



# DIAGNOSTIC REVIEW OF THE DEVELOPMENT OF PPP IN THE KYRGYZ REPUBLIC

CONSULTANT'S REPORT

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MAY 2019

Asian Development Bank

ADB

Project Number: TA9627

15 May 2019

**KGZ: Preparing the Promoting Economic Diversification Program - 1C**

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## MAIN ACHIEVEMENTS



**45** PPP ideas



**18** Feasibility Studies completed or nearly completed



**3** Successful PPP Tenders



**1<sup>st</sup>** ranked for PPP readiness in Central Asia

# ABBREVIATIONS

ADB	–	Asian Development Bank
EBRD	–	European Bank for Reconstruction and Development
GOK	–	Government of the Kyrgyz Republic
ICIP	–	Investment Climate Improvement Program
IFC	–	International Finance Corporation
MOE	–	Ministry of Economy
MOF	–	Ministry of Finance
MOH	–	Ministry of Health
NSSD	–	National Strategy of Sustainable Development
PDSF	–	Project Development Support Fund
PM	–	Prime Minister
PPP	–	Public Private Partnership
TA	–	Technical Assistance
VGf	–	Viability Gap Financing

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# SUMMARY

This report presents a diagnostic review of the development of Public Private Partnerships (PPP) in the Kyrgyz Republic in the period 2012 to 2019. As such it assesses the achievements to date and identifies recommendations for further strengthening the PPP Framework and the PPP pipeline.

The main conclusion is that the development of PPP in the Kyrgyz Republic is exemplary for small scale economies. This conclusion is based on the following assessments.

**First and foremost, the government of the Kyrgyz Republic has managed to develop a PPP Framework that is conducive to developing and implementing PPP projects.** The PPP Framework is based on a PPP Law that has been adopted in 2012 and further refined in 2016. The PPP Law sets out the institutional framework for PPP and the necessary proceedings for the preparation and tendering of PPP projects including appropriate checks and balances to ensure value for money and minimize project failures. Furthermore, the government has established a Project Development Support Fund to facilitate the preparation of PPP projects. The environment for PPP has been qualified in 2018 by independent review as the best in the region and is considered to be developed, whereas in 2014 it was still considered to be nascent.

**Secondly, the different implementing agencies have been most active with the identification of possible PPP projects amounting up to some 45 project initiatives.** This is commendable in view of the limited size of the Kyrgyz economy and the limited experiences with PPP. Obviously not all of these initiatives have been considered worthwhile for further development though almost half of them have received green light to proceed to the preparation phase. 18 initiatives have been subjected to a Feasibility Studies. Project preparation has primarily targeted small scale PPPs with capital values below US\$ 10 million. This makes sense in view of the country's limited access to non-recourse finance given the immature domestic financial sector and the marginal presence of international banks. Most preparation was done with the support of reputable consulting firms funded either by the Project Development Support Fund or by development partners. Nevertheless, quality of the studies is somewhat lagging in particular with regard to socio-economic analysis, fiscal risks analysis and value for money analysis. This is mainly caused by lack of experience from the side of the government in managing and guiding the consulting services. Also, the average lead time for project preparation of approximately 4 years has been fairly excessive. Main reasons for the long lead time are inexperience and absence of operational guidelines leading to ineffective gateway reviews and ineffective proceedings for operationalizing the PDSF.

**Thirdly, out of the 18 projects that have been subjected to a feasibility study, already 3 have been successfully tendered.** The projects that included hemodialysis centers, E-ticketing in Bishkek and a small cinema in Bishkek have attracted an appropriate level of market interest, both national and international. And the tenders have been concluded in remarkable short periods of time, between 4 and 8 months, which is well below what is typical for first mover PPPs.

**This commendable achievement does not mean that there are no areas for further improvement.** The main problems hampering the further development of PPP include (i) the lagging expansion of PPP pipeline, (ii) ineffective gateway reviews leading to excessive lead times for project preparation and as mentioned (iii) the limited access to non-recourse finance reducing the potential for large-scale PPPs. These problems are to a large extent caused by a limited understanding of the PPP concept. Many stakeholders including key decision makers still perceive PPP as a mechanism to deliver infrastructure off-balance i.e. without budget support and do not recognize that the main benefit of PPP is to increase the effectiveness and efficiency of providing public services, which may require budget support.

In order to address these problems, the government is recommended to:

1. Operationalize the envisaged PPP Agency to
  - (i) further promote the PPP concept (and increase the PPP pipeline);
  - (ii) manage the PDSF (thus acting as a gatekeeper for project screening, and reducing the lead time for effectuation of the PDSF);
  - (iii) support project preparation (and improve the quality of feasibility studies);
  - and,
  - (iv) increase the effectiveness of the necessary checks and balances;
2. Adopt operational guidelines for reviewing and approving feasibility studies and tender documents in order to increase the effectiveness of the necessary checks and balances;
3. Continue strengthening the capacity for developing and implementing PPP specifically through enrollment in the APMG's Certified PPP Professional program;
4. Increase PPP awareness its benefit for delivering value for money in comparison with conventional project delivery and sensitize stakeholders with particular focus on the government's noteworthy accomplishments;
5. Develop and implement financial instruments to facilitate / increase the access to non-recourse finance in order to allow also the development of more large-scale PPP projects.



# 1 INTRODUCTION

## 1.1 Background

The government of the Kyrgyz Republic (GOK) envisages significant new investments and improved technical capacity to develop much-needed economic and social infrastructure, with an increased role for the private sector—including through PPPs. To implement this reform, GOK has initiated in 2012 the development of a PPP Framework reflecting the basic policies and processes that govern PPPs and has initiated and developed several PPP projects.

ADB has been supporting the government since the initial stages of the development of the PPP Framework in 2012 through ADB's Investment Climate Improvement Program (ICIP). Support has been provided through a team of international and national consultants. In total some 130 person-months of inputs have been provided between 2012 and 2017 of which some 90% by national consultants. Scope of work included:

- (i) Drafting of legislative amendments, resolutions and guidelines;
- (ii) Capacity building through workshops and training including on-the-job training;
- (iii) Supporting the identification and screening of possible PPP projects;
- (iv) Drafting tender documents for consulting services;
- (v) Designing PPP program (including financial support mechanisms);
- (vi) PPP Promotion and communication.

Other development partners including IFC, EBRD, GIZ and JICA have also provided support to GOK predominantly through transaction advisory services for specific PPP projects and or capacity building.

ADB will continue supporting GOK with the development of the PPP concept as part of the Promoting Economic Diversification Program (PEDP) as agreed with GOK which is to be implemented in the period 2019 - 2021.

## 1.2 Objective

The objectives of this diagnostic review are:

- (i) To present a factual and empirical analysis of the efficiency and effectiveness of the government's PPP endeavors; and
- (ii) To substantiate the policy actions for PEDP for further strengthening the PPP Framework and the PPP pipeline.

### 1.3 Structure

The diagnostic review includes a review of the PPP Framework and the PPP Development process which encompasses (i) Project Identification & Screening, (ii) PPP Preparation and (iii) PPP Tendering Process. For each of these components in subsequent chapters the general principles will be highlighted reflecting best practices, the government's achievements and extent of compliance with best practices and an analysis of the main problems encountered, if any.

The diagnostic review is based on the actions implemented for the development of the PPP Framework and the projects initiated, prepared, tendered and contracted in the period 2012 – 2019 (March).

Based on these reviews a comprehensive problem tree is presented highlighting the key areas that require improvement in order to increase the efficiency and effectiveness of developing and implementing PPP projects.

# 2 PPP FRAMEWORK

## 2.1 General Principles

PPPs involve complex process management on a number of fronts (political, fiscal, financial, and social) that require a programmatic approach in order to establish PPPs as a recurrent option for appropriate projects. As in any programmatic action, or any action or approach that has a long-term aim, a framework is necessary.

Establishing a clear PPP framework publicly communicates the government's commitment to PPPs". It also defines how projects will be implemented, helping to ensure good governance of the PPP tool, that is, "promoting efficiency, accountability, transparency, decency, fairness, helping to generate private sector interest and public acceptance on PPPs".

The PPP framework means the policy, procedures, institutions and rules that together define how PPPs will be implemented – that is, how they will be identified, assessed, selected, budgeted for, procured, monitored and accounted for.

A PPP Framework typically includes the following elements:

- (i) Implementing Principles: Strategic and foundational outlines that set the boundaries for using the PPP as a procurement option and including overall objectives for the tool, scope, procurement and tender processes and associated regulations;
- (ii) Operational Framework or Process Management Framework: Rules and procedures to identify, prepare and assess or appraise the project and structure, tender and manage the contracts;
- (iii) Fiscal Management Framework: The rules and procedures that control the aggregated exposure to PPPs;
- (iv) Institutional Framework: The architecture of responsibilities/agents involved within government(s);
- (v) Other Governance Related Matters: Like quality assurance, transparency and communication.

## 2.2 Achievements

On May 11, 2009, the Law of the Kyrgyz Republic "On Public-Private Partnership in the Kyrgyz Republic" was adopted. The Law lacked clear and precise rules for competitive selection, mandatory terms of agreements, descriptions of PPP models,

the procedure for distributing risks and much more. The law also allowed for the possibility of direct negotiations on projects, which is unacceptable from the point of view of ensuring the basic principle of the PPP concept - the choice of the best option for implementing the project in terms of value for money

Recognizing these shortcomings, the aforementioned Law was amended and in 2012 adopted corresponding to the basic international principles. The Law sets out the main implementing principles as well as the operational and institutional framework under the authority of the Minister of Economy

Also, approved by orders of MOE No. 39 dated February 28, 2013 and No. 52 dated March 7, 2013 Provision on the application of the form of participation of a private partner in public-private partnership projects, determining possible implementation mechanisms and forms of participation of a private partner in PPP projects, and the Procedure for holding a tender on public-private partnership projects.

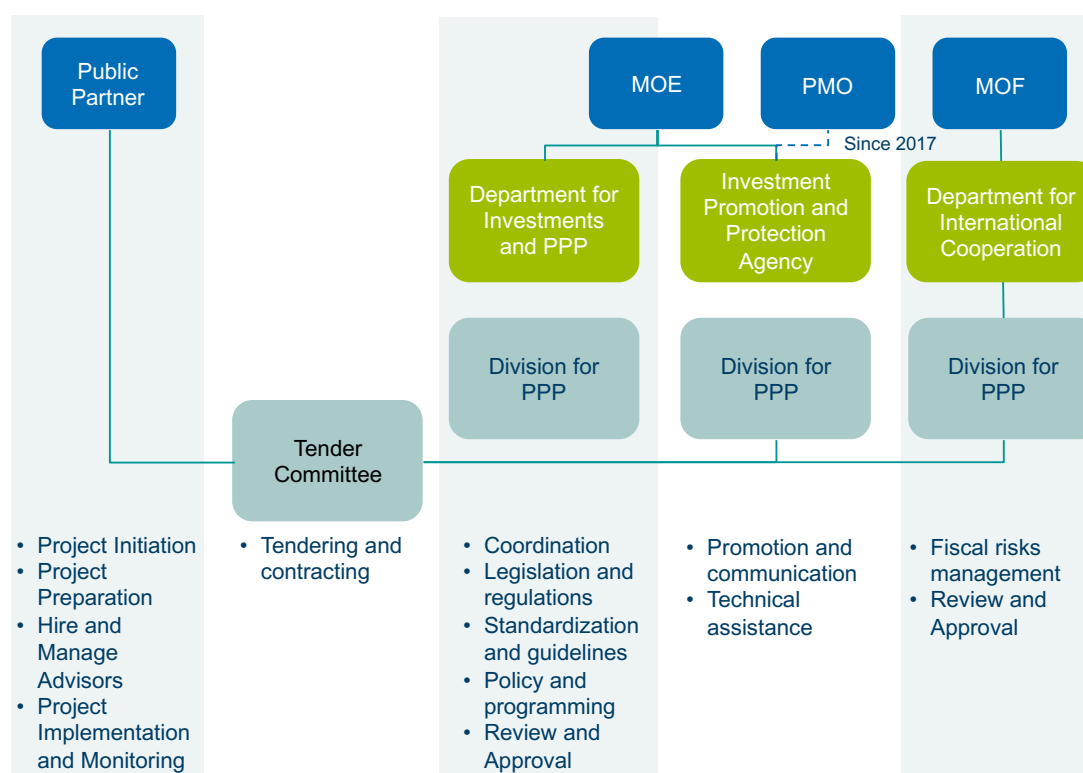
In addition, MOE is developing a draft PPP manual, which will include a Model PPP Agreement, as well as all key provisions and instructions to ensure reliable implementation of PPP projects, taking into account international best practice. The PPP Manual has not yet been finalized awaiting a legal compliance check and the further refinement based on the experiences gained with project development in the past years.

In order to support the preparation of PPP projects in March 2014, the government established a Fund for financing the preparation of PPP projects (hereinafter - the PDSF Fund), which is the main financial instrument for the preparation of PPP projects. The government resolution establishing the PDSF includes criteria for screening PPP initiatives to prevent the initiation on non-suitable projects.

To support the development of PPP and the preparation and implementation of PPP projects (among others), the government has established in 2014 the Agency on Promotion and Protection of Investments of the Kyrgyz Republic (IPA) by Government resolution No. 158 on 18 March 2014. The overall objective of IPA is to promote investment opportunities in the Kyrgyz Republic including PPP. It acts under the supervision of the Minister of Economy and since 2017 of PMO. The PPP staff supports the public partners i.e. the implementing agencies with preparing and implementing PPP projects and promotes the overall PPP framework. MOE continues to act as the authorized public agency including approval of project initiatives as well as the responsibility for policy and legislation

The consequent institutional setting including the different actors and their responsibilities are depicted in figure 1.

Figure 1: Institutional Setting for PPP



A Methodological Guide for Fiscal Risk Management for PPP Projects was developed and adopted, approved by order of MOF dated January 29, 2015 No. 9-P, to ensure a consistent and uniform process for determining, evaluating, approving and monitoring financial obligations under PPP agreements concluded between public and private partners.

On 16 June 2016 the government approved the PPP Development Program 2016 – 2021 as a key delivery scheme for the National Strategy for Sustainable Development 2013 – 2017 and the succeeding National Development Plan 2018 – 2022.. The program outlined the main actions prioritizing (i) the improvement of government governance; (ii) strengthening of government capacity; (iii) confidence building; (iv) development of facilitating financial instruments and (v) the development of the private sector. The program targets the conclusion of PPP contracts with a total capital value of not less than 20 billion Soms (around \$ 300 million)

At the same time, the government also established the PPP Council to strengthen oversight of PPP implementation. The Council is to meet quarterly to monitor and coordinate the implementation of the PPP Program and to resolve issues hampering the development of PPP when arising. The Council consists of:

- (i) Vice Prime Minister (chair)
- (ii) deputy Minister of Economy
- (iii) deputy Minister of Finance
- (iv) deputy Minister of Justice
- (v) Director of State Agency for Local Government and Inter-Ethnic Relations
- (vi) Director of the Investment Promotion and Protection Agency

Upon recommendations from international PPP experts (retained by ADB), which took into account international PPP conventions published by EBRD and UNCITRAL, as well as the specific context the parliament had adopted on 7 July 2016 amendments to the 2012 PPP Law further aligning its legislative framework to a large extent with international standards.

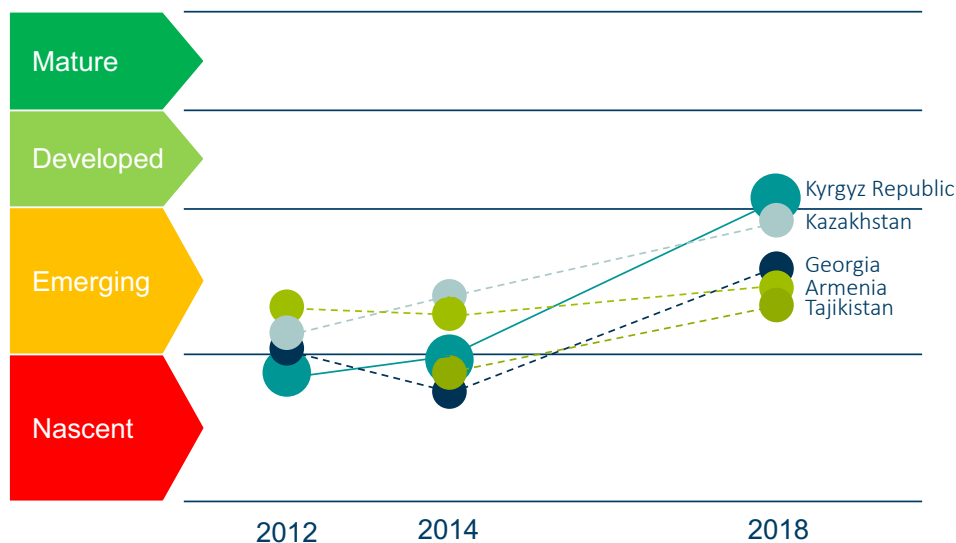
## 2.3 Assessment

The Economist Intelligence Unit assess periodically the quality of the enabling environment for PPP i.e. the quality of the PPP Framework for different countries. The assessment is done based on a quantitative methodology that is named Infrascopes. Based on their scores, countries are grouped into four performance categories: nascent (0-29), emerging (30-59), developed (60-79) and mature (above 80). The methodology reviews the following components:

- (i) A country's legal and regulatory framework for private participation in infrastructure;
- (ii) The design and responsibilities of institutions that prepare, award and oversee projects;
- (iii) The experience of implementing PPP projects and governments' ability to uphold laws and regulations;
- (iv) The business, political and social environment for investment; and
- (v) The financial facilities for funding infrastructure.

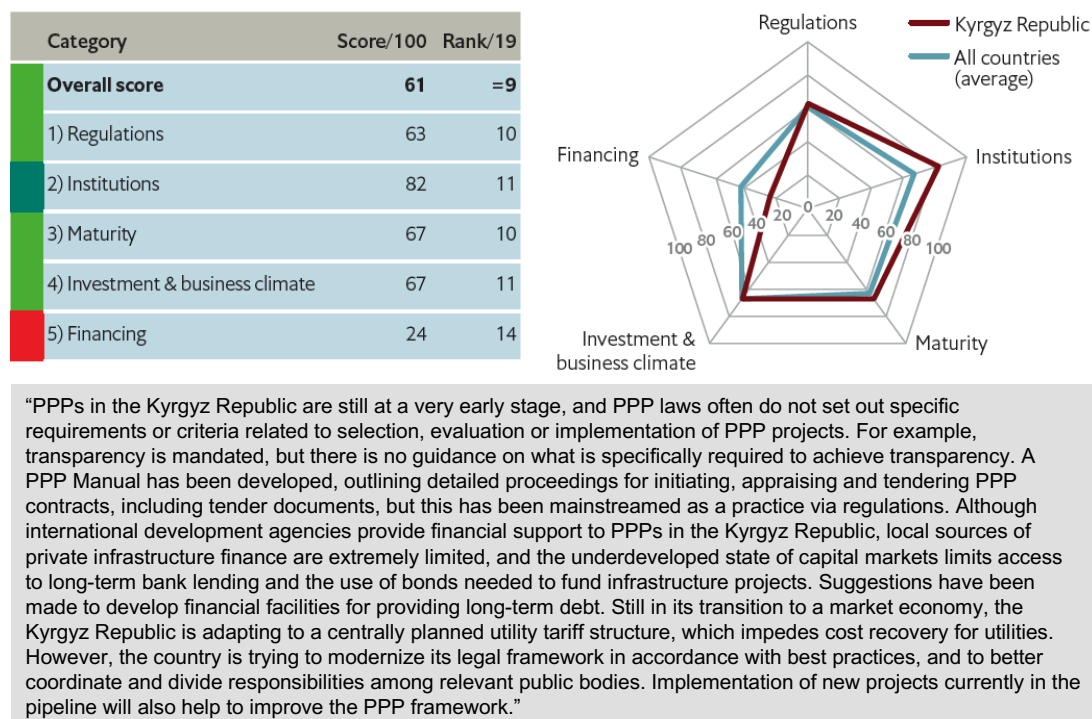
The Kyrgyz Republic has been assessed in 2012, 2014 and 2018. Although there have been some refinements made to the Infrascopes methodology making the different assessments not fully comparable, the assessments indicate that the Kyrgyz Republic has substantially improved its PPP readiness i.e. the enabling environment for PPP has improved from 'nascent' to 'developed'. Even to such extent that it has outgrown all other countries in the region and is ranked 9th out of 19 Asian countries that have been reviewed.

Figure 2: Regional Benchmark of Infrascopes Assessment



Source: The Economist Intelligence Unit

Figure 3: Infrascopes Assessment of PPP Readiness in the Kyrgyz Republic



The Infrascopes conclusion is in line with the progress of the PPP Development Program 2016 – 2021 as described in detail in the Annex. Critical actions outstanding include:

- (i) Approval of the PPP Manual/Guidelines by MOE to ensure effective preparation and implementation of PPP projects in accordance with successful international practice. The Manual has already been drafted including model tender documents though has yet to be subjected to a legal analysis to ensure compliance with the legislative context and refined to incorporate actual project development experiences.
- (ii) Development of mechanisms to create the necessary financial instruments to increase the viability and financial attractiveness of PPP projects in accordance with the best international practices, such as:
  - infrastructure financing fund - to provide long-term borrowed funds in national currency, due to the limited capacity to provide such financing by the domestic banking sector.
  - guarantee fund - in order to reduce the exposure to risks of private sources of financing, including ensuring the reduction of currency risks, risks of higher credit costs, risks of insufficient profitability, political risks;
  - VGF fund - to finance the lack of viability of PPP projects that are economically sound and attractive but are not financially viable due to income from user payments.

Concept notes have already been drafted on these mechanisms though have yet to be further operationalized and implemented through government resolutions.

## 2.4 Current Affairs

In 2018 MOE initiated a reform of the PPP Law. The objective of the PPP Law reform is to simplify the legal proceedings in order to enhance the efficiency of the development and implementation of PPP proceedings. Critical amendments include the reduced need for competitive tension in the tender process and the reduced need for checks and balances in the project preparation. The new draft PPP Law is still being finetuned and is awaiting parliamentary approval. It is questionable whether the proposed amendments - which to a large extent are not in accordance with international best practices - are conducive to ensuring value for money from the use of PPP.

In 2019 the government furthermore initiated the establishment of a more prominent central PPP agency. The government concluded that the current institutional setting is not the most effective setup for ensuring an efficient and effective development of PPP. In particular the lagging promotion of PPP and the limited capacity hinder the further expansion of the PPP pipeline. The roles and responsibilities of the PPP agency have yet to be further elaborated though the concept of a more prominent and more competent coordinating agency appears sensible and assuming an appropriate mandate is likely to contribute to more active promotion of PPP, more effective gateway reviews and a more effective utilization of the PDSF.

In 2019 the government has also agreed with ADB a renewal of the technical assistance support program as part of the Economic Diversification Program 2019 - 2021. Key areas for support include a further strengthening of the PPP Framework, further strengthening of the PPP Pipeline and further strengthening of the PPP capacity.



# 3 PROJECT IDENTIFICATION & PPP SCREENING

## 3.1 General Principles

The objective of the project identification & PPP Screening phase is to select sensible projects, and to pre-assess the suitability of the project as a potential PPP so as to avoid sinking resources unnecessarily into the full assessment and preparation of unworthy projects. Sensible projects are projects that first and foremost address a relevant need and add economic value to society i.e. the socio-economic benefits are envisaged to offset the necessary costs of implementation. Projects are considered suitable for PPP if the PPP option is envisaged to deliver for money in comparison with conventional project delivery and funding and if the PPP option is likely to be financially viable from a private sector perspective and affordable from a user or public sector perspective.

Projects can be identified in 3 ways:

- (i) The government can respond to an individual need by identifying an individual project. The overall project may have one or more infrastructure components that should be tested for PPP suitability.
- (ii) The government can respond to a related group of needs by developing a comprehensive plan that identifies a range of proposed projects. The plan may be for a single sector or across a range of sectors, and it may be for a single geographical area or for the entire country.
- (iii) An alternative way to feed the pipeline, as described in chapter 2.6.6, is through unsolicited proposals. According to the Public-Private Infrastructure Advisory Facility (PPIAF) from the World Bank, there are various motivations for a government to pursue infrastructure projects through unsolicited proposals. Regardless of these motivations, an unsolicited proposal will have to fit with strategic objectives or respond to a clear need already identified by the public sector and have to be included in the project list or the plan. The challenge that unsolicited proposals bring is that they should not bypass the system. Instead, if the government wishes to consider unsolicited proposals, it should make them part of the system.

At the end of this phase, a decision is made whether to proceed with a full appraisal analysis both of the project and the project contract as a PPP on the basis of a “PPP screening report”. The report should also include a description of how the project process will be managed under a project plan and related schedule.

In the Kyrgyz Republic the regulatory context for project identification and screening is provided through the PDSF regulations and essentially encompasses the following process:

- (i) The public partner initiates a PPP project through a Project Brief describing the rationale for the project, the main high-level financial implications in terms of costs and possible revenues, the main risks and an implementation plan.
- (ii) The authorized body for PPP i.e. MOE reviews the project brief and determines the likelihood of successful implementation based on a set of criteria as included in the PDSF reflecting the sensibility of the project and its suitability for PPP. If considered satisfactory as documented through a Position Paper, the project proceeds to the next phase and is eligible for financial support from the Project Development Support Fund in accordance with its regulations as adopted by GOK.
- (iii) Alternatively, the public partner could also apply for project development funding from the government's development partners.

### 3.2 Achievements

To date 45 project ideas have been suggested for initial consideration by different public partners between 2012 and 2018. 21 PPP initiatives (47%) have received green light to proceed to the next phase, the preparation phase (appraisal and structuring). Most initiatives concern small-scale projects with an investment value of below US\$ 10 million.

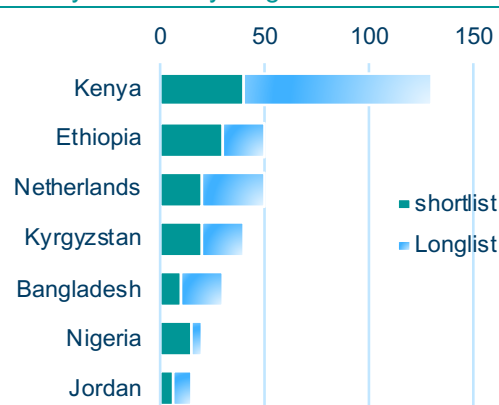
Development programs that include a PPP program / PPP projects have been developed for the following sectors:

- (i) Roads Sector 2015 – 2020
- (ii) Health Care 2015 - 2020
- (iii) Sports & Physical Culture 2018 - 2022
- (iv) Bishkek Municipality 2017 - 2020

### 3.3 Assessment

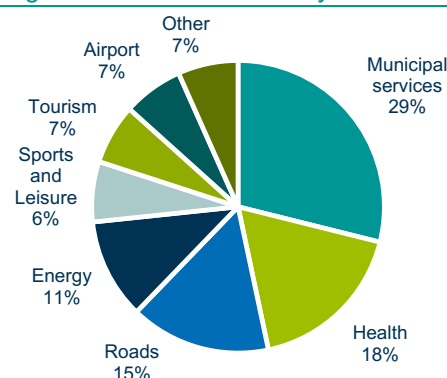
The number of project ideas is commendable and in line with international practices. In particular taking into account the limited size of the economy and the stage of the PPP development in the Kyrgyz economy. The fact that more than half of the initiatives have been rejected for further consideration is not uncommon. Agencies are still in the process of becoming familiar with the PPP concept and the requirements for suitable PPP projects.

Figure 4: Number of PPP Initiatives by country in the early stage



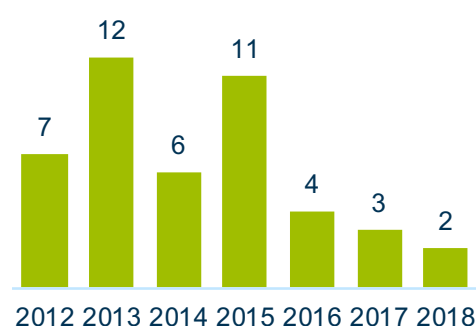
Municipal services, roads and health projects accounts for two-third of all initiatives. This is also not unusual as these sectors are typically quite suitable for PPP given international experiences. Moreover, the concerned agencies have appointed dedicated PPP focal points or even dedicated PPP units (Bishkek municipality) to invigorate the development of PPP.

Figure 5: PPP Initiatives by sector



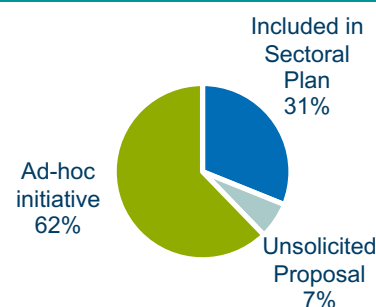
However, it has become apparent that the intensity of project identification has dropped in recent years after the peak in 2013 - 2015 which coincided with ADB's Investment Climate Improvement Program and its policy conditions alongside ADB's TA support. Despite government efforts, there still appears to be limited awareness of and appeal to PPP.

Figure 6: PPP Initiatives by year



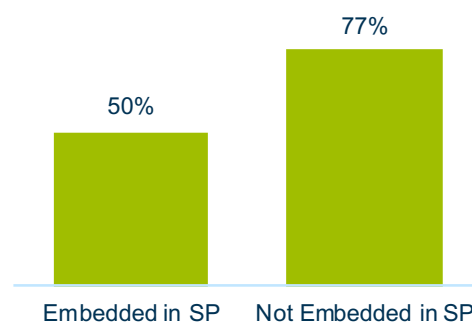
The majority of the projects are originated ad-hoc and are not embedded in a sectoral development program. Projects that are not included in a sectoral development program need to be screened more carefully in terms of their relevance and are less prioritized making them more subject to arbitrary cancellations. Unsolicited proposals are only 7%

Figure 7: PPP Initiatives by Origin



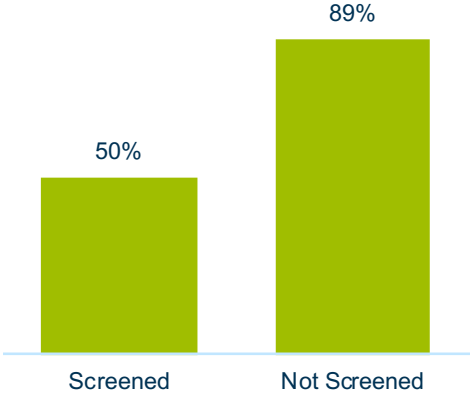
Projects that are embedded in a sectoral program are more likely to succeed. 50% of the initiatives that are embedded in a sectoral plan are either tendered or pending, thus 50% has been cancelled whereas 77% of the other initiatives that are not embedded in any sectoral program have already been cancelled during the further preparation.

Figure 8: Impact of Sectoral Program (% of projects cancelled)



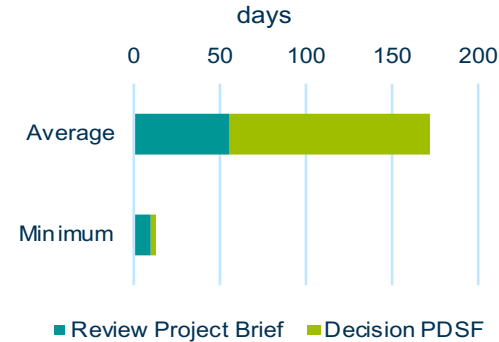
Projects that are subjected to the regulated screening process are more likely to succeed. The majority i.e. 26 out of 45 initiatives (58%) have been subjected to a regulated screening process. That is, they have been described in a project brief and reviewed using the position paper criteria. The effectiveness of the regulation is demonstrated by the fact that out the 19 initiatives that have progressed to the preparation phase and that have not been subjected to the regulated screening process already 17 (89%) initiatives have been cancelled, whereas for the properly screened initiatives the cancellation rate is only 50% which is in line with common practices.

Figure 9: Impact of regulated screening (% of projects cancelled)



The average lead time for identification and screening is less than 4 months. That is the period from the submission of a project brief up to the final approval from the PDSF committee to receive funding and proceed to the next phase. The period could be further reduced if the PDSF committee convened more frequently. A period of 1 -2 months is not uncommon for a proper screening process including the necessary approvals.

Figure 10: Lead time Screening process



# 4 PROJECT PREPARATION

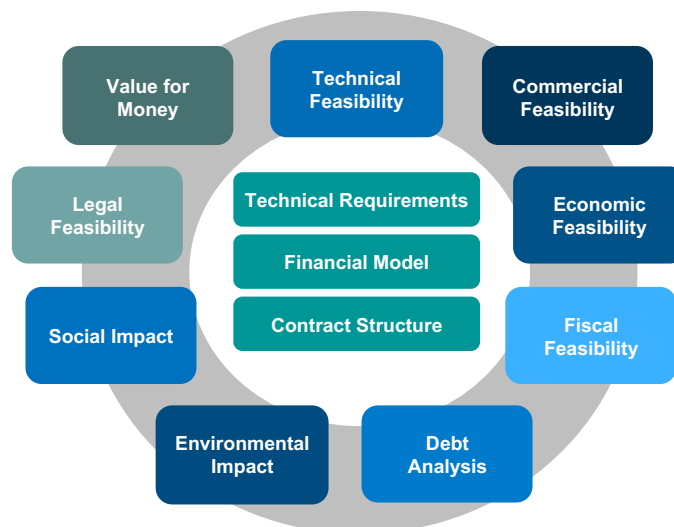
## 4.1 General Principles

The objective of the Preparation phase is to decide if the project should be procured as a PPP (the procurement decision). To do this, the project team must have:

- (i) Confirmed that the project is worth procuring i.e. the project is sensible from an economic perspective (the investment decision);
- (ii) Developed good indications that the project, implemented as a PPP, delivers Value for Money (VfM);
- (iii) Tested the market appetite and capability to deliver the project
- (iv) Developed a reliable feasibility assessment (often referred to as the “business case”) that allows the government to make an informed and defensible decision to move forward (or to abort the project);
- (v) Ensured that the project faces no definitive or blocking obstacles to its launch and if it faces major threats, a general plan of action will have been put in place to overcome those barriers; and
- (vi) Established the structure for the project contract, the government support scheme and the procurement including the qualification and award criteria.

The Preparation Phase consists of a set of multidisciplinary assessments to evaluate the project against a set of feasibility criteria

Figure 11: Main elements of the Preparation Phase



To meet this diverse set of objectives, the government must engage an experienced project team from the beginning of the Preparation Phase. This team can be composed of government specialists but, often, also includes transaction advisers and/or industry experts. Whatever the composition of the project team, it is of utmost importance that all the expertise required for all the feasibility exercises are in place and committed during the Preparation Phase.

## 4.2 Achievements

To date 45 project ideas have been suggested for initial consideration by different public partners between 2012 and 2018. 21 PPP initiatives (47%) have received green light to proceed to the next phase, the preparation phase (appraisal and structuring).

The preparation phase has been concluded or is being concluded for 18 of the 21 projects. Three projects have never commenced with the preparation despite having been approved by the concerned authorities. These include:

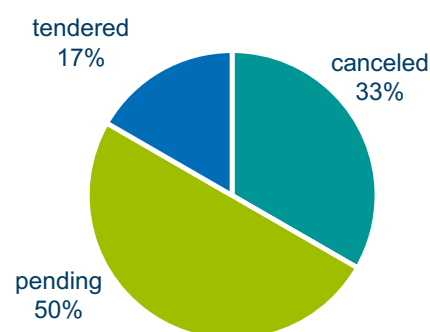
- (i) Angiographic Centre PPP: Ministry of Health decided to opt for conventional delivery using budget finance;
- (ii) Waste Management PPP in the City of Tokmok: cancelled by Municipality of Tokmok city due to changed concept for solid waste management in the city; and,
- (iii) Edelweiss Training Centre PPP: tender for selection of Consultant yet to be announced.

## 4.3 Assessment

For 9 projects the feasibility studies are either being finalized or are awaiting approval to proceed to the next phase. And 6 projects have been cancelled following the outcome of the feasibility study. Three out of the 18 projects that have been prepared have already been tendered and awarded. These include:

- (i) Hemodialysis Centers PPP
- (ii) Bishkek Cinema PPP
- (iii) E-ticketing PPP

Figure 12: Status Project Preparation



8 feasibility studies have been funded by PDSF and 7 by development partners including EBRD, KfW, CDIA and ADB. Furthermore 3 projects have been funded by budgetary sources and 2 feasibility studies have been funded by private projects proponents. As such it can be concluded that the PDSF has been proven to be an effective source of project development reducing the government's dependency on development partners

However, it has also been noted that the PDSF budget has not been fully utilized yet so there is opportunity to further strengthen the PPP pipeline. The government has allocated some US\$ 2.7 million to PDSF of which to date only 32% has been committed implying that some US\$ 1.8 is available for further studies. Unused PDSF budget is returned to the general budget.

The most noteworthy weakness in the project preparation phase is the excessive lead times. Based on a review of 4 completed preparation phases it has taken on average almost 4 years to complete the appraisal and structuring of the project. Unnecessary delays include:

- (i) Almost a year (10 months) between PDSF approval and launch of tender for advisors;
- (ii) 5 months to review and approve the feasibility study;
- (iii) 6 months to review and approve the tender documents.

Main reasons for the long lead times are inexperience and absence of operational guidelines leading to ineffective gateway reviews and ineffective proceedings for operationalizing the PDSF.

Figure 13: Project Preparation Funding Sources

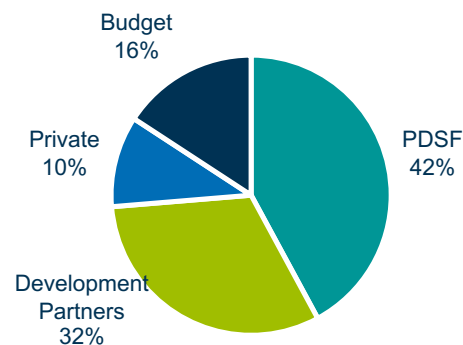


Figure 14: PDSF utilization

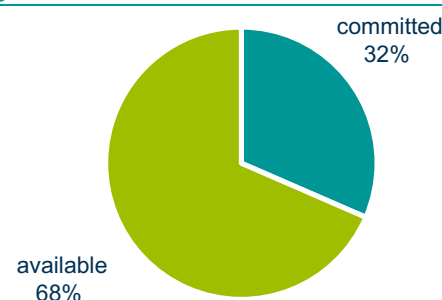
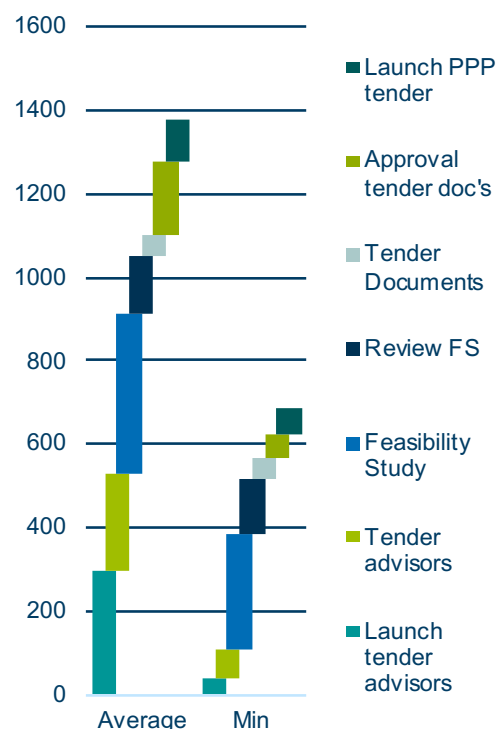


Figure 15: Lead time project preparation (in days)



If the efficiency of these proceedings can be improved the lead time for preparation can be reduced to 1.5 – 2,5 years given:

- (i) Approx. 6 months for hiring advisors
- (ii) 9 – 18 months for delivering the feasibility study and the tender documents
- (iii) 3-6 months for review and approval proceedings

Upon review of some of the feasibility studies it has become apparent that overall the quality is somewhat lagging despite the use of mostly renowned consulting firms. Most notable shortcomings include:

- (i) Limited attention to the socio-economic cost-benefit analysis which should be a critical feature of the feasibility study as it indicated whether the project makes sense or not;
- (ii) Limited attention to the fiscal risk analysis. Although the focus has been so far on projects that do not require any or limited government support, fiscal risks should not be ignored. Most contracts require government guarantees in case of early contract termination and some contracts require further guarantees for making the projects bankable e.g. ensuring minimum revenues, stable exchange rates and so on. This should be appropriately addressed in the feasibility studies so MOF can assess the fiscal implications and consequent affordability;
- (iii) Limited attention to Value for Money. Although it may be too far stretched to have a quantitative value for money analysis for each and every project as the public delivery option is not available, the feasibility study should at least provide some qualitative considerations for PPP. PPP should not be considered at any cost and should only be applied to suitable projects.

The main reasons for these shortcomings are the absence of operational guidelines for preparing appropriate Terms of Reference for the consulting services, and level of inexperience of the PPP Focal Points in managing and guiding the consulting services.



# 5 TENDERING & CONTRACTING

## 5.1 General Principles

The objectives of this phase are as follows:

- (i) To conduct a smooth procurement process and avoid interruptions and re-scheduling.
- (ii) To deliver a contract that will demonstrate Value for Money (VfM) and will benefit both parties.
- (iii) To secure a prompt, rapid, and effective approval for signature.
- (iv) To handle the selection process in an effective manner, ensuring transparency.
- (v) To ensure that, at the time the PPP contract is executed, the government will have a high degree of certainty that the winning bidder will secure the required financing and deliver the required outcomes according to schedule.
- (vi) To effectively utilize competition to deliver the optimal Value for Money outcome for the government.

To meet these objectives, the public partner must:

- (i) Design the RFP appropriately: The public partner's ability to manage the tender process as smoothly as possible, and maximize value through competition, will depend on the regulation of the tender process (time, requirements of the offers, qualification/selection criteria, and evaluation criteria);
- (ii) Apply general principles of good procurement: Many features and characteristics of the PPP tender process are the same as in any public procurement process. The same general principles of good procurement will apply for a PPP procurement (transparency, fairness, and so on). Transparency in tendering is the essence of a fair and competitive process. The tender process should meet international standards for transparency and provide a level playing field for bidders.
- (iii) Recognize the complexities of PPPs: While general principles of good procurement apply to PPPs, PPPs also have special characteristics that must be considered in the conduct of the tender and awarding processes.
- (iv) Recognize the specific characteristics of the project: Each project will have unique requirements. These requirements must be addressed both in the structuring and drafting of the tender package, and in the conduct of the tender and awarding processes
- (v) Follow the proceedings as per the PPP Law and relevant government resolution and seek guidance from the draft PPP Manual.

## 5.2 Achievements

Three tenders for selecting a private partner to implement a PPP have been held including<sup>1</sup>:

- (i) Hemodialysis Centers
- (ii) Kyzyl-Kyrgyzstan Cinema (Bishkek)
- (iii) E-ticketing (Bishkek)

The following tables summarizes the key features of these projects and the respective tender processes.

**Table 1: Main Features of Awarded PPPs**

	Hemodialysis Centers	Cinema	E-ticketing
Public Partner	Ministry of Health	Ministry of Culture, Information and Tourism	Bishkek Municipality
Description	Development of 4 dialysis centers in Bishkek (2), Osh and Jalal-Abad and provision of dialysis treatments	Rehabilitation and operations of the Kyzyl-Kyrgyzstan Cinema and the right to develop commercial real estate on the plot	Supply of smart cards for the use of the public transport system in Bishkek and the operation of the system
PPP mode	DBFMO	DBFMO	DBFMO
Capital Value	US\$ 5 – 10 million	< US\$ 1 million	US\$ 1 – 5 million
Term	10 years	49 years	6 years
Government Support	None	None	None
Transaction Advisor	IFC	-	EBRD
Other Advisors	Rebelgroup Kalikova	-	Blic GmbH Synergica GmbH
EOIs	5	2	7
Shortlist	2	2	5
Bids	2	2	2

<sup>1</sup> Government has also awarded a Performance Based Management contract for a road. Although typically recognized as a mode of PPP per international standards, the project has not been implemented in accordance with the provisions of the PPP Framework and therefore not included in this diagnostic review.

	Hemodialysis Centers	Cinema	E-ticketing
Winner	Fresenius Medical Care Deutschland GmbH (Germany)	Burana Grand LLC (Kyrgyz Republic)	BPC AG (Switzerland)
Tender Launch	10 Jan 2017	5 Jan 2018	11 Jan 2019
Contract Award	15 Aug 2017	4 May 2018	8 April 2019

### 5.3 Assessment

The tenders concern relative small-scale PPPs with investment values well below US\$10 million. A sensible approach in view of the limited access to non-recourse financing. The tenders have attracted a fair number of interested parties as illustrated by the number of expressions of interest received, in particular for the hemodialysis project and the E-ticketing project. Most of the interested companies for these projects were foreign which makes sense as the specific requirements (providing dialysis treatments or supplying smart cards) is no common business activity in the Kyrgyz Republic. The support from respectively IFC and EBRD has most likely contributed to the market appetite.

The effectiveness of the tender proceedings is highly commendable. Delivering PPP tenders in 4 – 8 months is not common, in particular when countries are still in the early stages of PPP. More typical is a lead time of 9 to 18 months. It illustrates that the PPP Law is highly conducive to facilitating an effective tender process. Also, the use of experienced transaction advisors in the case of hemodialysis and E-ticketing is assumed to have contributed to such highly effective proceedings.

Figure 16: Number of EOIs received for the PPP tenders

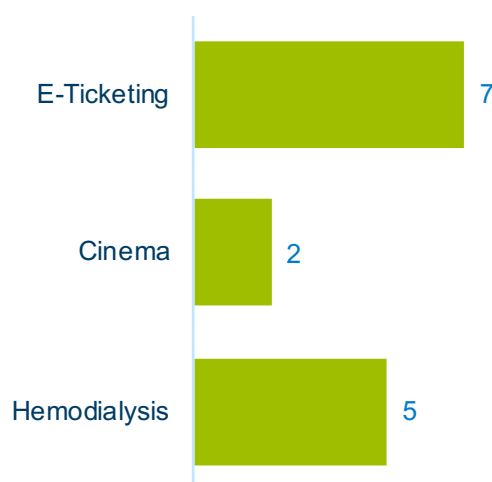
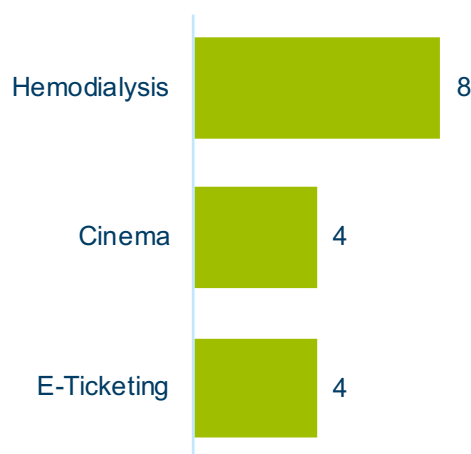


Figure 17: Lead tender process (in Months)



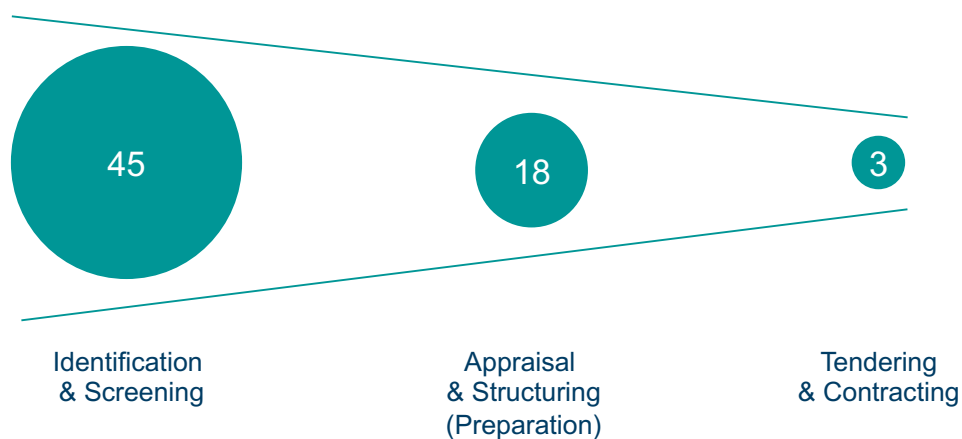
A noteworthy achievement concerns the shortlisting of the hemodialysis PPP for the Partnerships Award 2018. The Partnerships Awards is firmly established as the biggest and most prestigious networking event in the PPP industry. The Awards brings together key decision-makers from the public and private sectors to recognize and reward outstanding achievements in PPP.

# 6 CONCLUSIONS & RECOMMENDATIONS

## 6.1 Overall Observations

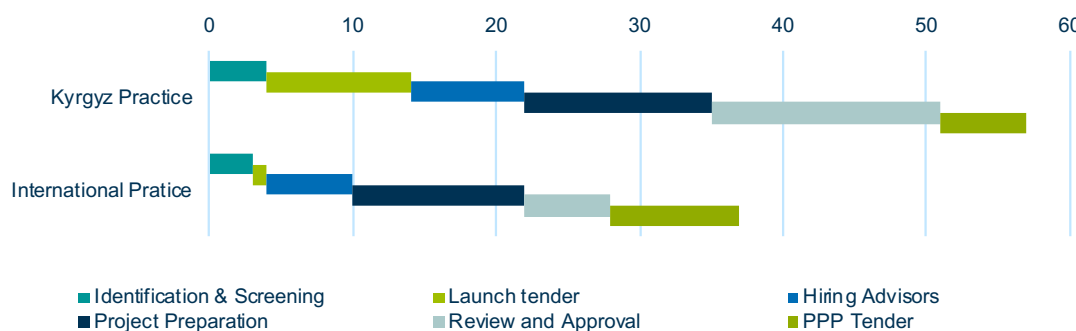
1. The readiness for PPP in the Kyrgyz Republic has improved substantially and is considered to be the best in the region;
2. The PPP pipeline has gradually evolved over time and can be considered to be in line with international practices;

Figure 18: PPP Funnel 2012 – 2019 (number of projects)



3. The focus on small scale projects for PPP development is sensible in view of the limitations in access to non-recourse financing in the Kyrgyz Republic;
4. The lead time for project development is excessive, in particular the project preparation phase, albeit not unusual for countries in the early stage of the PPP program where agencies have to become accustomed to their new roles and responsibilities;

Figure 19: Lead Times PPP Project Development (months)

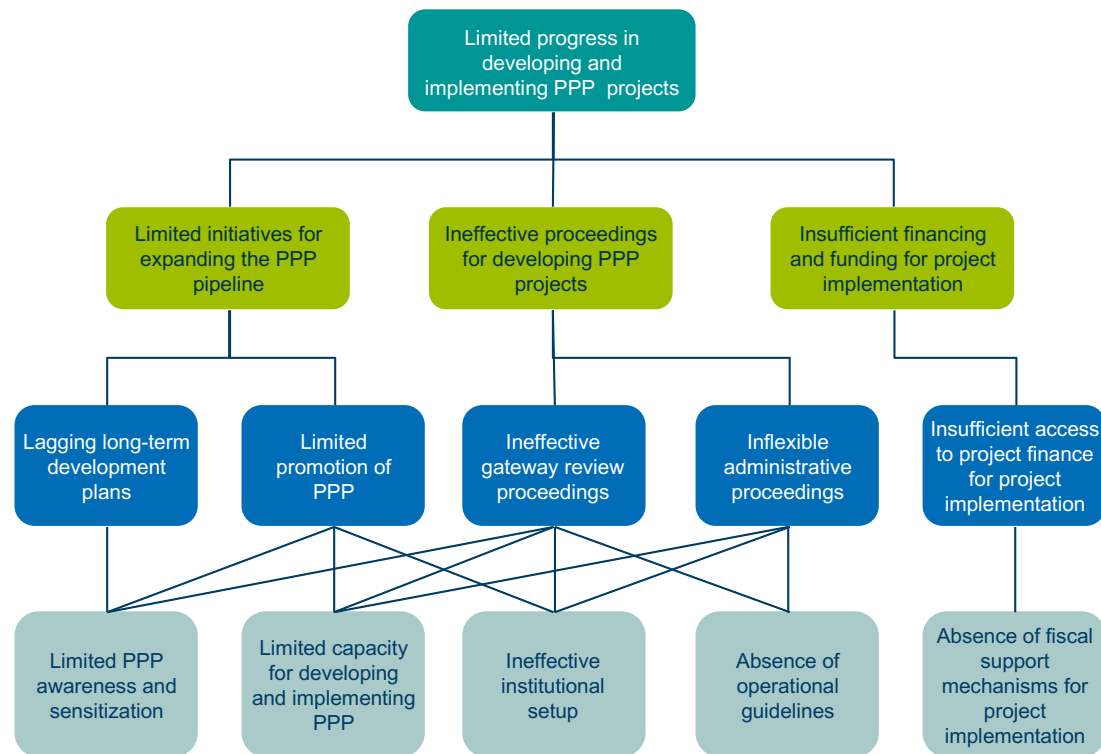


5. Overall the government's strategy for developing PPP can be considered effective and best in class in particular for small scale economies.

## 6.2 Problem Tree

The following figure summarizes the main problems and their underlying drivers impacting the further development of PPP in the Kyrgyz Republic.

Figure 20: PPP Development Problem Tree



## 6.3 Future Challenges

1. Operationalize the envisaged PPP Agency to
  - (i) further promote the PPP concept (and increase the PPP pipeline);
  - (ii) manage the PDSF (thus acting as a gatekeeper for project screening, and reducing the lead time for effectuation of the PDSF);
  - (iii) support project preparation (and improve the quality of feasibility studies); and,
  - (iv) increase the effectiveness of the necessary checks and balances;
2. Adopt operational guidelines for guiding, reviewing and approving feasibility studies and tender documents in order to increase the quality of project preparation and effectiveness of the necessary checks and balances;

3. Continue strengthening the capacity for developing and implementing PPP specifically through enrollment in the APMG's Certified PPP Professional program<sup>2</sup>;
4. Increase PPP awareness and sensitize stakeholders with particular focus on the government's noteworthy accomplishments;
5. Develop and implement financial instruments to facilitate / increase the access to non-recourse finance in order to allow also the development of more large-scale PPP projects.

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<sup>2</sup> The APMG PPP Certification Program launched in 2016 is an innovation of the ADB, EBRD, IDB, IsDB and the World Bank with a shared vision of enhancing PPP performance globally. It is considered as the industry standard for PPP throughout the world. The program includes 3 levels and corresponding exams. CP3P (Certified PPP Professional) is the credential awarded to candidates who have passed all three exams within the Certification Program





# ANNEX I: Progress PPP Program

## GOVERNMENT OF THE KYRGYZ REPUBLIC RESOLUTION

dated June 16, 2016 № 327

On approval of the Program for the development of public-private partnership in the Kyrgyz Republic for 2016-2021

In order to create favorable conditions for further practical implementation of public-private partnership mechanisms in the Kyrgyz Republic, in accordance with the Program of Activities of the Government of the Kyrgyz Republic, approved by the Resolution of the Jogorku Kenesh of the Kyrgyz Republic of April 13, 2016 No. 438-VI, Articles 10 and 17 of the Constitutional Law of the Kyrgyz Republic "About the Government of the Kyrgyz Republic", the Law of the Kyrgyz Republic "On public-private partnership in the Kyrgyz Republic" the Government of Kyrgyz Republic

### DECIDES:

1. To approve the Program of development of public-private partnership in the Kyrgyz Republic for 2016-2021 (hereinafter - the Program) in accordance with the annex.
2. To the ministries, state committees, administrative departments, plenipotentiaries of the Government of the Kyrgyz Republic in oblasts, city halls of Bishkek and Osh (as agreed):
  - take measures to implement the Program;
  - at the end of each semester, no later than January 20 and July 20, submit to the Ministry of Economy of the Kyrgyz Republic information on the implementation of the Program.
3. To the Ministry of Economy of the Kyrgyz Republic:
  - according to the results of each semester, no later than February 20 and August 20, submit a summary report on the implementation of the Program to the Office of the Government of the Kyrgyz Republic;
  - jointly with the Ministry of Finance of the Kyrgyz Republic, to conduct negotiations with international financial organizations on the issue of attracting resources for the implementation of the Program
4. Establish personal responsibility of heads of ministries, state committees, administrative departments, plenipotentiaries of the Government of the Kyrgyz Republic in regions, heads of mayors of the cities of Bishkek and Osh for the quality and timely implementation of the Program.
5. Control over the implementation of this resolution is entrusted to the department of economy and investment of the Government Office of the Kyrgyz Republic.
6. This resolution becomes effective after ten days from the date of official publication.

Prime Minister

application

## **PROGRAM**

### **development of public-private partnership in the Kyrgyz Republic for 2016-2021**

#### **Introduction**

Public-private partnership (hereinafter - PPP) has been recognized worldwide as an alternative method to more effectively and efficiently provide public services and improve infrastructure facilities.

PPP is one of the important tools to ensure the economic growth of the country through the concentration of material and financial resources of the public and private sectors for the implementation of investment projects, including to reduce the burden on the state budget and the effective redistribution of budget funds.

Successful implementation of PPPs requires a supportive legislative, institutional and financial environment, as well as adequate resources for quality project preparation.

The Kyrgyz Republic has taken initial steps to develop PPP in the country, taking into account international best practice.

In 2012, the Law of the Kyrgyz Republic "On Public-Private Partnership in the Kyrgyz Republic" (hereinafter - the Law on PPP) was adopted, the institutional framework of PPP was created, according to which the authorized government bodies were identified, and in 2014 the Fund for financing the preparation of PPP projects was created.

Thus, over the past 4 years, in addition to creating the necessary legislative and institutional framework, the preparation of pilot projects of PPPs has begun, which is a good indicator in comparison with the practice of foreign countries such as the UK, Holland, India, the Philippines, in which the project preparation period took longer.

According to the independent company The Economist Intelligence Unit, which specializes in research and advisory services and is the most authoritative source for assessing the degree of development of PPP in the world, the Kyrgyz Republic ranks 19th out of 21 countries studied in the Assessment of Preparedness for Implementation of PPP Projects (2014).

In accordance with this rating, the degree of development of PPP in 2011 was estimated at 25.6 points, and in 2014 - at 29.5 points, which brought the Kyrgyz Republic very close to the threshold value of 30 points for the transition from the category of "emerging PPP" to developing PPP. " This position states that "a sufficiently strong regulatory and legal framework for PPPs was created, but implementation is constrained by a limited institutional base, lack of practical skills to promote projects, including investor concerns regarding the legal environment.

Thus, the Kyrgyz Republic will have to take further important steps towards the practical implementation of PPP mechanisms and the creation of favorable conditions for this.

Currently, there is a need for a unified policy in the field of PPP and concerted actions of all participants in the process, both at the state and local levels, in order to identify priority development sectors.

This Program will allow the Government of the Kyrgyz Republic to coordinate the implementation and implementation of a number of activities aimed at improving public administration and enhancing human potential in the field of PPP, increasing the capacity of government partners and awareness in the field of PPP, as well as developing financial instruments of PPP.

#### **1. General assessment of the current situation**

## 1.1. Overview of the situation in the development of public-private partnership in the Kyrgyz Republic

Prior to the adoption of the Law on PPP, some elements of public-private partnership were present in the laws of the Kyrgyz Republic “On Concessions and Concession Enterprises in the Kyrgyz Republic” and “On Production Sharing Agreements for Subsoil Use”. These laws provide for the possibility of long-term cooperation of the state and the private sector, on the basis of an agreement.

On May 11, 2009, the Law of the Kyrgyz Republic “On Public-Private Partnership in the Kyrgyz Republic” was adopted. The Law lacked clear and precise rules for competitive selection, mandatory terms of agreements, descriptions of PPP models, the procedure for distributing risks and much more. The law also allowed for the possibility of direct negotiations on projects, which is unacceptable from the point of view of ensuring the basic principle of the PPP concept - the choice of the best option for implementing the project in terms of price-quality ratio.

In this connection, the aforementioned Law was finalized and in 2012 was adopted in a new wording, corresponding to the basic international principles. In accordance with the new Law on PPP, a number of regulatory legal acts of the Government of the Kyrgyz Republic have been adopted.

In addition, at the level of ministries and departments of the Kyrgyz Republic, work is underway to adopt departmental acts for uniform application by PPP participants of the provisions of the Law on PPP.

A Methodological Guide for Fiscal Risk Management for PPP Projects in the Kyrgyz Republic was developed and adopted, approved by order of the Ministry of Finance of the Kyrgyz Republic dated January 29, 2015 No. 9-P, to ensure a consistent and uniform process for determining, evaluating, approving and monitoring financial obligations under PPP agreements concluded between public and private partners.

Also, approved by orders of the Ministry of Economy of the Kyrgyz Republic No. 39 dated February 28, 2013 and No. 52 dated March 7, 2013 Provision on the application of the form of participation of a private partner in public-private partnership projects, determining possible implementation mechanisms and forms of participation of a private partner in PPP projects, and the Procedure for holding a tender on public-private partnership projects.

In addition, the Ministry of Economy of the Kyrgyz Republic is developing a draft PPP manual, which will include a Model PPP Agreement, as well as all key provisions and instructions to ensure reliable implementation of PPP projects, taking into account international best practice.

In order to support the preparation of PPP projects in March 2014, the Government of the Kyrgyz Republic established the Fund for financing the preparation of PPP projects (hereinafter - the PDSF Fund), which is the main financial instrument for the preparation of PPP projects. Currently, the Fund has approved the allocation of funds for the preparation of a number of PPP projects.

In order to further develop and implement PPP mechanisms, work is underway to create other necessary financial instruments to increase the viability and financial attractiveness of PPP projects in accordance with best international practices, namely, mechanisms are being developed to create:

- infrastructure financing fund - for the provision of long-term borrowed funds in national currency, due to the limited capacity to provide such financing by domestic financial and credit institutions;
- guarantee fund - in order to reduce the exposure to risks of private sources of financing of PPP projects;

- a fund of subsidized financing - to provide financial support for the lack of viability of PPP projects that are economically sound and attractive, but are not financially viable due to insufficient income generated by user payments.

The process of preparing the first PPP projects has been initiated, including the preparation of feasibility studies for further preparation for the selection of private partners. To this end, with the support of the Asian Development Bank, criteria for the selection of PPP projects were approved, approved by Resolution of the Government of the Kyrgyz Republic "On financing the preparation of public-private partnership projects" dated March 17, 2014 No. 147, which establish a transparent and balanced procedure for preparing PPP projects. These criteria are necessary to prevent the initiation of non-priority projects, to ensure the control of the Government of the Kyrgyz Republic over the quality of training, as well as to achieve an optimal balance of the price-quality principle.

In addition, more than 20 project initiatives were evaluated and a decision was made to further prepare the following 5 PPP projects:

- "Installation of computer tomographs in health organizations of the Kyrgyz Republic";
- "Organization of hemodialysis units and centralized laboratory in Bishkek";
- "The creation of angiographic centers on the basis of the National Hospital";
- "Organization of municipal parking along the roads of Bishkek";
- "Improving urban transport".

In order to develop sectoral PPP policies, industry-specific programs are being developed that will contain information on all investment plans, including planned PPP projects.

In order to raise awareness on PPP issues, a specialized PPP website was launched, which contains the necessary information for potential investors and private partners, as well as for government agencies and the public, including legal information and initiated projects.

In order to implement PPP projects for the coming years, the Government of the Kyrgyz Republic has identified the following priority sectors for the country: road and transport infrastructure, healthcare, housing and communal services, construction, energy, tourism.

Investments in these sectors, in particular, in health care, transport, housing, and housing and communal services, are characterized by a large multiplier effect. Together with economic feasibility, the implementation of PPP projects in the social sphere will significantly improve the quality of life of citizens.

The health sector, in addition to structural reforms, requires substantial technological modernization, which, in turn, requires serious investments. Government funding for this sector, despite some growth, is still insufficient to influence the decline in mortality and increase life expectancy. Currently, the public health sector has developed three PPP projects in the field of health, two of which are active, and at the preparatory stage, a project to install new angiographic equipment, which will eliminate the existing shortage of this type of medical care for circulatory system diseases, which are one of the leading causes of premature mortality.

In addition, the question of investing in the social sphere, for example, in the development of sports for the population, is important for the health of the population. The mass of physical culture and sports among the population of the Kyrgyz Republic, according to the World Health Organization, is below the threshold level of a safe gene pool of the nation (this indicator should be at least 15% of the reproductive part of the population). This provision confirms the need to take urgent measures to popularize and attract the population to physical culture and sports on a mass scale, which requires the launch and implementation of PPP projects in this direction.

Based on a comprehensive assessment of the development of PPPs to ensure the effective development of PPPs in the Kyrgyz Republic, the Government of the Kyrgyz Republic identifies the following areas of concern:

1. The absence of sectoral programs on PPP in state and municipal bodies, which leads to such consequences as:

- lack of a clear vision and strategies to improve the quality of state and municipal services;
- lack of long-term investment programs and an appropriate assessment of investment needs;
- the lack of a long-term budget plan requiring support from development partners and possible private funding;
- initiating projects without a systematic basis and compliance with sectoral goals and objectives, which leads to an irrational allocation of resources of the Government of the Kyrgyz Republic for the preparation of projects that do not meet the priority areas and goals, as well as the interests of the Kyrgyz Republic as a whole.

2. Lack of resources for the preparation and implementation of PPP projects. This applies both to the number of employees who are directly responsible for the work on the preparation and implementation of PPPs, and to the level of their competence and experience.

3. Perception of the PPP mechanism by the private sector in the Kyrgyz Republic as a high-risk zone, which limits the interest of potential investors.

4. Limited access to financial resources for the preparation and implementation of projects. Investment in PPP mechanisms, as a rule, comes from the own funds of investors and long-term lending by financial institutions. Currently, local financial institutions have limited experience in providing long-term lending, and international commercial and financial institutions are limited in providing such lending due to the relatively high credit risks of the Kyrgyz Republic and wide opportunities to provide more reliable lending in other countries.

5. Limited experience of the private sector of the Kyrgyz Republic in the field of PPP. The local business community is not yet able to prepare high-quality project proposals, which leads to significant costs for consulting services in the preparation, and also has no experience in implementing long-term projects. Moreover, local entrepreneurs show a lack of understanding regarding international practice in the field of PPPs and express concern about the excessively complicated, in their opinion, procedures of the PPP process, as well as the need for their participation on a general basis in the competitive selection (tender) of a private partner when initiating PPP projects side of the private sector.

## 1.2. Analysis and evaluation of the current system of regulation and application of PPP mechanisms in the Kyrgyz Republic

### 1.2.1. The legislation of the Kyrgyz Republic in the field of PPP

In the Kyrgyz Republic, an appropriate regulatory and legal framework has been created to regulate the development of PPPs.

The main requirements, definitions, principles, procedures and mechanisms for the implementation of PPP projects are defined by laws, international treaties to which the Kyrgyz Republic is a party, as well as the requirements of regulatory legal acts of the Government of the Kyrgyz Republic and departmental acts of the Kyrgyz Republic. In particular, it is:

- Budget Code of the Kyrgyz Republic;
- laws of the Kyrgyz Republic:
  - " On public-private partnership in the Kyrgyz Republic ";
  - " On the basic principles of budget law in the Kyrgyz Republic ";
  - " On the municipal ownership of the property ";
  - " On the financial and economic foundations of local self-government ";
  - " On the status of the capital ";
  - " On the status of the city of Osh ";
  - " On local state administration ";
  - " On Local Government ";

- Resolution of the Government of the Kyrgyz Republic:
  - "On the definition of authorized bodies in the field of public-private partnership" dated September 14, 2012 No. 616, according to which the Ministry of Economy of the Kyrgyz Republic was designated as the authorized state body in the field of PPP, the Ministry of Finance of the Kyrgyz Republic - authorized state risk management body;
  - "On certain issues in the field of public-private partnership in the Kyrgyz Republic" dated January 28, 2013 No. 39 , which approved the Regulation on the tender commission for the selection of private partners for public-private partnership projects and the Procedure for preparing the rules for conducting tenders and tender documentation for public projects -private partnership in the Kyrgyz Republic;
  - "On financing the preparation of public-private partnership projects" dated March 17, 2014 No. 147 , in accordance with which the Fund for financing the preparation of PPP projects was established, the regulations on the PPP Fund and the procedure for preparing PPP projects at the expense of the PPP Fund were approved ;
  - "On Approval of the Rules for Keeping the Register of Public-Private Partnership Projects in the Kyrgyz Republic" dated June 4, 2014 No. 307 .

#### 1.2.2. Institutional base of PPP

In order to create an effective institutional framework for the implementation of PPPs, the Government of the Kyrgyz Republic has developed a structure that includes:

- the authorized body in the field of PPP, responsible for coordination, capacity building, advice, assistance in initiating and monitoring PPP projects, - Ministry of Economy of the Kyrgyz Republic;
- the state risk management body that develops the state risk management policy associated with the implementation of PPP projects;
- public partners - state executive bodies (ministries, state committees, administrative departments and local state administrations), as well as local governments and municipal enterprises.

In 2014, an Investment Promotion Agency under the Ministry of Economy of the Kyrgyz Republic was created to ensure interaction between government bodies, local governments, business communities and the non-state sector in attracting private investment in the territory of the Kyrgyz Republic, promoting, implementing and supporting investment projects and programs including PPP projects.

## 2. Purpose of the Program

The purpose of this Program is to create a favorable and full-fledged environment for PPPs and conclude agreements with private partners for the implementation of PPP projects that meet the best international principles for a total of at least 20 billion soms by 2021.

The National Sustainable Development Strategy of the Kyrgyz Republic for the period 2013-2017, approved by Decree of the President of the Kyrgyz Republic dated January 21, 2013 No. 11 (hereinafter referred to as NSDS), recognizes gaps in the quality of infrastructure and relevant public services and defines PPP as a critical scheme, necessary to solve these problems, taking into account the existing budget constraints.

As the main goals for the implementation of the PPP mechanism, the NSDS indicates the need to ensure economic growth by concentrating the material and financial resources of the public and private sectors for the implementation of investment projects, as well as reducing the burden on the state budget and redistributing budget funds.

To this end, the NSDS defines such tasks as creating conditions for effective cooperation between the state and the private sector; ensuring the efficient operation of state-owned assets through the mobilization of extrabudgetary sources of funding through the involvement of the private sector; ensuring effective administration and control over the implementation of PPP projects; Introduction of approaches that allow evaluating the effectiveness of project implementation through assessing the quality of services provided to the public.

The Program of the Government of the Kyrgyz Republic "Trust and Unity", approved by the Decree of the Jogorku Kenesh of the Kyrgyz Republic dated April 13, 2016 No. 438-VI, one of the main accents is the practical launch of PPP taking into account the limited resources for launching and maintaining infrastructure, social, regional projects. PPP can be an important tool for investing in projects such as one of the tools for attracting business to relevant industries.

### 3. Program Tasks

To achieve this goal, within the framework of this Program for the Development of PPP in the Kyrgyz Republic, the following tasks will be implemented:

#### 1. Improving public administration and the capacity of the Government of the Kyrgyz Republic in the field of PPP

	Status 2019
1.1. Adoption of sectoral and regional long-term investment programs or special programs on PPP, which should contain an analysis of the needs for the creation and development of infrastructure and services, including an assessment of financial needs, and lists of projects, including PPP projects.	Sectoral development plans have been adopted though have not led to a substantive and related addition to the PPP pipeline
1.2. Allocation of the necessary human resources to ensure effective and high-quality preparation and evaluation of PPP projects in the relevant government bodies and local governments. At the first stage, it is necessary to strengthen / create special human resources in the Ministry of Economy of the Kyrgyz Republic, including the energy sector, the Ministry of Finance of the Kyrgyz Republic, the Ministry of Transport and Communications of the Kyrgyz Republic, the Ministry of Health of the Kyrgyz Republic, the Bishkek City Development Agency under the Bishkek City Hall. Further steps will be taken in relation to all government agencies that have the potential in the field of PPP.	Government officials have been appointed though concentrated in MOE, MOF and CDA and they lack the necessary experiences and training.
1.3. Approval of the PPP Guidelines by the Ministry of Economy of the Kyrgyz Republic to ensure effective preparation and implementation of PPP projects in accordance with successful international practice. This Guide will be the main practical and step-by-step document governing the process of identifying, initiating, preparing and implementing PPP projects containing all the necessary sample documents and instructions.	PPP Manual including Model tender Documents has been drafted though has never been adopted nor disseminated pending a legal review implying that operational guidelines are practically absent.



1.4. Implementing a training program for certified PPP experts. For sustainable support of this program by the Government of the Kyrgyz Republic, assistance will be provided through cooperation with development partners.	PPP Training has been delivered though almost trained officials have left or changed position. Various workshops have been held though have not addressed in detail the development of skills for the necessary procedures for review and approval of the respective gateways
1.5. Expanding cooperation with countries with developed PPP and practical exchange of experience in implementing PPP projects in comparable economies to ensure the application of successful international practices and increase the capacity of the Government of the Kyrgyz Republic in the field of PPP.	MOUs have been signed with PPP centres in Russia, Poland and xxx. Though it is unclear how these cooperation has been implemented i.e. what the results are

## 2. Building trust and raising awareness on PPP issues

	Status 2019
2.1. Further work with development partners aimed at ensuring that the environment and PPP projects comply with international best practices.	Ongoing
2.2. Further administration of the special website of the Government of the Kyrgyz Republic on PPP, which contains all necessary regulatory legal acts, information on initiated projects and other documents, including this Program, to provide practical assistance to interested parties on the issue of cooperation of the Government of the Kyrgyz Republic, investors and consultants, as well as public awareness about PPP and investment opportunities in the Kyrgyz Republic.	Website is operational though is not well maintained. Information is outdated and incomplete.
2.3. Carrying out work on attracting international consulting companies with proven experience and reputation in the field of PPP to prepare projects and conduct tenders to ensure high quality projects, achieve maximum returns from their implementation, as well as attract large international investors as private partners.	Ongoing. Most feasibility studies are being done by recognized consulting firms funded through PDSF. However, once the project preparation has been completed, PDSF does not appear to be able to provide funding for retaining advisors for supporting the tender process.
2.4. Providing state support to the Fund for financing the preparation of PPP projects, as well as facilitating cooperation with international development partners in this direction in order to ensure sufficient funds to finance the preparation of PPP projects.	So far the PDSF appears to have sufficient budget for the identified PPP projects though is suffering from some administrative issues in disbursing the money which had led to unnecessary delays in the execution of feasibility studies
2.5. Maintain an active dialogue with stakeholders to discuss progress on the development of PPPs in order to ensure full transparency and renew the commitment to the objectives of the development of PPPs.	Various workshops have been held though primarily geared towards government officials.



### 3. Development of PPP financial instruments

	Status 2019
<p>3.1. Development of mechanisms to create the necessary financial instruments to increase the viability and financial attractiveness of PPP projects in accordance with the best international practices, such as:</p> <ul style="list-style-type: none"> <li>- infrastructure financing fund - to provide long-term borrowed funds in national currency, due to the limited capacity to provide such financing by the domestic banking sector.</li> </ul> <p>Consideration should be given to at least the following possible sources of financing and financial support:</p> <ul style="list-style-type: none"> <li>budgetary resources;</li> <li>financial development institutions;</li> <li>capital market;</li> <li>other sources of financing that do not contradict the legislation of the Kyrgyz Republic;</li> <li>- guarantee fund - in order to reduce the exposure to risks of private sources of financing, including ensuring the reduction of currency risks, risks of higher credit costs, risks of insufficient profitability, political risks;</li> <li>- a fund of subsidized financing - to finance the lack of viability of PPP projects that are economically sound and attractive, but are not financially viable due to income from user payments.</li> </ul>	<p>Concept notes have been prepared though no further action has been taken</p> <p>In the absence of such financial support mechanisms the modes of PPP that are most suitable are projects that involved limited capital investments (as applicable to the 3 successful PPP transactions to date i.e. cinema, hemodialysis, E-ticketing). Large PPP projects are unlikely to be feasible in the absence of such mechanisms</p>
3.2. Improving budgetary legislation to ensure long-term budgetary obligations for PPP projects.	Budgetary resources to support PPPs appear to be absent as illustrated by the CT scan project which is on hold because the necessary co-financing is not available.
3.3. Work to improve the sovereign credit rating of the Kyrgyz Republic in order to facilitate access to private capital.	Ongoing
3.4. Work to improve the position of the Kyrgyz Republic in the international rating INFRASCOP E in order to increase the attractiveness of the country's PPP market for attracting private capital to the development and modernization of infrastructure and services.	Improvement from 'nascent' to 'developed' well above expectations having outgrown other countries in the region

### 4 Private sector development

	Status 2019
4.1. Assistance in establishing links between the domestic business community and internationally recognized representatives of the private sector in the field of PPP in order to more effectively	Pending

interact, use foreign resources and gain experience in the domestic business community, which will allow the domestic business community to increase its potential in the field of PPP.	
4.2. Developing and implementing a training program designed specifically for the domestic private sector, fostering an exchange of experience, knowledge, distribution of relevant training materials, and conducting systematic training.	Pending

The implementation of these tasks will be carried out within the framework of the Action Plan for the implementation of the PPP Development Program in the Kyrgyz Republic for 2016-2021 in accordance with the annex to this Program.

#### 4. Expected Results

The positive effect of the implementation of this Program will be the implementation of a set of government mechanisms for the effective and efficient use of infrastructure facilities and other resources necessary for the further socio-economic development of the Kyrgyz Republic.

As a result of the implementation of the measures laid down in this Program, the following results are expected:

1. Developed and approved sectoral and regional long-term investment programs or special programs on PPP, which allow to determine investment needs in the creation of new or development / modernization of existing infrastructure and services.

A needs assessment will be conducted in terms of the necessary investments, which will result in the formation of a portfolio of projects that can be implemented both in the framework of PPP and on the basis of other investment instruments. This measure will make it possible to determine the size of the necessary budget financing, both in the form of direct support and in the form of guarantees, tariff and other subsidies, and will also serve as a source of information for potential investors on the possibilities of investment cooperation and other information to stimulate infrastructure investments.

2. The presence of special personnel and expert potential in the sectoral and authorized state bodies, as well as advanced training of specialists, will accelerate and improve the quality of preparation of PPP projects.

Taking into account the essence of the concept of PPP, primarily as a "state partnership", which is aimed at improving the socio-economic situation in the country and the quality of public services, it is government partners who should determine the vector of development of PPP. To do this, government partners need to independently and effectively implement all stages of the PPP process (from search and initiation to signing an agreement with a private partner).

A great contribution to this process will be made by the training of certified state PPP specialists who will be able to identify promising PPP projects, as well as carry out the necessary assessment and ensure their promotion. By 2021, at least 20 public-certified specialists in state bodies will be trained

In addition, using the experience of international companies and consultants will help avoid most of the mistakes at the initial stage of PPP development and prepare high-quality and potentially successful projects, as well as raise international investors' confidence in the

Kyrgyz market and create the basis for increasing external direct financing by the international banking sector.

3. Approval of the PPP Guidelines will facilitate the correct and uniform application of the approved procedures and will be the main document for the industry and authorized bodies, including all necessary step-by-step instructions, procedures, sample documentation and the entire list of regulatory legal acts. This document will also be useful sources of managerial decision-making for investors.

4. Development of mechanisms for the creation and development of financial instruments for PPP. Despite the objective budgetary constraints, practical results will be achieved in this direction. This will increase the attractiveness of such projects for the private sector, as well as intensify the process of cooperation with financial institutions, including international ones, to create new financial instruments, which will help increase the financial attractiveness of investing in the Kyrgyz Republic.

5. Improving the country's position in the international rating INFRASCOPE and the transition of the Kyrgyz Republic to the category "Emerging markets" will also have a positive effect and increase the attractiveness of the country for foreign investors.

To date, the Government of the Kyrgyz Republic has created an initial portfolio of PPP projects, which are in various stages of preparation and are aimed at improving the transport sector, healthcare, sports and tourism. The implementation of these projects will significantly improve the quality of public services and the state of the country's infrastructure facilities.

For example, the implementation of a project to create computerized tomography departments in health care organizations in the country will provide relevant research in regions where these services are not available, will significantly increase the convenience and efficiency of tomographic studies and the level of diagnostics of the population and reduce its costs (transport, temporary).

Also, the installation of a complex of angiographic equipment will reduce the incidence and mortality in cardiovascular and oncological diseases through the timely diagnosis and treatment of patients, as well as contribute to the reduction of the level of disability.

Projects for the construction of toll roads will provide an opportunity to use new sources of funds for maintaining roads and create more comfortable conditions for movement for the population, which, in turn, will make it possible to intensify trade and have a positive impact on business activity.

By the end of 2021, in order to further sustainable development and successful implementation of PPP mechanisms, an increase in state infrastructure financing, the development and introduction of PPP financial instruments is required.

## **5. Sources of funding for the Program**

Funding for the implementation of this program will be carried out within the approved budget and other sources that do not contradict the legislation of the Kyrgyz Republic.

Considering that there is a risk associated with possible insufficient budget financing, and in order to attract additional funds, the relevant state bodies will conduct negotiations with international financial organizations and development partners to be able to finance measures necessary for the further development of PPP in the Kyrgyz Republic.

## **6. Risks**

Possible risks that may arise during the implementation of this Program include:

- socio-political;
- economic;
- organizational and legal;
- environmental;
- informational;
- staffing.

The reasons for sociopolitical risks may be the passivity of the public sector, failure to implement the measures of this Program due to political instability.

To minimize these risks, it is necessary to involve all interested state bodies in the implementation of this Program.

The causes of economic risks are the lack of sufficient budgetary funding necessary for the implementation of this Program, the impossibility of timely and sufficiently mobilizing extrabudgetary sources, and the failure to ensure the efficient use of financial resources.

To minimize these risks, it is necessary to conduct the following activities: timely allocation of budgetary funds, early discussion of funding issues and other support for the implementation of this Program at meetings with international donors and investors, transparency of expenditure of funds intended for the implementation of activities of this Program.

The reasons for organizational and legal risks are insufficient law enforcement practice, incomplete reform of optimization of public administration and, as a result, duplication of functions, and poor coordination, as well as poor performance of annual plans by public authorities in the implementation of this Program.

To minimize these risks, it is necessary to implement the following measures: monitoring at the proper level (periodic assessment of the performance of the executive authorities), quality preparation of draft regulations and their timely adoption, annual reporting by state partners to the Government of the Kyrgyz Republic and the authorized state body in the field of PPP.

Environmental risks can be caused by gaps in the legislation of the Kyrgyz Republic, incompatibility with the national legislation of newly adopted regulations in the field of human health and environmental protection, implementation of PPP projects without environmental requirements.

A systematic approach and interagency cooperation will help reduce the impact of pollutants on the environment and human health, as well as the effective implementation of this Program.

Information risks arise when there is insufficient awareness of the activities of various government agencies in the field of PPP.

To minimize these risks, it is necessary to conduct timely explanatory work for all interested state and private partners, to develop cooperation and coordination between state and municipal bodies, with maximum use of the accumulated experience and knowledge of experts from various countries and organizations.

Personnel risks may arise from unpreparedness and insufficient experience of management personnel, mistakes and inadequate management, frequent changes in management and "staff turnover".

To overcome these risks, it is necessary to create a permanent system of training, education and certification of specialists in the field of PPP, the preparation of relevant information materials.

## ANNEX II: PPP Initiatives

nr	description	sector	Year of Origin	sectoral plan	USP	PB	PP	Green light	FS funding	FS	status
1	Bishkek Street Lighting	Municipal services	2012	yes		y	y	yes	CDIA	yes	canceled
2	Bishkek Car Park Osh Bazaar	Municipal services	2012			y	n	no			canceled
3	Bishkek E-ticketing	Municipal services	2013	yes		y	y	yes	EBRD	yes	tendered
4	Bishkek SWM	Municipal services	2012	yes		n	n	no			canceled
5	Central Laboratory	Health	2013	yes		y	n	yes	KFW	yes	pending
6	Hemodialysis Units	Health	2013	yes		y	y	yes	KFW	yes	tendered
7	Catering KSRI BP	Health	2013			y	n	no			canceled
8	CT Scans	Health	2013			y	y	yes	PDSF	yes	pending
9	Diagnostic Centre	Health	2013	yes	yes	n	y	no			canceled
10	Angiographic	Health	2013			y	y	yes	PDSF	no	canceled
11	Health Insurance	Health	2013			n	n	no			canceled
12	Bishkek - Kara Balta	Roads	2012			y	n	no			pending
13	Bazar Korgon - Sargata	Roads	2012			y	n	no			canceled
14	Electronic Toll Collection	Roads	2014		yes	n	n	yes	PRIVATE	yes	canceled
15	Osh Airport	Airport	2012			y	n	no			canceled
16	Issuk Kyl airport	Airport	2012			y	n	no			canceled
17	Technopolis for Textile	Other	2013			n	n	no			canceled
18	Shamsi HPP	Energy	2013			n	n	no			canceled
19	Karakul HPP	Energy	2013			n	n	no			canceled
20	Small HPP	Energy	2013			n	n	yes	EBRD	yes	canceled
21	Safe City	Municipal services	2014			y	y	yes	BUDGET	yes	canceled
22	Norus Ski Base	Tourism	2014			y	n	yes	BUDGET	yes	canceled
23	Bishkek District Heating	Municipal services	2014			n	n	no			canceled
24	Bishkek Municipal Elevators	Municipal services	2014	yes		n	n	no			canceled
25	Bishkek East West Corridor Link	Roads	2014			n	n	no			canceled
26	Bishkek On-street Parking	Municipal services	2015			y	y	yes	PDSF	yes	ongoing
27	Kubaky Pass (Bishkek - Torugart)	Roads	2015	yes		n	n	no			canceled
28	Energy distribution	Energy	2015			n	n	no			canceled
29	Bishkek Urban Transport	Municipal services	2015	yes		y	y	yes	PDSF	yes	ongoing
30	Bishkek Kindergarten	Municipal services	2015	yes		y	y	yes	PDSF	yes	ongoing
31	Uzgen Bypass	Roads	2015	yes		y	y	yes	PDSF	yes	ongoing

nr	description	sector	Year of Origin	sectoral plan	USP	PB	PP	Green light	FS funding	FS	status
32	Bosteri water Supply	Municipal services	2016			n	n	no			canceled
33	Helicopter Emergency System	Other	2015			y	n	no			canceled
34	Ski Cluster	Tourism	2015			y	y	no			canceled
35	Edelweis National Training Centre	Sports and Leisure	2015			y	y	yes		no	pending
36	Customs & Logistics Centre	Other	2015			y	y	yes	PDSF	yes	ongoing
37	Tokmok Waste Management	Municipal services	2016			y	y	yes	PDSF	no	canceled
38	Issuk Kyl Hotel	Tourism	2017			n	n	yes	BUDGET	yes	ongoing
29	Alma Aty - Issuk Kyl	Roads	2015	yes		n	n	no			canceled
40	Bishkek Maternity Centre	Health	2017	yes		n	n	no			canceled
41	Bishkek Cinema	Sports and Leisure	2017		yes	y	y	yes	PRIVATE	yes	tendered
42	Bishkek Sports Centre	Sports and Leisure	2016	yes		y	y	no			pending
43	small HPP	energy	2018			n	n	yes	AP3F	yes	ongoing
44	Bishkek Swimming Centre	Municipal services	2016			y	y	no			canceled
45	Manas Airport	airports	2018			n	n	yes			ongoing

Source: Consultant's analysis

# ANNEX III: PPP Development Milestones

		Submission of project brief	Submission of position paper	Decision of PDSF council	Government Resolution on the preparation financing	Publication of RFQ for consulting services	Receipt of EOIs	Issuance of RFP	Receipt of bid	Award of contract	Submission of feasibility report (final version)	Project (FS and tender documents) approved by MOE	Tender documents received by MOF	Tender documents approved by MOF	Publication of RFQ for PPP project	Receipt of EOIs	Issuance of RFP	Receipt of bid	Award of contract	Contract signing
	<b>CDA</b>																			
1	Public transport	12-Feb-15	1-Apr-15	10-Mar-16	1-Jun-16	30-Jun-16	6-Jun-17	24-Jul-17	1-Sep-17	14-Dec-17	14-Dec-18									
2	On-street parking	2-Dec-15	27-Jan-16	10-Mar-16	2-Dec-16	11-Oct-17	1-Nov-17	16-Nov-17	18-Dec-17	6-Mar-18	18-Dec-18									
3	Kindergartens	16-Mar-16	13-Apr-16	10-Jun-16	1-Jun-17	24-Oct-17	30-Nov-17	11-Dec-17	11-Jan-18	06-Mar-18	12-Dec-18									
4	E-Ticketing	08-Oct-13	04-Dec-13	By EBRD							02-Mar-18	25-Jul-18	10-Sep-18	06-Nov-18	11-Jan-19	11-Feb-19	22-Feb-19	25-Mar-19		
	<b>MOTC</b>																			
5	Uzgen bypass	10-Dec-15	15-Apr-16	10-Jun-16	01-Jun-17	22-Jun-17	06-Jul-17	21-Jul-17	18-Sep-17	29-Sep-17										
	<b>MOH</b>																			
6	Dialysis project	Preparation was funded by KfW										29-Aug-16	20-Oct-16	14-Aug-17	10-Jan-17	09-Feb-17	17-Feb-17	26-May-17	14-Jun-17	15-Aug-17
7	Central Lab project	Preparation was funded by KfW																		
8	CT Scan project	15-Oct-14	28-Oct-14	31-Oct-14	02-Dec-16	23-Jan-15	06-Feb-15	11-Dec-15	16-Feb-16	01-Jul-16	07-Mar-18	18-Jul-18								
9	Angiography project	23-Mar-15	01-Apr-15	10-Mar-16	23-Jun-17	02-Aug-17	14-Aug-17	30-Aug-17	12-Oct-17											
	<b>Customs Service</b>																			
10	Customs and Logistics Complex project	01-Dec-16	29-Dec-16	10-Feb-17	01-Jun-17	11-Jul-17	25-Jul-17	21-Aug-17	28-Sep-17	10-Oct-17										
	<b>Sport and Youth Agency</b>																			

		Submission of project brief	Submission of position paper	Decision of PDSF council	Government Resolution on the preparation financing	Publication of RFQ for consulting services	Receipt of EOIs	Issuance of RFP	Receipt of bid	Award of contract	Submission of feasibility report (final version)	Project (FS and tender documents) approved by MOE	Tender documents received by MOF	Tender documents approved by MOF	Publication of RFQ for PPP project	Receipt of EOIs	Issuance of RFP	Receipt of bid	Award of contract	Contract signing
11	Edelweis Sport and Tourism Facility	01-Feb-17	04-Aug-17	24-Nov-17																
12	Sports and Entertainment Facility (Small Sport Arena)																			
	<b>Administrative Office of President/Gov</b>																			
13	Modernization of Nooruz Ski Base																			
14	Modernization of Issyk-Kul Hotel Complex																			
	<b>Municipality of Tokmok City</b>																			
15	Tokmok City Waste Management project	14-Nov-16	29-Dec-16	10-Feb-17	01-Jun-17	19-Jul-17	02-Aug-17													
	<b>Ministry of Culture</b>																			
16	Modernization of Kyzyl Kyrgyzstan Cinema	01-Oct-17	11-Oct-17	Preparation was financed by the initiator									28-Dec-17	30-Dec-17	05-Jan-18		01-Mar-18	19-Mar-18		04-May-18

Source: Consultant's analysis



