The World Bank in the Kyrgyz Republic

# Country Snapshot

*An overview of the World Bank's work in the Kyrgyz Republic*

**April 2017**

| THE KYRGYZ REPUBLIC | 2016 |
|---|---|
| Population, million | 6.0 |
| GDP, current US$ billion | 6.6 |
| GDP per capita, current US$ | 1,073 |
| School Enrollment, primary (% gross) (2015) | 95.8 |
| Life Expectancy at birth, years (2016) | 70.0 |

## At a Glance

- The Kyrgyz Republic has progressively increased economic output over the past two decades, but the growth has been volatile. The economy remains characterized by significant informality and relies heavily on a few sectors and worker remittances from abroad.

- Despite important progress since 2011, governance remains one of the country's key development challenges. Further improvements in the rule of law, transparency, and regulatory reforms are needed for the country to attract investment and enable the private sector to become an engine of growth and job creation.

- The World Bank is working with the Kyrgyz Republic to improve the national governance system; fight corruption; boost economic growth, public finances, and global competitiveness; and improve social conditions.

## Country Context

Landlocked, largely mountainous, and with a population of nearly 6 million, the Kyrgyz Republic is a vibrant democracy that adopted a parliamentary system in 2011 and is one of the few lower-middle-income countries in the Europe and Central Asia region (GNI per capita of US$1,170 in 2015).

The country has experienced political and social instability since independence in 1991. Weak governance and entrenched corruption were major stress factors underlying political and social upheavals in 2005 and 2010.

The Kyrgyz economy is vulnerable to external shocks owing to its reliance on one gold mine, Kumtor, which accounts for about 10% of GDP, and on worker remittances, equivalent to about 30% of GDP in 2011–15.

For the country to realize its growth potential—including to export hydroelectricity as a nexus for regional trade and transport and to promote tourism—economic activities need to be diversified through increased private sector development and improved occupational skills and productivity among the youth.

Above all, dramatic improvements in governance are required, as corruption remains pervasive in the public sector, posing binding constraints to economic growth, competitiveness, and social equity.

The Government of the Kyrgyz Republic has committed itself to improved governance at the national and local levels and reduced corruption as the basis for the country's economic and social development.

## The World Bank and the Kyrgyz Republic

The strategic focus of the World Bank program as highlighted in the 2013–17 Country Partnership Strategy (CPS) has been to support the country's efforts to improve governance, with a particular emphasis on three broad areas of engagement:

- raising the standards of public administration and public service delivery
- improving the business and investment climate
- strengthening the stewardship of natural resources and the physical infrastructure

Support for these areas has been provided through concessional International Development Association (IDA) lending (supplemented by trust fund financing) and intensified analytical and advisory activities that emphasize practical, problem-solving advice.

With the challenging external environment and weaker prospects for growth, the Bank's next CPS for 2018–21 will focus on helping the country to mitigate the impact of the economic slowdown on job creation, provide protection to vulnerable populations, and exploit new opportunities for private sector development, while accelerating the pace of structural reforms.

### WORLD BANK PORTFOLIO

- Number of Projects: 11
- Lending: $170.45 million
- IDA financing in the Kyrgyz Republic:
  - 45% is provided in the form of IDA grants
  - 55% are highly concessional IDA credits with no interest and only a 0.75% service charge
  - Credits are repayable in 38 years, including a six-year grace period
- Trust Funds (>$5 million): 5 ($73.56 in total)

## Key Engagement

Agriculture is one of the most important sectors of the economy, providing about one-third of the country's employment and about 12% of total exports. The income of the sector, predominantly populated by small-holder farms, is driven by irrigated agriculture (1.3 million hectares) and pasture-based livestock production (9 million hectares).

The World Bank has been assisting the country in improving marketing links between farmers and businesses. The Agribusiness and Marketing Project has facilitated US$17.5 million in sales of Kyrgyz agricultural products, of which 89% was to export markets, such as Kazakhstan, Russia, Bulgaria, Moldova, and Turkey.

Crop and livestock farming have been supported by the Agriculture Investments and Services Project, the Agricultural Productivity Assistance Project, and the ongoing Pasture and Livestock Improvement Project and Support to Community Seed Funds Project. The results include the establishment of 454 pasture users unions and increased access to an additional 51,000 hectares of pasture through community investment in bridges, tracks, and watering points; a halving of the incidence of brucellosis in humans; the training and equipping of over 1,100 private veterinarians; and the establishment of the Veterinary Chamber.

Over 500 community seed funds and more than 1,000 self-help groups were established and are supported with certified seeds, fertilizers, and training.

The World Bank has supported the irrigation sector through several projects in the past and continues to do so through the Second On-Farm Irrigation Project and the ongoing National Water Resources Management Project and the Agriculture Productivity and Nutrition Improvement Project. Results to date include the establishment of 486 water users associations and the rehabilitation of irrigation schemes covering 175,000 hectares of land. Support to the Kyrgyz Republic's agriculture sector will continue through a new project: the Integrated Dairy Productivity Improvement Project.

## Recent Economic Developments

Economic growth is estimated at 3.8% in 2016, declining only slightly from 3.9% in the previous year. Output expansion was driven mainly by a recovery of gold production and consumption, fueled by increased remittances and government recurrent spending, including wage increases. Non-gold real GDP growth slowed to 3.7% from 4.9% in 2015.

The current account deficit is estimated to have shrunk to 9.7% of GDP in 2016 from 15.9% a year ago on account of the recovery of remittances (growth by 18% in U.S. dollar terms) and a slight improvement of the trade balance.

In 2016, the som appreciated by almost 9% relative to the U.S. dollar. Together with low food and energy prices, this resulted in low inflation at 0.4% (year-on-year [y-o-y] average).

Fiscal policy was significantly expansionary, reflecting a combination of resolute public investment and recurrent overruns. The budget deficit grew to 6.6% of GDP from 3.1% in 2015. Although tax revenues increased to 25.2% of GDP from 24.2% a year ago, this was negated by lower non-tax proceeds, driving a reduction in total revenues to 33.3% of GDP from 34.9% a year ago.

Expenditures increased to 39.8% of GDP, up from 38% in 2015, driven by both higher recurrent and capital outlays. Thanks to the appreciation of the som vis-à-vis the dollar, the public debt-to-GDP ratio improved to 61.7% of GDP as of end-December 2016 from 67.2% a year ago.

The extreme poverty rate (measured at US$2.5 per day, 2005 purchasing power parity [PPP] terms) is estimated to have stagnated in 2016 at 32.8%. Low prices (external and domestic) and higher remittance inflows supported household consumption, but this was not accompanied by job creation or earned income growth.

## Economic Outlook

The overall macroeconomic situation is expected to remain broadly unchanged in 2017, assuming exchange rate stability and no sudden deterioration in the external environment, especially the economic fortunes of Russia and Kazakhstan.

Overall growth is projected to decelerate slightly to 3.4% in 2017, reflecting a decline in gold production, while non-gold growth is projected to remain flat. In 2018, however, growth is expected to recover to 4% owing to remittance-supported consumption, while the contribution from investment is expected to be neutral and from net exports negative.

In light of the high debt burden (projected to remain above 60% of GDP in the coming years), the Government has committed to a significant fiscal consolidation over 2017–18, according to which the government deficit is projected to be reduced to 4.2% of GDP in 2018. The adjustment is expected to be led by expenditure, with capital spending and the wage bill  the main components, as total revenue is projected to fall due to expected lower grant support.

Stable growth projections for agriculture and construction and further increases in remittances are likely to support rural poverty reduction during 2017–18. Real wages are projected to rise slowly in the private sector, resulting in a slight reduction in urban poverty, where wage employment is more prevalent.

Social transfers will continue to play an important role in driving poverty reduction in both urban and rural areas. A scheduled increase in pensions should have a positive distributional effect, given that pensions represent close to 15% of income among the poor. Finally, lower food prices in 2017 should also positively impact the purchasing power of households at the bottom of the income distribution.

## Project Spotlight

### Scaling-Up Peer-to-Peer Learning in Public Finance at the Local Self-Government Level

Peer-to-peer learning in public finance in the Kyrgyz Republic

Almost two-thirds of citizens of the Kyrgyz Republic live in rural areas. Their day-to-day needs are mostly addressed by local self-government units called Ayil Okmotu (AO), nearly 80% of which depend on the national government to close expenditure gaps. In this context, effective public financial management at the local level is crucial for the well-being of the people.

At the grassroots level, opportunities for learning and knowledge sharing are limited. The Scaling-Up Peer-to-Peer Learning in Public Finance at the Local Self-Government Level Project addresses these deficiencies through innovative peer-to-peer learning.

The Project started two years ago and has supported the establishment of three countrywide Communities of Practice (COPs)—for AO heads, financial officers, and the chairs of budget commissions in local councils— with "chapters" in each of the 40 rural rayons (districts) in the country.

The COP meetings and networking opportunities provide the participants with a learning and knowledge-sharing platform, hands-on know-how about local budgeting, and a strong single voice for interacting with the central government agencies.

In addition, 40 elected resource persons from each COP, representing every district in the country, participate in quarterly centralized learning events and then go back to their districts to share knowledge and discuss local applications within their own area. The topics for learning events are selected by COP members and reflect their needs and interests.

To date, the project has conducted seven centralized trainings and 620 peer-to-peer learning events that have engaged 1,300 beneficiaries from all 453 AOs in the country in each round.

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