



Eurasian
Development
Bank

**Eurasian
Development Bank**
Country strategy
for the Kyrgyz
Republic
2022–2026



Acronyms and abbreviations

ADB	- Asian Development Bank
AIIB	- Asian Infrastructure Investment Bank
Bank, EDB	- Eurasian Development Bank
EAEU	- Eurasian Economic Union
EBRD	- European Bank for Reconstruction and Development
EEC	- Eurasian Economic Commission
EFSD	- Eurasian Fund for Stabilization and Development
ESG	- Environmental, Social and Corporate Governance
GDP	- gross domestic product
HPP	- hydropower plant
IBRD	- International Bank for Reconstruction and Development
ICT	- information and communication technology
IDA	- International Development Association
IsDB	- Islamic Development Bank
IFC	- International Finance Corporation
IMF	- International Monetary Fund
MDB	- multilateral development bank
RES	- renewable energy sources
SDG	- Sustainable Development Goals
SME	- small and medium-sized enterprises
TAF	- EDB Technical Assistance Fund
UN	- United Nations
UNIDO	- United Nations Industrial Development Organisation
WB	- World Bank

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Executive summary

In 2020, the coronavirus pandemic negatively impacted the Kyrgyz economy. By the end of that year, the country's GDP had declined by 8.6% year-on-year. **Economic growth is expected to recover in 2021, with a GDP growth rate of 3.8%.** The key growth driver will be the services sector, which is expected to recover from the previous year's low base at a rate of 5.1%. This trend is due to continue in 2022. Between 2023 and 2026, GDP growth is predicted to reach 3–3.6%.

For the Kyrgyz Republic, the **key integration drivers** within the EAEU will be:

- **transport infrastructure** that connects regions within the country and the country with other Central Asian states;
- **support to small and medium-sized enterprises** (by supporting the financial sector);
- the expansion of trade between economic agents in regional and global logistics chains; and;
- the development of a **commodity distribution network** and logistics wholesale centres, agribusiness clusters, and increased processing of the country's agricultural produce.

The EDB is stepping up its activities in the Kyrgyz Republic. To contribute to Sustainable Development Goals and expand its project activities in the Kyrgyz Republic, the Bank plans to provide over US \$160 million for projects in the country.

The EDB will enhance cooperation with multilateral and national development institutions in the country to mobilise significant external investment and set up credit syndicates in which the Bank takes a leading role.



The EDB will focus on strengthening its role as a development bank in the Kyrgyz Republic and on cultivating and implementing investment projects with a strong integration effect to deepen the country's integration with the Bank's member states. In so doing, the Bank will primarily finance projects that create lasting cross-country production and cooperation chains; projects with cross-country and cross-border multiplier effects; and infrastructure projects. The priorities will include projects promoting financial institutions, end-to-end transport infrastructure and logistics, energy, agriculture, and digital infrastructure.

The Bank will provide technical assistance to develop the institutional environment and improve project planning in the Kyrgyz Republic. The Bank plans to use technical assistance to enhance its investment opportunities. Technical assistance will help the Bank build a pool of potential projects by supporting adaptation of the regulatory environment and ensuring high-quality drafting of pre-project documentation.

1

External operating environment

1.1. Social, political and institutional factors

The Kyrgyz Republic is a lower-middle-income country. According to the National Statistical Committee of the Kyrgyz Republic, the poverty rate in 2019 was 20.1%, which is 17 percentage points lower than in 2013. This improvement was achieved thanks to an increase in individual income, largely driven by increases in wages and business income. In 2020, however, the poverty rate grew to 25.3% owing to the negative impact on the economy of the pandemic. Almost half (48.3%) of consumer spending is on food, with another 12% and 11% spent on clothing and housing and utilities respectively (EEC data for 2019). Nevertheless, compared to EAEU countries, the Kyrgyz Republic has **average income inequality**. According to the EEC, the Gini index in 2020 was 34.4%, higher than in Kazakhstan and Belarus, but lower than in Russia and Armenia.

Labour migration remains one of the main ways to earn a living. The country's registered unemployment rate at the end of 2020 was 5.8%, but migrant workers' remittances to the country account for about one third of its GDP.

The political situation in the Kyrgyz Republic is stabilising, but there is still a risk of internal and external stress. After the protests followed by the change of leadership in October 2020, the country held an extraordinary presidential election on 10 January 2021, electing Sadyr Japarov as President, and establishing the presidential system as a form of government. The 2020 parliamentary election led to a deterioration in the political situation and another election is due to be held in 2021. Tensions on the border with Tajikistan in April 2021 was a further concern. It culminated in an agreement to end the conflict and recognition of the need to delimit and demarcate the Tajikistan–Kyrgyz border.



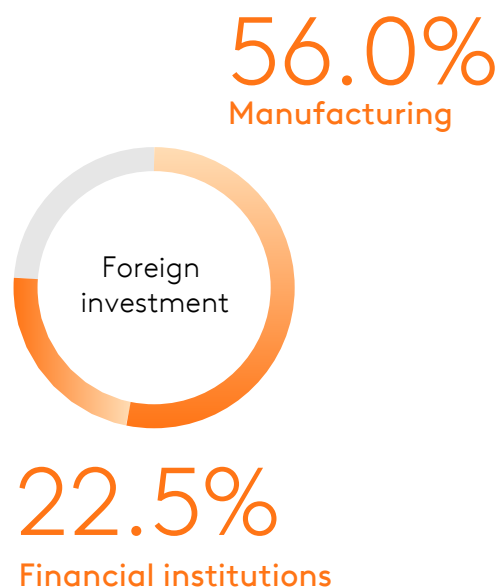
Political developments and the impact of the pandemic negatively impacted investment in the Kyrgyz Republic in 2020.

Foreign investment declined by 4.9% year-on-year to US \$6.9 billion¹. Almost 56% of foreign investment is in manufacturing and another 22.5% in financial institutions. Capital investment in 2020 dropped by 24.7% compared to 2019, due to cuts in all sources of funding — budgets, company equity, bank loans and foreign investment.

Digitalisation and the use of information and communication technologies are underdeveloped.

The UN E-Government Development Index 2020 ranks the Kyrgyz Republic 83rd among 193 countries; the only EDB member country below this is Tajikistan.

The country's lowest score in the index was for the development of telecommunications infrastructure. This assessment is confirmed by the Network Readiness Index, which ranks the Kyrgyz Republic 94th, and the ICT Development Index where it ranks 109th. It should be noted that digitalisation is among the Kyrgyz government's national strategic priorities.



1.2. Economic background

The Kyrgyz Republic is one of the smallest EDB member economies. At the end of 2020, its gross domestic product (GDP) amounted to US \$7.7 billion. The country's GDP per capita nominal value was US \$1,223.8² (and GDP at purchasing power parity was US \$3,735³).



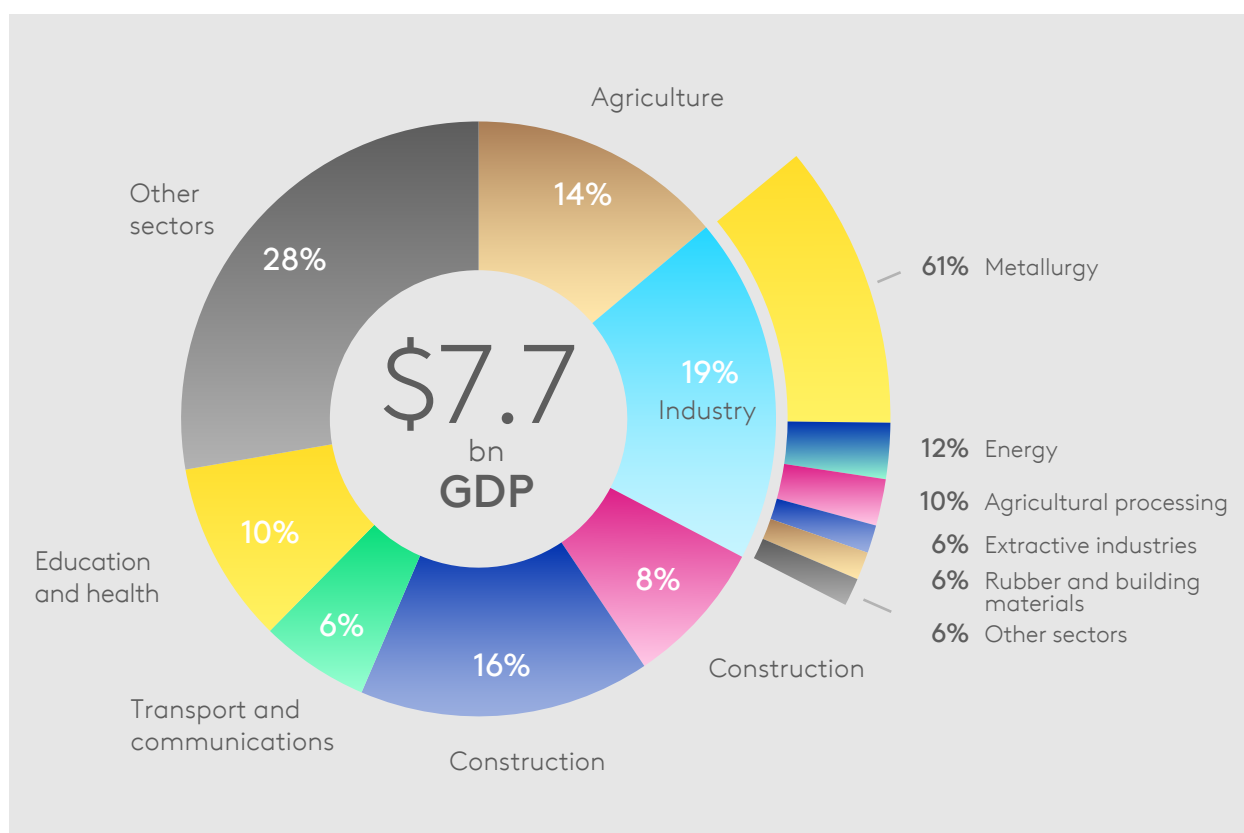
The Kyrgyz economy is insufficiently diversified and heavily reliant on gold mining. Industry accounts for 19% of GDP, with nearly 10% of GDP generated by Centerra Gold, a gold mining company, and about 5% of government revenues coming from the gross revenue tax on the Kumtor mine alone. Gold also accounted for half of the Kyrgyz Republic's exports in 2020. Another 16% of the country's GDP comes from trade in goods and services and 14% from agriculture. These sectors are dominated by small and medium-sized enterprises (80% and 63% respectively).

¹ Data from the National Statistical Committee of the Kyrgyz Republic

² EEC data

³ www.worldometers.info

↓ Figure 1.
Kyrgyz Republic's
GDP by sector
and industrial
structure, 2020



Source: EEC, EDB data

The country's mineral resources include deposits of noble, non-ferrous and rare metals, non-metallic minerals, and energy resources. The country extracts mercury, clay, coal, fluorite, gypsum, lime, natural gas, crude oil, sand and gravel, and silver. Undeveloped mineral resources in situ include bauxite, copper, iron ore, lead, rare earth metals, sulphur, tin, tungsten and zinc. In 2019, amid growing protests, the Kyrgyz government banned all activities associated with uranium and thorium prospecting, exploration and development, apart from reclamation of tailings sites. The economy does not meet its fuel needs domestically and imports most of its energy resources from Russia.



Compared to other EDB member countries, the financial sector in the Kyrgyz Republic is underdeveloped. The country's Financial Development Index as calculated by the IMF was 0.13 in 2019, the lowest of the EDB member states. At the end of 2020, the value of trading transactions on the Kyrgyz Stock Exchange totalled US \$118 million, or 1.5% of GDP⁴. Trading on the

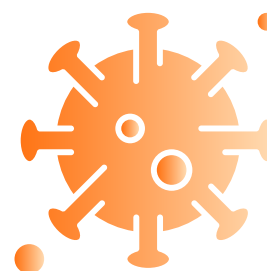
⁴ Data from the National Bank of the Kyrgyz Republic, the Kyrgyz Stock Exchange and the National Statistical Committee of the Kyrgyz Republic

domestic foreign exchange market in 2020 amounted to US \$1.3 billion, or 17% of GDP. According to the IMF, financial institutions in the Kyrgyz Republic are more developed than its financial markets. This is primarily due to the greater availability of banking services and higher banking sector efficiency, although penetration of financial services remains low.

In 2020, the coronavirus pandemic negatively impacted the Kyrgyz economy.

By the end of 2020, the country's GDP declined by 8.6% year-on-year⁵. Quarantine restrictions imposed in the Kyrgyz Republic and in its trading partner countries weakened domestic consumption and investment demand and limited the growth in net exports in non-gold sectors. However, increased foreign exchange revenues from the sale of gold abroad amid the growing demand for protective assets somewhat mitigated the negative effects.

The services sector, especially hotels and restaurants, leisure and recreational facilities and non-food retailers, suffered heavy losses. The pandemic did not affect agriculture, information and communications and had a positive effect on pharmaceutical companies.



In 2020, public finances contracted sharply due to the negative impact of the pandemic.

Tax and customs revenues declined as borders closed and quarantine measures were imposed, while spending in the health sector skyrocketed. The budget deficit exceeded 3% of GDP. The gap was financed by external aid such as transfers and donor grants from partner countries, IFIs and the IMF, and by an increase in public debt.

Public spending on agriculture, fuel and energy, mining, transport and communications in 2020 was halted

amid falling tax revenues and the need to prevent the spread of coronavirus. Allocations for environmental, cultural, recreational and religious initiatives declined, while healthcare spending grew by 23%.

Public debt reached 63.7% of GDP at the beginning of 2021

due to an increase in liabilities payable to MDBs under preferential loans by 15% of GDP as well as due to government treasury bonds with maturities between 2 and 10 years (1.5% of GDP)⁶. The nominal decline in GDP and the depreciation of the national currency had an additional impact on the debt burden.

Economic growth is expected to recover in 2021, with a GDP growth rate of 3.8%⁷.

We believe that recovery will peak in Q4 2021 and Q1 2022, with the key assumptions in the forecast scenario being social and political stability (a parliamentary election is scheduled for late autumn) and Kumtor mine production targets being achieved. The projection is highly uncertain. This is largely due to a lack of publicly available reports on Kumtor output since Q2 2021. For the time being, we believe that over the next two years the company will follow Centerra Gold's long-term gold production plan released in February 2021.

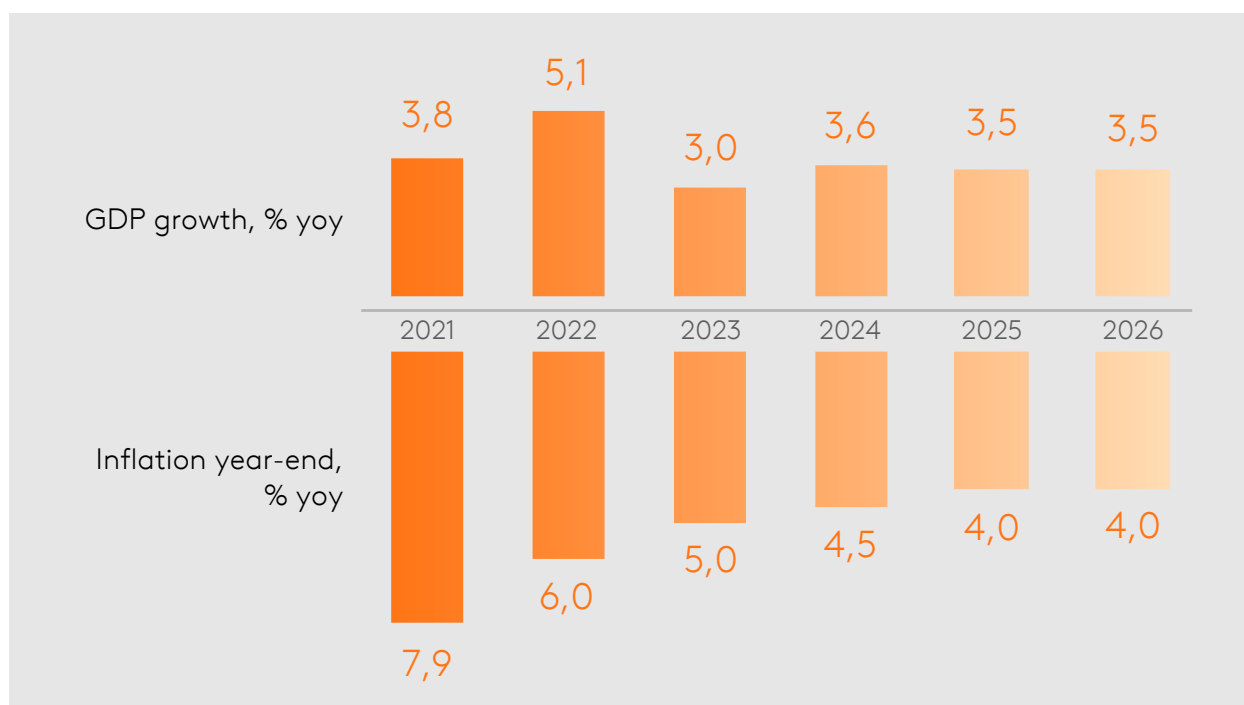
Expected GDP growth rate in 2021



⁵ Data from the National Statistical Committee of the Kyrgyz Republic

⁶ Calculated using EEC data

⁷ EDB projections



Source: EDB calculations

↑ Table 1.
Projections
for the Kyrgyz
Republic's key
macroeconomic
indicators

Infrastructure requires significant investment. The energy sector, which is dependent on hydroelectricity, is limited by poorly maintained assets. Energy companies are slow to adopt new technology, focusing on major hydroelectric projects while high-tech solutions remain unexplored. The sector depends on substantial direct and indirect subsidies, and tariff reforms have been slow. There is a problem with public access to water supplies that calls for additional investment and institutional reform — the utility sector is obsolete and tariff regulation does not promote proper modernisation.

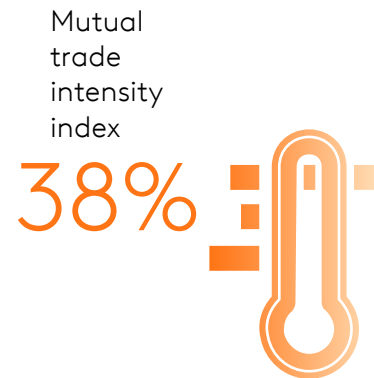
Transit potential needs to be developed. The lack of an integrated regional transport system and limited air connectivity reduce the country's connectivity and competitiveness. Due to the peculiarities of Kyrgyzstan's topography, huge investment is required in road construction and to meet the high cost of maintenance. Funding for road construction comes from external donor sources, but these are insufficient. To develop the Kyrgyz Republic's transit potential, a road network needs to be built to accompany aviation and logistics development.

Public-private partnerships. The government has significant plans to develop public-private partnerships. It has executed institutional and legal reforms to support this process. These include the creation of a Ministry of Investment with specific targets and functions and of key public bodies such as the PPP Centre, the State Property Management Fund, the Bankruptcy Department and free economic zones, which have been transferred to the Ministry of Investment. The new law on PPP prepares the ground for simplified bidding and project start-up, direct negotiation mechanisms and project sandboxes to enable innovative projects to be piloted in the Kyrgyz Republic.



1.3. Integration agenda

The Kyrgyz Republic's trade intensity index registers a high level of mutual trade with EAEU countries, exceeding 38%. The Kyrgyz Republic ranks second after Belarus in terms of the importance of trade with other EAEU countries for its foreign trade and economy. In 2020, the Kyrgyz Republic's exports to the Bank's member countries accounted for 30% of the country's total exports, up 8% on 2016⁸. Imports from EDB countries amounted to 50% of the total (+12% compared to 2016).



Food products topped EAEU mutual trade in 2020. Trade in food commodities reached US \$7.5 billion in the EAEU, and their share in mutual trade rose from 11.8% to 13.7%. These developments in the mutual trade in food products were partly a result of the need to ensure food security in the EAEU during the crisis period. The growing share of food and agricultural produce could become a new trend in intra-EAEU trade, which could help to reduce imports from non-EAEU countries.

Building effective food trade without barriers and restrictions is one of the most important integration priorities in the countries in which the Bank operates. In this context, in April 2021, the Bank launched a study to develop a model for a Eurasian commodity distribution network.

The Kyrgyz Republic has significant potential to export hydroelectricity. The glaciers of the Kyrgyz Republic are larger than those of the Caucasus and Alps combined and are the main source of Central Asia's rivers. Power shortages⁹ in neighbouring Central Asian countries gives the Kyrgyz Republic significant potential to export. The CASA-1000 project, for example, is creating infrastructure to export electricity from existing hydropower plants in the Kyrgyz Republic and Tajikistan to Afghanistan and Pakistan. The building of a single "energy ring" in Eurasia is also under consideration. The EDB estimates that eliminating inefficiency in the water and energy complex could add 7% (US \$22 billion) to Central Asia's GDP by 2025. The region's economies would grow by an additional 1.5 percentage points in five years compared with the business-as-usual scenario.

The Kyrgyz Republic is a key player in developing transport corridors in Central Asia. The Kyrgyz Government's transport focus is on rehabilitating and maintaining two corridors that are strategically important to the region — CAREC 1 (the Bishkek–Torugart road) and CAREC 3 (the Bishkek–Osh road). It is also building an alternative North–South road to connect the country's northern and southern regions. Roads are exposed to harsh winter conditions and require continual maintenance. Support for institutional reform is needed to ensure road maintenance and road asset management is undertaken with the involvement of the private sector.

⁸ Calculated using TradeMap data

⁹ Seasonal or net

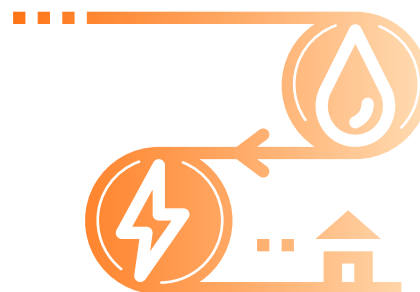
1.4. Green economy

The Kyrgyz Republic has the highest CO₂ emission intensity of the EDB countries and high air pollution levels across the country. In 2018, the International Energy Agency estimated the country's CO₂ emission intensity at 1.39 kg per unit of GDP, which is higher than in other EDB member countries but lower than the global average. In the countries' 2020 air pollution ranking¹⁰, the Kyrgyz Republic was eighth out of 106, with PM 2.5 concentrations exceeding the World Health Organisation recommended levels by a factor of 4. The causes of poor air quality in populated localities are coal-fired power plants, construction, mining and processing industries and transport emissions. Available data suggest that Bishkek is a city with consistently high air pollution rates.



Temperature change and global warming are affecting the Kyrgyz Republic's long-term potential in important sectors such as energy and agriculture. According to the World Bank, air temperature in the Kyrgyz Republic has risen by 0.8 °C over the last century, contributing to the melting of the glaciers that embody the country's significant hydropower potential. The United Nations estimates that almost a third of Central Asia's glacial areas have disappeared since 1930. In addition, rising temperatures have a negative impact on agriculture – droughts can exacerbate irrigation water shortages and accelerate soil degradation, leading to lower yields. Supporting agriculture would require significant modernisation and construction of irrigation systems.

Hydropower's untapped potential is constrained by obsolete infrastructure and institutional weakness. The Kyrgyz Republic's total installed power capacity is 4.3 GW, of which hydropower accounts for 85%¹¹. The country does not use other renewable energy sources. The power sector has negative profitability and a modest share of GDP. A net importer of energy (oil and coal), the Kyrgyz Republic ranks third among CIS countries after Russia and Tajikistan in terms of hydropower potential. The issues facing its power sector include obsolete assets that have reached the end of their operational life; high commercial and technical losses; below-cost tariffs while coal and gas tariffs are market-based; and operational constraints caused by the water-energy nexus and various hydrological factors. As a result, the country experiences occasional power shortages, necessitating rolling blackouts in some years.



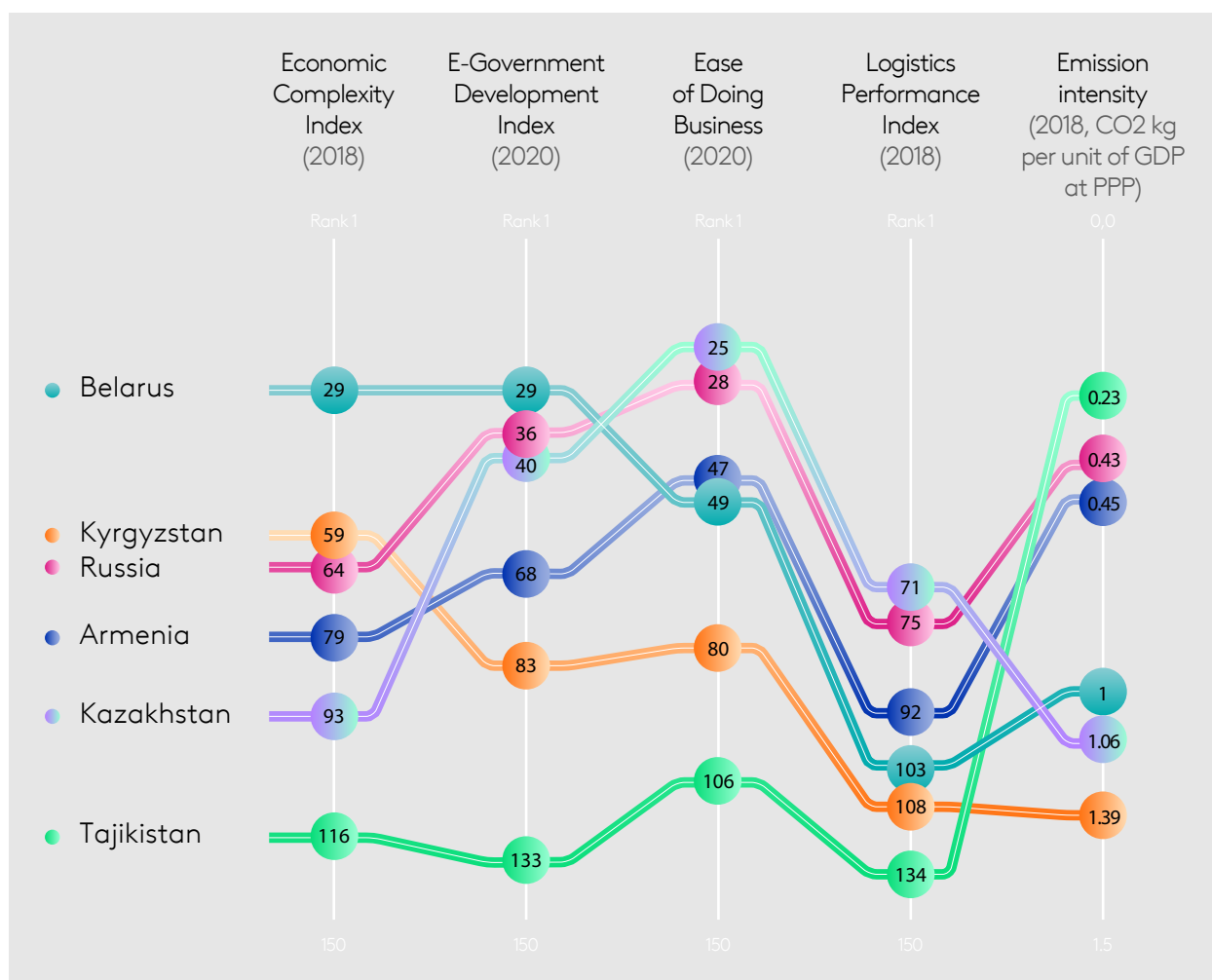
¹⁰ Estimated using the Air Quality Index (AQI)

¹¹ IRENA data for 2020

Indicator		2018	2019	2020
Economic indicators				
GDP	US \$ millions	8,271	8,871	7,736
GDP per capita	US \$	1,364	1,430	1,224
GDP volume index (at constant prices), including:		103.8	104.6	91.4
Agriculture		102.6	102.5	101.1
Industry		105.1	106.9	92.5
Trade and services		102.8	102.9	89.9
Industrial output	US \$ millions	3,738	4,069	4,129
Capital investment	US \$ millions	2,481	2,594	1,588
Inward foreign investment	US \$ millions	6,939	7,280	6,927
Consumer price index		100.5	103.1	109.7
Public debt	% of GDP	54.8	54.3	68.5
External debt as percentage of total public debt	%	85.7	84	85.7
SME share of GDP	%	42.5	42.8	38.6
E-government development	ranking	91	-	83
Social indicators				
Population at the beginning of the year	thousands	6,256.7	6,389.5	6,523.5
Poverty rate	% per national definition	22.4	20.1	25.3
Inequality	Gini coefficient	0.378	0.364	-
Registered unemployment rate	% as at the end of the reporting period	6.2	5.5	5.8
Individual cross-border inward remittances	% of GDP	25.9	20.9	26.3
Proportion of population with sustainable access to safe drinking water	%	91.8	94.1	-
Proportion of population with sustainable access to sanitation	%	31.5	31.5	-
Environmental indicators				
Specific energy intensity	electricity generation/GDP	0.6	-	-
CO ₂ emission intensity	CO ₂ kg per unit of GDP	1.39	-	-
Share of RES in installed power capacity	%	85.3	85.3	85.3
Share of RES in energy consumption	%	33.9	-	-
Share of capital investment in environmental protection		0.9	3.4	-

Sources: EEC, UN, WB, IMF, IEA, IRENA, National Statistical Committee of the Kyrgyz Republic, EDB estimates

↑ Table 2.
Key
macroeconomic
indicators



Sources: Harvard Atlas of Economic Complexity, United Nations, World Bank, International Energy Agency

↑ Table 3.
Comparison
of EDB member
states' rankings

The Bank's country priorities and objectives have been identified based on economic assessments, the integration agenda and development prospects, and are provided in Sections 2.4 and 2.5.

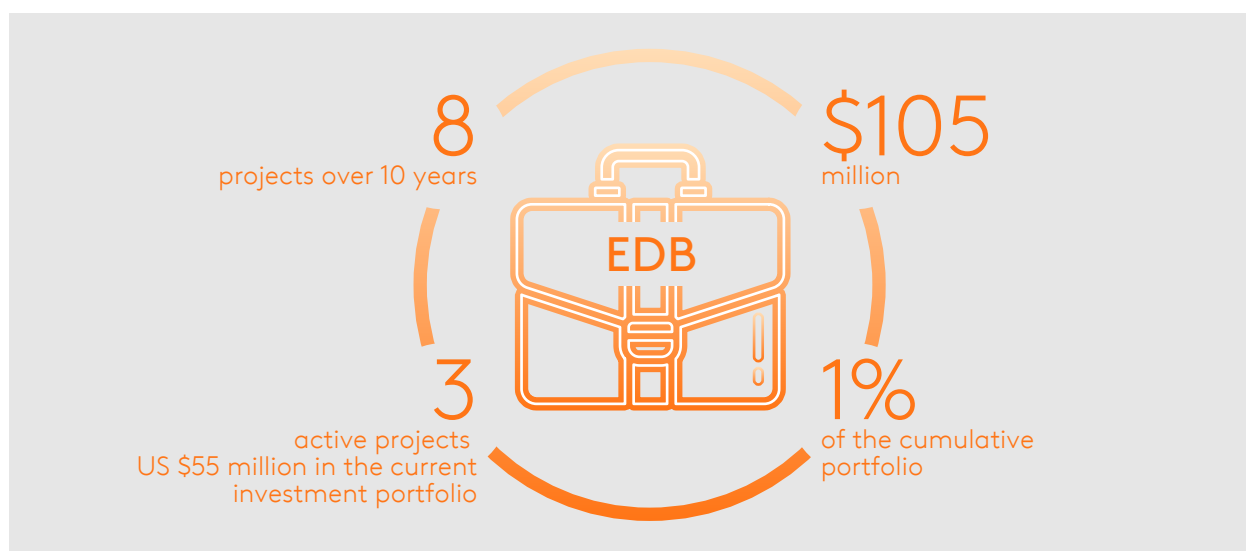
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EDB strategic development objectives in the Kyrgyz Republic

2.1. EDB project operations

The EDB's cumulative investment portfolio in the Kyrgyz Republic includes **eight projects worth a total US \$105 million**. Almost all projects support financial institutions through dedicated loan facilities for microfinance, SME support and trade finance. In 2013, the Bank provided a US \$30 million loan allowing the country to purchase coal and export electricity to Kazakhstan.

The EDB's current investment portfolio in the Kyrgyz Republic comprises **three projects totalling US \$55 million**. Two project agreements signed in 2018 extend loan facilities to Halyk Bank to support SMEs and trade finance. Another US \$50 million loan for the Russian-Kyrgyz Development Fund approved in 2018 finances the purchase of raw materials, components and parts for the fund's investment projects. As at 1 June 2021, the borrower financed twelve sub-projects. Total disbursements reached approximately US \$4 million.



Source: the EDB

↑ Figure 2.
Outcomes of
EDB and EFSD
operations in the
Kyrgyz Republic

In financing projects in the Kyrgyz Republic, the EDB faced certain challenges and constraints. Firstly, the Bank's ability to provide concessional financing is limited compared to that of other multilateral development banks because of its credit rating and the risk profiles of its borrowers. Other risks include the country's high exposure to external shocks, structural constraints in the economy, devaluation of the national currency and socio-political instability. All these factors affect the EDB's ability to operate in the country.

In 2020, at the request of the Ministry of Finance of the Kyrgyz Republic, the EDB Technical Assistance Fund financed two research projects entitled Global Experience in Fiscal Risk Assessment and Assessing the Impact of Fiscal Policies on Economic Growth in EDB Member Countries. The projects helped identify possible measures to strengthen the country's fiscal policy and proposed guidelines for assessing fiscal risks that are acceptable to Kyrgyzstan. The results will be used as part of the 2017–2025 Strategy for the Development of Public Finance Management in the Kyrgyz Republic.

2.2. National development priorities

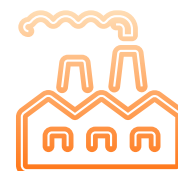
In November 2018, the Kyrgyz government approved the **2018–2040 National Development Strategy for the Kyrgyz Republic**, an overarching document outlining the country's objectives and priorities for social, economic and public governance development until 2040.

The economic objectives of the National Strategy are to promote employment and stable income, to create productive jobs, a competitive digital economy and conditions that support businesses, and to introduce innovative and environmentally friendly technology.



Key to this is the development of physical and digital infrastructure. The strategy sets the following infrastructural priorities:

- increasing power generation capacity, with renewable sources (such as small hydropower plants, solar and wind power plants, solar collectors, heat pumps, biogas) to grow to 10% of the country's total energy mix;
- building reliable, affordable and high-quality energy and drinking water infrastructure and establishing economically sustainable, affordable and safe water supply and wastewater and sanitation services in each locality;
- programmes for the energy-efficient refurbishment of old residential and non-residential buildings, using resource-saving technologies;
- gasification of the country's residential and industrial buildings;
- building a railway network linking the country's northern and southern regions;
- setting up transport and logistics hubs and an integrated freight forwarding and transport system and promoting the development of multimodal transport;
- reconstructing roads and creating safe international transport corridors;
- electrifying municipal and rail transport;
- developing the air freight market and establishing an air cargo and passenger logistics hub;
- developing waste management and recycling infrastructure.



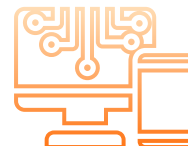
Objectives include industrial development, the promotion of exports, and greater SME involvement in the economy:

- developing competitive and export-oriented industries embedded in regional and global value chains, and participating in integration alliances linking the EAEU and One Belt, One Road initiatives;
- increasing mining efficiency and investing in modern mining technology to minimise environmental impact;
- promoting the competitive production of high-quality petroleum products and building materials;
- setting up assembly and component production facilities and developing other sub-sectors of the manufacturing industry;
- developing light industry clusters;
- encouraging all types of technological modernisation;
- raising SMEs' share of GDP to 50% by 2023 by expanding financing schemes, improving credit conditions, introducing special administrative and tax regulations, etc.;
- developing capital markets and financial institutions;
- promoting tourism, including resort and recreational tourism, mountain-based adventure tourism and cultural tourism, and establishing tourism clusters, including winter recreation.



The National Strategy objectives for agricultural development include the following:

- ensuring in-country, quality food supplies and transforming the industry into a supplier of high-quality and environmentally friendly organic products to global and regional markets;
- promoting the country's competitiveness as a major supplier of agricultural produce to global and regional markets, and bridging production capacity gaps for traditional crops. The industry will introduce an international quality control system to monitor the production, storage and processing of agricultural produce;
- enhancing rural producers' access to lending, lowering interest rates, implementing an affordable soft loan programme and setting up specialised lending institutions to finance agricultural exports;
- continuing extensive greenhouse development and introducing new high-tech production methods, whilst ensuring that the country's agricultural industry remains environmentally friendly and organic;
- improving the efficiency of water and land use by increasing energy efficiency in the agricultural sector.



The country's digital transformation is another key objective in its strategy, to be achieved by:

- improving the availability of communication services and creating up-to-date information and communications infrastructure (telecommunication networks, data centres, cloud technologies, information and service centres, digital platforms), including broadband connection. Every village will be served by fibre-optic networks and all community premises will have high-speed internet access;
- building an open digital society. Digital public and community services for individuals and businesses will be launched nationwide, including digital government, local authorities, parliament and justice. Digital services will also be provided nationwide in health and education. Digital commerce, finance and agricultural projects will be launched. Resources will be allocated to the establishment of national spatial data infrastructure and the development of local digital content.

An annex to the 2040 National Development Strategy outlines the value and timing of investment projects. The document identifies 226 projects in 12 areas with a total commitment of US \$7.9 billion. There is also a list of projects requiring additional funding, which comprises 23 projects worth a total of US \$12.8 billion in logistics, energy, manufacturing and information technology (Annex 1).

2.3. Role of development partners

Multilateral development banks (MDBs) play a key role in financing development projects in the Kyrgyz Republic. Between 2006, the year of the EDB's inception, and 2020, MDBs have invested approximately US \$5 billion in the country's development. The Kyrgyz government has cooperated with international development institutions and its National Development Strategy identifies the MDBs willing to finance the initiatives as part of defined investment projects.

The Asian Development Bank (ADB) is among the most active development institutions operating in the Kyrgyz Republic, with cumulative project financing reaching US \$2 billion. The ADB extends financing for the country's projects on concessional terms or in the form of grants. The most heavily financed sectors are transport and energy, which together account for half the bank's cumulative portfolio. The highest number of projects financed in the country was in corporate governance (46 projects). In addition, the ADB has an approved 2018–2022 Country Partnership Strategy for the Kyrgyz Republic, which has as its key objectives economic diversification, improved access to public and municipal services and leveraging regional integration. The ADB defines six priority sectors for investment: transport and energy, agriculture and natural resources management, education, public sector management, and housing and utilities (with access to water supply as its number-one goal). The strategy also indicates the ICT sector as a priority in all categories.



The World Bank Group provides significant support to the country's development projects. Since the Kyrgyz Republic joined the World Bank in 1992, it has received over US \$2 billion in financial assistance. As the World Bank's methodology classifies the Kyrgyz Republic as a country with low creditworthiness, it finances projects through IDA concessional lending mechanisms (interest-free loans provided for 20 to 30 years). The completed projects were aimed at improving public administration, developing basic infrastructure, and enhancing access to social services. There were also projects to support agriculture and develop irrigation. In addition, the World Bank has developed and approved a medium-term 2019–2022 Country Partnership Framework for the Kyrgyz Republic, setting out the following focus areas: promoting inclusive, private sector-led growth and institutional reforms; catalysing productivity, including through digital technology; and fostering economic sustainability by developing human capital and addressing environmental and climate challenges. Separate note should be made of the IFC as part of the World Bank Group, which promotes the development of a market economy in the country through lending and investing in its financial institutions.



The European Bank for Reconstruction and Development (EBRD) is the third-largest lender in the Kyrgyz Republic having injected more than US \$700 million in project financing. Around 30% of the funds it has extended since it began operating in the Kyrgyz Republic have been channelled through financial institutions to support economic development. In addition, about a quarter was invested in mining companies, primarily Centerra Gold, and around US \$100 million was provided to develop the water sector. The EBRD Kyrgyz Republic Country Strategy for 2019–2024 sets out the following priorities: enhancing competitiveness by increasing access to business finance and improving the quality of financial services; promoting integration by stepping up exports and infrastructure investment (transport and energy networks above all); and developing greener and more commercialised public utilities.



Regional institutions such as the Islamic Development Bank and the Asian Infrastructure Investment Bank also play a substantial role and have significant capacity to operate in the country. The Islamic Development Bank (IsDB) has already financed 70 projects to the tune of more than US \$400 million in the Kyrgyz Republic. Most of these projects were in transport, energy and agriculture. The Asian Infrastructure Investment Bank (AIIB) is a relatively young development institution deploying resources in the country, but it has significant potential. In 2020, the AIIB approved a US \$50 million sovereign loan to support small and medium-sized businesses affected by the coronavirus pandemic. It expects to enhance its operations in the Kyrgyz Republic by investing primarily in infrastructure.

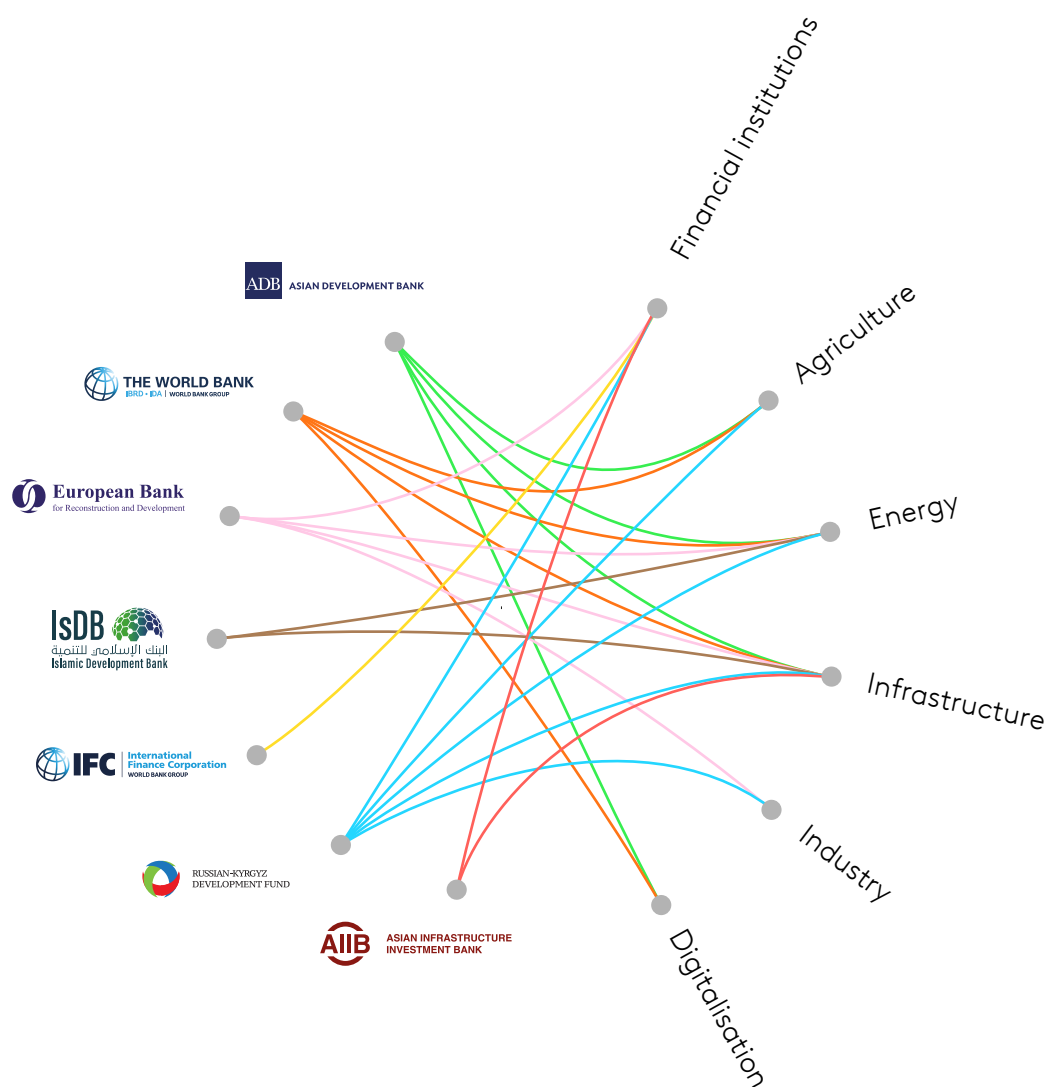


In 2014, the Russian-Kyrgyz Development Fund was established and has since financed projects worth US \$191 million. The Russian-Kyrgyz Development Fund has been critical in promoting the Kyrgyz Republic's integration with the Eurasian Economic Union. It mainly focuses on projects supporting small and medium-sized enterprises and regional development. Over 50% of the fund's loan portfolio is in agriculture and industry and another 20% is invested in infrastructure projects.



The distribution of MDB project financing in the Kyrgyz Republic by sector (Figure 3) is as follows.

↓ Figure 3.
Matrix of MDB
participation
in the Kyrgyz
Republic,
by sector



Source: MDB websites, EDB analysis

As shown, the EDB has a wide network of potential partners when it comes to financing projects and setting up syndicates. The most likely areas for cooperation between the EDB and other MDBs would be the modernisation and construction of energy and transport infrastructure, especially projects aimed at promoting regional integration (CASA-1000, CAREC-1, CAREC-3 and others); improving access to water supply; and supporting agriculture, including irrigation and agricultural processing.

Furthermore, the Kyrgyz Republic's own development institutions could partner with the EDB to implement its strategic initiatives. Aiyl Bank is one of the country's main financial institutions involved in state agricultural development programmes. The Guarantee Fund issues guarantees to give SMEs access to loans and other financial resources. The Russian-Kyrgyz Development Fund was established by the governments of the two countries to promote economic cooperation between them and modernise and develop the Kyrgyz economy.

2.4. Consistency with the Eurasian Development Bank's 2022–2026 Strategy

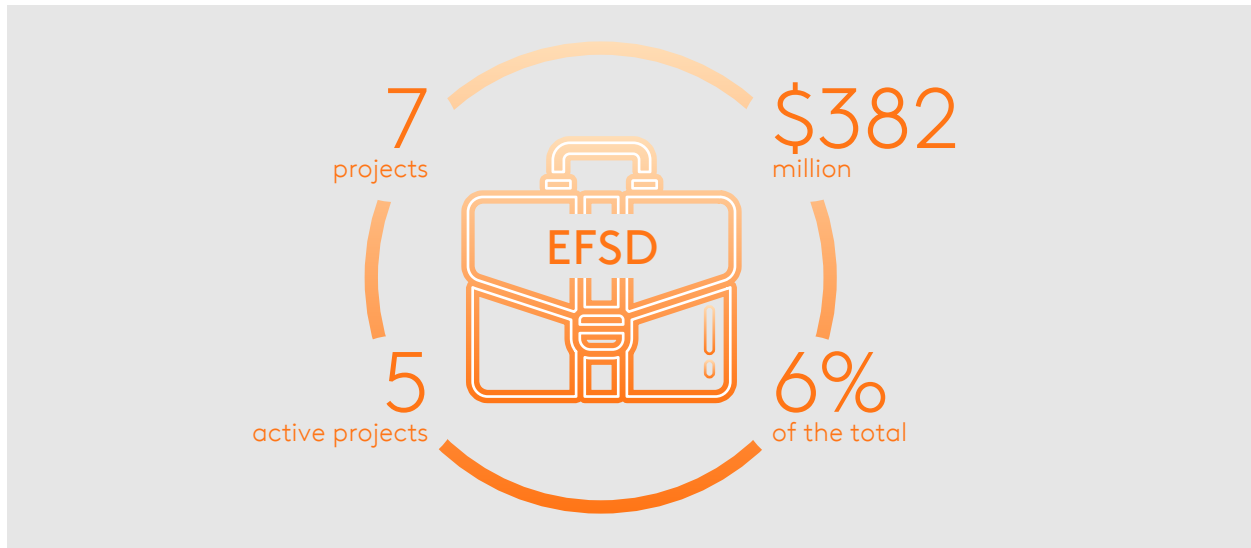
The EDB 2022–2026 Country Strategy for the Kyrgyz Republic is aligned with the Bank's overall 2022–2026 Strategy.

The Bank's main strategy sets key benchmarks, including in respect of investment projects with a strong integration effect in end-to-end transport infrastructure and logistics, water and energy, digital infrastructure, and the promotion of SDGs in the smaller economies, with an expected four-fold portfolio growth compared to 2020.

The priorities set out in the Country Strategy are also in line with the country's national development strategies, including the 2018–2040 National Development Strategy.

2.5. EFSD strategic priorities in the country

The EFSD cumulative portfolio in the Kyrgyz Republic comprises seven projects totalling US \$382 million. Most of the finance, extended as investment credits, supports the development of basic infrastructure, including projects to rehabilitate energy and transport infrastructure and supply new agricultural equipment. In addition, the country received a grant to finance its Caravan of Health programme. The EFSD is currently considering housing and water supply projects, as well as a grant to support social infrastructure.



The EFSD has strategic objectives for its work in the Kyrgyz Republic between 2022 and 2024 which will unequivocally improve the institutional framework and have a synergetic effect on the Bank's operations. Firstly, the Fund will help to maintain macroeconomic and financial stability to mitigate the risk of insolvency on loans provided to the Kyrgyz Republic, including as part of its operations. Secondly, it will support structural and institutional transformation to enhance process management and, as a result, the efficiency of project financing and implementation. The ESFD will also help to modernise basic infrastructure by reducing the worst financing deficits. Addressing basic infrastructural issues will increase the investment attractiveness of other potential development projects in transport and energy and allow the Bank to consider and propose commercial initiatives, including as part of the EAEU integration agenda. Finally, the Fund will help to advance social sectors, particularly through grant funding, to improve living standards and develop human capital in the country.

2.6. Priorities of the EDB 2022–2026 Strategy

The EDB Country Strategy for the Kyrgyz Republic is intended to help implement the objectives enshrined in the EDB's overarching 2022–2026 Strategy ("Strategy"). The EDB's operations in the Kyrgyz Republic, in line with the Bank's mission and mandate, will promote the development of a market economy and its sustainable growth, and boost trade and other economic ties with the Bank's member states through investment. EDB project activities in the Kyrgyz Republic will contribute to the development objectives set by the government and will focus on intensifying the country's integration with the Bank's member states.

The EDB, under its Strategy, is transforming its role as a development partner. As such, the EDB will adopt the following approaches:

→ The Bank will help achieve SDGs by implementing the Country Strategy in close partnership with the Kyrgyz Republic's executive authorities and other development institutions, both as sources of expertise and as co-financiers of technical assistance programmes and project operations;

→ The EDB will contribute applied country and sector analysis and help to develop analytical competencies; encourage joint research with other development institutions; and expand its Bishkek Representative Office; and

→ Support the development of the institutional environment, in particular by facilitating the institutional changes needed to meet the EDB's 2022–2026 development objectives, taking into account TAF capacity and with support from national development institutions.

The EDB's activities in the Kyrgyz Republic will focus on strengthening its role as a development bank and on nurturing and implementing investment projects with a strong integration effect to enhance the country's integration with the Bank's member states. In so doing, the Bank will primarily finance projects that create lasting cross-country production and cooperation chains; projects with cross-country and cross-border multiplier effects; and infrastructure projects. The related priority areas will include projects promoting financial institutions, end-to-end transport infrastructure and logistics, energy, agriculture and digital infrastructure.



In setting priorities for its operations in the Kyrgyz Republic, the Bank also intends to enhance the evaluation of its contribution to SDGs, since the Country Strategy implementation period precedes the final phase of a programme to achieve the United Nations' SDGs by 2030. In its strategy model for the Kyrgyz Republic, the Bank will actively contribute to the country's economic growth and SDGs. To achieve this, the Bank plans to respond promptly to the country's needs and expand its representative office in Bishkek. It will also adopt a flexible approach to pricing its credit, investment and commissioning products and to implementing projects.

In developing its green portfolio in the Kyrgyz Republic, the EDB is guided by the goals of sustainable environmental development. As a multilateral development bank, the EDB will **expand** its participation in **green finance**. Based on the International Capital Market Association's Green Bond Principles (GCP), the Bank has categorised the following project types as green projects:

- renewable energy;
- energy efficiency;
- electricity storage, district heating, smart grids, equipment and products;
- pollution control;
- environmentally sustainable management of living natural resources and land use;
- terrestrial and aquatic biodiversity conservation;
- clean transportation;
- sustainable water and wastewater management;
- adaptation to climate change;
- environmentally efficient and/or adapted zero-waste products, production technologies and processes;
- green buildings that meet regional, national or internationally recognised standards or certifications.

Analysis and research in the Kyrgyz Republic are at the heart of the EDB's updated operating model. To achieve the objectives of the EDB 2022–2026 Strategy, the Bank will significantly strengthen analysis and expertise, and develop country, sector-specific and applied project expertise. By 2026, the Bank aims to become a leading think tank for in-depth research and expertise on economic and other developments in the Kyrgyz Republic. Analysis will be used to plan project activities and strengthen the role of the EDB as a project initiator. In achieving the objectives of this strategy, the Bank will collaborate with executive authorities of the Kyrgyz Republic and its partner development institutions (specialised funds, MDBs).

To expand its project operations, the Bank needs to develop a capital investment market in the Kyrgyz Republic. This will require the resources of specialised financing arrangements and technical assistance to support institutional reform.

EDB digital initiatives should promote the Kyrgyz Republic's development and its integration with the Bank's member states. The Bank will extend financing from its Fund for Digital Initiatives and will actively cooperate with the Government of the Kyrgyz Republic, development institutions operating in the country, think tanks, businesses and other partners in these areas.

The Fund for Digital Initiatives will support the Kyrgyz Republic's digital agenda to strengthen its integration ties with Eurasian countries and foster digital development. The Bank's digital projects will factor in the need to achieve Sustainable Development Goals and promote technology-based companies and promising projects in Eurasia.

The Bank aims to develop its capabilities in nurturing and initiating projects in the Kyrgyz Republic throughout their life cycle, from design to implementation, in accordance with the EDB 2022–2026 Strategy. The EDB will be an anchor partner in syndicated lending to such projects in the Kyrgyz Republic.

Independent project evaluation will be part of the overall monitoring of EDB project operations in the Kyrgyz Republic. The Bank aims to improve the process of evaluating project outcomes in line with MDB best practice. The existing evaluation process will be complemented by comprehensive independent project evaluation using financial and non-financial indicators, to be conducted by the Bank's expert services in accordance with the EDB 2022–2026 Strategy.

In addition, the EDB will integrate investment resources in the Kyrgyz Republic. The development of the Bank's unique skills in structuring complex interstate projects will enhance its status as an expert in arranging finance in the Kyrgyz Republic. This will enable the Bank to act as an integrator of investment resources and to consolidate the investment agenda of relevant national development institutions and international development banks operating in the region. These projects will have a significant multiplier effect on the EDB's investment.

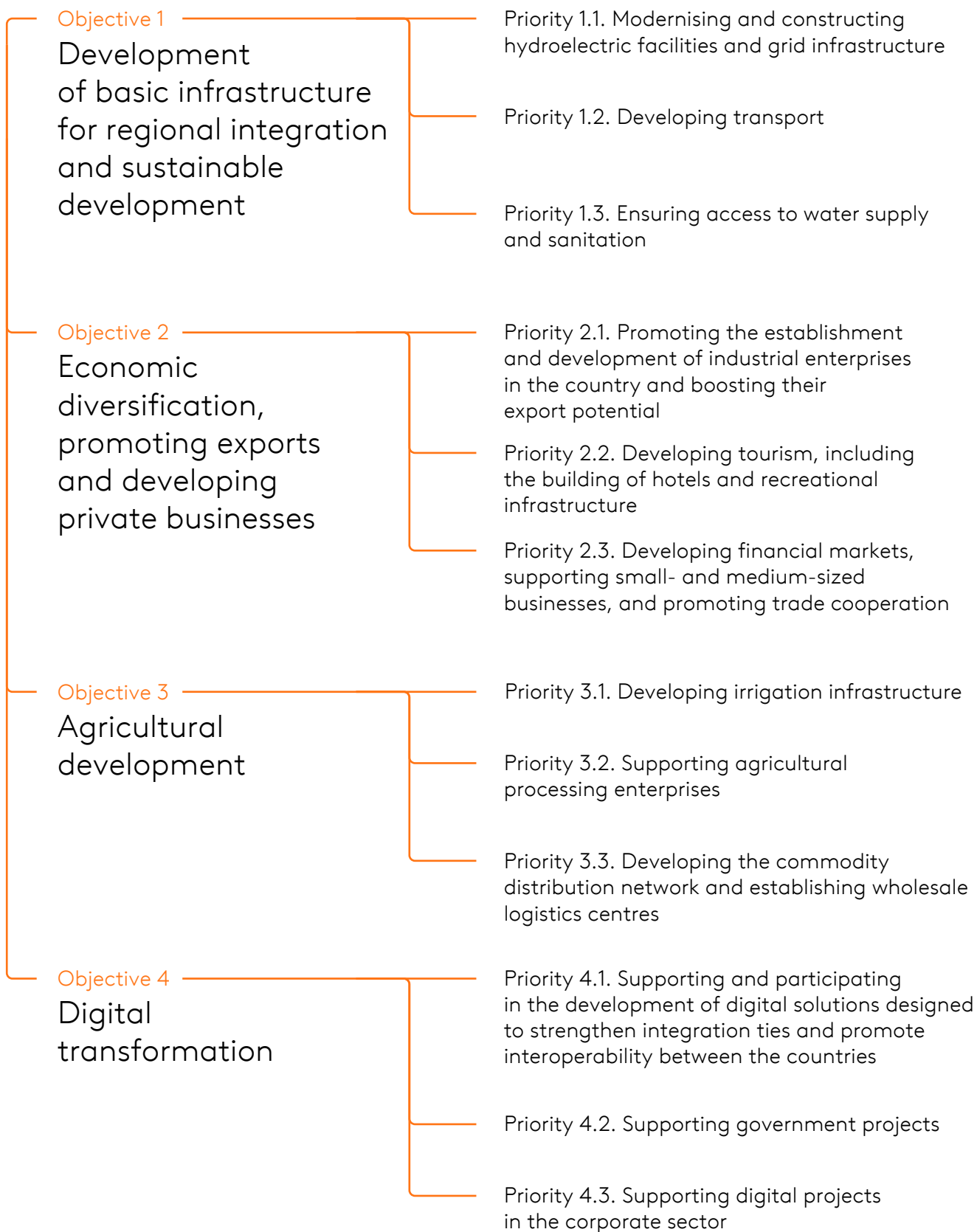


The achievement of the Bank's strategic objective to develop operations in the Kyrgyz Republic in accordance with its 2026 Strategy would result in an increase in the Bank's project portfolio by a factor of 2.5 between 2020 and 2026.

2.7. EDB strategic objectives in the country

Strategic goals: promoting economic diversification; developing the production and export of goods and services with high added value; and implementing a key investment mega-project (KIMP) in the Kyrgyz Republic.

The EDB's strategic objectives and priorities in the Kyrgyz Republic to 2026 were informed by reviews of the social and economic situation in the country, the development objectives set by the government in the national strategy, the Bank's project experience and its mission and mandate.



↑ Table 4.
EDB key
objectives and
priorities in the
Kyrgyz Republic
under the 2022–
2026 strategy

Objective 1

Development of basic infrastructure for regional integration and sustainable development

Infrastructure projects in the Kyrgyz Republic will promote Eurasian integration and ensure that the country's population has access to basic services in line with the sustainable development principles and mission and mandate of the EDB. In addition, national strategic documents identify infrastructure investment projects as among the most promising.



Priority 1.1.

Modernising and constructing hydroelectric facilities and grid infrastructure

Power shortages in neighbouring Central Asian countries makes the Kyrgyz Republic a potential exporter of clean electricity. This would boost public revenues and promote the sustainability and green credentials of its power sector regionwide. In addition, the EAEU integration agenda envisages the creation of a single "energy ring", including investment projects in the Kyrgyz Republic. Between 2022 and 2026, the EDB will negotiate with the Kyrgyz government and international stakeholders regarding investment projects in hydropower and power transmission. To reduce the cost of borrowing for the Kyrgyz Republic, the EDB will arrange tied financing and leverage its Technical Assistance Fund to plan and structure complex projects, including through PPP mechanisms.



Priority 1.2.

Developing transport infrastructure to improve connectivity between the region's countries

The development of the country's road and rail networks, and the modernisation of its airports, should improve connectivity between the Bank's member states. Developing transport corridors in the Kyrgyz Republic is critical for Eurasian integration since the country links Kazakhstan and Tajikistan, which are both EDB member states. The largest and most important transport corridor projects in the Kyrgyz Republic are CAREC-1 and CAREC-3, connecting Central Asian countries, and the national 433-km North-South alternative road project linking the country's northern and southern regions. The national development strategy also identifies two projects to modernise Osh and Manas airports, though the required funding is not confirmed. To contribute to the development of transport infrastructure, the EDB plans to use its Technical Assistance Fund to plan and structure projects, participate in PPP initiatives and mobilise tied financing to reduce the cost of borrowing.

Priority 1.3. **Ensuring access to water supply and sanitation**

Sustainable development relies upon the Kyrgyz people having access to clean drinking water and sanitation. As part of its operations there, the EDB will communicate with public and local authorities and will actively cooperate with international institutions to identify financing options for municipal infrastructure projects, which will include regulatory and tariff assistance through the EEC and the EFSD.

Objective 2

Economic diversification and developing private businesses

The EDB's mission is to promote a market economy in its member countries. Economic diversification and entrepreneurship will reduce macroeconomic risks associated with the country's exposure in the gold market and improve public revenues and macroeconomic stability.

Priority 2.1. **Supporting small and medium-sized enterprises and fostering cooperation in trade**

Small and medium-sized businesses play a significant role in the country's economy and household incomes and the EDB will continue to support entrepreneurship by providing targeted loan facilities to financial institutions. Promoting trade and other relationships with the Bank's member states is an integral part of the EDB's integration agenda in the Kyrgyz Republic. The growth of mutual trade in recent years has contributed to the development of a single economic space and boosted revenues within the country. Over this strategic period, the EDB will continue to promote private businesses and expand trade through targeted loan facilities.

Priority 2.2. **Developing tourism, including the building of hotels and recreational infrastructure**

Tourism is another priority for the Kyrgyz government because of the capacity of this industry to mobilise additional investment in the country and create jobs. The tourism opportunities with the highest potential are beaches and recreation around Lake Issyk-Kul, skiing, mountaineering and rafting, and historical and cultural tourism. The coronavirus pandemic has affected tourism globally. Closed borders and restrictions in most countries create an additional opportunity to attract tourists. However, realising this potential would require significant investment in hotel and recreational infrastructure and the EDB could be a source of such funding.



Priority 2.3.

Promoting the establishment and development of manufacturing in the country

Establishing and modernising manufacturing enterprises will create jobs, increase productivity and diversify the economy. The National Development Strategy identifies 27 industrial development projects with confirmed funding and five projects without committed funding. Projects will focus on textiles and clothing, building materials, production of technology and technology parks. The Bank will also continue to examine potential projects in gold mining and the exploration of rare earth metals. Wide-ranging projects to develop mining, energy and metallurgical clusters with necessary infrastructure are also of interest. For the EDB, supporting industrial development involves assisting pre-project activities through its Technical Assistance Fund, mobilising co-financing from development partners and investing in equity.

Objective 3

Agricultural development

is a strategic priority for the Eurasian Economic Union. The significant mutual trade in food products suggests that developing this sector will intensify integration, in line with the EDB's mission and mandate. The Bank will also discuss joint project financing with relevant ministries in the Kyrgyz Republic, including those aiming to create vertically integrated agricultural clusters.



Priority 3.1.

Developing irrigation infrastructure

The lack of irrigation is a challenge for the agricultural sector, which employs 18% of the country's workforce¹². The construction of canals will help to expand arable land and pasture, thus increasing yields and mitigating the risk of drought. The National Development Strategy also identifies this as an investment target. As part of its Country Strategy, the EDB will consider financing relevant infrastructure projects, through its Technical Assistance Fund where necessary, and work with development partners to reduce borrowing costs and spread risk.



Priority 3.2.

Supporting agricultural processing enterprises

Agricultural processing in the Kyrgyz Republic will help to maintain the added value of end products within the country, increase export revenues and create jobs. This also contributes to the Country Strategy's Objective 2 (economic diversification). In addition, the National Strategy of the Kyrgyz Republic includes projects to develop agricultural processing. The EDB will consider financing projects in this area through its Technical Assistance Fund or equity participation in relevant enterprises. The EDB will also continue to support the agricultural sector by extending targeted loan facilities to financial institutions to finance agriculture development programmes.

¹² Data for 2019 from the National Statistical Committee of the Kyrgyz Republic.



Priority 3.3.

Developing the commodity distribution network and establishing wholesale logistics centres

Setting up a network of wholesale distribution centres is integral to Eurasian integration, enabling expansion of mutual trade and ensuring food security in the region. This aim can be pursued effectively in the Kyrgyz Republic, where agriculture and the food industry are important sectors of the economy. Moreover, the Kyrgyz Republic is located between the two of the Bank's member states. The list of projects included in the National Development Strategy also envisages the construction of logistics centres. During the 2022–2026 strategy period, the EDB will actively consider implementing key integration mega-projects, including the single commodity distribution network and the construction of wholesale distribution centres. The Bank will use its Technical Assistance Fund to structure and prepare relevant projects and engage development partners.

Objective 4

Digital transformation

The EDB will support its member states' digital agendas to strengthen integration ties with Eurasian countries and foster their digital development.



Priority 4.1.

Supporting and participating in the development of digital solutions designed to strengthen integration ties and promote interoperability among the countries

The EDB will focus on promoting digital interoperability and greater integration between the countries, and on synergising the digital agendas of the countries in which it operates.



Priority 4.2.

Supporting governmental digital projects

Over this strategic period, the EDB will support public digital projects that promote integration between Eurasian countries and the digital transformation of the Kyrgyz Republic.



Priority 4.3.

Supporting digital projects in the corporate sector

The EDB will encourage the development of technology companies and support promising corporate digital projects.

3

Implementing the country strategy

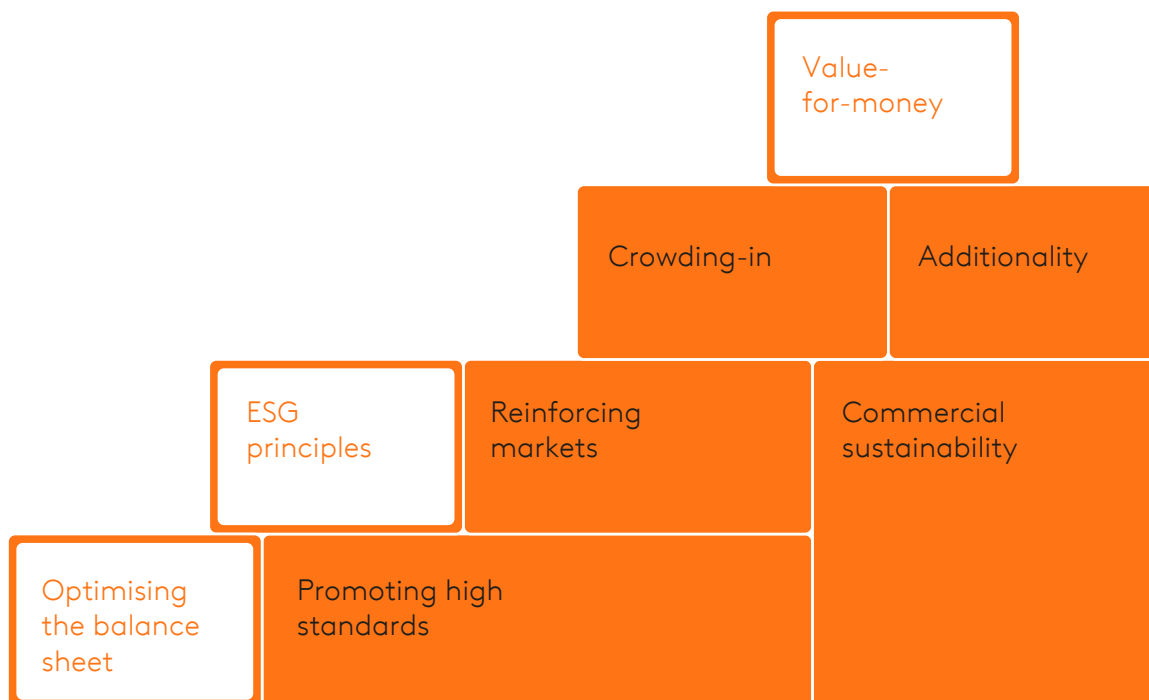
3.1. Approaches to project activities

The EDB will adopt the following approaches to achieve its strategic goals and objectives:



1. To increase investment in the Kyrgyz Republic, the EDB will strengthen cooperation with multilateral and national development institutions in the country.

It is anticipated that cooperation will help mobilise significant external investment and establish credit syndicates with the Bank taking the lead. In addition, the EDB's future development will follow MDB best practice:



- **Additionality:** complementing, rather than replacing, investment from the Kyrgyz Republic's own funds, budgets and private capital.
- **Crowding-in:** developing the Kyrgyz Republic's financial markets and engaging the private sector.
- **Commercial sustainability** of the Bank's projects and clients in the Kyrgyz Republic.
- **Reinforcing markets:** minimising the risk of substituting private capital with public investment.
- **Promoting high standards:** adhering to high standards of governance for the Bank's projects in the Kyrgyz Republic.

In harmonising its policies in line with MDB best practice, the EDB's priorities are:

- social, environmental and corporate governance (ESG principles);
- enhancing the multiplier effect of investment (value for money); and
- optimising the balance sheet to ramp up project activity without excessive risk and pressure on capital and credit ratings.

In the strategy period to 2026, the Bank will focus on developing cooperation with partner institutions in:

1) Research and analysis. The Bank will partner with institutions and organisations such as multilateral and national development banks, the EEC, public authorities in the member states, universities and research institutes in the Kyrgyz Republic to develop research and analysis.

2) Project activities. By 2026, the Bank aims to build a strong network of international partnerships to develop its project operations.



2. The Bank aims to develop a wide range of financial products in the Kyrgyz Republic.

Between 2022 and 2026, the EDB will focus on the development of specialised financial products, equity investments and related financial products to meet the objectives and needs of its clients in the Kyrgyz Republic and will offer four financial product types: lending for private-sector projects (non-sovereign lending), quasi-sovereign lending (including sovereign guarantees and public-private partnerships) and other products. The Bank will also provide concessional (especially sovereign) financing.

To mitigate its risk in the Kyrgyz Republic, the EDB will consider becoming a shareholder of a local bank, which would assume project risks. The EDB is ready to provide the necessary support (tied financing, guarantees, TAF grants) to the partner bank for these projects.

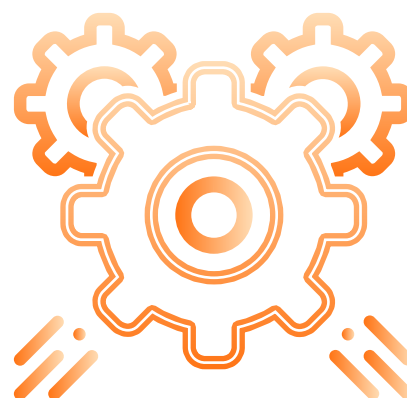
➤ 3. In executing its 2022–2026 Strategy, the Bank expects to increase the proportion of projects in newer areas

especially digital transformation and technical assistance. These projects may require financing at an earlier stage and may lack the necessary return or collateral. To develop new areas, the Bank plans to make greater use of grants and equity investments. This will happen both as part of the Bank's (project directorates') project activities and by providing financing from the Technical Assistance Fund, the Fund for Digital Initiatives and other specialised funds. To this end, the Bank will also consider creating new funds with contributions from the Bank and other public and private investors.

To mobilise co-financing in the form of grants for the Kyrgyz Republic, the EDB will cooperate with UNIDO, including through the UNIDO Programme for Country Partnership for the Kyrgyz Republic. Projects under consideration by the EDB that require further development or feasibility studies will be eligible for grant funding from the UNIDO Industrial Development Fund.

➤ 4. The EDB also aims to cultivate expertise in initiating projects through syndication and in nurturing projects throughout their life,

from design to implementation. The EDB will be an anchor partner in syndicating loans for such projects in the Kyrgyz Republic, including PPP and technical assistance mechanisms.



➤ 5. The EDB Representative Office in the Kyrgyz Republic will set up a Project Office

with the purpose of:

- advising the Kyrgyz government on priority economic development, legislative initiatives and their implementation, and expert evaluation of proposed projects;
- drafting investment financing concepts and programmes and joint implementation plans with the Kyrgyz government based on independent project appraisal;
- mobilising resources to implement plans, for example, third-party consultants in the Kyrgyz Republic, relevant Bank divisions and other resources, such as TAF instruments;
- promoting PPP development. The Project Office will cooperate with the PPP Centre of the Ministry of Investment of the Kyrgyz Republic to plan and execute PPP projects and develop loans to finance those projects in the Kyrgyz Republic.

In addition, the Bank will actively leverage the **resources of its Fund for Digital Initiatives to lead digital transformation** in the country by supporting and financing digital transformation projects and programmes, including through grant funding.

The Bank will continue to promote the use of national currencies by enhancing cooperation with the National Bank of the Kyrgyz Republic, the Ministry of Finance and other financial institutions that work to advance and integrate financial markets.

The EDB also plans to leverage **targeted tied green finance, funding** and technical assistance to achieve SDGs and ensure transition to a green economy and to reduce the environmental impact in all its priority areas in the Kyrgyz Republic.

3.2. Technical assistance

In executing its strategy for the Kyrgyz Republic, the EDB will strengthen the role of its Technical Assistance Fund (TAF). The TAF is intended to support the Bank's mission by financing project preparation and implementation; supporting regional integration programmes; conducting interstate, country, sector-specific and innovative studies to promote economic growth; establishing and developing market economies in the Bank's member states; expanding trade and other economic ties between them; and other activities related to the Bank's operations.

Technical assistance will be deployed in the Kyrgyz Republic to develop the institutional environment and improve project formulation. During the 2022–2026 strategy period, the Bank plans to use technical assistance more actively to enhance its investment opportunities in the Kyrgyz Republic. Technical assistance will help the Bank to create a pool of potential projects it could help to launch by supporting adaptation of relevant legislation and ensuring drafting of high quality pre-project documentation.

Adding consultancy to the Bank's offering in the Kyrgyz Republic. To enhance its analytical and pre-project expertise, the EDB can take the lead in the adoption of best practice in the Kyrgyz Republic in the planning and completion of pre-project documentation that formulates bankable projects ready for structuring and financing. The EDB would partner with executive authorities in the Kyrgyz Republic and advise on the adaptation and implementation of legislation necessary to develop the institutional environment and harmonise national laws.

Therefore, the TAF's objectives in the Kyrgyz Republic will involve the **following measures:**

1. Building up EDB investment in the Kyrgyz Republic:

- pre-project work to improve the quality of investment projects (including PPP projects) and to expand investment in the Kyrgyz Republic, including preparation of relevant documentation and independent expert assessment;
- subsidising interest rates on investment projects that expand cooperation and trade with the Bank's member states;
- developing technical assistance in tandem with other MDBs, taking into account their priorities in the Kyrgyz Republic.
- making projects in the Kyrgyz Republic more compliant with ESG and green audit principles; and

2. Institutional development and measures to enhance competitiveness and improve the business environment:

- advising the executive authorities in the Kyrgyz Republic on economic diversification, development and integration, including the possible launch of projects by the Bank;
- engaging with authorities on national PPP legislation;
- analysing the problems facing SMEs in the Kyrgyz Republic, applying best practice in addressing them and proposing new approaches for the Bank's project activities; and
- with other MDBs and Kyrgyz executive authorities, participating in efforts to simplify tax and customs legislation, business registration procedures and access to the grid, and developing policies to support SMEs;
- organising training programmes to build entrepreneurialism in the Kyrgyz Republic;
- supporting the drafting of technical regulations, including for agricultural products.

3. Improving financial infrastructure and financial market institutions in the Kyrgyz Republic:

- analysing problems and constraints in the development of financial institutions in the Kyrgyz Republic; identifying international best practice in the financial sector and capital markets and drafting proposals for their implementation in the Kyrgyz Republic;
- enhancing cooperation with the National Bank and Ministry of Finance of the Kyrgyz Republic to develop capital markets and increase the use of national currencies;
- providing advisory support on operations (e.g., efficient governance) to enhance competitiveness and financial reporting transparency in the banking sector;
- participating, with other MDBs and Kyrgyz executive authorities, in adapting the regulatory environment and mechanisms to facilitate access to lending; and
- with the Kyrgyz Stock Exchange, further improving the Kyrgyz Republic's financial infrastructure, to improve the access of legal entities and individuals to the capital market, and furthering integration with other markets in the Bank's member states.

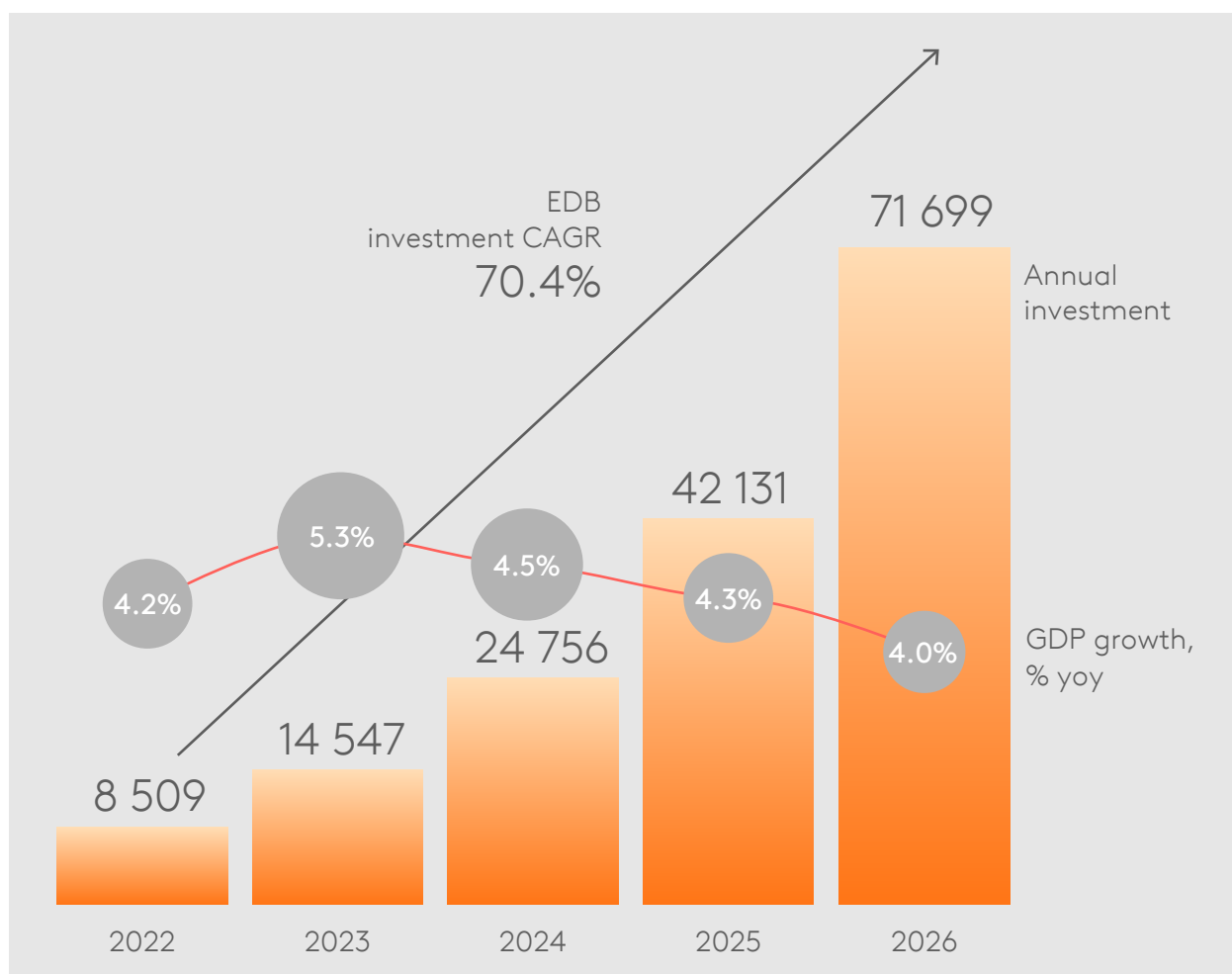
4

Anticipated results of implementing country strategy

4.1. Indicative project financing

Under the EDB 2022–2026 Strategy, total indicative funding on priority projects in the Kyrgyz Republic will exceed US \$160 million. Of this, about US \$500,000 will be provided by the Technical Assistance Fund to finance project planning. The Fund for Digital Initiatives will finance projects to develop and implement digital platforms in the Bank's member states. Annual investment is expected to increase gradually over the strategy period to US \$70 million by 2026. The EDB's investment will grow significantly faster than the Kyrgyz Republic's GDP.

Given the 3:1 multiplier seen with other participants' investments in EDB projects, a total of US \$500 million will be channelled into Kyrgyzstan's development between 2022 and 2026.



Sources: the EDB

The indicative investment will be split between different objectives: infrastructure development (US \$42 million); the promotion of economic diversification (US \$85 million); agriculture (US \$34 million); and digitalisation (US \$2 million).

↑ Figure 4. Indicative EDB funding for projects in the Kyrgyz Republic between 2022 and 2026

EDB objectives in the Kyrgyz Republic	Amount
Objective 1. Development of basic infrastructure	42
Objective 2. Economic diversification	85
Objective 3. Agricultural development	34
Objective 4. Digital transformation	2
TOTAL	163

Source: the EDB

↑ Table 5. Indicative funding between 2022 and 2026 by objective, US \$ millions

4.2. Sustainable development outputs

Strategic goal: promoting economic diversification, developing the production and export of goods and services with high added value and implementing a key investment mega-project in the Kyrgyz Republic.

The objectives and relevant outputs are provided in Table 4.

↓ Table 6.
EDB Country
Strategy for the
Kyrgyz Republic:
objectives and
sustainable
development
outputs

Objective	Priority	Output	SDG
Objective 1. Development of basic infrastructure for regional integration and sustainable development	Priority 1.1. Modernising and constructing hydroelectric facilities and grid infrastructure	1. Created or rehabilitated generating capacity, MW	7. Affordable and clean energy
		2. Annual electricity generation from renewable energy sources, MWh	7. Affordable and clean energy
		3. Power transmission lines created or rehabilitated (length, km)	9. Industries, innovation and infrastructure
		4. Annual energy savings, MWh (electricity) and/or GJ (other energy savings) per year	12. Responsible consumption and production
		5. Annual reduction in direct greenhouse gas emissions by replacing fossil fuel generation facilities, tonnes of CO ₂ -eq per year	13. Climate action
	Priority 1.2. Developing transport infrastructure to improve connectivity among the region's countries	1. Roads created or rehabilitated (length, km)	9. Industries, innovation and infrastructure
		2. Number of people with improved access to transport infrastructure, total	9. Industries, innovation and infrastructure
	Priority 1.3. Ensuring access to water supply and sanitation	1. Number of people with new or improved access to water and sanitation, total	6. Clean water and sanitation
		2. Percentage of population with access to water and sanitation, %	6. Clean water and sanitation
		3. Reduction in direct water loss during treatment, transport and distribution, cubic metres	12. Responsible consumption and production

Objective	Priority	Output	SDG
Objective 2. Economic diversification, promoting exports and developing private businesses	Priority 2.1. Promoting the establishment and development of industrial enterprises in the country and boosting their export potential	1. Additional industrial output, US \$	9. Industries, innovation and infrastructure
		2. Jobs created in industrial projects, total	8. Decent work and economic growth
		3. Share of exports in GDP, %	17. Partnerships for sustainable development
		4. Increase in the share of recycled water, %	12. Responsible consumption and production
	Priority 2.2. Developing tourism, including the building of hotels and recreational infrastructure	1. Jobs created in tourism projects, total	8. Decent work and economic growth
		2. Number of tourists, including those from the Bank's member states, total	17. Partnerships for sustainable development
	Priority 2.3. Supporting small and medium-sized enterprises and fostering cooperation in trade through financial institutions. Developing financial markets	1. Jobs created in SME projects, total	8. Decent work and economic growth
		2. Percentage of population using financial services, %	8. Decent work and economic growth
Objective 3. Agricultural development	Priority 3.1. Developing irrigation infrastructure	1. Agricultural land with new or modernised irrigation and drainage systems, total	2. Zero hunger
		2. Number of households with new or improved access to irrigation and drainage, total	2. Zero hunger
		3. Reduction in direct water loss during treatment, transport and distribution, cubic metres	12. Responsible consumption and production
	Priority 3.2. Supporting agricultural processing enterprises	1. Additional high value-added output	9. Industries, innovation and infrastructure
		2. Jobs created in agricultural projects, total	8. Decent work and economic growth
	Priority 3.3. Developing the commodity distribution network and establishing wholesale logistics centres	1. Cargoes handled, tonnes per year/US \$	9. Industries, innovation and infrastructure
		2. Agricultural exports, tonnes per year/US \$	17. Partnerships for sustainable development
Objective 4. Digital transformation	Priority 4.1. Supporting and participating in the development of digital solutions designed to strengthen integration ties and promote interoperability between the countries	1. Number of users of digital solutions or digital transactions based on those solutions	9. Industries, innovation and infrastructure
		2. Digital project financing	9. Industries, innovation and infrastructure
	Priority 4.2. Supporting government projects	1. Number of users of digital solutions or digital transactions based on those solutions	9. Industries, innovation and infrastructure
		2. Digital project financing	9. Industries, innovation and infrastructure
	Priority 4.3. Supporting digital projects in the corporate sector	1. Number of users of digital solutions or digital transactions based on those solutions	9. Industries, innovation and infrastructure
		2. Digital project financing	9. Industries, innovation and infrastructure

Source: the EDB

4.3. Risks



Lacking the capability or resources to develop project documentation for priority projects

To mitigate the risk:

the EDB will use its Technical Assistance Fund to finance project preparation to improve the investment attractiveness of projects with high expected impact.



Inadequate regulatory framework to support implementation of integration-related investment projects

To mitigate the risk:

the EDB will work closely with the Kyrgyz government and the EEC to harmonise laws and remove institutional barriers.



Lack of specific demand for project financing in the Kyrgyz Republic

To mitigate the risk:

the EDB will take a proactive stance in planning its project pipeline, expand its country offices and engage with the government and international partners to identify priority and promising projects.



Cost of funding offered by the EDB to borrowers in the Kyrgyz Republic is not competitive

To mitigate the risk:

the EDB, as a strategic objective, will work continuously to reduce the cost of funding and develop tied financing and equity investment. As stated above, the Bank will also use grants from its Technical Assistance Fund to prepare projects.



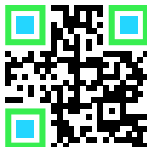
Lack of collateral

To mitigate the risk:

and implement projects with the highest expected impact, the EDB will consider alternative sources of collateral, including insurance with the Guarantee Fund, guarantees from other MDBs and EFSD instruments.

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