

The Kyrgyz Republic



“Saving should become fashionable. All successful countries and nations passed through it in the course of their development.

This is the first fundamental basis for country’s sustainability ...”

(Extract from speech of the President of KR A. Sh. Atambaev during the first meeting of the Supervisory Council for Sustainable Development of the Kyrgyz Republic)

THE GOVERNMENT’S PROGRAM AND PLAN ON TRANSITION OF THE KYRGYZREPUBLIC TO SUSTAINABLE DEVELOPMENT (2013-2017)

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I. INTRODUCTION

The sustainable development model is defined in the “UN XXI agenda” as a system of harmonic relations in the triad “**a human being – environment – economy**” that implements a balanced socially oriented, cost-effective and aimed at nature protection development of the country in order to meet the needs of the current and future generations.

The sustainable development model itself suggests striving for a systematic, comprehensive and balanced development. Transition to sustainable development suggests to consider economic growth through the prism of human values, rational use of natural resources and improvement of the overall nature use culture.

The number of countries throughout the world that have adopted the sustainable development model as the basis is currently increasing. Commitment of the world community to this idea has been clearly indicated in the course of the International Summit RIO+20. **Kyrgyzstan, as an equal member of the world community having taken an active position in the work of this Summit politically announced about joining this initiative.**

In confirmation of its **political direction** to sustainable development, on 24 November 2012 the Kyrgyz Republic has set up the National Council for Sustainable Development under the President of the Kyrgyz Republic, which has already started its work through combining the efforts of all branches of the government, private sector and civil society to discuss future development of Kyrgyzstan. The Council aims to reach a consensus on the key aspects of the future sustainable development of the Kyrgyz Republic on the political “platform” at the highest level.

Creation of the National Council for Sustainable Development under the leadership of the head of state was a timely step that demonstrates the unity of both the country and peoples of Kyrgyzstan.

Today, for Kyrgyzstan, a country with a high level of poverty yet, especially in rural areas, and with limited natural resources, the sustainable development model seems to be a logically and politically sound choice. Moreover, the idea of sustainable development is, as never before, in line with the traditions, spirit and mentality of the peoples of Kyrgyzstan. This idea can play a crucial role in consolidation of the society, as today regardless of ethnicity or party affiliation, the peoples of Kyrgyzstan are unanimous in their aspiration to *overcome difficulties and live in a country that has the “future” and sustainable positions in development.*

On January 21 this year, following the results of the second meeting of the Council, the National Sustainable Development Strategy until 2017 was approved by the Decree of the President, which is based on the above principles of sustainability and is presented as a **Five-Year Plan of Creation -2017.**

In general, the adopted strategic document until 2017 is basically a **framework document**, where the President outlined **strategic benchmarks** of the new model of sustainable development and the **main priorities**, as well as initiated the launch of 76 major investment **projects** for this period.

Taking into account the fact that implementation of the **National Strategy for Sustainable Development** of the Kyrgyz Republic until 2017 needs a real management tool for the nearest five years, the Government has decided to develop a Program and a specific five-year plan for the transition of the Kyrgyz Republic to sustainable development for the period 2013 – 2017.

This five-year period will be the first stage of transition to a new model of sustainable development for Kyrgyzstan. It is for the first time in the post-Soviet period that the Government of the Kyrgyz Republic adopted a substandard decision to revive five-year plans and develop specific Program and the five-year Plan for 2013 – 2017.

The objectives planned for this period will be accomplished through the annual plans of the Government. On the one hand, this will enable to make changes to the basic five-year Plan, and on the other hand – to maintain the long-term continuity for the promotion of priorities and achieving the benchmarks outlined in the **National Strategy for Sustainable Development** of the Kyrgyz Republic until 2017.

This five-year period (2013-2017) may become crucial in the context of fundamental changes in approaches to provision of high-quality services to the public by the state, as the absolute priority in the development of the country and regions is the priority of human development and human capital. The ultimate goal of sustainable development is a human being, every citizen of Kyrgyzstan, who has equal rights and opportunities for self-realization.

An interdepartmental working group was set up in accordance with the Resolution of the GKR of January 16, 2013 in order to develop programs and a five-year plan of the Government for the transition of the Kyrgyz Republic to sustainable development (2013-2017). The Ministry of Economy of the Kyrgyz Republic was assigned to coordinate the development of the draft document.

The draft Program was developed in broad national consultations about the future of the Kyrgyz Republic involving Jogorku Kenesh, the Office of the President and the Government, as well as heads of ministries, departments and committees. Extensive consultations were held for the northern and southern regions of the country, as well as with representatives of the businesses and non-governmental organizations.

II. CURRENT TRENDS OF DEVELOPMENT OF THE KYRGYZ REPUBLIC

In 2008-2012, the Kyrgyz Republic developed against the background of the global financial crisis, the growing uncertainty in the world markets, which created risks for all market participants, including for major trade partners of Kyrgyzstan – Russia, Kazakhstan and China. However, the negative impact of the internal factors on the economy of the country was more significant during this period than that of the external ones.

The 2010 political events were a new milestone in the history of the Kyrgyz Republic development with its transition to a parliamentary form of government. During this period, despite significant disturbances, the social policy always aimed to fully implement guaranteed social obligations by the state. The 2011 was the year of recovery processes in the economy following the political events in April and June 2010. The main result was achievement of positive trends by the country in socio-economic development along with improving parameters of macroeconomic stability.

In general, the economic growth during 2008 - 2012 was on average **3.2%** per year, while GDP per capita increased by 20% (from 1,013 to 1,209.7 US dollars). The average annual inflation rate during 2008-2012 was **10.5%**. At the same time, the increase in commodity prices was 11.9% and prices for services increased by almost 14.3%. By the end of 2012, the inflation rate was 7.5%. The average annual growth rate of real income of the population for this period was 13.3%. According to official data, the general unemployment rate during this period increased to 8.5%.

Table 2.1

Key economic indicators of the Kyrgyz Republic (2008-2012)

	2008	2009	2010	2011	2012
Real GDP growth (%)	108,4	102,9	99,5	106,0	99,1
Inflation (%)	20,0	0,0	19,2	5,7	7,5
Unemployment (%)	8,2	8,4	8,6	8,5	8,2
Current account (% of GDP)	-13,7	-2,3	-7,3	-6,3	
Broad money growth (%)	12,9	17,9	21,1	14,9	23,8
External debt (% of GDP)	41,4	53,1	54,7	45,0	46,9

Based on parameters of economic development and socio-political background that actually existed in 2008-2012, the state budget revenues amounted to 26.9% of GDP, which is **4.6** percentage points higher than in 2004-2008. The state budget expenditures in 2008-2012 annually increased on average by **24.7%** and amounted to **35.2%** of GDP in 2012. The total amount of external financing of the public investment program has increased to 5.1% of GDP in 2012. The budget deficit with the account of public investment program was on average **3.4%** of GDP in 2008-2012. This way, the government managed to accomplish one of the most important objectives of macroeconomic stability – reducing and control of the state budget deficit.

The Kyrgyz Republic has achieved stability in the external debt management, which was 41.4% of GDP in 2008 and 46.9% of GDP in 2012, this is much below the threshold of economic security for this indicator - 80% of GDP.

The amount of funds provided for public social services was continuously increasing. During the period from 2008 to 2011, the share of public expenditures on education services increased from 5.2% to 6.4% of GDP; on health care – from 2.4% to 3.2% of GDP and on social security and insurance – from 2.5% to 5 % of GDP.

Despite measures adopted by the Government of KR in 2010-2011 in order to increase social allowances, the level of funding and income of this population group remains low. The average annual fixed monthly allowance in 2012 was 565 som or 13% of the minimum subsistence. At the same time, as a result of reforming the system of payment to workers in education and health care sectors, their average monthly wages have increased on average twice amounting to 188.2% and 220.3% of the minimum subsistence in 2012.

Over the past five years, the Government consistently and effectively made steps to increase pensions; as a result, the average pension reached 4,270 som by the end of 2012 and compared to 2008 it has increased three-fold. The average pension to minimum subsistence ratio has increased from **45.7%** to **110%**. In 2009, the number of persons with pensions below the minimum subsistence was 452.9 thousand people (86.6% of the total number of pensioners), while as of the end of 2012, their number was only 344.0 thousand people (62.2% of the total number of pensioners).

At the same time, the negative impact of the global financial crisis and social and political tensions in the country resulted in deterioration of the quality of life as a whole. In 2008-2011, the poverty level increased from 31.7% in 2008 to 36.8% in 2011 with significant regional disparities in the poverty level. The highest poverty level was in the Talas Oblast - 50.2%, in Naryn Oblast - 49.9% and in Jalal - Abad Oblast - 45.3%.

III. RELEVANCE AND PREREQUISITES FOR TRANSITION OF THE KYRGYZ REPUBLIC TO SUSTAINABLE DEVELOPMENT

At the end of the XX century, the increased power of the global economy and negative trends of its globalization turned to be a tremendous destructive force. Currently, the same amount of goods and services is produced in the world during one working day, as was in 1900. The nature's capacity to regenerate itself and to support the development of humankind is not unlimited. The struggle for resources has become extremely sharp, the world has become even more diverse in terms of revenues amount, and the poverty of the population has significantly increased. As a result, the world community is facing an extremely complicated problem – the need to create, in essence, a new model of civilization, a model of sustainable development, which would confront the forthcoming global social, political, economic and environmental crisis.

Having entered the XXI century, the humankind has faced a number of challenges resulting from, on the one hand, the contradictions between the society and nature and, on the other hand, the political, economic, cultural discrepancy between the developed and developing countries. Currently, the global economy is not anymore a simple sum of national economies, but a real geo-economy, i.e. an integral global economic system.

The transformation processes in the world are linked primarily to globalization – an objective process of transformation of the economies of individual countries from relatively isolated systems into the elements of a unified global economy. Globalization is based on international division of labor and the related economic, political and other relations between states.

In the context of globalization of the world economy, only the world community as a whole can be **sustainable**, rather than one certain country, because all countries are united by a single organism of the Earth planet. The economic model followed in the development of countries of the world over thousands of years is currently recognized by the global community as inappropriate and threatening to the very existence of life on the Earth.

The key reasons for acceleration of sustainable development initiatives throughout the world are as follows: (i) the depletion of hydrocarbons in the world; (ii) the need to reduce the dependence of the global economy on hydrocarbons; (iii) recognition of the ecological crisis on the planet by the world community; (iv) deterioration of the environment and the impact on health and quality of life; and (v) the emergence of broad opportunities for the creation of new markets for goods, services and technologies.

It should be expected that in the forthcoming years, the struggle for resources will become only stronger. The illusion that the natural resources are inexhaustible is dissipating now. **Kyrgyzstan in a globalized world is not an exception.** Moreover, given the extremely limited resources and the need for their rational use in addition to internal political problems, the **future sustainable development of the country** is acute and comes to the forefront today, as never before.

According to experts' estimates, over 75% of the country's territory is exposed to high environmental destabilization risks. The problem of its desertification is really acute. Historically lasted pollution, waste storages and the increasing toxic emissions from stationary and mobile sources threaten to the environment and public health.

The transition to sustainable development motivates the inclusion of environmental factor in the system of key economic indicators of development. The traditional macroeconomic indicators (GDP, per capita income) currently ignore environmental degradation. Worsening of these

indicators in the country is caused today by man-caused nature-intensive development. As a result, there is a threat of sharp deterioration of economic indicators in case of natural resource depletion and environmental pollution.

The fundamental aspect in approaches to this problem is the attempt to take account of the damage from pollution and depletion of natural resources at macroeconomic level and to correct from ecological perspective the major economic indicators of development. For example, the calculations for all countries throughout the world published by the World Bank and based on the true savings methodology have reflected a significant divergence between traditional economic indicators and environmentally adjusted ones.

The central indicator for measuring the depletion of natural resources at the macroeconomic level is the environmentally adjusted GDP: $GDP - GDP^E$. It is the adjustment of GDP by the depletion (depreciation) of natural capital, which is the consumption of environmental products. Consumption of environmental products means quantitative reduction of minerals, bio-resources and the observed reduction in ecosystem services.

Ignoring depreciation of the natural capital in calculating economic indicators at the macro and micro levels leads to a distortion of financial results, which in turn leads to environmental degradation and unsustainable development of the country.

At the same time, to date the economic growth in the Kyrgyz Republic is mainly due to uncontrolled use of a significant amount of natural resources. There are huge losses and degradation of the natural capital.

This way, the mountains of Kyrgyzstan have the deposits of various minerals, the development of which, if environmental security is ensured, significantly contribute to economic development. The share of gold production in the GDP is about 11%, 40% - in industry and 48% - in the country exports. However, mineral resources are finite and the state must now calculate benefits and costs of their extraction in the long term with the account of their disposal from the balance-sheet of the natural capital of the country.

A separate element in assessing costs and benefits are tailings of toxic wastes that remain in the country after the closure of enterprises and require significant financial investment to maintain their proper condition in order to prevent their negative impact.

The amount of water as a natural resource and a source of internal stability and country prosperity can be increased only in the context of protection of the natural ecosystems and glaciers of Kyrgyzstan. The Kyrgyz Republic is the only country in Central Asia, where water resources are fully formed within its own territory. This is its hydrological specificity and advantage. However, much of the abstracted water is lost in the course of its use. During the period from 2006 to 2010, the average water loss during its transportation was 23% of the water intake.

The main consumer of fresh water is agriculture. Most of the abstracted freshwater - 93% is used for agricultural irrigation and water supply. However, water resources are not used efficiently and water losses are excessively high. In general, this sector is developing in conflict with the principles of nature saving growth. It has low production capacity, low efficiency and low adaptability to the changing climate. The crop rotation and cropping pattern are violated. The agriculture needs improvement. The area of degraded agricultural lands, including arable lands and pastures, is growing. All this hinders the productivity of crops production and livestock breeding.

As a result, the share of agriculture in the country's economy over the past 15 years has reduced more than two-fold (from 46% to 18%). All these led to problems with self-supply of basic food products. In 2012, out of 9 kinds of food security products we fully provided ourselves with only three types of agricultural products, these are **potatoes, milk and vegetables**. Provision of other products was as follows: bread and flour - 47%; oil - 31%; sugar - 12%; meat - 37%. Low level of food self-sufficiency inevitably leads to strong dependence on imports, including, imports of flour, meat, sugar and oil.

Since 1985, the degraded lands area has increased significantly, as a result, in 2011 around 80% of agricultural lands were recognized as exposed to degradation, however the exact monitoring has not been performed since 1990. In addition, the average productivity of pastures fell to 40% of the normal rate and at nearest pastures – to 10-20%. The structure and breeds composition of herds do not stimulate rational use of pastures.

The GDP growth is accompanied by the greenhouse gas emission into the environment. At the same time, agriculture (16.1%) is the second largest sector of the economy after the energy sector (74%) in terms of greenhouse gas emissions.

Energy saving and energy efficiency are becoming more acute, as the projected deficit of electric energy production in 2017 would be around 5 billion kWh, this will lead to a problem with stable provision of the population with electric energy and operation of the economic facilities. Therefore, energy saving and energy efficiency mechanisms, both in large-scale production and at household level, shall be applied in parallel, thus increasing the synergy in promoting sustainable energy supply for all.

Given the list of only some of the problems in the country related to the priority of economic benefits “at any price”, the relevance of the Kyrgyz Republic's transition to sustainable development is obvious, and in the context of the increasing risks and threats of exhaustion and decay of natural resources and environmental pollution, this relevance is even multifold higher.

IV. GENERAL OVERVIEW AND SPECIFICITY OF THE KYRGYZ REPUBLIC'S TRANSITION TO SUSTAINABLE DEVELOPMENT

The modern history of the Kyrgyz Republic is marked by the reforms that are currently deemed as a response to the challenge posed by the time. Promotion of these reforms is inevitable as things are changing in the surrounding world: both the economy, which is becoming more global in nature, and the standards of life quality that are more and more based on the concept of human rights, as well as the environment, which requires ensuring sustainability of its development.

During the 20-year history of independent development Kyrgyzstan managed to overcome numerous strong shocks and disturbances, to prevent deep collapse of the economy, and to preserve the natural capital and basic positions in the economy, so that to announce today about its intention to shift to the sustainable development principles. In international practice, sustainable development means, first of all, a comprehensive and balanced state administration in the three interrelated components of development: (i) the economy, (ii) social development, and (iii) environment.

The center and the ultimate goal of such development is exclusively a human being or social development. Therefore, the development of human capital is now and will remain an absolute national priority of Kyrgyzstan both today and in the long term. It implies that using their

knowledge and skills all citizens of the country shall have the opportunity to get a quality education, maintain their health, buy a house, earn decent money and live in the environment that is appropriate for their health. It is for the first time that the absolute national priority in the development is human development and **human capital**, where every citizen of Kyrgyzstan will have really equal rights and opportunities for the development.

At the same time, the Kyrgyz Republic is currently developing against the background of the global financial turmoil, debt problems, signs of recession of a number of EU countries and slowdown in the economic growth in the United States. The capital inflow in the developing countries has sharply declined. Ratings of many countries are being revised downwards. The global trends are such that risks and challenges are only increasing, including global climate change that given the population growth lead to a shortage of food in the world.

In terms of application, the model of sustainable development is a way of organizing and functioning of the society, state and economy based on the principles of sustainability that ensure prevention and neutralization of external and internal threats.

Obviously, the “up-to-the-minute” and chaotic actions will not bring the country to a sustainable development vector, as the model of sustainable development itself suggests striving for a systematic, comprehensive and balanced development. The essence of the model is that the surrounding natural environment is deemed as a source of resources for economic needs and satisfaction of the increasing needs of the society.

Therefore, as part of this program the **economic policy** is being built with the account of the rational use of natural resources through enhancing competitiveness of the country, intensification of development and advanced growth of labor productivity.

The degree of Kyrgyz economy integration with the global economy through diversification of exports and maintaining a liberal foreign trade policy should be definitely significantly increased.

To increase productivity, accelerated economic growth and export diversification, it is necessary to work more effectively over the instruments of **business environment regulation in order to ensure the development of the business** and industries, where Kyrgyzstan has potential comparative advantages, namely, in agriculture and energy sectors, in the key priority areas of green development, as well as in the mining sector, agro-processing industries and a number of services, including tourism.

A favorable prerequisite in this process will be state administration reforms initiated in Kyrgyzstan and aimed at minimizing government intervention in business activity, which have already demonstrated their first results in the form of simplified procedures for opening, licensing and doing business in Kyrgyzstan.

The most important direction in the investment policy will be **creation of the most favorable conditions in Kyrgyzstan for domestic and foreign investors, including protection of the rights of owners and participants of economic relations.**

In general, the Government’s Program and the five-year plan on transition of the Kyrgyz Republic to sustainable development are based on the **five new components**.

First, the three blocks of sections in this document with the respective policy measures (economy, environment and social development) are closely linked with the components of the

sustainable development model. In this case, the cross-cutting principle was used in formulating policy of transition to sustainable development through interaction and mutual influence of the economic, social and ecological processes.

In the **energy sector**, this transition will be through measures aimed to encourage energy saving, low-carbon development and wide use of alternative energy sources. Therefore, the construction sector was already considered through measures aimed to increase attractiveness of the projects focused on **energy-efficient** construction.

One of the perspective priorities in agriculture is **organic agriculture and production of environmentally friendly products**. The processing industry will apply policy measures for gradual transition to **resource-saving technologies**.

New directions, such as water and drinking water supply, mineral and raw materials, environmental protection related elements were integrated into the environmental block of sections.

Second, as sustainable development means, first of all, **comprehensive and balanced state administration** and given that this Program is a management tool, **the content of the policy in all areas of development was for the first time formulated through specific requirement to the following core components of the state administration system:** (i) institutional capacity; (ii) legislation; (iii) staff capacity and the need to improve it in order to promote the sustainable development principles in the country; (iv) the requirements to reliability of information for adopting reasonable political decisions. The appropriate policy measures have already been proposed based on critical assessment of capacity of the current system of state administration institutions.

The third element of this Program novelty in the context of the country's transition to sustainable development is the **major section on human development policy** with detailed plans of the Government on changing the quality of life for **each category of the population** by 2017 through specific obligations to improve quality of public services and indicators for measuring the results of their change over the next five years.

For this purpose, new methodological principles of policy **formulation and measuring quality of public services focused on certain categories of citizens – from birth to old age – including all guaranteed social services to the population were developed and used. There are only ten of them in accordance with the law on state social standard. A set of specific, expressive indicators** to measure progress in this direction was developed (annexes ...).

The fourth element of this Program novelty, which is the most complicated one, are cross-sectoral segments (annex ...) in rendering public services that have never been mentioned in any program and were always a weakness in the state administration system, where one line ministry, in some cases, involving no local self-governments, is unable to address the following problems: (i) working children; (ii) health of schoolchildren; (iii) children with special health related needs; (iv) unemployment of HEI graduates; (v) safety in school environment; (vi) unemployment among illiterate adults in rural areas; (vii) the problems of people with disabilities who require special education, health care and employment services; (viii) construction, development and support to infrastructure of preschool, general educational institutions and health care institutions; (ix) energy efficiency and security of social infrastructure facilities.

The **cross-cutting section of the Program was the section related to policy on sustainable development of the regions**. This is the fifth element in the new approaches, as sustainable country development is impossible without contribution of regional economies.

The local communities development policy deems that **traditional approaches to the development of the regions are now hindering their development**. It's time to take a course to regional specialization, interregional trade and cooperation.

A traditional specialized, project-targeted model of sustainable development of the regions and local communities is proposed instead of a sectoral model of regional development.

At the same time, a two-tire model of interbudgetary relations should become an incentive for local self-governments in terms of promoting perspective projects at the local level. As for the oblasts and rayons, it is proposed to create the Development Funds there.

As a result, the regions of Kyrgyzstan will become more recognizable both within the country and abroad, as they would gain sustainable and specific brands that are currently really identifiable, for example, the “Talas beans”, “Batken apricot”, “Uzgen” rice, Jalal-Abad source of mineral water and others.

The five-year vector of Kyrgyzstan development (2013-2017) builds on the **existing economic base today with further sustainable development positions through promotion of the natural priorities of “green” development (mountainous ecosystems, water resources, agriculture, energy and tourism).**

V.GOALS AND OBJECTIVES AT THE STAGE OF TRANSITION OF THE KYRGYZREPUBLIC TO SUSTAINABLE DEVELOPMENT

The 2013 - 2017 period should become crucial and decisive for the transition of Kyrgyzstan to sustainable development. By 2017, the Kyrgyz Republic shall be among countries oriented to successful implementation of the sustainable development strategy with improved governance institutions, effectively applicable laws, progressive human resources, able to strengthen the sustainable development basics, with a developed ecological and economic thinking of the population and improved social and economic ratings in the global development, including a significant increase in the Kyrgyz Republic ranking based on the human development index.

VI.CHALLENGES AND RISKS IN TRANSITION TO SUSTAINABLE DEVELOPMENT

Kyrgyzstan is located practically in the center of the Eurasian continent, far from all the four oceans, with no access to heavy international transport communications. The population of Kyrgyzstan is 5,551.9 thousand people, of whom, based on various estimates, 300 thousand to one million people and their families are in labor migration. Rare and precious metals and coal prevail among rich deposits of minerals. All these, given mountainous areas and sharply continental climate, define specific structure of production and significantly affect the export structure and opportunities.

The global economy faces serious problems in recent years. The financial and economic crises expand not only to economically weak countries; their devastating impact can be observed in the developed countries as well – in the United States, the European Union countries and others. In some countries, there are lengthy internal conflicts. The growth of external financial, economic, terrorist and ideological threats precondition the need for measures aimed to diversify the economy and exports, the growth of country’s competitiveness, the creation of a sustainable

political system and a consensus within the country. Active participation of the Kyrgyz Republic in international organizations, such as the Commonwealth of Independent States (CIS), the Collective Security Treaty Organization (CSTO) and the Shanghai Cooperation Organization (SCO) and others are of key importance, as well as strategic cooperation with traditional development partners.

The Kyrgyz Republic is a part of the global economy. Openness¹ of the country's economy in 2011 was 54.7%, the economic relations penetrate deeper into international and regional capital, goods, services and labor markets. As a result, the reliance on them is increasing. Along with a number of economic crises in the global economy, new centers of economic power emerge there. A number of the developing countries, especially in the Asian continent demonstrate strong economic growth and the development of domestic markets in the past few decades. In the future, successful economic development, as well as failure will largely depend on country's ability to use the competitive advantages and occupy profitable niches in the international division of labor. In the meantime, the national economy is primarily oriented for exports of raw materials and mineral products. Export is characterized by extremely low science-intensity.

In addition, the country's economy is more nature-intensive; it develops more in an extensive way. The current limitations and incentives do not properly motivate the reduction of nature-intensity in all kinds of human activities, especially in the production processes. As a result, there are numerous factors that adversely impact on the environment. This is reflected in the increased environmental pollution, deterioration of water and natural resources, as well as reduced biodiversity. A number of facilities in the country inherited from the Soviet times contain toxic and radioactive wastes. Their destruction poses a threat to the environment of the whole region. The global climate change is a sustainable trend, to which the whole humanity is being preparing. Due to geographical features and the production structure, the Kyrgyzstan nature and economy are very sensitive to these changes. The greatest threat to human life, production capacity, settlements and life supporting facilities are posed by earthquakes, landslides, mudslides and floods, avalanches and other natural disasters. The probable extreme temperatures in case of global climate change may threaten sustainable functioning of the water, heat and electricity supply systems and adversely affect the growth and cultivation of crops, and biodiversity.

Despite the adopted measures, state regulation of the economy remains ineffective. On the one hand, the state systematically implements measures to reduce interference in business activities. On the other hand, releasing business from administrative pressure often increases the risks to human health, state, municipal and private property and environment, with no alternative solutions to these problems. The economic policy of the state, as reflected in strategic and program documents and the real practice of economic management are often isolated from each other. Transition to programmatic budgeting is extremely slow. The fundamental problem of the state administration is the lack of political responsibility for outcomes of the adopted policies and programs.

The economy of the Kyrgyz Republic is characterized by strong disparities between the production and consumption levels, savings and consumption, between the growth of the working-age population and ability of the economy to absorb the work force. Regional disparities lead to inefficient use of material, financial and human resources, and reduce the potential for the national economy growth.

¹The external trade turnover to GDP ratio

The public sector of economy is managed ineffectively. State assets mainly include structural strategic enterprises, the absolute majority of which are monopolies (in energy, mining, railway transport and other sectors). The enterprise management system is not currently focused on good performance, and is actually inefficient, opaque and conserved. Some dishonest managers gain benefits from this situation that in the form of production costs through a price mechanism are “sold” to consumers.

Private sector of the economy is characterized by a considerable size of the shadow economy, which according to experts’ estimates is **39%** of GDP. Many businesses in the economy that actually are in the preferential tax niches undermine fiscal policy, form an unfair competitive environment, create false signals and incentives for economic development, distort official statistics and lead to inefficient management decisions for economic development. However, major damage to the country is caused by the informal sector – this is a reduction in investor confidence in the investment climate and encouraging corruption. Kyrgyzstan is currently in unacceptably low place in a number of important ratings. In particular, (i) in **127th** place on the Global Competitiveness Index 2012-2013 (in previous year it was in 126th place); (ii) in **71st** place on the Doing Business index (Doing Business-2012); (the 73rd place a year before).

The energy security is under constant threat. The own production of energy resources is concentrated primarily on the production of electric energy that in more than 90% cases is generated by hydropower plants. The country imports more than 90% of all consumed hydrocarbons. This results in strong dependence on water availability, as well as on the world prices of oil, oil products and gas.

The tariff policy in the energy sector excessively depends on the social aspects of development. This reduces the possibility to accumulate funds for technological modernization, which together with unfair management, leads to an increase in accident risks. Physical deterioration of the power related equipment is as follows: the cascade of Toktogul hydroelectric power plants - 57.6%, thermal power plant (TPP) in Bishkek - 64.0%, TPP in Osh - 77.8%. Further development of the energy sector as a competitive industry of the Kyrgyzstan's economy is complicated by the lack of rules on the use of long-term water and energy resources of the region agreed with the Central Asian countries.

Problems with excessive labor force in the Kyrgyz Republic are solved through mass labor migration, especially of young and most energetic population. This trend, along with acute employment related problems and emergence of a sustainable source of foreign currency inflow into the country lead to deterioration of the human capital in the country. Mass migration breaks family ties, leads to the actual absence of fathers and the increasing scale of migration becomes a threat to the family institute. Social and economic problems also stimulate the increase in internal migration, concentration of the population in Bishkek and other major cities. The limited capacity of cities to admit the arriving population creates an increased burden on social infrastructure and causes tension in the socio-economic and socio-political spheres.

Despite efforts of the government and donor support, quality health care services are less accessible for the population. Focus on the development of private medical clinics in Kyrgyzstan allowed to expand the range and improve quality of the rendered services, but at the same time increased the costs of medical care for those, who need such services. Currently, the health care system is largely focused on practical medicine, while lesser attention is paid to prevention of diseases. Mass physical culture as a tool for physical and mental health is not properly developed. As a result, children and adolescents have poor physical condition.

The education in Kyrgyzstan is slowly degrading. The quality of education, especially in rural

schools with Kyrgyz and Uzbek languages of instruction is very low. Knowledge and skills provided in schools and HEIs are not quite functional in practice, most educational institutions fail to form individuals socially adapted to the sustainable development. The overall economic and cultural environment fails to stimulate hard work of students in mastering knowledge and skills, but instead encourages gaining a diploma by any means, including through corruption schemes.

Public access to cultural values and the level of the public cultural development do not meet the long-term interests of the society and economy. Due to the lack of funds, culture with all its tangible and intangible values and institutions is not of particular concern for the state. Kyrgyz culture is becoming lesser known abroad, largely due to a reducing number of the created works, world-class cultural values and poor popularization. Social consciousness is exposed to external ideological and cultural influence, which, to some extent, leads to a decline from traditional moral, ethical and cultural values, and disorients the society, especially the younger generation. Speeches about the need to form national ideology remain unfulfilled. A cyber threat becomes the growing threat throughout the world. Recently, destabilization of the internal political situation in some countries is associated with a targeted use of social networks. The global statistics recorded the growth of cybercrimes, the increasing number of unauthorized access to funds and confidential information in electronic form, and etc. The use of information systems for managing the production processes makes these processes vulnerable to external influence. A focused state policy, availability of extremely qualified professionals and means for protection from unauthorized interference in information systems are required in order to address problems with information security.

VII.STATE REGULATORY POLICY IN TRANSITION TO SUSTAINABLE DEVELOPMENT

7.1 Macroeconomic policy

The major objective of the macroeconomic policy for 2013-2017 is to ensure macro-economic stability for sustainable development. The formulation of the macroeconomic policy for 2013-2017 is based on the following prerequisites and conditions:

External prerequisites and conditions associated with the impact of the global development trends on the economy of Kyrgyzstan:

The projected of favorable factors of impact: (i) political stability in the region and countries that are major trade partners; (ii) gradual recovery of the global economy (the average projected economic growth is up to 4% per year); (iii) the projected economic growth in neighboring countries – Russia (more than 3.0%), Kazakhstan (6.0%), China (7-8%); (iv) low level of inflation projected in countries that are major trade partners of the Kyrgyz Republic – in Russia and Kazakhstan (no more than 7.0%); (v) expansion of foreign economic cooperation in the framework of the Shanghai Cooperation Organization (SCO) and the Eurasian Economic Community and the CIS; (vi) active use of the Kyrgyz Republic membership in the WTO; (vii) a political decision on the Kyrgyz Republic accession to the Customs Union; (viii) enhancing cooperation with international economic and financial organizations; (ix) projected stabilization of the global oil prices at US\$ 100-110 per barrel due to reduction in oil demand as a result of slow economic growth in China and a number of European countries; and (x) the global trend of increasing investment in innovation.

Adverse external factors that may have impact on the economy and state budget: (i) financial instability of some European countries and the United States; (ii) economic slowdown in the

United States and China; (iii) deteriorated terms of trade with major trading partners that are members of the Customs Union; (iv) strong dependence on foreign borrowings to cover the state budget deficit; (v) high risks of failure to perform its social obligations by the Government in case of lack of external funding to cover the state budget deficit; (vi) projected growth in global food prices; (vii) high prices of gold (US\$ 1,600 – 1,750 per troy ounce).

Internal prerequisites and conditions for achieving and maintaining macroeconomic stability:

Favorable ones: (i) restoration of work of the enterprises that are engaged in the development of the Kumtor deposit after repair work; (ii) full launch of the flat glass production; launch of major investment projects; (iii) steadily developing trade and economic relations with the countries – trade partners; (iv) provision of preferential loans for agricultural development, which will lead to the development of the agricultural sector and processing industry; (v) projected development of agriculture; (vi) accession to the Customs Union; and (vii) sustainable development of the services sector.

Adverse prerequisites and conditions: (i) possible deterioration of the social and political situation; (ii) instability of the fiscal and taxation system; (iii) continuing high deficit over a long period; (iv) risks of higher inflation due to increasing food prices; (v) adverse trends of in economic development based on the 2012 results; (vi) obstacles for the development of Ishtamberdy and Jamgyr deposits (suspended licenses); (vii) the risks of reduced gold production at Kumtor; (viii) foreseeable risks of water shortage that may significantly affect the production of the electric energy; (ix) increase in purchase price of the Uzbek gas; and (x) continuing high losses in the energy sector.

Macroeconomic forecast (2013-2017)

Based on the above external and internal prerequisites and conditions of development, three scenarios of macroeconomic development are presented in the annexes. Below is the basic macroeconomic scenario:

	2012	2013	2014	2015	2016	2017	Summarized for 5 years 2012 100%
	Preliminary projected	Expected	Forecast	Forecast	Forecast	Forecast	
GDP in actual prices mln som	304,350.1	355,470.3	405,134.8	465,402.2	522,984.7	586,645.8	
Real growth rate, %	99.1	107.2	107.6	107.0	105.8	106.3	131.2
GDP deflator	107.4	109.0	105.9	107.4	106.2	105.5	130.8
GDP per capita	56.9	65.5	73.8	83.9	93.2	103.4	
Inflation	107.5	108.5	107.8	108.3	108.2	107.0	
The employment growth rate	101.8	101.9	101.6	101.6	101.7	101.6	106.9
Unemployment	8.4	8.2	8.1	7.9	7.8	7.7	
Productivity growth rate	90.3	105.2	105.9	105.3	104.0	104.6	127.6
Real growth rate of average wages	113.3	104.7	104.2	104.6	105.5	105.8	120.7
Growth rate of money income of the population	116.5	118.0	117.1	116.7	115.2	115.0	185.4
Poverty	35.3	33.8	32.8	31.5	30.5	30.0	

Life expectancy, years	70.9	71.4	71.8	72.3	72.7	73.2
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According to basic scenario, the GDP growth in 2013-2017 is projected on average **at 6.8%** per year. The inflation dynamics will be determined by the continuing risks of external disturbances on the macroeconomic situation and factors such as internal and external aggregate demand, changes in the external environment, as well as tariff policy in fiscal and taxation sectors. It is assumed that implementation of a coordinated monetary, fiscal, budget and taxation, investment, antimonopoly and social policy will keep the inflation at the **level of one-digit** in 2013-2017.

The following measures will be undertaken to control the inflation: (i) measures to stimulate the supply of goods and competition development (*especially in the food and agricultural markets*); (ii) measures to maintain the efficiency, safety and reliability of the banking system in order to stimulate the growth of household savings; and (iii) measures to ensure the liquidity of economy to the extent corresponding to the demand for money.

In the case of increasing inflationary pressure caused by the price shocks, and if the shocks will last long, the monetary policy measures will be enhanced. In 2013-2017, the policy of floating exchange rates will be maintained. Currency interventions will be made to the extent as necessary to smooth sharp exchange rate fluctuations.

Structure of GDP use

	2012	2013	2014	2015	2016	2017
GDP at market prices	100	100	100	100	100	100
Consumption, including	118.2	115.9	116.8	115.3	113.9	113.4
State	20.4	19.7	19.1	17.9	16.9	16.2
Private	97.8	96.2	97.7	97.4	97.0	97.2
Gross investment	31.9	33.1	33.3	33.5	34.2	34.7
public investment	6.3	5.2	4.7	4.0	2.2	2.1
including DPI (external)	5.1	4.2	2.9	2.1	0.4	0.4
private investment	25.6	27.9	28.6	29.5	32.0	32.6
Exports (goods and non-factor services)	48.0	49.3	48.0	47.0	46.4	44.4
Imports (goods and non-factor services)	98.2	98.4	98.0	95.8	94.6	92.5
Net exports	-50.2	-49.0	-50.1	-48.8	-48.1	-48.0

The share of gross investment in the GDP structure will increase from 31.9% in 2012 to 34.7% of GDP in 2017 through stimulation of private domestic and foreign investment. The mid-term investment policy provides for an average 16.0% annual growth of gross investment. The investment growth will be achieved by increasing private investment as a result of: (i) removal of all administrative barriers; (ii) creation of favorable tax and customs regimes; (iii) real enhancing confidence and stability of the financial system, including banking sector and insurance market that will increase efficiency of the mechanism for investors protection from possible risks, and will be a source of long-term investment. It is projected that the share of public investment in 2013-2017 will on average be 3.6% per year.

External debt sustainability will be a significant factor affecting investment attractiveness of the country. In the context of fiscal policy, debt sustainability implies that the amount of accumulated foreign debt and regular cost of its maintenance will be such that the related payments will be made with no harm to other budget items and economic development as a whole. In order to reduce the external debt burden, which is a potential threat to sustainable economic growth, the Government will consider all possibilities for its further restructuring.

In 2013-2017, growth of private consumption on average by 4.1% per year will be ensured through the growth of monetary income of the population as a result of the projected growth in

real wages and income from entrepreneurial activities. Given the reforms aimed to optimize state administration, the share of consumption by the state will decline from 19.7% in 2013 to 16.2% in 2017, while its rate of growth will be maintained at, on average, 0.7% per year.

In the medium term, growth of exports and imports of goods and services will continue further. At the same time, the rate of net exports in 2017 will increase by 2.1 percentage points compared to 2012 and will be 48.0% of GDP. The average annual export growth of 5.6% will be mainly due to increase in the supply of gold, and gradual increase of the share of clean agricultural products exports. The increase in imports (by 4.6% on average per year) will be mainly due to the growth in imports of energy and other intermediate goods.

It is planned that the amount of capital investment from all sources of funding will increase on average to 134.2 billion som per year in 2013-2017, which is 2.5 fold higher than in 2008-2012 (54.5 billion som). The amount of capital investment from the state budget (including co-financing) in 2013 -2017 will be on average more than 15.6 billion som per year or 3.2 fold more than in 2008-2012.

The medium-term budgetary policy will aim at rapid growth of consolidated budget revenues compared to the expenditures resulting in a marked reduction of the budget deficit (with the account of the Social Fund), which on average will be more than 5% of GDP per year.

Preserving macroeconomic stability, improving tax and customs administration and increased taxable base will help to ensure sustainable and stable revenues for the budget. Further reform of the system of interbudgetary relations will also positively affect revenues of the local budgets. The policy of public spending will be focused on the development projects defined by this Program.

Three scenarios of macroeconomic development of the country were developed for 2013 - 2017: (1) the **optimistic** scenario – with an average annual GDP growth rate of **8.5%**; (2) the **basic** scenario – with an average annual GDP growth rate of **6.8%**, which is the basis of the three-year budget for 2014-2016; and (3) the **pessimistic** scenario with an average annual GDP growth rate by **5.1%**, taking into account the likely impact of the internal and external negative factors on the economy.

7.2 Public finance management

Purpose: achieving budgetary sustainability, building an effective and transparent budget system, enhancing efficient use of the state budget, its focus on the promotion of economic growth, efficiency of budgetary spending and improving quality of the provided services.

Analysis of the current situation. Problems. Over the past five years, the budget of the country was exposed to serious risks associated with its sustainability. The 2010 political events resulted in a significant increase of the additional costs, mainly for reconstruction activities after the April and June events in the south of the country and social allowances to the affected people. In addition, budget expenditures have substantially increased due to higher wages for social workers and law enforcement staff, as well as increased funding for the development projects.

As a result of constructive cooperation of the Government with the traditional development partners and international donor community on budgetary support, as well as implementation of a number of measures to attract additional sources of revenue in the budget, the state budget deficit was 4.9% of GDP in 2010, which is below the expected 0.7%, while in 2011, the actual budget deficit was 5% instead of the expected 7.5% of GDP. However, due to increased budget

expenditure in 2012, the budget deficit reached a threshold, which adversely affected budgetary sustainability.

In general, the public finance management policy in this period was characterized by the following elements: (i) significant budget deficits; (ii) social orientation of the budget (the share of the total cost amounting 50%); (iii) strong dependence of the local budget on the republican budget (subsidized nature of interbudgetary relations); (iv) strong dependence on the external sources of funding the budget deficit; and (v) limitation of budget funds for development.

The budget of the country is continuously **socially-oriented**. Funds allocated from the budget for social services increased annually despite a decline in its investment opportunities.

The current legislation governing the budgetary relationship is outdated and needs to be updated and systematized. Currently, the basis of the budget related legislation is the Law No 78 of the Kyrgyz Republic “On basic principles of budgetary law in the Kyrgyz Republic” of 11 June 1998. In 1999 – 2012, numerous changes and additions were made to this law, as a result the text was substantially altered, except for 7 articles (out of 58), which remained unchanged. All changes and additions were unsystematically. Therefore, there is a **need to develop a single regulatory document governing the public finance management process**.

Implementation of the programmatic budgeting is delayed due to low capacity of staff, which needs comprehensive training. Furthermore, as local self-governments gained financial and economic independence, their capacity to manage local budgets shall be enhanced as well.

Budget transparency for the public is continuously low. The annual civil budget has not been developed yet.

Priority directions. Based on the analysis and identified problems, the budgetary policy of the country in the next five years will focus on the following priority directions: **(i) ensuring budgetary sustainability; and (ii) reform of the public finance management system.**

The *priority direction aimed to ensure budgetary sustainability* will be focused on accomplishment of the following objectives: *(i) increase of the resource capacity of the budget; (ii) optimization of public spending; and (iii) reduction of the budget deficit.*

In order to accomplish the first objective aimed to increase the resource capacity of the budget, the Government intends to take measures such as: (i) improving customs administration through shifting the customs clearance system from weight-based charges to price basis for majority of imported goods; (ii) further effective implementation of the excise policy; (iii) reform of non-tax payments aimed at optimization of the public fee-based services and effective management of state property and natural resources; and (iv) implementing taxation related initiatives that would contribute to revenue increase in the budget.

The second objective - *optimization of public spending* - will be addressed through the implementation of the following policy measures: (i) improving the budget planning process; (ii) switching from socially-oriented budget to the development budget; (iii) reduction in public spending and restraining the adoption of new spending initiatives that have no reasonable financial justification.

In order to accomplish the third objective - *reduction of the budget deficit* – the Government intends to: (i) strengthen budgetary discipline; (ii) ensure a balanced budget based on the

principle “live within the means”; and (iii) enhance control over efficiency of the public spending.

As for the **second priority direction** focused on the **reform of the public finance management system**, the following tasks will be accomplished: (i) *phased transition to program budgeting*; (ii) *improving the budget related legislation*; (iii) *further reform of interbudgetary relations*; (iv) *modernization of the treasury system*; and (v) *ensuring efficiency of public procurement*.

The first task – *phased transition to program budgeting* – the Government intends to accomplish through implementation of the following activities: (i) comprehensive training on sector analysis and programmatic budget development for staff of the pilot ministries; (ii) identifying financial and non-financial indicators of effectiveness of the budget funds use; and (iii) development and launch of the system for monitoring and evaluation of efficiency indicators of the budget funds utilization.

The second objective aimed at improving the budget related legislation, the Government intends to address through the following policy measures: (i) final development of the draft Budget Code of the Kyrgyz Republic; (ii) specialized expertise of the draft Budget Code, including environmental expertise; (iii) adopting the draft Budget Code by the Parliament of the Kyrgyz Republic.

The third objective - further reform of interbudgetary relations - will be addressed through implementation of measures such as: (i) enhancing interest of local self-governments in increasing revenue generating capacity and improving efficiency of spending; (ii) enhancing the role and responsibility of the local self-governments for local budgets management; and (iii) phased reduction of subsidies to local budgets.

The fourth objective - modernization of the treasury system – suggests implementation of the following activities: (i) development and implementation of an information system for Treasury management; (ii) implementation of centralized public finance management by connecting the Treasury to a package clearing system and transition to the Single Treasury Account.

The fifth objective - ensuring efficiency of public procurement – will be accomplished by the Government through the following: (i) revision of the state procurement policy; (ii) implementation of electronic bidding for public procurement; and (iii) integration of the e-procurement system in the budgetary process.

7.3 Strategy of public debt management in transition to sustainable development

Goal: to provide the necessary funding in transition to sustainable development with the account of formation of the optimized² public debt structure.

Analysis and assessment of current development trends. The share of external debt in the structure of the Kyrgyz Republic public debt is still dominant. In 2008-2012, the share of the external debt amounted to more than 90 percent. A key advantage of external borrowing for the Kyrgyz Republic is the access to concessional funds provided by international financial institutions (the World Bank, regional development banks and others) and by foreign states as

²For the purpose of this Strategy, the optimized public debt structure means a debt structure with the optimized combination of expenditures and risks. Expenditures are, for example, the amount of budgetary funds for debt servicing.

Risks are additional expenditures arising in the event of adverse factors (such as, the increase in the interest rates of the borrowings or the exchange rate fluctuations).

part of official development assistance. However, the prevalence of external debt in the structure of public debt also means strong dependence of the Kyrgyz Republic on foreign loans. The share of concessional borrowings in the structure of the total public external debt in 2008-2010 was more than 80% and 100% of the public external debt were long-term borrowings.

The share of internal debt in the total public debt portfolio of the Kyrgyz Republic is insignificant and did not exceed 10 per cent in 2008-2010. The main constraint to increasing the share of the internal debt is poor development and tightness of the government securities market of the Kyrgyz Republic. In 2008-2012, the Government made steps to improve the regulatory framework for issuance, circulation and redemption of government securities (unification and simplification of the types of government securities), gradual increase of maturity of the government borrowing instruments (release of state treasury bonds – state treasury bills in 2009) and increase in share of the government market securities. However, the government securities market is still poorly developed and can not provide state budget with significant borrowings.

Currently, in line with the medium-term strategy for public debt management of the Kyrgyz Republic for 2012-2014, the moratorium for issuance of government guarantees is enforced. At the same time, the transition to sustainable development requires substantial financial resources, part of which could be mobilized through private public borrowings under the government guarantee. However, the decisions and issuance of the government guarantees taking no account of the needs, constraints and opportunities of the budgetary policy, as well as objectives of the effective public debt management may create serious problems with debt sustainability of the Kyrgyz Republic. In this respect, further steps of the Government with respect to the policy on state guarantees issuance should be based on deliberated and informed decisions and thorough analysis of risks and benefits.

Recently, there is an uneven growth of the bilateral loans share in the external debt structure. Thus, the increase in bilateral component of the external debt is due to the large loans from one or two lenders. Continued concentration of borrowings in the last 4 years leads to a risk of strong dependence on those creditors and the likelihood that various aspects of cooperation with creditor countries (foreign policy, trade, and etc.) will be considered in relation to that debt.

Priority directions aim to maintain positive results in public debt management and implement new priority directions in public borrowings, in particular: **(i) maintaining sustainability of the public external debt; (ii) increasing internal borrowings.**

Priority direction - **maintaining sustainability of the public external debt**- will focus on accomplishment of the following objectives: *(i) optimization of the remaining foreign loans; (ii) optimization of new flows of external borrowings.*

In order to ensure **optimization of the remaining foreign loans**, the Government intends to: (i) restructure the bilateral external debt as part of implementation of the Paris Club Protocol 2005; (ii) initiate a mechanism for conversion transactions with bilateral debt of the Kyrgyz Republic; (iii) prevent arrears on the current external debt³

The second objective - **optimization of new flows of external borrowings** – the Government is planning to address by implementing the following policy measures: (i) attract new public external borrowings subject to a minimum level of concessionality of loans (grant element) of 35%; and (ii) restrict the annual newly attracted foreign loans and maintain the annual balance of the external debt at a level not exceeding **60% of GDP.**

³Except for the “technical” delay arising as a result of suspension of payments due to the debt restructuring

As part of the priority direction - **increasing internal borrowings** – it is planned to accomplish the following objective: *(i) change the internal debt structure and increase the share of the market instruments for internal borrowings.*⁴

This objective will be accomplished through the following activities: (i) budget financing exclusively through issuance and placement of the market instruments for domestic public borrowings; (ii) issuance of instruments for domestic public borrowings with the maturity of over 2 years; (iii) developing new and changes to the current normative legal acts regulating the activities on the government securities market.

7.4 Equal conditions for all business entities

Goal: reduce the number of licenses and permits by almost 2-fold (from 240 to 130 types) by 2017, weaken control and supervisory functions of the state and create new approaches in the regulatory impact assessment in the course of development and adoption of management decisions.

Analysis of the current situation. Despite complicated internal political situation in recent years, the private sector of economy continued its growth, although at a slower pace. During 2007 – 2011, the total number of employees in SMEs increased by 25% (*from 284.2 thousand to 353.7 thousand persons*). Accordingly, the number of operating SMEs increased by 26% (from 9,002 to 11,371). The share of small and medium-sized businesses in the total GDP amounted to **41.4%** in 2011.

In 2011, the Interdepartmental Commission on reforming the system of state regulation of businesses has completed optimization of the licensing and permits system, which resulted in a phased reduction of the number of licenses and permits (from more than 500 types in 2008 to 240 in 2012).

However, despite the reforms, there are still many barriers for SMEs that hinder their entry into the domestic and foreign markets and pose problems in doing business, including, unclear and vague licensing procedures.

In order to reduce the bureaucratic burden on businesses and increase economic freedom for all participants of economic activity, the procedure for regulatory impact analysis (RIA) of the normative legal acts on business activities was introduced since 2008, providing for abolition of the normative legal acts that hinder the development of small and medium-sized businesses.

The current legislation and its administrative enforcement have a number of shortcomings, which include a large number of overlapping and contradictory normative legal acts, legal collisions, and incompliance of the adopted normative legal acts with laws regulating the relations in business, or distortion of their norms. The adopted laws regulating business activity have not been analyzed in terms of their regulatory impact. As a result of imperfection of the RIA methodology, the RIA procedures are currently more formal in nature.

In order to protect the rights of businesses from unlawful interference in their activities, the number of state regulatory agencies was reduced from 21 to 12 in 2012. Criteria for evaluation of the risks and checklists that govern frequency of inspections of business entities and prohibit

⁴The “market” borrowing instruments mean government securities that are placed using the market mechanisms of pricing, such as auctions.

“total inspection” were actively introduced. The inspection periods were reduced 2-fold. A broad information campaign on the rules and procedures of inspection was held in the regions. As a result, the number of inspections conducted in 2012 declined by almost 2-fold (from 24.4 thousand to 13.5 thousand).

At the same time, today the regulatory authorities still conduct unjustified inspections of small and medium-sized businesses. State regulation in the field of control and supervision is still ineffective, costly and often duplicating and formal in nature. Despite introduction of the risk criteria, inspection bodies continuously conduct “total inspections”, which negatively affects the activity of business entities. Violation of the legislation requirements by inspection bodies often leads to the creation of various corruption schemes.

Priority directions. Given the identified problems, the policy to regulate business environment will focus on the following priorities: **(i) creation of new approaches in the system of regulatory impact analysis in the course of development and adoption of the management decisions, including those designed to ensure environmental safety; (ii) reducing intervention of the government in business activities, focusing the regulatory policy on rational use of limited resources and stricter legislation requirements on environmental protection.**

The following objectives will be accomplished with regard to the **first** priority direction: *(i) development and implementation of a new methodology of regulatory impact analysis in the course of development and adoption of management decisions; (ii) active involvement of businesses and civil society institutes in the process of regulatory impact analysis.*

In order to develop and implement a new methodology of **regulatory impact analysis**, the Government intends to: (i) analyze the existing methodology of regulatory impact analysis, (ii) develop and implement a new methodology of regulatory impact analysis (RIA Methodology), including aimed at ensuring environmental safety.

It is planned to accomplish the second objective through implementation of the following measures: (i) revise the legislation in the field of entrepreneurship involving business structures and civil society institutes; (ii) develop and make recommendations to the Government of the Kyrgyz Republic on removing excessive regulations that are not market-oriented.

As part of the second priority direction **aimed at regulation with the account of rational nature use and stricter legislative requirements to environmental protection**, it is planned to accomplish the following objectives: *(i) reform of the licensing and permits system focusing on the efficient use of limited natural resources, (ii) reform the control and supervisory system by introducing stricter requirements to compliance with environmental legislation.*

The Government is planning to reform the licensing and permits system by implementing the following measures: (i) preparing and adopting a new Law of the Kyrgyz Republic “On Licenses and Permits in the Kyrgyz Republic”; (ii) reducing the number of the current licenses and permits; (iii) preparing and adopting the regulations that would set forth clear procedures for licensing, duties and rights of licensors and licensees and other licensing standards with the emphasis on the rational use of natural resources.

The second objective – reforming the control and supervisory functions through stricter legal requirements to environmental safety – will be accomplished through the implementation of measures such as: (i) inventory of the regulatory framework in the field of control and supervision in order to identify duplicating and excessive control and supervisory functions of

the state; (ii) developing proposals on reduction of duplicating and excessive control and supervisory functions of the state; (iii) implementing a new system for evaluating risk criteria by supervisory authorities focusing on stricter requirements to environmental safety; (iv) developing a new mechanism of inspections based on the system of risk criteria, including those aimed at preservation of environment; (v) creating and gradual introduction of the automated database on inspections.

7.5 State property management

Goal: building an effective state property management system corresponding to the criteria of economic and social efficiency.

Analysis of the current situation. Today, the state is a shareholder in 61 joint-stock companies, including 22 strategically important companies that operate in the most profitable sectors of the economy. Effectiveness of the companies' performance is assessed based on the total financial and economic indicators with the emphasis mainly on planned dividends and other payments to the budget. A comprehensive analysis of the state-owned enterprises and joint-stock companies with state share has not been conducted. There is no strategic planning practice in state-owned companies. The government has neither set clear management objectives, nor defined the criteria of efficiency of the state-owned companies. It has not been decided as to in what companies should the state keep its share, and which companies should be fully or partially privatized.

The situation with state-owned enterprises, the number of which is excessive, remains problematic. State bodies are in charge of more than 150 state-owned enterprises, while according to the National Statistical Committee, there are more than 1,000 registered state-owned enterprises. The problem of the idled, subsidized, unprofitable and not performing socially important functions state-owned enterprises has not been resolved yet.

There are some gaps in the regulatory framework related to operation of the state-owned enterprises. The Civil Code establishes only fundamental principles with regard to state-owned enterprises. There is no clear distinction between functions of the authorized body for state property management and sectoral ministries and departments in charge of state-owned enterprises. There is no adequate control of the financial and economic activity of state-owned enterprises and their efficient use of state property.

Due to the lack of a centralized system for the registration of state property, **the government has no reliable information on the total cost and amount of state property.** The information provided by the statistical and justice authorities and the State Registration Service is fragmented, incomplete and can not provide a realistic picture of the state assets of the country. In recent years, there were some attempts to implement national inventory of the state property, but this task has not been fulfilled so far.

In the past three years, revenues from privatization of state property remain at an average of 170 million som per year. Income from rental of state-owned buildings and premises also remain virtually unchanged and is approximately 19.0 million som per year.

Since 2011, state-owned enterprises are obliged to transfer part of their net profit to the state budget. In 2011, the state-owned enterprises transferred 257.6 million som and in 2012 - 726.4 million som.

However, dividends earned on state shares make the main portion in the structure of revenues from state property management. The maximum amount of dividends – more than 2.8 billion som or up to 4% of the total state budget revenue was received in 2011. In 2012, the state-owned

companies transferred dividends of 1.8 billion som, which is 6 times more than the amount of dividends received by the state in 2008.

In 2012, the total cash receipts from state property management amounted to more than 2.7 billion som or 3.4% of the total revenues of the republican budget. However, if measures to strengthen financial discipline in state-owned enterprises and control over the use of state property are adopted, additional reserves will emerge, in particular, from the rental of state property.

This way, the following major problems can be outlined in the state property management system: (i) unsystematized regulatory framework for state property management, as well as gaps and inconsistencies; (ii) the lack of centralized registration and systematized inventory of the state property throughout the country; (iii) the lack of methodology for monitoring and analysis of the effective use of state property; (iv) insufficient work of state representatives in the management bodies of state-owned companies; (v) the lack of accountability of the management bodies of state-owned companies and objective evaluation of their performance; (vi) inefficient use of state assets by state-owned enterprises and institutions.

Priority directions. Given the above problems, activities of the Government in the next five years will focus on the following priorities: (i) optimization of the state property structure; (ii) creating conditions for sustainable growth and profitability of the public sector of economy.

The priority direction - **optimization of the state property structure** - will focus on accomplishment of the following objectives: (i) develop and approve mechanisms for accounting and inventory of state property in the Unified Register of state property; (ii) prepare informed proposals and adopt regulations on liquidation or privatization of state-owned enterprises that do not fulfill strategic and socially-oriented state functions; (iii) prepare decisions on restructuring non-core assets of the state-owned enterprises, institutions and economic entities with state share.

It is planned to adopt the following measures in order to achieve the first objective - develop and approve mechanisms for accounting and inventory of state property: (i) develop a methodology for accounting and inventory of state property; (ii) develop a mechanism for interdepartmental information exchange and cooperation between state bodies involved in the process of inventory taking and accounting of state property; (iii) conduct an inventory taking of state property throughout the country; (iv) develop software for the interdepartmental automated information system "Unified Register of the State Property"; (v) purchase software and hardware to launch the interdepartmental automated information system "Unified Register of the State Property"; (vi) train personnel to maintain and service the interdepartmental automated information system "Unified Register of the State Property".

The second objective provides for the following measures: (i) comprehensive analysis of activities of the state-owned enterprises; (ii) adopting normative legal acts on liquidation and privatization of enterprises, state ownership of which is impractical; (iii) practical liquidation and privatization of the above enterprises.

The third objective related to restructuring non-core assets with state share, the Government is planning to accomplish through the following: (i) inventory taking of non-core assets of state-owned enterprises, institutions and economic entities with state share; (ii) preparation of a set of measures for the effective disposal of the identified non-core assets; (iii) practical sale of the identified non-core assets.

As part of the second priority direction – **creating the conditions for sustainable growth and profitability of the public sector of the economy** – it is planned to accomplish the following objectives: (i) *enhance control over the financial and economic activities of the state-owned enterprises and economic entities with state share*; (ii) *create the conditions for effective disposal of unused state immovable assets*; (iii) *develop and implement mechanisms aimed to ensure transparency and openness of the property management process*.

In order to accomplish the first objective - *enhance control over the financial and economic activities of the state-owned enterprises and economic entities with state share* - the Government intends to: (i) develop and implement a unified procedure for state enterprises management; (ii) develop and implement key financial and economic indicators of performance of the state-owned enterprises; (iii) develop and implement mechanisms to increase accountability and motivation of business entities with a state share and conduct regular and objective assessment of their activities.

The second objective - *effective management of unused public facilities* - will be accomplished through the following measures: (i) comparative analysis of the rental for the use of public premises and market rates for similar immovable property; (ii) based on the analysis, development and implementation of the market principles based appropriate methodology for calculating rental for the use of state property; (iii) development and implementation of the regulations for competitive and open procedures on renting state-owned property.

The following measures are planned for accomplishment of the third objective – *develop mechanisms aimed to ensure transparency and openness of the property management process*: (i) develop and implement normative acts that provide for auctions for the sale of state property in electronic format; (ii) develop software and purchase and install software and hardware for launching a trading platform on the Internet.

7.6 Investment climate for green investment

Goal: increase attractiveness of the investment climate in the Kyrgyz Republic, including increasing the level of “green” investment to 10% of the newly launched investment projects

Analysis and evaluation of the current development trends. In 2008, the inflow of foreign direct investment (hereinafter FDI) was the highest and reached US\$ 866 million. In subsequent years, the inflow of FDI has declined considerably due to the global financial crisis and was US\$ 660.9 and 666.1 million in 2009 and 2010, respectively. According to preliminary data for 2012, the FDI inflow amounted to US\$ 521 million.

Today, the current system regulating the investment policy has serious shortcomings, which directly affect the inflow of foreign direct investment. The functions and powers are distributed between certain state institutions: ministries, agencies and local self-governments. At the same time, there is no overall coordination of the development and implementation of the unified investment policy. The state system does not have an independent executive authority to attract and support investment that would promote investment opportunities in the country, provide reliable information and quality services to foreign investors through the “one-stop shop” principle and ensure investment security in the country in accordance with the legislation of the Kyrgyz Republic.

Stability, including political, legal, economic and social, is a fundamental factor for attracting investment. Among investors, the Kyrgyz Republic has today a reputation of a politically and socially unstable state with often changes in the government and laws, as well as lack of

continuity and consistency in the adopted government decisions. The current legislation in the sphere of investment is often interpreted arbitrarily and there created artificial barriers for investors followed by conflicts and corruption, especially at the local level. Poor protection of property rights of investors is another major obstacle to the inflow of foreign direct investment.

In addition, the country still lacks a unified database on the current and planned investment projects, including at the regional level. Moreover, potential investors have poor access to information about investment opportunities in the Kyrgyz Republic. There is an urgent need for a multi-language internet portal that would provide access to a database of investment projects, information on potential areas of investment, as well as ensure collection and timely handling of investors' complaints and appeals.

Given these problems and objective obstacles to investment, such as small size of the market, lack of access to the sea, there arises an important question with regard to granting preferences to investors by the Government in order to improve competitiveness of the investment market of the KR.

Staff in charge of the development and implementation of the investment policy demonstrates serious shortcomings. Staff is selected on a general basis without any additional qualification requirements, such as knowledge of foreign languages and relevant experience. There is a shortage in professionals on the new global development trends, including attraction of "green" investment for sustainable development of the country.

Priority directions. Given the above problems, the investment policy up to 2017 will focus on the following priorities: (i) improving the efficiency of the state investment policy; (ii) formation of mechanisms for attracting and supporting investment.

Under the **first priority direction**, it is planned to accomplish the following objectives aimed at: *(i) increasing institutional capacity; (ii) improving access to reliable information; (iii) formation of a stable legislation; and (iv) capacity building of staff.*

The first objective – **establish an effective institutional mechanism** – provides for implementation of the following measures: (i) setting up an Investment Promotion Agency (IPA) that would act as a coordinating body and work on a "one stop shop" principle, where any potential investor may obtain the necessary information and assistance in project launch and implementation; (ii) introducing the institute of investment representatives in the diplomatic missions, who will act as the agents to conduct targeted campaigns locally in order to attract investment into the country.

The second objective – access to information - will be accomplished through measures such as: (i) annual surveys of investment advantages of the country with breakdown by regions and industries; (ii) creation of a unified database of the current and planned investment projects; (iii) ensuring open broadband access for potential investors to this database via the Internet; (iv) informing the local population about potential benefits of planned and current projects.

The third objective involves ensuring stability of the investment legislation through the following initiatives: (i) introducing amendments and additions to the legislation to clarify investors' rights to choose a stable and favorable legal regime; (ii) developing procedure for implementation of investors' right to choose the most favorable regime in the event of changes in the legislation by enacting subordinate normative legal acts; (iii) introducing legal restrictions on the adoption of the normative legal acts that would deteriorate investors' position; (iv)

establishing clear legal basis for forced seizure of property by the state providing for fair seizure and compensation mechanisms.

The fourth objective – staffing for the investment process - will be accomplished through: (i) organization of a system for regular enhancing of capacity of staff involved in the development of investment policy and investment promotion; (ii) organization of activities to study the experience of the best foreign agencies in charge of investment promotion; (iii) development and implementation of a mechanism for placing state orders for staff retraining in the education system.

The objectives planned under the first priority direction will allow to steadily promote the **second priority – creating mechanisms to attract and support investment**. For this purpose it is planned to accomplish the following two objectives: (i) attracting investments; (ii) promotion of investment.

The first objective involves implementation of the following measures: (i) development of criteria for identifying projects that should get preferential treatment and incentives; (ii) development of the maps of investment incentives (MII) based on the following criteria: *the amount of investment, area, sector of economy, availability of “green” components in the investment projects*, (iii) development of the normative legal acts governing the provision of investment preferences on the basis of MII; (iv) development and dissemination of investment guides on the provided incentives.

The second objective will be accomplished through the following measures: (i) decreasing the threshold amount required for obtaining an investment visa; (ii) abolition of the Commission on acquisition of apartments by the investors who meet certain criteria; (iii) development and implementation of the system for evaluating investors’ activity and their encouragement through awarding annual titles, such as “Investor of the Year”.

7.7 Development of the financial and credit sector

Goal: formation of a sustainable and effective system of financial and credit institutions that can effectively mobilize financial resources and meet the needs of the population and businesses in the long-term and affordable loans.

The current status. Based on the 2012 data, 23 commercial banks and 278 branches of commercial banks were operating on the territory of the Kyrgyz Republic. The main source of the commercial banks’ strength – the capital⁵ - increased by 26% in 2012-2017, while the key indicator, which is the capital adequacy, was 28% by the end of 2012 and exceeded the established standard (12%) 2 fold. Despite the impact of the global financial crisis and the well-known 2010 April and June events, growth of deposits in the operating commercial banks was observed annually indicating of a growing confidence of the population in the banking system. This way, the deposit base of the banking sector for 2008 - 2012 increased from 29.6 to 50.6 billion som with a **71.4%** increase. Net profit of the banking sector over the 5 years increased by 33%, from 1.8 billion to 2.4 billion som. The credit portfolio of the commercial banks has increased by **56.2%**, from 25.6 to 40.0 billion som over the five years.

At the same time, **the share of long-term loans** (over 3 years) remains low (the average share over the 5 years - **24%**). Lending to the economy by commercial banks shows that in the average share of the loan portfolio over the 5 years 41% is trade, 13.4% - agriculture, 11% and 8.4% - mortgage and consumer loans, respectively. The interest rates on loans provided by commercial

⁵The paid authorized capital

banks remain high, although for loans in the national currency with a more than a 1 year maturity they slightly decreased from 24.4% to 21.7%, with the exception of the increased rates on mortgages and construction from 19.1% to 21.3 % and from 21.1% to 22.5%, respectively. The interest rates of microfinance institutions increased from 32.4% to 34.9% over the 5 years.

Therefore, the major problems in provision of financial and credit services are: (i) high interest rates on loans; (ii) a narrow segment of long-term loans; (iii) low confidence of the population and businesses in the banking system; (iv) poor financial literacy of consumers of the banking services.

The main priority for the period up to 2017 will be the **creation of favorable conditions to ensure accessibility of financial resources**. This implies development and improvement of the legislation through the following activities: (i) development of the Banking Code; (ii) development of the draft law “On Financial Ombudsman”; (iii) increasing the guarantee amount on deposits to 200 thousand som under the deposit protection system; (iv) development of the normative legal acts for the protection of consumers of services: mobile banking and i-banking.

7.8 Taxation and customs policy: introduction of "green" payments for ecosystem services

Goal: create an effective system of fiscal regulation in the course of transition of the Kyrgyz Republic to sustainable development

Analysis of the current situation. In 2008 – 2012, tax and customs revenues have increased from 36 to 64 billion som or 1.8 fold. Their share of GDP increased from 19% to 21.0%. According to international experts, collection of taxes and customs dues in Kyrgyzstan is 70% of the maximum level.

Fundamental legislative documents in the field of tax and customs administration are the Tax and Customs Codes of KR. The current version of the Tax Code, in general, provides a liberal tax regime, especially for honest taxpayers. The average tax burden is **19%** and compared to other trading partners is generally not so high: it is 35% - in Russia, 23% - in Kazakhstan, 32% - in Moldova, and 34% - in the Republic of Belarus.

At the same time, the tax burden is distributed unevenly across sectors of the economy. The highest tax burden is in the industry - 21%, while agricultural sector is practically exempt from taxes, except for land and property taxes.

The current system of managing tax and customs services has serious shortcomings. There are still complicated administrative procedures for imposing burdensome tax liabilities on business entities. Activities of the fiscal authorities involved in corruption schemes undermine the confidence of businesses in the state and threatens sustainability of the financial system as a whole. Frequent transfer of the fiscal policy related functions from one state authority to another adversely affect the effectiveness of fiscal authorities as a whole, including human resources.

The regulatory legal framework has significant gaps. Imperfection of the tax legislation, corruption and a significant tax burden push businesses to go into the “shadow”. In addition, the lack of the steady tax legislation is a bad signal to investors. The decreasing effectiveness of the tax and customs services is greatly due to the lack of appropriate information exchange between agencies involved in the collection of taxes and other state revenues.

Priority directions. Given the above problems, the priority directions of the fiscal policy in 2017 will be as follows: (i) creation of an effective and stable tax system; (ii) simplification and improvement of tax and customs administration; (iii) improving transparency, identifying and eliminating opportunities for corruption; (iv) adoption of fiscal measures aimed at reducing the environmental pollution.

The first priority direction – **creation of an effective and stable tax system** – will focus on accomplishment of the following objectives; (i) modernization of the tax and customs services; (ii) enhancing human resource capacity of the tax and customs authorities; (iii) coordination of activities with the law enforcement and other government agencies.

The first objective will be accomplished through the following activities: (i) implementation of an automated information system in customs service, including a system for electronic filing of customs declarations; (ii) implementation of an automated information system for tax service for filing tax returns in electronic form; (iii) development and introduction of changes in the normative legal acts in order to introduce modern technologies in tax administration so that to simplify execution of tax liability by taxpayers (*conducting inspections using risk criteria, and broad practical use of imputed taxes, compulsory patent and tax contract*).

The second objective will be accomplished through the following measures: (i) introducing changes in the current legislation in order to enhance liability of tax and customs authorities; (ii) conducting training workshops to enhance skills of the tax and customs staff.

As part of the third objective – coordination of actions with other government agencies – the following measures are planned: (i) systematic raids jointly with SSCEC of KR, STS and SCS of KR to identify traders engaged in smuggling imports, taxpayers with outstanding tax liabilities, and to identify and register businesses that are not registered with the tax authorities.

Under the second priority direction - **simplification and improvement of tax and customs administration** – accomplishment of the following two objectives is planned: (i) *alignment of the tax burden and improving the investment climate*; (ii) *ensuring the complete tax collection*.

The first objective will be accomplished through the following measures: (i) revising types of activity carried out on the basis of voluntary and compulsory patents; (ii) development of the normative legal acts, which would eliminate duplication of VAT and sales tax; (iii) development of draft normative legal acts in order to revise and streamline the current system of tax preferences; (iv) development of the fiscal policy concept for 2014-2017.

The following measures are planned under the second objective: (i) development of draft normative legal acts aimed at simplifying the tax and customs administration; (ii) introduction of the general tax declaration; (iii) development of draft normative legal acts for the introduction of payment of the tax and customs revenues to the budget in non-cash form.

The priority direction aimed at **to improve transparency and eliminate opportunities for corruption** in the fiscal sphere will be promoted through improving tax and customs administration and automation of the reporting system.

This objective will be accomplished through the following: (i) creation of electronic centers for processing tax declarations; (ii) conducting survey among taxpayers and participants of foreign economic activity (FEA) on the degree of corruption in tax and customs bodies; (iii) application of administrative measures to tax and customs staff for corruption; and (iv) continuous simplification of the tax reporting system.

The innovation in the fiscal policy will be promotion of the fourth priority direction, which focuses on the **fiscal policy measures aimed to reduce environmental pollution**. It is planned to adopt the following measures: (i) development and adoption of the NLAs to establish environmental tax for air pollution to be levied on foreign vehicles on entry into the customs territory of the Kyrgyz Republic; (ii) development and adoption of the NLAs on reduced taxes

on the import of new trolleybuses, as well as other vehicles with alternative fuels other than gasoline; (iii) development and adoption of NLAs to increase customs duties on the import of goods into the territory of the Kyrgyz Republic that represent a threat to the environment; (iv) creation of a system for enhancing capacity of customs officers so that they could implement international environmental conventions.

7.9 Regulation of foreign economic activity and trade

1. Foreign economic activity

Goal. Develop and improve the regulatory framework for foreign economic cooperation in order to ensure growth of trade turnover and inflow of direct investment in the country economy.

Analysis and assessment of the current development trends. The most economically advantageous cooperation for Kyrgyzstan is with the Commonwealth of Independent States, the Eurasian Economic Community and the Shanghai Cooperation Organization. Advantages of cooperation with the CIS and EurAsEC countries are obvious. CIS and EurAsEC citizens regardless of place of their permanent residence have the right to enter, exit, transit, move and stay in the territories of the CIS states without visas. Intergovernmental agreements on simplified acquisition of citizenship were signed between certain CIS countries. Issues such as: equal access to educational institutions for CIS citizens, mutual recognition and equivalence of education certificates and free emergency medical care are addressed within the Commonwealth.

The customs duties are levied on goods that cross internal borders of the CIS countries and were produced in the territories of the Commonwealth countries. As a result of reducing the transaction costs, goods produced in the territory of the Commonwealth states become more competitive compared to goods from third countries. The possibility of sharing the capacity of innovative technologies and intellectual resources of the Commonwealth states play an important role. Geographically close location to countries such as Russia, Kazakhstan, Tajikistan and Uzbekistan resulted in the most active development of trade and economic relations, and made these countries the main trade partners of Kyrgyzstan.

The Asian Development Bank CAREC Program aimed at the implementation of projects in the energy, transport and trade significantly improves competitiveness of the Central Asian region and better integration into the world economic community. For example, the project "Rehabilitation of the energy sector of the Kyrgyz Republic" is intended to improve reliability of the national and regional energy systems of Kyrgyzstan and Central Asia, and the project "Improvement of the energy sector" will enhance energy security, energy efficiency, volume of regional trade in electricity, as well as reliability of power systems in the Kyrgyz Republic and Central Asia.

CAREC projects in transport sector contribute to the increase in regional trade. In particular, the National Road Rehabilitation Project (Osh-Batken-Isfana) aims to ensure a reliable access to social services and economic activities for the population, improve the management of road networks in the country, while the project "CAREC Transport Corridor" will increase regional trade, in particular, between the Kyrgyz Republic and the PRC.

The project "Improvement of CAREC Regional Road Corridor" will reduce transport costs and facilitate regional cooperation between Central Asian countries, improve access to regional markets and social services for the population living along the corridor. The regional energy project "CASA-1000" is extremely promising for the economy of Kyrgyzstan. It aims to ensure electricity supply from Kyrgyzstan and Tajikistan to Pakistan and Afghanistan, improve reliability of the national and regional energy systems of Kyrgyzstan and Central Asia, increase

energy security, energy efficiency, the volume of regional trade in electricity, as well as reliability of the power systems in the Kyrgyz Republic and Central Asia.

Major problems in foreign economic activity: imperfect legal framework in the field of investment, financial cooperation and prevention of double taxation. In addition, the legal framework does not meet the current needs.

To address the above problems, a priority direction in 2017 will be **more active integration processes within the CIS, SCO, EurAsEC, the CCTS** by *ensuring effective integration through*: (i) negotiations and consultations on the texts of intergovernmental agreements that set up the Development Funds under SCO and CCTS; (ii) negotiations and expert advice on the text of the intergovernmental agreements that promote and protect investment, as well as the prevent double taxation within the CCTS; (iii) negotiation and CIS expert advice on preparation for signing of the Agreement on free trade in services within the CIS.

2. Foreign trade relations

Goal: develop a competitive export capacity for sustainable economic growth.

Analysis and assessment of the current trends. In 2008-2012, the foreign trade policy of the Government aimed to simplify trade procedures. A number of regulatory documents as necessary for reducing and optimization of the foreign trade procedures were adopted. One of the reformatory mechanism for simplification of trade procedures in the Kyrgyz Republic was the introduction of a “one-stop shop” (OSS) in the sphere of foreign trade in accordance with the recommendation 33 of the UN Economic Commission for Europe (UNECE). International experience has shown that as a result of introduction of a “one-stop shop”, the estimated savings will amount to approximately 1% of GDP. Introduction of a “one-stop shop” will allow the interested parties to submit standardized (*combined in a single form*) documents through a single channel aimed to meet the requirements of foreign trade.

Taking into account that half of the Kyrgyz Republic turnover with foreign countries account for CIS and EurAsEC states (*US\$ 3,593.6 million in 2012*), the Kyrgyzstani Government decided to access the Customs Union (CU) and the Common Economic Space (CES). Currently, the Action Plan to access the Customs Union is already agreed. In 2012, Kyrgyzstan, in accordance with the Plan, has provided analysis of the national legislation in terms of its compliance with the CU contractual-legal basis, including comparison of the KR and RF obligations on customs tariffs before the WTO, as well as a set of normative legal acts and international treaties. The Plan aims to prepare the Road Map on joining the contractual-legal basis of the Customs Union by the Kyrgyz Republic by the end of the 2013.

The average share of the CU countries in foreign trade is about 45%, while exports and imports on average for five years consistently account for about 35% and 47%, respectively. Kyrgyzstan, although being outside the CU, fully experiences its impact on trade. Some CU countries imposed a variety of customs and tariff and non-tariff restrictions in their mutual trade with the KR, while customs procedures at the CU external borders became stricter. After harmonization with the CU Common Customs Tariff (CCT), the current KR's customs tariffs will increase. The Kyrgyz Republic will negotiate changes to customs tariffs related obligations within the WTO. At the same time, it is expected with high probability that prices for consumer goods imported from China will significantly increase, as KR will apply customs duties with respect to this country based on the cost rather than weight of goods. The increase in customs duties and stricter customs controls will reduce the re-exports from China; as a result, tax revenues from activities of wholesale markets will decrease respectively.

Reduction in tax revenues due to imports decrease will to some extent be compensated by the increased rates of customs duties. There is a risk that the internal market will initially experience deficit of goods and raw materials (this applies to food products and raw materials needed for the production), as domestic goods will be imported without any restriction. Being a CU member, Kyrgyzstan will be restricted in its efforts to introduce any protective measures against goods from CU countries. As a result, there is a risk that domestic products will not be competitive in the domestic market.

Accession to the Customs Union by the country is not only a duty-free movement of goods (although this fact is fundamental). It is a single transport, educational and cultural space; it is the freedom of movement of capital, services and labor force and creation of conditions for sustainable development of the economies of the Parties in order to improve quality of life of the CU population.

Advantages of accession to the CU and CES: *(i) abolition of formalities, duties and customs controls at the internal borders of the Customs Union and freedom of transit will ensure cost reduction for the participants of foreign trade activity and create favorable conditions for trade; (ii) the country will receive a positive impulse and will develop cross-border trade, which was previously hindered by the customs control; (iii) the population in the border areas will be able to buy products and goods on the territory of the neighboring country without any standards; (iv) other strategic goods within the community of energy suppliers will be supplied without the export and import duties, which is essential for Kyrgyzstan.*

The agreements between the CU countries on a common railway transportation market, uniform approach to pricing with no differentiation between import and export tariffs, establishment of a unified system of technical regulation are very important. The big advantage for producers is that in exporting the produced goods will be formalized using the CU unified certificates with no additional inspections and controls of these goods in the CU territory. Kyrgyzstan participation in the TC and CES will provide free migration policy without quotas and restrictions; as a result labor migrants will enjoy all social rights, as citizens of the host country.

Obstacles to the foreign trade development are the following **major problems**: (i) changes in the conditions for foreign trade with major regional trading partners as a result of creation of the Customs Union and the development of its activities; (ii) reduction in the re-export activity and reducing attractiveness of the wholesale markets of the country; (iii) the adopted agreement and requirements to technical regulations, sanitary, veterinary and phytosanitary measures in the CU aggravated access to these markets for the KR products. The restrictions imposed by neighboring countries on export of goods, the demand for which in the KR domestic market is satisfied by imports, lead to higher prices for such goods in the domestic market.

Trade development is also hindered by the lack of a developed system of state support for exports, including poor quality infrastructure, inadequate procedures for formalization of the export and import documentation, limited capacity of the laboratory and test facilities. As a result of intensified import competition, the domestic producers have to compete with imports that have advantageous prices. Exports of raw materials used in manufacturing process by domestic producers increased due to higher prices of these goods in neighboring countries.

Priority directions: In order to address the above problems and achieve the established goal, the priority directions are as follows: (i) development of the export potential of the country; (ii) ensuring negotiation process and procedures for accession of the Kyrgyz Republic to the CU and

the CES; (iii) ensuring harmonization of KR's NLAs in the field of technical regulation with the CU documents.

As part of the priority – **development of the export potential of the country** – the following objectives were set: (i) *creating basic foundations for a more attractive foreign trade regime; and (ii) improving competitiveness of goods and increasing responsibility of producers for the manufactured goods.*

The first objective will be accomplished through implementation of the following measures: (i) developing export development strategy of the Kyrgyz Republic, including development of the fresh and processed vegetables and fruit sector focusing on environmentally clean products; (ii) obtaining the status of beneficiary of the Generalized System of Preferences + (GSP +) for the Kyrgyz Republic; (iii) through NLAs, expanding functions of the state enterprise “One-Stop Shop Center in the field of foreign trade” under the ME of KR and vest it with the export development and promotion function; and (iv) conducting negotiations with the international organizations on the application of international standards and with the main trade and economic partners on application of international and regional standards as Kyrgyz national standards.

The second objective – *improving competitiveness of goods and increasing responsibility of producers for the manufactured goods* – will be accomplished through the following measures: (i) preparing and implementing the procedure of signing international agreements on technical regulation and standardization in order to apply in the country international and regional standards as national standards, as well as technical regulations of the CU countries; (ii) harmonization of the national standards with international standards and regulations; (iii) entering into agreements with major trade and economic partners on mutual recognition of the results of standards conformity assessment; (iv) reequipping the laboratory, test and reference facilities through attracting funds of donor organizations; (v) introducing changes and additions to the legislation to encourage businesses that implement quality management and food safety procedures.

Under the second priority, the objective – **ensuring negotiation process and procedures for accession of the Kyrgyz Republic to the CU and the CES** – will be accomplished through the following measures: (i) development of the position for negotiations with the CU and WTO, (ii) assessing the economic impact and implications of accession of KR to the CU for the Kyrgyz Republic; (iii) development of the Roadmap on accession of the Kyrgyz Republic to the CU and CES; (iv) consultation and information activities for the private sector on access of goods to the markets of CU countries.

As part of the third priority, the objective – **ensuring harmonization of KR NLAs in the field of technical regulation with CU documents** – will be accomplished through adoption of specific measures, including: (i) development of the positions for negotiations with the CU in accordance with the agreements concluded with the WTO; (ii) application of international and regional standards as national standards.

7.10. Conflict prevention and peace-building policy

Goal: building a comprehensive system for conflict prevention in order to enhance stability and sustainable development of the country.

Analysis of the current trends. Conflicts are a real threat and challenge to sustainable development of the Kyrgyz Republic. In 2008-2012, there were 254 conflicts of socio-economic

nature⁶ in Kyrgyzstan, including more than 30 inter-ethnic conflicts with 1,012 cases of violence. In the field of religious interaction 17 current conflicts were registered, 3 of which were directly connected with the threat of terrorism. Conflicts in the religious sphere, as a rule, are potential threats of their transformation into political and ideological confrontation.

The analysis shows that there are three basic types of conflicts in Kyrgyzstan, which may be “mixed” at the same time and “transform” from one form into another: (i) conflicts caused by unequal or inequitable access to the resources (water, land, pastures, deposits of minerals, and etc.), including cross-border conflicts and conflicts with investors; (ii) identity conflicts: *interethnic conflicts, religious conflicts*; (iii) conflicts caused by a sense of discrimination or exclusion: *conflicts between the community and local self-governments at the local level and conflicts between social groups and government institutes, and etc.*

Priority directions for conflict prevention in the country are as follows: (i) creation of an effective mechanism for conflict prevention at the state and local levels; (ii) reducing conflicts of interethnic nature; (iii) increasing participation of groups vulnerable to conflicts in the governance and decision-making processes.

Under the first priority direction it is planned accomplish the following objectives: (i) *institutionalize the mechanism for conflict prevention and peace-building*; (ii) *enhance capacity of the human resources involved in the peace-building*.

The following measures will be implemented in order to accomplish the first objective: (i) develop and approve goals, objectives and functions of the State Institute / Agency (*for conflict prevention and peace-building*); (ii) establish the National Coordinating Centre for Conflict Prevention and Peace-building (NCC) under the Agency, (iii) develop and introduce the coordinating mechanism for interaction between state authorities, local self-governments and civil society institutions; (iv) introduce the practice of “peaceful agreements” in conflict communities; (v) develop and implement a methodology for evaluation of conflict related threats.

The second objective – enhancing capacity of staff - will be accomplished though the following measures: (i) conducting the audit of staff competencies in ministries, departments and local self-governments in order to identify functions on conflicts prevention and resolution; (ii) developing qualification requirements to employees engaged in conflict prevention; (iii) incorporating conflict resolution issues in qualification requirements for selection and further training of staff; (iv) development and implementation of professional training programs for staff.

Under the **second priority direction** it is planned to accomplish the following objectives: (i) *develop and implement the national program “The Language of Peace”*; (ii) *engage the mass media, cinematography, educational and cultural capacities for promotion of initiatives on interethnic consolidation of the society and religious tolerance*.

The following measures will be implemented in order to accomplish the first objective: (i) develop and implement a single, unified language standard for the translation of the normative legal acts into the national language; (ii) develop and implement training, retraining programs, and certification of translators into the state language; (iii) develop and implement a standardized system for assessing knowledge of the state language by state and municipal employees; (iv) teach state and municipal employees to state language and norms of national paperwork based on

⁶The conflict management Agency “Egalitee”

the level of language proficiency; (v) develop and introduce effective programs and handbooks for intensive teaching of adults to the state language; (vi) organize short-term training courses on official language proficiency for state and municipal employees and law enforcement officials; (vii) create and implement effective programs and handbooks on intensive learning of the Russian language in remote and mono-ethnic areas; (viii) develop and distribute dictionaries (bilingual and trilingual on the basis of the state language), as well as phrasebooks for state and municipal employees working in multiethnic communities; (ix) organize and conduct short-term intensive language courses for state and municipal employees working in multiethnic communities so that they could learn languages of ethnic minorities.

The second objective is based on the following measures: (i) support to promising scientific researches on the prospects of the national culture development; (ii) dissemination of the best examples of the cultural heritage of the ethnic groups living in Kyrgyzstan; (iii) organization of competitions to promote the best examples of the culture of peoples of Kyrgyzstan, (iv) launching simultaneous translation of news and information programs from the official into state language and vice versa at the national television channels; (v) development and dissemination of methodical recommendations on developing standards of editorial policy in airing ethnic issues in the media; (vi) transferring all websites of the government and municipal units to bi-and trilingual standards; (vii) formation of the state order for cultural products of the theater, cinema and other forms of art in the field of promoting initiatives on interethnic consolidation of the society; (viii) reorganization of libraries in the regions that have literature in languages of ethnic minorities.

The **third priority direction** will be promoted through accomplishment of the two major objectives: *(i) develop and implement the pilot program “National frame” focused on participation of ethnic groups vulnerable to conflicts in the economy and politics; (ii) introduce a system for accounting contribution of vulnerable groups to economic and political development of the regions and the country.*

The first objectives will be accomplished through implementation of specific measures such as: (i) development and adoption of the “National Frame” program; (ii) development and implementation of formats and procedures for participation of vulnerable groups in economic and political processes; (iii) conducting appropriate information campaigns; (iv) development of the activity plan to stimulate entrepreneurship among vulnerable groups and representatives of ethnic minorities.

The second objective will be accomplished through the following measures: (i) development of a methodology for accounting contribution of vulnerable groups to the economy with the emphasis on the contribution by women and ethnic minorities to the development of the regions and country; (ii) development of the methodology for calculating economic losses as a result of conflicts.

VIII.DIRECTIONS AND PRIORITIES IN TRANSITION OF THE KYRGYZREPUBLIC TO SUSTAINABLE DEVELOPMENT

8.1 Political basis for sustainable development

8.1.1 Capacity building of the state and local government institutions

Goal: establish an effective and open state governance system in the country that would meet interests and needs of the population and would be capable to withstand challenges and address sustainable development related tasks.

Analysis of the current situation. The current system of executive power of the government is increasingly criticized both by the society, and by the President and Parliament of the Kyrgyz Republic. It is poorly focused on the needs and interests of the population and can not respond adequately to challenges and threats, as well as perform tasks as needed. At the same time, the population perceives it as a place and source of corruption. It is the governance system, where the currently observed failure of the majority reforms is rooted.

None of the adopted steps to reform the state administration system was completed. As a result, today the state administration system is “sick” with disadvantages of various models, in the direction of which the reforms were implemented. At the same time, it can not realize advantages of any of these models. The state administration system is not focused on the result, primarily, the result expected by the society. The programs and plans of the government agencies do not outline specific goals to be achieved. **The system operates for itself, irrespective of the developed programs.** According to expert estimates, **up to 70% of the time is spent for performing current instructions, and not for planned development-oriented work.**

Among diseases of the state administration system is a functional mess. The 2012 inventory identified a total of 1,266 functions in the government agencies as a whole. At the same time, there is no unified approach to the formulation or content of assigned functions, and, more importantly, to their execution. Therefore, they still perform many of the excessive functions, which lead to excessive influence and interference in the business environment and total commercialization of services provision. At the same time, many of the necessary governance functions are not performed partially or in full. Other functions are incomplete, and therefore inefficient. The 2012 practice revealed significant problems with performance of the policy formulation functions, and in particular, the problems of **supervision and control.** Modern governance technologies providing for transition from administration to the development and implementation of certain measures of state policy are poorly mastered.

The major problem (44%) in the work of state bodies is careless execution of the assigned tasks and functions, inability to perform new activities. This situation directly reflects the problem with staff capacity. The situation is aggravated by the change of management generations. In addition, the mechanisms for transfer of professional experience, institutional memory and links between generations were lost. The system of civil service is unable to provide staff as needed. However, the higher professional education does not ensure the necessary level of candidates for civil service. In 2012, only 3,493 out of 7,104 candidates (49%) managed to reach the threshold.

In general, the structure of state administration is “feudal” in nature. Each state institution behaves like a feudal lord in its territory. As a rule, they pursue narrow interests of their department and derogate the interests of both the state and certain people. The situation is aggravated by the fact that activities of various executive bodies are regulated by the different level NLAs.

Weakness of the current system of state administration is the lack of an institutional mechanism for cross-sectoral / inter-agency interaction, as a result public services in the inter-agency segment are hardly paid any attention, albeit such services are aimed at certain categories of citizens of the country, who really need them (Annex ...).

This leads to poor confidence of the population to executive bodies. In the 4th quarter 2012, the index of public confidence throughout the country on average remained negative at -5.8 points. **Activities of the state bodies lack the approach focusing on human being and the quality of public services does not contribute to public confidence.** The mechanism for real inclusion of the civil society views in preparation and adoption of the government decisions does not work.

All the above problems are also typical of local self-governments, although there is something specific as well. There is still the gap between state and municipal services. The existing mechanism of support to local budgets leads to “dependency” and the system of interbudgetary transfers results in “equating” thereby reducing responsibility of the local self-governments. However, the worst thing is that LSGs have to choose in favor of performing state functions and oral instructions of the local state administrations, rather than tasks that are important for local communities. The gap between the local community and LSGs is increasing. Therefore, people come to Bishkek in order to solve their private problems, as they do not trust their LSGs.

The Government of the Kyrgyz Republic made targeted steps in the last 2-3 years to remedy the situation and ensure a compact and efficient form of the state administration system. Substantial groundwork has already been done in order to optimize provision of public services and the licensing system, as well as for functional and structural streamlining of the system. However, this is still not enough. The current situation requires the creation and implementation of such governance model that would serve its citizens, would be based on social needs of the population and provide effective mechanisms of public control over the authorities. For this purpose, the Government intends to make significant adjustments to the process of reforming the current state administration system.

First, there will be a transition from the “management over lieges” to “provision of services to citizens”. This is the key role of ministries and agencies in the world today. Public services provision standards will be developed and approved as agreed with the public, the compliance with the above standards shall be monitored by the state. **Second**, functions of state administration will be redistributed following the principle: all problems should be resolved at those governance levels and by those organizations, which will do it in the most efficient, cost-effective manner and with greater effectiveness for the state and society. Economic issues shall be transferred from central government to local self-governments, businesses and civil society organizations. **Thirdly**, the Government intends to make activities of all state administration institutes focus on the **result and increase responsibility for achieving the result**. The results will be deemed as outcomes of the executive bodies’ activity, as “assessed by citizens” and not only by the state bodies themselves. **Fourth**, the government will shift from pre-emptive administration to the development and implementation of state policy **involving all stakeholders in the society**. This participation will be legally formalized by relevant regulations.

The above four components of the state administration reform will be the political basis designed to set the tone and change the content of state administration.

As a result, the state administration system will be reformed in the following four **priority directions**: **(i) enhancing capacity of the state executive bodies of KR; (ii) increasing vertical and horizontal components of the executive power of KR; (iii) improving human resource capacity of state and municipal service of KR; and (iv) developing rigorous local self-governments.**

Priority direction – **enhancing capacity of the state executive bodies of KR** – will focus on accomplishment of the following objectives: *(i) enhancing capacity of ministries and state committees for the development of state policy and normative-legal regulation; enhancing capacity of state agencies in implementing state policy, provision of public service and state property management; enhancing capacity of state services in control and supervision of the enforcement of the legislation and quality of public services; (ii) implementation of the results-based governance principle using a program budgeting tool; (iii) improving the legislation on*

executive power of KR and formalization of relevant norms in accordance with this policy document on sustainable development of KR.

The *first objective* will be accomplished through implementation of the following policy measures: (i) developing and adopting a unified register of government functions; (ii) developing standards and administrative regulations for all government functions; (iii) developing and implementing typification of state governance bodies based on a prescribed set of standard features and subordination within the executive branch; (iv) implementing a phased diagnostic of operational processes of all state agencies; (v) based on the results, bringing the structure and procedures in compliance with the recommendations; (vi) developing a methodology and guidance on the procedures of the Regulatory Impact Analysis for all types of public relations that need to be regulated by the state; (vii) implementing an internal system for evaluating performance of organizational units based on methodology for evaluating performance of state and municipal governance bodies.

The *second objective* will be accomplished through the following policy measures: (i) formation of an umbrella model of the executive power structure, where ministry, as policymaking bodies will play the leading role; (ii) within strategic document of the country, identifying and imputing binding targets for all executive agencies; *personal responsibility of all managers for achieving the established targets*; (iii) signing a resource agreement by the Ministry of Finance with all the ministries; (iv) developing and implementing a system that would promote the reduction of public spending.

The *third objective* involves implementation of policy measures, such as: (i) analysis of NLAs governing activities of the executive branch; (ii) drafting the Law on executive branch of KR; (iii) adopting the Law on State and Municipal Services; (iv) developing legal mechanisms for transition to electronic services; (v) adopting NLA “On optimization of functions, organizational structure and objectives of state governance bodies”; (vi) developing and approving methodology and guidance on internal evaluation of organizational units’ performance based on methodology for evaluating performance of state and municipal governance bodies; incorporating the internal evaluation procedures in the internal regulations of the state bodies.

The second priority direction – **increasing vertical and horizontal manageability, integrity and coherence of the executive power system of KR** – will focus on accomplishment of the following objectives: (i) *organization of standardized interaction of ministries, state committees, government agencies and services among themselves, with the Government Office of KR, and the Government of KR and other state bodies of KR*; (ii) *development and implementation of a unified system for policy document preparation that would provide for the following sequence of activity: strategic planning, budgeting, NLA preparation, development of documents on regions and local self-governments development, formation of training plans for state and municipal services staff*; (iii) *formation of united and open-ended system for evaluating performance of the state and municipal governance bodies*; (iv) *establishing mechanisms for effective interaction with the civil society*; and (v) *formation of an information system to support activity of state bodies*.

The *first objective* will be accomplished through implementation of the following policy measures: (i) adoption of the Regulation of Government of KR by the Resolution of the Government of KR, which would provide for introduction of the new policy development procedures through setting up **governmental committees on development priorities**. Setting up **governmental committees on development priorities** headed by Deputy Prime Ministers;

The *second objective* will be accomplished through the following policy measures: (i)

development and implementation of a model for phased development of the policy documents; (ii) development and adoption of the Resolution of the GKR “On a unified system of policy documents preparation”.

The *third objective* will be accomplished through the following policy measures: (i) adopting a Resolution of the Government on approval of indicators for evaluating performance of state bodies and heads of local self-governments in 2013; (ii) quarterly performance evaluation of authorities and publishing the evaluation results; (iii) incorporating the performance evaluation procedures in the Regulations of the Government and state bodies.

The *fourth objective* will be accomplished through implementation of the following policy measures: (i) introducing a system of public monitoring of the quality of state administration; (ii) legislative requirement on mandatory participation of the civil society in implementing all specific types of NLAs expertise; (iii) **setting up expert councils** under the state bodies involving academicians, experts and CS specialists; (iv) specifying the procedures for interaction with OHC under the state bodies; (v) developing a list of municipal services; (vi) developing and implementing standards and technical regulations of state and municipal services; (vii) monitoring of compliance with the list of state and municipal services; (viii) implementing a phased transition to electronic services.

The *fifth objective* – information support to activity of state bodies – will be accomplished through implementation of the following policy measures: (i) creating a mechanism for database exchange between state bodies; (ii) developing standards of the model management documents; (iii) creating a system for parallel promotion of documents in the governance system both within state bodies and between them; (iv) developing the restrictions on the content of the information that may be requested, designed and transferred.

The third priority direction - **improving human resource capacity of the state and municipal service of KR** – will focus on accomplishment of the following objectives: (i) *creating an effective system of professional training and retraining of the existing state and municipal servants*; (ii) *improving the system of staff selection and placement, and restoring the institute of young cadres reserve*; (iii) *formation of the system for accepting the office and staff orientation at the entry and promotion*; and (iv) *creating a new remuneration system for civil and municipal servants*.

The *first objective* will be accomplished through implementation of the following policy measures: (i) development and implementation of an effective system of training management; (ii) strengthening institutional capacity of the training system; (iii) modernization of approaches to training of civil servants; (iv) creating a sustainable mechanism for provision of adequate resources.

The *second objective* will be accomplished through implementation of the following specific policy measures: (i) stricter requirements to knowledge of the legislation for candidates to state and municipal positions; (ii) developing a SCSTestingCenter; (iii) implementing a system of horizontal and vertical rotation; (iv) restoring the institutes of the young cadres reserve.

It is proposed to accomplish *the third objective* through the following: (i) strengthening the role of state secretaries in the civil service; (ii) development and implementation of a mechanism for orientation of newly selected civil servants and their professional promotion.

The *forth objective* will be accomplished through implementation of the following policy measures: (i) revising the remuneration system in the state and municipal bodies; (ii)

development and adoption of the “Strategy for reforming remuneration of state and municipal servants”.

The fourth priority direction - **developing rigorous local self-governments of the Kyrgyz Republic** – will focus on accomplishment of the following objectives: (i) *improving the organizational and legal basis of local self-government*; (ii) *separation of functions and powers of state bodies and local self-governments and delegating powers with appropriate resources for their execution*; (iii) *improving inter-budgetary relations, ensuring financial sustainability of local self-government and effective resources management at the local level*; (iv) *enhancing the role and responsibility of the local self-governments heads and improving their form of accountability to the local community and local keneshes*.

The above objectives will be accomplished through the following set of policy measures: (i) conducting analysis for separation of functions, powers and responsibilities of state and local self-governments; (ii) amending the Law on Local Self-Government and other normative legal acts; (iii) development of municipal services standards; (iv) development of standards of the material, financial and other resources required for execution of delegated powers; (v) developing amendments to the legislation aimed to equalize budget provision to regions; (vi) developing proposals to improve the legislation in order to ensure greater flexibility and autonomy of local self-governments in tax area.

8.1.2 National security and defense capacity of the country

Goal: achieve an appropriate level of national security and defense capacity in line with the needs of the country, as a precondition for sustainable development of the state and society.

Analysis and assessment of the current development trends. Kyrgyzstan's national security is exposed to external threats, including: (i) *religious and political projects “Hizb ut Tahrir al Islami”, “Salafia-djihadia”, religious financial pyramid schemes, pseudo-Christian sects*; (ii) *water and energy related disputes between Kyrgyzstan and Uzbekistan*; (iii) *border and territorial conflicts because of incomplete delimitation and demarcation of the KR’s border with Uzbekistan, Tajikistan and cross-border conflicts for gaining access to water, land and transport resources*; (iv) *“cooling” the relations between Kyrgyzstan and Uzbekistan and Tajikistan due to interethnic conflicts in the territory of KR (Osh, Andarak, Sokh) in 2010-2013*; and (v) *militarization of the Central Asian region and Kyrgyzstan due to presence of foreign US and RF military forces, militarization of the Ferghana Valley (Kyrgyzstan, Tajikistan, Uzbekistan)*.

Measures to establish the southwestern regional command have been undertaken in order to enhance the state border. Military units were additionally deployed in Batken and Jalal-Abad oblasts. However, in general, the country's defense system today can not fully and adequately respond to external threats due to poor equipping with modern arms and poor training of personnel of the country’s Armed Forces.

Today, the country's defense capacity largely depends on its relationship with the regional organizations, such as the CSTO and SCO. However, as a participant and partner of various international (OSCE, NATO) and regional organizations (SCO, CSTO), the Kyrgyz Republic has not yet developed comprehensive measures on the use of capacity of these organizations to protect its national interests.

The emerging problems in the area of public safety relate to activities of the law enforcement system, these are: (i) low public confidence in the Ministry of Internal Affairs (MIA); (ii) cases of corruption; (iii) pursuit of crime detection, violation of human rights and freedoms; (iv)

inadequate professionalism and politicization of the system; (v) high crime rate; (vi) rooted negative forms and methods of management; (vii) lack of transparency in the activity of the internal affairs bodies (IAB).

Poor managerial skills of IAB heads, their stereotyped thinking, illiteracy and frequent changes in the MIA management, as well as reluctance to implement managerial innovations in law enforcement, today have completely undermined the credibility of MIA both among civil society and IAB staff. A generally negative image of the police officer has been formed among the population. There are facts of red tape when considering citizens' appeals and unjustified refusal to initiate criminal proceedings, poor quality of investigating criminal cases, discharge of persons in courts and arbitrary detention and placement of citizens in the TDI.

Given the objectives and identified problems, **the first priority direction** is to **ensure protection of national interests, territorial integrity and countering external threats to the Kyrgyz Republic**, for the purpose of which it is planned to accomplish the following objectives:

First, ensure territorial integrity of the country and strengthen protection of the country borders, through the following measures: (i) optimization of the country ad hoc commission on demarcation and delimitation of the KR's borders with RU and RT; (ii) engaging local population in border areas of KR (*Batken, Osh, and Jalal-Abad Oblasts*) in joint protection of state borders (creation of voluntary national brigades "Sakchy", and etc.); and (iii) completing the construction of a bypass road in the Batken Oblast.

Second, strengthen protection of water, energy and strategic facilities of the country through the following planned measures: (i) make proposal to the Government of KR on equipping security services with modern technical means for protection of strategic water and energy facilities; (ii) revise the normative legal acts and regulations on strategic facilities and specially protected areas in KR and make changes and additions.

Third, organize a unified system of management of the country armed forces through the following measures: (i) make a proposal to the President of KR on organization of the centralized command center under the Defense Council of KR; (ii) recommend to the Defense Council apparatus strengthening analytical work in the course of preparation of decisions adopted by the first persons of the state.

Fourth, counteract to external religious and political projects, this objective will be accomplished through the following specific measures: (i) develop methodology of ideological counteraction to extremism, terrorism and separatism; (ii) establish a dialogue of the law enforcement and other special services of the country with the religious organizations and civil society on counteraction to external religious and political projects.

The second priority direction is to **ensure public safety** through accomplishment of the following objectives:

First, develop and implement the concept of reforming IAB of KR, which will be accomplished through the following measures: (i) submit proposals to the Government of KR on setting up a Coordinating Council on the reform of internal affairs bodies under the Government of KR; (ii) develop a mechanism for implementing components of the IAB reform; (iii) develop methodology of implementing components of the IAB reform.

Second, enhance interaction between IAB and the society through the following measures: (i) introduce changes and additions to the current legislation of the Kyrgyz Republic in order to

introduce prompt pre-trial proceedings; (ii) prepare and approve the Instruction “On organization of prompt pre-trial proceedings”; (iii) develop the “Regulation on social preventive centers in the Kyrgyz Republic (SPC)” and submit it for approval to the Government of the KR; (iv) develop an action plan for the introduction of the “Safe City” system; (v) implement a mechanism for improving quality of law enforcement services to the population based on the international best practices (mobile militia reception officers, neighborhood watch, district police, and etc.).

Third, strengthening legislative, organizational, managerial and resource bases of the anticorruption component of the IAB reform through the following measures: (i) develop and introduce new criteria for evaluating performance of IAB and each staff individually; (ii) develop an action plan for the introduction of the “Electronic-CRL” system⁷; (iii) make changes and additions to the “Regulations on service of junior and senior staff of IAB of KR”; (iv) develop and implement state, financial and material incentives in the IAB system for the district militia officers working in the regions of the country; (v) develop and adopt a phased plan for modernization of the material and technical base of the IAB of KR; (vi) develop formats and procedures for continuous interaction with the civil society.

Fourth, update the system of professional training of IAB staff. This objective will be accomplished through the following measures: (i) develop and implement professional training and retraining programs for IAB staff; (ii) launch the process of re-training professor and teaching staff of the IAB educational institutions; (iii) conduct professional training and retraining of IAB staff of the republic; (iv) implement a retraining program for newly selected IAB staff; (v) implement an incentive and professional promotion system for trained staff based on the results of retraining.

The third priority direction is to **enhance defense capacity of the country** through accomplishment of the following objectives:

First, improve the normative legal framework for the preparation to the military service reform. This objective will be accomplished through the following measures: (i) jointly with the Secretariat of the Defense Council develop and approve the draft military doctrine of the Kyrgyz Republic; (ii) annually adjust the plan of rulemaking activity of the defense system of the Kyrgyz Republic;

Second, set up a Unified Center for Armed Forces Management through implementation of measures such as: (i) by a Presidential Decree, set up the General Headquarter of the Armed Forces and the Logistics Department of the Armed Forces of the Kyrgyz Republic; (ii) develop the Law on General Headquarter of the Armed Forces of KR and submit it to the Parliament of KR.

Third, improve professionalization of the army of KR. This objective will be accomplished through the following measures: (i) develop and adopt the Plan of the armed forces staffing with military servants based on contracts; (ii) implement phased transition to staffing the forces with military servants based on contracts.

Fourth, enhancing territorial defense forces. This objective will be accomplished through the following measures: (i) approve the NLA “On creation of new reserve units”; (ii) approve the

⁷The “Electronic-CRL” system is an electronic log for recording crimes. The “Electronic-CRL” will ensure registration of all calls, claims and complaints of citizens, as well as autonomous tracking of the adopted decisions by citizens using telecommunication means, thus ensuring transparency of this process. The applicant will be able to receive information via the Internet, telephone call or SMS.

NLA “Instructions on territorial defense”; (iii) submit to the Government of KR the proposal on allocation of funds in the budget of KR for reserve units and operational equipment on the territory of KR; (iv) jointly with the state administrations and local self-governments participate in equipping the territory in the interests of the armed forces and territorial defense of the Kyrgyz Republic; (v) participate in the planning and organization of territorial defense.

Fifth, planning activities to reequip armed forces with arms and military equipment. This objective will be accomplished through the following measures: (i) develop and approve a mechanism for targeted allocation of funds for the development of the armed forces of KR; (ii) develop and approve the State program of the armed forces development of the Kyrgyz Republic.

8.1.3. Enhancing the rule of law of the Kyrgyz Republic for sustainable development

Goal: provide constitutional guarantees to the society through ensuring the rule of law.

Analysis of the current situation. A key precondition for the legislation development is to master the system of specific requirements to the process of normative legal acts development. Certain steps in this direction have already been made. The government took measures that brought the rule-making process to a new qualitative level, including: adoption of the new version of the Law on Normative Legal Acts of the Kyrgyz Republic, Instructions on the procedure of legal, human rights related, environmental, gender and anticorruption expertise of the draft regulations of the Kyrgyz Republic and prospective planning of law-making activities.

At the same time, the current legislation has still certain obsolete norms that require updating and comprehensive revision. In this regard, further efforts of the state to improve the legal framework should be based on the development of constitutional norms and actual needs of the society and in line with the “rule of law” principle. Therefore, the Government intends to improve quality of the adopted legal acts, identify collisions and contradicting norms using the mechanism of the legislation inventory and specialized expertise, and etc. This work shall result in the development of high-quality normative legal acts.

A large number of normative legal acts are adopted without proper analysis of the financial and economic component, this preconditions their failure. In addition, the rule-making bodies often develop in parallel normative legal acts that duplicate the content and sometimes conflicting with each other. This adversely affects law enforcement and increase the number of collisions in the norms. As a result, frequency of amendments to previously adopted normative legal acts increase, which in itself is an indication of poor quality of the law-making process.

Another problem in the development of high-quality and “necessary” legislation is the lack of a “platform for a dialogue”, where they could design the “architecture” of a future normative legal act and analyze its future outcomes, prospects and possible risks.

The identified problems reflect the need to revise the rule-making policy of the state, enhance capacity of the government agencies involved in rule-making activity, increase responsibility for poor quality rule-making activity, and enhance capacity of the body responsible for coordination of the legislative activities of the state bodies.

Therefore, **the priority direction is balanced development of the legal system taking into account the elements of sustainable development of the Kyrgyz Republic until 2017** with the following objectives: (i) modernization of the law-making process; (ii) development of high quality legislation based on the aggregate human and economic development related issues; (iii) education and raising awareness of citizens on legal issues.

The government intends to address the first objective by implementing the following measures: (i) identify gaps and collisions, as well as corruptive provisions in the current legislation by conducting a legal, human rights related, gender and anticorruption expertise; (ii) based on inventory results, draft normative legal acts aimed to eliminate collisions, gaps and corruptive provisions in the legislation array; (iii) develop and approve the procedure for accreditation of individuals and legal entities that will implement specialized types of expertise of draft normative legal acts; and (iv) amend the legislation aimed to prevent the adoption of the normative legal acts, the implementation of which is not ensured by financial resources.

Accomplishment of the second objective is planned through the following: (i) develop a mechanism for coordination of activities of state bodies involved in the rule-making process, to ensure synchronized and coordinated planning and forecasting of the legislation development; (ii) establish the expert-advisory board under the Ministry of Justice, which will act as an analytical center on legislative activities in implementing the program of sustainable development of the Kyrgyz Republic until 2017 and will form a platform for a dialogue between the state bodies.

The Government intends to accomplish the third objective - education and raising awareness of citizens on legal issues – through the following measures: (i) develop the concept of legal advocacy; (ii) create and run a modernized central database of legal information and (iii) develop a set of the normative legal acts aimed at regulating practical measures to implement legal advocacy by state bodies.

8.1.4 Anti-corruption policy

Goal: reduce the corruption to a level, which will not hinder sustainable development of the state and society (*up to 15 positions each year* according to *Transparency International*).

Analysis and assessment of the current development trends. Corruption in the Kyrgyz Republic has become a serious threat to the national security of the country. Corruption undermines public confidence in the government and destroys the entire system of state administration, thus leading to decreasing authority of the state power and prestige of the civil service.

According to expert estimates, the annual damage caused by the corruption in Kyrgyzstan is up to 30 billion som / US\$ 70 million. The revenue of the budget in 2012 amounted to US\$ 1.83 billion. As this phenomenon is multi-factorial in nature and is linked with other criminal activities, strong political will is required for combating it. This political will was recently declared at the highest level. However, there is **a number of problems** that reduce effectiveness of the current anti-corruption policy.

The state administration system lacks a specialized institution that would coordinate and develop a coherent policy on prevention of corruption. This substantially reduces efficiency of efforts in this direction. Functions of the anti-corruption service under the State Committee of National Security focus only on further enhancing of law enforcement capacity to counteract the corruption, while tasks and functions on prevention of corruption continuously remain with no attention.

The lack of a real and effective mechanism for interaction between bodies implementing coordination functions (currently, it is the Ministry of Economy) and law enforcement agencies combating consequences of corruption complicates the process of building a unified system for

the implementation of anticorruption policy. Therefore, it is extremely important to establish an effective institutional mechanism of preventive measures against corruption.

Currently, there is some basic legislative framework for combating corruption in the Kyrgyz Republic. However, the anti-corruption legislation shall further be improved in order to strengthen the institute of anti-corruption expertise, develop mechanisms of public control, and improve the system of state and municipal governance. In addition, the international experience shows that tangible results in this direction can only be achieved with the support of the public.

The legislation of the Kyrgyz Republic does not provide for special methods of detection and investigation of the corruption-related crimes. There is virtually neither institutional framework for investigating corruption, nor optimal system of anticorruption laws and regulations. The Criminal Procedure Code establishes a unified framework for investigation of all types of crime, including corruption. The anticorruption legislation has a mechanism for combating corruption, but it is not effective enough. The lack of specificity in the legal infrastructure of the state creates conditions for arbitrary and often incorrect interpretation of articles of laws and normative acts by the corrupt government officials.

With unprecedentedly numerous number of the normative legal acts, uncertainty of legal prescriptions and duplication of legal norms and their inconsistency, the subjects of enforcement often lack proper understanding of how to apply certain norm and how it actually works, this significantly increases conditions for corruption. Therefore, it seems necessary to shift to the stage of interpretation and adjustment of the anticorruption legislation.

An important problem is ensuring access to official information and government documents. In Kyrgyzstan, there are some relatively developed legal provisions on access to information, however they are undermined by poor enforcement and awareness of the right to information. Based on the analysis of the existing regulatory framework and the emerging enforcement practice it can be concluded that information transparency is not only an important component of the counter-corruptive measures, but is a fundamental (basic) principles for functioning of the anti-corruption system, including activities of state authorities.

A particular concern is the lack of professional staff performing anticorruption activities. The law enforcement agencies are guided by well-established methods of combating corruption, while not introducing new approaches to identify and eliminate corruption. An independent anticorruption expertise is neither developed, nor does staff of the government agencies responsible for the implementation of anticorruption programs know methodology of developing the internal anticorruption programs or methods of their implementation. The problems with human resource and technical and operational preparedness of the law enforcement agencies engaged in combating corruption remain unresolved as well.

According to Transparency International, the Kyrgyz Republic ranked 154 among 174 countries in 2012 and is in the group of countries with high level of corruption.

The **priority directions** of the anticorruption policy of the state for 2013-2017 are as follows: (i) **enhancing institutional framework for anticorruption policy**, within which it is planned to accomplish the following **objectives**: (i) *set up an independent body on corruption prevention, develop and coordinate the implementation of the state anticorruption policy*; (ii) *develop an anticorruption legislative framework*; (iii) *improve effectiveness of state bodies in reducing the risk of corruption and ensure transparency of information on activity of the state bodies*.

The Government intends to accomplish the first objective through the following measures: (i) develop and adopt regulations governing the activities of this body; (ii) provide funds for its activities; (iii) develop and implement a systemic educational mechanism for training and retraining of staff; (v) set up the units in state bodies that would supervise anticorruption activities and include staff of such units in the education system; (vi) develop unified requirements to the development and implementation of anticorruption programs; (vii) develop and implement a system for monitoring and evaluation of the effectiveness of anticorruption measures.

The *second objective* will be accomplished through the following measures: (i) inventory and analysis of NLAs of the Kyrgyz Republic in the field of combating corruption and identify missing norms and variations in the national legislation; (ii) develop a new NLA and make changes and additions to the existing NLAs of KR focusing on the implementation of international legal norms in the field of combating corruption; (iii) develop and implement the procedure for anticorruption expertise of the current and draft NLAs; (iv) develop and implement the system of verification and validation of anticorruption measures implemented by the state bodies; (v) analyze and enhance norms of criminal liability for corruption and bribery; (vi) formalize in the legislation the mechanisms to ensure transparency and accountability of the state bodies; (viii) develop measures for accession to the generally accepted international conventions in the field of combating corruption, as well as joint the Group of States against Corruption (GRECO).

The Government is planning to accomplish the *third objective* through the following measures: (i) developing measures to reduce operational costs associated with the registration and doing business; (ii) analysis of the powers of state bodies exercising control, permit and supervisory functions, as well as the current NLAs governing their activity in order to identify the conditions for corruption; (iii) creating a register of permits, which would include a list of all the licensing procedures; (iv) development and implementation of mechanisms to maximally prevent contacts of physical and legal persons with the representative of state bodies in providing public services by switching them to an electronic format, as well as issuing licenses in an electronic form; (vii) legal formalization of responsibility of the heads of state bodies for ensuring informational transparency of the state bodies' activity; (viii) development of measures for the implementation of a unified information system and documents flow allowing to implement accounting and control of the execution of documents in order to eliminate the corruption-related risks in considering appeals from citizens and organizations; and (ix) development and implementation of formats and procedures for propaganda and airing in the media the anticorruption activities of the Government involving stakeholders from the civil sector.

(ii) The second priority direction for achieving this goal is **combating corruption through elimination of the corruption risks**, which will be promoted through accomplishment of the following objectives: (i) *development and implementation of a unified management model for identification, monitoring and elimination of the corruption risks in the system of state and municipal governance*; (ii) *development and incorporation of the anticorruption mechanism in the human resource management policy; organization of the anticorruption-related education of civil servants*; (iii) *simplification of administrative procedures and de-bureaucratization of procedures of public services provision*; (iv) *development and implementation of a supervisory mechanism to prevent political corruption*.

The Government is intending to accomplish the *first objective* through the following: (i) study and analyze the existing norms and practices of corrupt schemes and risks, (ii) develop methodology to identify areas of potentially high risk of corruption and the scale for its measurement in the system of state and municipal governance; (iii) develop mechanisms to

prevent the occurrence of corruption risks and methods for elimination of the corruption schemes; (iv) develop and formalize the governance model in order to identify and assess the corruption risks with the recommendations for their reduction/elimination; (v) prepare and approve NLAs on institutional capacity building for anticorruption expertise.

It is planned to accomplish the *second objective* through the following measures: (i) introduction of a mechanism for selecting and promoting staff on the basis of “merit system”; (ii) establishing procedures for the implementation of best practice in managing activity of civil servants; (iii) on an ongoing basis conduct training courses on anticorruption policy for civil servants; (iv) developing framework for a new policy of staff selection, rotation, training and retraining; (iv) stigmatization of civil servants, who committed corruption (misconduct) and deprive them of the right to work in the state and municipal bodies for at least 10 years; (v) development of measures to promote the negative image of a corrupted official and popularization of incompatibility of corruption with the civil service.

The *third objective* will be accomplished through implementation of the following measures: (i) development of procedures for online services and further implementation of the one-stop shop principle; (ii) introduction of mechanisms that restrict personal contacts of officials and clients, as well as reduction of the established reporting forms and sanctions; (iii) development of measures to improve quality and reduce terms of services delivery to individuals and organizations through introduction of the electronic public services and ensuring access to the public electronic databases; (iv) disclosure of the identified corruption risks and violations in spending through the mass media.

The government intends to accomplish the *fourth objective* through the following: (i) conduct analysis of the institutional causes for conflict of interest and develop a mechanism for resolving conflicts of interest for persons holding political positions; (ii) analyze and develop a mechanism to ensure transparency in financing political parties; **(iii) develop mechanisms to ensure control of financing political parties and election campaigns; (iv) develop monitoring mechanisms and implement independent audit of the parties’ accounts;** (v) set forth the regulations providing for penalties for the violation of the rules on financing political parties and election campaigns; (vi) develop mechanisms to prevent corruption by politically significant persons; (vii) implement electronic document flow to ensure transparency of decision-making by state bodies; (viii) develop and implement a NLA to restrict immunities of senior government officials so that to ensure the investigation and prosecution of the perpetrators for corruption.

As part of the **third priority** direction focused on **interaction of state bodies with the civil society**, it is planned to accomplish the following objectives: *(i) ensure public involvement in the development and monitoring of the implementation of anticorruption measures and anticorruption propaganda by the government, (ii) introduce a mechanism of civil control over the activities of the state bodies.*

The *government intends* to accomplish the first objective through the following measures: (i) conducting public consultations and hearings, publication of draft laws providing opportunity to submit comments on-line; (ii) involvement of the expert community and the public in identification of corrupt practices and ensuring transparency and openness of the state bodies’ activity; (iii) airing anticorruption activities of state bodies and public institutions through the mass media; (iv) development and implementation of mechanisms of public influence on the activities of state bodies; (v) development and implementation of mechanisms for promotion of anticorruption measures; (vi) development and launch of the database on the appeals of citizens and legal entities with regard to corruption.

The *second objective* will be accomplished through the following measures: (i) legislative formalization of the mechanism for functioning of the anticorruption platform on a regular basis with broad involvement of the civil society institute; (ii) development and adoption of the Concept on reducing exposure to corruption as part of the public-private partnership; (iii) disclosure of the identified corruption risks and violations in spending; (iv) development and implementation of procedures and formats of state bodies' accountability to the civil society; (v) development and implementation of procedures and formats of alternative reporting on the implementation of anticorruption policy to the civil society institutes; and (vi) development and introduction of a unified methodology for organization of hotlines in state bodies and their regional offices.

8.1.5. Legalization of the shadow economy

Goal: create conditions for legalization of the shadow economy and its reduction to 25% of GDP by 2017.

Analysis of the current situation. The shadow economy is a chronic problem for Kyrgyzstan, which poses a real threat to the country's security and is a serious barrier to the development of small and medium-sized businesses and creates unfair conditions for competition. This negative phenomenon reduces the taxable base, thus contributing to destabilization of the country's budget. The key government agencies fail to take appropriate measures. The role of the judicial system in reducing the shadow economy is currently minimal. Where laws are not working and where businesses do not rely on the force of law, it is more profitable for businesses to work in the informal sector with its established traditions and mechanisms.

According to recent extensive researches in 2006, the shadow economy in the Kyrgyz Republic was 53%. According to new researches in 2012, the level of the shadow economy was 39%. It was found that the main reasons that force businesses to go into the "shadow" are as follows: (i) corruption; (ii) the lack of political stability; (iii) a high proportion of cash turnover; (iv) imperfection of the legal and institutional framework for countering shadow economy; (v) administrative barriers in doing business in a legal way; and (vi) complicated procedures of tax reporting and registration for business entities.

The segment of entrepreneurs, who do not pay taxes, conceal their income, do not submit the reports, do not buy any licenses and understate their taxes has been researched. The results of this research can be considered optimistic and to clarify the size of shadow economy in the 2013-2017, the relevant extensive and in-depth researches with breakdown by all sectors of the economy should be conducted.

Globally, the share of the "shadow economy" is 10.5% of GDP; the maximum threshold is 40-50%. The global shadow economy (including the criminal sector) is estimated at US\$ 9 trillion, which exceeds 40% of the total GDP of all OECD countries. In the Kyrgyz Republic, it is more than 100 billion som.

In general, attempts to legalize the shadow economy in the country are made unsystematically, the institutional framework has not been formed yet and today there is no single state policy related to levers that would make entities come out of the "shadows".

Keeping this in mind, the Government of the Kyrgyz Republic as part of this program intends to take immediate actions in order to eliminate the conditions and causes for emergence of the shadow component of the economy, as well as for its legalization.

The priority directions aimed to achieve this goal are: (i) creation of conditions in order to

make business entities come out of the shadow sector; (ii) increasing attractiveness of the regulatory policy of the state for businesses.

The first **priority direction – creating the conditions in order to make business entities come out of the shadow** – is focused on the following objectives: (i) amending the legislation in the area of fiscal administration; (ii) creating a simplified reporting system for small and medium-sized businesses, primarily, in the tax authorities; (iii) implementing the “one-stop shop” principle in the field of foreign trade.

In order to accomplish the *first objective*, the Government intends to: (i) review the existing NLAs and identify factors that encourage economic actors to go “in the shadows”; (ii) on the basis of the review, make proposals on amendments and additions to the NLAs in the area of fiscal administration, as well as on abolishment of some NLAs.

The second objective will be accomplished through the following measures: (i) development and implementation of a simplified taxation system for small and medium-sized businesses; (ii) identifying groups with different eligibility criteria in terms of the right to a simplified system and therefore – to different rates of a single tax, as well as adopting relevant decisions; (iii) introduction of the system of automated tax reporting; (iv) introduction of the system for automated tax inspection of small and medium-sized businesses.

The *third objective* will be accomplished through measures such as: (i) development and adoption of the NLA on introduction of electronic declaration; (ii) setting forth the maximum time (*in 2013 - up to 60 hours*) for customs procedures with the introduction of electronic declaration and its annual decrease to the optimum level.

The second priority – **increasing attractiveness of the regulatory policy of the state for businesses** – will be addressed through accomplishment of the following objectives: (i) simplification of the registration procedures for business entities; (ii) improving the state licensing system for entrepreneurial activities; (iii) eliminating the corruption schemes and “patronizing” business by high-level officials; (iv) introducing the institutes of joint regulation and self-regulation; (v) increasing confidence of the businesses in the activities of public authorities.

The government intends to accomplish the *first objective* through implementation of the following measures: (i) develop and adopt NLAs providing for implementation of the “declarative principle” in (re)registration of business entities; (ii) set forth specific time frames for closures of business entities; (iii) impose administrative responsibility on government authorities in the legislation for delaying the process of liquidation of a business entity; (iv) develop and adopt a set of NLAs to implement the “one stop shop” registration principle; (v) bring the administrative procedures in line with the “one stop shop” principle.

The *second objective* will be accomplished through the following measures: (i) development and adoption of the NLA that would abolish licenses for tobacco products importing; (ii) reducing the period for adopting decisions by the state authorities and provision of services; (iii) integration of the information databases of ministries and departments in order to create a special portal for transferring the relationships related to services provision into an electronic format; (iv) development and adoption of appropriate NLAs that would abolish the exclusive right of the SE Temir to collect, purchase and sell scrap of ferrous and non-ferrous metals.

The *third objective* will be accomplished through implementation of measures, such as: (i) amending the NLAs in order to increase responsibility of the officials for provision of informal

immunity to certain business entities; (ii) combining efforts of fiscal authorities and law enforcement bodies in order to identify government agencies that patronize businesses, as well as use shadow schemes; (iii) developing recommendations and adopting policy decisions based on the monitoring and evaluation of progress with implementation of the government's plan to combat corruption for 2012-2014.

The *fourth objective* will be accomplished through the following measures: (i) jointly with the business community analyze and evaluate reasonableness of the excessive and inefficient state regulation of sectors of the economy; (ii) based on the analysis, develop and adopt normative legal acts stipulating the principles of joint regulation of sectors of the economy (business + state), where there are unreasonable and inefficient government regulation; (iii) develop and implement standards in the normative legal acts providing for self-regulation of businesses in certain sectors of economy.

It is planned to accomplish the *fifth objective* through implementation of the following measures: (i) conducting information campaign on the results of the Government efforts to reduce shadow economy; (ii) creating permanent “open platforms” for the development of tools for legalization of the shadow economy; (iii) introducing a mandatory norm providing for involvement of representatives of businesses in adopting political decisions on the mechanisms of legalization of the shadow economy; (iv) creating in the government bodies the “hot lines” and web-pages on combating shadow economy with feedback.

8.2 Sustainable progress through introduction of the green economy elements

8.2.1 Low carbon energy industry

Goal: ensure energy related security with the introduction of green and low-carbon energy elements with minimum impact on the environment.

Analysis and assessment of the current development trends. The Kyrgyz Republic has sufficient reserves of fuel and energy resources. The hydropower potential of 252 large and medium rivers is estimated at 18.5 million kW of power and more than 140 billion kWh of electric energy. The electric energy is produced by 7 hydroelectric power plants, 2 thermal power plants of national importance and 11 small hydro power plants with different forms of ownership, the aggregate established capacity of which is 3,784 MW and the installed capacity is 3,315 MW. 93% of the electric energy is produced by the renewable sources using water resources.

Over the past five years, generation of the electric energy increased by 28% and in 2012 amounted to 15.3 billion kWh, export of the electric energy increased almost 3 fold and amounted to 1.6 billion kWh. The structure of the electric energy consumption has changed. The share of consumption by the population has increased by 8 percentage points to 65% due to the increase in prices of other fuels (gas and coal) and the growth of the country's population by 4%. The share of consumption by other consumers is as follows: industry - 12%, budget organizations - 10%, services sector - 12%, and agriculture - 1% (pump stations). Most of the electric energy produced is consumed in the north of the country (65%).

In the autumn-winter period there is an overload of networks due to increased consumption of the electric energy by the population 3 fold compared to summer period. The mechanism of rolling blackouts currently used by the Government is not the best way of regulating the distribution of the electric energy. At the same time, in recent years the government has been consistently reducing electric energy losses. The results were significant and the losses of electric energy in the period 2008 -2012 decreased from 31.6% to 21.2%.

Electric energy consumption per capita over the last five years has increased by 4% and amounted to 2.28 tons of fuel equivalent per 1 thousand people, which exceeds the European countries 6 fold. Although the rate of electric energy intensity of GDP at current market prices over the last five years reduced by 49% to \$ 43.3 million kWh per 1 million som, it exceeds the European countries 10 fold.

During a number of years, the electric energy sector of the Kyrgyz Republic is facing numerous problems. Over the past five years, the budget deficit of the energy sector has not decreased and is annually more than 2.0 billion som, which reduces opportunities for its sustainable operation and modernization of fixed assets.

The consequence of this problem is the current system of electric energy supply at fixed, socially oriented tariffs to the population (at 0.70 som per 1 kWh), where the total cost including electric energy generation, transmission and distribution amounts to 1.16 som per 1 kWh. The consumers have no incentive to save energy. **Consumers with different income levels, pay for the electric energy at a single-rate tariff regardless of consumption.** The unbalanced tariff policy reduces the economically reasonable level of income of the energy companies and does not allow to fully attract investment for energy sector development. Income from the sale of the electric energy is used to subsidize the production of thermal energy.

In order to enhance targeted service provision and optimize benefits, monthly cash compensation to 25 categories of citizens instead of allowances, including for electricity were introduced since 2010. Monetization of allowances ensures open and targeted spending on social allowances. Replacement of allowance with monetary compensations became additional material support to families. The total expenditures from the republican budget for monetary compensations instead of allowances are around US\$ 1.5 billion som annually.

A compensation of 50% for the use of electric energy for domestic needs were set forth within the following consumption norms for 164 thousand people living in severe, adverse climatic conditions in high mountainous, remote and inaccessible areas: in the summer from May 1 to October 1 – 100 kW/h of electric energy per month; in the winter period from October 1 to May 1 – 220 kW/h of electric energy per month. The annual amount of these payments from the republican budget is 117 million som.

In order to provide social support and maintain living standards of pensioners, 83% of them (532 thousand people) in addition to the basic pensions are paid monthly targeted compensation of 200 som for electricity from the republican budget, in total – 1.8 billion som.

Assets of the electric power industry have high depreciation on average of 50-70%, which leads to high risks for sustainability of the sector and the increasing number of accidents and failures of the equipment during seasonal peak overloads. The problem with sustainable electricity supply in winter period, where up to 40% of electricity supply pass through the combined energy system of Central Asia has not been resolved yet. Disruptions in the natural gas supply in the country have led to an increase in the number of emergency situations in the electric energy sector, social tensions in the society and the increasing number of health problems among the population.

One of the key operational problems is opaque management of the electric energy sector. Appropriate level of accounting of the electric energy flows and charges have not been achieved. Activities of the Department for Regulation of the fuel and energy complex (the Regulator) depend on political factors. The reforms on reorganization of the JSC “Kyrgyzenergo” did not

resolve problems with poor quality and interrupted power supply to consumers, modernization and reconstruction of the existing lines and substations of 35-0,4 kV, as well as better accounting of the electric energy in the distribution networks.

Electricity production greatly depends on hydropower industry; however, own fuel and energy resources and alternative renewable energy sources are not fully used and the amount of the electric energy generated using renewable energy sources is 1% only.

In the medium term by 2017, with the launch of new production, including in the mining industry, GDP growth up to 586.6 billion som and given the dynamics of the electricity intensity of GDP at the current market prices, there will be a deficit of the generating capacity of 1,500 million kWh of electricity. One of the most important factors is energy saving. The main sources of heat loss in the country are residential and public buildings, the heating of which consumes 60% of all fuel and energy resources. In this segment, energy consumption is higher than those of European countries more than five fold. In terms of the whole republic, the real capacity of energy saving through improving energy efficiency of residential and public buildings is 4-5 billion kWh of the electric energy.

Based on the goal and identified problems, the policy of the energy sector development will focus on the following four **priority directions: (i) improve the regulation of the energy sector development; (ii) create the conditions for promotion of energy saving; (iii) develop renewable energy sources; and (iv) sustainable development of the energy sector through low-carbon energy and compliance with the environmental safety norms.**

As part of the **first priority** direction it is planned to accomplish the following objectives: *(i) attaining independent status to the Regulator; (ii) improving financial and economic sustainability of enterprises operating in the energy sector; (iii) increasing effectiveness of corporate governance in the energy companies; and (iv) increasing the level of transparency and accountability in the energy sector.*

The first objective will be accomplished through the following activities: (i) development and adoption of the Law on Amendments and Additions to the Law on Electric Power Industry and set forth new rules of state regulation in the energy sector; (ii) concluding the agreements between the Regulator and licensee on pre-licensing and post-licensure commitments of the energy companies; (iii) creation of a unified settlement center.

To improve financial and economic sustainability of enterprises operating in the energy sector (*the second objective*) the Government intends to: (i) develop and implement a medium-term electricity and heat tariff policy for the period 2014-2017; (ii) develop and implement the Program on targeted social protection of domestic consumers in case of changes in tariffs for ultimate users of energy consumers in 2014-2017.

Under the *third objective* – improve the effectiveness of corporate governance in the energy companies – the Government is planning to: (i) conduct open and transparent selection of candidates for senior positions; (ii) review and assess the current model of the energy sector management; (iii) on the basis of these results develop and adopt a normative legal act on the next steps of reforming the management model in the energy sector.

To improve transparency and accountability in the energy sector (*the fourth objective*) the following specific measures were outlined: (i) develop and implement a new design of the state information resource (web-site) and integrate information about major decisions adopted by state bodies on the fuel and energy complex and major results of the economic and management

activities of energy companies; (ii) enter into cooperation agreements between the Ministry of Energy and Industry and the executive bodies of the energy companies.

As part of the second *priority direction - creating conditions for promotion of energy saving* – accomplishment of the following objectives is planned: (i) *ensure institutional development of the unified body to implement energy-saving policy*; (ii) *contribute to promoting energy efficiency*.

The Government intends to accomplish the *first objective* through the following: (i) conduct analysis of the existing system of interaction between state bodies in regulating energy saving related issues; (ii) develop a new system for coordination of energy saving activity implemented by the state bodies; (iii) develop a normative legal act on the establishment of a unified body, which will develop and implement the energy saving policy.

As part of the *second objective – promote energy saving* – it is planned to implement the following measures: (i) develop and introduce a tariff for the electricity and set forth social norms of consumption; (ii) make changes and additions to the Law on Energy Saving in order to introduce the regulation on mandatory energy-related inspection (energy related audit) of the enterprises and organizations, including residential and public buildings that consume a large amount of energy (5000 per year), while granting the energy related passport; (iii) analyze potential investment projects in order to assess energy saving capacity in various sectors of economy so that to obtain funding under the UN international program “Sustainable Energy for All” and the mechanisms for reducing greenhouse gas emissions; (iv) develop and implement a comprehensive energy saving program; (v) develop and launch a unified information portal on energy saving to inform consumers about benefits of the modern energy saving technologies.

The key objectives under the *third priority direction – development of renewable sources of energy* – are as follows: (i) increasing the share of renewable energy sources in the energy balance of the country and (ii) development of small hydropower industry.

The activities aimed to accomplish the *first objective* will focus on the following: (i) developing and implementing a tariff compensation mechanism in the production of electric energy using renewable energy sources (RES); (ii) development of the wind and solar atlas.

The Government intends to accomplish the *second objective* – development of small hydropower industry by 2017 – through the following: (i) drafting the concept of small hydropower development in the Kyrgyz Republic until 2017 and incorporating the construction of small hydropower plants in each oblast in the regional development plans; (ii) conducting investment tender for the construction of four small hydro power plants as part of the EBRD project.

As part of the **fourth priority** direction it is planned to accomplish the following objectives: (i) *ensure electricity supply as needed for the economy and achieve independence of the country in terms of electric energy supply*; (ii) *improve sustainability of the electric energy supply to the consumers and ensure the reliability of accounting of the produced and distributed electric energy*; (iii) *provide the fuel and energy complex of the country with qualified personnel*.

The *first objective* will be accomplished through measures aimed at implementation of the major national projects: (i) the construction of the 500 kV Datka and 220 kV transmission line in the south of Kyrgyzstan; (ii) construction of the 500 kV transmission line Datka-Kemin and the 500 kV Kemin substation; (iii) construction of the Kambarata HPP-1; (iv) construction of four small hydropower plants (HPP); (v) construction of the Upper-Naryn cascade hydropower plant (HPP 4); (vi) commissioning of the second start-up complex Kambarata HPP-2; (vii) further activity

under the project “CASA-1000”; (viii) seeking investment for the construction of thermal power plant in the coal mine Karakeche with the use of coal gasification technologies.

In order to improve sustainability of the electric energy supply and reliability of accounting (the second objective) the following projects in the electric energy sector will be implemented: (i) improving electric energy supply in Bishkek and Osh; (ii) rehabilitation of the energy sector (rehabilitation of the Toktogul HPP); (iii) improving efficiency of the electric energy distribution networks (including delivery of 110 thousand electronic prepayment meters); (iv) reconstruction of the At-Bashi HPP; (v) reconstruction of the Uch-Kurgan HPP; (vi) reconstruction of the Bishkek TPP-1, while increasing its capacity and boilers modernization in order to improve efficient use of Kyrgyz coals with the introduction of environmental friendly and energy-efficient technologies; (vi) development of the energy sector and installation of the automated electric energy metering system (AEEM).

The following measures will be implemented in order to accomplish the *third objective* – enhancing human resource capacity: (i) development and implementation of the state order for training of engineers for the energy sector in the technical HEIs of the republic; (ii) setting up an interregional center for training and retraining of personnel for the fuel and energy complex with the estimated capacity of 500 pupils.

8.2.2 Agriculture development through expansion of organic technologies

Goal: create conditions for growth in agro-industrial production, improve quality of products and ensure food security of the country.

Analysis of the current situation. Agriculture is the leading industry of the national economy both in terms of the size of the created added value and the number of jobs. In 2011, the share of the sector in GDP was 18.1% with 30.7% of jobs. At the same time, the average annual growth rate of the gross added value in the industry is far behind the country’s - 2.2% versus 4.3% for the period from 2001 to 2011. The average wage in agriculture is the lowest compared to other sectors of the economy.

State management of the agricultural development aims primarily at ensuring the current activities and distribution of resources provided as part of the government support to the sector. The structure of governing institutions here covers all the necessary directions of activity; however capacity of each of them is low due to limited funding. There is a lack of highly qualified personnel. The industry has systemic problems that require reform.

The first group of problems is linked with the effects of the land and agrarian reform carried out after 1991. The social equity principle, which is the basis of the land reform has resulted in excessive fragmentation of lands. The agricultural sector is currently represented by more than 334 thousand (peasant) farms with an average of 2.7 hectares of arable land, including 1.9 hectares of irrigated arable land. It has become a barrier to the growth of the productive capacity of agricultural producers. Institutions promoting land consolidation do not work. The arable land is reducing due to lands transformation and their exclusion from the economic turnover as a result of their impairment. Efforts aimed to restore soil fertility are not effective enough.

The second group of problems is linked with the limited access of agricultural producers to public services, logistical and financial resources. These problems are aggravated by inconsistency between the current structure of state bodies and their capacity with the needs for organization of agricultural production. At the same time, the formation of private organizations rendering services is lacking behind.

Today the level of reclamation of arable land, as well as funding for the repair and restoration of the existing irrigation systems prevent proper provision of agriculture with water resources. The industry can not ensure a high level of animal protection. As a result, there are problems with food security and restrained exports of products. The problems with certification of domestic agricultural products have not been resolved yet.

The quality of seed and breeding stock is poor. The country lacks its own production of mineral fertilizers; the amount of fertilizers in the soil reduces every year. This has a negative impact on crop yields and livestock productivity.

Despite the adopted efforts, access to finance and leasing of agricultural machinery for rural producers is limited. Financial and credit institutions operating in rural areas can not satisfy even the average needs for funding.

The third group of problems is linked with difficulties in marketing agricultural products, as well as its poor processing in the domestic food processing enterprises. Agricultural products or processed products are supplied to the consumer markets by producers, trading and intermediary companies, processors of products, and etc. with no long-term contractual relationships. Numerous efforts of the state aimed to establish various forms of cooperation of the agricultural sector with the processing and trade industries, as well as to create value added chains (VACs) gave no expected outcomes. As a result, the value added component in the entire chain from the product suppliers to the market is distributed unfairly, with the interests of agricultural producers being infringed to a greater extent.

Priority directions. Agricultural development will focus on the following priority directions: (i) creating effective agricultural management systems and staff training, and creating prerequisites for concentration of agricultural production; (ii) support to the growth of production and exports of agro-industrial products; (iii) provision of services to agricultural production; and (iv) increasing effective use of water and land resources.

The first priority direction - **creating effective agricultural management systems and staff training, and creating prerequisites for concentration of agricultural production** - will focus on accomplishment of the following objectives: (i) *improving the systems of agricultural industry management and staff training*; (ii) *creating prerequisites for the development of cooperatives, clusters, and improving product quality*.

The *first objective* will be accomplished through: (i) functional analysis of activity of the Ministry of Agriculture given objectives of the National Strategy for Sustainable Development of the Kyrgyz Republic and this program; (ii) based on its results, the formation of an optimal structure of the Ministry of Agriculture.

A sustainable system for professional training and retraining of rural producers will be created through the following measures: (iii) analysis of the situation in the labor market in terms of agricultural specialties; (iv) placement of the government order for staff training based on the demand for the number of professionals with different specialties, as well as government order for the development of teaching methods and scientific research; (v) development and implementation of farmers training and retraining programs and enhancing professional skills of the teaching staff.

The *second objective* will be accomplished through the development and adoption of the following normative legal acts: (i) on strengthening mechanisms for the protection of property

rights in the course of operations in the agricultural land market; (ii) on introduction of the state cadastral valuation of agricultural lands: and (iii) methodological recommendations for their evaluation.

The following measures will be implemented in order to enlarge and consolidate small peasant farms into cooperatives: (iv) development of the proposals with changes and amendments to the “Land Code of the Kyrgyz Republic” in terms of the use of lands from the State Fund, namely: their use for land exchange as part of the consolidation, provision of degraded lands to private property for their development, providing foreign nationals with the right for term land use in non-border territories; (v) development and adoption of the draft Regulation on the procedure for exchanging farmland from the State Fund with the private lands in the course of consolidation.

Cooperation will be developed through the following measures: (vi) development and adoption of the state program for cooperatives development in agriculture; (vii) development and adoption of changes and additions to the regulatory framework to ensure protection of property of the potential participants of cooperative relations and a set of tax-related and other economic measures to stimulate the creation of cooperatives in agriculture; (viii) development of the training program for the cooperative sector and ensuring professional training of staff; implementation of a set of information and educational measures; (ix) development of the regulations on priority support to agricultural producers, who own or manage large areas of land and livestock (approximately: in the crop sector – at least 100 hectares of land and in the livestock sector – at least 500 small cattle and 300 large cattle).

The value-added chains (VAC) and clusters will be developed through the following support measures: (x) development of the VAC and clusters development program in agriculture; (xi) development of the methodology for creating value-added chains and clusters in agriculture and the mechanism of public-private partnership and public order as a tool to support the development of VACs and clusters; (xii) development and adoption of the NLA on state support (technical support and training) to the formation and development of VACs and clusters by supporting the development of innovative infrastructure of clusters (incubators, technology parks, and etc.), developing and implementing the most important cluster institutions (partnerships, corporate culture, responsibility, and etc.).

Laboratories for assessing parameters of the products safety will be developed and enhanced and the products certification procedure will be improved through the following measures: (xiii) development and adoption of the normative legal acts on the creation and mechanisms of funding the activity of the modern laboratory in assessing safety parameters of agricultural products and food; (xiv) as well as creating a network of laboratories for product certification in order to improve access to their services for agricultural producers.

The *second priority* direction – **support to the growth of production and exports of agro-industrial products** – will focus on accomplishment of the following objectives: (i) *development of large-scale production and export of agricultural and industrial production*; (ii) *development of the processing industry*; (iii) *development of the organic agricultural and industrial production*.

The *first objective* will be accomplished through a set of the following measures aimed to develop cooperatives and clusters and enlarged farms: (i) support to the creation of prospective cooperatives (“growth points”) in every oblast using the mechanism of public-private partnership; (ii) activities aimed to launch agricultural clusters; (iii) provision of priority support to agricultural producers, who own or manage large areas of land and livestock (approximately:

in the crop sector – at least 100 hectares of land and in the livestock sector – at least 500 small cattle and 300 large cattle).

The following measures will be implemented to expand geographical scope of agricultural products exporting: (iv) development and adoption of a set of measures aimed to promote agro-industrial products in foreign markets; (v) agreements with the state administrations of the Russia and Kazakhstan regions on exporting agricultural products from the Kyrgyz Republic.

Measures aimed to accomplish the ***second objective*** – **development of the processing industry** – will focus on the following: (i) development and adoption of the technical regulations on processing of agricultural products; (ii) development and adoption of the normative legal acts for the creation and financing mechanisms for direct state support to the processing industry (feed production, meat and milk processing, canning, and etc.) using the principles of public-private partnership or providing financial subsidies in crediting and equipment leasing.

The ***third objective*** - **development of organic agricultural production** – will be accomplished through the following measures: (i) development and adoption of the National Action Plan for agricultural development and the Law of the Kyrgyz Republic “On organic agricultural production”; (ii) development and adoption of the technical regulations for the production of organic agricultural products; (iii) development and adoption of a normative legal act for the creation and mechanisms of financing capacity building of the certification centers so that they could verify the compliance; (iv) development and adoption of a set of measures to support the development of technologies for growing organic crop and meat and dairy products at all stages of production; (v) development and adoption of the normative legal act for the implementation and mechanisms of financing measures for direct support to the production of organic fertilizers and biological products using the mechanism of public-private partnership, as well as technical and financial assistance; (vi) development and adoption of the normative legal act for the implementation and mechanisms of financing the creation of the value added chains and pilot clusters of organic crop and livestock breeding through the mechanism of public-private partnership and technical and financial assistance, as well as support for creating “organic aimaks”.

The third priority direction - **providing agricultural producers with services and market infrastructure** – will focus on the following objectives: *(i) improving the quality and composition of the service and technical services for the agriculture, creating prerequisites for technical and technological modernization of agricultural production; (ii) creating a modern market infrastructure for the agricultural and industrial complex.*

The ***first objective*** will be accomplished through the following set of measures: for the purpose of veterinary development, protection of plants' health and support to private veterinary: (i) creating a mechanism and animal identification programs, adoption of the Law on Animals Identification; (ii) development and adoption of the regulations on provision of veterinary services by only private veterinary service; (iii) conducting a set of practical activities for the protection of plants and animals.

To ensure veterinary and phytosanitary welfare and bringing the regulatory requirements in compliance with the requirements of the Customs Union: (iv) prepare the normative legal framework for gradual ban on access to the market of meat, which is not from specialized slaughter enterprises; increase farmers' liability for violation of requirements to vaccination of animals and concealment of dangerous animal diseases, and etc.; (v) practical efforts of the inter-ministerial committee aimed to harmonize technical regulations and sanitary rules and norms of Kyrgyzstan with similar norms adopted in the Customs Union.

The following measures will be implemented in order to restore the existing and develop more productive agricultural varieties of plants and animals that would be best adapted to the climatic conditions of the Kyrgyz: (vi) placing government order for breeding highly productive varieties of seeds and improvement of the existing and creating new breeds of animals through the tender; (vii) development and adoption of a normative legal act on the implementation and mechanisms of financing the development and operation of the state center for testing varieties and plant genetic resources, and setting up a Center for organizing and coordinating the selection and breeding activity and artificial insemination of livestock; (viii) setting up 12 seed and 7 breeding farms (as part of the USAID projects); (ix) implementing field inspection and testing of the varieties, and conservation of fish stocks.

The following measures will be implemented in order to improve the seeds fund and livestock population: (x) provision of state commodity loans to seed farms in the form of a super-elite and elite seeds of wheat and barley in order to improve and change the variety; (xi) development and adoption of economic incentives for improving the commercial livestock with high yielding breeds and effective use of biocapacity of the new breeds.

Availability of agricultural machinery and financial resources for agricultural producers will be improved through the following measures: (xii) development and adoption of a normative legal act on the implementation and mechanisms of financing the creation of the machinery and technological stations (MTS) using the mechanism of public-private partnership; (xiii) development and adoption of a set of measures to attract machinery-engineering companies to sell their agricultural equipment in the Kyrgyz Republic; (xiv) development and adoption of economic incentives in order to expand the network of financial and credit institutions in rural areas; (xv) placing the state order through a tender for economic feasibility study of creating a state leasing company; (xvi) creating an effective mechanism for direct financial support to rural producers and processing industry.

The following measures will be implemented in order to accomplish the second objective – **creation of a modern market infrastructure for agricultural complex**: (i) creating a mechanism of normative legal regulation of the development and operation of wholesale futures markets; (ii) creating a mechanism of public procurement and trade interventions aimed to stabilize the market prices; (iii) development and adoption of the normative legal act on the implementation and mechanisms for financing annual forecast of supply and demand in regional and local markets of agricultural products; (iv) development and adoption of an action (activity) plan to ensure access to retail markets in major towns for agricultural producers; (v) development and adoption of a normative legal act on the implementation and mechanisms for financing the formation of the state information resources with the information as necessary for agricultural producers; (vi) development and adoption of a normative legal act on the implementation and mechanisms for financing the establishment of teaching and methodical centers in each oblast in order to provide advice to agricultural producers.

The land purchase and sale market will be supported through the following measures: (vii) development and adoption of a normative legal act on the implementation and mechanisms for financing organization of a licensed trading platform under the state and civil control in order to sell and buy agricultural land through competitive bidding; (viii) completing the creation of a single information system of real estate with incorporated database of information on the quality of land; (ix) creating technical capacity to access the information about the land market on-line.

The fourth priority direction – **more efficient use of water and land resources** – will focus on the following objectives: (i) *annual introduction of new irrigated land, more efficient use of the existing irrigation networks and water resources*; (ii) *improving efficient land use*.

The first objective – **annual introduction of new irrigated land, more efficient use of the existing irrigation network and water resources** – provides for implementation of the following set of measures: introduction of new irrigated lands will be supported through the following: (i) construction of water facilities and development of new irrigated lands (implementation of the investment program for the development of melioration system); (ii) further implementation of the project “On-Farm Irrigation – 2” (the World Bank).

Functioning of the irrigation network and more efficient water use will be maintained through the following: (iii) annual implementation of a set of measures to support functioning of the irrigation system; (iv) assessment of the status of water resources and irrigation system in order to prepare a set of measures for their effective use; (v) introducing effective technologies for economical water use.

The water use management will be improved through the following: (vi) finalization of amendment of the normative legal framework in accordance with the Water Code requirements; (vii) finalization of creating the Basin Water Councils and fixing the borders of all WUAs / federations based on hydrographic principle, creating WUAs and their federations throughout all irrigated lands of the country; (viii) gradual transfer of the irrigation systems except for facilities of the national irrigation fund to the balance-sheet (or for long-term management) of WUAs / federations; (ix) development of the normative and legal acts governing the tariff policy in water use; (x) enhancing the legislation and administrative and economic measures to prevent irrational water use.

The second objective – **improving efficient use of land resources** – will be accomplished as follows. In order to improve accounting and monitoring of agricultural land the following measures will be implemented: (i) develop and adopt a normative legal act on the implementation and mechanisms for financing measures aimed to address problems with unclear fixation of the actual borders of public and private lands, as well as pasture borders between ayil districts; these borders will be reflected in the ownership documents; (ii) develop and adopt the normative legal act on the implementation and mechanisms for financing measures aimed to form an effective system for monitoring the status of land resources, conduct agro-chemical assessment of fertility and land passportization, identify areas, scope and level of land degradation, create a data base on lands; (iii) completely stop transformation of agricultural lands, especially arable lands.

The following will be implemented to assist in improving fertility of the agricultural lands: (iv) develop a system of legal norms and administrative and economic measures that prevent irrational land use and the increasing lands degradation; create incentives and norms on conservation of the land resources; (v) measures to implement stricter normative requirements to conservation of lands, the permissible levels of soil and water sources contamination with different types of pollutants; enhanced control and penalties for violations; (vi) develop and implement local programs on improving soil fertility; develop training programs on modern methods of land use; raise public awareness of the need to preserve the fertility of the land; (vii) further implement the project “Agricultural Investment and Services”; (viii) annually perform the design-exploration and research works for land planning, as well as recultivation and conservation of fertility of agricultural lands.

In order to create an effective system for the management of public pastures the following measures will be implemented: (ix) develop and adopt a normative legal act on the implementation and mechanisms for financing measures aimed to train and enhance capacity of pasture users organizations (jaiyt committees), hold training on sustainable pasture management for pasture users; (x) develop and adopt a normative legal act on the implementation and mechanisms for financing measures aimed to provide targeted financial support to rehabilitation of facilities of the pasture infrastructure that are of interfarm and interdistrict importance (bridges, roads, catchments, cultural centers, communications, transportation, and etc.), rehabilitate and prevent degradation of pastures, improve forage related merits of the natural pastures (reseeding, irrigation, fertilizers, and etc); and (xi) implement measures to conserve and improve pasture ecosystems.

8.2.3 Food security and food quality

The goal of ensuring food security is to create the conditions for the population's access to adequate amount of food products in accordance with the minimum norms of food consumption that are based on their availability, accessibility and safety (*Article 3 of the Law on Food Security of the Kyrgyz Republic*).

Analysis of the current trends. According to the Rome Declaration adopted on 17 November 1996, Kyrgyzstan has committed itself to "... implement policy aimed at eliminating poverty and inequality, ensuring physical and economic access for all and for all times to sufficient, nutritionally adequate food, as well as its use". Food security is closely linked with the process of the overall economic development of the country. Therefore, Kyrgyzstan initially chose four key elements of the National Food Security Policy, which remain a priority today, these are: (i) agriculture; (ii) marketing; (iii) social protection and health; (iv) macroeconomy and public finance.

Today, food security related issues are governed by the Law No 183 of the Kyrgyz Republic "On food security of the Kyrgyz Republic" (*of August 4, 2008*) and a number of the normative legal acts. In accordance with the Law, the Government has formed the Food Security Council of the Kyrgyz Republic for coordination of actions and adopting decisions related to food security. In accordance with the legislation, food security of the Kyrgyz Republic is deemed ensured, if the level of the state material reserves covers at least 90-day needs for basic food products of socially vulnerable groups of the population.

Key problems: in fact, the existing stocks of wheat in the state material reserves during the crisis can satisfy the population needs for only 30 days, this is definitely not enough in case of adverse trends in the global food markets.

The country has no currently a system for monitoring and early warning of negative trends in the food markets both in the world and within the country. The system of material and technical resources management in its current state does not satisfy country's needs for food, not only in terms of quantity, but also in the variety and quality of stored food.

Almost 100% of business entities operating in food market are private, thus depriving the state of leverages to directly impact on them. In this case, the Government has no any developed market instruments to influence the pricing.

It should be recognized that control over food safety and the compliance with technical requirements are poor, which pose a threat to the health and lives of the population. Expansion of the foreign economic relations by Kyrgyzstan led to an increase in the import of a variety of imported agricultural products and processed products. At the same time, the proportion of

genetically modified and counterfeit goods is increasing, some of such goods cause direct harm to human health or their quality does not correspond to the one indicated on labels.

In addition, in accordance with the Kyrgyz Republic's obligations to ensure food security assumed in the framework of the Rome Declaration, the recommended level of security is that there should not be more than 16% of imported products in the total consumption. Based on the balance of goods, the import of this group of food in the total consumption is currently about 25%.

Today, the Kyrgyz Republic is unable to adequately supply itself with the basic foodstuffs, and the current domestic production is as follows: grain products – by 42.8%; vegetable oil – by 31.7%; sugar – by 9.1%; meat – by 56.4%; fruits and berries – by 21.8%. This creates a threat of high dependence of the country on the situation in the world food markets, as well as on foreign policy of states - exporters of food in our country.

In the case of aggravation of the food related problems in the world, insufficient food self-supply, on the one hand, and potential barriers to its import, on the other hand, can create a real threat of negative changes in the food market of Kyrgyzstan accompanied usually by uncontrolled growth of inflation and social tension.

Given the established goal and identified problems the priority directions are: (i) meet the internal demands of the state in agricultural and processing industry products. As part of this direction it is planned to accomplish the following key objectives: (i) annual increase in the production of agricultural products; (ii) increasing the level of agriculture with elements of diversification of crops structure; (iii) increasing self-supply of food through domestic production; (iv) development and introduction of effective mechanisms for the distribution of state support to agricultural producers; (v) increasing the share of agricultural products processing to 25%, and exports – to 20% of the total production; (vi) development of an insurance system to insure against risks in agricultural production.

(ii) Timely allocation and use of goods and materials. The **main objectives** in this direction remain as follows: (i) fulfilling tasks assigned by the Government of KR on allocation, accumulation of goods and materials and their use from the state material reserve; (ii) ensuring steady operation of the state material reserves system; (iii) supplying mobilization demands of the country; accumulation, storage and use of the state material reserves in the manner prescribed by the legislation of the Kyrgyz Republic; (iv) transparent information about actual availability of staple foodstuff in the Material Reserves Fund; (v) increase in strategic grain reserves for timely interventions in the domestic market.

(iii) Efficiency of the public finance management policy to ensure food security will be improved through accomplishment of the following objectives: (i) timely funding of measures to ensure spring and autumn field works; (ii) timely funding of the Material Reserves Fund in order to allocate grain in amounts established by the legislation; (iii) improving the legal framework for the effective functioning of the public procurement system; (iv) maintaining financial environment favorable for ensuring food security for all citizens; (v) introduction and effective functioning of the e-procurement system.

(iv) Ensuring state control of safety of the produced and imported agricultural products. In this direction, the following most important **objectives** will be accomplished: (i) ensuring state control over the compliance with the rules and requirements to post-harvest processing and storage of seed and planting materials; (ii) organization of research and inspection of biological, toxicological and ecological regulations on the use of pesticides and agricultural chemicals that are safe for human health and the environment; (iii) monitoring and forecasting phytosanitary

and agrochemical situation; (iv) ensuring state control over the compliance with the rules and regulations on export, import and transit of goods (freight) in temporary storage (temporary warehouses) that are subject to sanitary, veterinary and phytosanitary control; (v) creating a system of state control of the quality of purchased, delivered and shipped grain and its processed products in the state material reserves and in other economic entities regardless of ownership.

(v) Ensuring availability of safe and healthy food products. As part of this priority direction the **key objectives** to be accomplished are: (i) formation of the system of state epidemiological supervision and preventive measures for timely localization and liquidation of outbreaks of food poisoning; (ii) guaranteeing adequate access to safe basic foodstuffs; (iii) formation of the balanced diet tradition among the population; (iv) implementing veterinary and sanitary inspection of animal products in the course of their production and sale; (v) introducing stricter rules for vegetable products inspection in the markets and ensuring safety of food products.

(vi) Ensuring food security for preservation of macroeconomic stability. In this direction, the most important objectives are as follows: (i) improving tools aimed to achieve macroeconomic stabilization; (ii) creating an ongoing system for monitoring and evaluating the impact of changes in food prices on inflation; (iii) maintaining macroeconomic environment favorable for ensuring food security; (iv) maintaining stability of consumer prices through the monetary control instruments.

(vii) Antimonopoly regulation and improving the state pricing policy. It is planned to accomplish the following **objectives** in this direction: (i) creating an ongoing operating system of state regulation of consumer prices in the markets of the country; (ii) stricter control over the compliance with the antimonopoly legislation; (iii) conducting interventions to stabilize prices of grain products in the market in case of excessive demand; (iv) antimonopoly regulation of artificial price increase as a result of intermediary transactions.

(viii) Policy measures aimed to provide socially unprotected citizens with food products in accordance with the norms include the following: (i) introduction of social norms and minimum social standards guaranteed by the state; (ii) ensuring guaranteed income to secure access to sufficient amount of food based on the rational physiological norms; (iii) increasing the guaranteed minimum income.

(ix) Improving quality and accessibility of the information on food security. It is planned that objectives under this priority direction will be accomplished with direct involvement of FAO, including: (i) enhancing capacity of the Hydrometeorology Agency for preparation of the annual forecasts of agricultural crops and food supply assessment; (ii) assisting the National Statistical Committee to improve statistical data on food security; (iii) development and launch of the information system for monitoring and evaluation of changes in food prices taking into account international trends and internal influencing factors.

8.2.4 Resource-saving technologies for processing industry

Goal: enhancing capacity of the processing enterprises by 20% through introduction of resource-saving technologies.

Analysis and assessment of the current development trends. In recent years, there is a tendency of increasing contribution of the industry to the country's economy, which gives an idea of its potential. During the years of the market reforms, certain sectors of industry despite complicated economic conditions (two global financial crises) have managed to refocus and not only to survive, but even to increase their production and, importantly, to export their products.

Industry remains the most important sector of the economy in terms of contributions to the budget and exports, which certainly requires close attention and **needs support from the state**.

As a result of periodic reduction in staff of government bodies, today the state policy in 13 branches of the processing industry is developed and implemented by two divisions. This hinders proper development and implementation of the state industrial policy. At the same time, there is no continuity of information and the system of training young professionals and institutional memory of the state bodies are lacking.

The processing industry is one of the key sectors of the economy; its share is 75% of the total industrial production of the country. Over the past few years, the processing industry experienced significant structural changes: elimination of some and emergence of new industries. So, for example, industries such as production of cotton and silk fabrics disappeared; rubber shoes are now produced instead of leather ones; the production of mechanical engineering – major electrical machinery, electric motors, metal-cutting devices, baling machines, trucks, forging and pressing machines - has virtually stopped.

There has been a decline in textile production (processing of cotton, wool and silk production) due to obsolete equipment and changes in species quality of seeds, which as a result led to noncompetitiveness of products. Textile enterprises that used to provide all sewing and knitting production with yarn and fabrics today are, generally, either idle or bankrupted. The market conditions have led to the development of new in-demand industries, such as: processing of natural mineral resources (gold, glass, mercury and antimony), apparel industry, wood processing, printing, plastic products, and etc.

To date, there are five economy-forming industries in the total industrial production, including four processing industries. This are metallurgic and food processing industries, textile and sewing industries, the production of other non-metallic mineral products (construction materials) and energy industry, as a separate sector of economy. In aggregate, the above industries produce over 90% of the industrial products. Out of these, the largest share in the structure of export of the country's processing industry is represented by gold, food products and raw materials, sewing industry and production of construction materials.

The share of the metallurgic production represented mainly by the production of gold is 44.5% in the industry. The leading enterprises of this sub-sector are: CJSC Kumtor Gold Company and branches of KyrgyzAltyn –Makmalzoloto factory, Solton-Sary mine and Tereksaysky mine. Measures for the development of metallurgic production are presented in the section “Mining industry”.

Sewing production is of **high social importance** for the country, as this industry is socio-oriented and resource-intensive in terms of labor use. According to the National Statistics Committee, the industry employs more than 150 thousand people. The main labor forces are rural citizens. Most labor force in the sector is represented by women; this has a positive impact on the **gender balance**.

Today, the **major problems** in the processing enterprises are poor resource efficiency and, especially, high energy intensity of the industry. Obsolete technologies and physically worn-out assets increase consumption of the resources and reduce their effective use. Depreciation of equipment and technologies in the processing industry is very high and is up to 90 percent. However, the lack of financial resources for introduction of resource-saving technologies and improving resource efficiency in the processing enterprises remain one of the main obstacles for the industry. There is a need to **enhance exporting potential**, while reducing barriers to export

of products, creating a system for specialists training and introducing resource-efficient technologies. A steady predictable tax policy in the medium term and the development of a mechanism to ensure affordable credits are very important in this respect.

One of the priority directions for achieving the goal is to **reduce energy consumption in the industry and create a mechanism in order to stimulate introduction of resource-saving technologies, rational use of the local labor resources and minimize impact on the environment.**

The following objectives will be accomplished under this priority direction: *(i) increasing awareness of employees in the processing sector about resource-saving technologies; (ii) developing model instructions on improving energy efficiency in the production; (iii) analysis and comparison of resource efficiency in similar industries in other countries; (iv) creating a sectoral platform for the discussion and exchanging experiences on resource efficiency; (v) conducting broad information campaigns on the benefits of energy efficient and environmentally friendly production.*

As part of the creating a mechanism to stimulate introduction of resource-saving technologies, the Government intends to: (i) develop a normative legal act in order to grant preferential conditions for textile and sawing enterprises, which use alternative resource-saving production technologies.

The next priority direction is increasing export capacity of the processing industry. To further promote exports of the sawing industry, the Government intends to create a **Technopolis**. It is planning to: (i) develop normative legal acts for organization of the “Sewing Technopolis” project in the Chui region and define its legal status; (ii) prepare a feasibility study ensuring the compliance with logistics, environmental protection and energy-saving requirements; (ii) create a system for training mid- and senior staff of the sawing industry in consultation with the representatives of the industry.

The construction design of the Technopolis for the textile and sawing production on the 50 hectares area, as environmentally safe and economically viable facility was approved at the meeting of the Voенно-Antonovka айыл кенеш of the Sokuluk rayon, Chui Oblast on October 11, 2012. According to preliminary calculations, the Technopolis area can fit more than 35 industrial facilities and create 10,000 jobs. This project is effective for diversification of the industrial production and market for products, as it can serve as a model of an industrial zone, which uses the latest technologies, not only in the textile and sawing production, but in other sectors of processing industry as well. Successful implementation of the project will be ensured by the patent form of taxation in the medium term.

The government will increase the export capacity through: *i) creation of a unified logistics center in Technopolis, both for the supply of finished goods and imports of raw materials; ii) development of a strategy to promote and protect the brand “Made in Kyrgyzstan”; iii) formation of a flexible policy of differentiated customs duties on raw materials and finished products.*

To ensure sustainable development of the priority industry and improve resource efficiency by reducing the production defects as a result of power interruptions, the government intends to: i) ensure uninterrupted electricity supply in Technopolis; ii) list the Technopolis as a strategic enterprise; iii) develop the recommendations with the examples of successful international best practices of the resource saving technologies in the industry, efficient use of the resources and minimization of waste.

In order to develop the exporting capacity of the **construction materials** industry and actively promote its products on the territory of the Customs Union, the Government intends to: (i) develop and adopt normative legal acts and protocols on harmonization of technical rules on construction materials safety with the requirements of technical regulations of the Customs Union; (ii) transfer cement production (the Kant Cement Plant) to alternative fuel.

8.2.5 Mining development, while minimizing impact on the environment and human health

Goal. Ensure sustainable development of the mining industry with rational use of minerals and raw materials and minimized impact on the environment.

Analysis of the current situation. Problems. At present, the functions on development and implementation of the state policy on subsoil use and control are distributed among the three authorized state bodies: (i) the Ministry of Economy of the Kyrgyz Republic develops state policy on subsoil use; (ii) the State Agency for Geology and Mineral Resources under the Government of the Kyrgyz Republic implements the state policy on subsoil use; and (iii) the State Inspectorate for Environmental and Industrial Safety under the Government of the Kyrgyz Republic exercises control over environmental and industrial safety. This institutional mechanism generally prevents the corruption.

However, in implementing the policy on state regulation of the mining sector development there are strong disagreements between the State Agency for Geology and Mineral Resources and the State Inspectorate for Environmental and Industrial Safety under the Government of the Kyrgyz Republic, each body acts independently and there is a kind of “competition” rather than coherent and coordinated actions that lead to unfavorable conditions for subsoil users’ operation. In addition, there is **currently a hot dispute regarding control of protection of mineral resources between the two ministries**. In this regard, based on a thorough analysis, functions for subsoil protection shall be vested with one of these ministries.

In addition, **along with the state government, the local self-governments and local communities also act as institutions that are separate from the state**. As a result, this leads to **conflicts of interest and is an unfavorable signal to investors**. The current legal requirements are often not enforced due to corruption and institutional weakness of the regulatory bodies.

Given that neither the state, nor domestic businesses have yet the required financial, technical and human resources for the development of most deposits, at this stage the mining industry in our country can only develop through attracting foreign direct investment. Kyrgyzstan, having a substantial potential for mining industry development, launching new businesses and creating jobs, can not fully realize the current opportunities.

There are various reasons behind this: (i) the legal framework regulating the subsoil use shall further be improved. The legislative norms are fragmented in different laws and vary depending on different relations of the state with investors; (ii) the state guarantees on return on investment are still low, which reduces the investment attractiveness of the industry; (iii) the level of state regulation is excessively high and encourages the corruption; (iv) international ratings of the investment attractiveness are very low; (v) the procedures for granting lands for subsoil use and formalization of documents are complicated and require numerous approvals and examinations; (vi) the development of the mining industry is hindered by limited energy resources, underdeveloped transport infrastructure in the country and lack of qualified personnel; (vii) unclear position of the government and irresponsibility of subsoil users led to numerous lawsuits that have suspended the licensing process and development of mineral deposits; (viii) lack of the norms governing the relationship between investors and local communities leads to conflicts

between the parties; (ix) mining has become excessively politicized, there is a threat that some part of local communities will evolve into an independent political force, which will be out of control of the central authorities and laws when it relates to implementation of projects on mineral deposits development; and (x) uncontrolled use of natural resources and direct damage to the environment.

20 years passed since independence of the Kyrgyz Republic. During this period the country made attempts to develop its mining sector independently. Despite the Law on Subsoil enforced in 1997, the mining industry did not develop. Over twenty years, despite great capacity of the industry and unprecedented increase in world prices for minerals, the development of new deposits was virtually frozen in our country. Although all licensed areas are in use of subsoil users, the latter do not seek prompt extraction and gaining profit, despite the legislation of the country is one of the most liberal among CIS countries in terms of taxes. So far, the development of none of the large gold deposits has started yet and there are no any major achievements in opening and exploration of new deposits in the country. It should be noted that despite the importance, exploration of new deposits was practically neglected. Administrative regulation gave no positive results and there is an urgent need to replace administrative methods of economic regulation.

Since the beginning of 2012, the Government of the Kyrgyz Republic initiated a number of measures to reform the industry and adopted the new Law on Subsoil and by-laws, as the old laws governing the mining industry did not meet modern realities. Along with the new Law on Subsoil of the Kyrgyz Republic, other laws on introduction of a new payment for retention of the license, as the economic mechanism for regulating subsoil use were adopted; the procedure for granting lands for subsoil use was simplified; a new income tax for mining and processing enterprises engaged in the production and sale of gold ore, gold concentrate, gold alloy and refined gold were introduced, as well as the mechanism “silence means consent” in reporting and approving mining plans, and etc.

However, the reforms implemented by the Government of KR in the area of subsoil use do not have immediate effect – this should be clearly understood, because the production in the mining sector, which is labor- and capital-intensive, aims at medium and long-term periods, and the current reforms will give positive effect only in the next two or three years. **At present, the legal basis for effective government regulation of the industry is being developed.** However, such innovations are made for the first time; as a result, some problems may arise in their implementation and shall further be addressed through amendments to the existing legislation.

In addition, there are still some problems in the area of subsoil use, which require informed political decisions, in particular, the problem with highly politicized local communities. In this case, despite obvious benefits for the local population from the development of mineral deposits, there is evident rejection at the local level, and in some cases – direct conflicts with investors. There are many reasons behind this, but the key is distrust to local self-governments and state institutions.

The key problem is unbalanced interests of the state, investors and the local population. Appropriate “rules” within the legislation and relevant institutions for government regulation and supervision over enforcement of the legislation shall be created in order to address this problem. In this regard, the state policy on industry development should be based on the principle of balancing the interests of the state, investors and the local population.

Human resource capacity in the subsoil use is very low. At present, the following problems are being addressed: (i) the lack of professionalism of the civil servants and the management; (ii) deficit of qualified technical and management personnel; (iii) insufficient inflow of young specialists; (iv) the lack of continuity in personnel; (v) appointment of incompetent specialists

for managerial positions; (vi) university students lack practical work in industrial and production enterprises.

Transparency of the subsoil use operations is relevant not only for Kyrgyzstan, but also for many countries that are rich in natural resources. The population in democratic countries has the right to know, whether the government is using natural resources for the benefit of all the people, or in prejudice of the economic interests of the country. Transparency is also important for better control over the use of revenue from the subsoil sector and, thirdly, transparency in any sphere hinders the corruption and generally helps to improve governance. In addition, activism of the institutes for civic control, monitoring and expertise will enable to monitor the compliance with the principles of rational use of natural resources in the interests of future generations.

However, analysis of the legislation shows that the norms in this area are declarative, as the legislation restricts the amount of available information and there are no practical mechanisms for implementing the rights to information by citizens.

A chronic problem is safekeeping of hardcopies of geological information and maps of geological and exploration works, in later years it can lead to destruction of the entire archive of the geological fund, therefore all this information should be urgently saved in electronic media.

Priority directions. Objectives and measures. Given the above problems, the country's medium-term policy will focus on the following priority directions: (i) institutional strengthening and creating an effective system of state regulation of the subsoil use; (ii) increasing contribution to the socio-economic development of the country and state budget revenues, while minimizing negative impact on the environment.

It is planned to accomplish the following objectives under the first priority direction: (i) *improve the legislation in the sphere of subsoil use, implement the new legislation of the Kyrgyz Republic governing subsoil use through the development of regulations with subsequent codification;* (ii) *create conditions that would ensure transparency of licensing procedures through tenders and auctions;* (iii) *conduct information campaign among the population and local governments on the importance of investment in the mining sector for the development of a particular area or locality;* (iv) *improve and strengthen control over the rational use of natural resources of the Kyrgyz Republic and prevent the use of wasteful and environmentally harmful methods of mining.*

The first objective will be accomplished through the following measures: (i) development of the “Medium and long-term strategy of the mining industry development”; (ii) development and adoption of the normative document on EIA procedure for enterprises operating in mining industry, which at the same time will regulate the rights of the population and public to participate in the EIA process⁸ and receive complete and timely information on the planned works; (iii) development and introduction of a set of regulations for control of the natural resources rational use, such as: a) instructions on the protection and use of mineral resources in the development, conservation and liquidation coal mines in the Kyrgyz Republic, b) instructions on the procedure for recording and storage of precious metals, unified rules on subsoil protection in the development of mineral resources in the Kyrgyz Republic, c) rules on development of oil and gas deposits, d) methodical recommendations on the technology of preparing gold samples for analysis and rules on ores and concentrates testing in the process of geological exploration, extraction and processing of mineral resources in the Kyrgyz Republic, e) rules on subsoil protection in the development of non-metallic mineral resources in the Kyrgyz Republic, f) rules on subsoil protection in the development of gold placers in the Kyrgyz Republic; g) rules on subsoil protection in the course of sampling and use of the underground fresh and mineral waters in the Kyrgyz Republic.

⁸EIA—EnvironmentalImpactAssessment

The following measures will be implemented in order to accomplish the second task - creating conditions that would ensure transparency of licensing procedures through tenders and auctions: (i) development and implementation of the normative legal acts that would improve tender and auction procedures by introducing amendments and additions to the Regulation “On the procedure and conditions of auction for subsoil use” and “On the procedure and conditions of tender for the right to use subsoil”; (ii) airing the tender and auction procedures in the mass media.

As part of the third objective, it is planned to: (i) form working groups to conduct information campaigns in order to inform the public about the reforms and innovations in the sphere of subsoil use; (ii) develop brochures, leaflets with the information on the importance of projects, regional development and environmental issues.

*As part of the fourth objective - *improving and strengthening control over the rational use of natural resources* – the following measures will be implemented: (i) development and implementation of a transparent mechanism for control and supervisory functions of the state and compliance with the national environmental regulations mandatory involving the civil society representatives; (ii) inventory of the requirements to imports of technological equipment, which is not currently used in the developed countries.*

As part of the second priority direction – increasing contribution of the mining industry to the country development, while minimizing negative impact on the environment – it is planned to accomplish the following objectives:*(i) increasing revenues of the state budget through tax and non-tax revenue, GDP growth, foreign direct investment and diversification of the mining sector in order to avoid economic dependence on the Kumtor project in 2013-2017; (ii) reducing negative impact of the mining enterprises on the environment and systematic work by state authorities jointly with the local self-governments and mining companies management in order to prevent conflicts with the local population; (iii) socio - economic development of the regions.*

The following activities will be implemented to accomplish the first objective: (i) creating conditions for commissioning new large and medium-sized mineral deposits⁹ in 2013-2017: gold and other deposits – Jeruy, Taldybulak Left Bank, Andash, Bozymchak, Ishtamberdy, Kuru-Tegerek, Shambesay, Zardalek, Taldybulak-Talas; tin-tungsten deposits – Trudovoe, Kensu; coal deposits – Tuyk-Kargasha, Kara-Keche, Sulukta field 11; (ii) conducting open tender for the right to use subsoil for the development of gold deposits Jeruy and Togolok in 2013-2017; (iii) creating conditions for further development of the gold deposits Kumtor, Makmal, Solton-Sary, Terekkan; (iv) restoration of minerals and raw materials through the inflow of foreign direct investments in geology; (v) studying the experience of small deposits development in countries with the developed small mining industry.

The following measures will be implemented to accomplish the second objective: (i) monitoring regular reports on efforts aimed to improve social conditions of the local population; (ii) state government officials should take measures to prevent violations of environmental requirements by mining companies; regularly check the compliance with the environmental legislation and submit the results of inspection to the public; (iii) officials of the local self-governments should inform the local population about the importance of projects and regional development; (iv) in commissioning new mineral deposits, create new jobs and for the purpose of regional development purchase goods, works and services exclusively at the location of the deposits, as agreed with the investors.

⁹The development of these deposits will increase gold production by 5-6 tons and at full capacity - by 10-12 tons per year and production of coal up to 1-1.5 million tons.

8.2.6 Energy-efficient construction

Goal: improve accessibility of seismically safe housing in a favorable urban environment for the population and provide comfortable living and working conditions for people, while improving energy efficiency in the premises.

Analysis and assessment of the current development trends. In the last five years there has been some increase in the number of commissioned houses in the Kyrgyz Republic. A total of 39.7 thousand apartments and houses with the total area of 3,995.9 thousand m² were commissioned during this period. The annual average growth of the commissioned housing was 6.5%, however it does not exceed 1% of the existing housing stock and covers the population's needs in housing to a low extent. As the population has no money for buying apartments, the priority is to develop the conditions for provision of affordable housing.

High seismicity of the area poses specific requirements for the construction industry of the country. On average, 80% of the commissioned housing are private houses erected at the expense of people and, to a large extent, using local construction materials and technologies that are neither seismically safe, nor energy-efficient.

The long-term master plans of settlements are developed with no account of the territorial planning and zoning policy, which is yet to be developed.

Most buildings were constructed in Kyrgyzstan 30 to 60 years ago with no account of the energy efficiency. Currently, these buildings are obsolete and do not provide minimum sanitary and comfortable living conditions. The total energy consumption by buildings, including consumption of the electric and thermal energy, gas and coal is 16-18.5 billion kWh per year in total throughout the republic. Energy use per square meter is almost 3-5 fold higher than in the EU countries, and varies on average 145-170 kWh per square meter per year throughout the country, and 320 - 450 kWh per square meter per year in Bishkek.

The lack of new generating capacity in the period up to 2017 and the population growth during this period by 500 thousand people will require significant additional energy resources. The most promising source of new energy is energy saving and energy efficiency in the construction sector.

International practice shows that the developed countries are striving to bring energy consumption in premises to 20 kWh per m² per year. Taking this figure as a benchmark in Kyrgyzstan, the energy saving capacity in premises in the country may reach more than 13 billion kWh per year.

The construction of energy-efficient, earthquake resistant and economically affordable for the population housing is one of the key mechanisms for moving the country to sustainable development. The main problem hindering progress in this direction is **the lack of an institution in the country that would form the policy and ensure the development of an appropriate legislative framework in this sector, poorly capacity of the personnel in the system of state administration and virtually complete public unawareness about the goals and objectives of the industry development in the sustainable development format.**

Transition of the construction industry to energy-efficient development and progressive economic affordability of seismically safe housing for the population through: (i) creating institutional structure that would ensure the development of policy; (ii) improving the legal framework; (iii) capacity building of professionals in the field of governance, engineering, construction and innovative measures that would reduce energy consumption by the

commissioned buildings by 2017 by 30-40% compared to the present state; (iv) informing the public.

Priority directions, objectives and policy measures:

Creating institutional structure that would ensure the development of policy aimed at progressive affordability of seismically safe comfortable housing for the population, while improving energy efficiency and reducing carbon emissions by the buildings.

Objective 1: creating institutional framework that would ensure favorable conditions for changes towards increasing affordability of housing, energy efficiency and seismic safety in the construction sector. Measures: (i) create an institutional framework that would ensure the development of policy on energy saving and energy efficiency, including in the construction sector; (ii) in the construction sector – creating a system for policy implementation and managing the practice of energy efficiency, seismic safety and economic affordability of housing for the population; (iii) creating a system of state control and supervision over the accomplishment of objectives related to energy efficiency, seismic safety and affordability of housing for the population.

Improving the legislative framework:

Objective 1: improving the legislative framework. Measures: (i) develop new and amend the existing basic laws and legal regulations that would create favorable conditions for institutional changes in terms of availability of housing, urban development, energy efficiency and seismic safety in the construction sector; (ii) develop and implement the Housing Program for 2013-2017; (iii) implement the State Program “Seismic safety of the Kyrgyz Republic for 2012-2015 and further development until 2017”; (iv) develop mechanisms for the introduction of strict sanctions for non-compliance with the norms and standards of seismic safety and energy efficiency; (v) regularly (perhaps once every 3-5 years) revise the level of the energy efficiency requirements in the building codes; (vi) implement the system of mandatory energy audits and certification of buildings as to their energy efficiency; (vii) introduce a mandatory energy related classification of buildings set forth in the normative acts; (viii) introduce the energy related classification and labeling of the construction materials, products and equipment; (ix) conduct a massive audit of the energy efficiency of buildings, create a database and ensure monitoring.

Objective 2: improving energy efficiency and seismic safety of the existing buildings. Measures: (i) develop the regulations that would set forth the requirements for energy efficiency and seismic safety in reconstruction and major repairs that would permit major repairs and reconstruction provided that a certain level of energy efficiency and seismic safety is ensured; (ii) develop a standard design in order to increase energy efficiency of the existing housing stock, which was built following the model design, and provide access to this housing stock; (iii) develop and implement programs on modernization of the existing housing stock in order to increase their energy efficiency by incorporating these programs in all state policies, national and local programs.

Objective 3: integration of the energy efficiency aspects in territorial-spatial development strategies, urban planning and construction practice. Measures: (i) incorporate aspects of energy efficiency of buildings in the currently developed City Planning Code and in the processes of architecture and planning oversight of the territorial development; (ii) develop, adopt and use in practice the normative acts that allow granting the permits for construction only to those projects that have optimal territorial-spatial parameters in terms of reducing energy consumption; (iii) in

the course of tenders, take account of benefits of the projects with a higher energy efficiency and seismic safety.

Objective 4. Develop systems of energy resource pricing for buildings. Measures: (i) establish appropriate and responsible system of setting tariffs for energy resources in buildings sector; (ii) liquidate the system of fixed payment for energy services, the consumers should pay for the actually consumed energy; (iii) introduce a system with a progressive tariff using which consumers will pay more per unit of energy when they exceed the established threshold; (iv) analyze the possibility and, if feasible, introduce a differentiated tariff for energy depending on the time of day and season.

Objective 5. Enhance technological capacity for sustainable management of energy consumption in the housing sector. Measures: (i) ensure a consistent installation of the measurement and energy management systems (electricity, gas, heating and hot water supply), switch to “smart meters” that reflect information online, including pricing information; (ii) establish norms (standards) to ensure compulsory equipping new buildings with the energy consumption management systems and indoor climate (microclimate parameters); (iii) develop and implement the Regulations on competition among energy suppliers (the consumer shall have a choice, including alternative sources of energy).

Enhancing capacity of professionals in the field of management, engineering, construction and innovative measures that would reduce energy consumption by the commissioned buildings in 2017 by 30-40% compared to the present state.

Objective 1. Ensure capacity building of specialists in the construction sector. Measures: (i) develop and implement a training program “The construction sector for sustainable development” in the system of professional retraining of state administration specialists in construction; (ii) revise the curricula of disciplines in the construction HEIs and colleges to incorporate section “The construction sector for sustainable development”; (iii) introduce specialty “Thermal Protection of Buildings” in the vocational education system; (iv) develop and publish teaching and methodical aid on improving energy efficiency in buildings for the purpose of retraining of specialists of the construction sector.

4.4. Information, awareness raising and education

Objective 1. Ensure information and awareness raising of the population. Measures: (i) ensure free access to information on the cost components in the formation of tariffs for services and transparency of the actual cost of rendered services for consumers; (ii) launch a program about implementation of the National Plan for Sustainable Development, including about appropriateness and energy efficiency technologies and seismic safety of buildings on the national television channel on a systematic basis; (iii) develop and publish a brochure “Warm house with one’s own hands”.