs will be stable. Staff training and the introduction of responsible financing at the level of the sector's institutions will form the basis for risk reduction both in individual companies and in the overall system.

Given the target group of microfinance clients - people with low incomes, the MFIs should include and evaluate social indicators on par with the standard financial indicators.

Given that microfinancing is the basis for social mobilization, the state will actively promote microcredit and microfinance institutions that provide affordable services and loans to the low-income families and will pay great attention to the creation of a legislative framework for the successful development thereof in a long run.

#### **9.4. Insurance Activity**

With the transition of the economy of the Kyrgyz Republic on the path of market-based development, there was an objective necessity of formation of the insurance market as an integral part of the market infrastructure. Insurance serves both economic and social functions, including providing the economy with medium-and long-term capital, and protecting people and businesses from various risks.

Further development of the insurance market is affected by the overall fragile state of the economy and the real sector, low insurance culture, non-involvement in this activity of large legal entities. Principles of taxation of insurance companies do not encourage the development of insurance business. The supervision and regulation system and its operation require improvement and bringing into compliance with the requirements of the International Association of Insurance Supervisors (IAIS). The problem is the lack of professionals that are able to conduct specific actuarial calculations.

Insurance companies have low capital intensity, they do not have qualified professionals who have command of modern technologies of promoting and providing services.

Low purchasing power of and demand from the individuals and legal entities for insurance services do not encourage active development of insurance and mobilization of internal investments into domestic economy.

In order to shape up and strengthen the insurance market, one needs to:

- Improve the legal and regulatory framework of the insurance activities, which will create preconditions for the further formation of the insurance market;

- Establish a national institute of actuaries that will carry out, among other things, actuary audits of drafts of laws and other pieces of legislation that relate to insurance tariffs. In order to achieve that one needs to form and develop appropriate information database. This structure will provide advisory, analytical and information services to insurance companies and pension funds and other financial institutions of the country. For that, one will arrange actuarial courses and prepare the necessary training materials;

- Strengthen the system of financial supervision of insurance companies which will provide guaranteed protection of the interests of all participants of the insurance market;

- Analyze completeness and sufficiency of the list of mandatory types of insurance. This will enable one to raise the capitalization of national insurers and will contribute to the establishment of insurance companies, the development of a public insurance culture;

- Adopt measures to increase capitalization of insurance companies for the purposes of ensuring sustainability of the insurance system and reducing capital drain from the country;

- take measures to encourage a system of re-insurance within the country.

The main goal of the development of the insurance business is the implementation of measures to address the need for insurance protection of citizens, legal entities, state and accumulation of long-term investments for the economic development of the national economy.

In order to achieve goals of insurance development, one needs to implement the following important objectives:

- Improvement of legislative framework that promotes the development of insurance activity;

- strengthen the development and adoption of laws and other regulations for the introduction of compulsory insurance (insurance for movable and immovable property), identify priorities in insurers' providing innovative insurance products for voluntary insurance;

- ensure financial sustainability and growth in capitalization of insurance organizations so that they are able to process large risks and expand their regional networks;

- develop and introduce mechanisms to stimulate investment of insurance resources into the national economy;

- create an enabling environment that encourages people's interest in obtaining insurance services, including through the improvement of the tax system;

- establish a quality system for training and retraining of personnel for the insurance industry at all levels to accelerate further formation and development of the insurance industry;

- create an effective mechanism of state regulation and supervision of insurance activities.

- to develop and continue improving the infrastructure of the insurance market (institute of actuaries, institute of brokers, institute for regulating losses and claims, claims adjusters, etc.);

- Increase the insurance culture of the population through dedicated work with mass media;

- Improvement in the re-insurance mechanism.

Introduction of compulsory insurance will raise the level of the insurance business, reimbursement of damages and will remove the burden from the state budget. Priority attention will be given to improving the regulatory supervisory framework, strengthening supervisory practices. One needs to improve the system of taxation of insurance companies.

Measures will be taken to institute a requirement to inform policyholders about the activities of insurers, because the informational secrecy of the insurance services market creates problems for potential policyholders in their selection of stable insurance companies.

All of the above measures will create a competitive insurance market, provide financial stability and reliability of insurance companies, improve service quality, expand

the scope of insurance protection of property and personal interests of the population from the various risks.

### **9.5. Private Pension Funds**

Activities of non-governmental pension funds (NPF) are designed to play an important role in the formation of the non-banking sector. In the Kyrgyz Republic there is a Law of the Kyrgyz Republic "On Non-Government Pension Funds in the Kyrgyz Republic". But, despite this, there is only one such fund operational in the country, which indicates a lack of development in this direction.

Activities of non-government pension funds are complicated by imperfections in the regulatory framework of their operations, inadequate public awareness about their activities. Obstacles to the formation of such funds also include a lack of guarantees for safety of deposits and the risk of depreciation due to the high inflation, the root causes of which remain to be resolved. In general, this situation leads to the inability to mobilize domestic resources for their involvement in the real sector.

The state should provide the basis for a sustainable and long-term economic development. With successful implementation of the stabilization strategy there will be conditions for the strengthening of non-state pension funds as an alternative and addition to the existing public pension system.

The country will continue to develop and improve the regulatory and legal framework for the activities of non-state pension funds, create a system of supervision and investment mechanisms for pension funds.

The medium-term development goals for non-state pension funds are:

- raising the level of voluntary pension support in Kyrgyzstan;
- ensuring participation of the non-state pension funds in the system of mandatory accumulative insurance;
- achievement of financial stability of the pension fund in the medium term;
- attracting pension "long-term money" as an investment in the national economy;
- Improving effectiveness of pension assets management.

The following objectives will be implemented:

- developing draft regulations governing the activities of non-state pension funds;
- adopting diversification measures to protect accumulated pension funds;
- forming public support, ensuring transparency of the activities.

If this policy is implemented, the non-state pension funds will be able to accumulate funds, which can then be invested in securities. As a result, these funds will serve as means of protection against poverty.

Eventually, implementation of these objectives will allow for higher pensions upon retirement, increased share of savings in the economy and greater economic growth due to investments of pension assets, issue of long-term and short-term public securities. The pension funds, having market properties of a capital, will give an impetus to development of the financial market, will contribute to growth of long-term investments and will encourage creation of appropriate financial institutions (managing companies, banks) that are necessary for economic development of the country.

## 9.6. Securities market

Along with the system of bank credit, the securities market (SM) helps strengthen the investment activity of business entities, eliminate the deficit of capital, its spillover from one sector to another, thereby stimulating structural change in the economy.

Securities market of the Kyrgyz Republic has the necessary infrastructure, developed regulatory and legal framework governing its operation.

The country formed an institution of professional participants of the securities market. In addition, the securities market sees the operation of entities that perform depository, broker, dealer activities, the activity of keeping a register of holders of securities and investment funds, managing investment funds.

However, this area has the following problems:

- *a lack of attractive financial instruments.* Corporate securities are mainly represented by shares the return on of which depends on the profitability of the company, and the profitability of most enterprises is at a low level. The corporate bond market is underdeveloped. There is no legal framework governing the turnover of mortgage and municipal and derivative instruments, which is one of the major constraints to their development

- Limited domestic investment resources. Low purchasing power of the population and the lack of development of collective investment institutions discourage investments in securities;

- *Securities legislation.* It is necessary to continue work on improving securities regulations in the Kyrgyz Republic, based on best international standards in this field.

- *a lack of protection of interests of investors* and a low level of public awareness about investing in securities;

- *taxation of income from securities.* The current system of taxation of income from securities market is not conducive to the development of the market for long-term debt securities;

The existing technical infrastructure of the securities market, though capable of offering the entire necessary range of services to the market does not cover all areas of the country. In this regard, there are difficulties with making transactions in securities in the periphery.

The goal of development of the securities market is to create an effective mechanism for investment accumulation and redistribution, turning it into a source of extra income for the population, facilitating the inflow of long-term financial capital into the country.

Further development of the securities market will be thanks to the implementation of the following priority activities:

- Adopt a number of legal acts governing the issue and trading of additional instruments in the securities market for the implementation of the Housing construction Program.

- Implement measures to adopt draft laws "On Municipal Securities," "On Securities Issued under the Islamic Principles of Financing."

- Fund the most important sectors of the country's industries (national projects) by issuing issuance of long-term government securities;

- Develop the capital market and establish a mechanism for their inflow into the real sector of the economy.

- The sale of shares of state-owned companies at the trading platform of licensed trading organizers.

The development of long-term government securities to finance the most important sectors of the country (national projects) will be another source of additional resources for the development of the economy in the near future.

Improving corporate governance should also help protect the rights of investors and increase their trust. Important directions include the mandatory introduction and implementation of international accounting standards and financial reporting among enterprises.

One will work to address the need for increasing the variety of financial instruments and their accessibility by creating conditions for the emergence of new instruments and development of existing ones.

In order to increase the attractiveness of debt securities one needs to improve the taxation of income from such securities. One needs to keep the ongoing explanatory activities among the population to raise awareness about issues of investment, activities of collective investment institutions, professional participants of the securities market. Expanding the network of professional participants of securities market in the periphery will enable the country to increase trading in securities at the regional (rural) level.

In order to solve the problem of transparency, the securities market needs to ensure accessibility of information about the issuers, professional participants and other information on the securities market to any interested persons. This can be solved by creating an information center, where potential investors can get access to the reporting of issuers and other information

The implementation of these measures should increase the number of attractive instruments for investment in securities market. It will become transparent, there will be additional guarantees for the rights of ownership of securities holders, which should lead to an influx of additional funds.

Creating a well-functioning securities market will boost investing activities, which will lead to the expansion of corporate activities, increase in industrial output, and as a result, creation of new jobs, and an increase in wages and incomes of the state budget.

## Chapter 10. DEVELOPMENT OF STRATEGIC INDUSTRIES OF THE ECONOMY

### 10.1. Agri-industrial sector

In terms of the contribution to the economy, providing the industry with raw materials, and the population – with food, and in terms of the employed population, this sector has been one of the most important priorities of the economic development of the Kyrgyz Republic. A comprehensive approach to solving existing problems in the development of this sector will help reduce social tension in the country and comprehensively approach the solution of future problems of rural development in general.

**Current status:** The share of agriculture in GDP and the share of the employed in the industry over the last 5 years have been steadily decreasing, in 2011, the figures were, respectively, 18% and 30.7%.

The growth rate of value added in agriculture is far behind the national average. Thus, the average growth rate of the industry for the period of 2001-2011 totaled 2.2%, which is significantly lower than that of GDP growth of -4.3% over the same period. Average wages in the agricultural sector is the lowest in comparison to other sectors of the economy: in 2011 the salary was KGS 4784 or 51.4% of the national average.

As a result of the land reform started in the 1990s, in agriculture entities privatized fixed assets of agricultural production - land, agricultural machinery and equipment, livestock. However, the reforms fell short of expectations: ill-conceived government policies have led to this strategic industry acquiring the forms of subsistence farming and low-value (small-commodity) agricultural production. In 2011, of the total arable land 79.6% was privately owned, with the remaining 20.4% owned by the state. Currently, about 97% of agricultural output is produced by the private sector.

The land reform has created a class of landowners. The average size of tillage in the peasant (farmer) farms in Kyrgyzstan only totals 2.7 hectares, including 1.9 hectares of irrigated arable land. Most tillage is owned by farmers of Chui province - 5.7 hectares (4 ha of irrigated land), and the least – by the Jalal-Abad province farmers - 1.2 hectares (0.7 hectares of irrigated land). However, the small size of land holdings leads to primitivism production and is a significant limitation for effective agricultural production, increase of the capital-and-labor ratio and growth of productivity.

In Kyrgyzstan, the area of arable land per person is 0.25 ha / person. At the same time, there is a process of loss of agricultural land. Thus, at the beginning of the reorganization, the land redistribution fund had 296.6 thousand hectares of tillage, including 186.9 thousand hectares of irrigated land. As of 1 January 2009, there was a reduction of the land, by 67.7 thousand hectares and 60.5 thousand hectares respectively. In 2008-2009 alone, the area of tillage decreased by 3.1 thousand hectares.

The degradation of agricultural land that is occurring now is a significant threat to food security of the country and moves this threat from a category of environmental threat to that of threats to sustainable national development. The problem is further complicated by weak land management capacity. Works to restore soil fertility are not sufficient. The country lacks its own production of mineral fertilizers, every year the amount of fertilizers applied to the soil decreases.

Despite the measures taken by the state for the reconstruction and development of irrigation channels, support of seed farming and livestock breeding, the situation in these

key areas for agricultural production is not improving. The current length of channels does not meet the existing agricultural needs. Some of them, due to lack of funding and timely repair, need to be overhauled. The quality of seed and livestock breeding material is declining. All this leads to significant losses for the agriculture and population. There is an annual growth of degraded agricultural land, intense salinization and waterlogging of irrigated land. Due to the poor technical condition of irrigation channels, water loss from the catchment to fields totals more than 40%.

The capacity (life) of agricultural equipment and machinery is fully depleted.

Kyrgyzstan does not have an adequate level of self-sufficiency in staple foodstuffs, which results in dependence on imports. In 2011, the supply (provision) of the domestic market through domestic production was as follows: bread - 62.5%, meat - 57.8%, vegetable oil - 34.2%, sugar - 12.2%, eggs - 38.4% , fruit and vegetables - 23.1%. Moreover, the global food market is unstable in recent years. Some countries use moratoria on the export of foodstuffs to satiate their own markets. The said adverse processes and phenomena identified the need for additional measures to ensure food security.

Unsolved problems include the equity (or a lack thereof) of the distribution of income from sale of the output of the agricultural complex among agricultural producers, processors of these products, and trade and intermediary organizations. Traditionally, the share of agricultural producers in the final price of the product is very small. Farmers incur significant losses in sale of their products because of lack of knowledge of supply and demand in the market, lack of storage facilities. They often sell their products at the lowest prices of intermediary companies. Not only does this deprive the farms of adequate financial resources for development, but also deprives them of economic motivation to increase output.

The gap between agricultural production and the volume of processing of that production is not narrowing. Numerous efforts to develop various forms of cooperation for the agriculture with the processing industry and trade have not given the expected results: the number of collective farms, including agricultural cooperatives, in the last 5 years is unstable and began to decline. This evidences dissatisfaction of the potential participants with existing legal and economic relations under a system of cooperation (cooperative farming). Efforts to establish agri-industrial clusters did not bring the expected results either. The main reasons include the lack of an expressed public policy providing a systemic approach to the implementation of cluster projects, lack of effective methodological framework of the application of clustering technologies, lack of trained personnel, etc.

The problem of disparity of prices remains acute, despite the rise of food prices. Prices of producers of agricultural products and processed products during the period of reforms lagged behind prices for logistical resources by 4-5 and 1.5 times, respectively.

The development of production of foodstuffs is adversely impacted by trade barriers that impede access of the Kyrgyz producers to markets of neighboring countries. Another issue holding back export growth is the low quality of domestic agricultural products and processed products. Further exacerbating the situation is an undeveloped system of control and certification of agricultural products which does not provide proof of conformity of the quality of products to international requirements and standards.

A significant challenge for the domestic agricultural sector is the desire of Kyrgyzstan to become a member of the Customs Union, which includes Belarus, Kazakhstan and Russia. These countries are much bigger in terms of the size of the economy compared to Kyrgyzstan, they provide their agricultural industries with huge financial support. This

circumstance will inevitably lead to the need for the adaptation of Kyrgyz agriculture to new conditions, and the restructuring and reorientation of agricultural production to produce competitive products.

Despite the expansion of the banks' branch network, the operation of microfinance institutions, credit unions, and financial support from the state, access to finance remains a serious problem of the industry. Lack of cash receipts from sale of products because of the relatively low prices and limited market, the problems of a lack of collateral to obtain loans do not allow to fully implement the replenishment of working capital and growth of fixed capital.

**Goals:**

- Increase in the output of the agricultural complex, improvement of product quality and ensuring of food security of the country.
- Improvement of the efficiency of agricultural production and competitiveness of products of the entire agricultural complex.
- Improvement of the fiscal return from the agricultural complex.
- Solution of social issues of peasants.

**Objectives:** (1) Improve the system of management of the agricultural sector, improve efficiency and effectiveness of regulation, (2) improve the quality and composition of the servicing and technical services for the agriculture, create prerequisites for the technical and technological modernization of agricultural production, and (3) create conditions for the development of cooperation, improve product quality, and (4) establish a modern market infrastructure for the agricultural complex, and (5) increase production and exports of the agricultural complex, develop export-oriented clusters, (6) annually introduce new lands, (7) develop the processing industry; (8) increase effectiveness and efficiency of land use.

**Policy and measures.** As part of the implementation of the **first** objective aimed at improving the management system of the agricultural sector, it is required to radically restructure the system of management of agricultural sector to create conditions for the functioning of agriculture. In this regard, first of all, one needs to (ii) form the optimal structure of the Ministry of Agriculture and its subordinate agencies to promote the use of the cluster approach, including the complete chain of promotion of agricultural products from the producer to the market. It is also necessary to (iii) stop the transformation of agricultural-purpose land, particularly plough-land.

Measures to improve the economic motivation of producers will be directed at improving the mechanisms for enhancing the protection of property rights. One needs to address the problems associated with the manifestation of unclear establishment of real boundaries of public and private lands, and reflection of boundaries in legal, title-establishing documents. One will create conditions for the concentration of lands among effective owners and the reduction of the costs resulting from changes in ownership. In order for that to happen, one will be eliminate restrictions on the use of land as collateral in credit institutions, partially the existing restrictions on the sale of land have been lifted. Concurrently, all owners of lands, regardless of form of ownership, will face increased requirements for the use of agricultural-purpose lands and preservation of their fertility (physical, chemical and biological properties of the soil). Purchase and sale of agricultural land will be made only through competitive bidding, organized by licensed trading platforms, under the state and public control.

Strategic direction for the transformation of agriculture in the medium term will include reforms aimed at integration and consolidation of smaller peasant farms into cooperatives - "nodes of growth," and creation of favorable conditions for their development in the agricultural sector. The state will focus its efforts on supporting efficient agricultural producers that own: (i) in plant farming – no less than 100 hectares of land; (ii) in the livestock sector - at least 500 heads of small cattle or 500 heads of large cattle.

In order to establish an effective mechanism for public procurement and commodity interventions, there will be improvement in transparency and creation of an effective system of market and price stabilization.

In order to improve the management of state pastures, a mechanism will be implemented, which will be based on the principle of reasonable balance between the economic return of pastures to the society and prevention of their degradation. A very important tool of increasing efficiency and effectiveness in this regard will be introduction of modern technologies into the pasture management and monitoring practices.

The promotion of agricultural products in foreign markets and geographic expansion of exports will be implemented within a business approach of "a foreign market – farmer-produced products." Appropriate arrangements will be made with respect to quantity, quality and range of agricultural commodities with public administrations of regions of Russia and Kazakhstan, where the Kyrgyz agricultural produce is exported.

In order to develop agricultural technologies, strain renovation in crop farming and livestock farming, in each Oblast there will be established base seed and livestock breeding farms to expand and implement the best practices in the application of agri-bio-technologies, allowing to recover the best varieties of plants and breeds of farmed animals, develop new ones that are more productive and adapted to the existing natural climatic conditions.

Policy measures to address the **second** objective on improving the quality of servicing and technical services for the agriculture and creating conditions for technical and technological modernization of agricultural production will focus on the following areas: (i) the expansion and rehabilitation of irrigation networks, land reclamation works, assistance in raising soil fertility; (ii) development of veterinary science and plant protection, support to private veterinary, including by means of streamlining regulation of private veterinary practice, gradual improvement of the level of veterinary and phitosanitary status to the level that is compliant with the regulatory requirements of the Customs Union; (iii) increase in the availability of agricultural equipment through the expansion of a network and improvement of quality of services of major agricultural equipment providers, created under principles of public-private partnership with the subsequent transfer of the share of the state to the private sector; (iv) facilitation of the renewal and replenishment of seeds stock and pedigree stock by creating economic incentives for both producers of seeds and livestock and agricultural producers; (v) improvement of the availability of financial resources for producers and the expansion of the number of financial services for rural areas (development of financial institutions in rural areas, lending, leasing, insurance, etc.); (vi) the creation of a stable system of training and retraining of rural producers, the training in modern agricultural technologies by organizing regular courses; (vii) the development of industrial infrastructure in the rural areas (roads, electricity, water supply - drinking water and irrigation water).

As part of the implementation of the **third** objective aimed at the development of cooperation, the concentration of capital in the agricultural sector and the arrival in the agricultural complex of an efficient owner, one will take the following measures and

actions: (i) the establishment of the regulatory framework to ensure that the interests of potential participants in cooperative relations, especially in the protection of property rights and the equitable distribution of income; (ii) the use of public assistance mechanism under in which it will be linked to performance indicators of agricultural producers - the assistance beneficiary; (iii) under the state support of the agricultural sector, preference will be given to those that guarantee the maintenance of the existing levels, and in the future - the growth, of agricultural production, as well as job creation. Thus, all forms of agricultural cooperation will have a preferential right to state support; (iv) in each area one plans to create pilot cooperatives based on a public-private partnership principle, in which the state would assume the risks associated with the instability of the farms for five years (v) one will adopt technical regulations related to the processing of agricultural products and will improve procedures for product certification in the direction of cheapening of products and elimination of redundant requirements. One will expand the network of organizations (laboratories to check quality products), offering certification of products, and will improve methodological and technical equipment of certifying organizations.

Policies measures to address the **fourth** objective associated with the creation of a modern market infrastructure for agriculture will be aimed at the development of the wholesale futures markets. In order to achieve that one will draft a package of legal documents providing for public-private partnership with the subsequent transfer of the share of the state to the private sector.

In order to improve the informing and consulting of rural producers and agricultural enterprises, one will develop an annual forecast of supply and demand in regional and local markets for agricultural products. One will form state information resources with the information needed by rural producers and make them available for state authorities, local governments and agricultural economic entities and population. Conditions will be created for public dissemination and use of the information system for the preparation and decision-making at all levels of management in the field of agriculture. One will develop a network of training centers and improve the methodological activities. Centers should operate in each province, train specialists to advise agricultural producers, and disseminate experience of consulting assistance (extension services). The network of training centers will include major private agriproducers, operational state seed farms and test plots for providing informational assistance with respect to seeds.

Policy measures to address the **fifth** objective will be aimed to increase the production, exports and create agricultural enterprise using clustered organizational technologies, which will lead to an increase in the physical volume of production and increase in the depth of processing of agricultural products. In the course of creation of clusters, preferences will be given to the key role of authorities at various levels of government which initially will initially be playing a coordinating role: they will determine the strategy of the cluster, provide resources for its development, and stimulate and encourage companies to form and develop clusters to improve the efficiency of resolution of common problems. Factors of promotion of cluster policies in the agricultural sector will include: (i) records of country and regional characteristics in agricultural production (results of the reform, the motivation of potential participants in the cluster); (ii) the formulation of the program of cluster development, the inclusion of the relevant sections in the strategy of the country / region / local government; (iii) the development of communication between the main participants of the cluster; (iv) the active use of the public order (state procurement) as a tool to support clusters.

The implementation of the **sixth** objective will concentrate on government support and targeted financing of the modernization of irrigation systems and the introduction of new irrigated agricultural lands at a pace of 10 thousand hectares of new irrigated

agricultural land (including reclaimed land and agricultural land that had been previously reclassified as non-agricultural land). Building a system of water supply, as an infrastructural challenge, will also perform social functions – creation of new jobs (mainly in plant farming) and the conditions for the settlement of new territories.

Policy measures as part of the implementation of the **seventh** objective will focus on the development of the processing industry. The priority areas of support of agricultural enterprises will include the production of feedstuffs, milk and processing, food canning. In order to increase the processing of agricultural products, one will take the following measures: (i) the creation of new, and expansion of existing, processing enterprises. New food processors will be created with consideration given to the provincial and district specialization and under a public-private partnership principle with the subsequent transfer of the state's share to the private sector; (ii) gradual technical and technological modernization of agricultural enterprises with the state's involvement in the form of provision of subsidies for reimbursement of a part of expenses to pay interest on investment loans taken to purchase agricultural machinery and technological equipment, the provision of subsidies for the partial repayment of the lease payments by processors, and the expansion of leasing of equipment for the processing of agricultural products.

Achievement of the eighth objective will require preservation of and increased efficiency in use of land and water resources.

The following work will be undertaken: (i) to improve government registration and monitoring of land and water resources; (ii) to ensure preservation of fertility and efficient use of agricultural land and of water resources; (iii) to strengthen the role of local authorities and NGOs in the conservation and restoration of soil fertility.

It is necessary to conduct a large-scale assessment of soil fertility, to create a sustainable monitoring system and create a database of agricultural land, to assess the actual state of water resources.

It is necessary to create a system of legal norms and administrative and economic measures that prevent inefficient use of land and water resources and prevent growth in land degradation. It is planned to introduce more stringent regulations regarding conservation of land and water resources (permissible levels of contamination of soil and water resources by various wastes of industry and agriculture, domestic waste, etc.) to strengthen penalties for violations. At the same time, there will be material improvements in the control practices, with introduction of incentives for gradual conversion to environmentally-friendly technologies.

There will be an increase in the role and accountability of local authorities, better utilization of the capacity of non-governmental organizations in the matters of conservation and restoration of soil fertility.

## 10.2. Energy

Energy is a strategic industry that directly affects the quality of life of the population and all areas of the economy. Given that a key role in the formation and development of the energy base of the Kyrgyz Republic is played by **hydro-energy**, whose share in the total energy resources is 52.6%, this direction of development of the energy sector is defined as a **priority** in the socioeconomic development of the country both in the medium term and the long term. This sector accounts for about 2.0% of GDP and 16% of industrial output, and 10% of revenues in the state budget.

**Hydro-energy. Current status:** The Kyrgyz Republic has huge reserves of clean energy. The hydropower potential of small and large rivers is estimated at 142.5 billion kWh, which is only used at the level of 8-9.5%.

Renewability of hydroelectric energy and alternative energy sources, low level of use thereof, clear environmental advantages over fossil fuels, and, in addition, the extremely high potential capacity of the main watercourses bring about the advisability and of highly cost-effectiveness of the construction of large and small hydroelectric plants. Over 90% of electricity in the country is generated by hydroelectric power stations. The rest of the amount of electricity is produced by heat power plants. However, this process virtually fails to involve small and medium energy. Today, the degree of development of water resources of small rivers in the country only totals 3%.

As of today, there are following power plants existing and operational in the country: the Toktogul hydropower plant with capacity of 1,200 thousand kW, the Kurpsai HPP with capacity of 800 thousand kW, the Tash-Kumyr HPP with capacity of 450 thousand kW, the Shamaldy-Say HPP with capacity of 240 thousand kW, the Uch-Kurgan HPP with capacity of 180 thousand kW, the Kambar-Ata 2 HPP with capacity of 120 kW and the At-Bashi HPP with capacity of 40 thousand kW, the Bishkek TPP – 660 mW and Osh HPP – 50 mW, which allows the country today to produce up to 14.8 billion kWh. In 2012, electricity production is expected to reach 14.9 billion kWh, including for export - 1,505 million kWh.

The increase in electricity consumption (3% -5% per year) exceeds the pace of commissioning of new generating capacities. For example, over the period from 1990 to 2011, the maximum load on the grid has increased as a whole throughout the country by 1214 megawatts, including in the north – by 784 megawatts, and in the south – by 430 megawatts. The daily consumption of electricity in winter is three times the summer consumption. This is associated with a reduction in the use of natural gas, coal and fuel oil due to a significant increase in prices, which resulted in the transition to the use of electricity for heating and hot water. The long operation of electrical energy infrastructure in the context of financial and technical constraints led to technical wear down of equipment, whose level in the industry is on average of 60%, including the degree of wear down of the Toktogul hydropower plants of 78.8%, that of the main equipment of the Bishkek Heat Energy Plant - 84%. In the field of power transmission, equipment wear down rate is 36%, in the distribution industry - 45.3%, while the pre-critical threshold wear down rate of fixed assets is 15%, and the critical one is 25%.

The regional inequality of consumption is significant. More than 90% of the sources of electricity are in the central part of the country, while more than 60% of the produced energy is consumed the northern regions of the country. The North and South of the country are connected by a 500 kV "Toktogul HPP -Frunzenskaya" power line and through the Unified Energy System of Central Asia. In the event of a failure on one of these lines, it will be necessary to introduce restrictions on energy consumption in the northern region of 40%, in the southern regions – of up to 85% (Batken Oblast - 85%, Osh Oblast - 50%).

A high level of commercial losses limits the capitalization of electricity and reduces the possibility of the implementation of its technological modernization, attraction of foreign direct investment for its development.

**Goal:** The main goal of the energy sector is to ensure the energy security of the Kyrgyz Republic and the development of export potential.

**Objectives:** (1) ensure reliability and uninterrupted nature of supply of electricity, primarily to domestic consumers, (2) ensure the implementation of a balanced tariff policy,

which provides for coverage of costs of energy companies, (3) achieve the reduction of losses, both technical and commercial, (4) improve the financial and corporate governance in the energy sector, enhance the commercial and financial discipline, (5) bring energy sector to profitability, (6) develop a competitive advantages of the Kyrgyz Republic in the regional electricity market, and (7) improve conditions for attracting investments in hydropower projects.

The implementation of the set objectives of development of electrical energy will allow Kyrgyzstan to become by 2017 a major producer of electricity in the region and fully provide population with electricity and increase the export of electricity to neighboring countries.

**Policy and measures.** In the area of capacity development, there will be commencement of construction of the Kambarata -1 HPP , the Upper Naryn Cascade of HPPs (4) and continue construction of the Kambarata-2 HPP, continue work on commissioning of Generating Unit Two and analyze the possibility of construction of a cascade of HPPs on the Sary Jaz river.

In order to ensure independence of national power supply from energy grids of the neighboring countries, it is planned to complete construction of the 500/220/35 kV "Datka" substation in the south and Kemin substation in the North, as well as of the 500 kV Datka-Kemin transmission line with a total length of 410 km.

In order to ensure export potential, it is necessary to prepare a feasibility study and begin construction of of high-voltage 500 kV "Kemin-Almaty" transmission lines, 500 kV "Kyrgyzstan-China" transmission line and the 500 kV "Datka-Khudjand" transmission line (the CASA-1000 Project).

Policy measures aimed at financial rehabilitation of the electricity sector will remain unchanged, which requires the nation to achieve the indicator of energy losses not to exceed 12%, as well as a 100% collection rate with respect to bills extended, the period of accounts receivable should not exceed three months, which will increase the amount of funds needed to improve the technical state of energy companies.

There is a need to draft a tariff policy aimed at addressing the organizational and financial issues of the industry's development. The tariffs will be approved at a rate that ensures complete recovery of costs of production, transmission, distribution and sale of electricity and heat energy, as well as the necessary interest income on the investments, allocations of funds for replacement of fixed assets and ensuring the reliability of the power system.

Increasing costs of energy resources is a sustainable trend that will continue, this is why it will be necessary to: (i) improve the system of state regulation and the encouragement of energy conservation; (ii) to strengthen the role of state and local authorities and NGOs in the matters of energy conservation and energy efficiency of buildings; (iii) create an environment that encourages application of energy efficient technologies for buildings and structures; (iv) promote the use of renewable energy sources.

Energy conservation policy must become an integral part of all development strategies: of the nation as a whole, of the Oblasts and of local authorities. Each household should aim for energy efficiency. It is necessary to introduce a system of norms and economic preferences that encourage greater energy efficiency in the economy.

One of the most important vectors of development for the national energy sector will be promotion of renewable sources of energy via micro-energy industry and through creating favourable conditions for investments in this industry.

### 10.3. Mining

**Current status:** After the collapse of the Soviet Union, Kyrgyz mining industry fell into decay. Some mines and shafts were suspended, while others were decommissioned for various reasons. The issue, without comprehensive economic assessment, of licenses for subsoil use to almost everyone at no cost and widespread violations of the issuance procedures resulted in the disclosure by private organizations of complete information on the scope of geological studies that had been undertaken in the country in the past 50 years. Among the more than 900 licensees, there is not a single entity that would have a positive experience in the field of mining, which indicates a critical situation in this sector of the economy. The public policy on mining failed to protect the interests of the state and amounted to a dedicated removal of this industry out of the sphere of control of the state. As a result, government agencies did not have the ability to prevent profiteering from licenses and effective transfers of subsoil licenses through sales of shares in licensees and to counter the practice of licensees holding licenses for promising deposits for multiple years, without any work or investment. Because of this, no significant mineral deposits, except for the "Kumtor" project, have been commissioned in the country over the past 20 years.

Despite the vast amount of proven and confirmed reserves of precious metals and minerals, the country currently only four mining companies operate in the country: the Kumtor and Makmal gold mining companies (15-18 tons per year, 0.2-0.5 tons per year), Khaidarkan mercury plant (300-320 tons per year), and the Kadamjay antimony mining plant (1.5 tons per year). In addition, there are small gold mines that are operational - Jamgyr, Tereksai, Solton-Sary and Ishtamberdy.

Currently, mining is represented by the following industries:

**Gold mining industry.** Registered gold reserves as of November 1, 2012 for 60 gold deposits amount to 448 tons, including 443 tons for 36 primary deposits, and 5 tons for 24 alluvial gold deposits. Of all the primary gold deposits, 5 are being developed - "Kumtor," "Makmal," "Solton-Sary," "Terek," and "Terekkan." Six primary gold deposits have been prepared for commercial development ("Jeruy," "Taldybulak Levobrejnyi," "Andash," "Bozymchak," "Ishtamberdy," and "Kuru-Tegerek"), for which plans for development have already been prepared or the plans are being finalized. On other sites, companies are conducting exploration and prospecting.

**Current status:** As of today, this industry has issued 258 licenses, including 225 for prospecting and exploration and development. Such an amount of licenses led to chaos and lack of control. It has been established that licenses were originally issued not for organization of production or for replenishment of state stock, but for profiteering from them, and also for sale of confirmed reserves as prospective assets of private companies at international stock exchanges. From the sale of such shares, the owner of the subsoils - the state - gets nothing. With the less than diligent attitudes of officials, over the 20 years the major part of the initially issued gold licenses have been resold to private entities several times.

**Policy and measures.** (i) Due to entry into force of the new law "On Subsoils," it is necessary to prolong all previously issued licenses with respect to national-scale gold deposits; (ii) it is also necessary to use one licensing platform to settle the matters relating to the relations between the state and the licensees competing for the right to conduct research and exploration works. There is a need to tighten control and supervision over compliance with licensing conditions and legislation of the Kyrgyz Republic, with toughening of sanctions for failure to comply with licensing conditions all the way to a

revocation of licenses. At the same time, all of these actions should not affect good faith investors that do meet their obligations under the investment agreements.

**Non-ferrous metallurgy.** The raw materials base of the industry includes mercury and comprehensive mercury-antimony-fluorite ore deposits of "Khaidarkan" and "Novoye" which are developed by the Khaidarkan Mercury Plant. Explored reserves of antimony in antimony and complex ores of the "Kadamjai," "Terek," "Khaidarkan," "Novoye," "Kassan," "Severnyi Aktash," and "Abshir" deposits collectively total 265 thousand tons. Explored reserves of uranium have been exhausted and in the past 30 years, the Kara Balta Mining Plant has been processing raw materials imported from Kazakhstan. The plant does not have its own raw materials base and its future depends on the ability to secure imports of uranium. Large reserves of ***tin and tungsten*** are concentrated in the "Trudovoye," "Uchkoshkon" and "Kensu" deposits and collectively amount to 208 thousand tons of tin and 125 thousand tons of tungsten. On the "Trudovoye" deposit, the company is preparing a plan for its industrial development, with possible production to start no earlier than 2013.

**Coal-mining industry.** The coal industry is in a critical condition. Explored coal reserves total 1.3 billion tons, with probable reserves being about 2.0 billion tons. Geological reserves and probable reserves of coke-coal reach 260 million tons, which allows one to start their exploration and plan for construction of a coke-coal production. One of the main problems in the sector is the poor condition of the coal and oil and gas industries, which, by their potential, can fully meet the needs of the country for coal and partly for oil products. This situation is caused by high cost of transportation of coal and obsolete extraction technologies, worn-out state of principal production equipment - which reaches 95%, inefficiency of most of the coal companies and the reduction of the demand for coal and deterioration of the solvency of consumers. Many coal mines and pits that had been commissioned 40-50 years ago are nearing exhaustion and are not technologically efficient. Mines are worn out, the equipment used primarily fails to meet the modern technological requirements. The sharp increase in railroad fares and a falling demand for coal led to a decline in coal production and, consequently, increase in the unit cost of production. In addition, many companies are working with serious violations of legal acts of the Kyrgyz Republic in the field of industrial safety and labor laws. The main reasons for the crisis in the coal industry include the lack of an effective owner and low level of management.

**Current status:** **In the northern regions of the country**, substantial coal deposits are located in Naryn and Issyk-Kul Oblasts. However, these Oblasts' markets are dominated by Kazakh coal. License agreements with 13 companies to develop deposits "Turuk," "Karakeche," "Min-Kush," and "Jyrgalgan" for a long time have not been fully implemented, because neither licensee has the equipment for effective development of these deposits. Coal deposits are divided into many sections to attract more subsoil users, which is a gross violation of the technical requirements for mining works. At the same time, the output of coal at these mines is not even at a 10 percent mark of the parameters spelled out in the license agreements. Relations of subsoil users with the state are not spelled out either in the general agreement, nor in the economic contract, nor in other regulatory documents. As a result, there is no government control over all the coal mining companies without the development and approval of the technical design for the implementation of mining.

**In the south of the country**, "Tash Kumyr," "Sulyukta," "Kyzyl-Kiya," "Kok-Yangak" deposits and other fields have been squandered among more than 30 private entities, neither of which has offered an effective investment program of deposit development.

Heat power plants of Uzbekistan and Kazakhstan located in the Fergana Valley and most of the population found themselves cut off from the Kyrgyz coal.

**Policy and measures.** (i) Take inventory of investment agreements and revoke all licenses issued for the development of coal deposits in the event that the licensees fail to meet requirements of License Agreements (License Supplements).

**Oil and gas industry.** Proven oil reserves total 97.4 million tons, extractable - 11.6 million tons, gas - 4.9 billion cubic meters. In the territory of Jalal-Abad, Osh and Batken Oblasts, 15 oil and gas deposits are being developed.

**Current status:** All oil and gas fields were discovered over 70 years ago, are in late-stage development and have been developed at almost 70% rate. Of the remaining oil reserves, 80% are difficult to extract. The newest oil wells drilled in 1992, already have a depreciation of 30%. Natural decline in production due to all these factors totals 5 thousand tons of oil annually. The level of natural gas production is decreasing due to the development of deposits, wear and tear of equipment, and lack of funding.

Subsoil users hold 38 licenses for exploration and 14 for the development of proven reserves. The main part of licensees, except for "Kyrgyzneftegaz," are insolvent structures, that in order to obtain a license, produced false documents about the ability to finance works, while others registered very shortly before obtaining licenses. Despite the failure to honor previously made agreements, the terms of licenses were renewed multiple times. The inadequate response of the state to the issue of licenses leads to the fact that the right investors needed to develop the oil and gas industry do not come to the country.

**Policy and measures.** Take inventory of investment agreements and revoke all licenses issued for the development of oil deposits in the event that the licensees fail to meet requirements of License Agreements (License Supplements).

**Construction materials deposits.** The country has explored hundreds of deposits of construction materials, mining and chemical raw materials. These deposits feed 3 cement plants with a capacity of 1 million tons per year (the Kant Plant), 300 thousand tons (LLC "Tehnolin") and 70 thousand tons (the Kurment Plantplant), dozens of brick factories and quarries for the extraction of sand and gravel, loam, clay, limestone, and gypsum. The established resource base of construction materials almost fully meets the needs of the country for a long time, and, if necessary, the country can explore new deposits of construction materials.

**Current status:** Contrary to common sense and violating the principle of technological development, deposits are being broken down into several sections and the country issues licenses for these sections to separate entities. For example, the "Karagaylybulak" deposit in the Kemin Raion is divided into 4 sections. Thus, non-metallic materials, while having a great potential for the economy, have become an area that generates illegal income for government officials and are, effectively, out of the state control. The overseeing authorities, citing lack of budget funds, have long ceased on-site inspections to determine the actual amount of extraction of non-metallic minerals in the licensed areas, they have stopped controlling compliance with mining and other regulations, which allows the subsoil users to be engaged in any illegal activity.

**Policy and measures.** (i) it is necessary to suspend the 74 licenses currently in use in the area of non-metallic materials; (ii) the Government needs to use one single license platform to build an appropriate system of state relations with licensees competing for the right to conduct prospecting and exploration.

Overall, the common problems of the mining industry stem from, mostly, incompleteness of reforms and inadequacy of the subsoil regulating legislation. At the

state level, there is no specific program that would outline conceptual and strategic vision of the development of the industry for several years ahead, which complicates implementation of reforms due to lack of specific goals and objectives. The procedure for formalizing the access to subsoil use is complex and requires numerous approvals, expert examinations, and agreements. Certain provisions of laws in effect, such as the laws “On Subsoils,” “On Oil and Gas,” “On Coal,” “On Agreements for Production Sharing in Subsoil Use,” “On Concessions and Concession-Based Enterprises” and other bylaws contradict one another or allow dual interpretation. One failed to dot all the “i”s with respect to issues of ownership in mining property and subsoil use emerging in the course of deposit development. The subsoil-use legislation allows a high degree of intervention by state and local bodies into commercial activities of companies, provides excessive powers and discretion to officials. The explored deposits are passed from one investor to another.

Infrastructure maps, which are the basis for the design of new mining facilities, are scattered in different agencies and are difficult to access for subsoil users. The overwhelming majority of geological data is stored on the dilapidated hard copies, and a potential loss thereof could dramatically affect the development of the geological industry and, as a result, the entire mining industry. Transforming the data in question into the electronic media has been slow.

**Goals** of development of the mining industry:

- to increase revenue from mining through production diversification and integration into the world economy.
- To create favorable investment climate for all subsoil users, regardless of ownership and nationality.
- To develop new mineral deposits and create new jobs.
- to introduce advanced mining technologies and counter the use of wasteful and environmentally-hostile extraction methods.
- To introduce mechanisms of state regulation that aim at balancing the interests of the subsoil users, the state and society.

The state policy in the mining industry will be focused on balancing the interests of the state, investors and local communities.

**Objectives:** (1) create an enabling environment in terms of legislation and government regulation, (2) improve the geological infrastructure, (3) accelerate the development of the gold mining industry by commissioning already prepared deposits, (4) accelerate recovery of coal, oil and gas industry through the commissioning of new deposits and increasing production from existing deposits, (5) honor the obligations under the Extractive Industries Transparency Initiative (EITI); (6) ensure access to the database of deposits, (7) implement rational and comprehensive approach to development of mineral resources, with wide use of low-waste and no-waste production and minimization of the impact on the environment.

**Policy and measures.** The state policy in the sphere of subsoil use will be based on balancing the interests of the state and of the mining business. The basic principle of policy should be to create conditions for the comprehensive encouragement of private initiative. Kyrgyz Government fully entrusts the mission of developing the mining industry to the private sector, which should take on the business risks by providing financial and human resources under simple, clear and transparent rules set forth by the subsoil legislation.

Given the high capital intensity of mining projects and the lack of domestic financial resources, policy measures will focus on active support to existing and attraction of “new” investments. Favourable investment environment for “new” investments will be created if there are guarantees of observance of rights of existing and potential investors.

Plans include the liberalization of the mining business, reduction of excessive state control functions by replacing administrative controls with more effective market (economic) regulators, establishment of a practice whereby rights to develop deposits can be withdrawn by court rulings only; eradication of criminal asset takeover, ensuring gradual transition from the administrative and legal control to the civil-legal regulation. The state’s control in the subsoil area will focus on the regulatory approach with clear, well-defined norms and criteria.

Specific policy measures will include: (i) the development and adoption of the medium-term strategy for development of the mining industry for 2013-2015; (ii) the adoption of the second package of legislation on concessions, on mining concessions, production sharing agreement, and possibly, in the future, these laws and the law "On Subsoils" will be combined into one single code on subsoils designed to develop the mining business; (iii) the simplification of the filing for rights of access to subsoils and subsoil management will be done through the introduction of the practice of filing of rights to subsoil use under a "one-stop shop" principle; (iv) the adoption of regulations to implement the new revision of the Law of the Kyrgyz Republic "On Subsoils," and creation of contest inter-agency commissions in the shortest time on deposits of the national scale, as well as auctions of other deposits. Complete rejection of the negotiation-based approach to obtaining subsoil-use rights and transition to contest- and auction-based methods of issue of licenses and concessions; approval by the Government of the Competition and Auction Procedure that features use of transparent competition and auction procedures; (v) provision of a wide and unrestricted access to geological funds on a paid basis, ban on issue of original media and accelerated digitizing of the source materials; (vi) increase in accountability and responsibility of subsoil users for abandoning production sites without performing rehabilitation, for delays in submission of geological information and for illegal mining; (vii) repeal of the clauses that require the plans and designs for exploration and mining activities to be done by accredited local companies only; (viii) legislative review to include criminal and administrative liability for individuals that hinder operations of good-faith mining businesses.

#### **10.4. Transport and communications**

**Current status:** Limited financial resources for the maintenance, operation and development of the infrastructure of the country in recent years have led to significant degradation and wear of the infrastructure. Budgetary constraints do not allow for increasing public investments into rehabilitation of infrastructure facilities and implementation of new projects. To date, rehabilitation of existing road networks and the construction of new ones is implemented through significant state-backed loans.

However, the loans do not allow the country to fully cover the need for funding the transport infrastructure.

Given that the transport infrastructure that serves road, air and rail transportation, is in a critical condition, while the volume of cargo and passenger traffic is increasing at a rate of up to 10% per year, the strategic development vector will be to increase the transport and transit potential of the country to improve the access of the population to markets for goods and services.

In order to achieve this goal, the following **objectives** will need to be implemented: (1) the rehabilitation of five motorways that represent international transport corridors, (2) preservation and improvement of the network of domestic hard-surface roads, (3) ensuring transport independence of the country, (4) completion of the feasibility studies and commencement of construction of the Sino-Kyrgyz-Uzbek Trunk Railroad and a railway branch connecting the North and the South of the country, and 5) the creation of an air transport hub; (6) introduction of e-governance system and transition to digital TV and radio-broadcasting.

Taking into account the fact that road transport is the main mode of transport used in the Kyrgyz Republic, the main priority in the medium term is to meet people's needs for passenger and freight transport, upgrading and renewal of the vehicle fleet, as well as the preservation and development of the road network.

**Policy measures** in the field of development of **transport services** in general will be aimed at the implementation of public-private partnership mechanisms in the road transport sector. There is a need to create most favorable conditions to attract into this sector private investments, including FDI, and further advance the participation of all consumers in the development of infrastructure projects.

The first objective will be carried out in the framework of the Central Asian Regional Economic Cooperation (CAREC), which provides for coordinated regional activity in terms of of passenger and freight transport. The CAREC countries have drafted an action plan to remove barriers to trade and transportation. The Kyrgyz Republic is an active participant in this program and will initiate regulatory reforms, while maintaining and improving sections of the regional road infrastructure. There is a need to rehabilitate the following five international transport corridors:

Suusamyr – Talas – Taraz (length - 199 km);
Bishkek – Naryn – Torugart (length - 539 km);
Osh – Batken – Isfana (length - 360 km);
Karakol – Tyup – Kegen (length - 76 km);
Isfana-Sulukta-Khujand to the Tajik border (length – 44 km).

In order to implement the **objective** of maintaining and improving the domestic road network, each year it will be necessary to: (1) restore the top wearing surface of the roads by constructing a no-skid road surface along more than 300 km of roads; (2) overhaul at least 150 km of roads, with laying asphalt-concrete pavement.

In order to preserve the condition of the roads, this document provides for strengthening of transport controls to regulate the permissible weights and dimensions. This will aim to develop and adopt regulations to prohibit entry into the territory of the Kyrgyz Republic of vehicles exceeding the weight and size parameters (axle load) in accordance with the Agreement on Weights and Dimensions of Vehicles engaged in interstate traffic on roads of the CIS member countries.

The objective of ensuring transport independence of the country transport system will be implemented by means of constructing new bypass (detour) roads. The total length of bypass roads, that will be routed around the territories of neighbouring countries, amounts to about 170 km. Most of the bypass roads are to be constructed in the Batken Oblast – about 125 km.

As part of the implementation of the fourth and fifth objectives, in the first quarter of 2013 a feasibility study for the Sino-Kyrgyz-Uzbek Trunk Railroad will be completed, which will enable the country to proceed directly to the process of constructing the railroad. A feasibility study will also be prepared for the construction of a railroad branch connecting the North and the South of the country. There will be reconstruction and modernization of the "Osh", "Issyk-Kul", "Batken", "Isfana" and "Manas" airports, with the latter becoming a basis for construction of an air transportation hub.

Implementation of the sixth objective will require conducting uniform, coordinated state policy in the fields of communications and information technology; while ensuring uniform informational space and efficient use of the info-communication infrastructure. For this purposes, a Concept for Development and Modernization of e-government will be implemented and a transition to digital TV and radio broadcasting will be completed.

### **10.5. Tourism and services industry**

Tourism plays an important role in solving social problems, by creating new jobs and improving the well-being of the population, particularly in rural areas. Currently, tourism is one of the priorities of the economic recovery. UNESCO recognizes tourism one of the main factors of cultural and humanitarian development contributing to the preservation of peace and rapprochement between peoples through a "dialogue between cultures."

**Current status:** Indicators of success in tourism include the income received thanks to cash spent by foreign citizens. According to 2011 data, revenue from tourism amounted to more than USD 630 million, with more than 800 thousand tourists visiting the country in 2011. The share of tourism in the GDP has hovered around 4% in the past 5 years.

However, the tourism potential of the country is far from being fully exploited. According to forecasts by the World Tourism Organization, Kyrgyzstan, at an appropriate level of development of tourism infrastructure, can host annually up to 2.5 million foreign tourists, which exceeds the 2011 value 3 times as much.

The country has a high tourism and recreation potential, its territory has a wide range of unique natural and recreational resources, objects of national, cultural and historical heritage.

However, there are some problems that hinder further development of tourism. One of the main problems is the low level of development of tourism infrastructure, lack of quality road infrastructure (on almost all highways of the country).

The comprehensive security system is not organized at an adequate level. Hotels and guesthouses must guarantee to, and ensure for, their guests security and safety of their property and physical security. Only then will this area of business be able to become competitive.

One of the main problems in the further development of the tourism sector is the poor quality of service and low skill levels of staff, which does not allow Kyrgyzstan to properly compete in international and regional tourism markets. Despite the fact that the higher educational institutions are training managers, the education market offers virtually no training of technical personnel.

All the problems above can lead to a further reduction of competitiveness of domestic tourism products in the global and domestic tourism markets. Taking into account the potential and current problems, the following primary goal was formulated: Kyrgyzstan has to become a modern regional center for tourism in Central Asia.

**Policy and measures.** In order to achieve the objectives identified, the following measures will be implemented: (i) create tourism clusters, which suggests a concentration in a limited area of enterprises and organizations engaged in the development, manufacture, promotion and sale of the tourist products; (ii) amendments to the Law of the Kyrgyz Republic “On Tourism”; (iii) develop a system for personnel training for the tourism industry – by means of professional, executive and service staff development; (iv) hold global culture and sports events in the country to promote tourism in Kyrgyzstan, including the Global Nomadic Games; (v) create an international forum – center on the shore of the lake Issyk Kul to conduct political and economic for and large national events; (vi) implement a large-scale pilot project to create roadside hotels, motels, parkings for passenger and cargo transport and related infrastructure on key highways. Such projects will become points of growth for regions and centers around which the development of small and medium businesses will intensify.

At the same time, an inherent part of the development of the tourism industry should be ensuring sustainability of ecosystems and natural landscapes, as tourist assets and potential for growth of tourism in Kyrgyzstan.

## Chapter 11. ECONOMIC DEVELOPMENT OF THE REGIONS

Development of the regions is the most important task for the country, because it is the economic and social stability of the region that ensures stability of the country as a whole, while economic ties between the regions can tie together all of the country's economies. In line with the goals and objectives set hereby, development of each region will be connected to the national projects, creation of effective economic zones - especially in agriculture, that will take into account particulars of regional diversification of the nation's economy. Improvements in the overall business climate, trade infrastructure, road network, expansion of the authority of local governments in terms of budgets and taxes, will fuel development of small and medium enterprises in the region, improve the quality of life and increase pace of economic growth in the region, ensuring further growth in retail sales and the volume of market services provided to the population.

The regions have or will develop certain priority vectors, which will become drivers and will gather around businesses from other industries in order to yield tangible results in a few years. A crucial role here will be played by local entrepreneurs and local governments, which will allow to select those vectors that will lead to the development of small and medium enterprises. For the regions having such enterprises is the key to employment and finding opportunities for further social and economic development.

The main role in the implementation of this task will be played by the textile and processing industry technopolises, where necessary conditions will be created in the form of production facilities and infrastructure (access roads, provision of water and electricity).

There is an acute problem of development of border areas, where economic and social problems are closely intertwined with the security of the national border. For such areas there will be special measures of economic incentives, resolution of social issues so as to consolidate and mobilize people for the expansion of economic activity. There will be various benefits to those projects that aim to create businesses in the border areas, which create new jobs and stimulate economic development of these territories. At the same time, the matters of further consolidation and development of settlements in the bordering areas will be separately described in the national and regional strategic development programmes.

In the next five years in terms of regional development particular attention will be paid to development of agriculture as a strategic industry of the economy. In order to address the problem of the shortage of irrigation water there will be an implementation of national projects for construction and rehabilitation of irrigation systems. Development of irrigation should proceed in parallel with expansion of maintenance and repair for the existing irrigation systems and with preservation of water resources. There will also implementation of other projects aimed at the development of seed farms, animal farming, veterinary services, etc. Implementation of such projects requires support from local farmers, agriproducers, while the task of the local authorities is to ensure effective and efficient use of the investments so that they yield tangible economic growth of the regions.

Development of regional economy is constrained by the inadequacy of transportation infrastructure, which does not allow to reduce the transportation costs of producers. Overall for the country, there are national projects that are aimed at constructing roads of importance for all regions. The government will provide funding for repair and rehabilitation of existing roads in the regions in the regions, while negotiating with international financial institutions to obtain loans to finance new projects.

A separate matter is preserving and expanding the potential of regional agriproducers given the anticipated accession of the country to the Customs Union. In this regard it is necessary to increase the competitiveness of agricultural products, develop new forms of cooperation, establish large export-oriented (CIS countries) agricultural clusters for local products.

Entrepreneurs in the regions experience lack of loan resources to finance expansion of their businesses; therefore, measures will be taken to expand the bank branches network in the region, to reduce the risks of credit institutions, increase the financial culture of businesses so as to decrease loan interest rates. The government will be using a number of different instruments to assist development of the agriculture: provision of funding for loan programmes for priority industries of the agricultural sector in the regions; financial leasing for agricultural equipment, guaranteed procurement for agriproducts for state organizations and other measures.

Significant contribution to the national and regional economies is made by large investment projects for the exploration and extraction of gold and other minerals at existing and under-construction deposits. Local authorities, in collaboration with the local community should ensure favourable business climate for law-abiding investors and seek mutually acceptable solutions to emerging problems, particularly in the field of environment and fostering local economic development. It is important to ensure transparency of and public control over use of proceeds received by local budgets from exploration of local deposits. The Government will improve the subsoil legislation so that to find optimal models for long-term and mutually beneficial relationships between the investors and the local communities.

Regional economic development will benefit from reactivation of idle plants that use local raw materials, from improvement of the tax system to encourage local economic development, from supporting priority economic industries of the regions and from promoting domestic products from the regions on external markets. It is expected that in all regions there will be further development of agricultural and processing industries and small and medium enterprise, which will improve the quality of life in the regions and significantly decrease the disparities in regional development.

## **Chapter 12. FROM DISPERSING INVESTMENTS TO THEIR CONCENTRATION (NATIONAL PROJECTS)**

The last six years have shown that there is a need for a fundamental change in the nature of the design of national projects. National projects should be based on a very clear, systematic analysis of the current problems in the country and a clear formulation of the activities to address these problems. The practice of using "fire brigade" response to public administration tasks and reactive, rather relying on pro-active approach, should be abolished – there should be a conversion to forward planning – it is better to prevent an illness, than cure its consequences. National and development projects should no longer be financed on leftovers.

The programs of the Government should clearly state that the national projects are to be implemented in full and in due time. The government should not tolerate any forms of sabotage and corruption in the country's national projects.

There should be an understanding that a national project is not a cure-all solution for Kyrgyzstan. Likewise, national projects are not about simple redistribution of financial resources.

First of all, implementation of national projects is about revolutionizing views on the development of the state. The projects themselves are vectors that indicate those directions of development that have been selected to achieve a qualitative change in the life of the country.

The project-based approach is good in that it emphasizes key areas of national development. These projects should specify directions for work in the years ahead. A task that is as important as the national projects is implementing parallel activities aimed at modernizing industries themselves.

National projects should be designed and planned in such a way that the Government, ministries, local authorities would have no other choice but to resolve other long-pending issues related to the projects. The systematic reform of the economy and implementation of national projects should complement each other in order to ensure optimal achievement of economic development objectives of the country.

Many sectors experience lack of financing - health, defense, education, agriculture, etc. But it is impossible to help all of them at the same time. Funds should be allocated and directed to where a sector has to be saved from total extinctions, because beyond this point no structural reforms or development programs will help.

For example, in 2011 the country increased salaries in the education and health care sector. There is a valid criticism of this action: what about other social and public employees, who can not be classified as health care or education? Government decided to emphasize these two sectors because the situation there was particularly critical. If you lose these doctors and teachers - who are staying only because they are driven by higher ideas, you will have nobody in the future to implement projects in the health care and education sector.

The idea behind national projects is targeted investments with maximum yields. National projects are not about substituting private investments with public funds.

Public financial resources should first go towards those projects where necessary preparations have been completed.

If you use the funds of national projects in this way, the investments will pay back and will bring to the economy increase in national product, new tax revenue and new jobs. This allows to address the next batch of essential problems. The money that is spent on subsidies will fail to improve the situation and will be gone forever.

Certainly, during implementation of the national projects there is a risk of embezzlement and sabotage on the ground. The first and essential condition for preventing such occurrences is proper planning and clear definition of the relationships among all parties to the project.

The second condition is ensuring monitoring and control over projects at all stages. It is necessary to use modern managerial and information technologies, including those technologies that enable automatic control over the execution of projects.

Third necessary condition is project-based approach. There should be approved incremental deliverables for each project for each ministry and each region. There should be strict control over achieving the deliverables.

General public should also be involved in controlling implementation of national projects; this is particularly true because openness and transparency will be the key principles that underpin the projects themselves. All political forces, all non-government associations should have the right to information and control. This, however, does not mean that such control should interfere with normal day-to-day operations, turning them into another red tape. Administrative resources should be concentrated on those priority tasks that are most pressing for the country and which our people expect to be addressed.

The state should focus its efforts on implementing specific national-scale projects and abandon the practice of dispersing investments.

During the next five years there a number of investment projects will be undertaken in strategic industries. Particular attention will be paid to implementing projects in **agriculture**. In order to address the problem of lack or shortage of irrigation water in the South and in other regions, several irrigation and rehabilitation projects will be undertaken. At the same time, eight more projects – aimed at ensuring food safety, increasing compositeness agriproducts, promoting closer cooperation and cluster-based approach in the agricultural sector.

Several projects will be implemented in the **energy industry**, aimed at increasing the reliability of power supply and increasing the export potential of the industry (completion of the Feasibility Study and commencement of construction of the Kambarata-1 HPP, continuation of construction of the Kambarata-2 HPP, commencement of operations of Power Units Two and Three, construction of the Upper Naryn cascade of hydro-electric power plants). In order to ensure independence of national power supply it is planned to complete construction of the 500/220/35 kV "Datka" substation in the south and "Kemin" substation in the North, as well as of the 500 kV "Datka-Kemin" transmission line with a total length of 410 km. Strategic projects in the energy sector will focus on ensuring energy security. At the same time, there will be more attractive environment for attraction of investments into micro and sustainable energy sector of the country.

Particular attention will be paid to infrastructure projects in the **transport and communications** sector. In order to remove barriers to trade and transport, a number of projects will be implemented for the construction and rehabilitation of international transport corridors and motorways (Suusamyр - Talas - Taraz, Bishkek - Naryn – Torugart, Osh - Batken – Isfana, Isfana – Sulukta - Khudjant). One of the largest projects in the transport sector is the commencement of the "China-Kyrgyzstan-Uzbekistan" Railway. There will also be a project on the modernization of the national air traffic control.

There will also be implementation of investment projects for creation and development of industrial and logistics centers hosted at the wholesale markets "Dordoi" and "Kara-Suu", construction of the distribution infrastructure for exports of agriproducts to the countries of the Customs Union and the implementation of project "Technopolis for the Textile and Garments Industry".

## EXPECTED RESULTS

The National Sustainable Development Strategy for the Kyrgyz Republic for 2013-2017 calls for the government to emphasize and focus its work on implementation of key reforms and development of strategic vectors. The Strategy will form the backbone for long-term dynamic development.

**The principal result of the five-year implementation of the National Sustainable Development Strategy for the Kyrgyz Republic should be a stronger democratic, secular state with a stable political system, a dynamically developing economy and steadily rising incomes of the population.**

**Also, during 2013-2017 it is important to consolidate the foundations of a rule-of-law state with robust governance systems, to strengthen economic and social development, social and national security and environmental protection. The task is to create a new generation of Kyrgyzstan's elite – on the basis of professionalism and mainly from the representatives of the young generation. Strengthening of the legal system should ensure protection of rights of citizens and good faith legal entities, robust protection of the fundamentals of the economy, including the institute of private property.**

By 2017 Kyrgyz economy will pass a turning point, its vector of development will switch from consumption-oriented economy to investment-oriented economy, with development based on strategically important industries – national investment projects. At the same time, the country will abandon the practice of financing national and development projects by leftovers.

Within these five years a platform will be established that will allow major structural changes and implementation of large investment projects aimed at increasing output capacity of the national energy sector; by 2017 it will ensure energy security of the country. Energy will be supplied reliably, throughout the entire country and at fair prices. The domestic consumption will be met and an enabling environment will be established to allow Kyrgyzstan to dominate energy exports in the region. At the same time, natural resources will be used in an environmentally prudent manner.

There will be construction and rehabilitation of not only major international routes, but also of the national roads. By 2017 the project of establishing a powerful regional transport and logistics center in the country will be completed. There will be work towards constructing the China – Kyrgyzstan – Uzbekistan railway and a railway connecting the country's North and South. By that time the country will commence a project aimed at turning Kyrgyzstan into a regional center of air transportation.

Telecommunications infrastructure will also see development; there will be an enabling environment for further development of communications and expanded coverage of the country's regions. By no later than 2017 reliable communications, Internet access and digital TV will be available at any point within Kyrgyzstan's borders.

As a consequence of implementation of the economic policy outlined in the Sustainable Development Strategy, economic development will become sustainable and stable, the budget will be balanced and the inflation will be predictable; Kyrgyzstan will no longer be associated in the world with poor government and people. Positive impact of

economic development will become tangible, the country's capabilities will allow it to address many social issues.

It is expected that the average annual GDP growth rate will be 7%, with the nominal GDP reaching KGS 630 bln by 2017, with per capita GDP increasing two-fold. From USD 1200 per capita to USD 2500 per capita. This will bring the country close to a group of medium-income countries.

Inflation in 2013-2014 will be at a single-digit level (no more than 9%), and from 2015 it is expected to be in the range of 5%-7%. External public debt will amount about 60% of the GDP.

However behind these raw economic performance numbers we should be able to see improvement in human life, in lives of families and children. It is expected that by 2017 average life expectancy of population will increase from 69 in 2012 to 73.

It is planned to create 350 thousand additional jobs during these 5 years – this means that each family should have at least one employed member. Average labor pay will increase from KGS 11.5 thousand to KGS 26 thousand by 2017.

There will be a tangible, not just on paper, reduction in poverty from 37% to 25% by 2017, i.e. a decrease by 12%. Reduction in poverty means massive improvement in the quality of life in the rural areas, where 60% of the country's population lives. Agriculture will become a reliable and guaranteed source of income and livelihood for rural population and will also ensure food safety of the country.

The fiscal system should be emphasizing good-faith and initiative of the taxpayers. Overall, the tax system should become favorable for international and regional business and it should fairly share burden among large, medium and small businesses within the country.

The government will continue regulating processes only in those industries where there is a significant risk to human life and where government interference is justified. In other areas the government will either reduce its presence through reducing the scope of regulation on entrepreneurship, licensing and permits (the number is to be at least halved), bringing inspections to a minimum and improving interaction between the business community and the government.

In this case the state reserves with itself the authority to regulate matters relating to environmental protection and conservation of ecosystem services for the benefit of future generations of Kyrgyzstanis.

Within these five years Kyrgyzstan will largely shape its place in the regional division of labor. Businesses will be revived, products of domestic manufacturers, bearing Kyrgyzstani brands, will be recognizable both on the domestic and on foreign markets. The country will create favorable platform for turning itself into one of the important financial, business, tourism and culture centers in Central Asia.

By 2017 Kyrgyzstan should place in the top-30 of the international Doing Business rating. Kyrgyzstan will place no lower than 40<sup>th</sup> in the global ranking of economic freedom, making Kyrgyzstan becoming the top performer by this indicator among all CIS countries. Integration into global trade through expansion of the export capacity will create new jobs for our citizens in our country and will help to mobilize external resources for internal needs. In the Global Enabling Trade rating Kyrgyzstan should place no lower than 60<sup>th</sup>.

Systematic fight with corruption and legalization of the shadow economy should, by 2017, allow Kyrgyzstan to place in the global top-50 in terms of corruption perception index.

Kyrgyzstan's interests will be actively promoted using the country's membership in various international organizations. Our country will be gradually establishing itself as a reliable international partner that plays an important role in regional and global development.

It should be clearly understood that achieving the transformations indicated herein and implementing elements of the National Sustainable Development Strategy will require carefully planned, coordinated and consolidated effort of all three branches of government: legislative, executive and judicial branches, as well as increased collaboration of the branches with the civil society.

The Strategy should lead our state, economy, society, each and every Kyrgyzstani to a path of stable and sustainable development. This is not the end of the road, this is just the beginning of the journey.

However, WE should TOGETHER and confidently move forward and WE TOGETHER will achieve our goal!

**Table 1. Investment projects in the agricultural sector  
(2013 – 2017)**

<b>№</b>	<b>Project name</b>	<b>Total estimated cost</b>	<b>Units of measurement</b>	<b>Implementation time frames</b>
1	Construction of a mineral fertilizer plant	2.0	USD mio	2014-2015
2	Establishment of 14 seed farms	7.4	USD mio	2013
3	Creating a network of breeding farms, one in each Oblast of the country to fully meet the demand of selected agricultural cooperatives.	8.5	USD mio	2013
4	Creation of a complex of modern laboratories that meet international standards of quality certification	1.6	USD mio	2013-2016
5	Reform of the State-owned Enterprise "Kyrgyzpochtasy" [Kyrgyz Post] and establishment on its basis of a postal and savings system that provides a full range of banking services in rural areas, with presence in each Village District	5.55	USD mio	2013-2017
6	Procurement of equipment for points of bovine artificial insemination (300 sets)	0.50	USD mio	2013
7	Funding for financial leasing of agricultural equipment - 225 units of equipment	5.00	USD mio	2013
8	Funding for financial leasing of agricultural equipment	20.00	USD mio	2013-2014
9	Procurement of construction equipment Department of Water Resources and Land Reclamation of the Ministry of Agriculture	10.00	USD mio	2013
10	Completion of the irrigation facility (Burgandy range, array Kadamjay Raion, Batken Oblast) and acquisition of 3498 hectares of new irrigated land	8.3	USD mio	2013-2015
11	Construction of the Kara Bulun Channel in the Jety Oguz Raion	4.2	USD mio	2013-2014
12	Irrigation of lands using wastewater in the Cholpon Ata City.	1.7	USD mio	2013-2014

13	Rehabilitation of the principal water intake facility on the Ak Sai River, Ak Tala Raion (commissioning of 500 ha)	1.7	USD mio	2013
14	Construction of the Karakyshtak-Boz Channel in the Kadamjay Raion (yield of 270 ha)	8.1	USD mio	2013-2015
15	Reconstruction of the Sarymsak Channel in the Kara Buura Raion of the Talas Oblast (yield of 1000 ha)	9.4	USD mio	2013-2015
16	Construction of a daily run-off pond on the Shamsy River of the Chui Raion of the Chui Oblast	4.2	USD mio	2013-2014
17	Rehabilitation of the tail section of the Besh Batman channel to increase water availability in the Renjit Valley of the Aksy Raion	8.0	USD mio	2013-2014
18	Construction of the "P-4xB" channel and expansion of the existing "P-4" channel in the Batken Raion.	5.2	USD mio	2013-2014
19	Reconstruction of the Ak Olen Channel in the Ton Raion	8.4	USD mio	2013-2016
20	Construction of the Bakthy-Nogoi Channel in the Kara Bura Raion	2.5	USD mio	2013-2014
21	Reconstruction of the Kara Tuma daily run-off pond and construction of internal network in the Panfilov Raion	5.2	USD mio	2013-2014
22	Irrigation of lands, Bashkugandy, Jungal Raion	0.7	USD mio	2013
23	Design of irrigation development plans	2.2	USD mio	2013-2017
24	Melioration improvement of irrigated land	11.0	USD mio	2013-2017
	<b>Total</b>	<b>141.35</b>	<b>USD mio</b>	

**Table 2. Investment projects in the energy sector (2013-2017)**

<b>№</b>	<b>Project name</b>	<b>Total estimated cost</b>	<b>Units of measurement</b>	<b>Implementation time frames</b>
1	Construction of the 500 kV "Datka-Kemin high-voltage transmission line and a 500 kV "Kemin" Substation	389.795	USD mio	2012-2015
2	Modernization of the power transmission lines in the South of Kyrgyzstan (construction of 500 kV "Datka" Substation and a 220 kV high-voltage transmission)	208	USD mio	2013
3	Construction of the Upper Naryn Cascade of HPPs	412	USD mio	2013-2019
4	Commissioning of Generating Unit Two of the Kamar Ata -2 HPP	131	USD mio	2014-2016
5	Feasibility study for the Kamar Ata -1 HPP	15	USD mio	2013
6	Construction of the Kamar Ata – 1 HPP	3400	USD mio	2013-2022
7	Feasibility study for the Kara Keche CHPP	5	USD mio	2014-2016
8	Construction of a double circuit 110 kV transmission line and 110/10 kV busstation in the Ak Ordo neighborhood of Bishkek.	5	USD mio	2013-2014
9	Reconstruction of the At-Bashi HPP	18.9	USD mio	2014-2017
10	Rehabilitation of the energy sector	55	USD mio	2013-2015
11	Reconstruction of the Bishkek TPP	150	USD mio	2014-2017
12	Development of micro hydro power plants	49.3	USD mio	2014-2017
13	Energy sector development (introduction of the AMR system)	44.8	USD mio	2013-2016
14	Increasing the transparency of the energy sector and reducing power losses	15	USD mio	2014-2018
15	Reforms in the distribution companies	15	USD mio	2014-2016
16	Improvement to electrical energy supply in Bishkek and Osh	23.08	USD mio	2013-2015
	<b>Total</b>	<b>4936.875</b>	<b>USD mio</b>	

**Table 3. Investment Projects in the transport and communications sector (2013-2017)**

<b>№</b>	<b>Project name</b>	<b>Total estimated cost</b>	<b>Units of measurement</b>	<b>Implementation time frames</b>
1	Construction and reconstruction of roads in Bishkek (10 items)	30	USD mio	2013
2	Procurement of road vehicles and equipment:	9.6	USD mio	2013
	Graders - 43 units.			
	Loaders - 20.			
	Asphalt concrete plants - 3 units. Bulldozers – 3 units.			
3	Rehabilitation of the Taraz-Talas-Suusamyр motorway (from 75 <sup>th</sup> to 105 <sup>th</sup> kilometers, Stage III)	22.075	USD mio	2013-2016
4	Rehabilitation of the Bishke-Naryn-Torugart motorway (9 <sup>th</sup> to 272 <sup>nd</sup> kilometers, 272 <sup>nd</sup> to 365 <sup>th</sup> kilometers, 365 <sup>th</sup> to 539 <sup>th</sup> kilometers)	154.1	USD mio	2013-2016
5	Rehabilitation of the Osh-Batken-Isfana motoreay (10-28 km, 108-123 km, 220-232 km, 232-248 km, 248-360 km)	148.2	USD mio	2013-2017
6	Implementation of the rehabilitation project for the Isfana-Sulukta-Khujand motorway (to the Tajik Border, from 360 to 404 km)	40	USD mio	2015-2016
7	Rehabilitation of the Bishke-Osh motorway (Stage IV)	120	USD mio	
8	Reconstruction of Batken, Isfana, Jalal Abad airports	10	USD mio	2014
9	Modernization of the Air Traffic Control System (ATC)	28.5	USD mio	2013-2014
10	Modernization and acquisition of navigational equipment for the "Manas", "Osh" and "Issyk Kul" Airports	11.3	USD mio	2013-2014
11	Feasibility study for a railroad branch that connects the North and the South	3.0	USD mio	2014
12	Feasibility study on the construction of the "China-Kyrgyzstan-Uzbekistan" railway	3.5	USD mio	2013

13	Construction of the “China-Kyrgyzstan-Uzbekistan” railway (initial stages)	1500.0	USD mio	2015-2016
14	Introduction and development of the e-government infrastructure	6.5	USD mio	2013-2014
15	Construction of a fiber-optic trunk line	19	USD mio	2013
16	Transition to digital TV and radio-broadcasting	26.5	USD mio	2013-2014
	<b>Total</b>	<b>2132.275</b>	<b>USD mio</b>	

**Table 4. Investment projects in the manufacturing and logistical sector (2013-2017)**

<b>№</b>	<b>Project name</b>	<b>Total estimated cost</b>	<b>Units of measurement</b>	<b>Implementation time frames</b>
1	Implementation of the project "Development of industrial and logistics centers" Dordoi "and" Kara-Suu "	40	USD mio	2014-2015
2	Implementation of the "Construction of infrastructure of the agro-distribution system of the Kyrgyz Republic for the exports of agricultural products to the countries of the Customs Union" Project	40	USD mio	2013-2014
3	Implementation of a project to create, on the basis of the Manas airport, of a cargo and passenger air transportation hub	280	USD mio	2014-2016
4	Implementation of the "Textile and Garments Industry Technopolis" Project	22.4	USD mio	2014-2015
<b>Total</b>		<b>382.4</b>	<b>USD mio</b>	

**Table 5. Investment projects in the mining sector (2013-2017)**

<b>№</b>	<b>Project name</b>	<b>Total estimated cost</b>	<b>Units of measurement</b>	<b>Implementation time frames</b>
1	Kumtor (gold – 302 tons, annually – 18-20 tons). Extraction – 81%, 245 tons.	350	USD mio	2013-2026
2	Jerooy (gold, 80-100 tons, 15-18 years), gold production in 2016, total – 70-85 tons.	450	USD mio	2013-2028
3	Taldy Bulak Levoberezhniy (gold, 80 t.)	300	USD mio	2014-2028
4	Taldy Bulak (gold, 100 tons, copper, 400 thousand tons).	500	USD mio	2013-2033
5	Bozybmchak (gold, 30 tons, copper – 203 thousand tons), production of gold and copper in 2014 -26 tons.	280	USD mio	2014-2027
6	Ishtamberdy (gold – 30 tons), production of gold – 26 tons.	100	USD mio	2013-2025
7	Kuru Tegerek (gold, 10 tons) Production of gold and copper 2015 – 8.4 tons.	200	USD mio	2015-2018
8	Terekkan + Terek + Perevalnoye (80 tons). Production of gold – 2016-2017. - 70 tons	200	USD mio	2016-2018
9	Togolok + Jangart (gold 30 tons) Production of gold 2016 -25 tons	200	USD mio	2016-2018
10	Charaat Group of deposits (gold, 100 tons), Production of gold – 2016, 83 tons.	300	USD mio	2016-2018
11	Shiraljin (gold, 22 tons) Production of gold, 2016 – 19 tons	150	USD mio	2016-2018
12	Trudovoye, Kensuu (tin – 148 thousand tons + 29 thousand tons, tungsten – 95 thousand tons)	150	USD mio	2013-2020
13	Zardalek (aluminum, 150 mio tons).	50	USD mio	2016-2017
14	Tuyuk – Kargasha (hard coal, 100 million tons).	100	USD mio	2016-2017
15	Kara Keche (brown coal, 188 million tons).	100	USD mio	2016 -2020
16	Sulukta, field 11 (brown coal, 105 million tons).	50	USD mio	2014-2017
<b>Total</b>		<b>3 130.0</b>	<b>USD mio</b>	

