Board Meeting of May 7, 1998
Statement by Matthias Meyer

Kyrgyz Republic: Country Assistance Strategy

On behalf of the Kyrgyz authorities, I would like to thank the staff for the well written and comprehensive IBRD/IDA and IFC Country Assistance Strategy. They appreciate very much that for the first time the Bank's and IFC's programs are presented in a unified strategic framework.

Since the last CAS discussion at the Board, the Kyrgyz Government has continued to pursue prudent fiscal and monetary policies and has made good progress in the structural reforms. Last year inflation was brought down to 15 percent compared to 35 percent the year before, and the exchange rate has been stable. A broad-based recovery in output is now underway, accompanied by a further reduction in inflation. Over the last two years the GDP growth was strongly positive. The Kyrgyz Government recently successfully concluded a three-year ESAF program with the IMF. The Government also implemented almost all of the policy measures envisaged in the 1995 CAS. Its policy performance remains strong.

Considerable progress has been achieved in structural reforms. After privatizing 75 percent of the medium- and large-scale enterprises, the Government has initiated the reorganization and privatization of the largest enterprises in the energy, transport, industrial, mining, and telecommunication sectors. In parallel, the Government is improving legislation to strengthen the corporate governance in joint-stock companies. As a result of financial sector reforms, the public confidence in the financial institutions has increased, and the share of deposits in broad money has risen. Efforts are also underway to create an effective legal and regulatory framework for the development of non-bank financial institutions, including a securities market. Energy tariffs continue to be adjusted to maintain adequate cost recovery. Judicial reform remains at the forefront of the Government's struggle to improve the rule of law. With the Bank’s support, the Government’s budgeting procedures and intergovernmental fiscal relations have been fundamentally improved.

In spite of the strong reform performance and continued growth poverty is still too pervasive, as clearly mentioned in the CAS report. The staff has rightly expressed concerns about the deterioration of social indicators. The social costs of the transition have been considerable.
The authorities understand that the success of the reforms depends mostly on an increase in the quality of life of the poorer segments of the population.

The Government realizes that without growth there will be no meaningful reduction in poverty. To expedite the recovery of the Kyrgyz economy, the main challenge is to lock in the gains already made and ensure the progress being carried forward and expanded through substantial and sustainable growth. This should be achieved through a strengthening of the private sector. Thus, the two broad thrusts of the Kyrgyz development strategy are to reinforce the private sector, in particular in agriculture and agro-industry, and to strengthen the social safety net.

Through comprehensive reforms the authorities have enabled long-term private leasehold of land and privatized most of the state and collective farms ensuring equitable distribution of land and property among the farmers. The Kyrgyz authorities welcomed the IDA's close involvement in assisting the Kyrgyz Republic in these reforms through several adjustment and project operations. Two additional projects on agricultural support services and irrigation rehabilitation are scheduled for the Board after this CAS. Since agriculture accounts for almost half of the republic's GDP, the Government gives special priority to this sector. The authorities are convinced that the agricultural sector, enhanced by a strong physical and institutional infrastructure, contributes substantially to the economic growth. In this respect, the authorities strongly endorse the incorporation of several projects supporting land and agriculture reform into the CAS.

Social policy aimed at poverty alleviation is a major priority of the new Government. In this context the authorities will focus their efforts on improving the social safety net, including measures to strengthen the financial position of the social fund, and reforms in the health and education systems. In this respect the support of the Government's efforts by the Social Sector Adjustment Credit (SOSAC), as well as the Second Health Project, are most welcome. The authorities are firmly committed to improving the social situation.

Unlike some neighboring countries, the Kyrgyz Republic does not have substantial natural resources (except gold), which could attract foreign investors. Therefore, the authorities attach great importance to the promotion of FDI to support the private sector development. They welcome IFC's intention to accelerate its activities in the Kyrgyz Republic, notably in the capital markets' institution building, SME development, the mining sector, infrastructure, agribusiness, and assistance with post-privatization restructuring. However, the Kyrgyz authorities would like to have IFC go beyond good intentions by financing more concrete projects. This is why an inclusion of the country into the Corporation's "extending its reach" program should be considered.

The Kyrgyz authorities are requesting a successor three-year ESAF arrangement with the IMF to support its policy program. In this respect, I would like to emphasize the timeliness of the proposed CAS which comes in parallel with the ESAF. The Government's policy priorities are clearly reflected in the CAS. Moreover, this strategy has been broadly discussed and also received support by parliamentarians.
Compared to the first CAS of 1995, one can see a change in the orientation of the Bank’s activities in the Kyrgyz Republic. Whereas in the beginning of the transition period the Bank’s focus laid on institutional adjustment, the new program is mainly directed towards investment projects. The authorities are aware of the fact that this shift to more complex investment projects also calls for a strengthening of the project implementation capacity. They also see the need for improved donor coordination. They welcome the Bank’s intention to intensify capacity building efforts by more frequent supervision missions and perhaps a strengthened resident mission.

Finally, the Kyrgyz authorities would like to express their appreciation for the considerable contribution of the Bank's staff to the reform process in the Kyrgyz Republic. They look forward to continuing the excellent dialogue and cooperation in the years ahead. I would like to confirm that the newly appointed Kyrgyz Government is strongly committed to continuing the stabilization program and deepening their economic adjustment efforts.