

Donor Activity in the **Kyrgyz Republic**



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Introduction

The Kyrgyz Republic is a landlocked, mountainous country that attained sovereignty after the breakup of the Soviet Union in 1991. The new state has a little over 6 million inhabitants and experienced two recent bouts of political and social instability, in 2005 and 2010. Following the violence and political turmoil of April-June 2010, the Kyrgyz Republic became the first Central Asian parliamentary republic.

The World Bank lists the Kyrgyz Republic as a lower middle-income country, with a GDP per capita of US \$1,077. This ranks the country in the 2nd last position in the Europe and the Central Asia region, just above Tajikistan. Persistent poverty and economic disparities between rural and urban areas is also a challenge that the country faces. The national poverty rate (using a baseline of US \$1.30 per day) reached 32.1% in 2015, up from 30.6%, in the previous year (ADB, 2017).

The Kyrgyz Republic joined the Eurasian Economic Union in August 2015, becoming its 5th member. However, in 2016, according to the IMF, trade volume decreased by 3.9% in comparison to 2015. The main economic impact of the Republic's membership, in the Russian-led Economic Union, is the simplified procedures for Kyrgyz citizens desiring to work in Russia.

A Sustainable Development Programme was approved by the Kyrgyz government in 2013. The programme emphasises improving the business environment, reforming the public sector, strengthening the financial system and addressing infrastructure development needs that are essential for promoting inclusive economic growth and reducing poverty. The programme also highlights the need for additional financing, from donors, required to implement the sustainable development programme fully.



*Lake Issyk-Kul, the Kyrgyz Republic
Photo: roughguides.com, 2018*

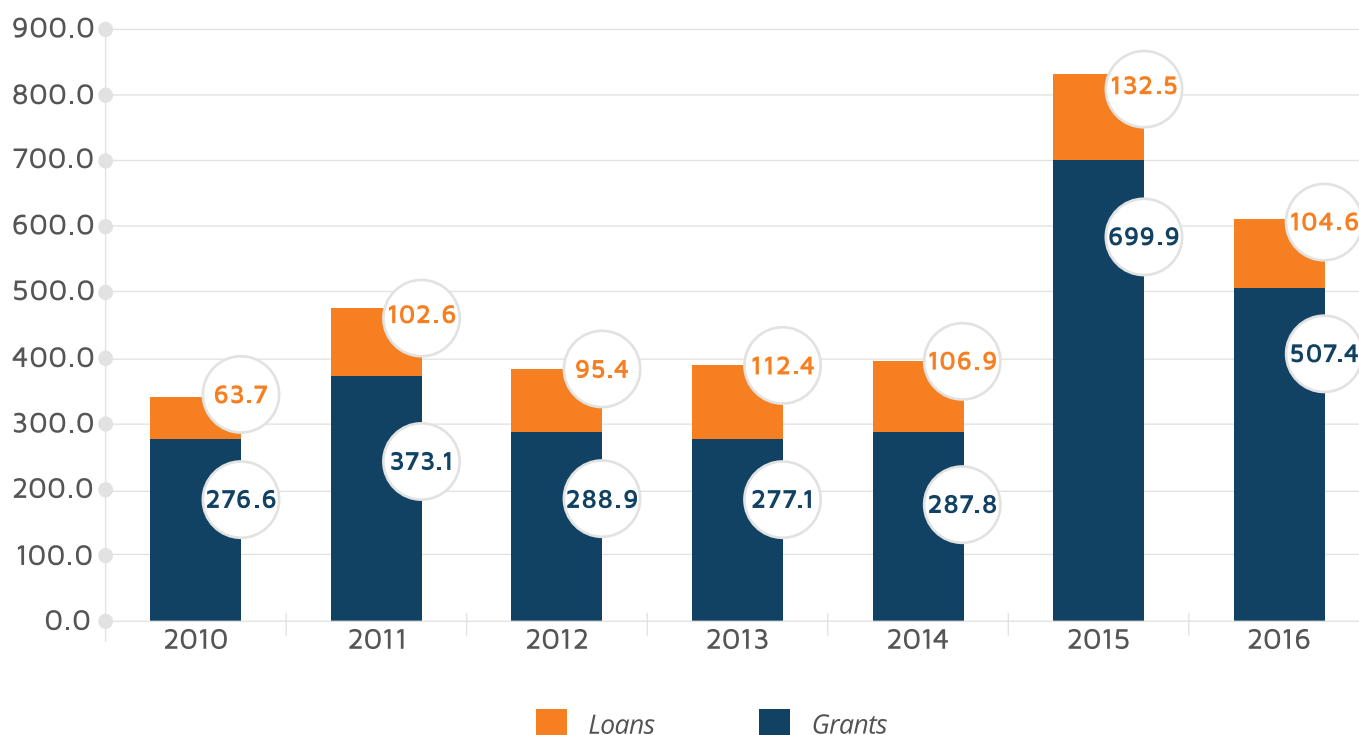
Donor Activity in the Kyrgyz Republic

According to the OECD Creditor Reporting System database for the period 2010-2016 the disbursed development assistance to the Kyrgyz Republic reached US \$3.4 bn. The amounts were spread evenly from 2010-2014, at circa US \$400 m per year. In 2015, the aid inflow registered a significant increase, to US \$823 m. This coincided with the Kyrgyz Republic's accession to the Eurasian Economic Union and the creation of the Russian-Kyrgyz development fund. In 2016, disbursements decreased to US \$612 m, but still were higher than the pre-2015 levels.

Of the US \$3.4 bn in development aid received by the Kyrgyz Republic, from 2010-2016, 78.8% came in the form of grants, while preferential loans represented 21.2% of the total value. Russia, the United States and Germany are the Kyrgyz Republic's largest bilateral donors, while the Asian Development Bank, the World Bank and European Union institutions are the largest multilateral donors.

Total development assistance by types of financing (\$,m)

2010-2016



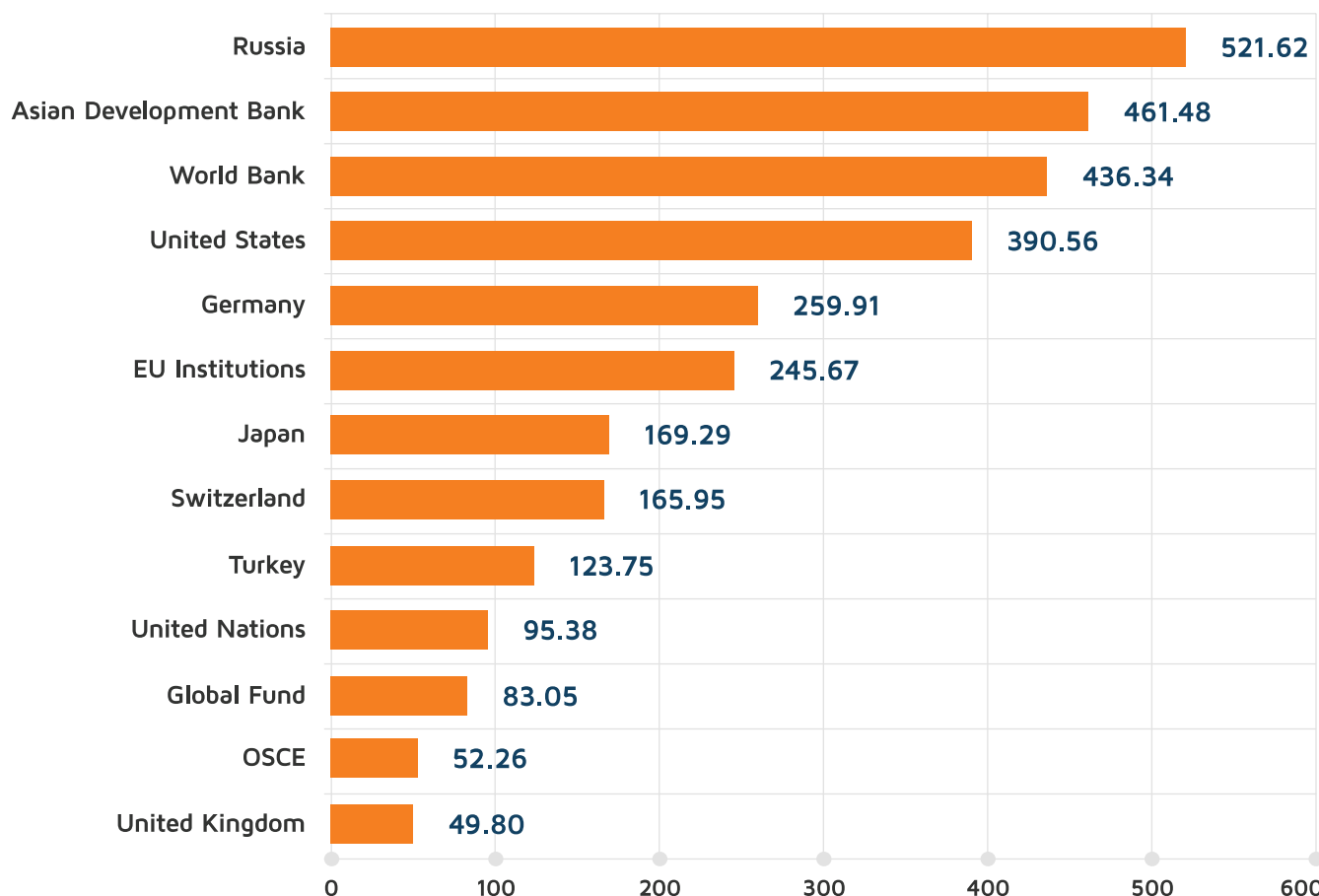
Source: OECD, 2018



Photo: Vladimir Lukyanov, 2018

Value of assistance to the Kyrgyz Republic by main donors (\$,m)

2010-2016



Source: OECD, 2018



The White House, presidential office in Bishkek
Photo: Melissa Cherry, 2017

Donor Countries

Nr.1 Bilateral Donor: Russia



*Sapar Isakov, Prime Minister of the Kyrgyz Republic
and Dmitrii Medvedev, Prime Minister of Russia
Photo: for.kg, 2017*

Russia started allocating funds for development projects after the Kyrgyz Republic joined the Eurasian Economic Union. In 2015, the Russian government approved the creation of a Russian-Kyrgyz development fund worth US \$1 bn. The fund's purpose is to promote economic cooperation between the two countries, modernize the Kyrgyz economy and adapt it to the norms of the Eurasian Economic Union.

In 2015 and 2016, Russian Government aid totaled US \$521.6 m, making Russia the largest bilateral donor to the Kyrgyz Republic. According to the development fund's website, the majority of assistance was disbursed as soft loans, to private companies working in the agriculture, transport and trade sectors. To qualify for this assistance, a recipient company should have a positive effect on the economy as a whole; creating additional jobs, increasing industrial production and positively affecting the development of local communities.

Source: OECD, 2018

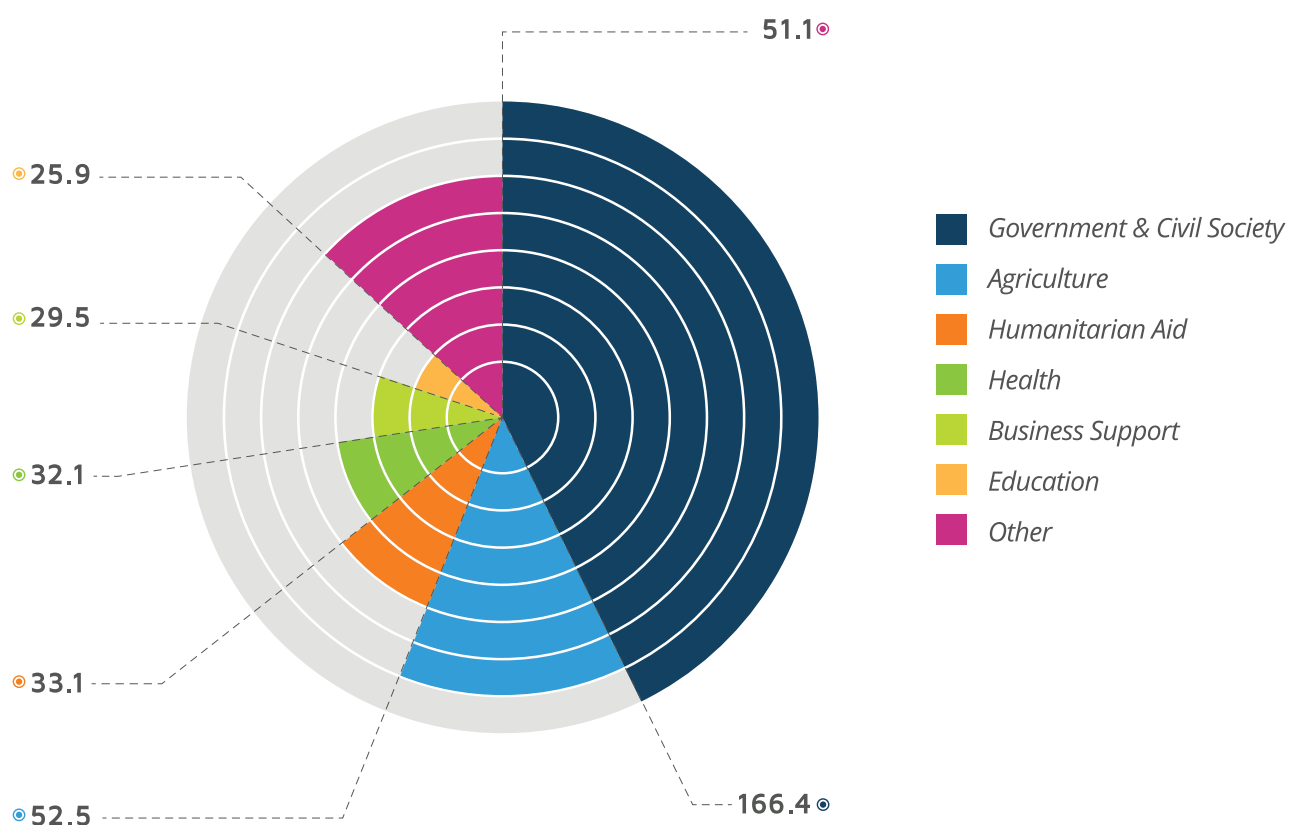
Nr.2 Bilateral Donor: USA

The United States of America is the second largest bilateral partner, in development cooperation with the Kyrgyz Republic. US development assistance aims to help the country consolidate progress towards accountable and inclusive governance. The chart below shows that over 40% of the assistance went to the government and civil society sector.

While improvements in democracy and building robust institutions are very important for the Kyrgyz Republic, the United States also focuses on the economy. Improving productivity in key sectors like agriculture and having a better business environment are also a priority. Another objective of the US, in the Kyrgyz Republic, is improving essential services offered by the state, e.g. education and health.

Top sectors by disbursements from USA (\$,m)

2010-2016



Source: OECD, 2018

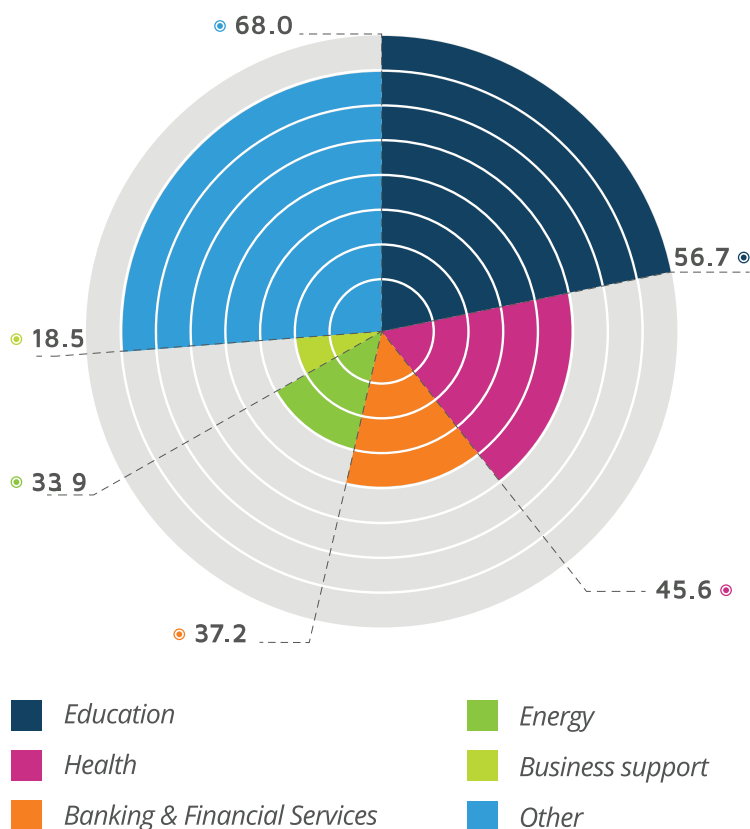
Nr.3 Bilateral Donor: Germany

In the period 2010-2016 Germany provided a total of US \$260 m in ODA loan assistance, grant aid and technical cooperation to the Kyrgyz Republic. The largest disbursements were directed to the education sector, mainly in the area of vocational training.

Another priority area for German assistance is healthcare that since 2010 has received over US \$45 m. Cooperation in the health system focuses on reproductive health and rights, the introduction of development partnerships with the private sector, and quality improvements in health services, particularly in the regions.

Top sectors by disbursements from Germany (\$,m)

2010-2016



Source: OECD, 2018

German Chancellor Angela Merkel with former Kyrgyz President Almazbek Atambaev
Photo: president.kg, 2016

Top 3 Contributors by Multilateral Organisations

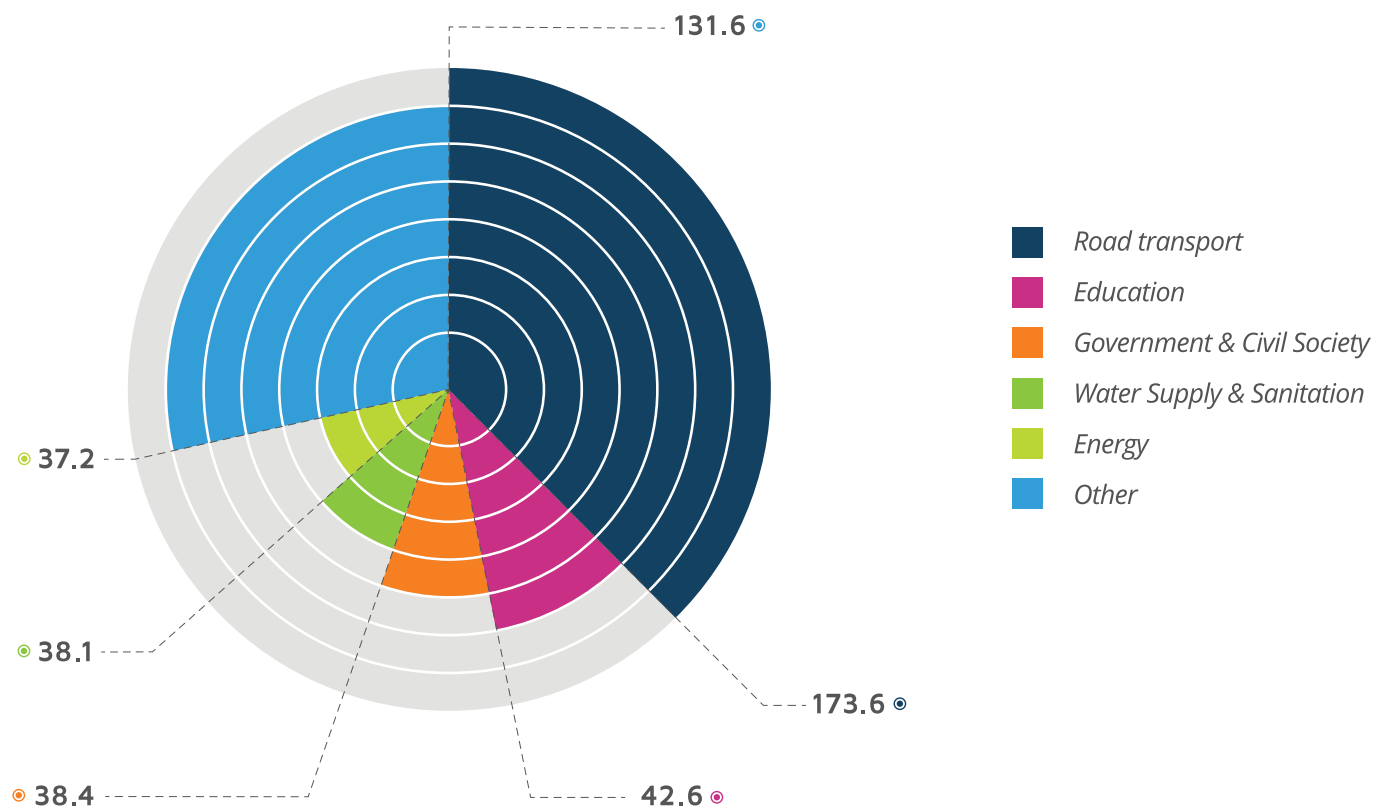
Nr.1 Multilateral Donor: Asian Development Bank

The Asian Development Bank is the largest multilateral institution providing financial assistance to the Kyrgyz Republic. According to the OECD Database, development aid disbursed to the Kyrgyz Republic by ADB, over the period 2010-2016, is estimated at US \$461 m. The sector receiving the most financing is road transport, which accounted for US \$173 m. ADB rehabilitated portions of the Bishkek–Osh road, the main road connecting the north and the south of the country, and upgraded the Bishkek–Torugart road, which serves as the main route linking the Republic with the People’s Republic of China.

Other priority sectors for ADB are education, with US \$42.6 m, and government and civil society, with disbursements of US \$38.4 m. Water supply and sanitation also received significant attention, with US \$38.1 m. The energy sector is also a priority for ADB, since the Kyrgyz Republic has great potential to expand its hydro-power capacity. The 1,200-megawatt Toktogul hydroelectric power plant, which is critical to both national and regional power supplies, was rehabilitated, thanks to an ADB project.

Top sectors by disbursements from ADB (\$,m)

2010–2016



Source: OECD, 2018



Nr.2 Multilateral Donor: The World Bank

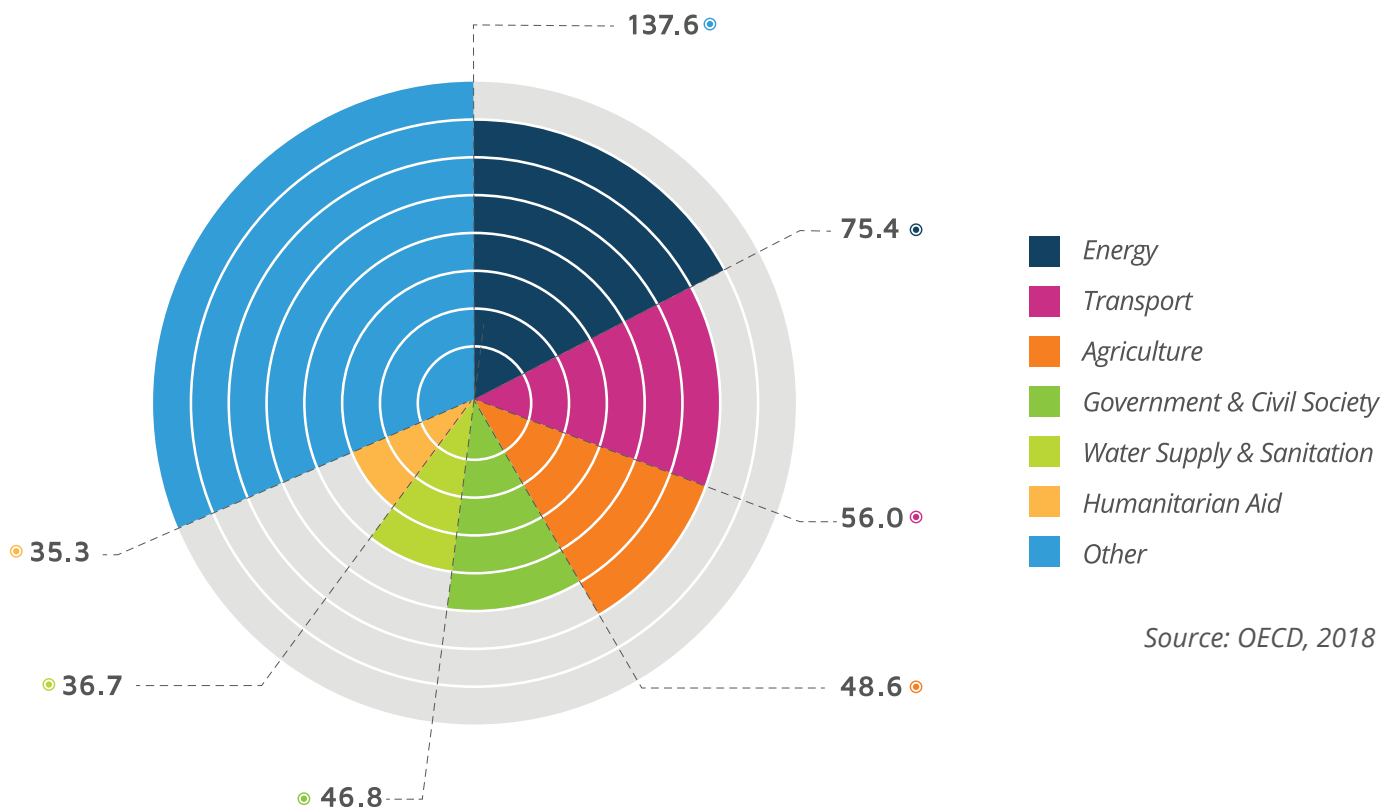
The World Bank is the 2nd largest multilateral donor in the Kyrgyz Republic. The total assistance, for the period 2010-2016, reached US \$436 m in the form of grants and highly concessional credits, with no interest. The strategic focus of the World Bank, in the Kyrgyz Republic, has been in supporting the country's efforts to improve governance and investing in key economic sectors, such as transport, agriculture and energy.

Despite vast hydro-power resources, the energy sector in the Kyrgyz Republic continues to suffer from structural issues. The Kyrgyz Republic has the lowest tariffs for electricity, in Europe and Central Asia, which leads to inefficient use of electricity and poor maintenance of power stations and the distribution grid. The World Bank allocated more than US \$75 m to improving energy supply reliability.

Currently, the World Bank is preparing a new Country Partnership Framework, with the Kyrgyz Republic, that is expected to be approved in early 2018 and which will provide a long-term financing arrangement, for the period 2018-2022.

Top sectors by disbursements from WB (\$,m)

2010-2016



Osh Bazaar in Bishkek, the Kyrgyz Republic
Photo: neiljs, 2018

Nr.3 Multilateral Donor: The European Union

The European Union is the 3rd largest multilateral donor to the Kyrgyz Republic. The EU disbursed a total of US \$245 m, during 2010-2016. The main sectors, on which EU development assistance concentrates, are government and civil society, social/welfare services and education.

In the government and civil society sector, a total of US \$54.8 m went to programmes supporting the rule of law, protecting citizens' rights, fighting corruption, building capacity of state institutions and strengthening civil society organisations. Also, the EU contributed US \$46.4 m to the improvement of social protection systems in rural areas. The focus of the assistance was on improving childcare, setting up a more effective social insurance system, and establishing effective social services for vulnerable families and children.

The education sector has benefitted from a US \$46.2 m support programme, that aims to help the government implement its Education Sector Strategy. Moreover, the EU puts particular focus on the achievements of female pupils and improving provision for children with special needs.

Top sectors by disbursements from EU (\$,m)

2010-2016

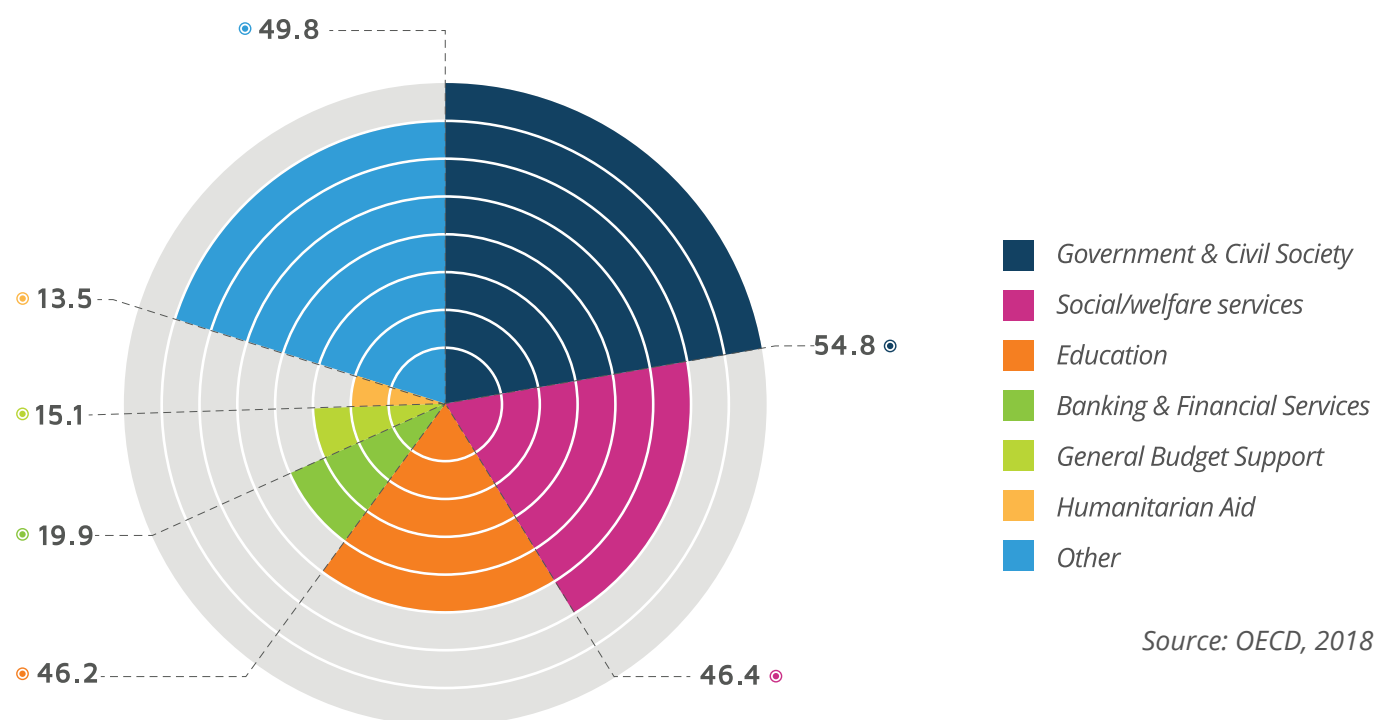


Photo: strategeast.org, 2018

Remittances

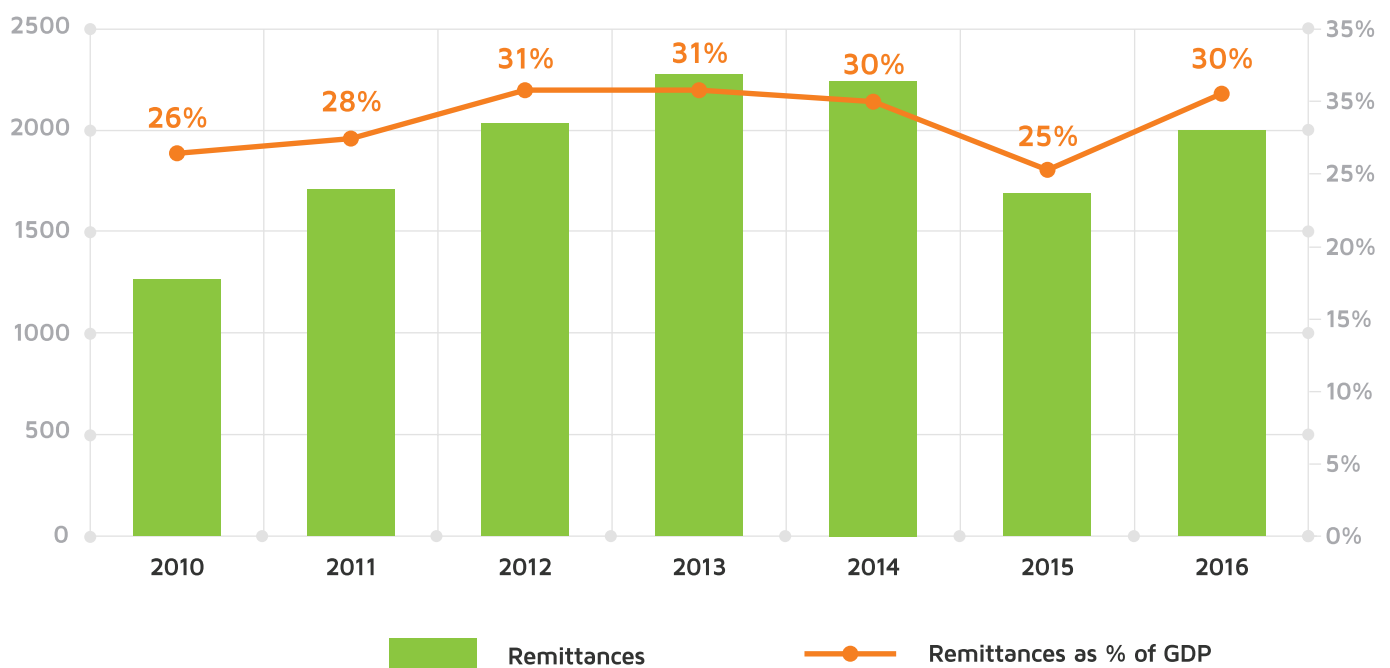
The Kyrgyz Republic has been a steady recipient of remittances over the last 7 years. It is estimated that between 500,000 - 800,000 Kyrgyz citizens are seasonal labour migrants, mostly in Russia and neighboring Kazakhstan.

In 2010, US \$1.2 bn was sent back to the Kyrgyz Republic, rising to US \$1.7 bn in 2011. This trend continued in 2012, as US \$2.0 bn was remitted to the Kyrgyz Republic, peaking in 2013, at US \$2.3 bn. Remittances were slightly reduced in 2014, at US \$2.2 bn. This downward trend continued in 2015 and remittances plummeted to just US \$1.7 bn, as Russia's economy contracted.

In 2016, remittances from migrant workers picked up again and reached US \$2.0 bn, equivalent to 30% of GDP of the Kyrgyz Republic. This put the Kyrgyz Republic in 2nd place in the world, after Liberia, for remittances as a percentage of GDP.

Remittance net inflow (\$,m)

2010-2016



Source: World Bank, 2017.

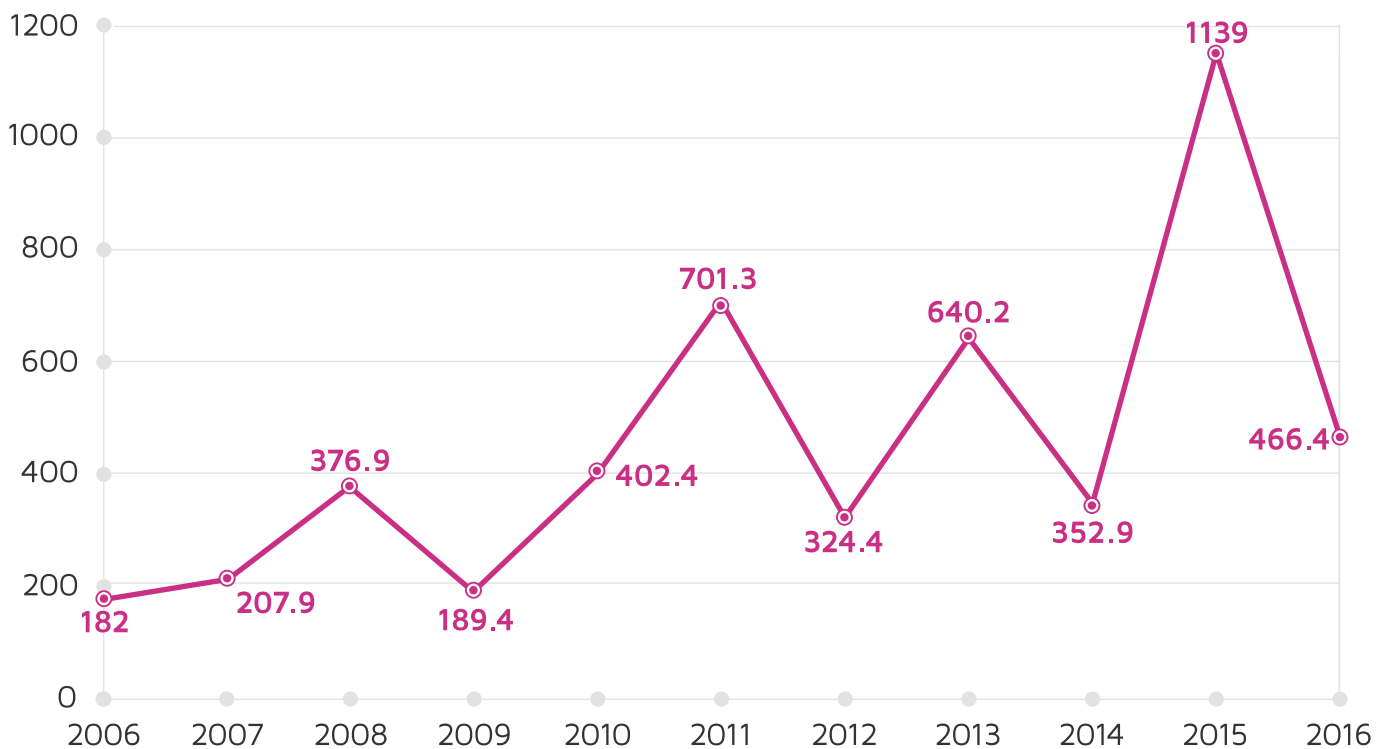


Foreign Direct Investments

Over the last 10 years, FDI inflows to the Kyrgyz Republic have been modest and evenly distributed: only in 2015 did FDI reach the US \$1 bn threshold. This was caused by the inflow of Russian foreign direct investment that in 2015 increased by 8.5 times compared with the previous year to total US \$515.5 m as the Kyrgyz Republic joined the Eurasian Economic Union. However, in 2016 total direct foreign investment decreased again to US \$466 m.

FDI Inflow in the Kyrgyz Republic (\$,m)

2006-2016



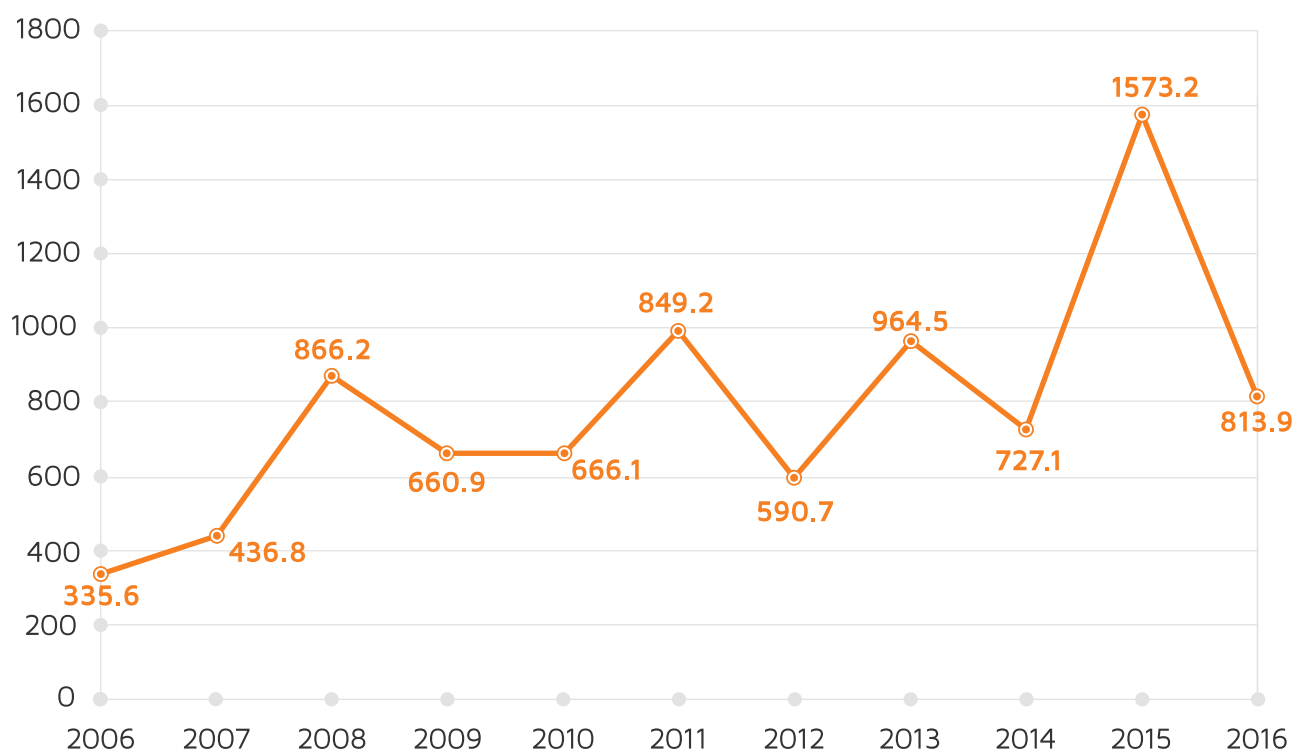
Source: World Bank, 2017.



The National Statistical Committee of the Kyrgyz Republic published similar but partially divergent figures recording FDI inflows under US \$1 bn in the 2006-2014 period, reaching US \$1.57 bn in 2015 before dipping to US \$814 m in 2016.

FDI Inflow in the Kyrgyz Republic (\$,m)

2006-2016



Source: National Statistical Committee of the Kyrgyz Republic, 2017



Kumtor Gold Mine
Photo: Michael Karavanov, 2017

The Kyrgyz Republic's main investors are China, Russia, Canada, the United Kingdom and Turkey. China and Russia top the table, with infrastructure investments that have increased significantly over the last 2 years. Another big investor is Canada, that has developed the Kumtor gold mine, since the early 1990s. In 2015, the Kyrgyz Republic was involved in a dispute, with the Canadian group Centerra, over control of the gold mine. The dispute was resolved amicably, after the company signed a settlement agreement with the government, in September 2017.

Investments, from the United Kingdom to the Kyrgyz Republic, are also significant, mainly focusing on geological exploration. Companies from Turkey, on the other hand, prefer to invest in construction. Kazakhstan, the only neighbouring country in the top, invested in the banking sector and tourism, especially in the recreational facilities of the Issyk-Kul region.

Main investing countries (\$,m)

2012-2016

	2012	2013	2014	2015	2016	Total
China	141.2	468.3	221.6	474.4	301.3	1606.9
Russia	25.4	69.8	60.4	515.5	291.5	962.7
Canada	133.0	104.8	183.5	130.3	118.9	670.5
United Kingdom	70.7	81.7	53.4	189.5	0.7	396.0
Turkey	22.3	23.8	29.2	111.1	33.2	219.7
Kazakhstan	34.1	52.3	30.5	20.8	23.1	160.8
Cyprus	1.3	34.5	31.7	28.0	15.8	111.3
Germany	32.6	6.5	18.2	7.0	0.7	65.1
Australia	8.0	8.9	35.2	3.1	4.5	59.7
Switzerland	21.2	17.6	3.7	5.3	3.6	51.4

Source: National Statistical Committee of the Kyrgyz Republic, 2017



Jyrgalan Valley
Photo: jyrgalan.com, 2018

Conclusion

The Kyrgyz Republic has benefited from substantial donor contributions from multilateral organisations and individual donor countries. In the period of 2010-2016, the Kyrgyz Republic received a total of US \$3.4 bn. The top 3 individual country contributors to the Kyrgyz Republic in this period were: Russia, the United States of America and Germany. Multilateral institutions, including the Asian Development Bank, World Bank and the EU, contributed a combined total of US \$1.63 bn to the Kyrgyz Republic during that period.

International donor assistance focuses on various areas of the Kyrgyz Republic's economy and society. Most support is provided to assist with initiatives aimed at good governance and democracy. An important part of the donor assistance is directed towards improving the transport infrastructure as well. Considering the small size of the domestic market, the existence of modern roads to neighbouring countries are indispensable for sustainable economic development of the Kyrgyz Republic.

Foreign investors in the Kyrgyz Republic have been interested mostly in the mining sector and infrastructure projects. The mountainous Kyrgyz Republic has one of the largest mineral deposits in Central Asia. The exploration and extraction of gold is essential to the economy while being a major export commodity.

Regionally, the Kyrgyz Republic remains heavily dependent on cooperation with neighbouring countries, especially Russia. The accession to the Eurasian Economic Union resulted in easier access for migrant workers to Russia and Kazakhstan but the current economic slowdown in Russia resulted in a decrease in exports in 2016.

In spite of the important progress made, there are still many problems such as poverty, the economy's reliance on a few sectors and migrant remittances from abroad, which accounted to 30% of GDP in 2016. In the foreseeable future, the Kyrgyz Republic is expected to continue to be the recipient of significant volumes of ODA, both from individual country donors as well as multilateral organisations such as the Asian Development Bank, World Bank and the European Union.



Photo: eurasianbusinessbriefing.com, 2018

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