

Moving to a Market Economy: ADB Support for the Kyrgyz Republic

The next country partnership strategy for the Kyrgyz Republic should focus on sectors where the government has shown strong commitment and ownership, and where ADB performed well. ADB should work closely with partners to focus on other sectors to increase synergies and complementarities.

The Kyrgyz Republic has made considerable headway in its transition to a market economy since the breakup of the Soviet Union by adopting liberal trade policies and other market mechanisms. Indeed, the Kyrgyz Republic was the first member of the Commonwealth of Independent States accepted into the World Trade Organization. The country has achieved moderately high economic growth averaging 4.6% per annum over the past 15 years. Poverty incidence fell from 50% in 2003 to 34% in 2010.

The Asian Development Bank (ADB) and other development partners have contributed to the transition process. But it is by no means complete: the Kyrgyz Republic continues to face major challenges and risks. Among them: infrastructure constraints, including unreliable power supply; insufficient fiscal and institutional capacity preventing the effective delivery of basic social services and impeding efforts for more inclusive growth. In governance, the Kyrgyz Republic does not fare well in international rankings. Frequent changes in the government and internal disputes since independence in 1991 have disrupted reforms. What is more, the country faces enormous risks connected with the rising incidence and severity of natural disasters.

Overall Assessment

The country assistance program evaluation assessed the performance of ADB's country partnership strategies (CPS) and programs for the Kyrgyz Republic during 1994–2010. Three CPSs (1994–2003, 2004–2006, 2007–2010) included 49 project and program loans and grants totaling \$1.0 billion. The country assistance program evaluation rated ADB's overall performance *successful*. It assessed ADB's performance in six sectors—agriculture and natural resources, finance and private sector development, public sector management, transport, education, and health—using the evaluation criteria of effectiveness, efficiency, sustainability, development impact, program relevance, and strategic positioning.

ADB's programs were rated *effective* in achieving many sector outcomes, especially in transport, which accounted for the biggest share (30%) of loan support, finance and private sector development, and the social sectors. However, the sustainability prospects of outputs and outcomes appeared *less than likely*. In transport, this was because of insufficient road maintenance, a notable concern of the evaluation study for this sector.

Lessons

Important lessons on the strengths and weaknesses of ADB's support emerged from the evaluative findings that should help improve the design of the next country partnership strategy with the Kyrgyz Republic, scheduled for 2013. First, the strengths:

- **Responsiveness to unfolding circumstances.** Most of ADB's sector programs, which helped reform policies and institutional arrangements, provided a strong foundation for future support. ADB also responded quickly during crises and for emergency needs.
- **Solid cooperation among major development partners.** Aid was coordinated

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Country Assistance Program Evaluation for Kyrgyz Republic (Main Report)

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ADB Management Response

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Chair's Summary of the Development Effectiveness Committee (DEC)

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among main development partners at the strategic level, within key sectors, in major projects, and in portfolio reviews and major economic and sector work.

- **Government's willingness to mount challenging reforms.** With this policy stance, ADB was able to assist the government undertake some crucial reforms, including privatizing state-owned enterprises, building corporate governance, and upgrading the quality of basic education.

The main weaknesses of ADB's support were:

- **Overambitious assistance programs.** Resources were spread thinly in many sectors without sufficient focus and sector linkages to reinforce cross-sectoral outcomes and impacts, and without sufficient assessment of government readiness.
- **Inadequate long-term planning for policy and institutional reforms.** The long-term nature of reforms requires sector roadmaps setting out milestones for both the reforms and their enforcement in a phased manner.
- **Ad-hoc provision of advisory technical assistance.** Technical assistance that was not well integrated into the overall country strategy and program tended to result in one-off capacity creation, which was not sufficient for long-term capacity development.
- **Standalone project management units and project implementation units.** These were not integrated into the normal operation systems of executing agencies and dissolved after program completion. This affected the sustainability of outputs and outcomes in most of the evaluated sectors.
- **Lack of government ownership in rural water supply and sanitation services.** This can result in delays and frequent changes in the executing agencies, causing irregularities in implementation performance and governance issues.
- **Inadequate attention to road maintenance and the software side of regional cooperation.** Both resulted in weak sustainability of the road network and weak implementation of cross-border agreements.

Recommendations

- Focus on development impacts and address sustainability issues at the design stage. The next CPS with the Kyrgyz Republic should focus on sectors where the government has shown strong commitment and ownership, and where ADB performed well. ADB should work closely with partners to focus on other sectors to increase synergies and complementarities.
- To make the next CPS more effective, advisory technical assistance should be integrated into the strategy to help assess upfront the capacity, ownership, and accountability of executing agencies.
- Move away, in a phased manner, from the extensive use of externally driven project implementation and management units, and integrate them into the regular structure of executing agencies.
- Working with other development partners, ADB should continue assisting the government develop an overall results framework for the country, and establish a results-based monitoring and evaluation system to track the progress of targets sets.
- Address climate change adaptation in the next CPS. A climate change assessment, which includes natural disaster risks and how to deal with them, should be prepared to support the government and used to identify measures to deal with these risks under the new CPS.
- Continue efforts to boost ADB's private sector operations to attract more foreign direct investment, and explore cofinancing possibilities with development partners.

Feedback

ADB Management agreed with successful rating for ADB's assistance to the Kyrgyz Republic, and with all six recommendations. Management said the findings, lessons, and recommendations will be "key inputs" to the preparation of the next country partnership strategy for the Kyrgyz Republic.

ADB's Development Effectiveness Committee noted the importance of improving road maintenance, the need for integrating project management and implementation units into the regular structure of executing agencies, and the need to use advisory technical assistance systematically and effectively.

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