



Kyrgyz Republic Country Strategy

2019-2024

Approved by the Board of Directors on 10 July 2019



European Bank
for Reconstruction and Development

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Glossary of Key Terms

ABI	Annual Business Investment	IPPF	Infrastructure Project Preparation Facility
ADB	Asian Development Bank	IsDB	Islamic Development Bank
ASB	Advice for Small Business	KyrSEFF	Kyrgyz Republic Sustainable Energy Financing Facility
ATQ	Assessment of Transition Qualities	LCY	Local Currency
BRI	Belt and Road Initiative	M&S	Manufacturing & Services
CAREC	Central Asia Regional Economic Co-operation	MSME	Micro, Small and Medium Enterprise
CASA	Central Asia and South Asia Power Project	NDC	Nationally Determined Contribution
CoOs	Countries of Operations	NPL	Non-Performing Loans
COP21	2015 United Nations Climate Change Conference	ODA	Official Development Assistance
DFF	Direct Finance Framework	PPP	Private-Public Partnership
EBRD	European Bank for Reconstruction and Development	PFI	Private Financial Institution
EIB	European Investment Bank	PTI	Portfolio Transition Impact
ETC	Early Transition Country	RE	Renewable Energy
ETI	Expected Transition Impact	RKDF	Russian-Kyrgyz Development Fund
EU	European Union	RSF	Risk Sharing Facility
E&S	Environmental & Social	SDGs	Sustainable Development Goals
ETI	Expected Transition Impact	SEFF	Sustainable Energy Financing Framework
FDI	Foreign Direct Investment	SME	Small and Medium Enterprise
FI	Financial Institution	SOE	State-Owned Enterprise
GEFF	Green Economy Financing Facility	TC	Technical Cooperation
GET	Green Economy Transition	TFP	Trade Facilitation Programme
GHG	Greenhouse Gas	TVET	Technical and Vocational Educational Trainings
ICA	Industry, Commerce & Agribusiness		
ICT	Information and Communication Technologies		
IFI	International Financial Institution		
IFRS	International Financial Reporting Standards		
IPO	Initial Public Offering		

Executive Summary

The Kyrgyz Republic's commitment to and application of the principles set out in Article 1 of the Agreement Establishing the Bank over the previous Country Strategy period continues to be positively assessed by relevant international bodies. Progress has been prominent in the areas of free elections and diverse civil society, although additional efforts with respect to the country's performance in the fields of judicial independence, measures to combat corruption and gender equality are required.

After the 2010 Revolution, the Kyrgyz Republic adopted a new Constitution, which established a better balance between the executive and legislative branches of government, although this was somewhat compromised by amendments approved in 2016. Presidential elections in 2011 and parliamentary elections in 2015 consolidated the democratic basis of the new order. The October 2017 presidential elections, which led to a peaceful, democratic transfer of power, were seen by relevant international bodies as an important milestone in the country's political transition. While the Kyrgyz Republic has a good record in terms of democracy and civil society development, and has put in place much of the necessary legislation and regulation for further progress, implementation is often hindered by inactivity or non-compliance with the law by local investigators, law enforcement bodies and courts. The new President Sooronbay Jeenbekov is expected to maintain the moderate reforms of the previous administration and has underlined the importance of strengthening the rule of law and combatting corruption.

Economic growth remains largely dependent on gold production and remittances. Although rich in mineral resources, the domestic market is small and the country has had difficulty generating foreign investment outside the extractive sector. Deeper regional integration following the country's 2015 accession to the Eurasian Economic Union (EEU) has brought access to a wider market but also increased competition. With weak mining output expected to continue in the short term, real GDP is projected to grow by only 3.6 per cent in 2019. However high external debt of around 100 per cent of GDP and general government debt of 56 per cent of GDP leave the country vulnerable to a further slowdown.

As an Early Transition Country, the Kyrgyz Republic still has substantial transition gaps in line with its Central Asian peers, including in **competitiveness, integration** and **green economy**. Low productivity and export-readiness have hampered the ability of Kyrgyz companies to scale up and compete within the wider Eurasian market, and weak governance and a challenging business environment have inhibited the foreign investment necessary to increase skills, competition and standards. While the country would benefit from greater integration in line with wider trends in the region, road and rail networks require substantial upgrading and cross-border linkages, including logistics, need to be strengthened. Finally, with one of the highest energy intensities in the EBRD region and increasing water stress, the country has a significant need for financially and environmentally sustainable municipal and energy infrastructure. However with limited debt capacity, mobilising significant concessional finance, in conjunction with long-term tariff reform, will be essential.

With that in mind, the Bank is set to pursue the following strategic priorities in the Kyrgyz Republic in 2019-2024:

- Enhancing competitiveness by increasing access to finance, expanding products and services and improving the business environment;
- Promoting greater integration via increased trade and improved cross-border linkages; and
- Developing greener and more commercialised public utilities and promoting private sector participation.

Kyrgyz Republic– EBRD Snapshot

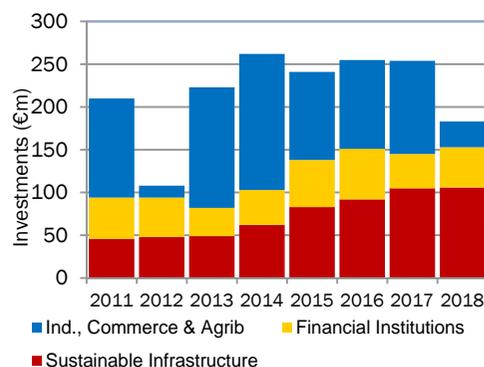
EBRD Investment Activities in Kyrgyz Republic¹

Portfolio	€188m	# of active projects	69
Equity share	1%	Operating assets	€107m
Private share	41%	Net cum. investment	€755m

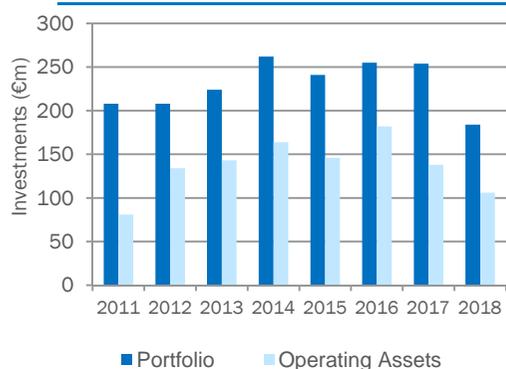
ABI and Operations



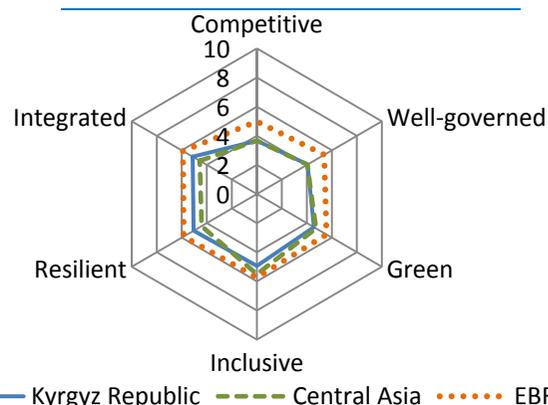
Portfolio Composition (€m)



Portfolio Dynamics



Transition Gaps²



The Kyrgyz Republic Context Figures

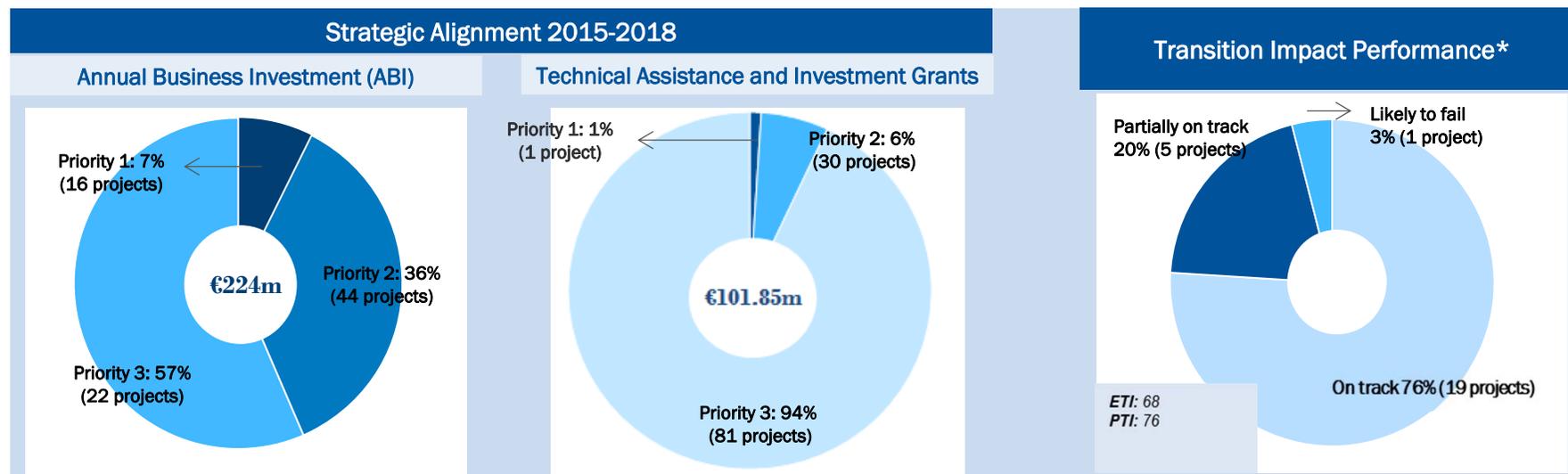
Population (million) ³	6.4	2018
GDP per capita (PPP, USD) ³	3,725	2017
For Comparison: Tajikistan (3,195), Uzbekistan (6,865), Kazakhstan (26,434)		
Global Competitiveness Index (WEF) (rank / 140 economies)	97	2018
For Comparison: Tajikistan (102), Mongolia(99), Kazakhstan (59)		
Unemployment (% , ILO est.) ³	7.4	2018
For Comparison: Tajikistan (10.3), Uzbekistan (6.9), Kazakhstan (5.1)		
Youth unemployment (% , ILO est.) ³	15.9	2017
For Comparison: Tajikistan (19.2), Uzbekistan (14.2), Kazakhstan (4.7)		
Female labour force participation (% , ILO est.) ³	45.9	2017
For comparison: Tajikistan (45), Uzbekistan (54), Kazakhstan (65)		
Energy intensity (TPES/GDP) ⁴	0.61	2016
For comparison: Tajikistan (0.34), Uzbekistan (0.6), Kazakhstan (0.43)		
Emission intensity/GDP (kgCO ₂ /10'\$) ⁴	1.5	2016
For Comparison: Tajikistan (0.6), Uzbekistan (1.4), Kazakhstan (1.2)		

¹ As of June 2019. Cumulative Bank Investment: 5 year rolling basis on portfolio.

² For methodological details refer to EBRD Transition Report. 2018-2019. ³ World Bank . ⁴ IEA's Energy Atlas.

1. Implementation of Previous Strategy (2015-2018)

1.1. Key Transition Results Achieved during Previous Strategy Period



Priority 1: Foster Sustainable Growth by Strengthening Regional Cross-border Linkages

Key Transition Results

- **Supported Kyrgyz exporters by providing €2.5m** in financing to 4 companies through direct finance and a Risk Sharing Facility, helping them to successfully tap foreign markets such as Russia, Kazakhstan and Uzbekistan. For example, EBRD investment helped Avtomash Radiators and HTI Plastic Company expand their facilities and upgrade production lines, with HTI nearly doubling its sales (€6m in 2018 vs €3.3m in 2016). Also, facilitated participation of Bank-supported SMEs in a Kyrgyz-Uzbek trade mission, leading to contracts worth €6.5m.
- **Through a series of market development and advisory projects**, together with the Investment Promotion Agency, provided **capacity building for over 200 SMEs** and raised awareness on requirements related to EEU accession. Trained 20 SMEs on export delivery and procedures.
- **Successfully promoted trade finance programs by signing 3 new TFP lines**, through which PFIs funded 18 transactions for more than €6.6m.
- **Helped facilitate the introduction of much needed FDI and related skills and standards into the country including:**
 - €237m to support development and ongoing operations of Kumtor mine, incl. to improve energy efficiency and corporate governance.
 - €1.5m to support the development of a local sugar producer (working capital to pay for sugar beets supplied by farmers) and to help a recreational centre meet the standards required by its international franchise and increase competition in the country's leisure sector.
- **Limited progress in developing regional cross-border infrastructure and linkages.** Nonetheless, in 2017, signed a €4m senior loan to finance the rehabilitation of a terminal at Manas Airport. Also advised the government on ways to improve commercialisation of road maintenance as part of a broader reform agenda for the sector, although implementation has lagged.

* Transition impact performance reflects how likely projects are to achieve the transition impact that was expected of them at signing. Calculated based on active mature portfolio (older than two years).

1. Implementation of Previous Strategy (2015-2018)

1.1. Key Transition Results Achieved during Previous Engagement

Priority 2: Enable SMEs to Scale up and Bolster Competitiveness		
Support for Small Business		Key Transition Results
<p>Since 2015, ASB clients reported, on average, the following increases:</p>		<ul style="list-style-type: none"> • Provided €1.5m in grants to nearly 300 SMEs for advisory projects with local and international experts, helping these companies grow, improve their management practices and increase sales. (See results to the left). • Invested €12.2m through RSF to support companies in the agribusiness, P&T, and M&S sectors. For example, with a local partner bank, provided finance to a medical diagnostic company (US \$8.5m to purchase MRI equipment and another US \$3.5m working capital), enabling it to expand its services in the south of the country. • Strengthened MSME access to finance through on-lending programs with local banks (incl. 3 loans to Optima Bank) and developing new local currency mechanisms. Completed the first conversion of a corporate loan into som and issued €3m in synthetic som floating rate notes, helping encourage use of local currency by investors. • Helped SMEs become more energy efficient by successfully disbursing more than 130 sub-loans under KyrSEFF (I/II) resulting in energy savings in the amount of 425 GJ/y. • Enhanced business environment stability by supporting improvements in the legal and regulatory framework: <ul style="list-style-type: none"> • Sponsored Secretariat of the Investment Council, which has expanded to three new regions, and successfully supported approval of 9 legislative acts, including the introduction of digital signatures and electronic visas. • Advised the Government on an audit methodology for e-procurement, and supported e-governance reforms. • Helped establish the Business Ombudsman's office to ensure greater transparency of central and local government actions, for the benefit of businesses and entrepreneurs.
Number of employees	+55%	
Turnover	+234%	
Productivity	+54%	
Priority 3: Promote Sustainability of Public Utilities through Commercialization and Private Sector Participation		
Key Transition Results		
<ul style="list-style-type: none"> • Through projects such as Bishkek Water II, Batken Water Company and Bishkek Solid Waste projects, contributed to the modernization and expansion of municipal infrastructure, providing €54m in loans and capital grants to rehabilitate critical water, wastewater and solid waste systems affecting more than 700,000 people and improve their operational and financial management. • Also supported regulatory reform through policy engagement on climate resilience and tariff methodologies for water and wastewater, including support to the Kyrgyz Antimonopoly Agency. Over the course of the strategy, 4 municipalities successfully improved their tariff methodology and increased tariffs in line with cost recovery principles. • Advised on women's inclusion in the urban transport sector by joining the National Council on Gender Development and provided the authorities with a report listing legal barriers to women's economic participation. Conducted staff training and advised on an equal opportunities action plan at Osh Public Transport Company. • Finally, supported the power sector by signing two loans for €8m to introduce smart metering and upgrade transmission lines (OshElectro and Vostokelectro Rehabilitation Projects). Both aim to improve transparency and accountability in the distribution companies. 		

1. Implementation of Previous Strategy (2015-2018)

1.2. Challenges to Implementation and Key Lessons

Context for implementation: As an Early Transition Country, the Kyrgyz Republic has substantial transition gaps in line with its Central Asian peers, most notably in competitiveness, integration & green transition. Although rich in mineral resources, the domestic market is small and the country has had difficulty generating foreign investment outside the extractive sector. Deeper regional integration following the 2015 accession to the Eurasian Economic Union has brought access to a wider market but also increased competition. Accordingly, during the last strategy the Bank has sought to deepen linkages through export support and trade finance. It has also worked to strengthen Kyrgyz companies to help them compete better internationally, although the pace of corporate lending has slowed in light of widely available subsidised finance from the Russian-Kyrgyz Development Fund (RKDF). Developments in Central Asia, including Uzbekistan's re-engagement and continued BRI expansion, may provide a more favourable environment for regional integration going forward. Finally, the Bank has worked with municipalities to modernise and rehabilitate critical municipal infrastructure, while supporting the development of sustainable power and energy projects, including small scale renewables.

Implementation Challenges

- High levels of liquidity, driven in part by the availability of subsidised finance from the RKDF, has introduced distortions & reduced opportunities for corporate lending at market rates.
- Kyrgyz companies have yet to fully take advantage of the export opportunities provided by the EEU owing to insufficient quality standards, limited certification capacity and weak preparation for new regulations, esp. in the agriculture sector.
- Uncertainty over the 2017 presidential election has affected domestic investment and the treatment of the largest foreign investor, Centerra, has weighed on the business environment.
- Although the country would greatly benefit from deeper regional integration, there has been limited progress to date in developing cross-border linkages, largely due to the slowdown in 2015-2016 and inefficient decision making.
- Substantial municipal infrastructure needs, including ambitious government plans in the water sector, but limited sovereign debt capacity.
- Weak energy sector reform, with electricity tariffs still below cost-recovery, has limited opportunities to invest in sustainable energy, including hydropower.

Key Lessons & Way Forward

- Develop more innovative & flexible financial products, e.g. incorporating first loss or risk sharing, to counter short-term, non-commercial funding in the corporate and financial sectors, incl. co-investing with the RKDF.
- Step up finance, including via risk sharing facilities, direct equity and advisory work with SMEs and exporters to improve standards compliance and export potential, helping to diversify the economy.
- Continue efforts to attract quality FDI bringing needed skills and capacity, including through active policy engagement to improve the investment climate, and seek opportunities to enhance cross-border trade, particularly in the Fergana Valley.
- Transport infrastructure remains centrally controlled and managerial capacity weak. These constraints will not be easily alleviated, but there is evidence of government commitment to long-term solutions, including commercialisation and PPPs. Effective IFI coordination will be essential.
- Effective mobilisation of concessional finance will be essential for infra projects; a focus on green infrastructure (e.g., for water supply and irrigation) could unlock GCF or similar climate finance.
- Champion tariff reform, potentially with other IFIs, to pave the way for domestic and regional infrastructure. CASA 1000, a project to facilitate electricity exports to Afghanistan/Pakistan, could provide the impetus.

2. Economic Context

2.1 . Macroeconomic Context and Outlook for Strategy Period

The Kyrgyz Republic: Main macroeconomic indicators				
	2015	2016	2017	2018
GDP growth (% y-o-y)	3.9	4.3	4.7	3.5
CPI inflation (% avg.)	6.5	0.4	3.2	1.5
Government balance (% of GDP)	-2.7	-6.4	-4.6	-1.3
Current account balance (% of GDP)	-16.2	-11.5	-6.2	-8.7
Net FDI (% of GDP)	-17.1	-9.1	-1.2	-0.7*
External debt (% of GDP)	115.3	116.3	107.3	99.3
Gross reserves (% of GDP)	26.6	28.9	28.7	27.0
General government gross debt (% of GDP)	67.1	59.1	58.8	56.0
Unemployment (% eop)	7.6	7.2	6.9	7.4
Nominal GDP (\$bn)	6.7	6.8	7.7	8.1

- **Economic growth in the Kyrgyz Republic remains largely dependent on gold production and remittances.** Although GDP growth averaged 4.5% in 2016-17, driven by a significant increase in gold production and recovery in remittances, it decelerated to 3.5% in 2018, as industrial production and services slowed.
- **The exchange rate has been broadly stable.** The som slightly appreciated in 2017, supported by the stabilisation of the Russian rouble and recovery in remittances. Despite some downward pressure on the exchange rate in 2018, the weakening of the som was insignificant, which led to its strengthening vis-à-vis the rouble and the Kazakh tenge.
- **Fiscal and external debts burdens are substantial.** The current account deficit narrowed to 6.2% of GDP in 2017 (from 11.6% in 2016) thanks to strong export growth and higher external transfers, but widened again in 2018. The fiscal deficit narrowed, to 1.3% of GDP in 2018 (from 6.4% in 2016), mainly due to higher budget revenues from a growing economy. However, external debt of around 100% of GDP and general government debt of 56% of GDP leave the country vulnerable to an economic slow down.
- **Short-term growth is projected to be moderate.** Real GDP is expected to grow by only 3.6% in 2019 and 2020. Exports from the Kumtor gold mine, more evenly distributed over the year than in 2018, and private consumption, supported by further increases in real wages and remittances, are expected to be major contributors to economic growth in the short term. The scope for fiscal expansion is, by contrast, very limited.

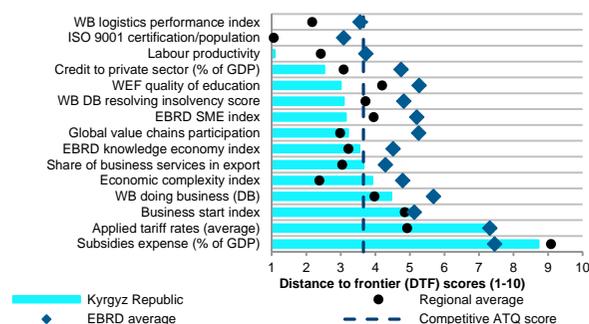
2. Economic Context

2.2 . Key Transition Challenges

Competitive (3.66)

- **SMEs predominate in the private sector, but productivity remains low.** They struggle to secure adequate finance, including as a result of high collateral requirements and insufficient assets that qualify as collateral.
- **Low productivity is linked to a shortage of skilled labour and the moderate quality of education.** The low value-added agriculture sector accounts for 26% of employment.
- **The degree of sophistication and range of products exported** as a measure of economic complexity index is above the CA average but below the EBRD average.
- **However, difficulties in complying with international standards** prevent the country from more fully realising its export potential.

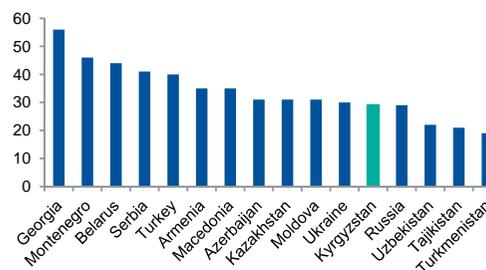
Competitive ATQ indicators' scores (2017)



Well-Governed (4.06)

- **Governance remains a significant challenge.** While freedom of the media and regulatory quality exceed the regional average, public governance is hampered by a lack of institutional capacity and frequent changes in administration.
- **Weak rule of law and inadequate protection of property rights continue to weigh on the business environment.** The country performs poorly on most rule of law indicators, including private property protection and enforcement of contracts.
- **Corruption is seen as a major obstacle to private sector development.** The Kyrgyz Republic ranks 135th among 180 countries in the Corruption Perceptions Index 2017 .
- **Best practices in corporate governance are not widely implemented** due to the small scale of businesses and a weak institutional and regulatory framework.

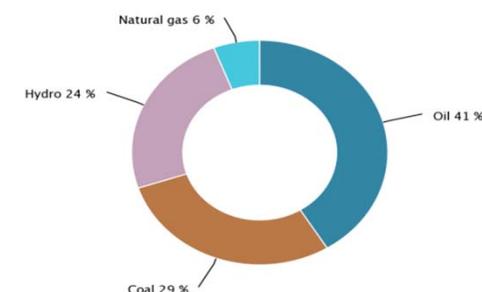
Corruption Perceptions Index 2017



Green (4.56)

- **The Kyrgyz Republic has one of the highest energy intensities in the EBRD region** and more than twice the EU average. A lack of investment in hydroelectric assets in recent years has led to a significant increase in the production and consumption of coal.
- **Electricity tariffs are among the lowest in the world,** which contributes to the inefficient use of energy and under-spending on maintenance and new investments. **Climate change may place significant stress on water resources,** with negative implications for hydropower and irrigation.
- **The water and waste water sector is characterised by underinvestment,** a weak regulatory environment and poor financial and operational management.

Share of total primary energy supply



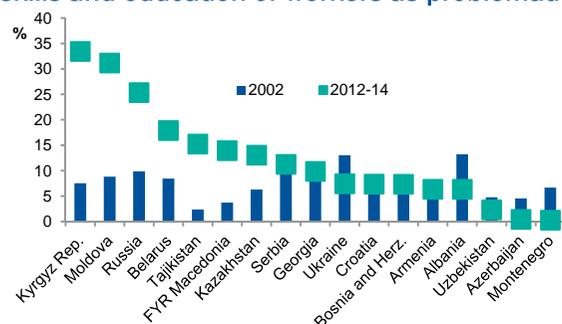
2. Economic Context

2.2 . Key Transition Challenges

Inclusive (4.94)

- There are large inclusion gaps with respect to gender and youth employment. About half of young entrants to the labour market lack the cognitive, non-cognitive, and technical skills needed to secure quality jobs.
- Roughly 33% of firms identify an inadequately educated workforce as a major constraint, appreciably higher than in Eastern Europe & Central Asia (22%).
- Women's participation in the labour force is low (just 48%, compared to 76% for men) and concentrated in low productivity sectors.
- Women's businesses tend to be small and clustered in low productivity sectors. Women are less likely to own & control key productive assets, such as land.

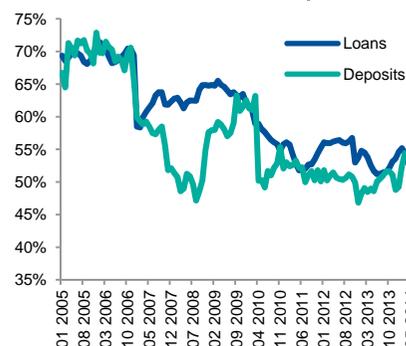
Percentage of SMEs reporting skills and education of workers as problematic



Resilient (5.05)

- The Kyrgyz Republic is significantly exposed to external shocks due to its reliance on gold production and remittances, which account for 10% and 30% of GDP, respectively.
- The banking sector is recovering following the 2015 currency shock, although vulnerabilities remain. Regulatory measures encouraged by the IMF reduced loan and deposit dollarisation to 38% and 44% (as of end-2018), respectively. NPLs peaked at 15% in 2017 and have since fallen to 8.0% (Jan. 2019).
- Investments are needed to let the energy system keep up with growing consumption. 70% of steam and hot water networks are older than 25 years, and 45% of generation capacity is beyond its useful life.
- Energy sector debt is high and repayment is made difficult by below cost recovery electric and thermal tariffs.

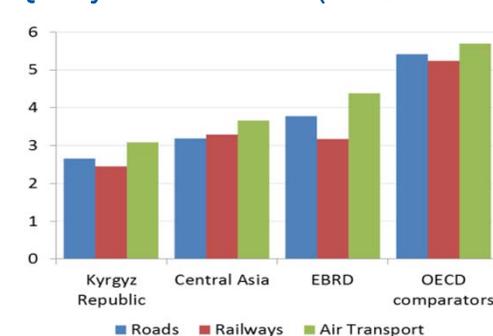
Dollarisation of deposits and loans



Integrated (5.12)

- The country is relatively open to trade, with high FDI inflows. Trade as a share of GDP is 115.6%, higher than the OECD average of 71.4%, and is positively impacted by low non-tariff measures. FDI is mostly driven by mining-related activities.
- However, the quality of domestic infrastructure remains low and below the regional average. Road and rail networks need to be upgraded.
- Cross-regional integration is also still hampered by deficiencies in the logistics sector, including inefficiencies in customs and border clearance and quality of related infrastructure.
- ICT infrastructure also lags behind EBRD and OECD averages.

Quality of infrastructure (GCI 2017-2018)



3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

The Government's 'National Strategy for the Development of the Kyrgyz Republic for 2018-2040' includes the following priorities:

- **Boost the Kyrgyz Republic's competitiveness and economic growth** by focusing on sectors with high export potential and labor intensity; create a favorable business environment to encourage local and foreign investments; introduce industry specific structural policies; and develop the tourism industry.
- **Adopt good governance agenda** to increase citizens' trust in government institutions and the judicial system by introducing reforms to law enforcement agencies; enhance transparency of government services by transitioning to a digital economy.
- **Develop the human potential of all citizens** by providing access to adequate education, health services and social protection.
- **Enhance the economic well-being** of the people and increase their employment opportunities by creating productive jobs with favorable working conditions, higher wages and better labor standards.
- **Focus on social and regional development** by developing the country's regions and improving their infrastructure and water supply, and mitigate regional disparities by re-organizing regional administrative structures based on social and economic factors.
- **Promote energy exports** through implementation of CASA 1000 and construction of hydroelectric power-stations.
- **Digitalisation** and development of internet infrastructure, including to facilitate connectivity throughout the Central Asia region.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Strengthen productivity of Kyrgyz manufacturers, especially export capacity, and help develop value chains and diversify the economy
- Improve commercialisation of transport and municipal operators, particularly in the water sector
- Improve private entrepreneurship, particularly in the regions
- Enhance trade through improved standards compliance and better logistics
- Further develop e-government measures to improve transparency
- Promote stable and predictable business environment, including through Investment Council and Business Ombudsman
- Improve energy efficiency in the power sector and buildings

3.3. Key Messages from Civil Society to EBRD

- CSOs broadly endorsed the suggested priority areas, with particular support for the Bank's envisaged work in improving the business environment, regional integration and green utilities.
- The business environment still has weaknesses; of particular concern is the lack of an independent judicial system, which has left both foreign investors and Kyrgyz businesses with limited recourse to enforce their rights. Corruption and transparency also remain serious challenges.
- A lack of institutional capacity greatly hampers government operations. While legislative provisions and regulations to protect businesses are in place, implementation has been lacking.
- Additional institutional mechanisms are needed to ensure gender equality, including accountability at the local level.
- Strong environmental and social safeguards for infrastructure projects remain essential, especially for vulnerable populations in remote areas who would benefit from awareness raising measures. CSOs can help with outreach and monitoring.

4. Defining EBRD Kyrgyz Republic Country Strategy Priorities

What needs to change? (Section 2)	▶	Can it be changed? (Section 3)	▶	What can the Bank do? (Section 4)	Strategic Priorities (2019-2024)	What we want to see in 2024
<ul style="list-style-type: none"> SMEs play a significant role in the economy but productivity and competitiveness are low and adequate finance difficult to secure Labour productivity is among the lowest in Central Asia and linked to TVET shortage & skills mismatches Banking sector diversification, sophistication and penetration low Aspects of the business climate remain challenging Female/youth labour participation is low and women-led businesses need support to scale up 		<ul style="list-style-type: none"> SME development and encouraging private sector entrepreneurship are key government priorities Commitment to productive job creation High levels of RKDF funding have increased available finance but distorted market prices Some progress on the business environment but additional efforts needed Active public-private sector dialogue and establishment of Business Ombudsman Digitalisation agenda advancing 		<ul style="list-style-type: none"> Experience providing companies finance/advisory to improve corporate governance, standards & capacity Effective instruments to support SMEs, including targeted credit lines and advisory (e.g., Blue Ribbon) Strong track record in developing local currency finance & enhancing bank lending capacity, including through introduction or expansion of new products to underserved segments EBRD well positioned to promote business climate reform, including via the Investment Council and support for e-government measures 	<p>Enhancing competitiveness by increasing access to finance, expanding products and services and improving the business environment</p>	<ul style="list-style-type: none"> Strengthened capacity of SMEs and corporates to grow and add value Enhanced access to economic opportunities and skills Diversified and deepened financial system products Improved governance and business environment
<ul style="list-style-type: none"> Although improving, foreign trade remains hampered by insufficiently developed supply chains & lack of export readiness by Kyrgyz cos. (e.g., compliance with standards) Additional FDI needed to enhance skills, competition and standards Cross-border trade inhibited by poor warehousing and logistics Rail and road networks need to be upgraded & maintenance improved 		<ul style="list-style-type: none"> EEU brings increased competition but also opportunity to integrate into regional value chains Strategic location and low non-tariff barriers could boost trade and FDI Priority to develop internal regional infra to improve quality of life Possibility to tap regional funding for transport projects Government interest in PPP model Gov't commitment to CASA 1000 		<ul style="list-style-type: none"> EBRD involvement can facilitate quality FDI, and TFP programs can boost exports and firm expansion, and help diversify the economy Together with IFI partners, EBRD can finance select transport projects to enhance regional connectivity Experience in logistics improvement EBRD can fund energy connectivity, including regional transmission and distribution (e.g. CAREC, CASA 1000) 	<p>Promoting greater integration via increased trade and improved cross-border linkages</p>	<ul style="list-style-type: none"> Enhanced exports and increased trade and investment flows Improved quality and connectivity of transport, energy networks
<ul style="list-style-type: none"> Low water and electricity tariffs contribute to inefficient use of energy/resources Very high energy & carbon intensity and insufficient investment in hydropower resources Quality & sustainability of MEI is poor and better planning is needed Significant water stress, high agricultural intensity and vulnerability to climate change 		<ul style="list-style-type: none"> Government priority to modernise municipal infrastructure in rural areas (especially water supply) and improve service quality Government commitments under its COP21 NDC and priority list of investments under GCF Significant renewables potential, particularly hydropower Sovereign borrowing limitations and debt sustainability an issue 		<ul style="list-style-type: none"> Considerable experience developing financially and environmentally sustainable MEI, incl. tariff reform Specialised expertise to finance green investments (e.g., SEFFs/GEFFs) EBRD can support development of hydropower and irrigation networks EBRD can work with other IFIs to facilitate more efficient energy generation and distribution 	<p>Developing greener and more commercialised public utilities and promoting private sector participation</p>	<ul style="list-style-type: none"> Improved performance, service delivery and sustainability of municipal infrastructure Increased use of renewable energy Improved energy and resource efficiency

5. Activities and Results Framework

Priority 1: Enhancing competitiveness by increasing access to finance, expanding products and services and improving the business environment

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<p>Strengthened capacity of SMEs and corporates to grow and add value</p> <p>Enhanced access to economic opportunities and skills</p>	<ul style="list-style-type: none"> Provide direct finance to SMEs and promising corporates in sectors with the highest comparative advantage, including agribusiness, property and tourism and manufacturing and services, coupled with advisory to help companies scale up, build capacity and improve corporate governance, management practices and quality standards – including where possible by developing equity (potentially via DFF/RSF and in conjunction with advisory under the Blue Ribbon Programme) In order to boost economic inclusion, seek opportunities to: <ul style="list-style-type: none"> help businesses that are women-led or located in less developed, rural areas scale up through targeted finance and advisory, work with clients to enhance vocational programmes and skills development, and promote equal access to employment. 	<ul style="list-style-type: none"> Number of advisory clients reporting increased productivity or turnover Number of women-led businesses accessing finance and/or advisory services No. of people (f/m) receiving new/improved skills as a result of training
Diversified and deepened financial products	<ul style="list-style-type: none"> Provide intermediated finance to MSMEs via general and targeted credit lines (e.g., energy/resource efficiency, rural finance, Women in Business) and risk-sharing facilities through local private and state-owned banks Continued support to develop viable and affordable local currency lending solutions, including policy engagement on the requisite regulatory framework, and advance local capital markets Enhance financial sector breadth & depth by working with PFIs to facilitate introduction of new products such as mobile banking and expand services to non-banked segments; adapting instruments to develop Islamic finance; and providing pre-privatisation support to large state-owned banks 	<ul style="list-style-type: none"> Total number/volume of MSME loans outstanding of PFIs (incl. LCY, WiB) Successful introduction of new and/or improved banking products
Improved governance and business environment	<ul style="list-style-type: none"> Active policy engagement to strengthen governance and promote a stable business environment, incl. via public-private dialogue (Investment Council), providing recourse for companies (Business Ombudsman), supporting further digitalisation of gov't services and examining ways to address informality 	<ul style="list-style-type: none"> Legal, institutional and regulatory improvements to the business environment



5. Activities and Results Framework

Priority 2: Promoting greater integration via increased trade and improved cross-border linkages

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<p>Enhanced exports and increased trade and investment flows</p>	<ul style="list-style-type: none"> Assist Kyrgyz exporters in enhancing supply chain linkages and further developing export channels through the Bank's Trade Facilitation Programme (e.g., trade finance and export support facilities), including advisory to enhance compliance with EEU and other relevant international quality standards and certifications Support quality FDI that will upgrade skills, technology, competition and standards in the country, with a particular focus on trade and investment from the extended region (e.g., Uzbekistan), including in the mining sector <i>provided that</i> all such projects and operators meet the Bank's high operational and environmental standards 	<ul style="list-style-type: none"> Number of clients increasing exports Total number/volume of TFP transactions supported
<p>Improved quality and connectivity of transport, energy networks</p>	<ul style="list-style-type: none"> Seek opportunities to develop key infrastructure to enhance regional connectivity, including investments to: <ul style="list-style-type: none"> rehabilitate and upgrade road corridors and railway links, in particular for the Fergana Valley, and expand air links, e.g., upgrade the Manas airport, potentially via PPPs, where possible in ways that strengthen linkages with neighbouring countries, promote internal regional inclusion, improve energy efficiency and climate resilience, enhance institutional capacity and/or increase private sector participation Explore opportunities to enhance regional trade flows via improved logistics centres and warehousing facilities Support enhanced energy connectivity through potential regional electricity transmission and distribution projects (e.g., CASA 1000) 	<ul style="list-style-type: none"> Improved/increased transport infrastructure capacity



5. Activities and Results Framework

Priority 3: Developing greener and more commercialised public utilities and promoting private sector participation

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Improved performance, service delivery and sustainability of municipal infrastructure	<ul style="list-style-type: none"> Finance sustainable municipal infrastructure services, including water and wastewater, district heating, solid waste and urban transport, with a focus on improving governance, financial and operational performance and private sector participation, including via commercialisation and potential privatisation of SOEs Explore opportunities to improve the water supply and develop irrigation networks, particularly through projects in smaller regional cities, including creation of a commercially viable entity to manage such projects Advisory support to strengthen municipal capacity, investment planning and project prioritization for green infrastructure investments Policy engagement to support adoption of a modern tariff methodology for municipal services, in particular water and wastewater, as well as to promote climate change adaptation & gender responsive service delivery 	<ul style="list-style-type: none"> Improved quality and efficiency of municipal and energy infrastructure Legal, regulatory and institutional changes (e.g., tariff reform) and/or operational improvements as targeted
Increased use of renewable energy	<ul style="list-style-type: none"> Subject to the necessary tariff reform, support further sustainable development of hydropower, including rehabilitation of existing HPPs and support for small scale renewables, and promote increased private sector participation through financial support for small and mid-sized private companies and policy engagement to make the sector more attractive Alongside other IFIs, and subject to the necessary tariff reform, consider large scale investment in power generation, transmission and distribution, including exports to neighbouring countries (e.g. CASA 1000) 	<ul style="list-style-type: none"> Renewable energy capacity added to the network (MW) Total energy saved (GJ/y) Total CO2e reduced (ton/y)
Improved energy and resource efficiency	<ul style="list-style-type: none"> Support energy and resource efficiency investments (including through intermediated mechanisms such as KyrSEFF) for public, private and commercial borrowers, including buildings Support eligible uranium remediation projects under the EBRD Environmental Remediation Account (ERA) for Central Asia 	<ul style="list-style-type: none"> Legal, institutional or regulatory improvements in target areas related to the energy sector's resilience



6. Mapping of International Partners' Complementarity in EBRD Business Areas

EBRD BUSINESS AREAS		Sectors														Cross-Cutting Themes							
		Corporate				Energy		Infrastructure				Financial				Green Economy			Inclusion				
Indicative average annual investment/grants (2015-2018, € million, excl. budget support) ¹		Agribusiness	General Industry	Real Estate	ICT	Natural Resources	Electric Power	Water and Wastewater	Urban Transport	Roads	Railways	Banking	Insurance and other financial services	MSME Finance	Private Equity	Capital Markets	Water Efficiency	Materials Efficiency	Sustainable Energy	Gender	Youth	Region	
ADB	94						⊕	⊕		⊕									⊕			⊕	
WB	80	⊕	⊕		⊕		⊕	⊕	⊕			⊕	⊕									⊕	⊕
TIKA	62.5	⊕						⊕		⊕									⊕	⊕	⊕	⊕	
EU	28	⊕			⊕			⊕					⊕						⊕	P			
EIB	28	⊕					⊕	⊕															
USAID	30	⊕	⊕											⊕						⊕	⊕	⊕	
SDC/SECO	19.5	⊕	⊕				⊕	⊕				⊕	⊕	⊕					⊕			⊕	
IFC	2.5						⊕			⊕		⊕		⊕	⊕								
EBRD	56	⊕	⊕				⊕	⊕		⊕	⊕	⊕		⊕				⊕	⊕	⊕			

Areas for future cooperation



Green

- Co-finance sustainable energy projects with the ADB and water/wastewater projects with the EU & EIB



Integrated

- Pursue opportunities with ADB and the World Bank to co-finance railways and/or energy infrastructure projects



Resilient

- Partner with IFC to strengthen the resilience of the banking sector

⊕ Area of significant investments P Area of significant policy dialogue ● Focus mostly on private sector ○ Focus mostly on public sector

1. Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of investment signed between 2015-2018.

7. Implementation Risks and Environmental and Social Implications

Risks to Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> Infrastructure and power and energy projects will necessitate substantial grant resources, a particular concern given growing sovereign indebtedness 			<ul style="list-style-type: none"> Assessment and Management of Environmental and Social Impacts, Stakeholder Engagement: Ensure that direct, indirect and cumulative impacts of projects are appropriately assessed and mitigated, applying all applicable national and EU regulatory requirements, and work with clients to ensure adequate E&S implementation capacity. TC funds will be needed to improve CSR knowledge/practice & stakeholder engagement.
<ul style="list-style-type: none"> Energy projects, incl. investments in generation, transmission and distribution, will depend on sector reform, particularly tariffs, although viable export markets could facilitate needed changes 			<ul style="list-style-type: none"> Labour and Working Conditions: Ensure client HR policies/labour practices comply with EBRD requirements, paying particular attention to workers organizations, child & forced labour, working time & wage standards, potential discrimination towards minority groups and women, and employment terms and conditions of migrant/seasonal workers. Large scale retrenchment may be associated with privatisation, requiring specific planning. TC funds will be needed to ensure supply chains comply with relevant labour requirements.
<ul style="list-style-type: none"> High levels of liquidity in the financial sector, including subsidised lending from the RKDF and the presence of other IFIs and donors with large concessional financing and grant resources may reduce investment opportunities for the Bank 			<ul style="list-style-type: none"> Resource Efficiency and Pollution Prevention and Control: EBRD investments will aim to reduce water and soil contamination/degradation, GHG emissions, and use of harmful chemicals. EBRD will help improve municipal services, incl. infrastructure and systems to reduce water losses and encourage waste separation and recycling. EBRD will also promote GET projects to support a shift to a less energy intensive economy. Use of water resources may require TC funds for policy dialogue and capacity building. Additionally, it has potential regional implications and all projects involving water management (incl., e.g., development of HPP schemes) will consider regional resource issues. TC may be needed to build capacity (incl. impact assessment/monitoring) in the extractives sector.
<ul style="list-style-type: none"> Accession to the Eurasian Customs Union may pose challenges to Kyrgyz companies that have not adapted to new norms/standards, potentially limiting the universe of bankable clients 			<ul style="list-style-type: none"> Health and Safety: EBRD will aim to improve occupational and community health & safety standards across sectors. Road and traffic safety including fleet management are priorities for transport/MEI projects and may require TC funds. Public access to clean drinking water and food safety are other priorities.
<ul style="list-style-type: none"> Access to local currency funding may be constrained by market factors (e.g., TCX limits for som), potentially limiting the Bank's ability to provide local currency finance to PFIs and SMEs 			<ul style="list-style-type: none"> Land Acquisition, Involuntary Resettlement and Economic Displacement: EBRD will encourage clients to improve consultation & information provision with affected people on their rights and entitlements. Where occupiers have no legal titles, clients will need to ensure compensation and livelihood restoration are provided in accordance with EBRD requirements, which will require TC funding.
<ul style="list-style-type: none"> A weak business environment and treatment of existing international investors may inhibit the EBRD's ability to attract quality FDI (and the hard currency and skills transfer those flows can generate) 			<ul style="list-style-type: none"> Biodiversity Conservation and Sustainable Management of Living Natural Resources: Renewable energy & infrastructure projects may impact sensitive habitats or protected areas. Extensive water use leading to scarcity and land degradation can also result in loss of habitat and biodiversity impacts. EBRD will ensure robust biodiversity impact assessments of sensitive projects are carried out and provide TC support where needed. Cultural Heritage: Work with clients and authorised state agencies to identify and consult with key stakeholders to protect cultural heritage. Financial Intermediaries: Ensure that FI partners have adequate E&S capacity and risk management procedures in place and diligently apply relevant E&S requirements to projects financed under EBRD credit lines and other facilities. Monitoring and supervision: Work with clients to monitor E&S performance and address legacy issues re: the Bank's portfolio. Use TC to support capacity building & awareness.

8. Donor Co-Financing Assessment

8.1. Grant Needs Assessment for the New Country Strategy Period

Grant funding will be required to achieve the strategic objectives of the Country Strategy, including support for:

- Policy & legal reforms to improve the business environment;
- Overall SME sector support, including for business advisory and risk-sharing facilities;
- Upgrading key connectivity infrastructure, including transport, energy and ICT networks;
- Developing greener and more climate resilient municipal infrastructure, including water, wastewater, district heating, solid waste and urban transport, as well as irrigation networks;
- Intermediary financing for energy, renewables and resource efficiency investments for public, private and commercial borrowers, including buildings.

8.2. Potential Sources of Grant Funds

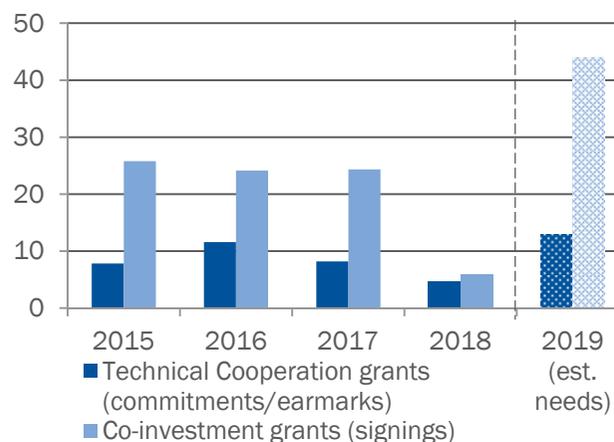
- The **EU** remains a very important source of grant funding through multiple funding instruments with the main facility being the **Investment Facility for Central Asia**.
- The **EBRD Shareholder Special Fund** will remain an important grant provider.
- Funding can be available from **Green Climate Fund, Global Environment Facility and Clean Technology Fund** to support projects under the EBRD Green Economy Transition Initiative.
- The **EBRD Small Business Impact Fund (SBIF)** and **SME Local Currency Special Fund** will continue to be used to support SME development in the country.
- EBRD will further explore opportunities to access funding from bilateral donors. The funding can be channelled through the **EBRD Early Transition Countries fund**.
- The Bank will explore the availability of donor funding for grants in larger amounts for connectivity projects and municipal infrastructure outside the water sector, which is currently a major priority for the biggest donors.

Selected Affordability Indicators

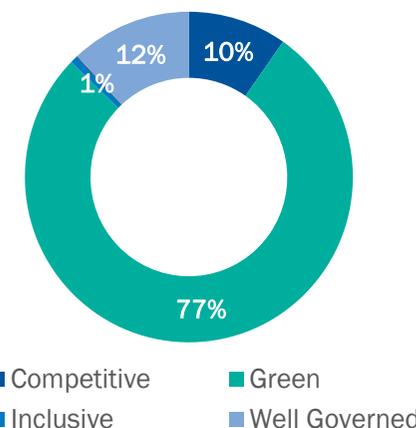
		EBRD regional percentile rank ¹
GDP per capita (PPP, current. \$) ²	3,725	3 rd (CoOs)
ODA Country	YES	N/A
ODA as share of Gross National Income (%) ³	6.28	84 th
ODA per capita (\$ - current prices) ³	74.3	56 th

Sources: ² WB (2017), ³ OECD (2017)

2015-18 donor finance and 2019 needs (€m)^{4,5}



Grant Funding Needs⁵



1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in the case of ODA indicators) that are represented below Kyrgyz Republic.

4. The 2015 TC data is based on commitments as at the end of March 2016 (the latest available date before data migration to a new Donor Funds System). 2016-2018 TC data is based on earmarks at the project level.

5. Estimated grant funding needs are based on the operational needs reported by banking teams for projects to be started in 2019. Estimated funding needs generally exceed actual grant use as some needs may not materialise, may be delayed, or may be split into several years of fundraising efforts due to operational needs and realities.

ANNEXES

Annex 1 – Political Assessment in the Context of Article 1

The Kyrgyz Republic's commitment to and application of the principles set out in Article 1 of the Agreement Establishing the Bank over the previous Country Strategy period continues to be positively assessed by relevant international bodies. Progress has been prominent in the areas of free elections and diverse civil society, although additional efforts with respect to the country's performance in the fields of judicial independence, measures to combat corruption and gender equality are required.

After the 2010 Revolution, a new Constitution was adopted, which established a better balance between the executive and legislative branches of government, although this was somewhat compromised by amendments approved in 2016. Presidential elections in 2011 and parliamentary elections in 2015 consolidated the democratic basis of the new order. The October 2017 presidential elections, which led to a peaceful, democratic transfer of power, were seen by relevant international bodies as an important milestone in the country's political transition. In the wake of the 2017 presidential elections, the Kyrgyz Republic and the European Union initiated negotiations on an Enhanced Partnership and Cooperation Agreement to support further progress.¹

International bodies with responsibility for monitoring democracy and human rights have concluded that the Kyrgyz Republic has made progress, albeit at times at a slower pace or even with some regressions, with regard to media freedoms, the strength, independence and maturity of its civil society and human rights more generally during the period covered by the previous Country Strategy. These achievements have also been somewhat balanced by a more mixed record on the independence of the judiciary, the rule of law, corruption and gender equality, where relevant international bodies have continued to express concern at the lack of progress in implementing their recommendations. Relevant international bodies also continue to press the authorities to deal more effectively with the consequences of the inter-ethnic violence in the south of the country in 2010.

Overall, the Kyrgyz Republic has put in place much of the necessary legislation and regulation for further progress but implementation remains an issue. As the EU concluded in 2018, "The [Kyrgyz] Government has put in place a substantial legal framework to address the most important [human rights] issues. The main challenge, however, lies in the implementation of the legal framework. Successful implementation is often hindered by inactivity or non-compliance with the law by local investigators, law enforcement bodies and courts".²

1. Negotiations on the text of an Enhanced Partnership and Cooperation Agreement are ongoing.

2. The EU Special Incentive Arrangement for Sustainable Development and Good Government ('GSP+') assessment of the Kyrgyz Republic, Brussels, January 2018, p 8.

FREE ELECTIONS AND REPRESENTATIVE GOVERNMENT

Free, fair and competitive elections

The Kyrgyz Constitution, adopted in 2010 and amended in December 2016, sets out the legal basis for the conduct of free elections. Article 2, Paragraph 2, states that the people manifest their will “directly in elections and referendums”. Paragraph 4 states that elections are free and are conducted on the basis of “universal, equal and direct suffrage by secret ballot”. Article 61, Paragraph 1, states that the President is elected by citizens for a six-year term. Article 70, Paragraph 2, states that the Jogorku Kenesh (unicameral parliament) consists of 120 deputies elected for five years according to a proportional system. The rules regulating the conduct of elections are set out in subsidiary legislation.³

Article 106 sets out the principles for forming a Central Commission for Elections and the Holding of Referendums. The Commission consists of twelve members appointed for a five-year term by parliament, comprised of equal nominations by the president, the parliamentary majority and the parliamentary opposition. The International Election Observer Mission (IEOM) gave a generally positive assessment of its performance in the October 2017 presidential elections.⁴

After independence in 1991, the Kyrgyz Republic’s record on free, fair and competitive elections was patchy but good enough for the OSCE Office for Democratic Institutions and Human Rights (ODIHR) to regularly send full observer missions. Since 2010, its record has become more consistent. The IEOM’s conclusions on the October 2015 parliamentary elections were generally positive.⁵ Its conclusions for the October 2017 presidential elections were also positive. They stated that the elections, “contributed to the strengthening of democratic institutions by providing for an orderly transfer of power from one elected president to another. The election was competitive, as voters had a wide choice...” At the same time, the IEOM report made a series of recommendations, particularly connected with the abuse of administrative resources, including amending the legal framework to tackle vote-buying, protection for public employees against political pressure and further measures to guarantee the secrecy of the ballot.⁶

3. Specifically, the 2011 (amended in 2017) Constitutional Law on Presidential and Jogorku Kenesh Elections and the 2011 (amended in 2017) Law on Electoral Commissions to Conduct Elections and Referendums.

4. OSCE/ODIHR Election Observation Mission, Final Report, March 2018, pp 6-7.

5. OSCE/ODIHR Election Observation Mission, Final Report, January 2016, p 1. The next parliamentary elections are due to take place in 2020.

6. OSCE/ODIHR Election Observation Mission, Final Report, March 2018, p 1 and 25-6. The next presidential elections are due to take place in 2023.

Annex 1 – Political Assessment in the Context of Article 1

The peaceful, democratic transfer of power in presidential elections on two successive occasions in 2011 and 2017 would usually be considered as marking the transition to a consolidated democracy. International organisations responsible for the monitoring of elections continue to express concerns about specific issues but, overall, this is a remarkable achievement.

Separation of powers and effective checks and balances

The 2010 Constitution sets out the basis for representative government, including the separation of powers. Article 3 stipulates that popular power is shared between an elected Jogorku Kenesh and an elected President. Compared to the previous 1993 Constitution, it re-balanced powers away from the presidency towards the prime minister and cabinet of ministers and the parliament. The same article establishes the principle of separation of the executive, legislative and judicial branches as well as the division of powers between central and local government bodies.

International bodies responsible for monitoring and promoting best practices endorsed the provisions in the 2010 Constitution for ensuring the separation of powers. Subsequently, the Venice Commission raised concerns about the constitutional amendments which were eventually introduced in December 2016, “with regard to key democratic principles, in particular the rule of law, the separation of powers and the independence of the judiciary.” It noted that the amendments had the “potential to encroach on certain human rights and fundamental freedoms”.⁷(The issue of judicial independence is addressed below.)

Since 2010, the Jogorku Kenesh has generally been an effective body. The Government has generally been able to get support for its legislative programme and opposition political parties have been able to use it as a platform to hold the executive to account. Relations between the executive and legislative branches, however, have been complicated by the mixed constitutional system. An administration based on an elected president and an elected parliament and a cabinet of ministers responsible to the parliament has encouraged rivalries and been a factor in the frequent changes of prime minister and cabinet.

The 2016 constitutional amendments were designed to strengthen the powers of the prime minister but, in practice, the President and the Presidential Administration have remained important symbolic and practical sources of authority and decision-making. The President has continued to direct foreign and defence policies and to have a decisive say over key personnel decisions and the main directions of social and economic policy. However, the Constitution limits the President to one six-year term in office, which provides an important check on his/her power.

7. Venice Commission Opinion No. 863/2016, October 2016, p 5.

Annex 1 – Political Assessment in the Context of Article 1

Effective power to govern of elected officials

The Constitution sets out the legal basis for the country's elected officials to have effective power to govern. The Constitution describes clearly the powers of the President, the Parliament and other elected bodies, which ensures that they are able to perform their roles effectively.

Article 5, Paragraph 2 of the Constitution, in a break with the country's Communist past, states that "no part of the people, no association, no individual has the right to take over power in the state". It sets out provisions designed to prevent the executive, especially the President, from accumulating excessive powers, as was believed had happened during the regime which had developed before the 2010 Revolution; the same Article continues, "The usurpation of state power is an especially grave crime".

The Kyrgyz armed forces and security services are under direct control of the President and do not play an autonomous role in the country's political decision-making processes. Religious, corporate or other non-elected entities do not possess excessive power over elected officials.

CIVIL SOCIETY, MEDIA AND PARTICIPATION

Scale and independence of civil society

The Constitution sets out the legal basis for a free and active civil society. Article 4, Paragraph 2, states that citizens have the right to create public associations to protect their rights and freedoms and to promote political, economic, social, labour, cultural and other interests". Article 35 states that, "Everyone shall have the right of freedom of association". The activities of CSOs are regulated by the law on Non-Commercial Organisations. This law was passed in 1999 but has since been amended on a number of occasions, most recently in 2016.

Since independence, civil society in the Kyrgyz Republic has grown into a lively and diverse part of the country's public life. There are currently over 17,000 registered CSOs, although only roughly 5,000 are active. They work in politically sensitive areas, such as the promotion of democratic principles and advocacy in the fields of rule of law and human rights, as well as across the spectrum of social, environmental and cultural issues. Government bodies regularly engage CSOs in policy consultation and they are able to exert meaningful influence. There were moves in the Jogorku Kenesh in 2014 to restrict foreign funding of CSOs but the draft bill was withdrawn in 2016, largely as a result of lobbying by CSOs.

Annex 1 – Political Assessment in the Context of Article 1

The legal framework for independent trade unions and the defence of labour rights is in place. Implementation of those rights in practice is limited by the weakness of trade union organisations in the workplace and the salience of the informal sector in the economy.⁸

Independent, pluralistic media that operates without censorship

The Constitution sets out the legal basis for free media to operate. Article 31, Paragraph 2, states that, “Everyone shall have the right to free expression of opinion, freedom of speech and press”. Since independence, the media environment in the Kyrgyz Republic has generally been lively and diverse. After the 2010 Revolution, international bodies responsible for monitoring and promoting media freedom expressed support for the efforts of the authorities to create an open media environment.⁹

Nonetheless, during the period covered by the previous Country Strategy, relevant international bodies raised concerns on a number of occasions about pressure on independent media outlets and the harassment of journalists. The EU noted in its human rights report for 2017 that, “some worrisome trends have appeared, especially as regards freedom of the media”. In its final report on the 2017 presidential elections, ODIHR noted that legislation which gave the President and ex-presidents special protection in civil defamation cases was contrary to international standards. A number of defamation cases with “excessive damages” awarded to the outgoing President “had an adverse effect on open debate on matters of public concern”.¹⁰

After President Jeenbekov took office in November 2017, conditions for the media improved somewhat. In spring 2018, the OSCE Representative on Freedom of the Media issued statements welcoming the dropping of defamation cases by the authorities against media outlets.

Multiple channels of civic and political participation

In addition to setting out the framework for civil society organisations and political parties to operate freely, the Constitution and separate legislation set out the legal basis for other forms of public participation. Article 52, Paragraph 2 of the Constitution sets out the legal basis for citizens to convene traditional assemblies (kurultai) to represent their views on issues of state and public importance. In 2014, a law on Public Councils came into effect which set out the basis for citizen advisory bodies to be attached to all government agencies. Public councils could provide an additional channel for citizens and CSOs to hold the authorities to account and to provide input into policy-making and decision-making, but their impact so far appears to have been limited.

8. The EU Special Incentive Arrangement for Sustainable Development and Good Government (“GSP+”) assessment of the Kyrgyz Republic, Brussels, January 2018, pp 8-9.

9. The Reporters without Borders, World Press Freedom Index ranking for the Kyrgyz Republic rose from 106 in 2013 to 85 in 2016 before slipping back to 89 in 2017 (out of 180 countries in all cases).

10. OSCE/ODIHR Election Observation Mission, Final Report, March 2018, p 15.

Annex 1 – Political Assessment in the Context of Article 1

Freedom to form political parties and existence of organised opposition

The Constitution sets out the legal basis for independent political parties to participate in the life of the country. Article 1, paragraph 1, states that, “Political diversity and a multiparty system shall be recognised in the Kyrgyz Republic”. Paragraphs 2 and 3 elaborate the right of citizens to form political parties, whereas Paragraph 4 sets out a series of restrictions on the functioning of political parties.

In practice, the Kyrgyz Republic has developed a multiparty system with a number of well-established parties able to compete in elections. Differentiation between the parties is based more on personalities and regional factors, with ideological differentiation weakly developed. Six political parties gained representation in the Jogorku Kenesh in the 2015 elections. President Jeebekov was elected in November 2017 as the candidate of the Social Democratic party, which has the largest number of seats in the Jogorku Kenesh.

RULE OF LAW AND ACCESS TO JUSTICE

Supremacy of the law

The Constitution sets out the legal basis for the rule of law based on judicial due process. The Preamble to the Constitution proclaims the principle of the rule of law. Article 1, Paragraph 1, states that the Kyrgyz Republic is “governed by the rule of law”. Article 6, Paragraph 1, states that, “The Constitution shall have supreme legal force and direct application in the Kyrgyz Republic”.

The World Bank gave the Kyrgyz Republic a relatively low percentile ranking for the rule of law in its Worldwide Governance Indicators report for 2017. Overall, there was a rapid improvement in the wake of the 2010 Revolution, although the rate of improvement slowed in the period up to 2017.¹¹ International bodies, which monitor and promote constitutional best practices, however, have raised concerns about the absence of a separate constitutional court. Rather the functions of a constitutional court have been delegated to a Constitutional Chamber within the Supreme Court (Article 97). There are also on-going concerns about alleged political interference in the courts.

Independence of the judiciary

The Constitution sets out many of the elements required to ensure the legal basis for the independence of the judiciary but relevant bodies have raised concerns. Article 93, Paragraph 1, states that, “Justice in the Kyrgyz Republic shall be administered only by a court”. Article 94, Paragraph 1, states that, “Judges shall be independent and subordinate only to the Constitution and laws”. Subsequent articles elaborate many of the necessary mechanisms.

11. World Bank. Worldwide Governance Indicators. It scored 13.15 in 2012 and 17.31 in 2017, where zero is the lowest possible score and 100.

Annex 1 – Political Assessment in the Context of Article 1

The Venice Commission raised concerns about the impact of the 2016 constitutional amendments on the independence of the judiciary, particularly the strengthening of the executive's powers over the process of selecting, disciplining and dismissing judges. In July 2018, the OECD concluded as part of its monitoring of the Kyrgyz Republic's implementation of the Istanbul Anti-Corruption Action Plan that, "Despite the established legal guarantees, in practice, the independence of judges is not ensured and this is one of the main problems of the judicial integrity in Kyrgyzstan". It noted that the Council for the Selection of Judges and the Disciplinary Commission are "not independent bodies".

Article 57 enshrines the rights and independence of the bar. It states that, "The organisation and activities of the bar as a self-regulated professional community of lawyers as well as the rights, obligations and responsibilities of lawyers shall be defined by law".

The administration of President Jeenbekov has made judicial reform a priority in the first stage of implementing the recently published National Strategy for the Development of the Kyrgyz Republic for 2018-40.¹² The legal framework for implementing these priorities is still pending.

Government and citizens equally subject to the law

The Constitution sets out the legal basis for equality before the law. Article 16, Paragraph 3, states that, "In the Kyrgyz Republic everyone shall be equal before the law and courts".

The Office of the Ombudsman of the Kyrgyz Republic was established in 2002. However, the UN Committee on the Elimination of Racial Discrimination (CERD) noted in 2018 that it was "still not in compliance with the principles relating to the status of national institutions for the promotion and protection of human rights (the Paris Principles)."¹³

Effective policies and institutions to prevent corruption

After the 2010 Revolution, efforts to eliminate corruption became a political priority. In 2012, the Government launched an Anti-Corruption Action Plan. The Kyrgyz Republic stepped up its efforts in the field of international cooperation in the area of anti-corruption; in 2016 it acceded to the OSCE GRECO group of countries. From 2010 to 2015, there was a steady improvement in the Kyrgyz ranking on the Transparency Corruption Perceptions Index, reaching a still low 124th place. Since then, its ranking has slipped back to 135 in 2017 (out of 180 countries).

12. National Strategy for the Development of the Kyrgyz Republic for 2018-40, Bishkek, November 2018, Chapter V.

13. Committee on the Elimination of Racial Discrimination. Concluding Observations on the combined eighth to tenth periodic reports of Kyrgyzstan, May 2018, p 2.

After President Jeenbekov took office in November 2017, he announced that efforts to tackle corruption would be one of his priorities and in February 2018, he approved a decision by the Security Council setting out measures to step up the Government's efforts in this area. In July 2018, the OECD conducted its 4th round of monitoring of the Kyrgyz Republic's performance according to the Istanbul Anti-Corruption Action Plan. It commended the efforts of the Kyrgyz authorities to tackle corruption, including new legislation, but concluded that, "most of the new measures have yet to be implemented in practice and have not had a significant impact on reducing corruption."

The OECD made a series of recommendations, including that the Kyrgyz Republic establish "a single body tasked with developing, coordinating and monitoring the implementation of the anti-corruption policy..." Currently, responsibility for efforts to tackle corruption lies with the Anti-Corruption Service of the State Committee for National Security and the financial police under the Ministry of the Economy under the overall coordination of the General Procuracy. The OECD also noted that the success of anti-corruption measures depended on the independence of the judiciary and prosecutors.

CIVIL AND POLITICAL RIGHTS

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

The preamble to the Constitution proclaims the intention to "build a free and democratic state based on respect and protection of human rights". Section II sets out extensive provisions for the protection of the civil and political rights of Kyrgyz citizens, including of speech, information, religion, conscience, movement, association and assembly. Extensive guarantees of the right to private property are set out in Article 12. The Kyrgyz Republic has a regular and long-standing annual human rights dialogue with the EU.

There is an on-going problem with forced labour, especially in agriculture (including forced child labour) forestry, construction and textile industries.¹⁴

Political inclusiveness for women, ethnic and other minorities

The Constitution sets out the legal basis for inclusiveness and equality including in the areas of gender, ethnicity and other minorities. Article 16, Paragraph 2, states that, "No one may be subject to discrimination on the basis of sex, race, language, disability, ethnicity, belief, age, political or other convictions, education, background, property and other status or circumstances". It continues, "Special measures defined by law and aimed at ensuring equal opportunities for various social groups in accordance with international commitments shall not be considered as discrimination". Other provisions in the Constitution reinforce these protections.

14. The EU Special Incentive Arrangement for Sustainable Development and Good Government ('GSP+') assessment of the Kyrgyz Republic, Brussels, January 2018, p 9.

Annex 1 – Political Assessment in the Context of Article 1

In 2018, the EU concluded that the Kyrgyz authorities had taken “important steps to improve the situation of women”. It noted that since 2012, the Government had been working to implement its National Strategy on the Achievement of Gender Equality by 2020 through biennial action plans. In practice, however, women remain under-represented in leading public positions. In 2016, the Kyrgyz Republic ranked 81 out of 144 in the World Economic Forum Global Gender Gap, reflecting persistent inequality in employment.

Long-standing concerns about the practice of so-called bride-kidnapping triggered an extraordinary, confidential inquiry by members of the UN Committee on the Elimination of Discrimination against Women in September 2018. It concluded that the Kyrgyz authorities were failing to protect women against abduction, rape and forced marriage. It called on the authorities to strengthen legislation and to ensure that cases of bride-kidnapping were fully investigated and the people responsible punished.

In 2018, an EU report concluded that, “The Kyrgyz Government has taken measures to ensure the peaceful coexistence between different ethnic groups”. In 2013, the Kyrgyz Government adopted the Concept on Strengthening the National Unity and Inter-Ethnic Relations and established the National Consultative Inter-Ethnic Council, comprising 20 consultative inter-ethnic councils and 20 reception centres in 20 multi-ethnic regions of the country, in order to identify and prevent potential conflicts. In 2015, the Kyrgyz Republic introduced legislation to ensure the representation of ethnic minorities in the Jogorku Kenesh and local authorities.

In 2018, CERD raised a number of concerns including, “the absence of general anti-discrimination legislation and of any provision specifically prohibiting racial discrimination.” It also noted the “increasing number of incidents of harassment of civil society organisations, human rights defenders and journalists, including those monitoring and reporting on the situation of ethnic minorities, which render the environment in which they operate hostile.” It expressed concern that, “ethnic minorities, notably Uzbeks, remain significantly under-represented in many areas of political and public life, including on local councils located in regions where Uzbeks constitute the majority of the population.”¹⁵

The CERD repeated the recommendations that it had made in previous reports relating to impartial investigations into human rights violations which occurred during and after the 2010 violence in the south of the country, particularly relating to allegations of ethnic bias and lack of respect for fair trial and due process guarantees.”¹⁶ It also continued to raise the case of Azimjan Askarov, a human rights defender from the south of the country, who had allegedly been sentenced to a long term in prison as a result of a flawed judicial process.¹⁷

15. Committee on the Elimination of Racial Discrimination. Concluding Observations on the combined eighth to tenth periodic reports of Kyrgyzstan, May 2018, p 6.

16. Committee on the Elimination of Racial Discrimination. Concluding Observations on the combined eighth to tenth periodic reports of Kyrgyzstan, May 2018, p 5.

17. Committee on the Elimination of Racial Discrimination. Concluding Observations on the combined eighth to tenth periodic reports of Kyrgyzstan, May 2018, p 2.

Annex 1 – Political Assessment in the Context of Article 1

Freedom from harassment, intimidation and torture

The Constitution sets out the legal basis for citizens to enjoy freedom from harassment, intimidation and torture. Article 20, Paragraph 4, sets out a series of specific protections from “torture and other inhuman, cruel and degrading forms of treatment or punishment”. Article 24 sets out provisions to protect detainees from arbitrary treatment, including the right not to be detained for more than 48 hours without a court hearing.

In 2012, a National Center for the Prevention of Torture (NCPT) was set up to monitor and prevent torture and other forms of ill-treatment in places of detention. Under the auspices of the NCPT, the authorities have been enhancing the legal and procedural safeguards against torture with the Ombudsman mounting annual unannounced checks on detention facilities.

In 2018, the EU concluded that, “There is an increasingly solid legal framework to prevent torture” but that, “many complaints about torture and forced confessions are still being made”. In September 2018, experts from the UN Subcommittee on the Prevention of Torture after visiting the Kyrgyz Republic welcomed the work of the NCPT and called on the authorities to give it additional support by granting it full access to all places of detention. It also criticised conditions in detention facilities and called on the authorities to implement all the recommendations made after a previous visit in 2012.