

**Kyrgyz Republic – Governance Structural Adjustment Credit (Credit No. 3756-KG).
Release of Third Tranche – Full Compliance.
Tranche Release Document**

Background

1. This memorandum summarizes the progress made under the Governance Structural Adjustment Credit (GSAC) to the Kyrgyz Republic. IDA approved the SDR 14.7 million (US\$ 20 million equivalent) Credit on 15 May 2003. The credit agreement was signed on 28 May 2003 and became effective on 30 July 2003. The credit was to be disbursed in three tranches of SDR 3.675, 3.675 and 7.350 millions respectively. The first tranche was disbursed on effectiveness of the Credit on 30 July 2003. The second tranche was originally planned for disbursement in mid 2004. However, there were delays in meeting some of the critical conditions, which were increased by unstable political conditions in the Kyrgyz Republic following the fall of the previous government in March 2005. The tranche was eventually disbursed in May 2007. By this time most of the conditions for the third tranche had already been met. All conditions have now been met. The closing date of the Credit is June 30, 2008.
2. The GSAC supports the Government's program to strengthen the effectiveness of the State and improve governance. Its main objectives are: to improve the transparency and responsiveness of the public sector and enhance the ability of external stakeholders to hold it accountable and at the same time increase efficiency, effectiveness of the public sector. To achieve these objectives, the GSAC is supporting reforms aimed at (i) improving personal accountability of political officials and civil servants and enhancing the effectiveness of the civil service; (ii) improving service delivery in the health and education sectors; (iii) streamlining the structure of Government ministries and agencies. (iv) strengthening voice and participation by improving public access to official information; (iv) improving the interaction between regulatory agencies and business enterprises; (v) strengthening public expenditure management (vi) improving transparency, value for money and accountability in public procurement.
3. The reform program supported by the GSAC is intended to increase the ability of citizens, civil society and the private sector to demand improvements in State performance, and at the same time to strengthen core competencies, including particularly public expenditure management, within the public sector. The reforms also provide a basis for gradually increasing the professionalism and capacity of the civil service, and more widely to improve governance and reduce corruption in the Kyrgyz Republic, so as to enhance the ability of the State to pursue the development and growth objectives of the Country Development Strategy (CDS).
4. The importance of improved governance for economic development is a central theme of the CDS for 2007-2010 (the country's PRSP). The CDS identifies pervasive corruption, as one of the key constraints to development in the past and a major cause of the revolution of March 2005. It recognizes that corruption and weak governance stem from state capture by interest groups, the absence of effective checks and balances on executive power, and lack of clearly defined responsibilities at the center of government. The CDS recognizes that improving governance requires a merit-based professional civil service as a stepping stone to forging transparency and efficiency in public administration. In this respect some solid advances have been made by the authorities over the last two years, supported by the GSAC program, as discussed below.
5. While reducing corruption in the Kyrgyz public sector will continue to require sustained, long-term efforts on many fronts, the reforms supported by GSAC are contributing to this objective in several ways. Some of the reforms supported, such as publication of declarations of incomes and assets and

the introduction of competitive appointments to the civil service, have a direct anti-corruption objective. Others address the problem indirectly through systemic institutional reforms that increase transparency and accountability. For instance, increased awareness of State activities and relevant rules and regulations enables external stakeholders to demand higher standards of integrity from public officials. Similarly, reduced discretion and informality in budget execution resulting from modernization of treasury operations; strengthening of internal control and external audit functions; and increased transparency in the procurement process diminishes opportunities for fraud and corruption in public expenditure management. Finally, the elimination of financing mechanisms (Special Means Accounts) that create perverse incentives for regulatory agencies to harass businesses in order to increase their funding, will both improve the business environment and the transparency and efficiency of public resource management.

6. Central to the reform of governance in the Kyrgyz Republic has been the reform of Civil Service procedures, and the based on the introduction of a new Civil Service Law, creating a Civil Service Agency. The law was approved in June 2004, and the Civil Service Agency established in October 2004. The law was substantively compliant with the original intent, although in Parliament amendments were introduced that potentially weakened the independence of the Civil Service Agency and strengthened the relative powers of ministers. For this reason the law was initially deemed unsatisfactory to IDA and changes were requested. Given these concerns on the amendments to the agreed draft of the law, there was an extensive dialogue with the authorities that resulted in significant progress in *implementing* the law (particularly as regards merit based appointments, the responsibility of the Civil Service Agency rather than Ministers for personnel matters). In the light of the progress made in implementing the law it was recognized that changes by parliament would add little value to its impact, given that the law as approved by parliament did comply substantively with that envisaged under the second tranche conditions. Since the release of the Second Tranche in May 2007, the Civil Service Law implementation of the law has strengthened and allowed a greater institutionalization of personnel policies within the Civil Service (see below for more details).
7. The key outstanding condition for the implementation of the Third Tranche conditions concerned the implementation of the Country Procurement Assessment Report (CPAR) Action Plan of December 2002. The main outstanding issue was the full implementation of the law Public Procurement Law, particularly as regards the participation of the State Agency for Public Procurement and Material Reserves (SAPPMR) in all procurements, through the issue of licenses to procuring entities in contravention of the Law. In October 2007, The Ministry of Finance issued an order rescinding the requirement for local treasuries to require permits from the procurement agency. The procurement agency also issued orders in January, formally prohibiting the issue of permits and at the end of February 2008 the SAPPMR confirmed this order. With these confirmations it was agreed that the CPAR Action Plan had been fully implemented.

Macroeconomic framework

8. The Kyrgyz Republic's economic performance has strengthened significantly in recent years, notwithstanding difficult political circumstances, and the authorities have established a good record of implementation of successive PRGF-supported programs since 2001. In February 2005, the IMF approved a new 3-year PRGF arrangement to support the Kyrgyz Republic's economic program. The Executive Board of IMF has completed the sixth and final review of the Kyrgyz Republic's economic performance under PRGF arrangement in May 22, 2008. As a result, the objectives of the authorities' economic program supported under PRGF have been largely met. Growth has rebounded (averaging 5 percent annually over the last five years) and become broader-based, and poverty rates have fallen. Recent developments in 2008 show continuation of solid growth (6.1% in Q1) although slower than in 2007. A prudent fiscal policy has been maintained with the fiscal deficit eliminated in 2007 (for the

first time since independence). This fiscal stance, combined with economic growth and Paris Club support, have led to an impressive reduction in the country's debt burden (from 104% of GDP in 2003 to 62% in 2007). While inflation remained low until 2007, the Kyrgyz Republic has suffered from the effects of worldwide food and energy price inflation, resulting in inflation of 20% in 2007. Inflation continues to be high in 2008 with 6.1% CPI increase in the first three months. Though current account deficit was high (estimated 6.5% of GDP in 2007) the balance of payments remained strong with international reserves growing to record high. Authorities experience difficulties in adequate recording of remittances and re-exports of shuttle traders that lead to significant errors and omissions in the balance of payments

Table 1: Main macroeconomic indicators 2003-2007

	2003	2004	2005	2006	2007
Real GDP growth (%)	7.0	7.0	-0.2	3.1	8.2
GDP per capita (dollars)	384.0	436.0	478.0	550.0	718.0
Inflation CPI (% Dec/Dec)	5.6	2.8	4.9	5.1	20.1
Exchange rate (som/US\$, average)	43.7	42.7	41.0	40.2	37.3
Real effective exchange rate (2000=100, + = appreciation)	100.7	96.0	95.1	93.5	104.0
Unemployment (%)	9.9	8.5	8.1	9.3	11.5
Investment (% of GDP)	11.8	14.5	14.3	23.0	25.2
Current account balance (% of GDP)	-2.2	1.3	-1.2	-6.5	-6.5
Gross international reserves (mln US\$, end period)	389.0	565.0	612.0	817.0	1177.0
Merchandise Terms of Trade (2000=100)	120.0	116.0	131.0	121.0	..
Primary balance (% of GDP)	-3.2	-2.1	-2.3	-1.7	0.6
Fiscal Balance	-4.7	-4.0	-3.8	-3.1	0.0
Public debt / GDP (%)	102.9	94.1	84.0	72.8	57.4
External Debt (%GDP)	104.4	94.7	82.2	76.5	62.0

Recent Developments in governance reforms

9. When the GSAC reform program began in 2003, it was initiated by a government which had officially recognized in its National Poverty Reduction Strategy that good governance and reducing corruption were key to development and poverty reduction.
10. In many areas reforms to the legal framework were adopted with the purpose of improving governance. For example, new laws and regulations to simplify licenses and reduce inspections were adopted. In 2003, a law to decentralize financing to local governments was approved. In 2004, laws to reform the Civil Service and to require the declaration of incomes and assets of high state officials were approved (see discussion below). Many technical reforms to the budget process to improve the transparency and efficiency of the budget were also adopted.
11. During this period a clear pattern emerged. Technical reforms (particularly in the area of public finance, and the health sector), although slow, were gradually adopted. On the other hand, wider governance reforms would often only be introduced into the legal framework or by the creation of a new institution with an unclear mandate. Capacity and willingness to follow through and ensure implementation of those wider reforms was low. Survey data indicated that governance was deteriorating and corruption intensifying.
12. The proliferation of new laws and institutions gave the impression of institutional development. However, behind the common failure to implement many laws and reforms, state institutions and the rule of law was weakening and endemic corruption was growing, particularly among the close associates of the President and his family. This led to increasing popular discontent with the regime

for the failure of the state to deliver many basic services and at the clearly observable corruption which accompanied any interaction with state officials.

13. The disputed parliamentary elections of February and March 2005 provided a catalyst for this discontent. As a result a non-violent "Tulip Revolution" occurred in March 2005 in which the previous President and Government were overthrown. These changes opened up possibilities for significant reforms, and the new authorities indicated their commitment to transparency and good governance. These intentions have been supported by some reform constituencies within the authorities on the one side, and pushed, from the other side, by a civil society that has become much more active and demanding.
14. The origins of the revolution meant that the rhetoric of the fight against corruption became one of the principal priorities of the new government. However the effect of the revolution was initially to fragment state power further. Since the revolution, continued political tensions within the government, and between the government and parliament have slowed progress, and at times threatened to paralyze decision-making. During the period of almost three years of political instability following the revolution, major changes to the constitution were approved on at least three occasions, and during 2007 there were a number of changes of Prime Minister and Government.
15. Finally the parliamentary elections in December 2007, based on the Constitution approved in October 2007 by referendum, represented a watershed in the country's political development post following the 2005 political events. There is now a greater degree of consolidation of political power, and this is manifested in a greater degree of stability throughout the senior echelons of government leadership. Senior Government officials and leaders now have a more stable political environment, enabling them address longer term economic development issues. In addition the Government has repeated the commitments of the first post-revolutionary government to improving governance.

Progress in Implementing the Reform Agenda

16. As can be seen from the overview of recent developments progress in governance reforms was uneven and difficult. The governance reform agenda supported by GSAC covered a large number of areas which included: civil service reforms, transparency in income and assets of senior officials, reform of external audit and the chamber of accounts, public finance reforms to ensure a comprehensive and transparent budgetary process, and the elimination of the funding of institutions through special means accounts, reforms to public procurement and reforms to the financing of health and education, so as to ensure an efficient use of resources and improve service delivery.
17. Three of the reform areas (Civil Service, Declaration of Income and Assets, and Chamber of Accounts) required the development of significant legislation and implementation regulations. It became clear that ownership and understanding of the reforms in each of these areas was weak. In the case of the civil service reform the principal idea was to remove the patronage of ministers and their appointees in designating civil servants, introduce merit and rule based appointment and promotion, ensure that professional civil servants have security of tenure, and are not subject to dismissal following political changes. With respect to the Chamber of Accounts, the main idea was to reform the COA from being an organization concerned with exercising a control function and punishing violations (and wide scope for rent seeking) to establish a modern external audit and accountability function.
18. Progress in developing the legal framework for all three major legal initiatives (Law on Civil Service, Law on Declaration of Income and Assets, Law on the Chamber of Accounts) was therefore slow, and required constant debate during the first year following the approval of GSAC, as the application

of the principles enshrined in the GSAC program in these areas was had not been internalized at the time that the GSAC program was agreed.

19. At the same time, the government made considerable progress in a number of reforms in public expenditure management under the GSAC. Budgetary functions were consolidated under the Economic Policy Council in 2004, an action plan to bring all extra-budgetary funds under the Treasury was developed and implemented during 2004, and regulations requiring the replacement of special means funding for agencies that had regulatory responsibilities with direct budget funding were implemented from January 2005. Finally at the end of 2006, the Ministry of Finance developed and approved a new budget classification based on GFS 2001 standards, which provides a solid basis for transparent and coherent budget formulation and execution.
20. In addition, the government has made steady progress in improving other areas of Public Financial Management, including the introduction of the basic elements of the Medium Terms Budget Framework, improvement of comprehensiveness of the budget and its presentation (again all measures supported under the GSAC program). The Ministry of Finance elaborated and approved, on the basis of a PEFA assessment, a Public Finance Reform action plan of January 2006.
21. In the area of health financing reforms a Single Payer Law was enacted in 2003 which took away responsibility for health financing from Rayon and Oblast financial departments to the Republic budget in 2005. The effect (together with other reforms in the health sector) has been to increase the proportion of resources dedicated to primary health care as well shift resources within the health sector from hospital financing to direct patient care from so that the latter increased as a proportion of total health spending from 16.4 percent in 2000 to 36.6 percent in 2004.
22. Thus progress, though slower than originally envisaged, was steady and visible. By May 2004 the Government had drafted acceptable versions of the Law on Chamber of Accounts, which in fact went further than the narrow conditionality of GSAC, the Law on Civil Service and the Law on the Declaration of Income and Assets. The three laws were approved by Parliament in June 2004.
23. At the same time the Government moved ahead in establishing the Civil Service Agency to manage and develop the required procedures for a rule based system of appointments and dismissals, a separation of political appointees from career civil servants, and in particular the establishment of the position of State Secretaries to head the permanent civil service in all ministries. Thus substantial progress at a technical and institutional level was being made.
24. Shortly after the establishment of the Civil Service Agency, however, a close relative of the then President Akaev was appointed as State Secretary of the Civil Service Agency. The Bank team argued that this action demonstrated a lack of commitment and understanding of the reforms and was a clear breach of the overall program. This situation was only rectified following the Revolution in March 2005.
25. Then, in the immediate aftermath of the revolution there was considerable turnover of posts and appointments outside due process. The Civil Service Agency did attempt to oppose these appointments, sometimes successfully, but both in the parliament and much of the Presidential administration there was active hostility to the Civil Service Reform, precisely because it had made it more difficult to make arbitrary appointments. Conflicts broke out between State Secretaries and ministers, as some State Secretaries tried to safeguard the institutional integrity of their ministries.
26. The Bank emphasized the need for the highest authorities to show full public support for the reform process and the institutions and leadership in stopping appointments outside due process in the civil

service. To increase compliance with the Civil Service Law on the recommendation of the Bank team monitoring mechanism were put in place. When monitoring began at the end of 2005, at least half of appointments were being made outside of due process. By the end of 2006, virtually all appointments were being made through due process. It was also clear that a culture was developing in which the new institutional arrangements were accepted by the authorities, and in which the Civil Service Agency was now able to exercise its authority to ensure due process in appointments and dismissals.

27. During the last year and a half the Civil Service Agency has strengthened its role in safeguarding the institutional framework for civil service appointments. There has been significant progress towards improving the system of appointments and the CSA continues to monitor and report on the numbers of appointments being made through due process, which since the end of 2006 have been consistently close to 100 percent, the CSA recognizes that the quality of competitions requires significant improvement to ensure real transparency and objectivity in the process. As a result it has established a new Testing Center to reduce personal interface with candidates for posts and hence pressure to select unqualified candidates.
28. There are signs of growing understanding of the importance of civil service reforms at the highest levels of the government. In a recent speech (May 23) to ministers and state secretaries, President Bakiev underlined the importance of having the effective and efficient civil service as a factor of economic growth and particularly the importance of further development of the institution of state secretaries and meritocratic principles in appointments, as well as the need for having more effective civil service wage structure as the main principles of modern civil service.
29. Recognizing that work supported by the GSAC credit is only the beginning of a process that will take decades to fully benefit the Kyrgyz Republic, it is the judgment of the team that despite the imperfect legal framework, actual implementation of the reforms has been taking place, that there has been effective compliance with the program and that although progress had been slow, it is now sustainable.

Progress Against Third Tranche Release Criteria

Condition 1. The Borrower has achieved satisfactory progress in the implementation of a new law referred to in paragraph 1 of Section I of this Schedule 2, including publishing of income and assets declarations of high state officials in the executive, judicial and legislative branches of the State and their close family members.

30. **The condition has been met.** The law was adopted in August 2004. The law provides a comprehensive definition of close family members and the income and assets to be declared. Although approved 2004, it was not effectively implemented until early 2006. There was initially great reluctance to publish the declarations of parliamentary deputies and ministers. Since March 2006, the declarations have been published in the mass media and the internet, and compliance in submitting declarations has reached over 95 percent of eligible officials. Since the law was approved, the Civil Service Agency, as the body responsible for its implementation, has successfully conducted four declaration campaigns. The declarations of incomes and assets have become institutionalized.

Condition 2. Declarations of income and assets of all civil servants have been made available to the public according to the amended Civil Service Law.

31. **The condition has been met.** The law provides for civil servants to declare their income and assets and for these to be available to state bodies. Records of the declarations of incomes and assets are held by the Civil Service Agency and are available to the public on request.

Condition 3. Amendments, satisfactory to the Association, have been introduced to the Law on Guarantees and Freedom of Access to Information, to enhance access of the public to official information, to strengthen the right of individuals to appeal against denials of requests for information, and to provide a mechanism for monitoring of state bodies' compliance with the provisions of this Law.

32. **This condition has been met.** At the end of 2006 the Law on access to public information was adopted, giving civil society the right to obtain a wide range of information regarding government activities at both central and local levels. The Law was drafted by a Working Group, which included representatives from the government and civil society. After the law was approved, several NGOs, initiated series of activities aimed at education different types of civil society groups on how to demand and use public information. Thus, Alliance "For Budget Transparency", (a network of non-government organizations) along with some other NGOs and projects developed programs to improve the transparency and effectiveness of state and local budgets in Kyrgyzstan, by involving citizens in the budget process.

Condition 4. The Borrower has successfully implemented a set of legislative and other measures, satisfactory to the Association, to ensure that fees from issue of licenses, permits, certificates and other similar requirements placed on economic activities, and fines resulting from inspections are directed only to the State budget and not credited to the Special Means Accounts of regulatory agencies, with the exception of SEA and SCA, and that regulatory agencies are provided compensatory funding through the State budget.

33. **This condition has been met.** A Governmental Decree of October 30, 2004 "On phased transmission of spending units and agencies to full budgetary financing" required spending units obtaining resources from the issue of permits and licenses and fines to have these included in the State Budget. From January 1, 2005 these incomes have been included in the revenue of the republican budget through transit accounts of regional treasury offices. The financing of these agencies was replaced with budget allocations related to the cost of service provision. In addition an interagency commission including department representatives of the Ministry of finance, Antimonopoly commission and line ministries and agencies has been established to monitor spending units' special accounts and define the list of those that should be directly included into the state budget.

Condition 5. A draft budget for FY 2005, providing: (i) more transparent presentation of the policy priorities financed by the budget; (ii) sectoral ceilings for two consecutive years, based on the medium term budget framework; and (iii) an integrated presentation of recurrent and investment expenditures, has been presented to the Parliament.

34. **This condition has been met.** In each budget since 2005 the budget presentation has improved and become more transparent. MTBF indicative ceilings have been presented as has a coherent presentation of recurrent and investment expenditures. The 2008 Budget presentation benefited from introduction of the following features: (i) it was based on the new budget classification (compatible with GFS 2001), which was elaborated in such a way that gave more flexibility to the line ministries at the stage of budget preparation (i.e. reducing the number of line items) and requiring a fully synchronized planning process for recurrent and capital budgets as well as their joint presentation; (ii) the presentation included information on budget execution for two previous years (by ministries) and indicative budget ceilings for next two years (derived from MTBF). These additions give more information for the parliament and other involved parties in making decisions to approve the budget.

Condition 6. The Borrower has completed the transfer of all extra-budgetary accounts, with the exception of the Social Fund, into the Treasury General Ledger.

35. **The condition has been met.** The government has consolidated its resources under the umbrella of the Treasury system. An inventory of all special means accounts (comprised of fees collected by state bodies for specific services rendering) was conducted, and all special means accounts found operating outside the Treasury were transferred into the Treasury General Ledger.
36. As a result of inventory of all extra-budgetary funds, the Government prepared an action plan on transferring those funds into the Treasury system, which has been successfully implemented (by April 2005). The extra-budgetary funds of the following public entities have been included into the Treasury system: State Committee on State Property Management, State Fund of Economic Development, State Commission on Public Procurement and Material Reserves, Special Funds under the Prime Minister's Office and Presidential Administration, and Fund for Ecology under Ministry of Emergency Situations.

Condition 7. The Borrower has achieved satisfactory progress in the implementation of the action plan for phasing out off-sets and non-cash transactions in the State budget and Social Fund.

37. **The condition has been met.** An initial action plan was introduced by the Ministry of Finance in April 2004 cancelling operations under the scheme "Repayable financing on spending units debt offset for production, works and services". The order was effectively implemented by the Ministry of Finance from June 2006, when offset operations ceased. Similarly the Social Fund has reduced non-cash operations to insignificant levels.

Condition 8. The CPAR action plan has been successfully implemented.

38. **The condition has been met.** All key actions of the CPAR action plan have been implemented. These include: Extend the scope of the PPL to all enterprises with at least 50 percent state ownership; Procuring entities to complete SCPPMR prescribed procurement plan after budget approval and to update it regularly; Remove restriction on participation in tendering because of nationality; Supplement the PPL through the inclusion of appropriate procedures for selection of consultants; Reinstate the publication of the Public Procurement Bulletin; Train staff of procuring entities in preparing clear technical specifications; Bid submission/opening deadline to be extended formally in writing and only sufficiently in advance of the deadline.
39. The main outstanding issue was the full implementation of the law Public Procurement Law, particularly as regards the participation of the State Agency for Public Procurement and Material Reserves (SAPPMR) in all procurements, through the issue of licenses to procuring entities in contravention of the Law. In October 2007, The Ministry of Finance issued an order rescinding the requirement for local treasuries to require permits from the procurement agency. The procurement agency also issued orders in January, formally prohibiting the issue of permits and at the end of February 2008 the SAPPMR confirmed this order. With these confirmations the CPAR Action Plan had been fully implemented.

Condition 9. The Borrower has achieved satisfactory progress in the implementation of a capitation-based formula for calculating categorical grants in the health and education sectors.

40. **The condition has been met.** The condition was aimed at creating a basis for more transparent and equitable allocation of budget resources from the central level to health and education institutions, and improving quality of their services. A Government working group assisted by a local consultancy developed the methodology for the calculation of the costs of minimum basic packages in the health and education sectors, as well as the formulae for categorical grants in early 2005.
41. At the time the education sector did not meet the minimum pre-conditions for the grants to be both equitable and offer incentives to greater efficiency. Thus, prior to the introduction of categorical grants in education a clear re-definition of the responsibilities for the delivery of education services is required, together with the removal of nationally mandated staffing norms. It was therefore agreed that there should be no decree on the formula for categorical grants in education until the necessary preconditions had been met. However, the methodology for the calculation of minimum standards in education was approved and was to be used as benchmark against which the Government would report on actual allocations made. A new system of decentralized financing for local governments was introduced with the 2007 budget allowing the introduction of revised financing arrangements including per capita financing as part of a wider education reform.
42. In the last three months the government issues decrees formally establishing a new financial system in education sector, based on several pilots conducted in education sector and results of the Rural Education project. The main principles of new financial mechanisms in education sector are to ensure the transparent and equal budget allocations for education institutes among regions by means of introduction of minimal standards for this sector through calculating per capita expenses for educational institutions. The new mechanisms fix share of local contribution (ail –okmotu budgets) at the level of 2006, and stipulate that the difference between minimum standard and local contribution should be covered by categorical grants to be provided from Republican budget. From now on, the categorical grants will be used to ensure that minimum education needs are funded, compare to funding only teachers' salaries previously. On March 19, 2008 the decree #91 was issued to approve methodology and formula for categorical grants for education. On April 14, 2008 the decree # 146 was issued approving minimum standards of budget financing of secondary education.
43. At the same time, in 2005 as part of the health reforms, the Government transferred all health institutions under the Republican budget jurisdiction, and categorical grants as one element of health sector financing was no longer relevant, nevertheless the changes achieved the effect of the capitation based formula. Thus the condition has been fulfilled.

Condition 10. The Civil Service Management Agency has been established by the Borrower and is fully operational with staff, resources and terms of reference satisfactory to the Association.

44. **The condition has been met.** During the last year and a half the Civil Service Agency has strengthened its role in safeguarding the institutional framework for civil service appointments. It is fully staffed and actively working to safeguard the integrity of the Civil Service. There has been significant progress towards improving the system of appointments and the CSA continues to monitor and report on the numbers of appointments being made through due process, which since the end of 2006 have been consistently close to 100 percent, the CSA recognizes that the quality of competitions requires significant improvement to ensure real transparency and objectivity in the process.

Condition 11. The Borrower has achieved satisfactory progress in the implementation of recommendations of functional reviews of central and local levels of MH, ME, MLSP, MJ and their affiliated agencies.

45. **The condition has been met.** Functional reviews of four ministries (Education, Health, Labor and Social Protection and Justice) were carried out. However following the reviews major reorganizations of government structures have taken place since November 2005 and in many cases the recommendations of the functional reviews are obsolete. Some of the recommendations of the Functional Reviews were included in the reorganization, and therefore this condition has been fulfilled as far as is possible.

Overall conclusion

46. The GSAC program was probably overambitious in the political and institutional conditions prevailing in the Kyrgyz Republic. Thus progress was much slower than originally envisaged. Nevertheless there is little doubt that substantial progress has been made on the governance reform agenda, and continues to be made. All the third tranche conditions have been fulfilled and have laid the basis for continued governance reforms in the Kyrgyz Republic. It is therefore recommended that the third tranche be released.