

The World Bank in the Kyrgyz Republic

Country Snapshot



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

October 2017

THE KYRGYZ REPUBLIC	2016
Population, million	6.08
GDP, current US\$ billion	6.55
GDP per capita, current US\$	1,083
School Enrollment, primary (% gross) (2016)	95.8
Life Expectancy at birth, years (2016)	71.0

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 slightly over 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\$1,100 in 2016).

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: 1) raising the standards of public administration and public service delivery; 2) improving the business and investment climate; and 3) 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, over the next several years the World Bank 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.

Key Engagement

The Kyrgyz Republic has a literacy rate of nearly 99% and a strong history of public education. The government allocates a solid 20% of its expenditure to the education sector, with universal primary enrollment. The Government has initiated a set of reforms elaborated in its 2012–2020 Strategy for the Development of Education. The Bank's program in the education sector comprises

- an International Development Association (IDA)-financed Sector Support for Education Reform Project (2013–18), focusing on school quality and management;
- the Early Education Project (2014–18), financed by the Global Partnership for Education, which works to increase equitable access to preschool education and school readiness;

WORLD BANK PORTFOLIO

Number of Projects: 15

Lending: \$256.10 million

IDA financing in the Kyrgyz Republic:

- 50% is provided in the form of IDA grants
- 50% 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

- the Engaging Communities for Better Schools Project (2016–20), financed by the Japan Social Development Fund and aimed at improving teacher performance and management of schools through enhanced community engagement, increased transparency, and accountability.

Ongoing Bank assistance is contributing to the following results:

- The "Nariste" (Child) school preparation program has been rolled out countrywide, providing free access to preschool education to 100,000 five- and six-year-old children.
- 1,000 teachers from 56 pilot schools have been trained to implement the revised curriculum and apply improved teaching and learning practices.
- 700,000 copies of textbooks, teacher guides, and student workbooks have been printed and distributed. All students in grade 3–4 now use revised textbooks.
- A new curriculum for grades 5–9 has been piloted and a sample-based achievement test carried out for fourth-graders.
- Schools have switched to a new financing model and will be held accountable for the annual school budget and expenditures.

Recent Economic Developments

Real GDP growth reached 6.9% in July 2017 year-on-year (y-o-y) compared to a 2% decline in the same period a year ago. This performance was driven by gold production, which expanded by 43% (with a frontloaded production cycle at Kumtor, the largest gold mine, in 2017).

Non-gold output growth was robust at 3.6%, with the strong performances of non-gold industry and construction more than compensating for the low and flat growth of agriculture and services, respectively.

On the demand side, private consumption was the main contributor to growth, reflecting a strong rebound of remittance inflows, which grew by about 30% in U.S. dollar terms in the first half of the year. Exports also contributed significantly, with robust growth to both Eurasian Economic Union (EEU) and non-EEU markets.

Inflation remained low at 3.6%y-o-y as of July 2017, and credit to the economy increased by 12.7% compared to 0.7% a year before.

The poverty rate (measured at US\$3.2 per day, 2011 purchasing power parity (PPP) terms) is estimated to have fallen slightly from 23.3% in 2015 to 22.9% in 2016. The only moderate increase in food prices since January 2015 has positively affected the purchasing power of households at the bottom of the income distribution, while limiting the real income growth of agricultural producers.

Moderate growth in services and agriculture, where about 50% of the bottom 40% are employed, constrained real labor income growth for the poor.

Economic Outlook

Macroeconomic conditions are expected to remain broadly favorable in 2017, assuming price and exchange rate stability and a control of spending pressures in the run-up to the presidential election in October 2017.

Annual growth is projected to reach 3.5% in 2017. Although gold production should taper off in the second half of the year, high remittance inflows are expected to boost demand, driving non-gold growth to 4.1% for the full year. In 2018, growth is expected to increase to 4.2% owing to remittance-supported consumption and export growth.

Modest increases in growth projections for agriculture and construction, and further increases in remittances, are likely to support rural poverty reduction during 2017–18. Private sector real wages are expected to rise slowly, 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 also benefit poor households, given that pensions represent close to 15% of income among the poor. The poverty rate is projected to decline to 22.6% in 2017 and 22.2% in 2018.

Project Spotlight

The National Road Rehabilitation Project



The road's rehabilitation resulted in an increase in and diversification of local and international trade, significant reductions in travel time and costs, and better access to essential services.

The rehabilitation of strategic road links has been among the key development priorities of the Kyrgyz Government, especially since 92% of all passenger flows and 59% of all freight traffic in the country is carried by road.

For just over 350 kilometers, the Osh-Batken-Isfana highway winds its way through the Ferghana Valley, linking small villages and towns with Osh, the second largest

city in the Kyrgyz Republic. Rehabilitated with support from the World Bank, the road now helps people living in the region get to places easily, spurs trade, and puts key services and goods within arm's reach, in addition to generating jobs, connecting families, and cutting dust pollution. The project financed the rehabilitation of about 50 kilometers of the Osh-Batken-Isfana road, including 32 kilometers from Pulgon to Burgandy, and 18 kilometers of the Nookat pass. The result was a tenfold increase in truck traffic over the span of five years, while travel time has halved.

The road rehabilitation works along sections of the Osh-Batken-Isfana corridor brought unprecedented improvements to the well-being of the people residing along the rehabilitated road, including: improved market accessibility and trade revitalization; greater market diversification and availability of key goods and services; new job opportunities; a reduction in prices of fertilizers, seeds, and pest control chemicals, improved social connectivity, affordability, and mobility.

Most critically, the rehabilitated road now helps local agricultural production, cutting travel time to markets by almost half in several cases. Better connected markets have resulted in better access to essential services such as hospitals and medical care, as well as banking.

"The number of stores in our village has increased. There were about three shops, but now we have about ten. There are more people driving and delivering goods. These shops now sell milk goods such as sour cream, kefir, and yoghurts. They also sell fresh tomatoes, cucumbers, and fish. One would have never been able to buy ice cream in here, but now we buy our children ice cream, whichever they want."

- A resident of Kan village

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/kyrgyzrepublic>



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