

**Excerpt from**

**KYRGYZ REPUBLIC  
MINISTRY OF FINANCE**

**MEDIUM-TERM  
BUDGET FRAMEWORK  
for  
2012-2014**

**Bishkek-2011**

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## **PART I.**

### **Introduction**

According to the law of the Kyrgyz Republic “On fundamental principles of the budgetary law in the Kyrgyz Republic” the Ministry of Finance of the Kyrgyz Republic has developed the Medium-Term Budget Framework of the Kyrgyz Republic (MTBF) as a basis for the budget for 2012-2014. MTB is being developed on an annual basis and is an analytical document that provides an entire view of revenues and expenditures of the state budget and should be adjusted for a next midterm if necessary. MTB consists of the macro-fiscal technical memorandum, the medium term revenue forecast, a description of the medium-term expenditure basis, the public debt management strategy, the scope of external financing, the development budget and the expenditure strategies by sectors.

The main objectives of MTB are to ensure the strategic orientation and the foreseeability of the budgetary process by way of budgetary allocations to priority sectors. MTB is important as an indicator of stability of the principle activities of the Government of the Kyrgyz Republic as it reflects directions of the major public strategic programs for the next three years and it is one of the effective means of improving the budget transparency.

Structure of the document MTB consists of the main part and appendixes. The main part of the document is composed of a description of macroeconomic policy and forecasting, a description of police and forecasting in revenue as well as their impact expected on resource availability for budgeting, an analysis of intersectional allocation of expenses and the foreign debt management strategy.

There are the technical memorandums on the intergovernmental relations reforms, the development budget and the reform of wages in the budget institutions as well as the strategies by costs of industries are presented in the Appendixes. The tables with analytical and estimated forecast data are presented too.

The main objectives of the economic policy for 2012-2014 will be to strengthen macroeconomic stability and economic growth (at the average 5.6% for the period) due to increase in services sector, agriculture, industry and construction.

In the medium term the fiscal policy will mainly be focused on recovery of increase in revenue and upgrade of cost efficiency. Financing social expenditures to balance the pension system and an effective social assistance for vulnerable population groups will be of particular importance. In the medium term the further increase in level of requirements for the population pension coverage is planned. This decision is provided by a low income of pensioners and is aimed at restoring social justice and at solving poverty of the older generation that puts upon the state budget to cover the budget deficit of the Social Fund.

The budget allocation is planned for full implementation of commitments taken for payment of the social allowances and compensation. The new regulations have been adopted that provide additional social support to the citizens affected by April and June events.

Volumes of forecast on co-financing projects for a period ahead will be reduced. This is because that the forecast amount of co-financing of new projects is expressed as percentage of external financing. It also can include both direct financing from the state budget and

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contribution of the Kyrgyz Republic by way of release of taxes and duties and provision of premises and other services.

As it stands there is an acute need for more effective budget resource management and costs optimization. One of the traditional measures for this case is reduction of non-priority budget expenditures using internal resources for each sector of the economy.

With that it should be noted that the basic state functions to fulfill social obligations, security protection and maintenance of the public infrastructure are required and reduction of these costs to a minimum can cause risks of untimely and incomplete provision of that services to the population.

## The Medium-Term Fiscal Policy Strategy

### 1. Macro-fiscal technical memorandum

#### 1.1 Macro-economic policy and medium-term forecasting

The macro-economic situation in the period of 2008-2010 was rather complex and the annual average growth rate of GDP was 3.3% in this connection. In 2008, as a result of improvement in the economy sectors the real growth of GDP was achieved on the level of 8.4%, mainly due to a significant increase in gold production at Kumtor (by 84.9%), increase in the growth rate in the services sector (by 11.1%), and construction (by 10.8%). Despite high growth rate agriculture (7%), construction (22.1%), in 2009 the growth of GDP was formed at the level of 2.9% because of slowing down the rate of growth in the services sector (up to 2.2%) and the slack period (by 6.4%) due to reduction in gold production at the enterprises mining Kumtor (by 5.6%). In 2010 due to the events of April and June there was a decline in the services sector (by 1.2%), agriculture (by 2.8%), construction (на 22.8%) that led to decrease in GDP (by 1.4%).

In 2010, GDP per capita in USD was down compared with 2009 by 2.6% to USD 886. In 2009, GDP per capita was USD 910 and was down compared with 2008 by 10.2%.

In 2008-2010, the average annual real growth of GDP (3.3%) was provided by production services (average annual real growth amounted to 4.0%), industry (6.1%), agriculture (1.7%) and construction (3.4%).

**Table 1 Structure of production and real growth rate of GDP, 2008-2010**

	2008	2009	2010	Average for 2008-2010
GDP at current prices (million KGS)	187991,9	201222,9	212177,4	
GDP by sector (%)	100	100	100	100
Agriculture	23,5	18,8	18,5	20,3
Industry	15,1	16,9	19,4	17,1
Construction	5,3	6,7	5,7	5,9
Services	43,0	46,6	45,9	45,2
Indirect taxes	13,1	11,0	10,5	11,5
Real growth rate of GDP (%)	<b>8,4</b>	<b>2,9</b>	<b>-1,4</b>	<b>3,3</b>
<i>GDP exclusively Kumtor (gold mining)</i>	6,5	3,4	-2,1	2,6
<i>Real growth rates of gross production (%)</i>				
Agriculture	0,8	7,0	-2,8	1,7
Industry	14,9	-6,4	9,8	6,1
<i>Industry without Kumtor</i>	-2,1	-6,5	11,7	1,0
<i>Kumtor</i>	84,9	-5,6	8,1	29,1
Construction	10,8	22,1	-22,8	3,4
Services	11,1	2,2	-1,2	4,0

**In industry** an average annual growth for 2008-2010 made **6.1%**. *Exclusively Kumtor(gold mining)* an average annual growth was 1%. In 2008, the industry growth in industry (by 14.9%) was provided by the manufacturing industry (by 23.6%) due to the improvement of the metallurgical industry sub-sectors, in particular the stable work of

enterprises mining Kumtor (increase in 84.9%). In 2009, there was decline of industry (by 6.4%) caused by decline in production of the following economy generating industries: metallurgical production and manufacture of fabricated metal products (by 9.4%) with a specific weight in total industry amounted to 48.2%, the production of non-metallic mineral products (by 38.2%), a specific weight totaling 5.6 and the electricity industry (by 1.3%) with a specific weight totaling 16%. In 2010 the growth of the industry (by 9.8%) was achieved by means of the manufacturing industry (increase in 10.1%) as a result of improvement of the metallurgic sub-sector (by 6.7%) due to increased production as Kumtor (by 8.1%), the textile and clothing industry (by 43.3%) and production of non-metallic mineral products (by 39.8%), as well as production of electricity, gas and water (by 11.0%).

The average annual growth rate of the *agricultural sector* for 2008-2010 was at the level of 1.7%. In 2008 the growth rate of agriculture was 0.8% because of the decline of crop production by 0.3% due to frost that blasted a large part of the acreage of crops and perennial plantings. Significant growth in agriculture in 2009 by 7.0% was due to primarily favorable climatic conditions. There were increased the production of grain (by 27.1%), oilseeds (by 9.8%), melons (by 10.3%), fruit crops (by 9.4%), potatoes (by 4.4%). The decline in agriculture in 2010 by 2.8% was due to mainly April and June events, increased customs duties for diesel fuel and adverse weather conditions. There were decreased the production of grain (by 17.9%), oilseeds (by 17.3%), potatoes (by 3.9%), grapes (by 63.3%) and fruit crops (by 3.7%). However there was a growth trend in animal production (by 2.3%).

In 2008-2010, the growth of *services* was provided by an average of 4% per year, mainly due to growth in transport and communication services, development of trade services, repair of motor vehicles, household and personal demand goods and financial services. Development of postal and electrical communications and growth in cargo and passenger transportation, development of the market sales and organized trading by opening modern shopping centers as well as were favorable prerequisites.

In 2008, growth in services (by 11.1%) was due to increase in transport and communication services (by 28.7%), increase in business services volume, repair of motor vehicles, household and personal demand goods (by 9.7%) and the services in hotels and restaurants (by 12.9%). In 2009, the growth rate of services was slowed down to 2.2%, mainly due to low growth in business services, repair of motor vehicles, household and personal demand goods (by 1.9%). In 2010, the services were decreased to 1.2% due to reductions in trade, repair of motor vehicles, household and personal demand goods (by 6.4%) and services for hotels and restaurants (by 7.3%) due to the destruction of infrastructure facilities or temporary closure that reducing the demand for hotels and restaurants and closure of the borders with the neighboring states. The rate of tourism in GDP was decreased from 4.2% in 2008 to 3.8% in 2010, the decline of exports of travel services were extended from 12.6% in 2009 to 38.9% in 2010.

The average annual growth rate of *construction* gross output amounted to 3.4%, mainly due to increase of capital investments in the mining facilities, industry, power, transport and communications. In 2008 growth in the construction industry was 10.8%, mainly due to the growth in credit activities for the construction industry. Growth of investments in fixed assets was 5.7%, there were increased capital investments in transport and communication (by 54.2% due to the construction and reconstruction of highways), transactions with real estate, renting and services to consumers (2.1 times). In 2009, a rate of growth in the construction industry were increased by 22.1% due to increased use of fixed capital investment (by 30.8%)

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including the construction of energy facilities (2.7 times), housing (by 53.4%) and the mining industry (by 66.9%). In 2010 the decline in construction was 22.8% and is due to decrease in the level of investment (by 9.8%), suspension of construction works, decrease in supply of construction materials to the country in connection with the events of April and June 2010. A significant decline in capital investments was in residential construction (by 31.2%), manufacturing industry (by 59.3%), production and distribution of electricity, gas and water (by 29.3%).

In 2008, a severe rise in prices of basic food products was resulted in increase in inflation to 20% as the economy met a series of price shocks caused by influence of external factors mainly. In 2009, in connection with the lack of price shocks on the world markets of food products and energy products, weakening domestic and external demand as well as the anti-inflation measures undertaken by the National Bank and the Government of the Kyrgyz Republic the rate of inflation in the country amounted to 0%. In 2010, the rate growth of inflation was 19.2% in connection with increased prices for goods and services due to rising international prices and domestic political events

**The discount rate of KGS** at the end of 2010 was 47,099.2 KGS/USD (in 2008 was 39,418.1 KGS/USD and in 2009 was 44,091.7 KGS/USD).

In the structure of **GDP on usage** the real growth of total domestic demand has averaged 0.8% per year (11.2%) in 2008, (- 9.1%) in 2009, (0.3%) in 2010). At the same time a specific weight of usage in GDP made 110.1% in 2008, was decreased to 96.7% in 2009 and was increased to 103.1% in 2010 due to the dynamics of both the private and the public use. The share of gross investments averaged 7.3% (29% in 2008, 27.3% in 2009 and 25.6% in 2010) and is determined mainly by private investments. The index of net export was improved from (-39.1%) in 2008 up to (-28.7%) in 2010.

**Table 2. Usage of GDP, 2008-2010 (share of GDP in %)**

	2008 actual	2009 actual	2010 preliminary	Average for 2008-2010
<u>Usage</u>	110,1	96,7	103,1	103,3
Public	17,5	18,4	19,3	18,4
<i>Real growth rates,%</i>	1,4	1,5	2,0	1,6
Private	92,6	78,3	83,8	84,9
<i>Real growth rates,%</i>	12,6	-14,4	4,3	0,8
<u>Gross investments</u>	29,0	27,3	25,6	27,3
<i>Real growth rates,%</i>	13,9	-4,9	-11,5	-0,8
Public investments	3,5	4,3	4,6	4,1
From them PIP (external)	0,7	1,5	2,8	1,7
Private investments	25,5	23,0	20,9	23,1
Export (goods and services)	53,5	54,7	58,0	55,4
<i>Real growth rates,%</i>	9,1	-1,1	-3,1	1,6
Import (goods and services)	92,6	78,7	86,7	86,0
<i>Real growth rates,%</i>	13,6	-19,4	0,5	-1,8
<u>Net export</u>	-39,1	-24,0	-28,7	-30,6

*Export of goods* was decreased from 1,855.6 million USD in 2008 to 1759.8 million USD in 2010. The average annual nominal growth rate of export of goods for the period 2008-2010 was 11.9% (*due to high nominal growth in 2008 by 40.5%*). In 2009 the export of goods in nominal terms was decreased by 9.8% due to reduction in export of petroleum products by

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49.3%, articles of clothing by 25.9%, cement by 98.4%, glass by 95.0%, light bulbs by 12.5%, hides and skins by 84.0%. There was increased export of gold by 14.2%, electricity by 1.6 times, inorganic chemicals by 2.1 times. In 2010 export of goods in nominal terms increased by 5.2% due to increase in export of gold by 26.2%, articles of clothing by 1.7 times and electricity by 23.3%, cotton by 29.2 %, textile fibers by by 25.1%, tobacco and tobacco products by 45.5%.

*Import of goods* was decreased from 4,072.4 million USD in 2008 to 3,223.1 million USD in 2010. The average annual nominal growth rate of import for 2008-2010 was 8.9% (*due to high nominal growth in 2008 - 46%*).

In 2009, the nominal growth rate of import of goods was decreased by 25.3%, mainly by reducing oil import by 33.2%, vehicles by 57.9%, articles of clothing by 28.5%, textile yarn and fabric by 24.4%, cereals and products thereof by 23.5% and natural and artificial gas by 35.4%. In 2010 import of goods was increased by 6% due to increased import of petroleum products by 6.4%, vehicles by 8.1%, articles of clothing by 10.2%, medical and pharmaceutical products by 23.0% and textile yarn and fabrics by 10.0%.

The poverty level in 2008-2010 was unchanged 31.7%. *The population of the country* in 2010 compared with 2008 increased by 115.1 thousand people. Population growth was the result of reducing mortality from 37.7 thousand people in 2008 to 36.2 thousand people in 2010 and increasing the birth rate from 127.3 thousand people to 146.1 thousand people respectively.

The number of *employed people* in the country in 2010 compared with 2008 was increased by 3.5% (from 2184.3 thousand people in 2008 to 2260.7 thousand people in 2010).

Registered *unemployment rate* for January 1, 2011 was 2.6% and decreased in comparison with 2008 by 0.2 percentage points (2.8% in 2008 and 2.6% in 2010).

In 2010, the average monthly *salary* without small and medium-sized enterprises amounted to 7142 KGS. In 2009, the average monthly *salary* in view of the small and medium-sized enterprises in relation to 2008 increased by 7.3% to 6,161 KGS.

The minimum consumption budget (MCB) in 2008 amounted to 3570.95 KGS. In accordance with the Law of the KR as of 26.05.09 #170 “On the guaranteed state minimum social standards” the living wage is determined. The living wage (LW) per capita in 2010 amounted to 3502.65 KGS and increased by 7.3% compared to 2009 (3263.22 KGS).

**Table 3. Social indexes for 2008-2010**

	2008 actual	2009 actual	2010 actual preliminary
Average annual number of actual population (thousand people)	5077,7	5128,1	5192,8
Poverty (in % to population)	31,7	31,7	31,7
Employment (thousand people)	2184,3	2216,4	2260,7
Resisted unemployment rate (in %)	2,8	2,5	2,6
Monthly average salary (KGS)	5378,0	6161	7142 <sup>2</sup>
<i>Real growth rate (in %)</i>	<i>108,8</i>	<i>107,3</i>	<i>105,8<sup>2</sup></i>
<i>In % to living wage of able-bodied population<sup>1</sup></i>	<i>136,8</i>	<i>170,0</i>	<i>182,9</i>
Population income (bln KGS)	129,5	149,4	164,3

<sup>1</sup>before 2009 in % to MCB

<sup>2</sup> without small enterprises



**In 2011**, the growth of GDP is expected up to 6.2%. Inflation mainly will be determined by the dynamics of world prices for food products, dependence of the domestic market from import of bread wheat and flour, increase in world prices for clean oil and petroleum products. From among the monetary factors the inflation level will be affected by increasing volume of cash supply including an increase in compensation of employees of the social sector. So the rate of inflation in 2011 is expected to be within 15.5%. In 2011, the exchange rate policy is still to be conducted in accordance with the selected floating exchange rate regime in the country. Currency intervention will be aimed at reducing exchange rate fluctuations of KGS and prevention of speculative transactions.

The service sector and industry with proportions of 45.6% and 19.3% respectively will dominate in the structure of GDP. The share of agricultural sector is expected to reach 17.7%.

In 2011, the growth in **industry** is expected by 5.8%. The growth of production at the enterprises mining Kumtor is expected at the level of 2.1%. Without Kumtor the growth will be 9.4%. This positive situation in industry is due to increase in production:

- Food products (10.0%) due to the efficient use of existing facilities and their assumed expansion with a view to expected granting of credit of GKR on easy terms;
- Textile and clothing industry (by 6.9%) due to the development of new markets and increase in export deliveries;
- Other non-metallic mineral products (by 8.0%) due to high demand for construction materials (cement, brick, reinforced concrete, natural stone products, etc.) due to continuation of works on reconstruction and construction of housing, administrative buildings and trade facilities of the southern regions affected. (*Note: initiation of glass production is planned in September 2011 but the finished product output is not expected as commissioning will be conducted for three months: ignition of furnace, trial production, etc.*); mining of fuel-and-power minerals (by 6.7%) due to increase in coal mining (by 9.9%) and natural gas (by 5.5%);
- Production and distribution of electricity, gas and water (by 11.9%) due to the commissioning of the 1st unit of Kambarata Water Power Plant-2 and accumulation of water in the Toktogul reservoir.

In **agriculture** in 2011 is expected to grow by 4.0%, mainly due to increase **crop production** by 5.3% in the proportion of its 54.6%.

Increase in the volume of agricultural production will be affected by the timely spring field works, optimization of cropping patterns, improving seed varieties and updating the machine-tractor park. In addition a credit of the Government of the Kyrgyz Republic on easy terms at the amount of 1 bln KGS will support agricultural product producers ensuring food security of the country including the production of cereals, sugar beet, cotton and oilseeds. In this case the influence of climatic factors is a real risk of crop losses.

In recent years there has been a steady upward trend in **livestock production** and stabilization of the number of farm animals. In 2011 it is expected to increase livestock production by **2.6%**.

The rate of growth of **services sector** in 2011 is expected to reach 4.6% by trade, repair of motor vehicles, household goods and personal use (6.8%), transport and communication (by 5.7%) and hotels and restaurants (by 4.7%). Growth of population incomes will influence on the development of services.

Total *capital investment* in 2011 is expected to reach 59.1 billion KGS. Based on the expected volume of capital investments the gross output of *construction* is expected to amount to 50.5 bln KGS with a real growth by 25.1%.

The priority in construction will be the maximum satisfaction of the inhabitants of the southern region with housing they lost due to the tragic events.

Construction of objects of the transportation routes and the power industry as well as construction of housing and social facilities are the other areas in construction.

The *share of gross investments* will increase from 27.3% in 2010 up to 28% in 2011 in the structure of **GDP on use**.

The specific weight of *total usage* in GDP will be lower from 103.1% in 2010 up to 102.5% in 2011 on account of the share of the governmental consumption (19.3% in 2010 году and 18.8% in 2011 году), the share of the private consumption will be kept in 2011 almost at the level of 2010 (83.8% in 2010 and 83.7% in 2011). Rate of the governmental consumption growth will be formed at the level of 1.4% but rate of the private consumption is 3.9%.

The index of net exports to GDP in 2011 will be (-30.5%) and decline by 1.8 percentage points compared to 2010 (-28.7%).

The growth in nominal volumes of both imports and exports is expected in 2011. *Exports of goods* will amount to 2000 million USD and increase by 13.6% (in nominal terms) by means of growth of exports of gold, clothing and its accessories, fruits and vegetables, electricity, cement and lint cotton. *Imports of goods* will amount to 3400 mln USD and increase by 5.5% (in nominal terms) by means of increase in imports of petroleum products, equipment and mechanical devices for industry, pharmaceuticals and food products (including agricultural raw materials).

***Medium-term strategy for the sustainable economic growth for the period 2012-2014*** will be focused on strengthening the macroeconomic stabilization and economic growth. The following will be the fundamental *conditions* for successful implementation of macroeconomic policy:

- Socio-political stability in the country;
- Development of coordinated monetary and tax policies;
- Strengthening of the banking system and extension of the financial markets;
- Development of GDP real growth at the level of 5,6% on average for the period as a result of growth в результате роста в in the services sector (by 6,0%), agriculture (by 3,5%), industry (by 3,1%) and construction (by 15,3%);
- Recovery of the shopping infrastructure in the southern regions affected;
- Further advance of the structural reforms in priority areas of economic development;
- Development of the fiscal reform;
- Promotion of the business environment attraction;
- Creation of favorable investment climate to attract private home and international investments in the economy;
- Growth in business activity of economic entities in terms of improvement of the investment climate;

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- Promotion of the tourist product of the Kyrgyz Republic in the world tourism markets for further tourism development;
- Reduction of external debt burden;
- Reduction of the foreign borrowings volume on security of the Government of the Kyrgyz Republic;
- Political housecleaning and upgrading the state management;
- Legalization of the underground economy;
- Expansion of foreign economic cooperation.

It is assumed that in the medium term the introduction of the coordinated monetary and fiscal policies, reforms in the financial sector and the tax system and moderate tariff policy will reduce inflation to 8.2% by 2014. However there are certain risks related to strengthening influence on external and internal uncertainties that could hamper to achieve value targets. In economics the average annual *growth of real GDP* will be resulting from strong growth in all economy sectors.

**Table 4. Structure of production and growth rates of real GDP 2011-2014**

	2011 expected	2012 forecast	2013 forecast	2014 forecast	Average for 2012-2014
GDP at current prices (million KGS)	251,194.2	286,743.3	325,630.4	367,117.7	
GDP by sectors (%)	100	100	100	100	100
Agriculture	17.7	17.3	17.1	17.1	17.2
Industry	19.3	18.5	17.8	16.8	17.7
Construction	6.7	7.6	8.2	8.7	8.2
Services	45.6	45.7	45.9	46.4	46.0
Indirect taxes	10.8	10.9	11.0	11.1	11.0
Real growth rate of GDP (%)	6.2	6.1	5.8	5.0	5.6
<i>GDP exclusively Kumtor</i>	6.6	6.9	6.4	6.2	6.5
<i>Real growth rates of gross production %</i>					
<i>Agriculture</i>	4.0	3.5	3.5	3.5	3.5
<i>Industry</i>	5.8	4.2	3.9	1.1	3.1
<i>Construction</i>	25.1	20.1	15.3	10.6	15.3
<i>Services</i>	4.6	5.9	6.0	6.1	6.0

In the period 2012-2014 the growth *in industry* is anticipated by an average of 3.1% per year. If the enterprises mining Kumtor are excluded the growth of industrial production is expected to achieve 8.9% on average per year due to the growth rate in industries such as mining of energy producing minerals (up to 10% on average), production of food products including beverages and tobacco (by 6.2%), textile and clothing industries (by 5.8%), petroleum refining, production of nuclear materials (by 4%), production of other nonmetallic mineral products (by 23.3%), production and distribution of electricity, gas and water (by 4%).

The major premises for positive growth of rates in industry to implement the following actions:

- increase in processing of agricultural products by means of growth of food products output including beverages and tobacco, sugar, flour, vegetable oil as well as reducing the shadow activities in the alcohol and tobacco production;

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- increase in production in the textile and clothing industries through development of new markets, maximal use of production capacities, increase in export deliveries;
- increase in cement and glass production by output of glass plate (Interglass Ltd.) and continuing cement production assimilation (CJSC Yujnyi Kyrgyzskiy Cement) as well as promotion of OJSC KZTS and others) that make for 60% of total industry output.

### *In mineral resource industry through:*

- increase in coal mining by 1.7 times in 2014 to the level of 2011;
- increase in oil production by 3.8% through technical renewal of plant on oil production and total load of oil refinery.

### *In production and distribution of energy, gas and water by means of:*

- End of construction of Kambarata-2;
- Commissioning of new facilities for small hydroelectric stations.

In **agriculture** the average annual growth is anticipated at the level of 3.5 % through:

- Creation of effective seed production system and introduction of advanced cultivation technologies;
- Assurance of ease access for rural producers to high-yielding seeds of crop plants;
- Renewal of the machine-tractor park;
- Tenders for buying of mineral fertilizers;
- Rational use of remote and distant pastures;
- Organization of private zoovetservices in each ayil-okmotu;
- Improvement of gene pool of brood animals and reproduction of the herd.

In the midterm it is anticipated to increase cultivated areas of cereal crops, cotton and tobacco, oilseeds and vegetables that will contribute to the annual average increase in crop production at the level of 4.1%.

In animal production the average annual growth rate at the level 2.9% will be achieved mainly by increasing the number of cattle.

In the midterm there will be solved the following issues negatively affecting the growth of agricultural production: low marketability of production, poor infrastructure, short use of agricultural engineering, low crop yield, lack of current assets, low level of use of institutional capacities by the peasant farmers in solving their problems and product promotion, lack of technology intensiveness and inadequate marketing.

In the **services sector** in the midterm term the volumes of gross output of services are forecasted to the level of 6,0% on average mainly by means of growth of services in business, transport and communications, hotels and restaurants.

In the structure of services the business, repair of motor vehicles, household and personal demand goods will be developed very quickly (average annual growth rate is 8.4%). At the same time the fiscal police measures aimed to simplify the taxation system for business entities and to protect against unnecessary inspections will promote development of official activities sector.

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In the sector of transportation and communication services (average annual growth is 7.3%) there will be continued the work on forming communication highways of international meaning.

The priority areas in transport will be: effective use of international transit transportation corridors, integration into the international transport network; reconstruction of railways and roads to bring the quality of transport and communication services to the world standard.

Given the trends of the global market the communications services will be progressed towards a high-tech telecommunications system that promotes the integration of the Republic in the world information space.

Considering that the need for better regulation in the telecommunication industry in conditions of deregulation of telecommunications market the basic prospects for development of the sector will be focused on the quality improvement and the quantity of the services provided, introduction of new services and alternatives that provide the users with a selection of acceptable conditions for them.

Increase in *services of hotels and restaurants* is expected by 7.5% on average per year by means of growth in the network of the services provided and an inrush of tourists.

Tourism will be one of the development priorities in the services sector.

The public policy in the *tourism* development sector will be addressed to:

- a) promotion of the national touristic product of Kyrgyzstan on the world tourism markets;
- b) creation of favorable conditions to attract foreign investments;
- c) creation of an optimal management structure of the industry through a combination of the state interests and the interests of the private producers of tourism services;
- d) development of national tourism.

In **construction** the average annual rate of real growth is forecasted for the level of 15,3% by means of:

- a) works on rehabilitation and reconstruction of houses, subjects of traffic and public authorities affected during April and June events;
- b) continuation of investments in gold mining sites (Taldy-Bulak Levoberejnyi, Tereksayskyi and Andash);
- c) perspectives for construction of trunk railways “China-Kyrgyzstan-Uzbekistan”, “Balykchi-Kochkor-Kara-Keche” and Arka (Kyrgyzstan) – Kairakum (Tadjikistan);
- d) transport (highways Osh-Sarytash-Irkshtam, Southern regional corridor, Bishkek-Naryn-Torygart, Taraz-Talas-Suusamyr, Osh-Batken-Isfana, Sarytash-Karamyk, Karakol-Tyup-Kegen and others);
- e) construction of Djal-Artis.

**Table 5. Usage of GDP, 2011-2014** (share in GDP, %)

	2011 Expect.	2012 forecast	2013 forecast	2014 forecast	Average for 2012-2014
<u>Consumption</u>	102.5	100.8	98.4	96.7	98.6
State	18.8	18.2	17.5	16.9	17.5
Private	83.7	82.6	80.9	79.8	81.1
<u>Gross investments</u>	28.0	30.1	31.6	33.3	31.7
State investments	6.5	4.9	4.6	3.8	4.4
From them PIP (external)	4.1	3.3	3.1	2.3	2.9
Private investments	21.5	25.2	27.0	29.5	27.2
Export (goods and services)	56.0	54.3	53.2	51.3	52.9
Import (goods and services)	86.5	85.3	83.2	81.4	83.3
<u>Net export</u>	-30.5	-31.0	-30.0	-30.0	-30.3

In 2012-2014, the structural changes on the part of demand will be determined by increase in share of gross investments in the time of capital reduction of consumption and improvement of the net export balance.

*Share of gross investments to GDP* will increase from 30.1% in 2012 up to 33.3% in 2014 (31.7% on average) mainly due to private investments (27.2% on average to GDP).

Investment policy in the medium term will focus on restoration of investment activity, improvement of investment climate and reliability of the banking system as well as strengthening its credibility, reducing bureaucratic and administrative barriers when doing business.

*Public investments* including PIP will make 4,9% to GDP in 2012 4.6% in 2013 and 3.8% in 2014.

Reducing a specific weight of *consumption* to GDP from 100.8% in 2012 to 96.7% in 2014 is determined by reducing a share of public consumption (from 82.6% to GDP up to 79.8%). Rates of real growth of public and private consumption will be supported at the level of 1.5% and 3.6% on average respectively. The growth rates in *public consumption* will be formed in the light of the reforms aimed at optimizing the public administration. Growth in *private consumption* will be provided through the growth of population incomes (by 5.4% on average) due to the forecasted growth in real wages on average by 7.4% as well as growth in income because of entrepreneurial business.

Improvement of net export indicators is anticipated from (-31%) in 2012 to (-30%) in 2014.

*Export of goods* in the medium term will increase from USD 2,300 mln in 2012 up to USD 3,400 mln in 2014. The average annual nominal growth rate of export for the period 2012-2014 will be 19.4%. Growth of export will be provided by increasing supplies of gold, clothing and accessories, fruits and vegetables, cement and ginned cotton.

*Import of goods* in the medium term will increase from USD 3,700 mln in 2012 up to USD 4,600 mln in 2014. The average annual nominal growth rate of import of goods will be 10.6%

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due to increase in revenue of petroleum products, natural gas, equipment and mechanical devices for industry, ferrous metals and their products, electrical machineries, equipment and devices, pharmaceuticals and food products (including agricultural raw materials).

In the field of *social policy* the basic tasks for 2012-2014 are the tasks on promotion of population employment and competitive positions of labor resources, living standards and quality of life, reduction of unemployment and inactive population.

For this period growth of population by 56.6 thousand people in average per year is predicted and number of employed people will increase annually by 2.0%. GDP per capita will increase at an average 12.3% per year and make USD 1411.4 in 2014.

The real growth of monthly average wages is predicted at the level of 7.4% on average per year and this will increase in income of population by KGS 35.1 bln on average per year (KGS 307.5 bln. in 2014).

The rate of poverty in the medium term will decline in average per year by 1.2 percentage points and make 28% in 2014.

**Table 6. Social indicators for 2011-2014**

	2011	2012	2013	2014
	Expected	forecasted	forecasted	forecasted
Average annual number of present population (thousand people)	5249.0	5306.7	5359.8	5418.8
Poverty (in % to population)	31.6	30.1	29.1	28.0
GDP per capita, USD dollars	997.0	1125.7	1265.7	1411.4
Employment (thousand people)	2305.9	2352.0	2399.0	2446.9
Population income, KGS bln	202.1	232.5	266.9	307.5
Monthly average salary, KGS	9645.0	11381.1	13293.1	15553.0
<i>Real rate of growth (in %)</i>	<i>112.1</i>	<i>107.2</i>	<i>107.5</i>	<i>107.6</i>

**PART II. ATTACHMENTS**



## **Strategies on industry costs**

### **1. Social protection**

#### **Section 1 The main goals and objectives of the Ministry of social protection of the population**

**The main goal of the Ministry** is effective social security of socially vulnerable groups of population and provision of timely and quality social services.

**The objectives of the Ministry** are:

- improvement of the state support system in the field of social protection;
- support of functioning adequate, timely and address system of welfare and compensatory payments;
- implementation of social welfare of vulnerable groups of citizens in case of temporary disability, pregnancy and childbirth, funeral;
- effective delivery of social services through introduction of social standards and assured state minimum standards;
- development of medical and social rehabilitation of persons with disabilities;
- improvement of the quality of social services and provision of social services to vulnerable categories of citizens, families and children in difficult situations.

**The strategic vision of development of the Ministry** is to implement the effective social policy on integrated approach to improvement and development of social services provided and social protection of the population. The reforms conducted will be focused on promoting quality of life and reducing poverty. Children should be provided with the conditions for healthy and full development and the elderly and persons with disabilities with adequate social protection.

The potential, efforts and active cooperation of the Ministry with other state, private and international organizations will be aimed at achieving the basic principles of the welfare state above all of social justice and solidarity of the society, promoting the welfare of citizens and their interests.

#### **Section 2. Mutual problems**

Issues on social protection of the population occupy a special place in the state social policy of the Kyrgyz Republic. To date the basic principal of the Ministry policy is to strengthen the targeting of social assistance, the centralization of financial and material resources to assist the most short population groups.

Despite the fact that the targeting support system of low-income families and individuals – the recipients of a single monthly allowances (SMA) in the country working for the poor quite well compared with other countries, the repeated increase in size of government benefits over the past three years and the level of the state support to socially vulnerable groups of population still does not fit their needs.

In 2009 the average size of SMA was 5,3 % of the costs of living or KGS 171,6 but in 2010 this indicator made 6,7 % or KGS 235,2.

The average size of monthly social security benefits in 2009 made KGS 826.9 or 25.3 % of the cost of living but in 2010 it was KGS 1503 or 42.9 % of cost of living.

The current method of address assessment of benefits is to be improved. Hiding the real incomes by families and non-coverage by the system of families eligible for benefits on poverty can be resulted in errors of inclusion and exclusion to and from the lists of recipients. The current database of social passports of lower-income families in hard copy significantly reduces the efficiency of its processing and use in determining the real income of families and provision of benefits and bonuses and other social assistance to vulnerable groups of population as well as in preparation of the annual standard report on social passportization of low-income families.

However the actual problem is the need to address the issues of multidisciplinary rehabilitation and integration into society and advance training of doctors-experts. There is suffering from a shortage of specialists working in the field in remote areas. Most of persons with disabilities have a low income and have no financial opportunities to go out to get institutional prosthetic and orthopedic care. As a result a numbers of people with disabilities do not resort to prosthetic and orthopedic care.

A sensitive issue is to improve the quality and range of social services provided in nursing homes and to population. The specific needs in care, the social, the cultural and the consumer services are not being met adequately. Despite the effectiveness of the social projects implemented in the framework of the Law of the Kyrgyz Republic “On State Social Control” the most risk group children in need for social services are supported unduly. This is primarily because of underdevelopment of social services, acute shortage of professionals able to provide these services and lack of interest in their development on the part of local government and local authorities. In connection with cancellation of the insurance principle of appointment and payment of benefits for temporary disability, maternity, funeral (funeral grant) and payments for recreation activities, the financing payments of temporary disability benefits is assigned to the employer but benefits for pregnancy and childbirth from the eleventh working day and funeral grant are put to the state budget. Despite increase in benefits for pregnancy and childbirth from the eleventh working day from 7<sup>th</sup> to 10<sup>th</sup> tuple of the specified rate the average amount of benefits for pregnancy and childbirth is still low. In 2010 the ratio of the average amount of benefits for pregnancy and childbirth to the AMS of working-age population was 14.0%. In addition the average benefit amount for the burial is still low and amounting 20.4% of the AMS of the working population. Today it is necessary to create and improve the legal and regulatory framework in the field of social security of employees and providing for increase in the size of benefits specified. Development and capacity building of MSPP should be in solving the above problems and carrying out effective social policy. Since the advent of new functions and tasks in the sphere of social protection is radically changing the role of information and information systems. There is a need for a more unified program of integrated standards of civil registration and description of people socially served, the classification system of reference data linking the whole information system of social protection including new grouping classification without disrupting the structure of the classification and expanding access to this information. Complication of work processes and increase the volume of data processed needs the introduction of electronic document management system across the Ministry.

### **Section 3. Priorities of the Ministry**

The main priority of the social policy of the Ministry is to increase living standards, access of vulnerable groups of population to the system of social protection as well as ensuring adequate living conditions of population. These priorities align with the Millennium Development Goals (MDG) developed by the international community.

**The objectives of the Ministry** aimed at achieving the above priorities are:

1. Increase in targeting and gradual increase in the size of the allowances;
2. Further development of the system of social guarantees and compensations;
3. Reform and development of social services;
4. Improving the legal and regulatory framework in the field of social security of working people (payment of benefits for temporary disability, maternity and funeral benefits (for burial)).

**Expected results:**

- Improvement of social well-being of socially vulnerable groups of population;
- Increase in targeting;
- Increase in effectiveness;
- Improvement of quality and effectiveness of social services provided to vulnerable groups of population.

The effectiveness of targeting in conditions of limited resources is supposed to testing of means of families through the system of social certification of low-income families introduced in all ayil-okmotu. This is to determine the real incomes of families and to provide benefits and other social assistance to more helpless.

**Program 1 “State benefits”**

Social protection of population is a special issue in the state social policy of the Kyrgyz Republic.

Since January 2010 the reforms in provision of government benefits have been initiated including:

- a new version of the Law of the Kyrgyz Republic “On government benefits in the Kyrgyz Republic” was adopted and a number of regulations implementing this law and providing the procedural and administrative reforms in the provision of government benefits;
- the method of calculating the guaranteed minimum income (GMI) is improved, the Decree of the Government of the Kyrgyz Republic as 29 December 2009 №825 “On establishing a guaranteed minimum income” is taken and the size of GMI is increased from KGS 240 to KGS 282 in 2010;
- to strengthen the targeting the new criteria for determining the level of need in a family is introduced (since January 2010 is a monthly benefit for low-income families with children (MBLIF));
- in accordance with the Decree of the President of the Kyrgyz Republic “On establishing the size of government benefits» as of 13 November 2009 №508 the sizes of monthly social security benefits (MSSB) on average increased by more than 1.5 times in the country.

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In subsequent years it is necessary to monitor effectiveness of MSSB and impact of new criteria on the system of MBLIF to take further steps to improve social support of population and to develop the regulatory framework.

To monitor of welfare of poor families to provide them with social support the social passports of low-income families are used (hereinafter SPLIF). The current database for SPLIF in hard copy significantly reduces of its processing and use in determining the real income of families and granting benefits and reimbursement in exchange of benefits and other types of social protection to vulnerable groups of population as well as in preparation of the annual research reports. All it takes specific steps to automate SPLIF and use of new technologies.

**Goal:** To strengthen targeting and gradual increase in the size of governmental benefits.

**Objectives:**

Monitor and analyze the impact of eligibility criteria and procedures for establishment of monthly benefits to low-income families with children in the targeting of benefits provided;

Further support of targeting of SPLIF through improvement of the method of calculating income standards received from use of land allotment;

- Ensure the timely and full payment of government benefits;
- Increase efficiency of MSSB;
- Increase in size of the government benefits.

**Benefits are provided to:**

- *Low-income families* – monthly benefit for low-income families with children (MBLIF), its size is defined as the difference between GMI and per capita joint income of a member of low-income family;
- *Disabled persons* who are not eligible for pension coverage in accordance with the legislation (ECII).
- *Persons with disabilities, parents and children of citizens fall during the tragic events in April-June 2010 in accordance with the Decree of the Provisional Government of the Kyrgyz Republic as of 24 August 2010 N124*

Indicator \ Year	Unit of measure	2010	2011 forecast	2012 forecast	2013 forecast	2014 forecast
Minimum consumer budget (MCB)	KGS	3,502.7	4,220.7	4,647.1	5,051.3	5,490.7
Guaranteed minimum income	KGS	310	370	410	445	485
Share in MCB	%	8.8	8.7	8.8	8.8	8.8
Average state benefits to low income families (inclusive of compensation for food stuff)	KGS	235.2	290.0	315.4	346	374
Share in MCB	%	6.7	6.87	6.8	6.8	6.8
Average MSSB (inclusive of compensation for food stuff)	KGS	1503	1,646	2,144 index 15%	2,447 index 15%	2,790 index 15%
Share in MCB	%	44.1	39.0	46.1	48.4	50.8
Benefits to victims of 2010 disturbances	KGS	3,100	3,400*	3,700	3,700	3,700
Share in MCB	%	88.5	80.6	79.6	85.1	89.2

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The current trend demonstrates that GMI does not reach 12% of the minimum consumer budget as it was prior to the start up of the social protection system reform.

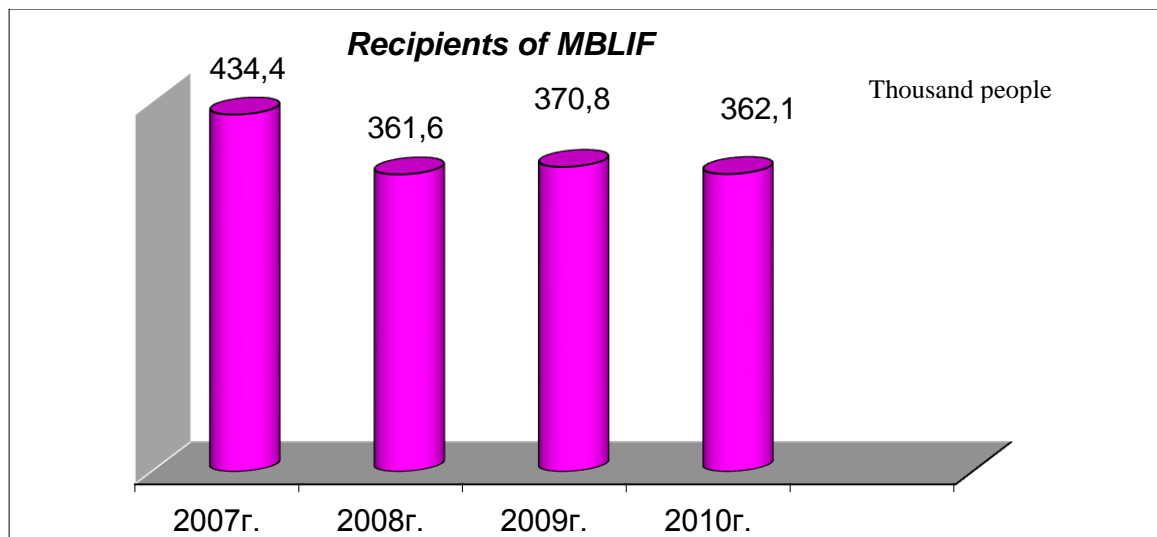
According to the law of KR “On government benefits in KR” the size of GMI should be reviewed annually taking into account the state of economy and size of the minimum consumer budget.

The government benefits (especially MBLIF) to date do not allow significant changes in the quantitative composition of the extremely poor but it contributes to significant reduction of abruptness in family income. Social support in the form of government benefits is an effective tool in reducing extreme poverty as their funds are aimed at improving the welfare of marginal population.

In order to mitigate effects of the global economic crisis the Decree of the President of the Kyrgyz Republic “On temporary measures of the state support for socially vulnerable groups of population due to increase of food prices” as of 8 September 2008 №326 since 1 October 2008 set compensation payments to recipients of the government benefits in the amount of KGS 35 per month.

Since 1 January 2010 the size of compensation payments to recipients of MBLIF is increased to KGS 40 (Decree of the Government of the Kyrgyz Republic as of 29 December 2009 №826 “On temporary monthly compensation for food products to recipients of monthly benefits to low-income families with children”). For recipients of MSSB the compensation payments are included in the total amount of MSSB.

A number of recipients of MBLIF for the last four years is as follows.

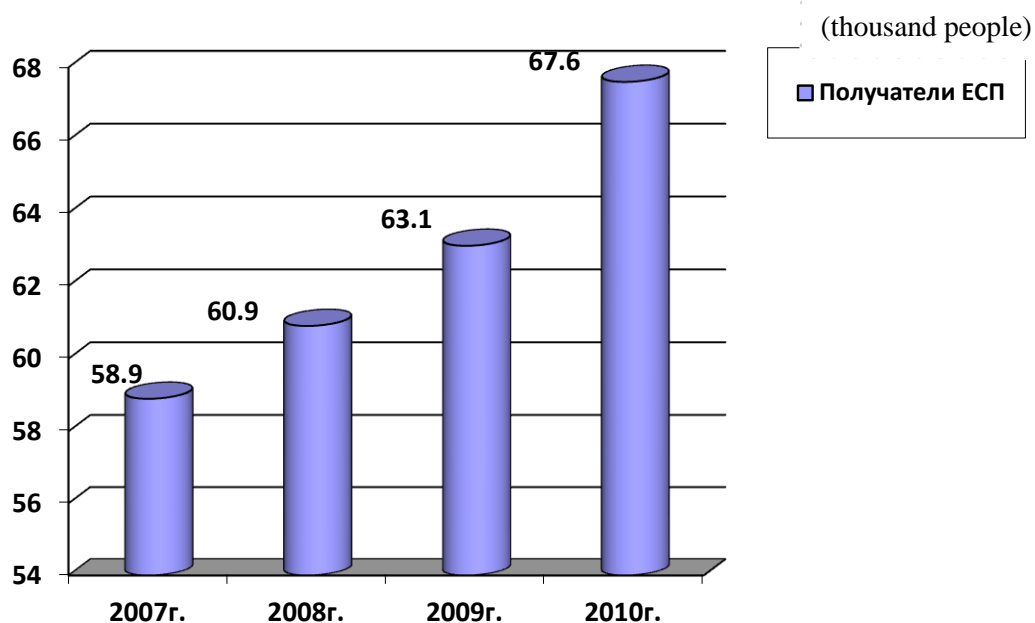


Reduce the number of the following problems was in a result of implementation of the CPC – *improvement of methods for determining need in MBLIF considering the indexation of prices* as well as increasing incomes of population.

In order to ensure further development of government benefits system in 2010 according to the Decree of the Government of the Kyrgyz Republic as of 20 July 2010 №131 “On strengthening social support of the vulnerable groups of population” the size of GMI is increased from KGS 282 to 310.

### The monthly social allowances.

Annual growth in the number of monthly recipients of social allowances (MSA) is an average of 5%



Reason for growth of the recipients of MSA is growth of disabled children, disabled people of common diseases and children without their breadwinner. One reason for growth of the recipients of MSA is that many of the workforce working in the informal sector do not pay over premiums to the Social Fund. As a result, when the insurance for these categories will not be eligible for pension under the Law of KR “On State Social Insurance Pensions” through the Social Fund bodies. But if to support these categories in accordance with the Law of KR “On State Allowances in KR” at the expense of the national budget assigned to MSA.

In 2010, the size of MSA was increased on average by 1.5 times while increase in the number of the recipients of MSA was 7% compared with 2009. This is because of the size of MSA have become more attractive to those who have not previously addressed MSA due to not high size of benefit and is a positive trend since the monthly social allowance is provided to people who this support is not extended to.

### Additional monthly social allowances

In connection with the tragic events occurred in 2010 there were adopted new regulations that provide additional social support to the citizens affected in the above events in particular: - Decree of the Provisional Government of the Kyrgyz Republic as of August 24, 2010 #124 “On providing the state social support to the families of the victims as well as the citizens of the Kyrgyz Republic affected by the events of April 6 in Talas, April 7 in Bishkek, 13-14 May in Jalal-Abad, in June 2010 the events in Osh City and Osh, Jalal-Abad oblasts” providing for the appointment of additional monthly social security benefits in the amount of ten times the size of the MSA (KGS 3100) to families of the victims:

- Children – until they reach the age of 18;
- Parents (father, mother) ob reaching retirement age if the deceased was the only child – for term of life;
- Victims recognized the persons with disabilities;

- Decree of the Government of the Kyrgyz Republic as of 18 September 2010 №209 “On implementation of the above Decree of the Provisional Government of the Kyrgyz Republic providing for the procedure of appointment and payment of additional monthly social benefits to the families of victims as well as citizens of the Kyrgyz Republic affected by the events of 6 April in Talas oblast, 7 April in Bishkek City, 13-14 May in Jala-Abad City and in the June events 2010 in Osh City and Osh and Jalal-Abad oblsts;

- Decree of the Government of the Kyrgyz Republic as of 25 August 2010 №173 “On the state social assistance to the citizens of the Kyrgyz Republic affected by the events of June 2010 in the City of Osh, Osh and Jalal-Abad oblsts”.

As of 1 April 2011 the number of the recipients of MBLIF is 646 people.

**In 2011**, it was allocated for payment of the state benefits **KGS 2,858.4 mln** assuming that a monthly GMI makes up KGS 310 and that it would increase to KGS 370 starting on 1 July 2011; in was allocated for payment of the monthly benefits for low income families KGS 1,410.9 mln, MSSB - KGS 1,513.2 mln, the benefits for victims of 2010 disturbances - KGS 99.3 mln.

In addition to the required amount it was provided KGS 165 mln.

- For the period **2012 - 2014** it is expected the increase of GMI from KGS 410 to KGS 485 providing strengthening of targeting of MBLIF. With the growth of GMI there will be increase in number of the recipients and respectively the amount needed to pay:
- As predicted in **2011** the number of recipients of MBLIF will make 410,5 thousand people (including a lump-sum allowance for maternity). The size of MBLIF will make KGS 321. The number of the recipients of MSSB will make about 67,6 thousand people with an average size of payment of MSSB will be KGS 1864.

Also there are will be paid the monthly compensations for food products to recipients of MBLIF amounting KGS 40.

### **Program 2 Social support in the form of social protection and compensations**

The strategic direction of the public policy in providing social protection and compensation to certain categories of citizens if timely payment of monetary compensations in return benefits to 25 categories of recipients.

**Goal:** Keeping the number of monetary compensation recipients categories at the level of 2010 (25 categories).

#### **Objective:**

- Stabilization of the number of compensation benefits recipients categories in return of benefits;
- Timely payment of a single fixed compensation allowance to certain categories;
- Provision of targeting of monetary compensations payments.

Before 2010 the benefits were provided in the form of money payments (housing and utilities, pharmaceuticals, transportation, etc.) and on the principle of non-cash payment (sanatorium resort packages, travel across CIS, hearing aids, dentures, optics, and subscription). Since 1 January 2010, there was made complete monetization of beneficial services. At that

the categories of beneficiaries were reduced from 38 to 25 as well as reduction of kinds of beneficial services from 40 to 8.

For this by the law “On introducing amendments and addenda to some legislative acts of the Kyrgyz Republic” as of December 30, 2009 there were amended accordingly to number of the Laws of the Kyrgyz Republic providing beneficial services. Similar changes were made in implementing the laws of the Government of the Kyrgyz Republic (Decree of the Government of the Kyrgyz Republic as of December 22, 2009 № 795 “On payment of compensation allowance in exchange of benefits”).

**In 2010**, the monetary compensations in return of benefits were received by 25 categories of beneficiaries. Their number amounted to 54.2 thousand people. The amount of funding money from the state budget for the payment of compensations and benefits was **KGS 1 522.3mln.**

At the same time there is paid the monetary compensations instead of social benefits to all categories with the amount compared with the actual social benefits taken before is increased in several times and mounted in fixed amount from KGS 1000 to 7000.

In 2010, in honor to celebration of the 65th anniversary of Victory in Great Patriotic War the veterans received additional lump sum payments and life-long grants totaling **KGS 198,9 mln** except the annual payments.

In connection with the tragic events occurred in 2010 there were paid monetary compensations to the families of killed and affected persons totaling **KGS 139.7 mln.** In addition there were purchased 1428 sanatorium vouchers totaling **KGS 18.8 mln.**

A total of benefits in 2010 was **KGS 1 879.7 mln.**

**In 2011**, the social protection and compensations (monthly monetary compensation in return of benefits, additional annual lump sum allowance for the celebration of Victory Day in World War II, life-long grants to veterans of World War II, a lump sum allowance for the 25th anniversary of the Chernobyl accident, *prosthetics*, providing with vouchers, for the payment of a lump of material assistance to the families of killed in the June 2010 events) from the national budget will need **KGS2 240.5 million.** In addition to the amount required there will be need for KGS 673.7 million (KGS 558.8 million from them are included in the “social package”). The calculation of the budget for **2012-2014** was carried out without indexation. Also reducing the number of 5 to 10% by certain privileged categories of citizens and increasing of 5 to 10 categories of honor donors and visually handicapped and of hard hearing persons were taken into account.

### **Program 3 Social welfare of employees**

Regulations on appointment and payment of benefits for temporary disability, benefits for pregnancy and childbirth and the Regulations on manner and amounts paid of funeral benefits (for burial) governing the appointment and payment of benefits are approved by the Government Decision as of August 14, 2006 № 576 “On the appointment and payment of benefits for temporary disability, maternity benefits, funeral benefits (for burial)”.



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Employers, the self-employed, members of the peasant (farmer) enterprises should pay temporary disability benefits for all working days and benefits for pregnancy and childbirth for the first ten working days at their own expense (wage bill).

Thus, the Program “Social Security of employees” includes the following costs:

- Funding of benefits for pregnancy and childbirth from the state budget from the eleventh working day (on the base of KGS 1,000 per month);
- Funding of benefits for burial (funeral services).

Currently the funeral benefit is paid:

- to working citizens at a rate of 15 indicators calculated from the national budget and makes KGS 1,500 or 21.0% of the average monthly wage (AMW);
- Dependents of working citizens at the rate of 7 specified indicators from the national fund and makes KGS 700 or 9,8% of AMW;
- Unemployed people from the local budget in the rate of five times the guaranteed minimum income from 1 July 2011 and makes KGS 1850 (GMI is KGS 370).

Table of indexes and changes in relation to social security payments to the average wage (AW) for 2010-2011 and forecast for 2012-2014

Indexes	2010	2011	Forecast 2012	Forecast 2013	Forecast 2014
Average wage (KGS)	7 142	9 645	11 381	13 293	15 553
Average amount of benefits for pregnancy and childbirth from the 11 <sup>th</sup> working day, KGS	1 000	1 000	2 000	2 500	3 000
Ratio of allowance for maternity from 11 <sup>th</sup> working day to AW, %	14,0	10,3	17,6	18,8	19,3
Average allowance for burial, KGS	1 456	1 444	5 814	6 913	8 076
Ratio of allowance for burial of working person to AW, %	20,4	15,0	51,1	52,0	52,0

In the budget of 2011 there are provided funds for payment of social welfare of working person from the national budget totaling KGS 102 mln, from them KGS 97.2 mln for pregnancy and childbirth and KGS 4.8 mln for burial.

As of January 1, 2011 the total number of beneficiaries was 25,146 working people for 30.6% more compared to same period last year. Carry-over of the previous year was KGS 16.5 million. Total benefits charged were KGS 108.1 million. Funds used from the national budget for reimbursement of allowances made KGS 12.8 million. It should be noted that some part of the funds allocated in 2010 covered the debt balances in 2009 to KGS 16.5 million under the employers. The balance outstanding as of the end of 2010 under these payments amounted to KGS 11.8 million.

In the Country Development Strategy for 2009-2011 there was provided increase in benefits for burial of citizens. In this connection since July 1, 2011 will be the annual increase in allowances for burial depending on the size of the average wage existing in the country for the previous calendar year so respectively it is expected annual increase in the number of recipients of benefits by an average of 15 percent. To perform this activity for these payments from the national budget in 2012 will be required KGS 15.1 million, in 2013 for KGS 20.6 million and in 2014 for KGS 27.7 million. In addition for 2012 it is planned to bring the amount of benefits for pregnancy and childbirth from the eleventh working day from 10 tuple

of the estimated rate up to 20 tuple i.e. up to KGS 2,000. In case of increase of benefits for pregnancy and childbirth from the eleventh working day per KGS 1,000 per month it is planned annual increase in the number of beneficiaries by 10 percent. With the estimated number of 25.4 thousand persons with an average size of grants from the 11th working day totaling KGS 2,000 in 2012 the amount needed is KGS 216.2 mln but in 2013 is KGS 237.0 million and in 2014 KGS 382 6 million.

**Program 4 “Development of social services for socially vulnerable groups of population” under the law of KR “On state social control”**

*State social control is* a set of the state contracts for delivery of goods, production of works and provision of services related to implementation of social policy at the expense of the budget.

**Goal:**

- Ensuring the social well-being socially vulnerable groups of population;
- Support for civil society through implementation of the social control by the public nonprofit organizations; involvement of citizens in solving social problems.

**Objectives:**

- Involvement of the representatives of the government agencies and civil society to address the problems of socially vulnerable groups of population through implementation of the state social control;
- Improvement of the quality of social services;
- Creation of a market for provision of social services;
- Training of social workers and other activities under the social programs (projects).

The Law of the Kyrgyz Republic “On state social control” as of 21 July 2008 № 162 was adopted in the country to significantly simplify and make more active work to address the many socio-disadvantaged categories of population including persons with disabilities and senior citizen living alone.

To achieve the above objections and priorities the Ministry provides the development of services for socio-disadvantaged categories of population under implementation of the Law of KR “On state social control”. Financing the social programs implemented under the state social control is conducted at the expense of the republican budget in the form of grants.

Under the Program “New Generation” in 2007-2008 the Ministry of Labor and Social Development announced the contest of the social projects on subject: “Prevention of neglect and child labor exploitation and the social integration of children with special needs”. In support of two target groups: working children and children with special needs at the request of the Ministry there was KGS 5 mln allocated to each group.

**In 2009** the Ministry of Labor and Social Development of the Kyrgyz Republic announced the contest of the social projects on subject: “Prevention of the worst forms of child labor and the social adaptation of children with disabilities”. The contest committee selected 24 projects of noncommercial organizations for financing, 17 projects from them worked with children with disabilities and other 7 projects worked to prevent the worst forms of child labor. The total funding for selected 24 social projects made KGS 4,3 mln.

**In 2010** The State Social Security Agency under the Government of the Kyrgyz Republic announced the contest of the social projects on subject: “Development of rehabilitation potential and services for persons with disabilities”. There were 43 applications from NGOs from all the regions of the country to participate at the contest, the Contest Committee selected to implement 21 actual projects (attached) from them: in Issyk-Kul oblast - 2, in Chui oblast - 4, in Talas oblast - 2, in Naryn oblast – 3 and in Bishkek City - 10;

Total funding of all selected social projects made KGS 2,4 mln.

**In 2011** the Ministry of the Kyrgyz Republic on social protection of population for announcement of the contest of the social projects to attract noncommercial organizations to solve social problems and services from the budget on subject: “Development of social services for socially vulnerable senior citizens” and KGS 5 mln provided.

To organize and conduct the contest the Department of Social Security formed separate the contest committees for each contest.

To implement the Law of the Kyrgyz Republic “On state social control” to achieve the above objections and priorities of the Ministry in three years forecasted there will be provided for KGS 5 million every year.

The subject of the social control will be determined every year by the customer.

### **Program 5 Social stationary institutions**

**Goal:** to improve opportunities for complex psychological and social rehabilitation of disabled persons.

#### **Objectives:**

- To improve material security in social stationery institutions;
- To differentiate the food standards in social stationery institutions adjusted for inflation;
- To adapt and rehabilitate socially children and adults living in institutions;
- Quality repair of buildings in social stationery institutions.

Social services of disabled and elderly people are provided in stationery institutions of social security. As of January 1, 2010 there are 2306 persons under care in these institutions under full state support. In 7 nursing homes the farms to enrich the food ration with vegetables, fruits and dairy products are organized. From them 5 are neuropsychiatric, 3 for children and 6 for the elderly and the disabled. The nominal number of administrative and economic, medical and other staff of the nursing homes is 495.0 people. In accordance with the decree of the Government of the Kyrgyz Republic as of December 30, 2007 № 640 “On approval of the state minimum social standards for support of fosterling in the residential homes and hospital of the medical and social expertise and rehabilitation of the disabled under the Ministry of Labor and Social Development of the Kyrgyz Republic”, the quality of services provided and food standards in nursing homes for elderly and disabled persons is KGS 55.0 per person per day and KGS 65.0 for children. Despite the increase in food prices the food standards have not been revised yet. In order to establish normal living conditions for beneficiaries residing in nursing homes and meet their minimum physiological needs we offer to increase the rate for adults from KGS 55 to 75 and from KGS 65 to 85 for children respectively. There will be

additionally KGS 8.3 mln required. In 2008 for overhaul in nursing homes by the state budget was allocated KGS 2.9 mln and in 2009 was KGS 0.7 mln and in 2010 was provided KGS 15.0 mln.

In order to improve and regulate the system of payment for workers in nursing homes the Ministry developed draft regulations of the Government of the Kyrgyz Republic “On introduction of a new system of remuneration of employees of nursing homes and social workers of the social welfare system serving at homes”. With the increase of wages since May 1, 2011 and the basic salaries are set differentiated and require an additional 8 months for 14 nursing homes from the state budget – KGS 51.4 mln (included to the “social package”).

### **Program 6 Center for medical and social expertise of people with disabilities.**

**Goal of** the Centre is to provide timely and quality expertise of citizens for violations of the categories of life activities and determining the needs of persons with disabilities in the measures of social protection for further social integration to the society.

#### **Objectives:**

- Improvement of the quality of medical and social expertise (hereinafter MSE);
- Assurance of access to the center services;
- Assurance of timely and quality accounting and analysis of the structure of disability in the Kyrgyz Republic;
- Creation of conditions for development and implementation of individual rehabilitation programs approved by the Chairman of the Medical and Social Expert Commission (hereinafter MSEC).
- Improvement of the regulations on examination of disability;
- Increase in rehabilitation and services volume in the systems of health, social protection, education, etc.;
- Development of the medical and social expertise system and extension of production and appliances to facilitate people with disabilities.

The Center for MSEPWD performs the following functions:

- Providing quality, the scientific feasibility of MSE and developing rehabilitation measures in the country, introducing scientific principles and methods of assessment into the practice of MSEC and developing proposals for further improvement of MSE;
- Considering appeals and statements of citizens passed examination in the regional MSEC and and appealed their decision;
- Reexamining the citizens (mostly in complex expert cases);
- By recommendations of the territorial MSEC does examine the citizens, if necessary to conduct additional examinations in the medical institutions and the research centers of the country in order to obtain additional information required for the implementation of MSE;
- Reception of citizens, ensuring the timely and full consideration of oral and written applications on MSE, studying the causes and providing of decision taking;
- By recommendation of the organizations engaged in social security:
  - a) carrying out the post-mortem MSE by the medical documents submitted to disability tests for the specified period;
  - b) establishing disability for the last time by the medical documents submitted to disability tests for the specified period and cause of disability and seeds of disability;

- c) depending on the circumstances and conditions of formation, the terms and date of onset of disability and the needs of persons with disabilities in various types of social security;
- Providing consultations to the territorial MSEC and the doctors of health care organizations on issues of MSE;
  - Consulting and making recommendations concerning the organization of work of persons with disabilities at work;
  - effecting control and quality of examination of the regional MSEC, validating the correctness and validity of expert decisions (by full-time attendance and extra-mural re-examination of persons with disabilities, research of files management, working to identify expert errors and developing measures to prevent and eliminate errors;
  - Together with the Ministry of Health of the Kyrgyz Republic is studying factors leading to disability, participating in development of integrated programs for the prevention of disability and development of individual rehabilitation programs for persons with disabilities, controlling and evaluating the effectiveness of rehabilitation measures;
  - Forming the database on persons with disabilities;
  - Conducting the scientific conferences, seminars and lectures on activities of the Center for medical organizations including based on the Kyrgyz State Medical Institute of retraining and advanced training for physicians of the medical organizations at the training courses;
  - assisting the voluntary associations of persons with disabilities in the prescribed manner;
  - Interacting with the territorial authorities of social protection, health care organizations, employment agencies, local governments, educational institutions and organizations operating with persons with disabilities as well as with the representatives of public organizations;

Creation of real conditions for implementation of the state guarantees is required by the right of persons with disabilities to the medical and social protection supported by the state.

### **Program 7 Center for rehabilitation of persons with disabilities**

**Goal** of the Rehabilitation Center is create conditions for the comprehensive rehabilitation of persons with disabilities and promote their integration into the society and family.

#### **Objectives:**

- creating an integrated system of rehabilitation of persons with disabilities;
- improving the quality of rehabilitation services to persons with disabilities.

Rehabilitation Center has the following functions:

- Providing the comprehensive approach measures for the rehabilitation of persons with disabilities;
- Receiving and hospitalizing the persons with disabilities for comprehensive rehabilitation and training amputation stump to prosthetics aimed at eliminating muscle weakness, stiffness and contraction of the joints, development of support ability and resistance of skin amputation stump;
- Carrying out rehabilitation activities aimed at training the whole body, mobilization of persons with disabilities of compensatory-adaptive possibilities including psycho correction activities;

- Carrying out medication, physiotherapy and rehabilitation of health and fitness as well as dentistry and prosthodontics of people with disabilities;
- Carrying out activities for individual rehabilitation programs approved by the Head of the Center for Rehabilitation;
- Determining the timing and frequency of stay of persons with disabilities at the Center for Rehabilitation;
- Providing training and rehabilitation activities for children and adolescents - persons with disabilities and their parents for rehabilitation activities at home (following the principle of continuity);
- Carrying out the selection, training and placement of cadres, training and improvement of professional development at the refresher courses.
- Equipping the material and technical base of the Rehabilitation Center with necessary facilities, rehabilitation equipment and ammunition as well as increasing of personnel qualification of the Rehabilitation Center;
- Carrying out the activities to attract humanitarian and grant assistance for persons with disabilities within their jurisdiction;
- Carrying the current and major repairs of the building of the Rehabilitation Center, working to prevent emergency situations in it and implementing sanitary measures in accordance with the legislation of the Kyrgyz Republic;
- Providing acquisition and procurement of food products to cook and provide three meals a day for people with disabilities who are living at the Center for Rehabilitation;
- Performing other duties not inconsistent with the legislation of KR.

### **Program 8 Administering programs**

#### **Goals:**

- Develop and implement measures to improve living standards and incomes of population, social protection and social welfare of senior citizens;
- Creation of effective the material and resource and efficient environment for the implementation of social programs aimed at improving living standards of population;
- Provide the necessary legal environment for more efficient delivery of social services.

#### **Objectives:**

- Implementation of measures to stabilize the standard of living.

Costs under this program in 2009 amounted to KGS 59.2 million that made 2.4% of the total budget of the Agency (*Ministry*). Total expenditures under the program for 2009-2010 taking into account increasing since 1 January 2008 of the size of salaries to public officers and workers of social security (*excluding workers of nursing homes*) and employees engaged in maintenance according to the Decree of the President “On the conditions of remuneration of labor of the state and municipal workers of KR” as of December 13, 2007 № 548, the Decree of the Government of KR “On the conditions of remuneration of labor of workers of the government and local government bodies of KR” as of January 23, 2008 № 22 the amount of average of 1.0% of total expenditures of the Ministry i.e. in 2010 were KGS 56.8 million (*including severance payments of the staff reduced in Headquarters and the Social Services Centers*).

In March 2010 the costs under this program, based on the Decree of the President of the Kyrgyz Republic as of December 14, 2009 № 573 “On manpower strength ceiling of

Ministries, Administrative Departments and other bodies of Kyrgyz Republic” were reduced to KGS 14.6 million.

in 2011 there are KGS 42.9 million provided by means of the grant from the World Bank “Health Care and Social Protection” to strengthen the administrative capacity and training of staff of the Ministry and KGS 64.1 million for procurement of equipment to create the information system of population social assistance management.

In addition in connection with conversion of GASO under the GoKR to the Ministry of Social Protection of Population there were expanded a number of problems of social security.

#### Section 4 Analysis of data on expenditures and financing of programs

Budget of MSPP of KR is aimed to reduce poverty through provision of social services to vulnerable groups of population. Dynamics of changes in performance requirements of the budget of the Ministry is shown in the table.

**Table. Priority expenditure budget of MSPP of KR**

Indexes	2009	2010	Forecast 2011	Forecast		
				2012	2013	2014
GDP, KGS bln	214.2	212.2	251.2	286.7	325.6	367.1
<b>Budget of MSPP of KR, KGS bln</b>	<b>2.5</b>	<b>4.5</b>	<b>4.8</b>	<b>5.7</b>	<b>6.7</b>	<b>7.6</b>
Budget of MSPP to GDP, %	1.2	2.1	1.9	2.0	2.1	2.1
<b>Expenditures for public welfare payments, KGS bln</b>	<b>1.4</b>	<b>2.3</b>	<b>2.8</b>	<b>3.7</b>	<b>4.5</b>	<b>5.3</b>
Specific weight to GDP, %	0.7	0.9	1.1	1.2	1.3	1.4
<b>Costs of compensation payments, KGS bln</b>	<b>0.8</b>	<b>1.9</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>
Specific weight to GDP, %	0.4	0.8	0.6	0.5	0.5	0.4
<b>Priority expenditures of MSPP of KR, KGS bln (allowances, compensatory payments)</b>	<b>2.2</b>	<b>4.2</b>	<b>4.4</b>	<b>5.2</b>	<b>6.0</b>	<b>6.8</b>
<b>Priority expenditures of MSPP of KR to total budget of MSPP KR (%)</b>	<b>88.0</b>	<b>93.3</b>	<b>91.7</b>	<b>91.2</b>	<b>89.6</b>	<b>89.5</b>

As is seen from the table the lion's share of total budget expenditures of MSPP KR take priority expenditures of the Ministry i.e. public welfare and compensation payments. Dynamics of funding of MSPP KR from the national budget for sectoral programs is demonstrated in the following table.

No	Programs	2011 (KGS mln)	2012 forecast (KGS mln)	Dynamics %	2013 forecast (KGS mln)	Dynamics %	2014 forecast (KGS mln)	Dynamics %
1	Allowances	2 858.4	3 738.1	130.8	4 477.4	119.8	5 348.7	119.5
2	Compensatory payments and reduction of payments	1 566.8	1 468.1	93.7	1 488.5	101.4	1 414.3	95.0
3	Social services for working people	102.0	231.3	226.7	257.6	111.3	410.3	159.2
4	Development of social services under the law of KR “On state social control”	5.0	5.0	100.0	5.0	100.0	5.0	100.0
5	Social stationary institutions	165.7	214.1	129.2	356.6	166.5	375.5	105.3
6	CMSE	21.6	31.6	146.3	31.6	100.0	31.6	100.0

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7	CRPWD	6.7	9.0	134.3	9.0	100.0	9.0	100.0
8	Administrating programs	139.3	45.7	33.1	47.4	103.7	49.4	104.2
	Total:	4 865.5	5 742.9	118.0	6 673.1	116.2	7 643.8	114.5



## 5. Public Health Care

The National Health Care Reform Program of the Kyrgyz Republic “Manas Taalimi” has been developed for the period from 2006 to 2010 but in order to synchronize it with the Country Development Strategy (CDS) (2008-2011) Ministry of Health Care together with the Development Partners decided to extend the program to the end of 2011. When “Manas Taalimi” was completed the evaluation was carried out so there would be determined the further development of the health care system by the results of and would form the basis of situation analysis in the next national strategy for health care reform in Kyrgyzstan.

It should be noted that by time of the mid-term evaluation the Government of the Kyrgyz Republic has set new challenges for the health care sector such as the institutionalization of single-payer system completion, improvement of the mechanisms of HIF procurement, support the development of market mechanisms in the health care sector, further upgrading the services at all levels to provide medical assistance as well as strengthening health promotion activities. Despite the fact that these objectives have been included into the program “Manas Taalimi” they were not well developed and were not a priority in the first phase of its implementation. So the mid-term evaluation has identified the most problematic areas, amended the program “Manas Taalimi” and defined the basic principles of the new strategy based on:

- Eligibility: retaining and continuing of achievements of the previous reforms in health finances system;
- Result-orientedness: finance as a tool to achieve certain results;
- Focus on patient: financial support for medical services provided in accordance with the needs of the population;
- Justice: financial system should provide progress in all sectors of health care;
- Transparency: the financial system should be understandable, available and predictable;
- Democracy and flexibility: the system of funding should provide an autonomous autonomy in their use for each recipient;
- System-wide approach to parallel funding.

In addition to SWAP the donor community is allocating USD 24.0 mln for:

- (i) improving the standard of performance of the health care sector of the Kyrgyz Republic;
- (ii) strengthening of targeted distribution of social benefits;
- (iii) promotion and support of health and nutrition of vulnerable groups of population affected by a sharp rise in food prices.

and will be implemented by the components:

### **Component 1 - Protection of health and nutrition in the regions affected during the events of June 2010.**

- (i) strengthening prenatal and maternity medical facilities of the oblast level in three areas in the south (Osh, Jalalabad and Batken) by combining the two maternity hospitals (hospital of Osh and Osh City Perinatal Center);
- (ii) funding package aimed at activities of women and children to improve the quality of food, along with strengthening the role of village health committees in carrying out in various localities campaigns aimed at improving the quality of food;
- (iii) the mental health field in the three southern provinces in order to treat mental illness, the consequences of the conflict.

**Component 2 – Provision of health coverage and strengthening reforms in health policy.** This component will continue to provide assistance to cover operating costs for the implementation of the Program “Manas Taalimi” (supported under the original design) and the new health strategy to help finance a package of government guarantees (PGG). Also, the package will be provided technical assistance to improve policies to support the further development of medical practice in the areas:

- (i) pricing of pharmaceutical products;
- (ii) determining the cost of implementing the new health strategy and a plan of work;
- (iii) preparation and execution of the budget and costing operating costs except for salary;
- (iv) preparation of a master plan for a network of hospitals;
- (v) determining the functional and structural relationships between the MOH and HIF;
- (vi) determine the decisive factors in health care paying particular attention to developing strategies to strengthen public health focusing on urban areas, and
- (vii) improve the quality of care.

**Government policy in the field of budgetary financing and investments in health care:**

- Development and adoption of the system of indicators (standards, regulations, orders of magnitude) for formation of the health budget at the national level. Implementation of the principles of the state order for public health services; - targeting of benefits in the health system;
- Taxation of medical services for public and private health organizations. Tax incentives (promotion of non-governmental organizations and persons performing programs and activities to protect and improve the health of the population);
- Government regulation of pricing and procurement of medicines and medical products for the health care sector, the use of financial leasing for the equipment of health facilities with medical equipment;
- Attraction of investments aimed at strengthening the material-technical base of medical institutions to equip them with modern medical-diagnostic equipment and medical equipment, providing quality health care;
- State regulation of receipt and use of funds from international donors, in accordance with the tasks in the field of health care;
- Regulation of activities of international organizations on the territory of RS in health care;
- A foundation for public-private partnership in health care by bringing health services of the private sector in the implementation of health care programs;
- Increasing the responsibility of all governments for its implementation.

With the transition to advanced methods of financing from the consolidated budget without a line item breakdown, increase in administrative and financial autonomy of suppliers increases their responsibility for the amount and quality of public services. Procurement and contractual process, planning budgets of health care organizations in terms of accumulation and consolidation of health means require the development and improvement of professional and managerial qualities and skills of payers and providers to further improvement of information technology;

- Development of regulations to establish a system of internal control for health organizations. Strengthening in-house management.

**Review of the current situation in the sector**

Public funding of the health sector has also increased due to the overall economic situation improvement. There has been an overall increase in public expenditure and the implementation of commitments made by the Government in accordance with the wide-sectoral Approach (SWAp) to distribute allocations on a priority basis for funding the health

sector. In the period 2005-2009, the government spending per capita for 2.3 times increased (budget + HIF) excluding funds SWAp and 2.7 times in the light of SWAp. In general, the proportion of total expenditure on health has increased over this period from 5.9% of GDP to 6.4% of GDP. Additional financial investment in the health sector made wages to raise, eliminate co-payments for certain vulnerable groups and improve the subsidies for procurement of medicines and medical supplies.

- The most serious health **problems** at this stage include:
- Lack of public funding of the health system;
- A large financial burden due to the ongoing informal payments and a high level of co-payment was placed on the households who used health care services at an outpatient or inpatient levels;
- Insufficient quality of health service delivery at all levels;
- Lack of awareness and public organizations on issues of prevention and health protection, the rights granted to citizens in obtaining health care assistance;
- Lack of capacity of the health sector associated with weak logistical and information support, inadequate knowledge and skills of health workers and low incentives to improve the quality of health services;
- Low effectiveness of interventions for maternal and child health related to problems in both the health care system and factors of poverty, migration and unhealthy lifestyle.

**Programs implemented by the health sector:**

<b>Flows of funds in health care system</b>	
<b>Ministry of Health care</b>	<b>HIF</b>
Medical and social, rehabilitation, administration and education	Program of the government guarantees for health care assistance for citizens of the Kyrgyz Republic
Public health care	Additional programs PMI
High-tech (expensive) medical services	

**Program 3 High-tech Medical Care Fund**

For to the High-Tech Medical Care Fund the Ministry of Health provides for payment to health care organizations for costly and high-tech medical services rendered to the population by the waiting list.

The main **objectives** of high-tech medical care program are:

- ensuring public access to expensive high-tech methods of treatment;
- improving the procurement of high-tech medical services;
- ensuring equity of access to new forms of expensive high-tech treatments.

The main **objective** of this sub-program is gradual increase of financing of the High-Tech Medical Care Fund.

**Review of current situation**

Given the value of the Fund by the Ministry of Health and the Ministry of Finance are taking measures to increase funding. If in 2010 there were approved funds in the amount of KGS 82.0 million but given the increase in patients with chronic renal failure the figure was increased to KGS 152.4 million. In 2011 for this purpose, taking into account the continuity of policy for the sector there were approved KGS 132.0 million or 161.0% more than the approved budget for 2010.

At the present time due to lack of funds for the Fund of high-tech medical care there is low availability of the inhabitants of the regions to high-tech treatment methods and much of the cost come upon the shoulders of the patients.

**Key measures** in the program:

- a gradual increase in funding the high-technology fund;
- determination of quotas for regions in the use of high technologies of the Fund;
- improvement of material base of the regional health organizations to improve the accessibility of the program.

**Program indicator**

- The number of patients receiving medical assistance through the Fund for high-tech medical care.

**Program 4. Public health care**

The current funding of the sanitary-epidemiological service on the basis of per capita standard does not meet the objectives and the specific areas of the service. The budget should depend on the particular needs of its region and in certain services but not on the number of people. The results of operations should depend directly on the amount of funding and budget should be designed for specific types and amounts of work for this.

**Objectives:**

- Introduction of the principles of public order in terms of the supervision of the sanitary-epidemiological safety of the environment to determine the budget and to finance services with the differentiation of laboratory services and community sanitary and epidemiological inspection.
- Transfer of funding the organizations of health promotion at the per capita standard based on the population of the region;
- Procurement of means for immunization, vaccines and serums, bacterial agents, diagnostic agents and culture media. Identify the principles of making the state responsible for the continuation of the immunization program previously co-funded by GAVI (Global Alliance for Vaccines and immunization);
- Develop criteria and mechanisms for the economic impact of funding on the activities of public health care.

**Review of the current situation**

There were laid the foundation of reorientation of the public health needs of the population in the course of health care reform, the measures were taken to improve the material and technical base, improvement of regulatory mechanisms, training of specialists by topical question hygiene, sanitation, epidemiology and promotion of health and introduction of modern methods of working with people and communities. The monitoring system of infectious diseases by using computer information technologies was implemented in the City of Bishkek and Chui oblast.

In order to improve the efficiency of the State Sanitary and Epidemiological Service of the Republic and granting autonomy in the management of budget funds since 2007 the territorial levels of public health care organizations of the Kyrgyz Republic were moved into per capita funding.

In the future given the different functions of public health care will be a differentiated approach to funding public health services through the following strategies:

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- a differentiated approach to the financing of supervisory functions and services;
- integrated funding for health promotion and disease control;
- moved by a fixed budget based on the state order on the supervision of the sanitary-epidemiological safety of the environment;
- phased equal coverage of needs in the state funding based on a minimum standard for regions of the country
- attraction of additional sources of funding for AIDS/STD at the expense of international donor organizations.

### **Program indicators:**

- Immunization coverage (diphtheria, pertussis, tetanus, measles, hepatitis B, polio, rubella, mumps) in children under 1 year;
- Sanitary Inspection (number of sites surveyed);
- The number of newly diagnosed cases of HIV/AIDS.

## **Program 5. Administration, medical and social and rehabilitative care and education**

The program is divided into three sub-programs.

### **Sub-program 1. Administration**

The main **objective** of this subprogram is to upgrade efficiency and the capacity of the Ministry of Health Care of the Kyrgyz Republic:

- promotion of capacity for police development;
- increase in capacity to develop and implement effective and regulatory mechanisms;
- Improvement of coordination within- and intersectoral collaboration.

In the accumulation of the health budget at the national level and to improve the procurement of health services carried out by the Ministry of Health Care of the Kyrgyz Republic one of the priorities is to increase the efficiency of centralized purchasing in the priority programs. Procurement of medicines and medical devices for the delivery of health services in the priority program is centralized by the Ministry of Health Care (glucose-lowering drugs, vaccines, serums, etc.) accounted to 23% of the costs by the relevant article of the budget. Supply of medicines and medical supplies under the programs “Tuberculosis”, “Reproductive Health”, prevention of HIV/AIDS/STI is carried out mainly on a grant basis by international donor organizations and that will be reduced with responsibility to the state. In this way the integrated funding of individual medical services with centralized drug and medical products with the **main objectives** are:

- Identification of needs in funding for procurement of medicines and medical products under the priority integrated with the Program of the state guarantee.
- Improvement of the mechanisms for distributing and monitoring the use of medicines and medical products based on the achievement of concrete results.
- - Identification of the mechanisms for interagency priority programs, clear delineation of functions and definition of the responsibilities of the government agencies for their implementation.

### **Subprogram 2. Medical and social and rehabilitative care**

#### **Goals:**

- Implementation of the state policy in the field of mental health care for the population of the Kyrgyz Republic;

- following reduction in the level of morbidity and mortality from tuberculosis and determination of complete control of this infection in the territory of the country;
- maintaining reproductive health services in different age periods of life.

**Objectives:**

- Monitoring of disease incidence and the effectiveness of providing treatment and rehabilitation services for persons with mental disorders;
- Development and implementation of new and effective ways to diagnose the treatment and prevention of mental disorders;
- Identification of sources of the maximum spread of tuberculosis infection among the population and full coverage by treatment of patients with chronic forms of tuberculosis;
- Implementation of the strategy DOTSPPLUS to control drug-resistant of TB;
- Further restructuring of the TB service and full integration with primary care as one element of health care reform;
- Development of the national standards for prevention and treatment of pathologies of the reproductive system;
- Introduction to the practice of modern methods of diagnosis and treatment of pathologies of the reproductive system;

**Subprogram 3. Education**

A strong human resource capacity of the health care is a key component of successful health care reform. The quality of health care services and consequently the health of the population depends largely on the quality of the human capacity, level of training and his professional competence.

There is a significant increase in medical faculties of universities in the country. Class of graduates is being performed without the need for medical personnel. Due to the introduction of market mechanisms in education, lack of the state educational standards and poor material and technical base of medical educational institutions the quality of education is declining and lack of demand for medical personnel in cities is growing when there is lack in them in the countryside.

**Objectives of the sub-program:**

- Improvement of the personnel policy of the health care based on strategic planning;
- Improvement of the system of medical education;
- implementation of sustainable and effective health care personnel management tools.

To achieve this goal it is necessary to solve the **following tasks:**

- introduction of strategic planning of human resources for health care system;
- improvement of the medical education system aimed at providing health care needs and strengthening the primary health care;
- Implementation of sustainable and effective regulatory mechanisms for personnel administration;
- introduction of mechanisms for admission to the budget department of the medical education organizations on the basis of the state and municipal orders (budget departments) and quotas for admission by contract basis.

**Indicators of the sub-program:**

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- Graduates;
- The number of specialists passed the training courses.

To ensure the successful implementation of the health system and to minimize the risks:

- Adequate and stable public funding for the health sector as a priority sector for poverty reduction and sustainable economic growth;
- Support and assistance from international donor organizations;
- Preparation of other ministries and departments, local state administrations and local self-government agencies to cooperate with the Ministry of Health to support health care reform;
- Development of the medium-term budget that reflects the priorities of the state fiscal policy;
- Formation of the annual budget with priority funding for health care;

## 7. Strategy of Agriculture Development

### Sector objectives

**Goal** The main goals and objectives of the agricultural sector over the next three years are as follows:

- Provision of food security; provision of sustainable economic and social development of the agro-food sector of the Kyrgyz Republic;
- Creation of conditions for economic and scientific support to the production of competitive agricultural products;
- Development of social and other infrastructure in rural areas and creation of favorable living conditions for rural population.

**Objectives.** According to the Regulation “On the Ministry of Agriculture of the Kyrgyz Republic” approved by the Decision of the Government as of December 8, 2009 № 750 there are identified three key objectives:

- Contribute to the achievement of specified level of the food security of the Kyrgyz Republic, access of population to basic food and protection of food safety.
- Making development of agriculture more sustainable through increased productivity and efficiency of agricultural production and ensuring the rational use of natural agricultural resources;
- Increase in competitiveness of domestic agricultural products.

### Strategies, results and programs

The strategy of agricultural development will be used for solution facing the agro-industrial complex tasks. The work of the state and society will be aimed at creating favorable conditions and incentives for industry development and food security. The complex of measures implemented will cover all areas of agriculture including production, investment, support services, etc. In the medium term an important role for the state support of agriculture in all priority areas.

For the upcoming medium term the goals and objectives of these will be implemented by three programs representing the expenditure of the Ministry, namely:

1. State agricultural policy.
2. State veterinary sanitary control, pest control and promotion of agriculture.
3. State control of seed crops.

Expected results & Programs

Output 1 Increase of agricultural production

Program 1 State agrarian policy

*Objectives of the program*

- (1) food security and access of the population to basic food; (2) the development of efficient farm structures; (3) development of cooperative movement in the agricultural sector; (4) strengthen the legal rights to land; (5) the effective use and management of grazing land.

*Review of the current situation*

The central staff of the MoA manages and coordinates the development of agrarian sector of the Republic. This program plays an important role in implementing the state policy of agricultural development and food security in order to provide the rural residents with access



to basic food. It is guiding and coordinating development of the agricultural sector is carried out by the Central Office of MoF KR and rayon departments of agricultural development management.

The program provides for the functions in development and implementation of common policies in agriculture including land and agrarian reforms, animal husbandry, veterinary medicine, fish farming, bee keeping, crop production, phyto-sanitary control, soil fertility, use of agricultural land, monitoring of the market of agricultural produce and food, mechanization and automation of agriculture. In addition the Central Office as the government body is developing regulations to improve the legal and regulatory framework, providing the organization of works agroklaster production, cooperation, development of competitiveness and conducting a systematic analysis of economic conditions in the field of agriculture, determining priorities and strategies of development of scientific research, coordinating and providing introduction to the practice of manufacturing science and technology. Developing and coordinating programs for agrarian reform, foreign economic relations and investment projects and monitoring the effectiveness of targeted use of budget allocated to agriculture and other resources. Rayon departments of agricultural development implement the state policy in the sphere of agriculture of KR, monitor, evaluate the targets by product, carry out an economic assessment of trends in production and proposals and recommendations for the development of agriculture by industries. Assist in resolving the disputed issues in the distribution and receipt of land shares and property shares. Ensure the timely return of redemption values of the property complex previously converted to agricultural enterprises. Involved in the formation and development of land markets, the strengthening and development of the peasant (farmer) facilities, improving the quality of land use as well as providing guidance to ail and the village Kenesh in the management of the State Fund lands. Most cooperative associations will cover the scope of support services, processing and marketing agricultural products.

#### *Performance Indicators*

- Number of legal documents submitted to consideration of GoKR 10 in 2011, 8 units in 2012, 7 units in 2013 and 8 units in 2014.
- Creation of agricultural cooperatives, holdings and cluster in 2011 were 2092, in 2012 were 2702 units, in 2013 were 3002 units and 2014 were 3100 units.

#### **Program 2 State veterinary and sanitary control, phyto-sanitary control and promotion of agriculture**

The program consists of two subprograms:

- I. Sub-Program 1 Livestock
- II. Sub-Program 2 Crop Production

#### **Sub-Program 1 Objectives of Livestock Sector:**

- Provision of veterinary services to control the spread of animal diseases and strengthening of systems for preventing penetration of infectious diseases;
- Support of the development of livestock breeding;
- Support of the development of the fishing industry;
- Support of the development of agricultural advisory services;
- Provision of marketing and information services;
- Improvement of grazing land management;
- Professional development and training of veterinarians by training them in special courses

- including information exchange and trainings;
- Improvement of cooperation between public and private veterinary sectors through activities to raise public awareness and usage of appropriate mechanisms for information exchange;
  - Improvement of measures to combat animal diseases through introduction of the computerized systems (for information sharing, recording and reporting);
  - Development of the annual national program on prevention of animal diseases on the basis of the conclusions of risk analysis;
  - Assurance of full coverage with preventive vaccines and diagnostic studies provided by the plan of animal epidemic countermeasures for wildlife population and organization of proper accounting of activities and reporting;
  - Promotion of the role and responsibilities of public and private veterinary structures as well as pet owners to ensure the welfare of livestock from infectious animal diseases and production of biologically safe animal products;
  - Strengthening the veterinary and sanitary control for import of the Kyrgyz Republic controlled by the veterinary service of the goods in accordance with Article 32 of the Law “On veterinary medicine” as well as the export of controllable goods;
  - Work to assess the risk of carrying of germ of dangerous infectious animal diseases such as foot and mouth disease, avian influenza, swine fever, cattle and small cattle and others on the territory of the country and take appropriate preventive measures.
  - Veterinary services to control the spread of animal diseases and strengthening systems to prevent carrying germ diseases;
  - Examination of the quality, safety, effectiveness of the new veterinary drug produced in the country and imported into the territory of the Kyrgyz Republic for compliance with the requirements of technical rules, regulations and standards;
  - Implementation of certification and testing veterinary medicaments;
  - The state registration of veterinary medicines and maintaining the public register of medicinal products for veterinary use;

#### **Livestock. *Current situation***

The general state of the veterinary service of the country and its organization service was evaluated with the level of 1 from 5 international levels by the mission of International Epizootic Bureau that does not permit to fulfill the tasks assigned to ensure epizootic well-being of livestock and does not meet the requirements of the trade and economic relations of the Kyrgyz Republic with other countries.

In order to develop the veterinary service of the Kyrgyz Republic there was developed the strategic plan for veterinary service of the Kyrgyz Republic for 2008-2012 as a basis for comprehensive and long-term program for the recommendations of IEB was subject to the restructuring process with assistance of TACIS Project “Reform of state services” and the plan of restructuring for the TACIS regional veterinary services (as amended). The recommendations emanating from these projects have been strengthened by Order of the Minister of Agriculture (№ 21-a, February 16, 2007) that is the private veterinary practice is now the basis of the veterinary system of KR and the main goals and objectives of the Veterinary Services are: policy formulation and monitoring of disease control over the provision of services and international reporting and cooperation. IEB assessed the veterinary service of KR and recommended to develop the Strategy Plan for 5 years to increase the level of the veterinary service of KR from 1 (lower) to 3 (medium). SVD developed the National Strategic Plan of KR for development of veterinary service for 2008-2012 as a basis of the integrated and long-term program on improvement of the veterinarian service of KR and that

afterwards was approved by the Decree of the Government of the Kyrgyz Republic as of 25 February 2008 № 62. The Strategy provides for the reform of the Veterinary Service of the country. According to the Strategic Plan to improve the animals health and increase the institutional capacity of the Veterinary Service in the country the MoA (DSV) should take the following actions over the next four years:

- Review the veterinary legislation to bring in balance with the international requirements and standards,
- Strengthen the national veterinary services through the reorganization of the state veterinary services;
- Ensure the quality of private veterinary services and to regulate private veterinary activities through the creation of an independent veterinary organization;
- Improve the professional qualification of the state and private veterinarians;
- Improve internal collaboration between the public and private veterinary sectors through measures to increase public awareness and usage of appropriate mechanisms for information exchange;
- Strengthen the monitoring of diseases through the introduction of the computerized systems (for information sharing, recording and reporting);
- Increase the level of training for contraction of diseases and strengthen the control through companies on active study of diseases;
- Improve the system for early detection of diseases through the establishment of a national review system based on the indicator monitoring livestock and reporting on diseases;
- Improve the effectiveness of anti epizootic programs and programs for food safety risk analysis by the emergence and spread of diseases that will integrate climate indicators and epidemiological data;
- Develop an annual national program on prevention of animal diseases on the basis of the conclusions of risk analysis;
- Strengthen the rapid response system by providing adequate veterinary departments, plan epizootic emergencies and conduct simulation exercises on a regular basis;
- Strengthen the state veterinary control at the administrative boundaries and roads through the reorganization and strengthening corresponding veterinary offices;
- Strengthen control over the production, import, export and trade by the veterinary medicines by creating a public registry of veterinary preparations;

In 2011 there were scheduled for more than 44 161.6 million heading of livestock and birds and this will increase the number of livestock and poultry and improve their productivity and growth in livestock production. The veterinary experts make a tangible contribution to provision of the epizootic welfare and animal health by promoting the production of veterinary-sanitary safety and quality of livestock products. Implementing the Strategic Plan will enable the State Veterinary Service to carry out their duties in accordance with the requirements of the international standard and create a controlled, continuously functioning private veterinary sector and other necessary auxiliary components that can help improve the organization of veterinary affairs in the country.

Established in accordance with the Order of the Government of the Kyrgyz Republic as of 08.12.2009 № 750 the State Pedigree Inspectorate will help to restore the state system of regulation and control work to improve the breed, genetic and productive qualities of animals, discontinued breeding and improvement of forage. Small-scale production, weak logistical and food supply businesses and the lack of systematic selection and breeding brought to a

deterioration in the quality of the livestock and the loss of valuable genetic material and consequently the low productivity of livestock.

Livestock breeding as a basis for the development of livestock is at a stage of stagnation and does not meet the requirements of the time in present. It is planned to implement in 2011-2014:

- Inventory of existing tribal subjects on availability of highly productive breeding stock;
- Provision of the tribal subjects with highly productive breeding material;
- Realization of breeding stock.

*Indicators of effectiveness:*

- Against epizootic aftosa (thousand heads/number of doses) from 1363,8/1363,8 in 2011 to 1558,6/1558,6 in 2014;
- Against anthrax (thousand heads/number of doses) from 5181,5/5181,5 in 2011 to 5657,7/5657,7 in 2014;
- Against ovinia (thousand heads/number of doses) from 5204,8/5204,8 in 2011 to 5783,1/5783,1 in 2014;
- Against white heat (thousand heads/number of doses) from 431,2 / 431,2 in 2011 to 492,8 /492,8 in 2014;
- Against goat fever (thousand heads/number of doses) 8620,0 / 8620,0 in 2011 to 2500,0 / 2500,0 in B 2014;
- Against plague of small cattle (thousand heads/number of doses) from 496,1 / 496,1 in 2011 to 502,4 / 502,4 in 2013;
- Tuberculinization of great cattle (thousand heads/number of doses) 278,9,9/278,9 in 2011 to 318,7/318,7 in 2014;
- Tuberculinization of birds (thousand heads/number of doses) 69,7/69,7 in 2011 and 79,7/79,7 in 2014;
- Measures against helminthes (against caseworm (thousand heads/number of doses)) from 500,0/ 500,0 in 2011 to 578,9 /578,9 in 2014;
- Diagnostic study for glanders of horses (thousand heads/number of doses) from 59,8/59,8 in 2011 to 68,8/ 68,8 in 2014;
- Laboratory- Diagnostic studies (thousand studies) 2861,3 in 2011 and 3219,1 in 2014;
- Number of licensed private veterinary clinics (units) will increase from 1057 in 2011 to 1341 in 2014;

### **Crop Production**

The public services agriculture are provided by the State Department of Chemicalization and Plant Protection, the State Plant Quarantine Service, Kyrgyzagrobiocenter and the State Technical Inspectorate. Public services implemented on the territory of the Kyrgyz Republic and aimed at protecting plants from pests, diseases and control of weeds. The public administration in the field of chemicals, plant protection and quarantine is carried out too. State Department of Chemicalization and Plant Protection is a special authorized body responsible for overseeing and monitoring the safe handling of pesticides and agrochemicals, agrochemical and phytosanitary conditions. Annually the State Department on the basis of materials provided by inter-regional diagnosis and prognosis develops and publishes "Review of appearance and spread of pests and diseases of crops in the Kyrgyz Republic". This book provides descriptions of the spread of major pests, identifying the main factors for the development and distribution, developing the analysis of the range of pests and plant diseases

(reduction or increase), infestation of crops and agrochemical situation are specified of late years.

Reducing or increasing the area of pests, plant diseases and weeds will depend on many factors. The main ones are the climatic conditions of each year (favorable or unfavorable to one or another form of harmful organisms), compliance with farming cultivation of agricultural crops (sown with treated and certified seeds, timely farming practices, crop rotation, fertilization, chemical and biological protection of plants and etc.). From 82 controlled species of pests and diseases the harmfulness of 75 of them was managed to stabilize and for other types the infection areas are increasing - a grain beetle on cereals, Colorado potato beetle and potato late blight on potatoes, spider mites on cotton plant, powdery mildew on vegetables, etc. The main goals and objectives of sub-sector:

- 1) Chemical control of locust pests;
- 2) The fight against quarantine pests that is American white butterfly;
- 3) Quarantine measures;
- 4) Organization and conduction of the test examination registration, maintenance of the state directory file and issue of certificates of registration of pesticides and agrochemicals, the establishment of regulations, rules and nominative acts for the safe handling of pesticides and agrochemicals. Prevention of trafficking of not registered and banned use of pesticides and agrochemicals. Work with suppliers of fertilizers and pesticides in order to increase security;
- 5) Organization and analyzes of the chemical composition of pesticides and crop production on the content of pesticide residues and nitrates and soil nutrient content (mobile compounds of nitrogen, phosphorus, potassium and humus).
- 6) The widespread use of biological resources in the economic entities of the country and training of the specialists on technology of use to this end;
- 7) The broad advocacy of biomethod and biotechnologies for plant protection through the help of mass media and issue of guidelines and recommendations;
- 8) Increase in production volumes available in the arsenal of biological resources, organization and production, introduction of new, more efficient and entomophages and biological agents;
- 9) Provision of economic entities of the country with biological crop protection products in the total volume of their needs;
- 10) Establishment of new directions in the production and use of biological agents, production of bacterial, viral and fungal microbiological products and introduction of mechanized methods of their application;
- 11) Provision of the state technical supervision and control over safety and the prevention of premature cancellation of supervised technology in the state-owned enterprises;
- 12) Monitoring of machine-tractor park of the country's agriculture and making suggestions to improve and enhance the level of mechanization of agricultural processes.

The main objectives are aimed at preserving the harvest of crops of particularly dangerous pests and diseases with the use of chemical treatments by ground and air spraying with the use of biological means of plant protection products.

Meeting these goals will produce more high-quality agricultural products, to ensure the population with the full food articles and processing industry of the country with raw materials to ultimately ensure food security of the country.

#### *Indicators of effectiveness*

1. Sown area – increase from 1,172.1 thousand ha in 2011 to 1,176.6 thousand ha in 2014.
2. Wheat production - from 1,033 thousand tons in 2011 to 1,100 thousand tons in 2014;
3. Plant protection against locust pests - from 100 in 2011 to 75 thousand ha in 2014;

4. Plant protection against the fall webworm (FB) – increase by 2 thousand ha every year during 2011-2014.

### **Program 3: State Control of production, storage and use of seeds**

#### *Objectives of the program*

- Implementation of public events on seed control and certification of seeds aimed at creating a foundation seed and planting crops with high varietal and sowing characteristics;
- Formation of high-grade resources of the country and provision of farmers' access to the latest achievements of domestic and foreign breeding;
- Create the seed industry meeting the international standards and provide an opportunity for the production of high-yielding varieties of crops that will increase the productivity of the sector as well as the resumption of exports of seed materials;
- Accurate assessment of the quality of food grains and the provision of the population with high quality grain and quality products. Assessing the quality of the purchased, delivered and shipped grain and its products in the business entities regardless of ownership.

#### *Indicators of effectiveness*

- Specific weight of the field pedigree seeded in total wheat sowing (thousand ha /%) from 17,0/4,3 in 2011 to 28/6,0 in 2014;
- Number of field inspections of seed farms (units) from 28,3 in 2011 to 35,0 in 2014;
- The volume of certified seeds of planting material from 87,2 t in 2011 to 114,0 t in 2014;
- Conduction of a competitive test for usefulness (number of varietal tests) from 1520,0 in 2011 to 1550 in 2014;  
including:  
Wheat - from 325 in 2011 to 335,0 in 2014;  
Barley - from 168 in 2011 to 177 in 2014;  
Cotton plant - from 15 in 2011 to 16,0 in 2014;
- Number of registered protected varieties offered for planting (units) 35 in 2011 and 38,0 in 2014;
- Availability of conditioned whet seeds (thousand ha) from 75,0 in 2011 to 82,0 in 2014.

### **MoA budget analysis**

The sources to finance the programs are the funds of the Republican budget, special funds, funds of local budgets and funds of Public Investment Projects (PIP).

#### Forecast budget of the Ministry of Agriculture of KR

Sources of funds	2009 (actual)	2010 (actual)	2011 (actual)	(KGS thousand)		
				Budget estimates (proposal)		
				2012	2013	2014
<b>Funds of RB</b>	531,078.0	386,020.1	408,364.6	548,065.9	567,523.5	593,946.1
% in total expenses	58.2	58.0	30.4	64.2	85.8	91.6
From RB credits, loans, borrowings and subsidies	48,033.4		14,350.0			
RB without credits, grants and loans	483,044.6	386,020.1	394,014.6	548,065.9	567,523.5	593,946.1
% in total expenses	52.9	58.0	29.3	64.2	85.8	91.6
From them salary from SF	267,554.9	249,599.9	233,575.7	244,620.8	249,822.9	253,096.4
In % of funds of RB	50.4	64.7	57.2	44.6	44.0	42.6
% in total expenses	29.3	37.5	17.4	28.7	37.8	39.0

### Attachment 3 GAFSP Proposal: Investment Plan

<b>SPECIAL FUNDS</b>	23,380.5	22,580.1	36,532.7	39,191.5	40,757.5	43,306.4
% in total expenses	2.6	3.4	2.7	4.6	6.2	6.7
<b>Funds of local budgets</b>	7,840.7	9,297.6	9,563.4	10,613.5	10,762.0	11,091.9
% in total expenses	0.9	1.3	0.7	1.2	1.9	2.3
<b>PIP</b>	350,760.8	247,994.2	889,038.0	255,915.0	42,300.0	0.0
% in total expenses	38.4	37.3	66.2	30.0	6.4	0.0
including credits	35,096.0	35,096.0				
Co-financing	5,215.0	4,480.0	61,998.0	2,820.0	705.0	0.0
grants	310,449.8	243,514.2	827,040.0	253,095	41,595.0	0.0
<b>Total for MoA of KR:</b>	<b>913,060.0</b>	<b>665,892.0</b>	<b>1,343,498.7</b>	<b>853,785.9</b>	<b>661,343.0</b>	<b>648,344.4</b>

Funding for the Ministry of Agriculture and its departments to a greater extent depends on the Republican budget that occupy a total expenditure of the Ministry and its subordinate agencies of 58 percent or more, and with the completion of a project “Control of avian influenza and preparedness and pandemic reaction” by the end of 2011 the share of the republican budget in the medium term will be dominant and take from 64 to 92 percent. However, the budgetary resources for agriculture are low and provide a need around 70%. The Ministry requires a minimum annual budget in the amount of not less than KGS 550 million rather than provided in 2010 by the Republican budget amounting KGS 386 million with increase in funding in 2014 to KGS 594 million.

The special funds are one of the sources of funding too. These are the funds the departments and institutions derived from the provision of paid services in accordance with “Register of paid services” approved by the Government of KR. According to the special funds provided for the growth of 1.9 times by 2014 compared with 2009 that will be implemented through the introduction of new services and revision of tariffs for paid services. They are provided with an increase of KGS 22.4 million in 2009 to KGS 43.3 million in 2014.

At the expense of local budgets the rayon departments of agricultural development in Chui oblast are funded. The Mayor's Office of Bishkek annually provides funds for anti-epizootic measures in Bishkek.

Under the program of public investment at the expense of the International Development Association (IDA) of World Bank, International Fund for Agricultural Development (IFAD), the Swiss Agency for Development and Cooperation (SDC), the Government of Japan, the European Community and the Government of the Kyrgyz Republic in priority sectors through the Ministry as the Executive Agency in 2010 there were implemented the projects “Agricultural Investments and Services” and “Control of avian influenza and preparedness and pandemic reaction” for the total amount of KGS 248 million that will be continued. Objectives of the project “Agricultural Investments and Services” is to promote the Kyrgyz Republic in improving the institutional and infrastructural conditions for more productive, profitable and sustainable livestock and crop for pasture users and small farmers as well as in reducing the economic impact of zoonotic diseases among the population.

In connection with the restructuring of the project “Control of avian influenza and preparedness and pandemic reaction” there is revised overall objective of the project based on other zoonotic diseases and diseases. In this regard the new project development objective is to minimize the threat posed by HPAI infection and other diseases of poultry and livestock in the Kyrgyz Republic as well as training to control and take the necessary measures in case of

## Attachment 3 GAFSP Proposal: Investment Plan

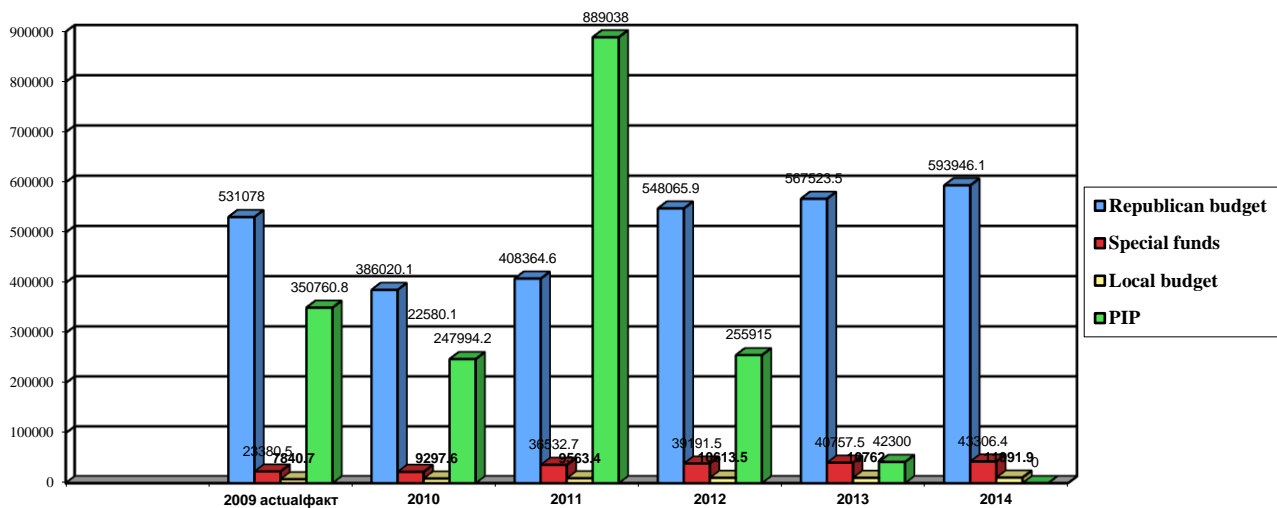
an avian flu pandemic and the spread of zoonotic or other infectious diseases among the people.

In 2011 under the project “BOMCA” EU/UNDP funded there planned to provide the technical assistance for the construction of educational facilities for training and staff development of the State Plant Quarantine Service in the amount of KGS 6 million.

In connection with completion of the project “Control of avian influenza and preparedness and pandemic reaction” there is planned the reduction in expenditure under PIP as compared to the year 2011 to KGS 889.0 million to KGS 255.9 million in 2012 and KGS 42.3 million in 2013.

As a result the total costs of the sector “Agriculture” are planned to decrease from KGS 1,343.5 million in 2011 to KGS 648.3 million in 2014.

**Sources of funding forecasted for 2012 -2014.**



For the medium term period ahead the expenditure strategy of the Ministry of Agriculture of KR will be implemented by three programs:

1. National Agricultural Policy
2. State veterinary and sanitary control, phyto-sanitary control, promotion of agriculture development.
3. State control of seed crops.

The guiding and coordinating development of the agricultural sector is **the program 1** “**State agricultural policy**” implemented by the Central Office of the Ministry of Agriculture KR and rayon departments of agricultural development.

Functional tasks of the program are:

- Assistance in meeting the food security in the Kyrgyz Republic, the access of population to basic food products and security protection of food products;
- Improvement of stability of agriculture development through increase in productivity and efficiency of agricultural production and provision of the rational use of natural agricultural resources;
- Increase in competitiveness of domestic agricultural products.



In 2010 the costs for the program implementation of the **Program 1** amounted to KGS 72.1 million that made 10.8% of the total expenditure in the sector. In 2011 these costs amount to KGS 82.4 million or 6.1% of the total costs. In 2011 the program included the repair of drainage system for Savayskyi ayil-okmotu of Kara-Suu rayon for draining 600 ha submerged lands as a result of raising the level of groundwater in the amount of KGS 20.0 million. In general the costs of the program are minimized to the limit. Therefore in the medium term the share of the program in total expenditures in the sector is forecasted at the level of 9.1%-12.7%.

### **Program 2 State vet control, phyto-sanitary control and promotion of agriculture**

This program consist of two subprograms.

There are the Department of the State Veterinary with its structural units, Bishkek City State Veterinary and Sanitary Department and Republican Center of Veterinary Diagnosis with its territorial structures, State of Pedigree Inspection, Center of Control and Certification of Veterinary Preparations, department of pasture, department of fish industry and Ton Fish Plant are included to the first subprogram.

Department of Agriculture Chemicals and Plant Protection, Plant Guarantee State Service, Agrobiocenter and State Technical Inspection Office are included to the second subproject.

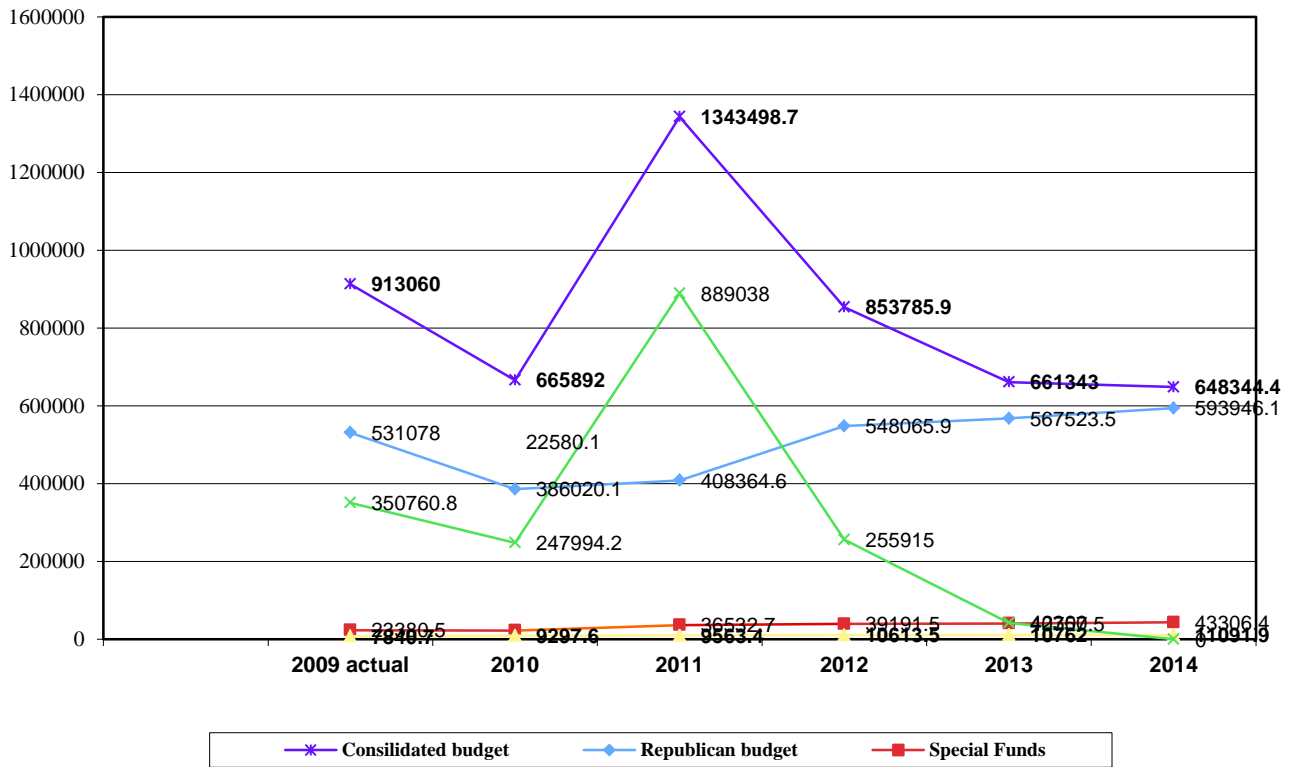
In 2010 the costs under this program with PIP amounted to KGS 570.7 million that constituted 85.7% of total sector costs. In 2011 these costs will amount to KGS 1223.7 million or 91.1%. For the medium term the share of the program in total public sector expenditure is required at the level of 87.2% in 2012, 82.9% in 2013 and 82.2% in 2014. As part of the project “Agricultural Investments and Services” (World Bank/IDA, IFAD, Switzerland) and the project “Control of avian influenza and preparedness and pandemic reaction” (IDA, the Government of Japan, EU) to be completed in 2011.

### **Program 3. State control of seed production, storage and use of seed material.**

This program is carried out by the Republican State Seed Inspectorate and its structural units, the State Commission for the Testing of agricultural structures and the Center for examination of grain. In 2010 the costs under the program amounted to KGS 23.1 million or 3.5% of total public expenditure sector. In 2011, these costs amount to KGS 37.4 million or 2.8% of total expenditure sector. For 2012-2014, the share of expenditure for this program is planned at 3.7%-5.0%.

Attachment 3 GAFSP Proposal: Investment Plan

Dynamics of the consolidated costs of MoA KR in 2009-2014 (KGS thousand)



## 8. Strategy on use and development of water resources

### The objectives of the budget

- timely supply of irrigation water to farmers to crop according to the request of water users;
- Organization of integrated water resources management on the basis of rational distribution taking into account the rights, the needs of water users and the economic feasibility based on the principles of integrated water resources management;
- sustainable improvement in the provision of irrigation services that will enhance agricultural productivity among farmers being irrigated;
- increasing access for the participating communities to drinking water;
- improvement of sanitation and hygiene practices in rural areas at the to the individual, family and institutional level;
- provision of rural population with quality drinking water in sufficient quantities and on this basis to save health of population, improve the socio-economic situation in rural areas and careful use of water resources of the country;
- support growth in agricultural productivity by improving the water supply to irrigated lands of the Kyrgyz Republic and their productivity and through the development of new lands and improve water supply of irrigated land by agricultural water.

**The main goals and objectives of Toktogul Special Fund are:** financing the design, construction and maintenance of water-resources development; social services provided by non-repayable grant basis at the expense of OJSC “Power stations”. The funds of the Social Fund are not for special fund budget appropriations as the Fund does not provide services or sell products for acquisition of gain.

### Description of the sector

The State Committee of KR on Water Management and Land Development as the body of public administration and management of irrigation fund according to the current situation creates a unified technical policy in the field of operation, design, construction of water systems and facilities, regulation of water relations with other states and international organizations on use of water resources formed in the territory of the Kyrgyz Republic.

This requires the maintenance of water facilities in operation and carrying out major rehabilitation of existing facilities, dams and reservoirs to the design parameters.

The State Committee of the Kyrgyz Republic on Water Management and Land Development provides with irrigation water to 1018.7 thousand hectares of irrigated land. National Irrigation Fund the country is: the off-farm canals 5598.8 km long, waterworks - 6719 units, hydroposts - 2948 units, pump stations - 107 units, drainage network of 1176 km long and the reservoir - 33 units.

The State Committee of the Kyrgyz Republic on Water Management and Land Development in conjunction with the basin water management within the basin has been recently performing the additional functions to ensure compliance with interstate agreements on water use and take part in four projects under the World Bank, ADB and IDA. As well as according to a number of the Decrees of the Government of the Kyrgyz Republic also has additional functions to ensure the operation of objects and structures on-farm use strategically important for the state, functioning, recovery and maintenance of CDN, pumping stations, coordination of Water User Associations, etc. At that the additional funds were not allocated. Also should

be noted that without an increase in the number the existing regional water management departments were put on collection of fees for irrigation water supply.

In 2010 the Department of Rural Water Supply with a status of legal entity without any additional allocation of funds was also included to the system of water resources. Rural water supply sector includes the Department of Rural Water Supply covering all areas of the country under the control of the State Committee of the Kyrgyz Republic on Water Management and Land Development. In addition the special competent authorities of the Kyrgyz Republic in the field of domestic water supply determined by the law of the Kyrgyz Republic “On drinking water” can be included into the rural water sector. The Special Fund to finance waterworks of Toktogul rayon and the village of Jazykeechuu of the town of Karakul Jalalabat oblast was created in October 1997 as the state enterprise, Code RNNBO 21803944 in order to implement Decree of the Government of the Kyrgyz Republic as of 23 December 1996 № 617 ‘On the socio-economic status of the Toktogul rayon and v. Jazykeechuu of the town of Karakul Jalalabat oblast in connection with the commissioning of the Toktogul hydroelectric power station” in order to finance the construction of primary importance for water projects and their further exploitation. Special Fund provides support to raise the socio-economic status of residents of the Toktogul rayon and the village of Jazykeechuu of the town of Karakul necessary to ensure their normal viability. The Special Fund includes all administrative units to provide the population with the guaranteed compensation under the control of the State Committee of the Kyrgyz Republic on Water Management and Land Development directly controlled by the Ministry of Finance and the local authorities of Toktogul rayon.

### **Main problems**

The main problems in water management are:

- Moral and physical aging hydroeconomic infrastructure;
- Lack of increase in new irrigated lands;
- Reducing the productivity of irrigated lands;
- Reduction in water use efficiency;
- Low efficiency of monitoring systems and use of water resources;
- Deterioration of ameliorative irrigated lands;
- Increasing the negative impact of water;
- Lack of new construction in the irrigation sector;
- Inadequate communications equipment and technologies for information support water sector;
- Lack of security of water infrastructure;
- Obsolete pumping equipment and machinery and technology park устаревшее;
- Staff turnover and low wages.
- Insufficient capital investment.

**The main problems** of rural drinking water supply development are:

- Unsatisfactory technical condition of the existing water supply systems;
- A low standard of living of the rural population;
- Consumer attitudes to the technical condition, operation and maintenance and conservation of the rural drinking water supply facilities. Lack of understanding of their rights and responsibilities, personal responsibility of the rural population as the actual owner of the water supply facilities;

- Lack of qualifications of members of the Board of Village Associations of Drinking Water Users (VADWU) to perform the functions of supplying drinking water to the population, maintenance and operation of water systems;
- Lack of special techniques and equipment for the operation of rural water supply system of the members of VADWU.
- Lack of government financing by the budget costs.

### **Main development problems of the Toktogul Special Fund**

The funds are generated through the special annual contributions of OJSC "Power stations" in the amount of KGS 43.0 million according to its adjustment for inflation, with the allocation of that amount to the cost of electricity generated by the Toktogul hydroelectric power station. The amount of payments subject to annual review in the structure of tariffs for electric power by the State Energy Agency under the Government of the Kyrgyz Republic, with the participation of the Ministry of Finance of the Kyrgyz Republic, the State Committee of the Kyrgyz Republic for Water Management and Land Development, the State administrations of Jalalabad oblast and Toktogul rayon before the formation of the budget of that year. However OJSC "Power stations" makes annual payments to untimely and not in full. Special fund with limited resources is unable to fund the planned facilities in full.

#### **Expected results & programs**

##### **4.1 Expected result 1 Increase of crop yield**

##### **4.1.1 Program 1, State Irrigation Fund**

#### **The Program's objectives**

The main purpose of the State Committee is timely water supply with irrigation water for farmers to get the guaranteed yield of crops by farmers as requested by water users. Organization of integrated water resources management on the basis of rational distribution taking into account the rights, the needs of water users and the economic feasibility based on the principles of integrated water resources management. Providing the population with safe drinking water. For this is necessary to maintain water facilities in operation and carrying out major rehabilitation of existing facilities, dams and reservoirs to the design parameters.

#### **1. Access to clean water**

The State Committee of the Kyrgyz Republic for Water Management and Land Development provides with irrigation water to 1018.6 thousand hectares of irrigated land. National Irrigation Fund includes: inter-farm canals 5598.8 km long, waterworks - 6719 units, hydroposts - 2948 units, pump stations - 107 units, drainage network of 1176 km long and the reservoir with 33 units. According to the valuation of the experts of the World Bank for annual maintenance of the irrigation network with allotted irrigated area are needed about KGS 1,200 million. In addition the funds are needed to overhaul the head intake structures, canals, pumping stations equipment, earth moving and transport equipment.

#### **2. Melioration**

As of 01.01.2011 there are 1018.7 thousand hectares of irrigated land, from them in good condition 857.3 thousand hectares, in satisfactory condition 61.3 thousand ha, as in poor condition 100.1 thousand hectare including those by reason of near occurrence of ground water table of 42.1 thousand ha, soil salinity 49.3 thousand ha and in combination GWT and salinity - 8.7 thousand ha. Reclamation facilities morally and physically are degraded,

condition of irrigated lands is deteriorated, and the negative impact of surface water and groundwater on the environment is increasing. The productivity of irrigated land decreases year by year and 100.1 thousand hectares of irrigated lands are in poor condition so the farmers do not receive the planned harvest.

Given the rising trend of degradation of irrigated land by raising the groundwater level there is developed the Program for Land Reclamation and for restore of inter-farm drainage systems and structures, construction of drainage facilities are planned. The State Committee has prepared the order of GoKR № 150 GoKR-p of 27.10.10 “On approval of the cost of recovery of loss of agricultural holdings for nonagricultural purposes” on allocation from the State Register on account of accumulation of funds to the State Committee amounting KGS 20.0 million to restore drainage networks in Chui and Talas oblasts. Work were started in 2010 and is currently ongoing.

### **3. Flood-control measures**

As a result of annual month of torrential rains spread from May to July and causing mudslides, floods and landslides, destruction of water facilities repaired and ready for watering vegetation by that time. Maintenance and repair of flood and mudflow structures that protect the public water facilities from floods and mudslides are conducted within the overall operating costs as these works specifically for the funds are not allocated. Repair and restoration works of irrigation and slide protection facilities after natural destruction are in the range of KGS 45-60 million.

### **4. Operation of pumping facilities and the cost for electricity**

On the balance of the State Committee for Water Management and Land Development there are 107 pumping stations and 89 wells (including 57 for 32 for drainage and irrigation) that serve water to 55.3 thousand hectares of irrigated land. There are 322 pumps installed on. The situation is particularly difficult to mechanical water supply to irrigated lands. For 107 pumping stations the period of setting into operation is as follows: 6 pieces for 20 - 30 years, 39 pcs for 30 - 40 years and 62 pcs for more than 40 years - During the growing season the every year the pumping stations serving water at 300 - 333 million m<sup>3</sup> while spending up at an average to 185 million kw/hours of electricity. The work of pumping stations is extremely inefficient due to the almost complete deterioration of pumping equipment. The standard operation time for pumping equipment is 8 years, the frequency of repair 1 - 3 years, the frequency of repair of major components of electric motors - two years and for support systems - 3 years. Along with the steady-state ones there is Arkinskiy cascade of pumping stations in Lyailayk rayon with floating pumping station operated since 1982. The service life of the floating pump stations is 10 years but the major repairs should be carried out every 2 years. Almost terms of repairs and replacement of equipment there are no any of the pumping station are not met due to lack of reserve units and spare parts. As a consequence of the deterioration of the electromechanical equipment from 107 public pumping stations there are only 41 stations have an efficiency rate lower than "0.5".

### **5. Completion of rehabilitation of the state irrigation system:**

#### **I. Project “Water management”**

The main objectives of the project are to improve the provision of irrigation services and water management to improve productivity of irrigated agriculture, as well as better

management of the national water resources in the interests of water users and the country as a whole.

The project covers all regions of the country. Project cost is USD 28.2 million, from them: World Bank Grant is USD 19.0 million (67% of the total project costs), the grant of the Government of Japan is USD 4.4 million (16 % of total project costs) and co-financing by the Government of the Kyrgyz Republic is 4.8 million (17% of the total project cost).

#### Description of the project

##### *Component 1: "Rehabilitation and Modernization of off-farm irrigation infrastructure"*

The component in the amount of USD 19.8 million is provided for payment of services provided to design, construction works inspection and execution of construction works.

The objectives of the component:

- (a) Preparation of feasibility study and projects in accordance with the criteria selected of the project priority systems and
- (b) Implementation of the construction work to rehabilitate and modernize at least 20 systems serving about 85 thousand hectares of land.

##### *Component 2: Resources management*

Funds for this component in the amount of USD 4.85 million will be used to fund the services of consultants (that will be combined with the services of the component 3), procurement of equipment, transport for the State and Basin Water Administrations and creation of hydrometric network in selected river basins and payment of the costs for training.

*Component 3: Organization of beneficiaries.* The funds of the component hat component in the sum of USD 2.50 million will be spent for consulting services, procurement of machinery and equipment for 5 pilot federations and small construction works on the small irrigation systems to transfer them to the federations of WUAs as well as the objectives of training.

*Component 4: Project Management* – Funds for this component amounting USD 0,946 mln will be used for implementation of daily management of the project.

## **II. Implementation of On-Farm Irrigation Project 2**

This project is re-design, the work carried out within the OIP-1 will be continued and expanded, namely to improve the sustainable provision of irrigation services that will enhance agricultural productivity of the farmers being irrigated.

This objective will be realized through further development of the WUAs, the coverage by education across the country will amount to about 500 WUAs, rehabilitation and modernization of irrigation and drainage infrastructure in about 29 WUA (with the command area of approximately 51,000 ha) selected in accordance with a number of criteria selection to assist in the rehabilitation and modernization of irrigation and drainage infrastructure under their control. The total project cost is USD \$ 20.55 million, from them the grant is USS \$ 16.0 million and the amount of funds of the Government of KR is USD 4.55 million. *Strengthening of WUAs (USD 4.2 million)* The total duration of the project is over five years starting since January 2008. This component will provide the WUA to use the irrigation systems under their control effectively and efficiently. Component 1 is based on the procedures defined under OFIP-1 with a view to further strengthening of WUAs so that they eventually found the stability and independence. For this purpose to further strengthen and training for Support Units (SU) of the WUA as well as the Board and authorities is provided to improve the system of exploitation in order to achieve a more effective and efficient water

management, improvement of maintenance management in order to ensure identification and adequate funding needs for maintenance, procurement of equipment, machinery and vehicles necessary for the effective operation and maintenance systems, advanced environmental monitoring, cooperation with suppliers of agricultural services, support of organizations associated with WUA including the Water Council, the Federations and the National Union of WUAs.

*Rehabilitation and upgrading of infrastructure* (USD 15.4 million); This component will focus on rehabilitation and modernization of irrigation and drainage systems in the territory of area of approximately 51,000 hectares managed by about 29 WUAs. OIP-2 will focus on implementation of rehabilitation works in the systems administered by WUAs and provide for a certain amount of funds to address some key limitations related to the irrigation network administered by WMD. WUAs will have to pay 25% of the total costs for restoring their systems with the consent of no less than two-thirds of its members.

### **III. Rural water supply and n sanitation**

The purpose of the project is to improve access of the participating communities to drinking water and improving sanitation and hygiene practices in rural areas at the individual, household and institutional level. The second project for rural water supply and sanitation (PRWSS-2) is providing financing for about 70 subprojects. The immediate beneficiaries of this project will be approximately 100,000 rural residents in the territory of Issyk-Kul, Naryn, Talas and Chui oblasts who will receive improved water supply and canalization. In the second phase of the project the systems will be designed taking into account demand for domestic water installation and canalization.

The project components:

Infrastructure and equipment for water supply (funds for USD 15,2 mln or 83%).

Provision of subloans to eligible Beneficiaries for subprojects intended to: (a) rehabilitate and expand water supply systems and sanitation facilities, and (b) provide goods and equipment for maintenance of water supply.

Program to promote sanitation and hygiene (funds USD 0,68 mln or 3,7%).

Provide technical assistance to the Borrower in promoting sanitation and hygiene practices in rural areas including the participating communities.

Strengthening the institutional framework (funding USD 0.49 mln or 2.7%).

Provision of technical assistance to the Borrower in strengthening the stability of its rural water supply systems including: (a) assisting the Borrower in the development and implementation of strategies for sustainable supply of safe drinking water; (b) improving the institutional framework of the Borrower as well as strengthening the capacity of the borrower in the development of regulations for sustainable supply of safe drinking water; (c) providing training, workshops and seminars to the Borrower in order to improve the capacity of local governments in water supply as well as in matters relating to sanitation and hygiene, and (d) strengthening of information management system for the Project.

Project management and implementation (funding USD 1.95 mln or 10.6%):

- 1) Provision of technical assistance to the project management and implementation including procurement of services, audit services, environmental monitoring, training, design and implementation of financial management and accounting, preparation of project accounts and financial statements and fund of current spending. 2) Provide



technical assistance to the PMO, NALSG, DCW and beneficiaries in the preparation, implementation and administration of sub-projects.

- 2) Provision of technical assistance to PIU, WMD and beneficiaries in the preparation, implementation and administration of sub-projects.

Following the approval of the operational Manual of the project the second project of rural water supply and sanitation is operative since 19 August 2009.

The Decree № 475-p of the Government of the Kyrgyz Republic as of August 27, 2009 there was established the Coordinating Council on implementation of investment projects in the rural drinking water supply and sanitation and approved the Regulations about the Coordinating Council. It is assumed to re-create the Coordinating Council in relation to changes in the structure of the Government of the Kyrgyz Republic.

At the stage of completion of the design of the priority villages - 6 subprojects, along with three sub-projects of concern, in total nine sub-projects, 12 villages in three regions.

In 2010 the following works were completed under this project: by the Executive Agency - the State Committee of KR for Water Management and Land Improvement prepared the technical conditions of construction regulations in the field of rural water supply. Specifications were developed and agreed by the ministries and agencies and entered into force on November 1, 2001.

In December PIU took a decision consistent with the December mission of the donors for additional design works on three sub-projects of concern (Chelpek, Temir Korumdu and Issyk-Kul oblast) in 2010. World Bank approved extension of the contract with the project organization "Kyrgyzkommunproekt" to (1) carry out further design work on three sub-projects of concern, (2) to revise the initial six sub-projects of the first investment year after development of temporary regulations (or decree) for changes in building codes. Signing a contract for the extension of services by "Kyrgyzkommunproekt" is expected before the end of July.

PIU is working on preparing a document on the resettlement policy that meets the requirements of the World Bank.

The work on community mobilization and collection of preliminary 5% collection of funds available is being completed (the cost will be refined after a review of projects) and six sub-projects included in the investment plan for the first year.

Under all 9 sub-projects there was conducted training on the organizational management, Fundamentals of Financial Management and Monitoring and Evaluation during construction works;

The contracts for the specialists of the Northern PMU (Naryn, Talas and Issyk-Kul oblasts) are extended;

The office equipment was procured to the amount KGS 909 646 (24 June 2010) and furniture totaling KGS 609 550 com (15 March 2010);

At the stage there are the tender for the vehicles for PIU and the Northern PMU; The preparatory works for the development of instruments for selection of consulting companies to mobilize, design and technical supervision are in progress.

#### Selection of new villages

Introductory seminars are being held in the villages with the participation of local government bodies and NGOs. After the seminar the interested communities together with ayil okmotu are developing their applications for participation in PSVS-2. Acceptance of applications and selection of villages will be conducted in all oblasts. In selecting the villages the oblasts are preparing their lists of priority villages taken into account in the selection criteria.

After selection the lists of villages delivered to the company to mobilize communities and the project company for preparation of the project proposals and preliminary design study of variation that after consultation with communities and prior approval of World Bank the design documents is being prepared and the tender process to select a contractor for construction work is started. The selection of companies to mobilize communities and the Design Institute is expected to be completed by the end of August.

Problem subprojects In addition the works are carried out to survey the problems of completed subprojects. There are Identified 28 sub-projects with problems and for 12 sub-projects (including v.Korumdu, Chelpek, Temir of Issyk-Kul oblast) PIU is preparing a plan for remedial works and the need for additional investments.

### **IV. Implementation of ADB Project Community Infrastructure Services - Optional**

**The objective** of the project is to improve people's livelihoods, the environment and human health through the safe and reliable water and sanitation with construction/rehabilitation of about 200 villages in four oblasts - Batken, Osh, Jalalabad and Chui. It is planned that the project will benefit about 300 thousand people. Executive Agency is the State Committee of KR for Water Management and Land Development (SCWMLD). The existing Project Management Office (PMU) under SCWMLD will continue to lead the overall coordination of activities. Project Implementation Units (North and South PIU) organized at the regional level will jointly implement this project.

The components of the project:

Works for USD 21.8 million including: water supply and sanitation for USD 19.8 million (ADB financing is 93% of the total) and remedial works for USD 2.0 million (100 % of total expenditure). Within this category there is provided for the rehabilitation and modernization of services for rural water supply and sanitation in the remaining sub-projects within the original project by (a) simplification of the criteria for selecting subprojects; (b) improving the design criteria, and (c) improving implementation mechanisms;

Equipment and Supplies for USD 3.0 million (100% of the total). This section is providing the remedial works for USD 2.0 million and the provision of equipment for operation and maintenance for USD 1.0 million.

Training and capacity building is for USD 1.5 million (100% of the total). Provision of the training programs and capacity building for staff DSVS, local authorities and CDWUUs; programs of hygiene education programs and community involvement to strengthen the management of material and technical base.

Consultation services on community mobilization, engineering design and supervision is for USD 1.5 million (100% of the total) as well as

Support for project management and monitoring and auditing is for USD 1,2 million (85% of total expenditure).

### **General information about the project.**

The preparatory works for contracts for selection and mobilization of communities, the design works, information of communities and hygiene training and technical supervision are in progress.

For the past period there were contracts for 12 new sub-projects covering 28 villages with a population of 52.1 thousand people totaling KGS 237.3 mln.

From 12 subprojects 8 are operational and 4 subprojects are passing to 2011. Since the beginning of the project there were KGS 222,041,813 used that made USD 4,802,312.

### **6. Construction of on-farm facilities**

Due to population increase and lack of input of new irrigated land in the last 10-15 years the size of plots allocated to each villager were reduced. Particularly acute this problem is in the southern regions with the irrigated land holdings per capita are only 0.01-0.02 ha. Socio-economic standard of living of the rural population depends on the availability of irrigated land. This problem in the rural areas can be solved by the construction of irrigation facilities, accumulating hydraulic structures and the introduction of new irrigated land.

The program of construction of water facilities is providing removal of social tensions and migration in the territory of KR as well as the strengthening of frontier areas.

In accordance with the approved Government Decree № 593 as of 14 December 2007 there was provided construction of 16 water projects the most significant in the social and economic plan for the country in 2008-2010 in the territory of the Kyrgyz Republic. It was planned to commission 6114 hectares of new irrigated lands, improve water supply to 8854 hectares of irrigated land and undertake a comprehensive reconstruction of 298 hectares of irrigated lands. Implementation of the Programme provided allocation from the state budget for construction and reconstruction of objects to the amount of KGS 1 billion 432.2 million, from them KGS 330.0 million in 2008, KGS 490.2 million in 2009 and KGS 612,0 mln in 2010.

In fact from KGS 1 billion 432.2 million provided only KGS 601,1 mln or 41,9 % were allocated during 2008-2010.

Under the Program # 593 in 2008 - 2010 there were mastered KGS 619.42 million of capital investments, commissioned 509 hectares of new irrigated lands, 298 acres was made complete reconstruction and increased in water supply at 6400 hectares irrigated lands.

Two objects: Irrigation from rivers Toguz-Bulak and Kalmak-Ashu Issyk-Kul rayon reconstruction of Issyk-Ata Pool decade are fully completed and commissioned.

The commissioned 1-turn of the object "Construction of the canal Karakyshtak-Boz of Kadamjay rayon of Batken oblast" 32.0 hectares of new capacity of irrigated land, KGS 48.7 million of capital investments were mastered.

It was also commissioned the 1-turn of the object "Rehabilitation of the head water intake site on the river Ak-Sai Aktala rayon of Naryn oblast" with a value of fixed assets KGS 4.99 million. The intake for 500 hectares of irrigated land was improved.

In the Ak-Suy rayon of Jalal-Abad oblast there was the working commission conducted on commissioning of 1 turn of the object "Rehabilitation of the terminal part of the channel Besh-Batman to improve water supply in Renzhit Valley of Ak-Suy rayon". The cost of fixed assets is KGS 13.73 million.

The total value of assets placed in service in 2008-2010 I KGS 155.02 million. The volume of construction in progress amounted to KGS 0.446 billion.

Due to the funding shortfall of the program № 593 in the amount of KGS 831.1 million the full implementation of the above Program failed.

### **7. Toktogul Special Fund**

Special Funds in accordance with the tasks allotted are implementing:

- guaranteed and targeted funding of priority water objects;
- the design and surveying, construction and installation and other works related to irrigation and land reclamation in the territory of Toktogul rayon and the village of Jazykeechuu of the town of Karakul;
- prediction and construction organization, rational management of capital investments and increase their efficiency, lower construction costs, timely deployment and development of industrial buildings and structures, development and improvement of the soil.

Expected social and economic consequences for the state program are as follows:

- improving crop yields in irrigated areas with channels rehabilitated by 10-20%;
- secured provision of economic sectors of the country with irrigation water and reduction in the disadvantaged areas in land reclamation;
- reduction of losses of irrigation water during transportation to 15-20%;

#### **Sources of financing**

##### *Sources of funding*

Sources of funding for the State Committee of the Kyrgyz Republic on Water Management and Land Development in recent years are:

- Funds of the Republican budget
- Special funds
- Funds of PIP consisting of internal financing and external financing (loans to partners in the implementation of projects)
- Funds of the Republican budget for capital investments.

By calculations the volumes of expenditure in the period 2012-2014 including the special funds are apt to annual reduction.

The main reason for declining revenues is termination for implementation of joint projects and consequently lower financing costs for them. Republican budget funds as a source of financing irrigation sector by the control figures for 2012-2014 take into account only inflation (annual growth of 3 to 5%). Another kind of increase is not proposed.

#### **Funds of the republican budget**

Amount of expenses from this source in 2010 as compared to previous years has increased and one of the reasons for this growth is increase in salary costs increased in accordance with the Decree of the Government of KR as of 11.07.2008, №372. For 2012-2014 there is increase in only due to inflation (annual growth of 3 to 5%). Another kind of increase is not proposed.

#### **The special funds**

Special funds of the State Committee of KR on Water Management and Land development are formed by the rayon water management departments from services for supply of irrigation water and other services as well as from mechanisms for providing services on a contractual basis in accordance with the approved tariffs by the Agency for Antimonopoly Policy and Competition Development under the Government of the Kyrgyz Republic. Fees for payment services for water supply set by the Jogorku Kenesh (Parliament) (3 and 1.5 tyins per cubic meter) have not been revised since 1999 (Law of KR as of March 24, 1999 № 32 "On tariffs setting for irrigation water supply") as it is cover a very small share of costs for maintenance and repair of water facilities. The Committee is developing new tariffs and

submit to the government for consideration but given the economic situation in the country the tariffs are at the same level that affects the financing from the republican budget.

**Funds of PIP consisting of internal funding (IF) and external financing (loans of the partners in implementation of projects)**

These funds are entirely focused on implementation of the joint projects with international organizations for rehabilitation of the irrigation complex as well as activities for implementation of structural reforms in irrigation complex and its reform. At that four projects: On-farm Irrigation Project 2, WRMP and two projects on rural water supply on are being successfully implemented in the water sector.

**Funds of the republican budget for capital investments**

In order to address social problems of the rural population, development of the irrigated agriculture and resumption of construction of the irrigation facilities the Government of the Kyrgyz Republic according to the Decree № 593 as of 14.12.2007 approved “Program for the construction of water facilities and the development of new irrigated land in the Kyrgyz Republic for 2008-2010”. In accordance with the approved Decree of the Government of the Kyrgyz Republic there is planned to build up 14 water projects the most significant in the social and economic plan for the country. This will put 6114 hectares of new irrigated land.