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| http://eng.flag.kremlin.ru/i/flag-big.png  With financial support from  the Russian Federation | **http://tourkg.com/wp-content/uploads/2014/02/flag-Kyrgyzstana.png**  The Government of the Kyrgyz Republic | UNDP logo  United Nations Development Programme in the Kyrgyz Republic |

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| **PROJECT ANNUAL REPORT** |

Strengthening Capacities for Sustainable Development Finance in the Commonwealth of Independent States (CIS) Region

Bishkek, 2020

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| **Project title:** | Strengthening capacities for sustainable development finance in the Commonwealth of Independent States (CIS) region |
| **Project ID:** | 00107048 |
| **Implementing partner:** | The Ministry of Economy of the KR, RKDF, EDB |
| **Project budget:** | USD 1 200 000  UNDP – Russian TDF  USD 120 000  EDB (parallel funding)  USD 91 000  UNDP (со-funding) |
| **Project start and end date:** | November 2017 – October 2020 |
| **Period covered in this report:** | January - December 2019 |
| **SDGs supported by the project:** | 1 (1.4.); 5 (5 a); 8; 9; 12; 17.  The list is on the page 3 |

1. PROJECT INFORMATION

The project’s **objective** is to raise awareness and strengthen capacities of ministries and governmental agencies, national financial institutions, business entities and entrepreneurs in dealing with international financial institutions’ (hereinafter referred to as IFIs) projects in the Commonwealth of Independent States countries (Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan, including clients of the Eurasian Development Bank) (hereinafter referred to as **CIS**).

The achievement of the following **results** shall support this objective:

* Building capacity for preparation and implementation of investment development projects in the Kyrgyz Republic;
* Building capacity of the CIS member-states in accessing new development finance sources.

The following two **activities** shall contribute to the achievement of these results:

**Activity 1.** Technical assistance to the Kyrgyz Republic in the identification, preparation and implementation of bankable projects for financing from the Russian-Kyrgyz Development Fund (hereinafter referred to as **RKDF**).

**Activity 2.** Technical assistance in project preparation for potential financing from the International Financial Institutions to governmental and business entities in Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan, including clients of the Eurasian Development Bank (hereinafter referred to as **EDB**)

**Contribution to the Achievement of the SDGs**

All these completed project activities, directly and indirectly, contribute to the implementation of the Sustainable Development Goals (hereinafter referred to as **SDGs).**

Goal 1. End poverty in all its forms everywhere (1.4 By 2030, ensure that all men and women, in particular, the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance).

Goal 5. Achieve gender equality and empower all women and girls. (5.a Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws).

Goal 8. Promote inclusive and sustainable economic growth, employment and decent work for all.

Goal 9. Build resilient infrastructure, promote sustainable industrialization and foster innovation

Goal 12: Ensure sustainable consumption and production patterns

Goal 17: Revitalize the global partnership for sustainable development

**Key results**

The following **key results** have been achieved during the reporting period within **the Activity 1**. **Technical assistance to the Kyrgyz Republic in identification, preparation and implementation of bankable projects for financing from the Russian-Kyrgyz Development Fund**

* Within the frame of the work of the national mechanism for identification of potential business projects, from January to December 2019, 20 business projects have been submitted. After the initial screening, 7 business projects have been passed for the final consideration and approval by the Council for the formation of a list of priority investment projects, founded by the Ministry of Economy of the Kyrgyz Republic. The meeting of the Council was held in September 2019 and the Council approved 6 business projects from Jalalabad, Yssyk Kul, Naryn and Chui regions in the following sectors: “Industry”, “Tourism”, «Bottling of water”, “Production of electrical vehicles”, “Production of water meters”.

In addition to the approval of business projects, the Council has also reviewed and approved the template of the agreement of co-financing the development of feasibility studies.

7 projects that were approved by the Council in 2018 to receive the technical support from UNDP were withdrawn by the applicants for the following reasons: 2 projects have been later submitted for direct financing with the RKDF: 1 business project received a financing in the amount of 835 000 USD and 1 project is in the process of discussion of financing terms; 1 project has been withdrawn to receive the financing through the State program on financing the development of regions (the Government has allocated 2billions KGS for this program); 2 project applications have been recalled due to the financing terms were not compliant with Islamic principles of finance; and 2 projects have been recalled as the business owners decided not to implement the projects. The submission of some project proposals without the required technical support, however, is evidence of the preliminary work carried out to improve the quality of business applications as they went through the detailed and comprehensive review procedures within the framework of the proposed national mechanism.

* The key Project focus area stands with providing the support to entrepreneurs to conduct feasibility studies and prepare bankable projects that meet the RKDF standards and eligible for financing through RKDF. In preparation for the open call for proposals for feasibility studies for the priority projects to be funded by the RKDF, UNDP conducted market research among the local/international financial consulting services providers to identify the existing market capacity. Apart from the regular channels, used by UNDP for the dissemination of information, the announcement has been distributed to more than 100 companies. Fully transparent open competition among the local and international companies resulted in the selection of the local company.
* 6 business projects that have been approved by the Council in September 2019 were handed over to the company for the development of feasibility studies. As of the end of January 2020, these business projects have the following status: the agreements of co-financing the development of feasibility studies have been signed with owners of 4 business projects: the fully developed feasibility studies of 2 business projects have been submitted to the RKDF and are in the process of review by the RKDF, the 3rd business project is to be submitted to the RKDF in February 2020 and the 4th project is at the stage of development; 1 business project is on hold status: the company has also applied for financing in the frame of the state program on financing the development of regions and awaiting for their decision; 1 business project withdrew its application.
* As part of the efforts to strengthen the capacities of entrepreneurs in preparation of bankable projects, UNDP provided the technical support to the RKDF to develop business plan templates for various sectors funded by the RKDF to stimulate and enhance the access to financial services for the entrepreneurs, as well as to overcome obstacles and accelerate investment flows into national priority projects. The business plan templates, and financial models are presented on the RKDF’s website.
* In support of a new streamline of RKDF to support financing the start-up projects across the country, UNDP helped the Fund to organize and deliver intensive trainings for entrepreneurs to improve the quality of business projects that the Fund has considered financing under the new programme. In August and September 2019, 3 three-day trainings were conducted in Talas, Batken and Naryn oblasts. 10 companies with a total number of 19 participants (17 male and 2 – female participants) have participated in the training. Besides the knowledge and skills that have been received during the trainings, the participants, on the base of the testing of their level of knowledge and skills, have received individual recommendations on further professional development.
* Following the request of the Ministry of Economy of the Kyrgyz Republic, UNDP in collaboration with the Ministry organized the first-ever EMPRETEC Program. The EMPRETEC is a flagship capacity building initiative by UNCTAD that supports the promotion of entrepreneurship and micro, small and medium-sized entrepreneurs to facilitate sustainable development and inclusive growth, the programme has been rolled out in 35 countries globally with the main objective to develop the entrepreneurial attitude towards business and to train business leaders. In August 2019, the 6-day workshop was delivered by UNCTAD-certified EMPRETEC trainers based on Harvard University methodology. The Ministry of Economy received more than 150 applications out of which 35 trainees were selected for the training and 28 trainees (18 – male and 10 – female participants) graduated from the training. The potential clients of RKDF were among the participants of the training.

The following **key results** have been achieved during the reporting period within **the Activity 2**. **Technical assistance in project preparation for potential financing from the International Financial Institutions to governmental and business entities in Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan, including clients of the Eurasian Development Bank.**

* Following thorough consultations on ToR with dedicated EDB focal points, UNDP conducted two open tenders i) IC for preparation of the joint co-financing mechanism for UNDP-EDB collaboration, and ii) RFP for capacity assessment of participating banks and preparation of recommendations for new lending projects.

The interview with candidates for joint UNDP-EDB co-financing mechanism has been successful and the panel (the EDB representatives participated as observers) resulted in a selection of a highly professional candidate from the Russian Federation. The consultant provided i) a document with recommendations and the organizational structure of the optimal mechanism for co-financing the preparation of feasibility studies for projects between the EDB and UNDP, as well as the EDB with other international financial institutions and organizations; ii) a document with recommendations and organizational structure of the optimal mechanism for co-financing investment projects between the EDB and international financial institutions and organizations; iii) a document with recommendations and an organizational structure describing the procedure for obtaining EDB accreditation in the Green Climate Fund. A brief description of the recommendations for each document is given below:

1. Regarding the cooperation of the EDB with international financial institutions and organizations on co-financing the preparation of feasibility studies, the consultant formulated a procedure for choosing a co-financing mechanism that can be applied, considering the importance of optimal organization of the following aspects:

* Structuring the funds and expenses for the implementation of the project, in which the co-financing parties determine whether financing will be parallel or joint;
* Distribution of authority to manage funds between co-financing organizations, based on the availability of resources and competencies for procurement and implementation of activities to monitor the implementation of works under contracts.

To organize the optimal mechanism for co-financing the preparation of feasibility studies for projects between the EDB and UNDP, the consultant analyzed the existing UNDP practices of cooperation with international financial institutions, and the consultant recommends that the co-financing can be structured on the basis of the cooperation schemes of UNDP with international financial institutions and organizations in the field of co-financing of projects and programs, taking into account the organizational features of projects.

1. The consultant recommends considering the following parameters, determining the choice of the optimal financing mechanism and structuring the cooperation of international financial institutions and organizations with joint participation in implementation of investment projects:

* Level of state participation: financing projects with or without a state guarantee;
* Conditions of financing: financing on a repayable or non-repayable basis;
* Structuring of funds from co-financing organizations: parallel or joint financing.

When structuring EDB cooperation with international financial institutions and organizations, it is recommended to take into account the above mentioned factors, defining the procedures and organizational schemes for cooperation, and take into account the possibility of applying the existing experience of co-financing the projects by the international financial institutions and organizations, which comply with the implementation requirements of the Bank's operations, the characteristics of the investment projects, and policies and other regulatory documents of co-financing organizations.

1. In this document, the consultant provides a detailed description of the procedure for obtaining accreditation in the Green Climate Fund, as well as the structure of the application for accreditation in the Fund, which is a key document in decision making process about the accreditation.

In regards of RFP, despite the fact that UNDP did preliminary market research for the available potential at the national and international markets, and ensured wide distribution of the announcement, including through direct e-mailing to the list of 100 companies, the RFP resulted in two proposals, one of which was disqualified during initial screening, and the second one was found not appropriate during evaluation. The TOR requirements have been revised, and the repeated tender for IC for the capacity assessment of participating banks and preparation of recommendations for new lending projects has been conducted. The tender resulted in the successful recruitment of 2 consultants, who will start their respective assignments in January 2020.

The Project Coordinator resigned in August 2019. UNDP held an open competition and in accordance with the results of the competition, the new Project Coordinator has been recruited and started the work in mid-December 2019.

2. RISKS

* The insufficient capacity of employees of state partners, local governments and the private sector in the field of generating business ideas, preparing and presenting the potential investment projects that meet the development priorities of the Kyrgyz Republic is still acute. Therefore, the project will continue the activities, targeted at different groups of national partners with a strong capacity building response aimed at raising awareness of the project participants and clarification of criteria and procedures for collection and filling out the application form;
* Due to the requirement of EDB that the implementation of activities on identification of bankable projects and the preparation of feasibility studies under the component of cooperation with the EDB should come as the next step to the formulation of a co-financing mechanism, the delivery of these activities was postponed to 2020.

3. LESSONS LEARNT

A lot of time was spent to mobilize the participants and organizing the launch of the Project. This situation was significantly affected by the changing leadership of key partners. However, the regular negotiations of UNDP with partners (including the newly appointed ones) and all stakeholders played a significant role in the participation of stakeholders at all levels.

Many business enterprises submitting projects for financing from the RKDF did not show the proper motivation for obtaining further technical support and withdrew their projects after selection by the Ministry of Economy. In order to enhance the motivation of the applicants, the national partners proposed the introduction of partial co-financing of the technical support. This increased the motivation of applicants to submit documents and submit all documents to the consulting company for analysis, identifying gaps and providing targeted consulting support.

The relative limitation of the professional market of experts and the high and highly specialized qualification requirements, reflected in the ToRs, unfortunately, led to unsuccessful initial tenders for attracting experts. The consultations conducted with the project partners, including the EDB, led to a consensus on the revision of qualification requirements, which resulted in the positive outcome of the newly announced tenders. Highly qualified experts were selected and met all the expected requirements on the developed documents, mechanisms and procedures.

4. FUTURE PLANS

Plans under the Activity 1

* In the frame of the work of national mechanism for identification of potential business projects, the meetings with business communities are planned to further disseminate the information on criteria and procedure for the selection of potential business projects. The work on capacity building to identify potential business projects at different levels will be continued.
* The consultant who is providing the technical support to the Ministry of Economy to the formation of a package of investment projects is planning to submit the next package of business projects for consideration and approval by the Council in February 2020.
* Further implementation of the contract for the development of feasibility studies (14 business projects should potentially receive funding from RKDF) will be continued;
* The activity targeted at structural transformation of the national mechanism for identification of potential business projects into the institutionalized body, Project Preparation Fund will commence. The Ministry of Economy is to provide its vision of the establishment of this fund, after which the consultant will be recruited to realize the assignment on the institutionalization of the Project Preparation Fund.

Plans under the Activity 2

* The consultant, responsible for the assessment of the needs of the participating banks to strengthen their capacity will commence the assignment in January 2020. On the base of the output of this assignment, the number of training activities aimed at strengthening the capacity of commercial banks and their clients will be launched.
* The second consultant, responsible for the development of new credit products in priority thematic areas for EDB and second-tier banks will also start the assignment in January 2020. As the next step of this activity, the activities, facilitating the introduction of these credit products at EDB and the second-tier banks and the trainings of staff of the second-tier banks to ensure the successful deployment of credit products are planned.
* The activity on the identification of bankable projects to be financed by EDB and the development of feasibility studies is planned in 2020;
* Development with EDB of knowledge products, like analytical and technical studies, surveys on issues of key significance for EDB clients and UNDP countries, participating in the project.

In general, it is planned to implement comprehensive measures to achieve all the objectives of the project, indicators and efficient use of available resources before the completion of the project.

5. PARTNERSHIPS

UNDP has managed to establish partnerships at all levels. To strengthen the sustainability of the project, partnerships were built and regular consultations at all levels are conducted with the Office of the President of the Kyrgyz Republic, Government Office of the Kyrgyz Republic, Parliament of the Kyrgyz Republic, the Ministry of Economy, EDB, RKDF, local banks, business associations at the central and regional levels, as well as at various public-private partnership sites.

The Project activities were integrated into the medium and long-term strategies and programs of the Government of the Kyrgyz Republic with an aim to scale up nationwide.

6. PARTNERSHIP WITH THE RUSSIAN FEDERATION

The implementation of both components of the project is considered as one of the key areas of partnership with the Russian Federation through the RKFR, EDB, Russia- and UNDP Trust Fund.

Under Activity 1, the training expert from the Russian Federation has been attracted to deliver the EMPRETEC training workshop.

Within the frame of the component with EDB, 2 consultants from the Russian Federation were attracted: one consultant was recruited for the development of the UNDP-EDB co-financing mechanism, and the second consultant was recruited to develop new credit products for EDB and second-tier banks.

7. COMMUNICATION AND INFORMATION

The press releases for all events contained information for the private sector, including data on the procedures on obtaining technical support on the feasibility study development. Also, they included full information about the goals and objectives of the project, as well as issues related to the application submission, selection criteria and procedures. Press-releases circulated throughout the media to the maximum extent. Partners also gave interviews to national information channels. The press clipping with links to main publications is in Attachment 2.

8. FINANCIAL MANAGEMENT \*

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| **Output** | **Budgeted for the reported year** | **Delivered for the reported year** | **Delivery rate for the reported year (%)** | **Budgeted for the entire project** | **Delivered since the project start** |
| **Activity 1.** Technical assistance to the Kyrgyz Republic in identification, preparation and implementation of bankable projects for financing from the RKDF | 312 000 | 263 042 | 84.31% | 480 000 | 54.80% |
| **Activity 2.** Technical assistance in project preparation for potential financing by IFIs to governmental and business entities in Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan, including EDB clients | 420 000 | 50 261 | 11.97% | 660 000 | 7.62% |
| **Activity 3** Project Management | 115 800 | 88 443 | 76.38% | 182 113 | 48.56% |
| **GMS** | 61 824 | 6 468 | 10.46% | 88 887 | 7.28% |
| **Total** | 909 624 | 408 214 | 44.88% | 1 411 000 | 28.93% |
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*\* Note:* 2019 figures are not final and subject to change, as FY 2019 is not yet officially closed in UNDP Financial System Atlas

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| **Attachment 1. Project Performance Data** | | | | | | | |
| EXPECTED OUTPUTS | OUTPUT INDICATORS | DATA SOURCE | BASELINE | | Indicators for the previous year, if different from the base | Objective for the reporting year | Actual value for the reported year |
| VALUE | YEAR |  | 2019 |
| **Output 1** Enhanced capacity of financial institutions and business entities in investment development projects preparation and implementation in the Kyrgyz Republic | **1.1** Number of workshops and trainings for potential borrowers of the RKDF preferably with no less than 30% women-borrowers | Project Report | 0 | 2017 | - | 1 | 4 trainings and workshops have been conducted, including:  1. In August 2019, the EMPRETEC training workshop took place with participation of 28 participants, most of which were entrepreneurs. The participants included the RKDF clients as well 2. In September 2019, 3 trainings on RKDF Start-up financing program have been conducted for entrepreneurs in Naryn, Batken and Talas oblasts. |
| **1.2** Number of gender-sensitive pre-feasibility studies, business plans, assessments developed under the technical assistance to potential borrowers of the RKDF | Project Report | 0 | 2017 | - | 2 | 6 business projects were approved by the Council in 2019. |
| **1.3** Number of projects that received RKDF loan out of the all projects supported under Activity 1 | Project Report | 0 | 2017 | - | 40% | The consulting company for the development of feasibility studies was recruited in June 2019. As of the end of January 2020, these business projects have the following status: the agreements of co-financing the development of feasibility studies have been signed with owners of 4 business projects: the fully developed feasibility studies of 2 business projects have been submitted to the RKDF and are in the process of review by the RKDF, the 3rd business project is to be submitted to the RKDF in February 2020 and the 4th project is at the stage of development; 1 business project is on hold status: the company has applied parallelly for financing in the frame of the state program on financing the development of regions and awaiting for their decision; 1 business project withdrew its application. |
| **Output 2**  Enhanced capacity of the select CIS countries in accessing new development finance sources | **2.1** Number of gender-sensitive pre-feasibility and feasibility studies, business plans, assessments, developed under the technical assistance to potential borrowers of the EDB | Project Report | 0 | 2017 | - | 1 | Due to the requirement of the EDB that the implementation of measures to identify projects for financing and the development of feasibility studies, as part of the Activity related to cooperation with the EDB, should come as the next step to the development of a co-financing mechanism, the implementation of this measure has been postponed until 2020. |
| **2.2** Number of lending products and credit lines supported by the project | Project Report | 0 | 2017 | - | 1 | The consultant was recruited and will start the assignment in January 2020 |

**Attachment 2. Media coverage report** with links to main publications

**On the work of Project Preparation Facility under the Ministry of Economy**

<http://mineconom.gov.kg/ru/post/5858>

**For the first time in Central Asia and Kyrgyzstan, training is planned for entrepreneurs on the methodology of Harvard University**

<http://mineconom.gov.kg/ru/post/5843?fbclid=IwAR1xCm3TeVuX10OsclYiiR82AdsuLXbzWZKw9OXG4WuGtF3AKVRtNHCnQ14>

**With the support of UNDP, the Ministry of Economy of Kyrgyzstan organizes a FREE 6-day workshop for small / medium-sized businesses**

<https://www.facebook.com/RealEconomyWithSaltanat/photos/a.1952398308339515/2367026680210007/?type=3&theater>

**Business plan templates for the RKDF**

<http://www.rkdf.org/ru/kreditovanie/shablony_biznes_planov/krs/>

**Training within the frame of the new program RKDF on start-up finance**

<https://economist.kg/2019/10/14/10-biznesmenov-poluchat-kredity-ot-rkfr-po-linii-finansirovaniya-startapov/>

<https://www.akchabar.kg/ru/news/v-kr-obsudili-mehanizm-finansirovaniya-startap-proektov-v-regionah/>