Board Meeting of May 7, 1998
Statement by Michael Marek

KYRGYZ REPUBLIC - Country Assistance Strategy

1. We welcome the second country assistance strategy for the Kyrgyz Republic and commend Bank and IFC staff for their diligent work on the CAS as well as on the upcoming consultative group meeting. The strategy is well focused – to reduce poverty through structural reforms to enable private sector development, to increase productivity in agriculture, to initiate cost-recovery initiatives in utilities, and to better target social assistance. We welcome the discussions with local NGOs, as mentioned in the CAS, and would appreciate knowing more about their views.

2. The Government of the Kyrgyz Republic is to be commended on staying the course with the Fund’s macro stabilization program and with the Bank’s structural policy reforms. The results over the past two years are encouraging. What is discouraging is the increase in poverty at the same time that the country has been a good performer -- decreasing inflation, registering positive GDP growth of 7% for two years, and improving management of the fiscal deficit. Indeed, the Kyrgyz Republic’s commitment to economic policy reform has been an example to other countries in the region. Nonetheless, as the CAS describes, the Kyrgyz economy faces a number of medium and long-term constraints to growth, including a scarcity of arable land and a land-locked location.

3. In this context, continued attention to structural reforms aimed at improving the growth potential of the private sector is of utmost importance. We agree that a focus on the legal and regulatory framework, including transparent and even-handed implementation of laws on the books and development of effective anti-monopoly regulation, will be critical in this regard. In addressing the development challenge, however, environmental consequences must not be ignored. A key for a country with almost half of its economy in the agriculture sector is to increase productivity, focus on outputs where there is comparative advantage, and improve access to markets.

4. While commending the Government for the determination it has shown to continue along the path of economic reform, we urge the GOK to move forward in those areas where progress is less advanced, such as large-scale privatization and implementation of cost recovery utility pricing. As the CAS points out, the latter is particularly important to ensuring reliable electricity supplies which is critical for attracting much-needed investment. Strengthened tax
administration efforts will also be important to help reduce Kyrgyzstan’s still-high fiscal deficit and free up resources for private sector investment. Completing large-scale privatization in key sectors such as energy and telecommunications is essential.

5. We note with concern the results of the 1996 survey which documents an increased incidence of poverty, which now afflicts at least half of the Kyrgyz population. Broad-based economic growth, with an emphasis on development of agriculture and agri-business, can go some way toward addressing this troubling trend. We agree that more effective targeting of social welfare programs, reform of the pension system and increased quality of education and health spending are also important priorities in alleviating poverty.

6. In the context of private sector development, we would also emphasize the importance of promoting the small and medium enterprise sector. While privatization has occurred, a culture of entrepreneurship has not really emerged. We encourage the Bank and the IFC to help spur the growth and improve access to credit in this critical sector. In regard to the IFC, we would appreciate a response to the proposal to include the Kyrgyz Republic in the Reach Initiative.

7. We welcome the two projects under consideration—agricultural support services and irrigation rehabilitation—as they clearly support the objectives of the CAS. We believe that the Bank should carefully monitor the irrigation rehabilitation project, particularly since it well precedes the completion of the National Irrigation Rehabilitation Action Plan (NIRAP), not available until December 1999. The present environment is “not yet conducive to on-farm investment (privatization of land has not yet been competed; ownership is still unclear, the establishment of Water User Associations is still in a very early state, and longer term rural credit is not yet available,” etc., according to the project document.

8. The CAS makes clear that donor coordination is essential and that greater information sharing is needed at the project level in order to prevent duplication of efforts and to use scarce resources effectively. We appreciate the inclusion of the chart in Table 2, outlining key areas of involvement of the many donors engaged in the support of the Kyrgyz Republic. This is a good addition to the CAS.